Marketing Material

CONSTRUCTIVE OUTLOOK, BUT VIGILANT AS ECONOMIC SLOWDOWN CONTINUES

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IN A NUTSHELL

_ Global economic slowdown should continue in 2020, but no recession in sight
_ Slow growth likely curbs inflation, real interest rates and also profit growth
_ Outlook for Federal Funds rates, Treasury yields and dollar exchange rates
_ Challenges likely to persist for manufacturers and commodity producers
_ Trade conflict, U.S. elections and demanding valuations are risks for 2020

GLOBAL ECONOMIC SLOWDOWN SHOULD CONTINUE IN 2020, BUT NO RECESSION IN SIGHT

DWS economists, strategists and asset-class heads gathered last week to update our strategic CIO view through December 2020. Our forecast changes included reductions to our economic growth estimates in most regions for 2020. U.S. 2020 gross-domestic-product (GDP) growth forecast was cut from 2.0% to 1.6%, vs. 2.2% in 2019. Eurozone 2020 GDP growth was cut from 1.1% to 0.9%, vs. 1.1% in 2019. Japan 2020 GDP growth remains 0.2%, vs. 0.8% in 2019. China 2020 GDP growth remains 5.8%, vs. 6.2% in 2019. We still consider the major regions of the world safe from recession risk. But we expect developed economies to slow further in 2020 as they settle into a pace aligned with productivity growth. Slow growth, but no sustained acceleration is expected through 2021. This is because the cyclical bounce in employment as well as household and business spending is almost entirely behind after more than 10 years of expansion.

SLOW GROWTH LIKELY CURBS INFLATION, REAL INTEREST RATES AND ALSO PROFIT GROWTH

We consider the global economy and all major developed economies to be healthy. The record long expansion has allowed most economies to settle into a well-balanced state of activity. This balance and shift toward more service-oriented economies makes the United States and most developed economies more resistant to economic shocks. We think it would take a large shock to cause a recession, despite our outlook for slower growth. If growth slowly advances mostly from productivity gains, with incremental spending mostly on services, it suggests that inflation will stay low and also that the demand for capital and opportunities to expand businesses are muted.

OUTLOOK FOR FEDERAL FUNDS RATES, TREASURY YIELDS AND DOLLAR EXCHANGE RATES

We expect the U.S. Federal Reserve (Fed) to keep overnight rates on hold. While we think cuts are more likely than hikes, it would likely take damage to employment trends to bring more cuts. After the U.S. 10-year Treasury yield swung in a wide range of 1.5% - 2.8% this year, we think an on-hold Fed at 1.5-1.75% and stable inflation should confine 10-year yields to a tighter range of 1.6% - 2.1% in 2020. Our CIO view forecasts a 1.85% 10-year yield for December 2020. This suggests a real 10-year yield of about 0%, which should continue to support an 18x-20x trailing S&P 500 price-to-earnings ratio (P/E) provided a decent S&P 500 earnings-per-share (EPS) growth outlook.

We expect a stable U.S. dollar, supported by still higher real interest rates in the United States. Should U.S. interest rates be cut, we would expect parallel shifts in rates elsewhere. As European GDP finds a firmer footing in late 2020, the euro should gain modestly vs. the U.S. dollar. Our CIO view forecasts 1.15 EUR/USD for December 2020.

CHALLENGES LIKELY TO PERSIST FOR MANUFACTURERS AND COMMODITY PRODUCERS

Our commodity strategists expect oil prices to remain soft and range-bound through 2020 with West Texas Intermediate (WTI) at 54 U.S. dollars per barrel at 2020 end. Slow demand growth for commodities and manufactured goods (both capital goods and consumer durables) should keep excess capacity lingering on the industrial side of the global economy. We expect flattish capital expenditures (capex) on capacity additions, but healthy capex on productivity enhancers.

TRADE CONFLICT, U.S. ELECTIONS AND DEMANDING VALUATIONS ARE RISKS FOR 2020

Our CIO day process sets our strategic forecasts for the next 12 months. We raised our S&P 500 target to 3200 for 2020 end on a higher P/E given sub 2% 10-year Treasury yields even as recession fears recently faded.[1] Our 2020 estimated (E) S&P 500 EPS is 170 U.S. dollars or 4% growth, this assumes no reduction or increase in tariffs. Our 3200 target is 18.8x our 2020E S&P 500 EPS or about 20.5x excluding Financials. These are demanding valuations, but provided tariffs do not increase, allowing mid-single digit S&P 500 EPS growth, and U.S. elections do not point to large tax hikes, we are comfortable that the S&P 500 can be at these P/Es at 2020 end. But because these uncertainties will persist until late 2020, we maintain our tactical Next 5%+ S&P price move signal as "Down." We remain neutral on regional equity preferences. While valuations are cheaper abroad, there is more risk from sensitivity to global trade, manufacturing and depressed interest rates abroad. We adopt a more barbell[2] approach to our sector strategy. The only two sectors we are now equal-weight are Utilities and Real Estate Investment Trusts (REITs). We think listed and private real estate and infrastructure will provide similar returns as equities but with lower volatility. We raise Technology and Financials to overweight, joining Healthcare and Communications at overweight. We lower Consumer Staples to underweight, joining Consumer Discretionary, Industrials, Energy and Materials at underweight. Our most preferred sector is Healthcare, our least preferred sector is Materials.

GLOSSARY

Capital expenditure (Capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

Cyclical is something that moves with the cycle.

Earnings per share (EPS) is calculated as a company's net income minus dividends of preferred stock, all divided by the total number of shares outstanding.

The euro (EUR) is the common currency of states participating in the Economic and Monetary Union and is the second most held reserve currency in the world after the dollar.

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

The gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

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

The price-to-earnings (P/E) ratio compares a company's current share price to its earnings per share.

In economics, a real value is adjusted for inflation.

Real Estate Investment Trusts (REITs) are companies, mostly listed, that own and often operate various types of real estate. They are obliged to pay out a minimum of 90% of earnings.

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 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. dollar (USD) is the official currency of the United States and its overseas territories.

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

Valuation attempts to quantify the attractiveness of an asset, for example through looking at a firm's stock price in relation to its earnings.

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.

West Texas Intermediate (WTI) is a grade of crude oil used as a benchmark in oil pricing.

Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

[1] When interest rates are low, there is a greater chance for higher real earnings growth, which increases the willingness of people to pay for a company's earnings. This in turn increases the P/E ratio.
[2] It is an investing strategy where half of your holdings are short-term instruments, and the other half have long-term holdings.

APPENDIX: PERFORMANCE OVER THE PAST 5 YEARS (12-MONTH PERIODS)

	10/14 - 10/15	10/15 - 10/16	10/16 - 10/17	10/17 - 10/18	10/18 - 10/19
S&P 500	5.2%	4.5%	23.6%	7.3%	14.7%
U.S. Treasuries (10-year)	3.9%	4.6%	-1.8%	-3.2%	13.6%

Past performance is not indicative of future returns.
Sources: Bloomberg Finance L.P., DWS Investment Management Americas Inc. as of 11/20/19

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