PGIM

Second Quarter 2020

RESPONDING TO A CRISIS: THE OUTLOOK FOR THE COVID-19 ECONOMY

The precipitous and devastating impact of the COVID-19 pandemic has left no doubt that global economies have entered an unprecedented recession. Investors are now left to ponder what's next and to contemplate how deep the contraction might be, and how quickly markets can recover.

While the financial impact of the coronavirus has been extraordinary, once conditions stabilize, the global economy will likely reaccelerate. What follows are diverse perspectives from across PGIM's autonomous asset management businesses on how investors can take calculated risk, seize opportunities amidst the turmoil, and ultimately get ahead of the curve (click on the links to read our full outlooks).

- **Capitalizing Cautiously on Equities:** In a more optimistic scenario, governments bring the coronavirus under control, and aggressive economic stimulus, ultra-low bond yields, cheap oil and low inflation turbocharge the economic rebound, restoring market enthusiasm. But equity market bottoming takes time once stocks have entered a bear market, and equities could have further downside near term, especially with implied volatility at financial crisis levels and virus fears likely to worsen. That said, equity markets may exhibit a positive risk-reward tradeoff over the next six to 12 months.

- **Betting on the Winners:** Policymakers have already shown a willingness to confront the threats with unprecedented stimulus and liquidity enhancements, and additional policy steps will surely follow in the coming weeks and months. Once conditions stabilize and economic activity revives, the companies that entered this crisis with the strongest competitive positions will emerge best positioned to thrive in a post COVID-19 world. We continue to favor stocks of businesses that lead their industries, grow at substantially faster rates than the market average and generate significant cash flow.

- **Attractive Value Across Global Credit Markets:** Our Fixed Income Q2 Outlook explores the path of the contagion, the spike in economic uncertainty, the implementation of sizable fiscal stimulus, the outlook for growth, and the attractive value that now exists across the global credit markets. Regarding the Emerging Markets asset class, we are constructive over the long term. With current spreads at significantly wider levels, and expectations for developed market rates to remain low for an extended period, we expect Emerging Market assets to maintain their long-term value. Further, across Securitized Assets, Investment Grade Corporates, High Yield, and Municipals we see broad opportunity. Selecting credits that are well positioned to weather the economic shutdown and are poised to flourish during the recovery will be critical to generating strong risk-adjusted returns in the years ahead. PGIM Fixed Income's fundamental, value-based credit selection process is well positioned in this environment.

- **Filling the Funding Void Through Private Debt:** With limited near-term upside in real estate equity, private real estate debt is looking relatively more attractive. Pressure on small business lenders, such as banks, will create opportunity for investors in the private debt space to fill the funding void. Low interest rates spurred an initial flurry of refinance activity, as borrowers looked to recapitalize in lieu of selling, but that initial wave has now been replaced by uncertainty. Lending margins should remain elevated over the short term.

In times like these, having deep investment expertise, a long-term perspective and the courage of one's convictions are more valuable than ever. Our research suggests that once volatility from major market pullbacks has subsided, equity and credit markets tend to perform well – often better than before the volatility event.