

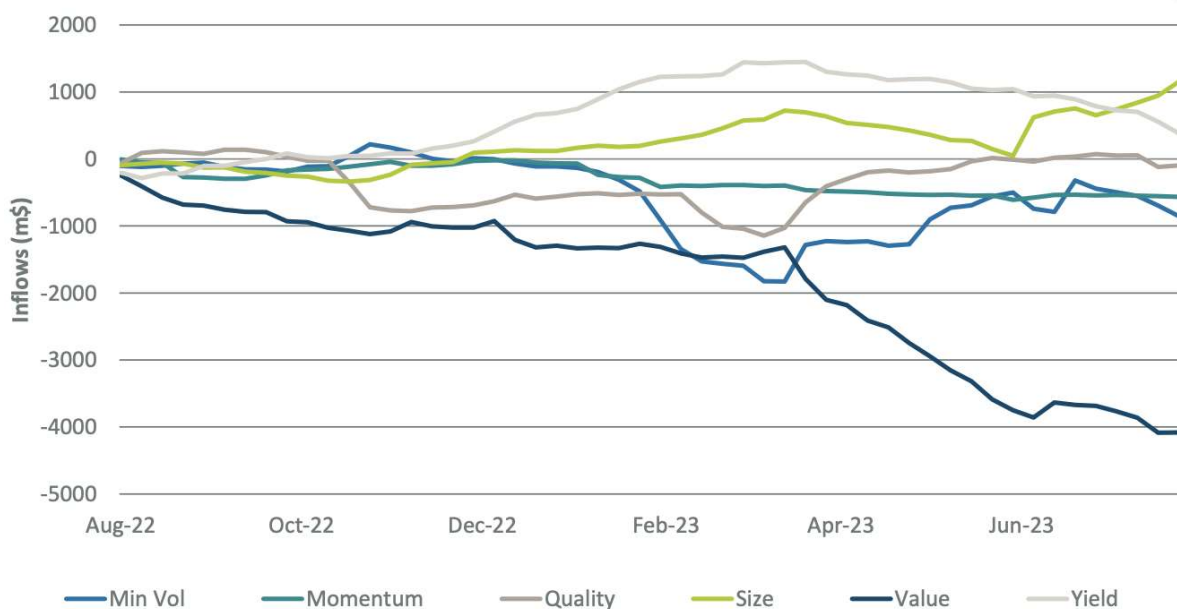


/ IN A NUTSHELL

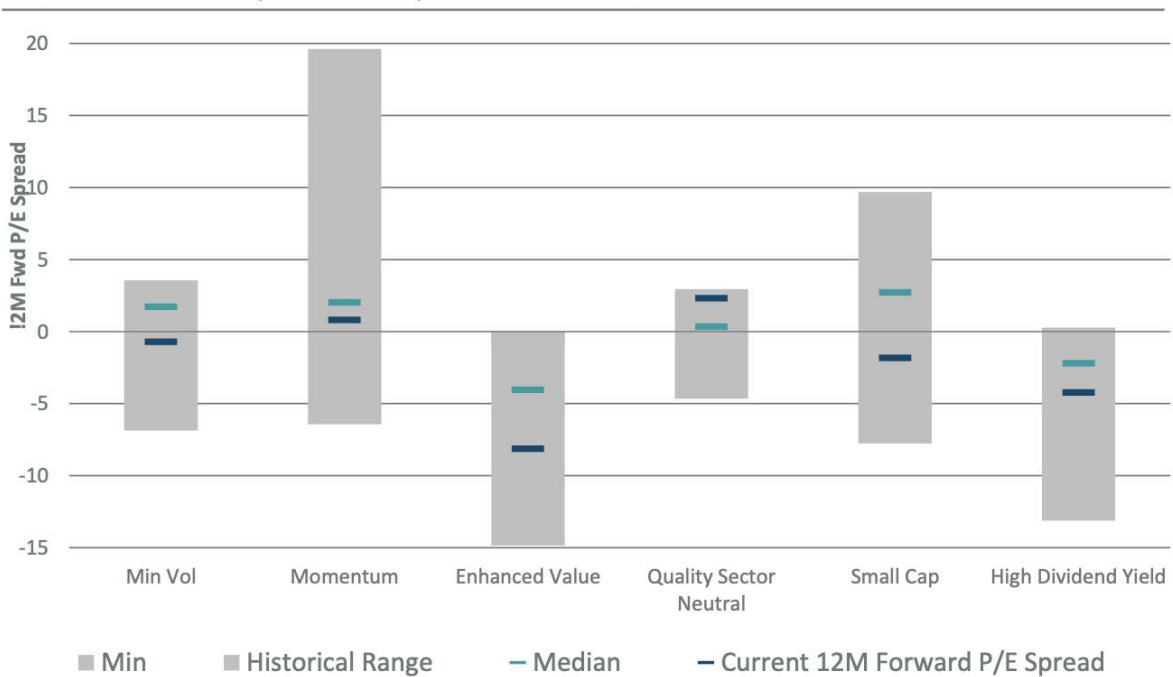
- Following up on our [S&P 500 equal weight case](#) from July (significant **index concentration**, very **narrow** mega cap tech **leadership**, **value** and size **underperformance & -valuation YTD**), we decided to expand on this and include **global implementation and diversification alternatives via equity factors**.
- A **higher conviction** or regionally more diversified way to play a **potential “value” turnaround** could be through a direct allocation to the MSCI World Value (ESG) Factor.
- **For global investors** worried that the current macroeconomic outlook is “too good to be true”, a more defensive allocation to more resilient, higher quality companies through a **value and quality barbell strategy** may be worth considering, while still **enhancing diversification** benefits.

