PGIM GLOBAL PARTNERS

GLOBAL INVESTMENT OUTLOOK & STRATEGY

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Stocks on Roller-Coaster Ride in Early 2018 with Strong January Gains Followed by Sharp Sell-off & Volatility in February. Stocks likely to Stabilize & Rebound with Strong Corporate Earnings Outlook & Solid Global GDP Growth Momentum. Fears of Rising Inflation & Aggressive Rate Hikes Exaggerated

After a big rally in 2017, stock markets are on a roller-coaster ride in early 2018 with strong gains in January followed by a sharp sell-off and heightened volatility in early February driven by inflation concerns and rate fears, amplified by program trading. However, fears of rising inflation and more aggressive Fed rate hikes are exaggerated as the underlying corporate earnings & GDP growth fundamentals remain intact. Equity markets are likely to stabilize and rebound with strong earnings growth with boost from U.S. tax cuts & solid global growth momentum. Finally, policy normalization by the Fed, ECB & BoE is likely to be gradual, despite market fears.

Stock Market Outlook: Global stock markets are on a roller-coaster ride in early 2018 with a strong rally in January followed by a sharp sell-off and increased volatility in early February. The Developed Markets gained 3.7% in January, then plunged -7.1% in early February (through the 8th) for YTD loss of -3.6%. Emerging Markets rose 6.7% in January, then fell -6.2% in February, wiping out YTD gains.

Despite the early February sell-off and volatility, global stock markets are likely to stabilize and rebound as the underlying corporate earnings and GDP growth fundamentals remain intact: 1) The corporate earnings outlook remains strong with U.S. earnings expected to get a boost from the Trump tax cuts, and reduced regulations for corporates. Corporate earnings in 2018 are expected to remain in double digits in the U.S. (16%), Emerging Markets (13%) and Eurozone (+11%); ***2) The global economy remains on track to another year of solid, synchronized GDP growth in 2018.*** U.S. GDP growth is likely to strengthen to around 3% in 2018 with upside risks. Growth is expected to remain above trend in Eurozone (2.3%) and Japan (1.8%). Emerging Markets remain on track for solid growth.

However, the interest rate backdrop remains less favorable in 2018 with continued policy normalization by the Fed, the BoE and the ECB, but partly offset by the BoJ continuing QE buying and rate cuts in some Emerging Markets. ***In addition, stock markets face several risks which could keep markets volatile.*** These include: 1) Continued fears of more aggressive rate hikes by the Fed & BoE, and faster QE taper by ECB with solid GDP growth and inflation concerns; 2) Valuations are modestly expensive; 3) Geopolitical tensions with Korea risks, Brexit uncertainty, Italian elections & Catalan tensions in Spain; & 4) Trump's troubles with ongoing Mueller investigation.

Bond Market Outlook: Bond yields are rising sharply in early 2018 with rising inflation expectations and solid GDP growth. ***Looking ahead, bond yields are likely to remain under pressure with: 1) Solid, synchronized GDP growth in 2018*** with U.S. GDP growth likely to strengthen to around 3% in 2018, with upside risks. Growth is expected to remain above-trend in Eurozone (2.4%) and Japan (1.8%); ***2) Developed central banks continue policy normalization*** with the U.S. Fed on track to raise rates three times and continue the balance sheet roll-off. The ECB continues QE taper that began in January, and the U.K. raises rates further; ***3) Rising inflation expectations*** with oil prices rising above the recent trading range and strong wage growth. ***However, bonds remain supported by: 1) Improved Valuation*** as the recent rise in yields has made bonds attractive relative to cash; ***2) Continued QE stimulus*** from the BoJ & rate cuts by some Emerging central banks; ***3) While inflationary pressures*** are rising in the U.S., they remain subdued in Eurozone and Japan; ***4) Safe haven demand*** with geopolitical tensions.

