



MID-YEAR 2026

MULTI-ASSET VIEWS



All investments involve risk, including the possible loss of capital.

GROWTH DYNAMICS: RESILIENT BUT UNEVEN

The global macro environment remains broadly supportive of risk assets heading into the second half of 2026, despite the sharp escalation in geopolitical risks stemming from the conflict in the Middle East. After a first-quarter rebound in the U.S. economy following the government shutdown in the second half of 2025, global growth continues to be driven by fiscal spending in major economies, an ongoing technology-driven investment cycle in the U.S. and China, and a still supportive liquidity backdrop. A regime indicator used by our team to assess the current macro environment based on comparisons with history suggests that conditions are still favorable for risk assets, including equities, real estate, and commodities.

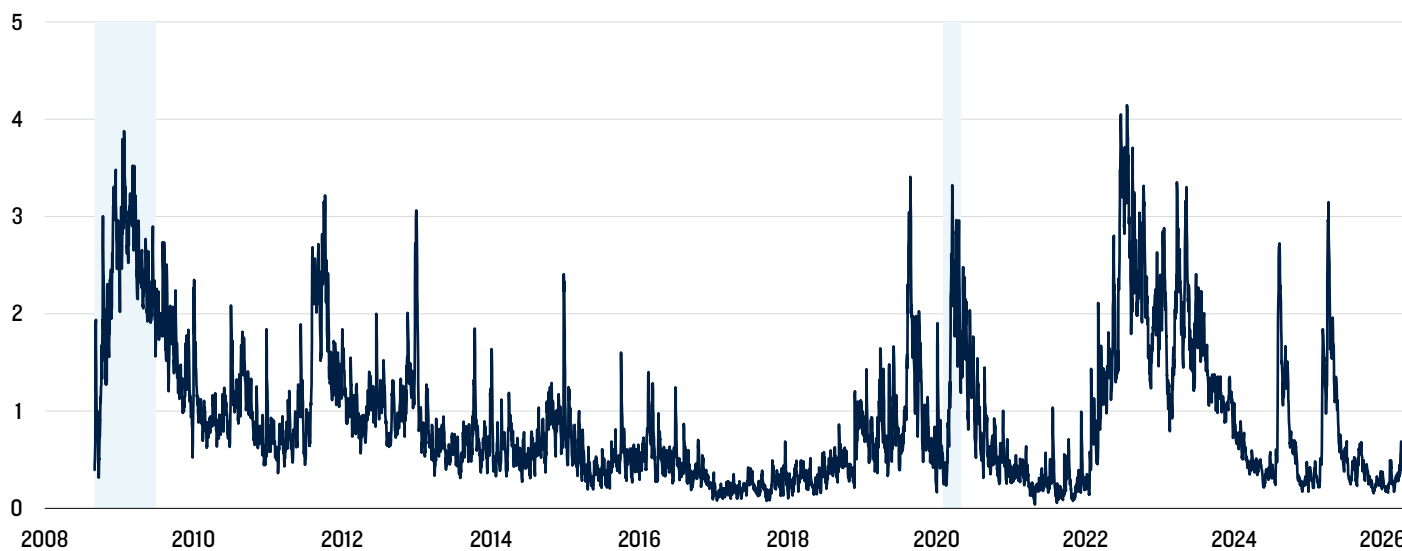
After coming in below trend in late 2025, global activity started the year with signs of resilience and gradual acceleration, boosted by cumulative interest-rate cuts since 2024. Tariffs have faded as a concern. In the U.S., AI-related capital expenditures and still solid consumer spending continue to bolster economic growth. Capex continues to be underpinned by a strong earnings backdrop, particularly in the technology sector, enabling investment in AI-related buildouts alongside

broader tax incentives from the One Big Beautiful Bill Act. Consumption is bifurcated, with spending increasingly concentrated among higher-income cohorts, while trends for lower-income segments have been weaker.

However, the conflict in the Middle East has introduced a thicker tail-risk environment for major asset classes, with outcomes increasingly dependent on the duration and intensity of the conflict. Under a scenario in which a fragile ceasefire emerges with both sides claiming victory, the Strait of Hormuz would likely reopen gradually amid a sustained U.S. presence in the Gulf. Even in that scenario, it may take several months for initial congestion to ease, energy transport to normalize, and secondary supply chains for petrochemicals, fertilizers, and plastics to fully catch up.

