PGIM MULTI-ASSET SOLUTIONS

SECOND QUARTER 2025 OUTLOOK

INVESTING AMIDST MACRO UNCERTAINTY & SENTIMENT-DRIVEN VOLATILITY

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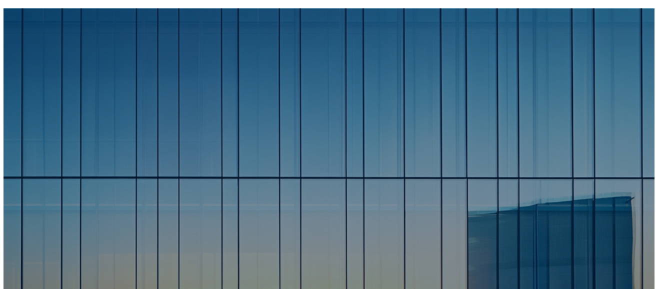

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01 MARKET PULSE

Executive Summary

After relative synchronization across global markets, we are entering a period of extraordinary divergence – across asset classes, regions, and sectors – creating both unprecedented challenges and potential alpha opportunities for institutional investors. The catalyst? A dramatic escalation in protectionist policies by the new administration, resulting in global trade tensions and confusion that upended the traditional market reaction function, followed by a sudden 90-day-pause on reciprocal tariffs.

While the sudden pause in punitive tariffs has resolved some near-term trade risks, we anticipate that uncertainty may not fully abate. This landscape highlights many challenges, but also presents opportunities for investors who can adapt to the ever-evolving regime and dynamics.

Key topics unpacked in PGIM Multi-Asset Solutions' Second Quarter 2025 Outlook include:

- Policy uncertainty and challenges to US "Exceptionalism"
- Increasing probability of recession and stagflation
- Balancing defensive positioning with tactical allocations
- Emerging global investment opportunities

Market Pulse

Heading into the first quarter of 2025, we were constructively positioned on growth and risk assets while acknowledging stretched valuations and macro uncertainties. What we did not anticipate was the turbulence that materialized as the second Trump administration entered office introducing, its policies with such shock and awe, including upending the Federal labor workforce, executing on aggressive immigration policies, and last but not least, introducing aggressive trade protectionism which rocked the global marketplace. Market sentiment has been dominated by policy confusion, particularly around tariffs, challenging the multi-year US "Exceptionalism" narrative and triggering widespread volatility which persists.

While corporate and consumer fundamentals remain relatively resilient, there is an increasing risk of deterioration as escalating trade tensions impact bottom lines. As we look ahead to the rest of the year, we anticipate continued volatility. While our baseline expectation at the end of the first quarter was for trend growth, albeit with increasing downside risk, the distribution tail continues to widen day-by-day.

For institutional investors, the key to navigating this challenging environment will be balancing defensive positioning with tactical allocations to emerging areas of value as policy trajectories become clearer. Those who can adapt to this new regime – where the global macroeconomic and geopolitical landscape are being reshaped, and decades-old investment assumptions are being tested – may uncover opportunities to potentially preserve capital and generate alpha.

Exhibit 1: Market Snapshot (As of March 31, 2025)

		Benchmark	Current Levels Govt Bond = Current Yield (%) Equities = Index Level Credit = OAS (bps)	Q1 2025 Yield / Spread Change ▲▼	Q1 2025 Returns ▲▼
Fixed Income	2 Yr Treasury	US Government 2 Year Note	3.88%	(36)	1.53%
	10 Yr Treasury	US Government 10 Year Note	4.21%	(36)	3.83%
	US Investment Grade Credit	Bloomberg US Credit Index	88	12	2.36%
	US Long Credit	Bloomberg US Long Credit Index	117	17	2.47%
	US High Yield	Bloomberg US HY 2%	345	58	1.00%
	Leveraged Loans	Credit Suisses Lev Loan Index	498	23	0.61%
	CLO	JPM CLOIE Index	213	8	1.07%
	Agency MBS	Bloomberg US MBS Index	36	(7)	3.06%
	CMBS (Investment Grade)	Bloomberg US CMBS Investment Grade Index	95	6	2.57%
	ABS	Bloomberg US Agg ABS Index	59	16	1.53%
	EM Debt (Local)	JP Morgan GBI-EM Global Diversified Index	6.30%	(9)	1.62%
	EM Debt (Hard)	JP Morgan EMBI Index	349	24	2.24%
Equities and Real Assets	US Large Cap Equity	S&P 500	5,612	--	-4.28%
	US Small Cap Equity	Russell 2000	2,012	--	-9.48%
	Global Developed Equity	MSCI World Index (Net Total Return)	11,521	--	-1.79%
	EM Equity	MSCI EM Equity Index (Net Total Return)	936	--	3.26%
	Global Public Real Estate	FTSE / Nareit Developed Index (Net)	5,059	--	1.59%
Commodities	Energy	Bloomberg Energy Subindex	79	--	10.97%
	Precious Metals	Bloomberg Precious Metals Subindex	761	--	18.28%
	Industrial Metals	Bloomberg Industrial Metals Subindex	368	--	8.57%
	Agriculture	Bloomberg Agriculture Subindex	141	--	2.02%

Source: Bloomberg, JP Morgan and PGIM. Data as of March 31, 2025.

"As we move into a period of significant volatility, portfolio resilience will depend on an ability to maintain sufficient liquidity and tactical flexibility to adapt to increasing recession and stagflation risk."

Mao Dong, Co-Head of Portfolio Management, PGIM Multi-Asset Solutions

As we navigate the second quarter of 2025, several macro themes will emerge as key drivers of market performance:

1. **US Policy Uncertainty & Impact on Inflation and Growth:** The second Trump administration has clearly prioritized deregulation and tax cuts as part of its pro-growth agenda, but its approach to tariffs and immigration restrictions has introduced economic complexity. While markets anticipated a renewed focus on tariffs – both as a revenue generator and negotiation lever – the volatile and unpredictable implementation continues to catch investors off guard.

