PGIM
India Mutual Fund

AN UNCHARTED PATH TO NORMAL

Finding Alpha in Moderating Markets

In the first half of 2021, cyclical stocks rebounded sharply and inflation began to rise. In the second half, as COVID-19 vaccinations became more widespread, investors made decisions based on expectations that global economies would continue reopening and return to pre-pandemic normalcy. With continued supply-chain challenges and volatile global markets on the horizon, investors want to know the key trends that might shape their portfolios in 2022 and beyond. Our PGIM asset managers assess the current investment landscape, share their perspectives on these trends, and offer ideas for investors seeking to capitalise on the opportunities ahead.

2022 INVESTMENT THEMES

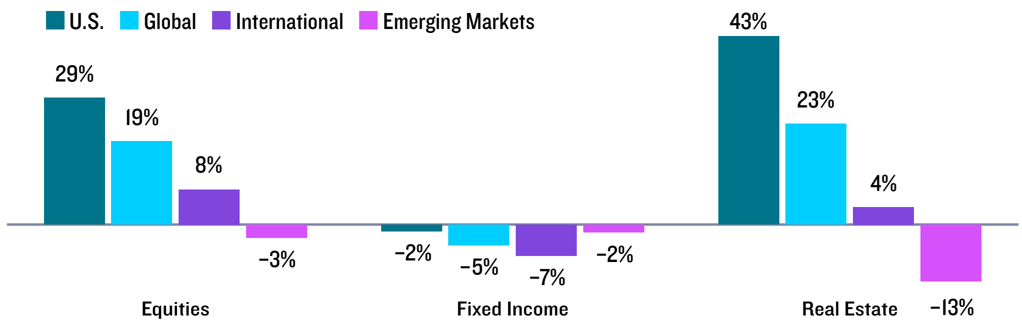
1. MARKETS BRACE FOR LOWER RETURNS AND HIGHER VOLATILITY
2. LOWER GROWTH, RATES AND INFLATION LIE AHEAD
3. BOND INVESTORS BENEFIT FROM MARKET DISLOCATIONS
4. SECULAR GROWTH REASSERTS LEADERSHIP AS ECONOMY SLOWS
5. REAL ESTATE RECOVERY ACCELERATES IN SELECT AREAS
6. PORTFOLIO AGILITY IS VITAL TO DEFENDING ASSETS

2022 MARKETS AT A GLANCE

ECONOMY

The global economy continued to recover throughout 2021 from the pandemic-induced recession that began in 2020. Massive fiscal and monetary support, along with the rollout of COVID-19 vaccines and treatments, unleashed significant pent-up consumer demand. The recovery has been strong but uneven. While growth was robust in the first half of 2021, it hit a speed bump starting in the third quarter as the Delta and Omicron variants spread globally. Solid consumer income, excess savings, inventory rebuilding and increased business investment should keep the expansion going in 2022, though it likely will slow from the robust pace of 2021.

U.S. LED RECOVERY ACROSS ASSET CLASSES IN 2021

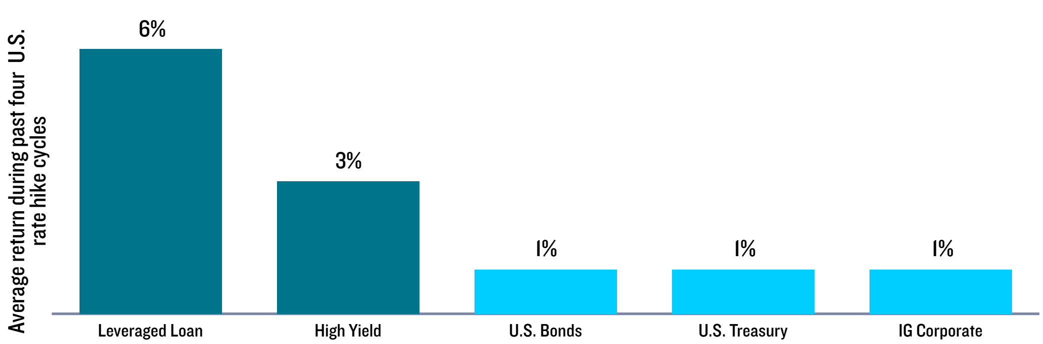


Source: Morningstar Direct as of 31/12/2021. **Past performance does not guarantee future results.** Representative indices include **Equities**: U.S.: S&P 500 Index, Global: MSCI All Country World Index (ACWI), International: MSCI ACWI ex-U.S., Emerging Markets: MSCI Emerging Markets Index; **Fixed Income**: U.S.: Bloomberg U.S. Aggregate Bond Index, Global: Bloomberg Global Aggregate Bond Index, International: Bloomberg Global ex-USD Index, Emerging Markets: JPMorgan EMBI Global Diversified Index; **Real Estate**: U.S. FTSE EPRA NAREIT U.S. Index, Global: FTSE EPRA NAREIT Global Index, International: FTSE EPRA NAREIT Global ex-U.S. Index, Emerging Markets: FTSE EPRA NAREIT Emerging Index.

FIXED INCOME

Bond spreads peaked in the spring of 2021 but compressed later in the year. With inflation rising, global central banks have started phasing out emergency measures that they implemented to support their economies during the pandemic. In the U.S., the Federal Reserve has turned hawkish, with plans to increase the pace of its tapering of monthly bond purchases and to increase short-term interest rates in 2022. If bond yields rise further in 2022, bond returns may suffer. Yet fixed income often serves as a critical downside hedge against equity market volatility. Opportunities to outperform remain in credit sectors, but they require rigourous risk analysis.

