T.RowePrice®
INVEST WITH CONFIDENCE

Global Asset Allocation: The View From Europe

August 2022

1 Market Perspective

- Central banks and investors continue to contend with higher inflation while global growth is slowing amid continued supply disruptions, geopolitical challenges and reduction of liquidity, setting the stage for a challenging second half of the year.
- The US Federal Reserve (Fed) remains committed to its tightening policy, having already raised rates by 225 basis points this year and hinting at a continued aggressive path forward to combat inflation. The European Central Bank (ECB) made its first rate hike in more than a decade despite a fragile macro backdrop, while the Bank of Japan (BoJ) remains steadfast on its policy of yield curve control.
- While most emerging market (EM) central banks continue to tighten policy in response to heightened inflation and weak currencies, China policies remain supportive to help bolster growth as the country continues to try and contain the spread of COVID-19.
- Key risks to global markets include central bank missteps, persistent inflation, impacts of the Russia-Ukraine conflict, potential for a sharper slowdown in global growth and China's balance between containing COVID-19 and growth.

2 Portfolio Positioning

As of 31 July 2022

- Despite more attractive valuations following 2022's declines, we remain cautious on the earnings outlook and the impact of inflation on margins also supports our modest underweight to equities. Within fixed income, we have added exposure to bonds and reduced holdings of cash.
- We have reduced our overweight to value stocks globally in recent months, aiming to moderate the cyclical exposure of our equity allocation amid a backdrop of slowing economic growth.
- Within fixed income, we increased our allocation to government bonds, adding defensive exposure as economic uncertainty remains high.
- We moved further underweight European investment grade credit, reducing credit risk in expectation of slowing growth in the region.

3 Market Themes

Whatever It Takes 2.0

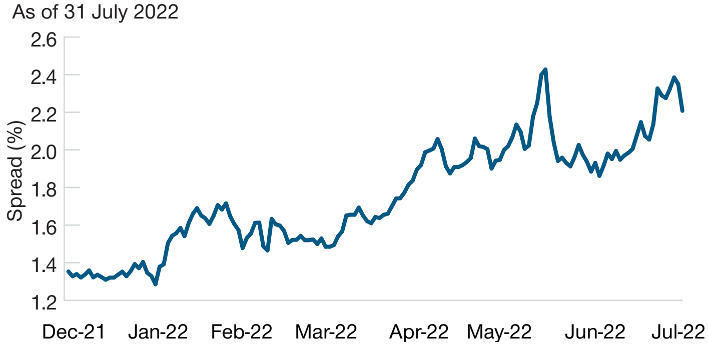
While recent reports showed better-than-expected second-quarter economic growth in the region, Europe faces a growing list of headwinds. At its most recent meeting this month, the ECB delivered a larger-than-expected half-point rate increase, its first in more than a decade, to fight inflation at its highest level in decades. Despite concerns over slowing growth, risk of Russia cutting off gas supplies to the region and rising political instability, ECB President Christine Lagarde signaled that more rate hikes will be needed to rein in inflation. At the same time, the ECB introduced a new plan, the Transmission Protection Instrument, which would provide flexibility to buy the government debt of troubled member nations to stave off a potential borrowing crisis. The new tool may come in handy soon, as political uncertainty following the resignation of Prime Minister Mario Draghi sent Italian bond spreads higher. With autumn around the corner and bringing colder weather amid energy shortages threatening even higher inflation and uncertainty around Italian elections in September, Lagarde may find herself reinventing 'whatever it takes' to save the region this time around.

Keep On Smiling

There seems to be little that can break the US dollar's climb; it reached its highest level since the early 2000s and continues to cause broad-based pain from EM-facing dollar-denominated debt obligations to US companies reporting weaker exports and lower revenues due to the dollar's unrelenting rise. Among the forces behind the US dollar's runup have been the relative strength of the US economy compared with other regions, the Fed's aggressive rate tightening relative to other major central banks and elevated geopolitical challenges increasing the bid for the relative safety of the US dollar. The 'dollar smile' theory holds that the currency does well at each end of the global growth continuum, benefitting when relative US growth and rates are higher as well as from being a 'safe haven' when global growth is declining—both of which are happening today. At this point, it appears the only thing that could slow the dollar is a pivot by the Fed, which would likely only come amid signs of much weaker growth in the US or stronger evidence of receding inflation, so for now it looks like the dollar will keep on smiling.