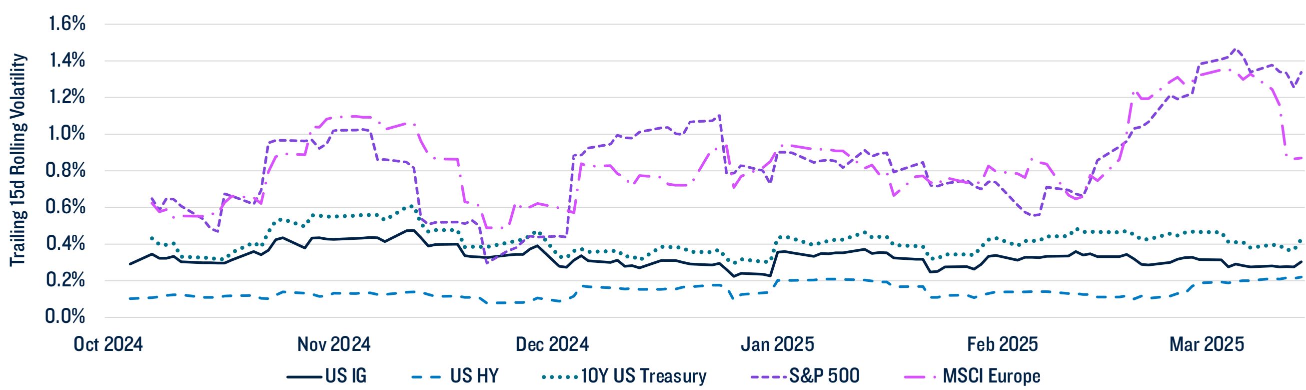
   A series of abrupt tariff announcements and unexpected policy reversals, coupled with retaliatory measures from the US' major trading partners such as Mexico, Canada, China, and Europe, have fueled market volatility and dampened investor sentiment. This policy uncertainty has disproportionately impacted equities, while credit markets have demonstrated greater stability due to their fundamental anchoring (**Exhibit 2**).

   The inflation implications are becoming increasingly evident. Survey data from the University of Michigan shows both 1-year and 5-year inflation expectations are trending higher (**Exhibit 3**) as households anticipate increased costs. In response, the Fed has raised its core personal consumption expenditures (PCE) inflation forecast to 2.8%, acknowledging that price pressures may prove more persistent than initially expected.

   Business investment has stalled amid this uncertainty, with capital expenditure decisions being delayed as companies reassess their strategic positioning. The impact extends beyond short-term volatility – an increasingly inward-looking and protectionist stance threatens the US' long-term competitiveness and creates uncertainty for multinational earnings and capital flows. This new reality has prompted the OECD to reduce its 2025 US growth forecast to 2.2%.

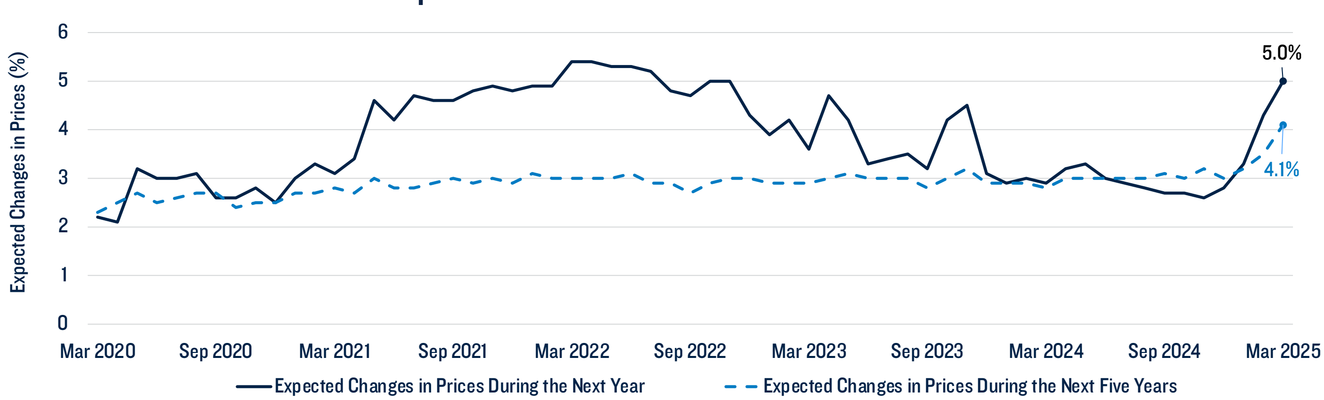
   For institutional investors, this continually shifting policy landscape demands a strategic reassessment of inflation hedges and geographic exposures, particularly for portfolios with significant multinational earnings dependence.

Exhibit 2: Asset Class Volatility Ahead of Tariff Announcements



Source: LSEG Datastream, and PGIM Multi-Asset Solutions. Data as of March 31, 2025.

