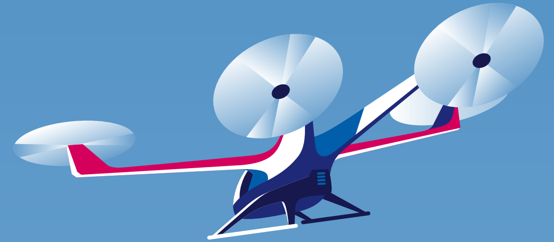
Deutsche Bank
Chief Investment Office



PERSPECTIVES 2025

ANNUAL OUTLOOK

Insights into your future investment choices

POLITICS & POLICY – The future is fiscal
BONDS – The return of the premium
STOCKS – The key to success

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Letter to Investors

Deeply invested in growth

Christian Nolting,
Global CIO

We live in a world characterised by rapid and accelerating change: economic, social, political and technological. Change, in all its forms, is often unsettling but cannot be ignored. It will create challenges in 2025 and beyond, but also investment opportunities. This annual outlook discusses where they are likely to be.

Change is happening against quite a challenging economic backdrop. 2025 will not be a year of rapid GDP growth: U.S. growth is forecast at a modest 2.0%, with the Eurozone lagging some way behind (0.9%) and Chinese growth (4.2%) well below recent historical averages. Inflation could also prove tenacious, due to higher fiscal spending and possible tariff hikes. This, in turn, will give central banks less room to cut interest rates as they seek to balance growth and inflation control. The result may well be uncertain and shifting market expectations, triggering more bouts of volatility than in 2024. Geopolitical fallout, perhaps due to changing trade policy, could add to the uncertainty.

So why am I broadly positive about the investment outlook for 2025? The key word is "productivity".

Productivity (i.e. what output we can produce with given inputs) appears to have increased only very slowly in recent years, and on some related measures (e.g. real GDP per hour worked) may have fallen. This has had major economic and social costs. As Nobel Laureate Paul Krugman famously observed thirty years ago, "productivity isn't everything, but in the long run, it is almost everything". Krugman was reflecting the views of many economists when he argued that long-term gains in standards of living were dependent on raising output per worker. Thirty years on, as worker numbers fall relative to overall populations, raising output per worker seems even more urgent. The good news is that AI and associated technologies now offer a credible way to do this. We will publish more on this structural issue of productivity – and its important implications for capital markets – early next year.

Productivity gains will take time to accumulate, of course – this will be a process that continues and deepens considerably beyond the necessarily limited time horizon of this 2025 outlook. But market expectations on productivity are already having an impact on several of the 2025 investment themes discussed in this report. Remember, after all, that the value of a financial asset will not just reflect the present: it also (imperfectly) anticipates the future.

For the global economy, we think 2025 will be a case of staying the course in turbulent times. The ability of individual economies to weather possible geopolitical and policy challenges next year will be determined by a number of factors. But, as the growth numbers highlighted above show, there is already a distinction between a high technology, higher productivity U.S. economy and a European economy that is lagging behind on the interlinked issues of productivity and investment.

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On politics & policy, we think that the future is fiscal. Even though inflation is not fully tamed, the focus of policy is already moving from monetary to fiscal, as economies seek to find and drive new forms of development and growth. Expect further initiatives here, notably from China.

Our asset class themes for 2025, unsurprisingly, include several on stocks. For those investors who have the ability to take risks, these will be an effective way to be invested in growth and we see them as the key to portfolio success. As we discuss, there will be several reasons why, for stocks, the U.S. will remain the centre of gravity. These include expectations around rising profits, deregulation and tax relief. Elsewhere, the outlook for equities may be less vivid but is still generally bright: the outlook also explains why positives are still apparent for some European stocks despite relative domestic economic weakness, and the same is true for other regions.

The market focus on stocks should not preclude interest in other asset classes in 2025. Corporate bonds in the U.S., Asia and Europe, for example, are likely to remain interesting for investors for several reasons. These include institutional demand, still high yields and the return of the (term) premium. Supply and demand will remain fundamental to commodities such as oil and industrial metals but we also see other factors maintaining a relatively high price for gold in 2025. In alternative assets, we focus in this outlook on infrastructure – central to investing in future growth – and what we call the public and private mixology of investing in this area. FX considerations will, as always, be a central consideration for investors and here 2025 will clearly be a case of strong economy, strong currency for the U.S. dollar. The euro will look weak in comparison, but rate rises and growth could support the Japanese yen.

2025 will not always be an easy year for investors as markets navigate through geopolitical or other risks (including the “three Rs” of recession, rates and rotations). But we believe that these risks are manageable. With markets already anticipating the impact of future economic growth and development, this means that being and staying invested will be essential for portfolio success both in the short and long term. I hope you find the analysis in this annual outlook useful and we are, of course, always here to guide you through 2025 and beyond.

Christian Nolting

Christian Nolting

Global CIO

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1

Macro & strategy – Staying the course in turbulent times

- U.S.: soft landing, robust growth, strong investment
- Europe: modest economic recovery and potential productivity growth through investment
- Asia: global growth driver – not just China

The world is facing enormous geopolitical and economic challenges that will in all likelihood remain with us in 2025. They include not least the debate surrounding a possible realignment of international trade relations which has again intensified following the Republican victory in November's U.S. election and brought uncertainty to the future development of highly trade-based economies. Overall, however, we expect increasingly dynamic economic growth in key regions of the world beyond 2025, especially in the U.S., Asia and Europe, with a correspondingly positive impact on growth sectors.

We expect the U.S. economy to continue growing robustly in 2025. Although the U.S. labour market has cooled, there is no sign of an imminent recession. The plans of U.S. President-elect Donald Trump, who will return to the White House in January 2025, include high levels of government investment, in the form of continuing existing spending programmes, deregulation and tax relief. Republican majorities in both chambers of the U.S. Congress mean that the Trump administration is likely to succeed in implementing a large proportion of its plans, which should gradually benefit the U.S. economy. After an increase of 2.0% in 2025, we expect U.S. economic growth to improve slightly to 2.2% in 2026.

One key factor in the anticipated robust growth of the U.S. economy is its high level of technology-driven productivity. For example, labour productivity in the U.S. is currently

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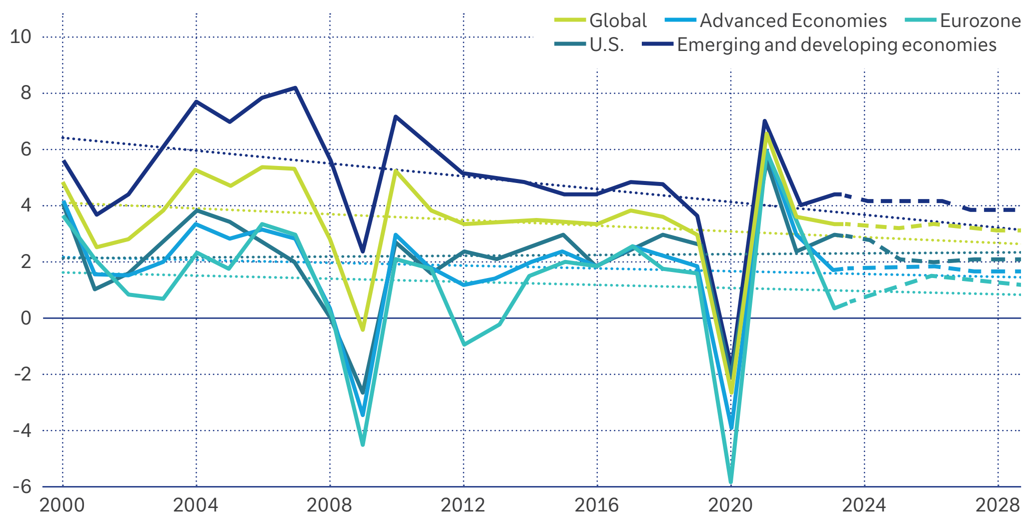
One factor in the anticipated robust growth of the U.S. economy is its impressive level of technology-driven productivity, which is much higher than in Europe.

around 25% higher than in Europe. In the mid-1990s, the difference was only around 5%. In 2022, the Biden administration made additional funds totalling more than USD1tn available in the context of three major infrastructure packages. Many thousands of projects are still in their initial phase and some are likely to continue into the 2030s. In order to reduce the productivity gap and counteract the diverging growth trend, Europe should also invest in infrastructure, new technologies and their application across countries and sectors. Plans for this have already been proposed, for example, by the former head of the European Central Bank (ECB) Mario Draghi. With the increasing implementation of artificial intelligence in a growing number of work processes, Europe could achieve a higher growth trajectory in the long term.

