T. Rowe Price

Global Asset Allocation Viewpoints
May 2024

1 Market Perspective

As of 30 April 2024

- Global growth outlook remains positive against a backdrop of gradually easing inflationary pressures across most economies.
- U.S. growth continues to be resilient, buoyed by a strong consumer, while optimism around European growth is building. Japanese growth remains challenged, and in China, there are signs that policy support is helping stabilize the economy, although risks remain.
- U.S. Fed is still looking towards rate cuts this year, but sticky inflation and resiliency in the economy have tempered expectations. Meanwhile, the European Central Bank (ECB) appears closer to easing given progress with inflation. After hiking in March, the Bank of Japan (BoJ) continues to assess further hikes.
- Key risks to global markets include a retrenchment in growth, stubborn inflation, volatility surrounding central banks' policy divergence, geopolitical tensions, and trajectory of Chinese growth.

2 Portfolio Positioning

As of 30 April 2024

- We remain modestly overweight equities, supported by resilient economic growth, positive earnings trends, and areas with more reasonable valuations.
- We remain modestly overweight cash relative to bonds. Cash continues to provide attractive yields with Fed rate cuts pushed further out and the yield curve remaining inverted.
- Within fixed income, we added to U.S. dollar hedged developed market bonds outside of the U.S. given a higher likelihood of interest rate cuts outside the U.S. and an attractive hedged yield for U.S. based investors.
- Additionally, across fixed income, we remain overweight high yield and emerging markets bonds on still attractive absolute yield levels and reasonably supportive fundamentals.

3 Market Themes

As of 30 April 2024

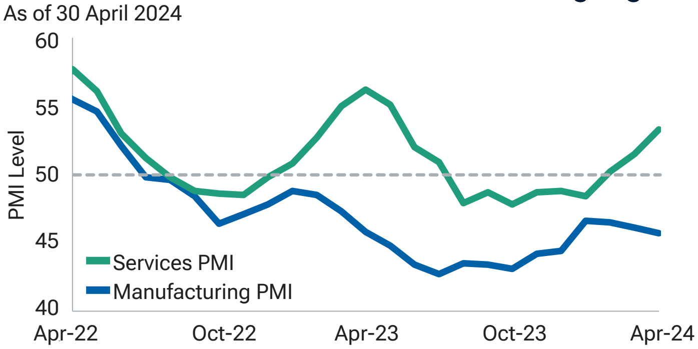
Green Shoots?

Economic growth in Europe is showing signs of life after several years of teetering near recessionary levels, with better-than-expected first quarter GDP growth, largely driven by a services-led revival. Muted foreign demand especially from China, fears around a natural gas shortage and decades-high inflation had all weighed on European sentiment in recent years. But the tide appears to be turning on the back of a milder-than-expected winter and falling inflation, increasing the odds for an upcoming rate cut by the ECB in June. This has given way to an uptick in consumer spending and provided a boost to Europe's tourism and hospitality sectors—notably coming from countries like Spain, Portugal, and Greece. However, it's Europe's manufacturing powerhouse, Germany, that continues to struggle given its dependence on exports to China and consequences of having relied on Russian energy, with no quick fix on the horizon. But for now, positive sentiment on the heels of better-than-expected growth, lower inflation, and hopes for near-term rate cuts may draw investors' attention, but questions remain whether these green shoots will lead to a broader and more sustainable recovery.

The Almighty Dollar

Despite multiple calls for the end of the U.S. dollar's dominance over recent years, it remains near all-time highs and has strengthened against every major currency in the world so far this year. Its most recent push higher has stemmed from resilient growth in the U.S. sustained in part by elevated fiscal spending along with sticky inflation, causing a shift to less aggressive Fed rate cut expectations. Meanwhile, many other countries have seen a faster decline in inflation, which has put downward pressure on their currencies versus the dollar on expectations their central banks move sooner on rate cuts. The strong dollar has many countries seeing their currencies falling to multi-decade relative lows, with talk of intervention, like in the case of Japan struggling with a slumping Yen. While a weaker currency has aided many of these countries' exporters, it comes with other consequences including capital competition versus higher yielding markets such as the U.S., import inflation and raising dollar-denominated borrowing costs for countries that are funding in U.S. dollars. With the Fed expected to move slower on rate cuts, U.S. growth remaining resilient, a packed election calendar and still unsettled geopolitical environment, it's hard to see what breaks the buck, before it may break something else.

Eurozone: All About Services as Manufacturing Lags
As of 30 April 2024



U.S. Dollar: Holding Its Strength[1]
As of 30 April 2024

Source: Bloomberg Finance L.P.
[1] Data is represented by the U.S. Dollar Index (DXY).

