



Global Asset Allocation Viewpoints

February 2024

1 Market Perspective

As of 31 January 2024



- Global growth expectations have stabilized, near the same levels as last year, with disinflation gaining momentum hinting at a global "soft landing."
- U.S. growth remains most resilient amongst developed economies while European growth remains weak. Emerging markets growth outlook is improving, with hopes for stabilization in China driven by policy support.
- Progress on inflation and stable growth gives support for the U.S. Fed and other central banks to pivot toward rate cuts. European Central Bank is moving closer to easing as it balances fragile growth and inflation. Bank of Japan cautiously eyes exiting negative rate policy in the first half of this year.
- Key risks to global markets include impacts of geopolitical tensions, central banks' policy divergence, a retrenchment in growth, resurgence in inflation, and trajectory of Chinese growth and policy.

2 Portfolio Positioning

As of 31 January 2024



- We maintain a balanced view on equities supported by positive earnings trends and loosening financial conditions, against a backdrop of elevated valuations.
- We trimmed our overweight to emerging market equities and added modestly to real assets. Despite attractive valuations and policy commitment from Chinese officials, we expect a tepid recovery in growth.
- We also trimmed our overweight to U.S. small-caps and added to U.S. large-cap value as we think a firming cyclical environment, where both growth and inflation stabilize from here, could favor value stocks.
- Within fixed income, we remain modestly overweight cash relative to bonds. Cash continues to provide attractive yields and liquidity to take advantage of potential market dislocations.
- Within fixed income, we remain overweight high yield and emerging market bonds on still attractive absolute yield levels and reasonably supportive fundamentals.

3 Market Themes

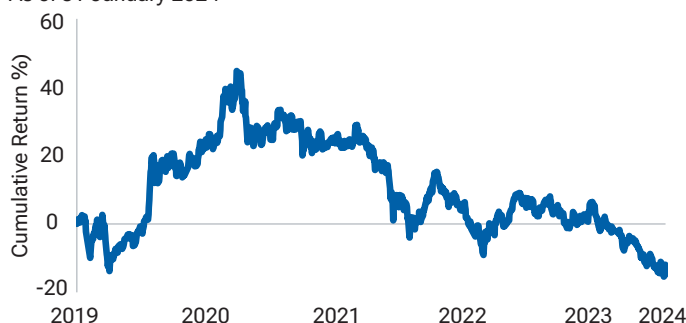
As of 31 January 2024

No Quick Fix

Despite a range of stimulus measures rolled out since the second half of 2023, China's economy remains challenged as little so far has led to a meaningful turnaround in activity or its stock market's decline. While Chinese officials pledge more aggressive support, investors are becoming increasingly concerned as there seems to be a disconnect with consumer confidence sliding along with stock prices—slipping to five-year lows. While China's troubled property sector remains at the crux of the country's current issues, record youth unemployment above 20%, a declining population, and deflationary pressures caused by weak domestic and export demand have added to the list of headwinds. And while recent data has shown somewhat of a stabilization in declining home prices in response to stimulus measures, sales remain weak and recent news surrounding the forced liquidation of Evergrande—the country's largest property developer—is yet another challenge to the beleaguered sector. While policymakers look to shore up the foundation of the world's second largest economy this year, a "quick fix" is unlikely to be enough, leaving investors hopeful for more substantial policy changes to bring more sustainable growth to China.

Chinese Equities Seeing Weakness Amid Policy Uncertainty¹

As of 31 January 2024



Keep On Keeping On

After a strong fourth quarter rally on rate cut hopes, investors turned a bit skittish at the start of 2024 on better-than-expected economic data pushing out those hopes—but it has since rallied back sending the S&P 500 to record highs. It is not surprising to see equity markets cheering the growing prospects of a "soft landing" with growth intact and inflation easing, giving the Fed the greenlight to loosen financial conditions in coming months. Companies too are proving resilient with earnings expectations improving and easing costs helping to boost margin expansion this year. Big Tech earnings and AI euphoria are also lending support. While the momentum may continue, extended valuations and complacency could leave markets ripe for correction. There is a lot riding on the Fed keeping the course on easing that remains vulnerable to incoming data, geopolitical flashpoints are increasing across the globe and the U.S. is nearing another contentious election in coming months. But for now, it looks like stocks could keep on keeping on, looking through the risks, pointing to the positives on the both the economic and earnings front.

