T. Rowe Price®
INVEST WITH CONFIDENCE

JANUARY 2022

GLOBAL ASSET ALLOCATION VIEWPOINTS AND INVESTMENT ENVIRONMENT

1 MARKET PERSPECTIVE As of 31 December 2021

- Despite omicron variant weighing in the near-term, growth should remain above potential with inflation likely to moderate this year amid central banks tightening and improvement in supply chains.
- Developed market central banks further advance tightening policy, with the Federal Reserve paring back quantitative easing and Bank of England raising rates. Emerging market central banks may be nearing peak tightening, with China already taking steps towards easier policies.
- Yield curves likely to flatten as global short-term rates biased higher with central banks tightening, while long-term rates likely capped by easing inflation concerns and moderating liquidity.
- Key risks to global markets include omicron variant, persistent inflation, supply chain disruption, central bank missteps, China growth trajectory, and increasing geopolitical concerns.

2 PORTFOLIO POSITIONING As of 31 December 2021

- We increased our underweight to equities relative to bonds and cash given stocks' less compelling risk/reward profile, balancing elevated valuations against a backdrop of moderating growth and tightening central bank policies.
- Within equities, we further increased our underweight to U.S. growth stocks. We continue to tilt toward cyclicality, maintaining overweights to value-oriented equities globally, U.S. small-caps, and emerging market stocks, where valuations are more reasonable and which should benefit from a continued path of recovery.
- Within fixed income, we modestly added to U.S. Treasury Long to provide ballast to the overall portfolio given more cautious view on equity valuations and more hawkish Fed that may limit further upside to interest rates.
- Broadly across our fixed income allocation, we continue to favor shorter duration and higher yielding sectors through overweights to floating rate loans and high yield bonds supported by our constructive credit outlook.

3 MARKET THEMES As of 31 December 2021

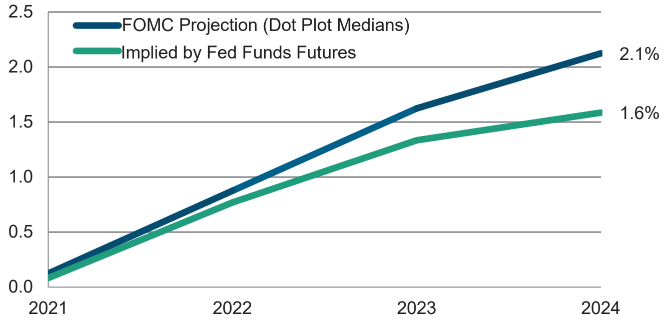
Holiday Rush

The Federal Reserve turned decisively more hawkish at its December meeting, announcing an acceleration of the pace of tapering, which will now end asset purchases by March, and guided towards a mid-year start of rate normalization. From a timing standpoint, these policies will be taking hold just as growth and inflation are expected to be moderating and amid a spike in the Omicron variant across the globe. Given these factors, the market seems to be calling into question how far the Fed can tighten policy before being forced into retreat, looking for the Fed Funds rate to be 1.6% at the end of 2024, well below the Fed's target of 2.1%. With other developed market central banks on the move, such as the Bank of England's recent surprise rate hike, the Fed seems eager to join the holiday rush, perhaps worried that if they don't move fast enough while they can, they may be vulnerable to respond to the next economic downturn.

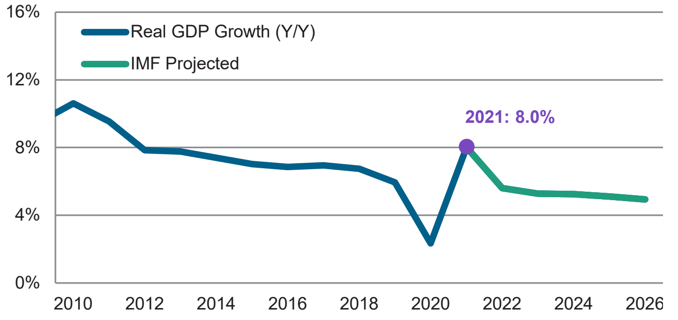
A New Year's Resolution

A confluence of events weighed on Chinese growth last year, including its crackdown on the massive property sector—making up nearly 25% of its economy, increased regulations particularly in the technology and education sectors, and market disruption caused by shuttering coal production to meet its clean energy agenda. In response to the weakness, China is acting, having cut its reserve requirement ratio by 50bps, lowering its prime loan rate, and accelerating loans for infrastructure projects. As China looks to balance their economy more towards consumption and to be less reliant on the speculative property sector, estimates are suggesting that growth targets for 2022 could be as low as 5.5% to 6%, down from 8% in 2021. Albeit lower, a more stable growth trajectory for China could be beneficial for investors and trading partners, who have had to navigate the recent volatility. But for now, China needs to focus on this year's resolution to engineer a soft landing in the property market to shore up the economy for years to come.

