T.Rowe Price®
INVEST WITH CONFIDENCE

Global Asset Allocation: The View From Europe

October 2021

1 Market Perspective

- Global economic growth outlook remains favourable, albeit past peak levels, balanced by further progress toward global emergence from coronavirus shutdowns versus fading policy support and supply chain disruptions.
- Global monetary policy is expected to continue its path toward tightening, but central banks are on different trajectories, with some—particularly in emerging markets—having already acted in response to higher inflation while others continue to keep policy on hold awaiting stronger evidence of sustained growth.
- Long-term interest rates could trend higher amid the outlook for above-trend growth and inflation, but upside may be limited as growth and imbalances driving inflation moderate.
- Key risks to global markets include elevated inflation, central bank missteps, slowing China growth, supply chain disruption, increased regulatory pressures, higher taxes and increasing geopolitical concerns.

2 Portfolio Positioning

As of 30 September 2021

- We remain modestly underweight equities relative to bonds and cash as valuations look less compelling amid moderating growth and stimulus. Higher rates, rising input costs related to supply chain bottlenecks, rising energy prices and potential tax increases could pose challenges to the near-term earnings outlook.
- Within equities, we continue to favour value-oriented equities globally, US small-caps and emerging market stocks as we expect cyclically exposed companies to benefit from a supportive global growth profile, coupled with unleashed pent-up demand and inventory rebuilding as supply bottlenecks and coronavirus concerns abate.
- Within fixed income, we continue to favour shorter-duration and higher-yielding sectors through overweights to high yield bonds and emerging market debt given our constructive credit outlook.

3 Market Themes

More Predictably Unpredictable

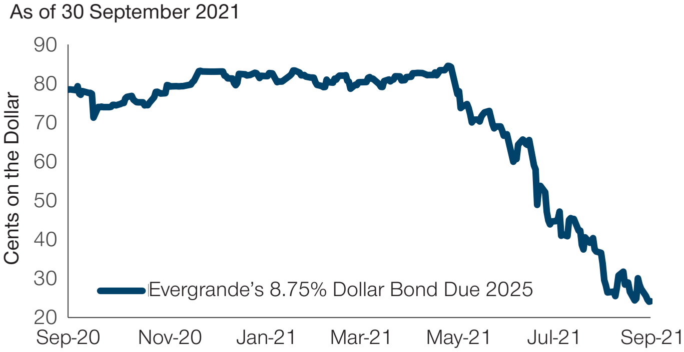
After a crackdown on internet technology and educational companies last month, risks continue to emerge out of China, including the potential fallout in its massive real estate sector following missed debt payments by Evergrande—one of the nation's largest property developers. The focused suite of regulatory actions out of Beijing are driven by efforts to balance wealth inequality and have had far-sweeping impacts on sectors such as technology, education, real estate and health care. At the same time, authorities have started to more aggressively pursue its five-year plan to reduce carbon emissions by limiting coal supply, resulting in power outages and shuttering factory activity leading to supply shortages. The degree of recent actions taken by the Chinese government combined with declining growth estimates is causing investors angst. Although unlikely to allow economic growth to fall significantly, China's actions may force foreign investors and trading partners to reassess the risks of investing in a place that has become more predictably unpredictable.

Actions Speak Louder Than Words

Inflation is proving to be a bit more persistent and higher than many expected, putting pressure on some central banks around the globe to act. Several emerging market central banks, such as Brazil and Mexico, began raising rates over the summer to fend off higher prices, and now, some developed market central banks are similarly looking to act. The Bank of England (BoE) has signalled that higher rates are coming soon as inflation is expected to get close to 4%—double its target. And while the US Federal Reserve is planning on tapering asset purchases, it remains committed to its current rate policy, reiterating that elevated inflation levels will be 'transitory'. The European Central Bank (ECB) similarly warned of not overreacting to current inflation levels, keeping current policy in place. Although most central banks believe inflation will prove temporary, prices could remain elevated for an extended period—perhaps too long for them to hold onto their words and not take action.

