T. Rowe Price[SM]
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints

June 2021

1 Market Perspective

As of 31 May 2021

- Global economic growth to remain above trend this year but nearing peak levels as major economies make progress on vaccinations and reopen over the summer.
- Global monetary policy outlook broadly supportive with most major central banks expected to remain on hold well into next year, although beginning to see a gradual trend toward tightening by some central banks, notably within emerging markets (EM), facing rising inflation.
- Asian and European economies that have trailed in pace of vaccinations should see improved growth trajectory over coming quarters as they advance reopening and benefit from their more cyclically oriented economies.
- Key risks to global markets include the path forward for the coronavirus, rising inflation, higher taxes, central bank missteps, and increasing geopolitical concerns.

2 Portfolio Positioning

As of 31 May 2021

- No changes in positioning over the period.
- We remain modestly underweight equities relative to bonds and cash as the risk/reward profile looks less compelling for equities and could be vulnerable to potential setbacks in the recovery, fading policy support, rising inflation, and higher taxes.
- Within equities, we favor value-oriented equities globally, U.S. small-caps, and EM stocks as we expect cyclically exposed companies to continue to benefit from the improvement in growth throughout the year.
- Within fixed income we continue to have a bias toward lowering duration risk and overweighting credit and inflation sensitive sectors such as high yield bonds, floating rate loans, and short-term TIPS.

3 Market Themes

As of 31 May 2021

Just Passing Through?

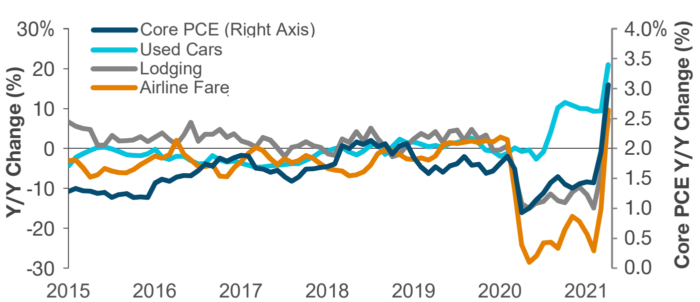
The Federal Reserve has been consistent in its messaging that a near-term spike in inflation pressures will be transitory and recede once COVID-related impacts fade. The latest inflation print showed prices, as measured by core personal consumption expenditures (PCE), jumped 3.1% year-over-year, the highest level in three decades due to supply chain and labor shortages, unleashed pent up demand, and base effects. While the data showed consumers are facing steep price increases across a range of areas including used cars, hotel prices, and air fare, these are expected to fade as pent-up demand subsides. So far, the bond market seems to believe the Fed's transitory view; however, the risk may be that the transition takes a bit longer than markets anticipate. Labor shortages and unconstrained fiscal spending in the U.S. could keep inflation elevated for longer, forcing the Fed and bond market to react faster than anticipated.

Easy Come, Easy Go

Global central banks were quick to act last year in response to the coronavirus pandemic, unleashing ultra-easy monetary policies, helping countries weather the economic impacts and aiding in the current growth rebound. Now on the back of more stable growth, some central banks have more recently announced plans to start pulling back on policy, including Canada and South Korea. Meanwhile, some EM central banks have already started raising rates this year, such as Russia, Turkey, and Brazil; however, the motivation has been more to fend off rising inflation compounded by COVID-related shortages. While the trend in global easing appears to be behind us, the major central banks are still pledging to maintain current support well beyond next year. Despite their intentions, markets have pulled forward expectations of when they'll act on recent data showing higher inflation. The months ahead could see more volatility as investors reevaluate how fast "easy" may go.

