

Our monthly market analysis and positioning



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IN A NUTSHELL

- The second quarter was dominated by AI, inflation and geopolitics.
- Sovereign yields remained elevated and stock market indices advanced because of the tech sector.
- We forecast single digit returns in most asset classes, based on our main scenario that the AI investment boom persists, the U.S. economy does not slow dramatically and politics doesn't derail the global economy. That performance depends on an almost unprecedented concentration of a handful of stocks makes diversification a necessity.

1 / Market overview

1.1 AI, inflation and politics determine the second quarter

Apart from Big Tech in the U.S. doing what it has been doing all year – going from strength to strength and taking the S&P 500 along with it – both the second quarter and June were a bit of a mixed bag for financial assets. Politics also moved more into the forefront again. The direct confrontation between Iran and Israel at the beginning of the quarter briefly shocked the markets. The ongoing trade disputes between the U.S., Europe and China, elections in India, Mexico and South Africa, and the election campaign in the U.S. kept the markets thinking. The recent European Union (EU) Parliament elections also proved grounds for disruption, triggering a snap election called unexpectedly by President Emmanuel Macron, surprising friends as well as foes, as well as the markets.

For French stocks the surprise was certainly a negative one. The CAC40 initially lost 6%, the yield spread between French and German government bonds widened, and French credit hedging costs rose. However, the worst fears from a market perspective did not materialize in the first round of voting – and markets have regained ground. The Assemblée Nationale, led by Marine Le Pen, fell slightly short of expectations and finds itself facing a far-reaching alliance of other parties. We do not expect the RN to win an absolute majority in the second round, and so Macron, as in the past two years, does not have a parliamentary majority for or against him.

In the U.S. the French lesson for the markets was just how turbulent and, above all, unpredictable the coming months are likely to be. From Donald Trump's perspective, June began negatively with his conviction by a New York court, but then turned around towards the end of the month thanks to a favorable ruling by the Supreme Court on the issue of presidents' criminal liability and a TV debate in which Joe Biden reignited fears about his age. Whether this could ultimately lead to the Democratic Party going into the November election with a different candidate is something investors will be watching. Towards the end of the month the market reaction to Trump's higher chances of victory was clear: Treasury yields rose at the long end, as it is assumed that his policies would drive inflation.

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1.2 Tech and (precious) metals are doing well, stocks and bonds with mixed results

In June the European Central Bank (ECB) made its first interest rate cut since 2016. This made it the fourth central bank within the G10 to cut rates but at least it was ahead of the US Federal Reserve (Fed) – something nobody would have thought possible a few quarters ago. The market now appears to believe that the Fed will not make its first full interest rate cut before November. The second quarter was therefore not the best for bonds, especially government bonds, while the corporate bond segment on both sides of the Atlantic held up better, thanks to financials.

On the stock markets the split between the large U.S. tech stocks and the rest continued in the second quarter. The so-called Magnificent 7 rose by 16.2%, while the remaining 493 stocks in the S&P 500 lost 0.5%. The small-cap Russell 2000 index lost 3.3%. For a few days in June the semiconductor manufacturer Nvidia rose to become the world's most valuable company, ahead of Microsoft. Gold and silver rose significantly, while oil ended the quarter in the red despite a strong increase in June.

Among currencies, the most notable outlier was the weak yen. For the first time since 1986 it traded at more than 160 to the US dollar. The Bank of Japan (BoJ) was much more hesitant than expected when it came to raising interest rates and intervening in the foreign exchange market. Meanwhile, U.S. interest rates have remained high for longer than expected.

2 / Outlook and changes

This being our quarterly Investment Traffic Light edition, we'll concentrate on our new 12-months strategic forecasts, formulated in mid-June, other than for Fixed Income where we made a couple of tactical changes in the second half of June.

Overall, our outlook is positive. Investors currently have little reason to complain. There are decent returns on the bond markets and the rate cut cycle has begun in many places – if not, yet, in the United States. On the stock markets, U.S. tech stocks in particular are benefiting from the AI hype, while European companies are experiencing a more classic cyclical upswing. Our core scenario sees potential medium to high single-digit returns – provided geopolitical crises do not escalate, and the AI investment boom doesn't falter.

2.1 Fixed Income

Our Fixed Income forecasts are based on the expectation that there will be two further interest rate cuts by the European Central Bank (ECB) this year and a first cut by the Fed. Altogether, we expect three cuts from both central banks within our forecasting horizon (June 2025). These cuts should cause a steepening of the yield curve – and the expected additional price increase at the short end makes us prefer this segment. When it comes to corporates, Investment Grade (IG) bonds remain our favorites in Europe, and we find much to interest us in the High Yield (HY) segment in emerging markets (EM). From a tactical point of view we upgraded three categories in Europe in the second half of June as we felt the reaction to the European election was exaggerated. We moved Euro high yield corporate bonds to Neutral and investment grade bonds to positive while Italian bonds relative to Bunds were upgraded to Neutral.

