Q3 2023 OUTLOOK SUMMARY

CAPTURING OPPORTUNITIES AMID CONFLICTING MARKET SIGNALS

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Higher interest rates, slower growth and tightening credit conditions are reshaping the investment landscape. Despite these headwinds, the economy has written a bending-not-breaking narrative. Will the recession that forecasters have long expected ultimately reveal itself? Stubborn price pressures and the rapid rise in rates have taken a toll on growth in some corners of the globe. Other regions, particularly the US, have displayed economic resilience, supporting valuations in risk assets. Despite mixed signals around the world, a common theme is nonetheless emerging: Central banks are demonstrating an aggressive posture as they seek to rein in underlying inflation.

It remains to be seen how global economies will respond to the effects of restrictive monetary policies in the long run. Given this uncertainty, investors can look beyond the current cycle to strategically allocate capital amid an evolving credit squeeze. PGIM brings the following perspectives from its affiliates to help investors navigate this uneven terrain, from managing risk to capturing opportunities across asset classes.

PGIM Fixed Income

Despite a series of rolling crises, the global economy avoided the worst of potential outcomes in the first half of 2023, and risk assets outperformed the safe-haven sectors. The elevated level of yields is a familiar theme and assumes newfound importance with the latest increase in developed market interest rates. The combination of increased income and the potential for capital appreciation creates an attractive total return profile. As the mixed second-quarter performance demonstrates, those returns won't occur linearly over the short term; they will accrue for those with longer-term time horizons. Lingering uncertainties loom large, led by the cumulative effects of the global tightening in monetary conditions. Depending on the desired risk exposure, rationale exists for allocations into several fixed income asset classes. Yet, our recommendations for core holdings skew to higher-quality assets, or risk assets managed more conservatively.

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PGIM Quantitative Solutions

The global growth outlook for the balance of 2023 appears tenuous. Although a number of major economies entered a "technical recession"—defined as two consecutive quarters of falling real GDP—during the first quarter of 2023, the residual impact of COVID-related monetary and fiscal stimulus has kept demand robust. Weakening energy prices and more favorable base effects have already driven headline inflation in developed economies notably lower, although core inflation remains elevated. While the forthcoming end of the Fed hiking cycle, economic resiliency, and optimism about AI's impact are positives, the mosaic of forward-looking macro and market data is historically consistent with recessions and lackluster risk asset returns. A still-hawkish Fed, stricter bank lending, negative business surveys, and high valuations are all reasons to opt for a cautious investment strategy and favor themes like quality and safety.

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PGIM Real Estate

Global repricing is happening quickly across the board and it is still playing out, making benchmark-driven investing difficult. Many of the opportunities we identify are contingent on this reset of global real estate values continuing, taking pricing to levels that make sense in order for returns to compete for capital against other financial asset classes. Aside from secure senior debt plays that offer a high degree of capital protection through the cycle, timing will be key to successfully executing structural and cyclical investment strategies. According to our forecasts, global real estate returns will be under pressure over the next 12 months or so—and many investors will be on the sidelines until the repricing runs its course. We identify several factors that are key to determining strong relative performance, and underpinning the decision-making process to assess when to re-enter the market, in what sectors and markets, and through what type of capital.

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