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APRIL 2021

GLOBAL ASSET ALLOCATION VIEWPOINTS AND INVESTMENT ENVIRONMENT

1 MARKET PERSPECTIVE As of 31 March 2021

- Global economic growth expected to accelerate particularly in the back half of the year as reopenings unleash pent-up demand, while still supported by accommodative monetary policies and additional fiscal spending particularly in the U.S.
- Global inflation expectations likely to trend higher as growth accelerates, supported by stronger commodities and central bankers allowing higher inflation in favor of sustained labor market recovery.
- Asian and European economies may benefit more amid the recovery given higher cyclical exposure relative to the U.S., although aggressive fiscal spending in the U.S. could provide a tailwind.
- Key risks to global markets include the pace of vaccinations, coronavirus mutations, potential for higher taxes as countries pivot to funding recovery costs and geopolitical concerns.

2 PORTFOLIO POSITIONING As of 31 March 2021

- We shifted to a modest underweight to equities relative to bonds and cash as the risk/reward profile of equities looks less attractive after a strong multiple-driven rebound since last March's lows.
- Within fixed income, we favor less interest rate- and more inflation-sensitive sectors when possible. We use cash and unconstrained bond strategies to diversify the portfolio.
- Within equities, we are further tilting into value based on more attractive relative valuations and continued improvement in economic data, bolstered by fiscal stimulus in the U.S. and higher interest rates.
- We moderated our overweight to small-cap stocks following a 100%+ return since the lows of last March; while smaller companies may continue to benefit from aggressive fiscal and consumer spending, valuations in some sectors are getting rich.

3 MARKET THEMES As of 31 March 2021

Closing the Gap

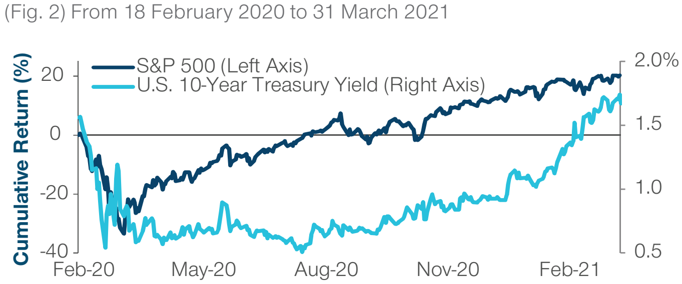
As investors grew more optimistic late last year about the global economic recovery, small-cap stocks took off with a parabolic snapback, up over 100% since the lows of last March. While smaller companies tend to lead early in an economic recovery given their higher sensitivity to growth, the fast and furious pace of performance stands out. Meanwhile, cyclically oriented value stocks, which are also highly reliant on the trajectory of economic growth, have just begun to make up ground from the sell-off. While smaller companies may continue to benefit from reopening and stimulus in the U.S., a lot of the outperformance may be behind small-caps, while value stocks are likely to continue to benefit from the recovery, stimulus, higher rates, and the potential for infrastructure spending. After nearly a decade of underperformance, perhaps this cyclical rally may be enough for value to close the gap versus growth stocks.

Reason to Worry?

Equity markets are riding higher on unwavering optimism, which have driven the S&P 500 up over 20% above its pre-COVID-19 levels. Despite higher valuations, bouts of risk, and pockets of froth in the market—such as in bitcoin, home prices, and special purpose acquisition companies—investors appear to have little concern. Perhaps there is no alternative to investing in equities with bond yields on the rise, but it's hard to ignore events such as the retail investor GameStop short squeeze and enormous losses at Archegos Capital, a large private family office, which may have historically shaken the confidence of equity investors. While recent bad news is largely viewed as idiosyncratic, market valuations continue to get more extended, and the risk of one of these events sparking a more systemic sell-off could increase. But perhaps the systemic risk is already here, with the threat of even higher rates, inflation, and now taxes.