Stocks on Roller-Coaster Ride with Strong January Gains Followed by Sharp Sell-off & Volatility in February. Stocks likely to Stabilize as Inflation Concerns & Rate Fears are Exaggerated, While Underlying Earnings & GDP Growth Fundamentals Remain Intact. Equity Markets likely to Stabilize & Rebound with Strong Earnings & Solid, Global Growth Momentum

Bond Yields likely to Remain Under Modest Upward Pressure with Solid Global Growth Momentum & Continued Policy Normalization by Fed, ECB & BoE. However, Bonds Supported by Improved Valuation, BoJ Continuing QE Buying & Low Inflation in Eurozone and Japan

Stock Market Outlook (February): Global stock markets are on a roller-coaster ride in early 2018 with a strong rally in January followed by a sharp sell-off and heightened volatility in early February. The global equity rally from 2017 continued into January driven by solid Q4 earnings results and expectations of boost to 2018 earnings from Trump tax cuts. The Developed Markets gained 3.7% in January, while Emerging Markets rose an even stronger 6.7%. However, after the strong January gains, global stocks markets had a sharp sell-off in early February with the Developed Markets plunging -7.1% in early February (through the 8th) for YTD loss of -3.6%. Emerging Markets fell -6.2% in February, wiping out YTD gains. While the sell-off was triggered by inflation concerns, rising bond yields and fears of more aggressive rate hikes, the sell-off appears to be amplified by program trading.

Despite the early February sell-off and heightened volatility, global stock markets are likely to stabilize as the underlying earnings and GDP growth fundamentals remain intact. ***Fears of rising inflation and more aggressive Fed rate hikes are exaggerated. We expect stock markets to rebound*** driven by strong earnings growth boosted by U.S. corporate tax cuts, continued solid, synchronized global GDP growth, and liquidity support from BoJ QE buying and rate cuts in some Emerging Markets. ***Finally, the policy normalization by the Fed, ECB & BoE is likely to remain gradual, despite current market fears. This is because inflation remains low and well below target in Japan and Eurozone, while U.S. inflation is likely to rise modestly to Fed target.***

The underlying earnings and GDP growth fundamentals remain intact and likely to help markets to stabilize and rebound: 1) Strong corporate earnings growth in 2018 with U.S. earnings expected to get a boost from the Trump tax cuts, and reduced regulations for corporates. Corporate earnings in 2018 are expected to remain in double digits in the U.S. (16%), Emerging Markets (13%) and Eurozone (+11%). In the U.S. Q4 2017 results season underway, companies are beating expectations earnings growth tracking a higher than expected 13% YoY after 8.1% in Q3. ***Looking ahead to 2018, U.S. earnings expectations have been revised higher in the past month to around 16% after around 12% in 2017.*** While earnings growth is expected to be driven by solid, synchronized U.S. & global growth, the recent upward revision to the earnings outlook has been a result of tax cuts passed by the U.S. Congress in late December. ***With companies still in the process of incorporating the impact of the lower tax rates into earnings, there is further scope for upgrades to earnings growth to around 18%.***

Eurozone earnings outlook remains solid, expected to strengthen to around 11% for 2018 after around 10% growth in 2017. Earnings are expected to continue to get a boost both from solid domestic growth with Eurozone GDP growth expected to remain solid, and the ongoing strength in the global economy. However, the impact of euro appreciation in 2017 is likely to be a negative for Eurozone earnings. UK earnings growth is expected to moderate to 7% 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 25% 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 outlook remains strong with strengthening GDP growth and steady commodity prices expected to drive earnings growth to around 13% in 2018 after 22% earnings growth in 2017. EM earnings expectation in 2018 are modest compared to 2017 giving room for upside surprises. EM Asia earnings growth remains solid at 13% in 2018 after a strong 25% pace in 2017. LatAm earnings growth is expected at 12% in 2018 after 17% in 2017, while EMEA earnings are expected to improve to 13% in 2018 after 10% 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. U.S. GDP growth is likely to strengthen to around 3% YoY pace in 2018 from 2.2% in 2017, with upside risks to growth. The Fed remains upbeat on U.S. growth outlook, indicating at its January meeting that "economic activity has been rising at a solid rate." Eurozone growth surprised on the upside in 2017 with GDP in H2 above 2.5% and remains on track to above-trend growth in 2018, around 2.3%. The ECB revised up its 2018 forecast for Eurozone GDP growth to 2.3%. Emerging Markets remain on track for solid growth in 2018 with strength in oil and commodity prices, robust growth in the U.S., and Eurozone and Japan continuing to grow at an above-trend pace.

