

2021 Best Ideas Webinar Summary

THE FUTURE IN FOCUS



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The calendar has flipped, but the uncertainty brought on by the COVID-19 crisis and a wobbly global economy hasn't passed. The new year does bring with it hopes of a brighter future, however, and investors need to be prepared for opportunities that lie ahead. PGIM brought together several thought leaders for our latest Outlook webinar where we discussed some of our Best Ideas. Following are just a few highlights of the conversation, which can be viewed in its entirety [here](#).

- **The 'Golden Age of Credit' continues:** Central banks around the world remain a dominating force in financial markets and that bodes well for credit investors. Likewise, in uncertain times such as today, when companies are facing a difficult business backdrop, they typically look to manage first for bondholders over equity holders. There is also plenty of operating leverage built into corporate capital structures, so when revenue does rebound profits should accelerate. One of the risks to the credit thesis is that when economic growth on a sustained basis does return to above trend, companies may again start to manage with a more equity-centric mindset.
- **Demographics are driving the suburban rental market:** COVID-19 certainly hastened the movement to the 'burbs, but census data over time shows that while people in their 20s and early 30s are most likely to live in cities, at around age 35 there's a notable shift to the suburbs. The oldest Millennials began to hit that age bracket in the years prior to 2020, and there is room for that flow to continue. On the supply side, much of the apartment building in the past has been focused on urban locations, meaning there is a relative lack of modern product in the suburbs and an opportunity to build into the market.
- **Mezzanine can bridge the gap during difficult times:** The early days of the pandemic essentially meant "survival mode" for many private companies. However, while the pain was acute for nearly every company at the beginning of the outbreak, some small to mid-size firms have not only stabilized their operations but have actually outperformed their business plans, under difficult circumstances. In disruptive periods such as the one brought on by COVID-19 there is an opportunity to take advantage of a "good company, bad balance sheet" scenario – investing in companies that have excess leverage and may be behind in their business plans but that are otherwise stable and poised to recover.
- **Stimulus, now and tomorrow:** Fiscal support has been critical for the US economy, especially for workers who have been affected by the pandemic. But it's also important to remember that the near-term benefits of such programs have longer-term implications. The spending put in place isn't necessarily the most productive use of capital and even though it's a necessary strategy, the implications around future growth in the US and globally, along with the potential for inflation, could be long-lasting. At some point there will be pushback about how much more debt can be added to the US balance sheet.

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