CIO View

Investment Traffic Lights

May 6, 2025
Marketing material

Our monthly market analysis and positioning



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IN A NUTSHELL

- April saw the highest market volatility and price movements in decades.
- The all-dominating theme was the U.S. administration's back and forth on tariffs which were initially far higher than anyone expected.
- We have reduced our 12-month forecasts as a result of this turbulent April as we believe lasting damage has been done and the U.S.'s isolationist policies leave the world in unchartered waters.

1 / Market overview

1.1 Markets in April showed more pain than even MAGA supporters were willing to endure

In a rally in Michigan, Donald Trump called the first 100 days of his second presidency "the most successful first 100 days of any administration in the history of our country." Markets didn't agree. During his first 100 days their performance was as follows: S&P 500: -7%; Nasdaq-100: -9%; Dollar Index: -9%; Gold: +22%; CBOE Volatility Index (VIX): +53%; U.S. high-yield (HY) spread: +124bps. And finally, the Conference Board Consumer Expectations index fell by 23% to its lowest level since 2011.[1]

It is fair to assume that, whatever their political background, investors won't have fond memories of these 100 days. And foreign investors of U.S. assets even less so, as data has shown that European investors especially have taken money out of the U.S., although still only a tiny fraction of what they have poured in over the past couple of years.[2] Underlying the unusual trend of European outperformance (while the S&P 500 fell 5% in the first four months of 2025, the Euro Stoxx 50 rose by more than 5%) are the recently published 1Q25 gross-domestic-product (GDP) growth figures: the U.S. shrank by 0.3% quarter on quarter while the Eurozone (EUZ) was up 0.4%.

Nothing shaped April's markets more than Trump's tariff tantrum on April 2, where a global base tariff of 10% for all goods from all countries (except Russia and North Korea amongst a few exceptions) were announced as well as additional "reciprocal" tariffs ranging predominantly between 15% and 45% for 180 countries. In a tit-for-tat exchange with China, tariffs subsequently spiraled up to 145% for imports from China. But the subsequent meltdown of equity, bond and currency markets seems to have been too much for the U.S. administration to take and April saw a lot of backtracking, of which a 90-day pause on the application of reciprocal tariffs was the most important part. Markets appreciated Trump's backtracking on tariffs and on U.S. Federal Reserve (Fed) Chair Jerome Powell, who Trump said he doesn't intend to fire after having earlier called for Powell's "termination."

Notwithstanding the markets' frightened reaction to extreme U.S. policies, a major lesson learned in April was that, especially in relation to China, the U.S. does not seem to have the stronger hand in the tariff poker. China, too, has cards to play. Other countries also figured out that it might soon be that trade deals were more urgent for the U.S. than for them, not least

[1] All market data, unless otherwise quoted, from Bloomberg Finance L.P. as of 5/2/25
[2] Source: EPFR, Goldman Sachs Global Investment Research as of April 24, 2025

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because of the weakening economic data. Another problem for the U.S. is rising inflation expectations: The University of Michigan index for inflation expectations over 5-10 years hit a historic high of 4.4% in April -- the previous record high was 3.4% in 2008.

What April's tariff tantrum did to global growth prospects is well summed up in the International Monetary Fund's (IMF's) latest projections, published on April 14: "The new projection for 2025 economic growth is 2.8%, down from January's estimate of 3.3%. Next year's estimate is down 0.3% to 3.0%. If 2025's estimate of 2.8% growth materializes, that would be the second worst expansion since 2009, and the slowest since Covid-19's induced weaknesss of 2020."

1.2 While full-month performance was muted, April's first ten days broke many records

Optimists will point to the fact that the volatility of the S&P 500 as measured by the VIX peaked at over 60 and closed at over 50 on April 7, which it has done only twice this century. But by the end of the month it had halved. And if peak volatility means peak uncertainty and peak risk discounts in markets, one might see this as positive. But this positivity may prove only short-term should we see corporate earnings fall as a result of the new U.S. policies.

