PGIM

Q3 2021 OUTLOOKS

THE FRAGILE, TWO-SPEED ECONOMIC RECOVERY

In many ways, the speed of the global economic recovery is as breathtaking as the downturn. It's a pace that has already led to an array of divergences; while advanced economies are growing rapidly and are poised to recover pre-COVID-19 levels of economic activity this year, emerging economies (excluding China) are generally lagging, and many of the world's poorest economies are being left behind. Meanwhile, the debate surrounding the shelf life of inflation continues to rage.

Where do we go from here? What follows are some diverse perspectives from across PGIM's autonomous asset management businesses, offering investors guidance on how to navigate the opportunities while keeping an eye on the risks (click on the links to read our full outlooks).

- **Whither inflation?:** The cresting of rates in the second quarter is mostly the result of markets curbing their long-term expectations for growth and inflation. While both may remain elevated over the next few quarters, over the long haul, secular fundamentals such as aging demographics and burgeoning debt loads seem destined to bring back the moderate growth and below-target inflation seen prior to COVID. Despite the fear of tapering and a steeper, faster track to a higher fed funds rate, long rates continued to decline, as investors assumed a more hawkish Fed will simply mean a lower path for rates in the long run. A firmer economic outlook, perhaps ironically, also gives the Fed and other central banks more freedom to control inflation.

- **The ongoing reopening play:** We remain positive on risky asset classes and continue to overweight stocks and commodities relative to cash. Our pro-risk view is driven by the continued strong economic and earnings recovery after the pandemic, the accommodative stance of global central banks, and widespread fiscal support, which has left consumers with excess savings at a time of significant pent-up demand from a year of COVID-19 restrictions. We expect upside growth and inflation surprises could continue through the summer months as we reach peak reopening.

- **Repositioning for a real estate recovery:** As investors once again start to deploy capital and look for opportunities in real estate, the divergent performance of various parts of the global real estate market means that an almost full cycle's worth of opportunities is in play at the same time. For core, stabilized assets, the long-term-returns outlook is weaker than it was in the past cycle, although an anticipated recovery in employment and an ongoing low-supply environment provide support for occupancy and rents. For higher-risk equity and debt strategies, there are reasons to be optimistic about the potential to generate revenue and grow values as occupier markets recover, and by expanding to look at modernization of assets, investment in operating platforms and rotation toward green strategies.

- **Focusing on durable opportunities:** Investors spent much of the first half attempting to bisect the equity landscape along themes of growth versus value and economic reopening versus remote work. However, stock price fluctuations over the past two quarters suggest this is a simplistic approach to forecasting the course of equity markets. Corporate profit growth and economic recovery have been constant factors throughout the year, despite changing expectations about their rates of improvement. We continue to focus on companies with secular growth opportunities that we expect will extend well beyond the pandemic. These durable opportunities have been a source of strong growth this year and are poised to offer improving rates of relative growth as the effects of fiscal and monetary stimulus diminish through the back half of 2021 and into 2022.

THE PURSUIT OF OUTPERFORMANCE