PGIM GLOBAL PARTNERS

GLOBAL INVESTMENT OUTLOOK & STRATEGY

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Stocks Volatile but Continue to Recover from Early February Sell-off on Easing Inflation Concerns & Fears of Aggressive Rate Hikes. Stocks likely to Fully Recoup February Losses with Strong Earnings Outlook, Solid Growth Momentum & Korea Tensions De-escalation

Global stock markets remained on a roller-coaster ride in February and early March as fears of a trade war were offset by the Goldilocks U.S. jobs report & Korea tensions de-escalation. Equity markets are likely to fully recoup February losses with strong corporate earnings outlook and solid global growth momentum. Further, monetary conditions remain accommodative even as the global liquidity and interest rate backdrop continues to tighten.

Stock Market Outlook: Global stock markets remained on a roller-coaster ride in February and early March with a sharp sell-off in early February, stabilization and rebound in late February and early March. ***Developed Market stocks rose 0.5% in March (as of 14th), taking YTD returns to 0.4%. The Emerging Markets index rose 1.7% in early March, taking YTD gains to 4.3%.***

Despite increased volatility, global equity markets are likely to fully recoup the February losses and remain in an uptrend and as the underlying corporate earnings and global growth fundamentals remain positive: 1) Strong corporate earnings outlook with 2018 global earnings expectations revised higher (17%), led by sharp upward revisions to U.S. earnings expectations (20%). Earning in Emerging Markets (14%), Eurozone (+9%) and Japan (+27%) remains healthy; ***2) Solid global growth momentum*** with U.S. Q1 GDP growth tracking around 2%, but expected to strengthen to around 3% later in 2018. Eurozone (2.5%) and Japanese (1.5%) growth remains on an above-trend path. Emerging Markets remain on track for solid growth in 2018; and ***3) Monetary conditions remain accommodative*** despite tightening global liquidity and interest rate conditions as the BoJ and ECB continue QE buying. Further, policy normalization by the Fed and BoE is likely to be gradual.

However, stock markets face several risks which could keep markets volatile, including: 1) Fears of trade war with the Trump administration imposing tariffs on steel and aluminum; 2) Continued fears of more aggressive rate hikes by the Fed and BoE, and faster QE taper by ECB; 3) Valuations are modestly expensive though P/E multiples improved with markets declining and earnings rising; 4) While Korean tensions are easing, other uncertainties persist, including Brexit and Italian political stalemate; 5) Trump's troubles with ongoing Mueller investigation

Bond Market Outlook: Bond yields were mixed in February, rising sharply in early February before declining later in the month. ***Looking ahead, bond yields are likely to remain under modest upward pressure with: 1) Solid global growth momentum*** in the U.S. and Eurozone. U.S. GDP growth is tracking around 2% in Q1. Growth remains above-trend in Eurozone (2.5%) and Japan (1.5%); and ***2) Developed central banks continue policy normalization*** with the U.S. Fed on track to raise rates three or four times and continue balance sheet roll-off. The ECB is on track to end QE at the end of September, and the U.K. is likely to raise rates further. ***However, bonds remain supported by: 1) BoJ continuing QE stimulus*** with reappointment of Governor Kuroda and appointment of two dovish deputy Governors and inflation still below target; ***2) Inflation remains subdued*** and below target in Eurozone and Japan, though creeping higher in the U.S. and U.K.; and ***3) Safe haven demand*** as other uncertainties persist, including Brexit and Italian election stalemate, though Korean tensions are easing.

