Global Asset Allocation Viewpoints

February 2021

1 Portfolio Positioning

As of 31 January 2021

Bumpy Road to Recovery

- Within developed market equities, we further increased our exposure to Japan, funded from Europe, while remaining underweight U.S. equities. Japan should benefit from its leverage to global trade as the global economy improves later this year. Advancements in shareholder-friendly reforms and a new focus on productivity-enhancing initiatives also provide tailwinds.
- We remain neutral stocks versus bonds as we weigh broadly extended valuations in both markets against mixed signals surrounding progress toward coronavirus containment and timeline for a wider recovery.
- Early-year optimism surrounding progress on vaccines has been stymied by a resurgence in coronavirus cases and virus mutations, pushing out recovery expectations. Given the renewed uncertainty, the rotation seen in recent months toward more cyclically oriented sectors has faced setbacks.

2 Market Themes

As of 31 January 2021

Mutating Expectations

Optimism surrounding the global economic recovery is beginning to change as potentially deadlier variants of the coronavirus found in the UK, Brazil, and South Africa are spreading just as vaccine rollout efforts have gotten underway. The potentially more transmittable and harmful mutations have led to renewed lockdowns, particularly in the UK and eurozone, and are threatening to push some regions into double-dip recessions. Current vaccines such as the one produced by Moderna are reported to still be effective against the new variants, but the pressure is on nations around the world to advance vaccinations to control the virus as it has shown the ability to aggressively mutate. The concerning mutations come as many regions are facing vaccine shortages and challenges surrounding vaccine storage and distribution. The next few months will be a critical race against the virus, as the longer it takes to control, the more damage it will have on lives and expectations for a global recovery.

Leaping Ahead

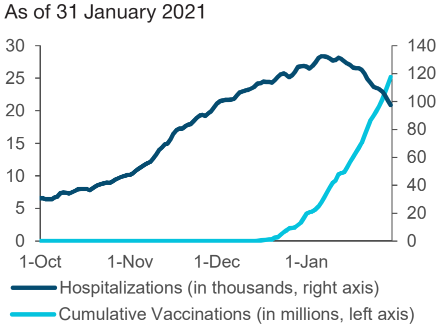
As the rest of the world struggles to get back on its feet, China reported that its economy grew 2.3% last year, making it the only major economy to report positive growth in 2020. After posting a strong 6.5% year-over-year growth rate in the fourth quarter, supported by investment spending and export growth, China's economy leapt back to pre-pandemic levels and made strides toward becoming the world's largest economy. China's V-shaped recovery can be attributed to the early, stringent lockdown measures put in place to control the spread of the virus and the deployment of significant fiscal and monetary stimulus. A focus on infrastructure and a surge in pandemic-related demand—from masks to home office equipment—helped propel export demand, while domestic consumption contracted by 3.9% as retail sales remain one of the hardest-hit sectors amid the pandemic. China has worked for years to reduce its dependence on trade and grow domestic consumption, so the setback is likely to be temporary.

Off to a Quick Start

While the Biden Administration put eradicating the coronavirus at the top of its agenda, taking action on regulations with executive orders has also been a top priority. Deregulation was a defining focus of the prior administration, notably within the energy sector; however, Biden has rapidly revisited a wide range of regulations emphasizing climate change and green energy, as well as equality. On his first day, Biden temporarily suspended new permits for oil and gas leases on U.S. properties, shut down the Keystone XL pipeline, and rejoined the Paris Climate Agreement. Democrats in Congress have also been swift to act on their agenda, pushing an additional USD 1.9 trillion stimulus package, on top of last year's USD 4 trillion, and may look to use reconciliation, allowing for a simple majority in the Senate, to avoid requirements for a 60-vote threshold. While still early in the new government, Democrats are acting quickly and independently on advancing their agenda–perhaps more than the market may have anticipated when it expected a divided government.