Overall, our high frequency U.S. recession sentiment indicator (Exhibit 1) rose in the immediate aftermath of the conflict, but has since retracted sharply, returning to levels observed in late 2025. It remains well below the peaks recorded at various points in 2024-2025.

Exhibit 1: Recession Sentiment Index



Source: Bloomberg and PGIM. As of May 18, 2026. Shaded areas show periods of economic recession.

CURRENCY AND RATES

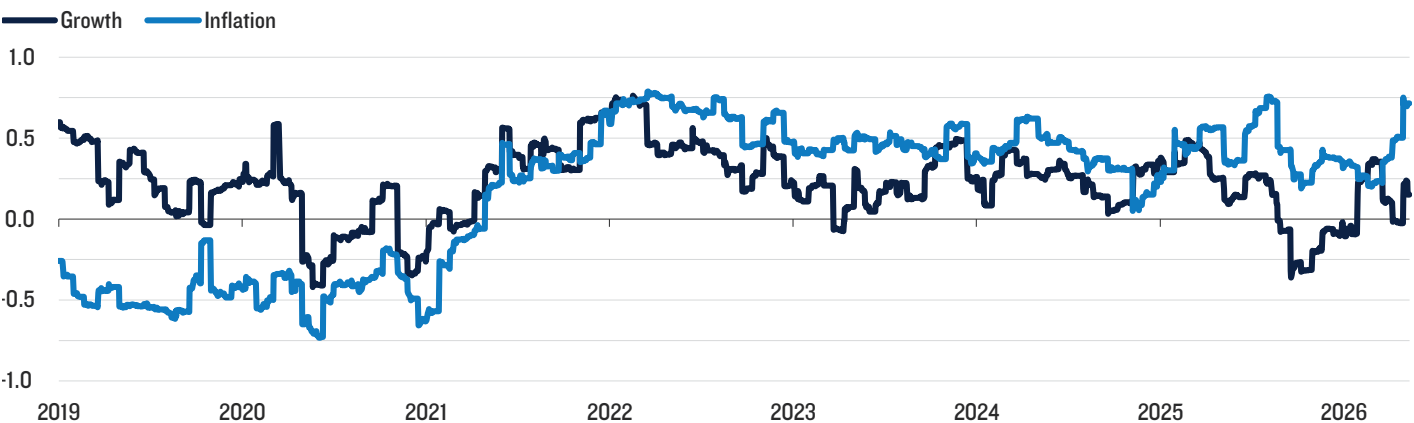
The Bloomberg Dollar Spot Index is modestly higher year to date as of late May, following a 9.4% decline in 2025. The path has been conspicuously volatile, with the dollar weakening notably through late January into February, recovering briefly in March, and then softening again. The interest-rate backdrop has shifted materially relative to 2025. Rather than edging lower, U.S. short-term rates have moved higher year to date, with the two-year Treasury yield rising from approximately 3.50% at the start of January to around 4.00%. This reflects persistent inflation pressures—with war-driven energy costs feeding into core goods—and a Federal Reserve that may be on hold or potentially biased toward further tightening. Consensus

expectations and market pricing point to very modest easing, if any, and a much shallower cutting cycle than anticipated at the start of the year.

While the labor market is softer than in prior years, it has not deteriorated meaningfully. This has left the Fed divided between those advocating for proactive easing and those favoring a more cautious stance. Proprietary indicators from our investment team suggest the Fed’s tone on inflation has become increasingly hawkish, even as its growth tone (Exhibit 2) has improved. Another indicator, attentiveness to inflation (Exhibit 3), shows that focus on inflation has risen solidly after easing through 2025, reflecting the impact of recent geopolitical shocks.

Exhibit 2: Central Bank Bias Index

Growth and inflation levels; % net positive bias



Source: Bloomberg and PGIM proprietary index; for illustrative purposes only. As of May 18, 2026. Proprietary indicators have inherent limitations and do not guarantee future results.

