T.RowePrice℠
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints

June 2022

1 Market Perspective

As of 31 May 2022

- While global growth is trending lower, recent economic data, especially pertaining to the labor market, has shown resilience amid geopolitical challenges, supply disruption, and reduction of liquidity.
- The U.S. Federal Reserve remains committed to its tightening policy, hinting at a frontloaded path of rate hikes. The European Central Bank (ECB) has telegraphed its plan to end asset purchases and begin raising rates despite a fragile macro backdrop, while the Bank of Japan remains steadfast on its policy of yield curve control.
- Emerging market central banks continue to tighten policy in response to heightened inflation and weak currencies, while China's policies continue moving in the opposite direction to counter weakening growth caused by zero-COVID policy.
- Key risks to global markets include central bank missteps, lingering inflation, commodity impact of Russia-Ukraine conflict, sharp slowdown in economic data and China balancing growth amid COVID-related lockdowns.

2 Portfolio Positioning

As of 31 May 2022

- While equity valuations are more reasonable after recent declines, we remain cautious on the earnings growth outlook and inflationary impacts on margins supporting our modest underweight. Within fixed income, we remain underweight bonds and overweight cash.
- We continued to add to real assets-related equities, bringing the position to neutral, to provide a hedge should inflationary pressures persist longer, or settle higher, than expected.
- Within fixed income, we moderated our floating rate loans exposure following a period of outperformance. While loans remain attractive, we reinvested profits in emerging market bonds and high yield given more compelling valuations.
- Despite attractive carry from elevated inflation levels, we trimmed our position in short-term Treasury inflation protected securities and added to cash as we expect inflation to moderate from current highs.
- Taking advantage of higher yields, we added to long-term U.S. Treasuries, providing mitigation against heightened global market risks.

3 Market Themes

As of 31 May 2022

So Far, So Good...

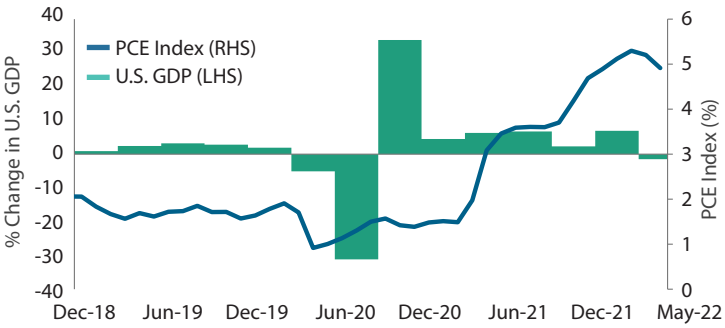
With inflation at multi-decade highs and growth already slowing, investors were rightfully skeptical about the Fed's ability to aggressively tackle inflation without sending the economy into recession having waited too long. Now two hikes in and messaging frontloading future hikes with 50 basis point moves, recent data suggests the broader economy is largely holding up. Although first-quarter gross domestic product showed the economy surprisingly contracted by 1.5%, it appeared an anomaly due to temporary disruptions in trade and inventories, masking underlying support from consumer and capex spending. And while expected to slow, full year 2022 growth estimates still expect a 2.6% expansion, near pre-covid averages. Inflation too is showing some early signs of cooperating, with recent data suggesting easing in producer prices and wages, giving Fed officials a sigh of relief. While far from out of the woods, with top-line CPI still expected to be near 6% levels at year-end, so far it seems like maybe, just maybe a Fed-driven recession or stagflation are not inevitable.

Growth Spurt?

After more than a decade of outperformance versus value amid years of low economic growth, growth stocks went nearly parabolic during COVID lockdowns as many large-cap technology companies disproportionately benefitted from stay-at-home trends, sending valuations to record levels. That trend abruptly ended at the end of last year and has continued amid a spike higher in interest rates and threats of aggressive Fed tightening to battle multi-decade high inflation. The sharp drawdown in growth stocks has led to more reasonable valuations and the move higher in rates appears to be largely priced in as expectations for economic growth are moderating—historically a time when growth stocks have tended to outperform. While time will tell if this is a pivotal inflection in style back toward growth stocks, they still face near-term challenges on upcoming earnings comparisons and uncertainty around the path of Fed policy. But, for now growth could be due for a spurt higher as many of the tailwinds for value—higher energy prices and rates—may be peaking.

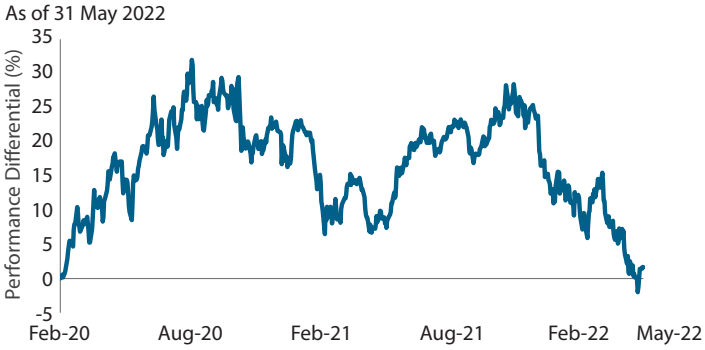
U.S. GDP & Inflation[1]

As of 31 May 2022



Growth vs. Value[2]

As of 31 May 2022



Past performance is not a reliable indicator of future performance.