Government Bonds

The DWS base case for the United States remains much the same as before: slowing growth, inflation to continue to trend (slowly) downwards and unemployment to stay at about 4%. As restrictive monetary policy begins to weigh on the economy, demand will slow and cuts will begin: typical dynamics late in the economic cycle. Normalization of the currently inverted 2yr-10yr Treasury yield curve should start in the second half of the year, as rate cuts weigh on front end yields. In the 10yr-30yr segment we expect the curve to steepen. We see the 2yr-5yr segment as the most attractive. Long term we recognize rates will stay higher (for longer), though not higher forever. The curve will slowly trend lower, but this process could speed up if the soft landing for the economy ceases to be soft, and unemployment tops 4.2%.

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In the EU our base case is that inflation will remain the main driver of core yields. The path to 2% will determine the pace and extent of ECB rate cuts and the slope of the yield curve. High uncertainty may make the ECB cautious about cutting. It is remarkable that the slope of the yield curve is still inverted even though the ECB has already started to cut rates. Our view remains that this will change over time as further expected cuts materialize. We also believe the ECB will continue to drain excess liquidity and that the ECB balance sheet will shrink further, but we see limited implications for yields, and perhaps none at all. Quantitative tightening might lead to somewhat wider spreads for Italian BTPs vs. German Bunds, for which our 12-month target yield is 2.6% for 10yrs and 2.5% for 2yrs. Any unexpected rise in inflation and more rate hikes is the major risk to this scenario. At the moment the good news for Italy is priced in. We see limited scope for further spread tightening and stick to our forecast of wider spreads over the next 12 months: we do not see further positive growth surprises as the impact of the “super-bonus” for building renovations vanishes and its cost on the government's finances is weighed.

The Bank of Japan, the central bank, has problems of a different kind. It is wary of jeopardizing the slowly returning “inflationary mindset” it has desired for so long and is quite nebulous in its communication. The BoJ wants to see rates rise gradually but has also recently stressed that it wants the market to determine Japanese Government Bond (JGB) rates. We expect two BoJ hikes by June 2025, taking the key interest rate to 0.5%. We judge a neutral rate would be around 1-1.5%. We therefore expect the short and medium part of the curve to move up in price more than the long end during the expected hiking cycle, flattening the curve.

Sovereign rates remain stubbornly high



Source: Bloomberg Finance L.P., DWS Investment GmbH as of 7/1/24

Corporate Bonds

EUR investment grade (IG) Credit has performed strongly in the last couple of months. Economic data and company earnings are underpinning the narrative of a soft landing in which IG credit is the sweet spot within fixed income. The “not too hot, not too cold” economic environment has historically been positive for it. The outlook for EUR IG Credit on a 12-month horizon is still positive but its valuation is not cheap anymore, measured on a credit spread basis. All in yields, however, are close to the highs which makes it still an attractive fixed income asset class, with an attractive gain on the risk-free rate. For **EUR high yield (HY)**, we think the current spread level has become quite tight given the high level of uncertainty about geopolitics and fundamentals for some sectors and issuers. Also, many new issues are coming to the market at rather tight spreads and with weak covenant protection, which could cause more harm in the longer run. Therefore, we see a high risk

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of a correction in the market coupled with an increase in volatility. On the positive side, a correction should offer more attractive investment opportunities again. We forecast the default rate to move up to 2.75% as more companies suffer in the current macro conditions, amid higher funding costs.

The outlook for **USD IG Credit** remains supportive on a 12-month horizon even though we see spreads remaining in line with current levels. Technicals should be the bright spot for the asset class over the next year: Fed policy normalization should be a catalyst for investors to move from money markets to longer duration fixed income. Valuations and fundamentals remain neutral factors though we continue to expect more rating upgrades than downgrades. We think the upgrade cycle is running out of steam but we are also not concerned with widespread downgrades given our expectation of a mild recession at worst and balance sheets that are in decent shape. We are neutral on **U.S. HY**, while continuing to seek opportunities for credit improvement, upgrades, and mergers and acquisitions (M&A) activity. We would expect modest spread decompression and a rise in credit dispersion later in the year. In the near-term U.S. HY is supported by resilient growth, earnings, and improving capital market access.

Credit spreads in Europe and the U.S. still very low



Source: Bloomberg Finance L.P., DWS Investment GmbH as of 7/1/24

Emerging Markets

Looking at **Credit Asia**, China's latest U-turn in its property policy has provoked a positive change in market sentiment. The Chinese government is now tackling the sluggish property market using tools targeting both supply and demand. China's economy is still subject to weak demand but relatively healthy institutions, especially technology, media and telecommunication (TMT) names, have been active in the capital market and raising funds successfully. Asia USD bond investors have continued to put money to work in both IG and HY on the back of U.S. rate cut expectations. Life has also returned to the HY market as Indian, Indonesian and Japanese issuers have been able to carry out sizeable issuance in the primary market. Investors are also chasing HY names for yields in the secondary market. The initial public offering (IPO) market has been busy, but pricey too. Net issuance in 2024 is still negative despite a robust primary market. In terms of valuation, we remain positive on Asia credits on the back of technical support, high saving rates, decent corporate balance sheets and, importantly, decent coupon carry. For reduced volatility IG will continue to be preferable to HY.