Other striking market data from the first days of April were that the S&P 500 suffered its fifth-worst two-day decline since the 1950s and its worst day since 2020, but also recorded its best day since October 2008. The dollar's decline continued and 30-year U.S. Treasury yields at one point jumped above 5% intraday. Gold and even Bitcoin were sought after, just as European bonds – the latter being perceived by investors as "safe haven[3] of the month." The transatlantic rift led to the biggest weekly widening in the spread between 10-year U.S. Treasuries and German Bunds since German reunification in 1990.

The truly remarkable month may leave investors hoping that this was the "Trumpiest" things can get. But while this is far from certain, the repercussions of the stormy April are likely to keep investors occupied.

2 / Outlook and changes

The U.S. President's policies have forced us to revise our 12-month growth and market forecasts downwards in the second half of April. This is why we will focus more on our strategic than our tactical outlook in this month's edition of the traffic lights. Regardless of how U.S. tariff policy develops, enough confidence has already been destroyed to make consumers, investors and companies more cautious. We expect markets to remain volatile in the short term but in our core scenario anticipate declining uncertainty and positive equity returns for the 12 months to come. Having said that, we assume to have seen peak uncertainty in the first half of April; since then Trump has mainly backtracked. Some might call this the Trump put, but the position remains uncomfortable for investors. It took a huge international backlash, including the threat of retaliatory tariffs, and an equity-market collapse and, probably the main trigger, sell-off of Treasuries and the U.S. dollar – potentially undermining the entire U.S. financial system – to push Trump into a still quite partial retreat.

Another point investors need to keep in mind in our view is that global market risk has increased. Should a global crisis occur it is now less likely that there will be a globally coordinated response under U.S. leadership, as in previous major crises. We have therefore reduced our target price-to-earnings (P/E) multiples, although only slightly for now. On the shorter-term outlook, one has to bear in mind that 1Q25 reporting by companies might be positively distorted by front loading, as companies and consumers tried to pre-empt the tariff increases.

2.1 Fixed Income

The tariff tantrums have put global government bonds through the wringer with U.S. yields torn between rising, on account of higher risk and an increased term premium, and declining because of lower growth. We see volatile sideways trading

[3] Financial safe havens are investments or assets that are expected to retain or increase in value during times of market turbulence.

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ahead for the coming months. In corporate bonds we believe that both the increased economic and idiosyncratic risks call for investors to consider carefully the relative merits of investment-grade (IG) and high-yield (HY) bonds.

Government Bonds

EUZ: Additional rate cuts by the European Central Bank (ECB) in combination with lower inflation and growth forecasts should be supportive of European government bonds in general. We expect a steepening (Bund) yield curve and no major spread compression of Italian Government Bonds (BTPs) versus Bunds. We revise our forecast for 2-year Japanese Government Bond (JGBs) yields to 1% and remain cautious on 10-year JGBs where we expect 1.7% yield.

U.S.: The recent Treasury-curve steepening amidst an uncertain, negative growth backdrop is unsettling. Real yields higher than 2% and nominal rates higher than 4.5% are harmful to the U.S. economy and the administration's agenda in our view. We hope for new deals on tariffs and an improvement in fundamentals.

Corporate Bonds

EUZ: Based on our macroeconomic assumptions we are still positive on EUR investment-grade (IG) credit. The continued net inflow into the asset class is a strong technical support. We are more cautious on HY as spreads tightened again in the second half of April and reflect the current risk environment.

U.S.: We are slightly more cautious on IG as policy uncertainty may damage consumer and business investment / capital decisions (hiring and capex). Heavy maturities over the next few months should provide technical support with new-issuance demand intact & net issuance negative. HY spreads are too tight for the current risk environment we believe, but yields are compelling vs. U.S. equities.

Emerging Markets

We believe emerging-market (EM) sovereigns yield spreads could move wider on an index level. While the carry remains attractive in our view, we prefer EUR vs USD EM sovereigns.