U.S. GDP growth is expected to strengthen to around 3% YoY pace in 2018 from 2.3% 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. ***The Atlanta Fed has a forecast of U.S. GDP growth of over 5% in Q1!*** While that pace is unsustainable, it points to strengthening U.S. GDP growth. The U.S. economy ended 2017 with Q4 GDP growth of 2.6%. However, headline GDP number is misleading as domestic demand was strong at 3.6%, up from 2.7% in Q3.

Eurozone GDP growth is expected to remain above trend in 2018, around 2.3% after growth surprised on the upside with over 2.5% growth in H2 2017. 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. Eurozone GDP rose 2.4% QoQ annualized in Q4, while Q3 growth was revised up to a 2.8% pace from 2.4%. On an annual basis, GDP rose 2.7% YoY in Q4 after 2.8% in Q3. ***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.*** However, U.K. GDP rose a solid 2% QoQ annualized in Q4 2017, after 1.6% in Q3. ***Japanese GDP growth is expected to remain solid in 2018, around 1.8%*** supported by the boost to Japanese trade from strengthening global growth and improving labor market fundamentals. Further, the Abe government is expected to step up its fiscal stimulus program in an effort to continue to reflate the economy.

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. ***China ended 2017 on a solid note with Q4 GDP growth of 6.8% YoY*** taking 2017 full year GDP growth to 6.9%. ***India's GDP growth is expected to rebound to around 7.4% after slowing to 6.7% in 2017*** on easing of drags from the impact of Goods & Services Tax Reform and currency demonetization. ***Taiwan's GDP rose 3.1% YoY in Q4 taking full year 2017 GDP growth to 2.8% after 1.4% in 2016.*** Growth is likely to slow to around 2.4% in 2018 with slower exports against a higher base last year even as external demand is likely to remain strong. ***Korea's GDP growth moderated to 3% YoY in Q4 taking full year 2017 growth to 3.1%.*** Growth is likely to remain solid at 3% in 2018 with strengthening domestic demand and an export recovery. ***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. ***Mexican GDP grew more-than-expected in Q4, rising 4% QoQ annualized***, well above expectations. ***Mexican GDP growth is expected to slow in H1 2018*** due to the impact of past interest rate hikes before recovering in H2. ***Russia's recovery is expected to continue in 2018*** with GDP growth of 2%. ***Turkey's growth*** is expected to slow to around 3.5% in 2018 after growing over 5% in 2017.

3) Liquidity & Interest Rate Backdrop Less Favorable: The global liquidity and interest rate backdrop is 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 remain in place with inflation remaining well below the bank's target, and likely to get a boost with PM Abe new mandate and likely to reappoint current Governor Haruhiko Kuroda or someone with similar views towards reflationary monetary policy.

The U.S. Fed remains on track to three rate hikes in 2018 after three rate hikes in 2017, and continue the balance sheet roll-off which began in October. At its January meeting, the last under Chair Yellen, the Fed remained on hold but

upbeat on U.S. growth, indicating that "the labor market has continued to strengthen and that economic activity has been rising at a solid rate.". ***However, market fears of more aggressive Fed rate hikes appear to be exaggerated.***

The ECB began its QE taper in January 2018, trimming its QE asset purchases to €30bn per month from €60bn per month in 2017. However, the ECB will extend the QE purchases through September 2018. However, the ECB is expected to leave policy interest rates unchanged at 0% through 2018. Expectations that the ECB would end asset purchases and raise rates earlier than expected due to strong Eurozone GDP growth have pushed the euro sharply higher to over euro/$ 1.20. ECB President Draghi tried to dampen these expectations and slow the euro's rise by reiterating at the January 2018 meeting that he does not expect a rate hike in 2018 as underlying inflation is subdued. ***In the U.K., the BoE left rates on hold at its February meeting.*** However, the BoE warned of larger and earlier rate hikes if the economy were "to evolve broadly in line with the February Inflation Report projections."