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For the entire **sovereign Emerging Market** space, we believe an important topic for the 12-month period are U.S. elections and their impact on market sentiment, as well as the potential geopolitical repercussions. We see a chance for a constructive “carry environment” over the next months, with a risk of higher volatility starting towards year-end. Overall, we expect spreads on USD bonds to move sideways in our base case. Various IG names already have tight spreads and we see attractive opportunities among BBB-rated issuers with high spreads in medium and long maturities. IG issuers may benefit more from investors looking for yield than for spread levels. We regard several HY names as attractive, too. EUR-denominated bonds trade with attractive yield for various IG and HY sovereigns. This asset class also benefits from a very solid technical basis amid very low new issuance. Refinancing ability remains key, especially for HY sovereigns. Most IG names have been able to carry on issuing, and some HY issuers have also been able to place new bonds, which is a positive sign. It remains to be seen whether more HY issuance will be possible. Political stability and progress on reforms remains key for HY sovereigns. Spread tightening could be seen for distressed names with spreads above 1,000 bps and defaulted issuers. The index share of such names is above 7%. Thus, idiosyncratic stories could drive spreads unexpectedly – in either direction.

Currencies

The relatively strong U.S. economic outlook and high interest yields favor a strong U.S. dollar not just in 2024, but beyond. Whatever the election result, U.S. trade policy is expected to be protectionist, which should be positive for the Dollar. The increasing intense discussion on the sustainability of U.S. government debt should drive the US yields higher, which is supportive for the Dollar. The Yen remains a funding currency, even though the BoJ is expected to raise its interest rate. Increasingly, too, the Swiss Franc is joining the funding camp. Commodity currencies, such as the Australian Dollar, are being negatively affected by gloom on China sentiment, even though commodity prices are increasing. There is still no reflation of the global economy and therefore EM currencies are still facing challenges. But if the rate-cutting cycle of G7 central banks gains momentum, risk assets should be supported, including EM currencies. Big rate cuts in some EM countries, however, are negative for their currencies, so that as an investment, EM currencies are becoming increasingly idiosyncratic, with careful selection necessary.

2.2 Equities

The Artificial Intelligence (AI) speed train keeps running, but for how much longer? Investors that have missed out on the rally so far might think that the easy money has been made, and so why bother now to enter the market? But that has often been said in the past, too early, to investors’ cost. We believe that despite stretched U.S. valuations, markets are likely to keep going up as long as the so-called magnificent 7 keep delivering earnings and exciting new products. And, for now, we see no sign of this ending. We are lifting our equity targets in line with higher earnings per share (EPS) assumptions. We expect some corrections ahead of the U.S. election as investors increasingly look at how fiscal policy, U.S. debt and Treasury yields will develop under the next president. While it remains to be seen what kind of productivity gains AI will eventually bring the hundreds of billions of dollars now being spent on AI and AI-related investments are real and are pushing up GDP growth and earnings.

In combination, falling inflation, fading recession fears and AI enthusiasm have pushed U.S. stock valuation levels versus bonds towards levels last seen in the late 1990s. We have set our June 2025 S&P 500 index target at 5,600, sticking to our forecast of a price earnings (P/E) ratio of 21.5, based on the last 12 months earnings. This is an equity valuation clearly above the historical relationship with bond yields or a normal level of equity risk premium. To stretch to this level, we are adding a temporary 15% growth premium to the S&P 500 to reflect a 2-3 year expected period of superior earnings growth. For the next 12 months we expect the S&P EPS to progress by 11% towards \$261 – in line with consensus – driven by 15-20% earnings growth in the so-called magnificent 7 and around 5% elsewhere. In the mid-term we expect that multiples will have to normalize towards lower levels again.

Outside the U.S., we forecast earnings should also grow at respectable speeds, of approximately 6% in **Europe**, 9% in **Japan** and 13% in **Emerging Markets (EM)**. Therefore, we assume that record-high valuations discounts relative to the U.S. will not get any bigger. Our June 2025 target for the Stoxx 600 index is 530, and for the Dax 19,600. We realize that the snap French

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elections have created political uncertainty in the near term, complicating our continued overweight **Europe** call. But the move to a populist government in Italy has not prevented the Italian equity market from outperforming the rest of Europe.