HIGHER YIELDING BOND SECTORS SHINE IN RISING RATE ENVIRONMENTS

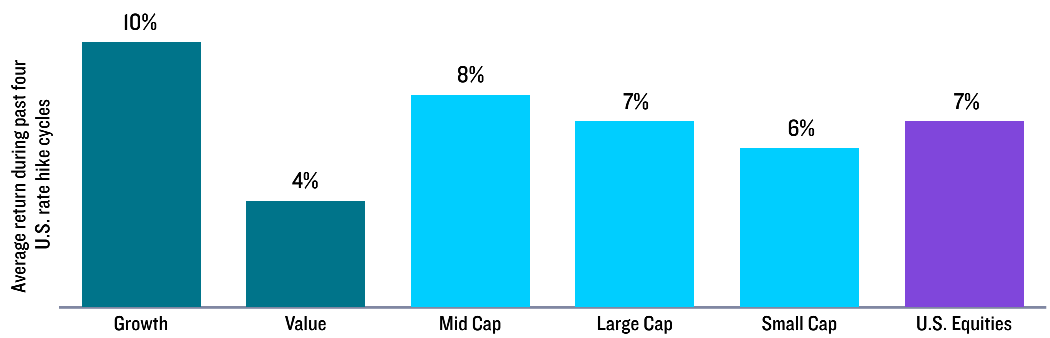


Source: Morningstar Direct as of 31/12/2021. **Past performance does not guarantee future results.** Average returns from past four Federal Reserve rate hike cycles. Representative indices include: Leveraged Loan: Credit Suisse Leveraged Loan Index, High Yield: Bloomberg U.S. Corporate High Yield Index, U.S. Bonds: Bloomberg U.S. Aggregate Bond Index, U.S. Treasury: Bloomberg U.S. Treasury Index, IG Corporate: Bloomberg U.S. Corporate Bond Index.

EQUITIES

U.S. stocks delivered stellar returns in 2021, although global returns were mixed. Equity valuation multiples improved in 2021, with the price-to-earnings (P/E) ratio contracting for many stocks. While the forward P/E on the broad-based S&P 500 Index has fallen, it remains elevated relative to its 10-year average but doesn't appear to be excessive. Profit growth is expected to slow in 2022, though it should remain strong enough to continue supporting equity markets, even if interest rates rise. Higher inflation will impact asset classes differently, making it important for portfolios to include a variety of styles and sectors.

GROWTH AND MID CAPS STRONGEST PERFORMERS IN PREVIOUS RATE HIKE CYCLES

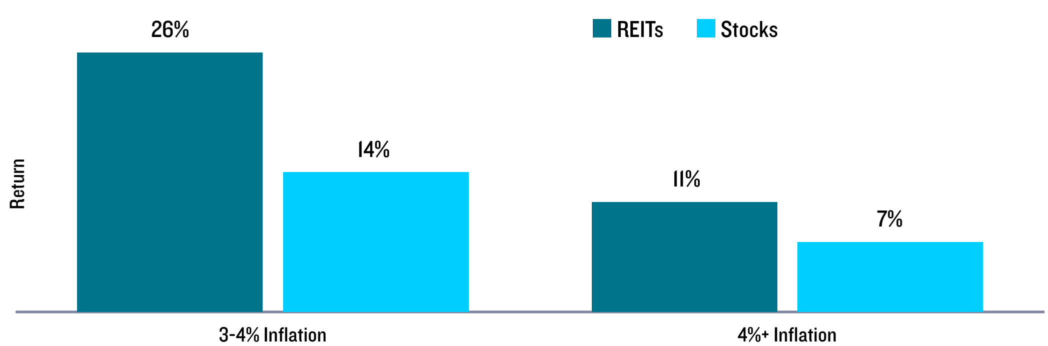


Source: Morningstar Direct as of 31/12/2021. **Past performance does not guarantee future results.** Representative indices include: Growth: Russell 1000 Growth Index, Value: Russell 1000 Value Index, MidCap: Russell Mid Cap Index, Large Cap: Russell 1000 Index, Small Cap: Russell 2000 Index, U.S. Equities: S&P 500.

REAL ESTATE

The real estate recovery may transform into a robust expansion in 2022 due to above-average demand. Cities are seeing signs of improved rental growth, with central business districts and centrally located apartments benefiting from a sharp increase in hiring. Net operating income for retailers is rising as consumers increase spending. Supply growth is set to increase in coming years, although it may trail historical averages. While the significant gap between the best- and worst-performing segments of the real estate market may persist, the differences are starting to narrow and location likely will drive the industry's performance once again. Elevated inflation will likely be an additional tailwind for the sector, so REITs may serve as an attractive inflation hedge.

REITS OUTPERFORM STOCKS IN INFLATIONARY PERIODS



Source: PGIM Quantitative Solutions, FTSE NAREIT, Standard & Poor's. Analysis based on returns of FTSE NAREIT All Equity REIT Index (REITS) and S&P 500 Index (Stocks) from 1973-2020. Inflation ranges are created using YoY inflation of Consumer Price Index, measured at quarterly frequency. **Past performance does not guarantee future results.**

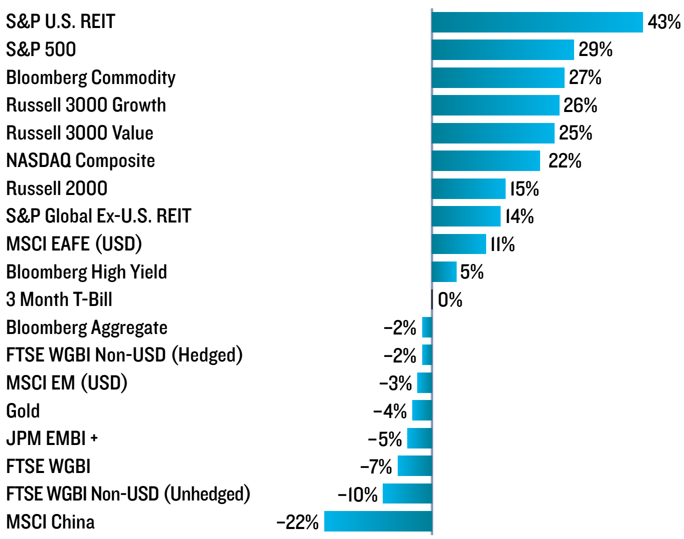
1 MARKETS BRACE FOR LOWER RETURNS AND HIGHER VOLATILITY

EDWARD CAMPBELL, CFA
Head of
Dynamic Asset Allocation
PGIM Quantitative Solutions

MACRO CONDITIONS SUPPORT RISK ASSETS

U.S. stocks soared in 2021, but equity returns around the globe were mixed. Equities rose by double digits in Europe, the U.K., and many emerging markets. However, poor performance in China, driven by government regulatory crackdowns and property sector woes, dragged down emerging markets overall, while Japanese stocks were essentially flat. U.S. real estate investment trusts (REITs) and commodities were particularly strong performers as inflation surged. Bonds mostly posted negative returns in 2021 as yields fluctuated, but generally they ended the year at higher levels.