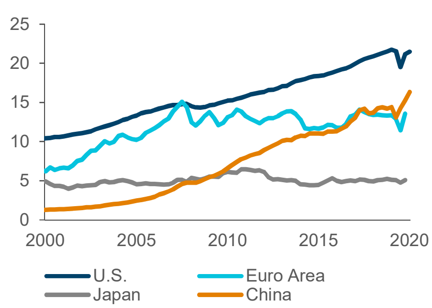
U.S. Hospitalizations & Cumulative Vaccinations

As of 31 January 2021



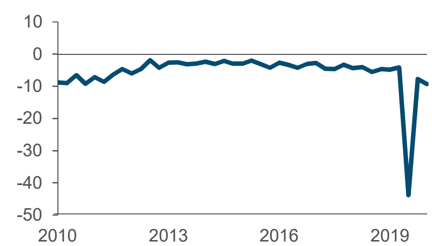
Nominal GDP by Country (in trillions)[1]

As of 31 December 2020



U.S. Federal Government Budget Surplus/Deficit (as % of GDP)

As of 31 December 2020



[1]These figures are in USD and annualized.

Sources: CDC, Covid Tracking Project (covidtracking.com), Bureau of Economic Analysis/Haver Analytics, U.S. Treasury/Haver Analytics.

FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.

3 Regional Backdrop

As of 31 January 2021

United States

Positives

- Stronger probability for more fiscal support
- Vaccination roll-out under way
- Monetary policy remains very accommodative
- Healthy consumer balance sheets and high savings rate

Negatives

- Elevated stock and bond valuations
- Corporate and government debt at high levels
- U.S. dollar weakness continues
- Unemployment remains elevated

Europe

Positives

- Higher exposure to more cyclically oriented sectors that should benefit from economic recovery
- Monetary and fiscal policy remain accommodative
- Equity valuations remain attractive
- Stronger long-term euro outlook

Negatives

- New lockdowns amid second wave of virus
- Vaccination effort facing supply shortages
- Brexit likely to negatively impact trade
- Limited scope for European Central Bank to stimulate further
- Limited long-term catalysts for growth

Developed Asia/Pacific

Positives

- Outbreaks milder than in the rest of the world thus far
- Cyclical orientation should benefit from economic rebound
- Strong fiscal and monetary support
- Improving corporate governance

Negatives

- Weak economic growth going into crisis, driven by long-term demographic headwind
- Economic recovery remains fragile with manufacturing indicators still below pre-pandemic levels

Emerging Markets

Positives

- Exposure to cyclical areas of economy should benefit from broad global recovery
- Chinese economy remains strong
- U.S. dollar weakness continues
- Equity valuations attractive relative to developed markets

Negatives

- Stimulus from China likely to fade going forward
- Limited ability to enact fiscal stimulus (excluding China)
- Vaccine supply and distribution infrastructure are well behind developed markets

