QMA a PGIM company

PGIM India Mutual Fund

2021 OUTLOOK

QMA's Global Multi-Asset Solutions Team

EXECUTIVE SUMMARY

Economic Outlook:

- The sizable, swift, and unprecedented global policy response in 2020 prevented the pandemic-induced economic collapse from morphing into a longer-lasting economic and financial crisis. It also sparked a faster and better-than-expected economic rebound.
- We think a robust, V-shaped, vaccine-driven economic recovery will continue in 2021, with upside risks to consensus growth forecasts.
- Pent-up demand, inventory restocking, supportive financial conditions and potential for rising "animal spirits" are likely to support the recovery. Fresh fiscal stimulus and continued monetary accommodation should add more fuel.
- The economic recovery will likely be uneven, with stronger rebounds in countries and regions that have better controlled the virus and distribute the vaccine more quickly, enabling a faster relaxation of economic restrictions and individual behavioral changes.
- China started its recovery sooner and is likely to see a strong expansion next year, making it a key driver of global growth for both emerging and developed economies.
- We believe the US, should recover lost output from the COVID-19 recession in 2021. It probably will take longer (2022) to reach that same point in the Eurozone, Japan, and the UK due to deeper 2020 downturns.
- India is likely to reemerge as one of the fastest-growing emerging market economies in 2021.
- After a historic surge in Q3, the pace of global growth is slowing significantly in Q4, because of the resurgence of the virus, which has triggered renewed lockdowns and restrictions on activity in several major economies.
- We could be in for a tough period in the first quarter of 2021, and additional policy stimulus may be necessary to build a bridge to the spring and mid-year when vaccines are more widely available and a significant percentage of the population is inoculated.
- Inflationary pressures are likely to remain under control in 2021, with most economies still operating at below full capacity levels, especially in labor markets. Thus, fiscal authorities and central banks are likely to continue with supportive policy measures.

Investment Outlook:

- We are bullish on equity markets for 2021. An earnings revival driven mainly by improving revenue growth and increased operating leverage is likely to support solid equity returns next year even as elevated stock market price/earnings multiples may experience muted declines.
- Stocks may experience near-term turbulence due to economic setbacks stemming from a tough COVID-19 winter and current overbought conditions. However, equity investors may also look through any temporary weakness toward the expected economic revival in the spring. We would buy into any weakness.
- Stocks did well from a global index perspective in 2020, but there was massive divergence in performance among equity segments:
  - Positive performance was largely driven by the "stay-at-home" stocks and secular growth/tech segments (including online retailers) due to the lockdowns.
  - Regionally, the strongest performers were markets with larger technology weightings, such as the US and certain Asian emerging market bourses, including China, Taiwan, and Korea. The latter countries were also more effective in controlling the spread of the virus.
  - Cyclical/value-oriented segments (especially service-sector businesses heavily impacted by pandemic restrictions) were the big laggards.
- We foresee a broadening of equity market performance in 2021. We are overweight value stocks, cyclicals, and small-caps. Non-US markets are likely to outperform.
- US/tech/secular growth stocks still are likely to do reasonably well and continue to be supported by structural trends (i.e., increased digitalization), but we think these areas will cede leadership after mammoth outperformance this year.
- The US dollar's decline is likely to continue in 2021, and we could be at the beginning of a structural bear market for the greenback.
- The combination of a weaker dollar and stronger (more China-driven) global growth is likely to support rising commodity prices in 2021.
- The economic recovery is likely to push developed market government bonds yields a bit higher, but we expect this will be limited by central bank bond purchases, ongoing slack in economies, (especially labor markets) and muted inflation.
- We still like risky bond segments, including high yield debt and emerging market bonds over core bonds (i.e., the Bloomberg Barclays US Aggregate Bond Index).