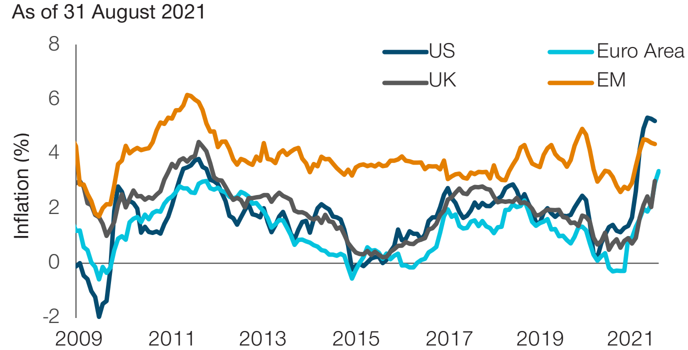
Evergrande's Debt Collapse[1]

As of 30 September 2021



Global Inflation on the Rise[1,2]

As of 31 August 2021



Past performance is not a reliable indicator of future performance.

[1]Figures are shown in US dollars.
[2]Inflation is measured by consumer price index.
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Sources: Bloomberg Finance L.P. Financial data and analytics provider FactSet. Copyright 2021 FactSet. All Rights Reserved.

REGIONAL BACKDROP

	Positives	Negatives
Europe	▪ Higher exposure to more cyclically oriented sectors that should benefit from economic recovery ▪ Monetary policy remains accommodative ▪ Fiscal stimulus likely to increase ▪ Equity valuations remain attractive relative to the US	▪ Limited long-term catalysts for growth ▪ Limited scope for ECB to stimulate further ▪ Demand from China fading ▪ Microchip shortage impacting auto production rebound
United Kingdom	▪ Services activity has been resilient, despite shortages ▪ Investment tax super-deduction could support a strong recovery ▪ Most economic indicators show expansion, despite supply chain problems	▪ BoE to remain very hawkish in light of inflation surprises across a range of indicators ▪ Steeper Phillips curve in the labour market likely means BoE will need to hike faster ▪ Demand risks remain, stemming from a delayed—but likely large—fiscal consolidation in two to three years ▪ Overheating property market could pose future financial stability risk
United States	▪ Healthy consumer balance sheets and high savings rate ▪ Exceptionally strong earnings growth ▪ Infrastructure spending likely to increase ▪ Delta variant spread appears to have peaked	▪ Elevated stock and bond valuations ▪ Elevated corporate and government debt levels ▪ Fed accommodation has peaked ▪ Fiscal stimulus has peaked ▪ Corporate taxes likely to rise

	Positives	Negatives
Japan	▪ Local stock markets look attractive due to favourable relative valuation, light positioning and positive earnings trends ▪ Policy setting remains extremely accommodative, with further boost coming from fiscal spending ▪ Economic activity should benefit from a rebound in capex, inventory buildup and improvement in business confidence	▪ The slowdown in global economic data, especially in China, presents a headwind for Japanese companies ▪ Risk of a policy disappointment given elevated expectations ▪ Stagnant productivity remains a structural issue for margins in the face of a tight labour market
Asia Pacific ex-Japan	▪ The slowdown in Chinese economic activity may have increased the chances of policy easing to come ▪ Australian labour market and sentiment indicators have proved to be more resilient than expected in the face of current lockdowns ▪ Regulatory overhang in China has likely peaked ▪ High vaccination rates in Australia bode well for a strong economic reopening before the end of the year	▪ Chinese consumer spending is still lagging the recovery and below expectations, with consumers acting cautiously in the face of uncertainties ▪ There is a contagion risk from the Chinese property sector, while power cuts add further uncertainty ▪ Earnings momentum in Australia is weak with more downgrades to come, reflecting impact of current lockdowns and the Chinese slowdown ▪ Australian valuations are not as favourable as they used to be
Emerging Markets	▪ Equity valuations attractive relative to developed markets ▪ Exposure to cyclical areas of economy should benefit from broad global recovery ▪ Chinese regulatory actions likely to have peaked ▪ Vaccination rates are improving	▪ Stimulus from China is fading ▪ Accommodation from central banks is fading ▪ New coronavirus variants remain a threat

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EUROPEAN INVESTMENT COMMITTEE POSITIONING

As of 30 September 2021

Underweight — *Neutral* — *Overweight* ▼ 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.

