T.RowePrice

Global Asset Allocation Viewpoints

December 2024

1 Market Perspective

As of 30 November 2024

- While global growth remains broadly resilient, with inflation trending lower, paths forward may vary as policy impacts create divergence.
- U.S. growth expectations higher on the back of pro-growth policy hopes, while inflation remains moderately above target. European and Japanese growth remain soft. Chinese policy expected to remain supportive to bolster growth.
- U.S. Fed easing to lag other central banks amid better growth backdrop, while ECB likely to act faster amid economy facing weaker growth and lower inflation. The BoJ anticipated to remain on its divergent path, with incoming inflation data supporting further hikes.
- Key risks to global markets include elevated geopolitical tensions, central bank policy missteps, and uncertainty around trade policies leading to a reacceleration in inflation or hampering of growth.

2 Portfolio Positioning

As of 30 November 2024

- We have a modest risk-on stance through our overweight to stocks versus bonds.
- Despite broadly elevated equity valuations, we find opportunities in a widening market, supported by easing monetary policy, resilient growth, while bonds remain vulnerable to higher rates.
- Within equities, we favor more cyclical, value-oriented areas of the market as we expect a broadening of participation away from mega-cap technology companies.
- We maintain an overweight to cash relative to bonds. Cash yields remain attractive even as the Fed embarks on easing as we expect a more gradual path.
- While valuations are stretched, we continue to favor credit within fixed income, given still solid fundamentals and attractive yield levels.

3 Market Themes

As of 30 November 2024

Here Comes Santa Pause

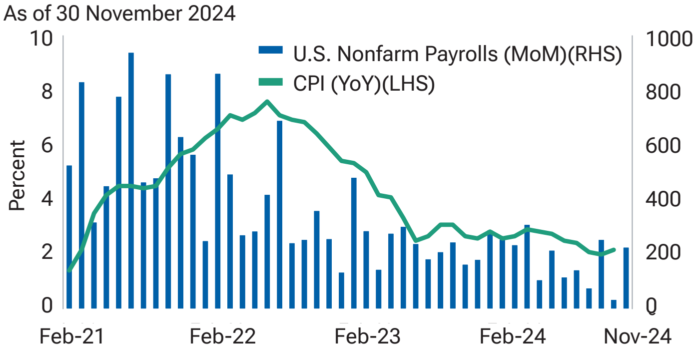
The resiliency of economic growth and rising expectations for pro-growth policies seem to be having an impact on Fed policymakers. Chairman Powell and other Fed members' recent comments have been notably more upbeat, highlighting the strength of the economy and labor markets, as inflation moves closer to target calling into question how many more cuts are really needed. While we expect an additional cut this month, it seems likely they take a "wait and see" approach from here amid heightened policy uncertainty, some of which could reignite inflation. And while expectations of this easing cycle have moved dramatically up and down over the past few years given the mixed data, its unlikely to get any clearer anytime soon. So while some investors may be disappointed if they get a pause in their stocking this holiday, they may really not like what ultimately could come at the end of it–a potential hike?

Joy to the World?

As we enter the new year, consensus is even stronger that U.S. economic and market exceptionalism will continue their dominance. U.S. election results have fueled that view as pro-growth policies are expected to boost the domestic economy, while the rest of the world may face headwinds from U.S. trade policies and a stronger dollar. This comes on top of several factors which have been holding back markets outside the U.S. including weaker growth, political instability, regional wars, demographics, and fiscal consolidation to name a few. But what if all that is going against these markets just happens to not be as dire next year? While amid the current policy uncertainty it is hard to weigh the risk, relative valuations are on their side, and consensus seems extremely bearish, which if things do show some signs of improvement could quickly bring some joy to world equities beyond the U.S. for a change.

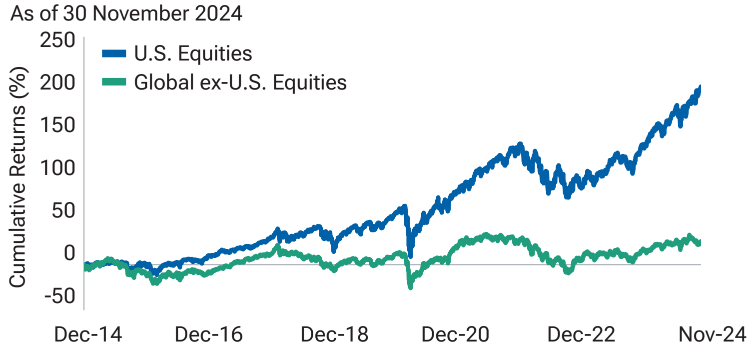
Who Needs a Rate Cut?

