T.RowePrice®
INVEST WITH CONFIDENCE

Global Asset Allocation: The View From Europe

April 2022

1 Market Perspective

- Geopolitical risks and lingering pandemic impacts are weighing on global economic growth expectations while putting upward pressure on already elevated inflation.
- Despite moderating growth expectations, developed market central banks are expected to advance tightening policies to fend off decades-high inflation. The US Federal Reserve is leading with the most aggressive plans and the Bank of England has raised its policy rate for the third time in March back to pre-pandemic levels.
- Emerging market central banks remain biased towards tightening to fend off inflation and defend currencies, while China policy continues moving in the opposite direction to stimulate growth.
- Key risks to global markets include escalating geopolitical concerns, persistent inflation near already high levels, central bank missteps and the impact of a COVID-19 outbreak in China on global growth and supply chains.

2 Portfolio Positioning

As of 31 March 2022

- While valuations are off recent peaks, we remain underweight equities given a moderating growth and earnings outlook amid an active Fed and lingering inflation concerns. Within fixed income, we remain overweight cash.
- Within equities, we remain underweight growth to provide a hedge should inflationary pressures persist longer than expected given heightened uncertainty and government bond rates trending higher.
- Within fixed income, we moderated our underweight to government bonds following recent moves higher in rates to provide portfolio ballast in a risk-off scenario.
- We continue to favour shorter-duration and higher-yielding sectors through overweights to inflation-linked securities, high yield bonds and emerging market debt supported by our still positive outlook on fundamentals, while keeping a cautious eye on liquidity amid higher volatility.

3 Market Themes

Beginning of the End?

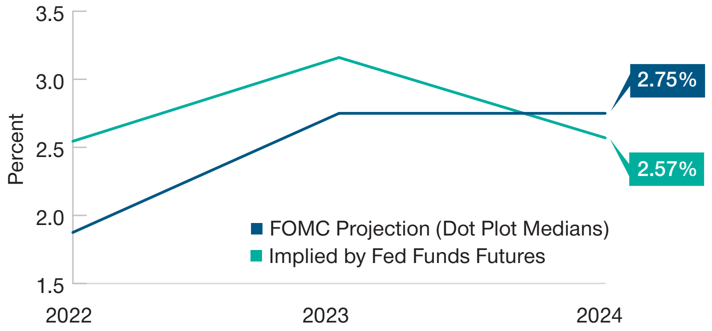
The more than four-decade bull market for bonds, supported by low inflation and declining rates, that provided a tailwind of price appreciation on top of income, may finally be coming to an end. For bond investors, this is a particularly precarious time given heightened rate sensitivity through extended duration levels and still low yields, providing little income to offset capital losses as rates rise. For the US Federal Reserve, which had enjoyed the luxury of acting aggressively when needed amid multiple crises while not stoking inflation, the tables have turned. Now due to exogenous factors impacting supply—the pandemic and the conflict in Ukraine—inflation has spiked higher, forcing the Fed into a battle that it hasn't had to fight in decades. The market seems to agree that the Fed will remain steadfast, for now, in its battle against inflation over the course of the year. However, the market is saying the Fed could be lowering rates as soon as the end of next year, meaning bonds may not be out of favour for long.

History Lessons

While the world has been battling to overcome the impacts of a global pandemic not seen in decades, we now face new, heightened challenges that may similarly have precedence with other periods in history. While coronavirus variants have extended supply chain issues and stoked higher inflation, expectations just a few months ago were that these issues would be transient. Unfortunately, the invasion of Ukraine in Europe, the likes not seen since the start of World War II in 1939, has exacerbated inflation risks and economic uncertainty. The narrative today has quickly turned to fears of 'stagflation' with comparisons being made to the oil embargo of 1973 in the US that served as a catalyst for runaway inflation, unprecedented rate hikes and a recession. While the world is very different today and some of the challenges are distinct, history can repeat itself. So while stagflation is not our base case, the potential for tail risk events is heightened and warrants caution.

