PGIM GLOBAL PARTNERS

GLOBAL INVESTMENT OUTLOOK & STRATEGY

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2018 Year Ahead – Global Investment Outlook

After a Powerful Equity Rally in 2017, Further Stock Market Gains likely in 2018 with Continued Strong Earnings Growth, Solid, Synchronized Global GDP Growth & U.S. Tax Cuts. Liquidity Support with BoJ QE & Emerging Market Rate Cuts. Policy Normalization by Fed, ECB & BoE likely to Remain Gradual

After a strong rally in 2017, global stock markets are likely to post further gains in 2018 fueled by continued strong earnings growth, solid, synchronized global GDP growth & implementation of U.S. tax cuts. Further, stocks still have liquidity support with BoJ QE and rate cuts in some Emerging Markets. Finally, policy normalization by the Fed, ECB & BoE is likely to be gradual.

Stocks: Global stock markets enjoyed a strong rally in 2017 with upside earnings surprises, solid global GDP growth, and progress on and final approval of U.S. tax cuts. ***Developed Market stocks rose 4.9% in Q4 and 16.3% for 2017, while Emerging Markets gained 5.3% for 2017 gains of 27.8%.***

Looking ahead, the stock market rally is likely to continue into 2018 driven by: 1) Strong earnings growth with global earnings growth of over 10% in 2018 driven by solid growth in the U.S. (11%), Emerging Markets (12%), Eurozone (9%) & Japan (8%). U.S. tax cuts likely to further boost earnings growth in 2018***; 2) Solid, synchronized GDP growth*** with both developed and emerging economies on track to solid growth in 2018. U.S. GDP is expected to grow around 3% with a boost from tax cuts and likely increase in infrastructure spending. Eurozone (2.4%) and Japan (1.8%) are expected to continue to grow at an above-trend pace. Emerging Markets continue to grow at a solid pace; ***3) Liquidity & interest rate backdrop remains supportive but less favorable in 2018*** as continued QE stimulus from the BoJ and rate cuts in some EMs is offset by policy normalization by the Fed, ECB, and BoE. The BoJ's reflationary policies are likely to get a boost with the fresh mandate for PM Abe. Further, the policy normalization by the Fed, ECB and BoE is likely to be gradual. ***Finally, the stimulus baton is passing in the U.S. from monetary to fiscal policy with Trump tax cuts.***

However, stock markets face several risks which could keep markets volatile: 1) More aggressive rate hikes by the Fed & BoE, and faster QE taper by ECB; ***2) Valuations*** are modestly expensive and likely to be headwinds for further equity gains; ***3) Trump's troubles*** with Mueller investigation and impeachment threats, Republicans lose control of Congress in the 2018 midterm elections; and ***4) Geo-political tensions*** with Brexit & Catalonia, Italian elections, Korea risks, terrorism & other Middle East tensions.

Bonds: Bond yields were largely mixed in 2017 with falling inflation and safe haven demand putting downward pressure on yields while solid global GDP growth with upside growth surprises pushing yields higher. ***Looking ahead to 2018, bond yields are likely to be under upward pressure with: 1) Solid, synchronized global growth*** with both developed and emerging economies on track to solid growth in 2018, building on 2017 momentum; ***2) Developed central banks*** continue policy normalization and reduce stimulus. ***However, bonds remain supported by: 1) Inflation remains low*** & below target in the Developed Economies, though rising modestly from the lows of 2017; ***2) QE Stimulus*** from the BoJ and rate cuts by some Emerging central banks; and ***3) Safe haven demand*** with ongoing tensions in the Korean peninsula, terrorism and other Middle East tensions. Further, tense Brexit negotiations, Catalan tensions in Spain, Italian elections are other events likely to fuel safe haven demand for bonds.