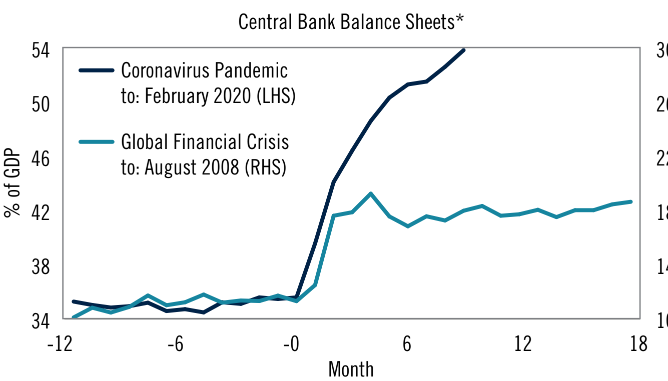
Light at End of the COVID-19 Tunnel

Economic Outlook:

2020 has been a year that many of us will be happy to bid farewell. The COVID-19 pandemic has claimed nearly two million lives globally so far and forced lockdowns and rolling restrictions on populations. This in turn caused an economic crisis and financial market mayhem that has added to the human toll. The global economy has experienced a roller-coaster ride in 2020, as the pandemic caused the deepest recession in the post-war period. Fortunately, governments and central banks around the world stepped up with an unprecedented policy response delivered at lightning speed, which provided some relief and a sharper than expected economic recovery.

The COVID-19 global recession has been different from past recessions during which the service sector experienced smaller declines than manufacturing. In the current crisis, the service sector bore the brunt of the decline due to the public health response and individual behavioral changes needed to slow the transmission of the virus. Were it not for the sizable, swift, and unprecedented policy response that maintained disposable income for households, protected cash flow for firms, and kept credit flowing, the global recovery would have been much weaker. Central banks and governments in both developed and emerging economies delivered policy support of around $28 trillion, or 33% of global GDP, in monetary and fiscal stimulus, including $10 trillion in the US, or 48% of US GDP.[1] Figure 1 compares the response of global central banks this time around to their actions during the Global Financial Crisis and Great Recession of 2008-09. Collectively these actions prevented the pandemic and resulting economic collapse from morphing into a longer-lasting financial crisis and a repeat of the previous global crisis, according to the International Monetary Fund.

Figure 1: Current Policy Response Dwarfs GFC Response



Federal Reserve, ECB, Bank of Japan, and Bank of England; GDP is sum across the four economies.

Source: Haver Analytics and PGIM Fixed Income.
As of 11/30/2020.

We believe game-changing news on the vaccine front should bolster the economic recovery in 2021. In record time, multiple firms have developed vaccines that showed over 90% success in final clinical trials in November. The UK became the first country to authorize the Pfizer/BioNTech vaccine, and the company started delivering the first doses there in early December. Regulators in the US and Eurozone also greenlighted the vaccine in December. With vaccine approval, production, and mass distribution expected to ramp up in the next six months, developed and emerging economies are on track to reopen and normalize next year. Consensus forecasts incorporate expectations for a V-shaped economic recovery in 2021 (Figure 2). Given pent-up demand, inventory restocking, supportive financial conditions and potential for rising "animal spirits," we see upside risks to global growth forecasts. Fresh fiscal stimulus and continued monetary accommodation could add even more fuel for next year's recovery.

Figure 2: V-Shaped Recovery for Global Economy in 2021

GDP Growth (Consensus Forecasts)			
	Annual (YoY%)		
	2019	2020	2021
	Actual	Forecast	
World	2.8	-3.9	5.2
US	2.2	-3.6	3.8
Eurozone	1.3	-7.3	4.6
Germany	0.6	-5.6	3.9
Italy	0.3	-9.0	5.4
UK	1.3	-11.2	5.4
Japan	0.7	-5.3	2.5
China	6.1	2.0	8.1

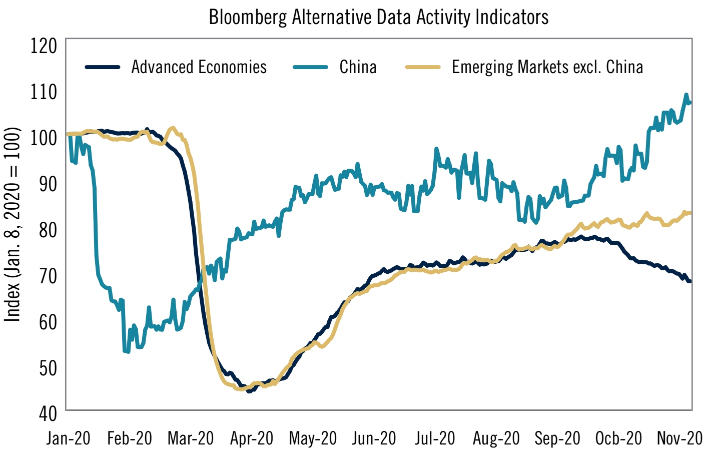
Source: Bloomberg, Data as of 11/30/2020. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document.

