



FOURTH QUARTER 2025 OUTLOOK

NAVIGATING THE SHIFTING SANDS OF GLOBAL FINANCE



Published October 2025

For professional investors only.
All investments involve risk, including possible loss of capital.

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01 MARKET PULSE

Executive Summary

The global financial landscape has entered a new era of profound uncertainty, demanding a re-evaluation of long-held investment and policy assumptions. For decades, investors were guided by relatively stable economic principles, but today, traditional playbooks are being redrawn. This variability is driven by a confluence of powerful forces: an increasingly unpredictable U.S. policy environment, persistent inflation fueled by protectionist trade measures, the potential emergence of sovereign risk in advanced economies, geopolitical conflicts, and rising political pressure on central bank independence. Despite all these drivers of volatility, equities have continued to set record highs and credit spreads have continued to grind tighter. At the same time, this volatile environment is accelerating a structural shift in capital markets, pushing private markets from the periphery towards the core of institutional portfolios. These converging trends represent the "shifting sands of global finance," requiring investors and policymakers alike to navigate an increasingly complex and unfamiliar terrain.

Key Questions as investors look forward include:

- Does central bank independence impact long-term inflation?
- Are private markets now a necessary part of a diversified portfolio?

This fourth quarter 2025 outlook explores the following themes:

1. The state of the U.S. economy six months after 'Liberation Day'
2. The path of monetary policy in the wake of the Fed's recent cut
3. The impact of sovereign risks on strategic asset allocation
4. The role of currency exposures in portfolios
5. The market and regulatory forces impacting private market allocation decisions

Market Pulse

U.S. equity markets maintained strong upward performance in Q3 2025, with the S&P 500 reaching multiple new highs and eventually rising by 8.1% over the quarter. This rebound in sentiment occurred despite significant geopolitical tensions, particularly in the Middle East and Ukraine, and ongoing uncertainty surrounding U.S. trade policy. While the April tariff announcement led initially to a market shock, the emerging desire for trade deals on many sides has enabled markets to focus on corporate fundamentals which have remained strong.

While the U.S. economy has continued to outperform most peers, significant increases to tariffs on countries and sectors have nonetheless been implemented, and their impact on consumer prices and labor markets remains an open question.

Global interest rate dynamics were shaped by diverging central bank paths in the third quarter. The Federal Reserve began a rate-cutting cycle with a dovish shift, initiating a 0.25% reduction that signaled the start of a broader easing trend. The European Central Bank, which eased earlier in the year, remained on hold, while the Bank of England kept rates steady amid domestic fragility. In contrast, Japan maintained a tightening bias as improving fundamentals supported its path toward policy normalization. Overall, yield curves steepened across developed markets, reflecting both policy divergence and long-term uncertainty.

We expect the easing trend to continue in the U.S. and UK. The Fed is projected to cut rates twice more – 25 bps each in October and December, while the Bank of England is anticipated to deliver a single 25 bps cut in December. The ECB is likely to remain on hold, with any further easing deferred to 2026, and the Bank of Japan is expected to maintain its cautious stance, holding rates steady through year-end. Steeper yield curves remain in the backdrop. For insurers and pension plans, ensuring a disciplined liability hedge across the curve amidst a volatile interest-rate environment should remain a top priority. For asset-focused clients, the 5-year and 20-year segments may potentially offer relative value opportunities.

The U.S. credit markets entered Q4 2025 with historically tight spreads, reflecting strong corporate fundamentals and fiscal support, but with limited room for further tightening. Public credit, particularly investment-grade and high-yield bonds, is priced for perfection, making any near-term spread widening a tactical buying opportunity. Meanwhile, private credit continues to attract strong demand, with record CLO issuance and growing interest in diversified strategies like asset-backed financing (ABF) and real asset credit. Despite tight conditions, both public and private credit offer attractive carry and resilient income, especially in higher-quality segments, amid ongoing rate volatility and macroeconomic uncertainty.

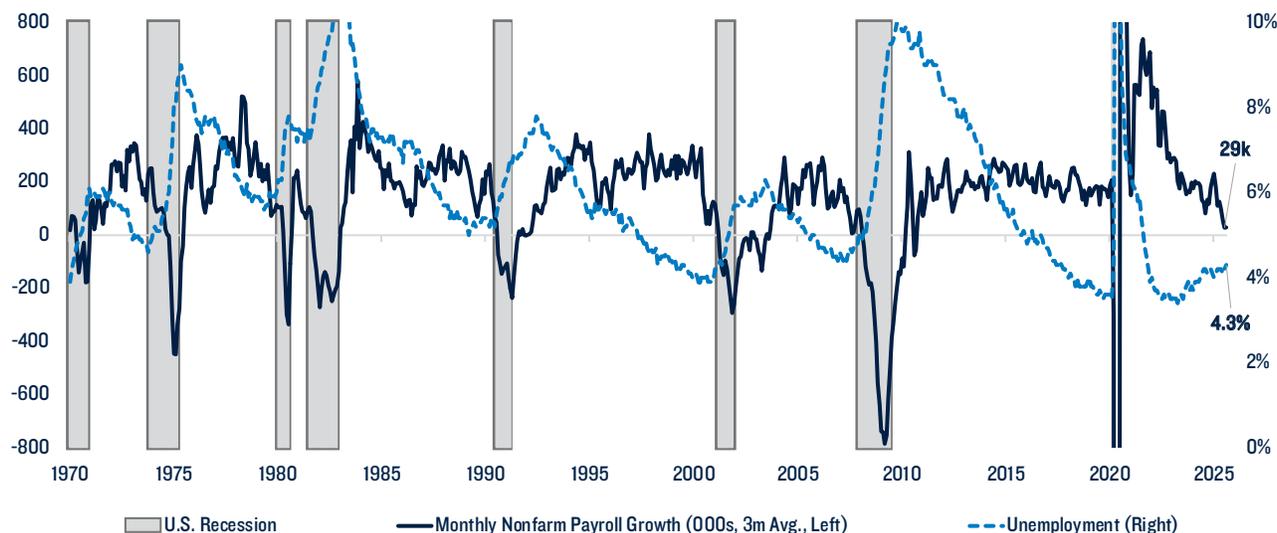
Exhibit 1: Market Snapshot (As of September 30, 2025)