Small-cap & Value Relative Performance[1]
(Fig. 1) From 23 March 2020 to 31 March 2021

S&P 500 & U.S. 10-Year Treasury Yield
(Fig. 2) From 18 February 2020 to 31 March 2021



Past performance is not a reliable indicator of future performance.

[1] Small-cap represented by Russell 2000 Index. Large-cap represented by Russell 1000 Index. Value represented by Russell 1000 Value Index. Growth represented by Russell 1000 Growth Index.
Sources: Standard & Poor's, Bloomberg Finance L.P., Russell, London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). T. Rowe Price calculations using data from FactSet Research Systems Inc. All rights reserved. See additional disclosures on final page for more information.

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4 REGIONAL BACKDROP

As of 31 March 2021

	Positives	Negatives
United States	■ More fiscal support on the way ■ Pace of vaccinations has been strong ■ Monetary policy remains very accommodative ■ Healthy consumer balance sheets and high savings rate	■ Elevated stock and bond valuations ■ Corporate and government debt at high levels ■ Corporate taxes likely to rise ■ Unemployment remains elevated
Europe	■ Higher exposure to more cyclically oriented sectors that should benefit from economic recovery ■ Monetary and fiscal policy remain accommodative ■ Equity valuations remain attractive to the U.S. ■ Stronger long-term euro outlook	■ Lockdowns back on due to third wave of COVID-19 ■ Vaccination effort facing supply shortages ■ Limited long-term catalysts for growth ■ Limited scope for European Central Bank to stimulate further ■ Brexit likely to negatively impact trade
China	■ Economic growth remains solid, supported by strong exports and a rebound in domestic consumption. Earnings rebound should likely follow through. ■ Policy targets (i.e., growth and fiscal deficit) allow for some flexibility in the path to normalization ■ Demand for Chinese assets should likely attract inflows this year, adding pressure to bond yields and supporting the RMB	■ Early signs of inflationary pressures and supply bottlenecks are concerning ■ Policymakers made clear statements that they want to avoid asset bubbles in the stock market and property sector ■ Valuations and sentiment indicators are headwinds to the equity markets
Japan	■ Leading economic indicators are finally breaking through the expansion levels. The recovery should likely accelerate in upcoming months. ■ Domestic stocks are a global reflation play, with positive correlations to PMIs and bond yields ■ Earnings revision ratios are close to record levels. A weaker JPY doesn't hurt.	■ Price momentum in equity markets is calling for a pause in the appreciation trend in the near term ■ COVID-19 vaccines are being administered late relative to other countries, while the pandemic is still not yet under control ■ Bank of Japan dropped the annual ETF buying target, causing some concerns regarding its faculty to remain the buyer of last resort
Australia	■ The economy is roaring, evidenced by a broad range of indicators on business activity, consumer spending and employment ■ Earnings are following through, benefitting from high commodity prices and record low yields ■ The central bank was extremely dovish, indicating any policy normalization may be a long way off	■ Early signs of inflationary pressures seen in the housing and construction markets ■ Yields have risen, challenging the central bank's policies. The valuation gap between stocks and bonds is not as attractive anymore. ■ Although the AUD's recent weakening trend supports an earnings recovery, it is also at odds with strength in the economy. Is it an early sign of the domestic recovery peaking?
Emerging Markets	■ Exposure to cyclical areas of economy should benefit from broad global recovery ■ Commodity prices rising ■ Chinese economy remains strong ■ Equity valuations attractive relative to developed markets	■ Stimulus from China likely to fade going forward ■ Limited ability to enact fiscal stimulus (excluding China) ■ Vaccine supply and distribution infrastructure are well behind developed markets ■ Inflationary pressures are rising in some countries

5 ASSET ALLOCATION COMMITTEE POSITIONING

As of 31 March 2021

▼ or ▲ Month-Over-Month Change

These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.