Unloved & underowned: value is trading at a clear discount relative to MSCI World Index

Flows into Single Factor UCITS ETFs - last 12 months



12M Forward P/E (Consensus) relative to MSCI World



Source: DWS Investment GmbH, as of August 2023. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

Register for our deep-dive Webinar with MSCI Inc. **“Positioning with Factors – Value and Quality Barbell”** on [September 27 at 9:00am](#) or [September 27 at 4:00pm](#).

/ WHY NOW?

The investment rationale

Walking on a tightrope: go cyclical or stay defensive? Why not do both!

- **VALUATION:** Growth was a strong performer over the last months, outperforming the MSCI World by ~10% while Value underperformed by ~10% YTD. Growth is trading at a 27x P/E with a FCF yield of 3%, while Value is trading at **12x P/E with a 6% FCF yield**, making it **quite attractive** from a valuation perspective¹. We believe value **outperformance could resume in H2 2023**.
- Quality’s valuation is on the expensive side due to its high weighting in tech stocks (32%), which tend to have higher ROE values, but the **Quality factor tends to be defensive**, generating **strong outperformance** during periods **when the market volatility spikes**².
- With economic uncertainty still elevated and sentiment indicators such as the VIX and AAIJ bear-bull indicator at rather **complacent levels**, **negative surprises could lead to some short-term volatility**.
- Therefore, our DWS experts currently favor a **barbell strategy of value and quality**, (and **maintain the equal weight preference** after the very narrow US mega cap tech growth rally YTD), which offers **good diversification** in uncertain times.

Note: Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Past performance is not indicative of future returns.

¹ Source: DWS Investment GmbH, Bloomberg, as of August 2023.

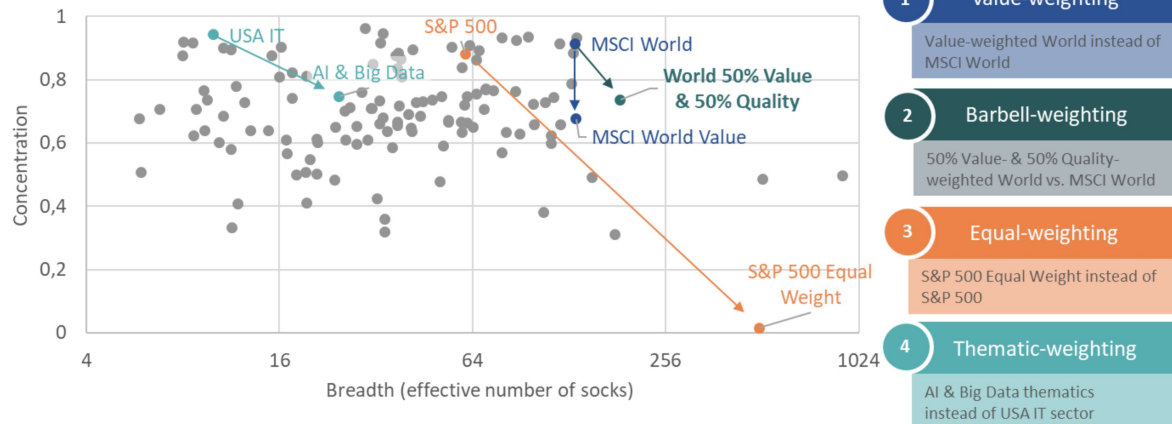
² Source MSCI Inc., as of June 30, 2023.

How to manage index concentration?

- While equal weighting remains a very effective route to manage index concentration, diversification through a combination of factors such as Quality and Value can help to diversify global portfolios, broaden exposures, and potentially level a portfolio's performance.
- It also allows for more granular exposure to single risk factors as dispersion rises.