		Benchmark	Current Levels Govt Bond = Current Yield (%) Equities = Index Level Credit = OAS (bps)	Q3 2025 Yield / Spread Change ▲▼	YTD 2025 Yield / Spread Change ▲▼	Q3 2025 Returns	YTD 2025 Returns
Fixed Income	2 Yr Treasury	US Government 2 Year Note	3.61%	(11)	(63)	0.98%	3.64%
	10 Yr Treasury	US Government 10 Year Note	4.15%	(8)	(42)	1.77%	6.83%
	US Investment Grade Credit	Bloomberg US Credit Index	69	(11)	(7)	2.57%	6.90%
	US Long Credit	Bloomberg US Long Credit Index	91	(13)	(9)	3.88%	7.78%
	US High Yield	Bloomberg US HY 2%	270	(21)	(17)	2.54%	7.22%
	Leveraged Loans	Credit Suisse Lev Loan Index	451	(8)	(24)	1.68%	4.69%
	CLO	JPM CLOIE Index	197	(18)	(8)	1.79%	4.54%
	Agency MBS	Bloomberg US MBS Index	31	(6)	(12)	2.43%	6.76%
	CMBS (Investment Grade)	Bloomberg US CMBS Investment Grade Index	82	(9)	(6)	1.75%	6.32%
	ABS	Bloomberg US Agg ABS Index	47	(10)	3	1.64%	4.62%
	EM Debt (Local)	JP Morgan GBI-EM Global Diversified Index	5.93%	(9)	(47)	2.73%	6.54%
	EM Debt (Hard)	JP Morgan EMBI Index	283	(39)	(41)	4.75%	10.66%
	Equities and Real Assets	US Large Cap Equity	S&P 500	6,688	--	--	8.11%
US Small Cap Equity		Russell 2000	2,436	--	--	12.39%	10.38%
Global Developed Equity		MSCI World Index (Net Total Return)	13,776	--	--	7.27%	17.43%
EM Equity		MSCI EM Equity Index (Net Total Return)	1,138	--	--	10.86%	27.66%
Global Public Real Estate		FTSE / Nareit Developed Index (Net)	5,497	--	--	4.07%	10.39%
Commodities	Energy	Bloomberg Energy Subindex	68	--	--	-3.33%	-4.45%
	Precious Metals	Bloomberg Precious Metals Subindex	951	--	--	19.20%	47.87%
	Industrial Metals	Bloomberg Industrial Metals Subindex	367	--	--	0.20%	8.34%
	Agriculture	Bloomberg Agriculture Subindex	134	--	--	-0.81%	-2.87%

Source: Bloomberg, JP Morgan and PGIM. Data as of September 30, 2025.

1. Macroeconomic Picture: State of the U.S. Economy: The latest job data show payroll growth grinding to a halt, with non-farm payrolls rising just 22,000 (29,000 on average for the past 3 months, see Exhibit 2). Job creation at such low levels has been historically seen during pre-recession periods. While the unemployment rate remains low, at around 4.3%, it typically stays low until a downturn begins—then rises sharply thereafter. This unusual mix of weak job creation and still-low unemployment points to a late-cycle economic environment driven by several contributing forces. First, Trump’s tariffs have introduced a fiscal drag that is weighing on growth, and with no offsetting tax cuts until next year, households and businesses are absorbing higher costs that dampen demand. At the same time, heightened policy uncertainty has hurt business confidence, leading many firms to delay hiring and defer investment decisions, particularly in the months following the April 2nd “liberation day.” Finally, a sharp crackdown on immigration has begun to constrain labor supply, reducing the number of available workers and further slowing job growth – a dynamic that also weighs on consumption. Together, these forces have the potential to further weaken the labor market and consequently strengthen the case for the Fed to continue cutting rates.

Exhibit 2: Payroll Growth Slowed to Pre-Recession Level & Unemployment Saw Upticks