Fed Funds Rate Projections
As of 31 December 2021



China's Growth Slowdown
As of 31 December 2021



Source: Bloomberg Finance L.P.
For illustrative purposes only. Actual future outcomes may differ materially.
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4 REGIONAL BACKDROP

As of 31 December 2021

	Positives	Negatives
United States	■ Healthy consumer balance sheets and high savings rate ■ Strong earnings growth ■ U.S. dollar likely to remain strong	■ Supply chain issues are weighing on economic growth ■ Significantly elevated inflation ■ Elevated stock and bond valuations ■ Fed accommodation has peaked ■ Fiscal stimulus has peaked
Europe	■ Higher exposure to more cyclically oriented sectors that should benefit from economic recovery ■ Monetary policy remains accommodative ■ Fiscal stimulus likely to increase further ■ Equity valuations remain attractive relative to the US	■ Elevated energy prices and supply chain issues are weighing on economic growth ■ Limited long-term catalysts for growth ■ Demand from China fading ■ U.S. dollar strength likely to remain a headwind
China	■ Policymakers are easing regulatory and credit conditions with a greater focus on economic growth ■ Sentiment is gradually turning towards Chinese stocks, with foreign flows being positive ■ Amidst bottoming expectations on future earnings and undemanding valuations, stocks look attractive ahead of the Party conference this year ■ Inflationary pressures are far more subdued than in the western world	■ Power restrictions ahead of the Winter Olympics, contagion from the property credit concerns, COVID outbreaks will continue to crowd the short term horizon ■ Poor access to funding by the Property sector highlights the current risk aversion and difficulties to identify winners and losers in the sector ■ A strong CNY backed by large foreign inflows is tightening financial conditions ■ Heightened political risks in 2022 will create low incentives for local governments to step in if needed. Monetary easing might not be as effective if credit appetite remains low
Japan	■ Local stock markets continue to be attractive due to favorable relative valuation, light positioning and positive earnings trends ■ While economic data are falling short of expectations, the service sector is rebounding sharply thanks to low COVID cases. Capex are also expected to grow substantially on a yoy basis ■ The fiscal stimulus is a tailwind for this year	■ Amidst the Omicron uncertainty globally, Japanese companies are the most exposed due to their high sensitivities to global economic momentum ■ Unexpected political risks resume as PM Kishida pushes for a less market friendly agenda than his predecessors ■ The rise in breakeven inflation suggests inflationary pressures are also building in Japan
Australia	■ Indicators of domestic consumption point towards a snap bounce back from lockdowns. The labor market surprises on the upside ■ Low inventory levels and upgraded capex plans confirm the upwards trends in economic activity ■ The RBA looks more dovish than what the market is currently pricing. A slower hiking cycle might turn out to be a positive surprise for markets	■ Mining investments remain low as is the Aussie dollar. Bearish views on commodity prices are keeping businesses and investors cautious ■ Funding costs are rising pushing consumers to delay big-ticket items purchases ■ Political risks increasing in the background ahead of the Federal election in the first half ■ The heavyweight Banking sector is under fierce competition over market share, squeezing margins and earnings
Emerging Markets	■ Attractive equity valuations ■ Exposure to cyclical areas of economy should benefit from broad global recovery ■ Chinese regulatory actions likely to have peaked ■ Vaccination rates are improving	■ Omicron variant remains a notable threat due to relatively low vaccination levels ■ Heightened political and regulatory risk ■ Accommodation from central banks is fading ■ U.S. dollar strength likely to remain a headwind

