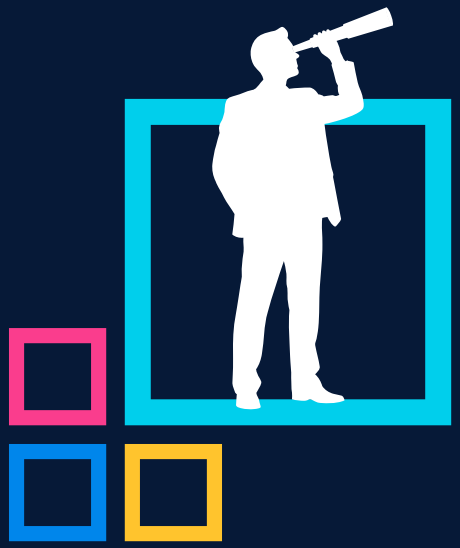
T.RowePrice

Global Asset Allocation Viewpoints: UK

Higher yields bring duration close to neutral

November 2026



How we're positioned

▼ = this month. ▽ = last month (not shown if positioning is unchanged).

Equities

Underweight | Neutral | **Overweight** ▼

Earnings support a modest overweight

- Resilient economic growth and broadening earnings continue to support equities.
- Significant artificial intelligence (AI)-related investment remains a key driver of economic growth and corporate profits.
- A prolonged Middle East conflict keeps energy prices and inflation elevated, potentially prompting further Federal Reserve (Fed) and Bank of England (BoE) tightening.
- Elevated valuations and increasing dependence on AI-driven growth warrant some caution.

Bonds

Underweight ▼ | Neutral | Overweight

A more balanced view on rates

- Maintain an overall underweight to bonds, primarily concentrated in European bonds and emerging market debt.
- Increased duration by adding to U.S. investment grade bonds following the sharp rise in yields.
- Reduced emerging market debt to an overall underweight to fund the additions to high-quality U.S. and European bonds.

Cash

Underweight | **Neutral** ▼ | Overweight

Staying flexible in volatile markets

- Cash yields remain reasonably attractive, although short-term bonds offer somewhat better income opportunities.

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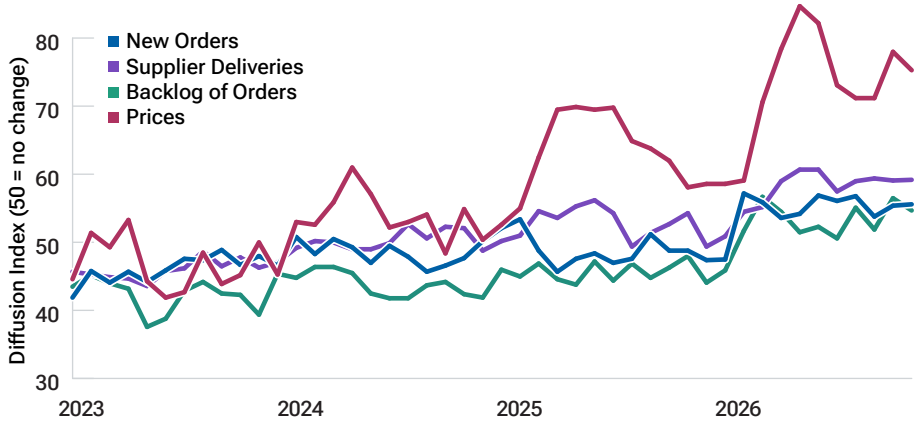
Key themes

Growth meets scarcity

Resilient growth and broadening earnings continue to favour equities over bonds. However, strong demand for power, infrastructure, and skilled labour is increasingly testing supply constraints, slowing the pace at which investment translates into additional capacity. While these bottlenecks create pricing power for some companies, they also risk sustaining inflation and keeping bond yields elevated. The key question is whether supply can catch up with demand before these pressures become a headwind to growth.

(Fig. 1) Demand outpaces supply, sustaining price pressures

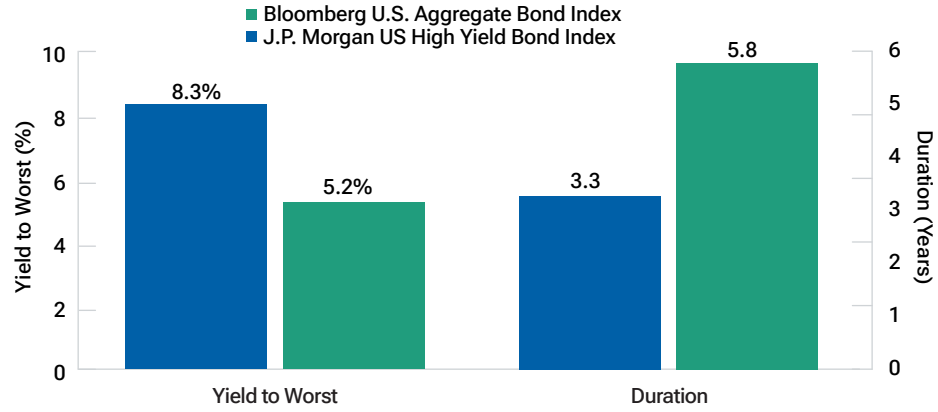


As of October 31, 2026.
Source: ISM Manufacturing PMI® sub-indexes, monthly, via Macrobond. Please see the Additional Disclosures for additional legal notices and disclaimers.