2021 RETURNS BY ASSET CLASS



Source: Morningstar Direct as of 31/12/2021. **Past performance does not guarantee future results.**

The growth outlook for 2022 is expected to support risk assets, although the torrid pace of 2021 likely will slow. The Omicron variant is clouding the economic picture somewhat, but for now we believe it is unlikely to derail growth. That said, we believe 2022 will be more turbulent and less rewarding for U.S. stocks in particular, as the Fed unwinds its extraordinary monetary accommodation in response to above-trend growth, rapidly falling unemployment, and elevated inflation. While solid economic growth is typically good for stock market performance, high valuations and inflation along with rising real rates seem likely to coincide with lower returns, higher volatility and larger drawdowns than we saw in 2021.

EQUITY FUNDAMENTALS REMAIN SOLID

We believe stocks will outperform bonds again in 2022, as yields on the long end are likely to rise in response to shifting monetary policy. Stocks typically perform well in the early stages of Fed rate hikes, which seem likely to begin next year. The real damage from higher rates tends to occur later in the cycle when tighter policy flattens or inverts the yield curve. We are still not at that point.

Equity valuations improved in 2021, with profit growth far outpacing stock market gains. Multiples are still elevated in certain markets, especially in the U.S. Outside of the U.S., valuations remain much more favourable, which could fuel outperformance of non-U.S. stocks in 2022. However, this condition has existed for several years, and price momentum still favours the premium-priced and higher-quality U.S. market. Similarly, valuation, higher rates and elevated inflation should favour value and small-cap stocks over large-cap and growth equities in the U.S. However, these conditions were also in place in 2020, and value and small-cap investments delivered mixed results. We are currently neutral on style and market-cap positioning in the U.S. but could eventually favour small-cap and value stocks if we see more definitive signs that market sentiment is moving in their direction.

Corporate earnings enjoyed a banner year in 2021 on pent-up demand, operating margin expansion, and declining interest costs. Rising profits should support equities again in 2022, although we expect growth to slow. Triple-digit earnings growth in emerging markets such as Latin America and EMEA (Europe, Middle East and Africa) in 2021 were driven by sharply higher oil and commodity prices. Given the tough comparison with 2021 and expected slower economic growth ahead, profits should come back down to earth in 2022. U.S. and global earnings are expected to grow at a high-single-digit pace.

LOWER EARNINGS GROWTH EXPECTATIONS FOR 2022

	2020	2021	2022
MSCI World	**–13.8%**	**51.0%**	**7.2%**
U.S.	–10.3%	49.4%	8.0%
Eurozone	–21.7%	69.5%	8.0%
U.K.	–36.8%	81.9%	2.5%
Japan	20.0%	34.8%	7.9%
Emerging Markets	**–2.5%**	**59.5%**	**5.5%**
Emerging Asia	6.5%	40.5%	7.4%
Emerging CEEMEA	–20.4%	103.9%	6.6%
Latin America	–37.4%	219.3%	–8.4%

Source: IBES, MSCI, Datastream as of December 2021. Fiscal year-end data for Japan. CEEMA refers to Central Eastern Europe, Middle East, and Africa. **Forecasts may not be achieved and are not a guarantee or reliable indicator of future results.**

2 LOWER GROWTH, RATES AND INFLATION LIE AHEAD

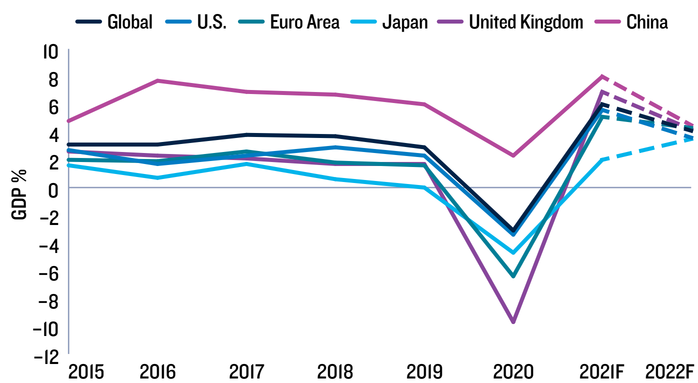
MICHAEL K. LILLARD, CFA
Head of PGIM Fixed Income

ECONOMIC OUTLOOK

The COVID-19 recession was steep but brief and has given way to a strong global recovery. Although the fastest pace of the virus-related economic recovery is likely behind us, we still expect solid global growth in 2022. However, we think this pace will be more differentiated across the globe as each region adjusts to unfamiliar obstacles, including lingering inflation and concurrent removal of global monetary policy accommodation.

Growth is expected to moderate in 2022 and slow even further in 2023, especially in the United States. A notable drag will come from China, which has moved past its hypergrowth phase. Whereas China's economy once grew at 8-10%+ per year, its pace is expected to slow considerably to 4-5% in 2022 as the government shifts its focus from growing to gaining financial stability.

VARIED REGIONAL GROWTH FOLLOWS V-SHAPED RECOVERY

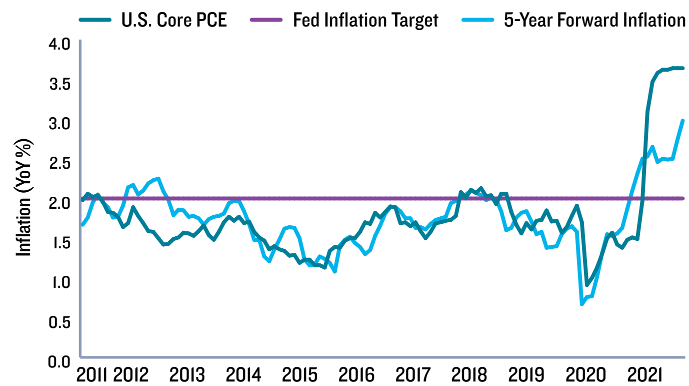


Source: Haver, PGIM Fixed Income calculations. As of December 2021. **Forecasts may not be achieved and are not a guarantee or reliable indicator of future results.**

INFLATION

Short-term inflation will remain a headwind for longer than many predicted. But we're seeing early signs of moderation as the increased personal savings from multiple rounds of stimulus have largely been spent and savings rates have returned to long-term trend levels. The durable goods consumption boom is likely past its peak and supply-chain bottlenecks will gradually ease, creating opportunity for an inventory glut and subsequent price correction.

