

WEBINAR TRANSCRIPT

2025 Mid-Year Outlook: Markets in a Post-Consensus World

Good morning, everyone, and welcome to our 2025 mid-year outlook. My name is Nayeema Chowdhury and I sit on our client relationship management team within the multi-asset and quantitative solutions business here at PGIM. It's a pleasure to be with you all, and I really appreciate you all joining us today.

So, maybe to help frame and introduce the topic and the themes that we plan to touch on today, as we look at the landscape this year, there's one theme that continues to stand out, which is uncertainty. Capital markets are really navigating a profound shift. There's not a lot of clarity or consensus on inflation, growth, or policy direction. Rate expectations are bouncing around. Inflation remains sticky. And geopolitics are playing a much bigger role in how capital flows and how things are getting priced today. We've really moved from a world where global markets felt more synchronized to one that is a bit more fragmented and where local policy is driving a lot more of what we're seeing. Yes, some of the recession risks have eased, but they haven't disappeared. Monetary policy is diverging across regions, and even stagflation is creeping back into the conversation. So, today, we want to unpack all of this with our panel of experts, not necessarily just the risks associated with these themes, but also where the opportunities may lie. We'll explore how institutional investors are thinking through these changes and where we see things headed from here. I'm lucky to be joined by four of my PGIM colleagues who I will ask to briefly introduce themselves before we dive in. Eric, maybe we start with you?

>> Terrific. Good morning. Thanks for joining us. I'm Eric Sartorius. I'm a portfolio manager here at Jennison Associates where I've worked for the last 12 and 1/2 years and I currently manage our small-cap core, mid-cap growth and technology funds.

>> James or Magda, do you want to quickly introduce yourself?

>> Absolutely. Hi. Good morning, everyone. My name is Magdalena Polan. I am the head of emerging markets macro research within the wider global macroeconomics team.

>> Good morning, everyone, and thank you for having me. My name is James Sonne. I'm head of government affairs at PGIM, former Treasury staffer and lawyer by background. Thanks for having me.

>> Great. And I'm Lee Meniffee. I head up the America's research function within PGIM's real estate group.

>> Great. Thank you, all. Excited to dive in. But before we do, maybe just to take care of a few housekeeping items, on your screen are multiple boxes including a Q&A box. So, we strongly encourage you to submit questions at any time throughout the conversation. There will also be an on-demand version of the webcast as well as a written summary that's going to be available after the call for those that might be interested. Great. So, let's just dive right in. Maybe to kick things off, I really want to focus on a theme that cuts across all asset classes, what we're calling post-consensus forces. These are really the shifts that aren't yet fully appreciated by the broader market, but they're already starting to reshape how investors are thinking about risk, return, and allocation decisions. So, to start us off, maybe Magdalena and Eric, I would love to hear from you. What's one under the radar or out-of-consensus force that you think is meaningfully impacting your area of focus and asset class? Magda, maybe do you want to kick us off with the EM view?

>> Absolutely, yes. Thank you, Nayeema, because there is a lot to talk about given the large policy shifts happening and in the U.S. especially and the uncertainty that you mentioned. So, we do have this large policy shift in the U.S. that affects the U.S. dollar and global capital flows and then obviously the trade tensions and the conflict. But what is probably less appreciated is the fact that the impact is quite asymmetrical. So, on the one hand, it has led to a weaker dollar, which automatically strengthens EM currencies. And then also from the macro perspective, it seems to have and is likely to have more asymmetric negative impact on the U.S. while having less and much more dispersed impact on the global economy and the EM. And what is also I think underappreciated in the very intense discussion about the trade conflict tariffs U.S. policy shift, is the fact that in end, these countries are less affected, but also the underlying macro trends, macro forces are still the most important driver of these markets and their policies. Yes, for example, Chinese policymakers focus a lot on the trade conflict with the U.S., but in the end they focus the most on their domestic economic policy. And the same for lots of other countries. The macro situation, policy choices, capacity of policies and just the, as we call them sometimes, boring fundamentals are still the most important thing that both affects the performance on the assets and then the relative performance of these assets.

>> Thank you. Lee, I would love to hear your perspective from a real estate standpoint.

