



Global Asset Allocation Viewpoints

February 2022

1 Market Perspective

As of 31 January 2022



- Global economic growth expected to moderate through the year, but remains above trend. Elevated inflation remains a headwind, but expected to recede over the course of the year amid central bank tightening and supply chain improvement.
- Developed market central banks advancing tighter policies, with the US Federal Reserve continuing to reduce its balance sheet and expected to raise rates and in March, European Central Bank curbing asset purchases, while Bank of Japan remains on hold. Emerging market central banks may be nearing peak tightening, while China policy moving in opposite direction, with a series of easier policy moves.
- Short-term rates biased higher with central banks tightening, while long-term rates balance impacts of slowing growth and stickiness of inflation.
- Key risks to global markets include central bank missteps, persistent inflation, increasing geopolitical concerns, emergence of COVID variants, and China growth trajectory.

2 Portfolio Positioning

As of 31 January 2022



- We remain underweight equities as valuations—although off recent highs—remain extended. Elevated inflation and rising wages are likely to weigh on corporate margins and earnings growth.
- Within equities, we continue to tilt toward cyclical, maintaining overweights to value-oriented equities globally, U.S. small-caps, and emerging market stocks, where valuations are more reasonable and which should benefit from a continued path of recovery.
- Broadly across our fixed income allocation, we continue to favor shorter duration and higher yielding sectors through overweights to short-term TIPS, floating rate loans, and high yield bonds supported by our still constructive outlook on fundamentals.

3 Market Themes

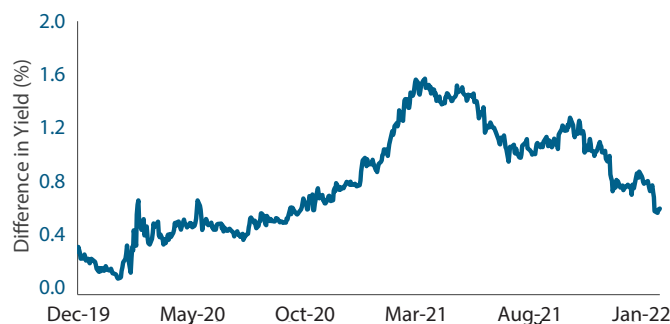
As of 31 January 2022

Gimme Five, Powell!

Equity markets are off to their worst start of the year since 2009 as they continue to price in the Federal Reserve's hawkish pivot and the probability of over five rate hikes this year. The drawdown in equities has been led by high growth-oriented companies, notably in the technology and discretionary sectors, many of which rose to high valuations last year having benefitted from changes in consumer behavior related to COVID. Undaunted by the recent market weakness, Chairman Powell, at the Fed's meeting last month reiterated their intentions to aggressively remove policy accommodation, citing strong labor markets and high inflation. With 10-year US Treasury yields already jumping over 40 basis points this year and mortgage rates following suit with a near 50 basis point jump, the impacts are flowing through to the real economy. While the Fed seems set on its aggressive path forward, the flattening yield curve seems more worried about its potential impacts on growth and is questioning if we'll get the high five from Powell this year.

Difference in U.S. 10Y and 2Y U.S. Treasury Yield

As of 31 January 2022

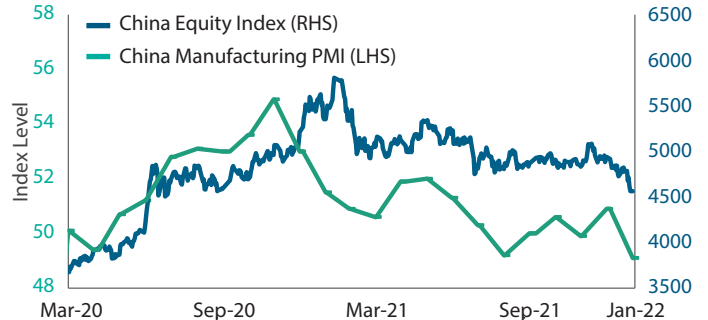


Pulling Out All the Stops

After a rocky 2021, investors were hopeful for a rebound in China amid signs of easier policy support and slowing regulatory reform, however, the year has started with continued signs of slowing growth, much of which has been attributed to strict zero-tolerance policies around COVID. Investor confidence is waning as equity markets have slumped nearly 8% to start the year and creditors are still waiting to find a bottom in prices for much of China's real estate-related debt sector. In response, China policymakers have taken early steps to ease policy, including cutting lending rates, lowering reserve requirements, and flipping course on the property sector by freeing up home loans to stabilize prices, and more support is likely on the way. With China hosting the Winter Olympics and President Xi Jinping looking to extend his leadership to an unprecedented third term, policymakers are especially eager to pull out all the stops to avoid an economic crisis this year.