		Change	Underweight	Underweight	Neutral	Overweight	Overweight	
ASSET CLASS	Equities	▼		■				As the market has priced in a strong recovery in earnings and strengthening economic outlook, valuations have become stretched and challenged by higher rates.
	Bonds	▲				■		Yields becoming more attractive, but steepening curve will challenge intermediate- and longer-term rates. Positive economic backdrop should continue to be supportive for credit sectors. Short-term yields remain anchored by central bank policies.
EQUITIES	*Regions*							
	U.S.			■				Defensive, growth-oriented profile less supportive as cyclical sectors should benefit from improving 2021 outlook. Stimulus and reopening provide a catalyst for earnings growth, but valuations remain elevated.
	Global Ex-U.S.					■		Procyclical sector profile and attractive relative valuation amid improving global growth and higher rates. Aggressive stimulus measures and pent-up demand provide strong tailwinds.
	Europe			■				Cyclically oriented sector profile and low valuations among financials are supportive. However, long-term catalysts are scarce while renewed lockdowns and vaccine supply issues remain problematic.
	Japan					■		Improving global trade outlook is a key driver. Refocus on reform efforts remains an important catalyst for improving productivity and attracting foreign capital.
	Emerging Markets (EM)					■		Exposure to global trade and rising commodity prices offer strong tailwinds. However, fading Chinese stimulus and limited vaccine supply and distribution pose challenges.
	Style & Market Capitalization							
	U.S. Growth vs. Value[1]	▼		■				Growth remains vulnerable to extended valuations, narrow leadership, and rising rates. Cyclical orientation of value could benefit from pent-up demand, economic improvement, further fiscal stimulus, and higher rates.
	Global Ex-U.S. Growth vs. Value[1]	▼		■				Deep cyclical orientation of value stocks combined with attractive relative valuations and rising rates could be catalysts for further rotation out of growth. Vaccine supply constraints and renewed lockdowns are sources of uncertainty.
	U.S. Small vs. Large-Cap[1]	▼				■		Small-caps outperformed large-caps in cyclical recovery as smaller companies should still benefit most from unleashed pent-up demand and fiscal stimulus. However, valuations within small-cap growth have become challenging.
	Global Ex-U.S. Small vs. Large-Cap[1]				■			Early-cycle exposure remains supportive for small-caps, and idiosyncratic opportunities are plentiful. Meanwhile, steeper yield curve and improving global economic outlook should benefit large-caps given cyclical orientation and exposure to international trade.
	Inflation-Sensitive							
	Real Assets Equities			■				Potential for increased demand continues to buoy commodity prices. Outlook and valuation for real estate are attractive despite rising rates in environment of improving growth and constrained supply.
BONDS	U.S. Investment Grade (IG)	▼		■				Improving economic growth and further fiscal stimulus could place upward pressure on yields, but are not likely to lead to an overtightening of financial conditions. IG corporate valuations less compelling after rally.
	Developed Ex-U.S. IG (Hedged)	▼				■		Short-term yields remain anchored by central banks' policies, while longer-term rates biased higher on improving global growth. Hedged yield advantage less pronounced with narrower short-term interest rate differential.
	U.S. Treasury Long		■					Longer-duration bonds remain vulnerable to a steepening yield curve as growth improves and inflation expectations increase.
	Inflation-Linked	▲				■		Continued improving growth outlook, additional fiscal stimulus, and dovish Fed could bias inflation expectations higher.
	Global High Yield					■		Valuations less compelling, but relative yields remain attractive. Fundamentals broadly supportive on improving growth environment.
	Floating Rate Loans	▲				■		Relative valuations and credit fundamentals remain favorable, and sector should benefit from shorter-duration profile, continued demand, and higher standing in the capital structure.
	EM Dollar Sovereigns				■			Sector offers attractive yield versus developed markets, but less compelling given idiosyncratic risks. Concerns around capacity for additional fiscal support and vaccine distribution remain.
	EM Local Currency	▼				■		Valuations remain modestly attractive but less favorable risk/reward in context of higher U.S. rates and some EM central banks beginning to raise interest rates.

[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.

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ADDITIONAL DISCLOSURES

Certain numbers in this report may not equal stated totals due to rounding.

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