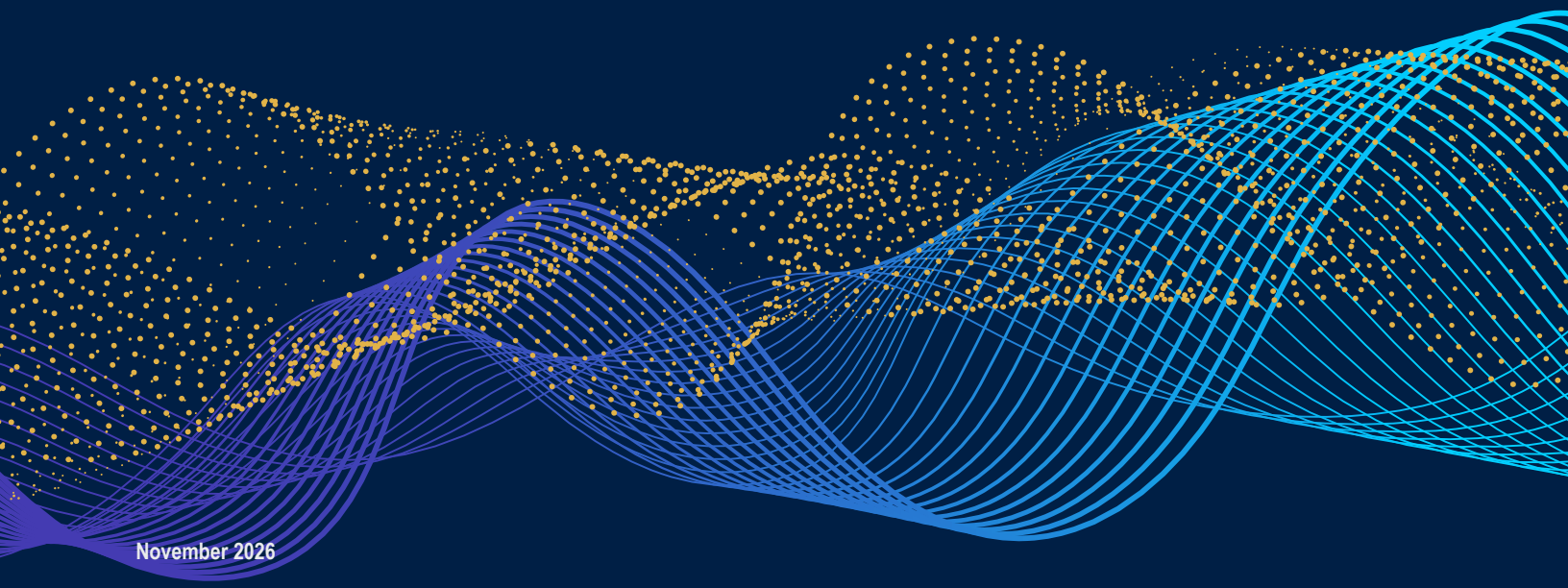
PGIM

2027 GLOBAL MARKET OUTLOOK

GROWTH WITHOUT GOLDILOCKS

Navigating Constraints, Shocks, and Concentration



November 2026

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GLOBAL MACROECONOMICS

GROWTH WITHOUT GOLDILOCKS

- Investors face an imperfect environment in the year ahead: the AI-capex buildout is fueling growth and presents a potential productivity game changer, but its return on investment remains highly uncertain.
- Reconfigured globalization, trade frictions, and armed conflicts are driving more intense supply shocks and volatile inflation while global fiscal largesse goes largely unchecked.
- Our macro scenarios acknowledge the potential for highly disparate outcomes in an environment where the conventional "balanced" approach to portfolio allocation risks overlooking the emerging drivers of asset prices.

Geopolitics Drive High and Volatile Inflation

Three global factors—**geopolitical tensions, trade frictions, and effects from the AI buildout**—are fueling high and volatile inflation, which is solidifying itself as a hallmark of the current macro regime.

On the **geopolitical front**, our base case for the situation in the Middle East is best described as a "prolonged quagmire," with the U.S. and Iran actively trying to wear each other down politically, economically, and militarily. In this scenario, we see oil prices within the $90-120 per barrel range, close to the 2022 peak following Russia's invasion of Ukraine. The main and growing risk to our Middle East base case is the resumption of all-out war, which we put at 30% as of October 2026. It's a scenario where oil prices would likely exceed their 2022 peaks at well above $120 per barrel and introduce major growth, inflation, and market implications.

For example, the risk in Europe is that a late-winter cold snap could lead to another increase in gas prices that would push euro area headline inflation beyond the current expected peak of 4%.

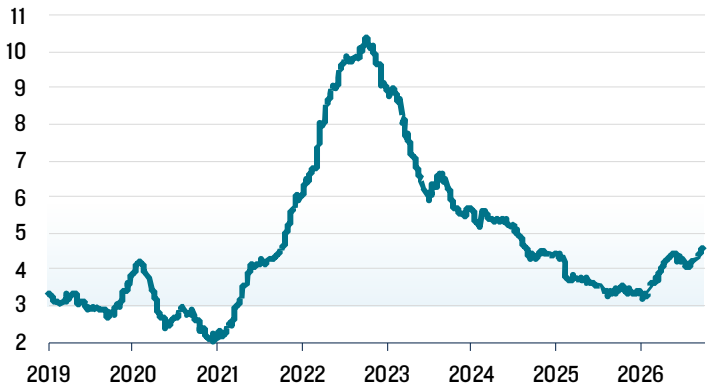
The impact on emerging markets will be highly differentiated. Net energy importers and economies with weaker currencies or greater foreign exchange pass-through, such as the Philippines and India, face a much larger transmission of the inflation shock, while commodity exporters, such as Malaysia and Colombia, may benefit from an offset through stronger terms of trade. The global increase in food commodity prices reflects the energy intensity of food supply chains, which can be further strained by extreme weather patterns.

Global trade frictions add another source of cost pressures. Considering the potential for U.S. legislative gridlock in 2027, executive action is emerging as a policy lever of first and last resort. As a result, we expect the Trump administration to expand its use of executive orders, including action to raise average U.S. tariff rates from an already elevated level of about 10% to closer to 15%. For its part, the EU has pivoted on its trade policy with China after recently announcing safeguard measures in the chemicals sector. If these are deemed to be successful, we could see similar measures extended to other sectors, such as machinery and furniture.

Last but not least, supply-chain pressures linked to the **AI-capex buildout** are mounting in the U.S. and in Europe, pointing to additional cost pressures for firms.[1] The bottom line is that, in a new era of global inflation **(Exhibit 1)**, central banks will likely view these developments as flashing amber for inflation expectations, particularly given the significant combined weight of food and energy in a typical household consumption basket.

Exhibit 1: The new era of global inflation

Global economy weighted inflation, annual percentage change



Source: PGIM and Macrobond. As of October 2026.

[1] For additional insights, see "Real Assets for New Realities: Investing in a World of Constraints," available at PGIM.com.

AI Capex and the New Globalization

At this point, we continue to view the AI buildout as primarily a global demand story rather than a productivity story. Data centers, power generation, grids, semiconductors, and associated infrastructure require substantial capital, energy, and commodities. Indeed, **AI capex** has become an important explanation for U.S. growth exceptionalism **(Exhibit 2)**, as it competes with China for tech dominance. We estimate that the rise in hyperscaler capex in 2026 could contribute as much as one percentage point to U.S. real GDP growth this year, with a modestly smaller impulse in 2027.

For now, strong investment demand related to the AI-capex buildout supports our base case of an overheating U.S. economy, with growth above potential and inflation above the Fed's 2% target. Indeed, the strength of U.S. domestic demand is such that consumption and investment growth combined exceeds GDP growth. That is, U.S. domestic demand outstrips domestic production, with imports filling the gap. Potential moderation in AI-related capex amid changes in public sentiment could pose a risk to U.S. growth in 2027. But in a great power competition, even if the U.S. slows down its AI investment, China is unlikely to take a similar approach.

The demand for AI-related inputs points to a **new flavor of globalization** based around the buildout. U.S. hyperscaler capex is raising import demand for semiconductors, memory, servers, electrical equipment, and specialist services, consequently supporting exports and domestic growth in supplier economies. Examples include German data processing equipment and electrical products, UK professional and IT services, Taiwanese AI-related GPU chips, and South Korean semiconductor hardware.

As such, we see the AI-related demand effects—and the associated inflation impact—as the dominant factor across the global economic outlook. Meanwhile, the eagerly awaited productivity boost from AI remains a positive, right-tail scenario that has yet to emerge, but could eventually usher in a Goldilocks combination of higher growth, lower inflation, and more manageable government deficits.

