DWS

ECB STANDARD PACKAGE ON A HISTORICAL DAY

Amid severe market collapses, dramatic corona measures and energetic central banks in the UK and United States, the ECB package was somewhat underwhelming.

IN A NUTSHELL

- The ECB delivered a reasonable package. But in light of the corona crisis and the liquidity-dependent markets, a downright unreasonable package was required.
- Christine Lagarde's verbal renunciation of Daghi's "whatever it takes" worried investors the most.
- On a day like this, it was too little to convince the markets. The pressure on the ECB to do more should remain high. However, its ability to do so looks limited.

Even on a "normal" trading day in times of the corona-virus crisis, the package of measures presented by the European Central Bank (ECB) yesterday, Thursday, would probably have made little impression. The expectations for the ECB were already high, perhaps because it seems obvious that the ECB can only contribute a small part to solving the corona crisis. That may be the reason why it did not even try to meet the expectations of the markets, as they would probably only have been satisfied if the ECB had over-fulfilled them. What really matters to (institutional) investors was shown by the market reactions to certain statements by Christine Lagarde. When she emphasized that it was not her job to reduce risk premiums (of periphery bond yields). There are other instruments and people responsible for this. This was, so to speak, the opposite of Mario Draghi's assurance to do "whatever it takes" to ensure the common currency's survival. These seemed to be the wrong words, at the wrong time for liquidity-dependent capital markets.

How dysfunctional the markets were on Thursday, March 12, will probably only become clear in the coming days. It was an extraordinary day, even in comparison to the already turbulent days before. Not only because of the record movements in capital markets. The Dax' loss of 12.2% was the second highest in its history, the S&P 500's loss of 9.51% was its second highest since 1987. The volatility of stock markets (as shown by the CBOE Volatility Index (Vix) for the S&P 500 and Euro Stoxx 50) reached the record levels of the worst days of the financial crisis in 2008. Other markets mainly surprised by their malfunctioning. Not only for corporate bonds, but even for U.S. Treasuries trading has proved difficult at times, until the U.S. Federal Reserve (Fed) intervened by injecting and promising several trillion dollars to the market. Indicating the liquidity needs of certain investors, gold was down, not up. The day was also historic because it saw many countries go into crisis mode in dealing with the coronavirus. The crisis, and the awareness that combating it must be a top priority, arrived everywhere yesterday: in Europe at both the country and European-Union (EU) level and in the United States at the level of states, companies, associations and the federal government.

Of course, these were not easy conditions for the ECB. After the other major central banks presented their proposals, the ECB rounded off the international rescue package with a targeted package for the time being. However, in doing so it acted much less aggressively than the others. Christine Lagarde made it clear right at the beginning of her press conference that fiscal policy is required in this economic environment. She accordingly called on European governments to pursue a coordinated and substantial fiscal policy, with flanking measures from the ECB. However, it was no longer a shout-out but almost a plea, which in turn could be seen as an admission of the limited possibilities of the ECB in this case.

Given its limited resources, the ECB, following its own analysis, focuses on targeted measures. Essentially, these are liquidity measures for banks in order to continue to guarantee lending, albeit at even lower interest rates. In view of the markets' expectation that a major monetary-policy package would be delivered, the positive effect of these measures has been completely lost. Specifically, the ECB is launching a new program for granting longer-term loans to commercial banks (TLTRO) to provide immediate liquidity support to the financial system at an interest rate of -0.5%. In addition, the conditions for the already existing TLTRO-III program for the period from June 2020 to June 2021 will be further improved with an interest rate between -0.25 and -0.75%. In its role as a supervisory authority, the ECB has decided to relax the capital requirements of banks. All of this serves to keep incentives for banks high and to support lending. But the central bank cannot force commercial banks to do so. Therefore, the success of the program will also depend on the willingness of governments to issue guarantees or sureties for companies.

The bond purchases for 2020, which have been increased by 120 billion euros and focus mainly on corporate bonds, should also help to improve the financial environment. The deposit rate, on the other hand, was left at -0.5%. Here it seems as if the market had hoped for a stronger signal.

Are these measures sufficient? In view of the situation, which is worsening by the day, we believe it is certainly too early to answer with a "that's it". The ECB had to admit how quickly the external parameters can change based on its own growth forecasts. The expected gross-domestic-product (GDP) growth rate for the Eurozone was only reduced from 1.1 to 0.8% for 2020, which puts the ECB well behind the curve. It conceded, however, that this growth forecast takes into account neither the oil-price shock nor the recently expanded coronavirus defense measures of the various countries. The pressure to do more should therefore remain high.

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

	02/15 - 02/16	02/16 - 02/17	02/17 - 02/18	02/18 - 02/19	02/19 - 02/20
Dax	-16.7%	24.6%	5.1%	-7.4%	3.3%
S&P 500	-6.2%	25.0%	17.1%	4.7%	8.2%

Past performance is not indicative of future returns.
Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 3/13/20

GLOSSARY

The CBOE Volatility Index (Vix) is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index. It is a popular measure of the volatility of the S&P 500 as implied in the short term option prices on the index.

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

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

The deposit rate is the rate banks receive when they make overnight deposits with the ECB.

The Euro Stoxx 50 is an index that tracks the performance of blue-chip stocks in the Eurozone.

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

The European Union (EU) is a political and economic union of 28 member states located primarily in Europe.

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

The financial crisis refers to the period of market turmoil that started in 2007 and worsened sharply in 2008 with the collapse of Lehman Brothers.

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.

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.

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).

Periphery bonds are government bonds issued by smaller countries of the Eurozone, e.g. Ireland, Portugal, Greece; sometimes also Spain and Italy are included. Historically, the term 'Periphery' was based on the stage of economical development and is currently used to refer to the above mentioned countries.

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.

Targeted longer-term refinancing operations (TLTROs) refer to the ECB's providing of financing to Eurozone banks.

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.

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.

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 suitable 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 any investments and strategies suggested by DWS. The relevant tax laws or regulations of the tax authorities may change at any time.

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 judgement as of the date of this document. Forward looking statements involve significant elements of subjective judgements and analysis 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.

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.

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.

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.

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