



Global Asset Allocation Viewpoints

July 2022

1 Market Perspective

As of 30 June 2022



- Inflation concerns remain at the forefront for central banks and investors as global growth continues to trend lower amid supply disruptions, geopolitical challenges and reduction of liquidity, setting the stage for a challenging macro backdrop.
- The US Federal Reserve (Fed) remains committed to its tightening policy, hinting at a steady path forward to further combat inflation. 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.
- While most emerging market (EM) central banks continue to tighten policy in response to heightened inflation and weak currencies, China policies remain supportive following the easing of pandemic-related lockdowns to help bolster growth.
- Key risks to global markets include central bank missteps, persistent inflation, impacts of the Russia-Ukraine conflict, potential for a sharper slowdown in global growth and China's balance between containing COVID and growth.

2 Portfolio Positioning

As of 30 June 2022



- Despite more attractive valuations following recent declines, we remain cautious on equities given more challenging earnings environment into slowing growth and tighter financial conditions. Within fixed income, we remain underweight bonds and overweight cash.
- We reduced our overweight to value stocks globally and favor core strategies to moderate the cyclical exposure of our equity allocation amid a backdrop of slowing economic growth.
- Within fixed income, we moderated our exposure to floating rate loans in favor of high yield bonds. While we remain constructive on fundamentals for both sectors, high yield bonds may offer a yield advantage.
- We trimmed our position in short-term TIPS and added to cash as inflation expectations appear to have peaked amid aggressive Fed tightening prospects.

3 Market Themes

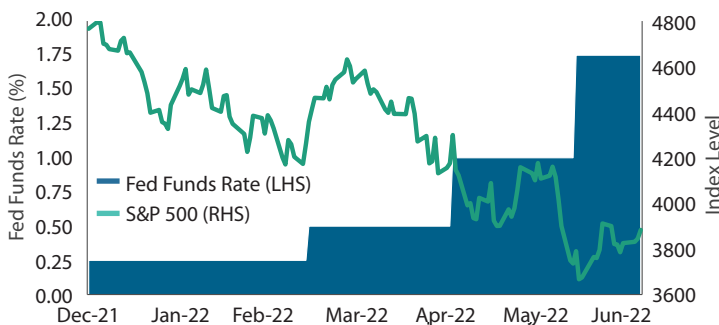
As of 30 June 2022

Kaput!

For the last several decades, the Fed has had the luxury of pursuing its dual mandate—maximum employment while maintaining price stability—amid anchored low inflation. Major shocks to the economy and markets, including the great financial crisis and outbreak of COVID, could be combatted with aggressive rate-cutting and trillions of dollars in quantitative easing with little fear of stoking inflation. This environment was beneficial for the Fed and investors who became complacent in expecting a Fed “put” would be there to provide a backstop when a crisis occurred. Unfortunately, the Fed’s aggressive easing this time around came alongside unprecedented fiscal stimulus, flooding consumers and corporations with cash and the release of pent-up demand colliding with severe supply shortages related to COVID lockdowns. Add in the energy and agricultural shortages tied to the Russia-Ukraine conflict and you have the perfect storm for runaway inflation. Unfortunately for the Fed, they can’t fix supply and will likely remain steadfast in tightening policy to combat inflation, even if it risks pushing the economy into recession—meaning for now that the Fed “put” is kaput.

Fed Funds Rate vs. US Equities

As of 30 June 2022



Change of Tone

China’s stock market had fallen by nearly 24% towards the end of April this year as strict lockdowns related to the country’s zero-COVID policy weighed on the growth outlook. With evidence now showing COVID-19 infections are abating, lockdowns have been eased and inbound traveler quarantine requirements have been halved, allowing China’s economy to gradually reopen. This shift in sentiment comes at a time when the People’s Bank of China has pledged to maintain supportive monetary policy to aid the country’s recovery, with a cautious eye on stability. Recent statements from President Xi Jinping pledging government support for parts of the technology sector, citing their larger role in the economy’s future, also seemed to suggest an easing of regulatory crackdowns experienced last year. In a matter of months, the negative sentiment surrounding China has shifted to it being the “new bull market,” with Chinese stocks up close to 20% off April’s lows. While still early in reopening and with China’s economic data just starting to show signs of improvement, the tone inside and outside China suggests that the worst may be behind, at least for now.

Chinese Equities Rebounding Sharply since April

As of 30 June 2022



Past performance is not a reliable indicator of future performance.

