



Global Asset Allocation: The View From the UK

May 2023

1 Market Perspective



- Slowing economic growth, lingering inflation and declining liquidity keep us cautious, while a still resilient labour market, solid consumer and corporate balance sheets and China reopening remain positives against otherwise negative sentiment.
- A widening gap in monetary policy is likely ahead as the Federal Reserve (Fed) is expected to pause after May and the Bank of Canada remains on hold, while the European Central Bank and Bank of England remain hawkish. Meanwhile, increased uncertainty around the Bank of Japan persists under new leadership as they evaluate yield curve control policy.
- Key risks to global markets include a sharp decline in growth, central bank missteps, persistent inflation, liquidity shock and geopolitical tensions.

2 Portfolio Positioning

As of 30 April 2023



- We maintain a cautious stance with an underweight to equities and government bonds in favour of cash. Equities remain vulnerable to a slowing economy and weaker earnings backdrop, while central banks' bias, albeit moderating, toward inflation fighting remains a potential headwind to bonds. Cash offers liquidity in an uncertain environment and still attractive yields.
- Within equities, we remain overweight areas of the market that offer attractive valuation support, including small-/mid-cap stocks, Japan and emerging markets.
- Within fixed income, we added to global high income given attractive yields and emerging market (EM) local currency bonds given appealing yields levels and relatively cheap EM currencies that may appreciate because of a weaker US dollar against narrowing growth and interest rate differentials as the Fed nears its anticipated terminal rate.

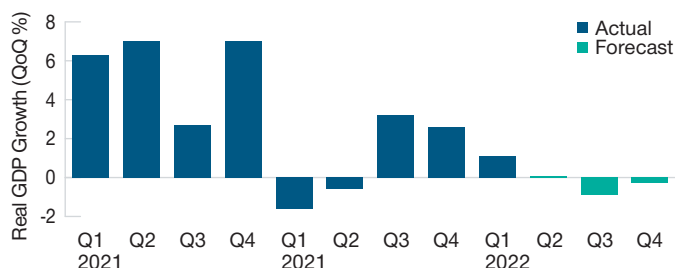
3 Market Themes

Looking for Direction

While the market narrative is that a recession is inevitable, especially in the US, economic data continue to be mixed with seemingly sufficient evidence to support both bulls and bears outlooks for the markets. Bulls continue to lean on evidence of a still robust labour market, strong consumer and corporate balance sheets, a better-than-expected earnings season and signs of moderating inflation supporting a pause in central banks' tightening. Meanwhile, bears cite lagging impacts of central bank tightening, regional banking turmoil, contractionary manufacturing data, still high inflation and a deeply inverted yield curve as top reasons why a deeper recession is coming. While we agree that the data remain mixed, the trend will likely continue to be negative into the back half of the year with employment softening and economic growth contracting. However, at this point, it is difficult to gauge the potential depth and duration of the contraction, leaving us broadly cautious as we keep an eye on data, looking for more direction.

Economic Growth Forecasts Indicate a Recession Coming*

As of 31 March 2023



Data provided are for illustrative and informational purposes only. There is no guarantee that any forecasts made will come to pass. Actual results may vary.

* Real gross domestic product (GDP) is represented by the GDP US Chained Index (QoQ).

† Employment Cost Index is represented by the Bureau of Labor Statistics Employment Cost Civilian Workers Index (YoY%). Unemployment Rate is represented by the US Unemployment Rate Total in Labor Force Seasonally Adjusted.

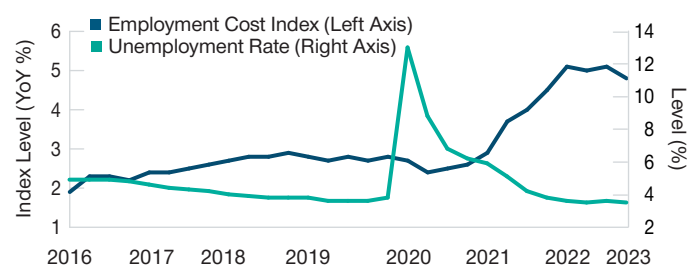
Source: Bloomberg Finance L.P.

