



# 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<sup>1,2</sup>

As of 31 October 2021



**Past performance is not a reliable indicator of future performance.**

<sup>1</sup>Figures are shown in USD.

<sup>2</sup>Prices are represented 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.

<sup>3</sup>Cost are represented by the Baltic Dry Index (BDI).

Source: Bloomberg Finance L.P.

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## 4 Regional Backdrop

As of 31 October 2021



### Positives

**United States**

- 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

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**Europe**

- 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

- 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

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**Developed Asia/Pacific**

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

- 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

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**Emerging Markets**

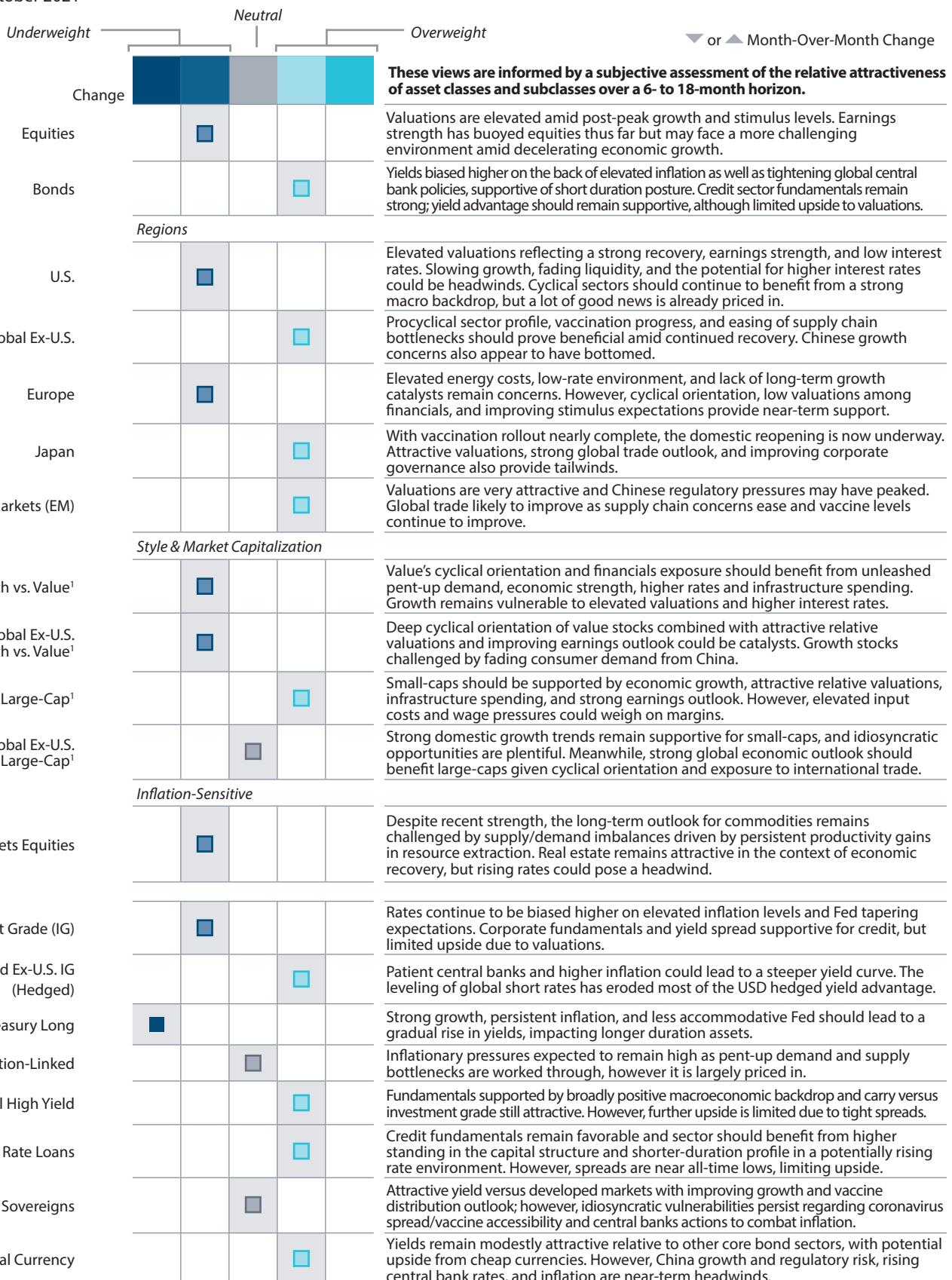
- Attractive equity valuations
- Exposure to cyclical areas of economy should benefit from broad global recovery
- Chinese regulatory actions likely to have peaked
- Vaccination rates are improving

- 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

ASSET CLASS



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

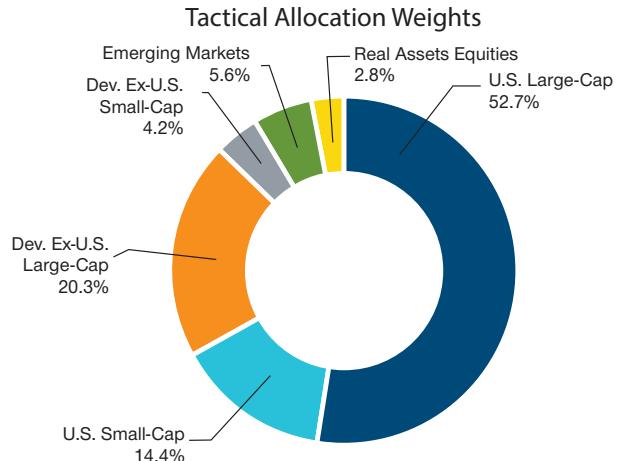
The asset classes across the equity and fixed income markets shown are represented in our Multi-Asset portfolios. Certain style & market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework. For a representation of how the overweight and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

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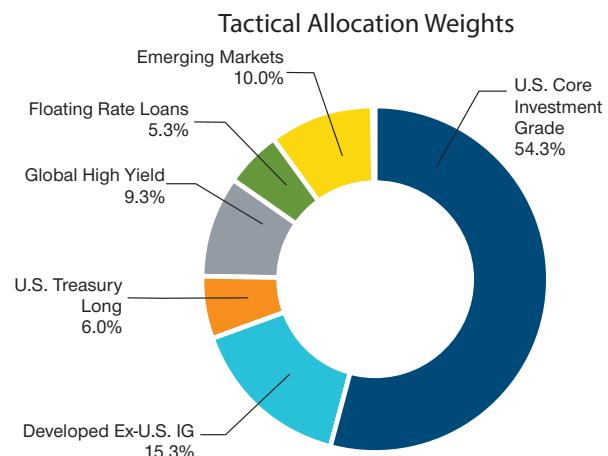
# 6 Portfolio Implementation

As of 31 October 2021

Equity	Neutral Weight	Tactical Weight	Relative Weight
U.S. Large-Cap	52.5%	52.7%	+0.2%
U.S. Small-Cap <sup>1</sup>	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
<b>Total Equity:</b>	<b>100.0%</b>	<b>100.0%</b>	



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
<b>Total Fixed Income:</b>	<b>100.0%</b>	<b>100.0%</b>	



<sup>1</sup>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.

Source: MSCI. MSCI and its affiliates and third party sources and providers (collectively, "MSCI") makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. Historical MSCI data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

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