CFA HARTFORD FORECAST DINNER
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20 Investment Strategy Principles

1. The value of a stock is the present value of all its future free cash flows. Do not rely on any valuation methodology that does not reconcile with this concept.

2. S&P is not U.S. GDP. Long-term S&P EPS growth ≠ U.S. GDP growth. The S&P 500 differs regionally and by sector; it's global, digital and increasingly medical. EPS growth is a function of retained EPS and incremental returns.

3. Perception of normalized EPS can drive short-term S&P 500 performance, but actual EPS through the cycle will drive most S&P 500 long-term performance. S&P 500 margins exhibit cyclicality, but not secular mean reversion. Assess normal EPS with rigorous fundamental analysis, be leery of simple shortcuts.

4. True EPS is usually between generally accepted accounting principles (GAAP) and non-GAAP measures. True earnings will equal FCF when no investment is made for growth. At steady-state, EPS = FCF/sh. = DPS. Prefer EPS yield over FCF yield, unless a difference other than investment recurs.

5. Equities are real assets. Long-term growth will equal inflation when EPS=DPS (dividend per share). A fair PE on normalized steady-state EPS = 1/ a fair long-term real stock return. If expected long-term real EPS growth + dividend yield = fair real cost of equity (CoE), then a steady-state exists. EPS & DPS yields are real; compare to real interest rates.

6. A secular decline in yields is good for stocks, but a cyclical decline is bad. It can take hindsight to differentiate. Fed influence is secular like, if ahead-of-the-curve.

7. Risk is an outcome different than expected. Uncertainty (vol) is a very uncertain variable. Mean reversion is a fair assumption.

8. Only economic profit growth justifies a PE greater than 1/real CoE. Consider long-term growth potential along with the investments required to support it.

9. GDP growth affects the fair PE only to the extent that it affects the ability of a company to earn returns above its cost of capital. Slow GDP growth often best.

10. Value investors seek stocks with normalized earnings greater than market expectations. Growth investors seek stocks with economic profit growth potential greater than market expectations. No rule against seeking both.

11. The market has predicted 9 of the last 5 recessions. Avoid panic selling. It usually takes a recession to stop a bull market (exceptions: 1966, 1987, 1998).

12. Natural disasters are less market damaging than manmade disasters. U.S. military strike preparations can pressure stocks, but typically rally on military action.

13. Investor panic subsides when policy setter panic begins. Respect the Fed's firepower, but its arsenal will be exhausted if inflation (Unit labor costs, or ULCs) is a problem.

14. Flows follow returns, not vice versa, so stay return focused and don't follow.

15. Lack of patience is the market's most reliable inefficiency.

16. Seek truth with scientific method: Theory first, then observation and experience.

17. Trends will continue until they don't. Valuation doesn't matter until it does.

18. Confront market/sector PE extremes vs. historical averages, but respect industry/stock PE extremes.

19. The market is an imperfect price mechanism, but superior to all others. Those who improve its function earn gains slowly, those who don't can lose suddenly.

20. Diversification comes from the correlation of stocks, not the number of stocks. Don't substitute diversification for diligence.

DWS INVESTMENT GMBH STRATEGIC CIO FORECASTS

Capital market yields (sovereign bonds)	Current level Nov 30, 2023*	Strategic Forecast Dec 2024	Expected Total Return
United States (2-year)	4.68%	3.95%	5.03%
United States (10-year)	4.33%	4.20%	5.78%
United States (30-year)	4.49%	4.45%	5.32%
Municipals**	2.02%	2.25%	7.59%
Securitized / MBS**	178 bp	120 bp	5.65%
Germany (2-year)	2.82%	2.50%	2.60%
Germany (10-year)	2.45%	2.70%	1.49%
Germany (30-year)	2.69%	3.00%	-3.10%
Italy (10-year)	178 bp	220 bp	0.37%
Spain (10-year)	102.4 bp	100 bp	2.74%
United Kingdom (10-year)	4.18%	4.20%	4.79%
Japan (2-year)	0.03%	0.35%	-0.18%
Japan (10-year)	0.67%	1.15%	-2.64%
Currencies			
EUR vs USD	1.09	1.10	-0.55%
USD vs JPY	148	146	3.56%
EUR vs JPY	161	161	3.24%
EUR vs GBP	0.86	0.87	-0.79%
GBP vs USD	1.26	1.27	0.68%
USD vs CNY	7.14	7.35	5.69%
Spreads (corporate & EM bonds) in bps***			
EUR IG Corp	153	110 bp	5.98%
EUR HY	478	450 bp	6.92%
US IG Corp	97	105 bp	6.11%
US HY	370	450 bp	5.54%
Asia Credit	268	280 bp	8.66%
EM Credit	327	325 bp	9.24%
EM Sovereign	405	440 bp	6.09%

