



Is the German stock market due for a correction?

The impressive DAX gains over the past two years are largely attributable to higher valuation metrics. This is because the profits of DAX companies have hardly risen at all, partly due to the weak economy in Germany. However, thanks to Germany's expansionary fiscal policy and the tailwind provided by lower interest rates from the ECB and the US Federal Reserve, DAX corporate profits are likely to pick up noticeably in the coming year. Investors should therefore hold on to their DAX positions and continue to expand them in the coming months during temporary DAX setbacks.

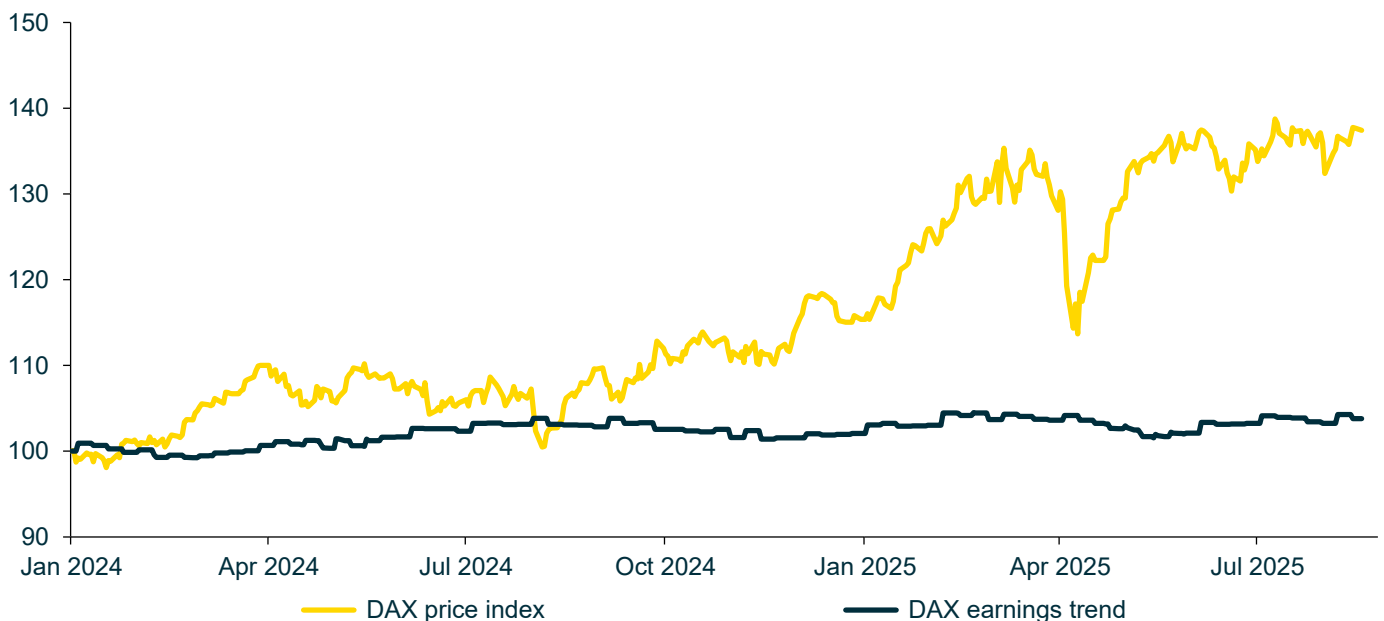
Andreas Hürkamp^{AC}, CEFA

DAX records despite stagnating profits

DAX investors have been enjoying impressive gains since the beginning of 2024. The DAX price index, which does not take into account annually distributed dividends, has risen by an impressive 37% since then. Analysts' expectations for DAX corporate earnings over the same period have hardly moved, rising by just 4% in a good year and a half (Chart 1).