S&P 500 Index Hit New Highs in 2024²

As of 31 January 2024



Past performance is not a reliable indicator of future performance.

¹Source: Bloomberg L.P. Data represented by the CSI 300 Index.

²Source: Bloomberg L.P. Data represented by the S&P 500 Index. Please see Additional Disclosures for more information about this sourcing information.

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4 Regional Backdrop

As of 31 January 2024



Views

Positives

Negatives

United States

N

- Federal Reserve expected to cut soon
- Consumer spending remains strong
- Labor market has been very resilient
- Earnings expectations are increasing

- Lagged effects of monetary policy remain a risk
- Stock valuations have become challenging
- Wage growth could pressure corporate margins

Canada

N

- Monetary tightening is close to a peak
- Inflation is gradually moderating

- Economic growth has slowed significantly
- Consumer savings balances are fading sharply
- Unemployment has increased recently

Europe

U

- Inflation continuing to cool
- European Central Bank likely finished hiking
- Labor market has been resilient

- Inflation remains elevated, particularly core inflation
- Monetary policy is restrictive
- Economic growth is slowing

United Kingdom

N

- Inflation has begun to moderate
- Bank of England may be finished hiking
- Labor market has been resilient

- Fiscal consolidation may need to be accelerated
- Tight labor markets could keep wage inflation elevated
- Bank of England may be forced to keep rates higher

Japan

O

- Economy benefitting from uptick in inflation
- Corporate governance continues to gradually improve
- Equity valuations remain attractive

- Monetary policy becoming incrementally tighter
- Yen weakness has weighed on equity market returns
- Earnings expectations may need to be revised lower

Australia

N

- Resilient housing market supporting wealth effect
- Fiscal stimulus likely to come if economy deteriorates
- Persistent wage growth is buoying consumer confidence

- Monetary policy is likely to remain tighter for longer
- Higher interest payments are likely to weigh on consumer spending
- Corporate earnings expectations remain bearish

Emerging Markets

O

- Monetary tightening in most emerging markets has peaked
- Equity valuations are attractive relative to the U.S.
- Chinese stimulus expected to continue

- Chinese property deleveraging continues to weigh on activity
- Chinese consumer and business confidence fragile

O Overweight

N Neutral

U 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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5 Asset Allocation Committee Positioning

As of 31 January 2024

		Underweight		Neutral		Overweight	▼ or ▲ Month-Over-Month Change
ASSET CLASS	Change						
	Equities			N			
	Bonds		U				
	Cash				O		
EQUITIES	Regions						
	U.S.			N			Earnings expectations improving as economic activity remains resilient and Fed policy softening. Technology and pharmaceutical innovation is a key differentiator. However, valuations will need to be supported by strong earnings growth.
	Global Ex-U.S.			N			Valuations are very attractive on a relative basis. However, the macroeconomic backdrop remains concerning amid weak growth in Europe and a painfully sluggish recovery in China.
	Emerging Markets (EM) ▼				O		Chinese equities face headwinds from housing, employment, and consumer sentiment. However, valuations and currencies are attractive, monetary easing could provide support and other regions are benefitting from a rebound in exports.
	Style & Market Capitalization						
	U.S. Growth vs. Value ¹ ▼		U				Improving economic outlook and better financial conditions could be supportive for value. Meanwhile, growth faces concentration risk and elevated earnings growth expectations.
	Global Ex-U.S. Growth vs. Value ¹		U				Growth stock valuations are challenging particularly considering weaker consumer demand from both China and Europe. Value stocks are cheap and could benefit from steeper yield curves.
	U.S. Small vs. Large-Cap ¹ ▼				O		Small-caps offer attractive relative valuations and stand to benefit more from falling rates. Heightened economic and monetary uncertainty warrants higher-quality bias.
	Global Ex-U.S. Small vs. Large-Cap ¹			N			Caution is warranted due to a potential flight to quality that could favor large-caps. However, small-caps offer reasonable valuations and could benefit from any improvement in the economic outlook.
	Inflation-Sensitive						
	Real Assets Equities ▲				O		Commodity-related equities are cheap and offer an attractive hedge to potentially stickier inflation. Additionally, oil prices may be set for structural increases due to peaking productivity and driven higher by rising geopolitical tensions.
BONDS	U.S. Investment Grade (IG)		U				Yields broadly attractive. Favoring core/shorter duration as we near Fed cuts, while long-term bonds could remain vulnerable to increased supply. Credit fundamentals remain supportive.
	Developed Ex-U.S. IG (USD Hedged)		U				Global central banks looking to cut rates as inflation and growth continue to slow. Yields look attractive on a USD hedged basis.
	U.S. Treasury Long			N			Longer term yields remain vulnerable to increased supply and inflation reacceleration. However, offers ballast amid potentially weakening macro backdrop, although a sharp recession appears to be less likely.
	Inflation-Linked				O		Breakevens reflecting continued deceleration in inflation, however, sector offers a hedge against the risk of inflation reaccelerating.
	Global High Yield				O		Attractive absolute yield levels remain supportive, but tight spreads may be reflecting too optimistic of a backdrop. Default rates likely to rise to historical long-term averages although much appears to be priced in.
	Floating Rate Loans				O		Valuations and yields remain attractive. Loans' rate resetting feature and lower duration profile becoming less attractive as Fed looks toward rate cuts.
	EM Dollar Sovereigns				O		Yields still look attractive. With central banks beginning easing cycles and given moderating inflation, EM bonds may benefit from having longer duration.
	EM Local Currency				O		Yields reasonably attractive as expectations for central bank easing, lower inflation, and a softer dollar could be supportive of local rates and currencies.

