

March 26, 2020

Marketing Material

2020 – coronavirus reversal and rebound

Covid-19 is the paramount issue. We expect a sharp economic slowdown in the first half of 2020, followed by a subdued rebound.

“The coronavirus is likely to slow down the economy in unprecedented ways. Nonetheless, we expect the epidemic to prove only a temporary setback. Being invested in a well-diversified portfolio continues to be our preferred approach.”

Stefan Kreuzkamp
Chief Investment Officer



Trade war, impeachment proceedings and Brexit debates. As main risk scenarios, these three seem today to be from a different era and almost ridiculously harmless. They have nearly been forgotten in a few turbulent weeks. The unhappy transformation has been brought about by a pandemic: the new coronavirus, Covid-19, which originated in China and has spread surprisingly rapidly abroad. The full extent of this spread did not become apparent until the end of February, after DWS' regular strategy meeting. The contagion's impact on capital markets in just the following three weeks can be quickly illustrated. The number of new cases outside China quickly approached China's total. On March 9, Italy effectively quarantined the entire country. Big cultural and sport events were cancelled in many parts of the world. In the markets, the S&P 500 slumped at record speed by almost 20% from its record high and European indices have lost more than a quarter of their value.¹ Stock-market volatility² has reached levels last seen in 2008. To make matters worse, key oil producers Saudi Arabia and Russia embarked on a full-blown price war, sending oil down to 20 dollar per barrel. All U.S. government-bond maturities yielded less than 1% for the first time in history, while the risk premiums on euro high-yield bonds doubled virtually overnight. The virus has also arrived in most people's daily lives. At DWS too, we have taken extensive precautions to ensure

smooth business operations. These dramatic developments suffice to explain why our forecasts made in mid-February were no longer relevant.

Another tectonic shift occurred on March 12: the day on which almost the whole of Europe switched to crisis mode and it became obvious that the United States would soon have to follow suit. Stock markets suffered historic falls and most bond markets froze. Central banks began to intervene with large liquidity packages, and both the U.S. Federal Reserve (the Fed) and the Bank of England cut interest rates radically. At 0.1%, the benchmark British bank rate is at its lowest level on record, going back to 1689. The European Central Bank (ECB) followed suit with numerous easing measures to stimulate bank lending and a 750 billion euro purchase program, to improve liquidity in the bond markets. The high proportion of traders and fund managers currently working from home has exacerbated the lack of market liquidity. This is evident in the fact that even on days of massive collapses in the riskier markets (such as equities and corporate bonds), the supposed safe havens, gold and government bonds, have lost value. They become a source of liquidity for many companies and also institutional investors when the overarching rule is: cash is king.

¹ By March 24, most big equity indices have lost a third from their highs on average.

² For example, as measured by the VIX for the S&P 500 and the Euro Stoxx 50.

Economic life is collapsing before everyone's eyes. Extensive border closures have led to 60 kilometer long traffic jams for trucks on the Polish-German border. Air traffic has been largely suspended. The closure of shops, cultural and sports facilities, and the imposition of curfews, are leaving city centers in Europe and the U.S. empty. China's economic data for January and February showed the likely economic consequences: capital investment fell by 24.5% compared to a year earlier and retail sales by 20.5%. The figures were significantly worse than analysts had expected.

Events are moving now at extraordinary speed. A Lenin once stated: "there are decades where nothing happens and weeks where decades happen." The range of possible growth rates for the current year is correspondingly broad. It depends primarily on how long and to what extent the preventative measures already taken will last. This is anything but predictable at present. Even the second- and third-round effects of the abrupt economic slump will only become fully visible over time. The uncertainty is further increased by the feedback loops between economies. China, for example, despite its own success in restraining the coronavirus, is now suffering from the weakness in its export markets.

The greatest uncertainty, however, remains the future trajectory of the virus and the burdens health-care systems have to cope with. While it might be difficult to explain all differences in the speed of infection and mortality rates between various countries, one thing has been clarified by all doctors dealing with the pandemic so far: the mortality rate increases dramatically once local health-care systems are overwhelmed and lack beds and ventilators.

In general, medical issues will occupy us more than anything else in the coming weeks. Of course, the aid packages provided by central banks and governments are also extremely important in preserving "business as usual" as far as possible, providing security for small businesses and the self-employed and ensuring that markets continue to function properly. But of equal importance will be the continuing development of virus itself, and how state authorities deal with it.