China Equity Index & Manufacturing PMI

As of 31 January 2022



Past performance is not a reliable indicator of future performance.

China Equity Index represented by the Shanghai Shenzhen CSI 300 Index. China Manufacturing PMI Index represented by Caixin China Manufacturing PMI Index. Source: Bloomberg Finance L.P.

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4 Regional Backdrop

As of 31 January 2022



Positives

- United States**
- Strong corporate and consumer balance sheets
 - Pent-up demand for services and capex
 - Moderating, but still above trend growth

Negatives

- Anticipated pace of Fed tightening
- Elevated stock and bond valuations
- Supply chain issues limiting economic activity
- Significantly elevated inflation

- Europe**
- Improving economic outlook
 - Fiscal stimulus increasing
 - Monetary policy remains accommodative
 - Equity valuations attractive relative to the US

- Ukraine conflict potential impacts on energy and inflation
- Demand from China is fading both cyclically and structurally
- Limited long-term catalysts for earnings growth
- U.S. dollar strength likely to remain a headwind

- Developed Asia/Pacific**
- Very attractive equity valuations
 - Improving corporate governance
 - Monetary policy remains accommodative

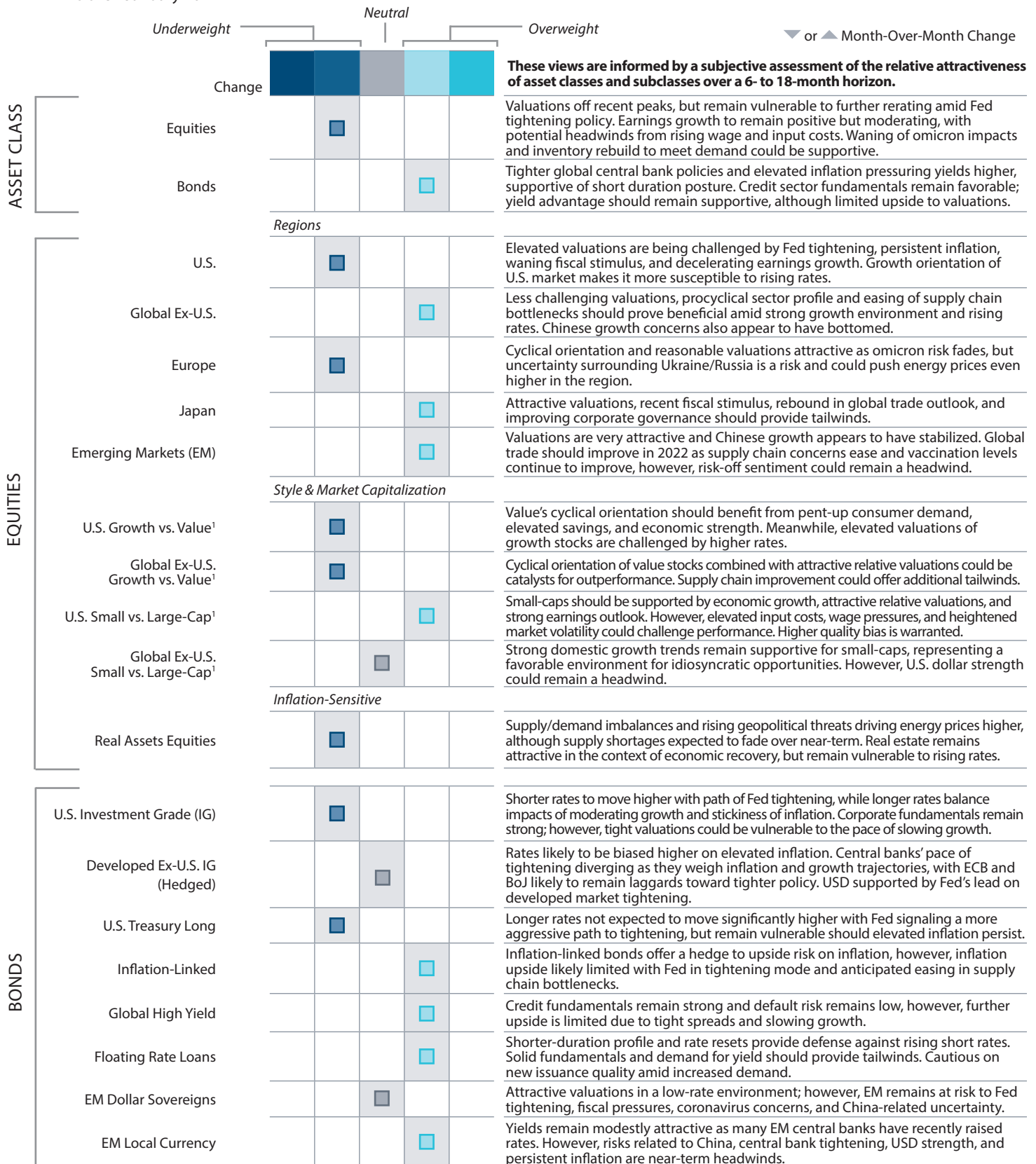
- Limited long-term catalysts for earnings growth
- Supply chain issues and COVID restrictions weighing on trade

