Q2 2024 OUTLOOK SUMMARY

OPPORTUNITIES AND RISKS AMID GLOBAL CROSSCURRENTS

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On the heels of a resilient year, financial markets continue to reflect optimism that a central-bank pivot will come sooner rather than later. The US economy has been particularly strong in a period of tighter financial conditions. However, growth has been uneven across the globe. Japan marked the end of an era as interest rates emerged from negative territory, while headwinds have begun to emerge in Europe. With the path for central banks still taking shape, interest rates remain elevated as policymakers keep up their fight against stubborn inflation. A fragile geopolitical landscape further complicates the outlook.

All told, these crosscurrents illustrate a resilient but murky backdrop for financial markets. In an uncertain environment, investors will be challenged to both identify attractive opportunities and heed the risks that may still reveal themselves. PGIM brings together the following perspectives from its affiliates to help investors capture a diverse set of opportunities across a range of asset classes, sectors and regions.

PGIM Fixed Income

While the global economy's resilience continues to surprise many, it also remains aligned with our expectations from the beginning of the year. The minor adjustments that we've made to our economic scenarios are largely indicative of the two-sided growth and inflation risks that appear more prominent as we look ahead. Yet, there is more that is feeding into the tail risks with geopolitics and global fiscal stimulus each contributing to the elevated left and right tails. Looking across global bond markets, yields remain in rarefied air while participants await the presumptive rate cuts from most major central banks. Considering that yield is destiny, the demand for fixed income will continue exerting its influence across the global bond markets in the quarters to come.

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PGIM Quantitative Solutions

The global economy remains resilient in early 2024 even as major central banks maintain elevated policy rates to bring inflation back toward their targets. While global core goods inflation eased significantly, services inflation is stickier, which has lowered expectations of rate cuts by major central banks. Still, equity markets maintained their rally in Q1 2024 with growth stocks continuing to lead the way, though by a smaller margin than in 2023. Among large-cap stocks, the breadth of stock performance has started broadening, and if this trend continues, the equally weighted S&P 500 could fare better in the rest of 2024. Regionally, Japan is relatively more attractive. The earnings outlook for emerging markets is also attractive and stands to benefit from easing Fed policy. Commodity returns are likely to be moderate after a down year in 2023. While commodities are generally supported by supply constraints, there are still downside risks from sharply slower global growth and higher-for-longer interest rates.

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Jennison Associates

Equities have had a fast start in 2024, particularly with the further appreciation of growth equities in the quarter. We can trace these returns to broader themes that have been at play for the past several quarters—namely, enthusiasm for generative AI and the ongoing growth of GLP-1 drugs for weight loss related to diabetes treatment. Abundant liquidity, a banking system that has withstood significant stress following last year's high-profile failures, and continued favorable employment market dynamics point to an environment of stronger US economic growth, though at lower levels than in the previous few years. The nature of our conversations with the managements of the companies that we cover are reflective of this outlook. Earnings growth should drive investment results over a three-year investment time horizon while we remain keenly focused, as ever, on discovering new opportunities.

Outlook coming soon

Real Estate

With the worst of the property correction behind us, we're focusing more on the strength and timing of the recovery. As always, this is tricky to answer. To be sure, we face sector challenges around demand (think offices) and supply (think logistics). But we also face growing challenges by location as city dynamics start to matter more than they have for a long time.

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