>> Sure. Thank you. And real estate's really been on its own path for the past three years, and values globally have fallen about 20% over that period, and that puts real estate income yields, or cap rates as people call them in real estate, right in line with historic norms relative to risk-free rates and corporate bonds. And so, in the prior cycles over the past few decades when that happened, this was typically followed by a V-shaped recovery where values immediately recovered quite quickly. That's not happening now, and we really don't expect it to. And really, that's for two reasons. The first is that real estate's competing with private credit and other asset classes that generate plenty of income returns right now. So, investors aren't looking to real estate just for the income return. They really need to be convinced that there's growth in that income stream, and they're waiting to see evidence of that growth in those income streams. The second reason is there's a really strong recency bias. And in the last 10 years in real estate, sectors like the living sector and logistics just did much better than other sectors in real estate. And so, investors have got away from the benefits of a diversified portfolio and instead to be really selective about which parts of the real estate cycle that they're investing in. So, when I add that all up, that says to me that this should be a good vintage year for investment because investors I think are a little bit behind on looking at the real estate fundamentals and where real estate is priced right now. And so, a lot of them are sitting on the sideline. And I think a lot of those lessons about the benefits of diversification by geography and property type, they're going to be relearned in this cycle, and I do think that that's a little bit of an out-of-consensus view right now.

>> Great insight. We'll dive a little bit deeper into that later on. But Eric, I would love to kind of hear from your perspective on the broader equity markets.

>> Sure. As we sit here looking at most of the major U.S. equity indices at all time highs, there isn't too much I'd say that we're way out of consensus as predominantly a long-only growth-oriented equity manager. We certainly remain optimistic on the broader markets in the long term. I would say maybe in the shorter term, there's been so much discussion about the Magnificent Seven and the incredible strength from mega-cap tech. I do think there are a lot of investors questioning where their next equity dollar should go. And as a result, I think there may be an opportunity for a little bit of a broadening in the market. My view is that we've had a fair amount of uncertainty cleared over the last six months, which does present the opportunity for some catchup in some of the smaller cap stocks. A couple of interesting stats. The Russell 2000 has had negative earnings for five of the last six years, which is getting into somewhat uncharted territory. And the

NASDAQ 100 is approaching three standard deviations of outperformance and annualised returns relative to the Russell 2000. So, we do think that we could see some improved returns away from just mega caps in the coming quarters as the market broadens out a little bit.

>> Great. Yep. Sometimes, the consensus can be right or is right and it's good to acknowledge that too and certainly tough to argue with all of the latest all-time highs. Let's maybe build on this topic by turning to a force that's increasingly shaping the investment landscape, which we touched on a little bit earlier, but politics. So, Washington's agenda continues to ripple through both domestic as well as global markets particularly when it comes to trade policy. And an area that's drawing more and more attention lately is tariffs. And so, James, maybe shifting over to you. As trade rhetoric intensifies, how are you thinking about the trajectory of U.S. trade policy and the potential reemergence of broader tariff regimes? And do you see this as a serious policy lever in the coming year? And what could that mean for the broader economic landscape?

>> Thank you. And I think you asked the question very well when you said, "Do I see this as a serious policy lever?" because there's a consensus view in Washington right now that is starting to kind of downplay the threat of tariffs ever since Liberation Day in April and kind of kicking the can down the road. But I think what is being overlooked to a certain extent is how much Trump enjoys the leverage that he gets from exercising tariff policy. If you read his book, "The Art of the Deal," use your leverage, start really high when negotiating, put it way up here. That is classic Trump approach to just about every policy issue. It works particularly well with tariffs because of all the leverage he has because Congress and the judiciary has not been able to strip him of this power despite what they're trying. And to build on that, at this moment in Washington, Trump is at his highest level of power and influence that we have seen. Some great examples of it have to do with the Big Beautiful Bill. Speaker Johnson, for example, told me that to pass the Big Beautiful Bill, it's going to be like walking on dental floss over the Grand Canyon. Guess what? It happened on July 4th, exactly when Trump wanted it to happen. He has a lot of control now. And furthermore, a lot of the negative impacts on tariffs have not really solidified as much as folks have predicted. I spoke to one member of Congress from a rural district in Iowa, and he said part of that is because folks have bought supplies, they're kind of planning ahead to prepare for it. So, I don't think that we'll be able to not have this impact, but folks have found a way to put a band-aid on it. And what that's doing is it's not creating the market reaction that Trump has oftentimes seen and made him walk back. So, I think we're not going to see the sky fall, but I do think we're going to see a more aggressive tariff policy. I was speaking with a cabinet member off the record who said August 1st we're going to see the "biggest business transaction in history." So, while some of that could be puffery, given Trump's political power and where he's going with these things and then his just general predilection for using leverage, I think we're going to see a lot more fireworks than some of the other deadlines.