Exhibit 3: 1-Year vs. 5-Year Inflation Expectations



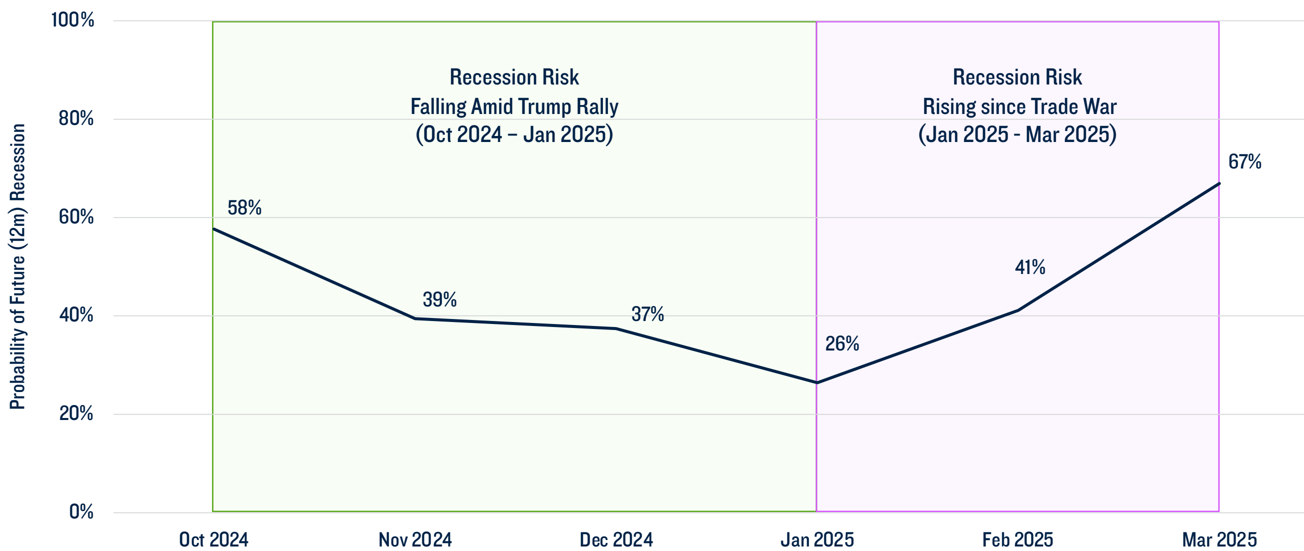
Source: University of Michigan: Inflation Expectation [MICH]. Data as of March 31, 2025.

2. **Increasing Dual Risks of Recession and Stagflation:** The recession probability landscape has fundamentally shifted since the first quarter of 2025. PGIM Multi-Asset Solutions' proprietary model – which integrates both macroeconomic indicators and financial market signals with historical data going back to 1954 – now shows the likelihood of a recession within the next 12 months surging from 26% in January 2025 to 67% in March 2025. This dramatic increase stems from a weakening equity market, flattening yield curve, and deteriorating productivity metrics following the onset of a Trade War (**Exhibit 4**).[1]

   What makes this environment particularly challenging for institutional portfolios is the simultaneous rise in stagflation risk. Recent forecasts and commentaries from Fed officials point to this uncomfortable reality: lowered growth expectations coupled with higher inflation projections. The administration's far-reaching reciprocal tariff policies transformed "Liberation Day" into a series of "Liquidation Days," pushing US equities into bear-market territories while exerting upward pressure on prices. While this was followed by a temporary relief rally as the market embraced the 90-day pause in reciprocal tariffs for most countries, we are certainly not out of the woods as trade negotiations continue.

   This dynamic also creates a strategic allocation dilemma. Traditional recession-protection playbooks may prove inadequate if inflation remains elevated. Similarly, inflation hedges may underperform if growth deteriorates more rapidly than expected. For institutional investors, this suggests three immediate actions: 1. Maintaining liquidity and tactical flexibility to adjust as either recession or inflation forces gain dominance; 2. Increasing exposure to asset classes which have demonstrated resilience during stagflationary periods; and 3. Remaining agile and watching for signs of stabilization or further deterioration that will shape the trajectory of risk assets going forward. As we navigate the second quarter, portfolio resilience will depend on a balanced approach to these competing macro risks.

Exhibit 4: US Recession Risk Has Resurfaced Amid the Trade War



Source: Bureau of Labor Statistics, Federal Reserve Board, Haver Analytics, NBER, Standard & Poor's, PGIM Multi-Asset Solutions.

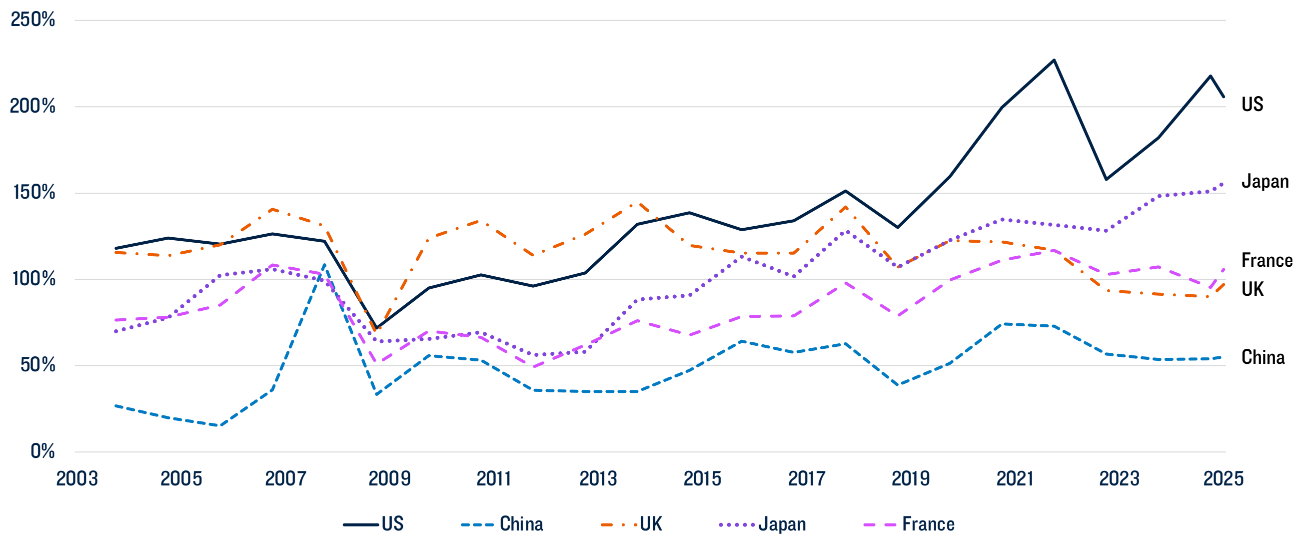
3. **US "Exceptionalism" Challenged:** The first quarter of 2025 has been marked by significant shifts in global financial markets, challenging the long-prevailing narrative of US "Exceptionalism" that previously sustained US assets' stretched valuations (**Exhibit 5**). The resurgence of uncertainties about fiscal policy, federal debt, immigration and particularly Trump's tariff threats, have introduced heightened volatility in the US equity market. Investors are now fearing that growth in the US may be decelerating, triggering a rare twin sell-off in both US equities and the dollar (**Exhibit 6**). This market inflection may present potential strategic considerations for institutional investors to reassess global allocations.