Market Outlook: Further Equity Market Gains likely in 2018 with Continued Strong Earnings Growth, Solid, Synchronized Global GDP Growth & U.S. Tax Cuts. Liquidity Support with BoJ QE Stimulus & Emerging Market Rate Cuts

Bond Yields likely to be under Upward Pressure with Solid GDP Growth & Policy Normalization by Fed, ECB & BoE. Bonds Supported by Low Inflation, BoJ QE Reflation & Emerging Market Rate Cuts

Stock Market Outlook (2018): Global stock markets enjoyed a strong rally in 2017 with upside earnings surprises, the global economy firing on all cylinders with solid growth in both developed and emerging economies, and progress on U.S. tax cuts and eventual passage in late 2017. ***Developed Market stocks rose 4.9% in Q4 and 16.3% for 2017, while Emerging Market stocks gained 5.3% in Q4 for 2017 gains of 27.8%.***

Looking ahead, we expect further equity market gains in 2018, fueled by continued strong earnings growth, solid, synchronized global GDP growth & implementation of U.S. tax cuts. Further, stocks still have some liquidity support with BoJ QE buying and rate cuts in some Emerging Markets. Finally, policy normalization by the Fed, ECB & BoE is likely to remain gradual.

Stock market gains in 2018 are likely to be driven by: 1) Strong Earnings Growth in 2018 after Upside Earnings Surprises in 2017: Global earnings are expected to rise a solid 10% in 2018 after 14% increase in 2017. U.S. corporate earnings growth is expected to remain solid, around 11% in 2018, after posting around 18% earnings growth in 2017. Earnings are expected to be driven by solid, synchronized U.S. & global growth with strong business and consumer confidence, low unemployment, rising industrial production, strong new orders and inventories remaining low. However, the impact of the lower tax rates was not incorporated into market expectations about earnings, due to uncertainty about approval till late December. ***A lower corporate tax rate could result in an additional 10% boost to earnings with the prime beneficiaries being Energy and Financials. Eurozone earnings outlook remains solid, expected to grow around 9% for 2018 after around 10% growth in 2017.*** Earnings are expected to continue to get a boost both from solid domestic growth with the ECB upgrading Eurozone GDP growth forecast, and the ongoing strength in the global economy. However, the lingering impact of euro appreciation in 2017 is likely to be a negative. UK earnings growth is expected to moderate to 6% in 2018 as the impact of Brexit takes a toll on the U.K. economy and corporate earnings. ***Japanese companies are expected to post earnings growth of around 8% in 2018*** after around 12% growth in 2017, supported by the weak yen. After the fresh mandate for PM Abe, there is an increased likelihood of a step-up in fiscal and supply-side reform efforts to raise Japan's potential growth. Further, PM Abe is likely to reappoint Governor Kuroda for another term as the BoJ Governor to ensure continuity for the reflationary monetary policy which is likely to keep the yen weak. Japanese earnings remain supported by the improvement in global demand. ***Emerging Markets earnings growth outlook*** remains solid with strengthening GDP growth and steady commodity prices expected to drive earnings growth to around 12% in 2018 after 22% earnings growth in 2017.

2) Solid, Synchronized Global GDP Growth to Continue in 2018: Stocks remain supported by solid, synchronized global growth in 2018 after upside growth surprises in 2017. The IMF raised its outlook for global growth for 2018 to 3.7% and for Emerging Markets growth in 2018 to 4.9% from 4.6% in 2017 and 4.3% in 2016. The Fed revised up its forecast for U.S. GDP growth in 2018 to 2.5% (from 2.1%) in December reflecting the U.S. tax cuts. The ECB revised up its 2018 GDP forecast for Eurozone to 2.3% and to 2.4% for 2017. Emerging Markets remain on track for solid growth in 2018 with strength in oil and commodity prices, robust growth in the U.S., and above-trend growth in Eurozone and Japan.