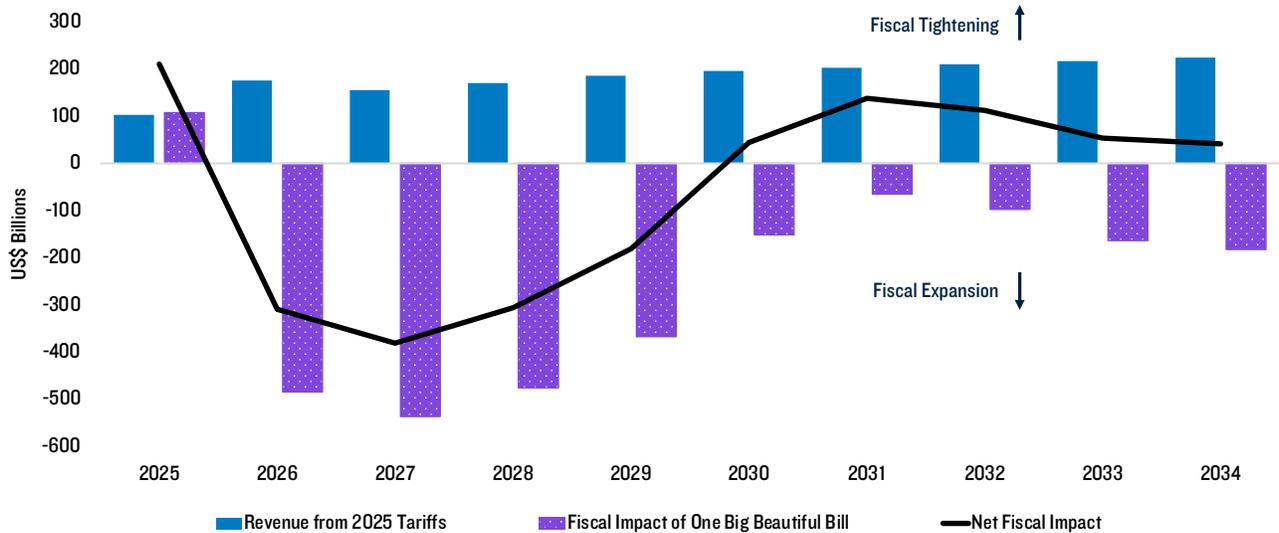


Source: Bloomberg and PGIM. Data as of September 30, 2025.

However, there is an apparent divergence between economic data and record-high stock prices. While the April 2nd tariffs initially caused some volatility, they have not had a lasting impact on investor sentiment. Investors point to several offsetting factors that may be muting their effect. For instance, importers front-loaded shipments to avoid tariffs, which delayed price pass-through to consumers. Both producers and consumers have substituted away from affected goods where possible. Moreover, headline tariff rates may overstate actual collections and are largely offset by the fiscal expansions introduced by the “One Big Beautiful Bill” (Exhibit 3). As a result, the realized fiscal drag is much smaller than initially projected.

The combination of loose financial conditions and expectations of future fiscal stimulus has helped offset the drag from tariffs and kept investor sentiment buoyant. In this period of divergent behaviors between market sentiment and macro fundamentals, we would suggest maintaining caution in risk taking and appropriate diversification.

Exhibit 3: OBBB Offsets the Fiscal Tightening Effect of 2025 Tariffs



Source: Congressional Budget Office, Yale Budget Lab and PGIM. Data as of September 30, 2025.

2. Rising Risks of a Less Independent Fed and Ensuing Higher Inflation: The Trump administration is moving to influence U.S. monetary policy by reshaping Fed leadership. Stephen Miran, a former White House advisor, was recently confirmed to fill the remainder of Governor Kugler’s term while on unpaid leave from the White House — raising questions about political pressure on the Fed. Courts have temporarily blocked President Trump’s attempt to remove Governor Lisa Cook, but if successful, the administration could control four of seven Fed Board seats, enough to block reappointments of regional Fed presidents who do not align with its views and steer policy direction.

In the near term, these political developments are unlikely to change the immediate policy decision. While Miran argued for a stronger 50-basis-point cut to counter downside risks, the FOMC majority’s reluctance to cut more aggressively stems from concerns about reaccelerating underlying inflation, which remains above target. This tension highlights the Fed’s balancing act between supporting employment and containing inflation – and underscores how politically motivated appointments could shift this balance more decisively toward growth-oriented, more aggressive rate cuts in the future.

If the administration succeeds in exerting greater influence, markets may begin pricing in a more dovish policy stance, increasing the likelihood of faster rate cuts regardless of inflation risks. This could initially provide stimulus and support asset prices, but it risks de-anchoring inflation expectations if rate policy becomes too accommodative. Over time, reduced Fed independence could undermine confidence in the Fed’s commitment to its inflation target, potentially steepening the yield curve as investors demand higher long-term rates to compensate for inflation risk.¹



Reduced Fed independence could undermine confidence in the Fed’s commitment to its inflation target, potentially steepening the yield curve as investors demand higher long-term rates to compensate for inflation risk.”

Aili Chen, Vice President, Multi-Asset Portfolio Research, PGIM



¹Empirical evidence also shows that inflation tends to be higher when a central bank is less independent. See Alesina, A., & Summers, L. H. (1993). Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence. *Journal of Money, Credit and Banking*, 25(2), 151–162.

3. Diverging Corporate and Sovereign Risks: Concerns about the sustainability of countries’ fiscal paths continue to linger in investors’ peripheral vision. While the gross financing needs (GFN: funding required to cover the budget deficit and debt maturities) of most advanced countries remain below the 20% threshold once proposed by the IMF, the U.S. is notable in having a GFN that is over twice as high as most other G7 countries. This is partly a result of its modestly lower than average debt maturity (Exhibit 4).