Similarly, we believe it still makes sense as a global investor to hold some equities in **EM** (neutral) and **Japan** (neutral). In **EM** we are avoiding state-owned enterprises and prefer IT and consumer stocks. Japanese companies have seen their competitive position improved by the dual impact of a weaker yen and moderate inflation.

We see two main areas of risk for our base case scenario, market related and external. The market factors are: valuations could return to their mean; the first Fed cut could trigger sector and style rotation; profit margins could be stretched and AI-fatigue set in. The external factors are: the U.S. elections; irresponsible fiscal expansion which could cause higher sovereign yields; war and rising import tariffs; and challenged consumers.

We would add a further observation. As fundamental equity investors we believe in two principles – equity prices follow earnings, and portfolios should benefit from diversification. The first principle offers encouragement, as earnings are good, while the second has become more of a headache for many portfolio managers.

- In the long-run equity prices will follow the progress of EPS. Recent quarters have shown that earnings are growing again globally, providing rational support for rising equity markets. Even more important for long-term investors is that the S&P earnings growth rate has exceeded the U.S. consumer price index by a factor of almost four over the past three decades, supporting the notion that equities offer structurally good inflation protection to portfolios.
- A second fundamental investment principle states that increasing portfolio diversification should result in higher risk-adjusted returns. This principle is so widely accepted that U.S. ERISA rules (the 5/25 rule) and European UCITS regulations (the 5/10/40 rule) have explicitly limited single stock concentration in mutual funds. However, the ongoing outperformance of mega-large caps like the Magnificent 7 has forced many benchmark-driven portfolio managers to give up on their diversification rules in order not to fall even further behind stock benchmarks. This is resulting in ever more concentrated, correlated and potentially riskier equity portfolios. The short-term reality for many portfolio managers is effectively that there is a bear market – for diversification. This current market anomaly should revert – eventually.

We continue to believe in the long-run benefits of portfolio diversification. Within the portfolio context, we overweight **Europe**, as earnings keep growing across sectors, the economy should accelerate and valuations are attractive, with an average 35% discount to the S&P 500, especially for small caps now facing less headwinds from rising interest rates. Our preferred sectors are **Communication**, which offers AI exposure at a reasonable price for double-digit EPS growth, and **discretionary consumption**, which is benefiting from healthy labor markets. In terms of investment style, we stick to our cyclical bias as we believe it is too early to go for a defensive overweight. The expected Fed cuts should support consumer and capex spending.

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Shareholders have little reason to complain – S&P ahead thanks to tech



Source: Bloomberg Finance L.P., DWS Investment GmbH as of 7/1/24. Chart shows index price return.

2.3 Alternatives

Real Estate

United States: Real estate prices have bottomed in our view. Appraisal-based values are lagging, but we believe they will return to growth in the second half of 2024. We believe interest rates have peaked, removing a significant headwind from real estate valuations. Over time, modest interest rate relief could act as a tailwind. In our view, a new cycle is coming into view, characterized by improving valuations and strong fundamentals, aided by low levels of new supply. We believe that underlying fundamentals will drive greater dispersion in performance, favoring the industrial, residential, and retail sectors, and markets in the Sun Belt and Mountain West.

Europe: Occupier fundamentals look strong, especially given the collapse in development activity over the past two years, which suggests supply shortages will only continue to mount over the coming two to three years. We continue to favor residential and logistics, with both already showing the first signs of recovery. However, we also expect rapid growth in interest in emerging niche sectors, in particular data centers. Current market conditions are attractive for value-add strategies: significant valuation declines for non-prime properties; a lack of capital to inject the equity necessary to de-lever and refinance loans; regulatory requirements accelerating obsolescence; and increasing undersupply as new construction is falling.

Asia Pacific: We believe the real estate repricing cycle in Asia Pacific could bottom by the end of 2024, coinciding with an easing in financing conditions by year-end. Our house investment themes include Repriced Logistics and Built-to-Rent/Multifamily across Australia and Japan, underpinned by structural growth drivers, as well as tactical opportunities such as Sydney Office, High-street Retail in Japan and Structured Equity & Debt opportunities. Investors may also consider regional value-add opportunities such as asset repositioning strategies, while selective investments in higher risk operational real estate and emerging markets could drive higher returns.

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Infrastructure

Full-year 2023 performance shows the strength of the asset class in dealing with macro pressures. There has been no market-wide repricing and strong total returns have been recorded. There has been downward pressure on valuations in sectors reliant on high capital expenditure, because of the higher rate environment. The fundamental policy environment remains positive, however. Our preference is for Europe which has more developed demand-side policies for numerous energy transition sectors. Fundraising has picked up, but the failure of the transaction market to recover rapidly has seen liquidity in the market suffer. Rate cuts should see some building of momentum.

Private debt: The outlook for 2024 remains positive. After a drop in Private Equity-driven transaction volume this year, the market is expected to recover in 2024, supported by an expected narrowing of the valuation gap and significant dry powder on the direct lending and sponsor side that needs to be invested, with an additional impulse from expected ECB rate cuts.

