T. Rowe Price
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints

September 2021

1 Market Perspective

As of 31 August 2021

- Global economic growth remains above trend, albeit past peak levels, supported by central bank liquidity, progress on vaccine distribution, and continued reopening momentum despite the spread of the delta variant.
- Policy accommodation is expected to gradually tighten as central banks weigh economic growth outlook and increased coronavirus risk against more persistent inflation and improving labor markets.
- Long-term interest rates could trend higher amid the growth and inflation outlook, but upside may be limited as growth moderates and imbalances driving inflation ease; while 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 August 2021

- We remain modestly underweight equities relative to bonds and cash as the valuations look less compelling amid peaking growth and stimulus. Higher rates, elevated inflation, and potential tax increases could pose challenges to equities.
- Within equities, we continue to favor value-oriented equities globally, U.S. small-caps, and emerging market stocks as we expect cyclically exposed companies to continue to benefit from still supportive but slowing economic growth and continued 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 given a constructive credit outlook.
- Over the month, we added back to mortgage-backed securities, as valuations have become more compelling as the market anticipates tapering of mortgage-backed securities by the Fed.

3 Market Themes

As of 31 August 2021

Rock and a Hard Place

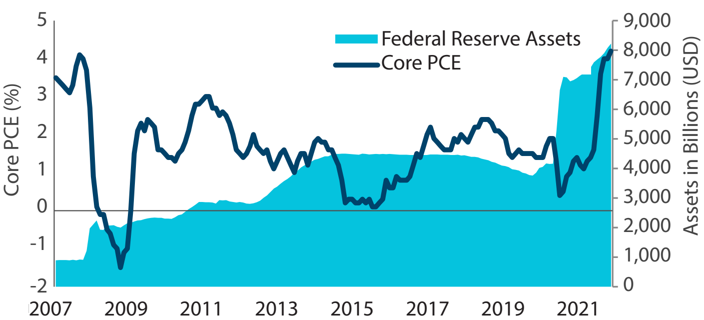
Coming out of the Jackson Hole Economic Symposium, Federal Reserve Chairman, Jerome Powell signaled that the Fed could begin to wind down its monthly bond buying by year-end, if the economy and coronavirus cooperate, and acknowledged that the Fed is in no hurry to raise short-term interest rates. The equity market interpreted Powell's comments as very dovish, with the S&P 500 rallying to record high levels on hopes that monetary policy will remain loose for longer. Powell also addressed concerns about inflation, calling it hot, but temporary, attributing it to coronavirus-related supply disruptions. Recent softer than expected payroll data could also weigh against tightening as the Fed waits for more substantial progress towards employment goals. A scenario of moderating growth, waning employment, and lingering inflation could put the Fed between a rock and a hard place—with tapering too quickly potentially jeopardizing the nascent job market and complacency on inflation possibly forcing them to act more decisively down the road.

Cash Hoard

Coronavirus-related shutdowns curtailed spending by both consumers and corporations alike as expenditures on services fell significantly and corporations cut spending and dividends. Consumers working in lower-earning service sectors were the hardest hit with job losses, although they found support from fiscal aid. Higher earners, for the most part, were marginally impacted as they maintained their jobs and were able to save from less spending on services, travel, and commuting. Now businesses and consumers are both seeing elevated levels of liquidity, as S&P 500 companies hold a record, USD 2 trillion in cash and as household worth remains at an all-time high. Unleashed pent-up consumer demand remains as back-to-school shopping and the holiday season kicks off, while at the same time, corporations are looking to increase dividends and share buybacks. The potential for this cash hoard to come off the sidelines could provide a strong tailwind for cyclically-exposed companies against a backdrop of fading fiscal and monetary support.

