T.Rowe Price[SM]

INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints

November 2021

1 Market Perspective

As of 31 October 2021

- While moderating, global growth to remain above trend as it continues to emerge from COVID. Supply chain disruptions and energy shortages in some regions could be near-term headwinds to growth.
- Global monetary policy broadly on path towards tightening, albeit unsynchronized, with many emerging markets having already acted in response to higher inflation and to defend their currencies, while most developed market counterparts are more cautiously advancing towards tightening.
- Global yield curves likely to face higher short-term rates on central bank tightening, while longer rates could be biased higher on near-term inflation concerns, although upside may be limited as growth expectations and inflation pressures moderate.
- Key risks to global markets include persistent elevated inflation, central bank missteps, slowing China growth, supply chain disruption, energy shortages, and increasing geopolitical concerns.

2 Portfolio Positioning

As of 31 October 2021

- We remain modestly underweight equities relative to bonds and cash given a less compelling risk/reward profile against a backdrop of elevated valuations with more moderate return expectations. Higher rates, rising input costs related to supply chain bottlenecks and fading monetary and fiscal policy 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 pent-up demand and inventory rebuilding as 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 supported by our constructive credit outlook.

3 Market Themes

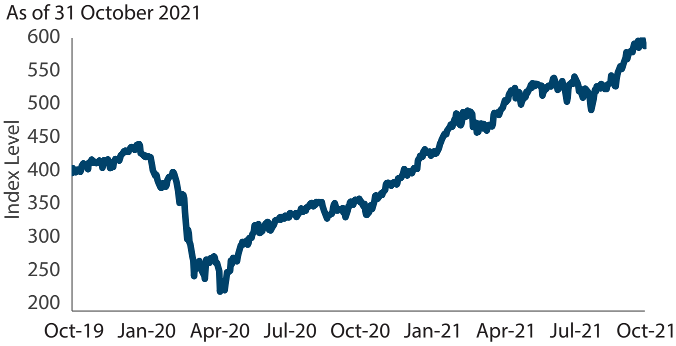
As of 31 October 2021

Running on Empty

Just as the global economy is finally gaining traction after delta variant setbacks, some economies are facing severe energy shortages, with energy prices up over 70% since last year. The impacts are being felt across Europe, which is facing shortages of natural gas, threatening to leave households without heat as winter approaches. Meanwhile China, which cut coal production to meet carbon emissions initiatives, has quickly reversed course as the cutbacks created shortages, leading to fears of moderating growth. In the U.S., although not seeing the same degree of supply concerns, fuel prices have more than doubled since last year amid stronger demand and lower production levels. What has also been exposed amid this energy crunch is the pace of the transition from traditional energy sources to renewables. While the push toward green initiatives continues, economies will need to balance decommissioning traditional sources of energy as they replace with renewables, otherwise economies could find themselves running on empty, particularly if faced with future shocks.

Commodity Prices[1,2]

As of 31 October 2021



On Back Order

Supply chain concerns have reached a crescendo recently as skyrocketing demand is overwhelming already strained supply chains, threatening to introduce the difficult combination of high inflation and slowing economic growth. Companies are citing the supply chain bottlenecks at every link—including labor shortages, backlogs at ports, increased delivery times, and limited trucking availability—leading to increased input costs and concerns about impacts on corporate margins. While higher wages may help consumers offset costs and companies with pricing power may be able to push through higher input costs for now, it looks like consumers and companies will have to navigate inflationary pressures well into the middle of next year. Although some of the supply chain pressures have eased in recent weeks, with the price of shipping containers reaching a peak, the holidays are just around the corner and companies will likely still be struggling to get products on the shelves as consumers are faced with limited supply and higher prices.

Shipping Costs[1,3]

As of 31 October 2021

Past performance is not a reliable indicator of future performance.

[1] Figures are shown in USD.

[2] Prices are reprsented by the S&P GSCI Index. The S&P GSCI index is a product of S&P Dow Jones Indices LLC, a division of S&P Global, or its affiliates ("SPDJI"), and has been licensed for use by T. Rowe Price. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). This product is not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the S&P GSCI index.

[3] Cost are represented by the Baltic Dry Index (BDI).

Source: Bloomberg Finance L.P.

4 Regional Backdrop

As of 31 October 2021

United States

Positives

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

Negatives

- Supply chain issues are weighing on economic growth
- Elevated stock and bond valuations
- Elevated corporate and government debt levels
- Fed accommodation has peaked
- Fiscal stimulus has peaked

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
- Elevated energy prices and supply chain issues are weighing on economic growth

Developed Asia/Pacific

Positives

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

Negatives

- Weak economic growth going into crisis, driven by long term demographic headwind
- Demand from China fading
- Limited long-term catalysts for growth
- Elevated energy prices and supply chain issues are weighing on economic growth

Emerging Markets

Positives

- Attractive equity valuations
- Exposure to cyclical areas of economy should benefit from broad global recovery
- Chinese regulatory actions likely to have peaked
- Vaccination rates are improving

Negatives

- Accommodation from central banks is fading
- New coronavirus variants remain a threat
- Heightened political risk

