DWS | Investors for a new now

CIO View Portfolio

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Introduction

What is happening and what are downside risks in major economies?

Central bank

The hiking cycle is very likely completed in most regions although some EM central banks hiked rates recently. Going forward interest rates will be data dependent.

Inflation

Inflation rates are still too high but declining, especially for headline inflation in the U.S. and Europe. Core Inflation is also declining but at a slower pace.

Economics

A mild U.S. recession still base case but further delayed to Q1/Q2 24; Japan: robust economic growth driven by weak JPY & strong labor market; China in a confidence crisis with multiple dimensions.

Banking Sector

We believe that the financial risk should be contained. Further cracks could appear in other areas such as commercial real estate.

Downside Risks: Middle East escalation, spill over from Chinese economic problems, more pronounced recession in Germany, too little moderation in core inflation, property sector, Ukraine conflict.

Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect // Source: DWS Investment GmbH as of Dec 12, 2023

Asset Class Overview

What drove the most recent portfolio changes?

Equities

Global stock markets are back **close to all-time highs**. Due to a mixed earnings season, high valuation and weak macro support, further upside for Equities should be limited in the short term.

Hence, we stick to our **Neutral stance for risky assets** (for the time being)

We stick to our **preference for Japan and Europe**. We reiterate our defensive vs. cyclical stance and keep the barbell between Value and Quality

Fixed Income

We downgrade **10-year Bunds to -1 coming from neutral.**

We like especially the front end of the curve (**2y-5y segment**) and have sympathy for a steepening bias.

We stick to our **EUR IG Credit** preference as fundamentals and investor demand are strong, and spreads look still attractive vs. EUR Sov and U.S. IG.

Currencies

Currently **no clear conviction** for most of the major currencies. However, current environment could favor the **Yen**, due to positioning and fundamentals.

Long term observations: Robust return assumption for overall DM Equities. Return expectation for Europe has improved driven by valuation effect, while EM have witnessed a significant decrease in dividend yield dragging down the overall return expectation. IG Sovereigns gained in attractiveness, mainly because of the upward shift in yield curves - both in the U.S. and in Europe. Increase of EUR IG return assumption is less pronounced. High Yield and EM bonds have also become slightly more attractive.

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Portfolio Update

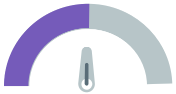
How do we currently view risk and duration?

Duration

We are recommending a **neutral** duration stance.

Pros: Besides the speed and size of the recent move, other arguments in favor of not chasing the market are real money long bias, valuations are less attractive (esp. Bunds) and 2024 cuts priced currently seem aggressive – esp. for the ECB.

Cons: Arguments, that are still in favor of duration are a further weakening economic environment, a cooling labor market in the US, inflation coming down further, CBs with a more dovish wording and duration as a portfolio diversifier.

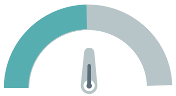


Risk

Regarding Risk, we stick to our **neutral** stance for the time being.

Pros: Falling inflation numbers, a global hiking cycle that is coming to an end and no meaningful recession as a base case, is still a constructive backdrop for risky assets. While overall equity markets are not cheap, there are at least some pockets of value left, that provide investment opportunities.

Cons: Sentiment and positioning data has become slightly stretched. From a technical perspective, there might be some short-term correction potential, given the strong increase in markets recently



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Portfolio Update

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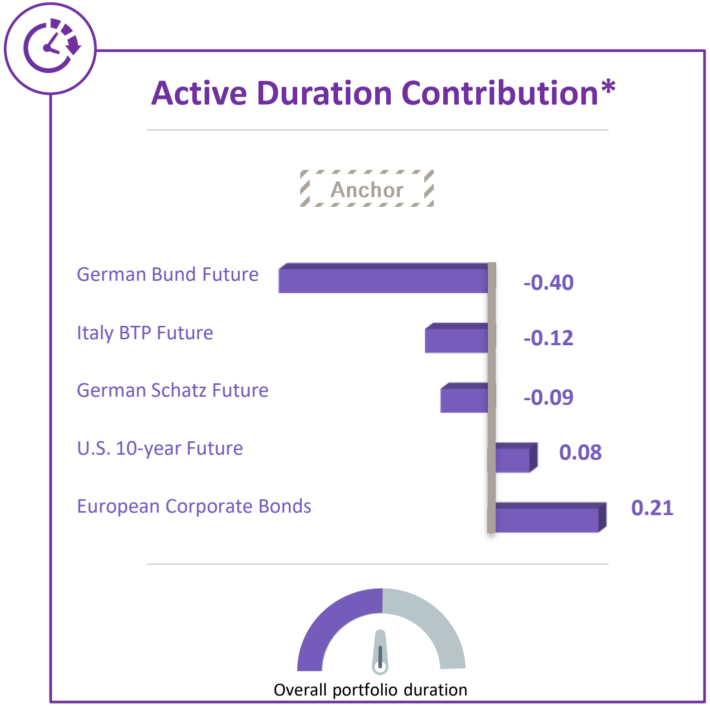