>> Thank you. I think fireworks is probably the best way to describe all of the things that have been unfolding. Of course, trade dynamics just don't impact the U.S. and they ripple across the border. So, maybe Lee and Magda, turning back to you and thinking about emerging markets, which are really starting to show a different kind of momentum. There's growth differentials widening relative to the developed economics. So, how are these growth shifts impacting broader investment strategies across sectors? And are there any specific sectors or themes where you're seeing this divergence starting to show up in a more meaningful way?

>> Yeah, I'm happy to start here. There's not a lot of winners from the unilateral tariffs imposed for the U.S., but Mexico and its industrial market, in particular, really stands out to be a potential net beneficiary of this policy. And I think I need to give a little background to get you there. There's been a shift since the late 2010s towards nearshoring some manufacturing away from Asia for a variety of reasons. And that really accelerated with the renegotiated North American Free Trade Agreement, the USMCA, which notably was

negotiated by the prior Trump administration. So, there's some ownership there of this trade policy even in this new environment of broader-based tariffs. And then, we had a period where COVID and the push to diversify supply chains really fueled a lot of investment in Mexico as well. Now, at least as of today, goods covered under the USMCA are exempt from the Trump administration's proposed tariffs. And we estimate that's about two-thirds of exports from Mexico to the U.S. and probably another 10 or 15% could be reclassified to be covered under the USMCA. So, that's going to give Mexico a fairly unique advantage over other emerging markets to have basically tariff-free access to the U.S. market and where we don't know where tariff policy is going to settle, as James pointed out, it's unlikely to be a zero. It's likely to be something higher than that. And it's also worth noting that that labour costs in Mexico are now way below what they are in China and really highly competitive with other emerging markets like Vietnam and Indonesia. So, you kind of put that together and that gives investors sort of a unique value opportunity. Those Mexico industrial properties have two things that make them very different from a typical emerging market in real estate investment. The first is that they're often leased to a single major multinational company. And so, the credit profile of those tenants is the same or even higher than you would expect to see in developed market industrial holdings. So, you don't really have the same credit risk that you do from a local tenancy perspective. And the second is that those leases are denominated in U.S. dollars. And so, you also don't have the currency risk that's typically associated with investing in an emerging market. And the income yields, the cap rates for those properties are about 200 basis points higher than, for example, U.S. industrial assets. And so, that's more than enough of a spread to compensate for the risks of investing in an emerging market such as Mexico. And I think when you look at the potential growth trajectory of demand in Mexico, there are some constraints. There are clearly a few risks in Mexico, the most notably being the recent essentially restructuring of the judiciary system to be much more responsive to the executive branch and local political power. You also have some capacity constraints about energy that limit things. But even with that, you're still looking at what we think is not a 1 or 2, but really a 5-and-10-year opportunity to invest in what's a meaningful growth and demand in an emerging market in Mexico.

>> So, what Lee is saying, I love listening to his comments, because it is this microcosm of what's happening in various economies what we see more on the macro level. So, these trade tensions and tariffs although quite extreme compared to the history are not new. We've had already a number of years with increasing trade restrictions, and the process of this closer cooperation within narrow blocks has continued since then. So, we see not maybe a reverse from globalisation, but rather this regionalisation. And what Lee described is one of these processes in which the investment flows have been going closer to countries that are either the final market or close to the final market. And other emerging markets have benefited from that as well, including in central eastern Europe, even those that are not members of the EU or places like Turkey or North Africa. And in Asia, as they get closer towards China, these economies have received also additional flows. However, it's not all rosy because at the same time as trade tensions intensify especially between Europe, the EU and the U.S., there's been a bit of a drop in investments going into the EU countries for the sectors that would traditionally supply the U.S. However, we see more going into investments that are targeted towards domestic markets and maybe coming from China. So, there are definitely some maybe not outright winners. But on the relative terms, we see that these countries are benefiting. And as I said earlier at the beginning of the webinar, these macro forces are there. They are not going to disappear. They will continue tariffs or not. And obviously tariffs from the U.S. can disrupt the process to some degree and maybe even for some accelerate it.