Gold

Gold has continued to perform well, boosted by persistent geopolitical turmoil, rising fiscal deficits, and strong purchases by both central banks and retail investors in Asia. Rising deficits necessitate easy monetary policy, which, coupled with de-dollarization driven demand from central banks, could see gold reach \$2,600/oz in 2025.

Oil

Near term we believe oil will continue trading in a volatile sideways pattern. Uncertainty stems from both the macro-economic and geopolitical fronts. Given ample supplies, which will gradually increase further from October as a result of a recent OPEC meeting, crude prices should remain under pressure, unless there is stronger demand. In the medium term we expect a recovery in global demand to begin to match the supply additions, which should result in crude oil prices recovering, incentivizing investments in additional production capacity. We see elevated production growth out of the U.S. moderating in 2024 as the shale boom comes to an end. The difficult dynamics relating to the sanctioned oil producers, Iran and Venezuela, creates additional uncertainty regarding future oil supply from these two swing producers. Our 12-month target for Brent crude is USD 80/barrel.

Despite geopolitical tensions, oil remains range-bound while gold stabilized lately



Source: Bloomberg Finance L.P., DWS Investment GmbH as of 7/1/24

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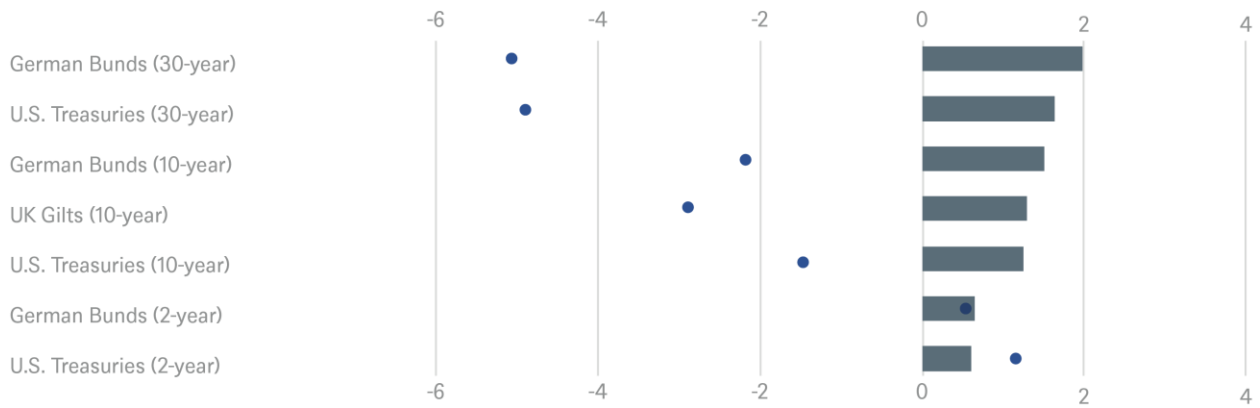
2.4 ESG

For EU carbon allowances this wasn't a very good winter. The weather was warmer, windier and wetter than usual which, in combination with economic weakness, led to declining Emission Trading scheme (ETS) prices in the first two months of the year. They have recovered since from EUR 50 to EUR 65 and we believe they will reach EUR 80 per ton again within 12 months. From a medium to long-term point of view we believe prospects continue to look strong as the carbon border tax will start in 2026, the EU proposed tougher 2040 carbon targets and as the emission caps continue to decline.

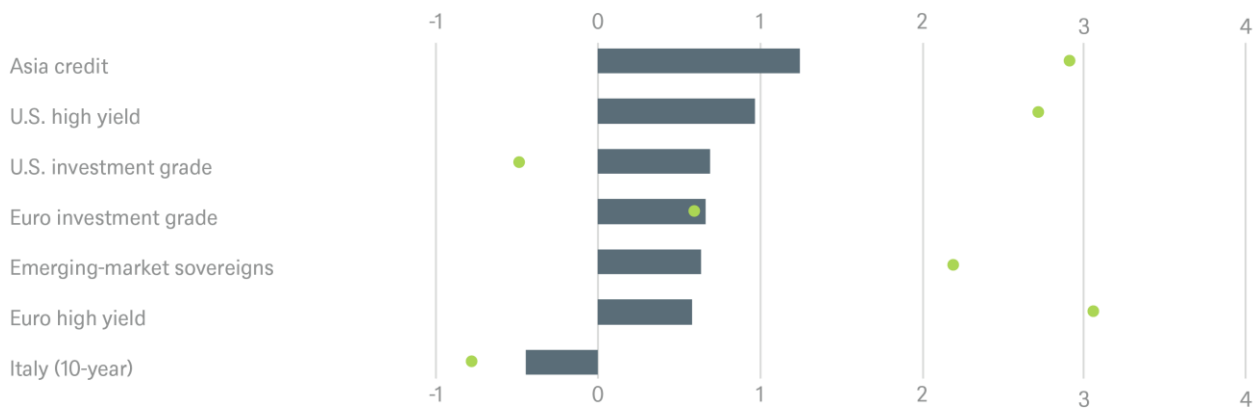
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3 / Past performance of major financial assets