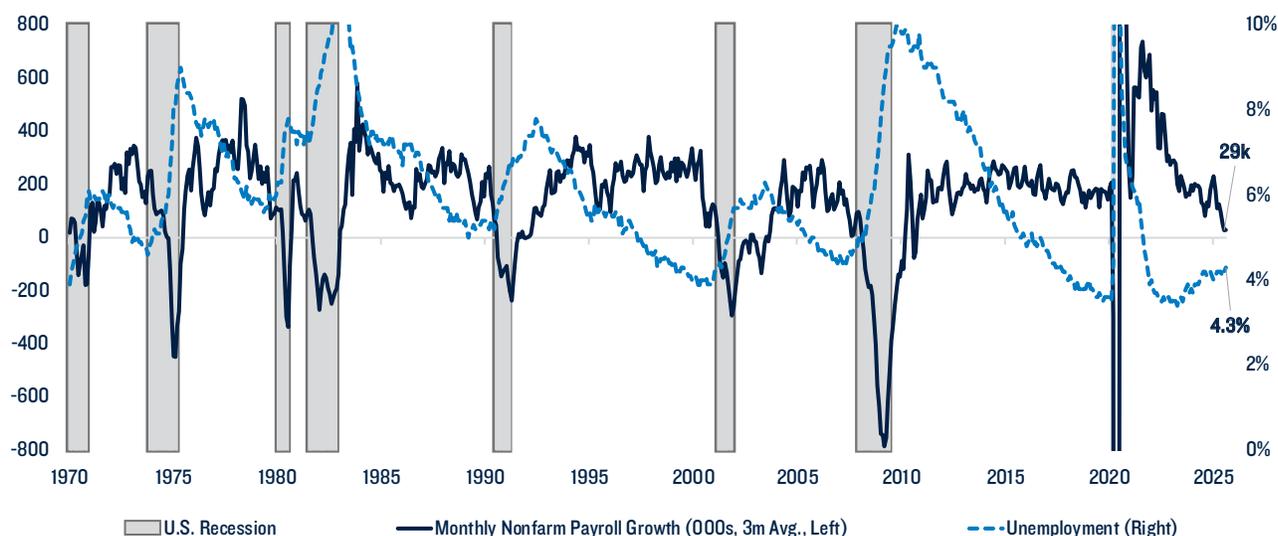


With countries facing fiscal strain, investors are increasingly favouring corporate exposures over sovereign debt, highlighting a growing divergence between public risk and private opportunity.”



Stuart Jarvis, Managing Director, Multi-Asset Portfolio Research, PGIM

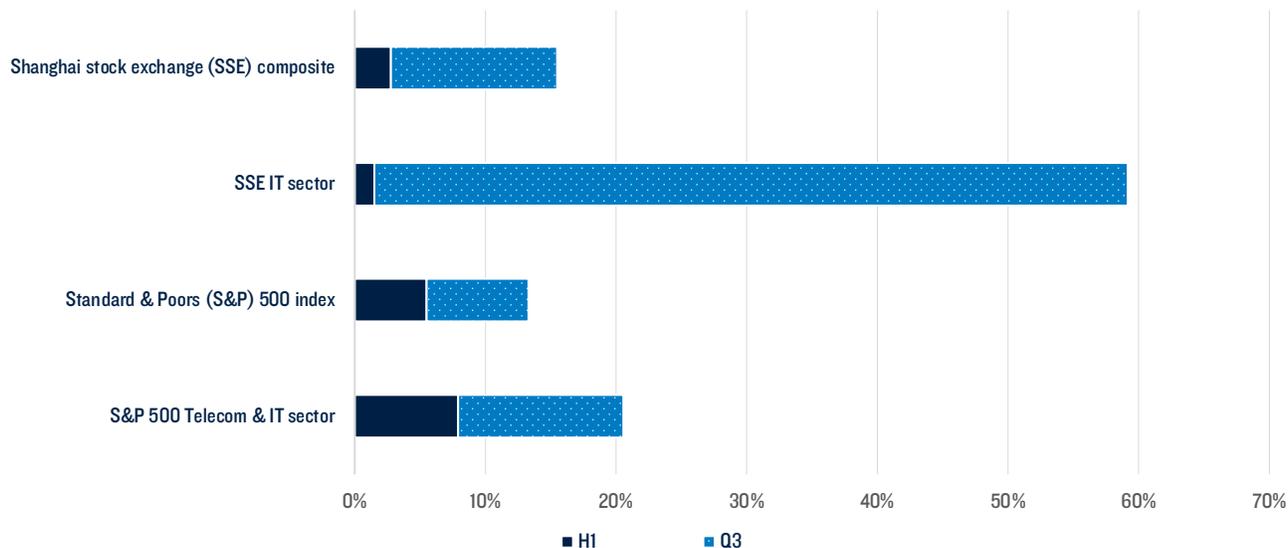
Exhibit 4: Financing Needs and Debt Maturities Across Advanced Economies



Source: IMF Fiscal Outlook 2025, PGIM calculations

Yet nervousness about sovereign risks has not diminished appetite for investing in these countries. The United States continues to offer attractive opportunities in the broadening information & technology space – in data centers and related infrastructure; in artificial intelligence applications; in semiconductor manufacturing for example. In France, the French political system struggled with its budget deficit – Sébastien Lecornu replaced François Bayrou as prime minister in September after a failed attempt to grapple with this but then he too resigned less than a month later – yet bonds issued by leading French companies (e.g. Airbus, Axa, L’Oréal, etc.) have been trading with lower yields than the French government. China remains central in the tariff war (and now negotiations) launched by the U.S. and its property sector remains challenged, yet investors have retained a high level of interest in key areas of the economy, with the IT sector leading the Shanghai index to recent highs, just as it has in the U.S. (Exhibit 5). Carefully choosing strategies that provide exposure only to risks judged likely to be rewarded, and avoiding others, remains as important as ever.

Exhibit 5: Corporate Sector Performance Has Not Been Held Back by Sovereign Challenges



Source: LSEG Datastream, PGIM calculations, prices in local currencies

4. Currency Risks in Portfolios: Making differentiated choices between an asset and its base currency has always been an important consideration in strategic asset allocation. The calculus, and the ensuing decision, has changed in 2025. Empirically, this can for example be seen in the choices made by investors in U.S. equity funds domiciled overseas. About 80% of recent flows into U.S. funds domiciled overseas have been overwhelmingly into hedged rather than unhedged funds, a significant shift from only 20% at the start of the year (source: Deutsche Bank). The current administration's policymaking has undermined the U.S. dollar's historical role as a 'safe haven' asset, which benefitted from flows into U.S. treasuries when there is an economic shock.

