



# Maintaining a Cautious Approach

October 2021



## KEY INSIGHTS

- Recent market crosscurrents have bolstered our Asset Allocation Committee's view to maintain a slight underweight to stocks relative to bonds.
- The global economic recovery shows signs of continuing, but key hurdles include fading fiscal and monetary stimulus and the potential for negative economic surprises.

Global equity markets have posted strong returns this year. However, the T. Rowe Price Asset Allocation Committee has maintained a slight underweight to stocks relative to bonds since March 2021, taking into account elevated stock valuations, moderating economic growth, and fading fiscal and monetary stimulus. These issues have become more pressing.

Indeed, the Citi Global Economic Surprise Index (Figure 1), which

measures the degree to which economic data compare with estimates among economists, has declined since mid-June 2021 and entered into negative territory in late August.

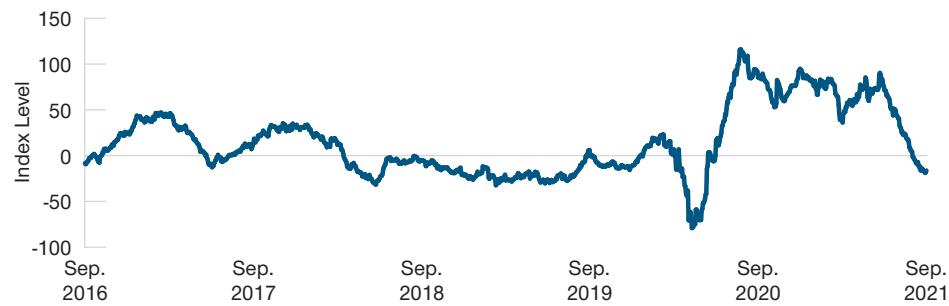
The downward trend has been primarily driven by a few main factors. The global resurgence of the coronavirus pandemic attributed to the delta variant has dampened reopening plans and disrupted supply chains, while fading growth in China amid uncertainty over



**Tim Murray, CFA**  
Capital Markets Strategist,  
Multi-Asset Division

## Economic Surprises Have Turned Negative

(Fig. 1) Citi Global Economic Surprise Index

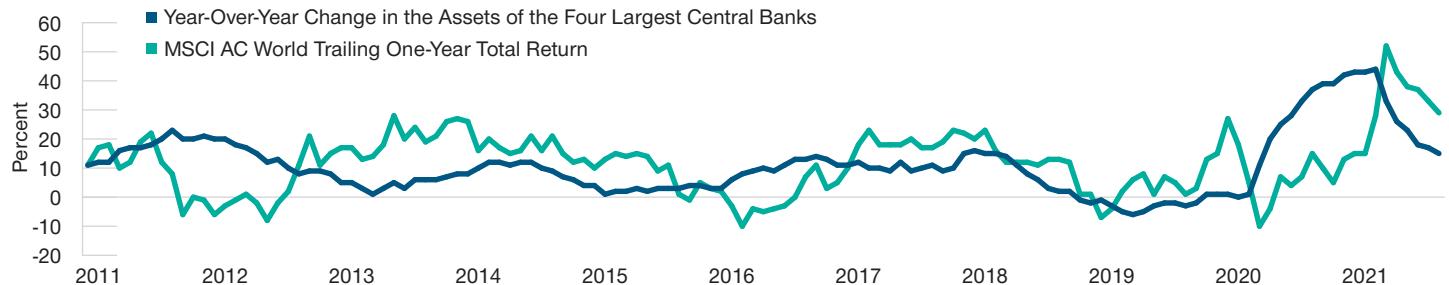


September 21, 2016, through September 21, 2021.

Source: Bloomberg Finance L.P.

## Fading Stimulus

(Fig. 2) Change in assets of the four largest central banks<sup>1</sup> vs. equity market performance



December 31, 2010, through August 31, 2021.

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

Sources: Bloomberg Finance L.P. and MSCI. T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved. See Additional Disclosures.

<sup>1</sup>The four largest central banks are U.S. Federal Reserve, European Central Bank, Bank of Japan, and Central Bank of China.

the country's regulatory policy changes has also weighed on expectations. While we expect these pressures to potentially dissipate in the intermediate term, they are likely to remain sources of volatility in the near future.

Fiscal stimulus continues to support economies, though funding levels have decreased significantly since 2020 as economic activity has largely normalized. Further, substantial new fiscal spending in the U.S. faces legislative hurdles and is likely to be below previous estimates. Spending proposals on infrastructure and climate change are being debated,

as are corporate tax rate increases to pay for them. Meanwhile, monetary stimulus is likely approaching a notable inflection point, with the U.S. Federal Reserve signaling intentions to begin tapering its asset purchase program. Historically, reduced liquidity has coincided with weaker equity market performance (Figure 2).

We believe that the global economy remains relatively strong, but our committee's determination to retain a slight underweight to equities is based on our view that economic headwinds over the near term could cause volatility.

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