Among the developed economies, U.S. GDP growth is expected to strengthen to around 3% YoY pace in 2018 from 2.2% in 2017, with upside risks to growth. Solid consumer spending and rising investment spending are likely to underpin robust domestic demand, with imminent tax cuts and President Trump's deregulatory agenda likely to provide tailwinds for growth in 2018. ***Eurozone GDP growth is expected to remain above trend in 2018, around 2.4% after growth surprised on the upside in 2017 at 2.3%.*** Eurozone growth is likely to be supported by solid consumption and investment spending, and led by strong growth in Spain, Germany, France and improvements in Italy. ***Japanese GDP growth is likely to remain above-trend in 2018, around 1.8% after a solid 1.5% reading in 2017.*** The Abe government

is likely to step up its fiscal stimulus program to continue to reflate the economy. ***In the U.K., GDP is expected to grow at a modest pace, around 1.6% YoY after 1.5% in 2017, as Brexit-related uncertainty is likely to remain a negative for GDP growth in 2018, in addition to BoE rate hikes.***

Among Emerging Markets, China's GDP growth is expected to slow modestly to around 6.5% in 2018 after surprising on the upside in 2017 at 6.8%, with consumption and export growth expected to remain at current levels while investment growth slows. ***India's GDP growth is expected to rebound to over 7% in 2018 with solid consumer spending, business investment spending improving, and increased government infrastructure spending,*** after slowing to around 6.7% in 2017 from the negative impact of the Goods & Services Tax Reform (GST) and currency demonetization. ***Brazil is expected to build on the 2017 recovery and GDP growth is expected to strengthen in 2018 to 2.5% YoY*** from 0.7% in 2017***. Taiwan's GDP is expected to grow around 2.4% YoY in 2018*** after 2.2% in 2017 led by strong export demand with robust tech demand on strong iPhone X demand and a recovery on non-tech demand. ***Korea's GDP growth is expected around 2.9% YoY, slowing modestly from 3.1% in 2017*** on slower construction and facilities investment. ***Mexican GDP growth is expected to continue to struggle in H1 2018, around 2% due to the impact of past interest rate hikes before recovering in H2 to*** around 2.5% as policy rates are cut. ***Russia's economic recovery from 2017 is expected to continue in 2018*** with GDP growth of 2%. ***Turkey's economic growth is expected to slow to around 3.5% in 2018*** after growing over 5% in 2017 with government stimulus and temporary boost from exports.

3) Liquidity & Interest Rate Backdrop Less Favorable but Still Supportive: The global liquidity and interest rate backdrop remains less favorable for stock markets in 2018 as developed central banks continue to normalize policies and reduce stimulus, partially offset by the BoJ continuing QE reflation and rate cuts or rates on hold in Emerging Markets. Further, the Fed and the ECB are likely to normalize policies gradually, with inflation still well below target in the U.S. & Eurozone. Markets are likely to continue to receive liquidity support from the Bank of Japan's (BoJ) QE buying and Emerging Central Banks maintaining easy monetary policies. ***The BoJ's reflationary policies are likely to get a boost*** with PM Abe's landslide victory in the October snap elections and the likely reappointment of current Governor Haruhiko Kuroda or someone with similar views towards reflationary monetary policy.

The U.S. Fed is expected to hike rates two or three times in 2018 after three rate hikes in 2017, and continue the balance sheet roll-off which began in October. The dot plots from the December meeting suggest that Fed members continue to expect two to three rate hikes in 2018. While there were no changes in rate hike projections, ***the Fed made a substantial upward revision to real GDP growth forecast for 2018, to 2.5% from 2.1%*** (in the September forecast) and a ***modest downward revision to unemployment forecast to 3.9% in 2018*** from 4.4% in 2017.

The ECB is set to start its QE taper strategy of "Lower-for-Longer", trimming its QE asset purchases to €30bn per month beginning in January 2018, from €60bn per month in 2017, but will extend the QE purchases through September 2018. The ECB assured that its QE could be increased "in terms of size/or duration" depending on inflation outlook. ***However, the ECB is expected to leave policy interest rates unchanged at 0% through 2018.*** Low inflation, at 1.4% YoY in December, remains a key driver of the ECB's zero interest policy. ***ECB statements have highlighted that rates are expected "to remain at their present levels for an extended period and well past the horizon of the net asset purchases,"*** suggesting rates will remain on hold into late 2018 and early 2019. In the U.K., ***the BoE is expected to continue rate hikes in 2018*** (which started in late 2017). ***However, further hikes in 2018 are likely to be gradual, depending on the trajectory of inflation.***

