T. Rowe Price
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints

July 2021

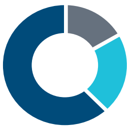
1 Market Perspective

As of 30 June 2021

- Global economic growth to remain strong through the back half of the year, albeit off peak levels, as monetary and fiscal policy support moderates from crisis-level highs.
- Longer-term interest rates likely challenged to move higher as growth moderates, inflation softens from recent peaks, and Federal Reserve moves closer to tapering asset purchases, while short-term rates could begin to price in tighter policy leading to a flattening yield curve.
- While still supportive, global monetary policy should continue to see a gradual trend toward tightening among central banks, notably within emerging markets (EM), facing rising inflation.
- Key risks to global markets include the path forward for the coronavirus, elevated inflation, central bank missteps, higher taxes, stricter regulatory environment, and increasing geopolitical concerns.

2 Portfolio Positioning

As of 30 June 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, increased rate volatility, high inflation levels, and potential tax increases.
- Within equities, we continue to favor value-oriented equities globally, U.S. small-caps, and 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, higher yielding, and inflation sensitive sectors through overweights to high yield bonds, floating rate loans, and to a lesser extent, short-term Treasury inflation protected securities, which we moderated over the month.

3 Market Themes

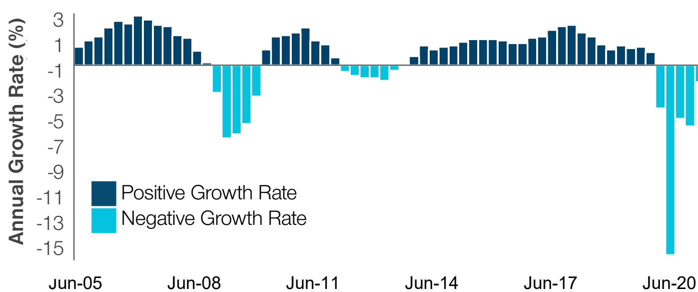
As of 30 June 2021

Easy on the Austerity

Following a shaky start to its vaccine rollout, Europe appears to be recovering as businesses are reopening and lockdowns continue to ease in some areas. As the European Central Bank debates the extension of its EUR 1.85 trillion asset purchase program, due to expire next March, additional fiscal stimulus is being rolled out through the unprecedented European Union recovery fund, worth up to EUR 800 billion. While the fund shows signs of growing unity among member nations, lines are being drawn once again as members take sides on scaling back monetary policies put in place amid the pandemic. Leaders such as Mario Draghi, Italy's prime minister, warn that shifting back to austerity too soon could ignite another decade-long recovery similar to the post-global financial crisis period. With Europe already lagging the U.S. and China, shifting back to austerity too soon could prevent the region from heading on a path towards more sustainable growth.

Euro Area GDP

As of 30 June 2021

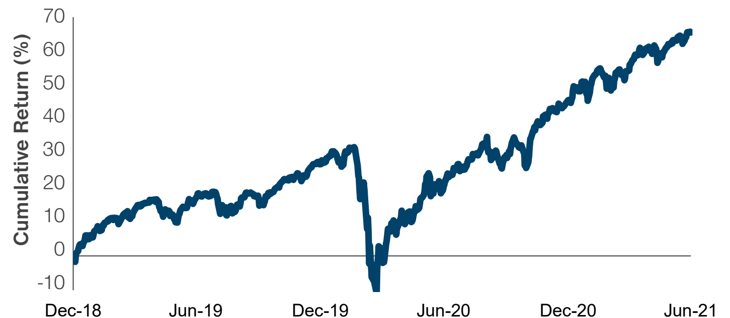


Curbing Our Enthusiasm

Global equity markets represented by MSCI All Country World Index have returned nearly 12% year-to-date in U.S. dollar terms amid signs that the worst of the pandemic may finally be behind us. But, as supportive trends that have fueled the global economic growth rebound start to fade, it's hard to envision equity markets expanding at the same record pace. In the back half of the year, we expect that growth will be off peak levels, monetary policy will continue to tighten, fiscal stimulus will be at lower levels, and higher taxes are likely. Adding to these headwinds, equity markets are sitting at elevated valuations supported by low interest rates, input costs are rising, and earnings growth is expected to moderate next year. Despite these trends, equities remain attractive as pent-up demand continues to be unleashed and while moderating, growth remains elevated. However, the ultra-easy environment is changing quickly and may lead to more volatility ahead, so investors may need to curb their enthusiasm for equity returns going forward.

Global Equity Index Returns[1,2]

As of 30 June 2021



Past performance is not a reliable indicator of future performance.

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

[1]Global Equity Index is represented by MSCI All Country World Index. Total return in USD.

[2]Source: FactSet. Financial data and analytics provider FactSet. Copyright 2021 FactSet. All Rights Reserved.

