PGIM GLOBAL PARTNERS

GLOBAL INVESTMENT OUTLOOK & STRATEGY

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Increased Market Volatility with Italian Political Drama, Korea Summit Setback & Simmering Trade Tensions. However, Stocks Remain Supported by Strong Earnings Results, GDP Growth Rebound & Gradual Policy Normalization

Global stock Markets continued to rise in early May as fears of a trade war dissipated. However, stocks pulled-back as Korea tensions reemerged with the cancellation of the Trump-Kim summit while Italian political turmoil rose. Middle East tensions and renewed Brexit uncertainty are other risks contributing to volatility. However, stocks remain supported by strong Q1 earnings results, GDP rebound from the Q1 slowdown, and gradual policy normalization by Fed, BoE & ECB.

Stock Market Outlook: Global equity markets continued their recovery into May with easing trade tensions, strong Q1 earnings results and signs of a GDP rebound. However, stocks gave up gains as Korea tensions re-emerged with the cancellation of the Trump-Kim summit and Italian political turmoil rose over formation of a coalition government and its agenda. ***The Developed Markets gained 0.9% in May and are now flat YTD. The Emerging Markets declined -2.4% for YTD decline of -1%.***

Looking ahead, equity markets remain supported by: 1) Strong earnings outlook with Q1 earnings upside surprises with U.S. Q1 earnings results coming in stronger-than-expected, tracking 26% YoY and a record 78% of companies beating expectations. Global earnings are expected to grow around 20% in 2018 with solid earnings in the U.S. (+22%), Japan (+35%) and Emerging Markets (15%), and modest earnings in Eurozone (+7%); ***2) Global growth outlook remains solid and on track to rebound from the temporary Q1 slowdown.*** GDP growth slowed in the U.S. (to 2.2%), U.K. (to 0.4%), Eurozone (to 1.6%) and contracted in Japan (-0.6%). However, the Q1 GDP slowdown was driven by temporary factors and a payback for the strong Q4, and hence on track to rebound; ***3) Gradual policy normalization by developed central banks*** with rate hikes by the Fed and BoE, and the ECB on track to end QE in Q3. The central banks expect a GDP rebound from the soft Q1 but acknowledge risks to growth from trade tensions. Hence, the banks are likely to take a gradual approach to normalizing policies; and ***4) Equity valuations not as expensive*** with P/E multiples improving on strong earnings.

However, on the risks side, Korea tensions remain with uncertainty about the Trump-Kim summit and political turmoil in Italy and Spain. In addition, stocks face other risks including: 1) Simmering trade tensions with Trump threatening new tariffs on auto imports; 2) Growing tensions in the Middle East; 3) High oil prices; and 4) Renewed Brexit uncertainty. ***Despite the old adage, "Sell in May & Go Away" our base case is for stock markets to stabilize and post further*** gains fueled by strong earnings growth, GDP growth rebound and gradual policy normalization.

Bond Market Outlook: Bond yields rose in early May, but declined at the end of the month with a flight to safety after the Italian President rejected the coalition government. ***Looking ahead, bond yields are likely to be supported in the near-term by:*** 1) Safe haven demand with Korea summit uncertainty, political turmoil in Italy and Spain, Middle East tensions, renewed Brexit uncertainty, and simmering trade tensions; 2) The BoJ continues QE Stimulus with inflation still below target. Developed central banks likely to be cautious in normalizing policies with growth risks from trade tensions; and 3) Inflation remains low and below target in Japan & Eurozone, though creeping higher in the U.S. ***However, bond yields are likely to face upward pressure with:*** 1) GDP growth rebound from the temporary Q1 slowdown; 2) Developed central banks continue policy normalization with rate hikes by the Fed and BoE, the ECB on track to end QE in Q3; and 3) Risks to inflation from higher oil prices.