Emerging central bank policies are likely to be mixed in 2018, with rate cuts in some markets (Brazil, Russia, Hungary), rates on hold or modest tightening in other markets. Brazil and Russia are likely to continue to cut rates with falling inflation, but the rate cuts in 2018 are likely to be much smaller than the aggressive rate cuts in 2017. ***China is expected to maintain a neutral to easing bias, while Turkey, Taiwan, Korea, Czech Rep & Poland are expected to remain on hold or raise rates modestly with an improving growth outlook***. Mexico resumed its tightening cycle in late 2017 suggesting that ***further rate hikes are possible in early 2018*** if inflation does not come under control and the U.S. Fed continues to raise rates. However, rate cuts are possible in H2 if inflation peaks and begins to fall. ***In India,*** the RBI is likely to remain on hold with growth rebounding and inflation trending higher after remaining subdued in 2017. ***However, any downward surprise on inflation is likely to prompt the RBI to cut rates.***

4) Stocks lack Valuation Support with P/E Multiples Rising, but Stocks Still Attractive relative to Bonds: Stock market P/E multiples rose in some markets and remained elevated in other markets in 2017 as strong earnings growth was offset by solid equity market gains. ***Looking ahead to 2018, we expect the U.S. P/E multiple to remain stable*** with downward pressure from Fed rate hikes offset by strong earnings growth with tax cuts, solid GDP growth, and reduced regulation. ***Eurozone multiples are likely to remain stable*** after easing during 2017 with ECB starting a gradual tapering of its QE program, offset by solid growth. ***However, Japanese stocks could see some P/E expansion in 2018*** with continued BoJ easing and a fresh mandate for the Abe government to pursue reflationary fiscal policies. ***Emerging Market stock valuations rose during 2017*** with EM stocks rising over 25% during the year. ***However, stocks remain attractive relative to bonds*** but the yield gaps between equity yield and bond yield narrowed in the U.S. with stock P/E multiples rising while bond yields were largely unchanged during the year. However, the stock-bond yield gap remains wide in Eurozone, U.K. and Japan.

Bottom-line: After a powerful stock market rally in 2017 with double digit gains by both Developed (+16.3%) and Emerging Markets (+27.8%), ***we expect further equity market gains in 2018, fueled by continued strong earnings growth, solid, synchronized global GDP growth & implementation of U.S. tax cuts.*** Further, stocks still have some liquidity support with BoJ QE buying and rate cuts in some Emerging Markets. Finally, policy normalization by the Fed, ECB and BoE is likely to remain gradual.

Stock market gains in 2018 are likely to be driven by: 1) Strong earnings with global earnings growth of over 10% in 2018, after around 14% growth in 2017. Earnings growth surprised on the upside in 2017. Global earnings growth for 2018 are likely to be driven by double-digit growth in the U.S. (11%) & Emerging Markets (12%), and solid growth in Eurozone (9%) and Japan (8%). U.S. tax cuts are likely to further boost earnings growth in 2018; ***2) Solid, synchronized global GDP growth*** with both developed and emerging economies on track to solid growth in 2018. The U.S. economy is expected to grow around 3% with a boost from tax cuts and likely increase in infrastructure spending. Eurozone (2.4%) and Japan (1.8%) are expected to continue to grow at an above-trend pace. Emerging Markets continue to grow at a solid pace led by stable China (around 6.5%), India rebounding (to 7.4%), further strength in Brazil (to 2.5%) and Russia (2%), solid growth in Turkey (4%), Korea (3%), Taiwan (2.5%), Argentina (3.2%), Mexico (2.5%). The IMF has raised its outlook for global growth in 2018 to 3.7% (from 3.6%), reflecting a broad-based acceleration of growth in Eurozone, Japan, EM Asia, EM Europe, and Russia; ***3) Liquidity & interest rate backdrop remains supportive but less favorable in 2018*** as continued QE stimulus from the BoJ and rate cuts in some Emerging Markets is offset by policy normalization by the Fed (further rate hikes & shrinking balance sheet), the ECB (QE taper starting in January) and the U.K. (further rate hikes). However, the BoJ's reflationary policies are likely to get a fresh boost following the big win by PM Abe. Further, the policy normalization by the Fed, ECB and BoE is likely to be gradual and measured. ***Finally, the stimulus baton is passing in the U.S. from monetary to fiscal policy with big tax cuts and increased spending. Among Emerging Markets,*** central bank policies are likely to be mixed in 2018, with rate cuts in some markets (Brazil, Russia, Hungary), rates on hold in many markets or modest tightening in other markets. China is expected to maintain a neutral to easing bias, while Turkey, Taiwan, Korea, Czech Rep & Poland are expected to remain on hold or raise rates modestly with an improving growth outlook. Mexico and India are wildcards, depending on the trajectory of inflation.