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's central bank (BCB) cut rates by 25bps to a record low of 6.75% at its February meeting. The statement accompanying the decision includes language that it may be appropriate for policy to go on hold at the next meeting. However, they also left themselves the option to continue to cut, which may be likely given the weak inflation surprise in January. The Central Bank of Russia (CBR) cut rates by 25bps to 7.5% at its February meeting. The statement accompanying the decision suggested that the bank may cut rates by another 50-150bps through the remainder of the year as it transitions to a neutral monetary policy stance. ***China is expected to maintain a neutral to easing bias, while Turkey, Czech Rep & Poland are expected to remain on hold or raise rates modestly with an improving growth outlook.*** The Bank of Korea (BoK) is expected to keep rates on hold in H1 but raise rates in H2 2018. The central bank of Taiwan (CBC) is expected to raise rates in H2 given the continued growth recovery and steadily increasing inflation. ***Mexico's central bank, Banxico, raised interest rates by 25bps to 7.5% at their early February meeting. Further rate hikes are possible*** 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 in the coming months with growth rebounding and inflation under upward pressure from rising oil prices after remaining subdued in 2017.

4) Stocks Lack Valuation Support with P/E Multiples Rising, but Stocks Still Attractive relative to Bonds: Equity valuations trended higher in January as P/E multiples rose as stocks continued to rally in early 2018 after the US passed the tax reform bill in late December. The Developed Markets (MSCI World Index) P/E multiple rose to 22.3X in January from 21.6X in December and 21.3X in November, remaining above the long-term average multiple of 20.4X (20-year average). ***The trailing P/E multiple for the S&P 500 rose to 23.3X in January*** from 22.3X in December and 22.1X in November with the S&P 500 gaining a sharp 5.6% in January. The P/E multiple for Japanese stocks (TOPIX) held steady at 16.3X in January as Japanese stocks gained a modest 1% following a 1.4% gain in December. In Eurozone, the STOXX P/E rose to 21.3X in January from 20.8X in December and 20.7X in November. ***The Emerging Markets (EM) P/E multiple rose to 16X in January after easing to 15.1X in December from 15.4X in November,*** and remains slightly above their long term (20-year) average of 14.9X. ***However, EM valuations remain attractive relative to DM stocks. While stocks remain cheap relative to bonds on an Earnings Yield Gap basis, the yield gap narrowed with the rise in bond yields and stock P/E multiples rose.***

Bottom-line: ***Global stock markets are on a roller-coaster ride in early 2018 with a strong rally in January followed by a sharp sell-off and increased volatility in February.*** The Developed Markets gained 3.7% in January, while Emerging Markets rose 6.7%. However, after the strong January gains, global stocks markets had a sharp sell-off in early February with Developed Markets plunging -7.1% in early February (through the 8th) for YTD loss of -3.6%. Emerging Markets fell -6.2% in February, wiping out YTD gains. While the sell-off was triggered by inflation concerns, rising bond yields and fears of more aggressive rate hikes, the sell-off appears to be amplified by program trading.

Despite the early February sell-off and increased volatility, global stock markets are likely to stabilize as the underlying earnings and GDP growth fundamentals remain intact. Fears of rising inflation and more aggressive Fed rate hikes are exaggerated and unfounded. ***We expect stock markets to rebound*** driven by strong earnings growth boosted by U.S. tax cuts, continued solid, synchronized global GDP growth, and liquidity support from BoJ QE and rate cuts in some Emerging Markets. Finally, policy normalization by the Fed, ECB & BoE is likely to be gradual, despite market fears.

The underlying earnings and GDP growth fundamentals remain intact and likely to help markets to stabilize and rebound: 1) The corporate earnings outlook remains strong with U.S. earnings expected to get a boost from the Trump tax cuts, and reduced regulations for corporates. Corporate earnings in 2018 are expected to remain in double digits in the U.S. (16%), Emerging Markets (13%) and Eurozone (+11%); ***2) The global economy remains on track to another year of solid, synchronized GDP growth in 2018.*** U.S. GDP growth is likely to strengthen to around 3% in 2018 with upside risks. Growth is expected to remain above trend in Eurozone (2.3%) and Japan (1.8%). Emerging Markets remain on track for solid growth.

However, the interest rate backdrop remains less favorable in 2018 with continued policy normalization by the Fed, the BoE and the ECB, but partly offset by the BoE continuing QE buying and rate cuts in some Emerging Markets. ***In addition, stock markets face several risks which could keep markets volatile.*** These include 1) Continued fears of more aggressive rate hikes by the Fed & BoE, and faster QE taper by ECB with solid GDP growth and inflation creeping higher; 2) Valuations are modestly expensive; 3) Geopolitical tensions with Korea risks, Brexit uncertainty, Italian elections, Catalan tensions in Spain; & 4) Trump's troubles with ongoing Mueller investigation.