- Emerging Markets**
- China easing regulatory and credit conditions
 - Equity valuations attractive relative to the US
 - COVID vaccination rate is rapidly increasing

- Bottlenecks continue to impact global trade
- U.S. dollar strength likely to remain a headwind
- EM central banks (ex-China) tightening policy

5 Asset Allocation Committee Positioning

As of 31 January 2022



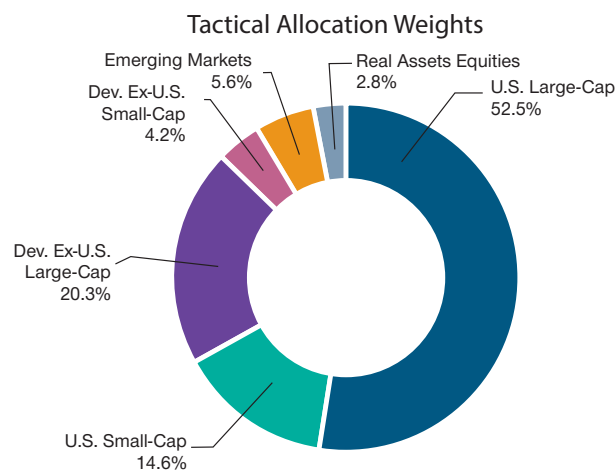
¹For pairwise decisions in style & market capitalization, positioning within boxes represent positioning in the first mentioned asset class relative to the second asset class. The asset classes across the equity and fixed income markets shown are represented in our Multi-Asset portfolios. Certain style & market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.

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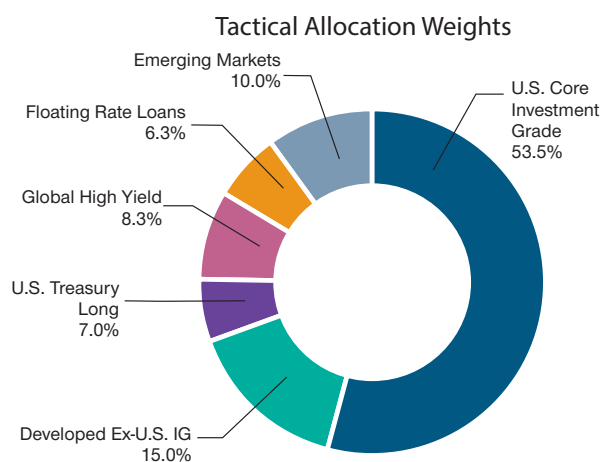
6 Portfolio Implementation

As of 31 January 2022

Equity	Neutral Weight	Tactical Weight	Relative Weight
U.S. Large-Cap	52.5%	52.5%	0.0%
U.S. Small-Cap ¹	13.5	14.6	+1.1
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
Total Equity:	100.0%	100.0%	



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
U.S. Core Investment Grade	55.0%	53.5%	-1.5%
Developed Ex-U.S. IG (Hedged)	15.0	15.0	0.0
U.S. Treasury Long	10.0	7.0	-3.0
Global High Yield	8.0	8.3	+0.3
Floating Rate Loans	2.0	6.3	+4.3
Emerging Markets - (Local/Hard Currency)	10.0	10.0	0.0
Total Fixed Income:	100.0%	100.0%	



¹ 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 2022 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.

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