Stocks Volatile but likely to Fully Recoup February Losses & Remain in an Uptrend with Strong Earnings Outlook & Solid GDP Growth Momentum

Bond Yields likely to Remain Under Upward Pressure with Solid Global Growth Momentum, Continued Policy Normalization by Fed, ECB & BoE & Risk of More Aggressive Tightening

Stock Market Outlook (March): Global stock markets remained on a roller-coaster ride in February and early March with a sharp sell-off in early February. Stocks stabilized mid-month and rebounded in late February and the recovery continued in March. Stocks remained volatile in early March but continued to recover. Stocks fell as the Trump administration announced tariffs on steel and aluminum stoking fears of a trade war and leading to the resignation of Gary Cohn as Chief Economic Advisor to President Trump. However, stocks rallied as the Korean tensions de-escalated with a diplomatic break-through and proposed meeting between U.S. President Trump and North Korean Dictator Kim Jong-un. ***Developed Market stocks rose 0.5% in March (as of 14th), taking YTD returns to 0.4%. The DM gains were led by the U.S. (S&P 500), which rose 1.9% in March and 3.4% YTD. The Emerging Markets index rose 1.7% in early March, taking YTD gains to 4.3%.***

Despite the increased volatility, global equity markets are likely to be in an uptrend and fully recoup the February losses with strong corporate earnings outlook and solid global growth momentum. Further, monetary conditions remain accommodative with the BoJ continuing QE reflation, ECB continues QE buying, at a reduced pace, and rate cuts or rates on hold in the Emerging Markets. Further, the Fed and BoE are likely to normalize policies gradually.

1) Corporate Earnings Outlook Revised Higher to even Stronger Growth: Global earnings expectations for 2018 have been sharply revised higher to 17% growth led by sharp upward revisions to U.S. earnings expectations to 20% reflecting the boost from the Trump tax cuts, rising Energy and Materials prices, and reduced corporate regulations. The U.S. Q4 2017 earnings season is coming to an end with earnings growth tracking a significantly higher than expected 15% YoY after 8.1% in Q3. ***Eurozone earnings are expected to rise around 9% for 2018 after 10% growth in 2017.*** Earnings growth for Q4 is tracking 16% YoY driven by Materials and Info Tech, while Telecoms, Utilities and Staples are the drags. Eurozone earnings continue to be supported by solid Eurozone GDP growth as well as the ongoing strength in the global economy. However, the euro remains strong against the dollar in 2018 and is likely to be a negative. UK earnings growth is expected to slow to just 7% in 2018 from 23% in 2017 as Brexit takes a toll on the U.K. economy and corporate earnings. ***Japanese earnings expectations are high at 27% growth for 2018 after 31% earnings growth in 2017.*** However, the yen has appreciated strongly. Hence, current earnings expectations might have to be revised lower if the yen stays closer to 105/$ levels for longer, given that the outlook is based on yen levels around 110/$. ***The Emerging Markets earnings outlook have been revised higher to around 14% growth for 2018 after 23% in 2017*** with strengthening global GDP growth and steady commodity prices. EM Asia earnings growth remains solid at 13% in 2018 after a strong 26% pace in 2017. Latin America earnings growth outlook has been revised higher to 19% in 2018 after 16% in 2017, while EMEA earnings have been upgraded to 15% growth in 2018 after upwardly revised growth of 17% in 2017.

2) Solid Global Growth Momentum in Early 2018: The solid global growth momentum continues from 2017 into early 2018 driven by strong business and consumer confidence. Business confidence remains robust with U.S. ISM manufacturing and service confidence at multi-year highs, the Eurozone PMI close to an all-time high, and Japanese PMI also remains high. U.S. Q1 GDP growth is tracking around 2% but is expected to strengthen to around 3% later in 2018 as the tax cuts fuel investment spending and consumption. The U.S. Leading Economic Indicator (LEI) surged at a 9.9% annualized rate over the past three months, suggesting that U.S. GDP growth should accelerate to over 3% over the next few quarters.