Chart 1 - DAX index has risen by 37% since start of 2024, whereas DAX earnings trends has moved sideways

DAX: price index and earnings forecasts for DAX corporate profits (12-month forward), indexed

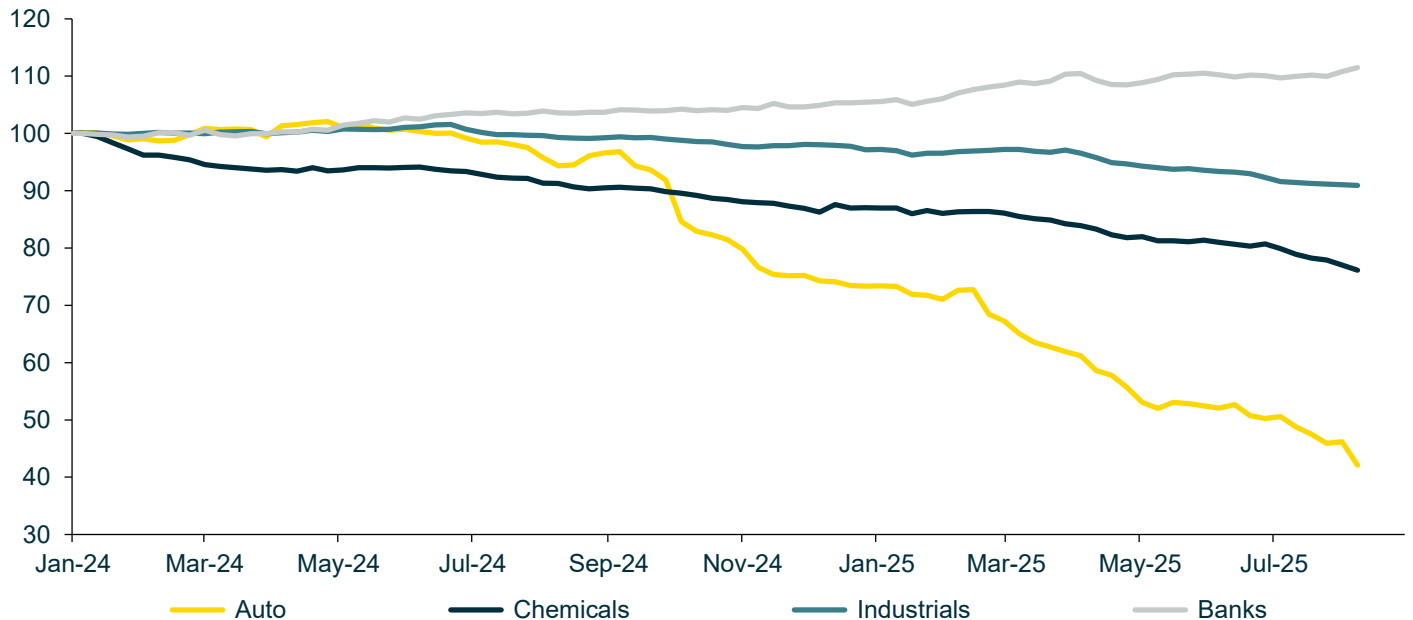


Source: LSEG Datastream consensus, Commerzbank Research

Analysts have revised their earnings forecasts sharply downward for several industries that play an important role in the German economy and thus also in the German stock market. For the automotive sector in Europe, for example, analysts have adjusted their 2025 earnings estimates downwards by 58% since the beginning of 2024, while earnings forecasts for the chemical sector have fallen by 24% and estimates for the industrial sector have also been revised downwards by 9%. There are currently only a few sectors in Germany and Europe such as the banking sector with a positive earnings revision momentum (Chart 2).

**Chart 2 - Earnings expectations for sectors auto, chemicals and industrials under pressure**

European Stoxx sectors: earnings expectations for FY2025, indexed, Jan 2024 = 100