Unchecked Fiscal Pressures

Sovereign debt issuance must now compete with the heavy corporate issuance used to finance the AI buildout for a given pool of global savings. Fiscal pressures have persisted since COVID **(Exhibit 3)** with relatively limited signs of consolidation amid voter resistance to spending cuts while defense and infrastructure investment needs have only increased. Higher energy prices add further pressure on governments to support households and firms facing yet another cost squeeze. Finally, higher interest rates themselves increase governments' debt-servicing costs, leaving less room for other spending.

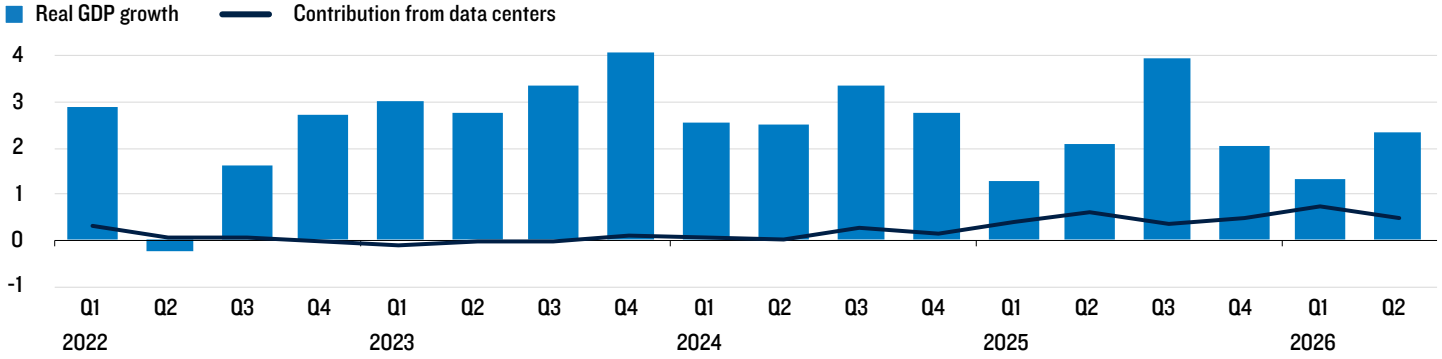
There is no fixed number at which government debt is deemed "too high." That said, France has become Europe's weakest link in terms of market scrutiny. French sovereign spreads over German Bunds have widened significantly and are now the highest in the euro area—above even Italy and Greece, the two economies hardest hit during the euro area sovereign debt crisis.

The financial structure in France is such that households are relatively less exposed to higher bond spreads due to the prevalence of long-term, fixed-rate mortgages and limited household holdings of government bonds. The relatively weaker interest-rate sensitivity in France suggests that the pain threshold to market discipline may be quite high. Ultimately, our base case is that a muddle through scenario with a degree of EU forbearance will offer France an off ramp from a full-blown crisis. But the situation will likely remain fluid and uncertain over at least the next six to 12 months until a new government and budget are in place.

U.S. deficits have recently been even larger than those in France, running at 6-8% of GDP compared with France's 5-6%.

Exhibit 2: AI capex continues to fuel U.S. GDP

Real GDP contribution from data centers, Q2 moving averages in percentage points



Source: PGIM and Macrobond. As of November 2026.

However, solid U.S. growth powered by private investment has helped support market absorption of Treasury issuance. But a slowdown in the U.S. economy, additional fiscal spending after the U.S. midterms, or congressional brinkmanship over raising the U.S. debt ceiling in 2027 could trigger another repricing of U.S. government debt.

Looking ahead, markets will likely become more discerning when comparing countries' fiscal conditions, and examples of stabilization exist. Debt-to-GDP ratios in the UK and Italy are expected to stabilize in the coming years, while those in Spain, Greece, Portugal, and Japan have recently declined. Emerging market economies with the ability to locally fund government borrowing, such as Poland, Chile, and Thailand, should be better insulated from periods of weak global risk appetite relative to those dependent on foreign portfolio flows.

China continues to contend with the overhang of local government and off-balance sheet debt as well as a deleveraging household sector. Central government debt is low by global standards, but there is limited appetite to aggressively expand the central balance sheet in order to fund a fiscally-financed consumerist bubble. Yet, liquidity should remain adequate to maintain manageable debt-service costs.

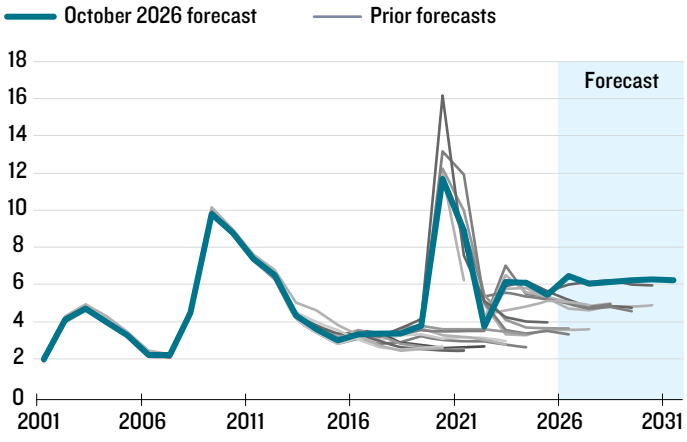
The main result is that low public savings and strong investment demand, against a backdrop of geopolitical inflation risks, are colliding and motivating central banks to keep policy rates elevated.

Central Banks Keep Policy Rates Higher

In the U.S., a slow-moving **Federal Reserve** will likely have to raise rates further to keep inflation expectations in check and return inflation to the 2% target over the medium term, which is consistent with our overheating base case. Yet, higher rates also increase the probability of recession from historically low levels to near the historical average of about 25%. We see an additional 100 basis points (bps) of Fed tightening in total, taking the terminal Fed funds rate to 5%, with risks skewed to more hikes and a faster pace of tightening. For now, we expect the Fed to move at a quarterly pace, beginning with the next hike in December 2026.

Exhibit 3: Rising deficits—a common global thread

G7 general government deficit forecasts, percent of GDP



Source: PGIM and Macrobond. As of October 2026.

The **European Central Bank** (ECB) remains in a better place when it comes to its monetary policy stance, having hiked sooner and set out a clear reaction function to the energy shock. Our view is that the ECB will raise rates one last time to 2.75% and into restrictive territory. The more challenging task for the ECB will be with regard to France and the potential for contagion risks to other European sovereigns, such as Belgium and Italy.

The pressure for higher rates is perhaps most acutely apparent in Japan. Our view remains that the **Bank of Japan** (**BoJ**) will continue to hike policy rates, but at a slightly faster pace. We see the next rate hike in December, followed by two additional 25-bp hikes, which would take the policy rate to the midpoint of the BoJ's estimated 1.0-2.5% neutral range. Beyond 1.75%, if the Japanese economy remains resilient and the constraints on BoJ tightening continue to fade, it is possible that rates could move towards the top of neutral.

Bucking the global rates trend, we expect the **People's Bank of China** to remain accommodative via a stable headline policy rate, cushioned by targeted and sector-specific liquidity measures and lending rates. Across emerging markets (EMs), further central bank tightening would test resilience, particularly if combined with higher developed market yields, a strong U.S. dollar, and weaker global liquidity. Traditional EM transmission channels would likely re-emerge: higher external funding costs, foreign exchange depreciation pressure, reduced scope for domestic easing, and tighter financial conditions. But vulnerabilities are no longer synonymous with, or limited to, emerging markets. Countries with large reserves, credible central banks, current-account buffers, and deep domestic markets should be significantly better placed than externally-dependent economies.

The key takeaway from the combination of inflationary pressures, high investment demand, and low public savings is one of a converging hiking cycle across all major central banks, including those in developed and most emerging economies. **(Exhibit 4)**. With the exception of China, we see the current rate-hiking cycle as being relatively moderate in comparison to 2022. This reflects the comparatively smaller energy shock to date as well as the investment-led demand boom. Inflation and, therefore, policy rate risks are tilted to the upside, which opens the possibility that central banks may be compelled to hike until something breaks.

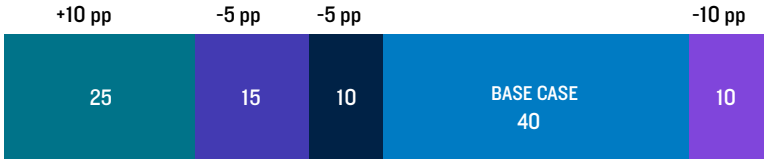
Exhibit 4: PGIM's 2027 global economic scenarios

Probability, percent of total; if applicable, change from mid-year is denoted above each segment

Recession | Mild stagflation | Muddle through | Overheating | Productivity boost

United States

Our base case involves strong growth. The main downside scenario is a "recession" (negative demand shocks driven by AI concerns and/or Fed overtightening). Inflation risks are tilted to the upside, with "mild stagflation" the main upside risk.



