



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

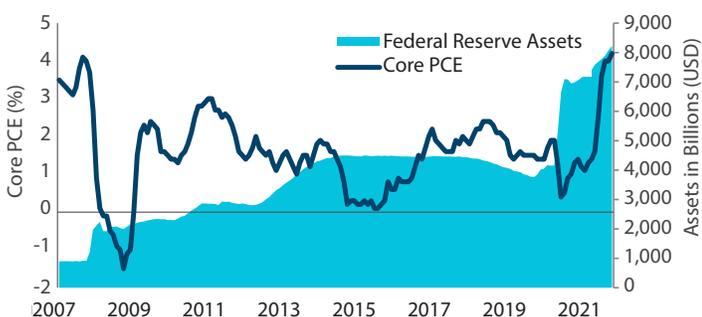
As of 31 August 2021

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.

Inflation vs. Federal Reserve Assets

As of 31 July 2021

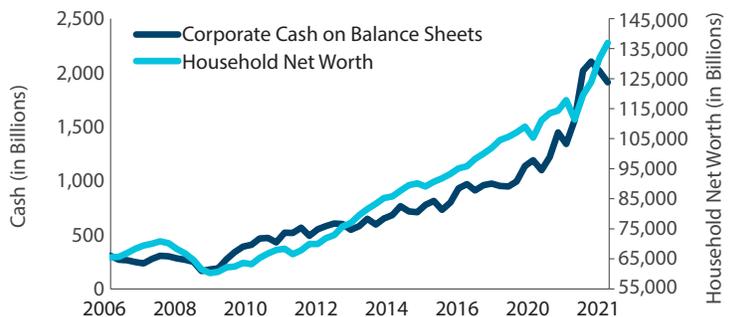


Cash Hoard

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.

Corporate Cash & Household Net Worth¹

As of 31 March 2021



¹Corporate 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

- United States**
- Vaccinations widely distributed
 - Infrastructure spending bill likely to be passed
 - Healthy consumer balance sheets and high savings rate
 - Exceptionally strong earnings growth

Negatives

- 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

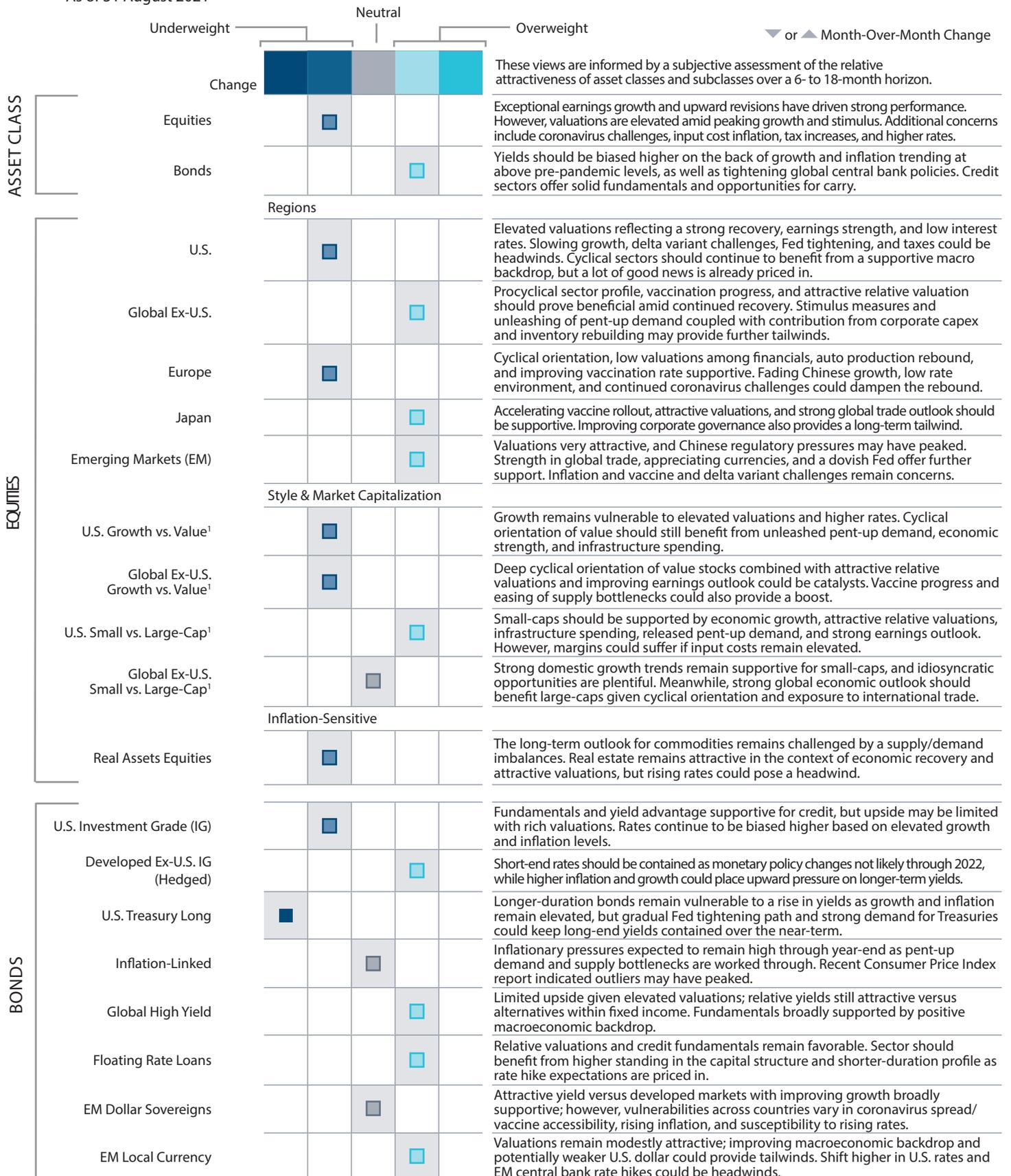
- Emerging Markets**
- Exposure to cyclical areas of economy should benefit from broad global recovery
 - Commodity prices are elevated
 - Equity valuations attractive relative to developed markets