[1]See What to Expect When Expecting a Recession: A CIO's Guide to Interpreting the Probability of Recession, X. Xu, June 2023, PGIM.

Looking abroad, non-US markets have gained momentum year-to-date (as of March 31, 2025): Europe benefits from reflation potential supported by stimulative fiscal policies, Japan from yield increases and yen strength that may drive capital repatriation, and China from improved economic prospects fueled by AI advancements and policy support. While we maintain that US fundamentals remain sound with improved valuations after the correction, the current environment demands geographic diversification and broader equity exposures to navigate effectively.

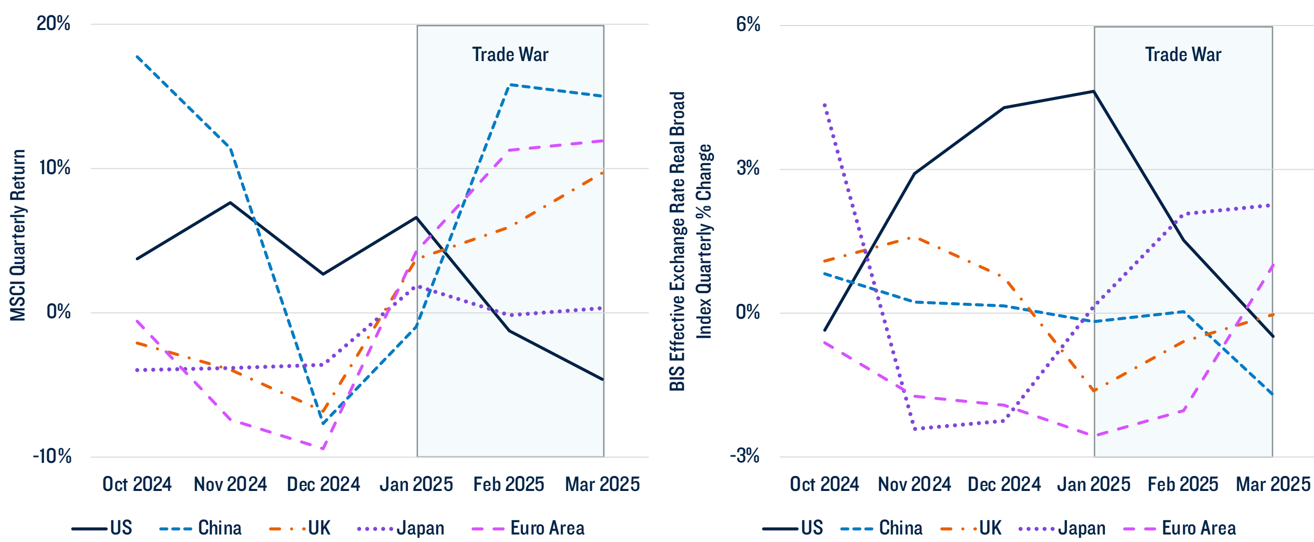
Despite near-term headwinds and volatility, we believe the US may continue to be a dominant driver of global growth and return over time. While equity prices have been negatively impacted, corporate and consumer fundamentals remain relatively robust. If anything, the recent correction has brought US risk assets closer to fair valuation, which was a significant concern of market participants heading into this year. The short-term exuberance over non-US markets has been evident year-to-date, but the economic, fiscal and political challenges across many of these economies have yet to be addressed and may continue to weigh on returns across these geographies. This further emphasizes the need for a balanced portfolio construction approach that focuses on diversification across assets and breadth within equity exposures.

Exhibit 5: Equity Market Cap to GDP



Source: Bloomberg, OECD Economic Outlook, PGIM Multi-Asset Solutions. Data as of March 31, 2025.

Exhibit 6: A Rare Twin Selloff in US Equity & Currency Markets



Source: Bank for International Settlements, Haver Analytics, MSCI, PGIM Multi-Asset Solutions.

4. **Speed Bumps in the AI Revolution – Industry Shifts from Hardware to Software:**
   The AI sector is experiencing a pivotal shift from hardware to software dominance. In the past quarter, AI-heavy stocks saw significant volatility as disruptive players like DeepSeek have challenged established market dynamics by offering advanced AI tools at substantially lower costs than leading US models. This challenged the assumptions that mega-cap tech firms could maintain dominance through spending and prompted the market to reevaluate heavy capital expenditures by these top players.

   We are witnessing "peak data," where incremental gains from larger datasets and more advanced chips have diminished. This transition from hardware and “training” to software innovation and “inference” has created divergent market performance – semiconductor stocks like NVIDIA, Broadcom, and Micron have suffered steep selloffs, while software-focused companies like Cloudflare, Meta and IBM have demonstrated resilience.

   AI companies are increasingly prioritizing operational margins through balanced top-line growth and bottom-line efficiency. Scalable AI solutions, particularly AI-powered SaaS (Software as a Service), offer revenue opportunities with minimal investment for firms with existing infrastructure, while cloud-based deployment enables cost efficiency through usage-based pricing.

   Despite near-term volatility, we believe the fundamental AI trend remains intact, with continued growth potential for industries directly and indirectly impacted by this technological evolution.

