

Multi-Asset Insights

September 2021

A Note from our Multi-Asset Solutions Team: *The T. Rowe Price Multi-Asset Solutions team designs and manages custom portfolios, engages with clients using portfolio diagnostic and analytical frameworks, and leverages the entire global research platform to produce proprietary research and investment insights. The insights above are provided by the MAS team.*

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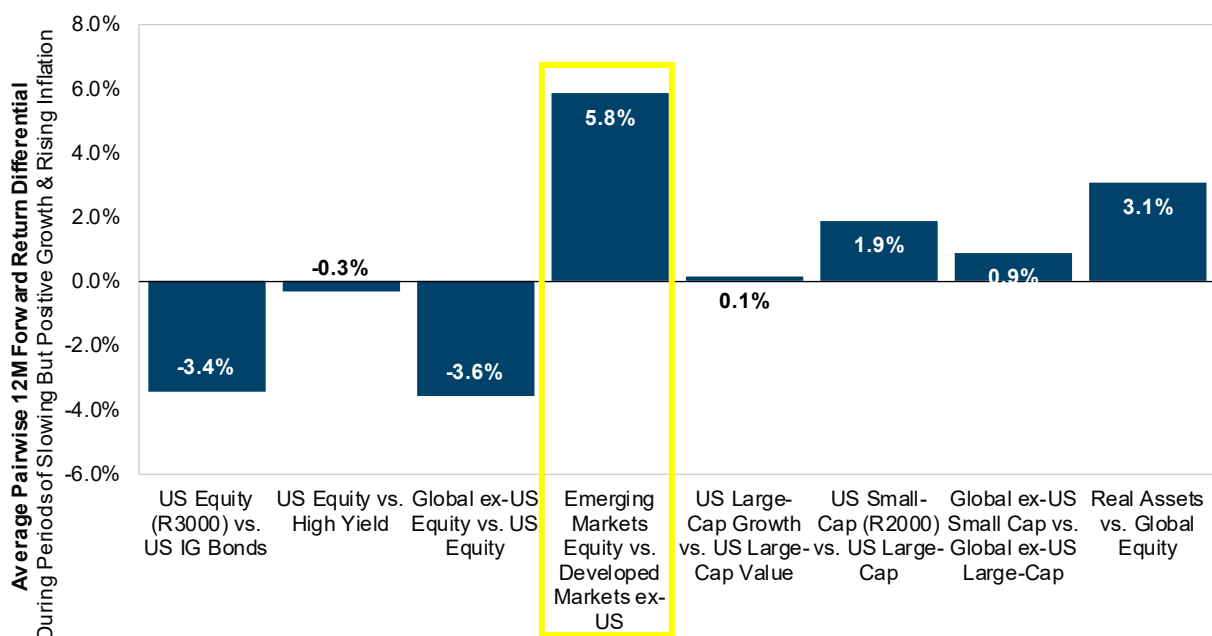
I. Where are we in the Market Cycle/What's Next?

The COVID-19 related market sell-off and subsequent recovery has led many clients to ask where we are in the market cycle and what it means for various asset classes. Our asset allocation process leverages a mix of bottom up and top-down data, models, and judgment to navigate markets. Recently, one of our models provided a historically unusual perspective: **decelerating growth (albeit from a high level) during a period of rising inflation momentum.**

Historically, this environment suggests a cautious view on risk assets. However, there are two areas that have historically done relatively well in such an environment: real assets and emerging markets (EM) equities. We find EM (particularly EM Value) attractive and have added dedicated exposure in many of our portfolios to potentially provide greater long-term returns and increased diversification via greater exposure to local economic growth. From a tactical perspective, we are currently overweight EM Value due to (1) additional relative valuation support and (2) our view that sectors such as financials stand to benefit as EM economies and currencies rebound on the back of resurgent DM export demand and increased vaccination levels.