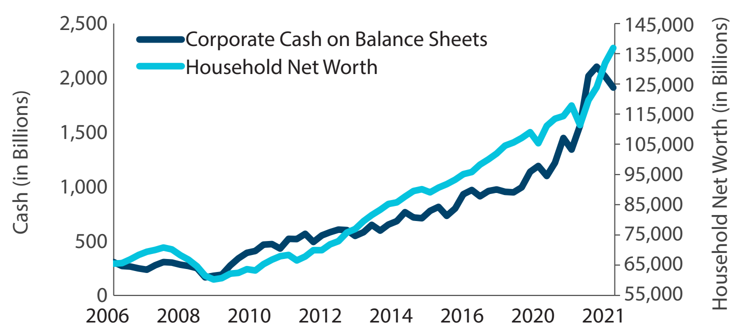
Inflation vs. Federal Reserve Assets

As of 31 July 2021



Corporate Cash & Household Net Worth[1]

As of 31 March 2021



[1]Corporate Cash and Household Net Worth returns are represented by the FOF Balance Sheet of Nonfinancial Corporate Checkable Deposits & Currency Asset index and the FOF Federal Reserve US Households & NPO Net Worth Nominal $ Value index respectively. Figures are shown in USD.

Source: Bloomberg Finance L.P.

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4 Regional Backdrop

As of 31 August 2021

	Positives	Negatives
United States	▪ Vaccinations widely distributed ▪ Infrastructure spending bill likely to be passed ▪ Healthy consumer balance sheets and high savings rate ▪ Exceptionally strong earnings growth	▪ Elevated stock and bond valuations ▪ Elevated corporate and government debt levels ▪ Fed accommodation has peaked ▪ Fiscal stimulus has peaked ▪ Corporate taxes likely to rise ▪ Delta variant spread is muting economic reopening
Europe	▪ Higher exposure to more cyclically oriented sectors that should benefit from economic recovery ▪ Vaccination rates improving rapidly ▪ Monetary policy remains accommodative ▪ Fiscal stimulus poised to get a boost from upcoming German elections ▪ Equity valuations remain attractive relative to the U.S.	▪ 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 auto production rebound
Developed Asia/Pacific	▪ 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 ▪ Equity valuations attractive relative to developed markets	▪ 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) ▪ New variants remain a threat to economic activity

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5 Asset Allocation Committee Positioning

