

Global Asset Allocation: The View From the UK

May 2026

Outlook

- Markets have remained largely resilient despite ongoing geopolitical tensions continuing to threaten higher inflation and weigh on growth, leading us to modestly trim European equities, because Europe may be more sensitive to global energy prices on a relative basis.
- The global economy continues to show pockets of resilience, supported by a steady consumer, fiscal spending, and ongoing investment, particularly in artificial intelligence (AI), though growth is moderating and becoming more uneven across regions.
- Monetary policy remains steady with central banks largely in a holding pattern as they assess the path of inflation, while near-term inflation pressures persist in some areas, longer-term expectations remain relatively contained.
- Key risks include a further escalation in geopolitical tensions, renewed inflationary pressures, greater reliance on a narrow set of growth drivers, potential labour market deterioration, emerging liquidity concerns in parts of private markets, and political instability in the UK.

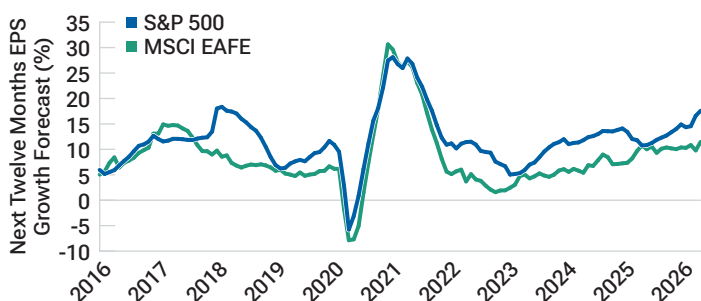
Themes driving positioning

America's market moat

We have neutralised our US equity underweight, as stronger earnings momentum, economic resilience reinforced by AI leadership, better energy insulation, and supportive fiscal policy improve the relative case. Earnings revisions are accelerating more quickly in the US, with earnings per share (EPS) growth expected to reach its strongest pace since the COVID-19 rebound. AI leadership remains US-centred, but its depth extends beyond semiconductor demand and into power generation, data centre construction, supporting infrastructure, and broader capital goods, strengthening the domestic capital spending backdrop. The US is also better insulated from a Strait of Hormuz shipping disruption, given its status as an energy exporter and lower risk of shortages relative to Europe, Australia, and parts of Asia. Fiscal policy, including measures under the 'One Big Beautiful Bill,' should continue to support domestic demand. While non-US equities benefit from cheaper valuations and increased defence spending, the US 'moat' of stronger earnings momentum, AI leadership, energy insulation, and policy support is increasingly compelling.

Earnings edge¹

As of 30 April 2026



Past performance is not a guarantee or a reliable indicator of future results.

¹ Sources: FactSet, MSCI and S&P. Please see additional disclosures for more information.

² Sources: Macrobond/U.S. Bureau of Labor Statistics.

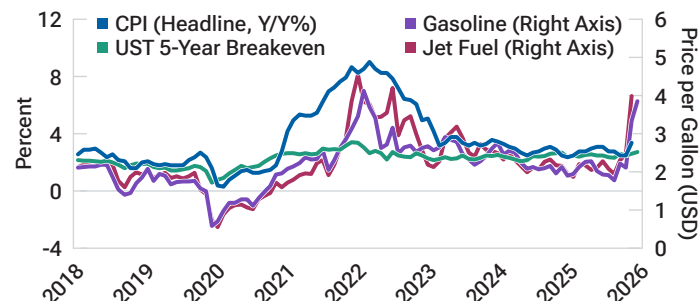
FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.

Blind spot

Inflation risks represent a potential market blind spot, given uncertainty around the persistence of the energy supply shock. Two months into a near-complete shutdown of the Strait of Hormuz, oil movement remains severely disrupted, creating regional shortages and broader price pressures reflected in gasoline, jet fuel prices, and utility bills, which feed through to consumers and businesses. Gulf states are also major fertiliser suppliers; shortages could add another layer of pressure through higher food prices. While markets are hopeful for a quick resolution, oil flows may still take several months to return to pre-war levels, suggesting this shock may not fade quickly. At the same time, energy, defence, and infrastructure spending, as well as AI-related demand for more power, data centres, equipment, and labour are additional inflationary forces in the US. Despite these risks, longer-term inflation expectations remain in line with pre-war trends. Barring a recession, inflation prints could surprise higher and weigh on activity. Against this backdrop, we have retained our inflation protection positioning.