The 2021 recovery will likely be uneven across countries, with stronger rebounds in countries and regions that have better controlled the virus and distribute the vaccine more quickly, enabling a faster relaxation of economic restrictions. China, in particular, started its recovery sooner and should see a strong expansion next year; we think China will be a key driver of global growth for both emerging and developed economies in 2021.

While the initial rebound from the pandemic-induced recession has been faster and stronger than expected, the pace of growth for advanced economies is slowing in Q4 due to the resurgence of the virus, which has triggered renewed lockdowns and restrictions on activity (Figure 3). We could be in for a tough period in the first quarter of 2021, and additional policy stimulus may be necessary to provide a bridge to the spring and mid-year when vaccines are more widely available and some percentage of the population is inoculated. The passage of a US fiscal relief package in the current lame duck session of Congress is likely to provide insurance against the risk of shorter-term economic setbacks, if the package becomes law.

[1] Cornerstone Macro estimates as 11/30/2020

Figure 3: Advanced Economies See Setback from Virus Recovery



Source: Bloomberg, Alternative Activity Indicators based on high frequency data from Google Mobility, Moovitapp.com, German Statistical Office, BNEF.com, Indeed.com, Shoppertrack.com, Opportunity Insights. Data as of 12/4/2020.

Looking ahead to 2021, the size and composition of any additional fiscal stimulus in the US will depend on control of the US Senate, which still hinges on the outcome of a run-off election for two Senate seats in Georgia in early January. If the Republicans win one or both seats, they will retain control of the Senate, and the situation will be divided government. In this case, any further fiscal stimulus would likely be smaller and more infrastructure focused. However, should Democrats win both Georgia senate seats, the prospects for a bigger and broader fiscal package would rise and could include healthcare, education, climate-related spending and transfer payments, in addition to infrastructure spending. This spending is likely to be partially offset by tax increases on corporations and individuals. We think additional fiscal stimulus is likely in Europe, Japan and several emerging economies (see Analysis of Key Regions/Countries sidebar).

Inflationary pressures are likely to remain under control in 2021 (Figure 4), with most economies still operating at below full-capacity levels, especially in labor markets. High levels of precautionary savings due to economic and health anxieties related to the pandemic should also keep inflation pressures at bay. Price pressures could build if pent-up demand fuels a surge in spending on services that consumers had been forced to forego due to lockdowns and restrictions on movement. For example, hotels and airlines could see significantly improved pricing power stemming from a vaccine-related bout of Spring Fever vacation splurges. Supply may not be able to keep up with surging demand in certain sectors, as capital projects may have been put on hold, or temporary supply disruptions could cause higher production costs and/or supply bottlenecks. However, we think any price spikes related to these issues are likely to prove temporary and isolated as the deep structural economic forces keeping inflation low have not abated. These include aging demographics, technological innovation and automation, global competition, high debt levels, and inequality. The policy environment presents a source of longer-term inflation risk because central banks are likely to maintain ultra-low policy rates for an extended period and continue with bond purchases in the context of rapidly rising government debt levels, which increasingly is seen as debt monetization. This is resulting in rising inflation expectations at desirable levels currently but could present risks down the road if these policies are maintained for too long.

Analysis of Key Regions/Countries

United States: As vaccines are rolled out during 2021, US growth should accelerate following any potential Q1 weakness driven by lingering virus concerns. PGIM Fixed Income forecasts US GDP to grow around 4.5% in 2021, with risks to the upside. We agree with this assessment. The economy started to fire on all cylinders with the Q3 rebound, and this is likely to continue in 2021, with solid consumer spending, a rebound in capital expenditure, a red-hot housing sector and inventory restocking. Consumer spending is likely to be supported by government income transfers, high levels of savings and an improving labor market.