Euro area

Base case 40% probability with risks to growth broadly balanced. Upside risks include fiscal expansion, a strong U.S. economy, and the AI-related productivity boom. The main downside risk is the energy shock leading to "mild stagflation."



China

Base case 65% with risks to growth skewed to the upside. The main downside risks are energy and waning private sector momentum, while policy easing, productivity gains, and firm U.S. growth are upside risks.



Emerging markets

Our base case is muddle through (37%), based on a weighted average of the U.S. (35%), euro area (35%), and China (30%).

Source: PGIM. As of October 2026. Scenario probabilities are PGIM estimates, not predictions of actual outcomes, and may change.

THEMES FOR A DISORIENTING BACKDROP

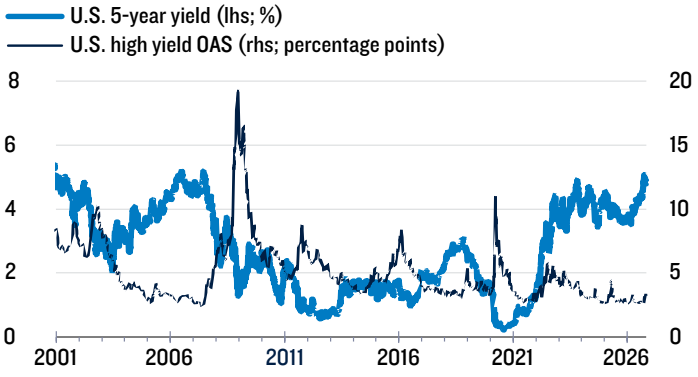
- An unusual combination of cyclical and structural macro forces surrounded by geopolitical developments requires identifying themes that will drive markets in 2027 and beyond.
- We see four investment themes to focus on in the year ahead.

Theme 01: "Normal" Interest Rates Bode Well For Fixed Income Over The Long Term; Prioritize Selective Carry Over Long Duration

Bond market fundamentals have matured along with the global business cycle. In the U.S., strong growth and high inflation have encountered tighter Fed policy, and we expect four additional 25 bp rate hikes over the next 12 months. Drivers of the term premium are also putting upward pressure on yields, and these include concerns about deteriorating sovereign debt levels and ongoing fiscal largesse, significant corporate issuance that is competing with sovereigns for buyers, and rising inflation uncertainty as supply shocks, such as elevated energy prices, become the norm.

The good news is that the yield adjustment across major markets has gone a long way. U.S. 10-year yields, for example, are now broadly consistent with our "overheating" base case for the U.S. economy. Despite the recent market volatility and the risk of higher yields, an elevated interest-rate environment means that yields themselves are an important source of total returns. At this point in the rate-hiking cycle, investors using bonds as a lower-risk anchor in portfolios should favor short and intermediate fixed income rather than venturing into the riskier, long end of the yield curve.

Exhibit 5: Interest rates have risen to pre-financial crisis levels, while credit spreads remain tight



Source: PGIM and Macrobond. As of October 2026.

Another cross-asset observation is that credit spreads (adjusted for duration and quality) are close to historical tights, even after the recent bout of market volatility (**Exhibit 5**). Therefore, investors need to be selective when taking spread risk. The good news here is that there are credit sectors that offer compelling carry without the need to take excessive credit or duration risk. This is the case for short-maturity high yield credit in developed and emerging markets, as well as some securitized products, such as AAA CLOs. Private credit also offers interesting sources of income in the infrastructure and asset-based finance (ABF) sectors, as well as select opportunities in direct lending secondaries.

Meanwhile, duration risk has been one of the main challenges in the last few years. This is not just a case of central banks tightening policy to lower inflation. It's also a reflection of term-premium adjustments due to fiscal risks, inflation concerns, and long-term corporate issuance. Therefore, we are still cautious on long duration from a 12-month tactical perspective, even though all-in fixed income yields remain attractive for long-term investors.[2]

Theme 02: Higher Interest Rates Need Not Derail Risk Assets

A higher-rate environment is usually challenging for risk assets as corporations' funding costs increase, and equity price-to-earnings ratios rarely expand when the Fed is pushing interest rates higher. However, this need not derail risk assets if the growth backdrop remains resilient. U.S. equity returns, for example, have shown relatively low sensitivity to rising Treasury yields **(Exhibit 6)**.

Furthermore, an important feature of the ongoing AI cycle is that investment commitments are relatively insensitive to interest rates. In short, investors will enter 2027 with a strong demand backdrop that supports a combination of portfolio resiliency

[2] See our Capital Market Assumptions for our 10-year fixed income expectations.

and income-driven returns. Relative interest-rate insensitivity extends to high yield corporate credit as well as emerging market sovereign and corporate debt. Since 2000, excess returns for these sectors over government debt have been positive in environments of rising U.S. Treasury yields. We also expect core and high-yield real estate credit to benefit from higher bond yields, while strong growth continues to support property income growth. This also applies to the real estate segments of direct lending with sound fundamentals. Real estate also offers opportunities for investors favoring real assets as a way of mitigating inflation risks.

Theme 03: Next Phase in the AI Buildout: Supply-Demand Bottlenecks

Our view in equities is that the AI cycle remains fundamentally supported, even as some related market areas experience volatility. Earnings are strong, estimates are rising, cloud growth is accelerating, and demand for compute continues to exceed capacity. But as investors become more sensitive to returns on invested capital, selectivity matters and the focus should be on businesses supplying the scarce capacity necessary for the AI buildout. Semiconductor exposure remains central because compute demand is still strong, but the opportunity has expanded into the Asian supply chain, memory, cloud services, power equipment, grid technology, and selected industrial companies. The AI theme also cuts across other asset classes, such as real estate and credit. In real estate, there is solid demand growth for both AI-related equities and debt.

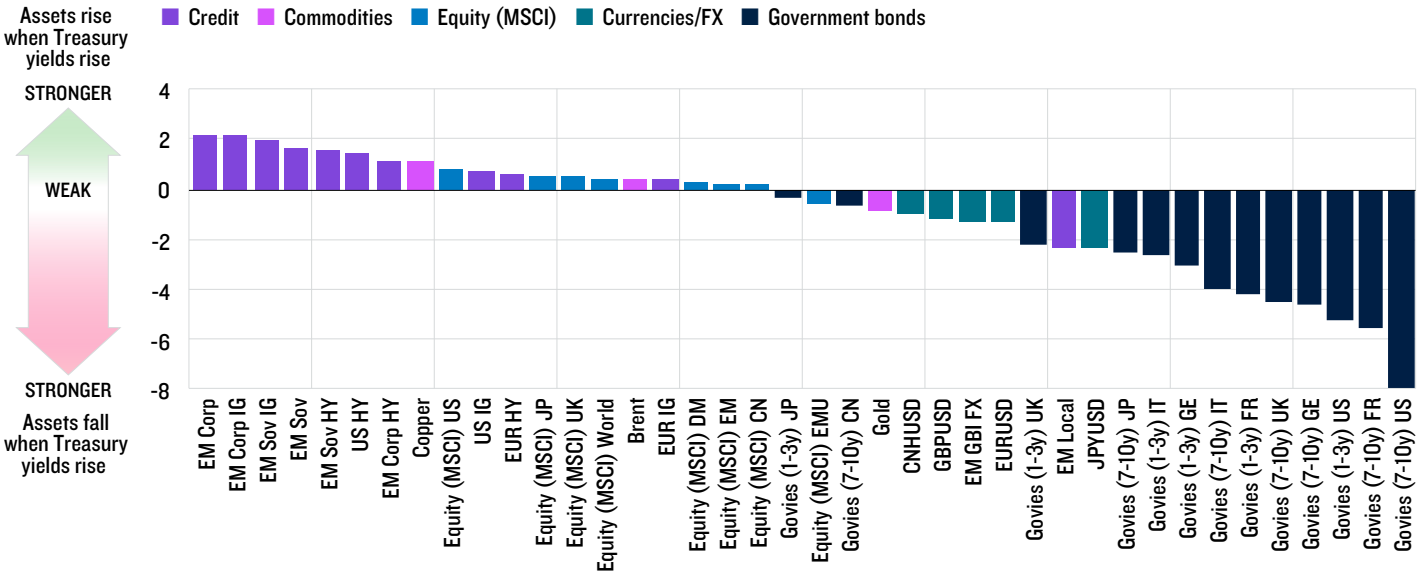
Theme 04: Supply Constraints as a Source of Alpha

The supply constraint affecting most households and firms stems from the energy shock resulting from the war in the Middle East. Other supply constraints are likely to persist, including scarcity of resources needed for the AI buildout (e.g., base metals and rare earths, power, etc.), as well disruptions associated with climate shocks. Energy and power are particular areas where we see value both in private and public credit. Even in Europe, which has historically been less favored in the private credit space, we see opportunities in infrastructure and power, including in private placements and ABF.