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4 Regional Backdrop

As of 30 June 2021

	Positives	Negatives
United States	▪ Vaccinations widely distributed, case count near lows ▪ Infrastructure spending bill likely to be passed ▪ Healthy consumer balance sheets and high savings rate ▪ Strong earnings expectations	▪ Elevated stock and bond valuations ▪ High corporate and government debt levels ▪ Fed dovishness has peaked ▪ Corporate taxes likely to rise
Europe	▪ 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 US	▪ Limited long-term catalysts for growth ▪ Limited scope for European Central Bank to stimulate further ▪ Brexit likely to negatively impact trade ▪ Potential for new coronavirus variants to cause continued outbreaks
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	▪ 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	▪ Exposure to cyclical areas of economy should benefit from broad global recovery ▪ Commodity prices are elevated ▪ Chinese economy remains strong ▪ Equity valuations attractive relative to developed markets	▪ COVID risk remains high in Central Asia and Latin America ▪ Vaccine supply and distribution infrastructure are well behind developed markets (excluding China) ▪ Stimulus from China is fading ▪ Limited ability to enact fiscal stimulus (excluding China)

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5 Asset Allocation Committee Positioning

As of 30 June 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.
	Bonds					■		Yields are rangebound as they face countervailing forces of higher inflation versus past peak growth and tightening global central bank policies. 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. Cyclical sectors should continue to benefit from strong macro backdrop, but a lot of good news is already priced in.
	Global Ex-U.S.					■		Procyclical sector profile, improving vaccination rate, and attractive relative valuation should prove beneficial amid strong global growth and higher rates. Aggressive stimulus measures and pent-up demand may 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 elevated commodity prices offer strong tailwinds. However, fading Chinese stimulus, potential Fed tapering, and vaccine distribution challenges remain concerns.
	Style & Market Capitalization							
	U.S. Growth vs. Value[1]			■				Growth remains vulnerable to extended valuations and narrow leadership. Cyclical orientation of value could benefit from pent-up demand, economic strength, and infrastructure spending. Higher rates could also be 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 improving earnings outlook 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, infrastructure spending, pent-up demand, and strong earnings outlook. However, margins could suffer if input costs remain elevated.
	Global Ex-U.S. Small vs. Large-Cap[1]				■			Strong domestic growth remains supportive for small-caps, and idiosyncratic opportunities are plentiful. Meanwhile, steeper yield curves and strong global economic outlook should benefit large caps given cyclical orientation and exposure to international trade.
	Inflation-Sensitive							
	Real Assets Equities			■				Supply bottlenecks and elevated demand continue to buoy commodity prices. However, long-term outlook remains challenged by a supply/demand imbalance and a less accommodative Fed. Outlook and valuation for real estate attractive despite rising rates.
BONDS	U.S. Investment Grade (IG)			■				Peaking growth and inflation expectations could keep yields elevated, but could be capped as policy becomes less accommodative. IG corporate valuations less compelling as spreads near record lows.
	Developed Ex-U.S. IG (Hedged)					■		Major central banks' policies should keep short-end rates contained as policy changes unlikely 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 further rise in yields as growth and inflation expectations remain elevated, but expectations for tighter policy could increase rate volatility.
	Inflation-Linked	▼				■		Inflationary pressures expected to remain high through year end, but mostly priced in. Likelihood of Fed letting economy run hot reduced following June meeting.
	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. Sector should benefit from higher standing in the capital structure and shorter-duration profile as rate hike expectations begin to be priced in.
	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 potentially weaker U.S. dollar could provide tailwinds. Shift higher in 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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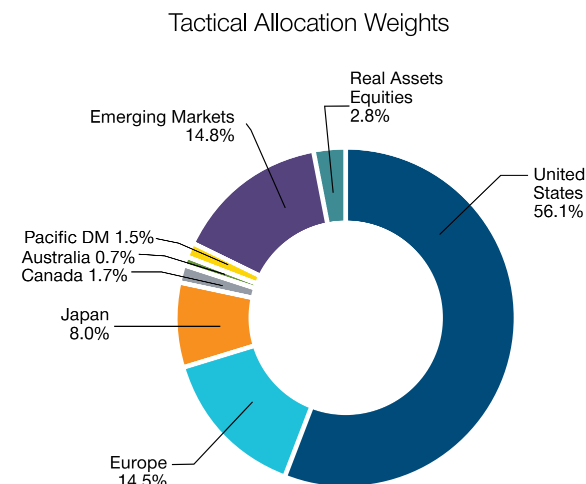
6 Portfolio Implementation

As of 30 June 2021

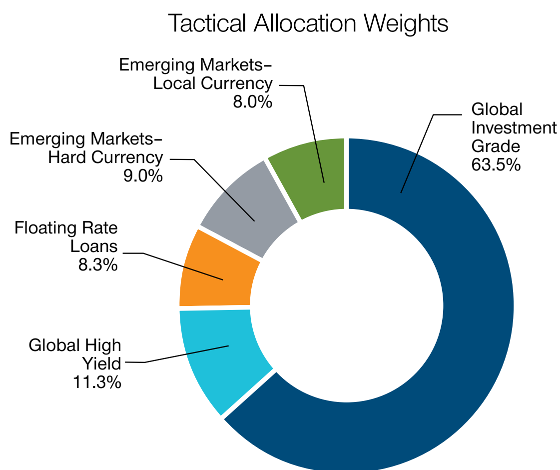
Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	54.7%	56.1%	+1.4%
Europe	15.9	14.5	-1.5
Japan	6.3	8.0	+1.7
Canada	2.7	1.7	-1.0
Australia	1.7	0.7	-1.0
Pacific – Developed Markets (DM)	1.2	1.5	+0.3
Emerging Markets	12.4	14.8	+2.4
Real Assets Equities	5.0	2.8	-2.3
Total Equity:	**100.0%**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