#ConnectingTheDots

CIO Chartbook

April 2025

Vincenzo Vedda // Chief Investment Officer

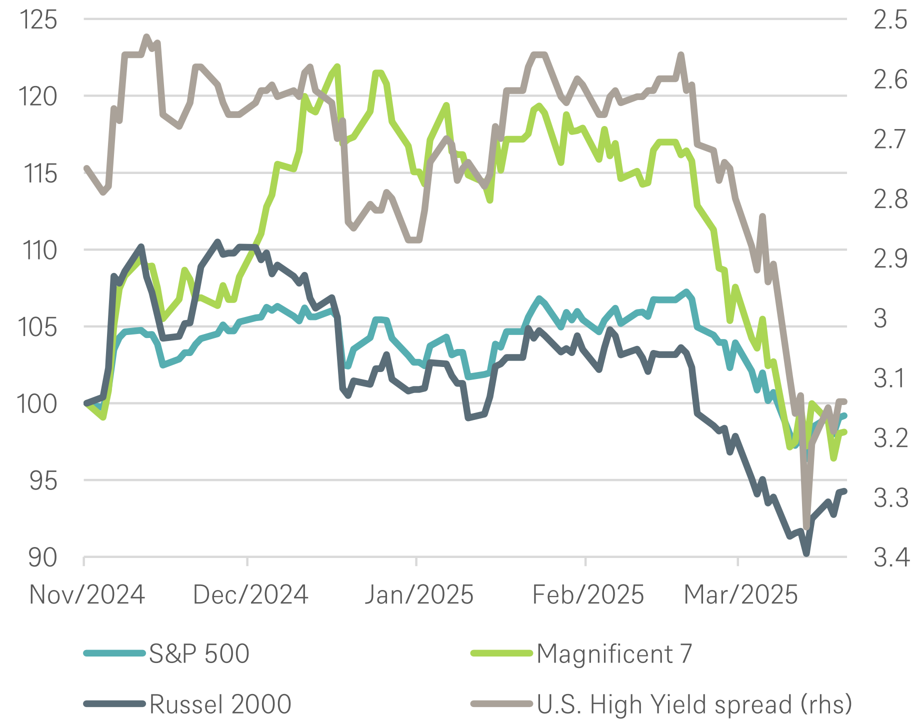
CIO View: Key messages

U.S.	Trump euphoria replaced by growing uncertainties amongst consumers & companies
China	U.S. tariffs likely leave a mark but trade partner diversification already underway
Europe / Germany	Big spending ahead and a turn in the manufacturing cycle in sight
Fixed Income	Curve to stay at elevated levels for some time, spreads play “goldilocks” scenario
Equities	High valuations tested by Tariffs, but earnings & inflation hedge supportive so far

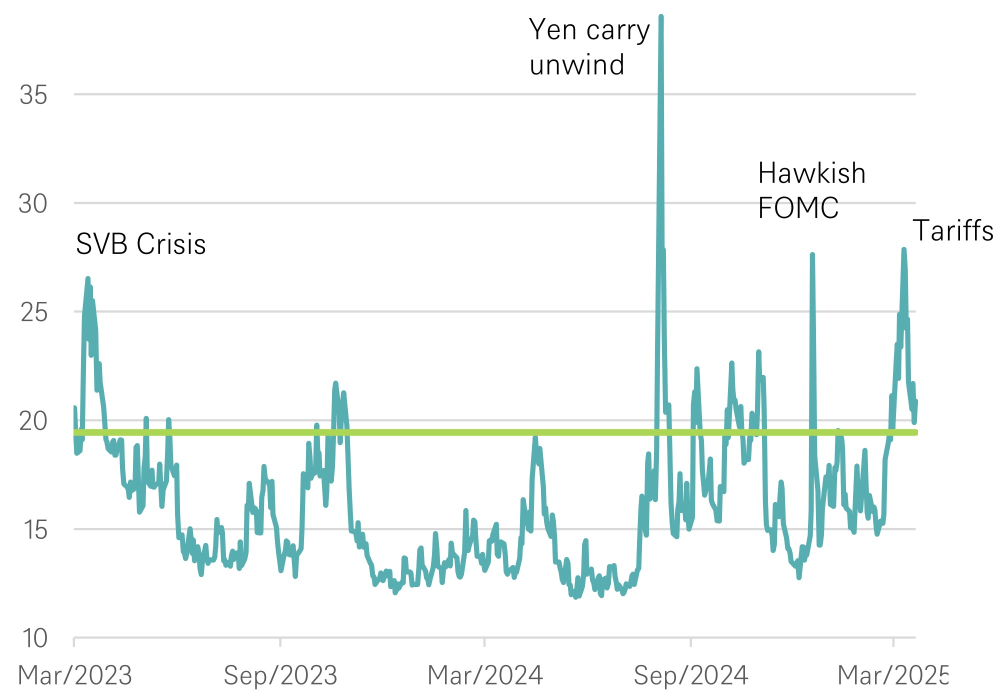
Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect // Sources: DWS Investment GmbH as of March 2025.

The „Trump Put“ – is it all that safe and sound?

From euphoria to concerns
Spread in %, indexed: 11/1/2024=100



Markets are nervous – VIX above 35-year-average
VIX Index



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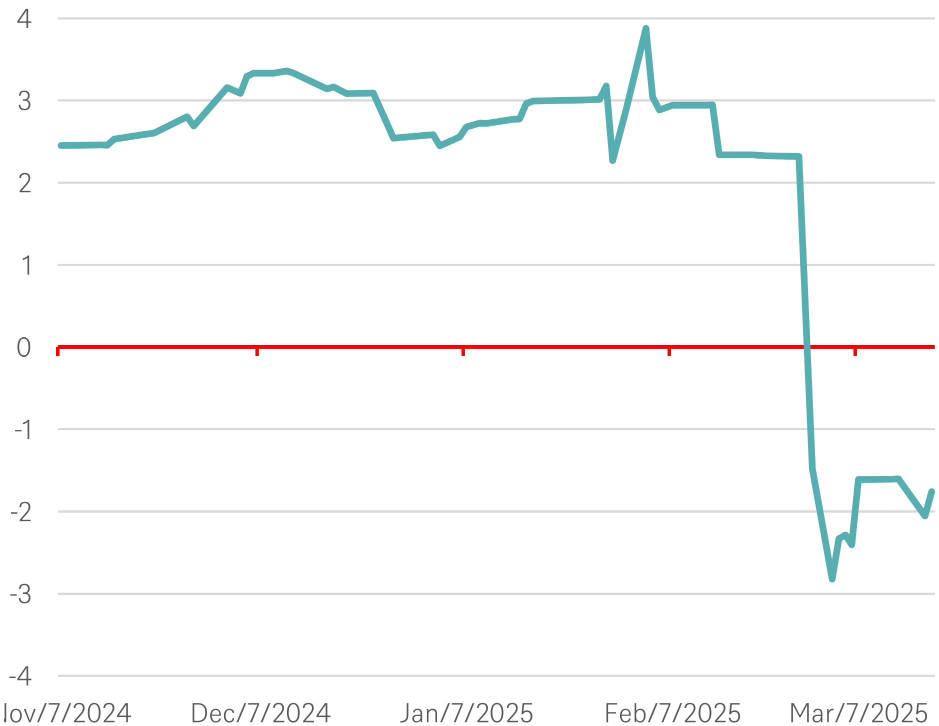
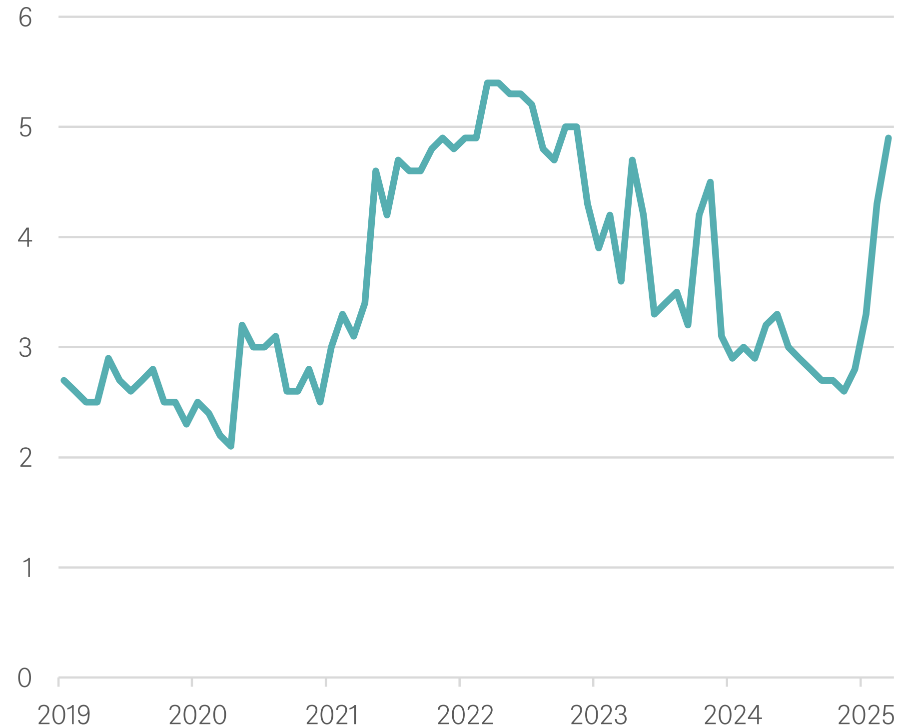
Sentiment is coming down – U.S. stagflation as main risk

U.S. slow down
Atlanta Fed GDP now



Consumers see a well elevated risk of higher inflation
University of Michigan inflation expectation 12 month, %



