

Q2 2022 WEBINAR SUMMARY

WAR, ENERGY MARKETS, AND THE ROAD TO STAGFLATION?



EDWARD CAMPBELL
 Managing Direct and Head of
 Dynamic Asset Allocation
 PGIM Quantitative Solutions



JEFFREY DICKSON
 Executive Managing Director
 & Head of Alternatives
 PGIM Private Capital



ELLEN GASKE
 Principal and
 G10 Lead Economist
 PGIM Fixed Income



KESHAV RAJAGOPALAN
 Principal
 Institutional Relationship Group
 PGIM

Financial markets are coming under pressure from multiple fronts. Soaring inflation has prompted central banks to unwind pandemic-era stimulus measures, and the war in Ukraine has fanned a surge in energy prices. As a result, the global economy may be entering a period of slower growth. PGIM gathered a panel of experts to discuss the outlook for the second quarter and how investors can build a portfolio that meets these challenges. The following are highlights from the discussion, which can be watched in its entirety [here](#).

- **The investment outlook:** The war in Ukraine and COVID lockdowns in China have complicated the global economic outlook and increase the risk that policymakers will not be able to achieve a soft landing as rates rise (though the base case remains a soft landing). Monthly inflation readings will provide a gauge for how hawkish central banks will be this year. Consumers are in good shape, particularly with household balance sheets benefiting from healthy savings. The financial sector and corporate balance sheets are also well positioned, and there's much less systemic risk in the US economy compared with the lead-up to the Great Recession. As for the hawkish shift among central banks, investors have already priced in much of the impact, and equity markets are likely to gain ground between now and the end of 2022. Turmoil and volatility also present opportunities in the private credit market, especially in energy where companies are devoid of capital. Demand for private credit will continue to be strong, supported by business investment and onshoring trends.
- **The inflation playbook:** Real assets remain a hedge against inflation, and investors should have exposure to commodities, real estate, and Treasury inflation-protected securities (TIPS). Commodities, energy, and materials, which have historically been the best hedges against inflation, have the added benefit of cheaper valuations after a lengthy period of low inflation before the pandemic. The broader equity market has already begun to exhibit a rotation favoring value stocks. Non-US equities are cheaper and could outperform the US market over the next decade. Latin American equities are very attractive due to the outlook for higher commodity prices, although investors should keep in mind that less globalization and more automation are going to be difficult for emerging markets.
- **The balancing act for central banks:** Central banks have struggled to catch up after a surge in demand coming out of COVID shutdowns helped fuel a rapid rise in inflation. Some of that inflation may cure itself if, for instance, companies become more sensitive to higher wages, thus reducing consumers' purchasing power. Inflation has been lower in nations such as China and Japan that could export some of their low inflation to the rest of the globe. But the war in Ukraine, higher commodity prices and supply chain disruptions brought on by new lockdowns all pose risks to inflation.
- **The war's impact on energy:** Whether or not energy supplies from Russia are cut off further remains a wildcard. Such a scenario would cause an additional spike in prices, hampering economies' ability to achieve a soft landing. Another sharp rise in commodity prices could tip the global economy into a recession.



THE PURSUIT OF OUTPERFORMANCE

For Professional Investors only. All investments involve risk, including the possible loss of capital. This material is being provided for informational or educational purposes only and does not take into account the investment objectives or financial situation of any client or prospective clients. The information is not intended as investment advice and is not a recommendation. Clients seeking information regarding their particular investment needs should contact their financial professional.

Investing involves risk, including possible loss of principal. Some investments have more risk than others. Fixed income investments are subject to interest rate risk, and their value will decline as interest rates rise. Past performance does not guarantee future results. © 2022 Prudential Financial, Inc. (PFI) and its related entities. PGIM, Inc., is the principal asset management business of PFI and is a registered investment advisor with the US Securities and Exchange Commission (SEC). Registration with the SEC does not imply a certain level of skill or training. PGIM is a trading name of PGIM, Inc and its global subsidiaries.

In the United Kingdom, information is issued by PGIM Limited with registered office: Grand Buildings, 1-3 Strand, Trafalgar Square, London, WC2N 5HR. PGIM Limited is authorised and regulated by the Financial Conduct Authority (“FCA”) of the United Kingdom (Firm Reference Number 193418). In the European Economic Area (“EEA”), information is issued by PGIM Netherlands B.V. with registered office: Gustav Mahlerlaan 1212, 1081 LA Amsterdam, The Netherlands. PGIM Netherlands B.V. is, authorised by the Autoriteit Financiële Markten (“AFM”) in the Netherlands (Registration number 15003620) and operating on the basis of a European passport. In certain EEA countries, information is, where permitted, presented by PGIM Limited in reliance of provisions, exemptions or licenses available to PGIM Limited under temporary permission arrangements following the exit of the United Kingdom from the European Union. These materials are issued by PGIM Limited and/or PGIM Netherlands B.V. to persons who are professional clients as defined under the rules of the FCA and/or to persons who are professional clients as defined in the relevant local implementation of Directive 2014/65/EU (MiFID II). In Singapore, information is issued by PGIM (Singapore) Pte. Ltd. (PGIM Singapore), a Singapore investment manager that is licensed as a capital markets service license holder by the Monetary Authority of Singapore and an exempt financial adviser (registration number: 199404146N). These materials are issued by PGIM Singapore for the general information of “institutional investors” pursuant to Section 304 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”) and “accredited investors” and other relevant persons in accordance with the conditions specified in Section 305 of the SFA. In Hong Kong, information is provided by PGIM (Hong Kong) Limited, a regulated entity with the Securities & Futures Commission in Hong Kong to professional investors as defined in Section 1 of Part 1 of Schedule 1 (paragraph (a) to (i) of the Securities and Futures Ordinance (Cap.571). PGIM, Inc. is exempt from the requirement to hold an Australian Financial Services License under the Corporations Act 2001 in respect of financial services. PGIM, Inc. is exempt by virtue of its regulation by the Securities and Exchange Commission under the laws of the United States of America, including applicable state laws and the application of ASIC Class Order 03/1100. The laws of the United States of America differ from Australian laws. In Japan, information is presented by PGIM Japan, Co. Ltd., (“PGIM Japan”), a registered Financial Instruments Business Operator with the Financial Services Agency of Japan. In South Korea, information is issued by PGIM, Inc., which is licensed to provide discretionary investment management services directly to South Korean qualified institutional investors on a cross-border basis.

Prudential Financial, Inc. of the United States is not affiliated in any manner with Prudential plc, incorporated in the United Kingdom or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom. The PGIM logo and the Rock symbol are service marks of PFI and its related entities, registered in many jurisdictions worldwide.