Q4 2021 OUTLOOKS

STAYING THE COURSE … FOR NOW

A generally positive summer for equities was upended by a tumultuous September, while inflation concerns continued to be the main focus for investors across the board. How markets evolve over the remainder of 2021 will depend largely on the issues that have been weighing on investors for the past several months, namely inflation (and ongoing supply chain bottlenecks), US government policy and reversing the scourge of COVID-19.

To offer guidance on where we go from here, the following are some diverse perspectives from across PGIM's autonomous asset management businesses, highlighting the many opportunities available to investors while also keeping an eye on the risks (click on the links to read our full outlooks).

- **Uncertainty is a certainty:** The investment horizon remains riddled with critical questions, and many of these issues may remain up in the air for some time. In the quarters ahead, there will likely continue to be surges and stalls across key economic data from retail sales and job creation to inflation. The resulting swings in investor sentiment point to consequent bouts of market volatility as well. But despite the plethora of lingering risks, we remain optimistic that, on average, the bond bull market will continue to chug along over the quarters ahead, thanks to low and range bound interest rates and a favorable backdrop for spread products.

- **Corporate profit growth should stay strong:** Investors are facing a complex landscape heading into year-end. Interest rates are responding to elevated wage and goods price inflation, and while the direct disbursement of fiscal stimulus is winding down, liquidity remains abundant, sustaining high levels of demand and contributing to inflationary pressures. We expect corporate profit growth to return to pre-COVID-19 trend levels over the course of next year and believe the developments of the past 18 months have accelerated trends in consumer and enterprise behavior that were already in place prior to the arrival of COVID-19. That step-up in growth in these areas should persist for some time.

- **Don't get overly defensive yet:** PGIM Quantitative Solutions is sticking with a moderate pro-risk investment strategy with economic growth likely to reaccelerate into year-end as the economic impact of the Delta variant recedes and global monetary policy conditions stay accommodative. On asset allocation, we remain overweight stocks, real estate, and commodities relative to cash and fixed income. The biggest risk to investors looking forward is that policymakers (both fiscal and monetary) allow inflation to rise above what investors consider to be benign levels for too long. However, we think it is still too early to get more defensive.

- **US real estate showing resilience:** Does the emergence of more contagious variants of the COVID-19 virus change our positive outlook for US real estate returns? Based on the past 16 months, the answer has to be no. There is no relationship between returns and COVID-19 cases; numbers of the latter have fluctuated up and down, but investors have consistently become more optimistic about the real estate outlook. Returns are improving not just for apartments and industrial but also for property types with more-uncertain tenant demand outlooks (office) and direct exposure to drops in consumer activity (retail). The broadening in investor demand suggests continued real estate value growth, whatever new variants of the virus may bring.

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