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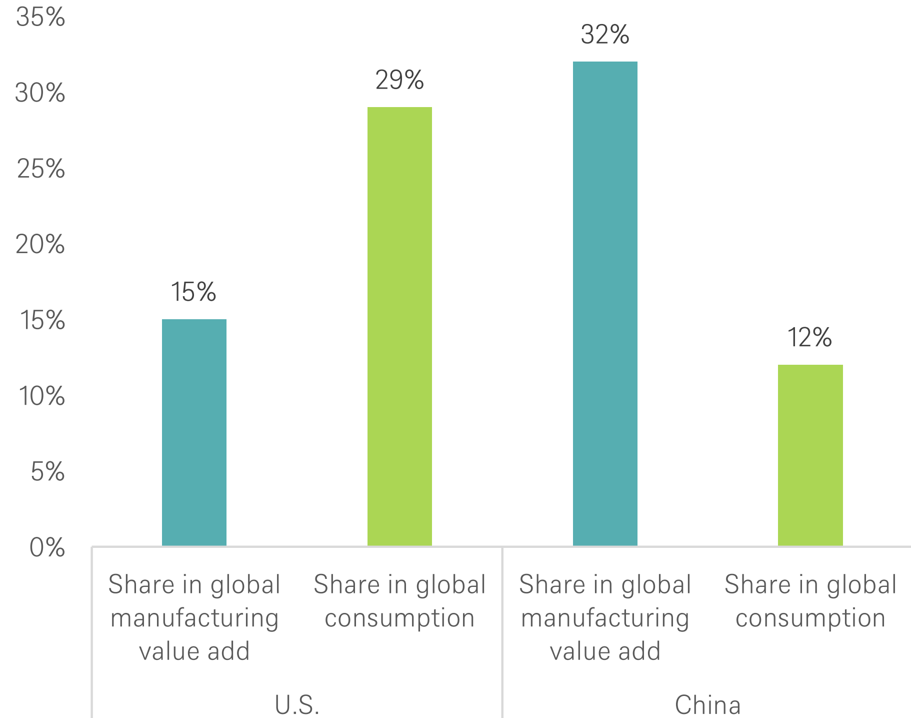
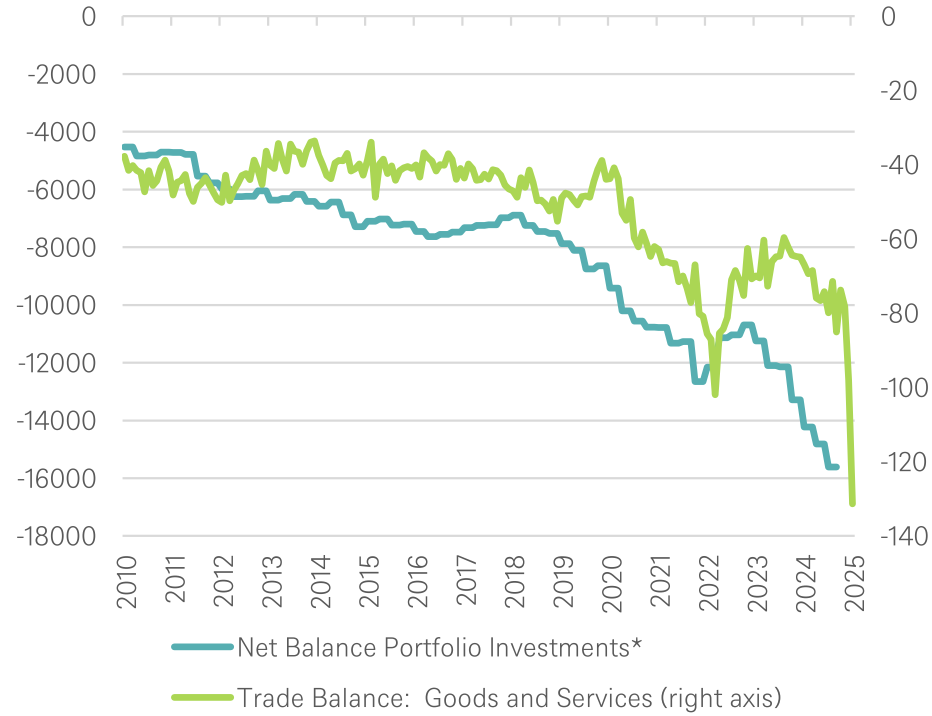
U.S. consumes more than it produces, U.S. admin. wants to change that

The thorn in Trump's side
Global manufacturing vs. global consumption



Foreign demand of U.S. assets is more important than the trade balance
Billions of $

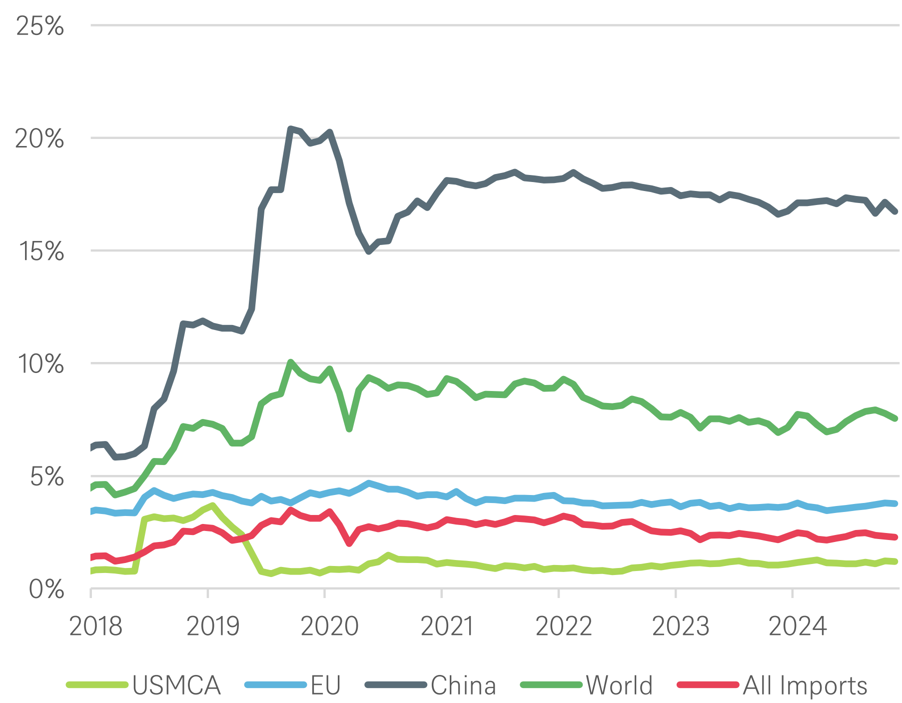


*Net balance portfolio investments is calculated as portfolio investment assets – liabilities from U.S. international investment position statistics. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Past performance is not a guarantee of future results. Sources: Goldman Sachs, Bloomberg Finance L.P., DWS Investment GmbH as of March 20, 2025.

Looming tariffs create uncertainty - bad for consumption & investments

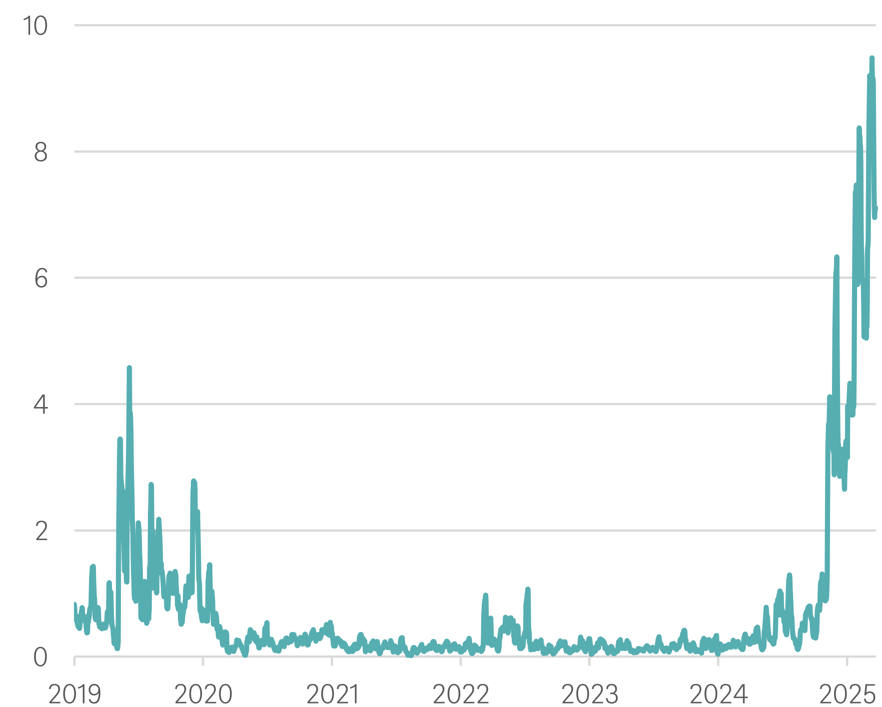
Calculated tariffs on dutiable imports

%



Nobody knows what's next on the trade policy agenda

Global trade policy uncertainty index



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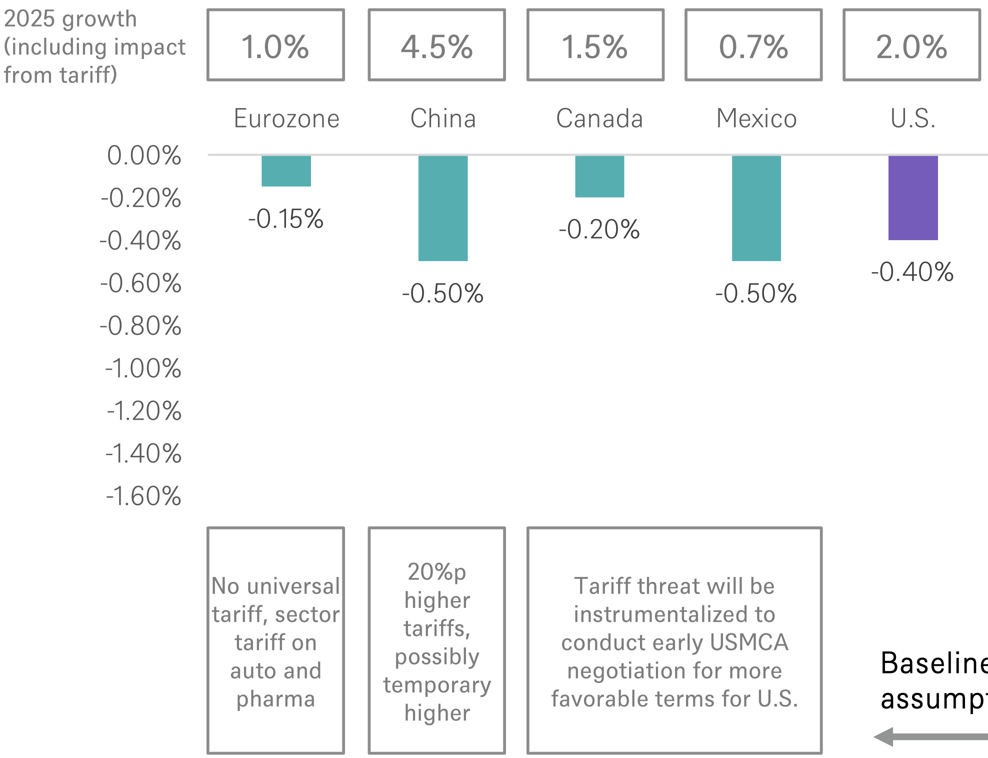
Tariffs are hurting everyone – including the U.S.