Currencies

The economic outperformance of the Eurozone and Japan should lead to some appreciation of the euro and the yen. Other European currencies should benefit as well. We do not expect a classical "confidence crisis" in the U.S. – the shift is likely to be less dramatic. Commodity and emerging-market currencies would be unlikely to benefit as weaker global growth is negative for them and China is weighing heavily. Our base-case forecast is for a softening dollar so that EUR/USD reaches 1.18 by March 2026 and USD/JPY reaches 135.

2.2 Equities

We hope "peak fear," at a VIX of 50 in early April, may already have passed. Diversifying equity investments into Europe or EM has clearly benefited investors in recent weeks, especially when returns are measured in the common European currency, which has been appreciating.

We expect several trade deals to be negotiated over the coming months. They should moderate the huge tariff burden imposed by the "Liberation Day" announcements. Potentially, non-tariff barriers will be addressed, too. The costs of re-shoring the production of drugs, cars and semiconductors to the U.S. is, however, likely to become visible in the current quarterly reporting season. This will probably result in a period of economic stagnation as the global economy is afflicted by greater uncertainty, inefficiencies in manufacturing, the difficulty of adjusting supply chains and higher prices in the U.S.

As a result, we have cut our earnings estimates by 3-5% globally, which sets our earnings-per-share (EPS) estimates below current consensus estimates. We expect U.S. tech earnings to remain the backbone for the S&P 500 with mid-teens growth in 2025 and 2026. We have reduced S&P multiples by one P/E point to reflect our expectation of permanently higher risk on U.S. assets. We have left valuation multiples for ex-U.S. equities mostly unchanged as their relative attractiveness has

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increased in a more uncertain world. Our updated March 2026 index targets are S&P: 5,800; Dax: 23,500; Stoxx Europe 600: 550 and MSCI Emerging Markets Index (MSCI EM Index) 1,160.

It is clear that there is a risk of substantial further deterioration if the global trade war escalates, with the world heading straight into recession. It is also possible that we have not yet sufficiently factored in the damage that has already been done to consumption and investment spending. In a worst case the U.S. dollar and Treasuries could lose their global perceived safe-haven status.

For the time being we stick to our base-case view that the "Trump put" will still apply and that he will pull back from the most damaging policies. We expect continued elevated volatility and will certainly have to review our strategic forecasts regularly. We believe equities outside the U.S. still have a good chance of continuing to outperform, especially if our call for further U.S. dollar weakening materializes. In a portfolio context, European equities are adding diversification and better valuation, and European small- & mid-caps are adding cyclical European exposure. Within Emerging Markets we believe Chinese equities should stand out due to expected favorable profit upgrades for the tech sector and stabilizing macro indicators (although tariff repercussions could still be a negative here). Global healthcare remains our preferred defensive sector, and we like European telecoms as an additional space in which to take cover.

2.3 Alternatives

Real estate

Lending margins in Europe and Asia Pacific are unchanged, and there are few reports of transactions being paused or cancelled. The sentiment towards core and residential real estate has improved due to their safe-haven status and lower bond yields. Liquidity may be held back by uncertainty, but lower bond yields and robust occupier fundamentals are supportive, particularly if macro uncertainty calms.

In the first quarter of 2025 the U.S. real-estate market was on an upswing, reflected in strengthening fundamentals, increasing values, and rising transaction activity. It is too early to gauge the impact of the tariff announcements. The near-term outlook for U.S. real estate has dimmed. Weaker economic growth and higher borrowing rates may quell tenant and investor demand, although low supply and an independent post-COVID recovery cycle (e.g., workers returning to office space) should help to cushion the blow.

Infrastructure

Infrastructure has outperformed in the year to date. The sector was also a relative outperformer during the tariff sell-off. Companies in Japan, UK and Europe outperformed on a relative basis, as did European Utilities and Communications. Single jurisdiction, characteristics that mean inflation can be passed on, and necessity-based assets provide a level of insulation from tariff impacts in the asset class.

Gold

We raise our gold forecast yet again, though we see modest downside in the short term. Gold surged past our previous $3,200/oz 2026 target and exceeded $3,400/oz at one point. Elevated geopolitical trade uncertainty, a rapid deterioration in U.S. dollar confidence, persistent deficits, and a surge in global liquidity have all led us to raise our forecasts further. Strong demand from central banks is expected to continue. We see continued upside into 2026 and raise our March 2026 forecast to $3,600/oz.