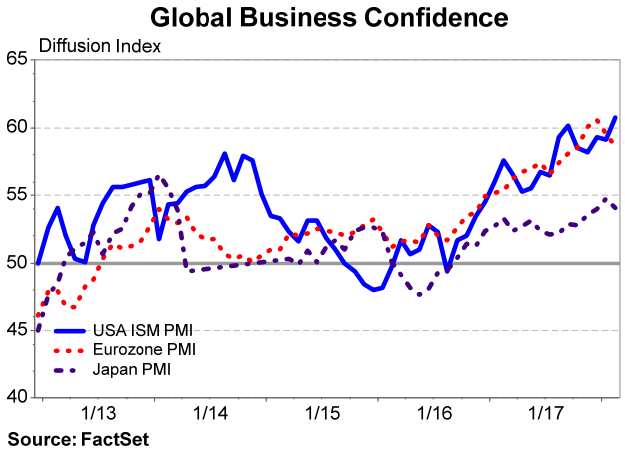
Growth in Eurozone remains solid (2.5%), well above the trend pace, while Japanese growth (1.5%) remains on an above-trend path. The exception remains U.K. where growth is expected to be modest with still elevated Brexit uncertainty. Emerging Markets remain on track for solid growth in 2018 with strength in oil and commodity prices, robust growth in the developed economies. Among Emerging Markets, China remains stable (around 6.5%), India is rebounding (to 7.4%), further recovery in Brazil (to 2.5%) and Russia (2%), and growth remains solid in Turkey, Korea, Taiwan and Mexico.

Strong Global Earnings with U.S. Earnings Revised Sharply Higher

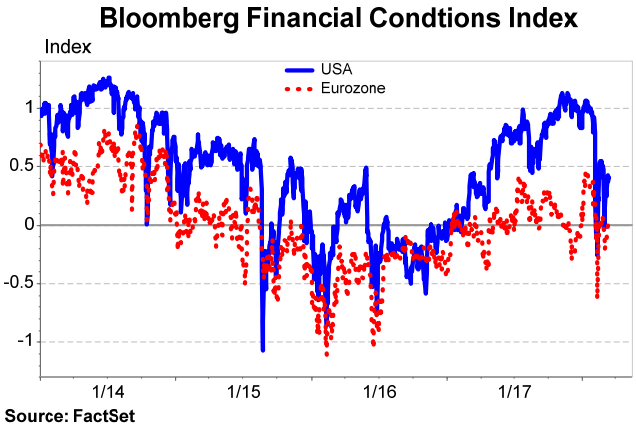
Global Equity Markets - EPS Growth	2018 (%) Forecast	2017 (%) Estimate
USA	20	13
UK	7	23
Eurozone	9	10
Japan	27	25
Emg Mkts	14	23
EM Asia	13	26
Latin America	19	16
EM EMEA	15	17
World Index	17	16

Source: IBES, Reuters, Factset

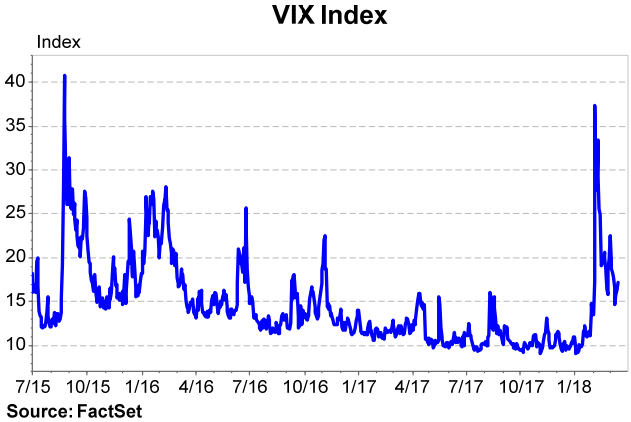
Business Confidence at Multi-Year Highs



Financial Conditions Remain Accommodative Despite Central Bank Policy Normalization



Volatility Surges in Early 2018 on Inflation Concerns & Rate Hike Fears



3) Liquidity & Interest Rate Backdrop Less Favorable but Monetary Conditions Still Accommodative: The global liquidity and interest rate backdrop continues to tighten in 2018 as developed central banks continue to normalize policies and reduce stimulus. However, monetary conditions remain accommodative with the BoJ continuing QE reflation, ECB QE buying at a reduced pace and rate cuts or rates on hold in the Emerging Markets. In February, BoJ Governor Kuroda was nominated for another five-year term. This combined with the appointment of two dovish deputy Governors indicates that the BoJ will maintain the current accommodative monetary policy for the foreseeable future. ***Emerging central bank policies remain mixed,*** with rate cuts in some markets (Brazil, Russia, Hungary & S. Africa), modest tightening in some markets (Mexico, Czech Republic & Romania) and rates on hold in others.