INFLATION WILL FALL



Source: Bloomberg as of 30/11/2021.

While U.S. inflation is currently near historical highs, long-term forward expectations are at lower, more benign levels. Over the long term, secular disinflationary pressures, such as those highlighted below, should persist, making it unlikely that central banks will achieve their inflation targets.

- **Aging demographics**: Aging populations and a declining workforce participation rate are expected to continue weighing on inflation over the medium to long term.
- **Labour-saving innovation/automation**: The labour market is bouncing back from the unprecedented shock of the pandemic, with unemployment rates in the U.S. back near pre-pandemic levels. Policymakers will be watching wage developments closely and can be expected to react preemptively to signs of a wage-price spiral, short-circuiting such an outcome.
- **High debt levels and deleveraging**: Federal debt and deficits have surged to historically high levels, with U.S. debt-to-GDP (gross domestic product) forecast to exceed 130% by 2040. While the U.S. deficit reached a record 15% of GDP in 2020, it is expected to moderate to the 4-6% range as fiscal stimulus is removed. These levels will still be unsustainable as GDP normalises towards the longer-term trend, necessitating higher taxes or lower benefits.
- **Technology**: Accelerated technology adoption is a disinflationary force that promotes both efficiency and globalisation, and lowers costs over the long term.

CRITICAL MESSAGE FOR BOND INVESTORS

We caution against over-indexing to high short-term inflation in bond portfolios. Investors need to think about the average inflation rate over the term of the bonds they own. While inflation spiked in 2021, it rose to this level only in the past year and will likely have a muted impact on the total value of longer-duration investments. While we expect some near-term volatility and interest rate gyrations as central banks begin tightening, we continue to have low, entrenched interest rate expectations given the secular dynamics at play. We also believe the bond bull market will continue in 2022 and beyond, but at a more subdued pace.

INTEREST RATES

Short-term interest rates: Since the depths of the COVID-19 crisis in the spring of 2020, the rates markets have priced in a fair amount of economic recovery and Federal Reserve (Fed) rate hikes. Rates now appear to be entering a range-bound phase that could continue for a few quarters until it becomes clear where inflation and growth settle in the recovery.

Long-term interest rates: Long rates appear to be past their peak, while credit spreads and inflation expectations appear relatively stable, reflecting trust in the Fed's ability to achieve a soft landing. We agree with that view and further suggest that, with long rates and credit spreads likely to remain relatively range-bound at current levels, the bond market should be well positioned going forward as growth and inflation slowly moderate and the Fed continues to normalise policy.

At its December meeting, the Fed focused on curbing inflation. It announced plans to double the pace of tapering its monthly bond purchases and to raise interest rates three times in 2022, bringing the targeted range for the federal funds rate to 0.75%-1.0% by year-end. Fed officials also projected three additional rate hikes in 2023 to a range of 1.5%-1.75%, followed by two more hikes in 2024 to a range of 2.0%-2.25%. The Fed's updated economic projections reflect an economy running at full employment, with attendant inflationary pressures rising a lot sooner than anticipated after the severity of the COVID-19-related downturn. The unemployment rate at the end of 2022 is expected to drop to its pre-pandemic low of 3.5%. Meanwhile, inflation measured by the Personal Consumption Expenditure Price Index is projected to end 2022 at 2.6%.

We project modestly lower inflation than the Fed's updated view, and anticipate two rate hikes next year if inflation decelerates sequentially in coming quarters as projected. This scenario would require the current torrid demand conditions to subside and for supply-chain problems to improve. Ultimately, we also expect the Fed will be unable to hike the federal funds rate as high over this cycle as it is currently projecting, anticipating this rate is likely to top out below 2%. Fed Chairman Jerome Powell himself recounted the Fed's U-turn in the years just before the pandemic when it became clear the central bank had tightened too aggressively in that cycle.

RISKS FOR 2022 AND BEYOND

1) **Central bank policy mistakes**: Recent bond market action (e.g., flattening of the yield curve) is telling us that markets foresee policy mistakes on the horizon as central banks accelerate tightening timelines to curb inflation at the expense of economic growth.

2) **Slowing China growth**: China's corporate debt-to-GDP ratio is near 230%, making it harder for the country to take on more debt to fuel growth. Real estate drives 25-30% of its GDP growth, limiting its ability to engineer a soft landing.

3) **COVID-19**: While the worst of the pandemic appears to be behind us, new variants and intermittent periods of rising cases will continue to challenge global growth for the foreseeable future.

KEY FEATURES OF A POST-PANDEMIC ECONOMY

1. Excessive global debt
2. Aging demographics
3. Globalisation
4. Capital concentration
5. Moderate growth
6. China deceleration
7. Technology
8. Tax structure
9. Easy monetary policy
10. Low inflation

Source: PGIM Fixed Income as of December 2021.

3 BOND INVESTORS BENEFIT FROM MARKET DISLOCATIONS

MICHAEL J. COLLINS, CFA
Senior Portfolio Manager
PGIM Fixed Income

CONDITIONS FAVOR ALPHA OVER BETA

Nearly two years of uncertainty and elevated volatility have created market dislocations and alpha opportunities for active managers. In 2022, we expect low and range-bound interest rates and a favourable backdrop for spread products. Secular fundamental drivers—such as aging demographics and high debt levels—have pushed rates lower for decades and are likely to reassert themselves. Looking beyond the next year or two of confusion, these drivers should apply even more downward pressure in a post-COVID-19 world of older populations and markedly higher debt levels. As a result, many central bankers may end up leaving administered rates at or near their effective lower bounds, and rate hike cycles will likely continue cresting at progressively lower levels.

SUPPORTIVE SCENARIO FOR CREDIT

Credit quality is improving, with 2020's fallen angels becoming 2021's rising stars. An elevated ratio of corporate credit rating upgrades to downgrades serves as evidence of this shift. The ongoing economic expansion should support continued improvement in credit fundamentals and, in turn, allow credit products to continue outperforming. However, given the spread narrowing during the COVID recovery to what are now historically tight levels, we expect more modest excess returns. These will come primarily from incremental yield and the spread curve rolling down, than from the wholesale spread compression observed since March 2020.