Hedging activity may itself have contributed to dollar weakness, as a recent [BIS](#) paper² suggested, and appetite for hedging seems likely to persist. Indeed, the recent cut in short term rates in the U.S., occurring at a time when the Bank of England, ECB and China are keeping theirs fixed, will reduce the costs of currency hedging. Furthermore, while a strategy of retaining dollars as protection made financial sense before 2025, it is challenged by unpredictable policymaking that undermines support for a strong dollar. Many investors have instead increased their exposure to gold, which has enjoyed a remarkable resurgence in 2025, as well as to other currencies, as potential stores of value in the event of a future economic shock (Exhibit 6).

² US dollar's slide in April 2025: the role of FX hedging, BIS Bulletin 105, June 2025

Exhibit 6: Investors Have Spurned the U.S. Dollar While Gold Has Retained Its Allure in 2025



Source: LSEG Datastream, PGIM calculations, all prices in U.S. dollars

5. Private Markets are Increasing in Attractiveness Again: The intrinsic value of PE assets (based on nowcast models) has improved and is moving closer to NAV, narrowing the valuation gap between estimated trading value and NAV that has suppressed exits since 2022. This convergence is a key step toward reviving deal activity and normalizing distribution yields. That said, intrinsic value needs to hold at or above parity for several quarters, and macro and financing conditions must stay supportive, before we can expect a durable recovery in private-market liquidity.

The global regulatory landscape is increasingly favorable toward private market investments. In the U.S., on August 7, 2025, President Trump signed the Executive Order titled “Democratizing Access to Alternative Assets for 401(k) Investors.” This directive encourages the inclusion of alternative private assets, e.g., private equity, real estate, private credit, within defined contribution (DC) plans — a market that holds multi-trillion \$ assets but has thus far largely stayed out of private investments. The Executive Order represents a significant policy shift, potentially unlocking a sizable new investor base for alternative asset managers. The Order is expected to spur innovation in retirement product development, such as target-date funds with private market sleeves, interval funds, and collective investment trusts. For private asset managers, this regulatory momentum presents a compelling opportunity to expand distribution channels and diversify their investor base. While the Order sets a clear direction, it is not self-executing. Key regulatory bodies, including the Department of Labor (DOL) and the Securities and Exchange Commission (SEC), are still in the process of responding. Until final rules are issued, uncertainty remains around implementation timelines and fiduciary standards.

In the U.K., there is also a trend for single-employer DC schemes to consolidate into Master Trusts to achieve scale. This trend could reshape portfolio construction and allow plans to allocate more to higher risk, higher return alternative assets, such as private assets. For example, NEST, one of the U.K.’s largest master trusts, plotted more than £1b into private equity in recent years. In addition, as pension systems adapt to changing economics and demographics, there is growing interest in collective defined contribution (CDC) schemes. In CDC schemes, the fund is managed collectively, meaning that investment and longevity risks can be shared among participants, potentially making retirement outcomes more resilient to market shocks compared to individual defined contribution plans. For example, the Dutch pension system (the largest occupational pension system in the euro area) is transitioning from a DB to a CDC model. This reform marks a significant shift in the Dutch pension sector and reflects a broader move towards more flexible and individualized pension planning. Similarly, in the U.K., The Pensions Regulator recently approved the Royal Mail Collective Pension Plan as the U.K.’s first CDC scheme. Together, this shift opens the door for European pension plans to allocate more to private assets for potentially higher returns and diversification.

03 OUTLOOK BY ASSET CLASS

Public Fixed Income

In September, the Fed cut policy rates by 25bps, as widely expected, to 4.00 – 4.25%, setting the stage for further cuts in the remainder of 2025. As our base case, we expect another two 25bps rate cuts in October and December, respectively, with potential risk of a more dovish pivot by the Fed, depending on factors such as Fed composition and labor market conditions. The back of Treasury yield curve will likely remain elevated as it continues to reflect uncertainty regarding fiscal conditions, policy credibility, inflation, and foreign demand for U.S. Treasuries. As such, we expect the U.S. yield curve to remain relatively steep given the multiple driving forces. For institutional clients such as insurers and pensions, maintaining a disciplined liability hedging program from an aggregate duration and key rate duration perspective should remain the top priority. The ability to utilize a combination of derivative and physical securities can allow for greater customization and precision in the hedge.

U.S. credit spreads are currently priced for perfection, with ICE BofA U.S. IG corporate OAS and U.S. High Yield OAS near their tightest levels since the late 1990s (Exhibit 7). This tightness reflects strong corporate balance sheets, falling debt-to-equity ratios, and robust interest coverage, supported by the government's fiscal expansion. Historically, credit spreads have been strongly mean-reverting, implying limited room for further tightening. While we see potential catalysts for near-term widening — such as a U.S. growth scare, a surge in corporate issuance, or Treasury concentrating issuance at the short end — we view any widening as a tactical buying opportunity.

