Global Asset Allocation Viewpoints

October 2021

1 Market Perspective

As of 30 September 2021

- Global economic growth outlook remains favorable, albeit past peak levels, balanced by further progress toward global emergence from COVID-19 shutdowns versus fading policy support and supply chain disruptions.
- Global monetary policy is expected to continue path toward tightening, but central banks on different trajectories, with some, particularly in EM, having already acted in response to higher inflation while others continue to keep policy on hold awaiting stronger evidence of sustained growth.
- Long-term interest rates could trend higher amid outlook for above trend growth and inflation, but upside may be limited as growth and imbalances driving inflation moderate.
- Key risks to global markets include elevated inflation, central bank missteps, slowing China growth, supply chain disruption, increased regulatory pressures, higher taxes, and increasing geopolitical concerns.

2 Portfolio Positioning

As of 30 September 2021

- We remain modestly underweight equities relative to bonds and cash as valuations look less compelling amid moderating growth and stimulus. Higher rates, rising input costs related to supply chain bottlenecks, and potential tax increases could pose challenges to near-term earnings outlook.
- 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 benefit from a supportive global growth profile, coupled with unleashed pent-up demand and inventory rebuilding as supply bottlenecks and COVID concerns abate.
- Within fixed income, we continue to favor shorter duration and higher yielding sectors through overweights to high yield bonds and floating rate loans given our constructive credit outlook.

3 Market Themes

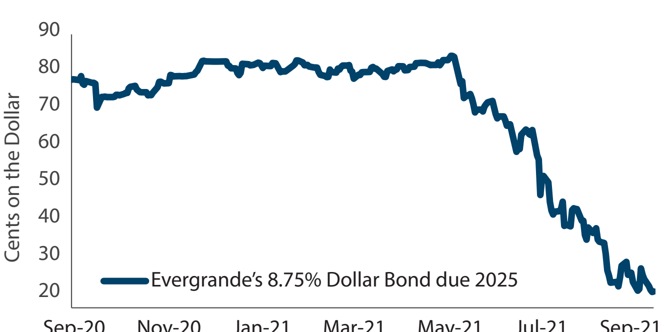
As of 30 September 2021

More Predictably, Unpredictable

After a crackdown on internet technology and educational companies last month, risks continue to emerge out of China including the potential fallout in its massive real estate sector following missed debt payments by Evergrande–one of the nation's largest property developers. The focused suite of regulatory actions out of Beijing are driven by efforts to balance wealth inequality and have had far sweeping impacts on sectors such as technology, education, real estate, and healthcare. At the same time, authorities have started to more aggressively pursue its 5-year plan to reduce carbon emissions by limiting coal supply, resulting in power outages, and shuttering factory activity leading to supply shortages. The degree of recent actions taken by the Chinese government combined with declining growth estimates is causing investors angst. Although unlikely to allow economic growth to fall significantly, China's actions may force foreign investors and trading partners to reassess the risks of investing in a place that has become more predictably, unpredictable.

Evergrande's Debt Collapse[1]