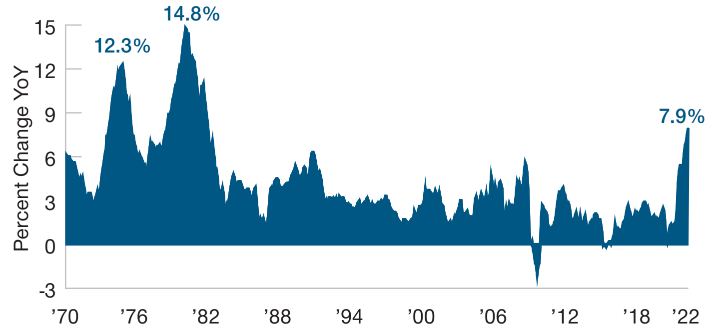
Fed Funds Rate Projections

As of 31 March 2022



US Consumer Price Index (CPI) YoY

As of 31 March 2022



Past performance is not a reliable indicator of future performance.
For illustrative purposes only. Actual future outcomes may differ materially.
Source: Bloomberg Finance L.P.

REGIONAL BACKDROP

	Positives	Negatives
Europe	▪ Fiscal stimulus increasing ▪ Equity valuations attractive relative to the US	▪ Russia-Ukraine conflict likely to continue to exacerbate energy shortages ▪ Industrial production dampened by supply chain challenges and energy shortages ▪ Limited long-term catalysts for earnings growth ▪ US dollar strength likely to remain a headwind
United Kingdom	▪ Most economic indicators show expansion despite supply chain problems ▪ The labour market is historically very strong ▪ Rapid opening up from pandemic restrictions will support economic bounceback ▪ Majority of UK gas from outside Russia	▪ Bank of England will hike multiple times in 2022 on the back of strong wage and price inflation ▪ Despite little direct exposure, UK still likely to be affected by much higher gas prices ▪ Demand weakness from lower household disposable income due to higher energy prices as a result of Russia-Ukraine conflict may lead to small technical recession at the end of the year ▪ Very tight labour market means higher wage growth and prospect of second-round effects could lead to more persistent inflation
United States	▪ Strong corporate and consumer balance sheets ▪ Pent-up demand for services and capex	▪ Significantly elevated inflation ▪ Fed tightening at a rapid pace ▪ Supply chain issues constraining economic activity ▪ Elevated stock valuations

	Positives	Negatives
Japan	▪ Local stock markets continue to be attractive due to favourable relative valuation and healthy earning expectations ▪ Domestic fiscal support and easy monetary policy should prolong the economic recovery ▪ A weak yen may offset the negative impact of oil prices for the exporting sector	▪ Leading economic indicators continue to be weak due to supply shortages and rising input prices ▪ The Japanese yen is reaching levels that may prove a headwind to domestic activity ▪ Inflationary pressures may be underappreciated due to rising commodity prices, communication cost increases and hopeful wage negotiations
Asia Pacific ex-Japan	▪ Chinese policymakers will have to implement larger stimulus measures to hit their set growth target ▪ A tight Australian labour market supports the ongoing recovery in consumer spending, with wages accelerating at a pace close to the targets of the Reserve Bank of Australia (RBA) ▪ Depressed sentiment and positioning make Chinese stocks an interesting contrarian, medium-term investment amidst appealing valuations ▪ Australian assets proved to be more resilient to current geopolitical risks than some other markets, benefiting from their relative isolation from the rest of the world	▪ Chinese COVID-19 outbreaks are challenging the Dynamic Clearance policy, severely impacting mobility indicators ▪ The RBA's dovish stance looks unsustainable and might create volatility when it catches up to market expectations ▪ Earnings momentum in China hasn't yet bottomed given the uncertain environment ▪ Rising yields on the horizon raise concerns over a hot Australian property market
Emerging Markets	▪ Affirmation of China's GDP growth targets suggests more supportive policy environment ▪ Equity valuations attractive relative to the US	▪ COVID-19 outbreak in Asia weighing on economic activity ▪ Chinese regulatory actions have impacted investor confidence ▪ Global trade remains impacted by supply chain issues, geopolitical uncertainty and COVID-19 restrictions ▪ Central bank accommodation is fading

Past performance is not a reliable indicator of future performance.