Exhibit 3: Inflation Attentiveness Index

(%)



Source: Bloomberg and PGIM. As of May 18, 2026. Shaded areas show periods of economic recession.

Exhibit 4: Unemployment Attentiveness Index

(%)



Source: Bloomberg and PGIM proprietary index; for illustrative purposes only. As of May 18, 2026. Shaded areas show periods of economic recession.

On the positive side, attentiveness to unemployment (Exhibit 4) has moderated year to date from the highs seen in the second half of 2025, when concerns about AI-related layoffs were among the factors driving labor market worries. As a result, inflation has reemerged as the primary concern for both investors and policymakers.

The appointment of a new Fed Chair introduces an additional layer of uncertainty to the rates outlook. Given the backdrop described above, the the fed funds rate is likely to stay somewhat above the estimated neutral level of about 3% in the near term. Long-term rates have been range bound, although the 10-year Treasury yield recently moved higher amid inflation and debt sustainability concerns.

Other Global Central Banks

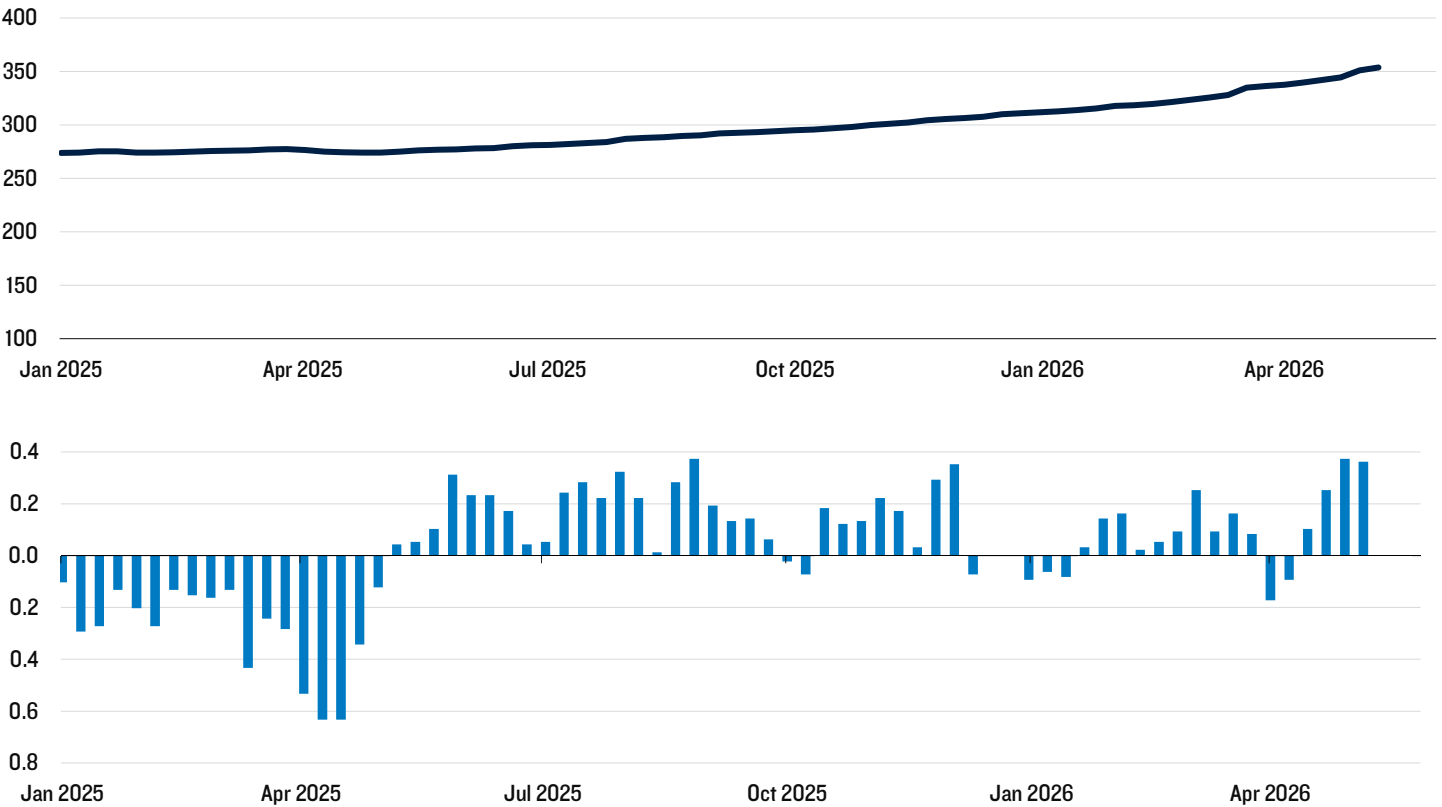
Other major central banks are being forced to adopt a relatively hawkish stance in the face of elevated inflationary pressures stemming from the conflict in the Middle East. Euro area government curves are expected to retain a steepening bias through the rest of 2026, following their steepening in 2025, with the European Central Bank likely to hike moderately in response to inflation rising well above target and ongoing fiscal stimulus, particularly in Germany. Curve steepening has also been significant year to date in Japan. While the scope for a further significant rise in long-term yields appears more limited after the year-to-date moves—absent an overheating scenario—persistent inflation concerns and government spending intentions are likely to keep upward pressure on long-term yields in the second half of the year.