For 2025, we expect GDP growth in the Eurozone to accelerate to 0.9% thanks to robust labour markets and rising real wages, which the ECB is likely to support with successive key interest rate cuts over the course of the year.

Global growth moderation ahead – investment needed



GDP Growth (%), IMF-Forecasts 2024-2029

Source: LSEG Datastream, IMF, Deutsche Bank AG; Data as of December 3, 2024.

Asia gaining further prominence

In 2025 Asia is set to build on its role as the engine of global growth. China's momentum is being curbed by the ongoing real estate crisis and uncertain income and employment prospects, structural problems such as an ageing society and local government debt. However, we expect further government support measures for key technologies such as semiconductors and renewable energy and the continuing shift from a production-based economy towards greater consumer orientation.

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Asia is expected to boast the highest growth momentum worldwide – with a positive impact on corporate profits as a result of strong nominal growth.

Beijing is also likely to introduce support measures in an attempt to cushion the economic impact on domestic consumption of a possible escalation in the trade conflict with the U.S. However, it takes time for fiscal stimuli to have an effect on the real economy, meaning that current and potential future measures may only start to have a growing effect in the second half of 2025. For 2025 as a whole, we therefore expect real GDP growth to be slightly weaker than in 2024 at 4.2%. Incidentally, China has already significantly diversified its international trade policy in the years since Donald Trump's first presidency, making it less vulnerable to a possible increase in U.S. tariffs on Chinese imports. While exports to the U.S. still accounted for around 20% of China's total exports in 2017, this figure has now fallen to just 13%. Instead a larger proportion of Chinese exports is going to India and Southeast Asia, further intensifying the trade links between the region's economies.

The strategic integration of Southeast Asia is also gathering pace. In Malaysia, Indonesia, Thailand and Vietnam the BRICS+ organisation has recently acquired no less than four new Southeast Asia partners. BRICS+ nations' combined share of global commodity supply amounts to 75% of manganese, 72% of rare earths, and 50% of graphite, which enables the region to chart an independent course with its growth plans particularly in the area of sustainable growth.

Within Asia, India is again likely to stand out in 2025 with expected GDP growth of 6.5%, topping the list of G20 countries. The world's most populous nation benefits not only from its great innovative strength and a large pool of young and well-qualified workers but also from the stability of its political system. In addition, the impact of potentially higher U.S. tariffs is likely to be manageable. Exports to the U.S. account for only around 2% of the country's economic output.

In 2024, the strongest wage growth in Japan in more than 30 years boosted private consumption, laying the foundations for a continued economic recovery. At the same time, it has brought back inflation – good news for the country which has suffered from deflationary tendencies for decades. Japan should also benefit from its broad-based export economy which enables it to satisfy demand from Asia's growth economies in areas such as mechanical engineering, chemicals and technology. We expect average GDP growth of 1.2% in Japan in 2025.

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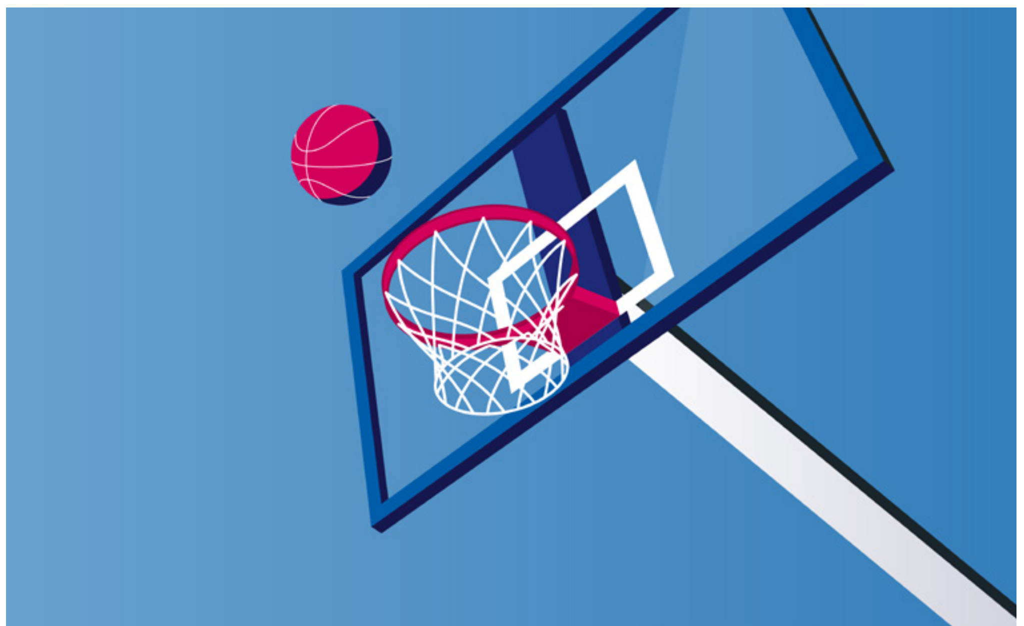
Politics & policy – The future is fiscal

- Shift from the dominance of monetary policy to fiscal policy
- U.S. and Japan with concrete plans for substantial investment
- Europe and China still on the sidelines – acute need to catch up

Over the past three years, even people who tend to pay little attention to the capital markets have been unable to avoid the subject of monetary policy. In response to the significant increase in price pressures worldwide, it was primarily the central banks that drove inflation back to their respective target values using interest rate and liquidity policies.

This dominance of monetary policy is now likely to weaken against the backdrop of more moderate inflation rates. For the Eurozone and Japan, we expect inflation to gradually move closer to the central banks' target of 2% in 2025. To this end, the European Central Bank is likely to cut its deposit rate in five steps from the current 3.25% to 2.00% by the end of 2025. The Bank of Japan is charting a different course with its monetary policy normalisation and may gradually raise key interest rates from 0.25% to 1.00%. In the U.S., we expect the disinflation process to come to a halt above the Fed's target in light of robust demand and expansionary fiscal policy. Inflation could settle at a level of 2.4% in both 2025 and 2026, prompting the Fed to lower its key interest rate somewhat more cautiously in three steps of 0.25 percentage points each to between 3.75% and 4.00% by the end of 2025.

In the future, fiscal policy is likely to become far more important to economic development. In the U.S., for example, the provisional plans of the administration due to commence in January 2025 include extensive and predominantly debt-financed state investment. The Trump plan includes expanding tax relief for private households and companies,



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Forecast

Economic growth

Gross domestic product (GDP) growth forecasts for selected economies (%).

	2024	2025
World	3.1	3.1
U.S.[1]	2.7	2.0
Eurozone	0.7	0.9
Germany	-0.1	0.6
France	1.2	0.8
Italy	0.4	0.5
Spain	3.0	1.7
Japan	-0.1	1.2
China	4.9	4.2

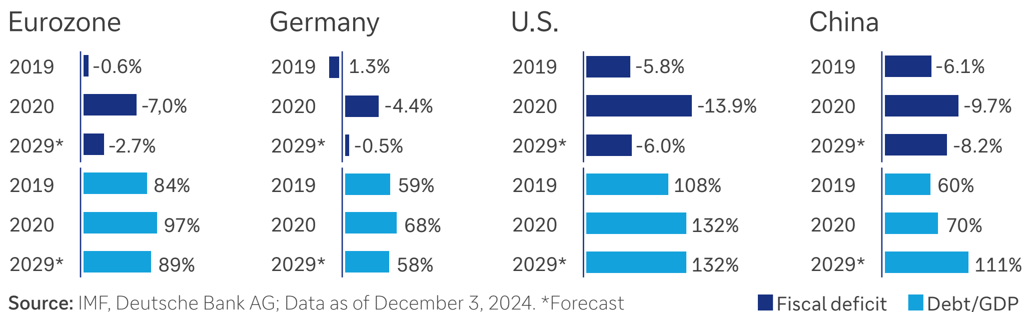
Source: Deutsche Bank AG; Data as of November 15, 2024.
[1] Q4/Q4 growth 1.5% (2024), 2.1% (2025).

strengthening the military and facilitating access to home loans. Total estimated borrowing for all measures until 2035 amounts to between USD7tn and USD16tn. This corresponds to an annual average of as much as 5% of current U.S. gross domestic product.

