T. Rowe Price®
INVEST WITH CONFIDENCE

Global Asset Allocation: The View From Europe

April 2021

1 Market Perspective

As of 31 March 2021

- The rollout of vaccines is likely to lead to easing lockdowns, continued economic recovery and release of pent-up demand. However, the recovery may be uneven and choppy because of concerns about virus variants, the economy overheating, rising inflation—particularly in the US—and elevated valuations of most risk assets.
- Monetary policy is likely to remain supportive, as is fiscal stimulus. These two combined should help provide a bridge between lockdowns and economic reopening.
- Inflationary pressures as well as more positive views on the economic recovery are leading to higher government bond yields.

2 Portfolio Positioning

- 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.
- As we sell stocks, we continue to lean into value versus growth. The valuation case for small-caps is not as strong as for value. Hence, we reduced the small-cap exposure.
- The euro is at an attractive valuation relative to the US dollar. The vaccine situation in the EU will likely turn around in mid- to late April. This should support a stronger euro medium term, but the path is likely to be bumpy.

3 Market Themes

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 US, 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?

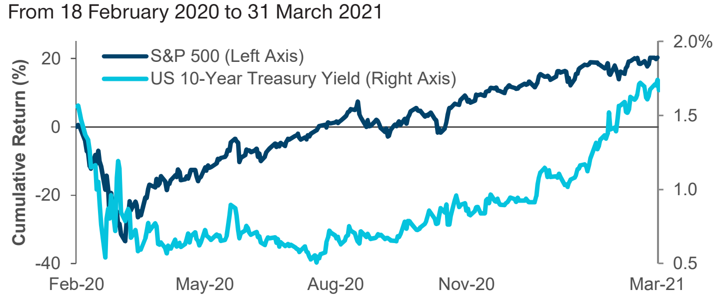
Equity markets are riding higher on unwavering optimism, which has driven the S&P 500 up over 20% above its pre-COVID-19 levels. Despite higher valuations, bouts of risk and pockets of froth in the market—such as in bitcoin, home prices and special purpose acquisition companies—investors appear to have 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 and Value Relative Performance[1]

From 23 March 2020 to 31 March 2021

S&P 500 and US 10-Year Treasury Yield

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") (see Additional Disclosures). T. Rowe Price analysis using data from FactSet Research Systems Inc.

	Positives	Negatives
Europe	▪ Higher exposure to more cyclically oriented sectors that should benefit from economic recovery ▪ Monetary and fiscal policy remain accommodative ▪ Equity valuations remain attractive relative to the US ▪ 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 (ECB) to stimulate further ▪ Brexit likely to negatively impact trade
United Kingdom	▪ Rapid vaccination means that the economy could return closer to normal by the autumn, potentially two to three months ahead of eurozone countries ▪ The lockdown exit strategy appears to be firmly on course ▪ The recent Budget provided greater fiscal stimulus focused on the near term ▪ Bank of England appears very hawkish	▪ Brexit transition and third lockdown could slow down the pace of the economic recovery ▪ UK will face significant fiscal consolidation on current plans ▪ Negative rates remain a possibility in case there are any other shocks to growth in the next two years
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

	Positives	Negatives
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 Purchasing Managers' Indexes and bond yields ▪ Earnings revision ratios are close to record levels; a weaker yen 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 exchange-traded fund buying target, causing some concerns regarding its ability to remain the buyer of last resort
Asia Pacific ex-Japan	▪ Chinese economic growth remains solid, supported by strong exports and the potential for domestic consumption to follow through ▪ Demand for Chinese assets is expected to attract significant inflows, adding pressure to bond yields and supporting the renminbi ▪ The Australian economy is roaring, evidenced by a broad range of indicators on business activity, consumer spending and employment ▪ Australia's central bank was extremely dovish, indicating that any policy normalisation may be a long way off	▪ Early signs of inflationary pressures in China and supply bottlenecks are concerning ▪ Chinese policymakers made clear statements that they want to avoid asset bubbles in the stock market and property sector ▪ Early signs of inflationary pressures seen in Australian housing and construction markets ▪ Yields have risen, challenging the Reserve Bank of Australia's policies; valuation gap between stocks and bonds is not as attractive anymore
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

Past performance is not a reliable indicator of future performance.

