DWS

April 30, 2020

Marketing Material

ADJUSTING OUR STRATEGIC CIO VIEW FORECASTS

These are turbulent times. For the second time since our regular strategy meeting in February, we are updating our forecasts, with relatively minor changes to our targets.

In a nutshell

- Because of social-distancing measures, large swaths of economic activity suddenly came to a halt. The recovery will probably be slow.
- We now expect global GDP growth to shrink by almost 3% in 2020, before recovering by more than 5% in 2021. Due to the outsized U.S. fiscal stimulus, the recession in the United States looks set to be shallower and the recovery faster than in the Eurozone.
- Additional waves of the pandemic constitute a material risk not captured in our forecasts.

How and when will the biggest global health and economic crisis since World War II end? The short answer is that three months into the worldwide Covid-19 pandemic, we still don't know. But as a result of another ad-hoc strategy meeting, we can communicate some educated guesses, based on intensive work across our investment platform in recent weeks.

Our base case is that even though it will take a while for the world economy to recover, we believe we should start to see signs of stabilization in the coming months. Most countries are already experiencing a sharp recession, including where it is not yet officially labelled as such. Because of social-distancing measures, large swaths of economic activity suddenly came to a halt. The recovery will probably be slow. The consequences of the crisis will likely linger, as captured by our economic forecasts (see table below).

We now expect global gross domestic product (GDP) to shrink by almost 3% in 2020, before recovering by more than 5% in 2021. These are rounded figures. Given the large bands of uncertainty, we would honestly be delighted – and quite surprised – if we got each digit, let alone the decimal points, in our country forecasts right. What probably matters more is the relative performance of the leading economies. We expect the recession in the United States to be shallower than in the Eurozone, and the U.S. recovery to be faster, roughly in line with global GDP growth. That primarily reflects the outsized U.S. fiscal stimulus, leading to a budget-deficit forecast of about 18% of GDP this year. In our opinion, inflation will be dragged down by the decline in oil prices this year, but probably recover next year, as pent-up and fiscally-stimulated demand may start to run up against supply-side constraints.

Obviously, there is plenty of uncertainty around this outlook. In addition to leaving mountains of government debt in its wake, Covid-19 will very likely change the behavior of workers and households, businesses and financial intermediaries. We would caution, however, as it is still very early in the crisis, to speculate about the precise nature and magnitude of these changes.

What is already becoming clearer is the current assessment of the situation by financial markets. At the time of writing, equity markets appear determined to look through the crisis. Within a few weeks, U.S. markets in particular have moved from panic back to valuations that would have looked frothy not so long ago, even in the absence of a global pandemic. Of course, sentiment can change and we would not be surprised if the March lows get tested again. For now, though, Wall Street appears willing to ignore the carnage it looks set to cause in company earnings, which we do not expect to fully recover until 2022. Add unprecedent fiscal and monetary stimulus, and we consider it quite possible that equity markets will be up by around 10% in a year.

As for bond markets, we think that accommodative central-bank action will continue or even accelerate. Generally, interest rates look set to remain low for longer and we believe that European-Central-Bank (ECB) and European-Union (EU) measures will succeed in tightening periphery spreads for countries such as Italy and Spain. Corporate bonds should benefit from central-bank asset purchase programs, especially in the comparatively shallow Eurozone bond markets. Emerging-market bonds, issued by both corporates and sovereigns, should tighten somewhat from current levels once we see the turnaround in economic-growth numbers. In terms of the relative risk-return profiles, we prefer

high-yield to investment-grade, and investment-grade to emerging-market bonds. Selection and active management will be key in all these categories, given the rising default and headline risks.

Which takes us to our penultimate point. We expect the U.S. dollar to hold on to its recent strength in an environment of lingering uncertainty. This is likely to remain the case unless or until the medical progress for the pandemic changes, thanks, for example, to better treatment options or a vaccine being found. On a final note of caution, we would stress that additional waves of the pandemic, followed by renewed shutdowns, constitute a material risk not captured in our forecasts.

Macro forecasts

GDP growth in %, year-on-year	2020F	2021F
U.S.	**-5.7**	**5.6**
Eurozone	**-7.5**	**4.5**
Germany	**-6.0**	**4.5**
Japan	**-5.5**	**3.3**
China	**1.0**	**9.0**
Global	**-2.6**	**5.4**
Benchmark rates in %	**Current level**	**March 2021F**
United States (fed funds rate)	0.00-0.25	**0.00-0.25**
Eurozone (deposit rate)	-0.50	**-0.50**
United Kingdom (repo rate)	0.10	**0.10**
Japan (overnight call rate)	0.00	**0.00**

Asset-class forecasts

	Current level	Forecast Mar-21
Capital market yields (sovereign bonds)		
United States (2-year)	0.20%	**0.50%**
United States (10-year)	0.59%	**0.90%**
United States (30-year)	1.18%	**1.30%**
Germany (2-year)	-0.72%	**-0.80%**
Germany (10-year)	-0.50%	**-0.50%**
Germany (30-year)	-0.10%	**-0.10%**
Italy (10-year)	227 bp	**190 bp**
Spain (10-year)	131 bp	**100 bp**
United Kingdom (10-year)	0.28%	**0.60%**
Japan (2-year)	-0.17%	**-0.20%**
Japan (10-year)	-0.04%	**-0.10%**
Spreads (corporate & EM bonds) in basis points		
EUR IG Corp	192	**120**
EUR HY	638	**500**
US IG Corp	196	**135**
US HY	773	**600**
Asia Credit	411	**370**
EM Credit	521	**500**
EM Sovereign	634	**600**

