T. Rowe Price[SM]
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints

August 2021

1 Market Perspective

As of 31 July 2021

- Global economic growth remains strong but varied across regions, balancing progress on vaccination distribution with setbacks from growing delta variant cases.
- While still supportive, global monetary policy is expected to continue a gradual trend toward tightening as central banks weigh moderating growth and increased coronavirus risk against more persistent inflation.
- While global fiscal impulse continues to fade from crisis level highs, the European Union (EU) recovery fund, and potential U.S. infrastructure spending along with China's efforts to stabilize growth could offset the pullback.
- Longer-term interest rates could trend higher on the growth and inflation outlook, but upside may be limited as both factors move past peak levels. Short-term rates could begin to price in tighter central bank policy, leading to flatter yield curves.
- Key risks to global markets include: the path forward for the coronavirus, elevated inflation, central bank missteps, higher taxes, a stricter regulatory environment, and increasing geopolitical concerns.

2 Portfolio Positioning

As of 31 July 2021

- 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 fading policy support, higher rates, elevated inflation, and potential tax increases.
- Within equities, we continue to favor value-oriented equities globally, U.S. small-caps, and emerging markets (EM) stocks as we expect cyclically exposed companies to continue to benefit from strong economic growth and global reopening.
- Within fixed income, we continue to have a bias toward shorter duration and higher yielding sectors through overweights to high yield bonds and floating rate loans.
- Over the month, we shifted our modest overweight to short-term Treasury inflation protected securities to neutral as expectations for higher inflation have been largely priced into breakeven inflation rates.

3 Market Themes

As of 31 July 2021

Balancing Act

At the same time that China has taken steps to stabilize its slowing economy with measures such as a surprise reserve requirement ratio cut and pledge to increase fiscal support, policymakers continued to advance social policies through increased regulation, the latest of which rattled markets. These new regulations are tied to specific priorities around ensuring data security, improving the quality and sustainability of economic growth, reducing the wealth gap, and protecting the environment. Some of the enforcement measures, like forcing the education companies to transition to not-for-profit, were seen as severe and prompted concerns that additional stringent measures for other industries may be forthcoming. Recent comments from government officials seem to indicate that this is unlikely, but were sufficient enough to worry investors. As China moves forward, stabilizing its economy while pursuing its social agenda could prove to be a tricky balancing act.

Double Reversal

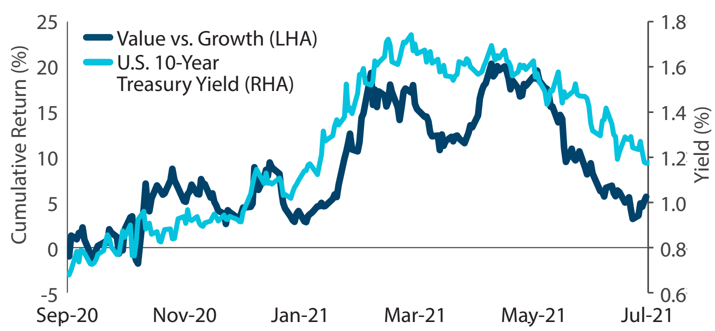
After lagging growth stocks for over 15 years, value was finally positioned to outperform growth last fall on expectations of sharply rebounding economic growth, higher inflation, and the unleashing of pent-up demand as lockdowns eased. That was just how the story played out until late March when markets quickly reversed and rates moved lower as the narrative changed to "peaking" growth and inflation and concerns surrounding potential Fed tapering as well as increases in delta variant cases led to a more defensive tone across markets. However, the story for value may not be over just yet, as recent underperformance has led to more attractive relative valuations, global growth remains above trend, and supply/demand imbalances continue to keep inflation stubbornly high. With the hopeful containment of the delta variant and increasing regulatory pressure on growth stocks, investors may start betting on value pulling off a double reversal this cycle.

EM Ex-China vs. China Equity Index Returns[1]

As of 31 July 2021

Value vs. Growth & U.S. 10-Year Treasury Yield[2]

As of 31 July 2021



Past performance is not a reliable indicator of future performance.