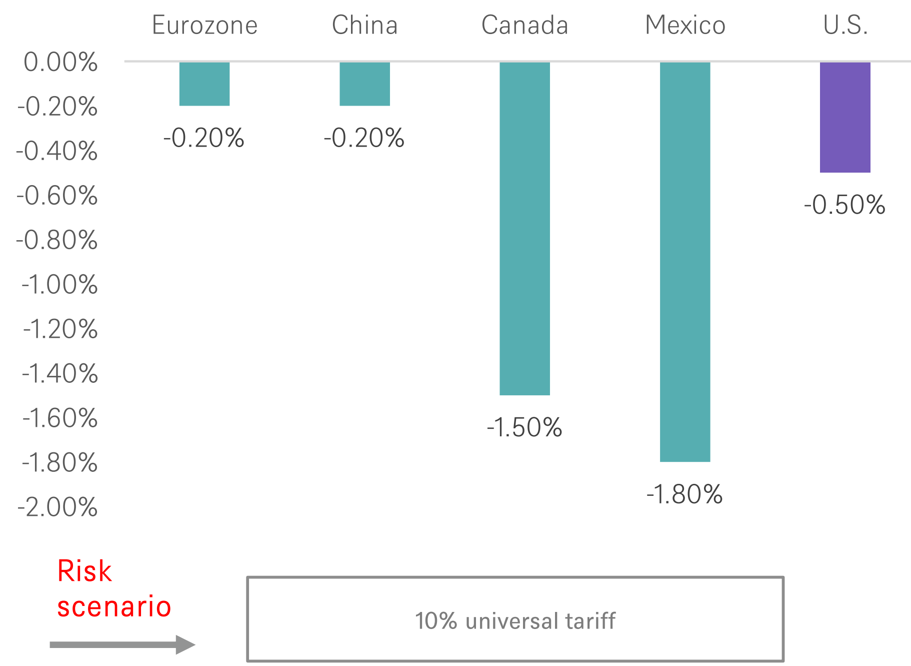
Baseline tariff assumptions

Impact from tariffs on GDP*



Risk scenario – 10% universal tariff

Impact from tariffs on GDP*

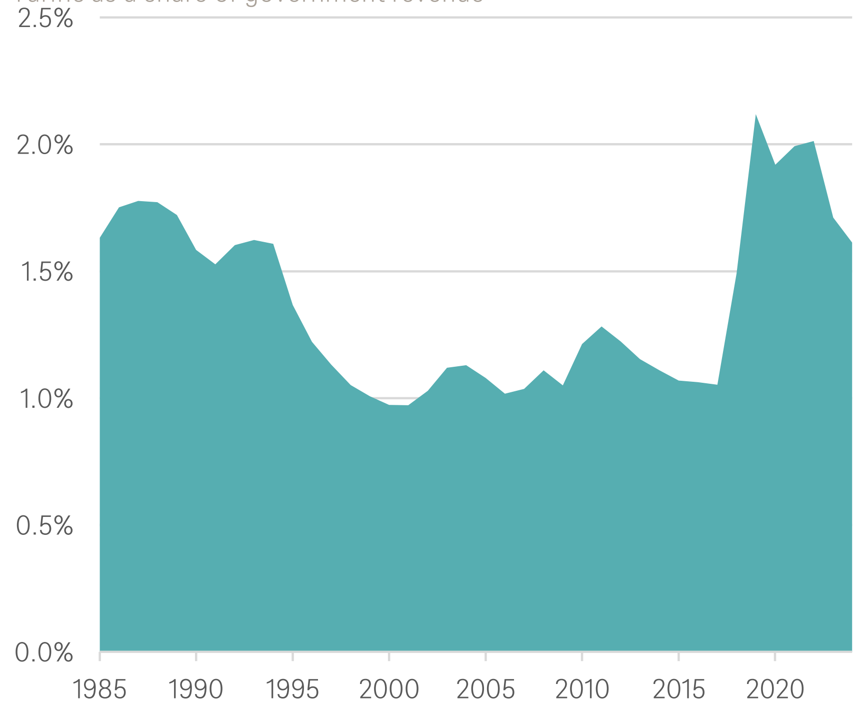


*Impact of tariffs is simulated for the year 2025. Simulation estimates are based on DWS research. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Sources: Bloomberg Finance L.P., DWS Investment GmbH as of March 20, 2025.

U.S. fiscal policy: Potentially to save on spending

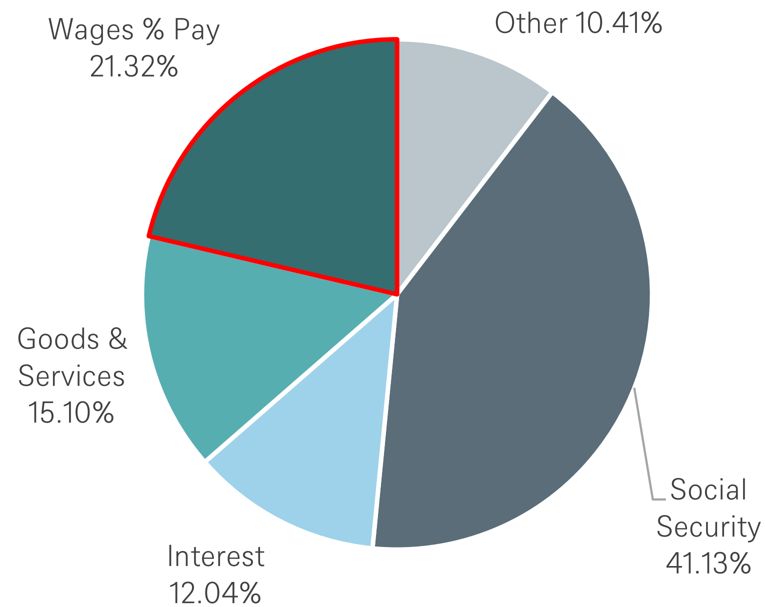
Tariffs not a meaningful source of funding but likely to be costly

Tariffs as a share of government revenue



DOGE targets Wages & Pay – social security protected by the law so far

Share of current U.S. government spending (FY 2024, $6.75 trillion)



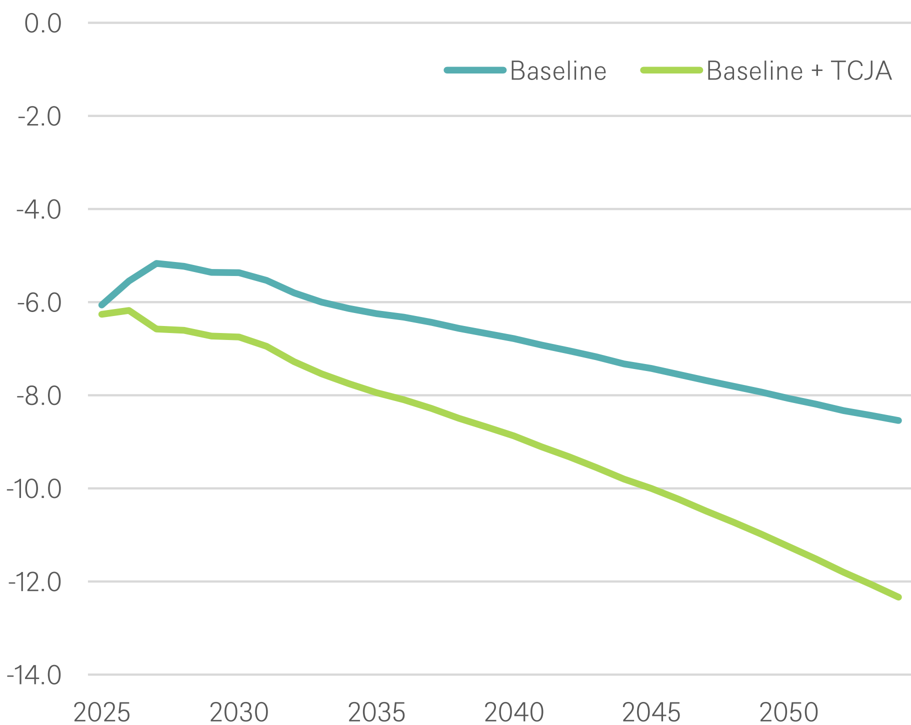
Past performance is not a reliable indicator of future returns. Past performance is not a guarantee of future results. Sources: Haver Analytics, Bloomberg Finance L.P., DWS Investment GmbH as of March 20, 2025.

U.S. taxes: How much more room is there?

DWS

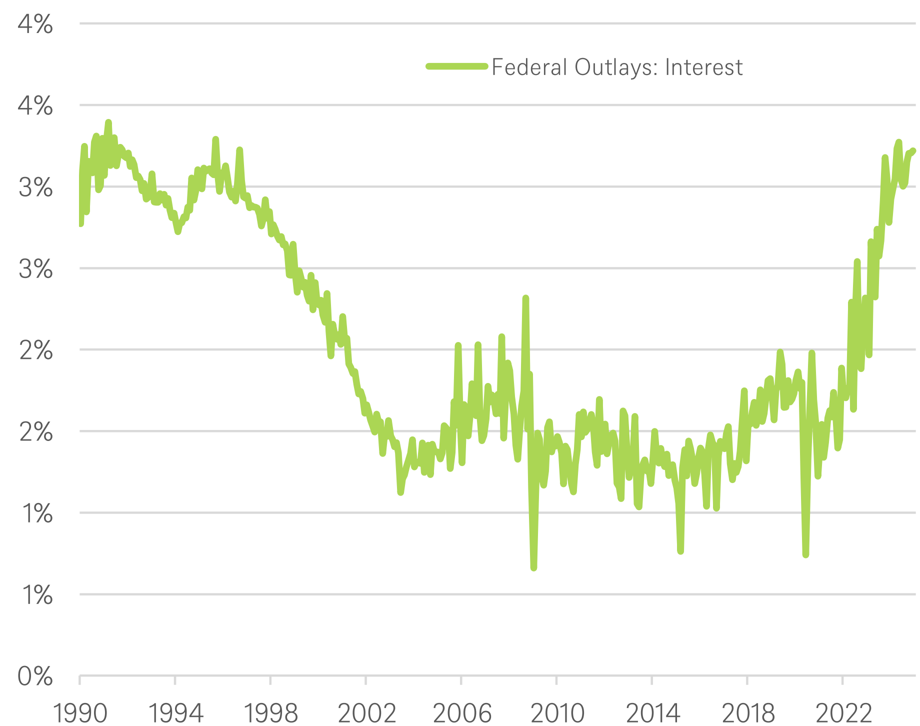
Already high deficit will be increased by tax cuts

U.S. budget deficit, %



Interest expenses are increasing, what about the Fed put?