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4 Regional Backdrop

As of 30 April 2024

Views		Positives	Negatives
United States	N	▪ Earnings expectations are increasing ▪ Consumer spending remains strong ▪ Labor market has been very resilient	▪ Progress on inflation has stalled ▪ Stock valuations have become challenging ▪ Lagged effects of monetary policy remain a risk ▪ Political uncertainty heightened
Canada	N	▪ Bank of Canada expected to cut rates soon ▪ Commodity price strength could boost earnings	▪ Economic growth has slowed significantly ▪ Consumer savings balances have faded ▪ Elevated interest rates remain a drag on spending
Europe	U	▪ Inflation has been steadily declining ▪ European Central Bank expected to cut rates soon ▪ Economic is gradually improving ▪ Inflation is moderating	▪ Monetary policy is restrictive ▪ Economic growth remains weak ▪ Geopolitical uncertainty is heightened
United Kingdom	N	▪ Inflation has been steadily declining ▪ Bank of England likely to cut this year ▪ Labor market has been resilient	▪ Fiscal consolidation may need to be accelerated ▪ Tight labor markets could keep wage inflation elevated
Japan	O	▪ Economy welcomes inflation after decades fighting deflation ▪ Corporate governance continues to gradually improve ▪ BoJ remains more accommodative ▪ Yen weakness is a tailwind for export businesses	▪ Expectations are high, raising the bar for upside surprises ▪ Yen weakness and rising inflation could raise pressure on the BoJ to hike
Australia	U	▪ Fiscal stimulus is supporting the economy ▪ Commodity price strength could boost earnings	▪ Reserve Bank of Australia remains hawkish ▪ Equity market valuations are rich ▪ Consumer spending is weakening
Emerging Markets	O	▪ Equity valuations are attractive relative to the U.S. ▪ Chinese economy incrementally improving ▪ Investment flows are positive ▪ Regulatory concerns are easing	▪ Chinese property deleveraging continues to weigh on activity ▪ Chinese consumer and business confidence fragile ▪ Meaningful fiscal stimulus measures appear unlikely

O Overweight N Neutral U Underweight

Views are informed by the Asset Allocation Committee and Regional Investment Committees (United Kingdom, Europe, Australia, Japan and Asia) and reflect the equity market.

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5 Asset Allocation Committee Positioning

As of 30 April 2024

▼ or ▲ Month-Over-Month Change

		Change	Underweight		Neutral	Overweight		**These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.**
ASSET CLASS	Equities					O		Earnings continue to strengthen, but face elevated expectations. Potential for broader market participation as economic growth improves, commodity prices increase, and consumer spending remains resilient.
ASSET CLASS	Bonds			U				Yields remain attractive but volatility could persist due to global divergence in growth, inflation, and central bank expectations. Credit fundamentals remain supportive; however, spreads remain tight.
ASSET CLASS	Cash					O		Cash continues to offer attractive yields as the yield curve remains inverted and continues to offer liquidity should market opportunities arise.
	Regions							
EQUITIES	U.S.				N			Earnings expectations improving as economic activity remains resilient and as financial conditions have loosened. Technology and pharmaceutical innovation is a key differentiator. However, valuations may limit upside from here.
EQUITIES	Global Ex-U.S.				N			Valuations are attractive on a relative basis. European equity outlook improving with easing inflation, industrial indicators bottoming, and services inflecting higher. Chinese economic growth appears to have stabilized.
EQUITIES	Emerging Markets (EM)					O		Valuations are attractive and monetary policy easing could provide support. Chinese equities finding some footing, but remain structurally challenged. However, the outlook for other regions (notably Korea and Taiwan) is improving.
	Style & Market Capitalization							
EQUITIES	U.S. Growth vs. Value[1]			U				Improving economic outlook and further broadening of equity market performance could be supportive for value. Cyclical strength and improving prospects for energy demand should be positive for value-oriented sectors.
EQUITIES	Global Ex-U.S. Growth vs. Value[1]			U				Value stocks are cheap and could benefit from recession concerns fading. Growth stocks are challenged by consumer weakness in China and Europe.
EQUITIES	U.S. Small vs. Large-Cap[1]				N			Small-caps offer attractive relative valuations but are more challenged by higher-for-longer interest rates. Profit margins and leverage are also becoming more of a concern, warranting a higher quality bias.
EQUITIES	Global Ex-U.S. Small vs. Large-Cap[1]				N			Small-caps offer very reasonable valuations and should benefit from monetary policy easing and an improvement in economic growth outlook.
	Inflation-Sensitive							
EQUITIES	Real Assets Equities					O		Commodity-related equities are cheap and offer an attractive hedge to stickier inflation. Additionally, oil prices may be set for structural increases given weaker growth trends in productivity and some industrial metals could benefit from higher electricity demand due to AI and decarbonization.
BONDS	U.S. Investment Grade (IG)	▼		U				Yields remain broadly attractive, and credit fundamentals and technical backdrop remain supportive. However, yields still have upside risk and credit spreads are tight.
BONDS	Developed Ex-U.S. IG (USD Hedged)	▲			N			Global central banks cautiously eyeing rate cuts as inflation and growth continue to slow. Yields look attractive on a USD-hedged basis.
BONDS	U.S. Treasury Long			U				Longer term yields biased higher on increased supply, resilient growth, and stickier inflationary backdrop.
BONDS	Inflation-Linked					O		Sector offers a hedge should inflation settle at, or move higher, than current levels, especially with rising commodity prices and continued upward pressure on inflation from housing and services.
BONDS	Global High Yield					O		Attractive absolute yield levels remain supportive, but tight spreads may be reflecting too optimistic of a backdrop. Default rates likely to rise to historical long-term averages although much appears to be priced in.
BONDS	Floating Rate Loans					O		Yields could remain elevated for longer on less aggressive Fed cut expectations and spreads remain attractive, although default rates are expected to rise.
BONDS	Private Credit				N			Offers attractive yields relative to public market credit. While higher-for-longer rates could support near-term returns, they are a potential headwind to borrowers facing refinancing. Elevated rates and moderating economic growth highlight the importance of credit underwriting.
BONDS	EM Dollar Sovereigns					O		Yields still look modestly attractive. With central banks embarking on easing cycles and inflation continuing to moderate, EM bonds may benefit.
BONDS	EM Local Currency					O		Central bank easing and lower inflation could be tailwinds, but a higher-for-longer Fed could sustain dollar strength.