We too have more questions than answers, and a certain unpredictability is also part of the nature of a virus and the

pandemic it causes. However, we believe that three months of experience with the virus have greatly improved our judgement. First of all, we continue to assume that the pandemic will remain a temporary phenomenon whose worst phase will be behind us by the beginning of summer, at least in the regions that are already severely affected. The number of new infections in key economic regions should stabilize clearly in the first half of the year, and the pandemic's worst impact from an economic perspective should be over by year-end. To get to this point three things must happen: First, the virus will have to have been brought largely under control by then. Essential for this is the provision of a large number of test kits, whose use must be simplified. Second, disease-relieving medicines would need to be approved, long before an effective vaccine is available. Third, as odd as this may sound at first society will need to get used to dealing with the virus, just as it has become accustomed to dealing with other viral diseases.

As at the end of March, it looks as if the further spread in the West is following the example of Italy rather than China, although Italy might have suffered from an amalgamation of negative factors.³ At the time of writing, the U.S. is recording more new cases than any other country and is likely soon to have the highest number of infected people in absolute terms. In parts of the U.S., especially in some large cities, the health-care system is already overwhelmed. In Europe the methods being used by most states – social lockdowns and curfews – are already having an effect on the number of new infections. We assume that such closures, and more generally what might be called a "shock freeze" of large parts of the economy, cannot be maintained for more than six to eight weeks before being gradually eased. This unfreezing, however, could lead to a second wave of infections. This is why we do not expect a quick recovery but rather a more prolonged one.

In view of the above we arrive at the following. We expect a short-lived global recession. In the U.S. and the Eurozone we expect the economy to shrink by around four percent this year, while China should manage to grow slightly.

Asset prices (as well as economic activity) should continue to be bolstered by central banks that have to a large extent already delivered what we expected, and in some cases more.

³ Such as the lower number of intensive care units and ventilators, an older population and one of the most polluted air in Europe.

Key interest rates are close to zero almost everywhere in the developed world, and numerous liquidity support measures have already been announced. Bond purchases are again among them (the ECB announced a 750-billion-euro package and on March 23 the Fed announced that it would buy as many bonds as necessary, including corporate bonds). We have adjusted our bond yield forecasts accordingly: we expect 10-year U.S. government bonds to yield 0.9% in twelve months, and corresponding German government bonds to yield -0.5%. However, given the sheer size of the current fiscal and central-bank packages, we will soon have to address the possible longer-term effects of these measures on inflation and interest rates.

With regard to equities, after an extremely weak first half of 2020 and stabilization in the second half, we expect a drop in earnings of 20% for the full year 2020. The recovery in 2021 should lead to slightly better figures for the next 12-month period. Without wanting to place too much emphasis on concrete price forecasts now, our core scenario sees most stock indices trading significantly above their current level in twelve months' time. However, this does not rule out the possibility of new lows being tested along the way. Now that the large monetary and fiscal packages have largely evaporated in the stock markets, we believe currently the two important parameters for investors are news on the coronavirus, relating to containment or progress on treatments, and stock valuations. The Dax, for example, is trading close to its book value (8200 points), which in our opinion leaves little further downside risk. The S&P 500, on the other hand, is still trading at a price-to-book ratio of 2.75. Despite the structural superiority of the S&P 500, one could conclude that the potential for setbacks is higher than for the Dax. All in all, we currently have no regional stock-market preferences on a 12-month horizon. At the sector level, we think the natural losers from this crisis, even in the longer term, will be tourism, airlines, the oil sector and parts of the financial sector. The winners should be sectors we liked anyway: highly profitable stocks with strong balance sheets in the technology and communications and health-care sectors.

What else will shape the markets to 2021 and beyond? It is almost certain that Joe Biden, who is considered a moderate, will be the Democrat challenging President Trump. For investors Biden is probably a more reassuring candidate than his chief rival for the nomination, Bernie Sanders, whom Trump would probably have preferred to face.⁴ For the time being, however, Trump has other worries. The weak stock market, the incipient economic slump, and his volatile management of the coronavirus crisis could cost him votes. In other countries, too, the handling of the coronavirus could cause difficulties for those in power. Aside from that, the fiscal response to the virus is likely to remain an important issue for politicians worldwide, and also for capital markets.

Inflation and interest rates will most probably still preoccupy capital markets. We had assumed that monetary policy would remain loose in 2020 but rates have fallen still lower. That the U.S. is now also likely to be trapped in a low-interest world for some time changes or reinforces some of our premises. In addition to U.S. Treasuries themselves, some of which no longer even compensate for inflation, the dollar is losing its fundamental appeal. Its current strength is a by-product of the big emergency moves in capital markets. At the same time, *There Is No Alternative*⁵ is gaining weight: investors are being forced into corporate bonds and equities because government-bond yields are so low, or even negative. Other investments that we believe should benefit from the low interest-rate environment are in real estate and infrastructure. Whether inflation will remain as invisible as it has since 2009 will be another big question for markets. Ultimately, however, stronger inflation would again speak in favor of equities.

