



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

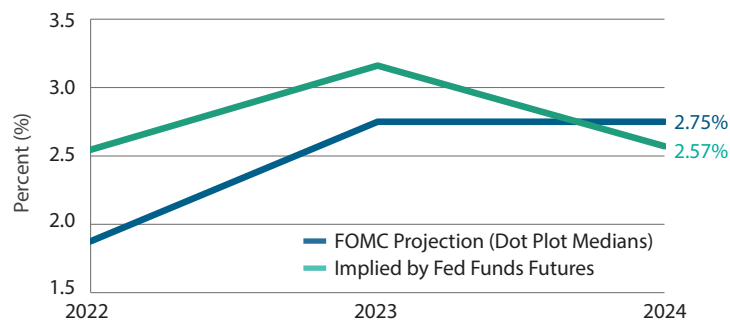
As of 31 March 2022

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.

Fed Funds Rate Projections

As of 31 March 2022



Source: Bloomberg Finance L.P.

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

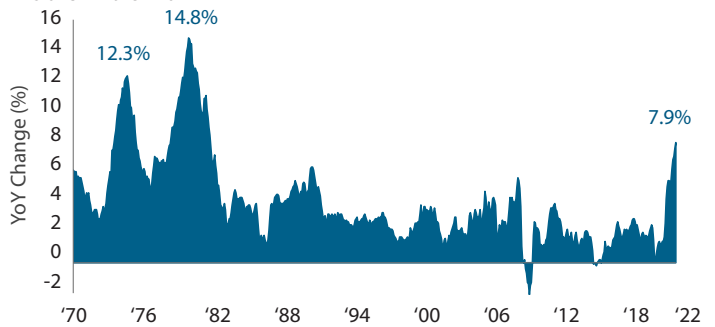
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History Lessons

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.

US Consumer Price Index (CPI) YoY

As of 31 March 2022





4 Regional Backdrop

As of 31 March 2022

Positives

- United States**
- Strong corporate and consumer balance sheets
 - Pent-up demand for services and capex

Negatives

- 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 accommodative

- Limited long-term catalysts for earnings growth
- Global trade remains impacted by supply chain issues, geopolitical uncertainty and COVID-19 restrictions

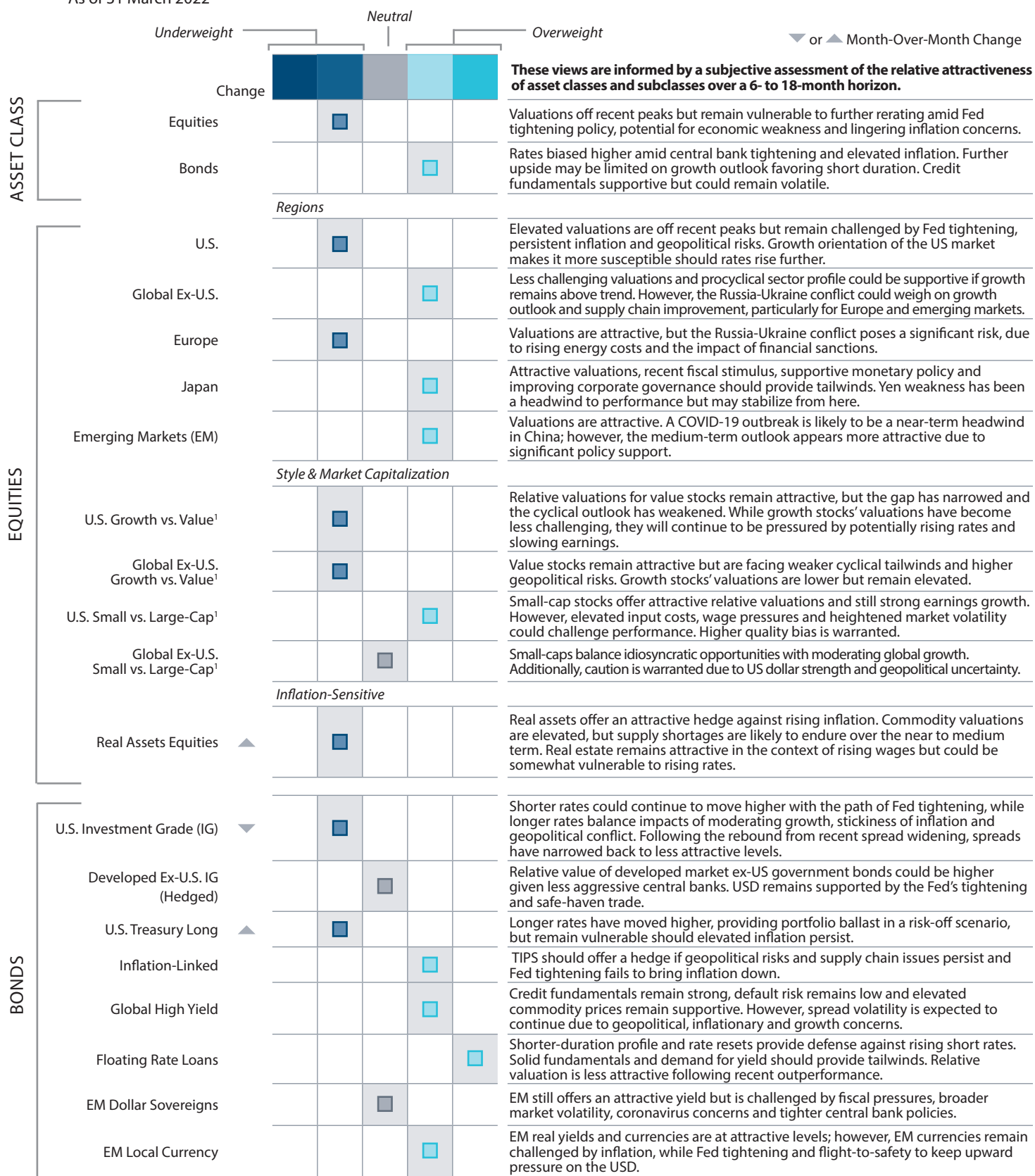
- Emerging Markets**
- Affirmation of China GDP growth targets suggests more supportive policy environment
 - Equity valuations attractive relative to the US