In October, Japan also announced its plan for a new economic stimulus programme, albeit on a slightly smaller scale. China, on the other hand, is likely to refrain from further fiscal measures until the concrete effects of the next U.S. administration's policies on the Chinese economy become clearer. Then, however, more substantial fiscal stimulus measures could be expected here as well.

Europe is still more on the sidelines in this field of tension. A core element of the NextGenerationEU recovery plan is the Recovery and Resilience Facility with a total volume of EUR650bn for the digital and energy transformation of the economy by 2026. However, these funds are unlikely to be sufficient to close the innovation and productivity gap with the U.S. and the rest of the world. While the Draghi plan remains a vision for the future, it does make clear where the journey should lead. In order to close the innovation gap, European research and educational institutions need a strategy of excellence, among other things. Increasing competitiveness is primarily dependent on a significant reduction in Europe's energy prices and reducing dependencies in respect of commodities or key technologies, for example, requires a "genuine" EU economic policy. The additional investment volume proposed for this by the long-term Draghi plan amounts to between EUR750bn and EUR800bn annually.

Government deficit-related indicators rising



Source: IMF, Deutsche Bank AG; Data as of December 3, 2024. *Forecast

An investment offensive in Europe could serve as a basis for the region to regain the ground it believes it has lost globally.

We believe that such an investment offensive would enable Europe to keep pace and even regain some of the ground it has lost globally. It should then be possible for the Old World to again achieve more growth in the years ahead.

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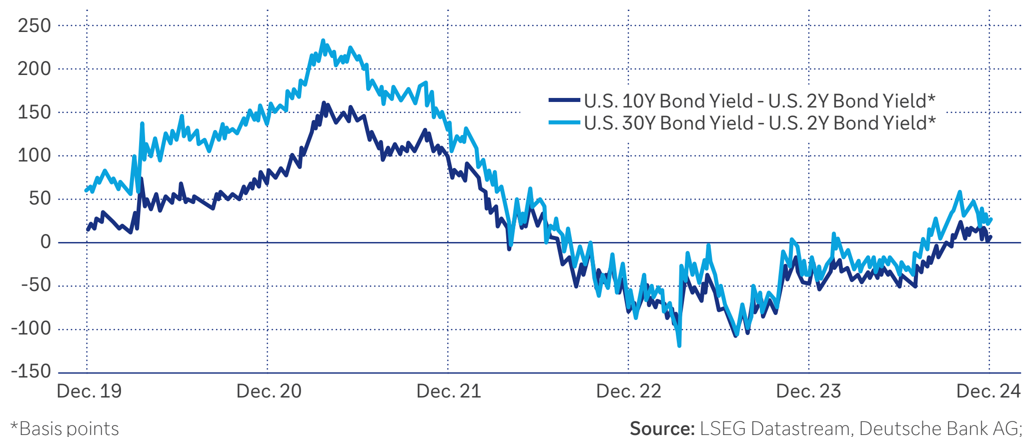
Bonds – The return of the premium

- Treasuries and Bunds are expected to remain relatively stable
- Investment grade securities are likely to benefit from persistently high interest rates
- The investment risk does not appear to be adequately reflected in high-yield bonds

For a long time, investors on the U.S. bond market operated in a rather unusual environment where the interest rates for long-term bonds were lower than those for short-term securities. They were therefore not rewarded for the additional risk of a long-term investment – in other words, they received no premium. However, this inverted yield curve has recently disappeared in the wake of slightly higher inflation expectations in the U.S. We expect this normalisation to continue, not least because the U.S. Federal Reserve will limit its monetary easing activities to three further key interest rate cuts by the end of 2025 and supportive fiscal policy measures could drive up the term premium. In addition, the bond markets are likely to remain highly volatile and investors want to be compensated for the corresponding volatility

The curve – back to "normal" without recession



*Basis points

Source: LSEG Datastream, Deutsche Bank AG; Data as of December 3, 2024.

risks. At the end of 2025, we expect yields of 4.50% for ten-year U.S. government bonds and 4.20% for two-year U.S. government bonds. The overall picture in the Eurozone is somewhat different than in the U.S. The economic outlook is weaker, inflation expectations are lower and the ECB is therefore likely to make larger cuts to its key interest rates by the end of 2025 than the Fed. Our forecasts for German government bonds are correspondingly lower. We expect 2.20% for ten-year Bunds and 1.75% for two-year Bunds by the end of 2025.

We believe that the market for corporate bonds in the U.S. and Europe will remain fundamentally interesting for investors in 2025 because demand from institutional investors such as pension funds and insurance companies is also likely to remain high. This is mainly due to the comparatively high yields that should remain available for high-quality investment grade (IG) securities. The focus could be on bonds from the financial sector,

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Forecast

Inflation

Consumer price inflation forecasts for selected economies compared to the previous year (%).

	2024	2025
U.S.	2.9	2.4
Eurozone	2.3	2.0
Germany	2.5	2.3
Japan	2.5	2.0
China	0.5	1.3

Source: Deutsche Bank AG; Data as of November 15, 2024.

Interest rates for high-quality investment grade corporate bonds to remain relatively attractive in 2025.

such as banks. In contrast to previous years, they offer a similarly high yield to securities from the non-financial sector and generally have good profit prospects.

In the U.S., there could be a certain amount of only moderate, upwards pressure on spreads in 2025, which would probably not be large enough to significantly dampen the total return potential of the U.S. securities that have already been issued. This would be due to higher economic growth momentum in the U.S. – possibly driving inflation – and the already historically low spreads on government bonds that leave little room for further narrowing, favouring a slight widening instead. For investors who want to keep a certain proportion of their portfolio in U.S. dollars, U.S. IG securities appear to be worth a closer look.

IG bonds with variable coupons, known as floaters, deserve consideration in a rising interest rate environment. These floaters – available in both euro and U.S. dollar variants – usually comprise a large proportion of securities from the financial sector and should also be interesting from a yield perspective in 2025.

Due to high demand, the spreads on high-yield (HY) bonds have also narrowed significantly, despite a sizeable supply. In our view, however, the yield spreads no longer adequately reflect the actual investment risk, especially because the default rates in the U.S. (around 3%) and the Eurozone (close to 4%) are at relatively high levels. We therefore expect spreads to widen by the end of 2025. For 2025, we remain cautious regarding corporate bonds from emerging markets. The current tight spreads offer very little buffer against risks from a protectionist global trade environment, potentially higher U.S. interest rates and a stronger U.S. dollar.

