T. Rowe Price
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints

April 2022

1 Market Perspective

As of 31 March 2022

- Geopolitical risks and lingering pandemic impacts are weighing on global economic growth expectations while putting upward pressure on already elevated inflation.
- Despite moderating growth expectations, developed market central banks are expected to advance tightening policies to fend off decades-high inflation, with the US Federal Reserve leading with the most aggressive plans. The European Central Bank signaled an accelerated timeline to ending asset purchases and beginning rate hikes, while the Bank of Japan remains steadfast to policy, taking recent action to keep rates anchored.
- Emerging market central banks remain biased towards tightening to fend off inflation and defend currencies, while China policy continues moving in the opposite direction to stimulate growth.
- Key risks to global markets include escalating geopolitical concerns, persistent inflation near already high levels, central bank missteps and the impact of a COVID-19 outbreak in China on global growth and supply chains.

2 Portfolio Positioning

As of 31 March 2022

- While valuations are off recent peaks, we remain underweight equities given a moderating growth and earnings outlook amid an active Fed and lingering inflation concerns. Within fixed income, we remain overweight cash.
- Within equities, we added to real assets-related equities from global equities to provide a hedge should inflationary pressures persist longer than expected given heightened uncertainty.
- Within fixed income, we moderated our underweight to long-term US Treasuries following recent moves higher in rates to provide portfolio ballast in a risk-off scenario.
- 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 supportive outlook on fundamentals while keeping a cautious eye on liquidity amid higher volatility.

3 Market Themes

As of 31 March 2022

Beginning of the End?

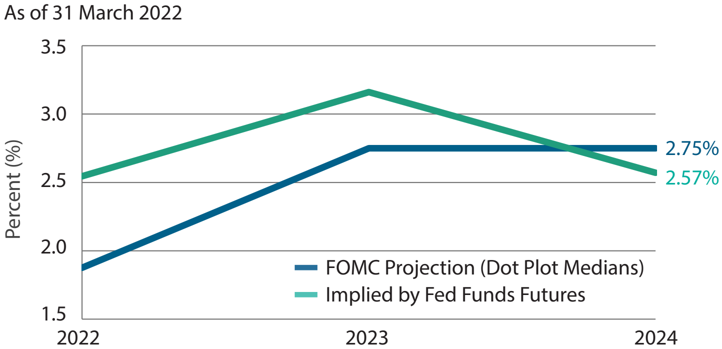
The more than four-decade bull market for bonds, supported by low inflation and declining rates, that provided a tailwind of price appreciation on top of income, may finally be coming to an end. For bond investors, this is a particularly precarious time given heightened rate sensitivity through extended duration levels and still low yields, providing little income to offset capital losses as rates rise. For the US Federal Reserve, which had enjoyed the luxury of acting aggressively when needed amid multiple crises while not stoking inflation, the tables have turned. Now due to exogenous factors impacting supply—the pandemic and the conflict in Ukraine—inflation has spiked higher, forcing the Fed into a battle that it hasn't had to fight in decades. The market seems to agree that the Fed will remain steadfast, for now, in its battle against inflation over the course of the year. However, the market is saying the Fed could be lowering rates as soon as the end of next year, meaning bonds may not be out of favor for long.

History Lessons

While the world has been battling to overcome the impacts of a global pandemic not seen in decades, we now face new, heightened challenges that may similarly have precedence with other periods in history. While coronavirus variants have extended supply chain issues and stoked higher inflation, expectations just a few months ago were that these issues would be transient. Unfortunately, the invasion of Ukraine in Europe, the likes not seen since the start of World War II in 1939, have exacerbated inflation risks and economic uncertainty. The narrative today has quickly turned to fears of "stagflation" with comparisons being made to the oil embargo of 1973 in the US that served as a catalyst for runaway inflation, unprecedented rate hikes and a recession. While the world is very different today and some of the challenges are distinct, history can repeat itself. So while stagflation is not our base case, the potential for tail risk events is heightened and warrants caution.

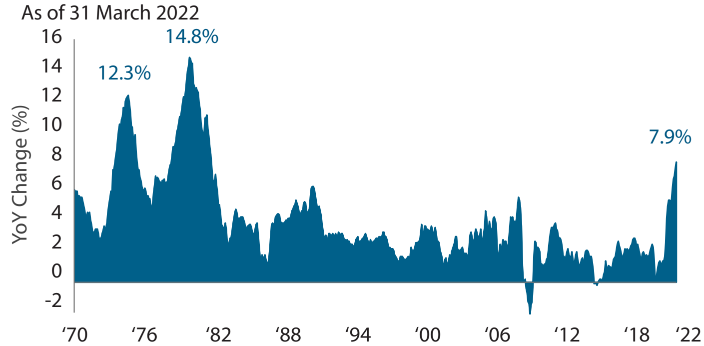
Fed Funds Rate Projections

As of 31 March 2022



US Consumer Price Index (CPI) YoY

As of 31 March 2022



Source: Bloomberg Finance L.P.

For illustrative purposes only. Actual future outcomes may differ materially.