[1]Emerging Markets Ex-China and China equity returns are represented by the MSCI Emerging Markets Ex-China and MSCI China Indices respectively. Total return in USD.
[2]Value vs. Growth returns are represented by the Russell 1000 Value and Russell 1000 Growth Indices respectively.
Source: FactSet. Financial data and analytics provider FactSet.

4 Regional Backdrop

As of 31 July 2021

United States

Positives

- Vaccinations widely distributed
- Infrastructure spending bill likely to be passed
- Healthy consumer balance sheets and high savings rate
- Strong earnings expectations

Negatives

- Elevated stock and bond valuations
- High corporate and government debt levels
- Fed dovishness has peaked
- Corporate taxes likely to rise

Europe

Positives

- Higher exposure to more cyclically oriented sectors that should benefit from economic recovery
- Vaccination rates improving rapidly
- Monetary and fiscal policy remain accommodative
- Equity valuations remain attractive relative to the US

Negatives

- Limited long-term catalysts for growth
- Limited scope for European Central Bank to stimulate further
- Brexit likely to negatively impact trade
- Demand from China fading
- Microchip shortage impacting manufacturing

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 are elevated
- Equity valuations attractive relative to developed markets

Negatives

- Vaccine supply and distribution infrastructure are well behind developed markets (excluding China)
- Stimulus from China is fading
- Accommodation from central banks is fading
- Limited ability to enact fiscal stimulus (excluding China)

5 Asset Allocation Committee Positioning

As of 31 July 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			■				While peaking, growth remains supportive; however, elevated valuations leave little room for upside. Equities could also be vulnerable to fading policy support, coronavirus challenges, input cost inflation, tax increases, and higher rates.
ASSET CLASS	Bonds					■		Yields biased modestly higher on the back of strong, yet peaking growth and inflation but could be offset by tightening global central bank policies. Solid fundamentals but upside limited for credit sectors.
	Regions							
EQUITIES	U.S.			■				Elevated valuations reflecting strong recovery, earnings rebound, and low interest rates. Slowing growth, delta variant challenges, and taxes could be headwinds. Cyclical sectors should continue to benefit from strong macro backdrop, but a lot of good news is already priced in.
EQUITIES	Global Ex-U.S.					■		Procyclical sector profile, more widespread vaccinations, and attractive relative valuation should prove beneficial amid earlier stage of recovery. Stimulus measures and unleashing of pent-up demand may provide further tailwinds.
EQUITIES	Europe			■				Cyclically oriented sector profile, low valuations among financials, and improving vaccination rate supportive. Continued monetary policy support and recent launch of the EU recovery fund should provide additional tailwinds.
EQUITIES	Japan					■		Despite challenges in vaccine rollout and the disappointment of empty Olympic venues, attractive valuations, and improving global trade outlook should be supportive. Improving corporate governance also provides long-term tailwind.
EQUITIES	Emerging Markets (EM)					■		Exposure to global trade, attractive valuations, and potential currency upside are supportive. However, weakness in China, potential Fed tapering, inflation, and vaccine/delta variant challenges remain concerns.
	Style & Market Capitalization							
EQUITIES	U.S. Growth vs. Value[1]			■				Growth remains vulnerable to elevated expectations amid extended valuations and narrow leadership. Cyclical orientation of value should still benefit from unleashed pent-up demand, economic strength, and infrastructure spending.
EQUITIES	Global Ex-U.S. Growth vs. Value[1]			■				Deep cyclical orientation of value stocks combined with attractive relative valuations and improving earnings outlook could be catalysts. Vaccine progress, a rebound in manufacturing, and easing of supply bottlenecks could also provide a boost.
EQUITIES	U.S. Small vs. Large-Cap[1]					■		Small-caps should be supported by economic growth, infrastructure spending, released pent-up demand, and strong earnings outlook. However, margins could suffer if input costs remain elevated.
EQUITIES	Global Ex-U.S. Small vs. Large-Cap[1]				■			Strong domestic growth trends remain supportive for small-caps, and idiosyncratic opportunities are plentiful. Meanwhile, strong global economic outlook should benefit large-caps given cyclical orientation and exposure to international trade.
	Inflation-Sensitive							
EQUITIES	Real Assets Equities			■				Supply bottlenecks and elevated demand continue to support commodity prices. However, the long-term outlook remains challenged by a supply/demand imbalance and a less accommodative Fed. While rising rates could pose a headwind, the outlook and valuation for real estate remains attractive in the context of economic recovery.
BONDS	U.S. Investment Grade (IG)			■				Fundamentals and yield advantage supportive for credit, but upside may be limited with rich valuations. While rates continue to be biased higher, peaking growth and inflation may keep the path more gradual.
BONDS	Developed Ex-U.S. IG (Hedged)					■		Short-end rates should be contained as monetary policy changes not likely through 2022, while higher inflation and still improving growth could place upward pressure on longer-term yields.
BONDS	U.S. Treasury Long		■					Longer-duration bonds remain vulnerable to a rise in yields as growth and inflation remain elevated, but tighter policy expectations and strong demand for Treasuries could keep long-end yields contained.
BONDS	Inflation-Linked	▼			■			Inflationary pressures expected to remain high through year-end as pent-up demand and supply bottlenecks are worked through, but mostly priced in. Likelihood of Fed letting economy run hot reduced following June meeting.
BONDS	Global High Yield					■		Limited upside given elevated valuations; relative yields still attractive versus alternatives within fixed income. Fundamentals broadly supported by positive macroeconomic backdrop.
BONDS	Floating Rate Loans					■		Relative valuations and credit fundamentals remain favorable. Sector should benefit from higher standing in the capital structure and shorter-duration profile as rate hike expectations are priced in.
BONDS	EM Dollar Sovereigns				■			Sector offers attractive yield versus developed markets with improving growth broadly supportive; however, vulnerabilities across countries vary in coronavirus spread/vaccine accessibility, rising inflation, and susceptibility to rising rates.
BONDS	EM Local Currency					■		Valuations remain modestly attractive; improving macroeconomic backdrop and potentially weaker U.S. dollar could provide tailwinds. Shift higher in U.S. rates and EM central bank rate hikes could be headwinds.