> **“Despite near-term volatility, we believe the fundamental AI trend remains intact, with continued growth potential for industries directly and indirectly impacted by this technological evolution.”**
>
> Michelle Teng, Vice President, Portfolio Research, PGIM Multi-Asset Solutions

02 KEY CONVICTIONS & INVESTMENT THEMES

The current market backdrop presents both compelling opportunities and notable challenges for institutional investors over the next several months. Below are some of the key investment themes and high-conviction ideas we are focused on from a multi-asset perspective:

1. **Strategic Rates Positioning:** We remain neutral on overall interest rate duration, which reflects a nuanced assessment of inflation pressures versus growth deceleration risks. The Fed's decision to maintain the 4.25-4.50% policy corridor at March's FOMC meeting was accompanied by heightened concerns regarding tariff-induced inflation and decelerating economic momentum.

   Elevated policy uncertainty has precipitated a significant repositioning of rates markets, with the Treasury yield curve steepening 10-20 basis points at the front-end. This curve normalization accelerated following the administration's reciprocal tariff announcement as growth concerns intensified. Concurrently, European sovereign yields have advanced amid reflation expectations driven by expectations of increased defense expenditures with German Bund yields rising 38 basis points year-to-date through the first quarter of 2025.

   For institutional portfolios – particularly pension and insurance mandates – comprehensive duration hedging strategies remain essential in navigating this period of elevated rate volatility.

   Within the Treasury curve, while we are generally duration neutral, we have been tactically biased towards the front-end of the treasury curve given near-term uncertainty and headwinds to growth.

2. **Quality-Focused Credit Allocation:** Credit markets have exhibited relative resilience amid broader market turbulence, with only modest spread widening in investment grade and high yield sectors (17 and 58 bps in Q1). This stability stems from robust credit fundamentals and subdued default metrics rather than complacency. However, prolonged trade tensions threaten to erode corporate and consumer balance sheets, potentially triggering downgrades and defaults as debt servicing capacity deteriorates.

   We maintain a neutral stance on credit spread while emphasizing quality differentiation – favoring higher-credit quality exposures over lower-quality, below-investment grade exposures. Our positioning reflects asymmetric risk-reward dynamics at current spread levels while preserving tactical flexibility to rotate opportunistically down the capital stack should significant widening occur in subordinated segments of the capital structure.

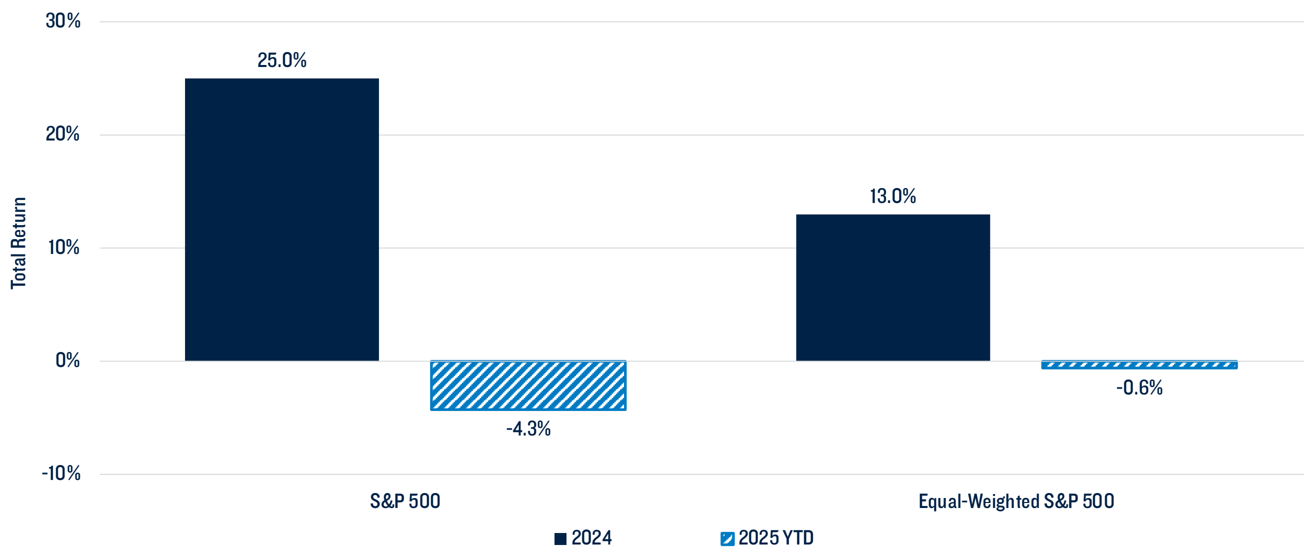
"We tactically favor higher credit quality exposures over below- investment grade exposures, but we are preserving flexibility to rotate opportunistically down the capital stack should significant widening occur."

Mao Dong, Co-Head of Portfolio Management, PGIM Multi-Asset Solutions

3. **Focus on Greater Breadth in Equities, Rather Than Following Market Cap:** After a period dominated by mega-cap tech names (the "Magnificent 7"), market breadth has expanded considerably in 2025, with the equal-weighted S&P 500 outperforming its cap-weighted counterpart by 3.7% year-to-date. This represents a striking reversal from 2024's 12% underperformance when narrow leadership constrained alpha generation opportunities (**Exhibit 7**). As earnings revisions roll over for the "Magnificent 7" and valuations adjust (**Exhibit 8**), the market is finally showing signs of greater stock-level dispersion and broader participation.