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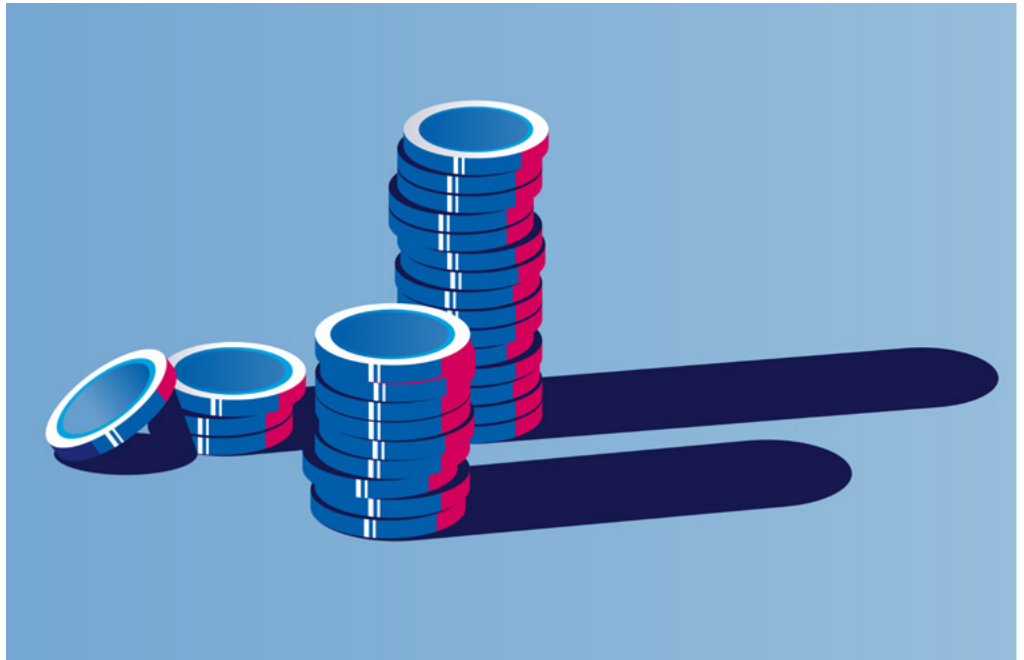

4

Dollar – Strong economy, strong currency

- Interest rate differential and solid economic growth support the greenback
- JPY could appreciate further in 2025 – also against the USD
- EUR and CNY under pressure due to possible U.S. punitive tariffs

The euro/U.S. dollar exchange rate registered sharp movements in the course of 2024. After reaching a high for the year of 1.12 in August, the euro fell to EUR/USD 1.09 by election day in the U.S. on November 5 and then continued its downwards trend. At 1.04, the currency pair reached its lowest level in 13 months in mid-November.

Reasons for the new strength of the U.S. dollar include the tax cuts and additional tariffs announced by U.S. President-elect Donald Trump, which could lead to a sustained rise in inflation in the U.S. in the longer term. In response, market participants priced out a number of further interest rate cuts by the Fed that had previously been expected. Should the pace of interest rate reductions in the U.S. slow, this would result in a wider interest rate differential between the U.S. and the Eurozone and thus increase the attractiveness of the U.S. dollar. In addition, as a result of the planned fiscal stimulus measures, the U.S. economy is likely to grow significantly faster than its Eurozone counterpart in 2025. Against this backdrop, we expect a EUR/USD exchange rate of 1.02 by the end of 2025, subject to any interim volatility.

Due to the comparatively cautious interest rate reduction policy of the Bank of England (BoE), the GBP was strong against the USD until the autumn but has lost some of this strength since the start of October. We expect sterling to trade sideways with moderate

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Forecast

FX

Forecasts for exchange rates of major international currencies for end-2025.

EUR vs. USD	1.02
USD vs. JPY	145
EUR vs. JPY	148
EUR vs. CHF	0.94
EUR vs. GBP	0.82
GBP vs. USD	1.25
USD vs. CNY	7.45

Source: Deutsche Bank AG; Data as of November 15, 2024.

U.S. economy is performing, yields on the rise

Source: LSEG Datastream, Deutsche Bank AG; Data as of December 3, 2024.

volatility against the USD in 2025. The inflation rate is likely to rise again at the start of 2025 due to the adjustment of the government energy price cap. Nevertheless, the Bank of England is likely to cautiously continue its cycle of interest rate cuts in support of the economic recovery.

In June/July 2024, partly as a result of the hesitant interest rate hiking of the Bank of Japan (BoJ) in recent years compared with that of the Fed or the ECB, the JPY traded at its lowest level against both the USD and the EUR since the mid-1980s and early 1990s. However, supported by a key interest rate hike by the BoJ in July and the emerging recovery of the Japanese economy, it then quickly regained ground. As we expect the BoJ to gradually raise its key policy rate further to 1% in the coming year, this could additionally strengthen the yen, as could the solid Japanese economic growth of 1.2% that we expect in 2025. We therefore forecast a USD/JPY rate of 145 at the end of 2025.

The renminbi recently depreciated moderately because the financial markets were disappointed with the scope of the monetary and fiscal policy measures announced by the Chinese government to support the economy. The People's Bank of China could devalue the renminbi further in 2025 to strengthen the Chinese economy. However, the central bank is likely to ensure that devaluation pressures do not become too strong to avoid further fuelling the existing trade conflict with the U.S. We therefore forecast a USD/CNY rate of 7.45 at the end of 2025.

Possible U.S. tariffs could exert pressure on the currencies of affected trading areas.

If the tariffs announced by U.S. President-elect Donald Trump exert noticeable pressure on exchange rates in 2025, the overall economic damage they might cause to the affected economic areas – namely China and the Eurozone – may be reduced to some extent by their weaker currencies providing a degree of export stimulus.

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5

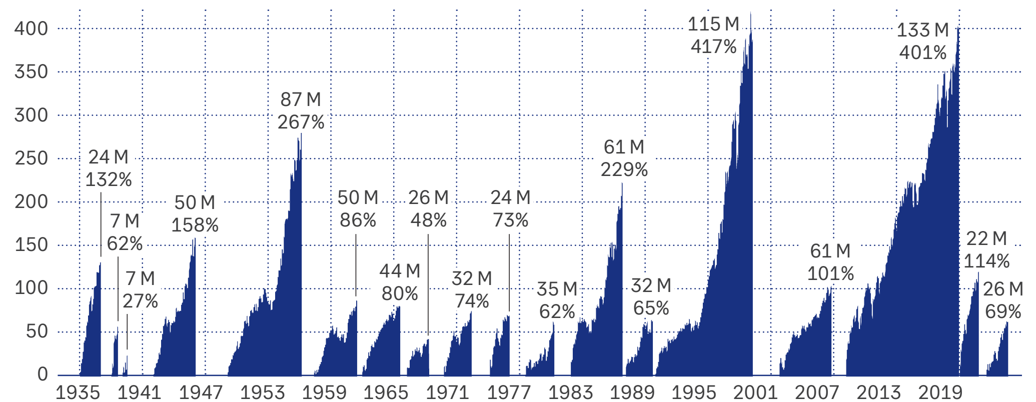
Stocks – The key to success

- Focus on growth stocks within a broad-based portfolio
- Solid profit growth for companies worldwide
- Persistently high volatility due to a range of uncertainties

Strong corporate profits, the reduced probability of recession and key interest rate cuts by the Fed and the ECB have had a positive impact on general investor sentiment in recent months. The major U.S. growth stocks, which briefly came under pressure mid-year, subsequently returned to a clearly positive trajectory. We kept our emphasis on growth within a broad-based portfolio throughout the period and this proved to be the right decision.

We will continue to focus on growth in 2025 and beyond. In an environment of lower inflation than in the preceding years, we expect further easing from major Western central banks while economic growth should remain supportive – a combination that has proved to provide positive support for share prices in the past. A similar environment existed between 1994

Stock markets – Room to run



■ S&P 500 bull markets since 1935 (price returns), M = months

Source: LSEG Datastream, Deutsche Bank AG; Data as of December 3, 2024.

and 1997, for example, when the S&P 500 increased by a total of 127%. By contrast, if we look at the S&P 500 since 2021, the increase in value was just 26% up to November 2024. Even if past developments do not allow any conclusions to be drawn about the future developments, we still see further potential for higher share prices in the current market environment.

We are convinced that equities can provide investors with potential access to growth.

We remain convinced that equities can provide investors with potential access to growth. At the corporate level, we expect profits in 2025 to grow at a solid pace – 14% in the U.S., 12% in Germany, 10% in Japan and 8% in Europe. In emerging markets, we remain positive on Asia given the expectation of aggregate double-digit growth in earnings per share. Although the Indian stock market currently seems expensive, we see the country as the next major growth market. Price reductions there could serve as buying opportunities. In addition,

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tech companies from North Asia are providing interesting opportunities to invest in artificial intelligence.

However, despite the generally positive underlying sentiment, caution is also required on the global equity markets – especially in view of the uncertainties regarding possible new tariffs, particularly on the part of the U.S., and their impact on international trade relations. Moreover, European policies and their impact on the fiscal policy of the major member states in particular are likely to influence stock market developments in Europe. Overall, equity markets are therefore expected to remain highly volatile in the coming year.

