PGIM INVESTMENTS

INVESTMENT PERSPECTIVES

2H 2021

INVESTMENT THEMES

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2 GOLDILOCKS CONDITIONS RETURN FOR SECULAR GROWTH

3 CONTINUED MACRO UNCERTAINTY WARRANTS PORTFOLIO AGILITY

4 REAL ESTATE REBUILDS DEMAND AND REBOUNDS

Navigating Transitioning Markets

The global economy has climbed out of a deep pandemic-induced recession and has been transitioning through the early phases of the economic cycle. A strong rebound drove interest rates and prices higher in the first half of the year. As the second half of the year kicked off, markets curbed long-term growth and inflation expectations, signaling that we may be past peak growth, inflation, and interest rate levels. With massive liquidity in the system that shows little sign of abating, risk assets such as equities and credit continue to look attractive. But near-term risks—including rising COVID-19 cases, virus variants, political uncertainty, and "transitory" conditions lasting longer than anticipated—prevent investors from going "all in" on any particular investment style. Selectivity and diversification that prepares for different scenarios will be crucial—making active management particularly important for investor portfolios. Our PGIM asset managers share key investment themes likely to drive markets in the back half of 2021, and strategies for investors seeking to capitalise on the opportunities ahead.

2H 2021 MARKETS AT A GLANCE

ECONOMY

An impressive but uneven global recovery is underway, with global data signaling a broadening recovery. There are divergences between the developed markets (DMs), where PMIs are accelerating, and the emerging markets (EMs), where activities remain at a lower level and are moving sideways. As countries battle through the inflation upsurge, an increasing divergence between DM and EM central banks is likely to become a key feature of the global outlook.

FIXED INCOME

Bond spreads are likely to compress further in the second half of 2021 with expectations of more muted fixed income returns going forward. But bonds provide ballast as a downside hedge against equity market volatility and serve as a key source of income, so they remain important within a portfolio. Credit sectors may benefit from spread compression and help boost total return potential, but given idiosyncratic risks, will require rigorous risk analysis to ensure that investors aren't overreaching.

EQUITIES

Corporate profit growth was strong throughout the first half of 2021, with upward revisions pointing to a solid second half. Global equities rallied on the improving sentiment, with many indices closing out the first half at or near record highs. As markets move toward a post-pandemic normal, short-term narratives supporting cyclical/value stocks are dueling with long-term narratives favoring growth stocks. Investors may benefit from exposure to both styles.

REAL ESTATE

Demand is building in some key areas as economies reopen. Occupier sentiment is expected to return quickly, which would support a rebound in demand for real estate space in the second half of the year. A range of cyclical opportunities are simultaneously in play, with some sectors and markets delivering strong growth and attracting capital, while others are facing severe occupier stress.

PGIM INVESTMENTS

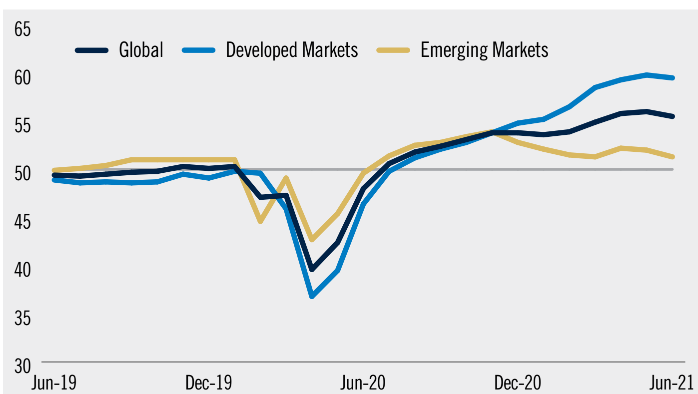
THE MACRO BACKDROP

MICHAEL K. LILLARD, CFA
Head of PGIM Fixed Income
and Chief Investment Officer

ECONOMIC OUTLOOK

The strong global rebound continued through the second quarter, supported by surging growth in the United States, Europe, and some emerging market economies. PMIs for both global manufacturing and services are rising well above 50, which points to a strengthening recovery. We estimate global GDP to grow 6.4% in 2021, as the recovery likely deepens and expands during the second half of this year, with growth in Europe and Japan gaining steam, and the rebound in the U.S. further strengthening. Despite lingering softness in some emerging markets, toward the end of this year and into 2022 we see recovery increasingly taking hold. Our baseline outlook offers reason for optimism—over the coming year, we see the global expansion broadening on an accelerating vaccination effort, and inflationary pressures gradually diminishing.