Sources: Bloomberg Finance L.P. and London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). Please see the last page for information about this FTSE Russell information.

[1] U.S. GDP is represented by the U.S. Gross Domestic Product Index quarter over quarter. The PCE Index is represented by the Personal Consumption Expenditure Core Price Index year over year.

[2] Chart represents the difference between Growth and Value indices. Growth is represented by Russell 1000 Growth Index and Value is represented by Russell 1000 Value Index.

4 Regional Backdrop

As of 31 May 2022

	Positives	Negatives
United States	▪ Strong corporate and consumer balance sheets ▪ Pent-up demand for services and capex	▪ Fed tightening at a rapid pace ▪ Significantly elevated inflation ▪ Supply chain issues limiting economic activity ▪ Fiscal stimulus has peaked
Europe	▪ Fiscal spending likely to increase ▪ Equity valuations attractive relative to the U.S. ▪ European Union unity is strengthening	▪ Russia-Ukraine conflict has driven energy prices sharply higher ▪ Industrial production is dampened by supply chain challenges ▪ Limited long-term catalysts for earnings growth ▪ ECB support is likely to fade in the near term
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 restrictions ▪ Uptick in inflation is leading to tighter monetary conditions
Emerging Markets	▪ Chinese authorities are easing monetary, regulatory and credit conditions ▪ Equity valuations are attractive relative to the U.S.	▪ COVID outbreak significantly weighing on economic activity ▪ Chinese regulatory actions have challenged investor confidence ▪ Global trade remains impacted by supply chain issues, geopolitical uncertainty and COVID restrictions

5 Asset Allocation Committee Positioning

As of 31 May 2022

Underweight | Neutral | Overweight

▼ or ▲ Month-Over-Month Change

	Change	Underweight		Neutral		Overweight	These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.
ASSET CLASS	Equities		■				Despite sell-off, stocks remain vulnerable to further weakness. Earnings expectations have held up reasonably well thus far, but could face considerable pressure from rising input costs and slowing economic growth.
ASSET CLASS	Bonds				■		Tighter global central bank policies and still elevated inflation could keep upward pressure on yields, although U.S. rates appear to have peaked for now. Credit spreads look more attractive following risk-off sentiment.
EQUITIES	*Regions*						
EQUITIES	U.S.		■				Growth orientation and narrow leadership of the U.S. market makes it more susceptible to rising rates. However, lower representation of more cyclical sectors could be beneficial if recession concerns increase further.
EQUITIES	Global Ex-U.S.				■		Less challenging valuations and a procyclical sector profile could be supportive if growth outlook stabilizes. However, a protracted conflict between Russia and Ukraine will continue to weigh on growth outlook and supply chain improvement.
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. The path for ECB support remains uncertain over the coming months.
EQUITIES	Japan				■		Yen weakness and cyclical orientation have been significant headwinds to performance. Attractive valuations, supportive monetary policy and improving corporate governance should provide long-term tailwinds.
EQUITIES	Emerging Markets (EM)				■		Valuations are attractive. COVID lockdowns remain a near-term headwind in China; however, the medium-term outlook appears more attractive due to prospects for more significant policy support.
EQUITIES	*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. Growth stocks' stay-at-home tailwind continues to fade, and valuations continue to be pressured by higher rates.
EQUITIES	Global Ex-U.S. Growth vs. Value[1]		■				Value stocks remain attractive but are facing weaker cyclical tailwinds and heightened geopolitical risks. Meanwhile, growth stocks face higher relative valuations and more pressure from potentially higher rates.
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 U.S. dollar strength and a potential flight to quality that could favor large-caps.
EQUITIES	*Inflation-Sensitive*						
EQUITIES	Real Assets Equities ▲			■			Commodity prices are elevated, but supply shortages are likely to endure over the near to medium term. Commodities can offer an attractive hedge to a sustained period of elevated inflation.
BONDS	U.S. Investment Grade (IG) ▼	■					Direction of rates from here dependent on further Fed tightening in the face of moderating growth, potentially peaking inflation and impacts of geopolitical conflict. Wider spreads are reflecting risk-off sentiment.
BONDS	Developed Ex-U.S. IG (Hedged) ▼		■				Central banks, such as the ECB, are expected to turn more aggressive, which could pressure rates higher. The U.S. dollar remains supported by the Fed's tightening and safe-haven trade.
BONDS	U.S. Treasury Long ▲			■			Longer rates appear to have peaked as Fed tightening is already priced in. The sector provides portfolio ballast in a risk-off scenario, but remains vulnerable should elevated inflation persist.
BONDS	Inflation-Linked ▼				■		Although inflation may be peaking, the sector should offer a hedge if commodities continue to be pressured higher as 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 wider spreads following risk-off sentiment are supportive. However, spread volatility is expected to continue due to geopolitical, inflationary and growth concerns.
BONDS	Floating Rate Loans ▼				■		Relative valuation is less attractive, but solid fundamentals and demand for yield should provide tailwinds. Shorter-duration profile and rate resets could be less beneficial as Fed tightening appears to be priced in.
BONDS	EM Dollar Sovereigns ▲				■		EM valuations look attractive and are supported by moderating Fed expectations and stronger trade activity. However, geopolitical tensions, lingering coronavirus concerns, and fiscal pressures remain risks.
BONDS	EM Local Currency				■		EM yields are at attractive levels and the currencies are cheap although vulnerable to U.S. rates, while Fed tightening and flight to safety keep upward pressure on the U.S. dollar.

