T.RowePrice®
INVEST WITH CONFIDENCE

MAY 2021

GLOBAL ASSET ALLOCATION VIEWPOINTS AND INVESTMENT ENVIRONMENT

1 MARKET PERSPECTIVE As of 30 April 2021

- Global economic growth is expected to begin peaking in the coming quarters as the impacts of economic reopening and fiscal stimulus are realized.
- Global inflation expectations are expected to trend higher as the consumer demand surge is met with signs of supply shortages, and as the Fed promises to keep a zero interest rate policy until the labor market rebounds.
- Asian and European economies should benefit amid the recovery given their higher cyclical exposures, although recent resurgence in coronavirus cases in major Asian economies is a growing concern.
- Key risks to global markets include the resurgence in coronavirus cases, pace of vaccinations, geopolitical concerns, and potential for higher taxes as countries pivot to funding recovery costs.

2 PORTFOLIO POSITIONING As of 30 April 2021

- We increased our underweight in equities relative to bonds and cash as the risk/reward profile looks less compelling for equities after a strong rebound from March 2020 lows. Equities could be vulnerable to potential setbacks in the recovery, fading policy support, and higher taxes.
- Within fixed income we increased our allocation to short-term Treasury Inflation Protected Securities (TIPS) and cash. We continue to favor more interest rate and inflation-sensitive sectors, such as floating rate loans and short-term TIPS.
- Within equities, we are further tilting into value globally, based on more attractive relative valuations and expectations for cyclical companies to continue to benefit from the improvement in growth from a recovering global economy—bolstered by fiscal stimulus in the U.S., increasing commodity prices, and higher interest rates.

3 MARKET THEMES As of 30 April 2021

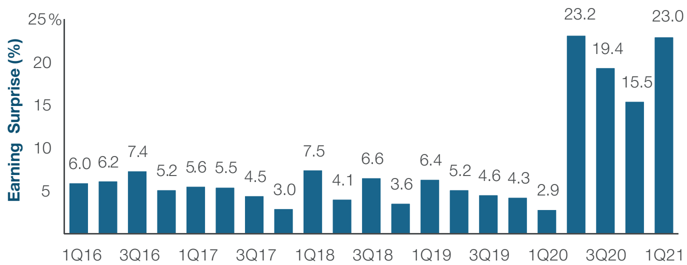
Surprise!

As first-quarter earnings season comes to an end, the biggest surprise has been the "surprises" themselves, in terms of how much companies have beat earnings expectations. First-quarter expectations were for a near-20% increase in S&P 500 earnings, but companies have blown past that estimate, approaching a 45% year-over-year gain. Ironically, this was not the first quarter for massive surprises as companies have significantly exceeded expectations throughout most of the pandemic, particularly as many technology companies benefited exponentially early on from the lockdowns. The surprises this quarter, however, have been led by more cyclical companies in the energy and consumer discretionary sectors. While seemingly all positive news, price reaction to earnings beats was muted this quarter, suggesting investors may be rationalizing high valuations with a normalization in future earnings or perhaps the mounting pressure from rising input costs.

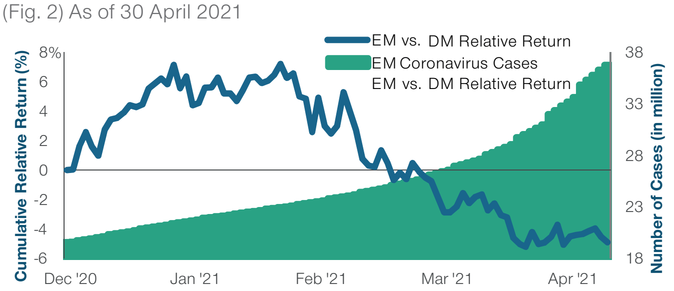
Cross Currents

A renewed surge in coronavirus cases across several emerging markets (EM) countries—including India, Brazil, and Argentina—is weighing heavily on these economies as they struggle with insufficient medical infrastructure and access to vaccines. In addition, higher interest rates, rising inflation, a strengthening U.S. dollar, and moderating growth in China have investors concerned about emerging markets prospects. Emerging markets have lagged developed markets year-to-date and with much of the economic recovery appearing priced into many developed markets, emerging markets may have more room to advance as the global recovery takes hold. With commodity prices still on the rise, expectations for a weaker U.S. dollar, and a continued dovish stance from the Fed, we think emerging markets may be in a strong position to rebound—assuming that they can navigate the cross currents.