Consumer spending has rebounded sharply in Q3, following the Q2 plunge but has not yet returned to pre-virus levels, mainly because of continued weakness in spending on services. At the same time, spending on goods, led by strength in durable goods spending, has moved well above pre-COVID-19 levels. With restaurants, bars, hotels and travel shutdown or facing restrictions across the country, spending on services has been a drag on growth. However, pent-up demand is likely to boost spending on services once the vaccines are widely administered. Given services' large share of total spending, this should have a large, positive impact on growth. Housing is likely to be another big contributor given its sharp resurgence in 2020. Housing activity, real residential investment, was up 60% in Q3, outperforming the broader economy. The housing market has been supported by the plunge in mortgage rates, release of pent-up demand and the shift in housing preferences associated with the virus and changing attitudes about remote work.

Eurozone: During 2020, the Eurozone has seen a K-shaped divergence between the weak services sector and the more resilient manufacturing sector. This divergence is expected to continue in early 2021, with industrial activity leading the initial stages of the recovery until the vaccine roll-out reignites services-sector activity. This sector divergence is reflected in the decline/recovery among Eurozone economies. Italy, France and Spain, with bigger exposure to services, especially tourism, suffered bigger declines in 2020, while Germany, with a big manufacturing sector and exposure to stronger activity outside the Eurozone, including to the US and China, posted a smaller decline. With the services-manufacturing divergence expected to continue in 2021, Germany is likely to lead the European recovery before passing the baton to France, Spain, and Italy as the services-sector, especially tourism, recovers. Eurozone economic momentum is likely to pick up in Q2 2021 and strengthen further in the second half with a boost from the European Union Recovery Fund, which, is expected to provide €86 billion in grants (0.7% of Eurozone GDP). Given the depth of hole in 2020 (the economy shrunk by 7%), the Eurozone economies are likely to take longer to get back to pre-COVID-19 levels of economic activity. While the US should reach that point in 2021, it will likely be 2022 for the Eurozone.

United Kingdom: The UK economy is on track for a strong rebound after suffering one of the sharpest declines in 2020, with growth estimated to have contracted by -11.2%. However, the lack of resolution on Brexit could be an additional headwind for the UK in 2021. Brexit negotiations are going down to the wire with a hard deadline for the end of 2020. The sticking points are fishing, competition rules, and governance of the deal. The UK and the EU may agree to a provisional deal before the year-end deadline, but that would just delay the writing of the final agreement until 2021.

Japan: Japan's economy also has a long road to recover pre-COVID-19 levels of economic activity and is unlikely to get there until 2022. However, demand is likely to get a boost from the delayed Tokyo Olympics to be held in the summer of 2021 and a drawdown of household savings. Fiscal policy also is likely to support growth, with the Suga administration announcing a third supplementary budget to finance fresh stimulus.

Figure 4: Inflation Likely to Rebound but Stay Low

Headline Inflation (Consensus Forecasts)			
Annual (YoY%)			
	2019	2020	2021
	Actual	Forecast	
World	3.5	2.2	2.7
US	1.8	1.2	1.9
Eurozone	1.2	0.3	0.9
Germany	1.4	0.5	1.3
Italy	0.7	-0.2	0.4
UK	1.8	0.9	1.4
Japan	0.5	0.0	0.1
China	2.9	2.7	1.8

Source: Bloomberg, Data as of 11/30/2020. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document.

Investment Outlook:

Play the Recovery

It was wild ride for markets in 2020 as the COVID-19 lockdown/recession drove equity markets to the fastest plunge ever into a bear market, in just 16 days, eclipsing an earlier record of 44 days in 1929. From the peak in early February to the March low, the S&P 500 Index fell 34% in the span of a month, with similar stock market declines in Europe, Japan, and emerging markets. US stocks saw a steeper decline of 57% during the 2008/2009 global financial crisis, however, this occurred over a 17-month period. The unprecedented and timely policy response this time turned things around rapidly for equity markets at the end of March and in April. Stocks also benefitted from evidence that the initial lockdowns and quarantines were succeeding in flattening virus curves in late spring, thus, enabling governments to relax restrictions and reopen economies over the summer.