Increased Market Volatility with Italian Political Drama, Korea Summit Setback & Simmering Trade Tensions. However, Stocks Remain Supported by Strong Earnings Results, GDP Growth Rebound & Gradual Policy Normalization. Equity Valuations Improve with Strong Earnings

Bonds Supported in Near-term with Safe Haven Demand. Yields face Upward Pressure from GDP Rebound & Policy Normalization by Fed, ECB & BoE

Stock Market Outlook (June): Global equity markets continued to recover in May with stronger-than-expected U.S. Q1 earnings results, solid U.S. job growth without wage pressures, and markets shrugging off the U.S. withdrawing from the Iran deal. Stocks also benefitted from cooling of U.S.-China trade tensions. ***However, stocks gave up gains in late May*** as Korean tensions re-emerged with President Trump cancelling the summit meeting with the North Korean dictator, Kim Jon-Un. Further, Italian political turmoil rose as the President rejected the 5-Star & Lega coalition government. ***The Developed Markets rose 0.9% in May and are flat YTD. The Emerging Markets declined -2.4% for YTD decline of -1%.*** U.S. stocks (S&P 500) rose a solid 2.2% in May, led by a rally in information technology stocks (+7.1%). YTD, US stocks have gained 1.2%. Eurozone stocks gave up gains from early May for a -3% decline as political turmoil led to sharp declines in Italy (-9.7%) and Spain (-6.1%). YTD, Eurozone stocks are down -1.6%. Japanese stocks fell -1.8%, erasing early May gains as the yen rose following cancellation of the Trump-Kim summit. Japan stocks are down -3.9% YTD.

Looking ahead, equity markets remain supported by: 1) Strong earnings outlook with Q1 earnings upside surprises; 2) Global growth outlook remains solid with GDP rebound from temporary Q1 slowdown; 3) Gradual policy normalization with easing inflation concerns & growth risks from trade tensions; 4) Improved equity valuations with strong earnings growth.

However, on the risks side, Korea tensions remain with uncertainty about the on-again, off-again Trump-Kim summit and political turmoil in Italy and Spain. Further trade tensions continue to simmer with Trump threatening new tariffs on auto imports. Further, there are fresh tensions in the Middle East and Brexit uncertainty has increased with domestic political turmoil within the U.K. Conservative party.

1) Corporate Earnings Outlook Continue to be Revised Higher. Strong Q1 Earnings Results with Upside Surprises: Global earnings expectations for 2018 continue to ratchet higher following the strong Q1 earnings season, with global earnings growth expected around 20% for 2018, after 16% growth in 2017. The Q1 earnings results in the U.S. have come out stronger-than-expected with earnings growth for the quarter tracking 26% YoY. U.S. earnings are expected to grow 22% in 2018 up from 13% in 2017. Japanese earnings are expected to rise around 35% in 2018 after 31% growth in 2017. Japanese company earnings continue to benefit from solid global demand, which is supporting exports. Eurozone earnings expectations have been further revised lower to 7% for 2018 after 9% growth in 2017. U.K. earnings are expected to slow to around 9% in 2018 from 22% in 2017. Emerging Markets earnings are expected to grow around 15%, driven by the rise in energy and commodity prices.

2) Global Growth Outlook Remains Solid and on Track to Rebound from Temporary Q1 Slowdown: After ending 2017 on a strong note, global growth slowed in early 2018 with Q1 GDP growth moderating in the developed economies. However, the Q1 global growth slowdown was driven by temporary factors (unseasonably cold weather, strikes in France and Germany, and timing of Easter) and a payback for the strong Q4. ***U.S. GDP growth slowed in Q1 to 2.2%*** from 2.9% in Q4 2017, continuing the seasonal pattern of the Q1 slowdown. ***However, the U.S. economy remains solid and on track to rebound in Q2 to around 3% GDP growth*** as consumer spending reaccelerates with low unemployment and rising wages and the boost from tax cuts to consumer and investment spending.