>> Super interesting. And I think the broader Mexico theme is one that's going to be interesting to follow from even a real estate perspective, Lee, as I think a lot of the younger folks in the States, I've been just

seeing headlines of just appetite to move to Mexico, lower cost of living, etc. So, I'm excited to see kind of how that pans out over the next 5 to 10 years as you mentioned.

So, growth isn't just a story in EM. Europe as an example has also had a tough few years, but seems to be turning a corner. I think lately we've been seeing signs of revival and particularly in areas like manufacturing as well as real estate. So, Lee, as our real estate expert, do you see this as an area that's becoming more attractive in this environment? And are there any specific segments that you think the market may be overlooking?

>> Yeah, I think that the market, as of now, probably incorrectly extrapolates from what is a pretty muted expectation of growth in Europe just generally. And there are many, many reasons for that. But when you look at that growth relative to what's happening in real estate markets, I think things are actually considerably more compelling. The first thing to note is that unlike the U.S., in Europe monetary policy is becoming a little more accommodating. And so, we have falling borrowing costs. And real estate's a very highly leveraged asset class everywhere. And so, the impact of borrowing costs is really magnified when you talk about investor demand and particularly core investor demand for real estate. And so, that means that returns bottomed out last year and they're starting to grow again. Coming back to my previous comments, we also don't see a V shape in Europe. That's not really our expectation. But we do see the basis for growth for a couple reasons. The first is that occupancy rates right now are actually really high in Europe. So, you're going into a cycle where growth may actually improve. When you think about Germany with more of a fiscal push than we've had for quite some time, some other somewhat favourable growth drivers, that is occurring in an environment where occupancy is already quite high across real estate. So, that gives owners of real estate the leverage to maintain or increase rents. This is also an environment where there's been very little new real estate built in Europe. The supply environment is by far the lowest across the regions that we follow. And that's true in the residential, even the logistic sectors. And so, even in a muted growth environment, you could expect that low supply environment to generate rent growth. And also to the extent that there is going to be new development, those new developments should do well. In terms of what that means for sort of some underappreciated or overlooked segments to be a little more specific, to pick a procyclical one, the urban logistics sector has very beneficial. There's still e-commerce growth and supply chain restructuring occurring in Europe. It's a little bit behind U.S. and much of Asia in that aspect. And so, rental growth in those urban locations we would expect to be very favourable. There's also within the living sector a whole category of things that I would call operational in nature, things like student living, co-living, senior housing. It's not just providing the real estate, but it's really providing the experience for tenants. And really, we're seeing a lot of demand for that. And those really to us generate really strong risk-adjusted returns, because they're actually less correlated with the traditional real estate sectors and even the macro sectors. You can still have strong demand for senior living, for example, in an environment that is weaker. I guess a related one would be something like open-air hospitality, where you have campsites and caravan parks, and those are emerging as like value-add opportunities, and these are really undermanaged assets and you really do find in Europe very undermanaged real estate. It's usually held by families or other non-institutional owners, and there's still that conversion opportunity that's a little further along in other parts of the world, but we're still seeing that at the beginning of it. And then, I guess the other, I hesitate to call it an underappreciated or overlooked segment, but data centres also stand out as an asset class that is benefiting from really more global trends than local trends. So, when you look at the demand drivers there, they're really independent of the economic environment. And we look at where demand continues to outstrip supply in key markets like Frankfurt and London. And in our view, this sector is poised for very, very strong returns in Europe and globally as well.

>> Great. I guess while we're on the topic of Europe, is there any other notable trends that the group wants to share in terms of what they're seeing in the region more broadly?

>> Maybe if I can chime in from the economics perspective, what we see is it's both a huge challenge, but also an opportunity for Europe because Europe is really one of these regions that is exposed both to trade tensions with the U.S. and China and at the same time has to deal with some fiscal issues. And maybe I don't know if James wants to touch upon any of the issues related to U.S. fiscal policy, but fiscal issues are also the attention on the U.S. fiscal matters brought attention to the European fiscal matters. At the same time, Europe has to fund a lot of defense. So, that points to a lot of difficult tradeoffs just also as Europe tries to use this moment to increase the momentum for further integration while facing some of the political polarization that is also familiar to the U.S. observers. So, it's a difficult moment for difficult policy choices, but also a great opportunity to break out of some of the old molds of old thinking and give new impetus to growth in Europe.