[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.

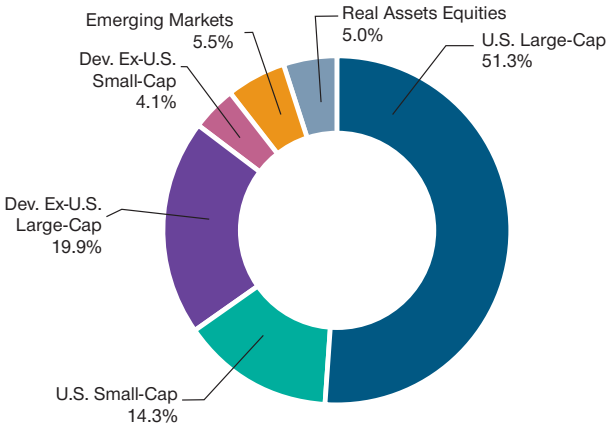
The asset classes across the equity and fixed income markets shown are represented in our Multi-Asset portfolios. Certain style & market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.

6 Portfolio Implementation

As of 31 May 2022

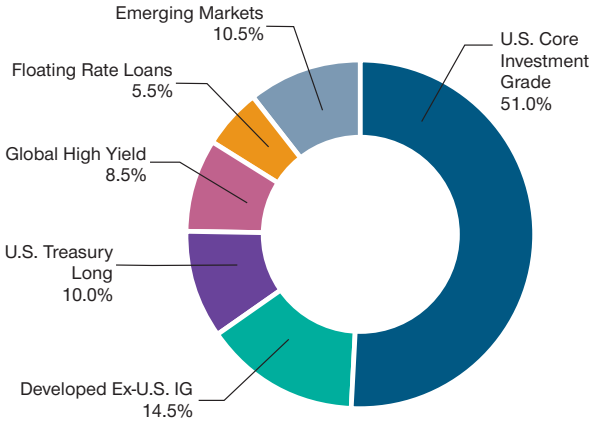
Equity	Neutral Weight	Tactical Weight	Relative Weight
U.S. Large-Cap	52.5%	51.3%	-1.2%
U.S. Small-Cap[1]	13.5	14.3	+0.8
Dev. Ex-U.S. Large-Cap	21.0	19.9	-1.1
Dev. Ex-U.S. Small-Cap	4.0	4.1	+0.1
Emerging Markets	4.0	5.5	+1.5
Real Assets Equities	5.0	5.0	0.0
Total Equity:	**100.0%**	**100.0%**	

Tactical Allocation Weights



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
U.S. Core Investment Grade	55.0%	51.0%	-4.0%
Developed Ex-U.S. IG (Hedged)	15.0	14.5	-0.5
U.S. Treasury Long	10.0	10.0	0.0
Global High Yield	8.0	8.5	+0.5
Floating Rate Loans	2.0	5.5	+3.5
Emerging Markets - (Local/Hard Currency)	10.0	10.5	+0.5
Total Fixed Income:	**100.0%**	**100.0%**	

Tactical Allocation Weights



[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.

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.

"Bloomberg®" and Bloomberg Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by T. Rowe Price. Bloomberg is not affiliated with T. Rowe Price, and Bloomberg does not approve, endorse, review, or recommend Global Asset Allocation Viewpoints. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to Global Asset Allocation Viewpoints.

London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2022. FTSE Russell is a trading name of certain of the LSE Group companies. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

IMPORTANT INFORMATION

Any specific securities identified and described are for informational purposes only and do not represent recommendations.

This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, and prospective investors are recommended to seek independent legal, financial, and tax advice before making any investment decision. T. Rowe Price group of companies, including T. Rowe Price Associates, Inc., and/or its affiliates, receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation, or a solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date noted on the material and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions that prohibit or restrict the distribution of the material, and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

USA: For Institutional Investor Use Only. T. Rowe Price Associates, Inc.

202206-2232755

FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.