Eurozone GDP growth slowed in Q1 to 1.6% annualized pace from 2.8% growth in Q4 (revised up from 2.4%). The Q1 slowdown was driven by temporary factors (unseasonably cold weather, strikes in France and Germany, and timing of Easter) and expected to rebound to over 2% growth in Q2. ***U.K. Q1 GDP growth slowed further to 0.4% annualized*** from 1.6% in Q4 2017 as severe weather combined with Brexit uncertainty to depress growth. ***Japan's GDP contracted -0.6% annualized, for the first time in nine quarters***, driven by business spending declining and consumption spending remaining flat. Looking ahead, Japanese growth is expected to improve with both consumption and business investment spending strengthening after the Q1 contraction. ***Emerging Markets remain on track for healthy growth with strength in oil and commodity prices, and growth rebound in the developed economies***.

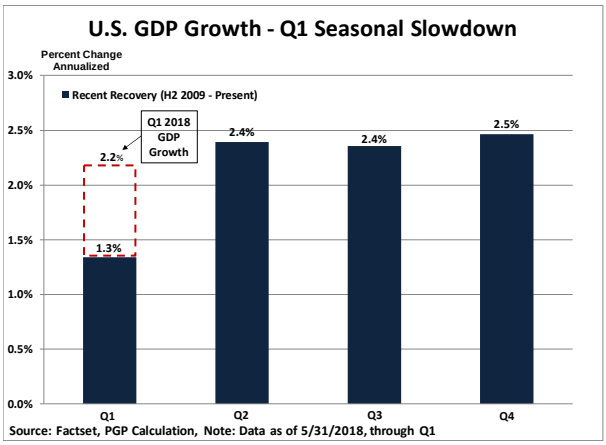
Global Earnings Expectations Revised Higher Following Strong Q1 Earnings

Global Equity Markets - EPS Growth

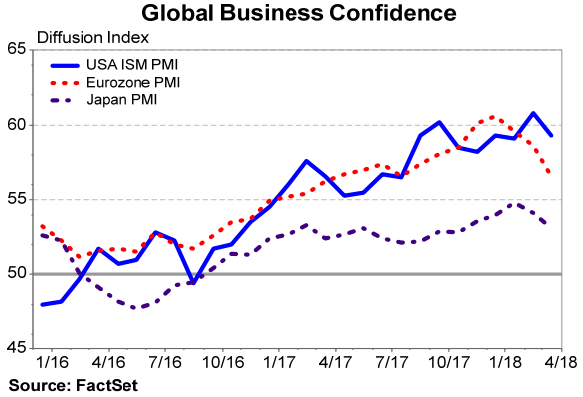
	2018 (%) Forecast	2017 (%) Actual
USA	22	13
UK	9	22
Eurozone	7	9
Japan	35	31
Emg Mkts	15	23
EM Asia	14	26
Latin America	18	16
EM EMEA	17	17
World Index	20	16

Source: IBES, Reuters, Factset

U.S. Economy Solid with Q2 GDP Rebound from Weak Q1



Global Business Confidence Solid but off Recent Multi-Year Highs



Volatility Continues to Decline as Fears of Trade War Ease but Tension Simmer

3) Gradual Policy Normalization with Easing Inflation Concerns & Growth Risks from Trade Tension: Developed central banks continue to undertake policy normalization with rate hikes by the Fed and BoE, and the ECB on track to end QE buying in Q3. The central banks remain upbeat on the outlook for GDP growth and expect a GDP rebound from the Q1 moderation. While fears of a full-fledged trade war are dissipating, trade tensions continue to simmer, prompting the central banks to be on watch, in case the tensions escalate and pose downside risks to economic outlook. Consequently, the central banks are likely to err on the side of caution and take a gradual approach to normalizing policies. Hence the risk of aggressive rate hikes is low, for now.