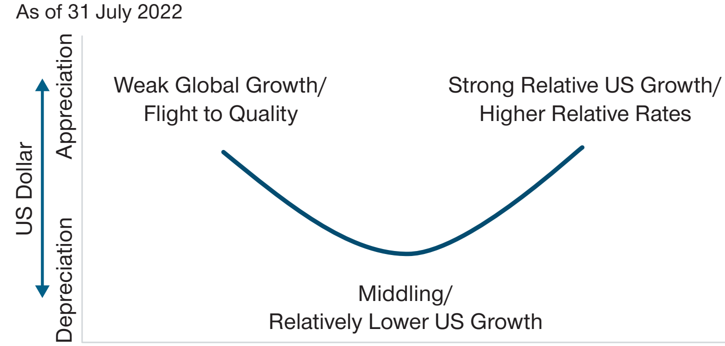
Italian 10-Year Government Bond Spread

As of 31 July 2022



US Dollar Smile

As of 31 July 2022



Past performance is not a reliable indicator of future performance.
Source: Bloomberg Finance L.P.

REGIONAL BACKDROP

	Positives	Negatives
Europe	▪ Fiscal spending is likely to increase ▪ Equity valuations are attractive relative to the US ▪ European Union unity has been robust in 2022	▪ The Russia-Ukraine conflict has impacted supply chains ▪ Industrial production could be dampened by energy shortages ▪ Long-term catalysts for earnings growth are limited ▪ The ECB is tightening ▪ Debt costs are rising
United Kingdom	▪ The labour market remains strong ▪ Economic growth has remained resilient but is starting to slow ▪ House prices remain firm	▪ Further interest rate increases from the Bank of England are likely ▪ Consumer confidence is very weak, pointing to a risk of recession ▪ Inflation continues to be highly problematic for policymakers, consumers and businesses
United States	▪ Corporate and consumer balance sheets are strong ▪ There is resilient demand for services and capex ▪ The labour market is still tight	▪ The Fed is tightening at a rapid pace ▪ Inflation is significantly elevated ▪ Fiscal stimulus has peaked ▪ The housing market has slowed down sharply

	Positives	Negatives
Japan	▪ Earnings remain healthy; with buybacks at record levels, shareholders should be rewarded ▪ The policy setting remains accommodative ▪ The Japanese yen is cheap; with interest rate differentials stabilising, the currency should appreciate	▪ Leading economic indicators continue to be weak due to elevated input prices ▪ Inflation is pushing investors to question the BoJ's commitment to its yield curve control policy ▪ The global slowdown is a concern for the export-heavy stock market
Asia Pacific ex-Japan	▪ The long-awaited policy-driven rebound in China seems finally underway ▪ Local sentiment in China is turning towards the stock market, reinforcing the appeal to this contrarian and diversifying trade for foreign investors ▪ A tight Australian labour market, generous wage increases and healthy saving rates support the ongoing recovery in consumer spending ▪ The long-term yields might have gone too far, too fast. A decrease in yields would be beneficial for Australian assets	▪ Risks of renewed mobility restrictions in China remain ▪ The Chinese unemployment rate rose in big cities, explaining why consumers are cautious ▪ Expectations for future earnings are becoming more cautious to reflect the weakening of the economic momentum ▪ An unpredictable Reserve Bank of Australia policy adds to volatility in bond yields
Emerging Markets	▪ Chinese authorities are easing monetary, regulatory and credit conditions ▪ Equity valuations are attractive relative to the US ▪ COVID-19 concerns have decreased	▪ Chinese regulatory actions have impacted investor confidence ▪ Global trade remains challenged by supply chain issues, geopolitical uncertainty and COVID-19 restrictions

Past performance is not a reliable indicator of future performance.

EUROPEAN INVESTMENT COMMITTEE POSITIONING

As of 31 July 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.