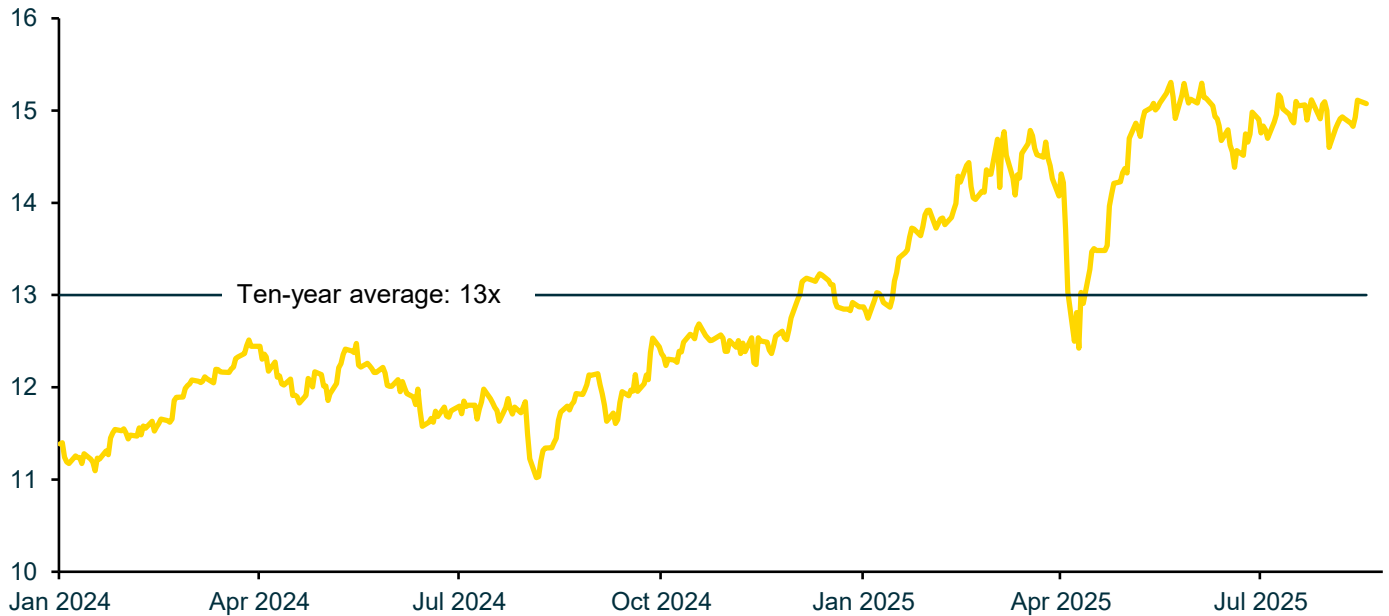
Source: LSEG Datastream consensus expectations, Commerzbank Research

DAX valuation at multi-year highs

As a result, the strong DAX performance since the beginning of 2024 is almost exclusively attributable to higher valuation metrics, and the DAX price-earnings ratio rose from 11x to 15x during this period. In 2024, the significant cuts in key interest rates by the European Central Bank and the US Federal Reserve caused the DAX P/E ratio to rise from 11x to 13x. And in the first half of this year, the change of government in Germany and the resulting powerful shift to a very expansionary fiscal policy brought the German stock market back onto the radar of international investors, pushing the P/E ratio up further from 13x to 15x (Chart 3). It is now well above the average of 13x for the past ten years.

**Chart 3 - DAX P/E has risen from 11x to 15x since the start of 2024**

DAX: P/E ratio (based on 12-month forward DAX earnings expectations)