In the equity space, we see value in areas such as aerospace and power-related industrials that can benefit from long-lived capacity constraints. In corporate credit, we also see selective opportunities in U.S. power and energy suppliers.

Exhibit 6: Several risk asset classes historically experience relatively low sensitivity to rising Treasury yields

Sensitivity (betas) of global assets to positive weekly changes in U.S. Treasury yields, 2000 to present



Source: PGIM and Macrobond. As of October 2026. Credit betas are on excess returns over government debt. The measures above do not constitute a forecast. Past performance is not a guarantee of future results. See notice page for corresponding asset class index.

Exhibit 7: 2027 Investment themes and their corresponding asset class considerations



01
"Normal" interest rates bode well for fixed income over the long term; prioritize selective carry over long duration

- Yields will likely be a key source of total returns. However, we remain cautious on long-duration exposures
- Short-maturity high yield credit in developed and emerging markets
- High-quality securitized products, such as AAA CLOs
- Direct lending tied to real assets and select secondary issues may offer compelling income



02
Higher interest rates need not derail risk assets

- U.S. equity returns are usually positive in late-cycle environments
- AI capex appears relatively insensitive to interest rates, as does high-yield corporate credit as well as emerging market sovereign and corporate debt
- Real estate offers a way to protect portfolios against long-term inflation risks. Core and high-yield real estate credit should also benefit from higher interest rates, while economic expansion continues to support property income growth



03
Next phase in the AI buildout: supply-demand bottlenecks

- Semiconductor exposure remains central amid accumulating compute demand
- Equity opportunities lie in the Asian supply chain, memory, cloud services, power equipment, grid technology, and selected industrial companies
- Real estate features solid demand growth for both AI-related equities and debt



04
Supply constraints as a source of alpha

- Energy and power present value in private and public credit
- Opportunities exist in European infrastructure and power, e.g., private placements and ABF
- We see equity value in aerospace and power-related industrials that can benefit from long-lived capacity constraints

Source: PGIM. As of October 2026. Private investments are generally illiquid, may use leverage, involve credit and valuation risk, typically carry higher fees than public investments, and may not be available or suitable for all investors or in all jurisdictions. Investing involves risk, including loss of principal.

AND NOW FOR SOMETHING COMPLETELY DIFFERENT: A NORMAL CYCLE

- While interest rates are back to historically "normal" levels, they may not have peaked yet.
- Credit conditions remain healthy, but dispersion in performance and valuations is broadening, underscoring selectivity.
- Lean into yield with short-to-intermediate maturities, and be careful with long-duration exposure.

This century has been an unusual period in bond market history, marked not by one or two atypical periods, but by three periods of ultra-low central bank rates. After the dot-com era, the financial crisis, and COVID, interest rates have finally returned to what we consider "normal" levels, boding well for fixed income's long-term return prospects. But what are investors to make of the recent interest-rate volatility—both to the upside into "normal" territory and the subsequent near-term consolidation—for the year ahead?

Stage I: Back to Normal Levels as of 2022...

We start with a brief review of our return to "normal." By late 2022, rates around most of the globe returned to what were historically traditional levels, e.g., 4% on the U.S. 10-year Treasury **(Exhibit 8)**. But given the experience of the last quarter century, central bankers' perceptions of normal or neutral rate levels remained relatively low. With the benefit of hindsight, central bankers may have cut rates too aggressively in 2024 and 2025 as inflation fell from the post-COVID highs toward the 2% target.

Stage II: Leaning into the Wind—Tighter Policy

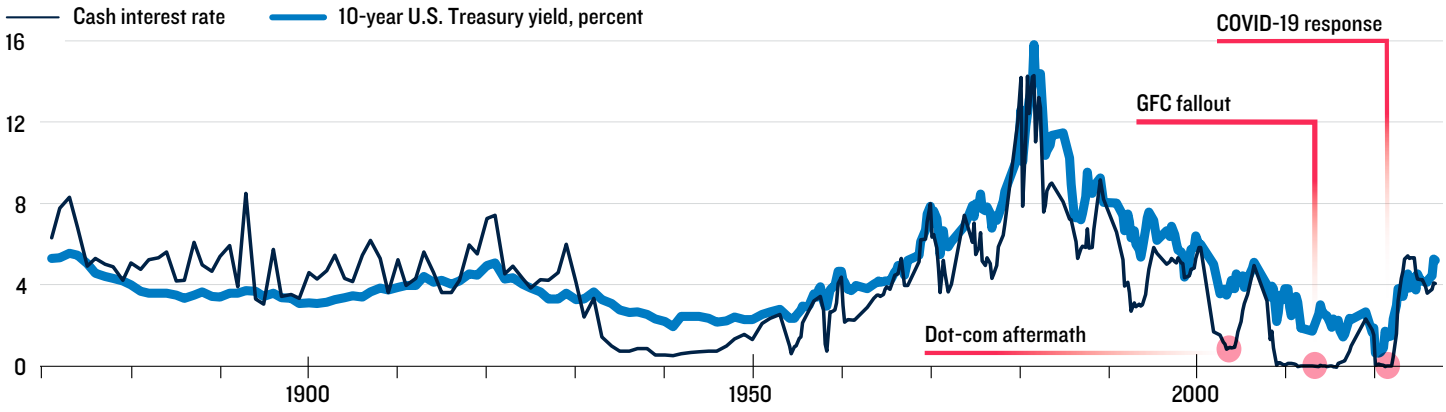
However, as the events of 2026 turned inflation higher, central bankers grasped the need for higher rates in a world flush with factors supporting economic growth and above-target inflation.

Markets followed suit, pushing long-term yields above the previous peak levels from 2023's inflation-fighting, rate-hiking cycle. The 2023 peak in yields coincided with spectacular declines in Western inflation rates from nearly double-digit levels to nearly all the way back to the 2% target.

Too Early to Call the Next Long-Term Peak

Following the recent upward shift, it's possible that rates reached restrictive levels that could conceivably bring inflation to heel. Yet, given this cycle's host of upward drivers for growth and inflation, our suspicion is that another stair-step higher for the developed market (DM) yield curve may be required to bring inflation back down to target. However, it may take some time

Exhibit 8: After spending much of the quarter century near zero, U.S. rates returned to historically normal levels.



Source: PGIM and Bloomberg. As of September 30, 2026.

for central banks and markets to make that call. Meanwhile, term structures may be biased to consolidate around current levels as observed in late October.

Expectation Exceptions

While many DM bond markets may be biased to consolidate at this point, stark variations remain across regions and countries.

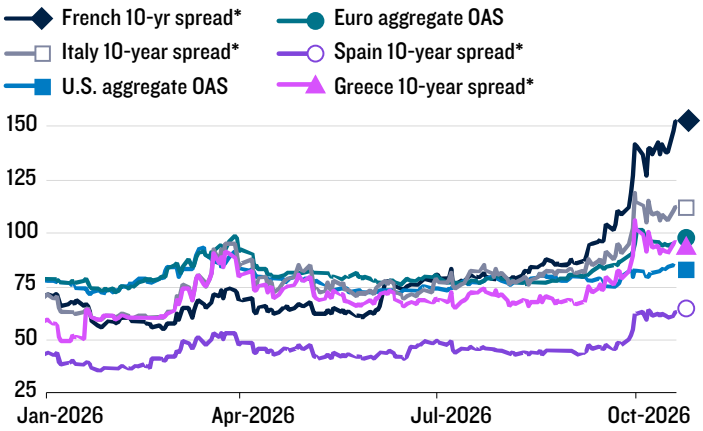
Rates in most Western markets may have risen adequately to reflect the rate hikes ahead, but Japan remains a tougher call. Questions about the effects of fiscal stimulus on growth and inflation—and the impact of energy market developments on the latter—as well as currency weakness are likely to push the BoJ towards an accelerated pace of rate hikes. While markets may be adequately braced at this point, an upside overshoot with possible ramifications for global markets cannot be ruled out.

Although there is no shortage of anxiety about yawning global government deficits and the resulting debt burdens, France's fiscal woes, social stress, and political uncertainty ahead of the 2027 presidential elections have lifted spreads to levels not seen since the 2012 eurozone crisis **(Exhibit 9)**. Furthermore, contagion is not only visible in the widening spreads of other European sovereigns, but it is also apparent in European corporates, which are generally underperforming their U.S. counterparts.