Fuelling inflation risk²

As of 30 April 2026



Asset class positioning

Equities



- We remain modestly overweight on equities, reflecting a balanced view between decent fundamentals, including a constructive earnings outlook and fiscal stimulus, against elevated valuations and ongoing geopolitical tensions in the Middle East.
- Within equities, we increased the underweight to Europe ex-UK because Europe is more sensitive to global energy disruptions. We neutralised the US from an underweight and added to emerging markets because the US and China are in a relatively better position to withstand the disruption and continue to benefit from AI spending.

Fixed income



- We maintain a short duration profile through underweights to gilts, US and European core bonds, along with an overweight to high yield.
- Within fixed income, we remain overweight emerging market local currency because of compelling yields and expectations for continued US dollar weakness.

Cash



- We still find cash yield levels reasonably attractive, and maintain a modest overweight position given our negative view on government bonds and duration.

Equity market views

	Underweight	Neutral	Overweight	
Change				▼ or ▲ Month-Over-Month Change
	<i>Regions</i>			
US ▲		N		Despite elevated valuations, earnings and fiscal stimulus remain supportive. However, if energy prices remain elevated, inflation and policy risks could rise.
Europe ex-UK	U			Fiscal support and attractive valuations offer tailwinds, though if energy prices stay elevated, supply risks could meaningfully weigh on growth.
UK			O	Valuations are attractive, and the longer-term earnings growth outlook is healthy. However, budget concerns remain a significant headwind, the inflation outlook remains volatile and political instability adds to uncertainty.
Japan			O	Positive growth and fiscal support aid equities, though if energy costs remain elevated, import pressures and tighter policy could weigh on momentum.
Australia	U			Attractive valuations and resource demand support equities, though if energy prices remain elevated, regional demand risks and policy constraints may weigh.
Emerging Markets (EM)			O	Global growth and stable currencies support equities, though if energy prices remain elevated, inflation and external pressures could increase.
China		N		Policy support and improving activity help bolster sentiment. Anti-involution efforts bode well for profit growth over the medium term. However, rising energy costs and structural housing market weakness will be headwinds.
	<i>Style and Market Capitalisation</i>			
Global Growth vs. Value ¹			O	Tailwinds are increasing due to the shift to agentic AI, but scepticism over the sustainability of massive capex spending should limit valuation expansion. The sector is supported by fiscal policy, reshoring and capex. However, the prospect for Fed cuts has weakened and the duration of the Iran conflict could weigh on growth.
Global Small-Cap vs. Large-Cap ¹			O	Small-cap earnings are improving due to deregulation, fiscal stimulus and broadening AI benefits. However, cyclical strength could be impacted by higher energy costs. Fundamentals are strong and accelerating among AI infrastructure beneficiaries. However, scrutiny over rising capex is coinciding with mounting competitive risks.

Past performance is not a guarantee or a reliable indicator of future results.

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

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.