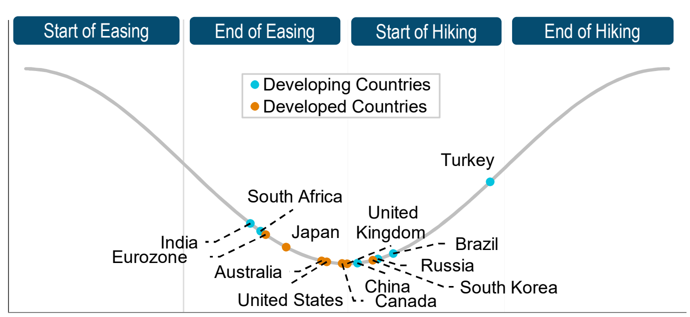
Inflation Spiking Across Various Segments[1]

As of 31 May 2021



Divergence in Monetary Policies Across the Globe[2]

As of 31 March 2021



Sources: Haver Analytics, Bureau of Labor Statistics, IMF.

[1]Used Cars, Lodging, and Airline Fare represented by Consumer Price Index (CPI). All rights reserved.

[2]Country classifications in the chart are in line with IMF groupings as of reporting date.

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4 Regional Backdrop

As of 31 May 2021

United States

Positives

- Vaccinations widely distributed, case count near lows
- Monetary policy remains very accommodative
- More fiscal support on the way
- Healthy consumer balance sheets and high savings rate

Negatives

- Elevated stock and bond valuations
- High corporate and government debt levels
- Corporate taxes likely to rise
- Unemployment remains elevated

Europe

Positives

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

Negatives

- Spread of new variants leading to continued outbreaks
- 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

- Cyclical orientation should benefit from economic rebound
- Strong fiscal and monetary support
- Improving corporate governance

Negatives

- Vaccination effort has been slower than other developed markets
- 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
- Commodity prices rising
- Chinese economy remains strong
- Equity valuations attractive relative to developed markets

Negatives

- COVID-19 risk remains high in Central Asia and Latin America
- Vaccine supply and distribution infrastructure are well behind developed markets
- Stimulus from China is fading
- Limited ability to enact fiscal stimulus (excluding China)

5 Asset Allocation Committee Positioning

As of 31 May 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.

		Underweight		Neutral	Overweight		Change	
ASSET CLASS	Equities		■					Strong growth continues to be supportive. Elevated valuations leave little room for upside and could be vulnerable to fading policy support, tax increases, and higher rates and inflation expectations.
	Bonds				■			Yields to remain biased higher on elevated inflation expectations and growth rajectory but could experience heightened volatility as central banks' policies diverge over coming months. Solid fundamentals but upside limited for credit sectors.
EQUITIES	*Regions*							
	U.S.		■					Elevated valuations reflecting strong recovery and earnings rebound. Rising rates and taxes could be headwinds. Defensive, growth-oriented profile less supportive as cyclical sectors should benefit from improving macro backdrop.
	Global Ex-U.S.				■			Procyclical sector profile, improving vaccination rate, and attractive relative valuation amid improving global growth and higher rates. Aggressive stimulus measures and pent-up demand provide further tailwinds.
	Europe		■					Cyclically oriented sector profile, low valuations among financials, fiscal support, and improving vaccination rate supportive. However, long-term catalysts for sustained growth are scarce.
	Japan				■			Despite year-to-date weakness and challenges in vaccine rollout, cyclical exposure should be supportive along with attractive valuations and improving global trade outlook.
	Emerging Markets (EM)				■			Exposure to global trade and rising commodity prices offer strong tailwinds. However, fading Chinese stimulus and vaccine distribution challenges remain concerns.
	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, and further fiscal stimulus. Higher rates also supportive due to heavy financials exposure.
	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 progress may also provide a boost.
	U.S. Small vs. Large-Cap[1]				■			Small-caps should be supported by economic growth and strong earnings outlook. Relative valuations remain attractive, but could become vulnerable to input costs weighing on margins.
	Global Ex-U.S. Small vs. Large-Cap[1]			■				Strong domestic growth trends remain supportive for small-caps, and idiosyncratic opportunities are plentiful. Meanwhile, steeper yield curves and improving global economic outlook should benefit large-caps given cyclical orientation and exposure to international trade.
	Inflation-Sensitive							
	Real Assets Equities		■					Unleashed pent-up demand continues to buoy commodity prices. Outlook and valuation for real estate attractive despite rising rates. However, long-term outlook remains challenged by a supply demand imbalance.
BONDS	U.S. Investment Grade (IG)		■					Peaking growth and inflation expectations could keep yields at the higher end of range, but further upside may be limited on tightening expectations. IG corporate valuations less compelling as spreads near record lows.
	Developed Ex-U.S. IG (Hedged)				■			Major central banks' policies should keep rates contained at the short end as policy changes not likely through 2022, while higher inflation could bias longer yields higher. 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 and inflation expectations remain elevated.
	Inflation-Linked				■			Strong inflation expectations supportive, but further upside may be limited as growth trajectory moderates and markets weigh tighter policy.
	Global High Yield				■			Limited upside from elevated valuations, relative yields still attractive versus alternatives within fixed income. Fundamentals and commodity rebound broadly supportive.
	Floating Rate Loans				■			Relative valuations and credit fundamentals remain favorable, and sector should benefit from shorter-duration profile with optionality should rates rise, supportive technical backdrop and higher standing in the capital structure.
	EM Dollar Sovereigns			■				Sector offers attractive yield versus developed markets with improving growth broadly supportive; however, vulnerabilities across countries vary in coronavirus spread, rising inflation, and susceptibility to rising rates.
	EM Local Currency				■			Valuations remain modestly attractive; improving macro backdrop and weaker U.S. dollar could provide tailwinds. Higher U.S. rates and EM central bank rate hikes could be a headwind.

