December 23, 2019

Marketing Material

2020 OUTLOOK: A DIFFICULT YEAR TO VALUE

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IN A NUTSHELL

_ S&P 500 target for 2020 yearend is 3300 with flat probabilities from 3100 to 3500
_ Fade clarity proclamations: most of 2019's concerns will return in January
_ For 2020, carefully assess your risk tolerance and gain/loss utility, diversify!

S&P 500 TARGET FOR 2020 YEAREND IS 3300 WITH FLAT PROBABILITIES FROM 3100 TO 3500

After careful consideration, our outlook for 2020 is to accept that anything might be possible. While always true, we think uncertainty for equity markets is high for 2020, both for 2020 end and the yearlong journey. This is despite good reasons to be confident in continued economic growth and other healthy macroeconomic conditions, such as employment. This is because the earnings outlook is more uncertain relative to gross domestic product (GDP) than usual and the potential change in earnings valuation is very uncertain from here. It is reasonable to expect stable price-to-earnings ratios (P/Es) and mid-single digit S&P 500 earnings-per-share (EPS) growth in 2020, but we view any S&P 500 price from 3100 to 3500 as equally possible or flatly distributed.

FADE CLARITY PROCLAMATIONS: MOST OF 2019'S CONCERNS WILL PROBABLY RETURN IN JANUARY

Concerns about economic slowing, soft capital expenditures and manufacturing, excess oil production, low interest rates, Brexit uncertainties, U.S.-China trade, technological and geopolitical conflicts will probably remain in 2020; likely with unexpected flare-ups again. Our S&P 500 target, including the flat probabilities assigned to 3100 through 3500 assumes that President Trump is re-elected or that Democrats nominate a moderate candidate. Election concerns and political uncertainty will rise in our opinion in 2020, but will likely be relieved post elections.

FOR 2020, CAREFULLY ASSESS YOUR RISK TOLERANCE AND GAIN/LOSS UTILITY, DIVERSIFY!

Low confidence in our expected return for 2020 is not from downside tail risks, we are not bearish. It is from flat or non-normally distributed probabilities for return scenarios around our base case. We do not see greater than usual tail-risk probabilities for a recession or bear-market losses, despite the U.S. election risk. But the flat probability distribution around our target P/E and return, along with a low single-digit expected return, could make a small loss for equity investors a higher than usual chance in 2020 despite an expected healthy economy, decent return, and no higher than usual bear-market risk. Investors must weigh if it is worth it. It is uncertain how they will respond.

20 THEMES FOR 2020:

1. Record expansion continues, but the United States, China and Europe might slow in 2020 vs. 2019
2. Low interest rates for longer: Global investors must take risk to earn real returns
3. Muted inflation: Excess capacity + decent productivity gains = slow growth + low inflation
4. Central banks seek new tools: Interest rates unlikely to rise much before next recession
5. Flattish yield curve is the new norm: Yield curve will likely stay modestly positive or flattish

6. U.S. dollar stable through U.S. election: Any EUR/ USD gain likely to be modest
7. Commodities need global acceleration, yet upside still capped: DWS West Texas Intermediate (WTI) estimate 54 U.S. dollars per barrel
8. China tariffs rollback will probably be slow if at all: Tariffs still in Trump's policy toolbox
9. Industrial excess capacity: Weak demand for commodities and manufactured goods
10. U.S. Federal Reserve (Fed) balance sheet rising vs. liquidity: Liquidity trapped as large banks' excess reserves
11. 2020 expected S&P 500 EPS 172 U.S. dollars: 5% year-over-year growth assuming a slow and modest reduction in tariffs
12. Valuations: Target S&P 500 price-to-earnings ratio is 19.2, we see equal chances for 18 to 21
13. Moderate EPS growth + high valuations = moderate future returns: 5% 2020 expected return
14. Credit vs. equities: 2020's return / risk is probably better at investment-grade and high-yield credit than equity
15. Chutes and Ladders: Trade policy, monetary policy, tax policy, geopolitical policy, elections
16. Election 2020: A Trump or a moderate Democrat victory is probably neutral for the market
17. Region/ size/ style tilts: More neutral on these tilts until further clarity to 2020 emerges
18. Sector tilts: We adopt a barbell approach with most sectors at either overweight or underweight
19. Triple-net returns: After fee, after tax, real returns likely to be above history for equities
20. Allocators need active and passive to reach total-portfolio-return objectives: Potentially seek alpha strategies that work in the big asset-class segments, be tactical with exchange-traded-funds (ETFs)

GLOSSARY

A balance sheet summarizes a company's assets, liabilities and shareholder equity.

In finance, a barbell strategy means avoiding assets with an average risk-reward profile. A common example of this would be to invest in long- and short-duration bonds but not in intermediate-duration bonds.

Technically, a bear market refers to a situation where the index's value falls at least 20% from a recent high.

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

A central bank manages a state's currency, money supply and interest rates.

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.

An exchange-traded fund (ETF) is a security that tracks an index or asset like an index fund, but trades like a stock on an exchange.

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.

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.

Investment grade (IG) refers to a credit rating from a rating agency that indicates that a bond has a relatively low risk of default.

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.

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.

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.

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.

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

A yield curve shows the annualized yields of fixed-income securities across different contract periods as a curve. When it is inverted, bonds with longer maturities have lower yields than those with shorter maturities.

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

	11/14 - 11/15	11/15 - 11/16	11/16 - 11/17	11/17 - 11/18	11/18 - 11/19
S&P 500	2.7%	8.1%	22.9%	6.3%	16.1%

Past performance is not indicative of future returns.
Sources: Bloomberg Finance L.P., DWS Investment Management Americas Inc. as of 12/20/19

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