Market participants, pundits, and politicians will watch for signs of ECB intervention to stem the tide of widening spreads. Yet, they are likely to be disappointed as the central bank's market-intervention hurdle is probably quite high, leaving room for volatility in French spreads and contagion to other European debt products to continue in 2027.

Exhibit 9: Variations on a theme in France...

Basis points



Source: PGIM and Bloomberg. As of October 2026. *Spread to Bunds.

Aside from Rates, Status Quo in Spreads

Although spreads across most market sectors have widened from their all-time tights, they generally remain near the narrow end of their historical ranges, indicating relative stability in the face of geopolitical uncertainty and interest-rate volatility. From a fundamental perspective, this is understandable as steady economic growth has continued to support much of the credit landscape (**see Exhibit 10 for our 2027 fixed income asset class views**).

Strong Demand Another Positive for Spreads

Furthermore, in contrast to past episodes of rising rates that resulted in panic selling by global wealth investors, so far demand has remained firm, with the appeal of higher yields apparently offsetting the fear factor of higher volatility. Looking ahead, we expect these trends in credit to continue: generally favorable fundamentals, high supply met by strong demand, and narrow spreads. There are exceptions, however.

Hyperscalers and CCCs

Hyperscalers have intermittently underperformed as a result of their massive capex plans, significant issuance, and consequent concerns about their long-term return prospects. These trends are likely to continue, causing intermittent underperformance from the hyperscalers and respective spread curve steepening as their long-term issuance saturates the market. Within the high yield market, CCCs are another category that has splintered, profoundly underperforming BBs and Bs in what is otherwise a fairly credit-friendly environment. The drivers are both idiosyncratic—a few large, troubled issuers are skewing the index spread wider—as well as sector driven as telecom/cable struggles. In both investment grade and high yield, this performance differentiation highlights the need for judicious credit selection in order to manage risk and add value through active management.

The Bottom Line

Until we see the peak in rates, the risk remains that long duration exposure may add more to volatility than to returns. Nonetheless, with central banks likely to move slowly and yields already at attractive levels from a strategic perspective, we continue to expect the higher-yielding and short/intermediate market segments to post relatively strong performance in the quarters and years ahead.

Exhibit 10: Summary of public fixed income sector views

This summary consists of our 12-month sector views for and the accompanying rationale. Our views are segmented into selloff, correction, carry conditions, modest spread tightening, and bull market.

Asset Class	View	Rationale
Developed market rates	Carry conditions	If the Fed gradually proceeds with additional hikes, we see scope for U.S. rate consolidation followed by a range-trading environment. Other developed markets have more favorable growth and inflation fundamentals and, in some cases, steeper forward curves. Therefore, select non-U.S. DM and EM markets may be biased to outperform the U.S. on a hedged currency basis.
Securitized credit	Carry conditions	Despite overall caution, we are increasingly interested in select opportunities created by rate-driven repricing, particularly in AAA RMBS. We are more guarded on CMBS, where higher rates pose greater risks to valuations and debt-service coverage. Securitizations within housing, commercial real estate, and autos may offer an additional layer of resilience from potential AI-related disruption.
Investment grade corporates	Carry conditions	Given historically tight spreads, we maintain a defensive view, focusing more on carry than spread compression. Yet, we remain opportunistic, especially in data center and AI-related deals as well as areas that we continue to favor, such as money center banks, electric utilities, and midstream pipeline companies. The all-in yield of European investment grade also remains attractive.
Global leveraged finance	Carry conditions	Global leveraged finance can be segmented into performing, higher-quality credits—which maintain solid fundamentals and favorable net supply technicals—and weaker, lower-rated credits, where decompression, dispersion, and dislocation are increasingly prevalent. Our base case sees credit spreads remaining resilient given that the performing segment represents the vast majority of the market. Given the recent widening, we are only marginally more constructive. We prefer the U.S. to Europe amid current valuation levels and the increasingly complex macro backdrop in Europe.
Emerging market debt	Carry conditions	EM is likely to remain resilient over the medium to longer term, but there will be dispersion in performance. Although strong EM fundamentals do not mean that the sector will be immune to a potential global slowdown or external shock, it is well positioned: reserves have grown, real rates are high, and domestic markets have grown. Overall, EM is much less externally vulnerable than in the past.
Municipal bonds	Carry conditions	We are maintaining neutral duration exposure. While the muni yield curve recently flattened, we believe there is still opportunity for modest yield curve compression as the slope of the municipal curve remains slightly elevated. Muni credit remains resilient and municipalities are taking steps to mitigate expenses ahead of potential revenue declines.

Source: PGIM. As of October 2026. Views are as of the date shown, may change, and are not investment recommendations. Actual portfolio positioning may differ. Fixed income investments are subject to interest-rate and credit risk; when rates rise, bond prices generally fall. High yield, emerging market and securitized investments, including CLOs, involve greater risk, including default and liquidity risk. Not all investment types or strategies are available or suitable for all investors or in all jurisdictions.

DECIPHERING THE AI BUILDOUT'S DEMAND AND DURABILITY

- The market occasionally questions the durability of the AI cycle. Demand remains readily apparent.
- The ongoing opportunity encapsulates a broad infrastructure buildout constrained by supply bottlenecks.
- AI monetization is extending beyond initial use cases, requiring investors to remain discerning, yet flexible.

The artificial intelligence investment cycle is evolving from enthusiasm for generative applications into a broader buildout of the infrastructure needed to support them. Recent volatility has obscured that transition. After sharply outperforming in the second quarter of 2026, AI-related equities reversed course in the third quarter, with semiconductor, neo-cloud, and power-infrastructure holdings accounting for much of the weakness. Momentum reversals, hedge-fund liquidations, and broader risk reduction compressed valuations as investors questioned the durability of unusually high growth.

Operating fundamentals, however, remain resilient. Earnings are strong, estimates are rising, cloud growth is accelerating, and demand for computing capacity continues to exceed supply. In our view, the divergence between market performance and business results reflects a debate about the cycle's durability and eventual returns rather than evidence of deteriorating demand. Second quarter financial reporting provided many tangible signs of confirmation.

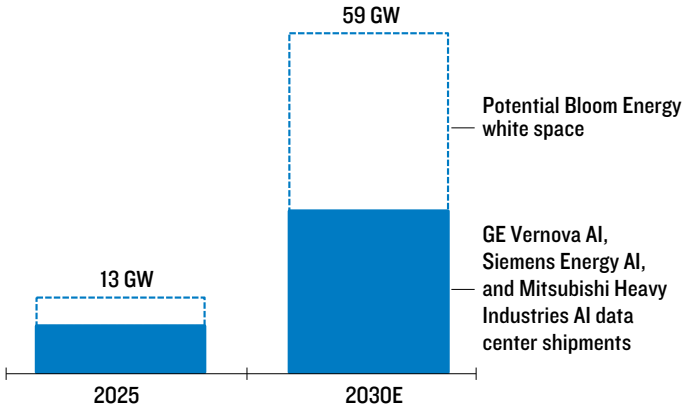
A Structural Buildout, Not a Single-Product Cycle

We expect data center capital spending to exceed $800 billion in 2026 and $1 trillion in 2027. That scale naturally invites skepticism, but the demand signals are tangible: compute capacity remains sold out, usage at major AI platforms is rising, private capital continues to fund cloud infrastructure, and cloud revenue at Google, Amazon, and Microsoft is accelerating. Nvidia's customer base is also broadening beyond the largest hyperscalers to include neo-clouds, sovereign AI initiatives, enterprises, and other emerging sources of demand.

Meeting this demand is shaped by three interdependent bottlenecks: semiconductors, power generation, and grid infrastructure.[3] Hyperscalers are directing hundreds of billions of dollars toward advanced chips and data center capacity, while leading GPU semiconductors and memory products remain supply constrained. At the same time, the electricity needed to operate these systems is becoming a limiting factor **(Exhibit 11)**. New data centers require reliable generation, often including natural-gas turbines or on-site solutions, while aging transmission networks need substantial modernization.

Exhibit 11: Incremental power demand set to grow with expected data center growth

Forecast incremental AI data center power demand, gigawatts



Source: Jennison and company reports. Figures after 2025 are estimates. References to specific companies in this section are for illustration only and are not recommendations.

Long delivery schedules for turbines, constrained foundry capacity, and competition for memory all reinforce the same conclusion: supply is struggling to keep pace with demand.