A STRONG BUT UNEVEN RECOVERY



Source: FactSet as of 6/30/21. PMI measures above 50 are considered expansionary.

INFLATION

While inflation will likely continue running somewhat hot in the months ahead, we expect it to slowly abate toward the end of this year and early next year. The spending boom that has been associated with released pent-up demand will gradually subside, bringing a return to more "normal" conditions. Supply chain disruptions will be resolved, production schedules reestablished, and workers will return to employment. While we see global inflation reverting to pre-pandemic levels over time, we are sensitive to the risks that it may take longer than we expect for inflation to come back down, or that medium-term inflation may be somewhat higher than we anticipate. But we believe the structural factors behind soft inflation during much of the past decade—aging demographics, high debt levels and deleveraging, and disinflationary technological advances—remain firmly in place and may have even grown stronger.

INTEREST RATES

Peak yields are likely already behind us and concern is easing over accelerating inflation. These factors should bring long-end rates down further, limiting potential increases in other global DM rate complexes. Long rates continued to decline in the second quarter, despite an increase in short Treasury yields. Investors assumed that a more hawkish Fed would simply mean a lower path for rates in the long run. Perhaps ironically, a firmer economic outlook also gives the Fed and other central banks more freedom to control inflation.

Concurrent with the flattening, market pricing for the first Fed hike was brought forward by almost six months to 3Q 2022. We believe that while the Fed may ultimately taper bond purchases later this year, the pricing of rate hikes in the next 18 months will ultimately prove aggressive. Given that the Fed may act sooner to manage the risk of high inflation, it could fail to hit its inflation target—which would ultimately result in a lower peak for the fed funds rate. We'll watch for further volatility in the front end as the market comes to terms with a Fed that will be patient with its rate liftoff.

Growth and inflation may remain elevated over the next few quarters. However over the long haul, secular fundamentals—such as aging demographics and ballooning debt loads—point to a return of the moderate growth and below-target inflation that plagued the world's DM central bankers prior to COVID. This dynamic market environment creates meaningful opportunity to add value to investment portfolios.

SECULAR FACTORS FOR LOWER RATES

1. Excessive global debt
2. Aging demographics
3. Globalisation
4. Capital concentration
5. Moderate growth
6. China deceleration
7. Technology
8. Tax structure
9. Easy monetary policy
10. Low inflation

Source: PGIM Fixed Income as of June 2021.

1

THE NEXT PHASE OF THE BOND BULL MARKET BEGINS

MICHAEL J. COLLINS, CFA
Senior Portfolio Manager
PGIM Fixed Income

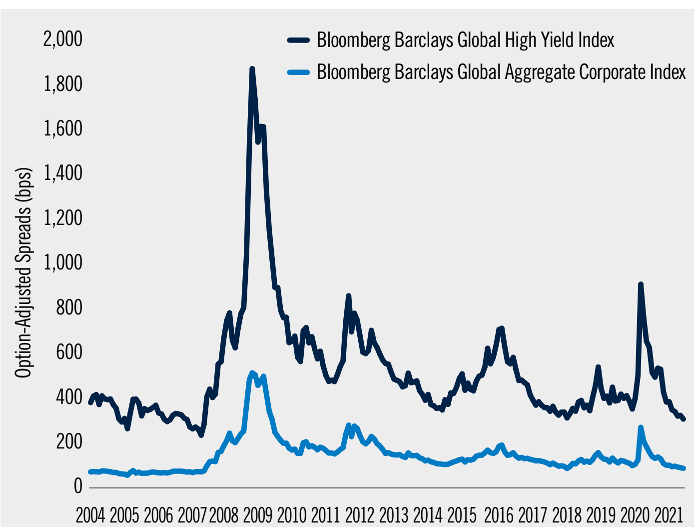
BOND MARKET RECOVERY PERSISTS

In many ways, the speed of the global economic recovery has been as breathtaking as the downturn. The pace has already led to an array of divergences. Perhaps most notably, the bond market recovery persists in the face of surging growth and inflation. After taking a beating in the first quarter, the bond market punched back and rebounded in the second quarter. Supportive credit trends and a search for yield look poised to fuel further credit sector outperformance, while volatility should present opportunities to add risk.