As of 30 November 2024



Due for Reversal[1]

As of 30 November 2024



Past performance is not a reliable indicator of future performance.

Source: Bloomberg Finance L.P., S&P and MSCI. Please see Additional Disclosures for more information.

[1] U.S. Equities are represented by the S&P 500 Index. Global ex-U.S. Equities are represented by the MSCI ACWI ex-U.S. Index.

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4 Regional Backdrop

As of 30 November 2024

	Views	Positives	Negatives
United States	N	▪ Resilient corporate earnings ▪ Fed cutting rates ▪ Potential for deregulation and lower corporate taxes	▪ Stock valuations have become challenging ▪ Credit trends are weakening ▪ Political uncertainty is heightened
Canada	N	▪ Monetary policy expected to ease further ▪ Inflation has moderated ▪ Wage growth has moderated to sustainable levels	▪ Unemployment is still rising ▪ Consumer debt levels remain a concern ▪ Equity valuations are elevated
Europe	U	▪ Monetary policy expected to ease further ▪ Unemployment remains low ▪ Valuations are reasonable	▪ Economic growth remains weak ▪ Geopolitical uncertainty is heightened ▪ Earnings growth is structurally weak
United Kingdom	N	▪ Monetary policy expected to ease further ▪ Inflation has moderated ▪ Economic outlook is improving	▪ Fiscal consolidation may need to be accelerated ▪ Earnings growth is structurally weak, with minimal tailwinds from innovative technologies
Japan	O	▪ Reflationary environment continues ▪ Corporate governance improvements continues ▪ Valuations are supportive	▪ Political instability is impacting foreign investment flows ▪ BoJ will maintain a hawkish bias due to strong wage growth ▪ Manufacturing indicators are weak due to a drop in global demand
Australia	U	▪ China stimulus has buoyed commodity prices ▪ Fiscal stimulus has provided much needed support ▪ The Australian dollar should strengthen	▪ Monetary easing is on hold ▪ Valuations are elevated despite earnings weakness ▪ Margins are at risks due to elevated wage growth
Emerging Markets	O	▪ Further stimulus efforts from China are likely ▪ Monetary policy is loosening in many emerging markets ▪ Valuations are attractive	▪ Export demand from developed markets remains muted ▪ Geopolitical risks are rising ▪ U.S. tariffs could provide an additional headwind to global trade

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.

5 Asset Allocation Committee Positioning

As of 30 November 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		We see potential for earnings growth broadening as key central banks continue to cut rates, although valuations increasingly stretched. AI adoption, geopolitics, and diverging economic growth trajectories complicate the landscape.
Bonds		U				Yields remain elevated on resilient growth. Moderating inflation and further central bank easing could bias yields lower from here. Credit fundamentals remain supportive; however, spreads remain tight.
Cash				O		Despite recent shift downward on the back of Fed easing, cash still provides attractive yields and offers liquidity should market opportunities arise.
EQUITIES						
Regions						
U.S.			N			Monetary policy easing, trends towards greater deregulation, and removal of election uncertainty could stimulate broader economic activity. Technology and pharmaceutical innovation also remain key differentiators, although valuations are elevated.
Global Ex-U.S.			N			Valuations are attractive on a relative basis and dividend yields compelling. Easing central bank policies and Chinese stimulus provide incremental support but geopolitical and trade policy uncertainty pose challenges.
Emerging Markets (EM)				O		Valuations are attractive and China has signaled a willingness to provide significant support to its economy, however, the ultimate impact remains unclear.
Style & Market Capitalization						
U.S. Growth vs. Value[1]		U				Easing monetary policy and deregulation is likely to be supportive of rate and cyclically sensitive sectors and could lead to broadening of earnings. Meanwhile growth stocks face challenging valuations.
Global Ex-U.S. Growth vs. Value[1]		U				Value stocks are cheap and could benefit from improving financial conditions. Growth stocks' valuations are more expensive and face headwinds from structural consumer weakness in emerging markets.
U.S. Small vs. Large-Cap[1]			N			Small-caps could benefit from deregulation, stronger M&A activity, and accelerating domestic economic growth. However, higher-for-longer rate environment will be a challenge.
Global Ex-U.S. Small vs. Large-Cap[1]				O		Monetary easing, lower inflation, and less exposure to trade policy could provide tailwinds with still very attractive valuations.
Inflation-Sensitive						
Real Assets Equities				O		Commodity-related equities offer protection against a resurgence in inflation. Peaking benefits from productivity advancements could lead to higher oil prices, while some industrial metals could see increased demand from AI spending and decarbonization.
BONDS						
U.S. Investment Grade (IG)		U				Yield curve likely to steepen as longer rates biased higher and short rates lower with Fed easing. Within credit, fundamentals supportive, while valuations leave limited upside beyond yields.
Developed Ex-U.S. IG (USD Hedged)			N			Global central banks continuing with rate cutting cycles, with the exception of the BoJ. Yields remain attractive on a hedged basis as dollar has strengthened, but could fade as the Fed continues to cut.
U.S. Treasury Long			N			Longer-term yields remain vulnerable to better growth outlook, possible stickier inflation and increased uncertainty around fiscal outlook.
Inflation-Linked			N			Sector offers a hedge should inflation remain sticky or surprise higher as well as against the risk for any escalation in geopolitics on energy prices or impacts from inflationary policies, including tariffs and immigration in the U.S.
Global High Yield				O		Despite historically tight spreads, fundamentals remain supportive, and default expectations are expected to remain contained.
Floating Rate Loans				O		Less aggressive Fed cutting path should benefit floating rate loans with valuations still attractive and still strong underlying fundamentals, while keeping a cautious eye on liquidity.
Private Credit			N			Despite tight spreads, the sector continues to offer pockets of attractive yields. Economic backdrop uncertainty highlights the importance of credit selection and underwriting.
EM Dollar Sovereigns				O		EM sovereign valuations are relatively attractive. Constructive backdrop with central bank easing, however, trade policy and path of U.S. dollar add uncertainty.
EM Local Currency				O		Central bank easing could provide a tailwind, while U.S. dollar strength poses a headwind.