Fixed income market views

Asset Class	Underweight Neutral Overweight					▼ or ▲ Month-Over-Month Change
	Change	U	N	O		
UK Gilts		U				The spike in energy prices, the political instability in the UK and a negative view on global bonds all support an underweight to gilts. The weak economy and wage growth coming down faster than expected are supportive.
UK Inflation Linked			N			The war in the Middle East introduces uncertainty about the direction of inflation because of its impact on energy prices and fears of an inflationary shock.
UK Investment-Grade (IG) Corporates			N			Credit fundamentals are still supportive, but spreads are expensive and geopolitical uncertainty will potentially weigh on the asset class.
US IG Aggregate		U				Rising inflation expectations and fewer Fed cuts are placing upward pressure on rates. Credit fundamentals are still supportive, with spreads expensive relative to history.
European IG Aggregate	U					Elevated energy prices and rising inflationary pressures are likely to push the European Central Bank (ECB) to hike interest rates. A rise in bond supply, the prospects of positive data surprises due to German fiscal policy expansion, and upward pressure on global bond yields all further support an underweight to euro government bonds.
Global High Yield				O		Tight spreads may limit further potential upside, but the sector continues to offer a healthy yield, measured default expectations and a low duration profile.
EM Dollar Sovereigns			N			Attractive yields and fundamentals are supportive, though the geopolitical backdrop could create a bifurcated environment.
EM Local Currency				O		Compelling yields combined with expectations for a weaker US dollar point to a favourable outlook. However, geopolitical tensions could weigh on sentiment.
EM Corporates			N			The sector offers a shorter duration than that of EM dollar sovereigns. Spreads are tight, but total yields remain attractive relative to some other fixed income sectors.
Currency Market Views						
GBP vs. USD				O		We remain overweight on the pound given continued US dollar weakness. The interest rate differential between the UK and the US is on par. One risk to our position is an escalation of the war in Iran and continued flight-to-quality to the US dollar.
GBP vs. EUR			N			The interest rate differential favours the GBP. The GBP is attractively valued relative to the EUR. However, the bar is lower for European data to surprise to the upside than for the UK. Essentially, we see German fiscal policy coming through.
GBP vs. JPY			N			We remain neutral on the yen. Speculation on foreign-exchange intervention by Japanese authorities to stem weakness in the currency adds to uncertainty. Elevated energy costs could push up inflation in Japan, leading the Bank of Japan to adjust its monetary policy. As a safe-haven currency, the yen can find support during periods of heightened geopolitical uncertainty.

Past performance is not a guarantee or a reliable indicator of future results.

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

European Investment Committee



Matt Bance
Portfolio Manager,
Multi-Asset Division



Elias Chrysostomou
Associate Portfolio Manager,
Equity Division



Andrew Keirle
Portfolio Manager, Emerging
Markets Local Currency Bonds



Yoram Lustig
Head of Global Investment
Solutions, EMEA



Tobias Mueller
Director of Research,
International Equities



Ken Orchard
Head of International
Fixed Income



Toby Thompson
Portfolio Manager,
Multi-Asset Division



Michael Walsh
Portfolio Manager,
Multi-Asset Division



Tomasz Wieladek
International Economist

INVEST WITH CONFIDENCE™

T. Rowe Price identifies and actively invests in opportunities to help people thrive in an evolving world, bringing our dynamic perspective and meaningful partnership to clients so that they can feel more confident.

Additional Disclosures

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

S&P, MSCI and FactSet do not accept any liability for any errors or omissions in the indexes or data, and hereby expressly disclaim all warranties of originality, accuracy, completeness, timeliness, merchantability, and fitness for a particular purpose. No party may rely on any indexes or data contained in this communication. Visit troweprice.com/marketdata for additional legal notices and disclaimers.

Important Information

This material is being furnished for general informational and/or marketing purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice. 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 guarantee or a reliable indicator of future results.** 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 May 2026 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.

South Africa—Issued in South Africa by T. Rowe Price International Ltd (TRPIL), Warwick Court, 5 Paternoster Square, London EC4M 7DX, is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (Financial Services Provider (FSP) Licence Number 31935), authorised to provide "intermediary services" to South African Investors. TRPIL's Complaint Handling Procedures are available to clients upon request. The Financial Advisory and Intermediary Services Act Ombud in South Africa deals with complaints from clients against FSPs in relation to the specific services rendered by FSPs. The contact details are noted below: Telephone: +27 12 762 5000, Web: www.faisombud.co.za, Email: info@faisombud.co.za

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, Warwick Court, 5 Paternoster Square, London EC4M 7DX which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

© 2026 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, the Bighorn Sheep design, and related indicators (see troweprice.com/ip) are trademarks of T. Rowe Price Group, Inc. All other trademarks are the property of their respective owners. Use does not imply endorsement, sponsorship, or affiliation of T. Rowe Price with any of the trademark owners.

CON01248754
202605-5482129