Bonds Yields under Upward Pressure in Early 2018. Yields likely to remain under Upward Pressure with Solid GDP Growth, Policy Normalization by Fed, ECB & BoE & Inflation Fears

Bond yields are rising sharply in early 2018 with rising inflation expectations, strong GDP growth momentum, and fears of more aggressive rate hikes. ***In early 2018 (through February 8th), U.S. 10-yr Treasury yields climbed to 2.86%, while Eurozone yields rose to 0.76%. U.K. gilt yields increased to 1.62%, while Japanese yields inched up to 0.08%.***

Looking ahead, bond yields are likely to remain under pressure with solid GDP growth momentum, rising inflation expectations and developed central banks continue to normalize policies. However, bonds remain supported by continued QE buying by the BoJ and policy normalization by the Fed and ECB likely to be gradual. Bond yields are likely to remain under upward pressure with: ***1) Global economy on track to another year of solid, synchronized GDP growth in 2018*** after upside growth surprises in 2017. U.S. GDP growth is likely to strengthen to around 3% YoY pace in 2018 from 2.3% in 2017, with upside risks. Eurozone remains on track to above-trend growth in 2018, around 2.3%. Growth is expected to remain above-trend in Japan (1.8%). Emerging Markets remain on track for solid growth in 2018; ***2) Developed central banks continue policy normalization*** with the U.S. Fed on track to raise rates three times and continue the balance sheet roll-off. the ECB continues QE taper that began in January, and the U.K. raises rates further; ***3) Rising inflation expectations*** with oil prices rising above the recent trading range and strong wage growth. ***However, bonds remain supported by: 1) Improved Valuation*** as the recent rise in yields has made attractive relative to cash; ***2) Continued QE stimulus*** from the BoJ & rate cuts by some Emerging central banks; ***3) While inflationary pressures*** are rising in the U.S., they remain subdued in Eurozone and Japan; ***& 4) Safe haven demand*** with geopolitical tensions with ongoing tensions in the Korean peninsula, with elevated risks during the Winter Olympics in South Korea, tense Brexit negotiations and Catalan tensions in Spain.

Investment Strategy:

Asset Allocation: Remain overweight in Stocks as Markets likely to Stabilize & Rebound

Stocks: Remain Overweight as global stock markets likely to stabilize and post further gains fueled by strong earnings growth boosted by U.S. corporate tax cuts & solid global growth momentum. Liquidity support from BoJ QE buying and gradual policy normalization by Fed, ECB & BoE.

Bonds: Remain Underweight as yields likely to remain under upward pressure with solid GDP growth, policy normalization by developed central banks and rising inflation expectations.

Global Equity Strategy: U.S. Stocks to Post Solid Gains with Boost to Earnings & GDP from Tax Cuts & Outperform Europe & Japan

U.S.: ***Overweight*** as U.S. stocks are likely to post solid gains in 2018 driven by solid earnings growth, strengthening U.S. GDP growth with boost to earnings and GDP growth from tax cuts, and gradual policy normalization by the Fed. However, more aggressive rate hikes remain a risk, not the base case.

Emerging Mkts: ***Overweight*** with GDP growth remaining solid, strengthening earnings outlook, & rate cuts in some EMs.

Japan: ***Lower to Neutral*** as yen strength poses risk to Japanese earnings but offset by continued BoJ stimulus & above-trend GDP growth.

Eurozone: ***Raise to Neutral*** 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 continuing yield curve control policy keeping yields near zero. BoJ could expand QE reflation with inflation below target and to offset yen strength.

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 outlook is modestly negative with yields low and likely to increase with GDP growth surprising on the upside and ECB continuing QE, but offset by inflation remaining low. Risk of ECB ending QE earlier than September and start rate hikes with solid GDP growth.

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 under upward pressure with stronger GDP growth, Fed continuing rate hikes, and fiscal stimulus. Rising inflation expectations could force Fed to raise rates more than three times, but unlikely.

Global Sector Strategy:

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