Assessing differences in index concentration

Based on indices tracked by Xtrackers Equity UCITS ETFs



For illustrative purposes only. Source: DWS Investment GmbH, as of July 2023.

The investment case for S&P 500 Equal Weight remains compelling

The relative performance of the S&P 500 Equal Weight versus the S&P 500 Index has recently moved sideways, despite a significant spike in real yields, which typically tends to be negative for tech stocks³. Is it finally time for a reversal?

³ Source: DWS Investment GmbH, Bloomberg, as of August 2023.

€2.3 bn. in recent inflows into Xtrackers S&P 500 Equal Weight ETFs growing the AUM to €5 bn. and with the ESG strategy gaining notable traction

Weekly aggregated net fund flows for Xtrackers S&P 500 Equal Weight & ESG Equal Weight (in m. €)



Fund Name	ISIN	Flows 3M in m. €	AUM in m. €
Xtrackers S&P 500 Equal Weight UCITS ETF	IE00BLNMYC90	1,905	4,532
Xtrackers S&P 500 Equal Weight ESG UCITS ETF	IE0004MFRED4	444	477
			5,009

Source: DWS Investment GmbH, as of 31. August 2023. Past performance is not indicative of future returns.

A balancing act: factoring in the very attractive valuation of the pro-cyclical Value factor while having a potential buffer for short-term volatility spikes through a Quality factor allocation could allow for a winning and diversified combination in an uncertain macroeconomic phase.

/ HOW TO PLAY IT?

Efficient, cheap, diversified, and liquid access to a full factor product suite:

Non-ESG and (brandnew!) ESG exposure available

	Ticker	Fund Name	ISIN	AUM in m. €
	XDEV	Xtrackers MSCI World Value UCITS ETF	IE00BL25JM42	1,270
	D5BL	Xtrackers MSCI Europe Value UCITS ETF	LU0486851024	53
	XDEQ	Xtrackers MSCI World Quality UCITS ETF	IE00BL25JL35	959
	XDEM	Xtrackers MSCI World Momentum UCITS ETF	IE00BL25JP72	763
	XDEB	Xtrackers MSCI World Minimum Volatility UCITS ETF	IE00BL25JN58	398
	XMVU	Xtrackers MSCI USA Minimum Volatility UCITS ETF	IE00BDB7J586	4
New	XWEV	Xtrackers MSCI World Value ESG UCITS ETF	IE000LAUZQT6	5

	Ticker	Fund Name	ISIN	AUM in m. €
New	XWEQ	Xtrackers MSCI World Quality ESG UCITS ETF	IE0003NQ0IY5	13
New	XWEM	Xtrackers MSCI World Momentum ESG UCITS ETF	IE000TL3PL69	14
New	XWEB	Xtrackers MSCI World Minimum Volatility ESG UCITS ETF	IE0008YN0OY8	8
				3,487

Source: DWS Investment GmbH, as of: 15.06.2023

To review the S&P 500 Equal-Weight & Equal-Weight ESG investment case in more depth, [watch the replay](#) of our recent joint webinar with S&P Dow Jones Indices.

Kind regards



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Key Risks for Xtrackers Factor UCITS ETF/EUR Hedged/ ESG

- The value of your investment may go down as well as up and past performance does not predict future returns. Investor capital may be at risk up to a total loss.

- The Fund is exposed to the currency markets which may be highly volatile. Large price swings can occur in such markets within very short periods and may result in your investment suffering a loss.
- The value of an investment in shares will depend on a number of factors including, but not limited to, market and economic conditions, sector, geographical region and political events.
- The Fund follows a rules-based strategy which will deviate from the overall market or parent index. Your investment is likely to be less diversified and there is no guarantee that the index's 'rules-based' strategy will be achieved.

Key Risks for Xtrackers S&P 500 Equal Weight UCITS ETF/EUR Hedged/ ESG

- The value of your investment may go down as well as up and past performance does not predict future returns. Investor capital may be at risk up to a total loss.
- The value of an investment in shares will depend on a number of factors including, but not limited to, market and economic conditions, sector, geographical region and political events.
- The Fund is exposed to market movements in a single country or region which may be adversely affected by political or economic developments, government action or natural events that do not affect a fund investing in broader markets.
- The Fund will use financial contracts (known as derivatives) to try to reduce the effect of currency fluctuations between the currency of its assets and the currency of the shares. This may not be effective and may prevent the Fund from benefitting from an increase in value of (or expose a Fund to the decrease in value of) a particular currency.
- The Fund follows a rules-based strategy which will deviate from the overall market or parent index. Your investment is likely to be less diversified and there is no guarantee that the index's 'rules-based' strategy will be achieved.

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