T. Rowe Price

Global Asset Allocation Viewpoints
March 2024

1 Market Perspective
As of 29 February 2024

- Firming in global growth expectations, with recent data tilted more positively, while inflation continues to decelerate across most regions.
- U.S. growth remains most resilient amongst developed economies while weak European growth potentially bottoming. Emerging markets growth outlook improving, with hopes for stabilization in China driven by policy support.
- While progress on inflation gives support for the U.S. Fed to pivot towards cuts, resiliency in the economy could delay the start. European Central Bank moving closer to easing amid fragile growth and as inflation has moved past its peak. 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 29 February 2024

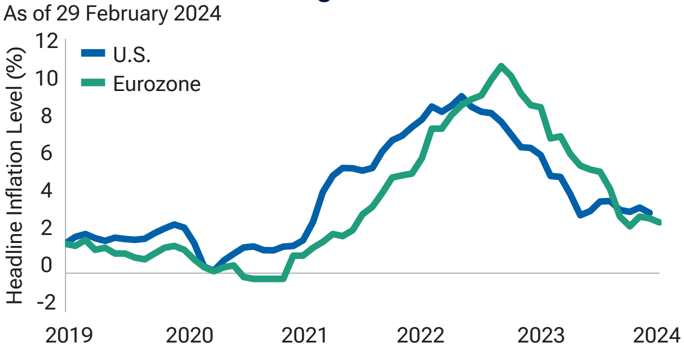
- We shifted to a modest overweight position in equities, funded from cash and bonds, supported by a firming growth and disinflation backdrop, positive earnings trends, and reasonable valuations outside of large-cap growth.
- We continued to add to large-cap value across global developed markets as we 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 29 February 2024

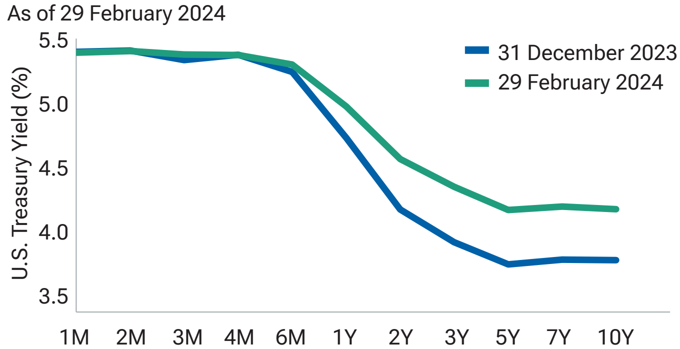
Getting Back Together
Heading into 2024, the consensus view was the U.S. Fed was going to be the leader in cutting interest rates among developed market central banks, given its progress on inflation and higher current rates, while the ECB was seen as a laggard given stickier inflation and despite weaker growth. Fast forward to today, U.S. growth has surprised to the upside and the pace of disinflation has slowed, and the labor market has remained resilient, pushing out rate cut expectations. Conversely, a quickening in disinflation, now below the U.S., and fragile growth in the Eurozone, has pulled forward expectations of an ECB rate cut. Although, the ECB appears to also be taking a patient approach, cautiously monitoring wage growth and upcoming labor negotiations to assure that inflation pressures are abating. Ironically the diverging dynamics between the two, appears to be bringing the Fed and ECB back together again at least from a timing standpoint, with markets now pricing in rate cuts to start in June for both. And while more synchronized moves by the central banks could help mitigate volatility, there remains a lot of uncertainty between now and June, that could push them back apart.

