PGIM
GLOBAL ASSET MANAGEMENT

2025 3Q OUTLOOKS SUMMARY

Emerging Risks, Selective Opportunities

As the third quarter begins, institutional investors face a transformed investment landscape. Market volatility seems to have become a mainstay, with slowing global growth, diverging central bank policies, and tumult over tariffs all playing a key role in shaping the investment backdrop. We believe that the current market uncertainty brings with it unprecedented risks, and selective opportunities, while liquidity, flexibility, and true diversification beyond traditional assets are now strategic imperatives, not tactical options.

To help investors look through this complexity, PGIM brings together the following perspectives to unpack the opportunities and risks that are emerging across asset classes.

Fixed Income

Ironically, the ongoing backdrop of seemingly nonstop policy headlines fueling uncertainty is perhaps a positive for credit investors. It prevents exuberance among debtors that, in clearly buoyant times, invariably leads to a steep rise in downside credit risks. Despite this surprisingly benign economic outlook, as has been the case this year, we expect to see intermittent bouts of volatility in credit spreads as events unfold. Nonetheless, the underlying durability of fundamentals, along with the favorable supply/demand balance in credit markets, generally suggests that spreads may remain towards the bottom end of their historical ranges in the quarters ahead. This should support further, albeit more modest, outperformance by credit products. Selectivity will be key, with the higher yielding credit sectors likely delivering the highest returns.

Read the outlook

Multi-Asset Solutions

The investment environment has fundamentally shifted from synchronized global markets to a more fractured, policy-driven landscape. With recession risks moderating but remaining elevated, divergent monetary policies reshaping global yield curves, and persistent stagflation concerns, institutional investors face a complex array of challenges and opportunities. The erosion of traditional diversification benefits – evidenced by sustained positive stock-bond correlation – demands a strategic reassessment of portfolio construction principles. In this environment where uncertainty remains elevated, success will depend on maintaining both defensive positioning and tactical flexibility to capitalize on emerging dislocations.

Read the outlook

Quantitative Solutions

The macro environment remains modestly supportive of risk assets, but the Trump administration's focus on growth-negative policies, such as tariffs and immigration, as growth-positive policies like taxes and deregulation take a back seat, is likely to keep risk assets volatile in the near term. While a recession is not yet evident in US data, the risk of one over the next year has risen – particularly if the trade war escalates and higher tariffs are implemented. While fundamentals remain broadly supportive of risk assets, persistent uncertainty underscores the need for diversified portfolios. Stock-bond correlations have normalized, providing potential portfolio ballast if fundamentals reassert leadership.

Read the outlook

Real Estate (2025 Global Outlook)

Against an uncertain backdrop, global real estate markets offer resilience and income growth potential supported by low supply may offer resilience, at an attractive entry point. After a big correction, a lot of bad news is already priced into global real estate markets. Heightened uncertainty is reducing upside potential in the next cycle, but it has not derailed the recovery and growth story. Elevated risk and uncertainty both dampen the outlook and reduce upside potential, but there are supporting factors for real estate too, including low supply, defensive sectors such as residential and long-term structural trends that are still supportive of demand in such sectors as data centers, urban logistics and senior living. The recovery story continues, and global returns are set to improve again this year as the drag from yield expansion fades.

Read the outlook

Jennison Associates

While the economy and markets have proved to be resilient through what has been a volatile year so far, uncertainty persists. Significant questions about tariffs, fiscal policy, and global tensions remain unsettled. Tariff rates continue to be negotiated and not altogether smoothly, the future of President Donald Trump's fiscal plan is still undecided, and while tensions in the Middle East do not appear to be heading for an escalation, they have not been resolved. We remain concerned that tariffs pose a risk to future revenue and earnings growth broadly. In our view, import levies represent a tax on consumers and businesses that reduces growth and, depending on the level, results in varying degrees of higher prices of goods and services. The ensuing effect on consumer spending and the broader economy continues to be in question. Given the uncertainty, we tactically reduced risk during the quarter, while simultaneously looking for opportunities to redeploy cash into compelling growth companies. These actions are consistent with our investment strategy and our long-term approach to growth investing.

Read the outlook