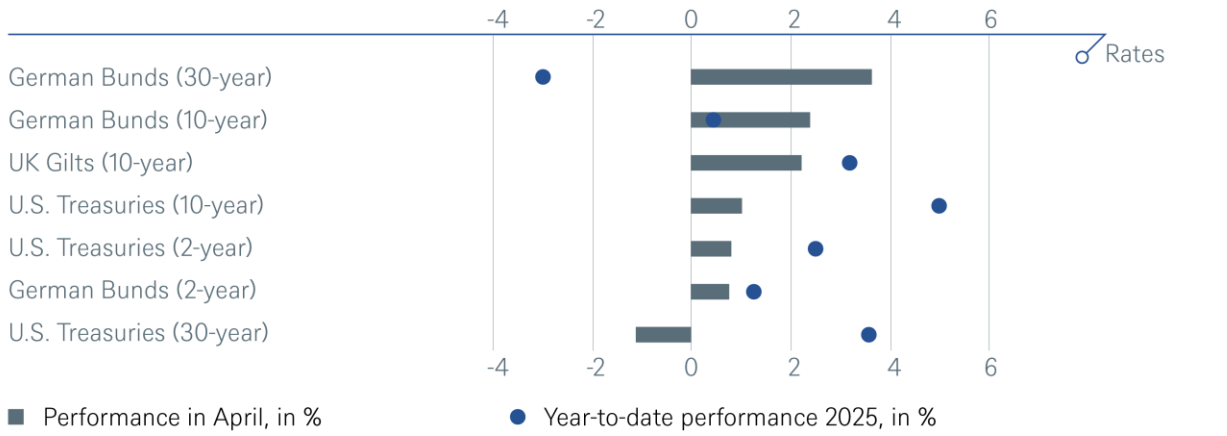
Oil

Our revised forecast reflects weaker market fundamentals and elevated inventory projections through 2025. While OPEC+ is expected to continue phasing out voluntary cuts, the return of curtailed supply, in combination with lower-than-expected demand growth, particularly in China, is likely to keep the market oversupplied and cap near-term price gains. Our 12-month forecast for Brent crude is $63 per barrel.

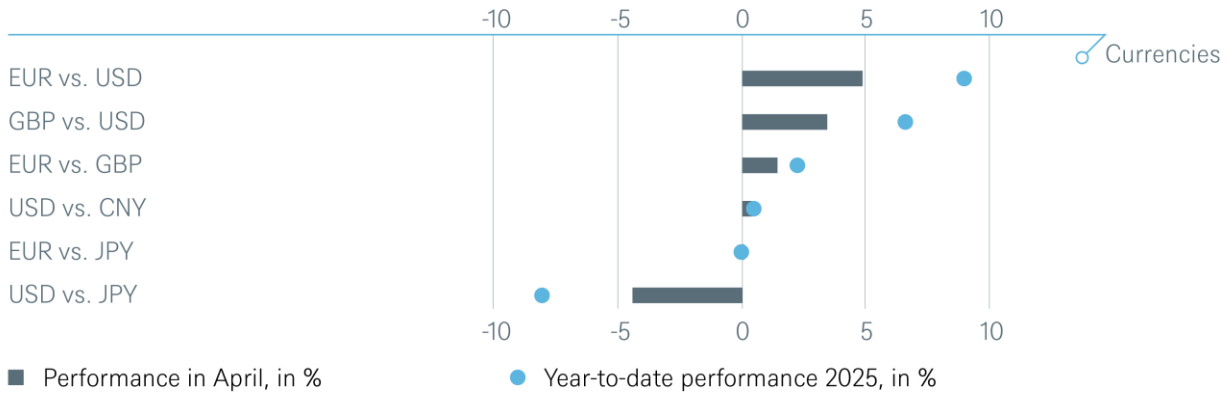
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3 / Past performance of major financial assets