Carry without the duration

Isolated stress among some lower-quality borrowers, including those tied to the expanding AI financing ecosystem, does not necessarily signal a broader credit downturn. Resilient growth and stabilising credit fundamentals continue to support high yield, with attractive income providing a cushion against volatility even without further spread tightening. Shorter duration also reduces sensitivity to upward pressure on Treasury yields, reinforcing our relative preference for high yield over government bonds.

(Fig. 2) High yield can offer more income with less rate sensitivity



As of October 31, 2026. You cannot invest directly in an index.
Sources: J.P. Morgan and Bloomberg Index Services Limited. Please see the Additional Disclosures for additional legal notices and disclaimers.

Equities: Regions

▼ = this month. ▽ = last month (not shown if positioning is unchanged).

Region	Positioning	Rationale
U.S.	Underweight · Neutral · **Overweight** ▼	Strong earnings and resilient growth support U.S. equities, although concentrated AI leadership warrants selectivity. More attractive valuations abroad are tempered by higher energy costs and tighter monetary policy.
Europe ex-UK	Underweight · **Neutral** ▼ · Overweight	Fiscal expansion and improving manufacturing support European equities, but modest growth, higher energy costs and tighter monetary policy continue to constrain the upside.
UK	Underweight · Neutral · **Overweight** ▼	Attractive relative valuations, healthy earnings, and a defensive sector mix across financials, healthcare, and energy are supportive, while fiscal concerns and inflation continue to weigh on sentiment.
Japan	Underweight · Neutral · **Overweight** ▼	Earnings and returns on equity are improving, but strong performance has stretched valuations, particularly in technology. A stronger yen and tighter monetary policy add risk.
Australia	**Underweight** ▼ · Neutral · Overweight	Commodity exposure and a resilient banking sector offer some support, but elevated valuations, weaker earnings momentum, and tighter monetary policy into a slowing economy weigh on the outlook.
Emerging Markets (EM)	Underweight · Neutral · **Overweight** ▼	Attractive valuations and exposure to AI infrastructure demand support the outlook, although further Fed tightening, dollar strength, and concentrated AI leadership pose risks.
China	Underweight · Neutral · **Overweight** ▼	Low valuations and long-term growth in technology, from AI to semiconductors, are supportive, but a weak property sector, low consumer confidence, and targeted rather than broad stimulus limit the recovery.

Equities: Styles and Market Cap

▼ = this month. ▽ = last month (not shown if positioning is unchanged).

Style and Market Cap	Positioning	Rationale
Global Growth vs. Value		For growth, earnings growth is exceptional, supported by continued AI investment and adoption. Improved relative valuations are supportive, though elevated expectations and questions around the returns on AI capital expenditure remain risks. For value, broadening earnings and cyclical strength remain supportive, including some beneficiaries of AI investment. However, valuations have become less compelling.
Global Small- vs. Large-Cap		For small-caps, broadening growth, fair valuations and capital-markets activity remain supportive. Higher rates remain the key risk for smaller, more leveraged companies. For large-caps, fundamentals remain very strong and are broadening outside mega-cap leaders, but elevated valuations and expectations leave less room for disappointment.

Bonds: Regions and Sectors

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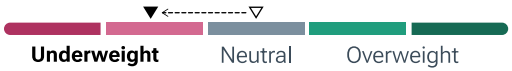
Regions and Sectors	Positioning	Rationale
UK Gilts		Weak growth, loose labour markets, weak corporate pricing power and tight fiscal policy should all help mitigate the transmission of energy prices to UK inflation. UK rates also remain high, relative to other core rate markets. While inflation may rise, the BoE will likely be more dovish than market expectations.
UK Inflation Linked		Inflation expectations, as reflected in breakeven rates, remain anchored, while inflation pressures driven by elevated and volatile energy prices remain a risk.
UK Investment-Grade (IG) Corporates		Yields are attractive and credit fundamentals are supportive, but tight spreads and continued upward pressure on long-term rates warrant a cautious stance.
U.S. IG Aggregate		Attractive yields and supportive fundamentals are offset by tight spreads, a flat yield curve, and the risk of higher long-term rates. Heavy AI-related issuance adds a further technical headwind.
European IG Aggregate		The energy shock is likely to push up inflation, amplified by German fiscal expansion and companies' generally solid pricing power. However, fiscal and political strains in France may make the European Central Bank (ECB) more cautious, given past hiking cycles that had unintended consequences. We have therefore reduced our underweight to European bonds.
Global High Yield		Healthy fundamentals, strong corporate profits, and a shorter duration profile support high yield. With spreads tight, income is likely to drive returns, while higher yields and expected new issuance may create opportunities.
EM Dollar Sovereigns		We have moved to underweight to help fund the addition to high-quality U.S. and European bonds.
EM Local Currency Bonds		Compelling yields remain supportive, while local currencies could benefit from an eventual softer U.S. dollar; elevated global rates remain a near-term risk.
EM Corporates		The sector offers a shorter duration than EM dollar sovereigns, and total yields remain attractive relative to some other fixed income sectors. However, spreads are tight, and we have moved to underweight to help fund the addition to high-quality U.S. and European bonds.

Currency

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Currency	Positioning	Rationale
GBP vs. USD		Current valuation, and negative tactical momentum for the USD supports the GBP. Heightened geopolitical uncertainty and the potential for a flight-to-quality to the USD during periods of stress could support the USD, but on balance we favour the GBP.
GBP vs. EUR		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.
GBP vs. JPY		We remain neutral on the yen. 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 and currency intervention.

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

Fig. 1: New Orders >50 = growing orders; Supplier Deliveries >50 = slower deliveries; Backlog >50 = growing backlogs; Prices >50 = rising input prices.

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