% of GDP



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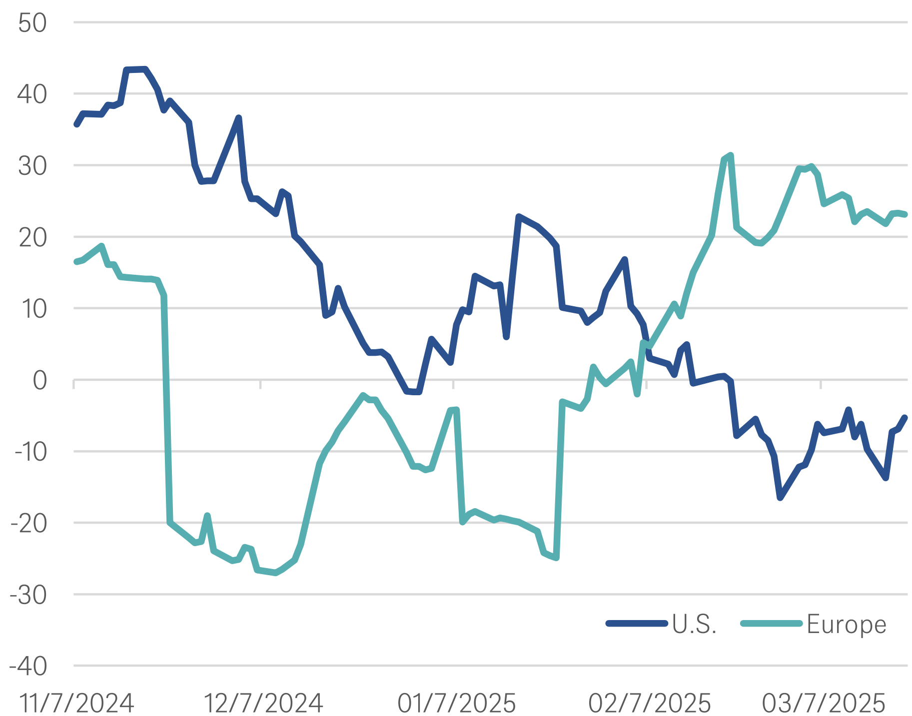
Is Europe profiting from the U.S. weakness?

DWS

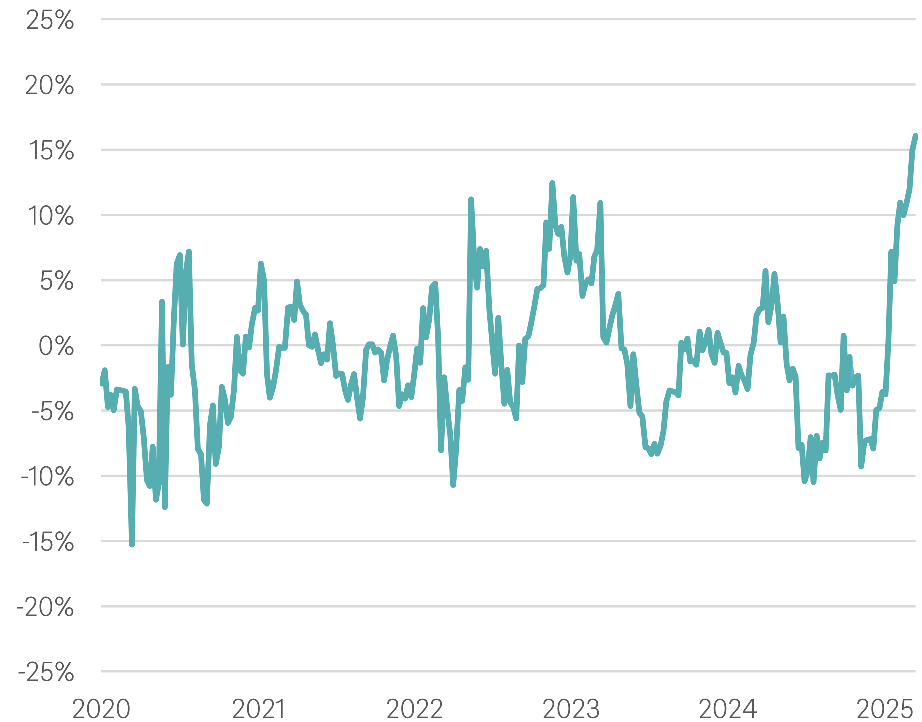
The USA disappoints, Europe surprises on the upside

Citi economic surprise index



Market already celebrates the anticipated European spending

Percentage point change EuroStoxx 50 vs S&P 500, rolling 10-week periods



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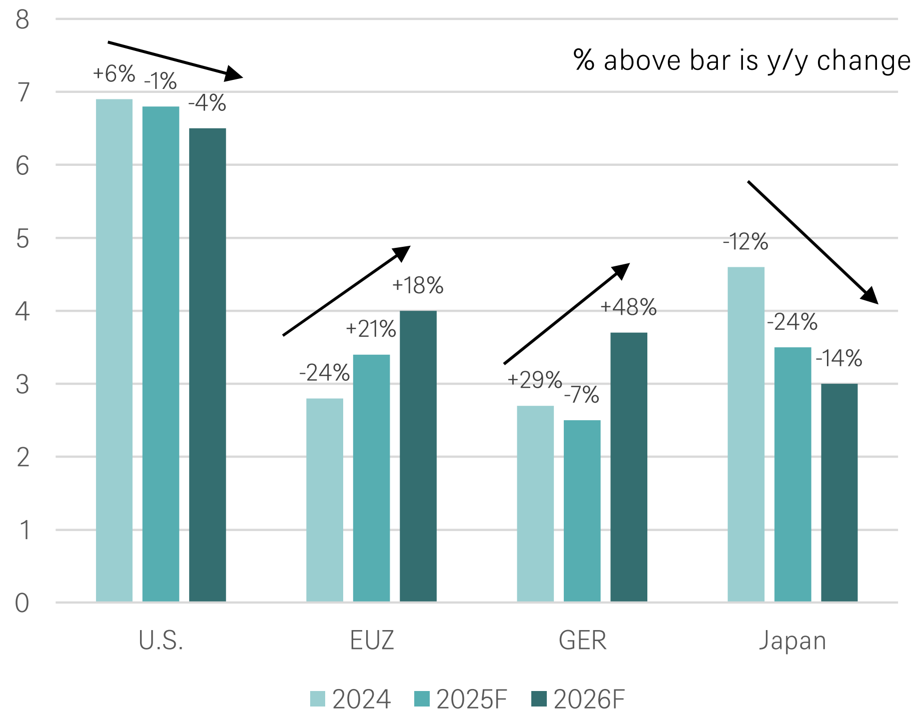
Is Europe regaining its strength?

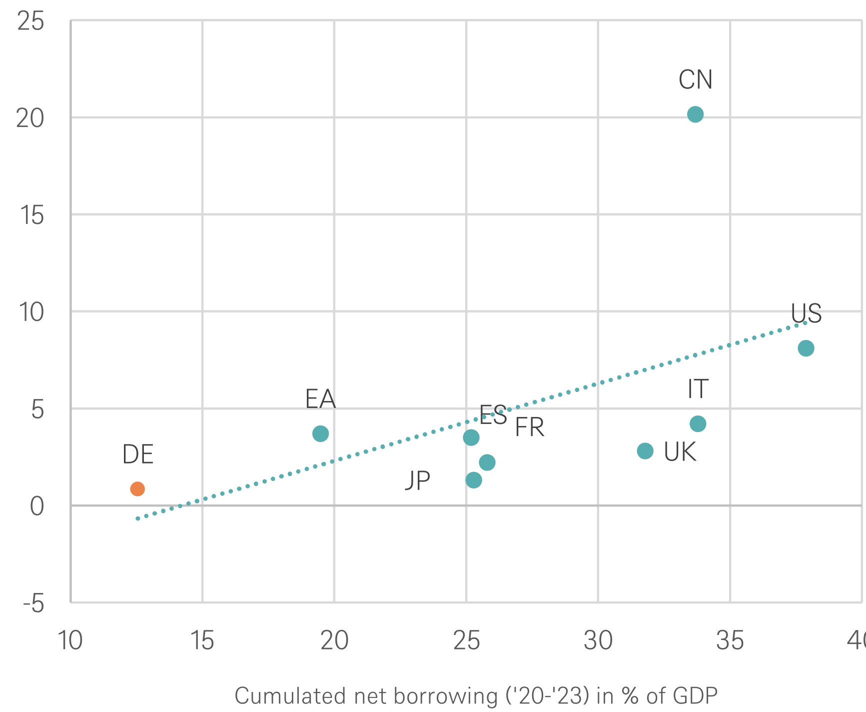
Big spending in Europe to facilitate a turnaround