However, stock markets face several risks which could keep markets volatile. These include: 1) More aggressive rate hikes by the Fed & BoE, and faster QE taper by ECB; ***2) Valuations*** are modestly expensive and likely to be headwinds for further equity gains; ***3) Trump's troubles*** with Mueller investigation, impeachment threats, Republicans lose control of Congress in 2018 midterm elections; and ***4) Geo-political tensions*** with Brexit & Catalan independence movement in Spain, Italian elections, Korea risks, terrorism & other Middle East tensions.

Despite the strong gains in 2017 and risks, we expect global stock markets to post solid gains in 2018. We look for bigger market gains in U.S. and our target for the S&P 500 index is to reach 2,950 by 2018 year-end. We expect healthy gains in the Emerging Markets and Japan, and more modest gains in Eurozone and U.K.

Bond Yields likely to be under Upward Pressure in 2018 with Solid GDP Growth & Policy Normalization by Fed, ECB & BoE. However, Bonds Supported by Low Inflation & Safe Haven Demand

Bond yields were largely mixed in 2017 with falling inflation and safe haven demand putting downward pressure on yields, while solid global GDP growth pushed yields higher. Further, developed central banks normalizing policy also put upward pressure on yields in late 2017. U.S. yields were roughly unchanged during 2017, with inflation hovering below the Fed's target and solid growth. Yields rose modestly in Eurozone with strengthening GDP growth, while in the U.K., rising inflation led to the BoE starting rate hikes pushing Gilt yields higher. By contrast, bond yields in Japan hovered around 0.05% for most of the year with BoJ's QE buying. ***Yields edged down to 2.41% in the U.S. (10-year Treasury), rose to 0.43% in Eurozone and 1.19% in U.K., but remained flat at 0.04% in Japan.***

Looking ahead to 2018, bond yields are likely to rise with solid GDP growth, developed central banks continue to normalize policies and reduce stimulus, and easing geopolitical tensions. However, bonds remain supported by low inflation, continued QE buying by the BoJ and policy normalization by the Fed and ECB likely to be gradual. ***Bond yields are likely to be under upward pressure with: 1) Solid, synchronized global growth*** with both developed and emerging economies on track to solid growth in 2018. The U.S. economy is expected to grow around 3% with a boost from tax cuts and likely increase in infrastructure spending. Eurozone (2.4%) and Japan (1.8%) are expected to continue to grow at an above-trend pace. Emerging Markets continue to grow at a solid pace led by China (6.5%), India (7.4%), Turkey (4%), Korea (3%) and Taiwan (2.5%), and further recovery in Brazil (2.5%) and Russia (2%). The IMF raised its outlook for global growth in 2018 to 3.7% (from 3.6%); ***2) Developed Central Banks continue Policy normalization*** with the U.S. Fed on track to raise rates around three times (following the three rate hikes in 2017) and continue the balance sheet roll-off that began in October. The ECB is set to start its QE taper strategy of "Lower-for-Longer", trimming its QE asset purchases to €30bn per month beginning in January 2018, from €60bn per month in 2017, but will extend the QE purchases through September 2018. In the U.K., the BoE is expected to continue rate hikes in 2018 (which started in late 2017).

