Q1 2023 OUTLOOK SUMMARY

SEIZING OPPORTUNITY IN AN UNCERTAIN ENVIRONMENT

Investors were dealt a heavy dose of market volatility in 2022 as multiple shocks — a persistent rise in inflation, aggressive policy tightening by major central banks and Russia's invasion of Ukraine, to name a few — collectively delivered a broadside against financial markets. Both stocks and bonds recorded significant declines on the year, leaving investors few places to hide. While the fourth quarter brought some reprieve for equities, the outlook for the start of 2023 remains uncertain. Fears of a recession are now in focus, as elevated inflation and higher interest rates increase the risk of economic downturns across the globe.

Looking beyond this uncertainty, long-term investors can find new possibilities that emerge out of market volatility. PGIM brings the following perspectives from its affiliates to examine the opportunities and challenges present across asset classes.

PGIM Fixed Income

Signs of moderating global inflation are clearly positive. Yet, developed market central banks will likely continue tightening policy given the potential damage from lingering, elevated price increases. Hence, a global economic moderation/recession — rather than inflation — stands as one of the pre-eminent negative risks in early 2023. Markets see a path lined by further easing in inflation and benign economic conditions as they continue to price in rate cuts later this year. The markets' opposition to the central banks is a dangerous game that will contribute to periods of heightened volatility, regardless of which player blinks first. While 2023's potential outcomes remain expansive, the opportunity to secure yield is readily apparent after last year's repricing in interest rates and credit spreads. The breadth of potential outcomes will also generate greater dispersion in corporate results, credit spreads, and alpha relative to beta. Thus, accurate sector rotation, bottom-up credit research, and relative-value assessment should outperform indiscriminate market exposure given the volatility to come. Moreover, investing across regions with different fundamental profiles brings opportunities in varying asset classes.

Jennison Associates

Persistent high inflation, resulting from the accommodative policies of the pandemic, has brought about a sharp reversal in monetary policy globally and an unusually abrupt tightening of financial conditions. In response, growth equities have gone through a grinding period of adjustment over the past 15 months. The starting point for the correction also coincided with high levels of absolute and relative valuations for growth stocks, resulting in significant underperformance. In the short term, we expect that fewer companies will generate earnings growth. We believe profit resiliency is likely to be as much a proxy for outperformance as expected growth under current conditions. We expect greater clarity around the path of inflation, growth, and interest rates to emerge in the first half of 2023, accompanied by a bottoming in earnings expectations and sentiment. Our positive multi-year view on our holdings incorporates the challenges that may continue to pressure the market in the short term.

PGIM Quantitative Solutions

The global economic outlook for 2023 is extremely uncertain with a range of possible outcomes and a high risk of downturns across much of the developed world. With considerable risk of a global economic downturn and increased prospects that central banks could make policy mistakes in their attempts to tame inflation, the earnings landscape looks poised to change for the worse in 2023. The short-term outlook for commodities is challenged in the face of recession risk but still very positive on a multi-year horizon given the strong demand outlook combined with constrained supply. Given the carnage bonds experienced in 2022, yields (and potential returns) on major bond indexes look more attractive than they have in some time. Recession risk and the end of central bank tightening in 2023 should exert less upward pressure on yields. This could result in fixed income outperforming equities in 2023, especially on a risk-adjusted basis.

PGIM Real Estate

Looking at the US, debt returns are already attractive in today's market. As the year progresses, expect more opportunities to invest at lower prices and to develop in a less competitive construction environment. In Europe, near-term opportunities will be driven by the repricing and a push toward ESG-compliant assets. The initial focus will be on securing attractive cashflow-driven returns in sectors with a resilient underlying demand story, notably in logistics, apartments and other living sectors. The Asia Pacific region offers a diverse set of investment opportunities, ranging from cyclically attractive reentry prices to structurally resilient demand growth.

THE PURSUIT OF OUTPERFORMANCE