Fiscal balance as % of GDP



Fiscal constraints hinder growth

Cumulated growth ('20-'23), Y/Y, %



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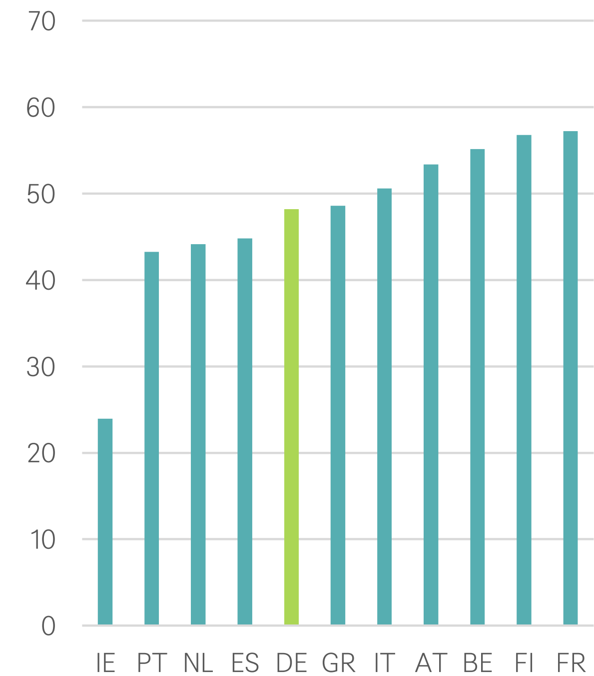
Germany#1: Already high gov't spending but new room to maneuver

DWS

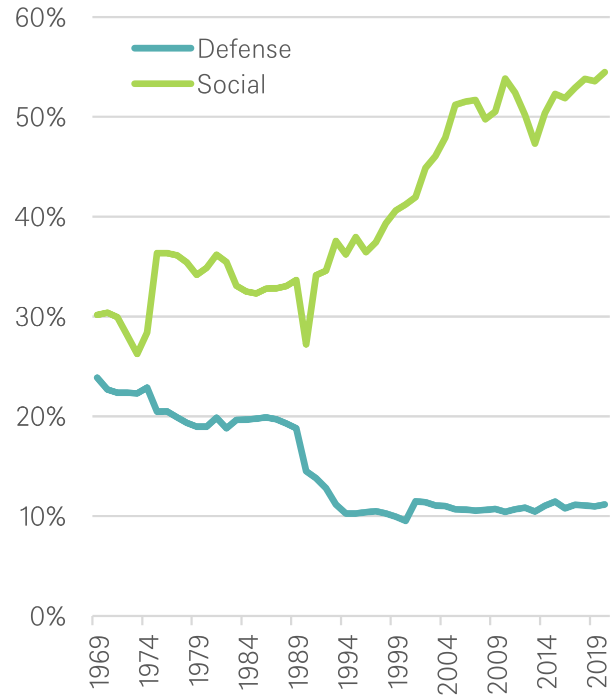
Government expenditures

% of GDP in 2024



Social spending increased; defense decreased

% of German government spending



New room to maneuver?

DWS calculation

Deficit Simulation (2024)

+ Allowance Federal Gov	0.35%/GDP	15 bn
+ Allowance States	0.35%/BIP	15 bn
+ Infrastructure special fund	500Mrd/12	42 bn
+ Defense (>1%/GDP, so + 2.5%)		108 bn
= Simulation deficit allowance		180 bn
Comparison: Actual deficit (incl. SF)		119 bn

Δ ca. 60bn

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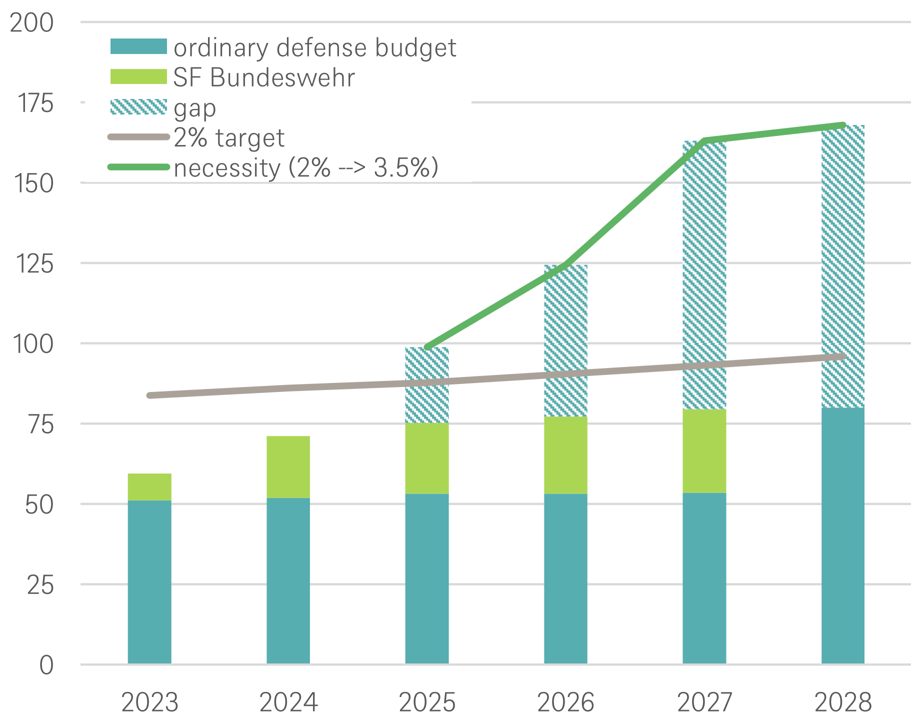
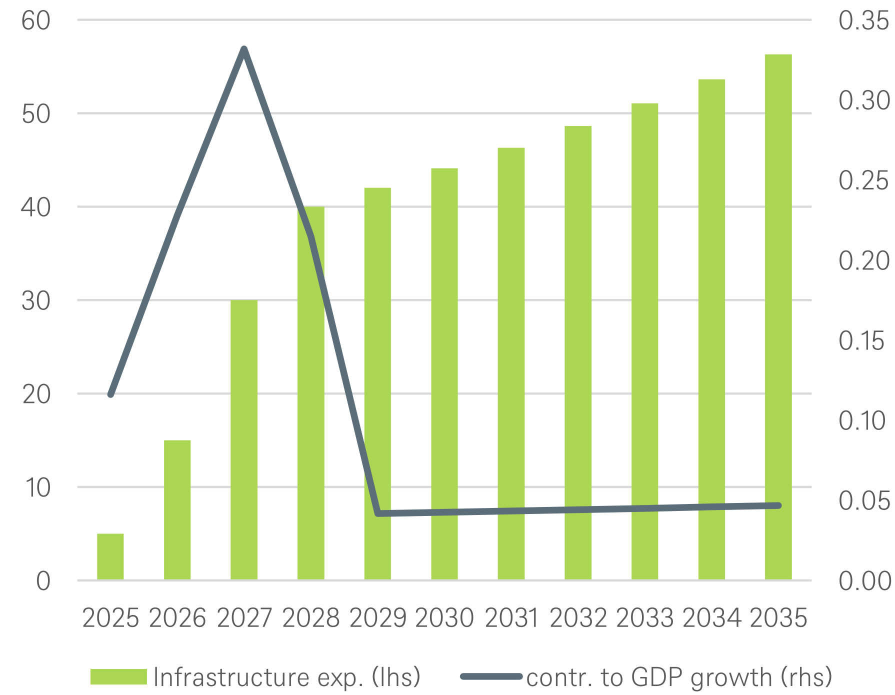
Germany #2: Spending bigtime in defense & infrastructure

DWS

German defense spending has to increase rapidly
Bn EUR



Expenditures from investment fund (DWS assumption)
Bn EUR



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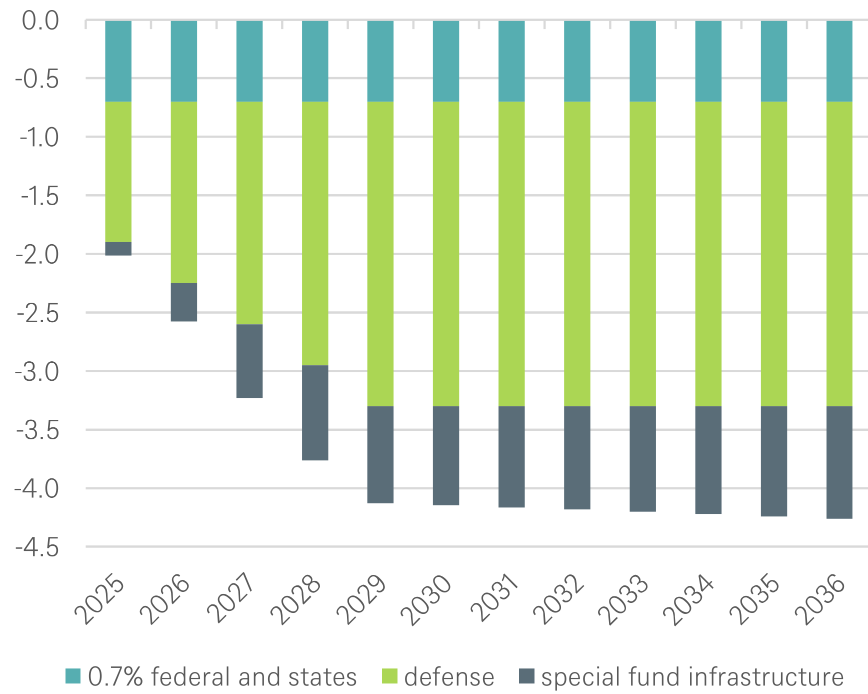
Germany #3: More government debt, but still at sustainable levels