While there have been a few pullbacks, including a nearly 10% correction on the S&P 500 Index in September, a steady stream of good news on COVID-19-related treatments and vaccines and a benign outcome with the US election have propelled equity markets to new highs. Risky bond spreads also saw a rollercoaster ride in 2020 with the option-adjusted spread on the Bloomberg Barclays US Corporate High Yield Index beginning the year at 3.31%, widening to 11.0% on March 23rd, and then plunging back to 4.1% by November 30th. The COVID-19 recession battered corporate earnings, but with the turnaround in economic growth in the third quarter, earnings revisions turned sharply positive. Thus, the hole for 2020 calendar year earnings is not as deep as once feared. S&P 500 earnings, for example, were expected to fall 24% on July 1st, but today that expected decline has been cut to 15%.

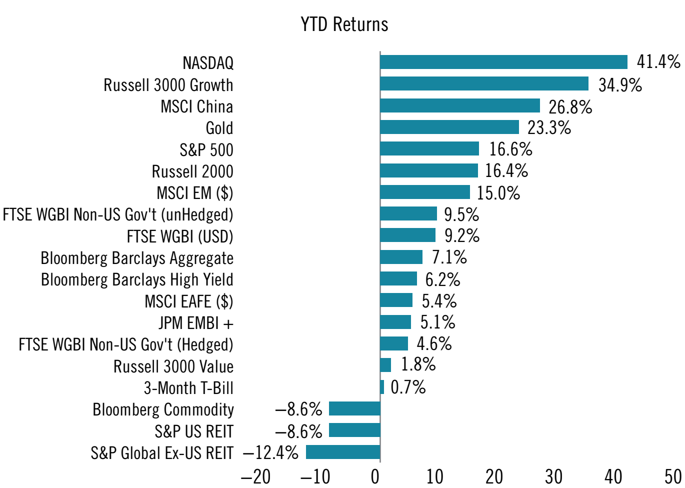
Wall Street strategists appear bullish on the prospect of additional equity market gains in 2021, and we agree with that judgment. Profit growth will likely be very strong next year, driven mainly by improvements in revenue growth and operating leverage (due to cost cutting during the downturn). Strong profit growth is likely to drive equity returns next year even as stock market price/earnings multiples are high and likely to decline in 2021. Indeed, an earnings revival will likely be the key driver for equity markets in 2021. We think any decline in valuation will be measured and orderly and consistent with strong equity returns, given the still supportive backdrop on interest rates and inflation.

Emerging Markets: Strong growth in China and a double-digit growth rebound in India is likely to pull emerging market economies forward in 2021. In China, a recovery in household consumption and improving external demand will likely drive growth in 2021. We believe growth in Taiwan and Korea should be buoyed by improved external demand from China and the US, along with more general strength in technology demand. Broad policy support and easing of pandemic restrictions also is likely to support domestic consumption in Korea and Taiwan.

The Indian economy collapsed -9% in 2020 but is expected to re-emerge as one of the fastest-growing emerging markets, with GDP growth rebounding to more than 10% in 2021. The recovery is likely to be driven by employment and income growth supporting consumption, public capex, especially infrastructure spending, and gradual recovery in private capex. Among other Asian emerging markets, the Association of Southeast Asian Nations economies are likely to benefit from the economic reopening and the recovery in travel and tourism and related services, which is expected to boost growth in Hong Kong, Singapore, Thailand and Malaysia. In Latin America, we expect growth to rebound strongly, led by the services sectors that have been impacted by social distancing protocols. Latin America's oil/commodity-dependent economies are likely to benefit from the increase in oil/commodity prices. In Brazil, economic activity is recovering at a faster-than-expected pace with strong rebound in manufacturing and solid external demand for commodities. We think Eastern European emerging markets will rebound in 2021 in tandem with Western Europe. Greece is on track to rebound with a recovery in tourism. In Turkey, the aggressive monetary tightening in late 2020 could dampen the pace of recovery in 2021.

Figure 5 illustrates the large divergence in performance among major asset classes in 2020. Stocks did well from a global index perspective, but there was massive divergence in performance among equity segments. Gold was a big winner, while bond markets delivered solid, mid-single-digit returns. Commodities and real estate markets were laggards.