SUPPORTIVE FUNDAMENTALS

Credit spreads have tightened substantially since the COVID wides, bringing many sectors to near all-time tights. Overall, we expect spread sectors to continue grinding tighter as investors rebalance their overweight exposure to equity risk. While this trend limits upside, our expected scenario is that spread products will generally continue to outperform. Fundamentals remain supportive, and the overall low interest rate environment will push investors searching for yield further out on the risk spectrum. Therefore, sectors with the highest risk and widest spreads—and the most potential for spread narrowing—are likely to continue posting the highest returns.

CREDIT SPREADS GRIND TIGHTER



Source: Bloomberg as of 6/30/2021.

OPPORTUNITIES IN SPREAD SECTORS

With a rotation from credit to duration underway, the game already seems to be back on for the bond bull market. Our best guess is that we've seen the top in rates. But even if we see a twin peak later, forward rates still appear too high, which suggests that duration will likely contribute to bond market return over the coming quarters. BBB and high yield corporate bonds look attractive—with companies reporting healthy earnings and improved balance sheets—and should result in credit ratings upgrades. Highly rated securitised products, including collateralised loans and commercial mortgage-backed securities, provide strong risk-adjusted returns relative to lower rated securities. We continue to find value in emerging market debt, including sovereigns, local currency bonds, and corporates. Municipal bonds are attractive, as issuers were able to demonstrate resiliency through the pandemic, and the rising tax environment provides upside for investors.

BEST IDEAS IN TODAY'S MARKETS

	OVERWEIGHT	UNDERWEIGHT
DEVELOPED MARKET SOVEREIGNS AND AGENCIES		• Developed Market Sovereigns • U.S. Agencies • U.S. Mortgage-Backed Securities • U.S. Interest Rate Swaps
DEVELOPED MARKET CORPORATES	• BBB IG Corporates (U.S. & European) • U.S. Money Center Banks • High Yield Bonds (U.S. & European)	• Long duration single A and above industrials • Bank Loans (U.S. & European)
MUNICIPALS	• High Quality Taxable Municipal Bonds (emphasising university and healthcare system bonds over GO credits)	
SECURITISED PRODUCTS	• AAA/AA CLOs (U.S. & European) • AAA CMBS	• Lower-Rated CLOs • Lower-Rated CMBS
EMERGING MARKETS	• Select EM Sovereigns • Select EM Local Currency Bonds • Select EM Corporates • Select EM FX	

Source: PGIM Fixed Income as of June 2021.

2

GOLDILOCKS CONDITIONS RETURN FOR SECULAR GROWTH

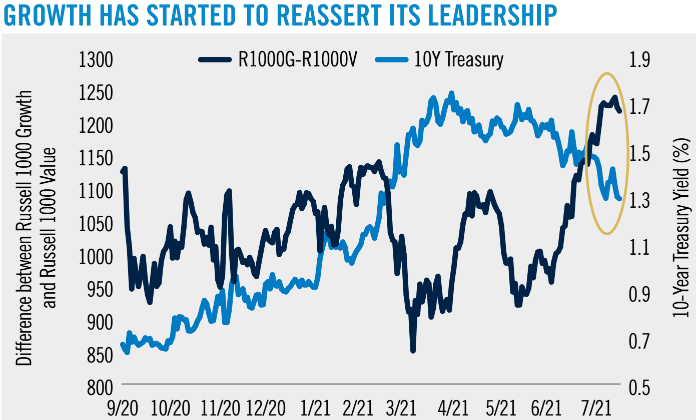
MARK BARIBEAU, CFA
Head of Global Equities
Jennison Associates

GROWTH REGAINS LEADERSHIP

As effective vaccines became a reality, cyclical value stocks strongly rallied on booming economic recovery prospects. Surging demand created supply shortfalls and bottlenecks, creating upward pricing pressures and lifting bond yields in the first few months of the year. But another reality began to set in—namely that economies can only reopen once. Once they have, cyclical stocks need structural underpinnings and earnings growth to continue to rise or they will fizzle out. As that recognition emerged, bond yields peaked and investors started paring cyclical bets in favor of more durable growth assets. And looking ahead, after the initial recovery spikes normalise and the effects of stimulus wane, the world is set to return to lower economic growth conditions. This reversion should keep interest rates and inflation levels in check over the long term.