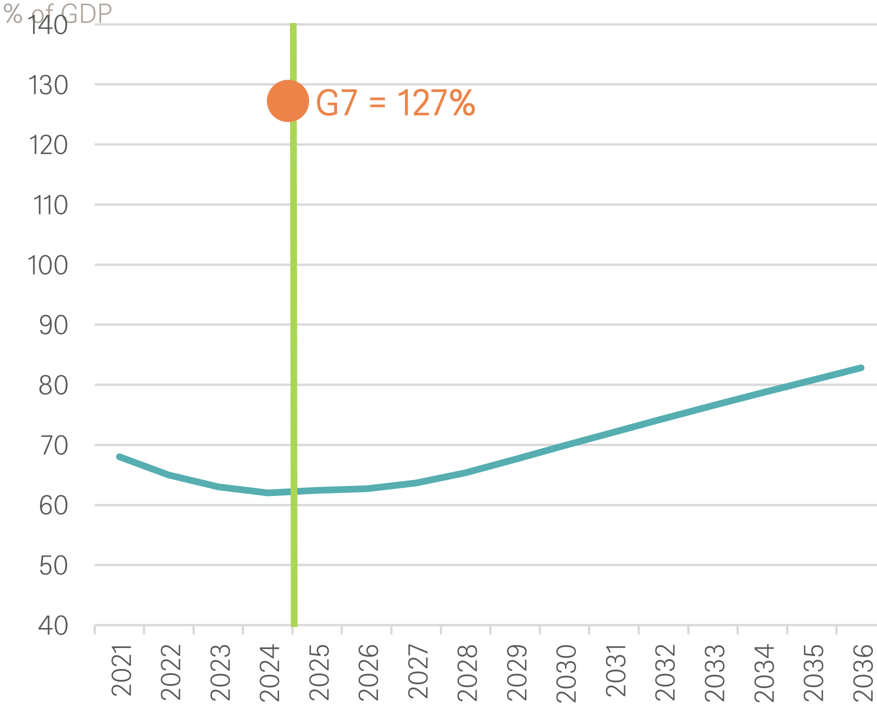
Public deficit

% of GDP



Public debt development under full deployment and no structural reforms

% of GDP



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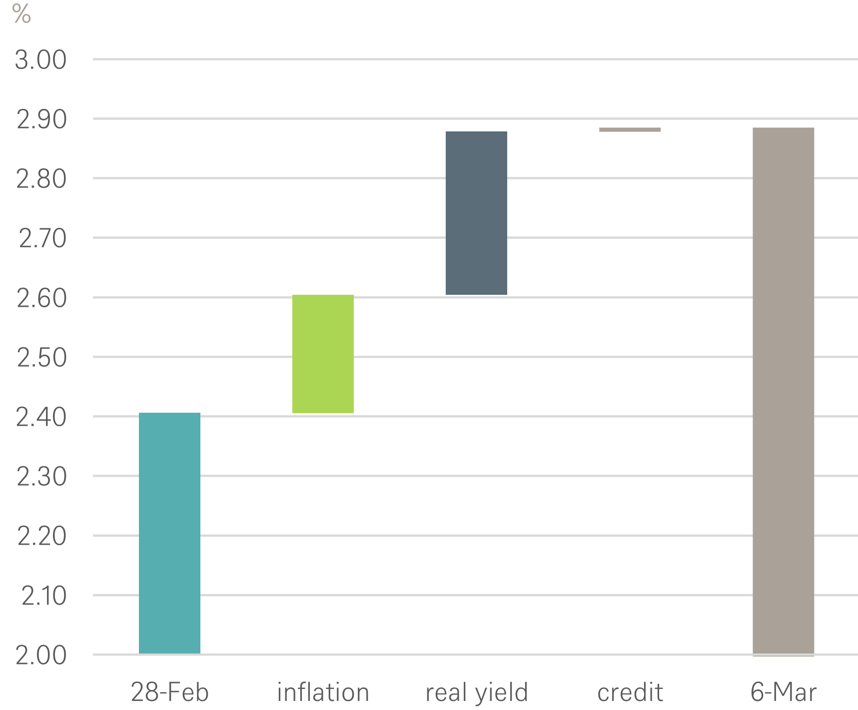
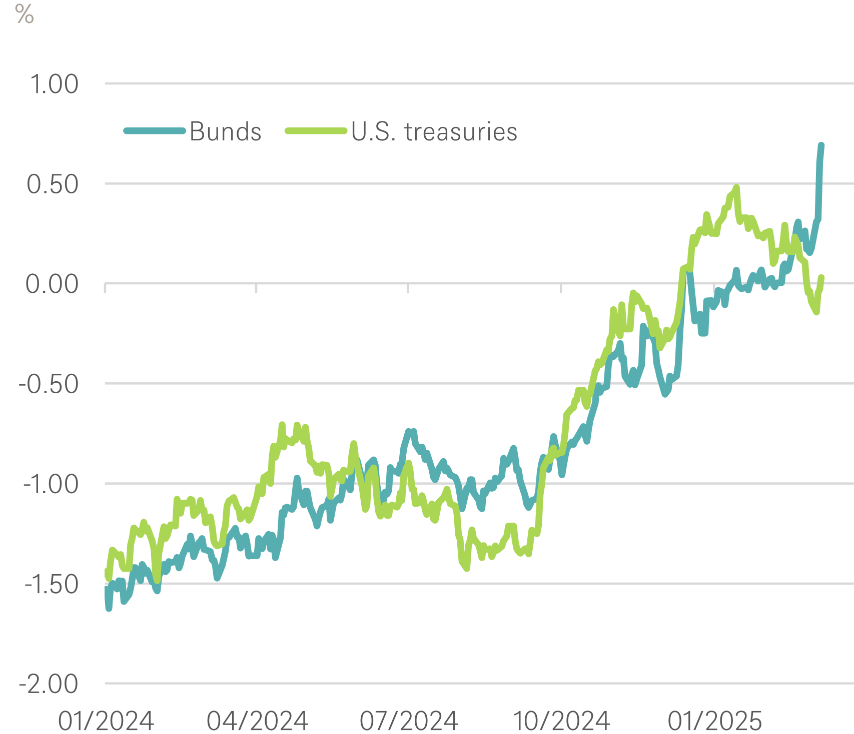
Germany #4: Markets so far relaxed about new debt – CDS hardly moved

German Bund 10Y yield change between 28 February and 6 March 2025



Sovereign bond yield curve steepness: 10Y – 3M



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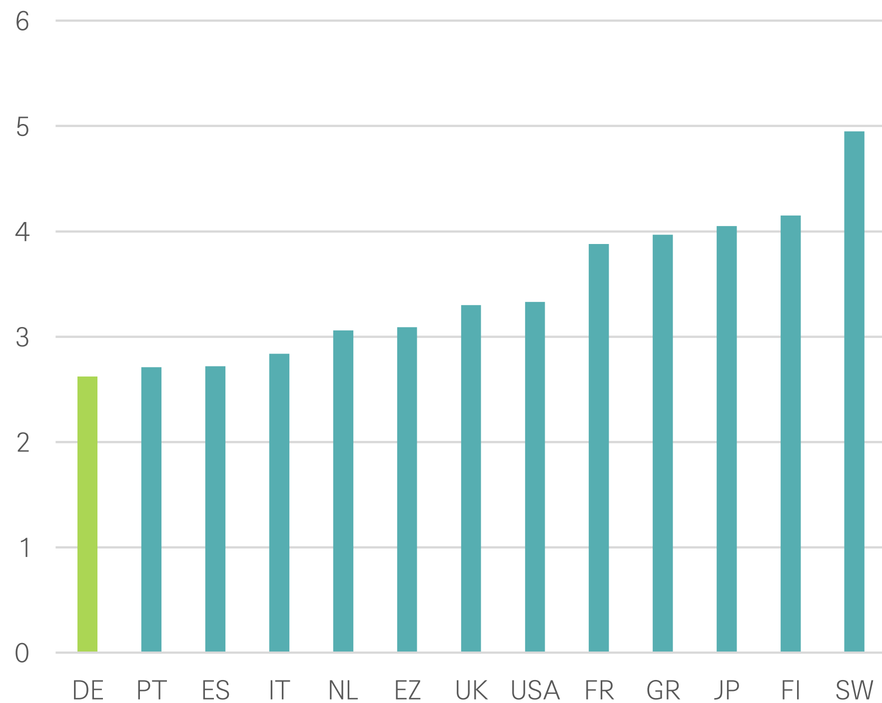
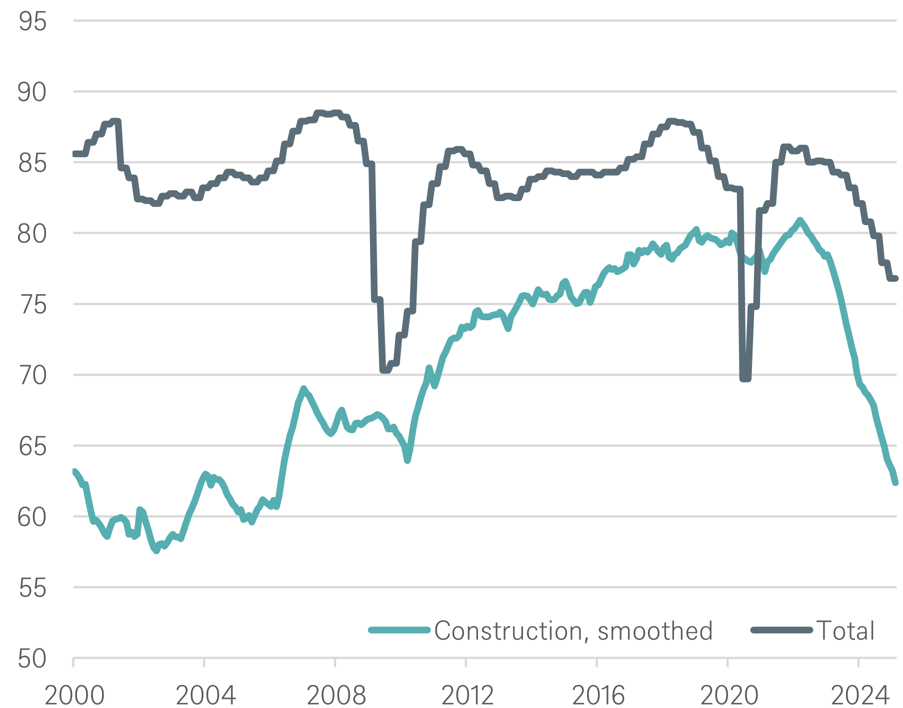
Germany #5: Higher spending meets some spare capacity in the economy