EUROPEAN INVESTMENT COMMITTEE POSITIONING

As of 31 March 2021

▼ 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 CLASSES	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 be supportive for credit sectors.
	Region							
EQUITIES	US			■				Cyclical sectors should benefit from improving 2021 outlook. Stimulus and reopening provide a catalyst for earnings growth, but valuations remain elevated.
	Europe ex-UK			■				Cyclically oriented sector profile and low valuations among financials are supportive. Scarcity of long-term catalysts, renewed lockdowns and vaccine supply issues remain problematic, however.
	UK					■		Vaccination pace is likely to lead to easing lockdown and strong real activity.
	Japan					■		Improving global trade outlook is a key driver. Refocus on reform efforts remains an important catalyst for improving productivity and attracting foreign capital.
	Developed Asia ex-Japan*				■			Valuations attractive relative to the US. Chinese stimulus and successful containment of virus are supportive. Export- and commodity-driven economies face challenges.
	Emerging Markets					■		Exposure to global trade and rising commodity prices offer strong tailwinds. However, fading Chinese stimulus and limited vaccine supply and distribution pose challenges.
	Style and Market Capitalisation							
	Global Growth vs. Value[1]			■				Cyclical orientation of value stocks and attractive relative valuations could cause a further rotation out of growth. Vaccine constraints and lockdowns are sources of uncertainty.
	Global Small- vs. Large-Cap[1]					■		Early-cycle exposure remains supportive for small-caps, and idiosyncratic opportunities are plentiful. Meanwhile, steeper yield curve and improving economic outlook should benefit large-caps.

Past performance is not a reliable indicator of future performance.

*Includes Australia.

[1] For pairwise decisions in style and market capitalisation, positioning within boxes represents positioning in the first mentioned asset class relative to the second asset class.

EUROPEAN INVESTMENT COMMITTEE POSITIONING

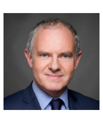
As of 31 March 2021

▼ or ▲ Month-Over-Month Change

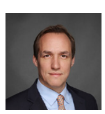
		Change	Underweight	Underweight	Neutral	Overweight	Overweight	**These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.**
FIXED INCOME	Euro Government Bonds		■					Bund yields are likely to rise significantly over the next two to three months. While several countries are extending lockdowns, the EU's vaccination pace should pick up strongly in April.
FIXED INCOME	Euro Inflation Linked					■		Inflation expectations remain benign, but inflation can surprise on the upside.
FIXED INCOME	Euro IG Corporates				■			Market technicals remain supportive, but there are still plenty of uncertainties around corporate fundamentals. Little value at current spreads, though ECB buying is supportive.
FIXED INCOME	US IG Aggregate			■				Scope for rates in Europe to rise more than in the US. However, stronger inflation and economic growth are expected in the US.
FIXED INCOME	Global High Yield					■		Valuations less compelling, but relative yields remain attractive. Fundamentals broadly supportive on improving growth environment.
FIXED INCOME	EM Dollar Sovereigns				■			Sector offers attractive yield versus developed markets, but less compelling given idiosyncratic risks. Concerns around fiscal capacity and vaccine distribution remain.
FIXED INCOME	EM Local Currency					■		Valuations remain modestly attractive but less favourable risk/reward in context of higher US rates and some EM central banks beginning to raise interest rates.
FIXED INCOME	EM Corporates				■			The impact of the pandemic on the asset class is difficult to quantify, but the prospect of normalisation bodes well. Country-specific risks remain elevated.
CURRENCIES	EUR vs. USD	▲				■		Euro is at an attractive valuation relative to the US dollar, but US rate uncertainty remains.
CURRENCIES	EUR vs. JPY			■				The yen remains a safe-haven currency.

Past performance is not a reliable indicator of future performance.

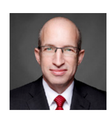
EUROPEAN INVESTMENT COMMITTEE



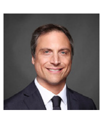
Quentin Fitzsimmons
Senior Portfolio Manager, Fixed Income Division



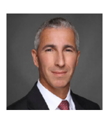
Andrew Keirle
Portfolio Manager, Emerging Markets Local Currency Bonds



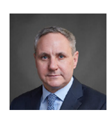
Yoram Lustig
Head of Multi-Asset Solutions, EMEA



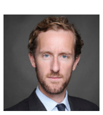
Ken Orchard
Senior Portfolio Manager, Fixed Income Division



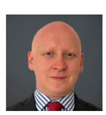
David Stanley
Portfolio Manager, European Corporate Bonds



Toby Thompson
Portfolio Manager, Multi-Asset Division



Mitchell Todd
Co-head of EMEA Equity



Michael Walsh
Solutions Strategist, EMEA

Tomasz Wieladek
International Economist

The specific securities identified and described are for informational purposes only and do not represent recommendations.

INVEST WITH CONFIDENCE℠

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

T.RowePrice®

Additional Disclosures

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.

Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

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.

London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2021. FTSE Russell is a trading name of certain of the LSE Group companies. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

Important Information

This material is being furnished for general informational and/or marketing purposes only. 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.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

EEA ex-UK—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

UK—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

ID0004197 (04/2021)
202104-1599374