Markets are likely to continue to receive liquidity support from the Bank of Japan's QE buying. The U.S. Fed left interest rates and balance sheet policies unchanged at the May meeting. The tone of the May statement and the meeting minutes suggest that the Fed remains comfortable with gradual policy normalization, with the next rate hike likely in June. ***The ECB left monetary policy and forward guidance unchanged at the April meeting.*** The ECB kept options open for the June meeting with Draghi assuring that policy decisions will be based on upcoming data. The BoE kept U.K. rates unchanged in May with weak Q1 GDP growth and inflation falling faster-than-expected. ***Emerging central bank policies remain mixed in 2018,*** with rate cuts in some markets (Brazil, Russia, Hungary), rates on hold in others and aggressive tightening in Turkey as the Lira plunges on political uncertainty with President Erdogan calling for snap elections in June and questions about independence of the Turkish central bank.

Bottom-line: ***Global equity markets continued their recovery into May*** with easing trade tensions, strong Q1 earnings results and signs of a solid GDP rebound. However, stocks solid-off in late May as Korea tensions re-emerged with the cancellation of the Trump-Kim summit and Italian political turmoil rose. ***The Developed Markets gained 0.9% in May and are now flat YTD. The Emerging Markets declined -2.4% for YTD decline of -1%.***

Looking ahead, stock markets remain supported by: 1) Strong earnings outlook with Q1 earnings upside surprises with U.S. Q1 earnings results coming in stronger-than-expected, tracking 26% YoY. Global earnings expectations for 2018 now expected around 20% for 2018. Japanese earnings expectations remain solid at +35%. The earnings outlook for Emerging Markets remains solid, but revised modestly lower to 15%. Eurozone earnings expectations continue to be revised lower to 7%; ***2) Global growth outlook remains solid and on track to rebound from the temporary Q1 slowdown***. The Q1 GDP slowdown was driven by temporary factors (cold weather, strikes in France & Germany, and timing of Easter) and a payback for the strong Q4. Hence, the developed economies are on track to rebound. Emerging Markets remain on track for healthy growth with strength in oil and commodity prices, and growth rebound in the developed economies; ***3) Gradual policy normalization by developed central banks*** as central banks acknowledge the risks to growth from simmering trade tensions. Consequently, the central banks are likely to err on the side of caution and take a gradual approach to normalizing policies; and ***4) Equity valuations not as expensive*** with P/E multiples improving on strong earnings growth.

However, on the risks side, Korea tensions remain with uncertainty about the Trump-Kim summit and political turmoil in Italy and Spain. In addition, stocks face other risks including: 1) Simmering trade tensions with Trump threatening new tariffs on auto imports; 2) Growing tensions in the Middle East; and 3) Renewed Brexit uncertainty; ***Despite the old adage, "Sell in May & Go Away" our base case is for stock markets to stabilize and post further*** gains fueled by strong earnings growth, solid GDP growth rebound and gradual policy normalization. While Korea uncertainty, Italian turmoil and trade tensions remain an overhang on markets, they are unlikely to lead to a big sell-off.

Bond Yields Decline in May with Safe Haven Demand. Yields face Upward Pressure from GDP Rebound & Policy Normalization by Fed, ECB & BoE

Bond yields continued to trend higher through mid-May, but sold off at the end of the month on safe haven demand with Korea uncertainty and Italian political turmoil. ***The U.S. 10-Year Treasury yield fell -10bps to 2.83% in May. Eurozone yields fell -24bps to 0.33%, while U.K. Gilt yields fell -20bps to 1.23%. Japanese yields edged down -2bps to 0.03%.***

Looking ahead, bond yields remain supported in the near-term by: 1) Safe haven demand with Korea uncertainty, political turmoil in Italy and Spain, Middle East tension with the US pulling out of the Iran deal, renewed Brexit uncertainty, and risk of a U.S. constitutional crisis; ***2) BoJ continues QE Stimulus*** and other developed central banks are likely to be cautious in normalizing policy; and ***3) Inflation remains low*** and below target in Japan & Eurozone though creeping higher in the U.S. ***However, bond yields are likely to face upward pressure with: 1) Global GDP growth on track to rebound from temporary Q1 slowdown*** as business and consumer confidence remains solid, despite coming off recent multi-year highs; ***2) Developed central banks continue policy normalization*** with rate hikes by the Fed and BoE, the ECB on track to end QE buying in Q3; ***3) Risks to inflation*** from higher oil prices, especially in the U.S., strengthening GDP growth and reduced slack.