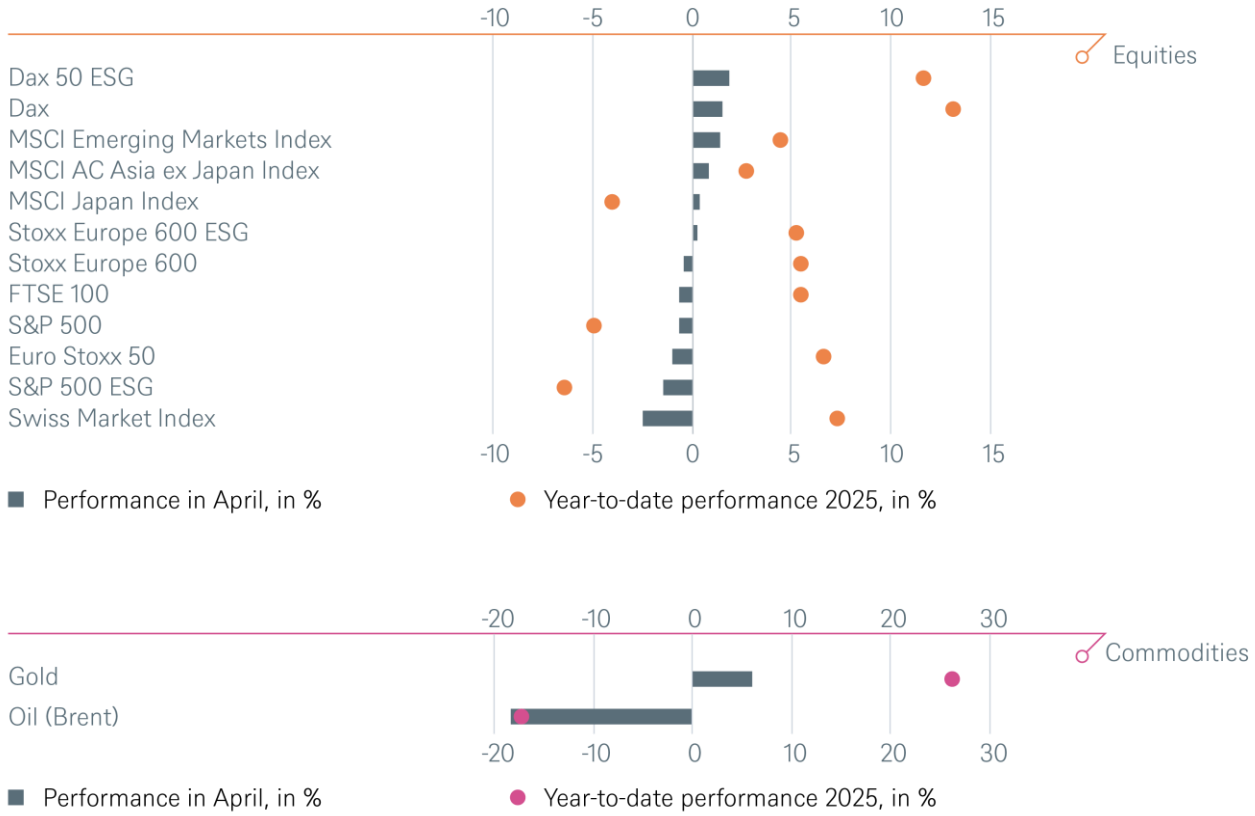
Total return of major financial assets year-to-date and past month







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Past performance is not indicative of future returns.
Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 4/30/25

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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 Mar 2026
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)	🟡	🔴

Spreads	1 to 3 months	through Mar 2026
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	🔴	🟢

Securitized / specialties	1 to 3 months	through Mar 2026
Covered bonds[1]	🔴	🟡
U.S. municipal bonds	🟡	🟢
U.S. mortgage-backed securities	🟢	🟢