Monetization Beyond the First Use Cases

Investors are increasingly concerned about whether AI can generate returns commensurate with this spending. Early adoption has been concentrated in coding, software development, and productivity tools, leading some investors to view the addressable market as narrower than infrastructure forecasts imply. That framing may underestimate the technology's reach. AI is beginning to move across a much larger knowledge-work economy, where it can improve research, customer service, cybersecurity, design, decision-making, and

[3] For additional insights, see "Real Assets for New Realities: Investing in a World of Constraints," available at PGIM.com

Exhibit 12: An illustrative approach to broad market equity exposure across the AI stack

Equity style	Global	Growth	Small/Mid	Value
Potential allocations across the AI stack	• Chips and semiconductor manufacturing • Cloud computing and software • Power generation grid infrastructure	• Chips, connectivity, and data center equipment • Cloud platforms and data infrastructure • Enterprise software and AI applications	• Specialist chips and semiconductor equipment • Electronic components and power infrastructure • Business software and data management	• Chips, memory and semiconductor equipment • Servers, networking and building systems • Cloud platforms and enterprise software
Illustrative exposure	~25%	~25%	~5%	~10%

Source: PGIM and Bloomberg. As of September 30, 2026. References to specific companies in this section are for illustration only and are not recommendations. The percentages in the right column are demonstrations of potential exposures in broad-market, public equity strategies. Illustrative only. The categories and percentages shown do not represent actual or recommended allocations, holdings or positioning of any PGIM strategy and are not investment recommendations.

workflow automation. The transition will not be linear, and not every application will create a durable business, but the emergence of AI-native software should broaden monetization beyond the initial wave of infrastructure spending.

This distinction also helps explain the difference between public- and private-market behavior. Private investors continue to fund neo-clouds and AI-native companies as though the opportunity is in its early stages, while public markets often value established beneficiaries as if growth is nearing a peak. Financing arrangements within the ecosystem have added to the debate. Support from chip suppliers for customers building GPU-based capacity can be interpreted either as evidence of circularity or as a practical response to a capital-intensive supply shortage. The key test is whether end demand, utilization, and customer revenue continue to grow. So far, those indicators remain constructive.

Risks and Constraints

There are risks. Political resistance to data center development could delay projects, while concerns about employment, energy consumption, financing, and regulation will likely persist. Yet, some constraints may redirect rather than destroy demand. Limits on grid access, for example, can increase the appeal of on-site generation and fuel-cell systems. Similarly, AI today appears more likely to augment skilled workers than replace them broadly, supporting productivity while leaving the longer-term labor implications unresolved. The appropriate response is not to dismiss these risks, but to distinguish genuine changes in demand from shifts in sentiment and positioning.

Investment Implications

The rapid pace of change argues for a dynamic approach **(Exhibit 12)**. Leadership will evolve as new AI-native companies enter public markets and as legacy businesses face disruption. Semiconductor exposure remains central because compute demand is still constrained, but the opportunity extends across the Asian supply chain, memory, cloud services, power equipment, grid technology, and selected industrial companies. Software exposure requires greater discrimination: cybersecurity remains well positioned because AI systems create new security needs, while AI-native platforms may gain share from older software models. Outside technology, durable growth appears more selective, although aerospace and power-related industrials can benefit from long-lived capacity constraints.

We believe resilient demand, limited computing capacity, and expanding applications continue to support the AI cycle. Its scale, financing needs, political implications, and ultimate returns will fuel debate, sharp market rotations, and volatility. As earnings and guidance improve even as valuations decline, the key question is whether the long-term investment thesis has changed. Current evidence suggests it has not. AI is evolving from a product story into a foundational investment cycle, with company fundamentals likely to determine its long-term beneficiaries.

A RELATIVE VALUE VIEW ON PRIVATE CREDIT

- **Despite headline concerns, private credit continues to offer attractive illiquidity and complexity premia that remain wider than historical averages in several sub-markets.**
- **The opportunity set is expanding due to structural trends rather than the credit cycle.**
- **Our constructive outlook carries the caveat of increasing dispersion with tail risks that require stringent underwriting.**

Private credit enters 2027 from a position of strength. The market has more than tripled since 2010 to estimates of more than $3 trillion **(Exhibit 13)**, significantly outpacing the growth rates of public credit markets, though both remain on a healthy trajectory. Institutional investors continue to increase allocations to income-oriented private markets, driven by the need for yield, portfolio diversification, downside protection, and improved asset-liability matching.

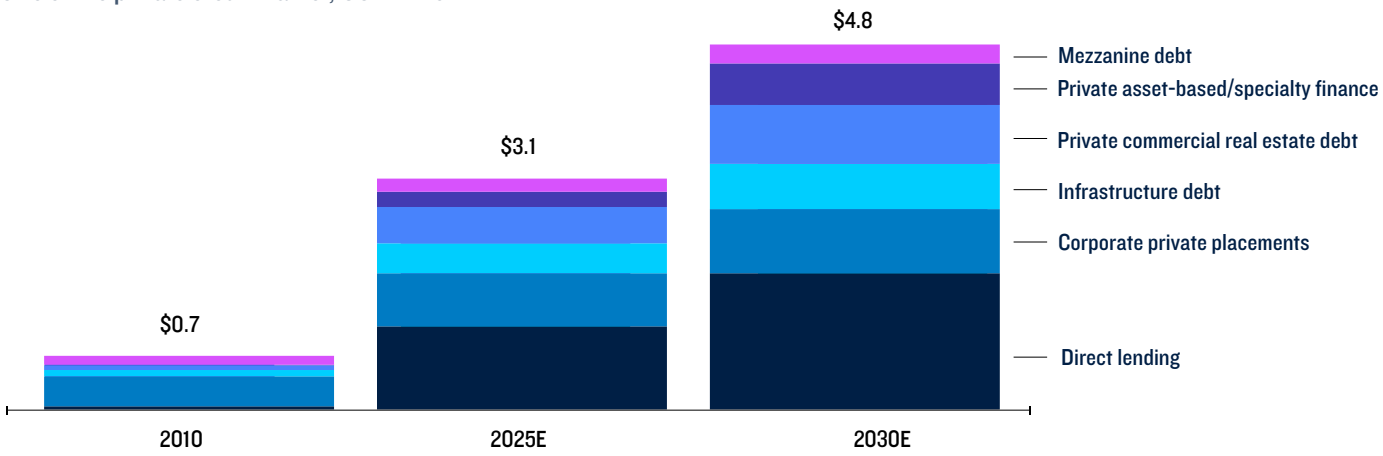
While fundraising has moderated from the peak years of 2021-2022, investor demand remains robust across direct lending (DL), asset-based finance (ABF), infrastructure debt, private placements, and select mezzanine strategies. This is important, because more investors are looking across both markets to assess value and make allocations (see private credit through a relative value lens in **Exhibit 14**).

On the supply side, continued bank balance-sheet optimization, regulatory capital pressures, and rising financing complexity are expanding the universe of borrowers seeking non-bank capital. Private credit increasingly complements banks where transactions require structuring flexibility, certainty of execution, hold capacity, or specialized underwriting.

- Within ABF, opportunities in consumer, transportation, AI-related, and housing sectors will underpin supply in 2027. In housing, we are particularly interested in structures that facilitate affordability, such as manufactured housing.
- DL will grow as well, both in the traditional sponsor-backed segment and in the non-sponsored segment. In the latter category, we note that there is growing interest in the European market and see growing awareness of the sizeable opportunity amongst the many strong middle market family-owned companies, particularly in Germany. We are looking for that market to expand.

Exhibit 13: The global private credit market has more than tripled to more than $3 trillion since 2010

Size of the private credit market, USD trillion



Source: PGIM, Preqin, Macquarie, MetLife/HIMCO, ACC/AIMA and Deloitte. As of April 2026. 2025E and 2030E figures are estimates and may not be achieved.

- In infrastructure, deferred investment and higher energy prices are fueling growth across the spectrum of traditional projects (power, transport). In the new economy, AI and digital buildouts should prove largely insensitive to prospective rate increases and absorb meaningful amounts of new capital.
- Finally, the market for private credit secondary transactions will continue to grow, particularly in direct lending. This growth will be driven primarily by general partners (GPs) managing their mature portfolios and generating liquidity for investors and secondarily by limited partners (LPs) fine-tuning their risk exposure.

While public benchmark credit spreads remain tight by historical standards, particularly in the investment grade categories, illiquidity premia remain wider than historical averages in many private credit submarkets. This dynamic favors private assets, provided that initial structural and terms advantages are preserved.

Competition for the best borrowers will be intense in this environment, and premia could narrow from recent peaks, particularly in large-cap direct lending and investment-grade private placements. ABF, infrastructure debt, and select middle-market opportunities should continue to offer a meaningful illiquidity premium for investors able to underwrite complexity and asset-level risk.