[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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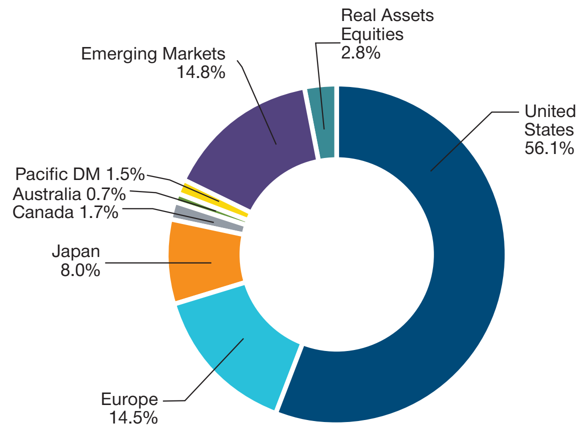
6 Portfolio Implementation

As of 31 July 2021

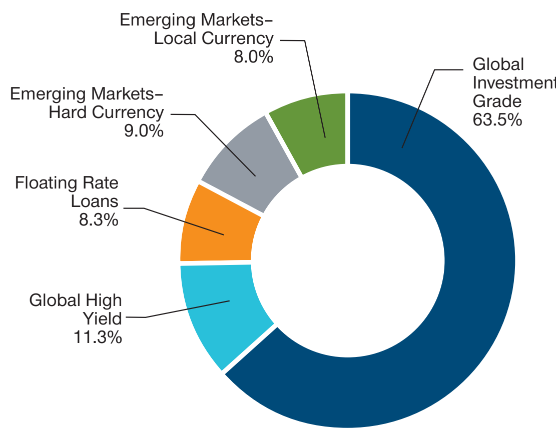
Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	54.7%	56.1%	+1.4%
Europe	15.9	14.5	-1.5
Japan	6.3	8.0	+1.7
Canada	2.7	1.7	-1.0
Australia	1.7	0.7	-1.0
Pacific – Developed Markets (DM)	1.2	1.5	+0.3
Emerging Markets	12.4	14.8	+2.4
Real Assets Equities	5.0	2.8	-2.3
Total Equity:	100.0%	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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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.
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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.
Real estate investments risk – real estate and related investments can be hurt by any factor that makes an area or individual property less valuable.
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