The U.S. Fed remains on track to three rate hikes in 2018, starting with a March hike, and continue the balance sheet roll-off. ***Market focus is on the Fed statement for clues about future rate hikes*** under new Fed Chair Jay Powell. In his first testimony to U.S. Congress, Chair Powell gave an upbeat assessment of the U.S. economy and assured that the Fed will seek to strike a balance between avoiding overheating and ensuring that inflation returns to 2% on a sustained basis. ***The ECB changed its forward guidance in March, dropping its easing bias.*** However, President Draghi balanced the removal of the easing bias by maintaining an overall dovish and patient message. In the U.K., the BoE warned that they will need to tighten monetary policy by more than anticipated as the February inflation report shows limited slack in the economy, which raises the risk of higher inflation.

4) Stock Valuations Modestly Expensive but P/E Multiples Improve: Equity valuations improved in February as P/E multiples declined with rising earnings and stocks falling on increased fears of more aggressive Fed rate hikes. The Developed Markets (MSCI World Index) P/E multiple declined to 21X in February from 22.3X in January, but remains above the long-term average multiple of 20.4X (20-year average). The trailing P/E multiple for the S&P 500 fell to 21.9X in

February from 22.8X in January with the S&P 500 declining -3.9% after a sharp 5.6% gain in January. The P/E multiple for Japanese stocks (TOPIX) fell to 14.6X in February from 15.2X in January as Japanese stocks tumbled -3.7%. In Eurozone, the STOXX P/E declined to 16.5X in February from 17.2X in January. The Emerging Markets P/E multiple eased to 15.4X in February after rising to 16.0X in January from 15.1X in December**,** and remains slightly above their long term (20-year) average of 14.9X. However, EM valuations remain attractive relative to DM stocks. ***Stocks remain cheap relative to bonds*** on an Earnings Yield Gap basis, with the yield gap widening with a decline in stock P/E multiples.

Bottom-line: Global stock markets remained volatile in February and early March with fears of a trade war offset by Korea tensions de-escalation. ***Developed Market stocks rose 0.5% in March (as of 14th), taking YTD returns to 0.4%. The Emerging Markets index rose 1.7% in early March, taking YTD gains to 4.3%.***

Despite the increased volatility, global equity markets are likely to remain in an uptrend and fully recoup the February losses as the underlying corporate earnings and global growth fundamentals remain positive: 1) Strong corporate earnings outlook with 2018 global earnings expectations revised higher (17%), led by sharp upward revisions to U.S. earnings expectations (20%). Earning in Emerging Markets (14%), Eurozone (+9%) and Japan (+27%) remains healthy; ***2) Solid global growth momentum*** with U.S. Q1 GDP growth tracking around 2%, but expected to strengthen to around 3% later in 2018. Eurozone (2.5%) and Japanese (1.5%) growth remains on an above-trend path. Emerging Markets remain on track for solid growth in 2018; and ***3) Monetary conditions remain accommodative*** despite tightening global liquidity and interest rate conditions as the BoJ and ECB continue QE buying.

However, stock markets face several risks which could keep markets volatile, including, fears of trade war and continued fears of more aggressive rate hikes by the Fed and BoE, and faster QE taper by ECB, Brexit uncertainty and Italian election stalemate. Further valuations are modestly expensive.

Bonds Yields Mixed in Feb/March. Yields likely to remain under Upward Pressure with Solid GDP Growth Momentum, Policy Normalization by Fed, ECB & BoE & Inflation Inching Higher

Bond yields were mixed in February, rising sharply in early February before declining later in the month. The U.S. 10-year Treasury yield reached a high of 2.94% mid-February before easing to 2.87% by month-end. Eurozone yields ended the month at 0.65% while U.K. yields edged down 1.5%. However, Japanese yields inched down to 0.05% from 0.08%.