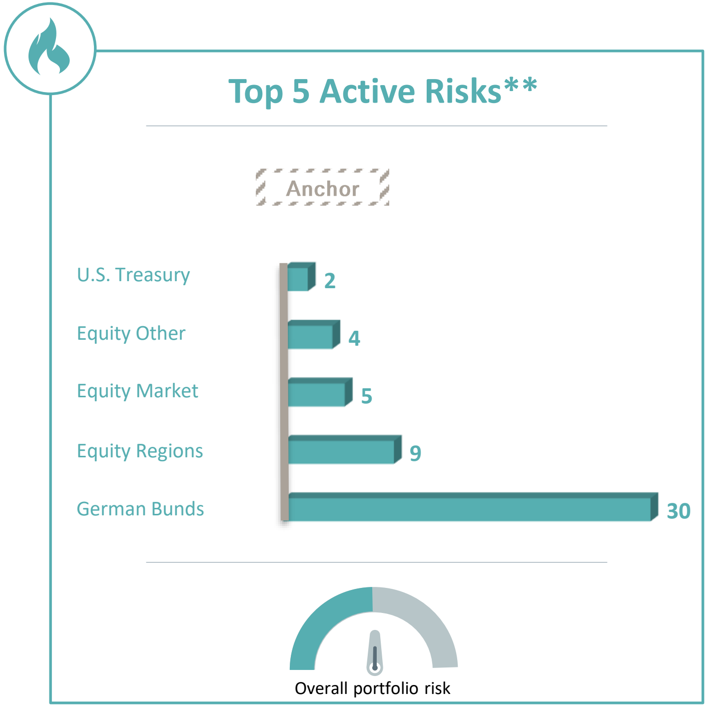

*Only selected positions // ** as measured by tracking error in basis points (bp)
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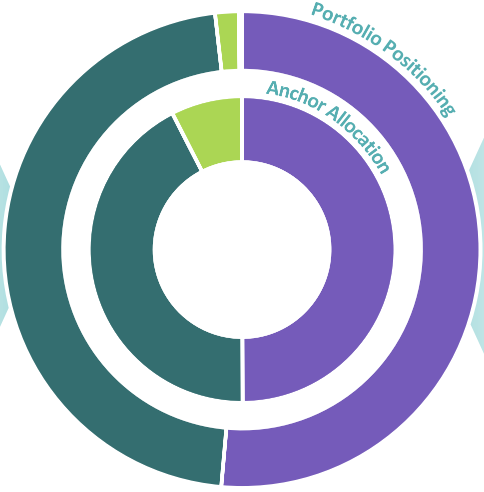
The CIO Portfolio in numbers

Portfolio positioning versus anchor allocation

	Anchor	Positioning
Equity	**49.5%**	**-0.5%**
U.S. equities	24.0%	-3.1%
European equities	17.1%	+1.7%
Japanese equities	3.9%	+0.9%
Emerging market equities	4.4%	-1.2%
World Communication Services	0.0%	1.2%

	Anchor	Positioning
Gold	**0.0%**	**+1.5%**



	Anchor	Positioning
Fixed Income	**42.8%**	**+2.5%**
European Government bonds	11.9%	-
U.S. Treasuries	11.0%	-
European corporate bonds	11.5%	+4.8%
U.S. corporate bonds	5.0%	-
EUR high yield bonds	1.0%	-
U.S. high yield bonds	1.5%	-1.5%
Global emerging markets bonds	1.0%	-1.0%

	Anchor	Positioning
Cash + FX	**7.8%**	**-7.7%**

Rounded numbers // The anchor allocation refers to the strategic asset allocation, the portfolio positioning to the tactical asset allocation. Allocations are subject to change without notice. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect // Source: DWS Investment GmbH as of Dec 12, 2023

Portfolio Update

Tactical Signals Overview

Equity View

Risk & Duration Preference	-2	-1	0	1	2
Risk Preference			●		
Duration			●		
Equity (Regions, Sector View & Styles)					
North America					
S&P 500			●		
Europe					
Stoxx 600				●	
Asia					
MSCI Japan				●	
MSCI AC Asia xJ			●		
MSCI EM			●		
MSCI Australia			●		
Cyclicals					
Information Technology			●		
Materials			●		
Consumer Discretionary			●		
Financials				●	
Industrials		●			
Energy			●		
Defensive					
Health Care			●		
Real Estate		●			
Utilities			●		
Consumer Staples			●		
Communication Services				●	
Styles					
Value				●	
Growth			●		
Size			●		
Momentum			●		
Quality				●	
Minimum Volatility			●		

Fixed Income View

Fixed Income	**-2**	**-1**	**0**	**1**	**2**
Rates					
GER 10Y		●			
UST 10Y			●		
JAP 10Y		●			
UK 10Y			●		
AUS 10Y			●		
Periphery					
Italy		●			
Spain				●	
Credit					
EUR IG				●	
USD IG			●		
EUR HY			●		
USD HY		●			
EM Sov		●			
Currencies					
EURUSD			●		
EURGBP			●		
EURJPY		●			
USDCNY			●		
USDAUD			●		
Commodities					
Gold				●	
WTI			●		
Crypto Currencies					
Bitcoin				●	
Ethereum				●	

The numbers illustrate the return opportunities for long-only investors. +2/+1 = Positive return potential for long-only investors, 0 = Limited return opportunity as well as downside risk, -1/-2 = Negative return potential for long-only investors; Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect // Source: DWS Investment GmbH as of Dec 12, 2023

Important Information – EMEA & APAC

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