[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.

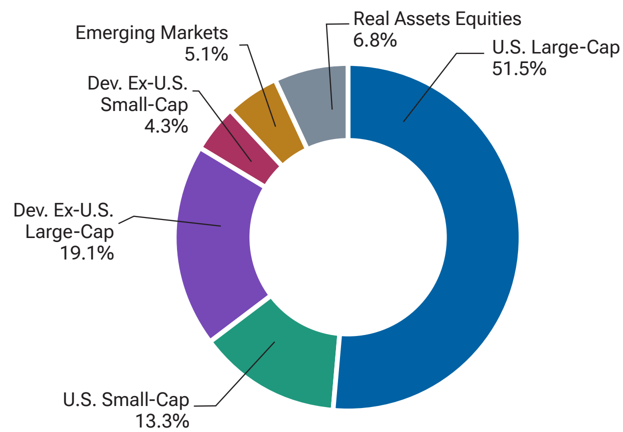
The asset classes across the equity and fixed income markets shown are represented in our Multi-Asset portfolios. Certain style & market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.

6 Portfolio Implementation

As of 30 November 2024

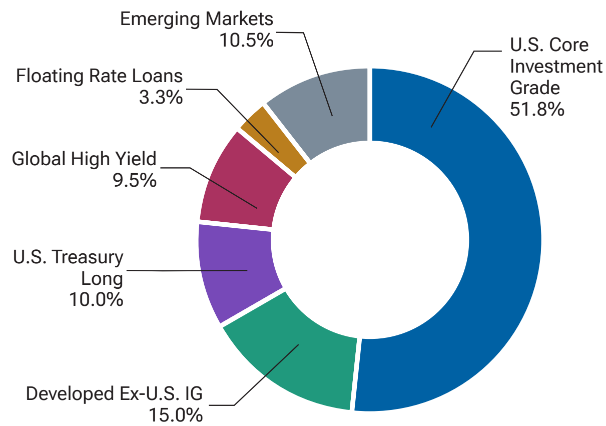
Equity	Neutral Weight	Tactical Weight	Relative Weight
U.S. Large-Cap	52.5%	51.5%	-1.0%
U.S. Small-Cap[1]	13.5	13.3	-0.2
Dev. Ex-U.S. Large-Cap	21.0	19.1	-1.9
Dev. Ex-U.S. Small-Cap	4.0	4.3	+0.3
Emerging Markets	4.0	5.1	+1.1
Real Assets Equities	5.0	6.8	+1.8
Total Equity:	**100.0%**	**100.0%**	

Tactical Allocation Weights



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
U.S. Core Investment Grade	55.0%	51.8%	-3.3%
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	3.3	+0.3
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.

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