S&P 500 Earnings Surprises[1]
(Fig. 1) As of 30 April 2021



EM vs. DM Relative Return & EM Coronavirus Cases[2]
(Fig. 2) As of 30 April 2021



Past performance is not a reliable indicator of future performance.
[1] Earnings surprises represent the aggregate percentage that S&P 500 reported quarterly earnings which have exceeded expectations as of the close of the quarter.
[2] EM Coronavirus Cases represented by cases in India, Brazil, Argentina. EM vs DM Relative Return represented by MSCI Emerging Markets Index and MSCI World Index respectively.
Sources: Standard & Poor's, MSCI, T. Rowe Price calculations using data from FactSet Research Systems Inc. All rights reserved. See additional disclosures on fi nal page for more information.

Only For Investment Professionals Eligible To Access the T. Rowe Price Asia Regional Institutional Website.

4 REGIONAL BACKDROP

As of 30 April 2021

	Positives	Negatives
United States	■ Pace of vaccinations has been strong ■ Monetary policy remains very accommodative ■ More fiscal support on the way ■ Healthy consumer balance sheets and high savings rate	■ Elevated stock and bond valuations ■ High corporate and government debt levels ■ Corporate taxes likely to rise ■ Unemployment remains elevated
Europe	■ Higher exposure to more cyclically oriented sectors that should benefit from economic recovery ■ Lockdowns are being lifted in most countries ■ Monetary and fiscal policy remain accommodative ■ Equity valuations remain attractive relative to the U.S. ■ Stronger long-term euro outlook	■ 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, with domestic consumption progressively replacing industrial production as the main driver ■ Earnings rebound should likely follow through, favoring Value companies for now ■ Policy targets (i.e., growth and fiscal deficit) allow for some flexibility in the path to normalization	■ Early signs of inflationary pressures and supply bottlenecks are concerning. Economic momentum might have peaked in Q1. ■ Policymakers' focus on deleveraging the economy creates some concerns for certain companies. Not a systemic risk though. ■ Capital outflows put pressure on the currency and bond prices
Japan	■ Leading economic indicators are breaking through the expansion levels. Employment and retail sales data are surprising on the upside. ■ Domestic stocks are a global reflation play, with positive correlations to PMIs and bond yields ■ Earnings revision ratios are close to record levels.	■ COVID-19 vaccines are being administered late relative to other countries, while the pandemic is still not yet under control ■ JPY is likely to appreciate from here, which is seen as a headwind for exporters ■ Uncertainty regarding the leadership of Prime Minister Yoshihide Suga with elections set by the fall
Australia	■ Economic data continue to beat multi-decade records, like business conditions and companies' profitability ■ Earnings are following through, leading to renewed capital expenditures investments ■ The central bank remains extremely dovish, indicating any policy normalization may be a long way off	■ Early signs of inflationary pressures seen in the housing and construction markets. There have been mentions of a housing bubble in some reports. ■ Central bank might change its policy guidance abruptly as it upgrades the economic forecasts. Beware of a U-turn for financial conditions. ■ Slow COVID-19 vaccine rollout is a concern as the winter season approaches
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	■ Very concerning coronavirus outbreak in India ■ Vaccine supply and distribution infrastructure are well behind developed markets ■ Stimulus from China likely to fade going forward ■ Limited ability to enact fiscal stimulus (excluding China)

