



Global Asset Allocation Viewpoints

April 2021

1 Market Perspective

As of 31 March 2021



- Global economic growth expected to accelerate through the back half of the year as reopenings unleash pent-up demand, while still supported by accommodative monetary policies and additional fiscal spending within the U.S.
- Global inflation expectations likely to trend higher as growth accelerates, supported by stronger commodities and the U.S. Fed allowing higher inflation in favor of sustained labor market recovery.
- Asian and European economies may benefit more amid the recovery given higher cyclical exposure relative to the U.S., although aggressive fiscal spending in the U.S. could provide a tailwind.
- Key risks to global markets include the pace of vaccinations, coronavirus mutations, potential for higher taxes as countries pivot to funding recovery costs and geopolitical concerns.

2 Portfolio Positioning

As of 31 March 2021



- We shifted to a modest underweight to equities relative to bonds and cash as the risk/reward profile of equities looks less attractive after a strong multiple-driven rebound since last March's lows.
- Within fixed income, we favor less interest rate- and more inflation-sensitive sectors such as floating rate loans and short-term Treasury inflation protected securities (TIPS).
- Within equities, we are further tilting into value, both in the U.S. and outside the U.S., based on more attractive relative valuations and continued improvement in growth, bolstered by fiscal stimulus in the U.S., and higher interest rates.
- We moderated our overweight to U.S. small-cap stocks following a 100%+ return since the lows of last March; smaller companies may continue to benefit from aggressive fiscal and consumer spending, and relative valuations remain favorable.

3 Market Themes

As of 31 March 2021

Closing the Gap

As investors grew more optimistic late last year about the global economic recovery, small-cap stocks took off with a parabolic snapback, up over 100% since the lows of last March. While smaller companies tend to lead early in an economic recovery given their higher sensitivity to growth, the fast and furious pace of performance stands out. Meanwhile, cyclically oriented value stocks, which are also highly reliant on the trajectory of economic growth, have just begun to make up ground from the sell-off. While smaller companies may continue to benefit from reopening and stimulus in the U.S., a lot of the outperformance may be behind small-caps, while value stocks are likely to continue to benefit from the recovery, stimulus, higher rates, and the potential for infrastructure spending. After nearly a decade of underperformance, perhaps this cyclical rally may be enough for value to close the gap versus growth stocks.

Small-cap & Value Relative Performance¹

From 23 March 2020 to 31 March 2021



Reason to Worry?

Equity markets are riding higher on unwavering optimism, which have driven the S&P 500 up over 20% above its pre-COVID-19 levels. Despite higher valuations, bouts of risk, and pockets of froth in the market—such as in bitcoin, home prices, and special purpose acquisition companies—investors appear to have little concern. Perhaps there is no alternative to investing in equities with bond yields on the rise, but it's hard to ignore events such as the retail investor GameStop short squeeze and enormous losses at Archegos Capital, a large private family office, which may have historically shaken the confidence of equity investors. While recent bad news is largely viewed as idiosyncratic, market valuations continue to get more extended, and the risk of one of these events sparking a more systemic sell-off could increase. But perhaps the systemic risk is already here, with the threat of even higher rates, inflation, and now taxes.

S&P 500 & U.S. 10-Year Treasury Yield

From 18 February 2020 to 31 March 2021



Past performance is not a reliable indicator of future performance.

¹Small-cap represented by Russell 2000 Index. Large-cap represented by Russell 1000 Index. Value represented by Russell 1000 Value Index. Growth represented by Russell 1000 Growth Index.

Sources: Standard & Poor's, Bloomberg Finance L.P., Russell, London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). T. Rowe Price calculations using data from FactSet Research Systems Inc. All rights reserved. See additional disclosures on final page for more information.

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4 Regional Backdrop

As of 31 March 2021



Positives

United States

- More fiscal support on the way
- Pace of vaccinations has been strong
- 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
- Corporate taxes likely to rise
- Unemployment remains elevated

Europe

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

- Lockdowns back on due to third wave of COVID-19
- 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

- 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

- Weak economic growth going into crisis, driven by long-term demographic headwind
- Limited long-term catalysts for growth

Emerging Markets

- Exposure to cyclical areas of economy should benefit from broad global recovery
- Commodity prices rising
- Chinese economy remains strong
- Equity valuations attractive relative to developed markets

- 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
- Inflationary pressures are rising in some countries