Looking ahead, bond yields are likely to face modest upward pressure with: ***1) Solid Global GDP Growth Momentum*** driven by strong business and consumer confidence with business confidence at multi-year highs in the U.S. and Eurozone. U.S. Q1 GDP growth is tracking around 2% but is expected to strengthen to around 3% as the tax cuts fuel investment spending and consumption. Growth remains above-trend in Eurozone (2.5%) and Japan (1.5%). Emerging Markets remain on track for solid growth with strength in oil and commodity prices, and robust growth in the developed economies; and ***2) Developed central banks continue policy normalization*** with the U.S. Fed on track to raise rates three or four times and continue balance sheet roll-off. The ECB dropped its easing bias and is on track to end QE at the end of September, and the U.K. is likely to raise rates further. ***However, bonds remain supported by: 1) BoJ continuing QE Stimulus*** with reappointment of Governor Kuroda and appointment of two dovish deputy Governors; ***2) Inflation remains subdued*** and below target in Eurozone and Japan, though creeping higher in the U.S.; and ***3) Safe haven demand*** as other uncertainties persist, including Brexit and Italian election stalemate, though Korean tensions are easing.

Investment Strategy:

Asset Allocation: Remain overweight in Stocks as Markets likely to Fully Recover with Strong Earnings & Solid Growth

Stocks: ***Remain Overweight*** as global equity markets are likely to be in an uptrend and fully recoup the February losses driven by strong corporate earnings outlook and solid global GDP growth momentum. However, volatility likely to be elevated with fears of a trade war are offset by Korea tensions de-escalation.

Bonds: ***Remain Underweight*** as yields are likely to remain under upward pressure with solid GDP growth, continued policy normalization by the Fed, the BoE and ECB, and inflation concerns in the U.S. and U.K.

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 fully recover February losses and post further gains driven by U.S. earnings outlook revised higher to 20%, and GDP growth expected to strengthen after soft Q1. Volatility likely to be elevated with fears of trade wars offset by Korea tensions de-escalation.

Emerging Markets: ***Overweight*** with strengthening earnings outlook and solid GDP growth. Further rate cuts in some EMs and rates on hold or modest tightening in others.

Japan: ***Remain Neutral*** as yen strength poses risk to Japanese earnings and growth. BoJ continues QE stimulus and GDP growth remains above-trend. Political uncertainty as education cronyism scandal could force PM Abe to resign.

Eurozone: ***Remain Neutral*** as Eurozone equity gains are likely to be modest with solid GDP and earnings growth offset by ECB QE taper, euro strength and political uncertainty with Italian election stalemate, and wide differences on Brexit.

U.K.: ***Remain Modest Underweight*** as U.K. stocks are likely to underperform as Brexit uncertainty remains high with wide differences between U.K. & EU positions. Slower GDP growth with Brexit uncertainty, further BoE rate hikes.

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 continuing QE reflation with reappointment of Governor Kuroda and appointment of two dovish deputy Governors. QE needed with inflation still 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, still favorable valuations, and easing geo-political tensions.

Eurozone: ***Modest Underweight*** as outlook is modestly negative with yields likely to increase with solid GDP growth and ECB QE taper. However, inflation remains low & below target. Prolonged political uncertainty with Italy election stalemate.

U.K. Gilts: ***Underweight*** as the outlook for U.K. Gilts remains modestly negative with elevated inflation and BoE rate hikes and continued Brexit uncertainty. However, modest GDP growth is a positive.

U.S. Treasuries: ***Underweight*** as treasury yields face upward pressure with GDP growth strengthening after soft Q1, Fed continuing rate hikes, and fiscal stimulus. Strong growth could force Fed to raise rates more than three times.

Global Sector Strategy:

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