Against this backdrop, sustainable growth has become hard to find and will be in high demand. As forward-looking mechanisms, markets seem to be looking past the sugar high of the initial reopening and pricing in what the world will look like in late 2021 once inventories normalise. As secular growth stocks have traditionally experienced growth across a range of macro conditions, we expect them to reassert their market dominance once again as these dynamics play out.

GROWTH HAS STARTED TO REASSERT ITS LEADERSHIP



Source: Bloomberg as of 7/16/2021. Past performance does not guarantee future results.

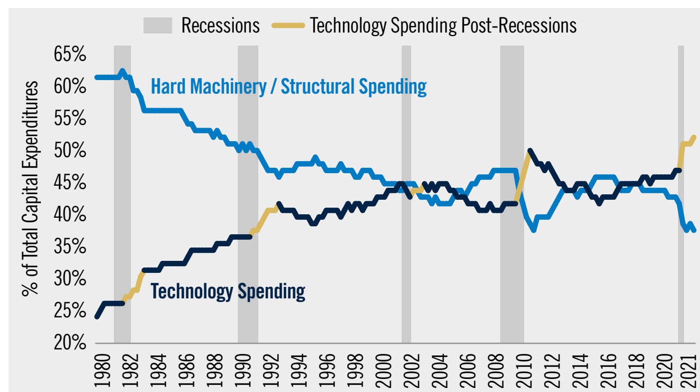
PATIENTLY FOLLOW THE EARNINGS

Returns for many secular growth stocks have more than doubled in the past two years, so it's unsurprising that stock prices have recently consolidated. As shifts in the short-term narrative continue to sway investor sentiment, further volatility for growth stocks can be expected. But over time, market returns follow earnings growth. Based on recent earnings reports with upside surprises and stronger guidance, secular growth stocks should continue to deliver strong earnings growth over the foreseeable future.

TECH TO LEAD THE WAY FORWARD

Technology spending has been on the rise as businesses adapt to an increasingly digital world. While the radical shift in consumer behavior during the pandemic pulled forward growth for many secular trends, there is ample runway for even greater adoption as additional innovations emerge. These factors point to technology becoming even more integral to the fabric of work, life, and society going forward—driving unprecedented innovation supercycles across the global economy. Tech spending has historically led economic recoveries, but this time its impact may be more pronounced with companies across industries reimagining their business models, supply chains, and digital infrastructures. The new U.S. infrastructure plan promises to bring technological advancements and additional disruptions, which may generate exciting investment opportunities.

TECH TAKES A BIGGER SHARE OF U.S. CORPORATE CASH BUDGETS



Source: FRED, Jennison as 3/31/2021. Technology Spending = Software, R&D, and info processing equipment. Hard Machinery/Structural Spending = Transportation & Industrial Equipment, and Structures.

RISING SECULAR STARS IN GOLDILOCKS ERA

With economies not expected to remain hot for much longer, and an innovation landscape that's far from cold, conditions seem just right for secular growth stocks to drive us into the NEXT—or new exceptional technologies—economy. The goldilocks era of secular growth is upon us and we expect these trends to shape our digital future.

DIGITAL TRANSFORMATION OF THE ENTERPRISE	DIRECT TO CONSUMER BUSINESS MODELS	TECHNOLOGY ENABLERS
• Unified communications • Security • Workflow automation • Infrastructure management	• E-commerce • Global brands with omni-channel distribution • Video streaming • Connected fitness • On-line dating • Electric vehicles	• Digital payments • Cloud-based retail operating systems

Source: Jennison Associates.