No Bull!
Within fixed income markets, the bull steepening of the yield curve has been a consensus trade among bond managers that has proven elusive thus far this year. With everyone betting that the Fed would soon be embarking on cutting rates, sending short-term yields falling faster than longer-term yields–a positive for short-term bond prices–as the curve re-steepened. The yield curve has now been inverted for a record number of months, typically a harbinger of an impending recession. The resilience of the U.S. economy and still gradual progress with disinflation is increasing the odds that the economy skirts a recession this time around. While welcomed news on the economic front, it has given the Fed breathing room to stick with the "higher for longer" plan to ensure inflation is indeed under control, and an unwelcome development for those betting short rates were coming down soon. Those hopes also extended to equity investors, bullishly expecting falling short-term yields would entice the over $6 trillion pile of cash parked in money market funds back into risk assets. While the bet on the bull steepening has proven elusive thus far, we do expect it–albeit later and more gradually playing out.

Inflation: Eurozone Catching Down with U.S.[1]
As of 29 February 2024



Yield Curve: Short Yields Remain Anchored
As of 29 February 2024



Source: Bloomberg L.P.

[1] U.S. Inflation represented by the U.S. Consumer Price Index Headline (Year-over-Year). Eurozone inflation represented by the Eurozone Harmonized Index of Consumer Prices (Year-over-Year).

FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.

4 Regional Backdrop

As of 29 February 2024

	Views	Positives	Negatives
United States	N	▪ Federal Reserve expected to cut this year ▪ 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	▪ Bank of Canada likely to begin cutting this year ▪ Labor market has been resilient ▪ Inflation is gradually moderating	▪ Economic growth has slowed significantly ▪ Consumer savings balances are fading sharply ▪ Elevated interest rates remain a drag on spending
Europe	U	▪ Inflation has been steadily declining ▪ European Central Bank expected to cut soon ▪ Labor market has been resilient	▪ Monetary policy is restrictive ▪ Economic growth remains weak ▪ Geopolitical uncertainty is heightened
United Kingdom	N	▪ Inflation has been steadily declining ▪ Bank of England likely to cut this year ▪ 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 welcomes inflation after decades fighting deflation ▪ Corporate governance continues to gradually improve ▪ Weak yen has made export prices more competitive	▪ Economic data has been mixed, challenging the reflation theme ▪ Political turmoil could derail the economic policy agenda ▪ Expectations are high, raising the bar for upside surprises
Australia	N	▪ Labor market tightness may have peaked ▪ Fiscal stimulus to alleviate loss of real income ▪ Economic data appears to be bottoming	▪ Reserve Bank of Australia remains more hawkish ▪ Higher rates and inflation weighing on consumer confidence ▪ Earnings likely to disappoint due to lack of pricing power
Emerging Markets	O	▪ Monetary tightening in most emerging markets has peaked ▪ Equity valuations are attractive relative to the U.S. ▪ Chinese economy incrementally improving	▪ 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.

