

## Global Asset Allocation Viewpoints December 2024

## **1** Market Perspective

As of 30 November 2024

- While global growth remains broadly resilient, with inflation trending lower, paths forward may vary as policy impacts create divergence.
- U.S. growth expectations higher on the back of pro-growth policy hopes, while inflation remains moderately above target. European
  and Japanese growth remain soft. Chinese policy expected to remain supportive to bolster growth.
  - U.S. Fed easing to lag other central banks amid better growth backdrop, while ECB likely to act faster amid economy facing weaker growth and lower inflation. The BoJ anticipated to remain on its divergent path, with incoming inflation data supporting further hikes.
  - Key risks to global markets include elevated geopolitical tensions, central bank policy missteps, and uncertainty around trade policies leading to a reacceleration in inflation or hampering of growth.

# **2** Portfolio Positioning

As of 30 November 2024

As of 30 November 2024



- We have a modest risk-on stance through our overweight to stocks versus bonds.
- Despite broadly elevated equity valuations, we find opportunities in a widening market, supported by easing monetary policy, resilient growth, while bonds remain vulnerable to higher rates.
- Within equities, we favor more cyclical, value-oriented areas of the market as we expect a broadening of participation away from mega-cap technology companies.
- We maintain an overweight to cash relative to bonds. Cash yields remain attractive even as the Fed embarks on easing as we expect a
  more gradual path.
- While valuations are stretched, we continue to favor credit within fixed income, given still solid fundamentals and attractive yield levels.

## **3** Market Themes

#### Here Comes Santa Pause

The resiliency of economic growth and rising expectations for pro-growth policies seem to be having an impact on Fed policymakers. Chairman Powell and other Fed members' recent comments have been notably more upbeat, highlighting the strength of the economy and labor markets, as inflation moves closer to target calling into question how many more cuts are really needed. While we expect an additional cut this month, it seems likely they take a "wait and see" approach from here amid heightened policy uncertainty, some of which could reignite inflation. And while expectations of this easing cycle have moved dramatically up and down over the past few years given the mixed data, its unlikely to get any clearer anytime soon. So while some investors may be disappointed if they get a pause in their stocking this holiday, they may really not like what ultimately could come at the end of it–a potential hike?

#### Who Needs a Rate Cut?



#### Joy to the World?

As we enter the new year, consensus is even stronger that U.S. economic and market exceptionalism will continue their dominance. U.S. election results have fueled that view as pro-growth policies are expected to boost the domestic economy, while the rest of the world may face headwinds from U.S. trade policies and a stronger dollar. This comes on top of several factors which have been holding back markets outside the U.S. including weaker growth, political instability, regional wars, demographics, and fiscal consolidation to name a few. But what if all that is going against these markets just happens to not be as dire next year? While amid the current policy uncertainty it is hard to weigh the risk, relative valuations are on their side, and consensus seems extremely bearish, which if things do show some signs of improvement could quickly bring some joy to world equities beyond the U.S. for a change.



#### Past performance is not a reliable indicator of future performance.

Source: Bloomberg Finance L.P., S&P and MSCI. Please see Additional Disclosures for more information.

<sup>1</sup> U.S. Equities are represented by the S&P 500 Index. Global ex-U.S. Equities are represented by the MSCI ACWI ex-U.S. Index.