To conclude, we are dealing with the most severe economic standstill and capital-market reversal in the post-war period. The damage done and distortions created will only become clear in the coming months. The pandemic itself will probably get a lot worse in most countries before it gets any better. The virus is extremely insidious and has been underestimated by the developed world for too long. But what should

⁴ In our opinion, this is evident in the fact that Trump's numerous direct hostilities against Biden have not been matched by attacks against Bernie Sanders. On the contrary, Trump worried in his tweets that the Democrats might prevent Sanders from winning the candidacy. See for example his tweet from March 10 and February 29.

⁵ "There is no alternative": low interest rates are pushing investors into higher-yielding and thus more risky investments, such as equities, despite sometimes high valuation levels.

not be underestimated is the adaptability and inventiveness of humanity when so directly confronted with a crisis. This is not the time to capitulate, not even as investors. The markets are likely to remain volatile for the time being and some added security, such as gold, and a higher cash balance certainly seem reasonable. But one should not completely close one's eyes to the opportunities. We believe the expected further negative headlines about the virus will be accompanied by

more positive news over time. As capital markets anticipate future developments we can expect them to move on even when the situation on the ground still seems to be worsening. Our core scenario would need to be very much mistaken for most share prices not to be higher in twelve months' time. In times like these, though, this almost seems like a secondary consideration. Stay healthy and take care of yourself and each other.

GLOSSARY

The **Bank of England (BoE)** is the central bank of the United Kingdom.

Book value is the net value of a company's physical and intangible assets

Brexit is a combination of the words "Britain" and "Exit" and describes the exit of the United Kingdom of the European Union.

A **corporate bond** is a bond issued by a corporation in order to finance their business.

The **Dax** is a blue-chip stock-market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

The **European Central Bank (ECB)** is the central bank for the Eurozone.

The **Eurozone** is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

Fiscal policy describes government spending policies that influence macroeconomic conditions. Through fiscal policy, the government attempts to improve unemployment rates, control inflation, stabilize business cycles and influence interest rates in an effort to control the economy.

High-yield bonds are issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

Liquidity refers to the degree to which an asset or security can be bought or sold in the market without affecting the asset's price and to the ability to convert an asset to cash quickly.

Monetary easing includes measures such as lowering interest rates, implemented by Central Banks with the aim of facilitating GDP growth or inflation.

Monetary policy focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

Price-to-book (P/B) ratio or multiple compares a stock's market value with its book value.

A **recession** is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

The **risk premium** is the expected return on an investment minus the return that would be earned on a risk-free investment.

The **S&P 500** is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

The **U.S. Federal Reserve**, often referred to as "the Fed", is the central bank of the United States.

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

PERFORMANCE / Overview

Performance in the past 12-month periods (in %)

	02/15–02/16	02/16–02/17	02/17–02/18	02/18–02/19	02/19–02/20
S&P 500	–6.2%	25.0%	17.1%	4.7%	8.2%

Past performance is not indicative of future returns. DWS Investment GmbH; Source: Bloomberg Finance L.P. as of 2/28/20

Important Information – EMEA

The following document is intended as marketing communication.

DWS is the brand name under which DWS Group GmbH & Co. KGaA and its subsidiaries operate their business activities. Clients will be provided DWS products or services by one or more legal entities that will be identified to clients pursuant to the contracts, agreements, offering materials or other documentation relevant to such products or services.

The information contained in this document does not constitute investment advice.

All statements of opinion reflect the current assessment of DWS Investment GmbH and are subject to change without notice.

Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical performance analysis, therefore actual results may vary, perhaps materially, from the results contained here.

Past performance, [actual or simulated], is not a reliable indication of future performance.

The information contained in this document does not constitute a financial analysis but qualifies as marketing communication. This marketing communication is neither subject to all legal provisions ensuring the impartiality of financial analysis nor to any prohibition on trading prior to the publication of financial analyses.

This document and the information contained herein may only be distributed and published in jurisdictions in which such distribution and publication is permissible in accordance with applicable law in those jurisdictions. Direct or indirect distribution of this document is prohibited in the USA as well as to or for the account of US persons and persons residing in the USA.

DWS Investment GmbH 2020

Important Information – UK

Issued in the UK by DWS Investments UK Limited. DWS Investments UK Limited is authorised and regulated by the Financial Conduct Authority (Registration number 429806).