Figure 5: 2020 Performance: A Wild Ride



Source: Factset.
Data as of 12/8/2020.

The US equity rally in 2020 was largely driven by the "stay-at-home" stocks and secular growth/tech segments (including online retailers) given the nature of the lockdowns. Among US sectors, information technology, consumer discretionary, and communication services were big winners while cyclical/value segments, such as energy and financials are still down for the year. Regionally, the strongest performers were markets with larger technology weightings, such as the US and certain Asian emerging markets bourses, including China, Taiwan, and Korea. These Asian economies also did a better job controlling the spread of the virus, thus their economies took less of a hit and saw quicker rebounds.[2] Meanwhile, cyclically oriented developed markets, like Europe and Japan and the rest of the emerging markets, lagged.

In 2021, we see stock market gains broadening across segments and regions. We expect the pattern of relative performance to mirror the pattern of relative earnings growth shown in figures 6 and 7. Simply put, those segments that suffered the biggest declines in 2020 are likely to see the largest rebounds in 2021. We elaborate on these views in the accompanying side bar.

Figures 6 & 7: Corporate Earnings Revival in 2021

Consensus Earnings Outlook			
	2019	2020	2021
MSCI World	-0.1%	-18.0%	26.5%
US	1.1%	-15.4%	24.5%
Eurozone	-2.1%	-37.6%	49.7%
UK	-5.1%	-38.2%	37.6%
Japan	-18.3%	-8.6%	42.5%
Emerging Markets	-8.0%	-8.0%	32.0%
Emerging Asia	-9.0%	5.0%	24.0%
Emerging CEEMEA	-11.0%	-31.0%	38.0%
Latin America	-2.0%	-59.0%	165.0%

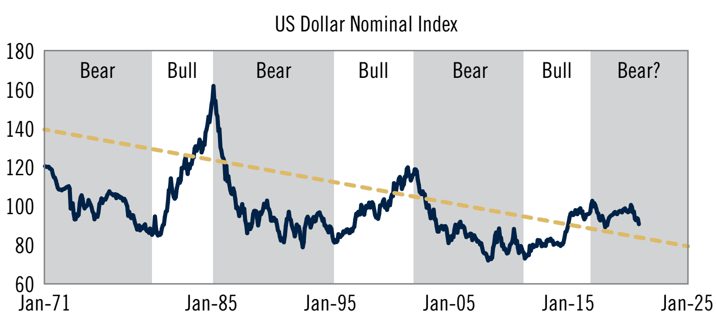
Global Sector Consensus Earnings Outlook			
	2019	2020	2021
MSCI World	-0.1%	-18.0%	26.5%
Energy	-18.6%	-90.7%	400.0%
Materials	-18.9%	-8.4%	36.5%
Industrials	-3.4%	-37.5%	53.4%
Consumer Discretionary	-2.8%	-41.4%	84.0%
Consumer Staples	3.1%	-3.3%	8.5%
Healthcare	7.1%	5.3%	13.2%
Financials	6.0%	-27.7%	25.4%
IT	0.8%	4.2%	16.1%
Telecom	-0.8%	6.2%	9.5%
Utilities	9.4%	0.8%	5.0%
Real Estate	1.6%	-25.1%	11.9%

Source: IBES, MSCI, Datastream; Data as of 11/30/2020.
Notes: Japan 2019, 2020, 2021 refer respectively to fiscal year ending March 2020, 2021,2022.
Sector earnings based on MSCI World.
There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document.

One exception to this trend could be real estate. It was an equity laggard in 2020 and may suffer that fate again in 2021, due to a longer recovery path on fundamentals, (though it should see positive returns). Like many areas of the economy, real estate is seeing a K-shaped recovery. Industrial/logistics (tied to e-commerce) and multi-family/apartments (buoyed by the residential housing boom and the work-from-home/increased suburban demand trend) are the winners. Retail and office are the challenged sectors. Retail was suffering even before the pandemic, but COVID-19 made those problems much worse. Large questions hang over the office sector as companies seek to consolidate their real estate foot prints to accommodate the desire for more flexible work arrangements. Public real estate should outperform private in 2021 due to a more desirable sector allocation (more exposure to the COVID-19 winning segments). REITs also saw a bigger decline in 2020 due to real-time, mark-to-market pricing and, thus, have more room to bounce back.