Total return of major financial assets year-to-date and past month



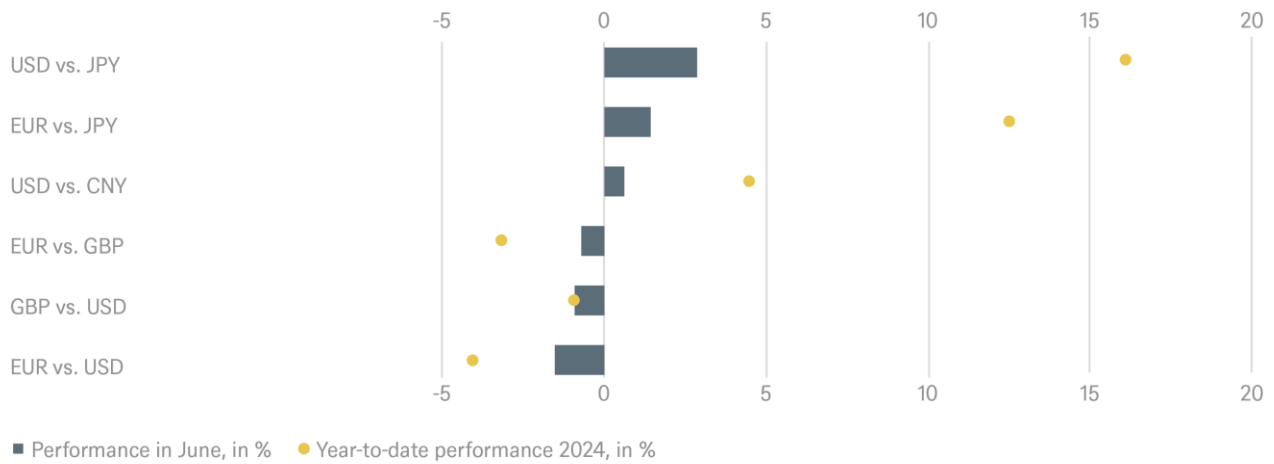
■ Performance in June, in % ● Year-to-date performance 2024, in %



■ Performance in June, in % ● Year-to-date performance 2024, in %

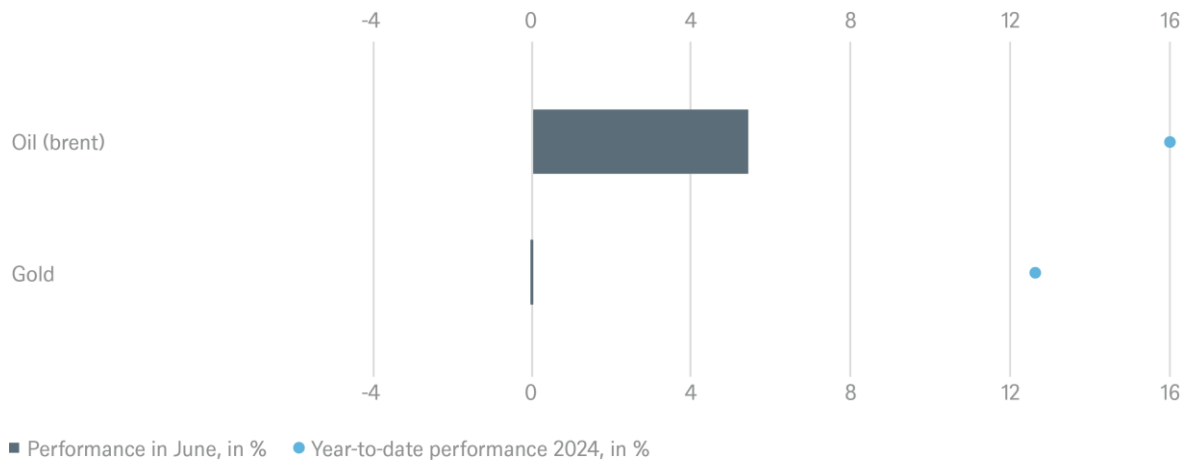
Past performance is not indicative of future returns.
 Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 6/28/24.

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4 / Tactical and strategic signals

The following exhibit depicts our short-term and long-term positioning.