5 Asset Allocation Committee Positioning

As of 31 October 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		Neutral	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 amid decelerating economic growth.
Bonds					■		Yields biased higher on the back of elevated inflation as well as tightening global central bank policies, supportive of short duration posture. Credit sector fundamentals remain strong; yield advantage should remain supportive, although limited upside to valuations.
EQUITIES							
Regions							
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 could be headwinds. Cyclical sectors should continue to benefit from a strong macro backdrop, but a lot of good news is already priced in.
Global Ex-U.S.					■		Procyclical sector profile, vaccination progress, and easing of supply chain bottlenecks should prove beneficial amid continued recovery. Chinese growth concerns also appear to have bottomed.
Europe			■				Elevated energy costs, 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.
Japan					■		With vaccination rollout nearly complete, the domestic reopening is now underway. Attractive valuations, strong global trade outlook, and improving corporate governance also provide tailwinds.
Emerging Markets (EM)					■		Valuations are very attractive and Chinese regulatory pressures may have peaked. Global trade likely to improve as supply chain concerns ease and vaccine levels continue to improve.
Style & Market Capitalization							
U.S. Growth vs. Value[1]			■				Value's cyclical orientation and financials exposure should benefit from unleashed pent-up demand, economic strength, higher rates and infrastructure spending. Growth remains vulnerable to elevated valuations and higher interest rates.
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.
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 could weigh on margins.
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			■				Despite recent strength, the long-term outlook for commodities remains challenged by supply/demand imbalances driven by persistent productivity gains in resource extraction. Real estate remains attractive in the context of economic recovery, but rising rates could pose a headwind.
BONDS							
U.S. Investment Grade (IG)			■				Rates continue to be biased higher on elevated inflation levels and Fed tapering expectations. Corporate fundamentals and yield spread supportive for credit, but limited upside due to valuations.
Developed Ex-U.S. IG (Hedged)					■		Patient central banks and higher inflation could lead to a steeper yield curve. The leveling of global short rates has eroded most of the USD hedged yield advantage.
U.S. Treasury Long		■					Strong growth, persistent inflation, and less accommodative Fed should lead to a gradual rise in yields, impacting longer duration assets.
Inflation-Linked				■			Inflationary pressures expected to remain high as pent-up demand and supply bottlenecks are worked through, however it is largely priced in.
Global High Yield					■		Fundamentals supported by broadly positive macroeconomic backdrop and carry versus investment grade still attractive. However, further upside is limited due to tight spreads.
Floating Rate Loans					■		Credit fundamentals remain favorable and sector should benefit from higher standing in the capital structure and shorter-duration profile in a potentially rising rate environment. However, spreads are near all-time lows, limiting upside.
EM Dollar Sovereigns				■			Attractive yield versus developed markets with improving growth and vaccine distribution outlook; however, idiosyncratic vulnerabilities persist regarding coronavirus spread/vaccine accessibility and central banks actions to combat inflation.
EM Local Currency					■		Yields remain modestly attractive relative to other core bond sectors, with potential upside from cheap currencies. However, China growth and regulatory risk, rising central bank rates, and inflation are near-term 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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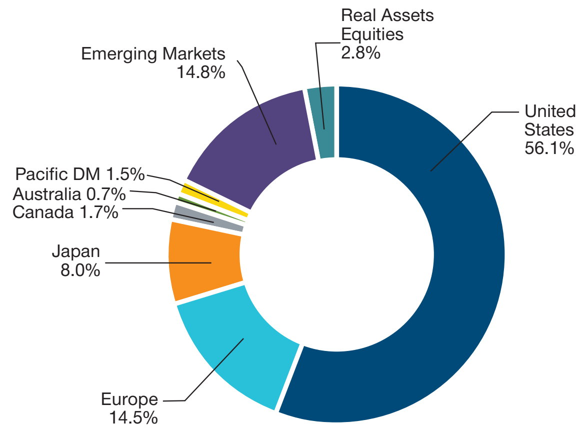
6 Portfolio Implementation

As of 31 October 2021

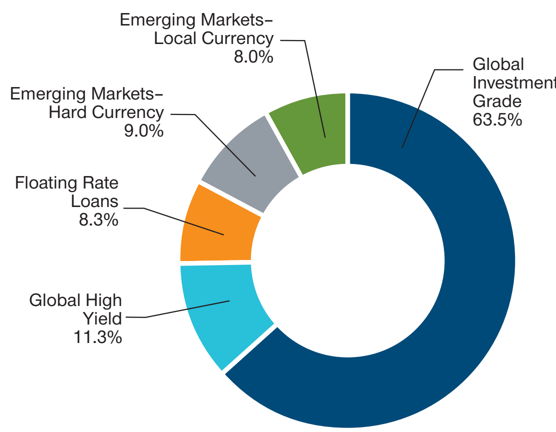
Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	54.7%	56.1%	+1.4%
Europe	15.9	14.5	-1.5
Japan	6.3	8.0	+1.7
Canada	2.7	1.7	-1.0
Australia	1.7	0.7	-1.0
Pacific – Developed Markets (DM)	1.2	1.5	+0.3
Emerging Markets	12.4	14.8	+2.4
Real Assets Equities	5.0	2.8	-2.3
Total Equity:	**100.0%**	**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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Style risk – different investment styles typically go in and out of favour depending on market conditions and investor sentiment.

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