Another frequently discussed risk factor for equity markets is rising yields – a scenario that could well materialise intermittently in the U.S. in 2025. In principle, high interest rates make equity investments less attractive than fixed-income investments. However, rising interest rates are not automatically a problem for equities. Provided the increase in interest rates is gradual and growth-driven, we do not see any major downside risk for equity markets. The equity market could only come under pressure if long-term expected U.S. capital market rates increase too sharply to 5% and above.

We expect yields in the U.S. to remain elevated in the coming year alongside higher volatility, so we recommend positioning a portfolio solidly for all market situations by way of dynamic asset allocation and active risk management.

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6

U.S. stocks – Centre of gravity

- U.S. equities benefiting from the special (economic) policy situation in the U.S.
- Rising corporate profits and large-scale share buybacks as drivers
- Focus still on financials, IT, consumer discretionary and communication services

Within a generally supportive equity market environment, the expectations for the U.S. equity market are positive for 2025 as well. This is mainly due to a number of peculiarities in the (economic) policy landscape on the other side of the Atlantic, where the measures expected as a result of the change in government in January 2025 are driving the long-term expectations of market participants. These include greater deregulation of the economy, extensive government investment and additional tax relief.

In this growth-friendly environment, the profits of U.S. companies should increase significantly. We expect the earnings of S&P 500 companies to grow by 14%. An additional boost to share prices is anticipated from large-scale share buybacks – when companies repurchase some of their own shares. Such moves are an expression of the strong focus of major U.S. companies in particular on the interests of shareholders and a signal to market participants that the companies are doing well financially. As a result, they reduce the number of shares in circulation, which has a direct and positive impact on the key share indicator of "earnings per share" (EPS) and thus usually also on share prices. According to our forecasts, the buyback volume in the U.S. is likely to amount to around USD950bn in 2025, corresponding to around half of total corporate profits.

Our long-term focus remains on financials and sectors that are likely to benefit from a growth-enhancing environment, such as IT, consumer discretionary and communication services.

Our long-term focus for U.S. equities remains on financials and those sectors that are likely to benefit from a growth-enhancing environment, such as IT, consumer discretionary and communication services. Taken together, the latter account for around 50% of the market capitalisation of the U.S. equity market. However, despite the favourable signs, we do not

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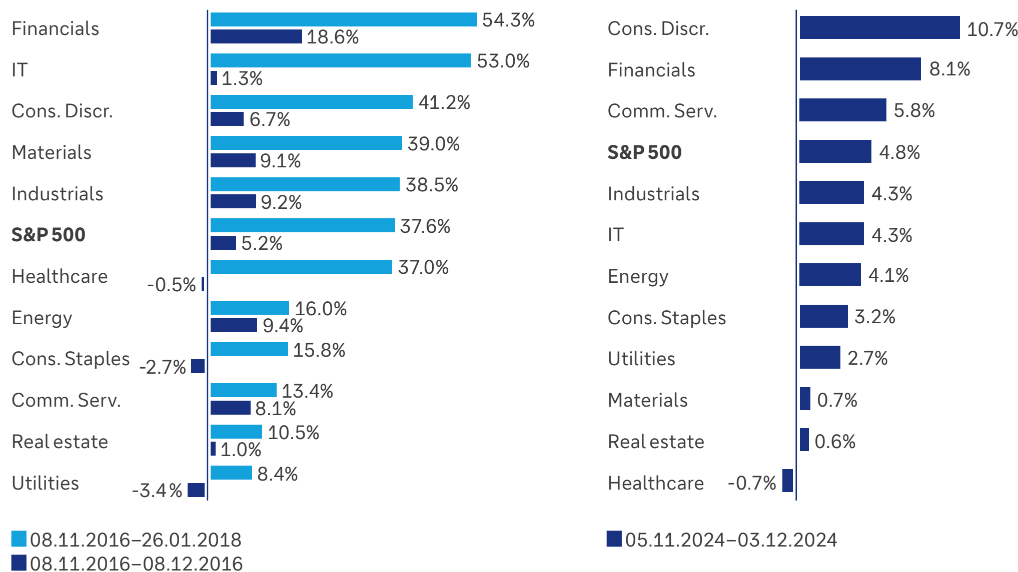
U.S. post election rally 2016–2018*



*S&P 500 total return. **Source:** LSEG Datastream, Deutsche Bank AG; Data as of December 3, 2024.

Forecast

Equity index

Forecasts for price levels of major equity indices for end-2025 (index points).

Index	Forecast
United States (S&P 500)	6,500
Germany (DAX)	20,500
Eurozone (EURO STOXX 50)	4,950
Europe (STOXX Europe 600)	525
Japan (MSCI Japan)	1,770
Switzerland (SMI)	12,050
United Kingdom (FTSE 100)	8,150
Emerging Markets (MSCI EM)	1,150
Asia ex Japan (MSCI Asia ex Japan)	750
Australia (MSCI Australia)	1,650

Source: Deutsche Bank AG; Data as of November 15, 2024.

consider an excessive focus on growth stocks to be advisable from a risk perspective. Instead, they could form the core of a broad-based equity portfolio that also includes interesting reasonably priced defensive U.S. growth stocks and small caps as well as stocks and securities from other promising regions such as Europe and Asia.

Both current market indicators and historical data show that the upward trend on the U.S. stock market may not end for some time yet. Compared with past periods of rising share prices, the current U.S. bull market is still relatively young at just over two years. In the past 90 years, the average U.S. bull market has lasted 47 months, during which the S&P 500 rose by an average of 137% in U.S. dollar terms (see chart on page 14). By contrast, the current increase is just 69%. Although this comparison is no guarantee of rising prices in the future, it at least makes clear that some investors' concerns about the already good performance soon leading to a crash are not necessarily justified. In fact, as the past has shown, good stock market years occur far more frequently than bad ones. Since 1928, the S&P 500 has seen a total of 71 good years with an average increase in total return of 21% compared with 26 bad years, which had an average decrease of 13.5%.

We expect another good year for the U.S. stock market in 2025 although we are monitoring potential disruptive factors such as excessively high yields. Our expectation for the S&P 500 is 6,500 points at the end of 2025.

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7

German stocks – Positives still apparent

- Strong international German companies – despite domestic economic weakness
- Potential for European equities – albeit lower than for U.S. stocks
- Focus on financials and industrials

Many German companies are now global enterprises generating much of their sales and profits in other countries.

When looking at Germany's current economic and business situation, some market participants are currently drawing parallels with one of the country's literary classics. In his novel "Buddenbrooks", Thomas Mann describes a family which allows its company to fall into decline over the generations because of a lack of drive and willingness to innovate. However, the fact that Thomas Mann was awarded the Nobel Prize for Literature in 1929 for this novel in particular does not make this admittedly plausible picture any less incongruous – at least as far as companies are concerned – because the world has changed since the time of the Buddenbrooks. Unlike them, many German companies today are innovative, world market leaders in a number of areas and part of a global network – and therefore no longer actually "German" companies but global enterprises that generate a large proportion of their sales and profits in other countries. Therefore, the paradox of successful companies in a stagnating economy that has often been discussed recently in connection with Germany is not a paradox at all.

This becomes particularly clear when considering the DAX. While industrial production in Germany has fallen markedly over the past ten years – largely due to the country's declining automotive production – Germany's leading index has more than doubled in value. The situation is similar in Europe overall and on the pan-European STOXX Europe 600. The question that needs to be asked, therefore, is how Germany and the rest of Europe can

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maintain and boost their economic dynamism. In our opinion, considerably more investment especially is now needed to boost productivity. There are plans for such a growth offensive, for example those proposed by Mario Draghi, the former head of the European Central Bank. However, they are still awaiting implementation.

Investors should monitor both sides of the German and European stock markets: the strength of many companies on the one hand and the macroeconomic and political challenges on the other. Overall, the STOXX Europe 600 is trailing the U.S. market in terms of corporate earnings growth. In particular, economic concerns in China, the weakness of the automotive sector and political uncertainties – particularly in France and Germany – are having a negative impact on performance. The valuation discount of the pan-European lead index compared with the S&P 500, for example, is now around 40%. In 2025, we expect high-single-digit earnings growth in Europe which, coupled with low valuations, should provide moderate return prospects. Financials and industrials stand out favourably as our sector picks. We expect the STOXX Europe 600 to reach 525 points by the end of 2025 and see the DAX at 20,500 points.