There is room for more public investments in Germany
% of GDP in 2023



There is much capacity simply not put to use
Capacity utilization Germany, %



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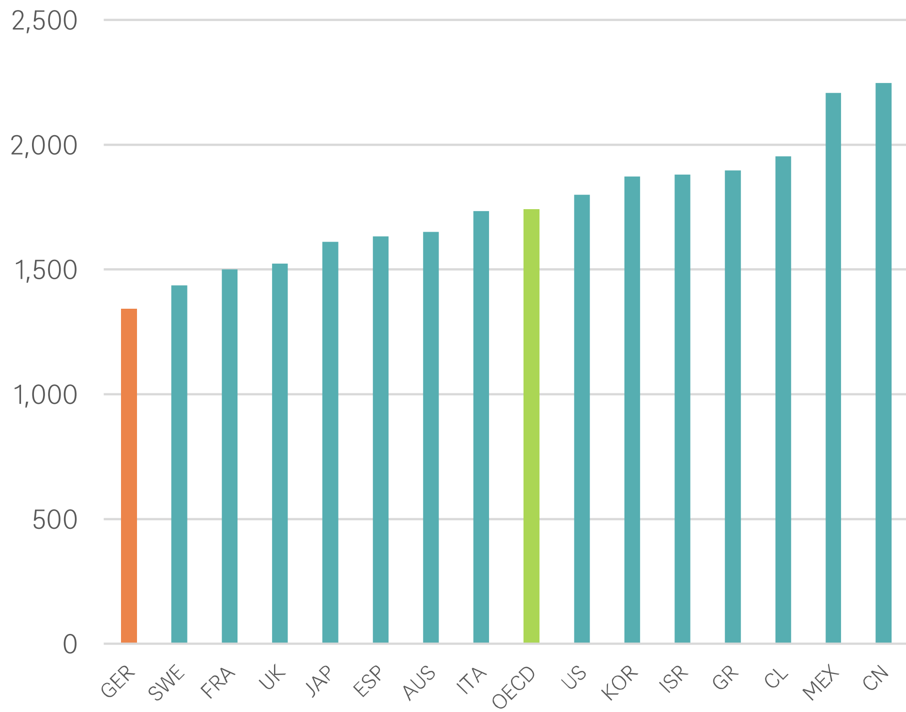
Germany #6: However, potential growth defined by the supply side

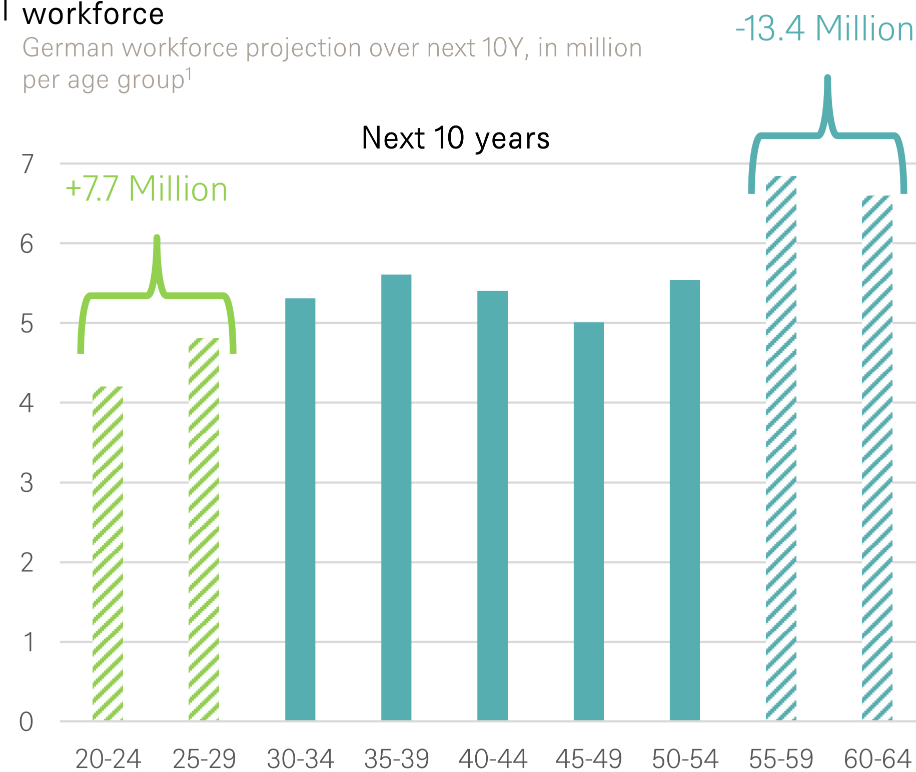
Does Germany have the willingness to turn things around?

Average hours worked in workforce per year for 2023



More people leaving than joining the workforce

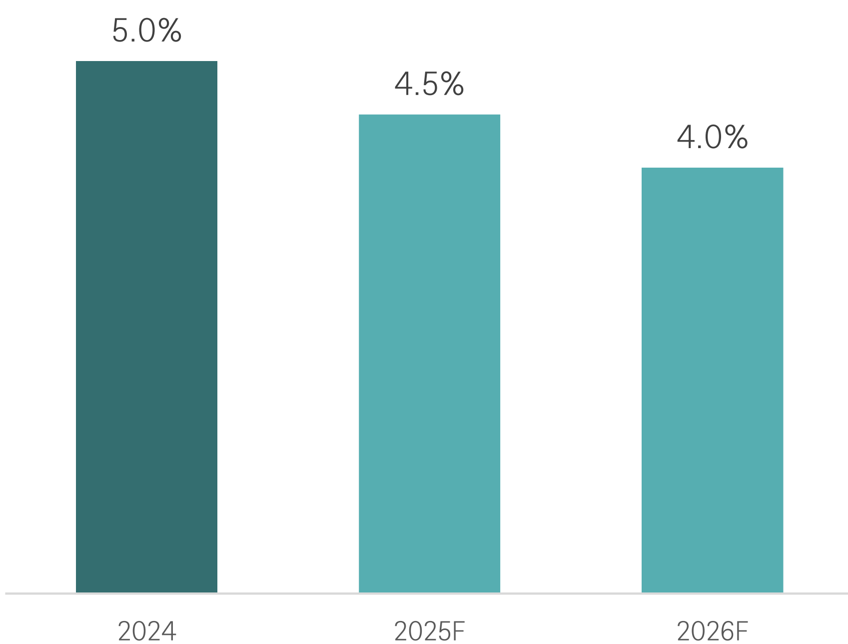
German workforce projection over next 10Y, in million per age group[1]



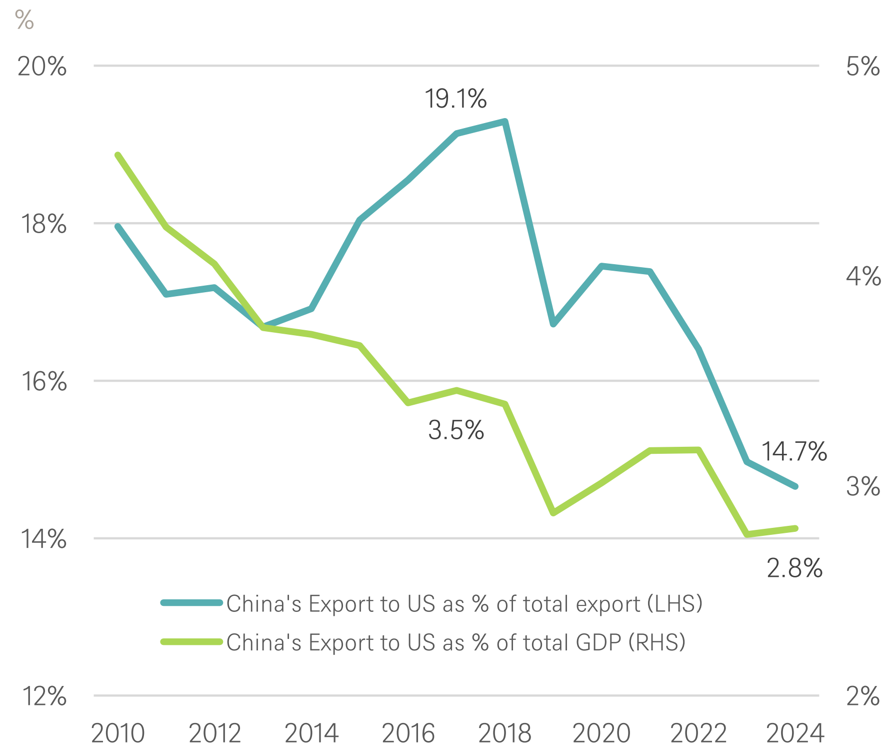
[1] UN World Population Prospects as of November 20, 2024. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Sources: Bloomberg Finance L.P., DWS Investment GmbH as of March 20, 2025.

China #1: Upcoming tariffs are the main risk

Tariffs will drag on Chinese growth…



… but China already lowered trade exposure to the U.S.



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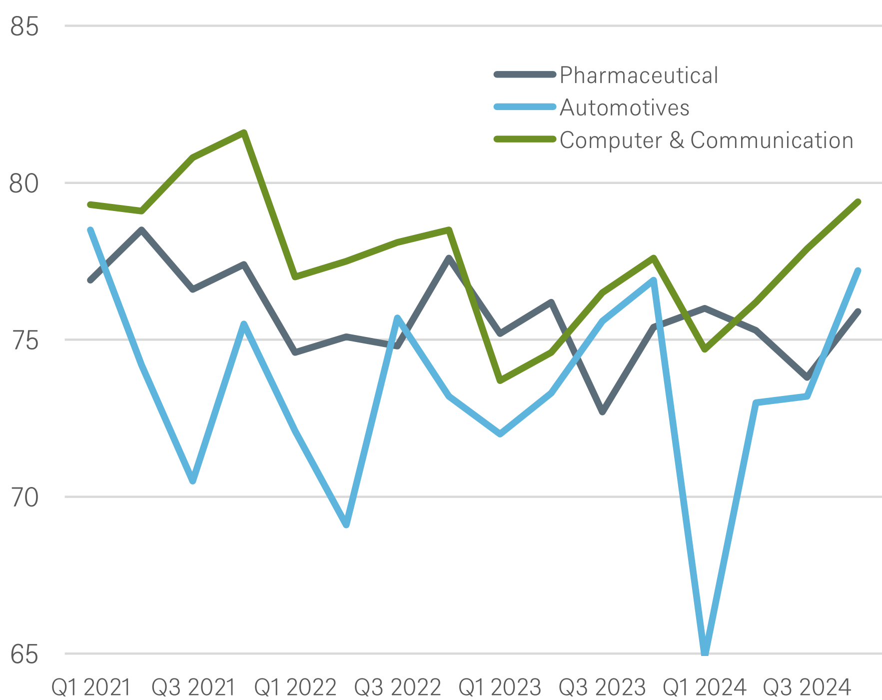
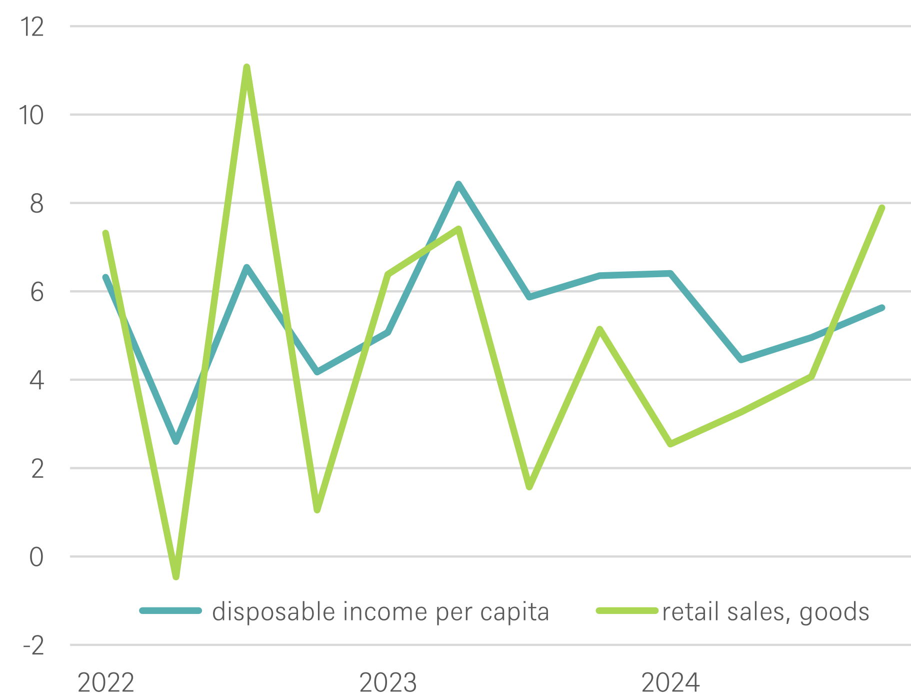
China #2: Trade drag partially offset by domestic strength