5 Asset Allocation Committee Positioning

As of 31 March 2021

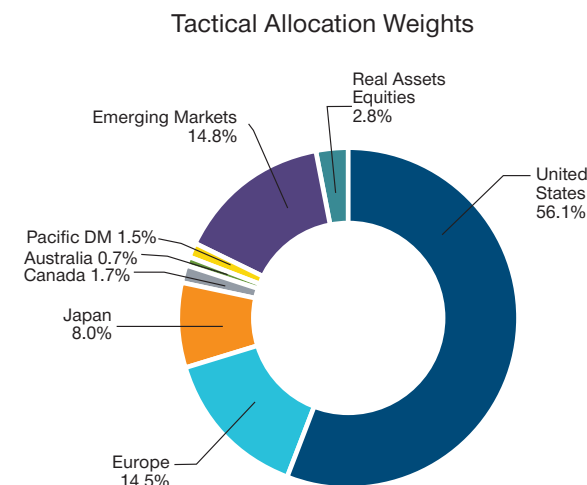
		Underweight		Neutral		Overweight		▼ or ▲ Month-Over-Month Change	
		Change							
ASSET CLASS		Change							
EQUITIES	Equities	▼							As the market has priced in a strong recovery in earnings and strengthening economic outlook, valuations have become stretched and challenged by higher rates.
	Bonds	▲							Yields becoming more attractive, but steepening curve will challenge intermediate- and longer-term rates. Positive economic backdrop should continue to be supportive for credit sectors. Short-term yields remain anchored by central bank policies.
	Regions								
	U.S.								Defensive, growth-oriented profile less supportive as cyclical sectors should benefit from improving 2021 outlook. Stimulus and reopening provide a catalyst for earnings growth, but valuations remain elevated.
	Global Ex-U.S.								Procyclical sector profile and attractive relative valuation amid improving global growth and higher rates. Aggressive stimulus measures and pent-up demand provide strong tailwinds.
	Europe								Cyclically oriented sector profile and low valuations among financials are supportive. However, long-term catalysts are scarce while renewed lockdowns and vaccine supply issues remain problematic.
	Japan								Improving global trade outlook is a key driver. Refocus on reform efforts remains an important catalyst for improving productivity and attracting foreign capital.
	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.
	Style & Market Capitalization								
	U.S. Growth vs. Value ¹	▼							Growth remains vulnerable to extended valuations, narrow leadership, and rising rates. Cyclical orientation of value could benefit from pent-up demand, economic improvement, further fiscal stimulus, and higher rates.
	Global Ex-U.S. Growth vs. Value ¹	▼							Deep cyclical orientation of value stocks combined with attractive relative valuations and rising rates could be catalysts for further rotation out of growth. Vaccine supply constraints and renewed lockdowns are sources of uncertainty.
	U.S. Small vs. Large-Cap ¹	▼							Small-caps outperformed large-caps in cyclical recovery as smaller companies should still benefit most from unleashed pent-up demand and fiscal stimulus. However, valuations within small-cap growth have become challenging.
	Global Ex-U.S. Small vs. Large-Cap ¹								Early-cycle exposure remains supportive for small-caps, and idiosyncratic opportunities are plentiful. Meanwhile, steeper yield curve and improving global economic outlook should benefit large-caps given cyclical orientation and exposure to international trade.
	Inflation-Sensitive								
	Real Assets Equities								Potential for increased demand continues to buoy commodity prices. Outlook and valuation for real estate are attractive despite rising rates in environment of improving growth and constrained supply.
BONDS	U.S. Investment Grade (IG)	▼							Improving economic growth and further fiscal stimulus could place upward pressure on yields, but are not likely to lead to an overtightening of financial conditions. IG corporate valuations less compelling after rally.
	Developed Ex-U.S. IG (Hedged)	▼							Short-term yields remain anchored by central banks' policies, while longer-term rates biased higher on improving global growth. Hedged yield advantage less pronounced with narrower short-term interest rate differential.
	U.S. Treasury Long								Longer-duration bonds remain vulnerable to a steepening yield curve as growth improves and inflation expectations increase.
	Inflation-Linked	▲							Continued improving growth outlook, additional fiscal stimulus, and dovish Fed could bias inflation expectations higher.
	Global High Yield								Valuations less compelling, but relative yields remain attractive. Fundamentals broadly supportive on improving growth environment.
	Floating Rate Loans	▲							Relative valuations and credit fundamentals remain favorable, and sector should benefit from shorter-duration profile, continued demand, and higher standing in the capital structure.
	EM Dollar Sovereigns								Sector offers attractive yield versus developed markets, but less compelling given idiosyncratic risks. Concerns around capacity for additional fiscal support and vaccine distribution remain.
	EM Local Currency	▼							Valuations remain modestly attractive but less favorable risk/reward in context of higher U.S. rates and some EM central banks beginning to raise interest rates.

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

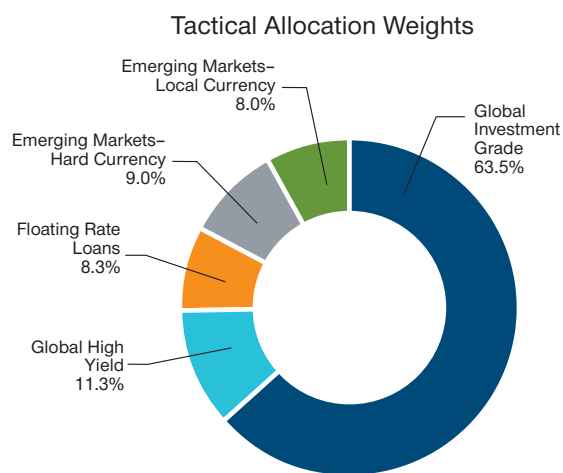
6 Portfolio Implementation

As of 31 March 2021

Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	54.7%	56.1%	+1.4%
Europe	15.9	14.5	-1.5
Japan	6.3	8.0	+1.7
Canada	2.7	1.7	-1.0
Australia	1.7	0.7	-1.0
Pacific – Developed Markets (DM)	1.2	1.5	+0.3
Emerging Markets	12.4	14.8	+2.4
Real Assets Equities	5.0	2.8	-2.3
Total Equity:	100.0%	100.0%	



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	8.3	+3.3
Emerging Markets – Hard Currency	9.0	9.0	0.0
Emerging Markets – Local Currency	6.0	8.0	+2.0
Total Fixed Income:	100.0%	100.0%	



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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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.

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