Germany – Not growing and de-industrialising

Source: LSEG Datastream, Deutsche Bank AG; Data as of December 3, 2024.

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8

Commodities – Off to new shores

- Supply and demand on the oil market balanced – little price potential
- Gold likely to remain in demand as a hedging instrument in 2025
- Copper on the upturn in the long term thanks to the energy transition and digitalisation

The point at which global demand for crude oil will stop growing has been the subject of heated debate on the commodities markets for decades. According to a report by the International Energy Agency (IEA), it could happen around 2030. Other estimates put the peak oil date somewhat later. What does seem certain is that oil will remain an important commodity for a long time to come but that its importance will decline steadily due to the expansion of renewable energy. In the past 20 years alone, the share of non-fossil forms of energy in global electricity production has risen from less than 20% to around 30%.

However, the oil market has come under pressure in recent months, primarily due to the weakness of China's economy. While the Middle Kingdom still accounted for 70% of the growth in global oil demand in 2023, this figure is expected to fall to just 20% in 2024. At the same time, oil-producing countries that are not members of OPEC+, in particular the U.S., are increasing supply.

We assume that oil market supply and demand will be roughly balanced in 2025. By the end of 2025, we expect the price of Brent crude to be slightly lower at USD69/bbl. On the one hand, the OPEC+ countries have announced that they will not continue their voluntary production cuts that have been in place since spring 2023 and will instead gradually increase production. In addition, it appears that the next U.S. administration will want to expand the country's oil production further. On the other hand, the OPEC+ countries would be likely to respond to an excessive drop in the oil price, for example, by again postponing the reversal of production cuts. Moreover, a possible stabilisation of economic growth in China could have a positive effect on prices. Overall, there are still a large number of

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Forecast

Commodity prices

Forecasts for gold, oil and copper prices for end-2025.

Gold (USD/oz)	2,800
Oil (Brent Spot,USD/bbl)	69
Copper (USD/metric ton)	9,850

Source: Deutsche Bank AG; Data as of November 15, 2024.

Both the global energy transition and the digital transformation are driving demand for industrial metals in the long term.

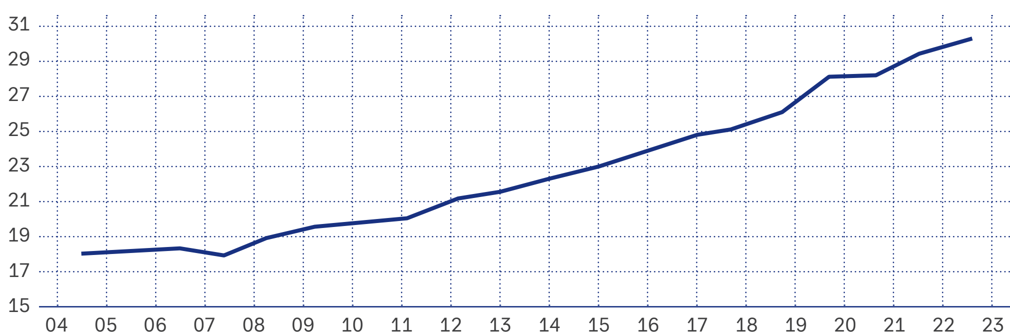
uncertainties regarding the oil price. These include the future U.S. administration's trade policy and geopolitical risks, for example with regard to Iran and the Strait of Hormuz, which serves as a transport route for around one-fifth of global oil demand.

Industrial metals are essential for both the global energy transition and the digital transformation. For example, 25 to 35 tonnes of copper are needed to supply just a small data centre with electricity. According to estimates, demand for copper could increase by 50% by 2040 if the IEA Net Zero Emissions scenario is implemented. During 2024, the price of copper rose by around 7.5% through to mid-November – despite weakening demand from the ailing Chinese construction sector. If China, as the world's largest buyer of copper and with its massive investments in renewable energy and power grids, overcomes its economic weakness, this could additionally drive copper demand in the medium term.

On the supply side, no significant increase in copper production is expected in the short term. In fact, supply might decrease due to declining ore quality. Chile, which accounts for around one quarter of global copper production, increased its output by 3% year-on-year in the first nine months of 2024. However, this is still well below the production volumes of previous years. We expect the price of copper to be USD9,850/t at the end of 2025.

The price of gold reached an all-time high of USD2,790/oz on October 31 and increased by more than 25% year on year – driven by its function as a "safe haven" in the run-up to the U.S. election. The precious metal is likely to remain in demand in 2025 as well, despite the relatively high capital market rates that are expected and the strong U.S. dollar. The reason for this is the strong demand for physical gold, for example from central banks. In addition, the precious metal should be able to demonstrate its importance as a risk-hedging component in a portfolio, especially at a time of great uncertainty. We expect the price of gold to fluctuate at around USD2,800/oz by the end of 2025.

Alternative energy – Clearly on the rise



Source: LSEG Datastream, Deutsche Bank AG; Data as of December 3, 2024.

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9

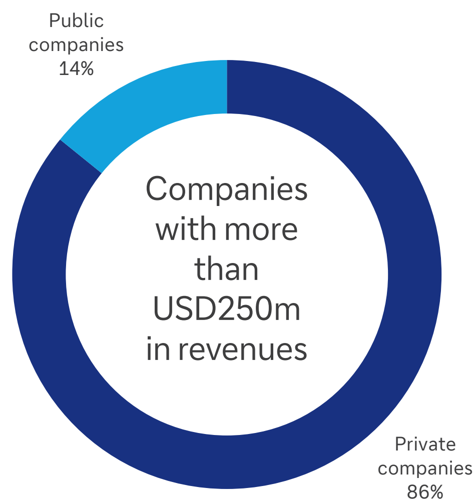
Infrastructure – Public & private mixology

- Infrastructure: new foundations for the future
- Data centres and logistics: Commercial real estate for the transition
- Private equity: interesting sector weightings outside the stock market

Alternative investments can make a contribution to diversifying a portfolio comprised of publicly listed assets such as stocks and bonds. They are both exchange-traded and non-exchange-traded securities, which is reflected in particular in their differing liquidities and minimum holding periods. In 2025, there should also be interesting opportunities for private investors in the areas of infrastructure, private equity and, to a certain extent, real estate.

Infrastructure investments are usually focused on basic services and facilities in sectors such as energy, transport and utilities. They are associated with long-term, recurring and foreseeable payment streams that are inflation-adjusted for some facilities, making their yield characteristics less dependent on the prevailing economy. In terms of growth prospects, we believe that the focus in 2025 will be on areas such as telecommunications (mobile phone masts in the U.S., data centres) and electricity (power grids and storage facilities, generators for renewable energy). This is because the transformation and security of the energy supply with a strong focus on renewable energy, increasing digitalisation and the restructuring of supply chains – including reshoring and nearshoring activities to strengthen resilience – require the development and expansion of infrastructure such as solar parks and wind farms, power and data grids, motorways, electric vehicle charging stations, hydrogen infrastructure, battery production and railway lines.

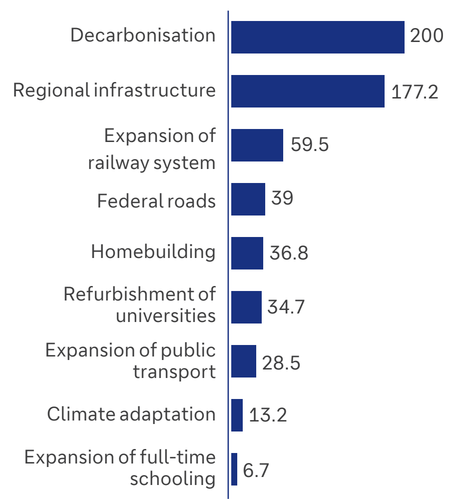
Private markets – Correcting for public market biases



Represents the share of companies in North America, Europe and Asia.