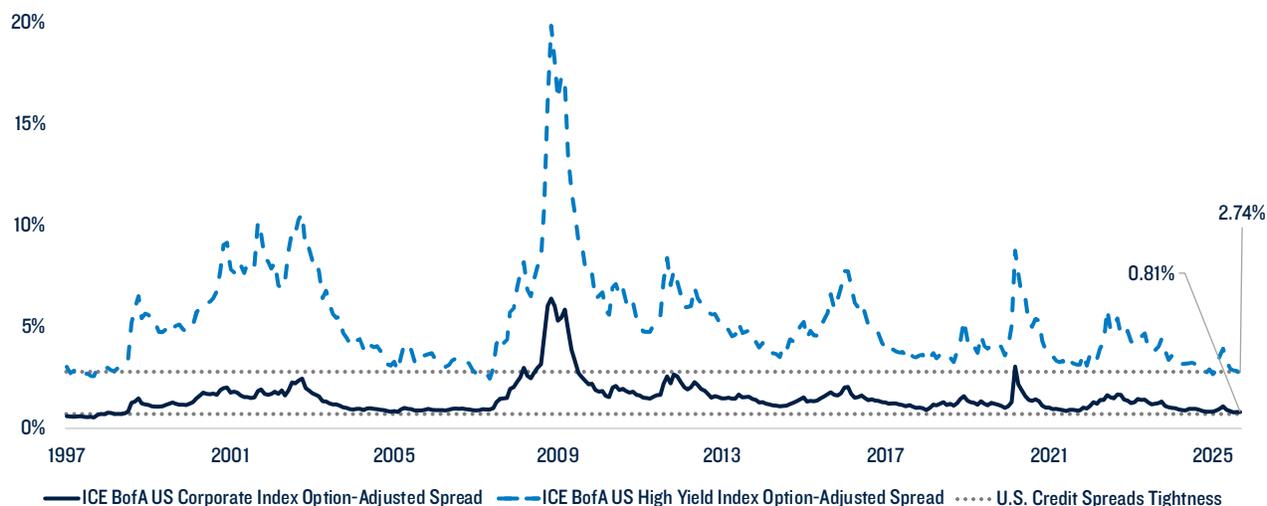
The medium-term backdrop also remains supportive for fixed income, particularly from a carry perspective given absolute yield remains relatively attractive. However, in light of flat credit curve and continued interest rate volatility, higher quality credit, particularly securitized products, continues to offer resilient income in such an environment.

Private Credit

Despite credit spreads continuing to grind tighter, the demand for private credit remains strong. For instance, issuance of private credit CLOs is on track to reach an all-time high of \$50bn by year-end 2025, far outpacing issuance from last year, according to research by Bank of America. While corporate and consumer fundamentals remain strong and default rates remain relatively muted, continued discipline in underlying loan underwriting should be maintained, especially when there is greater capital than investment opportunity sets. It is critical to maintain protective features (e.g. strong covenants), in order to help ensure that a private credit portfolio remains resilient in the event of potential drawdown events. We continue to monitor for any indication of loosening of covenants in the marketplace or increase in payment-in-kind arrangements, which allow borrowers to defer cash interest payments until loan maturity, as these can be signs of increased risk taking and potentially greater vulnerability to drawdown risks.

We continue to see structural diversification benefits of incorporating diverse private credit asset classes, including private asset backed financing (ABF) and real asset credit (e.g. real estate debt and infrastructure debt) as a complement to the traditional direct lending and/or private placement exposures. Private ABF can provide diversification in underlying collateral, and greater customization and control of credit parameters, while real estate and infrastructure debt feature defensive characteristics, which may help investors manage a volatile macroeconomic backdrop and inflation risk. These strategies have also benefited from the continued momentum in artificial intelligence, as the significant demand for AI infrastructure has attracted the need for innovative financing solutions to support the buildout of these hard assets.

Exhibit 7: Credit Spreads Near Their Tightest Since the 1990s



Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis and PGIM. Data as of September 30, 2025.

Equities

For U.S. equities, earnings growth has held up better than feared earlier in the year, supported by resilient consumer demand and ongoing strength in technology and AI-related capital spending. However, margin pressures are becoming more visible as wage costs remain sticky and financing expenses rise in a higher-for-longer rate environment. Market leadership remains concentrated in a handful of mega-cap growth names, raising questions about breadth and sustainability. The stock-bond trade-off has become increasingly relevant: stock valuation has reached historic high with CAPE reaching ~40x, leading to historic low stock earnings yield (i.e., $1/CAPE$), while Treasury yields remain near multi-decade highs. Consequently, the relative value of stocks vs. bonds trends well below historical average (Exhibit 8).³ While equities may retain long-term advantages in potentially delivering inflation-hedged growth, the near-term return asymmetry favors high-quality fixed income, where investors are compensated with more certain income and lower volatility.

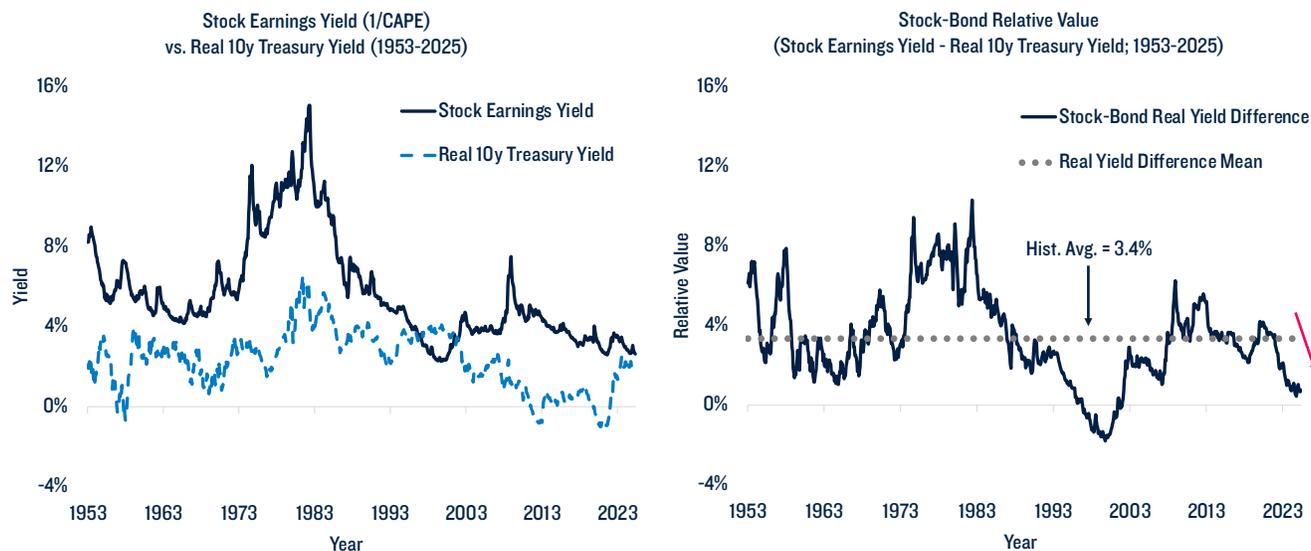
Developed markets outside the U.S. present a more balanced valuation backdrop, though growth differentials versus the U.S. persist. In Europe, subdued economic momentum and ongoing fiscal consolidation continue to weigh on