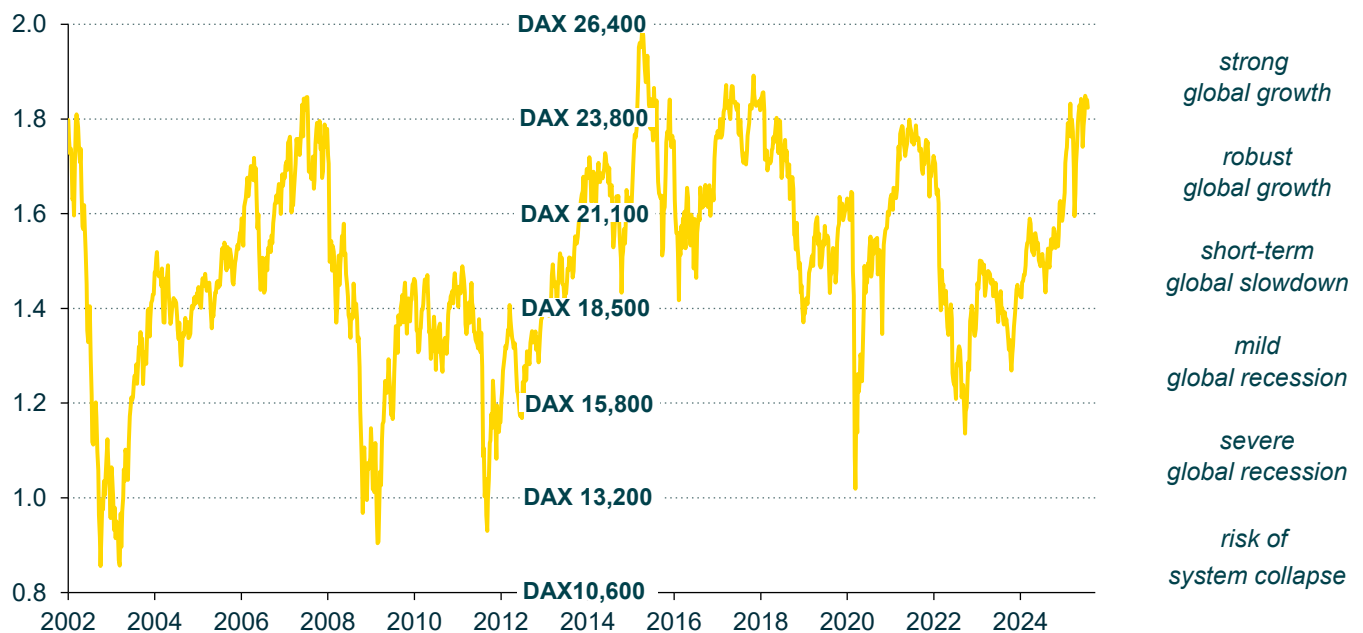


Source: LSEG Datastream consensus, Commerzbank Research

The DAX price-to-book ratio has also risen from 1.3x at the beginning of 2024 to 1.8x, reaching a level that has rarely been exceeded in the past twenty years (Chart 4).

Chart 4 - DAX price-to-book ratio has risen to 1.8x from 1.3x since the start of 2024

DAX price-to-book ratio (based on 12-month forward analyst consensus, currently 13.200 points)



Source: Factset market expectations, Commerzbank Research

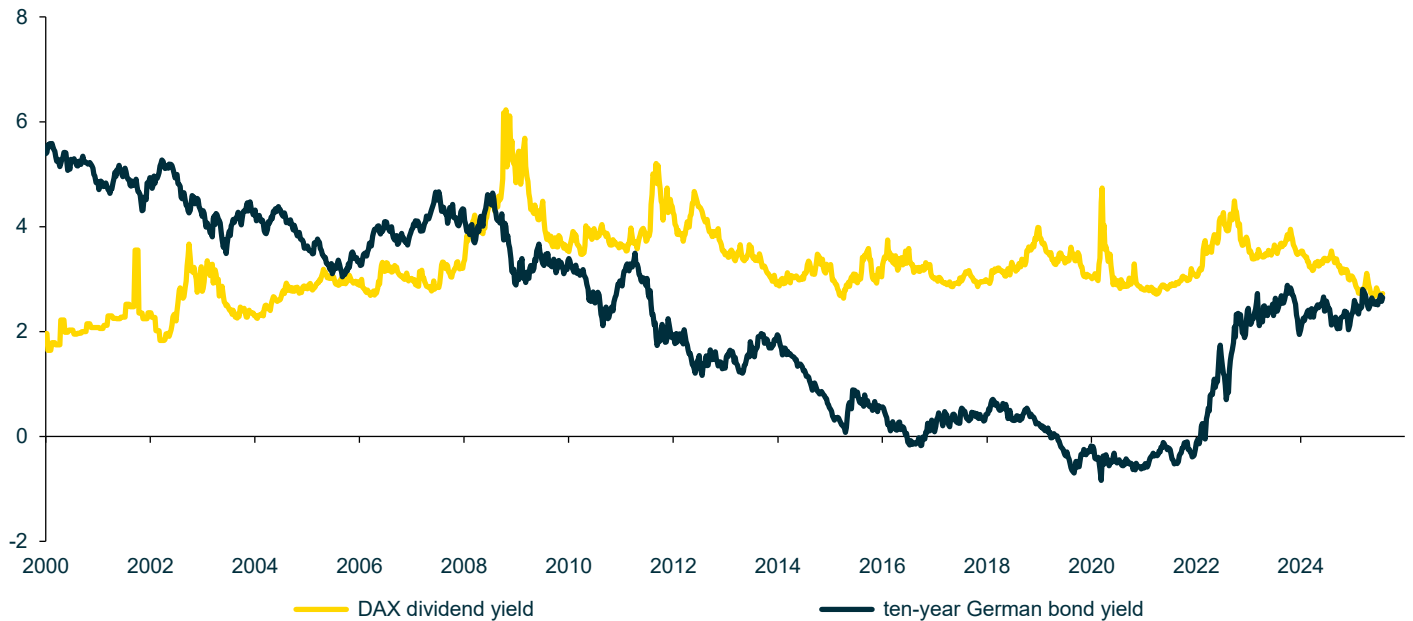
The total dividends paid out by DAX companies have stagnated at around EUR 52 billion since fiscal year 2022 and are unlikely to rise significantly in financial year 2025 – particularly due to further expected declines in dividends in the automotive sector. Therefore, the DAX dividend yield has fallen