However, bonds remain supported by: 1) Inflation remains low & below target in the Developed Economies, though rising modestly from the lows of 2017. In the U.S., the Fed expects ***U.S. inflation to be around 2.1%,*** close to the Fed's inflation target, despite solid GDP growth and falling unemployment. Eurozone inflation is expected to remain weak, with ***the ECB inflation forecast for 2018 at 1.4%*** while core inflation forecast was lowered for 2018 by 0.2%. Japanese inflation is likely to continue to trend higher in 2018 ***but remain well short of the BoJ's 2% target.*** In the U.K., inflation is expected to remain elevated and above BoE target, but is expected to slow in 2018 with weak growth and the BoE rate hikes; ***2) QE Stimulus from the BoJ & rate cuts by some Emerging central banks.*** The BoJ is expected to continue QE buying and its reflationary policies are likely to get a boost after the fresh mandate for PM Abe. Further rate cuts are likely in some Emerging markets (Brazil, Russia, Hungary, possibly India and Mexico); and ***3) Safe haven demand*** with ongoing tensions in the Korean peninsula, with elevated risks during the Winter Olympics in South Korea, terrorism and other Middle East tensions, especially with the U.S. recognizing Jerusalem as the Capital of Israel. Further, tense Brexit negotiations, Catalan tensions in Spain and Italian elections are other events likely to fuel safe haven demand for bonds.

Investment Strategy:

Asset Allocation: Overweight Stocks as Further Gains Likely. Underweight Bonds as Yields Likely to Rise

Stocks: Overweight Stocks as equity markets likely to post further gains in 2018 with continued strong earnings growth, solid, synchronized global GDP growth & implementation of U.S. tax cuts.

Bonds: Underweight Bonds as yields likely to rise with solid growth & policy normalization by developed central banks.

Global Equity Strategy: U.S. Stocks Likely to Post Further Gains with Boost to Earnings & GDP from Tax Cuts & Outperform Europe, Japan & Emerging Markets.

U.S.: Overweight as U.S. stocks are likely to post further gains in 2018 driven by solid earnings growth, strengthening 3U.S. GDP growth with boost to earnings and GDP growth from tax cuts, and gradual policy normalization by the Fed.

Emerging Markets: Modest Overweight with GDP growth remaining solid, strengthening earnings outlook, and scope for further central bank rate cuts. Within EM, Asian stocks are likely to outperform Europe and Latin America.

Japan: Modest Overweight as Japanese stocks are likely to post relatively modest gains as continued BoJ stimulus and above-trend GDP growth is offset by slower earnings growth.

Eurozone: Modest Underweight as Eurozone equity gains are likely to be modest with ECB starting QE taper, euro strength and lingering political uncertainty (Brexit, Catalonia & Italy) offsetting solid GDP and earnings growth.

U.K.: Modest Underweight as U.K. stocks are likely to underperform with slower GDP growth on continued Brexit uncertainty, and elevated inflation putting pressure on BoE to raise rates further.

Global Bond Market Strategy: Japan JGBs & Emerging Market Debt Likely to Outperform U.S. Treasuries, Eurozone Bonds & U.K. Gilts.

Japan JGBs: Modest Overweight as the outlook for Japanese JGBs in 2018 remains modestly positive with the BoJ's yield curve control policy keeping rates near zero for most of the year.

EM Debt: Modest Overweight with Emerging Market bonds expected to continue to benefit from healthy fundamentals, solid growth and still favorable valuations.

Eurozone: Modest Underweight as the outlook for Eurozone bonds is modestly negative for 2018 with yields low and likely to increase in 2018 due to strengthening growth and ECB starting QE taper, but offset by inflation remaining low.

U.K. Gilts: Underweight as the outlook for U.K. Gilts is modestly negative with Brexit uncertainty weighing on GDP growth, but elevated inflation and BoE rate hikes are negatives.

U.S. Treasuries: Underweight as the outlook for U.S. Treasuries remains negative with yields likely to rise in 2018 with stronger GDP growth, Fed continuing rate hikes, and fiscal stimulus.

Global Sector Strategy: ***Overweight:*** Financials, Industrials; ***Modest Overweight:*** Information Technology***;***

Neutral: Healthcare, Energy, Materials, Consumer Discretionary & Telecomms***. Underweight:*** Consumer Staples, Real Estate & Utilities***.***