Commentary

Q1 | 3.31.24

Share Class: A I KHYAX C I KHYCX S I KHYSX INST I KHYIX R6 I KHYQX

DWS High Income Fund

Executive summary

_ The ICE BofA U.S. High Yield Index—the fund's benchmark—returned 1.51% in the first quarter.
_ Class S shares of the fund gained 1.12% but underperformed the index.
_ The fund outpaced the average return for the funds in its Morningstar peer group, High Yield Bond, in the five- and 10-year periods that ended on March 31, 2024.[2]

Market review

_ High-yield bonds produced a gain in the first quarter, as investor sentiment remained upbeat due to relatively strong economic growth and continuing expectations that the U.S. Federal Reserve (Fed) will successfully execute a "soft landing" in the economy. However, there were periods of price volatility driven by increasing concerns that robust corporate earnings, healthy employment numbers, and sticky inflation would cause the Fed to delay its anticipated interest rate cuts until the second half of the year. The ICE BofA U.S. High Yield Index returned 0.02% in January, followed by gains of 0.30% and 1.19%, respectively, in February and March.

_ Longer-term U.S. Treasury yields moved higher, but the effect was largely offset by a decline in yield spreads in the high-yield market.[3] The ICE BofA US High Yield Master II Option-Adjusted Spread—which measures the difference between the yields of high-yield bonds and those of equivalent Treasuries—opened the year at 339 basis points (3.39 percentage points) and fell to 315 on March 31.[4] At this level, spreads are deep on the low end of the range of the past 15 years.

_ Lower-quality CCC rated issues provided the largest gain with a return of 3.31%. The outperformance for this segment reflects the "risk-on" sentiment that was in place for much of the quarter. B rated bonds returned 1.51%, while higher-quality BB issues gained 1.12%.[5]

_ The U.S. high-yield market experienced inflows of approximately $4.2 billion, a modest decline from the $5.9 billion of inflows in the fourth quarter of 2023. New-issue volume came in at $87.6 billion, up 118% versus the same period last year. The use of proceeds from new issuance remained strongly focused on refinancing existing debt, as issuers continued to access the market to alleviate refinancing risks associated with bonds that mature within the next two years.

_ The default rate based on the number of issuers increased slightly to 2.46%, up from 2.44% at the end of December and 1.76% at the end of the third quarter. Although the market remained largely open for refinancing, including to some lower-quality CCC issuers, highly leveraged or distressed issuers had only a limited ability to refinance. The constrained market access, combined with a lack of rate cuts and higher levels of floating-rate debt, contributed to the increase in the default rate.[6]

Performance review

_ Security selection contributed to the fund's first-quarter performance, while sector allocation detracted. With respect to the latter, overweights in the energy independent exploration & development and midstream energy sectors helped results. Conversely, an underweight in retail and an overweight in the cable & satellite sector detracted.

_ From a ratings perspective, an overweight in B rated securities contributed, as did selection in the category. A modest underweight and favorable selection in BBs also aided performance. The fund was hurt by an overweight in CCCs, as well an adverse effect from selection in this area.

Attribution analysis

_ At the individual security level, an overweight in the copper mining and production company First Quantum Minerals (0.5%) was a top contributor.[7 8] The bonds rallied after the company announced it had reached agreements to refinance some debt and sell select assets to strengthen its balance sheet. An overweight in the pharmaceutical manufacturer and distributor Teva Pharmaceuticals (0.8%) aided performance, as well. The bonds rose in price after the company reported strong financial results and favorable product development trends. Additionally, one of the ratings agencies boosted its outlook on Teva to positive. An overweight in TK Elevator (0.4%), a global elevator and escalator producer, was a further contributor. The company reported solid financial results with gains in its profitability and backlog. It also successfully refinanced its secured debt and extended its debt maturity profile out to 2030.

_ On the other hand, a position in Spirit Airlines (0.2%) detracted. The Justice Department blocked the company's merger with JetBlue, raising concerns about its viability and prompting us to sell the position. However, the securities subsequently recovered after Spirit reported better-than-expected financial results and management expressed confidence regarding the airline's ability to compete independently. Similarly, we sold the fund's position in Dish DBS (0%)* after the company announced a distressed debt exchange whose terms caused the price of its bonds to fall steeply. Following a concerted pushback from a group of lenders, the company backed away from the debt exchange and the price of the bonds recovered. A zero weighting in the online used car retailer Carvana, which strongly outperformed, was another detractor of note.

Portfolio positioning

_ While risks remain in place, particularly as it relates to geopolitical developments, we maintain a constructive view on the U.S. high-yield market and see continued opportunities for relatively attractive total returns at the individual security level. Yield spreads have moved to tight levels, but average prices remain favorable from a historical perspective. In this environment, we believe shorter-dated, higher-quality issues provide compelling absolute yields for the associated duration risk.[9] Consistent with this view, we have sought to swap out of longer-duration bonds into shorter-duration securities with similar yields.