Global Equities

Global equities remain supported by a solid earnings outlook. Corporate earnings have had a strong start to 2026, with U.S. companies posting robust 18% year-over-year earnings per share growth in the first quarter, an acceleration of five percentage points from the fourth quarter of 2025. In 2025, corporate earnings demonstrated notable resilience despite some initial tariff-related uncertainty. A similar pattern has emerged in 2026: U.S. earnings expectations were initially revised lower as the conflict in the Middle East intensified, but expectations (Exhibit 5) have since rebounded. A key feature of the ongoing expansion has been rising productivity, which boosts earnings growth and thus the case for broad-based equity market gains. U.S. nonfarm productivity has averaged approximately 3%

annualized over the past year, and unit labor costs have been contained. Earnings resilience extends beyond the U.S. Earnings growth for Europe, Australasia, and the Far East (EAFE) is expected to be around 12% over the next 12 months, while emerging markets are projected to deliver approximately 42% growth. Forward P/E valuations for EAFE equities are now in the 88th percentile of their historical range, compared to the 87th percentile for U.S. equities.¹ However, EAFE equities face headwinds from relatively more subdued economic momentum and a higher likelihood of central bank tightening, which may constrain further multiple expansion. In Japan, earnings expectations point to double-digit profit growth, supported by fiscal expansion under the Takaichi administration.

Exhibit 5: Top chart: Earnings Expectations (\$B); Bottom chart: Earnings Revisions (%)



Source: Citi and Bloomberg. As of May 15, 2026.

¹ Historical ranges are based on available data and may not reflect all market conditions.

EMERGING MARKETS AND COMMODITIES

Emerging Market Assets

EM assets have benefited over the past year from resilient global growth and trade dynamics, despite earlier headwinds from higher U.S. tariffs. However, the Middle East conflict has the potential to disrupt this momentum, as higher energy costs weigh on EM importers and prompt greater caution from central banks. Broader EM growth is projected to slow but stay resilient amid improved policy credibility and a constructive external backdrop. China maintains an accommodative fiscal policy, with calibrated support for consumption, the property sector, and infrastructure, while excess capacity is gradually easing. Some markets, such as Korea and Taiwan, continue to meaningfully benefit from robust tech demand, and earnings growth in other major emerging markets is still solid, with valuations appearing more reasonable.

Commodities

Commodities have had a strong start to 2026, outpacing equities. Historically, commodities have outperformed during periods of heightened inflation concerns. Given the economic backdrop, we believe the environment for commodities remains supportive based on elevated inflation, lingering geopolitical tensions, and resilient global growth. Commodity carry may appear relatively attractive given the run up in spot prices. While macro and risk factors for commodities are broadly neutral in our models, sentiment is also favorable. Precious metals have retraced from first-quarter highs, but continue to experience consistent central bank demand, a softer U.S. dollar, and elevated inflation amid sustained fiscal spending.

