Third Quarter 2020

PGIM

WEATHERING UNCERTAINTY ON THE PATH TO RECOVERY

Outlooks Summary

Another quarter along from the initial onslaught of the COVID-19 pandemic, financial markets and the global economy continue to grapple with its effects. What direction the coronavirus will take over the next weeks and months is an unknown, but one thing is certain: The global policy response has been massive and may have provided the necessary support that will sustain the recent economic recovery.

What follows are the diverse perspectives from across several of PGIM's autonomous asset management businesses, looking at how investors can navigate the ongoing turmoil and take advantage of the opportunities that may result (click on the links to read our full outlooks).

- **Opportunities along a bumpy road:** We see a gradual recovery for the global economy, with the level of GDP picking up in the second half of the year. Activity is unlikely to reach Q4 2019 levels until at least late 2021. Bonds appear set to perform reasonably well over the intermediate to long term, although the pace of the rally may slow along an increasingly bumpy road. Credit selection will be a key determinant of performance in the months ahead as the fundamental impact of the virus and the drop in oil prices takes its cumulative toll on credit quality. The uncertainties and mixed liquidity conditions may offer above average opportunities to add value through sector allocation, credit selection, and positioning in currencies and interest rates.
- **Taking a measured, selective stance:** While monetary and fiscal policy support remain powerful drivers of the stock market rally, a correction from current levels or consolidation over the next few months seems likely before stocks experience another strong leg higher. We are currently not making big tactical bets, such as embracing an aggressive pro-growth strategy or a full-on defensive positioning, but instead sticking closer to policy benchmarks.
- **Growth stocks continue to lead the way:** Some recent data indicate multiple "green shoots" for both domestic and global economic activity, but 2020 top-down earnings projections remain uncertain. Consumers have altered their approach to daily life as work from home leads to greater e-commerce and entertainment engagement, with attendant needs for robust internet infrastructure. This has created bifurcation in the market's winners and losers, lifting advantaged companies and industries to records and intensifying pressure on companies with dimmer prospects for recovery.
- **An eye towards shifting trends in real estate:** Some lessons for what's to come for global real estate markets can be drawn from past downturns, although causes and effects are always different. Values are set to remain under pressure in the near term as a result of stress in occupier and investment markets — and the range of possible outcomes is wide — but there are some reasons for optimism. Portfolio strategy needs to strike a balance between a need for defensiveness given elevated near-term uncertainty, the prospect of a cyclical rebound generating value growth from a low base and opportunities arising from shifting structural trends.

PGIM's IAS team also recently published research looking at how volatility events affect private asset class performance. Read that paper here.

Explore more at pgim.com/outlooks