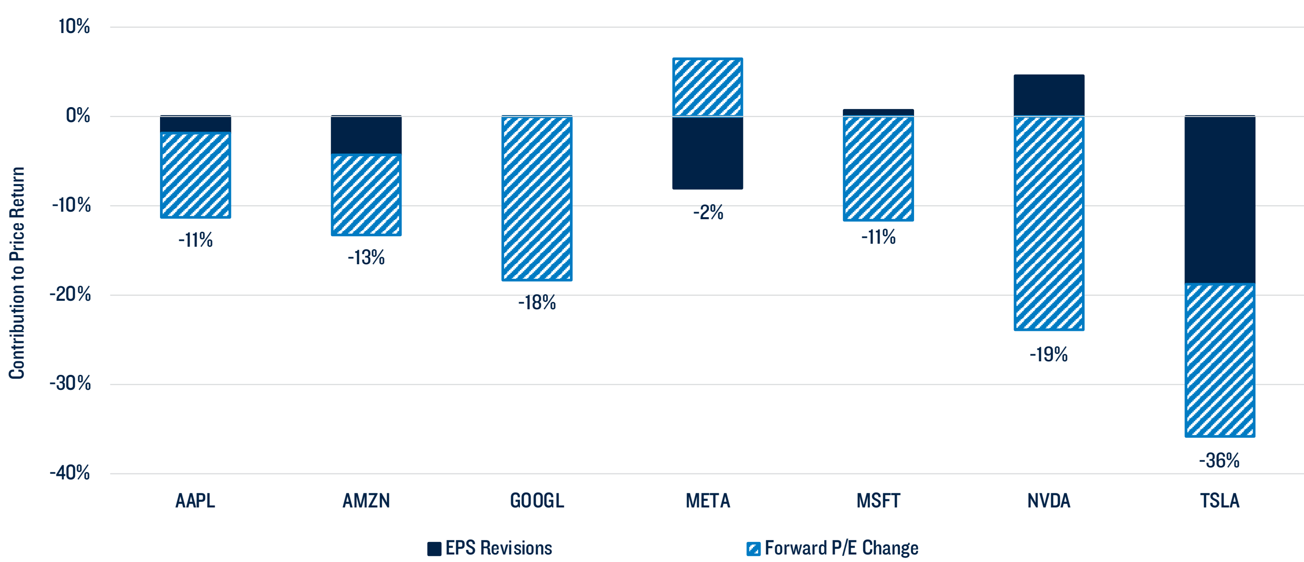
In the months ahead, as headline and sentiment risks persist, focusing on increasing breadth and diversification within equities will help provide a greater buffer against market volatility. In this current, environment where there is indiscriminate selling across equities given the escalating trade war, being more defensive and diversified can be beneficial. As trade policy becomes clearer, the market has the potential to refocus on fundamental drivers, such as earnings growth and valuation, potentially creating opportunities for active managers to seek alpha by uncovering mispricing opportunities based on company fundamentals.

Exhibit 7: S&P 500 vs. Equal-Weighted S&P Total Return



Source: Bloomberg, PGIM Multi-Asset Solutions. Data as of March 31, 2025.

Exhibit 8: Magnificent 7 YTD Price Return Decomposition (12/31/2024 – 3/31/2025)

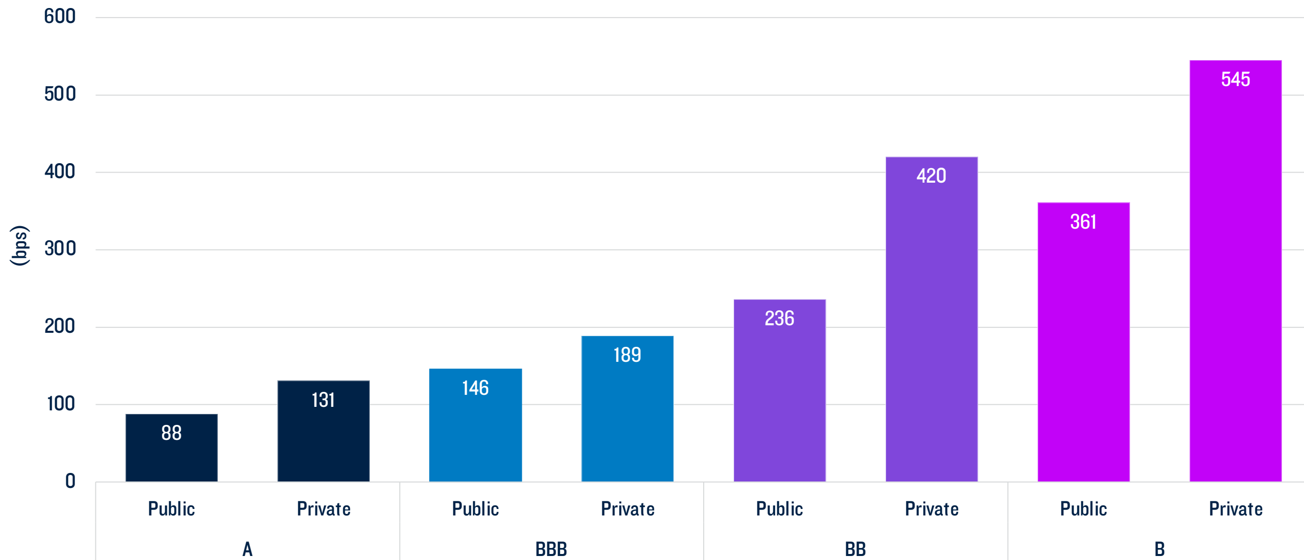


Source: Bloomberg, PGIM Multi-Asset Solutions. Data as of March 31, 2025.

4. **Private Credit vs. Public Credit Performance:** While the current market environment will likely make it challenging for greater M&A activities in the near-term, we believe private credit may offer potential opportunities over the longer term, driven by continued spread premium over public credit (**Exhibit 9**) as well as potential structural protections against volatility. In fact, while the recent tariff-driven selloff has rocked public markets, private credit strategies have swooped in to "buy-the-dip" and offer robust financing options in place of broadly syndicated loans. Moreover, the diversification of collaterals in asset-backed finance (ABF) and the defensive characteristics in real assets, such as infrastructure, have the potential to be strong opportunities for investors. High-quality, well-structured deals combined with a disciplined and sector-specific approach may help investors navigate the current macroeconomic environment.