Rising interest rates may pressure credit quality, but this effect is likely to be weaker than during the 2022-2024 cycle. Half a decade ago, policy rates were near zero and took a large leg up, reducing valuation multiples and interest coverage while paralyzing transaction markets in the process. Today, while high and volatile long-term yields are raising concerns about the impact of the credit cycle, the change in interest rates will only gradually filter through to borrowers. This may hurt marginal credits but should not by itself fuel a broader event. We would not be surprised to see dispersion across managers, sectors, and vintages begin to increase.

Constructive with a Caveat

Investors should remain cognizant of the tail risk represented by the seemingly endless supply of capital demanded by the hyperscalers to fund data center buildouts. While portfolios can be insulated from this risk directly, insulating them indirectly is harder given the large contribution to overall economic activity.

Geopolitical developments remain the largest macro uncertainty, as strategic competition, shifting trade relationships, energy security, fiscal pressures, and regional conflicts may create periodic volatility. Yet, these same forces are increasing demand for private capital to finance supply-chain resilience, reshoring, and energy transition.

Finally, over the last couple of decades, a host of structures have been created to carve up credit risk (especially private credit) and allocate it more efficiently. Here, we think of rated feeders, collateralized loan obligations, significant risk transfer, and credit risk transfer transactions. We view these vehicles as useful tools to understand and manage risk, although they can be complex and carry their own risks. That said, we believe that the lower tranches of risk in those markets could serve as "canaries" in the proverbial coal mine. Those signals are benign today. But stress, when it comes, could surface there first.

Overall, though, the result is a constructive outlook for private credit in 2027. Across the private credit spectrum, we see both fundamentals and valuations sitting within bands we would describe as normal. Our enthusiasm is tempered by the risks described above, but we believe that appropriately disciplined underwriting and pricing of deals may support private credit returns through the cycle.

Exhibit 14: A private credit relative value lens

The following represents the views of PGIM's Public-Private Investment Council, where our senior investors assess relative value across the credit spectrum. The following reflects a portion of our assessment as of September 2026. See the accompanying footnote for more on the Council and its approach to assessing relative value.[4]

Asset Class	View	Rationale	Key Asset Attributes
Asset-based finance	Favorable	Attractive opportunities across consumer, equipment, fund finance, and other specialty assets	Diversification, amortization, structural protection, and sourceability
Digital infrastructure / compute finance	Selective	Significant capital inflows and prospective supply; some private pricing has tightened through liquid / 144A alternatives	Concentration, contractual cash flows, collateral risk, and public/ private relative value
Residential mortgage loans	Favorable / selective	Whole-loan spreads continue to compress, narrowing the premium vs. comparable securitized residential credit	Amortization, duration, collateral, sourceability, liquidity, and public/ private relative value
Investment-grade CRE credit	Favorable	Sector reset has improved entry points; investor appetite beginning to return; a notable spread premium to comparable public A credit in recent activity	Duration, hard-asset backing, sector exposure, and downside protection
Transitional & below-IG CRE credit	Favorable	Attractive spreads and potential value creation through execution; highly asset-specific on risk profile and structure	Capital intensity, asset values, and execution risk
Infrastructure debt	Favorable / selective	Attractive contractual cash flows, with a preference for shorter/immediate debt backed by long-term leases; growing supply preserving attractive economics	Cash-flow visibility, tenor, security, diversification, and deployment capacity
Senior direct lending	Favorable / selective	Middle market remains a better entry point than last year; large cap opportunities more transaction-specific	Illiquidity premium, structural protection, floating-rate exposure, manager selection, and deployment capacity
Junior direct lending	Opportunity-driven	Slower M&A and aggressive senior capital constrain deployment, while improving exits may be an early positive signal	Capital intensity, downside protection, sourceability, and pacing
Private placements	Favorable	Differentiated transactions remain in demand; at a solid premium to comparable public credit	Liability fit, duration, covenants, and capital efficiency
Liquid structured credit	Favorable / security-specific	AAA RMBS screens attractively relative to whole loans; senior CLO debt also remains attractive, particularly as insurance capital treatment evolves	Liquidity, FHLB eligibility, amortization, collateral/convexity, and capital treatment

Source: PGIM. As of September 2026. Views are as of the date shown, may change, and are not recommendations. References to relative value, premia, and opportunities reflect PGIM's views and do not assure investment results. Private investments are generally illiquid, may use leverage, involve credit and valuation risk, typically carry higher fees than public investments, and may not be available or suitable for all investors or in all jurisdictions. Investing involves risk, including loss of principal.

[4] "Beyond Convergence: A Framework to Assess Relative Value in Public-Private Credit Portfolios," April 2026, PGIM.com.

PRIVATE REAL ESTATE

REAL ESTATE'S EARLY-CYCLE EXTENSION

- Higher rates are extending the early phase of the cycle, and the impact differs by region.
- Fundamentals continue to support income growth, indicating opportunities in the headwinds.
- The coming months present an entry point for approaches focused on income, growth, and adding value.

The recent increase in global yields and the effects on valuations are extending the sector's early-cycle phase—consisting of recovery and growth narratives—from the start of 2026. With the exception of data centers, capital flows have slowed and deal volume has weakened in most sectors and geographies.

However, dispersion exists as a function of the recent moves in global credit and rates markets. In the U.S., pressure on real estate values from cyclically high long-term interest rates is being offset by the pace of economic growth which, alongside falling supply, is spurring rent growth. In Asia Pacific, central banks in Australia and Japan are hiking policy rates, but Japanese real estate has a more challenging adjustment period in the coming months as valuation yields are very low. In Europe, there is less near-term pressure on real estate values in Germany, the Netherlands, and the Nordics, where debt-deficit dynamics are relatively contained, relative to Italy, France and the UK., where sovereign spreads have widened.

A Long-Term Asset Class

Real estate is a long-term asset class, and it is important to avoid getting swept up in the volatile movements of day-to-day financial markets. Strip away the effects of market cycles and one-off structural shifts—such as periods of falling or rising long-term real interest rates—and long-term real estate returns boil down to two things: income returns (primarily lease-driven cashflows) and growth in asset-level rental income streams over time **(Exhibit 15)**.

Importantly, real estate fundamentals continue to support property income growth, which should remain elevated due to a combination of:

- tight vacancies;
- historically low supply pipelines, which are declining further as higher borrowing costs bite on developer margins;
- and above-trend inflation that is captured in rental levels through indexation or market uplifts.

In a portfolio context, real estate cashflows have a clear role to play as a diversifier and provider of resilience against volatile inflation dynamics.

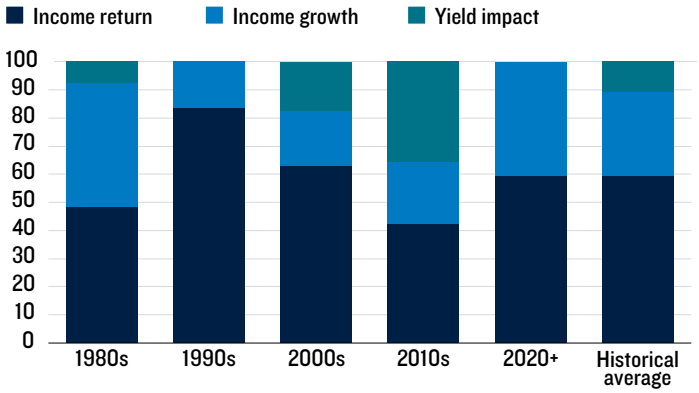
With economic and real estate market fundamentals intact, our take is that the recent correction on the back of higher market interest rates, while justified as a reaction to rising short-term costs of capital, should take real estate values below their long-term fair value levels. With capital inflows pausing or even reversing, low liquidity is set to persist. Therefore, for those with capital to deploy, conditions for negotiating equity deals, new loans, and refinancings should remain attractive.

Strategies to Capitalize on Market Opportunities

Despite some clear headwinds for real estate markets, they may also create opportunities for credit and equity strategies, with prevailing market conditions informing the strategic approach. We highlight several approaches for unlocking value in today's market, focusing on income, growth, and value.

Exhibit 15: Real estate returns are driven by income and cashflow

Estimated breakdown of global real estate returns by decade, percent



Note: Yield impact shown as zero contribution to overall returns in periods where it was negative on average. Sources: CoStar, Cushman & Wakefield, JLL, PMA, and PGIM. As of November 2026. Estimated by PGIM based on the data sourced from the accompanying providers. Past performance is not a guarantee of future results. Real estate investments involve risks including fluctuations in property values and rental income, interest rate changes, and illiquidity.