The US dollar experienced a flight-to-quality rally in the midst of the March panic but has been in a steady decline since then. We think the dollar's decline should continue in 2021 and that the US dollar could be at the beginning of a structural bear market. As shown in Figure 8, the dollar tends to move in multi-year bull/bear cycles. The dollar faces several headwinds looking forward: a reduced carry advantage, stronger global growth, a widening US current account deficit, and overvaluation on a purchasing power parity basis. Thus, fundamental factors and momentum point to continued dollar weakness.

Figure 8: Dollar Weakness Likely to Continue In 2021



Source: Datastream.
Data as of 12/4/20.

The combination of a weaker dollar and stronger (more China-driven) global growth is likely to support commodity prices in 2021. The Bloomberg Commodity Index has fallen more than 65% since 2008. This streak of horrendous performance seems likely to end with the pandemic. Sharply negative oil prices are hard to top and may represent a capitulation point. More than a decade of awful returns has led to structural underinvestment in commodity markets, leaving inadequate production capacity to meet a V-shaped, vaccine-driven recovery in demand. Goldman Sachs is predicting the beginning of a structural bull market in commodities on par with that of the 2000s.[3] However, we don't have to go that far to be bullish on commodity prices for 2021.

[2] Note the relative earnings advantage exhibited by Emerging Asia in Figure 6.

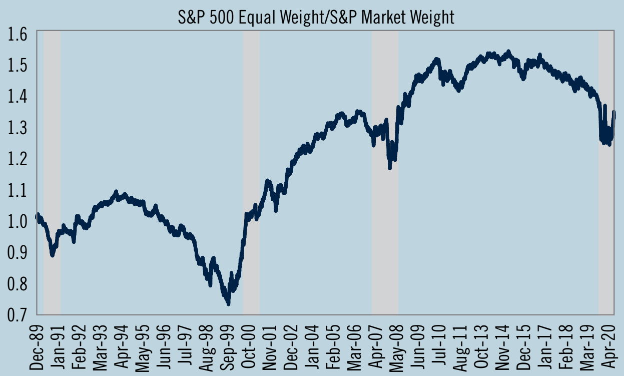
[3] 2021 Commodity Outlook: Revving Up a Structural Bull Market, Goldman Sachs Commodity Research, November 2020.

Time for a Great Rotation in US Equities?

We expect 2021 will be another strong year for equity markets, however, a bigger question is which groups will be the leaders and laggards? That is, will we continue to see a market driven narrowly by secular growth names, or will we see a broadening of performance where more cyclical/value-oriented laggards take the baton of market leadership amidst the cyclical recovery? 2020 stock market performance was clearly a story of "Big Tech." Apple, Microsoft, Amazon, Google and Facebook account for an unprecedented 22% of the S&P 500 Index capitalization and have returned a mammoth 49.4% year-to-date through 11/30, while the rest of the S&P 500 constituents have returned a still solid but much lower 9.6%.

However, we have started to see market performance broaden out (Figure 1), and positive vaccine news, combined with a benign outcome in the US presidential election, amplified that trend in November with energy, financials, industrials, and materials outperforming. Technology stocks still participated in the gains (and even beat the market by a small margin) but were not the big winners. Value stocks beat growth stocks and small-caps outpaced larger companies. EAFE markets and cyclically oriented emerging markets beat US stocks. Emerging market stocks as a whole lagged US stocks but by a small margin.

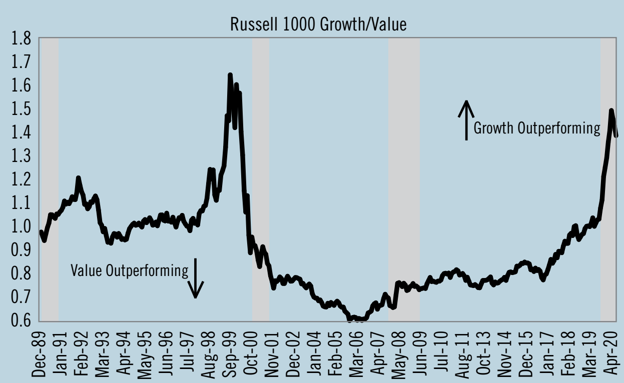
Figure 1: Broadening of Equity Market Performance Likely in 2021



Source: Factset.
Data as of 11/30/2020.