from 3.5% to 2.7% since the beginning of 2024. The dividend yield is not only at a multi-year low, but also, for the first time since 2008, no longer offers a significant yield advantage over the yield on ten-year German government bonds (Chart 5).

Chart 5 - DAX dividend yield only as high as ten-year German bond yield

Expected DAX dividend yield and yield of ten-year German government bonds in %



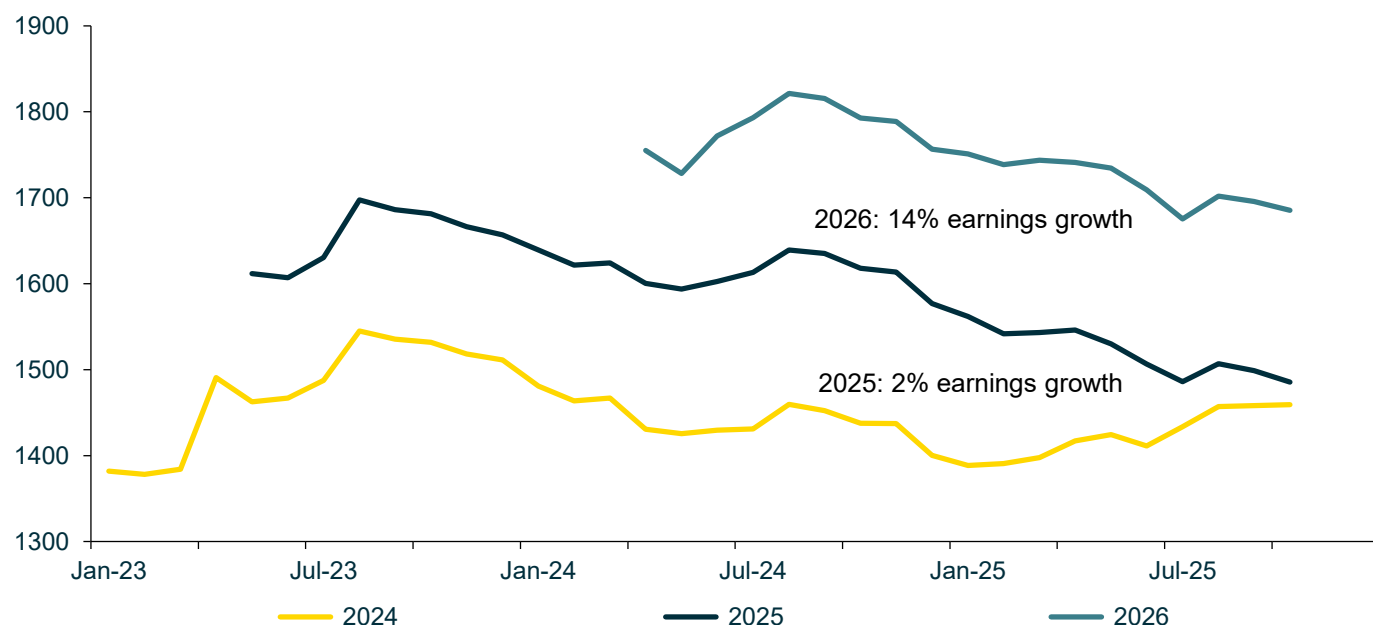
Source: Factset market expectations, Refinitiv Datastream, Commerzbank Research

Good reasons for rising DAX corporate profits in financial year 2026, ...