As of 31 August 2021

Underweight — Neutral — Overweight

▼ 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			■				Exceptional earnings growth and upward revisions have driven strong performance. However, valuations are elevated amid peaking growth and stimulus. Additional concerns include coronavirus challenges, input cost inflation, tax increases, and higher rates.
Bonds					■		Yields should be biased higher on the back of growth and inflation trending at above pre-pandemic levels, as well as tightening global central bank policies. Credit sectors offer solid fundamentals and opportunities for carry.
EQUITIES							
Regions							
U.S.			■				Elevated valuations reflecting a strong recovery, earnings strength, and low interest rates. Slowing growth, delta variant challenges, Fed tightening, and taxes could be headwinds. Cyclical sectors should continue to benefit from a supportive macro backdrop, but a lot of good news is already priced in.
Global Ex-U.S.					■		Procyclical sector profile, vaccination progress, and attractive relative valuation should prove beneficial amid continued recovery. Stimulus measures and unleashing of pent-up demand coupled with contribution from corporate capex and inventory rebuilding may provide further tailwinds.
Europe			■				Cyclical orientation, low valuations among financials, auto production rebound, and improving vaccination rate supportive. Fading Chinese growth, low rate environment, and continued coronavirus challenges could dampen the rebound.
Japan					■		Accelerating vaccine rollout, attractive valuations, and strong global trade outlook should be supportive. Improving corporate governance also provides a long-term tailwind.
Emerging Markets (EM)					■		Valuations very attractive, and Chinese regulatory pressures may have peaked. Strength in global trade, appreciating currencies, and a dovish Fed offer further support. Inflation and vaccine and delta variant challenges remain concerns.
Style & Market Capitalization							
U.S. Growth vs. Value[1]			■				Growth remains vulnerable to elevated valuations and higher rates. Cyclical orientation of value should still benefit from unleashed pent-up demand, economic strength, and infrastructure spending.
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 and easing of supply bottlenecks could also provide a boost.
U.S. Small vs. Large-Cap[1]					■		Small-caps should be supported by economic growth, attractive relative valuations, infrastructure spending, released 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 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							
Real Assets Equities			■				The long-term outlook for commodities remains challenged by a supply/demand imbalances. Real estate remains attractive in the context of economic recovery and attractive valuations, but rising rates could pose a headwind.
BONDS							
U.S. Investment Grade (IG)			■				Fundamentals and yield advantage supportive for credit, but upside may be limited with rich valuations. Rates continue to be biased higher based on elevated growth and inflation levels.
Developed Ex-U.S. IG (Hedged)					■		Short-end rates should be contained as monetary policy changes not likely through 2022, while higher inflation and growth could place upward pressure on longer-term yields.
U.S. Treasury Long		■					Longer-duration bonds remain vulnerable to a rise in yields as growth and inflation remain elevated, but gradual Fed tightening path and strong demand for Treasuries could keep long-end yields contained over the near-term.
Inflation-Linked				■			Inflationary pressures expected to remain high through year-end as pent-up demand and supply bottlenecks are worked through. Recent Consumer Price Index report indicated outliers may have peaked.
Global High Yield					■		Limited upside given elevated valuations; relative yields still attractive versus alternatives within fixed income. Fundamentals broadly supported by positive macroeconomic backdrop.
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.
EM Dollar Sovereigns				■			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.
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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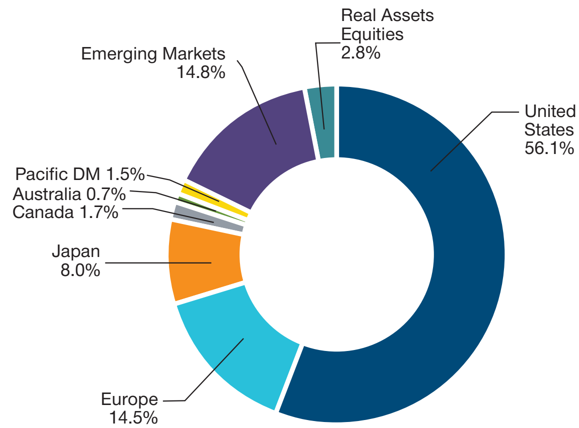
6 Portfolio Implementation

As of 31 August 2021

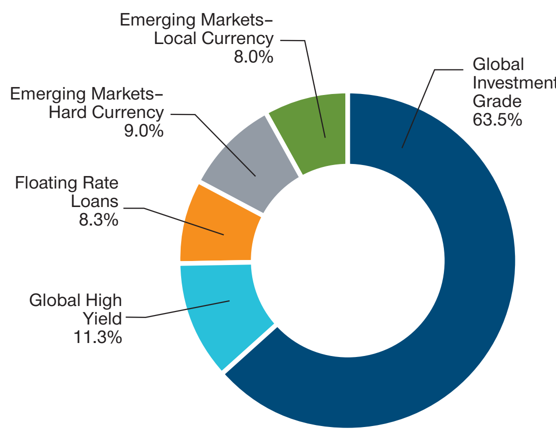
Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	54.7%	56.1%	+1.4%
Europe	15.9	14.5	-1.5
Japan	6.3	8.0	+1.7
Canada	2.7	1.7	-1.0
Australia	1.7	0.7	-1.0
Pacific – Developed Markets (DM)	1.2	1.5	+0.3
Emerging Markets	12.4	14.8	+2.4
Real Assets Equities	5.0	2.8	-2.3
Total Equity:	100.0%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

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Source for Bloomberg index data: Bloomberg Index Services Limited. See additional disclosures on final page for more information.

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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.
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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.
Style risk – different investment styles typically go in and out of favour depending on market conditions and investor sentiment.

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