Fissures Forming

Despite slowing economic growth amid an aggressive tightening campaign by the Fed, the labour market has remained resilient, especially with the unemployment rate anchored near 3.5%, but some fissures appear to be forming. Looking below the surface, peaking wage growth, declining job openings and mixed continuing claims data are telling us that the employment picture may be finally softening. Headlines of recent layoffs also indicate labour market weakness, although most of them have been concentrated in the higher-earning technology and financials sectors, while the lower-income and service-related job market remains tight. This is an unusual trend and a result of the lag in reopening from COVID, which has created a lack of supply in labour as services demand has returned. Despite this still positive undercurrent, we are expecting further softening in the labour market evidenced in our research of staffing companies seeing significant weakness in demand, usually an early sign of pending deterioration. This should be a welcome sign for the Fed as a softening labour market will surely ease wage pressures and ultimately help on the disinflation front.

Wage Growth Peaking With Still Low Unemployment†

As of 31 March 2023





REGIONAL BACKDROP

Positives

Negatives

United Kingdom

N

- Pressure from gas and oil prices has decreased
- Manufacturing PMIs are improving
- Inflation expectations have decreased

- Inflation remains elevated
- Fiscal consolidation and tighter financial conditions may weigh
- House price declines in 2023 appear likely
- Brexit adjustments continue to weigh on the economy

Europe

U

- Lower energy costs
- Fiscal spending is rising
- Equity valuations remain attractive
- Manufacturing Purchasing Managers' Indexes (PMIs) are improving

- Inflation remains elevated, particularly core inflation
- Monetary policy remains restrictive
- Geopolitical uncertainty is heightened

United States

U

- Consumer spending remains strong
- Labour market has been resilient
- Services sector remains robust
- Yields may have peaked

- Banking sector concerns impact on credit availability
- Inflation more persistent than expected
- Labour supply remains scarce
- Debt ceiling standoff creates additional uncertainty

Japan

O

- Equity valuations remain attractive
- Uptick in inflation, particularly increase in wages
- Inflows to the stock market from foreign investors
- Corporate governance continues to gradually improve

- Earnings expectations could be revised lower
- Monetary policy normalisation may surprise the market
- A stronger yen may weigh on the export sector

Asia Pacific ex-Japan

N

- China's economic recovery is ongoing, with solid data from the services sector. The tone of policymakers is also supportive
- China market valuations are undemanding, while earnings could surprise on the upside
- Australia's labour market is tight but not yet seeing wage pressure. The economy remains surprisingly resilient, with some signs of bottoming house prices

- Some mixed signals may raise doubts about the sustainability of China's economic rebound, particularly related to exports
- Geopolitical risks remain with US-China tensions top of mind
- Australia consumer spending is at risk with mortgage rates being reset. Latest earnings results also highlight concerns on margins going forward