UPGRADE CYCLE BEGINS FOR HIGH YIELD BONDS

Sources: JPMorgan and BofA Merrill Lynch Global Research as of 31/12/2021.

OPPORTUNITIES IN SPREAD SECTORS

We expect spread sectors to continue grinding tighter as investors rebalance their overweight exposure to equity risk. While higher-quality segments (AA and AAA) of the market seem fairly valued, we still find relative value in corporate bonds rated BBB and below, which may benefit from ratings upgrades. In terms of securitised products, AAA/AA collateralised loan obligations (CLOs) and AAA CMBS (commercial mortgage-backed securities) continue to look attractive and are great vehicles for carry. As the Fed begins increasing rates, banks will capture the increased yield and improve their net interest margins.

While emerging market (EM) debt generally lagged developed markets' debt and may be pressured in the short term by the Omicron variant, there is plenty of upside. The backdrop of lower growth, inflation and steep yield curves has created relative value opportunities in hedged EM local markets. However, selectivity will be crucial.

BEST IDEAS IN TODAY'S MARKETS

Asset class	Instrument	Overweight / Underweight
Developed Market Sovereigns and Agencies	Developed Market Sovereigns	Underweight
	U.S. Agencies	Underweight
	U.S. Mortgage-Backed Securities	Underweight
	U.S. Interest Rate Swaps	Underweight
Developed Market Corporates	Long Duration Single A and Above Industrials	Underweight
	Bank Loans (U.S. & European)	Underweight
	BBB IG Corporates (U.S. & European)	Overweight
	U.S. Money Center Banks	Overweight
	High Yield Bonds (U.S. & European)	Overweight
Municipals	High Quality Taxable Municipal Bonds (Emphasising University and Healthcare System Bonds Over GO Credits)	Overweight
Securitised Products	AAA/AA CLOs (U.S. & European)	Overweight
	AAA CMBS	Overweight
	Lower-Rated CLOs	Underweight
	Lower-Rated CMBS	Underweight
Emerging Markets	Select EM Sovereigns	Overweight
	Select EM Local Currency Bonds	Overweight
	Select EM Corporates	Overweight
	Select EM FX	Overweight

Source: PGIM Fixed Income as of December 2021.

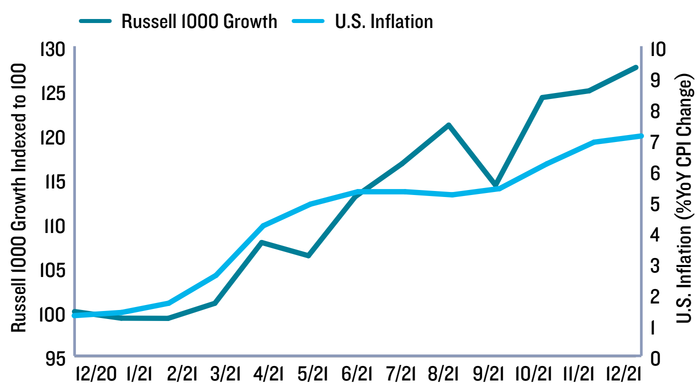
4 SECULAR GROWTH REASSERTS LEADERSHIP AS ECONOMY SLOWS

MARK BARIBEAU, CFA
Head of Global Equities
Jennison Associates

RETURNING TO A LOW-GROWTH WORLD

An improving economy will no longer benefit the majority of investors in 2022, as we are likely past peak reopening phases and global growth for the current business cycle. Solid but slower GDP growth in 2022 is expected to moderate further in the years ahead. While a strong economy, high inflation and higher interest rates typically support the cyclical story, large-cap growth stocks outpaced their value counterparts in 2021. With the Fed and other central banks accelerating tightening plans to curtail inflation, we don't expect inflation to cloud the growth equity landscape for 2022 and beyond.

GROWTH STOCKS SOAR DESPITE RAPIDLY RISING INFLATION



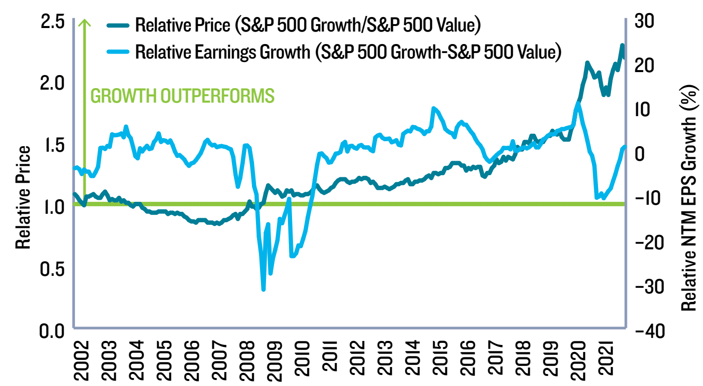
Source: Morningstar, FRED as of 31/12/2021. **Past performance does not guarantee future results.**

While some may worry about rising rates pressuring growth stocks, even if the Fed achieves its projected three rate hikes in 2022 and reaches its 2%+ terminal rate by 2024, that rate is still historically low and unlikely to adversely impact the stock market. In short, growth will become scarcer and in higher demand as we gradually make our way back to a low-GDP-growth, low-rate world.

ROOM TO RUN FOR TECH-DRIVEN GROWTH

In a world of scarcer growth and rising competition, the future belongs to companies that understand the transformative power of technology and successfully integrate it into their core business models. Despite accelerated tech adoption and strong returns of tech-related stocks in 2020 and 2021, the tech-driven growth cycle is far from over, though it may evolve. We see a wide frontier ahead for new market leaders to emerge, in sharp contrast to the broader market and its historically low share of companies posting strong revenue growth. A little more than a decade ago, one out of two companies in the MSCI ACWI Index was growing sales at 15% or more annually. Today, it's one in five. Given this dynamic, investors are willing to pay more for companies with consistently stronger earnings growth because these stocks outperform.