>> Thanks. And if I could add to that, I think from a political perspective, you're absolutely spot on in the sense of there's a new way of thinking in Europe since the Trump administration has had these altering views on Ukraine; when Zelenskyy came back after being in the White House and he met with European leaders in the U.K. post-Brexit and they all rallied around him. And we're seeing this now with defense, with trade policy. I think from a political perspective, we're seeing a more unified approach to foreign policy in Europe than we have seen since Brexit. And then, I think to your other point about U.S. fiscal policy, we would be remiss to get too far into this segment without talking about the Federal Reserve and what's coming there next. I have three big points about that. Firstly, of course, Trump seems to very much capitalise on using Jerome Powell as a punching bag for any kind of economic problems. I think it's very politically expedient amongst his supporters for him to keep on pointing a finger in that direction. But when we think about interest rates and the process and how that works, that is something that the FOMC at the Fed is in charge of. They have 12 members on that committee and they rule by consensus. So, even if we have a very different head of the Federal Reserve after Powell's term is up, there is still a consensus process historically at the FOMC that will be a moderating influence. And the only way to really change that would be through legislation. And I do not think there are 60 votes in the Senate to get past the so-called filibuster rule to actually change the makeup of that committee. So, I think that's kind of the good news here as far as looking for certainty in the markets with respect to interest rates.

>> Great. Thank you. Maybe one final question for me before we move on to the Q&A portion. I think no outlook would be complete without touching on AI. It's widely seen as a gamechanger and a transformational force for the global economy as well as portfolios. Eric, maybe shifting it over to you, will those expectations be met or are we getting ahead of ourselves as we kind of think about how much impact AI has? And how are geopolitics shaping the way that you think about risks as well as opportunities in tech and AI-related investments?

>> Sure. Great, thank you for the question. It's obviously extremely topical. And I would say here at Jennison, we are very big believers in AI and strongly believe that we're just scratching the surface on the impact that AI is going to have on the way we live as consumers, the way we work in our jobs and even how we invest in the tools we use here at Jennison. So, we don't think we're necessarily getting ahead of ourselves in terms of AI and the excitement there. And I'll say over the course of my 25-plus years in tech investing, we see these big step function changes once every call it five years, seven years maybe, whether it's starting with the advent of the internet in the late '90s, the proliferation of mobile, the move to software as a service, cloud computing with the likes of AWS and Microsoft Azure, and now in my opinion we're experiencing that next

step with artificial intelligence. And those were some pretty big ones I rattled off, but you could argue this one is going to be just as if not more impactful than those. So, we're firmly in the camp that we're just scratching the surface on use cases for AI. And when you step back and look at the four big hyperscalers to this point, they're spending \$300 billion in capex just this year, and that's up 40% year-over-year. And that includes Google, who just last night increased their capex this year by another \$10 billion to 85 billion from 75 billion. And that doesn't even include the tier-2 players like Oracle or the sovereign investments like the Stargate Program here in the United States. So, we're very comfortable that there is a tremendous amount of innovation to come, despite the hype I think that we've seen in the near term. And maybe to answer the second part of the question, the geopolitical impact and the risks and the opportunities, we're certainly very focused on the steady developments with China, in particular, and specifically the restrictions on GPU sales and semiconductor production equipment, but even the revelations from DeepSeek back in last April that they were able to create a large language model at a fraction of the cost. It does appear that the current administration is going to be more flexible with allowing for accessibility of GPUs. And even in the AI Action Plan that was just outlined yesterday, it appears that GPUs will be more available than we thought they were going to be six months ago to some of these other foreign entities. And in our view, broader accessibility of AI capabilities is likely just going to accelerate innovation. At the same time though, I do think use cases and availability of AI in the enterprise is going to be somewhat slow to roll out. Enterprises are incredibly sensitive about exposing their proprietary data unintentionally, because once that data is exposed to a large language model, it's extremely difficult to undo or to claw that data back. And that applies to both exposing data internally, which would oftentimes be the initial use case of AI, but externally as well. As an example, I've heard several instances from some of the companies we look at that work in data governance, that when their enterprise customers attempted to implement an AI solution, they unintentionally exposed their entire payroll or all of their login credentials to their workforce, and that's the type of mistake that we just can't have happen. So, there is certainly a little bit of hesitation in the enterprise to do these largescale rollouts. But we're extremely optimistic on AI and the expanding use cases, but it's not necessarily going to be an overnight sea change in terms of enterprise adoption. But we do think that the rate of development is just so rapid that we're extremely excited about this step function change and what's going to come in the coming years.