4 Asset Allocation Committee Positioning

As of 31 January 2021

▼ or ▲ Month-Over-Month Change

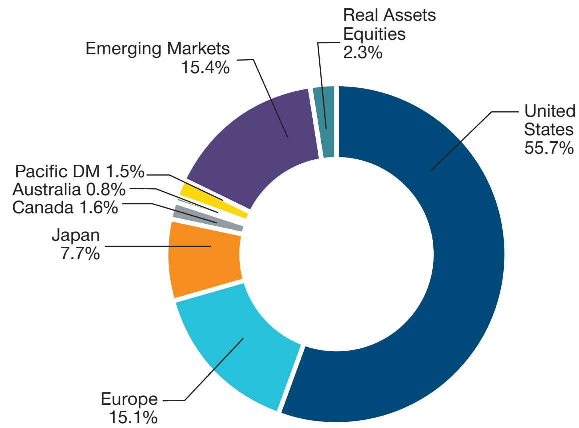
		Change	*Underweight*		*Neutral*	*Overweight*		**These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.**
ASSET CLASS	Equities				■			Recovery in earnings supportive, but extended valuations are vulnerable to recent delays in vaccine distribution and impacts of virus mutations.
ASSET CLASS	Bonds				■			Short-term sovereign yields remain anchored by central bank policies. Longer rates biased higher on improving growth and hints of inflation. Select opportunities remain in credit.
EQUITIES	*Regions*							
EQUITIES	U.S.			■				Defensive, profile less supportive as cyclical sectors should benefit from improving 2021 outlook. U.S. dollar weakness could be an additional headwind. Stimulus still providing a backstop.
EQUITIES	Global Ex-U.S.					■		Pro-cyclical sector profile and attractive relative valuation amid improving global growth outlook. Aggressive stimulus measures and pent-up demand provide strong tailwinds.
EQUITIES	Europe	▼		■				Cyclically oriented sector profile and low valuations among financials are supportive. However, long-term catalysts are scarce, and coronavirus outbreaks remain problematic.
EQUITIES	Japan	▲				■		Improving global trade outlook is a key driver. Refocus on reform efforts remains an important catalyst for improving productivity and attracting foreign capital.
EQUITIES	Emerging Markets (EM)					■		Exposure to global trade and favorable currency trends offer strong tailwinds. However, fading Chinese stimulus and limited vaccine supply and distribution pose challenges.
EQUITIES	*Style*							
EQUITIES	U.S. Growth			■				Vulnerable to extended valuations, narrow leadership, tech scrutiny, and continued rotation toward cyclicals. However, longer-term secular trends remain favorable.
EQUITIES	U.S. Value					■		Cyclical orientation could benefit from pent-up demand, economic improvement, higher rates, and further fiscal stimulus. Valuations have increased but remain attractive on a relative basis.
EQUITIES	Global Ex-U.S. Growth			■				More defensive profile, with greater weights in staples and health care, is undesirable given the likelihood of reopening in the latter half of 2021.
EQUITIES	Global Ex-U.S. Value					■		Deep cyclical orientation, cheap relative valuations, and rising rates could be catalysts for improving backdrop. Vaccine supply and efficacy are sources of uncertainty.
EQUITIES	*Capitalization*							
EQUITIES	U.S. Large-Cap			■				Larger companies face challenging valuations, particularly in tech, and could lag as recovery advances. Second-half earnings comparisons will be challenging.
EQUITIES	U.S. Small-Cap					■		Smaller companies should benefit most from unleashed pent-up demand and fiscal stimulus. Valuations less challenging than large-caps and offer upside potential amid economic recovery.
EQUITIES	Global Ex-U.S. Large-Cap				■			Improving economic outlook post-vaccine rollout should be supportive given their cyclical orientation and exposure to global trade. However, valuations are rich.
EQUITIES	Global Ex-U.S. Small-Cap				■			Relative valuations remain attractive. Early-cycle exposure remains supportive, and idiosyncratic opportunities are plentiful.
EQUITIES	*Inflation-Sensitive*							
EQUITIES	Real Assets Equities		■					Supply/demand dynamics for natural resources have improved, but transition to renewables is an overhang for entrenched players. Commercial real estate remains under pressure.
BONDS	U.S. Investment Grade (IG)			■				Improving economic growth and further fiscal stimulus could place upward pressure on yields, but not likely to lead to an overtightening of financial conditions. IG corporate spreads fairly valued.
BONDS	Developed Ex-U.S. IG (Hedged)					■		Short-term yields remain anchored by central banks' policies. Hedged yields still attractive, although less pronounced with more narrow yield differential.
BONDS	U.S. Treasury Long		■					Longer-duration bonds remain vulnerable to a steepening yield curve as growth improves and inflation expectations increase.
BONDS	Inflation-Linked				■			Inflation expectations have risen in anticipation of improving growth outlook and highly accommodative monetary and fiscal policy, leaving less potential for further upside.
BONDS	Global High Yield					■		Spreads near long-term averages and remain attractive versus IG bonds. Fundamentals broadly supportive, but resurgence in virus could reignite downgrade and default concerns.
BONDS	Floating Rate Loans					■		Relative valuations remain favorable, and sector should benefit from shorter-duration profile, supportive technical environment, and higher standing in the capital structure.
BONDS	EM Dollar Sovereigns				■			Sector offers attractive yield versus developed markets, but less compelling after rally. Concerns around capacity for additional fiscal support and vaccine distribution remain.
BONDS	EM Local Currency					■		Attractive sector with continued supportive monetary policy and potential tailwind from a weaker U.S. dollar. Uncertainty from virus resurgence and vaccine distribution.