Asset-class forecasts

	Current level	Forecast Mar-21
Currencies		
EUR vs USD	1.08	**1.10**
USD vs JPY	106	**105**
EUR vs JPY	116	**115**
EUR vs GBP	0.87	**0.90**
GBP vs USD	1.24	**1.22**
USD vs CNY	7.1	**7.0**
Commodities in U.S. dollars		
Gold	1,704	**1,800**
Crude Oil (WTI 12M forward)	30	**37**
Equity markets (index value in points)		
United States (S&P 500)	2,863	**3,100**
Germany (DAX)	10,811	**12,000**
Eurozone (Eurostoxx 50)	2,922	**3,150**
Europe (Stoxx600)	340	**370**
Japan (MSCI Japan)	863	**950**
Switzerland (SMI)	9,805	**10,150**
United Kingdom (FTSE 100)	5,988	**6,100**
Emerging Markets (MSCI EM)	903	**1,000**
Asia ex Japan (MSCI AC Asia ex Japan)	597	**660**

DWS forecasts and current value are as of April 29, 2020 / Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. Past performance is not indicative of future returns. No assurance can be given that any forecast or target will be achieved. Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 4/29/20

GLOSSARY

The aim of an accommodative monetary policy is to support the economy by means of monetary expansion.

The asset purchase programme (APP) refers to purchases of marketable debt instruments by the ECB.

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

Default is the failure to meet the legal obligations of a loan, for example when a corporation or government fails to pay a bond which has reached maturity. A national or sovereign default is the failure or refusal of a government to repay its national debt.

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.

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 bonds are all bonds with a good to very good credit rating

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 countries are less developed than the core countries of a specific region. In the Eurozone, the euro periphery consists of the economically weaker countries such as Greece, Portugal, Italy, Spain and Ireland.

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 spread is the difference between the quoted rates of return on two different investments, usually of different credit quality.

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

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

	03/15 - 03/16	03/16 - 03/17	03/17 - 03/18	03/18 - 03/19	03/19 - 03/20
German Bunds (2-year)	0.1%	-0.2%	-0.8%	-0.4%	-0.6%
German Bunds (10-year)	2.1%	-0.1%	-0.4%	5.5%	2.6%
German Bunds (30-year)	-0.9%	-2.3%	0.2%	10.9%	8.9%
UK Gilts (10-year)	3.9%	4.5%	-0.8%	5.1%	6.2%
U.S. Treasuries (2-year)	1.0%	0.2%	0.0%	2.7%	5.4%
U.S. Treasuries (10-year)	3.8%	-2.6%	-0.4%	5.8%	16.2%
U.S. Treasuries (30-year)	3.0%	-4.8%	3.2%	6.2%	32.6%
Japanese government bonds (10-year)	4.3%	-0.8%	0.5%	1.6%	-0.6%
Euro investment grade	0.4%	2.5%	1.7%	2.3%	-3.4%
Euro high yield	-0.6%	9.5%	3.8%	2.1%	-10.2%
U.S. investment grade	0.9%	3.0%	2.6%	4.9%	5.1%
U.S. high yield	-3.7%	16.4%	3.8%	5.9%	-6.9%
EM Credit	3.0%	9.6%	3.6%	5.0%	-1.0%
EM Sovereigns	4.4%	8.8%	3.3%	3.5%	-5.3%
Italy (10-year)	3.1%	-4.3%	6.7%	-2.1%	9.1%
Spain (10-year)	1.3%	1.3%	6.2%	3.0%	3.4%
S&P 500	1.8%	17.2%	14.0%	9.5%	-7.0%
Stoxx Europe 600	-12.3%	17.0%	0.4%	5.9%	-12.5%

Euro Stoxx 50	-16.7%	20.1%	-1.7%	2.6%	-14.7%
Dax	-16.7%	23.6%	-1.8%	-4.7%	-13.8%
Swiss Market Index	-11.7%	15.1%	4.1%	12.0%	1.9%
FTSE 100	-5.3%	23.4%	0.2%	7.6%	-18.7%
MSCI Emerging Market Index	-12.0%	17.2%	24.9%	-7.4%	-17.7%
MSCI AC Asia ex Japan Index	-11.9%	17.5%	25.8%	-5.2%	-13.4%
MSCI Emerging Markets (EM) Latin America Index	-9.2%	23.3%	19.3%	-6.7%	-40.8%
MSCI Japan Index	-7.1%	14.4%	19.6%	-7.8%	-6.7%
CAC 40	-10.0%	21.2%	4.1%	7.0%	-15.0%
MSCI World Index	-3.5%	14.8%	13.6%	4.0%	-10.4%
Hang Seng Index	-13.6%	20.6%	29.4%	-0.1%	-16.0%

Past performance is not indicative of future returns.
Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 4/29/20

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