GROWTH SHINES WHEN THEIR EARNINGS OUTPACE VALUE



Source: Bloomberg, FactSet as of 31/12/2021. **Past performance does not guarantee future results.**

CATALYSTS FOR FUTURE GROWTH

Amid rapid technology change and adoption, we see three catalysts for earnings and revenue growth:

- **Direct-to-consumer (DTC)**: Based on the growth of e-commerce, more businesses are developing relationships with consumers and bypassing intermediaries to avoid the exorbitant fees or investments they often require. The DTC model is fundamentally changing the competitive landscape in several industries, including retail, entertainment and electric vehicles.
- **Tech enablers**: These companies provide the behind-the-scenes infrastructure and expertise that support e-commerce businesses, through simplified payment platforms and one-stop services for businesses seeking to establish online storefronts, gain insights from customer data and address evolving challenges such as security threats.
- **Digital enterprise transformation**: The emergence of cloud services represents a paradigm shift in technology comparable to the advent of the internet. Cloud migration is driving increased demand for both software and hardware.

We are in a new world of technology-driven change. Across industries, companies are evolving to asset-light balance sheets, leading to higher margins, sustainable profitability, higher return on assets, lower profit volatility, greater flexibility and higher cost savings. For investors, we believe this process represents an extraordinary opportunity to gain exposure to long-term growth and technology-driven trends.

5 REAL ESTATE RECOVERY ACCELERATES IN SELECT AREAS

RICK J. ROMANO, CFA
Head of
Global Real Estate Securities
PGIM Real Estate

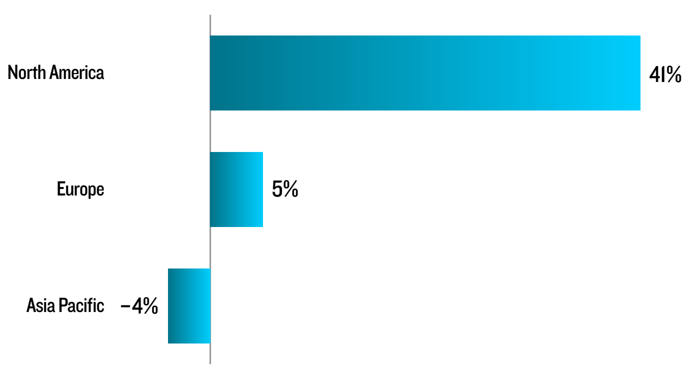
SHORT- AND LONG-TERM OPPORTUNITIES

The COVID-19 pandemic severely challenged the global real estate industry over the past year. First, it virtually shut down office culture, socialization and travel. Then, as the world recovered, the industry was transformed. With different parts of the world experiencing their own stages of recovery, three distinct trends are driving compelling opportunities for real estate investors: reopening, reflation and recalibration. These trends are creating tactical opportunities for short-term gains from mispricings or reversion to the mean, as well as longer-duration opportunities from the recalibration of real estate supply to evolving demand.

REOPENING

Economies have been gradually reopening around the world, although the progress is far from uniform or linear. Virus variants are driving fits and starts in the reopening process, leading to tactical opportunities. The recovery in North America, 2021's best performing region, is six to nine months ahead of Europe and Asia's, creating short-term opportunities in those regions, with their hard-hit sectors expected to recover in the coming year. The reopening of economies is expected to release pent-up demand in various consumer industries, including travel and lodging. Because COVID-19 vaccinations are progressing at varying speeds across the world, this trend will likely continue for months, if not years.

2021 REGIONAL RETURNS FOR REITS



Source: Morningstar Direct as of 31/12/2021. **Past performance does not guarantee future results.** Representative indices include: North America: FTSE EPRA NAREIT Americas Index, Europe: FTSE EPRA NAREIT Developed Europe Index, Asia Pacific: FTSE EPRA NAREIT Asia Pacific Index.

Restrictions on mobility and the shutdown of experiential businesses hurt urban real estate disproportionately. With restrictions easing in major cities globally, we anticipate sharp rebounds in leasing volumes in urban multi-family assets and retail assets that likely will benefit from the return of local residents who left cities during the pandemic.

Office space is beginning to see rent growth, but valuations remain low. Large capital expenditures to modernise buildings and meet environmental, social and governance (ESG) requirements will pressure operating income and revenue. The senior housing market is recovering rapidly, as many who deferred moving into such facilities are now selling their homes (given the rise in housing prices) and shifting to senior housing developments.

REFLATION

Real estate tends to outperform broader equity markets during periods of moderate (2.5-3%) and higher (3-4%) inflation. Historically, real estate has demonstrated strong correlation with inflation, particularly in assets with short-lease duration and strong operating leverage. Shorter-lease duration assets tend to appreciate the most when reflation takes hold, particularly those seeing strong demand, because it allows lease holders to pass expenses along to their tenants. Residential properties offer inflation protection. These asset classes are poised to benefit from reflation, as improving cost controls and supply/demand imbalances should lead to above-Consumer Price Index operating income growth. U.S. multi-family housing is an attractive area, as it is experiencing a surge in investment activity from private real estate sources. Annual lease durations, together with rising cost controls and technological innovation, make the asset class a strong inflation beneficiary. Replacement cost increases are leading directly to accelerating market rent growth. Coastal multi-family properties particularly should benefit from a recovery, as occupancy levels rise following reduced move-in activity during the pandemic.

RECALIBRATION

Technology is profoundly altering the global need for real estate and informing where demand will come from over the long term. Technology has also enabled some REITs to take advantage of their scale and operating histories to incorporate vast volumes of data into various aspects of their businesses. What will follow is a period of consolidation as some REITs acquire small to midsized trusts to realise value through efficiency gains. Real estate is also conforming to new regulations and tenant demand for more environmentally friendly, or net zero, properties.

6 PORTFOLIO AGILITY IS VITAL TO DEFENDING ASSETS

DR. SUSHIL WADHWANI, CBE
Chief Investment Officer
PGIM Wadhwani

INFLATION STILL IN THE DRIVER'S SEAT

Inflation was the biggest surprise of 2021. Although we came into the year expecting inflation to exceed consensus forecasts by a significant amount, we underestimated the size of the surprise. Changes to GDP growth forecasts during the year were relatively small in comparison, though earnings forecasts in the U.S. were revised up meaningfully during the year.