5 ASSET ALLOCATION COMMITTEE POSITIONING

As of 31 December 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.
ASSET CLASS	Equities	▼		■				Earnings comparisons will be more challenging in 2022 as decelerating economic growth, tightening central banks, and renewed pandemic uncertainty may create a more difficult environment ahead. Elevated valuations and rising rates could pose additional headwinds.
ASSET CLASS	Bonds	▲				■		Tighter global central bank policies and elevated inflation pressuring yields higher, supportive of short duration posture. Credit sector fundamentals remain favorable; yield advantage should remain supportive, although limited upside to valuations.
	Regions							
EQUITIES	U.S.			■				Elevated valuations are likely to be challenged by Fed tightening, persistent inflation, waning fiscal stimulus, and decelerating earnings growth. However, pent up demand and elevated savings could continue to offer support.
EQUITIES	Global Ex-U.S.					■		Procyclical sector profile and easing of supply chain bottlenecks should prove beneficial amid continued recovery. Chinese growth concerns also appear to have bottomed. However, recent COVID developments make the outlook less certain.
EQUITIES	Europe			■				Continued lockdowns, elevated energy costs, supply bottlenecks, weak demand from China, and low-rate environment remain concerns. However, cyclical orientation, reasonable valuations, and improving stimulus expectations provide near-term support.
EQUITIES	Japan					■		Attractive valuations, recent fiscal stimulus, strong global trade outlook, and improving corporate governance provide tailwinds, but new variant could delay domestic reopening.
EQUITIES	Emerging Markets (EM)					■		Valuations are very attractive and Chinese growth appears to have stabilized. Global trade should improve in 2022 as supply chain concerns ease and vaccination levels continue to improve, however, virus uncertainty likely to delay progress over the near term.
	Style & Market Capitalization							
EQUITIES	U.S. Growth vs. Value[1]	▼		■				Value's cyclical orientation should benefit from pent-up consumer demand, elevated savings, and economic strength supported by potential capex and infrastructure spending. Upside in growth may be limited by valuations and a higher quality bias is warranted.
EQUITIES	Global Ex-U.S. Growth vs. Value[1]			■				Deep cyclical orientation of value stocks combined with attractive relative valuations could be catalysts for outperformance. Supply chain improvement could offer additional tailwinds.
EQUITIES	U.S. Small vs. Large-Cap[1]	▲				■		Small-caps should be supported by economic growth, attractive relative valuations, and strong earnings outlook. However, elevated input costs and wage pressures could weigh on margins and a quality bias is warranted.
EQUITIES	Global Ex-U.S. Small vs. Large-Cap[1]				■			Strong domestic growth trends remain supportive for small-caps, representing a favorable environment for idiosyncratic opportunities. Meanwhile, strong global economic outlook should benefit large-caps given cyclical orientation and exposure to international trade.
	Inflation-Sensitive							
EQUITIES	Real Assets Equities			■				Long-term outlook for commodities remains challenged by supply/demand imbalances driven by structural oversupply and fading industrial demand from China. Real estate remains attractive in the context of economic recovery, but rising rates could pose a headwind.
BONDS	U.S. Investment Grade (IG)	▼		■				Longer rates continue to be biased higher on elevated inflation levels, while short rates rise in response to expectations for Fed tightening. Corporate fundamentals and demand for yield supportive for credit, but limited upside due to valuations.
BONDS	Developed Ex-U.S. IG (Hedged)	▼			■			Patient central banks and higher inflation could lead to steeper yield curves. USD likely biased higher on Fed tightening and more cautious environment related to COVID.
BONDS	U.S. Treasury Long	▲		■				Above trend growth and persistent inflation could keep yields biased higher, but sector could provide a hedge in risk-off environment.
BONDS	Inflation-Linked					■		Inflationary pressures expected to remain above Fed target range as pent-up demand and supply bottlenecks are worked through. Inflation-linked bonds offer a hedge to upside risk on inflation.
BONDS	Global High Yield					■		Credit fundamentals remain strong and default risk remains low, however, further upside is limited due to tight spreads.
BONDS	Floating Rate Loans					■		Shorter-duration profile and rate resets provide defense against rising short rates. Solid fundamentals and demand for yield should provide tailwinds. Cautious on new issuance quality amid increased demand.
BONDS	EM Dollar Sovereigns				■			Attractive carry in a low rate environment; however, emerging markets remain at risk to Fed tightening, fiscal pressures, coronavirus concerns, and China-related uncertainty.
BONDS	EM Local Currency					■		Yields remain modestly attractive as many EM central banks have recently raised rates. However, risks related to China, central bank tightening, USD strength, and persistent inflation are near-term headwinds.

[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.

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Additional Disclosures

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

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