We think this theme of broader market participation in the context of continued strong equity market performance could presage performance in 2021. Next year may not turn out to be a raging value market (though it could be), but the "reopening trade" (dominated by cyclicals and value stocks) should, at a minimum, vie with the "secular growth trade" for leadership. Value stocks have underperformed growth massively in recent years and may be coiled spring if the 2021 recovery becomes more of a boom (Figure 2).

Figure 2: Time for a Comeback in Value Stocks?



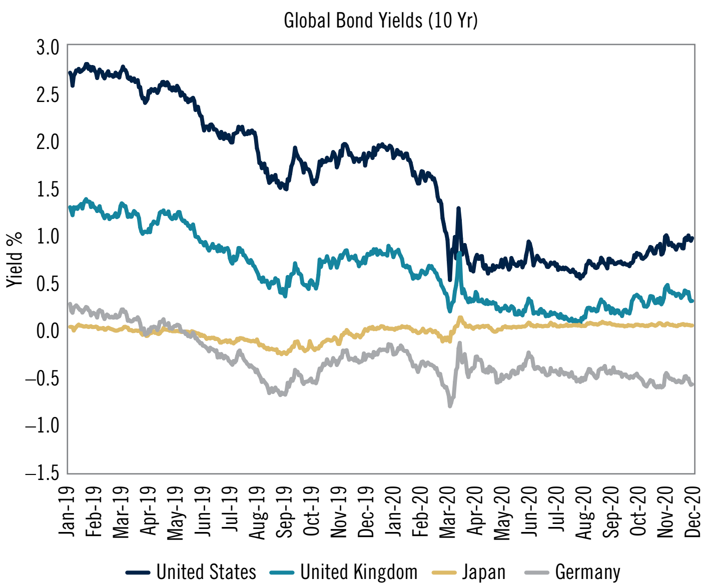
Source: Factset.
As of 11/30/2020.

Even before the pandemic, the economy was already undergoing big structural changes driven by increased adoption of technology/digitalization. However, the lockdowns and quarantine measures earlier this year forced entire populations to work, shop, socialize and attend school online. This acted as an accelerant of these trends, turbocharging the performance of the related industries and stocks in 2020. An August study by McKinsey noted that "we have vaulted five years forward in consumer and business digital adoption in a matter of around eight weeks."

Looking ahead, stock markets are likely to be supported by both structural and cyclical themes. On the structural side, the accelerated digitalization trend is likely to underpin the performance of technology, consumer discretionary, and healthcare. On the cyclical side, there is scope for market broadening, or rotation into the beaten-down cyclical stocks—think financials and energy companies—whose valuations are dirt cheap. These sectors are likely to benefit from the end of pandemic restrictions as vaccinations bring us back toward normal. It may be a very Happy New Year, indeed.

In the major economies, sovereign bond yields that had room to fall, like those in the US and UK, did so substantially during 2020. (Figure 9.) The economic recovery may push yields a bit higher, but we expect this will be limited by central bank bond purchases and ongoing slack in economies, especially labor markets, and muted inflation. We still like risky bond segments over core bonds (i.e., the Bloomberg Barclays US Aggregate Bond Index). As companies focus on deleveraging and profits revive, defaults also are likely to decline. Credit spreads in US high yield are still above pre-pandemic levels and have room to fall further. Emerging market debt likely will be supported by low rates, improving global growth, monetary stimulus in the developed markets and strong investor flows given the global search for yield.

Figure 9: Low Bond Yields Likely to Persist in 2021



Source: Datasteam.
Data as of 12/8/2020.

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*Assets under management (AUM) are based on company estimates and are subject to change.

Notes to Disclosure

Sources: Bloomberg, Datastream, FactSet, Haver Analytics, IBES, MSCI and QMA. **This is intended for Professional Investors only. All investments involve risk, including the possible loss of capital. Past performance is not a guarantee or a reliable indicator of future results.**

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