- 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



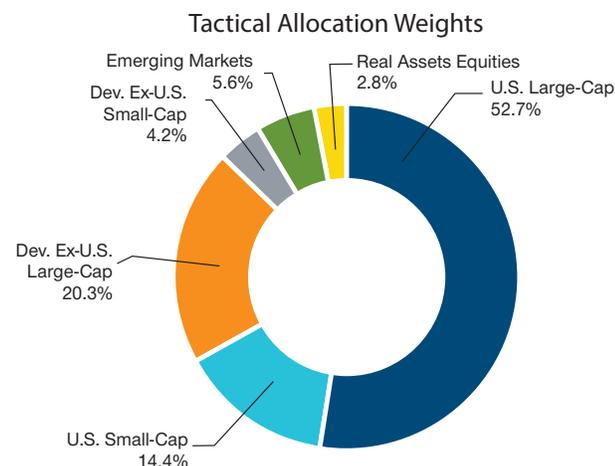
¹For pairwise decisions in style & market capitalization, positioning within boxes represent positioning in the first mentioned asset class relative to the second asset class.

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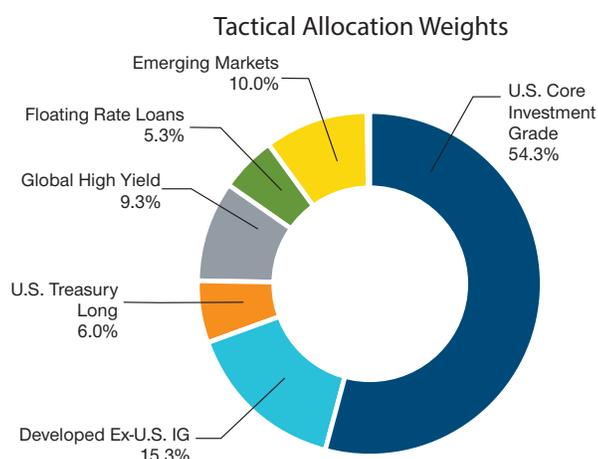
6 Portfolio Implementation

As of 31 August 2021

Equity	Neutral Weight	Tactical Weight	Relative Weight
■ U.S. Large-Cap	52.5%	52.7%	+0.2%
■ U.S. Small-Cap ¹	13.5	14.4	+0.9
■ Dev. Ex-U.S. Large-Cap	21.0	20.3	-0.7
■ Dev. Ex-U.S. Small-Cap	4.0	4.2	+0.2
■ Emerging Markets	4.0	5.6	+1.6
■ Real Assets Equities	5.0	2.8	-2.3
Total Equity:	100.0%	100.0%	



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
■ U.S. Core Investment Grade	55.0%	54.3%	-0.8%
■ Developed Ex-U.S. IG (Hedged)	15.0	15.3	+0.3
■ U.S. Treasury Long	10.0	6.0	-4.0
■ Global High Yield	8.0	9.3	+1.3
■ Floating Rate Loans	2.0	5.3	+3.3
■ Emerging Markets - (Local/Hard Currency)	10.0	10.0	0.0
Total Fixed Income:	100.0%	100.0%	



¹ U.S. small-cap includes both small- and mid-cap allocations.

Source: T. Rowe Price. Unless otherwise stated, all market data are sourced from FactSet. Copyright 2021 FactSet. All Rights Reserved.

These are subject to change without further notice. Figures may not total due to rounding.

Neutral equity portfolio weights representative of a U.S.-biased portfolio with a 70% U.S. and 30% international allocation; includes allocation to real assets equities. Core fixed income allocation representative of U.S.-biased portfolio with 55% allocation to U.S. investment grade.

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