5 ASSET ALLOCATION COMMITTEE POSITIONING

As of 30 April 2021

▼ or ▲ Month-Over-Month Change

		Change			*Neutral*			**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	▼		■				Strong economic and earnings growth supportive, but elevated valuations leave little room for upside and could be vulnerable to potential setbacks in recovery, higher rates, fading policy support, and tax increases.
ASSET CLASS	Bonds	▲				■		Despite higher yields, bonds remain vulnerable to rising inflation expectations and growth trajectory. Positive economic backdrop should continue to be supportive for credit sectors, but upside limited at current valuations.
EQUITIES	*Regions*							
EQUITIES	U.S.			■				Elevated valuations reflecting strong recovery and earnings rebound. Rising rates and taxes could be headwinds. Defensive, growth-oriented profile less supportive as cyclical sectors should benefit from improving macro backdrop.
EQUITIES	Global Ex-U.S.					■		Pro-cyclical sector profile and attractive relative valuation amid improving global growth and higher rates. Aggressive stimulus measures and pent-up demand provide strong tailwinds.
EQUITIES	Europe			■				Cyclically oriented sector profile and low valuations among financials are supportive. However, long-term catalysts are scarce, and concerns remain around vaccine rollout.
EQUITIES	Japan					■		Improving global trade outlook is a key driver. Refocus on reform efforts remains an important catalyst for improving productivity and attracting foreign capital.
EQUITIES	Emerging Markets (EM)					■		Exposure to global trade and rising commodity prices offer strong tailwinds. However, fading Chinese stimulus and mutation-driven outbreak in India pose challenges.
EQUITIES	*Style & Market Capitalization*							
EQUITIES	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, and further fiscal stimulus. Higher rates also supportive due to heavy financials exposure.
EQUITIES	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 outbreak in India are sources of uncertainty.
EQUITIES	U.S. Small vs. Large-Cap[1]					■		Small-caps have 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.
EQUITIES	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.
EQUITIES	*Inflation-Sensitive*							
EQUITIES	Real Assets Equities			■				Unleashed pent-up demand continues to buoy commodity prices. Outlook and valuation for real estate 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 not likely to lead to an overtightening of financial conditions. Tight spreads leave IG corporate valuations less compelling.
BONDS	Developed Ex-U.S. IG (Hedged)					■		Short rates anchored by central banks' policies, while longer rates biased higher along with currencies relative to the U.S. dollar on improving growth outlook. Hedged yield advantage less pronounced with narrower short-term interest rate differential.
BONDS	U.S. Treasury Long		■					Longer-duration bonds remain vulnerable to a steepening yield curve as growth improves and inflation expectations remain elevated.
BONDS	Inflation-Linked	▲				■		Improving growth, supportive policies, and unleashed pent-up demand amid supply shortages could bias inflation expectations higher.
BONDS	Global High Yield					■		Limited upside potential from elevated valuations, relative yields still attractive versus alternatives within fixed income. Fundamentals broadly supportive on improving growth and commodity rebound.
BONDS	Floating Rate Loans					■		Relative valuations and credit fundamentals remain favorable, and sector should benefit from shorter-duration profile with optionality should rates rise, improving technical backdrop and higher standing in the capital structure.
BONDS	EM Dollar Sovereigns				■			Sector offers attractive yield versus developed markets with improving growth broadly supportive; however, vulnerabilities across countries vary given acceleration in coronavirus spread, rising inflation, and susceptibility to rising rates.
BONDS	EM Local Currency					■		Valuations remain modestly attractive; improving macro backdrop and weaker U.S. dollar could provide tailwinds. Higher U.S. rates and EM central bank rate hikes could be 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.

REGIONAL MULTI-ASSET TEAM REPRESENTATIVES

Thomas Poullaouec
Head of Multi-Asset Solutions APAC

Wenting Shen
Multi-Asset Solutions Strategist

Hajime Takigawa
Multi-Asset Solutions Strategist

ADDITIONAL DISCLOSURES

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

Source: Unless otherwise stated, all market data are sourced from FactSet. Financial data and analytics provider FactSet. Copyright 2021 FactSet. All Rights Reserved.
Source: MSCI. MSCI and its affiliates and third party sources and providers (collectively, "MSCI") makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. Historical MSCI data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.
The "S&P 500 Index" is a product of S&P Dow Jones Indices LLC, a division of S&P Global, or its affiliates ("SPDJI") and has been licensed for use by T. Rowe Price. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). This product is not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P or their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the S&P 500 Index.

Important Information

This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

It is not intended for distribution to retail investors in any jurisdiction.

This material is only for investment professionals that are eligible to access the T. Rowe Price Asia Regional Institutional Website. Not for further distribution.

202105-1661529
APAC-PAN-2127
ID0004283