As of 30 September 2021

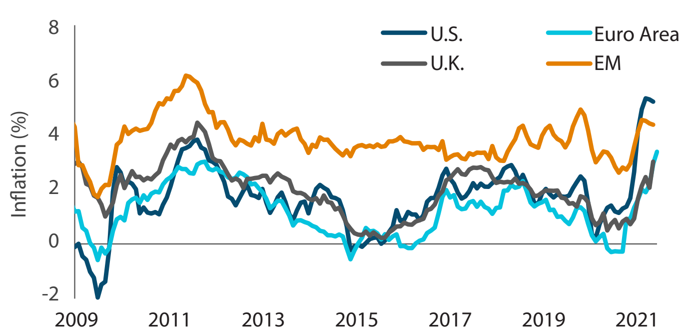


Actions Speak Louder than Words

Inflation is proving to be a bit more persistent and higher than many expected, putting pressure on some central banks around the globe to act. Several emerging market central banks, such as Brazil and Mexico, began raising rates over the summer to fend off higher prices and now, some developed market central banks are similarly looking to act. The Bank of England has signaled higher rates are coming soon as inflation is expected to get close to 4%, double their target. And while the Federal Reserve is planning on tapering asset purchases, it remains committed to its current rate policy, reiterating that elevated inflation levels will be "transitory". The ECB similarly warned of not overreacting to current inflation levels, keeping current policy in place. Although most central banks believe inflation will prove temporary, prices could remain elevated for an extended period–perhaps too long for them to hold onto their words and not take action.

Global Inflation on the Rise[1,2]

As of 31 August 2021



Past performance is not a reliable indicator of future performance.

[1] Figures are shown in USD.

[2] Inflation is measured by Consumer Price Index.

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4 Regional Backdrop

As of 30 September 2021

United States

Positives

- Healthy consumer balance sheets and high savings rate
- Exceptionally strong earnings growth
- Infrastructure spending likely to increase
- Delta variant spread appears to have peaked

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

Europe

Positives

- Higher exposure to more cyclically oriented sectors that should benefit from economic recovery
- Monetary policy remains accommodative
- Fiscal stimulus likely to increase
- Equity valuations remain attractive relative to the US

Negatives

- Limited long-term catalysts for growth
- Limited scope for ECB to stimulate further
- Demand from China fading
- Microchip shortage impacting auto production rebound

Developed Asia/Pacific

Positives

- Cyclical orientation should benefit from economic rebound
- Strong fiscal and monetary support
- Improving corporate governance
- Vaccination rates have improved significantly
- Improving political outlook

Negatives

- Weak economic growth going into crisis, driven by long term demographic headwind
- Demand from China fading
- Limited long-term catalysts for growth

Emerging Markets

Positives

- Equity valuations attractive relative to developed markets
- Exposure to cyclical areas of economy should benefit from broad global recovery
- Chinese regulatory actions likely to have peaked
- Vaccination rates are improving

Negatives

- Stimulus from China is fading
- Accommodation from central banks is fading
- New coronavirus variants remain a threat

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5 Asset Allocation Committee Positioning

As of 30 September 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			■				Valuations are elevated amid post-peak growth and stimulus levels. Earnings strength has buoyed equities thus far but may face a more challenging environment over the near term.
ASSET CLASS	Bonds					■		Yields biased higher on the back of strong growth, inflation, as well as tightening global central bank policies supportive of short duration posture and modest overweight to cash. Credit sectors offer solid fundamentals and opportunities for carry.
	Regions							
EQUITIES	U.S.			■				Elevated valuations reflecting a strong recovery, earnings strength, and low interest rates. Slowing growth, fading liquidity, and the potential for higher interest rates and taxes could be headwinds. Cyclical sectors should continue to benefit from a strong macro backdrop, but a lot of good news is already priced in.
EQUITIES	Global Ex-U.S.					■		Procyclical sector profile, vaccination progress, and attractive relative valuation should prove beneficial amid continued recovery. However, Chinese growth concerns remain a headwind.
EQUITIES	Europe			■				Fading Chinese growth, low-rate environment, and lack of long-term growth catalysts remain concerns. However, cyclical orientation, low valuations among financials, and improving stimulus expectations provide near-term support.
EQUITIES	Japan					■		Substantial progress on vaccine rollout, improved political environment, attractive valuations, and strong global trade outlook should be supportive. Improving corporate governance also provides long-term tailwind.
EQUITIES	Emerging Markets (EM)					■		Valuations very attractive and Chinese regulatory pressures may have peaked. Global trade likely to improve as bottlenecks are worked through and vaccine levels continue to improve.
	Style & Market Capitalization							
EQUITIES	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 potential for 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. Growth stocks challenged by fading consumer demand from China.
EQUITIES	U.S. Small vs. Large-Cap[1]					■		Small-caps should be supported by economic growth, attractive relative valuations, infrastructure spending, and strong earnings outlook. However, elevated input costs and wage pressures are weighing on margins.
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			■				The long-term outlook for commodities remains challenged by supply/demand imbalances despite recent strength. Real estate remains attractive in the context of economic recovery, 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.
BONDS	Developed Ex-U.S. IG (Hedged)					■		Sector offers yield curve diversification and short-end rates should be contained as monetary policy changes not likely through 2022. Compression in global yields has eroded most of the USD hedged yield advantage.
BONDS	U.S. Treasury Long		■					Stronger growth, persistent inflation, and less accommodative Fed should lead to a gradual rise in yields, impacting longer duration assets. However, risk-off turn in markets could cause a rally in Treasuries.
BONDS	Inflation-Linked				■			Inflationary pressures expected to remain high through year-end as pent-up demand and supply bottlenecks are worked through, however it is largely priced in.
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					■		Credit fundamentals remain favorable and sector should benefit from higher standing in the capital structure and shorter-duration profile as in a potentially rising rate environment. However, spreads are near all-time lows, limiting upside.
BONDS	EM Dollar Sovereigns				■			Attractive yield versus developed markets with improving growth broadly supportive; however, vulnerabilities across countries vary in coronavirus spread/ vaccine accessibility and central banks are taking actions to combat inflation.
BONDS	EM Local Currency					■		Valuations remain modestly attractive, particularly for local currencies; 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.