3 CONTINUED MACRO UNCERTAINTY WARRANTS PORTFOLIO AGILITY

DR. SUSHIL WADHWANI, CBE
Chief Investment Officer
QMA Wadhwani

TRANSITORY MAY TURN INTO PERSISTENT

The avalanche of stimulus—both monetary and fiscal—has successfully bridged the world economy from the depths of the shutdown to the vaccine and rapid growth recovery stage. Economists expect above-potential GDP growth this year and next, but close-to-trend growth thereafter. Consensus forecasts point to a "soft landing" in the U.S. with the rise in inflation this year merely transitory, and so anticipate that the Federal Reserve will remain patient and not prematurely taper asset purchases or raise interest rates. We are not so sanguine and believe the still highly uncertain macro outlook warrants a more agile view.

Inflation has risen sharply in 2021 thanks to base effects, higher commodity prices, pent-up demand, and fiscal easing. While we expect that pricing pressures should abate somewhat in the second half of the year, we're not convinced that inflation will drop back as much as generally expected. While the low base year effects from 2020 will abate, demand is set to run above supply for a while. Additionally, the rise in commodity prices reflects more than just a recovery with most commodity markets in backwardation, pointing to higher future prices than currently expected. We believe the path forward will hinge on one of the following three scenarios coming to fruition.

INFLATION SCENARIOS WITH DYNAMIC IMPLICATIONS

Scenario	Probability	Implication
1. Consensus and Federal Reserve views are broadly correct	**40–45%**	Inflation is transient and Fed can gradually raise rates as expected
2. A regime change occurs with inflation taking off	**5–15%**	Fed remains patient and risks inflation running hot and harder to get back under control
3. Central banks belatedly become aggressive	**45–55%**	Inflation overshoots and the Fed (and other central banks) become aggressive and taper faster than expected

Source: QMAW as of July 2021.

Markets had been putting a very high probability on the first scenario, but have started to reassess prospects, as they have come to realise inflationary pressures are greater than they had expected and anchoring to previous Fed actions may be futile this time. In the past, the Fed has been preemptive and committed to simple inflation targets, which helped anchor inflation expectations, while it now focuses on maximising employment and being reactive rather than proactive on the inflation front. But if inflation continues to surprise to the upside, the Fed may be forced to react aggressively to contain inflation and move up interest rate increases to mid- to late 2022 (markets are currently pricing in 2023).

TIME TO ALIGN MISMATCHED LABOR MARKET

Some of the current issues impacting the labor force are likely transitory, but others may be more lasting. The coexistence of job vacancies in some sectors and unemployed people in the wrong geography or with the wrong skillset, for example, can take a long time to correct itself, which could lead to wage pressure. Many large, well-known companies are also increasing their minimum wage, as are some states. On the flipside, there is academic evidence that wage increases are the result of inflation finding its way to wages, not wages leading to inflation. Nevertheless, U.S. central bankers will need to be vigilant about keeping an eye on labor costs.

THE PRICE OF "GOING GREEN"

Transitioning to a more environmentally friendly economy is a laudable—and necessary—goal, but it won't come cheaply. The expensive transition is coming at a time when money supply growth is elevated and fiscal policy is expansionary, which could pave the way for further inflation. For bonds, the evolution to a greener economy could be a near- to intermediate-term negative as it boosts growth, but may be positive over the long run if it proves to be disinflationary.

PORTFOLIO AGILITY IN UNCERTAIN TIMES

Given such an uncertain backdrop, investors will need to remain agile. In the short term, investors might consider commodities, especially metals, to play on the themes of inflation and green investing, while carbon-emission permit futures could also play a near-term role. Over a longer time horizon, investors will need to be more dynamic with their investment allocations and ready their portfolios for the inflation scenario most likely to prevail.

ASSET CLASS DIRECTION WITH DIFFERENT INFLATION SCENARIOS

Asset Class	Scenario 1	Scenario 2	Scenario 3
Equities	RISE	FALL	FALL
Defensive Fixed Income	RISE	FALL	FALL
Yield Curve	FLATTEN	STEEPEN	FLATTEN
Gold	FALL	RISE	FALL
Industrial Metals	UNCERTAINTY	RISE	FALL

Source: QMAW as of July 2021.