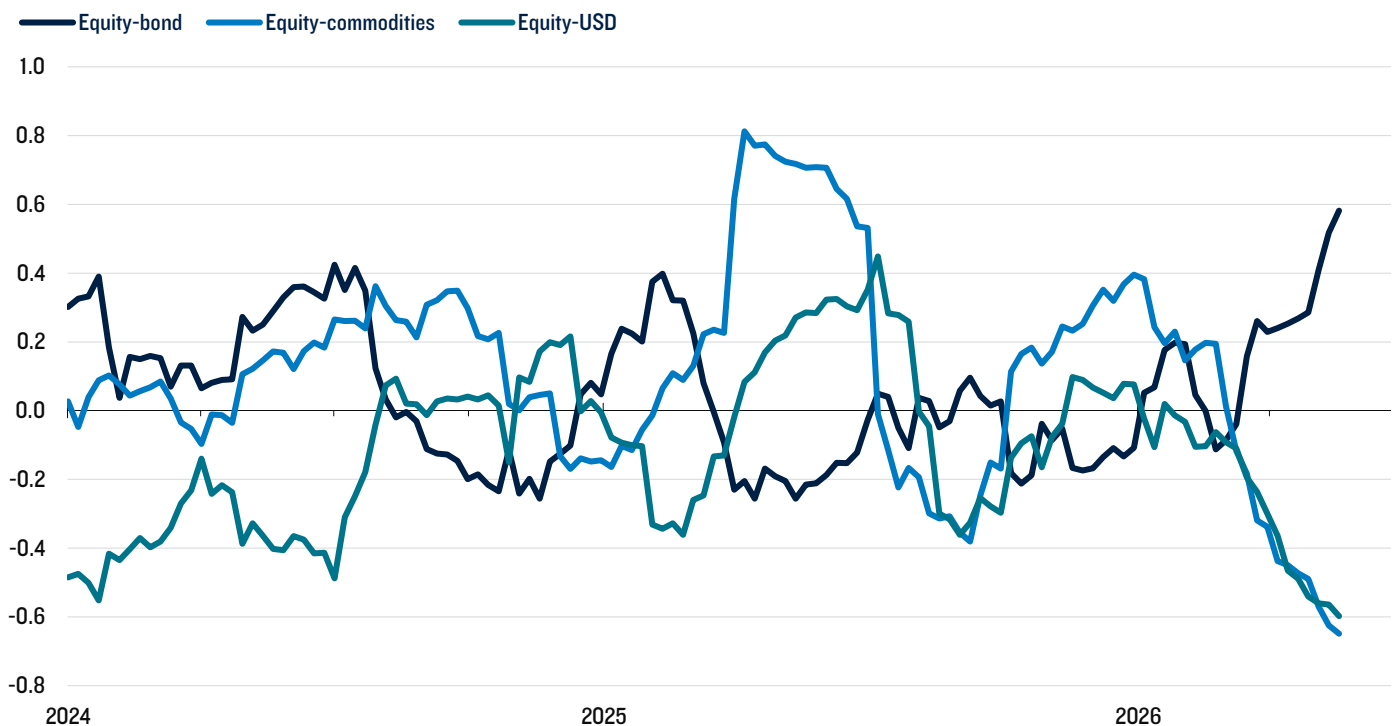


ASSET ALLOCATION

Portfolios may stand to benefit from monitoring cross-asset correlation (Exhibit 6) patterns. Stock-bond correlation—the anchor of portfolio construction—has continued to exhibit the mixed trends seen in recent years. So far in 2026, it has turned positive after being modestly negative for much of 2025, as inflation concerns resurfaced. Given expectations of elevated inflation in the near term and the potential for an overheating scenario, stock-bond correlation could stay positive into the

second half of 2026. Commodities may continue to provide ballast during periods of inflation concerns or geopolitical stress, as they did in 2025. The dollar-equity correlation fluctuated between strongly positive (post-April 2026 tariff announcements) and negative through the remainder of 2025. It has remained negative so far in 2026, suggesting potential benefits for non-U.S. investors from hedging U.S. asset exposures to protect returns.

Exhibit 6: Cross-asset Correlations



Source: Bloomberg and PGIM. As of May 21, 2026.



Source(s) of data (unless otherwise noted): PGIM as of June 2026.

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