4.1 Fixed income

Rates	1 to 3 months	through June 2025
U.S. Treasuries (2-year)	●	●
U.S. Treasuries (10-year)	●	●
U.S. Treasuries (30-year)	●	●
German Bunds (2-year)	●	●
German Bunds (10-year)	●	●
German Bunds (30-year)	●	●
UK Gilts (10-year)	●	●
Japanese government bonds (2-year)	●	●
Japanese government bonds (10-year)	●	●

Securitized / specialties	1 to 3 months	through June 2025
Covered bonds ¹	●	●
U.S. municipal bonds	●	●
U.S. mortgage-backed securities	●	●

4.2 Equities

Regions	1 to 3 months ²	through June 2025
United States ³	●	●
Europe ⁴	●	●
Eurozone ⁵	●	●
Germany ⁶	●	●
Switzerland ⁷	●	●
United Kingdom (UK) ⁸	●	●
Emerging markets ⁹	●	●
Asia ex Japan ¹⁰	●	●
Japan ¹¹	●	●

Spreads	1 to 3 months	through June 2025
Italy (10-year) ¹	●	●
U.S. investment grade	●	●
U.S. high yield	●	●
Euro investment grade ¹	●	●
Euro high yield ¹	●	●
Asia credit	●	●
Emerging-market sovereigns	●	●

Currencies	1 to 3 months	through June 2025
EUR vs. USD	●	●
USD vs. JPY	●	●
EUR vs. JPY	●	●
EUR vs. GBP	●	●
GBP vs. USD	●	●
USD vs. CNY	●	●

Sectors	1 to 3 months ²
Consumer staples ¹²	●
Healthcare ¹³	●
Communication services ¹⁴	●
Utilities ¹⁵	●
Consumer discretionary ¹⁶	●
Energy ¹⁷	●
Financials ¹⁸	●
Industrials ¹⁹	●
Information technology ²⁰	●
Materials ²¹	●

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Style	1 to 3 months
U.S. small caps ²²	●
European small caps ²³	●

4.3 Alternatives

Alternatives	1 to 3 months	through June 2025
Commodities ²⁴	●	●
Oil (brent)	●	●
Gold	●	●
Carbon		●
Infrastructure (listed)	●	●
Infrastructure (non-listed)		●
Real estate (listed)	●	●
Real estate (non-listed) APAC ²⁵		●
Real estate (non-listed) Europe ²⁵		●
Real estate (non-listed) United States ²⁵		●

¹Spread over German Bunds. ²Relative to the MSCI AC World Index (only for the tactical signals), ³S&P 500, ⁴Stoxx Europe 600, ⁵Euro Stoxx 50, ⁶Dax, ⁷Swiss Market Index, ⁸FTSE 100, ⁹MSCI Emerging Markets Index, ¹⁰MSCI AC Asia ex Japan Index, ¹¹MSCI Japan Index, ¹²MSCI AC World Consumer Staples Index, ¹³MSCI AC World Health Care Index, ¹⁴MSCI AC World Communication Services Index, ¹⁵MSCI AC World Utilities Index, ¹⁶MSCI AC World Consumer Discretionary Index, ¹⁷MSCI AC World Energy Index, ¹⁸MSCI AC World Financials Index, ¹⁹MSCI AC World Industrials Index, ²⁰MSCI AC World Information Technology Index, ²¹MSCI AC World Materials Index, ²²Russell 2000 Index relative to the S&P 500, ²³Stoxx Europe Small 200 relative to the Stoxx Europe 600, ²⁴Relative to the Bloomberg Commodity Index, ²⁵Long-term investments.

Tactical view (1 to 3 months)

The focus of our tactical view for fixed income is on trends in bond prices.

- Positive view
- Neutral view
- Negative view

Strategic view through June 2025

- The focus of our strategic view for sovereign bonds is on bond prices.
- For corporates, securitized/specialties and emerging-market bonds in U.S. dollars, the signals depict the option-adjusted spread over U.S. Treasuries. For bonds denominated in euros, the illustration depicts the spread in comparison with German Bunds. Both spread and sovereign-bond-yield trends influence the bond value. For investors seeking to profit only from spread trends, a hedge against changing interest rates may be a consideration.
- The colors illustrate the return opportunities for long-only investors.
 - ● Positive return potential for long-only investors
 - ● Limited return opportunity as well as downside risk
 - ● Negative return potential for long-only investors

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Glossary

The **Bank of Japan (BoJ)** is the central bank of Japan.

One **basis point** equals 1/100 of a percentage point.

The **Bloomberg Commodity Index (BCOM)** traces 23 commodities and reflects commodity futures price movements.

The **CAC 40** is a French stock-market index, representing the 40 most significant values among the 100 companies with the highest market cap on the Euronext Paris.

Cyclical is something that moves with the cycle.

The **default rate** refers to the proportion of borrowers who cannot service their loans.

Diversification refers to the dispersal of investments across asset types, geographies and so on with the aim of reducing risk or boosting risk-adjusted returns.

Duration is a measure expressed in years that adds and weights the time periods in which a bond returns cash to its holder. It is used to calculate a bond's sensitivity towards interest-rate changes.

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.