Equity markets (index value in points)	Current level Nov 30, 2023*	Strategic Forecast Dec 2024	Expected Total Return
United States (S&P 500)	4,568	4,700	4.59%
Germany (DAX)***	16,215	16,600	2.37%
Eurozone (Eurostoxx 50)	4,382	4,400	4.10%
Europe (Stoxx 600)	462	465	4.43%
Japan (MSCI Japan)	1,457	1,520	6.64%
Switzerland (SMI)	10,854	10,700	1.88%
United Kingdom (FTSE 100)	7,454	7,400	3.78%
Emerging Markets (MSCI EM)	987	1,010	5.12%
Asia ex Japan (MSCI AC Asia ex Japan)	621	640	5.70%
Australia (MSCI Australia)	1,418	1,400	3.16%
Benchmark rates in percent			
United States (federal funds rate)***	5.25-5.50	4.50-4.75	-
Eurozone (deposit rate)	4.00	3.25	-
United Kingdom (repo rate)	5.25	4.75	-
Japan (policy rate)	-0.10	0.25	-
Commodities in U.S. dollars			
Gold (Spot price)	2,037	2,250	
Gold (Future price)	2,149	2,250	4.68%
Crude Oil (Brent Spot price)	83	88	
Crude Oil (Brent Future price)	78	88	13.11%
Real Estate / Infrastructure			
Listed US RE			5.00%
Non-Listed US RE			0.00%
Listed Global RE			4.50%
Non-Listed Global RE			4.00%
Listed Infrastructure			5.00%
Non-Listed Infrastructure			10.80%

DWS INVESTMENT GMBH GLOBAL MACRO FORECASTS

GDP Growth Rate

% year-on-year

	2022	2023F	2024F	Consensus 2023 (BBG)
World	3.5	3.0 (2.9)	2.8 (2.7)	2.6 (2.1)
U.S.*	2.1	2.3 (2.0)	0.8 (0.4)	2.2 (1.6)
EUZ	3.4	0.7 (0.8)	0.7 (0.9)	0.6
GER	1.9	-0.1 (0.0)	0.9 (1.0)	-0.3 (0.0)
UK	4.1	0.5 (0.3)	0.6 (0.7)	0.3 (-0.2)
Japan	1.0	2.1 (2.1)	1.0 (1.1)	1.3 (1.0)
China	3.0	5.2 (4.8)	4.7 (4.5)	5.2 (5.6)

Inflation (CPI)

% year-on-year average

	2022	2023F	2024F	Consensus 2023 (BBG)
World				5.5 (5.3)
U.S.**	8.0	4.2 (4.1)	2.8 (2.6)	4.2 (4.1)
EUZ	8.4	5.7	2.9 (2.5)	5.5
GER	8.6	6.0	3.2	6.0 (6.2)
UK	9.1	7.3 (7.4)	2.8 (2.6)	7.5 (6.6)
Japan	2.5	3.2 (2.9)	2.3 (1.9)	2.9
China	2.0	0.5	1.8 (2.0)	0.8 (2.1)

Unemployment Rate (Annual average)

%

	2022	2023F	2024F	Consensus 2023 (BBG)
U.S.	3.5	3.9	4.3	3.7
EUZ	6.7	6.5 (6.6)	6.5 (6.7)	6.6 (6.9)
GER	5.3	5.7 (5.6)	5.7 (5.3)	5.6
UK	3.7	4.2 (4.0)	4.5 (4.5)	4.1 (4.2)
Japan	2.6	2.6 (2.5)	2.4 (2.4)	2.5
China***	5.5	5.0 (5.3)	5.0 (5.1)	5.2 (4.1)

Fiscal Balance

% of GDP

	2022	2023F	2024F	Consensus 2023 (BBG)
U.S.	-5.4	-6.0 (-5.6)	-6.0 (-5.6)	-6.1 (-5.7)
EUZ	-3.6	-2.9 (-3.2)	-2.7	-3.4 (-3.6)
GER	-2.6	-1.9 (-1.2)	-1.2	-2.3 (-2.8)
UK	-6.3	-5.2 (-5.8)	-4.5 (-5.3)	-5.2 (-5.3)
Japan	-7.8	-6.0 (-6.0)	-4.5 (-4.5)	-5.5
China****	-7.5	-7.4 (-6.9)	-7.2 (-6.4)	-5.5 (-5.0)

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