[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.

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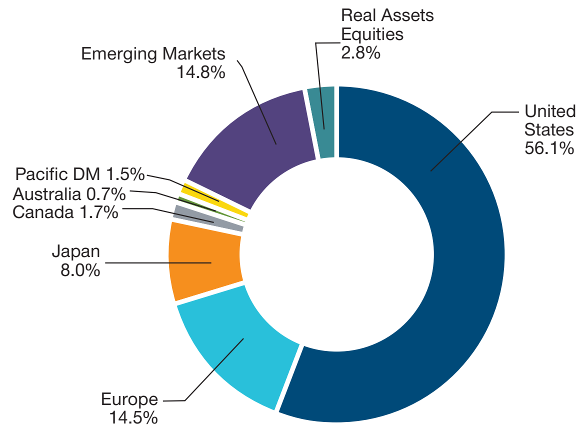
6 Portfolio Implementation

As of 31 May 2021

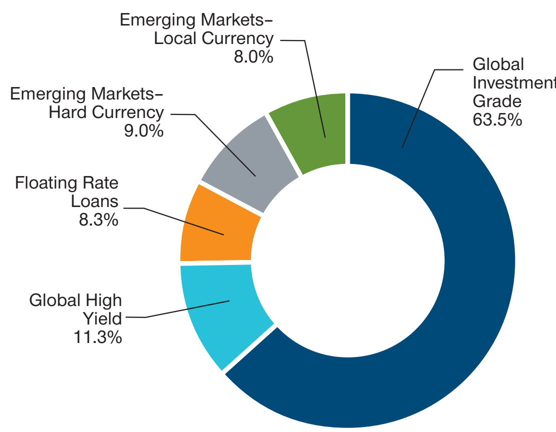
Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	54.7%	56.1%	+1.4%
Europe	15.9	14.5	-1.5
Japan	6.3	8.0	+1.7
Canada	2.7	1.7	-1.0
Australia	1.7	0.7	-1.0
Pacific – Developed Markets (DM)	1.2	1.5	+0.3
Emerging Markets	12.4	14.8	+2.4
Real Assets Equities	5.0	2.8	-2.3
Total Equity:	**100.0%**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

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	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%**	

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. See additional disclosures on final page for more information.

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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.
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