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

The **EU Emissions Trading System (ETS)** is created by EU legislation and sets a limit or cap on the total amount of greenhouse gas emissions which can be emitted by regulated companies. Companies must provide to regulators enough EU carbon allowances which cover their annual emissions or they will face heavy fines. Companies must buy allowances from the market and some companies receive some allowances for free. If a company reduce their emissions, they can keep the allowances for use in the future or can sell them. The number of allowances declines each year, creating market scarcity. Trading of allowances establishes a price which serves as an incentive for companies to reduce their emissions.

An **EU carbon allowance** is a permit which allows a company regulated by the EU Emissions Trading Scheme Directive, to emit one tonne of carbon dioxide equivalent during a year. Every year, companies must surrender an EU allowance for every tonne of their emissions.

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

The **European Union (EU)** is a political and economic union of 27 member states located primarily in Europe.

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

The **FTSE 100** is an index that tracks the performance of the 100 major companies trading on the London Stock 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.

The **Group of 7 (G7)** consists of the finance ministers and central-bank governors of the seven major advanced economies as reported by the International Monetary Fund: Canada, France, Germany, Italy, Japan, the United Kingdom and the United States. They meet to discuss primarily economic issues.

A **hedge** is an investment to reduce the risk of adverse price movements in an asset.

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.

The **Japanese yen (JPY)** is the official currency of Japan.

Japanese Government Bond (JGB) is issued by the government of Japan.

Mergers and acquisitions (M&A) are the two key methods of corporate consolidation. A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another in which no new company is formed.

The **MSCI AC World Communication Services Index** captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Communications Services sector.

The **MSCI AC World Consumer Discretionary Index** captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Consumer Discretionary sector.

The **MSCI AC World Consumer Staples Index** captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Consumer Staples sector.

The **MSCI AC World Energy Index** captures large- and mid-cap securities across 23 developed-markets classified in the Energy sector.

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The [MSCI AC World Financials Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Financials sector.

The [MSCI AC World Health Care Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Health Care sector.

The [MSCI AC World Index](#) captures large- and mid-cap companies across 23 developed- and 24 emerging-market countries.

The [MSCI AC World Industrials Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Industrials sector.

The [MSCI AC World Information Technology Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Information Technology sector.

The [MSCI AC World Materials Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Materials sector.

The [MSCI AC World Utilities Index](#) captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Utilities sector.

The [MSCI AC Asia ex Japan Index](#) captures large- and mid-cap representation across 2 of 3 developed-market countries (excluding Japan) and 8 emerging-market countries in Asia.

The [MSCI Emerging Markets Index](#) captures large- and mid-cap representation across 23 emerging-market countries.

The [MSCI Japan Index](#) is designed to measure the performance of the large- and mid-cap segments of the Japanese market.

The National Front ([Front National, FN](#)) is a far-right political party in France, founded in 1972 by ultra-nationalist Jean-Marie Le Pen and currently led by his daughter, Marine Le Pen.

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

[Quantitative Tightening \(QT\)](#), as opposed to Quantitative Easing, describes the process of a Central Bank reducing its monetary stimulus by shrinking its balance sheet.

The [risk-free interest rate](#) is a theoretical concept in financial economics, describing an investment yielding exactly the return expected at the time of purchase. This is mainly used as a benchmark for other, riskier investments. In practice, it is usually estimated by taking the yield on a long-term top-rated government bond.

A [rating](#) is a standardized assessment of the creditworthiness of the issuer and its debt instruments by specialized agencies. The main three rating agencies are the Moody's (Aaa over Baa1 to C, best to worst), S&P (AAA over BBB+ to D, best to worst) and Fitch (AAA over BBB+ to D, best to worst).

The [Russell 2000 Index](#) is an index that captures the 2,000 smallest stocks of the Russell-3000 index, which again comprises 3,000 small- and mid-cap U.S. listed stocks.

The [S&P 500](#) is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

A [soft landing](#) is when an economy's rate of growth slows in a controlled fashion without major disruptive effects on employment, external balances etc.

The [spread](#) is the difference between the quoted rates of return on two different investments, usually of different credit quality.

The [Stoxx Europe 600](#) is an index representing the performance of 600 listed companies across 18 European countries.

The [Stoxx Europe Small 200](#) is an index representing the performance of 200 small capitalization companies across 17 European countries.

The [Swiss Market Index \(SMI\)](#) is Switzerland's most important equity index, consisting of the 20 largest and most liquid large- and mid-cap stocks.

The [Swiss franc](#) is the currency used in Switzerland.

The [Group of 10 \(G10\)](#) refers to a group of eleven leading industrialized economies in the world. The member countries are: Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, United Kingdom and United States. They meet to consult and cooperate on economic, monetary and financial matters.

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.

The [Undertakings for Collective Investment in Transferable Securities \(UCITS\)](#) are a set of EU directives that aim to allow collective investment schemes to operate freely throughout the EU on the basis of a single authorization from one member state.

[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.

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.

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