The asset classes across the equity and fixed income markets shown are represented in our Multi-Asset portfolios. Certain style & market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework. For a representation of how the overweight and underweight tactical decisions are implemented across our Target Allocation franchise, please see page 4.

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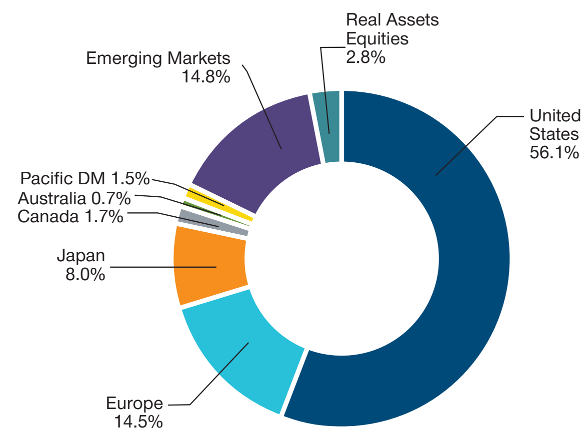
6 Portfolio Implementation

As of 30 September 2021

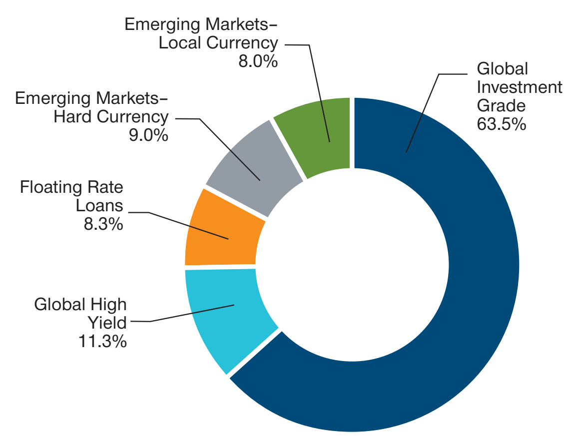
Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	54.7%	56.1%	+1.4%
Europe	15.9	14.5	-1.5
Japan	6.3	8.0	+1.7
Canada	2.7	1.7	-1.0
Australia	1.7	0.7	-1.0
Pacific – Developed Markets (DM)	1.2	1.5	+0.3
Emerging Markets	12.4	14.8	+2.4
Real Assets Equities	5.0	2.8	-2.3
Total Equity:	**100.0%**	**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.
Equity risk – in general, equities involve higher risks than bonds or money market instruments.
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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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