5 Asset Allocation Committee Positioning

As of 29 February 2024

▼ or ▲ Month-Over-Month Change

		Change	*Underweight*	*Underweight*	*Neutral*	*Overweight*	*Overweight*	**These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.**
ASSET CLASS	Equities	▲				O		Sentiment remains positive as firming economic and inflation outlook should continue to drive earnings higher. Valuations are challenging, but reasonable, notably outside of large-cap growth.
ASSET CLASS	Bonds	▼		U				Yields remain attractive, although volatility could persist as markets price in central bank expectations, as well as growth and inflation outlooks. Credit fundamentals remain supportive; however, spreads remain tight.
ASSET CLASS	Cash	▼				O		Cash continues to offer attractive yields and provides liquidity should market opportunities arise.
	Regions							
EQUITIES	U.S.				N			Earnings expectations improving as economic activity remains resilient and financial conditions are improving. Technology and pharmaceutical innovation is a key differentiator. However, valuations will need to be supported by strong earnings growth.
EQUITIES	Global Ex-U.S.				N			Valuations are very attractive on a relative basis. European equities remain challenged but improving with inflation falling sharply and some economic indicators bottoming. However, Chinese economic growth remains sluggish.
EQUITIES	Emerging Markets (EM)					O		Valuations and currencies are attractive and monetary easing could provide support and other regions are benefitting from a rebound in exports. Chinese equities face headwinds from housing, employment, and consumer sentiment.
	Style & Market Capitalization							
EQUITIES	U.S. Growth vs. Value[1]	▼		U				Improving economic outlook and better financial conditions could be supportive for value. A steepening yield curve and improving prospects for energy demand should be positive for value-oriented sectors.
EQUITIES	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.
EQUITIES	U.S. Small vs. Large-Cap[1]					O		Small-caps offer attractive relative valuations and stand to benefit more if rates fall from here. Heightened economic and monetary uncertainty warrants higher-quality bias.
EQUITIES	Global Ex-U.S. Small vs. Large-Cap[1]				N			Small-caps offer very reasonable valuations against a muted global growth profile and could benefit from any improvement in economic growth expectations.
	Inflation-Sensitive							
EQUITIES	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 over an intermediate-term and over the near-term could be driven higher by rising geopolitical tensions.
BONDS	U.S. Investment Grade (IG)			U				Yields remain 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.
BONDS	Developed Ex-U.S. IG (USD Hedged)			U				Global central banks cautiously eyeing rate cuts as inflation and growth continue to slow. Yields look attractive on a USD hedged basis.
BONDS	U.S. Treasury Long				N			Longer term yields remain vulnerable to increased supply and stubborn inflation. However, sector offers ballast amid potentially weakening macro backdrop, although a sharp recession appears to be less likely.
BONDS	Inflation-Linked					O		Sector offers a hedge against sticker inflation, especially within services, and the potential that inflation rises from current levels.
BONDS	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.
BONDS	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.
BONDS	EM Dollar Sovereigns					O		Yields still look modestly attractive. With central banks embarking on easing cycles and inflation continuing to moderate, EM bonds may benefit from longer duration profile.
BONDS	EM Local Currency					O		Yields close to historical averages as expectations for central bank easing, lower inflation, and a softer dollar could be supportive of local rates and currencies.

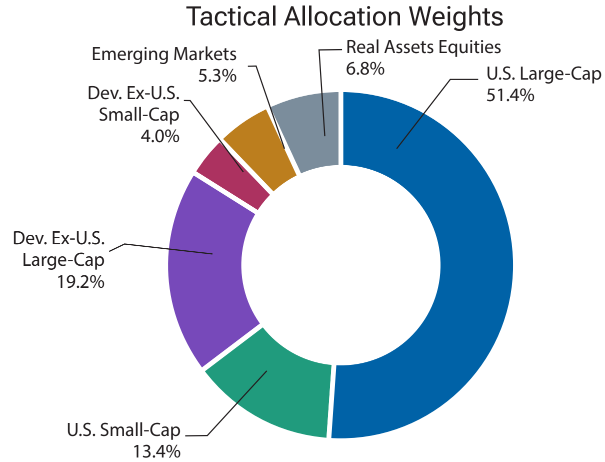
[1] For pairwise decisions in style & market capitalization, positioning within boxes represent positioning in the first mentioned asset class relative to the second asset class.

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.

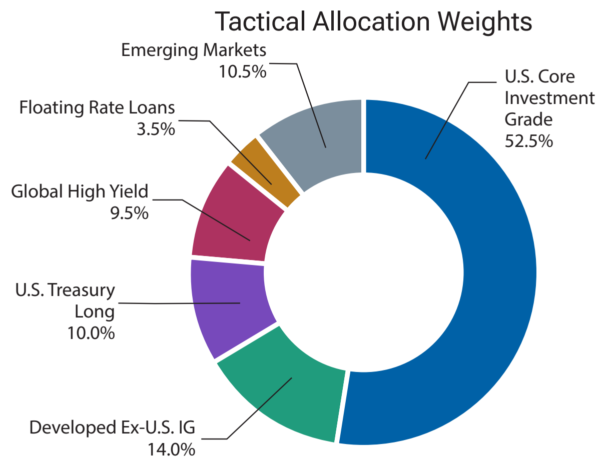
6 Portfolio Implementation

As of 29 February 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.