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INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints

March 2021

1 Portfolio Positioning

As of 28 February 2021

Inflation Protection

- Within equities, we added to real assets-related equities, moderating our underweight, as the expected economic recovery fueled by ultra-supportive policies and unleashed pent-up demand could push prices higher in the coming months.
- A similar theme within fixed income, we added to short-term Treasury inflation protected securities (TIPS) from cash on expectations for rising inflation.
- Within developed market equities, we further increased our exposure to Japan, funded from Europe, while remaining underweight U.S. equities. Among developed markets, Japan is highly levered to global trade, which should continue to improve as global economies re-emerge over the coming months.

2 Market Themes

As of 28 February 2021

Your Move, Mr. Powell?

After years of muted inflation, investors are becoming concerned as a massive amount of pent-up demand is expected to be unleashed as the economy re-emerges in the coming months, bringing higher price pressures. The excess savings that consumers have accumulated over the past year, plus an additional near USD 1.9 trillion fiscal package on the way, could also lead to demand outstripping existing supply, placing upward pressure on prices. As inflation expectations have already breached the 2% threshold, investors are beginning to question the resolve of the Fed to hold monetary stimulus at current levels. So far, Fed Chairman Jerome Powell has repeatedly reiterated a dovish stance, stating that price pressures are likely to be mild and temporary. Until unemployment levels make significant strides toward the Fed's goals, an easy monetary policy appears to be staying in place. Currently, the bond market's recent rise in yields may already be containing inflation for the Fed; however, if rates continue to increase, the Fed may need to step in and take action to rein in longer-term rates.

Yield Scare

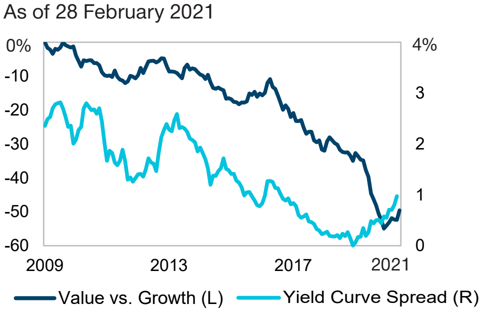
The recent sharp spike in yields is scaring equity investors, who, this time last year, saw the 10-year Treasury yield dip below 1% for the first time. Although rising rates are often a sign of healthy economic growth and should benefit cyclical sectors, such as financials, energy, and industrials, they may spell trouble for higher-growth sectors, like technology, that have benefited in an environment of scarce growth and low rates. The high-flying technology sector's extended valuations may become harder to justify amid rising rates. More broadly higher rates could impact borrowing costs for companies and weigh on certain sectors, such as housing, that have benefited from low rates. While historically we are far from yield levels that have negatively impacted stocks, what is unique today is that we are starting from a level of zero policy rates, high-equity valuation levels, and the market dominance of technology and related sectors. A further rate rise could challenge broad markets as investors continue to rotate away from higher growth stocks, such as technology into more cyclically oriented sectors.

Pedal to the Metal

Commodity markets have climbed to their highest level since 2018 on hopes for a rebound in demand as the global economy reopens and travel resumes later this year. After collapsing in 2020 amid the pandemic-driven shock, oil prices have reached recent highs as demand has gradually recovered, and supply has not kept pace, partially due to supply cut agreements from OPEC+. Industrial metals such as copper have also been on a tear, further supported by a shift in focus toward renewable energy and electric vehicle technology. Some investors are suggesting that the commodity rally may have more durability as the worldwide push for cleaner, greener energy could keep upward pressure on commodities such as copper, platinum, and lithium for years to come, many with limited supply. After years of underperformance, a new commodity super cycle could be emerging with cyclical and secular trends finally in their favor, particularly among industrial metals. As inflation expectations continue to rise amid evidence of increasing demand, real assets equities could be poised to outperform broader markets.

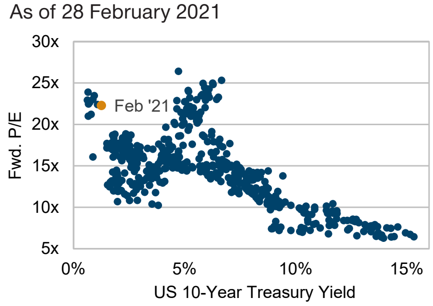
Value vs. Growth & Treasury Yield Spread[1]

As of 28 February 2021



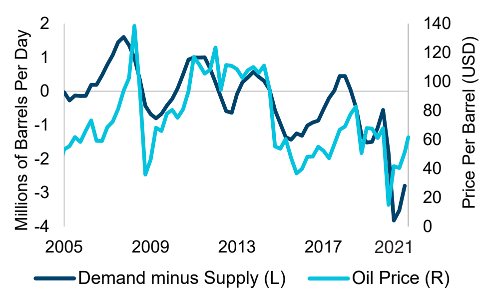
Historical Stock Valuations vs. Interest Rates[2]

As of 28 February 2021



Oil Demand/Supply & Oil Prices[3]

As of 28 February 2021



Past performance is not a reliable indicator of future performance.

[1] Value represented by Russell 3000 Value Index. Growth represented by Russell 3000 Growth Index. Treasury Yield Spread represents the difference between the U.S. 10-Year and 2-Year Treasury Yields.

