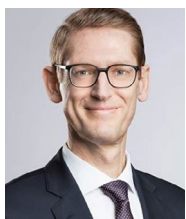




JULY 2025

DAX rally: how much potential remains?

One year ago, at the end of June 2024, the DAX stood at around 18,235 points. Since then, Germany's leading index has performed remarkably well, reaching a new record high of just under 24,500 points in May – a growth of over 34% within 12 months. The German stock market stands out clearly in a European context. Compared to other leading European indices such as the MSCI Europe, the Swiss SMI or the British FTSE 100, each of which recorded single-digit growth, the DAX has more than doubled in value over the past 12 months.



Thomas Grillenberger
Deputy CIO
Customized Equities

However, following this strong performance, there are increasing concerns that the market may be overheating. Despite the strong price gains last year, we believe that several factors argue against the DAX overheating. One key point is the international orientation of DAX companies – on average, only around 20% of their sales come from the German market. The price performance therefore reflects not only the domestic economy, but also robust demand in important export markets such as the US and Asia. Outside of the shadow cast by US tariffs, these markets are also providing positive impetus. For example, a large-scale economic stimulus programme in China, involving investments in infrastructure and measures to boost domestic demand, has improved export opportunities for German companies, particularly in sectors such as mechanical engineering and the chemical industry, which are both heavily dependent on the Chinese market.



Europe is also undergoing a period of profound transformation. The EU is investing heavily in defence and infrastructure, and Germany has also moved away from its traditionally restrictive fiscal policy. With a credit-financed investment programme of €500 billion over 12 years in infrastructure and climate neutrality alone, the German government aims to strengthen long-term competitiveness. This is one of the largest investment packages in the history of the Federal Republic, covering roads and bridges as well as railways, digitalisation, education and energy infrastructure, among other things. These infrastructure measures alone could increase gross domestic product by over 11% over the next 12 years. The programme is supplemented by additional defence spending, which could open up further growth potential of 9% over ten years.

These programmes not only stimulate demand in the short term, but also have a long-term positive effect on production potential thanks to their multiplier effect. In a globally uncertain environment, they can act as a stabilizer.

In addition, numerous DAX companies are benefiting from structural growth. Corporations such as SAP, Siemens, Deutsche Telekom and Merck are active in promising areas such as digitalisation, automation, biotechnology and cloud infrastructure. Airbus, Porsche and Mercedes-Benz are also driving forward the transformation in aviation and electromobility with investments running into the billions. Siemens Healthineers is strengthening healthcare with innovative medical technology, while Allianz and Munich Re are setting new standards in the financial sector with digital solutions. This broad positioning in key

technologies strengthens the fundamental substance of the DAX and also justifies the increased valuations in part. Despite the strong price performance, these valuations still appear reasonable, supported by significantly rising earnings expectations for 2025, which, according to market consensus, are expected to reach record levels. Even by European standards, absolute valuations remain moderate, which opens up attractive entry opportunities, particularly in cyclical sectors such as industry, energy and basic materials.

The macroeconomic environment does not currently indicate overheating either. Although the US Federal Reserve has not yet cut interest rates, it has signaled two cuts for the current year, pointing to cautious monetary easing. Since summer 2024, the European Central Bank has responded to declining inflation and moderate growth in the eurozone with a series of interest rate cuts. This monetary policy reorientation creates a supportive environment for investment and signals a more growth-friendly stance on the part of the monetary authorities.

At the same time, the German government is providing targeted stimulus to promote growth and competitiveness among German companies with its new immediate investment tax programme. The so-called growth booster package includes, among other things, declining balance depreciation of 30% per year for movable assets from 1 July 2025 to the end of 2027. This provides a strong incentive for companies to bring forward investments. In addition, a gradual reduction in corporate income tax from the current 15% to 10% is planned from 2028 onwards to strengthen long-term international competitiveness. The package is supplemented by tax incentives to promote electromobility and research.

These measures will have a stabilising effect and contrast with classic overheating scenarios, in which restrictive monetary policy dominates. Instead, current policy focuses on investment incentives, planning security and innovation promotion; a clear course towards sustainable economic recovery.

However, the geopolitical environment remains a significant source of uncertainty for economic development. Geopolitical tensions, particularly in the Middle East, harbour the risk of rising energy prices and potential supply bottlenecks, which could weigh on German industry and weaken the impact of economic policy stimuli.

DAX RALLY: HOW MUCH POTENTIAL REMAINS?

The German stock market is currently in robust shape. It is benefiting from a favourable combination of monetary policy support, targeted fiscal stimulus and a sustained inflow of international capital. Despite the price gains already achieved and the existing geopolitical risks, the positive conditions currently outweigh the negative ones. If the economic environment continues to stabilise and geopolitical tensions do not escalate again, there is a good chance that the DAX will be able to continue its upward trend. The coming months could therefore also bring new impetus for further growth.



¹ Bloomberg, as at 27 May 2025

² Deutsche Bank Research/Bloomberg, December 2023 (based on estimates by DB corporate analysts and not necessarily based on published company data)

³ Press and Information Office of the Federal Government, 24 June 2025

⁴ UBS, as at May 2025

⁵ Refinitiv-Datastream, I/B/E/S, Commerzbank; as at 1 May 2025. 2024-2025 profit change rates rounded

⁶ Transcript of Chair Powell's Press Conference, 18 June 2025

⁷ Federal Ministry of Finance, 4 June 2025

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

This material has not been reviewed by any regulatory authorities. In mainland China, it is for Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations and is for information purpose only. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of this document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances arises from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced, except for the case of explicit permission by Allianz Global Investors. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional /professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors UK Limited, authorized and regulated by the Financial Conduct Authority; in HK, by Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; in Singapore, by Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; in Japan, by Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424], Member of Japan Investment Advisers Association, the Investment Trust Association, Japan and Type II Financial Instruments Firms Association; in Taiwan, by Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan; and in Indonesia, by PT. Allianz Global Investors Asset Management Indonesia licensed by Indonesia Financial Services Authority (OJK).