[1] For pairwise decisions in style & market capitalization, positioning within boxes represent positioning in the first mentioned asset class relative to the second asset class.

The asset classes across the equity and fixed income markets shown are represented in our Multi-Asset portfolios. Certain style & market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.

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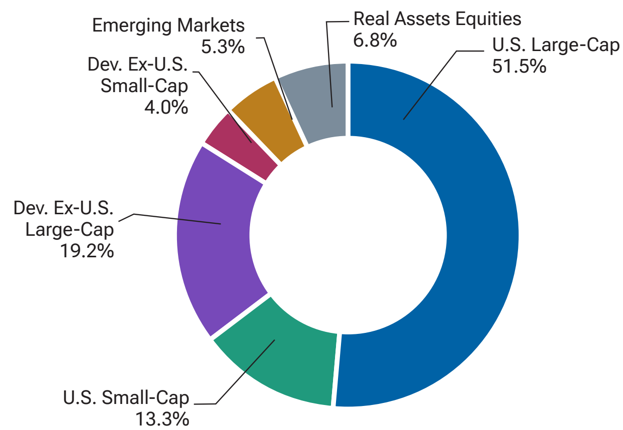
6 Portfolio Implementation

As of 30 April 2024

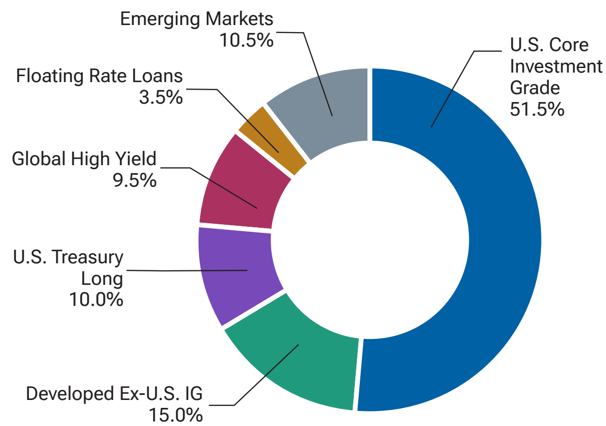
Equity	Neutral Weight	Tactical Weight	Relative Weight
U.S. Large-Cap	52.5%	51.5%	-1.0%
U.S. Small-Cap[1]	13.5	13.3	-0.2
Dev. Ex-U.S. Large-Cap	21.0	19.2	-1.8
Dev. Ex-U.S. Small-Cap	4.0	4.0	0.0
Emerging Markets	4.0	5.3	+1.3
Real Assets Equities	5.0	6.8	+1.8
Total Equity:	**100.0%**	**100.0%**	

Tactical Allocation Weights



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
U.S. Core Investment Grade	55.0%	51.5%	-3.5%
Developed Ex-U.S. IG (Hedged)	15.0	15.0	0.0
U.S. Treasury Long	10.0	10.0	0.0
Global High Yield	7.0	9.5	+2.5
Floating Rate Loans	3.0	3.5	+0.5
Emerging Markets - (Local/Hard Currency)	10.0	10.5	+0.5
Total Fixed Income:	**100.0%**	**100.0%**	

Tactical Allocation Weights



[1] U.S. small-cap includes both small- and mid-cap allocations.

Source: T. Rowe Price. Unless otherwise stated, all market data are sourced from FactSet. Copyright 2024 FactSet. All Rights Reserved.

These are subject to change without further notice. Figures may not total due to rounding.

Neutral equity portfolio weights representative of a U.S.-biased portfolio with a 70% U.S. and 30% international allocation; includes allocation to real assets equities. Core fixed income allocation representative of U.S.-biased portfolio with 55% allocation to U.S. investment grade.

IMPORTANT INFORMATION