4 REAL ESTATE REBUILDS DEMAND AND REBOUNDS

RICK J. ROMANO, CFA
Senior Portfolio Manager
PGIM Real Estate

FACTORS SHAPING NEAR-TERM OUTLOOK

2021 is shaping up to be a significantly better year for the global economy and real estate markets. Financial and real estate investment markets have avoided distress, and firmer growth is expected in the second half of 2021 and beyond. Employment is expected to recover, and an ongoing low-supply environment supports occupancy and rents. Recovering occupier markets create the potential for revenue generation and value appreciation. Evidence from past cycles, and ongoing real estate demand, point to potential overshooting, which would provide growth opportunities in the short term. Here are five factors shaping our near-term outlook:

1. **Worst of the crisis has passed:** Areas that have not yet corrected are now unlikely to. We're seeing an upward trend in global economic and real estate market activity.

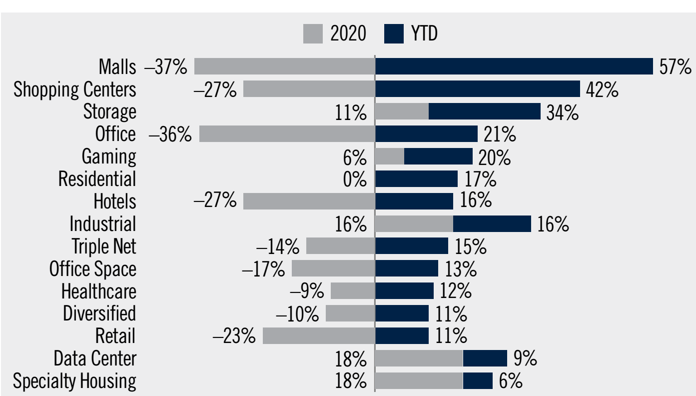
2. **Policy commitment remains significant:** Extensive policy support is set to remain in place for some time, boosting real estate values by increasing cash flow predictability and keeping interest rates low.

3. **Easing restrictions boosts demand:** As workplaces and service-oriented industries reopen more fully in the back half of 2021, occupier sentiment is expected to return quickly, supporting a rebound in real estate space demand.

4. **Fast rebound brings opportunities:** Rapid growth, albeit from a low base, is positive for driving opportunities. Sentiment can improve quickly, and businesses can move into expansion mode, thereby raising demand for real estate space.

5. **Sector divergence is unprecedented:** Unusually, a full range of cyclical opportunities are in play concurrently, with some areas delivering strong growth and attracting capital, while others face severe occupier stress.

2021 GLOBAL PROPERTY SECTOR RETURNS



Source: FactSet as of 6/30/2021. Past performance does not guarantee future results.

A CRISIS BRINGS OPPORTUNITIES

Today's real estate investment opportunities span a wide range of categories. These include the potential to capitalise on favorable occupier momentum linked to changes in real estate use, investment in assets that require some short-term repositioning, and value that can be found in parts of the market that have undergone a long-term correction.

SECTOR VIEWS

SECTOR	VIEW
LOGISTICS/ COLD STORAGE	Logistics has a strong returns outlook in all regions, on the back of ongoing leasing momentum and accelerated online spending growth.
NON-TRADITIONAL SECTORS	Non-traditional property types, such as senior living and self-storage, are attractive because of cash flow resilience, low capex, and diversification.
RESIDENTIAL SECTORS	As gateway city populations grow further, the build-to-rent sector is benefiting from declining housing affordability.
CHINA DEVELEARAGING	Tighter domestic credit growth policies are creating opportunities across the spectrum of equity and debt.
URBAN APARTMENTS	Urban apartment markets suffered a correction, but performance is expected to rebound swiftly as workplaces and amenities reopen.
GRADE-A OFFICES	Offices are set for a cyclical rebound as staff return to workplaces. Future tenant usage is evolving rapidly, with a renewed focus on quality.
HOTELS	A bruised hospitality sector offers a compelling countercyclical opportunity ahead of an unexpected gradual recovery in demand.
LAST MILE RETAIL	Neighborhood retail offers resilience against increased online spending and is positioned to perform well as retail spending recovers.
DISTRESSED RETAIL	Retail is in the process of a sharp value adjustment but looks close to finding a floor in the U.K., with Continental Europe close behind.

ACCELERATED CHANGE — ONGOING TAILWINDS — SHORT-TERM REPOSITIONING — LONG-TERM CORRECTION

Source: PGIM Real Estate as of 6/30/2021.