AVERAGE PAIRWISE 12M FORWARD RETURN DIFFERENTIAL DURING PERIODS OF SLOWING BUT POSITIVE GROWTH & RISING INFLATION

Emerging markets typically performed well relative to developed ex-US markets



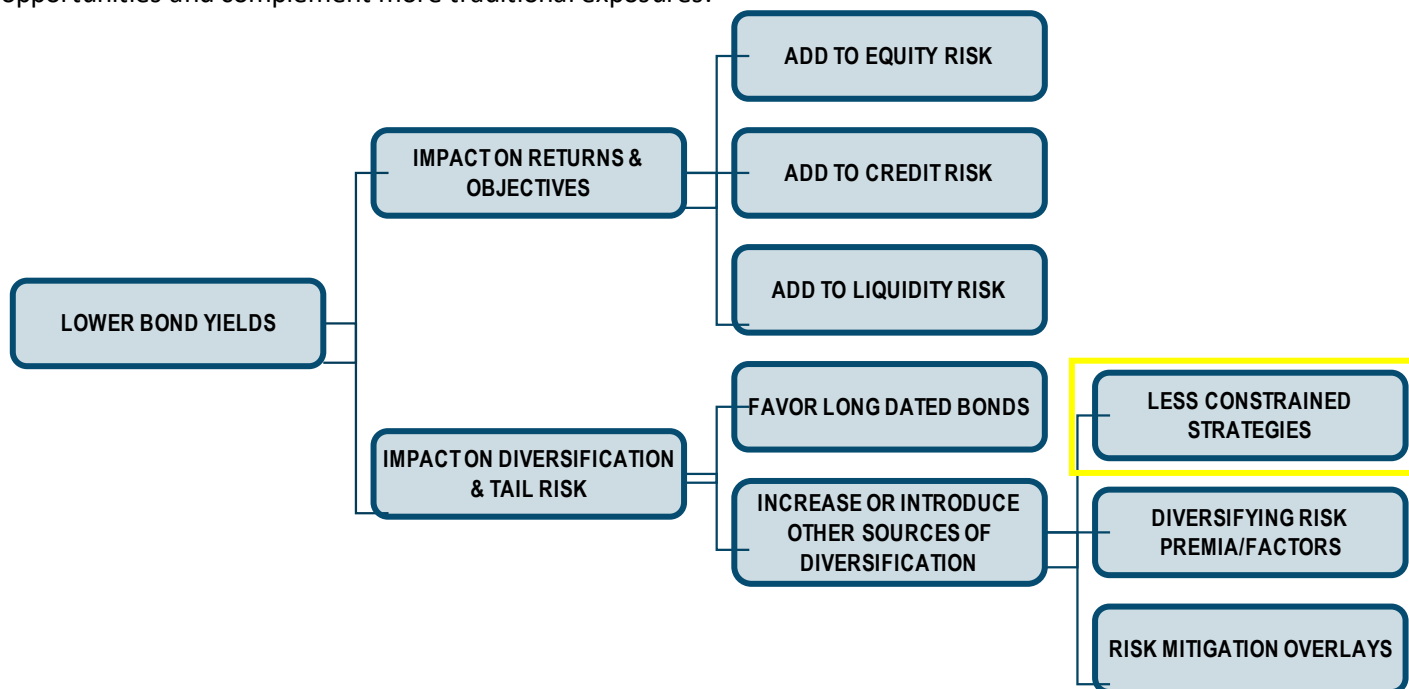
Past performance is not a reliable indicator of future performance.

Description of analysis: Economic cycle model buckets historical periods from October 31, 1995 through June 30, 2021 into one of four categories: expansion, pullback, recovery, and slowdown. The model currently indicates (as of July 13, 2021) "slowdown", but from a period of positive but decelerating growth and accompanied by rising inflation momentum. Our analysis averages the 12-month forward return differentials from our model's past indications of slowdown, in order to understand tendencies of asset class pairwise performance during similar historical periods. Sources: Data from Credit Suisse, FTSE/Russell, MSCI, S&P, and Deep Macro, LLC. Analysis by T. Rowe Price. See Additional Information for details regarding each of the indices represented above.

II. The Strategic Asset Allocation (SAA) Playbook

While every environment provides unique challenges for investors, low yields and expensive assets across the risk/return spectrum are likely to amplify the impact of investment decisions made today relative to the past. Utilizing a consistent playbook that incorporates the impact that today's environment may have on return distributions and asset class relationships can help investors navigate various asset allocations and strategy decisions to ensure portfolios remain aligned with objectives.

In particular, there may be opportunity to introduce additional sources of growth via riskier credit strategies and other sources of diversification through less constrained strategies that can more dynamically take advantage of market opportunities and complement more traditional exposures.



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ADDITIONAL INFORMATION

Asset classes defined as follows using market indexes: US Equity = Russell 3000 Index, US IG Bonds = Bloomberg Barclays US Aggregate Index, High Yield = Credit Suisse High Yield Index, Global ex-US Equity = MSCI ACWI ex-US Index, Emerging Markets Equity = MSCI Emerging Markets Index, Developed Markets ex-US Equity = MSCI EAFE Index, US Large-Cap Growth = Russell 1000 Growth Index, US Large-Cap Value = Russell 1000 Value Index, US Small Cap = Russell 2000 Index, Global ex-US Small-Cap = S&P Global Small-Cap Index, Global ex-US Large-Cap = MSCI ACWI ex US Index, Real Assets = Blended Benchmark¹, Global Equity = MSCI ACWI Index).

¹Real Assets Blended Benchmark: As of 1 January 2018, the Real Assets Combined Index Portfolio is comprised of 30% MSCI World Select Natural Resources Net, 25% MSCI ACWI Metals and Mining Net, 20% Wilshire RESI, 20% EPRA/NAREIT Dev Real Estate Index Net, 4% MSCI ACI IMI Gold Net, 1% ACWI IMI Precious Metals Net. Prior to this date, the Real Assets Combined Index Portfolio was comprised of 25% MSCI ACWI Metals & Mining Net, 20% Wilshire RESI, 20% FTSE EPRA/NAREIT Dev Real Estate Index Net, 19.5% MSCI ACWI Energy Net, 10.5% MSCI ACWI Materials Net, 4% MSCI ACWI IMI Gold Net, 1.00% MSCI ACWI IMI Precious Metals and Minerals Net. Prior 1 December 2013, the Real Assets Combined Index Portfolio was comprised of 25% MSCI ACWI Metals & Mining Net, 20% Wilshire RESI, 20% FTSE EPRA/NAREIT Dev Real Estate Index Net, 16.25% MSCI ACWI Energy Net, 8.75% MSCI ACWI Materials Net, 5% UBS World Infrastructure and Utilities Index, 4% MSCI ACWI IMI Gold Net, 1.00% MSCI ACWI IMI Precious Metals and Minerals Net.

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