



Investors for a new now

# CIO View Portfolio

Björn Jesch / Global CIO

January 2024

In EMEA for Professional Clients (MiFID Directive 2014/65/EU Annex II) only; no distribution to private/retail customers. In Switzerland for Qualified Investors (art. 10 Para. 3 of the Swiss Federal Collective Investment Schemes Act (CISA)). In APAC for institutional investors only. Australia and New Zealand: For Wholesale Investors only.

# 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.

# 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.

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

## 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

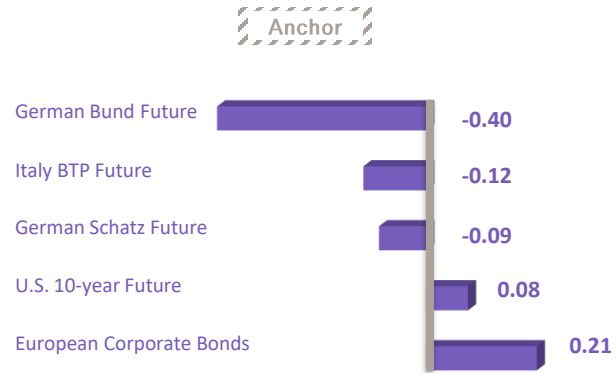


# Portfolio Update

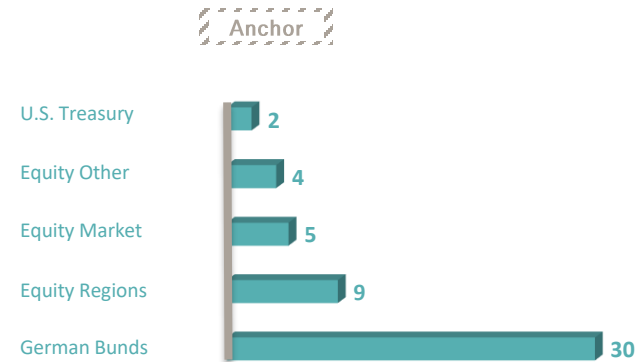
How do we currently view risk and duration?



## Active Duration Contribution\*



## Top 5 Active Risks\*\*

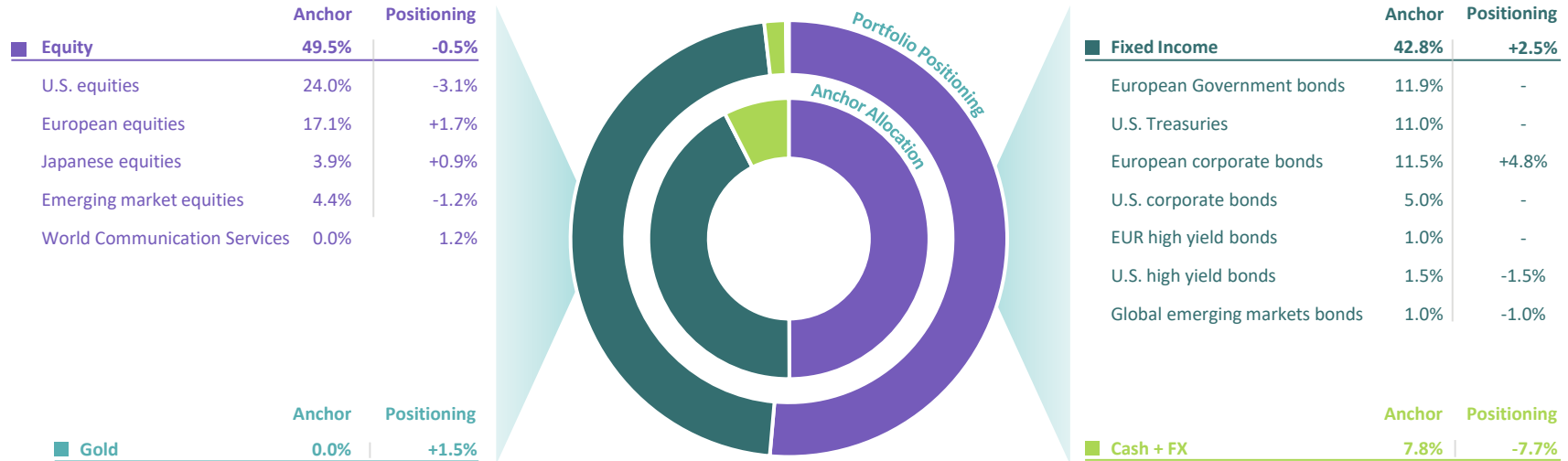


\*Only selected positions // \*\* as measured by tracking error in basis points (bp)

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

# The CIO Portfolio in numbers

## Portfolio positioning versus anchor allocation



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			•		
<b>Equity (Regions, Sector View &amp; Styles)</b>					
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
<b>Rates</b>					
GER 10Y		•			
UST 10Y			•		
JAP 10Y		•			
UK 10Y			•		
AUS 10Y			•		
<b>Periphery</b>					
Italy					
Spain		•			
Credit					
EUR IG				•	
USD IG			•		
EUR HY			•		
USD HY		•			
EM Sov		•			
<b>Currencies</b>					
EURUSD			•		
EURGBP			•		
EURJPY		•			
USDCNY			•		
USDAUD			•		
<b>Commodities</b>					
Gold					
WTI			•		
<b>Crypto Currencies</b>					
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

DWS is the brand name of DWS Group GmbH & Co. KGaA and its subsidiaries under which they do business. The DWS legal entities offering products or services are specified in the relevant documentation. 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 for information/discussion purposes only and does not constitute an offer, recommendation or solicitation to conclude a transaction and should not be treated as investment advice.

This document is intended to be a marketing communication, not a financial analysis. Accordingly, it may not comply with legal obligations requiring the impartiality of financial analysis or prohibiting trading prior to the publication of a financial analysis.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements. Past performance is no guarantee of future results.

The information contained in this document is obtained from sources believed to be reliable. DWS does not guarantee the accuracy, completeness or fairness of such information. All third party data is copyrighted by and proprietary to the provider. 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.

Investments are subject to various risks. Detailed information on risks is contained in the relevant offering documents.

No liability for any error or omission is accepted by DWS. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid.

DWS does not give taxation or legal advice.

This document may not be reproduced or circulated without DWS’s written authority. 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 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.

DWS Investment GmbH. As of: [12.12.2023]

Issued in the UK by DWS Investments UK Limited which is authorized and regulated by the Financial Conduct Authority (Reference number 429806). © 2023 DWS Investments UK Limited

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. © 2023 DWS Investments Hong Kong Limited

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. © 2023 DWS Investments Singapore Limited

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. © 2023 DWS Investments Australia Limited

## **For prospective Investors in Taiwan**

This document is distributed to professional investors only and not to others. Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

098513\_3 (01/2024)