DWS

Capacity utilization improved in Q4
%



Rising retail sales reflect robust per capita income growth
% y/y



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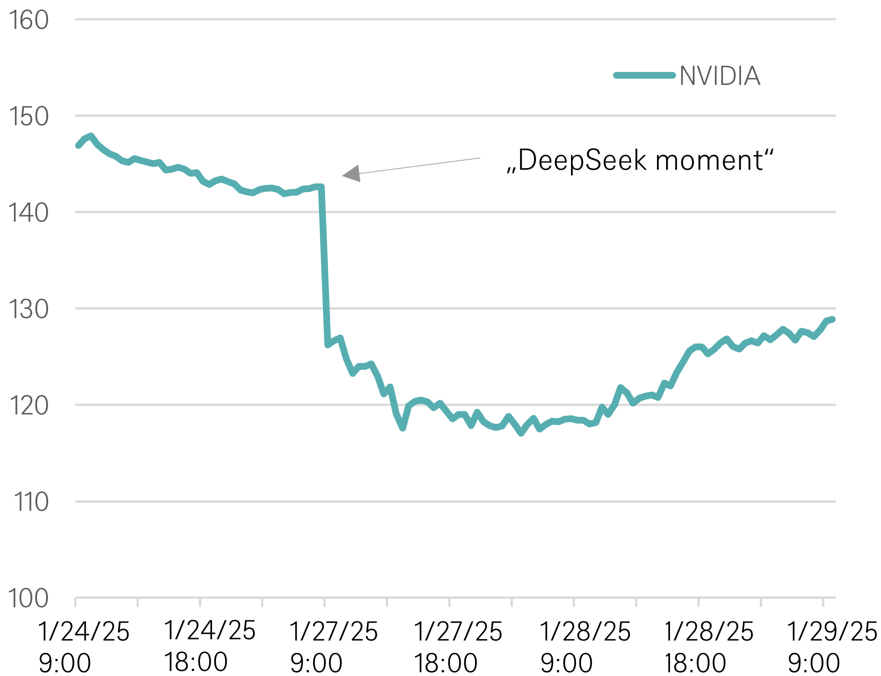
Artificial Intelligence: Did DeepSeek leave a deep mark?

DWS

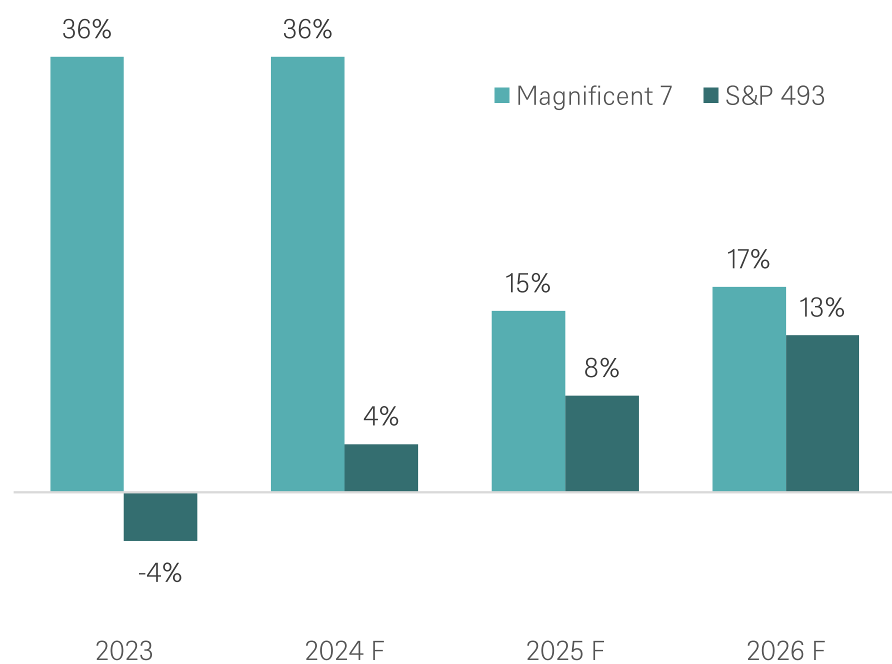
Money was lost quickly and has not been fully recovered until now

Stock price Nvidia, $



Tech earnings are normalizing, rest is also profiting

EPS growth



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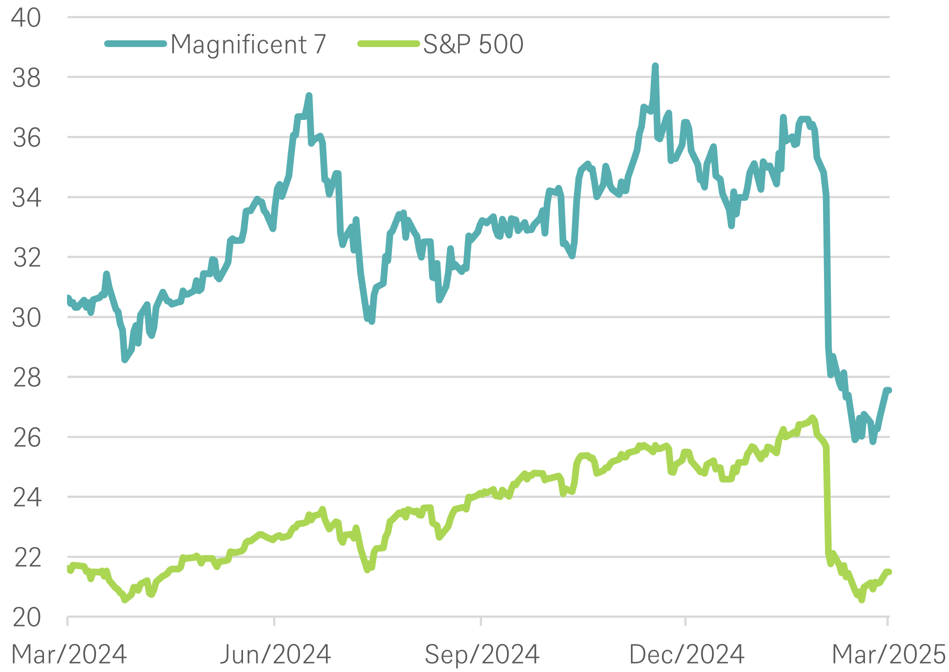
Artificial Intelligence: Sentiment down but the AI train is still running

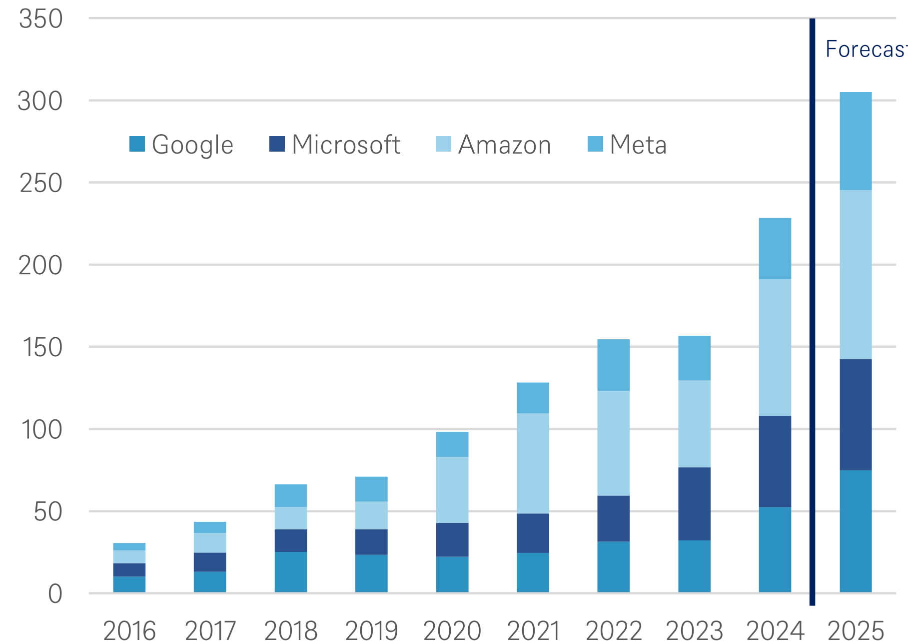
Valuation of big tech came down quickly..

P/E



… but big-four AI hyperscalers still spending big money

Capex, billion $



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