This evolution of inflation relative to expectations will be a key determinant of overall market performance in 2022. In a "soft landing" scenario, the transitory drivers (such as supply constraints mainly caused by the pandemic) pushing inflation up diminish during 2022, vindicating the U.S. Federal Reserve's (the Fed) view. In this economic outcome inflation recedes, surprising the consensus on the downside, and the Fed proceeds slowly on policy normalisation. Market pricing of longer-term rates is not adjusted upwards by much, and real rates remain low. This scenario suggests a "Goldilocks economy," wherein the relative valuation of equities versus bonds remains largely unaffected and a long portfolio of both would do well.

In an alternative scenario, inflation falls by less than the Fed expects. As a result, the Fed is likely to initially tighten monetary policy by less than what proves to be warranted. This causes investors to question the Fed's credibility, thus causing inflation expectations to dislodge further. Higher short-term inflation expectations pass through to more long-term ones, which then feed into wage and price growth expectations, leading to a self-reinforcing inflation spiral. In this case, a "hard landing" becomes more likely as it is difficult to precisely calibrate the degree of tightening needed once a central bank is already behind the curve. Such a scenario could see central banks responding to wage and price inflation by tightening more aggressively than current market pricing, leading to tighter financial conditions and potentially risking a recession. One might then expect that equities and shorter-dated bonds would fall together for some time.

INFLATION SCENARIOS WITH DYNAMIC IMPLICATIONS

Scenario	Probability	Implication
1. Federal Reserve views are broadly correct and inflation prints out lower than consensus expectations	35%	Inflation is transient and Fed can gradually raise rates as expected
2. Central banks belatedly become aggressive	65%	Inflation overshoots and the Fed (and other central banks) become aggressive and taper faster than expected

Source: QMA Wadhwani as of January 2022.

PORTFOLIO AGILITY REMAINS IMPERATIVE

Given this wide spread of market outcomes, it is going to be especially important to remain agile and responsive to the evolving economic data. If the Fed takes on a hawkish stance because they've been behind the curve, based on similarly aggressive rate hiking cycles in the past, returns of both equities and shorter-dated fixed income will suffer. This increases the importance of remaining diversified across asset classes, investment styles and time frames, and choosing solutions with a low beta to traditional markets over a full market cycle. Agile strategies should deliver low average holding periods across positions and emphasise capital preservation.

Amid such an uncertain backdrop, it is important to note that while commodities have been a good place to be in 2021 (when inflation was high and rising), they may fare less well if the Fed does eventually turn aggressive. Therefore, investors will need to be more dynamic with their investment allocations and ready their portfolios for the inflation scenario most likely to prevail.

ASSET CLASS DIRECTION WITH DIFFERENT INFLATION SCENARIOS

Asset Class	Scenario 1	Scenario 2
Equities	RISE	FALL
Short-dated Fixed Income	RISE	FALL
Yield Curve	FLATTEN	FLATTEN
Gold	FALL	FALL
Industrial Metals	RISE	FALL

Source: QMA Wadhwani as of January 2022.

INVESTMENT STRATEGIES AND ATTRACTIVE AREAS

FIXED INCOME | SELECTIVELY SEEK OUT CREDIT

SHORT DURATION CREDIT

Short duration credit can help immunise portfolios against rising interest rates.

CREDIT SPREAD SECTORS

Higher yield credit sectors may benefit from further spread compression.

MULTI-SECTOR STRATEGIES

Dispersion of returns across sectors and regions may result in pockets of opportunity for multi-sector strategies with the flexibility to tactically allocate to the most attractive sectors.

SECULAR GROWTH EQUITIES | INVEST EARLY IN FUTURE MARKET LEADERS

DIRECT-TO-CONSUMER MODELS

Retail leaders reimagining direct-to-consumer experiences have significant growth potential with the digital explosion in retail, entertainment, electric vehicles and healthcare.

SOFTWARE-AS-A-SERVICE COMPANIES

As cloud-based disruptors continue to accelerate the digital transformation of the enterprise, this trend is nascent but powerful.

TECHNOLOGY ENABLERS

Technology enablers redefining and streamlining payment processes and one-stop service platforms should continue to benefit from soaring digital consumption trends.

CYCLICAL EQUITIES | CAUTIOUSLY PLAY THE RECOVERY

VALUE STOCKS

As the economy continues to expand, stocks with cheaper valuations and more cyclical exposure should benefit.

REAL ASSETS

Solid economic growth prospects, supply side constraints and elevated inflation may offer tactical opportunities in real assets like natural resources, midstream energy and commodities.

NON-U.S. EQUITIES

International markets—and particularly emerging markets—are trading at more attractive valuations than developed markets which have already seen a robust recovery, and may provide stronger return potential going forward.

REAL ESTATE | REPOSITION INTO AREAS WITH RISING DEMAND

RETAIL

The next six to nine months should provide opportunities to capitalise on the recovery in European and Asian retail markets.

NON-TRADITIONAL SECTORS

Non-traditional property types, such as senior living and self-storage, are attractive because of their cash flow resilience, low capex and diversification.

URBAN APARTMENTS, OFFICES, HOTELS

Short-term disruptions and pandemic-led corrections in values of urban apartments, offices and hotels have created attractive entry points.