corporate earnings. Still, attractive relative valuations and improving dividend yields provide some cushion, and global cyclicals may benefit if trade activity stabilizes into 2026. Japan remains a bright spot in the medium-term. Corporate governance reform and higher shareholder returns continue to drive flows, while a measured policy normalization path from the Bank of Japan provides support. However, political uncertainty and yen volatility pose a risk for foreign investors. Overall, developed ex-U.S. markets offer relative value compared to the U.S., but performance is likely to be selective and dependent on currency dynamics and global trade conditions.

Emerging markets face a cross-current of opportunities and risks, with many central banks pivoting to easier monetary policy, creating scope for domestic demand to strengthen into 2026. India continues to stand out, supported by robust structural growth, capital investment, and a favorable demographic profile. Our stance on China remains underweight, but we are watching for a tactical entry point. The government's stimulus measures are stabilizing the property sector and boosting industrial production, but the transition to a consumer-driven model is incomplete. We need to see sustained improvement in consumer confidence before turning more constructive.

³ See Higher Bond Yields & The Fed Model: Implications for Future Stock-Bond Relative Returns, X. Xu, November 2023, PGIM.

Exhibit 8: Stock Valuation at Historic High, Pushing Stock-Bond Relative Value to Multi-Decade Low



Note: Stock earnings yield is calculated as the inverse of the Cyclically Adjusted Price-Earnings Ratio (CAPE Ratio). In addition to CAPE, our version of the Fed Model – that measures the stock-bond relative value – also adjusts for inflation by comparing stocks earnings yield, a real number, to the real 10y yield. For 1/2003-9/2023, the real 10y yield is derived by subtracting the 10y breakeven inflation rate from the nominal 10y yield; for 1/1973-12/2002, we use the real 10y yield estimates from Barclays; for 4/1953-12/1972, the real 10y yield is approximated by subtracting the CPI inflation rate from the nominal 10y yield. All numbers (except for Barclays data) are averages of business days within a month. Source: Barclays, Federal Reserve Bank of St. Louis, FRED, Haver Analytics, LSEG Datastream, Robert Shiller, S&P, U.S. Treasury and PGIM. Provided for illustrative purposes only. Data as of September 30, 2025.

Real Estate

Commercial real estate continues to face structural uncertainty driven by geopolitical tensions, persistent inflation, and volatile interest rates. Investors must become more selective, prioritizing assets that can deliver durable income and perform even in flat or faltering markets. With approximately \$1.9 trillion in U.S. loans and €315 billion in European loans maturing by end of 2026, substantial opportunities are emerging for investors with capital and expertise to provide customized financing solutions across senior debt, mezzanine debt, and preferred equity.

From a sector perspective, our high-conviction themes include digitalization, demographic shifts and logistics. Data centers continue to stand out as an infrastructure

asset driven by explosive AI and cloud computing demand, with global leasing volumes increasing sevenfold in three years. Logistics and warehousing remain attractive due to sustained e-commerce growth and supply chain reshoring trends, particularly in Asia-Pacific where online sales could reach 40% by 2026. Multifamily housing shows strong structural demand globally, though the U.S. faces near-term oversupply headwinds before stabilizing by 2026. Logistics remains attractive due to e-commerce growth and supply chain reshoring, while grocery-anchored retail centers offer defensive positioning. Office properties continue struggling with a structural overhang, with demand concentrated in green, high-quality buildings in prime locations (e.g., Class A properties), particularly in Europe and Asia where work-from-home trends are less entrenched than in the U.S.

Commodities

We maintain a bullish outlook on gold prices. Gold's role as a safe-haven asset is amplified by the current environment of economic uncertainty, lingering geopolitical risks, and a potential for a sustained period of elevated inflation. Central banks are expected to continue their strong accumulation of gold reserves, and investor demand is likely to remain high as they seek hedges against financial market volatility. Energy markets remain shaped by a tug-of-war between supply

discipline and slowing global demand. OPEC+ has broadly maintained output restraint, helping stabilize crude prices despite softer consumption growth in China and Europe. U.S. shale production growth has moderated, as capital discipline and higher financing costs constrain investment. Overall, commodities retain value primarily as a hedge against supply shocks and geopolitical risk, rather than as a consistent driver of returns. Select opportunities persist in energy transition-linked metals and in gold as a portfolio stabilizer, while energy remains sensitive to geopolitics.

