Q3 2024 OUTLOOK SUMMARY

OPPORTUNITIES AND RISKS WITH THE WORLD AT A CROSSROAD

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The global economy has continued its momentum, retaining a level of resilience that has withstood a flurry of challenges ranging from tighter monetary policy and borrowing conditions to a rise in geopolitical tensions. The US has powered global growth amid divergent results around the world, and with inflation cooling, central banks have either cut interest rates or signaled their intention to loosen policy. Still, policymakers at the Federal Reserve and elsewhere remain wary of risks to the outlook. Elections in the US, UK, European Union, India and France could set the stage for new policy paths in major economies. Meanwhile, elevated rates and forecasts for slower growth have brought renewed attention to budget deficits and potential fiscal risks.

With the macro and policy outlook seemingly at a crossroad, it will be crucial for long-term investors to remain agile to both measure risk and capture opportunities as they emerge. PGIM brings together the following perspectives from its affiliates to help investors navigate a complex environment and capture a diverse set of opportunities across a range of asset classes, sectors and regions.

PGIM Fixed Income

Global political developments not only add to future uncertainty, but they also threaten to increase the fiscal risks already prevalent in the post-COVID environment. And elevated interest rates only aggravate the fiscal arithmetic. As a result, sovereign yield curves for countries with high debt burdens and large deficits may be intermittently subject to upward pressure on long rates. One aspect of the global economy's emergence from the post-COVID boil is the return of some "traditional" market constructs—inflation that is approaching targets, interest rates that are sitting near more historically normal levels, and newfound room for central banks to ease policy. The forces behind these constructs bolster our "moderation" base case for the global economy over the coming 12 months. Our ongoing expectation for rangebound rates is a key component of the strategic, asset-allocation case for bonds. Indeed, the relative-value shift over the last few years has typically positioned bonds for compelling risk-adjusted returns. Furthermore, if stocks experience a sharp correction while the Fed is on hold or cutting rates, bonds on most occasions act as portfolio shock absorbers.

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PGIM Quantitative Solutions

"Will they, won't they" remains center stage for central banks with the Fed taking outsized importance. US inflation has made progress back toward the Fed's 2% target. Falling inflation in developed markets outside the US has provided room for a number of central banks to cut rates in response to weak economic activity. The macro environment in the US continued to be supportive of risk assets in Q2 2024 with equities posting solid gains, while fixed income returns finished the first half slightly down. While economic growth remains solid, the summer months have historically seen lower volumes and lackluster markets. November's US presidential election is also likely to impact markets, with equity market volatility typically increasing in the months leading up to elections. Stock valuations suggest that much of the optimism around economic and earnings growth has already been priced in, with the S&P 500 forward multiple well above historical averages. Commodities are likely to live up to their historical track record as late-cycle plays, given that prices have typically climbed with rising inflation and solid demand.

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Jennison Associates

As we reach the year's halfway point, markets continue to focus on and reward companies that are generating growth at above-average rates. Profits generally are growing at a faster rate than the previous year and the economy has remained largely resilient. The consumer slowdown is gathering pace but does not suggest acute distress. Strong employment and growing wages will likely continue to support a positive backdrop, though with moderating gains over the balance of the year. Fundamentals in the information technology sector are being driven by the disruptive opportunity for AI and the digital transformation of consumers and businesses, especially the mega-cap companies in the space that can invest heavily to stay ahead with innovation and disruption. The longer-term underlying strength in these business models and their secular revenue/profit trends remain solid and were highlighted across the overall sector's reported earnings these past few quarters. We also address investment themes across the healthcare, utilities, midstream energy infrastructure, and financial sectors.

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PGIM Real Estate

On the back of easing monetary conditions and improving investment market liquidity, global real estate values are reaching a turning point. Thus 2024 is all about changing the narrative around global real estate and the way investment portfolios are constructed. Asia-Pacific is leading the recovery, along with global logistics markets, and the outlook is for stronger returns ahead across the board from 2025. As returns turn a corner, 2024 represents a compelling entry point across the risk spectrum. Investment themes are driven by ongoing structural trends and tactical opportunities from a dislocated market. And when it comes to building a resilient, growth-driven portfolio, city and local market dynamics matter. Geography is overtaking sector again as the most important driver of returns, and portfolio decision-making needs to reflect this new reality, combining themes with location considerations.

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