INVESTMENT STRATEGIES AND ATTRACTIVE AREAS

FIXED INCOME

SELECTIVELY SEEK OUT CREDIT

SHORT DURATION CREDIT
Short-duration credit can help immunise portfolios against rising interest rates.

CREDIT SPREAD SECTORS
Higher yield credit sectors may benefit from further spread compression.

MULTI-SECTOR STRATEGIES
Dispersion of returns across sectors and regions may result in pockets of opportunity for multi-sector strategies with the flexibility to tactically allocate to the most attractive sectors.

SECULAR GROWTH EQUITIES

INVEST EARLY IN FUTURE MARKET LEADERS

E-COMMERCE
Retail leaders reimagining and facilitating direct-to-consumer experiences have significant growth potential with the explosion in online shopping demand.

SOFTWARE-AS-A-SERVICE
As cloud-based disruptors continue to accelerate the digital transformation of the enterprise, this trend is nascent but powerful.

DIGITAL PAYMENTS
Technology enablers redefining and streamlining payment processes should continue to benefit from soaring digital consumption trends.

GLOBAL MACRO

USE AGILITY TO PLAY THE RECOVERY

EQUITIES
International markets—particularly those with more commodity-intensive equity indices—may perform well if inflationary pressures continue to mount.

FIXED INCOME
With the potential for Fed rate hikes in 2023, possibly sooner, more nuanced curve positions within fixed income may be needed.

COMMODITIES
Commodities may serve as a good inflation hedge as inventories remain low, demand is high and most commodity markets are in backwardation.

REAL ESTATE

REPOSITION INTO AREAS WITH RISING DEMAND

INDUSTRIAL PROPERTIES
Increased online shopping requires supply chain expansion and is increasing demand for cold storage.

NON-TRADITIONAL SECTORS
Non-traditional property types, such as senior living and self-storage, are attractive because of cash flow resilience, low capex, and diversification.

URBAN APARTMENTS, OFFICES, HOTELS
Short-term disruptions and pandemic-led corrections in values of urban apartments, offices, and hotels have created attractive entry points.

Bloomberg Barclays Global Aggregate Bond Index is an unmanaged index of global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan European Aggregate, and the Asian Pacific Aggregate indices. The index also includes eurodollar and euro-yen corporate bonds, and Canadian government, agency and corporate securities. **Bloomberg Global High Yield Index** is a measure of the global high yield debt market that represents the union of the U.S. High Yield, the Pan-European High Yield, and Emerging Markets Hard Currency High Yield Indices. **Bloomberg Barclays U.S. Aggregate Index** represents securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade, fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. **Bloomberg Barclays U.S. TIPS Index** measures the performance of U.S. Treasury Inflation Protected Securities (TIPS) and is selected by a market value process. **FTSE EPRA/NAREIT Developed Index** is a composite of the existing EPRA Europe Index, EPRA/NAREIT North America Index, and EPRA/NAREIT Asia Index. The index contains publicly quoted real estate companies that meet the EPRA Rules in 25 countries throughout Europe, North America, and Asia. **FTSE NAREIT Equity REIT Index** is a subset of the EPRA/NAREIT Global Index and the EPRA/NAREIT North America Index and contains publicly quoted real estate companies that meet the EPRA Ground Rules. **Goldman Sachs Commodity** is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. **Russell 1000 Growth Index** measures the performance of Russell 1000 companies (large-cap growth segment of the US equity universe) with higher price-to-book ratios and higher forecasted growth values. **Russell 1000 Value Index** measures the performance of Russell 1000 companies (large-cap growth segment of the US equity universe) with lower price-to-book ratios and lower forecasted growth values. **Russell 2000 Growth Index** measures the performance of Russell 2000® companies (small-cap growth segment of the US equity universe) with higher price-to-value ratios and higher forecasted growth values. **Russell 2000 Value Index** measures the performance of Russell 2000 companies (small-cap growth segment of the US equity universe) with lower price-to-book ratios and lower forecasted growth values. **S&P 500 Index** is an unmanaged index of 500 common stocks of large U.S. companies, weighted by market capitalisation. It gives a broad look at how U.S. stock prices have performed. Indices are unmanaged and are provided for informational purposes only. Investors cannot directly invest in an index.

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