_ Given that inflation remains sticky, we continue to prefer issuers with defensible market share that retain the ability to pass on price increases and defend cash flows and margins against higher labor and raw material costs. With the lingering threat of a slowing economy, we favor high-yield issuers with a demonstrated track record of successfully managing through recessionary conditions. Additionally, we seek to identify opportunities where increased merger and acquisition activity could benefit the credit metrics of acquiring and target companies. We continue to view credit analysis as critical for generating attractive total returns and balancing risk.

AVERAGE ANNUAL TOTAL RETURNS (as of 3/31/24 returns of less than one year are cumulative)

Share class	3-month	YTD	1-year	3-year	5-year	10-year	Since inception	Inception date	Gross/Net expenses
Class S	1.12%	1.12%	8.95%	2.19%	4.02%	4.02%	4.90%	5/1/12	0.79%/0.75%
Class INST	1.35%	1.35%	9.21%	2.29%	4.10%	4.10%	7.06%	8/19/02	0.74%/0.74%
Class A (Unadjusted)	1.29%	1.29%	8.96%	2.06%	3.81%	3.83%	8.06%	1/26/78	0.98%/0.98%
Class A (Adjusted)	-3.27%	-3.27%	4.06%	0.50%	2.86%	3.35%	7.95%	1/26/78	0.98%/0.98%
ICE BofA U.S. High Yield	1.51%	1.51%	11.06%	2.21%	4.01%	4.36%	n/a	n/a	n/a

Performance is historical and does not guarantee future results. Investment returns and principal fluctuate so your shares may be worth more or less when redeemed. Current performance may be lower or higher than the performance data quoted. Please visit www.dws.com for the fund's most recent month-end performance. Adjusted returns include the maximum sales charge of 4.50%. Unadjusted returns do not reflect sales charges and would have been lower if they did. Performance includes reinvestment of all distributions. Index returns do not reflect fees or expenses. It is not possible to invest directly in an index or category. Not all share classes are available to all investors. A minimum investment of $1 million is required to open an account for Institutional shares. Class S shares have a contractual waiver that runs through 01/31/2025. Without a waiver, returns would have been lower and any rankings/ratings might have been less favorable.

[1]ICE BofA U.S. High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the US domestic market.
[2]Morningstar High Yield Bond category portfolios concentrate on lower-quality bonds, which are riskier than those of higher-quality companies. These portfolios generally offer higher yields than other types of portfolios, but they are also more vulnerable to economic and credit risk. The average category returns in the one-, five-, and 10-year periods ended March 31, 2024 were 10.40%, 3.76%, and 3.60%, respectively.
[3]Yield spread refers to differences between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument.
[4]The ICE BofA Merrill Lynch US High Yield Option Adjusted Spread (OAS) calculates the spread between a computed OAS index of bonds that are below investment grade (those rated BB or below) and a spot Treasury curve.
[5]Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner. Rating agencies assign letter designations, such as AAA, AA and so forth. The lower the rating, the higher the probability of default. Credit quality does not remove market risk and is subject to change.
[6]A default occurs when an issuer fails to make an interest or principal payment on a bond. The default rate is the percentage of issuers that default in a given year.
[7]Overweight means a fund holds a higher weighting in a given sector or individual security compared with its benchmark index; underweight means a fund holds a lower weighting.
[8]Contribution and detraction incorporate both an investment's total return and its weighting in the fund.
[9]Duration measures the sensitivity of the price of a bond or bond fund to a change in interest rates.
*Held and sold prior to February 29, 2024

Percentages in parentheses represent percentages of the fund's market value as of 2/29/24. Securities referenced do not represent all of the securities purchased or sold by the fund, may or may not be profitable, and should not be construed as a recommendation of any specific security. Current and future portfolio holdings are subject to risk. The opinions and forecasts expressed herein by the fund managers do not necessarily reflect those of DWS, are as of 3/31/24 and may not come to pass.

Important risk information
War, terrorism, sanctions, economic uncertainty, trade disputes, public health crises and related geopolitical events have led and, in the future, may lead to significant disruptions in U.S. and world economies and markets, which may lead to increased market volatility and may have significant adverse effects on the fund and its investments.
Bond investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. Investing in foreign securities presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. The fund may lend securities to approved institutions. Please read the prospectus for details.

Obtain a prospectus
Consider the investment objective, risks, charges and expenses carefully before investing. For a summary prospectus, or prospectus that contains this and other information, download one from www.dws.com or talk to your financial representative. Read the prospectus carefully before investing.

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DWS Distributors, Inc.
222 South Riverside Plaza Chicago, IL 60606-5808
www.dws.com service@dws.com Tel (800) 621-1148