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4 Regional Backdrop

As of 31 March 2022

	Positives	Negatives
United States	▪ Strong corporate and consumer balance sheets ▪ Pent-up demand for services and capex	▪ Significantly elevated inflation ▪ Fed tightening at a rapid pace ▪ Supply chain issues constraining economic activity ▪ Elevated stock valuations
Europe	▪ Fiscal stimulus increasing ▪ Equity valuations attractive relative to the US	▪ Russia-Ukraine conflict likely to continue to exacerbate energy shortages ▪ Industrial production dampened by supply chain challenges and energy shortages ▪ Limited long-term catalysts for earnings growth ▪ US dollar strength likely to remain a headwind
Developed Asia/Pacific	▪ Very attractive equity valuations ▪ Improving corporate governance ▪ Monetary policy remains accomodative	▪ Limited long-term catalysts for earnings growth ▪ Global trade remains impacted by supply chain issues, geopolitical uncertainty and COVID-19 restrictions
Emerging Markets	▪ Affirmation of China GDP growth targets suggests more supportive policy environment ▪ Equity valuations attractive relative to the US	▪ COVID-19 outbreak in Asia weighing on economic activity ▪ Chinese regulatory actions have impacted investor confidence ▪ Global trade remains impacted by supply chain issues, geopolitical uncertainty and COVID-19 restrictions ▪ Central bank accommodation is fading

5 Asset Allocation Committee Positioning

As of 31 March 2022

▼ 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 off recent peaks but remain vulnerable to further rerating amid Fed tightening policy, potential for economic weakness and lingering inflation concerns.
ASSET CLASS	Bonds					■		Rates biased higher amid central bank tightening and elevated inflation. Further upside may be limited on growth outlook favoring short duration. Credit fundamentals supportive but could remain volatile.
	Regions							
EQUITIES	U.S.			■				Elevated valuations are off recent peaks but remain challenged by Fed tightening, persistent inflation and geopolitical risks. Growth orientation of the US market makes it more susceptible should rates rise further.
EQUITIES	Global Ex-U.S.					■		Less challenging valuations and procyclical sector profile could be supportive if growth remains above trend. However, the Russia-Ukraine conflict could weigh on growth outlook and supply chain improvement, particularly for Europe and emerging markets.
EQUITIES	Europe			■				Valuations are attractive, but the Russia-Ukraine conflict poses a significant risk, due to rising energy costs and the impact of financial sanctions.
EQUITIES	Japan					■		Attractive valuations, recent fiscal stimulus, supportive monetary policy and improving corporate governance should provide tailwinds. Yen weakness has been a headwind to performance but may stabilize from here.
EQUITIES	Emerging Markets (EM)					■		Valuations are attractive. A COVID-19 outbreak is likely to be a near-term headwind in China; however, the medium-term outlook appears more attractive due to significant policy support.
	Style & Market Capitalization							
EQUITIES	U.S. Growth vs. Value[1]			■				Relative valuations for value stocks remain attractive, but the gap has narrowed and the cyclical outlook has weakened. While growth stocks' valuations have become less challenging, they will continue to be pressured by potentially rising rates and slowing earnings.
EQUITIES	Global Ex-U.S. Growth vs. Value[1]			■				Value stocks remain attractive but are facing weaker cyclical tailwinds and higher geopolitical risks. Growth stocks' valuations are lower but remain elevated.
EQUITIES	U.S. Small vs. Large-Cap[1]					■		Small-cap stocks offer attractive relative valuations and still strong earnings growth. However, elevated input costs, wage pressures and heightened market volatility could challenge performance. Higher quality bias is warranted.
EQUITIES	Global Ex-U.S. Small vs. Large-Cap[1]				■			Small-caps balance idiosyncratic opportunities with moderating global growth. Additionally, caution is warranted due to US dollar strength and geopolitical uncertainty.
	Inflation-Sensitive							
EQUITIES	Real Assets Equities	▲		■				Real assets offer an attractive hedge against rising inflation. Commodity valuations are elevated, but supply shortages are likely to endure over the near to medium term. Real estate remains attractive in the context of rising wages but could be somewhat vulnerable to rising rates.
BONDS	U.S. Investment Grade (IG)	▼		■				Shorter rates could continue to move higher with the path of Fed tightening, while longer rates balance impacts of moderating growth, stickiness of inflation and geopolitical conflict. Following the rebound from recent spread widening, spreads have narrowed back to less attractive levels.
BONDS	Developed Ex-U.S. IG (Hedged)				■			Relative value of developed market ex-US government bonds could be higher given less aggressive central banks. USD remains supported by the Fed's tightening and safe-haven trade.
BONDS	U.S. Treasury Long	▲		■				Longer rates have moved higher, providing portfolio ballast in a risk-off scenario, but remain vulnerable should elevated inflation persist.
BONDS	Inflation-Linked					■		TIPS should offer a hedge if geopolitical risks and supply chain issues persist and Fed tightening fails to bring inflation down.
BONDS	Global High Yield					■		Credit fundamentals remain strong, default risk remains low and elevated commodity prices remain supportive. However, spread volatility is expected to continue due to geopolitical, inflationary and growth concerns.
BONDS	Floating Rate Loans						■	Shorter-duration profile and rate resets provide defense against rising short rates. Solid fundamentals and demand for yield should provide tailwinds. Relative valuation is less attractive following recent outperformance.
BONDS	EM Dollar Sovereigns				■			EM still offers an attractive yield but is challenged by fiscal pressures, broader market volatility, coronavirus concerns and tighter central bank policies.
BONDS	EM Local Currency					■		EM real yields and currencies are at attractive levels; however, EM currencies remain challenged by inflation, while Fed tightening and flight-to-safety to keep upward pressure on the USD.

[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.

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Key risks –The following risks are materially relevant to the information highlighted in this material:
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.
ESG and Sustainability risk – May result in a material negative impact on the value of an investment and performance of the portfolio.
Credit risk – a bond or money market security could lose value if the issuer's financial health deteriorates.
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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