As inflation risk persists, the Federal Reserve remains cautious about rate cuts. The prolonged "higher for longer" interest rate environment enhances the appeal of floating-rate private credit investments for yield-seeking investors and may continue influencing private credit performance in 2025. However, elevated interest costs could pose challenges for highly leveraged borrowers. As refinancing costs rise and interest coverage ratios tighten, some lower-rated credits and businesses with cyclical exposure may face greater financial strain. Investors should also look to include real assets, such as infrastructure investments, in a balanced portfolio, in light of the potential heightened risk of stagflation.

Exhibit 9: Public vs. Private Credit Option-Adjusted Spread Comparison (As of March 31, 2025)



Source: Bloomberg, PGIM Multi-Asset Solutions. Data as of March 31, 2025.

03 OUTLOOK BY ASSET CLASS

Our cross-asset class views indicate where we see the best relative value opportunities within global financial markets. These are not intended to represent a specific portfolio, and assume a multi-asset investor seeking long-term growth.

Public Fixed Income

As noted in our First Quarter 2025 Outlook, the post-zero rate environment has fundamentally recalibrated fixed income's strategic role beyond traditional liability-hedging. The asset class now delivers compelling total return potential with superior volatility characteristics relative to equities – a critical portfolio stabilizer in what promises to be a turbulent 2025.

Beneath relatively modest aggregate fixed income volatility lies divergent component behavior: significant interest rate variability contrasted by resilient credit spreads. Policy confusion following tariff announcements has amplified volatility in the pricing of central bank reaction functions, warranting our neutral duration stance and disciplined liability-matching approach. Meanwhile, public credit spreads remain tight relative to historical averages despite heightened macro uncertainty and recent widening, creating asymmetric risk skewed toward widening. Therefore, we are biased towards higher credit quality. This positioning provides defensive characteristics while maintaining optionality to rotate down the capital structure should significant spread widening create compelling risk-adjusted entry points.

Within public credit, we favor structured products over corporates for their more favorable carry and embedded protections – particularly senior CLO tranches and select CMBS segments (e.g., SASB) offering enhanced security selection control.

Equities

Last quarter, we expressed cautious optimism on US Large and Small Caps, supported by a stable macro backdrop and resilient earnings. We also liked Japanese equities, while taking a more cautious view on Europe and China due to near-term macro uncertainty. Since then, the S&P 500 has returned -4.3% in the first quarter followed by another -10% drawdown from the fallout of the reciprocal tariff announcements. While we are concerned about the near-term prospects of equities due to trade uncertainties, we believe US equities remain a key driver of global equity markets given relatively healthy corporate fundamentals and improved valuations following the recent pullback. The broadening market leadership beyond mega-cap technology presents a favorable alpha environment, with defensive sectors like Utilities offering compelling value.

Internationally, we remain selective given macroeconomic uncertainty and structural headwinds in many markets. We have become more constructive on European equities, particularly defense-related exposures which stand to benefit from increased geopolitical spending (projected to reach 2-4% of GDP). Japanese financials remain attractive, supported by secular reflation, rising rates, and potential capital repatriation on yen strength. In emerging markets, we recommend selective exposure to structural growth themes (i.e., EVs, fintech, digital platforms, AI applications) We remain cautious on China broadly but like Chinese technology where policy support and valuation discounts may offer opportunities.

The increased dispersion in market leadership and greater stock-level variation reinforce the case for active management.

Private Credit

Private structured credit offers stability advantages over the liquidity-driven volatility of public markets. Senior CLO tranches exemplify this resilience through historically minimal default rates, reinforced by over collateralization, robust covenant protections, and active management.[3] Well structured, high-quality transactions may offer potential downside protection – particularly valuable amid macroeconomic uncertainty.

Asset-backed finance (ABF) continues its rapid evolution beyond traditional consumer and corporate lending. Emerging segments, including renewable energy financing, intellectual property-backed transaction, and specialty lending, demonstrate enhanced diversification characteristics and reduced economic cycle sensitivity compared to public credit alternatives.

Private Real Assets

Real estate markets present selective value opportunities as the sector navigates a cyclical trough. While office properties face persistent headwinds from vacancy rates, refinancing pressures, and elevated interest costs, industrial and logistics assets demonstrate structural resilience driven by supply chain reconfiguration, nearshoring initiatives, and e-commerce growth. Data centers remain strategically positioned despite the potential shift toward operational efficiency over expansion.

Real estate debt merits particular attention, offering attractive risk-adjusted entry points with both spread premium and portfolio diversification benefits within fixed income allocations.

Private infrastructure investments may offer potential inflation-hedging characteristics through long-duration income streams frequently indexed to inflation measures. This characteristic has the potential to help in preserving real purchasing power as well as the potential to help maintain income stability. With governments prioritizing the energy transition and digital connectivity initiatives, infrastructure debt and equity should continue attracting significant institutional capital flows.

Short Term Views (3-12 Months)*

		Risk Factor / Asset Class	UW	N	OW	Comments
Main Market Risk Factors		Rates		●		With the escalating trade tensions, the "tug-and-pull" impact of renewed inflation and weaker growth suggests that Treasury yields can still see significant near-term volatility as the market continues to re-calibrate its expectation on the extent of Fed cuts
Main Market Risk Factors		Credit		●		While fundamentals remain relatively sound, spreads remain tight relative to historical averages and prone to greater risk of widening, particularly as recession risk increases. Overall, we maintain a higher credit quality bias
Main Market Risk Factors		Equities		●		We are cautious on equity risk, especially given uncertainty around the near-term path of tariffs and trade policy. Therefore, we expect equities to be rangebound with more downside risk in the near term, despite relatively sound fundamentals. We would emphasize greater breadth in exposure
Asset Class Views	Fixed Income	US Treasuries		●		We expect US Treasuries to be range bound given near-term volatility from uncertainties around the Fed's reaction function
Asset Class Views	Fixed Income	IG Corporate		●		Sound fundamentals and technicals are supportive of corporate credit but tight spreads present risk to the downside, particularly if an economic slowdown is realized from the escalation of trade wars
Asset Class Views	Fixed Income	High Yield	●			Risk-off sentiment across markets will represent a headwind for High Yield in the near term, particularly lower quality, despite relatively healthy fundamentals

[3]According to S&P Global Ratings, from 1994 through Q2 2024, US CLO tranches AAA experienced zero defaults, while those rated AA had a single default out of 616 original ratings.