- 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

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5 Asset Allocation Committee Positioning

As of 31 March 2022



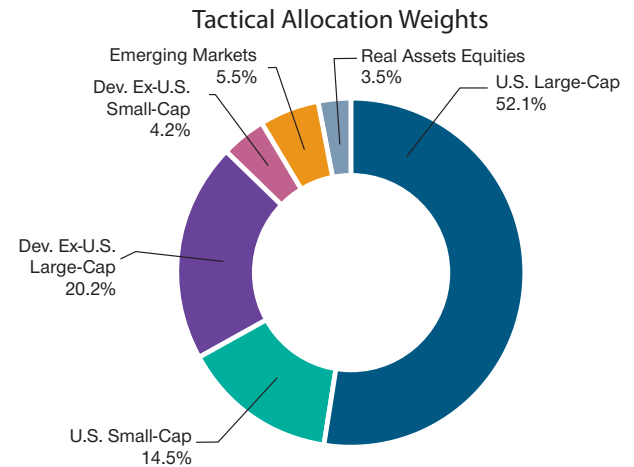
¹For pairwise decisions in style & market capitalization, positioning within boxes represent positioning in the first mentioned asset class relative to the second asset class. The asset classes across the equity and fixed income markets shown are represented in our Multi-Asset portfolios. Certain style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

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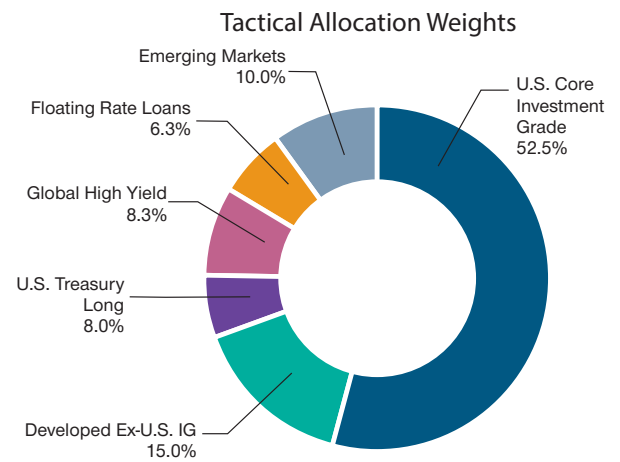
6 Portfolio Implementation

As of 31 March 2022

Equity	Neutral Weight	Tactical Weight	Relative Weight
U.S. Large-Cap	52.5%	52.1%	-0.4%
U.S. Small-Cap ¹	13.5	14.5	+1.0
Dev. Ex-U.S. Large-Cap	21.0	20.2	-0.8
Dev. Ex-U.S. Small-Cap	4.0	4.2	+0.2
Emerging Markets	4.0	5.5	+1.5
Real Assets Equities	5.0	3.5	-1.5
Total Equity:	100.0%	100.0%	



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
U.S. Core Investment Grade	55.0%	52.5%	-2.5%
Developed Ex-U.S. IG (Hedged)	15.0	15.0	0.0
U.S. Treasury Long	10.0	8.0	-2.0
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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