Investment Strategy:

Asset Allocation: Overweight in Stocks as Trade Tensions Ease & Stocks Supported by Strong Earnings & GDP Rebound

Stocks: ***Remain Overweight*** as our base case is for stock markets to post further gains fueled by strong earnings growth, growth rebound after the soft Q1 and gradual policy normalization. However, Korea summit uncertainty, political turmoil in Italy & Spain, Middle East tensions and renewed Brexit uncertainty remain risks.

Bonds: ***Remain Neutral*** as bonds are likely to be supported near-term by safe haven demand from Korea summit uncertainty, political turmoil in Italy and Spain, the BoJ and ECB continuing QE and low inflation in Eurozone and Japan. However, bond yields are likely to face upward pressure from solid GDP growth rebound and policy normalization**.**

Global Equity Strategy: Strong Earnings Outlook likely to help U.S. Stocks Outperform Europe & Japan as Trade Tensions Ease

U.S.: ***Overweight*** as U.S. stocks are likely to post further gains with strong Q1 earnings results, tracking around 26% YoY, and GDP growth on track to rebound from the soft Q1. Renewed Korean tensions are likely to keep markets volatile.

Emerging Markets: ***Modest Overweight*** with solid earnings outlook (+15%) and GDP growth with strength in oil and commodity prices, and global growth rebound. However, risks from geopolitical tensions & simmering trade tensions.

Japan: ***Remain Neutral*** as Japanese stocks are likely to post modest gains with GDP growth recovering after the Q1 contraction, and BoJ's supportive policies but offset by risks from yen appreciation. Earnings expectations elevated at 35%.

Eurozone: ***Remain Neutral*** as Eurozone earnings are likely to be modest relative to U.S., Japan and Emg Mkts. However, Eurozone GDP growth is expected to rebound after the soft Q1 and ECB is likely to move slowly in normalizing policy.

U.K.: ***Remain Modest Underweight*** with weak GDP growth and corporate earnings. Renewed Brexit uncertainty with House of Lords voting against plan to leave the EU single market. However, BoE rate hike expectations have come down.

Global Bond Market Strategy: Bonds Supported in Near-term with Safe Haven Demand but face Upward Pressure from GDP Growth Rebound

Japan JGBs: ***Modest Overweight*** as the outlook for Japanese JGBs remains modestly positive with BoJ removing language referring to date for meeting its 2% target. GDP growth disappointed in Q1 with a sharper than expected -0.6% decline. Inflation remains low and well below target.

EM Debt: ***Modest Overweight*** with Emerging Market bonds likely to rebound after recent sell-off. EM fundamentals remain healthy with solid growth, and still favorable valuations. However, simmering trade tensions and rate hikes by some EM central bank policies carry risks for EMs.

U.S. Treasuries: ***Remain Neutral*** as U.S. Treasuries are likely to be supported in the near-term with safe haven demand from Middle East tensions. However, yields are likely to face upward pressure with GDP rebound after soft Q1 and the Fed continuing rate hikes.

Eurozone: ***Modest Underweight*** as the outlook for Eurozone bonds is modestly negative as low yields and strengthening GDP growth after soft Q1 are likely to push yields higher. However, inflation remains low and the ECB is likely to move slowly to remove monetary accommodation, especially with political turmoil in Italy and Spain.

U.K. Gilts: ***Modest Underweight*** as the outlook for U.K. Gilts remains modestly negative with ongoing Brexit uncertainty amidst elevated domestic political uncertainty. However, BoE rate hike expectations have moderated after the bank's dovish tone recently.

GLOBAL SECTORS: ***Overweight:*** Industrials, Financials, Information Technology; ***Modest Overweight***: Consumer Discretionary & Energy; ***Neutral***: Healthcare, Materials & Telecomms; ***Underweight:*** Consumer Staples, Real Estate and Utilities.