Given the already ambitious DAX valuation, the DAX index is likely to rise further in the coming quarters only if DAX fundamentals such as corporate profits, book values, and total dividends also improve. Company analysts are confident here and, following another disappointing fiscal year 2025 with largely stagnant profits, currently expect above-average earnings growth of 14% for the fiscal year 2026 (Figure 6).

**Chart 6 - Analysts forecast 14% DAX earnings growth for FY 2026**

DAX earnings expectations for the fiscal years 2024 to 2026 in indexpoints since the start of 2023



Source: LSEG Datastream market consensus, Commerzbank Research

In our opinion, there are good reasons to believe that DAX corporate earnings will finally pick up in the coming year:

- Even though virtually all DAX companies operate globally, they should benefit from the fact that their home market, Germany, is set to grow significantly for the first time in many years thanks to the ECB's interest rate cuts and, in particular, the German government's highly expansionary fiscal policy. We therefore expect German GDP growth of 1.4% in 2026, following a minimal growth of 0.2% this year (table at the end of the publication).
- In some eurozone countries, fiscal policy is likely to act as a brake. However, the economy should also benefit from the sharp drop in the ECB deposit rate from 4.0% to 2.0%.
- And despite the tariff dispute, we expect robust growth of 1.9% for 2026 for the US economy, which remains important for many DAX companies. US growth is supported by a further decline in the upper limit of the US key interest rate from 4.5% to 3.0% according to our forecasts.

In addition, a possible reconstruction in Ukraine following a peace agreement, which we hope will be concluded soon, could give DAX earnings some upside potential in 2026. Furthermore, it will be interesting to see whether DAX companies will be able in 2026 to integrate artificial intelligence tools into their business processes in such a way that they can work faster, more efficiently, and more profitably, as some analysts expect.

... but also some risk factors

However, there are also some risk factors in the DAX earnings outlook for the coming year. This applies in particular to the US export market. The dollar is likely to depreciate against the euro in the wake of the significant Fed rate cuts we expect. In our scenario, one euro is likely to be worth 1.25 dollar by the end of 2026. An even more pronounced weakening of the dollar, triggered in part by a loss of confidence in US politics as a result of a very high US budget deficit and concerns about the independence of the US Federal Reserve, would probably nip hopes of double-digit DAX earnings growth in the bud. The trade dispute with the US also threatens to cause DAX earnings headwinds if the currently agreed basic tariff of 15% on exports to the US remains in place. This could force some DAX companies to expand their production in the US, which in the beginning is likely to lead to higher costs in 2026.

It will also be important to see whether the rather drastic negative earnings revisions in the automotive and chemical sectors will soon come to an end due to the improved economic outlook for 2026. However, both sectors are likely to face ongoing competitive pressure in 2026, for example in the automotive sector from Chinese competitors in the market for electric cars. Given the risk factors mentioned above, analysts' expectations of 14% DAX earnings growth for 2026 are likely to be too ambitious, in our view, but we consider growth of 6% to 8% to be realistic.



Conclusion: Hold DAX positions and add to them during weaker market periods

The 37% rally in the DAX since the beginning of 2024 is fundamentally on shaky ground. This is because DAX corporate earnings and total DAX dividends have been stagnating for several years, much like the German economy. However, the eight key interest rate cuts by the ECB, the likely further key interest rate cuts by the US Federal Reserve and the significantly higher spending by the German government suggest that not only the German economy, but also the earnings of DAX companies will pick up noticeably in 2026. We therefore recommend investors to hold on to their DAX positions despite the high DAX valuation and possibly increase positions further during weaker market periods, for example triggered by the ongoing political uncertainty in the US.



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