>> Great. I just want to make sure we're staying honest on time. And let's move on to the audience Q&A portion. And so, we've received some great questions already. But just as a reminder, now is a great time to send in any questions that are top of mind for you all and we'll try to cover as many as we can. So, if I'm just looking at what's coming in, James, I think you touched on this, but we are getting some interest on just the broader topic of the Fed and Chair Powell's term ending in 2026. You mentioned a candidate that could be a potential replacement, but do you see any leading candidates gaining traction and how might their policy leaning shift the Fed's approach to inflation, labour, or financial regulation?

>> Well, like I said, there's a few top candidates. Several are in the press. I don't think people need to know that Kevin Warsh, for example, is a leading candidate, that there's a member of the Federal Reserve Board of Governors who's also a leading candidate. But what I have seen is other candidates that are not in the past, like the one I just mentioned, John Allison, that are very anti-institutionalist of the Federal Reserve. So, I think we're going to see kind of still kind of a competition there to figure out who Trump finds to be the most politically expedient to his needs. And then just to kind of re-answer the question before, as far as the interest rates go, it's still not that easy for a new Fed chair to roll in and just completely change interest-rate policy because of the structure of the Federal Open Market Committee. It is a 12-member committee, and they usually rule by consensus. I mean, Trump has certainly broken down doors before, but that would be a very hard one for him to break down if that's the way that the administration wanted to go, which does certainly comport with everything he has said. But one thing I will also say is on Capitol Hill, Chair Powell, unlike most

other Fed chairs, has done a lot of work to shore up interest and support of the Federal Reserve as an independent organization. He's done that more than any other Fed chair has. I've been at several events where I've seen a kind of lower-level member of Congress, not in top leadership, and they'll say, "Hey, I'm leaving. I've got to go because I'm meeting Chair Powell for a drink. I'm meeting Chair Powell for lunch." That is not what like Alan Greenspan did before. And Powell will do that also with high-level staffers, and I think he, to the best of his ability in this unpredictable political environment, he has really set the stage to have allies on both sides of the aisle who I think would think twice about making the Fed significantly more subservient to the executive branch in terms of monetary policy. The other change that we're seeing that is very different, and I think is going in a different direction, has to do with the Fed's regulatory and supervisory powers. The Treasury Department right now is playing a significantly bigger role in the promulgation of Basel III SLR and other banking regulations. That is atypical, and isn't how things have worked before. So, I think we will see a changed Fed significantly more on that side so far.

>> Great. Thank you. Lee, maybe a question –

>> Just to follow up with you, James, do you think that the executive and congressional branch benefit from an institutionalist like Powell in that position, because then they have somebody to blame when things go wrong and they can take the credit when things go right?

>> So, so far, I think that has exactly been Trump's playbook. This is someone who ran the Apprentice and is adept at pointing his finger at someone else. And his followers really do give him the benefit of the doubt in almost every circumstance. So, that's why when all these calls for "firing the chair of the Fed" and Trump had his big note before to Jay Powell recently telling him to lower interest rates. I think a lot of that is actually politically helpful to Trump and I think Trump knows that. So, I think that will carry the day at least until Powell's term is up. Whether or not the administration tries to put a kind of shadow Fed candidate and announces a nominee very early to kind of continue that blame process in advance is an open question. But I still think, Lee, you're correct and that this does kind of create a punching bag that is politically helpful to the administration right now.

>> Lee, maybe a question for you if we punt back to real estate. What's your outlook for the multifamily sector heading into 2026? And how are you thinking about where cap rates are headed? Are we nearing stabilization or is there still more repricing to come?

>> Perfect. And I will answer this question. Multifamily, it's probably more of a U.S. question. The U.S. is by far the biggest multifamily market in the world, so I'll address it from there. The short answer is we think that today's cap rates are fairly valued relative to where interest rate expectations are. So, that to us from a pricing standpoint looks quite good. It leaves the sector being fairly valued. A couple of comments, though. The first is that over the very near term that this year, next year, possibly bleeding into 2027, the southern part of the country is pretty oversupplied. A lot of development got started in 2021 and 2022 when rents were going up -- no joke -- 20 to 25% a year in many of those markets. And so, that really induced a lot of new supply. It's really the first supply that we've had, a real supply that we've had since the financial crisis. So, that's the first thing. That'll be a near-term drag. I think investors are correctly looking through that and looking towards a period after 2026 when we don't have a lot of new supply. Construction starts are already down by half or should I say the amount of units under construction are down by half. Construction starts are down by much more than that. So, when you look out to more favourable demographics, more favourable migration trends in 2027 and beyond, I think there's a lot of support for those multifamily markets.