5 Portfolio Implementation

As of 31 January 2021

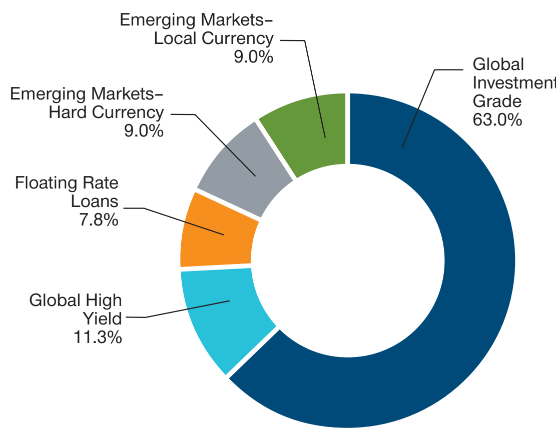
Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	54.1%	55.7%	+1.6%
Europe	16.0	15.1	-0.9
Japan	6.5	7.7	+1.2
Canada	2.6	1.6	-1.0
Australia	1.8	0.8	-1.0
Pacific – Developed Markets (DM)	1.2	1.5	+0.3
Emerging Markets	12.9	15.4	+2.5
Real Assets Equities	5.0	2.3	-2.8
Total Equity:	**100.0%**	**100.0%**	

Tactical Allocation Weights



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
Global Investment Grade (Hedged)	70.0%	63.0%	-7.0%
Global High Yield	10.0	11.3	+1.3
Floating Rate Loans	5.0	7.8	+2.8
Emerging Markets – Hard Currency	9.0	9.0	0.0
Emerging Markets – Local Currency	6.0	9.0	+3.0
Total Fixed Income:	**100.0%**	**100.0%**	

Tactical Allocation Weights



Source: T. Rowe Price.

Neutral equity portfolio weights broadly representative of MSCI All Country World Index regional weights; includes allocation to real assets equities. Core global fixed Income allocation broadly representative of Bloomberg Barclays Global Aggregate Index regional weights.

Information presented herein is hypothetical in nature and is shown for illustrative, informational purposes only. It is not intended to be investment advice or a recommendation to take any particular investment action. This material is not intended to forecast or predict future events and does not guarantee future results. These are subject to change without further notice.

Source for Bloomberg Barclays index data: Bloomberg Index Services Limited. Please see “Additional Disclosures” on final page for information.

ADDITIONAL DISCLOSURES:

Certain numbers in this report may not equal stated totals due to rounding.

Source: Unless otherwise stated, all market data are sourced from FactSet. Financial data and analytics provider FactSet. Copyright 2021 FactSet. All Rights Reserved.

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 relied on as such.

Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

Key risks –The following risks are materially relevant to the information highlighted in this material:
Even if the asset allocation is exposed to different asset classes in order to diversify the risks, a part of these assets is exposed to specific key risks.
Equity risk – in general, equities involve higher risks than bonds or money market instruments.
Credit risk – a bond or money market security could lose value if the issuer's financial health deteriorates.
Currency risk – changes in currency exchange rates could reduce investment gains or increase investment losses.
Default risk – the issuers of certain bonds could become unable to make payments on their bonds.
Emerging markets risk – emerging markets are less established than developed markets and, therefore, involve higher risks.
Foreign investing risk – investing in foreign countries other than the country of domicile can be riskier due to the adverse effects of currency exchange rates; differences in market structure and liquidity, as well as specific country, regional, and economic developments.
Interest rate risk – when interest rates rise, bond values generally fall. This risk is generally greater the longer the maturity of a bond investment and the higher its credit quality.
Real estate investments risk – real estate and related investments can be hurt by any factor that makes an area or individual property less valuable.
Small- and mid-cap risk – stocks of small and mid-size companies can be more volatile than stocks of larger companies.
Style risk – different investment styles typically go in and out of favour depending on market conditions and investor sentiment.

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, nor is it intended to serve as the primary basis for an investment decision. 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 reliable indicator of future performance.** 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 the date noted on the material 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.

Australia - Issued in Australia by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. For Wholesale Clients only.

Canada - Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

DIFC - Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

EEA ex-UK - 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.

Hong Kong - Issued by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

New Zealand - Issued by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

Singapore - Issued in Singapore by T. Rowe Price Singapore Private Ltd., No. 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

South Africa – T. Rowe Price International Ltd ("TRPIL") is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (FSP Licence Number 31935), authorised to provide "intermediary services" to South African investors.

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, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

202102-1512887