Currencies	1 to 3 months	through Mar 2026
EUR vs. USD	🟢	🟡
USD vs. JPY	🔴	🔴
EUR vs. JPY	🟡	🟡
EUR vs. GBP	🟡	🔴
GBP vs. USD	🟡	🟢
USD vs. CNY	🟡	🟢

4.2 Equities

Regions	1 to 3 months[2]	through Mar 2026
United States[3]	🟡	🟢
Europe[4]	🟢	🟢
Eurozone[5]	🟡	🟢
Germany[6]	🟡	🟡
Switzerland[7]	🟡	🟢
United Kingdom (UK)[8]	🟡	🟢
Emerging markets[9]	🟡	🟢
Asia ex Japan[10]	🟡	🟢
Japan[11]	🟡	🟢

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]	🟡

Style	1 to 3 months
U.S. small caps[22]	🟡
European small caps[23]	🟢

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4.3 Alternatives

Alternatives	1 to 3 months	through Mar 2026
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]		🟢

[1] Spread over German Bunds. [2] Relative to the MSCI AC World Index (only for the tactical signals),[3] S&P 500, [4] Stoxx Europe 600, [5] Euro Stoxx 50, [6] Dax, [7] Swiss Market Index, [8] FTSE 100, [9] MSCI Emerging Markets Index, [10] MSCI AC Asia ex Japan Index, [11] MSCI Japan Index, [12] MSCI AC World Consumer Staples Index, [13] MSCI AC World Health Care Index, [14] MSCI AC World Communication Services Index, [15] MSCI AC World Utilities Index, [16] MSCI AC World Consumer Discretionary Index, [17] MSCI AC World Energy Index, [18] MSCI AC World Financials Index, [19] MSCI AC World Industrials Index, [20] MSCI AC World Information Technology Index, [21] MSCI AC World Materials Index, [22] Russell 2000 Index relative to the S&P 500, [23] Stoxx Europe Small 200 relative to the Stoxx Europe 600, [24] Relative to the Bloomberg Commodity Index, [25] Long-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 March 2026

- 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 Trade-Weighted U.S. Dollar Index tracks the performance of the U.S. dollar relative to other world currencies.

Bitcoin is the first and largest crypto asset, enabling decentralized peer-to-peer transactions.

The Bloomberg Dollar Spot Index measures the value of the U.S. dollar against 10 global currencies, both developed market and emerging market.

Bunds is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

Capital expenditure (Capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

The carry (of an asset) is the cost or benefit from holding the asset.

The Conference Board Consumer Confidence Index measures the degree of optimism on the state of the U.S. economy among consumers. It is published by the business association called The Conference Board.

A consensus estimate is a figure that depicts the average of different analysts' estimates about the performance of a particular asset.

The Dax is a blue-chip stock-market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

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.

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.

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

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.

High-yield bonds are issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

Idiosyncratic risk is a risk which is related solely to the individual company and has no correlation with the general market risk.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

The International Monetary Fund (IMF), created in 1945 and headquartered in Washington, D.C., is an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

Investment grade (IG) refers to a credit rating from a rating agency that indicates that a bond has a relatively low risk of default.

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

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.

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 Real Estate Index captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Real Estate 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 Nasdaq-100 is an equity index which contains the 100 biggest common stocks listed on the Nasdaq Stock Market.

OPEC+ is an informal alliance of OPEC members and other oil-producing countries, led by Russia, aiming to coordinate their production strategies.

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

In economics, a real value is adjusted for inflation.

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 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 safe-haven investment is an investment that is expected to retain or even increase its value in times of market turbulence.

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 Trump put is based on Trump's focus on capital markets also as a measure of political success – therefore investors believe(d) that Trump would backtrack on political measures as soon as they cause a sufficiently negative reaction on capital markets.

The University of Michigan Inflation Expectations Survey of Consumers presents U.S. consumers' median expected price changes for the next 5 to 10 years.

The U.S. Federal Reserve, often referred to as "the Fed," is the central bank of the United States.

U.S. Treasury yield is the annual return investors can expect from holding a U.S. government security with a given maturity.

The VIX is the popular name for the Chicago Board Options Exchange's Volatility Index. It is a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

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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