[2] Chart represented by monthly data from 31 December 1978 to 28 February 2021. Fwd. P/E represented by the Russell 1000 Index.

[3] Demand minus Supply is based on 12 month averages. Oil Price represented by Brent crude oil prices.

Sources: OECD/Haver Analytics, London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"), T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved. Please see Additional Disclosures for information about this FTSE Russell information.

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3 Regional Backdrop

As of 28 February 2021

United States

Positives

- More fiscal support on the way
- Vaccination roll-out under-way, COVID-19 cases falling
- 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 to the U.S.
- Stronger long-term euro outlook

Negatives

- Vaccination effort facing supply shortages
- Limited long-term catalysts for growth
- Limited scope for European Central Bank to stimulate further
- Brexit likely to negatively impact trade

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
- Limited long-term catalysts for growth

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 28 February 2021

▼ or ▲ Month-Over-Month Change

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

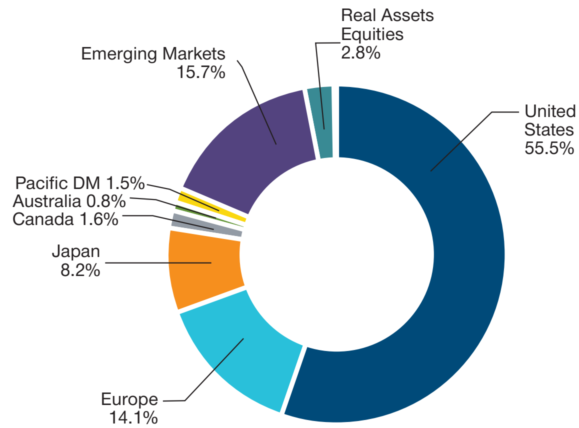
		Change	Underweight	Underweight	Neutral	Overweight	Overweight	
ASSET CLASS	Equities				■			Recovery in earnings and strengthening economic outlook supportive, but extended valuations are vulnerable to disruption of recovery timeline and higher rates.
ASSET CLASS	Bonds				■			Short-term yields remain anchored by central bank policies. Longer-term rates biased higher on stronger growth and inflation expectations. Yield scarcity supportive for credit sectors, although limited upside to valuations.
EQUITIES	*Regions*							
EQUITIES	U.S.			■				Defensive, growth-oriented 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 and higher rates. 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 vaccine supply issues 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 rising commodity prices 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, political headwinds, rising rates, 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. However, valuations within small-cap growth have become challenging.
EQUITIES	Global Ex-U.S. Large-Cap				■			Steeper yield curve and improving economic outlook should be supportive given cyclical orientation and exposure to global trade. However, valuations are rich.
EQUITIES	Global Ex-U.S. Small-Cap				■			Relative valuations less attractive after recent rally. Early cycle exposure remains supportive, and idiosyncratic opportunities are plentiful.
EQUITIES	*Inflation-Sensitive*							
EQUITIES	Real Assets Equities	▲		■				Potential for unleashed pent-up demand should buoy commodity prices. Outlook and valuation for real estate attractive despite rising rates. Transition to renewables a long-term threat.
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 valuations less compelling after rally.
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	▲				■		Improving growth outlook, forthcoming fiscal stimulus and dovish Fed could bias inflation expectations higher.
BONDS	Global High Yield					■		Valuations less compelling but relative yields remain attractive. Fundamentals broadly supportive on improving growth environment.
BONDS	Floating Rate Loans					■		Relative valuations remain favorable and sector should benefit from shorter-duration profile, continued demand, 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	▼				■		Valuations remain modestly attractive after recent rally but could be vulnerable to rising rates.

5 Portfolio Implementation

As of 28 February 2021

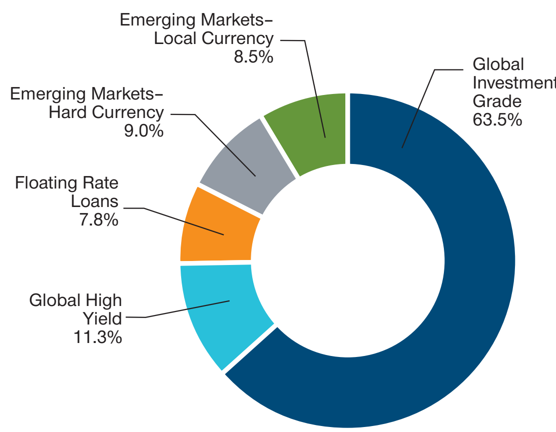
Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	54.1%	55.5%	+1.3%
Europe	15.6	14.1	-1.5
Japan	6.5	8.2	+1.7
Canada	2.6	1.6	-1.0
Australia	1.8	0.8	-1.0
Pacific – Developed Markets (DM)	1.2	1.5	+0.3
Emerging Markets	13.3	15.7	+2.4
Real Assets Equities	5.0	2.8	-2.3
Total Equity:	**100.0%**	**100.0%**	

Tactical Allocation Weights



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
Global Investment Grade (Hedged)	70.0%	63.5%	-6.5%
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	8.5	+2.5
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.

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

ADDITIONAL DISCLOSURES:

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