Source: Blackstone, Capital IQ; Data as of November 2023.

Estimated public investment needs in Germany



EUR bn, over 10 years (2024 prices)

Source: IW Köln, IMK Hans-Böckler-Stiftung, Deutsche Bank AG; Data as of December 3, 2024.

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Structural trends are impacting the real estate sector, with logistics one of several possible gainers.

Advances in fields such as artificial intelligence and e-commerce are also driving demand for data centre and logistics capacities in the real estate sector. In addition to national and regional government programmes, the use of private capital is playing a growing role. In the commercial real estate sector, investors may focus on the logistics segment, which should benefit from continued growth in online retailing. Properties in sectors such as self-storage (rental storage), research and healthcare and data centres also appear interesting in the long term. Structural trends such as increasing urbanisation, rising healthcare expenditures and the use of artificial intelligence are likely to bolster demand in the future.

Private equity investments provide opportunities to diversify the portfolio. Worldwide, 86% of companies with an annual turnover of more than USD250m are not listed on a stock exchange. In our opinion, these companies offer access to an interesting sector weighting that differs significantly from that of listed companies. Risk-conscious investors should focus on strategies that promote organically growing companies, whereas growth-oriented investors could also consider venture capital investments in promising start-ups.

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10

Risk – Recessions, rates & rotations

- Investors must be prepared for a range of trade and geopolitical risks
- Fundamentally positive growth expectations should be kept in sight
- A broad-based portfolio and active risk management are advisable

Even before Donald Trump takes office as the 47th President of the United States on January 20, 2025, heads of government, business leaders and market participants around the world will be unlikely to take their eyes off the White House for quite some time. During the election campaign, Trump had already announced trade policy measures in the form of additional tariffs on Chinese and European imports, for example, which could severely disrupt global trade relations.

Resurgent inflation in the U.S. would also have a negative impact on capital markets. If the Fed does not respond appropriately, this could result in a sharp rise in capital market rates. And lastly, a recession in the U.S. – and in other major economic zones – is not entirely inconceivable, although we do not expect one in the years ahead.

In 2025, there are likely to be a number of geopolitical risks in addition to these economic policy risk areas, which can be supplemented as necessary if looking beyond the U.S. – keywords here being the Chinese real estate market or the upheaval in the global automotive industry. These risks include a possible blockade by Iran of the key oil transport route through the Strait of Hormuz, the war in the Middle East and developments in connection with the war between Russia and Ukraine.

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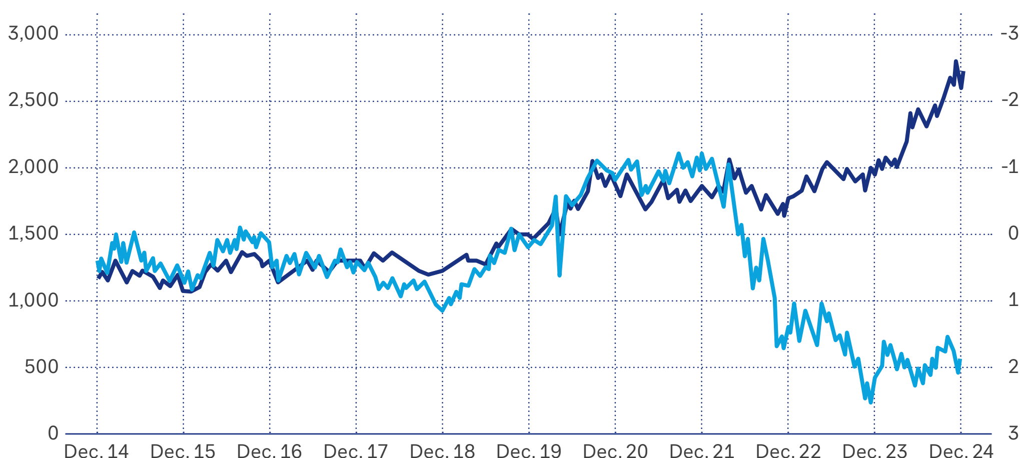
Sector rotation is a risk of the stock market's own making. In the summer of 2024, for example, investors sold off large numbers of shares in the fastest-growing US companies or a combination of different reasons – including company valuations, profit-taking and the prospect of falling capital market rates – and invested increasingly in second-tier stocks instead. Investors who had completed this rotation then faced challenges because demand for growth stocks resumed following a market correction. We are not ruling out the possibility that such rotations could also occur in 2025. On the bond market, by contrast, we expect continued high volatility against the backdrop of potentially higher U.S. capital market rates and a stronger U.S. dollar.

Investors should not lose sight of underlying growth trends at the macroeconomic and corporate levels in 2025.

In cognisance of these challenges, investors should not lose sight of the underlying growth trend at the macroeconomic and corporate levels in 2025. In our view, equities are the key to success. Rather than standing on the sidelines and accepting real capital losses due to increased inflation rates, it is important to diversify capital sensibly and actively manage market risks. On the stock market, one option could be a barbell strategy in which capital is invested in different market segments. In the case of bonds, it is primarily a question of managing maturities and credit ratings. Lastly, the currency portfolio should also be broad based and not just include the domestic currency, for example by investing in the capital markets of other currency areas. Alternative investments can also be added for diversification. Gold can be included due to its hedging characteristics with regards to the risks mentioned above. The fact that gold has delivered a significant return despite rising U.S. real yields – which are generally negative correlated with gold prices – highlights its effectiveness in such an environment.

Gold – Higher despite rising real yields



Source: LSEG Datastream, Deutsche Bank AG; Data as of December 3, 2024.

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Appendix

Macroeconomic forecasts

	2024	2025	Consensus 2025 (BBG*)
GDP growth rate (%)			
U.S.[1]	2.7	2.0	1.9
Eurozone	0.7	0.9	1.2
Germany	-0.1	0.6	0.8
France	1.2	0.8	1.0
Italy	0.4	0.5	1.0
Spain	3.0	1.7	2.1
Japan	-0.1	1.2	1.2
China	4.9	4.2	4.5
World	3.1	3.1	3.1
Consumer price inflation (%)			
U.S.	2.9	2.4	2.3
Eurozone	2.3	2.0	2.0
Germany	2.5	2.3	2.1
Japan	2.5	2.0	2.0
China	0.5	1.3	1.3
Unemployment rate (%)			
U.S.	4.1	4.2	4.3
Eurozone	6.4	6.3	6.5
Germany	6.0	6.1	6.1
Japan	2.5	2.4	2.5
China[2]	5.1	5.0	5.1
Fiscal balance (% of GDP)			
U.S.	-6.6	-7.3	-6.5
Eurozone	-2.8	-3.0	-2.7
Germany	-2.1	-1.8	-1.5
Japan	-6.0	-4.0	-3.5
China[3]	-13.2	-13.1	-5.0

*Bloomberg consensus. [1] For the U.S., GDP growth Q4/Q4 is 1.5% in 2024 and 2.1% in 2025. [2] Urban unemployment rate (end of period), not comparable to consensus data. [3] China fiscal deficit refers to augmented fiscal balance (widest definition) from IMF. It is not comparable with the consensus.

Source: Deutsche Bank AG, Bloomberg Finance L.P. Data as of November 15, 2024.

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Appendix

Asset class forecasts for December 2025

Sovereign bond yields (%)

United States (2-year U.S. Treasury)	4.20
United States (10-year U.S. Treasury)	4.50
United States (30-year U.S. Treasury)	4.65
Germany (2-year German Bund)	1.75
Germany (10-year German Bund)	2.20
Germany (30-year German Bund)	2.50
United Kingdom (10-year UK Government)	4.00
Japan (2-year Japan Government)	0.80
Japan (10-year Japan Government)	1.40

Benchmark rates (%)

United States (federal funds rate)	3.75-4.00
Eurozone (deposit rate)	2.00
United Kingdom (repo rate)	3.00
Japan (policy rate)	1.00
China (1-year lending rate)	2.75

Currencies

EUR vs. USD	1.02
USD vs. JPY	145
EUR vs. JPY	148
EUR vs. CHF	0.94
EUR vs. GBP	0.82
GBP vs. USD	1.25
USD vs. CNY	7.45

Equity indices

United States (S&P 500)	6,500
Germany (DAX)	20,500
Eurozone (EURO STOXX 50)	4,950
Europe (STOXX Europe 600)	525
Japan (MSCI Japan)	1,770
Switzerland (SMI)	12,050
United Kingdom (FTSE 100)	8,150
Emerging Markets (MSCI EM)	1,150
Asia ex Japan (MSCI Asia ex Japan)	750
Australia (MSCI Australia)	1,650

Commodities (USD)

Gold (oz)	2,800
Crude Oil (Brent Spot, bbl)	69
Copper (t)	9,850
EU Carbon Allowances (Carbon Spot, t)	75

Corporate & EM bond spreads (bps)

EUR IG Corp	95
EUR HY	400
USD IG Corp	85
USD HY	325
Asia Credit	125
EM Sovereign	390

Source: Deutsche Bank AG; Data as of November 15, 2024.