Access the Market Now: Income-Driven Plays

Around the world, core and high-yield real estate credit are benefitting from elevated all-in total returns driven by high coupon rates and ongoing cashflow resilience stemming from low vacancy and limited supply. Similar to other parts of the public and private credit universe, senior lending spreads are tight for the best-performing assets, but attractive deals can be sourced by taking on more risk. This includes refinancings, especially where borrowers are facing much higher rates and near-term pressure on values; higher-yielding strategies, such as lending against leasing or development risk; and providing capital solutions that combine debt positions with equity stakes or profit participation for upside potential.

While there are some downside risks to capital values to monitor over the near term, values are already at a low basis after a big reset in recent years. From a credit perspective, deployed capital may benefit from a secured position in the capital stack. Markets including Australia, Germany, Japan, the UK. and U.S. all offer significant opportunity sets for private lenders linked to their large, diversified borrowing markets.

On the equity side, defensive retail investments that have a basic needs demand profile—e.g., grocery- or supermarket-anchored retail in markets such as Australia, Germany, and the U.S.—appear compelling. We believe this opportunity is based on low entry values after a significant repricing (that pre-dated the 2022 great reset in many markets around the world), elevated income yields, and a stabilizing occupier story. Rent levels are being supported by limited and—in many markets—falling supply, while retailers are once again starting to drive value from their store portfolios after a long period of adjustment toward online sales channels.

Go for Growth: Data Center Buildout

Credit concerns about the pace and scale of hyperscaler issuance notwithstanding, real estate investors can play an important role in providing capital and development sites to facilitate the ongoing data center buildout. The fundamentals of data usage and storage requirements continue to grow rapidly, coming up against a consistent pattern of land and power constraints, as well as local opposition to development. Ongoing scarcity of data center capacity means rental growth is set to persist. With their linkages to the fastest-growing part of the economy, we believe data centers have the strongest return prospects of any real estate sector. Beyond the U.S., which is the largest and fastest-expanding data center market, there are opportunities in and around key connectivity hubs in Australia, Japan, Germany, the Netherlands, and the UK.

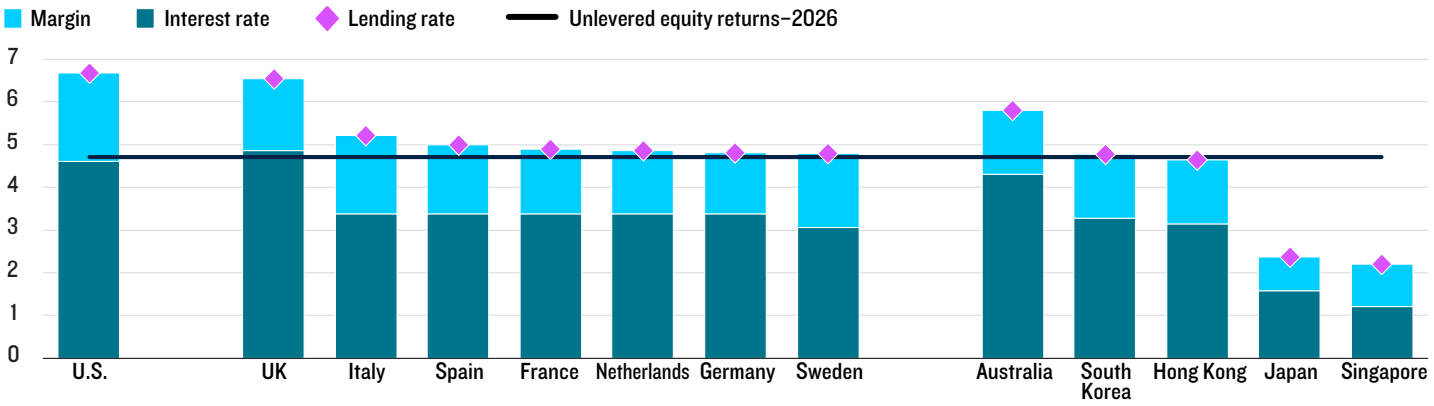
Look Through the Cycle: Value Creation Strategies

With low market liquidity presenting opportunities to secure assets and provide financing at attractive valuation entry points, investors with a sufficiently long-term horizon can look through near-term market headwinds to a broader set of value-add equity and debt strategies, with value creation levers that go beyond simple market uplift. For real estate, such levers to grow or enhance cashflow on a given site include taking on leasing risk; undertaking or sponsoring refurbishment, repositioning or development projects; and creating operating platforms.

The U.S. naturally provides value creation opportunities linked to its relatively fast pace of economic growth and repositioning needs of older assets in commercial and residential sectors. For Asia Pacific and continental Europe, there are opportunities for significant expansion from a low starting point in sectors such as self storage, senior living, and student accommodation that are already well established in more mature markets, such as the U.S. and UK.

Exhibit 17: Real estate credit strategies are benefiting from elevated all-in lending rates

Indicative commercial property lending rates by major market–3Q26, percent



Sources: PMA, Cushman & Wakefield, Oxford Economics, and PGIM. As of November 2026. Notes: Indicative lending rates for an average of major commercial property types, assuming a fixed rate basis at or below 60% LTV. Lending rates shown are indicative borrower rates and are not returns available to investors. Investor returns depend on fees, expenses, defaults and other factors. Unlevered equity returns–2026 (PGIM estimate). Estimates may not be achieved and are subject to change. See notice page for MSCI disclosure.

Exhibit 18: Summary of global real estate opportunities

Higher rates will pressure property valuations in the near term but also offer better entry yields. With demand broadening and supply constrained, conditions may support improved returns on new investments. There is a broad global equity and credit opportunity set, driven by regional variations, structural themes—notably linked to basic needs demand, digital transformation and demographics—and tactical plays reflecting growth potential, capital needs and attractive entry points after a deep value correction.

		Nature of opportunity	Real estate approach	U.S.	Mex.	Eur.	APAC
Structural	Living	Home ownership constraints	Senior housing	●		●	●
		Barriers to entry/construction costs	For-rent apartments	●		●	●
		Supply shortages	Single family housing	●		●	
		Demographics	Co-living			●	●
			Manufactured housing	●			●
	Urban infrastructure	E-commerce expansion	Urban infill logistics	●	●	●	●
		Manufacturing/nearshoring	Export-oriented logistics	●	●		
		Growing outpatient care needs	Medical office	●			
		Smaller living spaces	Self storage	●		●	
		Grocery spending	Necessity retail	●		●	
		In-store consumer spending growth	High Street			●	●
			Dominant regional centers				●
	Data centers	AI- and cloud-driven demand	Hyperscale	●		●	●
		Lack of available powered land	Colocation	●		●	●
	Credit	Higher-for-longer interest rates	Core originations	●		●	●
		Refinancing and recap needs	Refinancings	●		●	●
		Rise of alternative lenders	Transitional finance	●		●	●
Tactical	Momentum and growth	Tourism growth	Hotels			●	●
			Open-air hospitality			●	
		Lack of office supply, flight-to-quality	CBD office, gateway cities	●		●	●
		Capital shortfalls	Capex injections/refurbishment	●		●	●

Source. PGIM. As of October 2026. Views are as of the date shown, may change, and are not investment recommendations. Not all investment types or strategies are available or suitable for all investors or in all jurisdictions. Note: Circle marker denotes a broad opportunity set identified in the geography, with execution potential subject to prevailing pricing, deal deliverability, and market conditions.



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All investments involve risk, including loss of principal. Fixed income investments are subject to interest rate and credit risk; when rates rise, bond prices generally fall. High yield, emerging market, and securitized investments, including CLOs, involve greater risk, including default and liquidity risk. Foreign and emerging market investments involve additional risks, including currency and political risk. Equity investments may lose value, and concentration in a theme or sector, such as AI-related companies, may increase risk. Real estate investments involve risks including fluctuations in property values and rental income, interest rate changes, and illiquidity.

Private investments are generally illiquid, may use leverage, involve credit and valuation risk, typically carry higher fees than public investments, and may not be available or suitable for all investors or in all jurisdictions.

References to specific companies are for illustration only and are not recommendations.

Indices are unmanaged, do not reflect fees, expenses, or taxes, and cannot be invested in directly. Index references are for informational purposes only.

The asset classes in Exhibit 6 are represented by the following: Emerging market debt indices are represented by the J.P. Morgan Emerging Markets Bond Indices; U.S. and European high yield bonds are represented by the ICE BofAML U.S. High Yield and the ICE BofA European Currency High Yield Index; U.S. and European investment grade bonds are represented by the Bloomberg U.S. Corporate Bond and the European Corporate Bond Index (unhedged); copper, brent, and gold are represented by the respective Bloomberg commodity subindex; equities are represented by the respective MSCI Index as indicated; government bonds are represented by the respective Bloomberg Treasury subindex; and FX pairings are represented by Bloomberg spot prices. Specific benchmark descriptions are available upon request.

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