EUROPEAN INVESTMENT COMMITTEE POSITIONING

As of 31 March 2022

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 off recent peaks but remain vulnerable to further rerating amidst Fed tightening policy and potential for economic weakness and lingering inflation concerns.
ASSET CLASSES	Fixed Income				■		Rates are biased higher amid central bank tightening and elevated inflation. Further upside may be limited on growth outlook favouring short duration. Credit fundamentals supportive but could remain volatile.
	Region						
EQUITIES	US		■				Elevated valuations are off recent peaks but remain challenged by Fed tightening, persistent inflation, geopolitical risks. Growth orientation of the US market makes it more susceptible should rates rise further.
EQUITIES	Europe ex-UK		■				Valuations are attractive, but the Russia-Ukraine conflict poses a significant risk, due to rising energy costs and the impact of financial sanctions.
EQUITIES	UK			■			Brexit adjustments probably exacerbate the effects of supply shortages and the rise in energy prices.
EQUITIES	Japan				■		Attractive valuations, recent fiscal stimulus, supportive monetary policy and improving corporate governance should provide tailwinds. Yen weakness has been a headwind to performance but may stabilise from here.
EQUITIES	Developed Asia ex-Japan*			■			Valuations are attractive relative to the US. Chinese stimulus and successful containment of the coronavirus are supportive. Export- and commodity-driven economies face challenges.
EQUITIES	Emerging Markets (EM)				■		Valuations are attractive. A COVID-19 outbreak is likely to be a near-term headwind in China; however, the medium-term outlook appears more attractive due to significant policy support.
	Style and Market Capitalisation						
EQUITIES	Global Growth vs. Value[1]		■				Relative valuations for value stocks remain attractive, but the gap has narrowed and the cyclical outlook has weakened. While growth stocks' valuations have become less challenging, they will continue to be pressured by potentially rising rates and slowing earnings.
EQUITIES	Global Small-Cap vs. Large-Cap[1]				■		Small-cap stocks offer attractive relative valuations and still-strong earnings growth. However, elevated input costs, wage pressures and heightened market volatility could challenge performance. Higher quality bias is warranted.

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

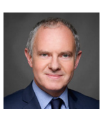
Underweight — *Neutral* — *Overweight*   ▼ or ▲ Month-Over-Month Change

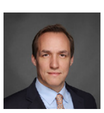
These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.

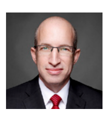
		Underweight	Underweight	Neutral	Overweight	Overweight	
FIXED INCOME	Euro Government Bonds	■					Given the European Central Bank's likely change in quantitative easing, supply and demand imply that bunds are likely to continue to sell off for the rest of the year.
FIXED INCOME	Euro Inflation Linked				■		Inflation may be more persistent than expected and higher than market expectations, leading to outperformance of inflation-linked bonds.
FIXED INCOME	Euro Investment-Grade (IG) Corporates		■				The balance of risks has turned in favour of spread-widening.
FIXED INCOME	US IG Aggregate		■				Scope that rates in Europe will rise more than in the US. However, stronger inflation and economic growth are expected in the latter.
FIXED INCOME	Global High Yield				■		Credit fundamentals remain strong, default risk remains low and elevated commodity prices remain supportive. However, spread volatility is expected to continue due to geopolitical, inflationary and growth concerns.
FIXED INCOME	EM Dollar Sovereigns			■			EM still offers an attractive yield but is challenged by fiscal pressures, broader market volatility, coronavirus concerns and tighter central bank policies.
FIXED INCOME	EM Local Currency				■		EM real yields and currencies are at attractive levels; however, EM currencies remain challenged by inflation, while Fed tightening and flight-to-safety keep upward pressure on the USD.
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				■		Improvements in Germany's trade balance should support a stronger euro going forward.
CURRENCIES	EUR vs. JPY		■				The yen remains a safe-haven currency. The valuation of the yen is at an attractive level after its recent sell-off.

Past performance is not a reliable indicator of future performance.

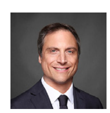
EUROPEAN INVESTMENT COMMITTEE

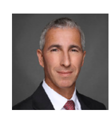

Quentin Fitzsimmons
Senior Portfolio Manager, Fixed Income Division

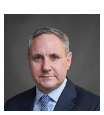

Andrew Keirle
Portfolio Manager, Emerging Markets Local Currency Bonds

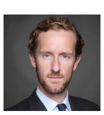

Yoram Lustig
Head of Multi-Asset Solutions, EMEA

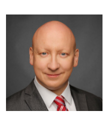

Tobias Mueller
Portfolio Manager, Equity Division


Ken Orchard
Senior Portfolio Manager, Fixed Income Division

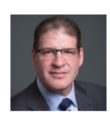

David Stanley
Portfolio Manager, European Corporate Bonds


Toby Thompson
Portfolio Manager, Multi-Asset Division


Mitchell Todd
Portfolio Manager, Equity Division


Michael Walsh
Solutions Strategist, EMEA


Tomasz Wieladek
International Economist


Lowell Yura
Head of Multi-Asset Solutions, North America

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. Rowe Price®

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—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.

ID0005021 (04/2022)
202204-2119992