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1



V	ïews	Positives	Negatives
United States	Ν	<ul> <li>Resilient corporate earnings</li> <li>Fed cutting rates</li> <li>Potential for deregulation and lower corporate taxes</li> </ul>	<ul> <li>Stock valuations have become challenging</li> <li>Credit trends are weakening</li> <li>Political uncertainty is heightened</li> </ul>
Canada	N	<ul> <li>Monetary policy expected to ease further</li> <li>Inflation has moderated</li> <li>Wage growth has moderated to sustainable levels</li> </ul>	<ul> <li>Unemployment is still rising</li> <li>Consumer debt levels remain a concern</li> <li>Equity valuations are elevated</li> </ul>
Europe	U	<ul> <li>Monetary policy expected to ease further</li> <li>Unemployment remains low</li> <li>Valuations are reasonable</li> </ul>	<ul><li>Economic growth remains weak</li><li>Geopolitical uncertainty is heightened</li><li>Earnings growth is structurally weak</li></ul>
United Kingdom	Ν	<ul> <li>Monetary policy expected to ease further</li> <li>Inflation has moderated</li> <li>Economic outlook is improving</li> </ul>	<ul> <li>Fiscal consolidation may need to be accelerated</li> <li>Earnings growth is structurally weak, with minimal tailwinds from innovative technologies</li> </ul>
Japan	0	<ul> <li>Reflationary environment continues</li> <li>Corporate governance improvements continues</li> <li>Valuations are supportive</li> </ul>	<ul> <li>Political instability is impacting foreign investment flows</li> <li>BoJ will maintain a hawkish bias due to strong wage growth</li> <li>Manufacturing indicators are weak due to a drop in global demand</li> </ul>
Australia	U	<ul> <li>China stimulus has buoyed commodity prices</li> <li>Fiscal stimulus has provided much needed support</li> <li>The Australian dollar should strengthen</li> </ul>	<ul> <li>Monetary easing is on hold</li> <li>Valuations are elevated despite earnings weakness</li> <li>Margins are at risks due to elevated wage growth</li> </ul>
Emerging Markets	0	<ul> <li>Further stimulus efforts from China are likely</li> <li>Monetary policy is loosening in many emerging markets</li> <li>Valuations are attractive</li> </ul>	<ul> <li>Export demand from developed markets remains muted</li> <li>Geopolitical risks are rising</li> <li>U.S. tariffs could provide an additional headwind to global trade</li> </ul>

0 Overweight

Underweight

Views are informed by the Asset Allocation Committee and Regional Investment Committees (United Kingdom, Europe, Australia, Japan and Asia) and reflect the equity market.

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N Neutral

# 5 Asset Allocation Committee Positioning

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EM Local Currency       Image: Central bank easing could provide a tailwind, while U.S. dollar strengt a headwind.	th poses	g could provide a tailwind, while U.S. dollar strength		0		EM Local Currency	

<sup>1</sup> For pairwise decisions in style & market capitalization, positioning within boxes represent 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 & market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework. FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.

### Portfolio Implementation As of 30 November 2024

Equity	Neutral Weight	Tactical Weight	Relative Weight
U.S. Large-Cap	52.5%	51.5%	-1.0%
U.S. Small-Cap <sup>1</sup>	13.5	13.3	-0.2
Dev. Ex-U.S. Large-Cap	21.0	19.1	-1.9
Dev. Ex-U.S. Small-Cap	4.0	4.3	+0.3
Emerging Markets	4.0	5.1	+1.1
Real Assets Equities	5.0	6.8	+1.8
Total Equity:	100.0%	100.0%	



Tactical Allocation Weights

Total Fixed Income:	100.0%	100.0%		Developed Ex-U.S. IG
Emerging Markets - (Local/Hard Currency)	10.0	10.5	+0.5	
Floating Rate Loans	3.0	3.3	+0.3	
Global High Yield	7.0	9.5	+2.5	U.S. Treasury Long - 10.0%
U.S. Treasury Long	10.0	10.0	0.0	
Developed Ex-U.S. IG (Hedged)	15.0	15.0	0.0	9.5%
U.S. Core Investment Grade	55.0%	51.8%	-3.3%	- Global High Yield
Fixed Income	Neutral Weight	Tactical Weight	Relative Weight	Emerging Markets 10.5% Floating Rate Loans 3.3% U.S. Core Investment Grade 51.8%
				Emerging Markets

<sup>1</sup> U.S. small-cap includes both small- and mid-cap allocations.

Source: T. Rowe Price. Unless otherwise stated, all market data are sourced from FactSet. Copyright 2024 FactSet. All Rights Reserved.

These are subject to change without further notice. Figures may not total due to rounding.

Neutral equity portfolio weights representative of a U.S.-biased portfolio with a 70% U.S. and 30% international allocation; includes allocation to real assets equities. Core fixed income allocation representative of U.S.-biased portfolio with 55% allocation to U.S. investment grade.

Source: MSCI. MSCI and its affiliates and third party sources and providers (collectively, "MSCI") makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. Historical MSCI data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be fueled on as such. The S&P Index is a product of S&P Dow Jones Indices LLC, a division of S&P Global, or its affiliates ("SPDJI") and has been licensed for use by T. Rowe Price. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). This product is not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the S&P Index.

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