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Appendix

Historical performance

	09.12.2019–09.12.2020	09.12.2020–09.12.2021	09.12.2021–09.12.2022	09.12.2022–09.12.2023	09.12.2023–09.12.2024
Performance					
S&P 500	17.1%	27.1%	-15.7%	17.0%	31.5%
STOXX Europe 600	-2.8%	20.8%	-7.9%	7.5%	10.4%
MSCI EM	19.5%	-0.6%	-21.6%	-0.3%	14.3%
EURO STOXX 50	-3.9%	19.2%	-6.3%	14.7%	10.2%
SMI	0.0%	20.9%	-12.2%	0.0%	6.2%
DAX	1.8%	17.2%	-8.1%	16.6%	21.4%
FTSE 100	-9.3%	11.5%	2.1%	1.0%	10.6%
MSCI Japan	4.8%	13.0%	-2.3%	18.5%	18.3%
MSCI Australia	-2.4%	8.9%	-0.5%	0.9%	17.2%
MSCI Asia ex Japan	22.7%	-1.2%	-18.6%	-3.5%	18.1%
2-year U.S. Treasury	3.1%	-0.4%	-3.4%	2.9%	5.1%
10-year U.S. Treasury	11.4%	-2.4%	-15.1%	-1.5%	4.3%
30-year U.S. Treasury	18.8%	-2.7%	-29.8%	-8.7%	2.8%
2-year German Bund	-0.5%	-0.8%	-3.7%	1.6%	3.0%
10-year German Bund	3.2%	-1.9%	-17.7%	-0.1%	2.3%
30-year German Bund	11.8%	-3.3%	-38.3%	-17.7%	2.3%
10-year UK Government	5.7%	-3.4%	-18.8%	-2.0%	3.2%
2-year Japan Government	-0.1%	-0.2%	-0.2%	0.0%	-0.7%
10-year Japan Government	0.0%	0.1%	-1.2%	-1.6%	-1.4%
EUR vs. USD	-1.6%	2.2%	-6.6%	-6.6%	8.8%
USD vs. JPY	3.3%	6.2%	20.3%	9.0%	-4.2%
EUR vs. JPY	1.7%	8.5%	12.3%	1.8%	4.3%
EUR vs. CHF	-1.9%	-4.1%	-5.5%	-3.3%	-1.5%
EUR vs. GBP	-3.5%	-0.2%	0.6%	-6.9%	8.6%
GBP vs. USD	1.9%	2.3%	-7.2%	0.4%	0.2%
USD vs. CNY	1.2%	2.8%	9.3%	-2.7%	-7.0%
Gold (oz)	26.4%	-3.7%	1.1%	11.4%	33.1%
Crude Oil (Brent Spot, bbl)	-24.0%	52.3%	2.3%	-0.3%	-4.9%
Crude Oil (WTI, bbl)	-22.9%	55.8%	0.1%	0.3%	-4.0%
Copper (t)	27.4%	23.8%	-10.8%	-1.7%	9.0%

Source: Deutsche Bank AG, Bloomberg Finance L.P., LSEG Datastream; Data as of December 9, 2024.

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Glossary

Artificial intelligence (AI) in computer science refers to computer programs and algorithms that are able to replicate human skills such as learning, problem solving or decision-making.

The **Bank of England (BoE)** is the central bank of Great Britain.

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

Brent is a grade of crude oil used as a benchmark in oil pricing.

Bunds are federal bonds, i.e. German government bonds.

CHF is the currency code for the Swiss Franc.

CNY, also known as Renminbi (RMB) is the currency code for the Chinese yuan.

Congress is the legislature of the United States, consisting of two chambers, the Senate and the House of Representatives.

The **consumer price index (CPI)** measures the price of a basket of products and services that is based on the typical consumption of a private household.

The **DAX** is a blue-chip stock-market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange; other DAX indices include a wider range of firms.

Democrats is the abbreviation for the Democratic Party in the United States, one of the two main parties.

A **developed market (DM)** is a country that is advanced economically, with developed capital markets and high levels of per capita income.

Earnings per share (EPS) are calculated as a companies' net income minus dividends of preferred stock all divided by the total number of shares outstanding.

An **emerging market (EM)** is a country that has some characteristics of a developed market in terms of market efficiency, liquidity and other factors, but does not meet all developed market criteria.

EUR is the currency code for the euro, the currency of the Eurozone.

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

The **EURO STOXX 50 Index** tracks the performance of blue-chip stocks in the Eurozone and includes the super-sector leaders in terms of market capitalization.

The **Eurozone** is formed of 20 European Union member states that have adopted the euro as their common currency and sole legal tender.

The **Fed funds rate** is the interest rate at which depository institutions lend overnight to other depository institutions.

The **Federal Reserve (Fed)** is the central bank of the United States. Its **Federal Open Market Committee (FOMC)** meets to determine interest rate policy.

Floating rate bonds (floaters), in contrast to conventional bonds, do not have a fixed coupon over the term. The coupon is reviewed periodically and adjusted in line with the evolution of a reference interest rate.

The **FTSE 100 Index** tracks the performance of the 100 major companies trading on the London Stock Exchange.

GBP is the currency code for the British pound/sterling.

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 (HY) bonds are higher-yielding bonds with a lower credit rating than investment-grade corporate bonds, Treasury bonds and municipal bonds.

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The **International Energy Agency (IEA)** is an intergovernmental agency studying energy-related issues.

An **investment grade (IG)** rating by a rating agency such as Standard & Poor's indicates that a bond is seen as having a relatively low risk of default.

JPY is the currency code for the Japanese yen, the Japanese currency.

The **MSCI 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 Australia Index** tracks the performance of large- and mid-cap stocks in Australia.

The **MSCI EM Index** captures large and mid cap representation across 24 emerging markets countries.

The **MSCI Japan Index** measures the performance of around 320 large and mid-cap stocks drawn accounting for about 85% of Japanese market capitalization.

The **Nasdaq 100 Index** is a collection of the 100 largest, most actively traded companies listed on the Nasdaq stock exchange.

The **NextGenerationEU (NGEU)** fund is a European Union recovery package to support member states hit by the COVID-19 pandemic.

The **Organization of the Petroleum Exporting Countries (OPEC)** is an international organization with the mandate to "coordinate and unify the petroleum policies" of its 12 members. The so-called **OPEC+** brings in Russia and other producers.

The **People's Bank of China (PBoC)** is the central bank of the People's Republic of China.

Productivity refers to the ratio of goods or services produced to the means of production used.

Republican is the abbreviation for "Republican Party", one of the two main parties in the United States.

The **Senate** is the smaller house in the bicameral Congress of the United States with a more advisory role.

The **S&P 500 Index** includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

A **spread** is the difference in the quoted return on two investments, most commonly used in comparing bond yields.

The **STOXX Europe 600** Index includes 600 companies across 17 European Union countries.

The **Swiss Market Index (SMI)** includes 20 large and mid-cap stocks.

TOPIX refers to the Tokyo Stock Price Index.

Treasuries are bonds issued by the U.S. government.

U.S. is the United States.

USD is the currency code for the U.S. Dollar.

Volatility is the degree of variation of a trading-price series over time.

The **yield curve** shows the different rates for bonds of differing maturities but the same credit quality.

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