		Change	Underweight		Neutral		Overweight	
ASSET CLASSES	Equities			■				Despite a recent bounce, stocks remain vulnerable to further weakness amid tightening liquidity. Earnings expectations are beginning to be pressured by slowing economic growth and rising input costs.
	Fixed Income					■		Tighter global central bank policies and still-elevated inflation could keep upward pressure on yields, although US rates appear to be approaching a ceiling. Credit spreads remain compelling, but default risks are likely to increase.
	Region							
EQUITIES	US			■				US equities remain expensive on a relative basis. However, the less cyclical nature of the US economy should provide some support as global growth weakens.
	Europe ex-UK			■				Valuations are compelling, but elevated energy costs and weakening manufacturing activity remain significant concerns. Meanwhile, ECB support has faded with inflation concerns rising.
	UK				■			Brexit adjustments probably exacerbate the effects of supply shortages and the rise in energy prices.
	Japan					■		Cyclical concerns continue to weigh on Japanese equities; however, improved valuations, relatively lower inflation, accommodative monetary policy and improving corporate governance should provide long-term tailwinds.
	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.
	Emerging Markets (EM)					■		Valuations and currencies are attractive. Medium-term outlook in China appears attractive due to prospects for significant policy support and less stringent COVID-19 lockdowns; however, further outbreaks remain a risk.
	Style and Market Capitalisation							
	Global Growth vs. Value†			■				Relative valuations for value stocks remain attractive, but the gap has narrowed. Value stocks could weaken as inflation concerns give way to increasing recession risks. Mega-cap technology earnings have thus far proven to be less cyclically sensitive.
	Global Small-Cap vs. Large-Cap†					■		Small-cap stocks offer historically attractive relative valuations, more fully pricing in the slowing earnings growth environment. 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.

† 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 July 2022

Underweight — *Neutral* — *Overweight*

▼ or ▲ Month-Over-Month Change

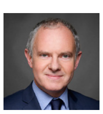
These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.

		Change	Underweight	Underweight	Neutral	Overweight	Overweight	
FIXED INCOME	Euro Government Bonds					■		We have been adding further duration given the reducing likelihood of the global economy dodging a recession.
	Euro Inflation Linked				■			Inflation expectations are expected to ease.
	Euro Investment-Grade (IG) Corporates			■				We have been reducing credit risk in expectation of further slowing growth, particularly in Europe.
	US IG Aggregate			■				Scope for rates in Europe will rise more than in the US. However, stronger inflation and economic growth are expected in the latter.
	Global High Yield				■			Credit fundamentals remain strong, default risk is increasing but remains low and yields are at attractive levels. However, spread volatility is expected to continue due to geopolitical, inflationary and growth concerns.
	EM Dollar Sovereigns					■		Select EMs look attractive and are supported by a prospective improvement in China's outlook as well as still-elevated commodity prices. However, geopolitical tensions and fiscal pressures remain risks.
	EM Local Currency					■		EM yields are at attractive levels amid central bank tightening and a risk-off environment. EM currencies are cheap but have had to contend with a stronger US dollar.
	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				■			While the euro seems cheap at present, the readjustment of ECB hiking expectations could keep its price versus the USD at these levels.
	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.

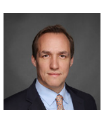
Past performance is not a reliable indicator of future performance.

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

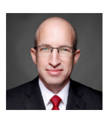
EUROPEAN INVESTMENT COMMITTEE



Quentin Fitzsimmons
Senior Portfolio Manager, Fixed Income Division

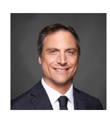


Andrew Keirle
Portfolio Manager, Emerging Markets Local Currency Bonds

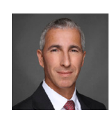


Yoram Lustig
Head of Multi-Asset Solutions, EMEA

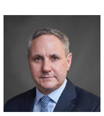
Tobias Mueller
Portfolio Manager, Equity Division



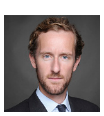
Ken Orchard
Senior Portfolio Manager, Fixed Income Division



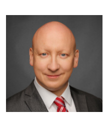
David Stanley
Portfolio Manager, European Corporate Bonds



Toby Thompson
Portfolio Manager, Multi-Asset Division

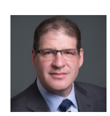


Mitchell Todd
Portfolio Manager, Equity Division



Michael Walsh
Solutions Strategist, EMEA

Tomasz Wieladek
International Economist



Lowell Yura
Head of Multi-Asset Solutions, North America

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.

ID0005293 (08/2022)
202208-2341586