Short Term Views (3-12 Months)*

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

Risk Factor / Asset Class		UW	N	OW	Comments
Main Market Risk Factors	Rates		●		We expect two more rate cuts through year end in addition to the cut in September. Threat to Fed independence could shift policy toward more aggressive cuts, potentially de-anchoring inflation expectations. The Treasury yield curve should remain steep
	Credit		●		U.S. credit spreads are priced for perfection, near their tightest since the late 1990s, reflecting strong corporate fundamentals and government fiscal support, but spreads have limited room for further tightening, though any near-term widening presents buying opportunities. Absolute yields remain attractive on high carry and higher quality credit, e.g., structured products, offers resilient income amid rate volatility
	Equities		●		Equity markets face near-term risks, including elevated valuations, particularly in U.S. large caps, alongside high interest rates and a narrowing market leadership in mega-cap growth stocks, raise questions about sustainability. While market concentration exists, the fundamental backdrop and potential for wider participation could drive positive returns. Equity markets may continue to benefit from resilient U.S. economic fundamentals, strong consumer spending, and robust business investment in AI and technology
Asset Class Views	Fixed Income	US Treasuries		●	We expect U.S. Treasuries to be range bound given near-term volatility from uncertainties around uncertainty around fiscal conditions, policy credibility, inflation, and foreign demand. The back end of the curve will likely remain elevated, and the yield curve remain steep
		IG Corporate		●	Credit spreads are priced for perfection and their mean-reverting tendencies suggest limited room for further tightening. However, macro & fundamental backdrop remain satisfactory. Near-term widening could present tactical buying opportunities
		High Yield		●	High yield credit spreads are near multi-decade tights. Lower quality (e.g. CCC) high yield does not offer appropriate risk / return tradeoff relative to higher quality high yield
		CLO		●	CLOs continue to attract institutional flows due to their floating-rate structure and enhanced spread pickup. Risk-adjusted returns remain compelling, especially for senior tranches, compared to corporate credit where credit spreads are at historical tights
		Agency MBS	●		Expecting higher prepayment as interest rates trend downward, particularly among high coupon bonds. Remain underweight higher coupons and prefer bonds near par and below

Risk Factor / Asset Class		UW	N	OW	Comments
Equities	CMBS		●		While fundamentals differ across sectors, the flat credit curve and rate volatility suggest structured products continue to offer resilient income. Macroeconomic factors will broadly support CRE values and borrowers' ability to service debt, though office property continues to see heightened risk. Favor SASB over conduit deals given greater control over security selection
	ABS			●	With corporate spreads at extreme tights, ABS continues to offer better relative value within the structured credit universe, particularly in senior tranches where credit enhancement can help mitigate downside risk. Though, there are signs of increasing consumer debt while consumption remains above trend.
	EMD Local		●		While elevated U.S. Treasury yields from fiscal uncertainty may pressure EM on a relative yield basis, ongoing diversification away from concentrated Treasury exposure could support selective positioning in higher-quality EM local markets with strong fundamentals
	EM Corporate Debt		●		Cautious given similarly tight spreads as U.S. credit spreads. Continued global geopolitical headlines and tariff uncertainty remains potential risk factors despite generally resilient fundamentals
Real Estate	US Large Cap		●		Concentration in a few mega-cap growth names, which, alongside high valuations, creates sustainability risks for the broader index. However, the earnings outlook for broad-based U.S. large caps remains supported by resilient consumer spending and strong AI-related tech demand, but persistent margin compression from sticky wage growth and higher financing costs poses a headwind
	US Small Cap		●		Small caps face a less favorable backdrop due to their greater sensitivity to higher borrowing costs and domestic economic pressures. While some anticipate improving earnings growth for small caps, they are historically more vulnerable to margin pressures than their large-cap counterparts
	Japanese Equities		●		While Japanese equities may be supported by shareholder-friendly corporate governance reforms and improving capital efficiency, political uncertainty associated with Prime Minister change and monetary policy may result in some near-term headwinds
	European Equities		●		European equities present a more attractive valuation backdrop compared to the U.S., but face challenges from subdued economic momentum and fiscal tightening. While global cyclical sectors may benefit if trade activity stabilizes, overall earnings growth remains hampered by a still-uncertain economic picture
	EM Equity		●		Emerging markets face a period of cross-currents, with many central banks pivoting to easier monetary policy, which supports domestic demand. While India continues to stand out due to strong fundamentals, tactical opportunities in China may emerge if consumer confidence sustainably improves
Real Assets	Real Estate		●		We remain selective on real estate amid structural uncertainty, favoring sectors with durable income like data centers, logistics, and multifamily housing. We see opportunities from loan maturities and customized financing, while office faces persistent headwinds
	Commodities			●	We remain constructive on commodities as a hedge against shocks and geopolitical risks. We are particularly bullish on gold on strong demand from central banks and investors amid uncertainty and inflation. We are neutral on oil based on OPEC+ discipline and moderating shale growth

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

As we navigate the final quarter of 2025, investors face a landscape defined by profound macroeconomic shifts, geopolitical tensions, and evolving market structures. Despite persistent volatility, markets have shown resilience, with equities reaching new highs and credit spreads remaining tight. However, beneath the surface, structural changes are underway – central bank independence is under scrutiny, private markets are gaining prominence, and traditional safe havens like the U.S. dollar are being reevaluated.

To position portfolios effectively for the months ahead, investors should consider the following key questions:

1. Are you prepared for the impact of reduced central bank independence on inflation and rates?

Political influence over monetary policy could lead to more aggressive rate cuts, potentially de-anchoring inflation expectations and steepening yield curves.

2. How are you managing sovereign risk in advanced economies?

Elevated financing needs in advanced economies may affect long-duration assets and raise questions about fiscal sustainability and credit quality.

3. Are your currency exposures aligned with shifting global monetary dynamics?

The weakening U.S. dollar and increased hedging activity suggest a need to reassess currency risk and explore alternative stores of value.

4. Is your strategic asset allocation incorporating private markets as core exposures?

With public credit priced for perfection and private credit offering attractive carry and diversification, reassessing the role of private assets is increasingly essential.

In this environment, investors should lean into high-conviction, high-quality exposures, maintain flexibility across asset classes, and help make portfolios more resilient to policy shifts and macro shocks.

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About Multi-Asset Solutions & The Portfolio Research Group

PGIM's Multi-Asset Solutions Group was launched in 2022 to provide investors with access to a sophisticated suite of public and private markets strategies. The group combines asset-liability management expertise with portfolio strategy and asset allocation to develop integrated solutions for institutional investors.

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

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