¹ For pairwise decisions in style & market capitalization, positioning within boxes represent positioning in the first mentioned asset class relative to the second asset class.

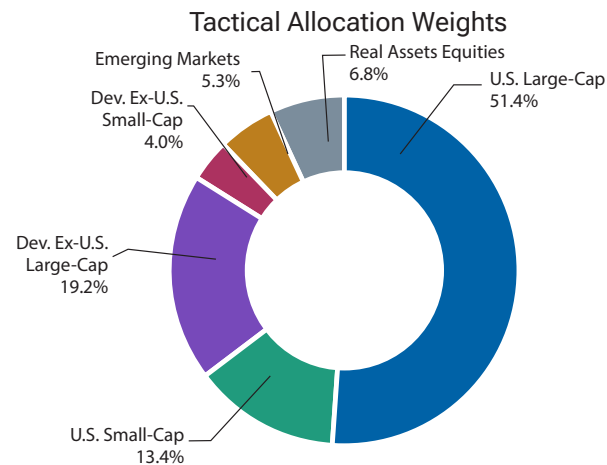
The asset classes across the equity and fixed income markets shown are represented in our Multi-Asset portfolios. Certain style & market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.

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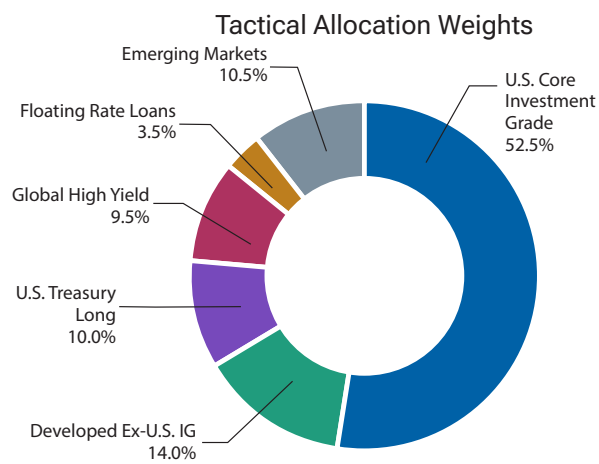
6 Portfolio Implementation

As of 31 January 2024

Equity	Neutral Weight	Tactical Weight	Relative Weight
U.S. Large-Cap	52.5%	51.4%	-1.1%
U.S. Small-Cap ¹	13.5	13.4	-0.1
Dev. Ex-U.S. Large-Cap	21.0	19.2	-1.8
Dev. Ex-U.S. Small-Cap	4.0	4.0	0.0
Emerging Markets	4.0	5.3	+1.3
Real Assets Equities	5.0	6.8	+1.8
Total Equity:	100.0%	100.0%	



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
U.S. Core Investment Grade	55.0%	52.5%	-2.5%
Developed Ex-U.S. IG (Hedged)	15.0	14.0	-1.0
U.S. Treasury Long	10.0	10.0	0.0
Global High Yield	7.0	9.5	+2.5
Floating Rate Loans	3.0	3.5	+0.5
Emerging Markets - (Local/Hard Currency)	10.0	10.5	+0.5
Total Fixed Income:	100.0%	100.0%	



¹ 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.

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