And then, the second thing that I will just reference is that multifamily is just now one sector of the residential market. We now have manufactured housing, single-family rentals. We have student housing. We have these other sectors that are now attracting institutional interest. And in many of those sectors, the demographics line up even better than the traditional multifamily sector. So, we expect to see a continued push by investors towards a broader living allocation and not just to the traditional multifamily sector. And those sectors are also, we think, somewhere between fairly and attractively priced.

>> Great. Thank you. Magda, question coming in for you related to emerging markets. When it comes to emerging markets, distinguishing true investor conviction from short-term sentiment can be challenging. What signals or indicators do you find most reliable in identifying durable flows and sustained interest rather than just tactical or momentum-driven moves?

>> That's an excellent question because in the end, investor sentiment is expressed in the actual flows and purchases or selling of assets. So, we look quite a lot at the actual capital flows. And I mentioned earlier foreign direct investments, which are a very important part of the emerging market financial account, sometimes exceeding the size of portfolio flows to a very large extent. And we saw that the FDIs into emerging markets have continued. There's a little bit of rethink related to the trade conflict and which sectors need to receive this capital, but that's one of the indicators that we really look at quite carefully. And the other one is still just the actual demand for EM assets from foreign investors. And for example this year, but also the year before, but even at the time when we were so worried about the capital or the flows outlook for EMs and DMs. So, say in 2022 and 2023, which was marked by Fed hikes, gyrations in oil prices, Russia/Ukraine conflict. Even then, demand for EM assets was relatively high, meaning that there is a strong and developed investor base that looks at the asset class as a lasting resilient asset class, and I think these markets have proved to be, rather than being only driven by the market sentiment. That is still there. But in the end, the proof is in the pudding or rather in the actual flows.

>> Thank you. Our next question is on AI. So, maybe, Eric, gearing it to you. What advice would you give investors looking to gain exposure to AI and technology? Where do you see the most compelling opportunities to add value across the market cap spectrum?

>> Great, thanks. Like I mentioned earlier, I think we're just scratching the surface on use cases for AI. And I know when you think of AI, everyone immediately goes to NVIDIA, Microsoft, Google, Meta, and we think they're still certainly going to be leaders in innovation for the foreseeable future given their massive R&D budgets and capex dollars that they're planning to spend in the near term. But I think back to your question, we think there's tremendous increase in demand in peripheral areas around AI as well like, as I think Lee mentioned, data centre construction, independent power producers, countless areas of software development like I mentioned earlier around data governance. And then down the market cap spectrum away from the ultra-mega caps, there's a variety of companies participating in custom silicon development, which is just in its infancy, security software to protect an enterprise's proprietary data or software for data management to help drive efficiencies. And in many cases, AI is a much larger percentage of these overall businesses for these smaller companies than it is for the trillion dollar plus market caps. So, while we love those mega cap AI pioneers and expect them to continue to thrive, we also think there's a broad swathe of beneficiaries sort of outside of that core group that you immediately think of. So, as is always the case here at Jennison, we're focused on finding companies that we think are maybe off the beaten path, not right in the middle of the strike zone, and in this case companies that we think will benefit from AI and all the peripheral spend around that. And we're focused on companies that we think are going to be able to monetise AI specifically and not just have to spend to implement AI as a normal course of their business or table stakes.

So, that's really where we're spending a lot of time thinking about it is just how can somebody actually profit from AI as opposed to spending to kind of keep up with the market evolution.

>> James, maybe a question for you. How does the panel view the idea of a decline in American involvement on the world stage and how might that play out over time?