DWS is the brand name of DWS Group GmbH & Co. KGaA. The respective legal entities offering products or services under the DWS brand are specified in the respective contracts, sales materials and other product information documents. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS") are communicating this document in good faith and on the following basis.

This document is a financial promotion and is for general information purposes only and consequently may not be complete or accurate for your specific purposes. It is not intended to be an offer or solicitation, advice or recommendation, or the basis for any contract to purchase or sell any security, or other instrument, or for DWS to enter into or arrange any type of transaction as a consequence of any information contained herein. It has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor.

This document does not identify all the risks (direct and indirect) or other considerations which might be material to you when entering into a transaction. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by DWS, are suitability and appropriate, in light of their particular investment needs, objectives and financial circumstances. We assume no responsibility to advise the recipients of this document with regard to changes in our views.

We have gathered the information contained in this document from sources we believe to be reliable; but we do not guarantee the accuracy, completeness or fairness of such information and it should not be relied on as such. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

DWS does not give taxation or legal advice. Prospective investors should seek advice from their own taxation agents and lawyers regarding the tax consequences on the purchase, ownership, disposal, redemption or transfer of the investments and strategies suggested by DWS. The relevant tax laws or regulations of the tax authorities may change at any time. DWS is not responsible for and has no obligation with respect to any tax implications on the investment suggested.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgment as of the date of this document. Forward looking statements involve significant elements of subjective judgments and analyses and changes thereto and/ or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements or to any other financial information contained in this document.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

© 2020 DWS Investments UK Limited

Publisher: DWS Investment GmbH, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany

Important Information – APAC

DWS is the brand name of DWS Group GmbH & Co. KGaA. The respective legal entities offering products or services under the DWS brand are specified in the respective contracts, sales materials and other product information documents. DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS Group") are communicating this document in good faith and on the following basis.

This document has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by DWS Group, are appropriate, in light of their particular investment needs, objectives and financial circumstances. Furthermore, this document is for information/discussion purposes only and does not constitute an offer, recommendation or solicitation to conclude a transaction and should not be treated as giving investment advice.

DWS Group does not give tax or legal advice. Investors should seek advice from their own tax experts and lawyers, in considering investments and strategies suggested by DWS Group. Investments with DWS Group are not guaranteed, unless specified.

Investments are subject to various risks, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time. Furthermore, substantial fluctuations of the value of the investment are possible even over short periods of time. The terms of any investment will be exclusively subject to the detailed provisions, including risk considerations, contained in the offering documents. When making an investment decision, you should rely on the final documentation relating to the transaction and not the summary contained herein. Past performance is no guarantee of current or future performance. Nothing contained herein shall constitute any representation or warranty as to future performance.

Although the information herein has been obtained from sources believed to be reliable, DWS Group does not guarantee its accuracy, completeness or fairness. No liability for any error or omission is accepted by DWS Group. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid. All third party data (such as MSCI, S&P, Dow Jones, FTSE, Bank of America Merrill Lynch, Factset & Bloomberg) are copyrighted by and proprietary to the provider. DWS Group or persons associated with it may (i) maintain a long or short position in securities referred to herein, or in related futures or options, and (ii) purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation.

The document was not produced, reviewed or edited by any research department within DWS Group and is not investment research. Therefore, laws and regulations relating to investment research do not apply to it. Any opinions expressed herein may differ from the opinions expressed by other DWS Group departments including research departments. This document may contain forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgment as of the date of this material. Forward looking statements involve significant elements of subjective judgments and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by DWS Group as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein.

This document may not be reproduced or circulated without DWS Group's written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject DWS Group to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

Unless notified to the contrary in a particular case, investment instruments are not insured by the Federal Deposit Insurance Corporation ("FDIC") or any other governmental entity, and are not guaranteed by or obligations of DWS Group.

In Hong Kong, this document is issued by DWS Investments Hong Kong Limited and the content of this document has not been reviewed by the Securities and Futures Commission.

© 2020 DWS Investments Hong Kong Limited

In Singapore, this document is issued by DWS Investments Singapore Limited and the content of this document has not been reviewed by the Monetary Authority of Singapore.

© 2020 DWS Investments Singapore Limited

In Australia, this document is issued by DWS Investments Australia Limited (ABN: 52 074 599 401) (AFSL 499640) and the content of this document has not been reviewed by the Australian Securities Investment Commission.

© 2020 DWS Investments Australia Limited

Publisher: DWS Investment GmbH, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany

CRC 074676 (03/2020)