Emerging Markets

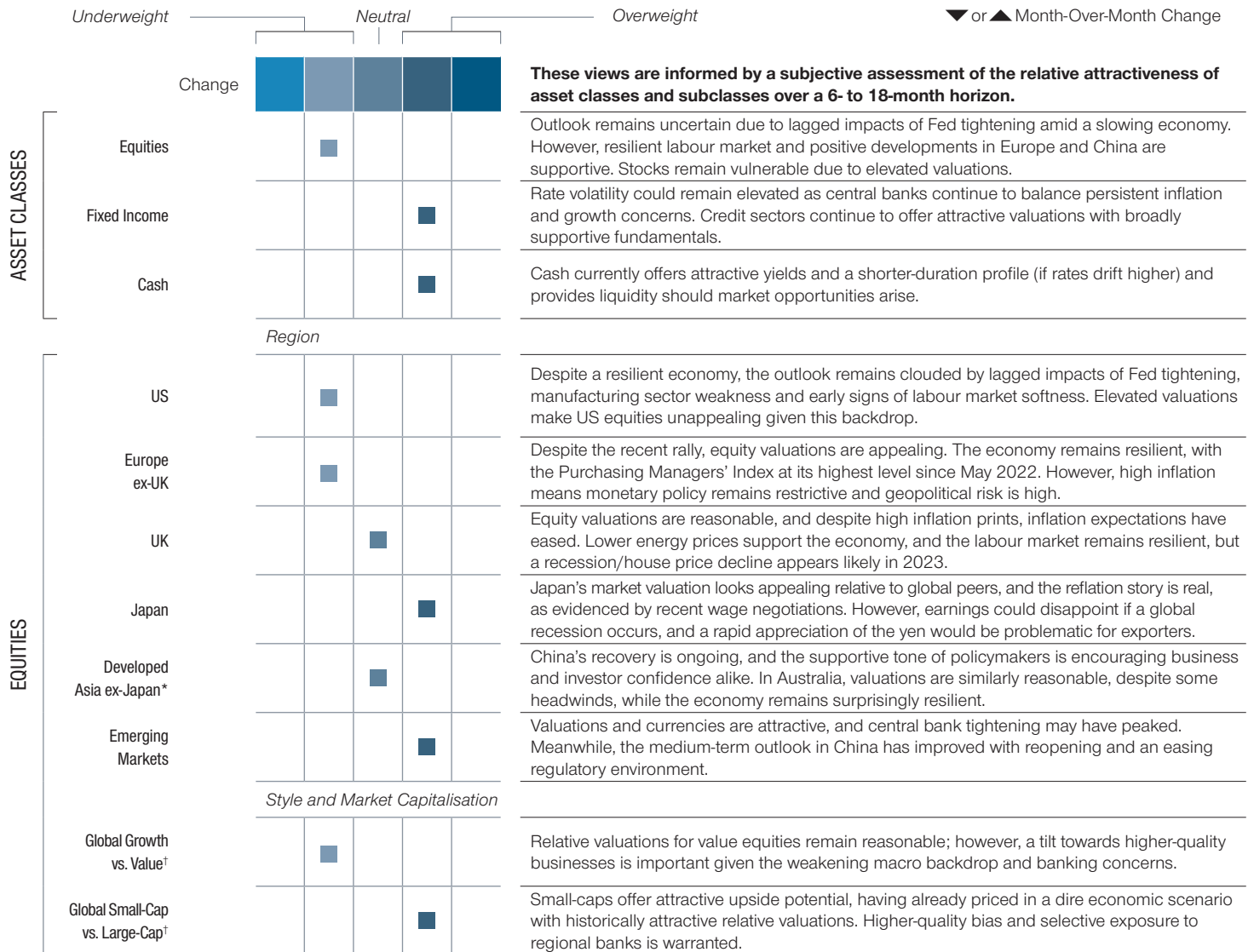
O

- China reopening has proven to be faster than expected
- Economic data are surprising to the upside
- Equity valuations are attractive relative to the US
- Chinese regulatory policy is more supportive

- Global trade could weaken with tighter monetary conditions
- Geopolitical risks remain elevated
- Credit formation in China remains weak
- Brazilian politics are becoming less business friendly

U Underweight **N** Neutral **O** Overweight

Views are informed by the Asset Allocation Committee and regional investment committees (United Kingdom, Europe, Australia, Japan and Asia) and reflect the equity market.



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.

The asset classes across the equity and fixed income markets shown are represented in our multi-asset portfolios. Certain style and market capitalisation asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.



UK INVESTMENT COMMITTEE POSITIONING

As of 30 April 2023



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.



UK INVESTMENT COMMITTEE



Elias Chrysostomou
Portfolio Analyst,
Equity 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.RowePrice®

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 which is regulated by the Dubai Financial Services Authority as a Representative Office. 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.

© 2023 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.