>> Sure. Well, I think what is most interesting to think about with the Trump administration's change in foreign policy compared to traditional foreign policy, I think sometimes on both sides of the aisle is that this is actually more of a global movement since his election this time around. In 2016, he was kind of the odd man out with some of these ideas. But now, we have a lot of populist governments gaining influence all over the world. It's happening all over Europe. It's happening in Austria. There's a huge populist contingent in France, Italy. So, I think we're seeing a lot more of this on an international scale, and I don't think that you can put that genie back in the bottle. Whether or not that continues and there's not a shift, there will always be now this new way of thinking that American exceptionalism and multilateralism is not just a given. I think we are now at a point where regardless of what happens next, that is not just kind of the standard given on the foreign policy space because the populist movement has blown up throughout the world in many circumstances. And I think what's most interesting about that too is, if you look at the polling of who supports the populist movements around the world, it's a very similar demographic in every country. It often skews non-college-educated, minority-ethnicity males, and that is the group that is supporting these movements from Germany, to Italy, to here. And I don't think that the traditional kind of political back and forth with what party is in power is going to end that movement and the questioning of American exceptionalism going forward.

>> Great. Magda, as AI adoption accelerates, maybe just jumping back to AI, globally as it accelerates, how are emerging markets positioning themselves to capture value and where might investors find the most compelling opportunities or overlooked risks in this evolving landscape? I know you touched on risks and opportunities, but maybe just diving a little bit deeper into the broader theme of AI and EM would be great to hear.

>> Yes, absolutely. And it has so many dimensions and I think also both on the DM side and the EM side or just global economy -- I really don't like making those distinctions too much -- we're only scratching the surface for now. because one thing is even geopolitical aspect of AI. Countries in the so-called global south have potential to develop a lot of renewable energy. And we know that, for example, countries like Saudi Arabia are positioning themselves to offer renewable solar energy to AI infrastructure while at the same time assuring the privacy of the data and the processes that happen there. So, there's the geopolitical and the knowledge-transfer aspect of that. But also when we think about the AI readiness, the developed markets companies may not be yet AI ready, and the same applies to the EMs, but there is so many EM students, talented people who can benefit from the AI deployment, which is universally available. So, we do see this as a huge potential for growth in emerging markets productivity. We know that quite often that jump from middle income to higher income, or overcoming the middle-income trap, depends really on improving efficiency and productivity within small businesses. So, we think that AI can be that potential force that could help to overcome some of these obstacles. So, again, from the market perspective, I'll be looking predominantly at productivity. I'll be looking at the geopolitical alignment and then just simply the use, better use, better education of the human capital that the EMs have.

>> Great. Our next question is, "What is your view on long-duration versus mid-to-short duration fixed income?" I know we don't have a public fixed income portfolio manager on here. But, Lee, is there anything you might want to add from a real estate debt perspective?

>> Yeah, sure. And I will acknowledge that I don't have anything super useful on long versus short in the public fixed income markets, but that is a big input to how we look at the pricing of real estate credit. And right now, we see sort of if you go down the list, core real estate credit still has a pretty attractive spread relative to corporate bonds. So, that premium is still there. And obviously, the levels of that are much higher than they have been for the past 15 years, and that's obviously due to the elevated interest-rate environment. If you go up a tier, you also have a demand for what we call transitional loans, and transitional loans would be a property that's not quite leased up yet, or a property that has a near-term expiration, or a property that needs some capital investment. And we're seeing robust borrower demand for that as well. And that's particularly true in light of the comments I made earlier where some of the sunbelt multifamily markets are a little oversupplied. Newly developed properties are taking longer to get leased up, and owners are willing to pay a premium to borrow in that not quite core environment. And then finally, we still see -- and really, if you take my comments a little bit on long versus short -- core is sort of the longest what I've just described transitional bid. And then for shorter duration, more high yield, there's still big gaps in the capital stack which need higher-yielding debt. With property values down about 20%, if you have to refinance a loan, chances are you have to come out of pocket to refinance that loan. And in some cases, people are willing to do that. But in many cases, they're looking for additional equity, and the pricing of that equity is very attractive with quite high returns, albeit fairly short-duration ones, available as well. So, across the stack, we just see this as a very, despite the fact that there are many lenders in the market right now, there's still quite a bit to do across the core to high yield segments.

>> Great. Thank you for addressing. I think those are all the questions that came in. I want to thank you all for sharing your insights and perspectives and just being with us. And thank you to the audience for joining us today. If you want to explore more of just PGIM's thinking on these themes and beyond, please visit pgim.com. I hope to be able to share some thought leadership with you all there. But thank you all again for joining and have a great day.

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