		Underweight	Underweight	Neutral	Overweight	Overweight	
	Change						
ASSET CLASSES	Equities		■				Valuations are elevated amid post-peak growth and stimulus levels. Earnings strength has buoyed equities thus far but may face a more challenging environment over the near term.
ASSET CLASSES	Fixed Income				■		Yields biased higher on the back of strong growth and inflation, as well as tightening global central bank policies supportive of short duration posture and modest overweight to cash. Credit sectors offer solid fundamentals and opportunities for carry.
	Region						
EQUITIES	US		■				Elevated valuations reflect a strong recovery, earnings strength and low interest rates. Slowing growth, fading liquidity and the potential for higher interest rates and taxes could be headwinds. Cyclical sectors should continue to benefit from a strong macro backdrop, but a lot of good news is already priced in.
EQUITIES	Europe ex-UK		■				Fading Chinese growth, low rate environment and lack of long-term growth catalysts remain concerns. However, cyclical orientation, low valuations among financials and improving stimulus expectations provide near-term support.
EQUITIES	UK				■		Continued vaccination pace is likely to lead to strong real activity. However, rising inflation, supply shortages and hawkish BoE may be headwinds.
EQUITIES	Japan				■		Substantial progress on vaccine rollout, improved political environment, attractive valuations and strong global trade outlook should be supportive. Improving corporate governance also provides long-term tailwind.
EQUITIES	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.
EQUITIES	Emerging Markets (EM)				■		Valuations very attractive, and Chinese regulatory pressures may have peaked. Global trade likely to improve as bottlenecks are worked through and vaccine levels continue to improve.
	Style and Market Capitalisation						
EQUITIES	Global Growth vs. Value[1]		■				Deep cyclical orientation of value stocks combined with attractive relative valuations and improving earnings outlook could be catalysts. Growth stocks challenged by fading consumer demand from China.
EQUITIES	Global Small-Cap vs. Large-Cap[1]				■		Strong domestic growth trends remain supportive for small-caps, and idiosyncratic opportunities are plentiful. Meanwhile, strong global economic outlook should benefit large-caps given cyclical orientation and exposure to international trade.

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*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 30 September 2021

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		Change	Underweight	Underweight	Neutral	Overweight	Overweight	
FIXED INCOME	Euro Government Bonds		■					Europe is turning the coronavirus corner. Manufacturing purchasing managers' indexes are at record highs, inflation is elevated and services activity is likely to pick up as European countries gradually open up.
	Euro Inflation Linked					■		Inflation may be more persistent than expected and higher than market expectations, leading to outperformance of inflation-linked bonds.
	Euro Investment-Grade (IG) Corporates					■		Technicals remain supportive, but there are still plenty of uncertainties around corporate fundamentals during the recovery. Little value at current spreads, though European Central Bank buying remains supportive.
	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 latter.
	Global High Yield					■		Limited upside given elevated valuations; relative yields still attractive versus alternatives within fixed income. Fundamentals broadly supported by positive macroeconomic backdrop.
	EM Dollar Sovereigns				■			Attractive yield versus developed markets with improving growth broadly supportive; however, vulnerabilities across countries vary in coronavirus spread/vaccine accessibility and central banks are taking actions to combat inflation.
	EM Local Currency					■		Valuations remain modestly attractive, particularly for local currencies; improving macroeconomic backdrop and potentially weaker US dollar could provide tailwinds. Shift higher in US rates and EM central bank rate hikes could be headwinds.
	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					■		The dollar may weaken as the European reopening accelerates. Europe is also a major beneficiary of the current global manufacturing boom.
	EUR vs. JPY			■				The yen remains a safe-haven currency. The valuation of the yen is at an attractive level after its recent selloff.

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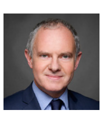
EUROPEAN INVESTMENT COMMITTEE



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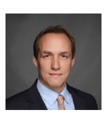

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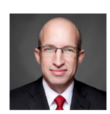

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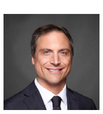

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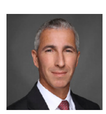

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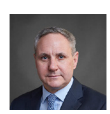

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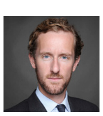

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