Bloomberg Commodity Index is composed of futures contracts and reflects the returns on a fully collateralised investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13-week (3-month) U.S. Treasury bills. **Bloomberg Global Aggregate Bond Index** is an unmanaged index of global investment-grade fixed income markets**. Bloomberg Global Aggregate ex-USD Index** provides a broad-based measure of the global investment-grade fixed income markets. **Bloomberg Sub Gold Index** is a commodity group subindex of the Bloomberg CI composed of futures contracts on Gold. **Bloomberg U.S. Aggregate Index** represents securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade, fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. **Bloomberg U.S. Corporate Bond Index** is an unmanaged index is the corporate component of the U.S. Credit Index and covers publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. **Bloomberg U.S. Corporate High Yield Index** covers the USD-denominated, non-investment grade, fixed rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. A small number of unrated bonds are included in the index. The index excludes emerging markets debt. **Bloomberg U.S. Treasury Bond Index** is a subset of the Bloomberg U.S. Aggregate and is an unmanaged index of public obligations of the U.S. Treasury with a remaining maturity of one year or more. Credit Suisse Leveraged Loan Index represents the investable universe of the U.S.-dollar-denominated leveraged loan market**. FTSE EPRA/NAREIT Asia Pacific Index** is designed to track the performance of listed real estate companies and REITS in both developed and emerging markets in the Asia Pacific. **FTSE EPRA/NAREIT Developed Europe Index** is designed to track the performance of listed real estate companies and REITS in Europe. **FTSE EPRA/NAREIT Emerging Index** is a free-float adjusted, market capitalisation-weighted index designed to track the performance of listed real estate companies in emerging countries worldwide. **FTSE EPRA/NAREIT Global Index** is designed to track the performance of listed real estate companies and REITS in both developed and emerging markets. **FTSE EPRA/NAREIT Global ex-U.S. Index** is designed to track the performance of listed real estate companies and REITS in both developed and emerging markets excluding the United States**. FTSE EPRA NAREIT North America Index** is designed to track the performance of listed real estate companies and REITS in North American markets (U.S. and Canada). **FTSE EPRA/NAREIT United States Index** is a subset of the EPRA/NAREIT Global Index and the EPRA/NAREIT North America Index and contains publicly quoted real estate companies in the U.S. that meet the EPRA Ground Rules. **FTSE World Government Bond Index (WGBI)** measures the performance of fixed-rate, local currency, investment-grade sovereign bonds. **FTSE Non-USD WGBI** includes all WGBI markets except the United States and is stated in USD terms includes all WGBI markets except the United States and is stated in USD terms. **JP Morgan Emerging Markets Bond Index (EMBI) Global Diversified** is an unmanaged index of emerging market debt, including USD-denominated Brady bonds, Eurobonds, and traded loans issued by sovereign and quasi-sovereign entities. **JP Morgan EMBI Plus Index** tracks total returns for traded external debt instruments (external meaning foreign currency denominated fixed income) in the emerging markets. **MSCI All Country World Index (ACWI)** is a market capitalisation-weighted index designed to provide a broad measure of equity-market performance throughout the world and is comprised of stocks from both developed and emerging markets. **MSCI ACWI ex-U.S. Index** is an unmanaged and free float-adjusted market capitalisation-weighted index that is designed to measure the equity market performance of developed and emerging markets, excluding the U.S. **MSCI China** is designed to measure the performance of the large- and mid-cap segments with H shares, B shares, red chips, P chips and foreign listings (e.g., ADRs) of Chinese stocks. **MSCI Emerging Markets Index** is an equity index covering 23 countries representing 10% of world market capitalisation. **MSCI EAFE Index** is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia, and the Far East, excluding the U.S. and Canada. **Nasdaq Composite Index** is the market capitalisation-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange. **Russell 1000 Index** consists of the 1,000 largest securities in the Russell 3000 Index, which is composed of the 3,000 largest U.S. securities, as determined by total market capitalisation. **Russell 1000 Growth Index** measures the performance of Russell 1000 companies (large-cap growth segment of the U.S. equity universe) with higher price-to-book ratios and higher forecasted growth values. **Russell 1000 Value Index** measures the performance of Russell 1000 companies (large-cap growth segment of the U.S. equity universe) with lower price-to-book ratios and lower forecasted growth values. **Russell 2000 Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index. **Russell 3000 Growth Index** measures the performance of Russell 3000 companies (growth segment of the U.S. equity universe) with higher price-to-book ratios and higher forecasted growth values. **Russell 3000 Value Index** measures the performance of Russell 3000 companies (value segment of the U.S. equity universe) with lower price-to-book ratios and lower forecasted growth values. **Russell Mid Cap Index** is a market capitalisation-weighted index representing the smallest 800 companies in the Russell 1000 Index. **S&P 500 Index** is an unmanaged index of 500 common stocks of large U.S. companies, weighted by market capitalisation**. S&P Global Ex-U.S. REIT Index** defines and measures the investable universe of publicly traded property companies domiciled in developed and emerging markets excluding the U.S. **S&P United States REIT Index** defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. Indices are unmanaged and are provided for informational purposes only. Investors cannot directly invest in an index.

Risks—Investing involves risks. Some investments are riskier than others. The investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than the original cost. **Fixed income investments** are subject to interest rate risk, and their value will decline as interest rates rise. **Foreign investments** may be volatile and involve additional expenses and special risks, including currency fluctuations, foreign taxes, and political and economic uncertainties. Investing in **emerging markets** is very risky due to the additional political, economic, and currency risks associated with these underdeveloped geographic areas. Investments in growth stocks may be especially volatile. **Value investing** involves the risk that undervalued securities may not appreciate as anticipated. It may take a substantial period of time to realise a gain on an investment in a small or midsized company, if any gain is realised at all. **Real estate investment trusts (REITs)** may not be suitable for all investors. There is no guarantee a REIT will pay distributions given the inherent risks associated with the market. A REIT may fail to qualify as a REIT as defined in the Tax Code, which could affect operations and negatively impact the ability to make distributions. There is no guarantee a REIT's investment objectives will be achieved. Diversification and asset allocation do not guarantee profit or protect against loss.

The views expressed herein are those of investment professionals at PGIM Fixed Income, Jennison Associates LLC ("Jennison"), PGIM Quantitative Solutions, PGIM Wadhwani, PGIM Real Estate, and PGIM Investments at the time the comments were made and may not be reflective of their current opinions and are subject to change without notice. This commentary is not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial instrument or any investment management services. This commentary does not constitute investment advice and should not be used as the basis for any investment decision. This commentary does not purport to provide any legal, tax, or accounting advice.

Certain information in this commentary has been obtained from sources believed to be reliable as of the date presented; however, we cannot guarantee the accuracy of such information, assure its completeness, or warrant such information will not be changed. The information contained herein is current as of the date of issuance (or such earlier date as referenced herein) and is subject to change without notice. The manager has no obligation to update any or all such information, nor do we make any express or implied warranties or representations as to the completeness or accuracy. Any projections or forecasts presented herein are subject to change without notice. Actual data will vary and may not be reflected here. Projections and forecasts are subject to high levels of uncertainty. Accordingly, any projections or forecasts should be viewed as merely representative of a broad range of possible outcomes. Projections or forecasts are estimated, based on assumptions, subject to significant revision, and may change materially as economic and market conditions change.

PGIM
India Mutual Fund

PGIM India Asset Management Private Limited
4th Floor, C Wing, Laxmi Towers, Bandra Kurla Complex, Bandra East, Mumbai – 400 051.
Connect with us on www.pgimindiamf.com 1800 2667 446