		Risk Factor / Asset Class	UW	N	OW	Comments
Asset Class Views	Fixed Income	CLO			●	Favorable technicals (e.g. record issuances and volume in secondary market) amidst a period of volatility results in attractive spread entry points, particularly in AAA and AA tranches
Asset Class Views	Fixed Income	Agency MBS		●		Sector has cheapened with risk markets but near term may face challenges given broad-based risk-off sentiment. Medium-to-long term outlook is positive amidst regulatory relief and a more benign prepayment forecast
Asset Class Views	Fixed Income	CMBS		●		As CRE fundamentals continue to remain challenged, we would recommend staying higher in credit quality. Within CMBS, SASB looks relatively more attractive given greater ability to control security selection
Asset Class Views	Fixed Income	ABS	●			We are more cautious on consumer credit. While fundamentals remain relatively sound, inflationary risk driven by an escalating trade war and lower disposable incomes can be a headwind, particularly among non-prime borrowers. Therefore, we recommend moving higher in credit quality
Asset Class Views	Fixed Income	EMD Local		●		We expect EM near-term performance to be pressured given the escalating trade war and increased recession risk. EM FX's relative performance vs USD will be an influential factor and will keep performance rangebound
Asset Class Views	Fixed Income	EM Corporate Debt	●			EM spreads have widened in Q1, in line with broad based risk-off sentiment. Near-term performance to be pressured given the escalating trade war and increased recession risk
Asset Class Views	Equities	US Large Cap		●		We expect US equities, particularly market-cap weighted baskets, to face headwinds amidst the escalating trade tension and headline / sentiment risk, despite generally healthy corporate fundamentals
Asset Class Views	Equities	US Small Cap	●			Small Caps will face greater headwind due to the impact of tariffs and protectionist trade policies, but falling yields could support selective opportunities
Asset Class Views	Equities	Japanese Equities			●	Despite near-term global headwinds as a result of the escalating trade war, we are generally more constructive on Japan, as rising yields and a stronger yen may fuel capital repatriation, though the strengthening yen may act as a headwind to export-oriented sectors
Asset Class Views	Equities	European Equities			●	We've turned more constructive on Europe given supportive fiscal policy, but structural challenges and impact of the trade war continues to suggest an active approach
Asset Class Views	Equities	EM Equity	●			Structural growth themes (e.g., EV, fintech and AI) are attractive, but China's uncertain outlook and potential impact of tariffs and trade war continues to weigh on broader EM performance
Asset Class Views	Equities	Public Real Estate		●		Lower policy rates should be beneficial for real estate and REITs' relatively defensive equity beta can serve as hedge in tail risk scenarios, but office CRE can continue to be a headwind

*Underweight =UW, Neutral = N, Overweight = OW. Past performance is not an indicator of current or future results. Weightings represent an assessment of the market environment at a specific time and are not intended to be a forecast or guarantee of future results. This information should not be construed as investment advice or an offer or solicitation to buy or sell securities.

04 CONCLUDING PERSPECTIVES & CONSIDERATIONS

The investment landscape has undergone a seismic shift since our First Quarter 2025 Outlook, with policy-driven volatility challenging long-held assumptions and creating both risks and opportunities across asset classes. In this environment of heightened uncertainty, we believe institutional investors should focus on portfolio resilience while maintaining tactical flexibility.

As investors position portfolios for the quarter ahead, we believe there are four critical questions that should be considered:

1. **How will your portfolio perform if stagflation risks materialize?**
   Traditional diversification between stocks and bonds may prove less effective if inflation remains persistent while growth decelerates. Consider your allocation to real assets, commodities, and inflation-protected securities.

2. **Is your equity exposure sufficiently diversified beyond mega-cap technology?**
   The broadening market leadership presents alpha opportunities beyond the narrow concentration that dominated returns in recent years. Evaluate your positioning to capture this expanding dispersion.

3. **Are you prepared for a potential inflection point in credit markets?**
   While credit spreads have remained remarkably resilient, deteriorating corporate and consumer fundamentals could trigger rapid repricing. Ensure you can quickly pivot if opportunities emerge in distressed or special situations.

4. **Have you optimized your private market allocations for the current environment?**
   Private assets with structural protections, inflation linkage, and reduced correlation to public markets may provide critical portfolio stabilization as volatility persists.

The path forward may favor a balance between both defensive positioning and opportunistic flexibility. Those who can effectively manage these competing considerations may be better equipped to navigate what we anticipate will be a challenging but potentially opportunity-filled investment environment.

AUTHORS

Mao Dong
Co-Head of Portfolio Management,
Head of Portfolio Research

Aili Chen
Vice President
Portfolio Research

Stuart Jarvis
Managing Director
Portfolio Research

Junying Shen
Principal
Portfolio Research

Michelle Teng
Vice President
Portfolio Research

Xiang Xu
Vice President
Portfolio Research

About PGIM Multi-Asset Solutions & The Portfolio Research Group

PGIM Multi-Asset Solutions (PMA) was launched in 2022 as a business of PGIM, the global asset management business of Prudential Financial, Inc. (PFI), to provide investors with access to a sophisticated suite of public and private markets strategies. PMA combines asset-liability management expertise with portfolio strategy and asset allocation to develop integrated solutions for institutional investors. Partnering with the wider PGIM businesses that manage investments for some of the world's largest institutional investors, PMA brings together over 150 years of investment and risk management expertise.

PMA's Portfolio Research Group conducts asset class and portfolio level research, and develops proprietary investment frameworks and models. Through this work, the team helps investors navigate asset allocation, portfolio construction, and financial markets.

NOTES TO DISCLOSURE

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