Sources: Bloomberg Finance L.P. and S&P. Please see the last page for information about this S&P information. Chinese equities are represented by the Shanghai Shenzhen CSI 300 Index. Figures shown in Chinese yuan.

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4 Regional Backdrop

As of 30 June 2022



Positives

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

Negatives

- Fed tightening at a rapid pace
- Inflation remains elevated
- Supply chain issues limiting economic activity

- Europe**
- Fiscal spending likely to increase
 - Equity valuations attractive relative to the US
 - 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 compelling equity valuations
 - Improving corporate governance
 - Monetary policy remains accommodative

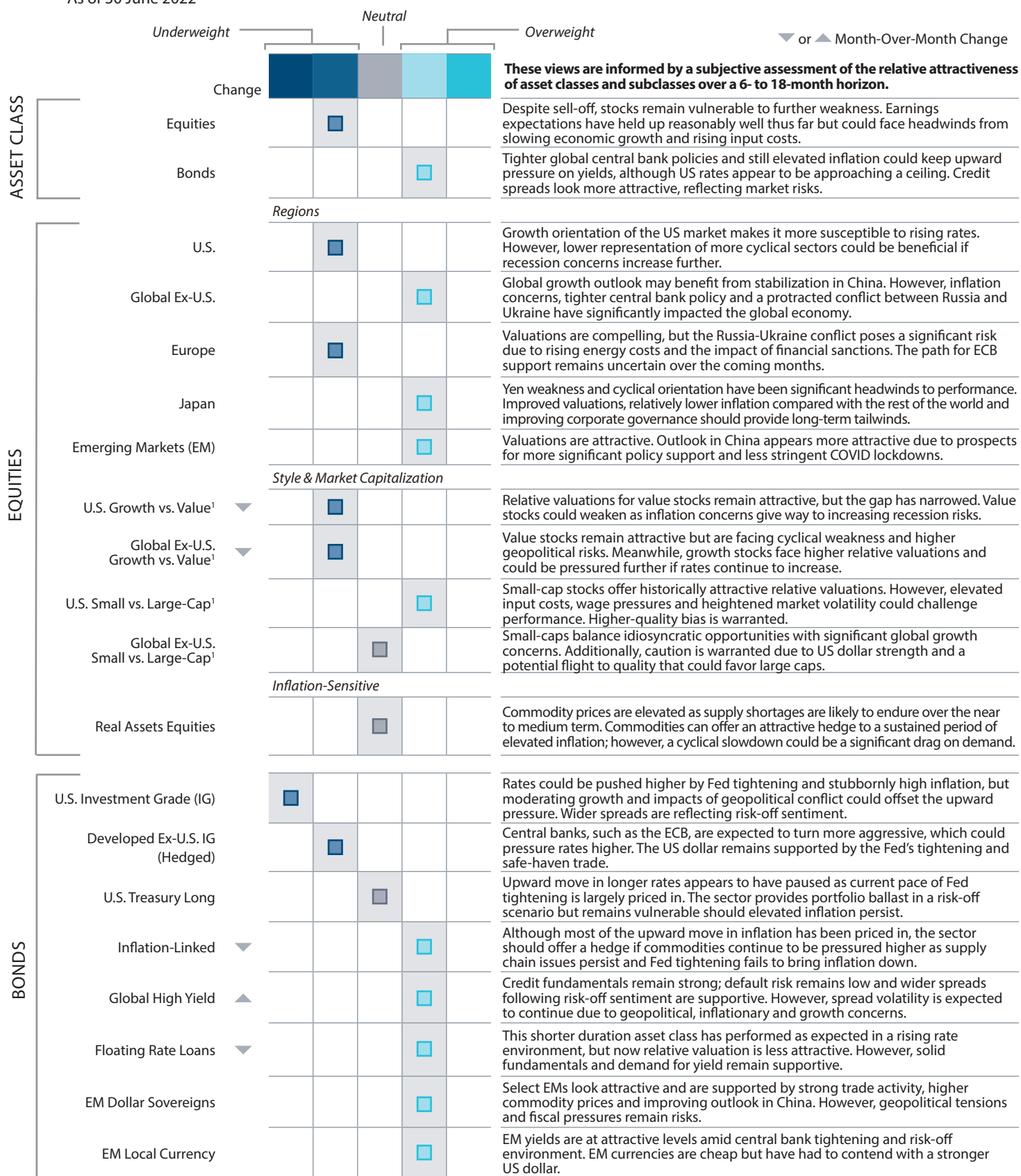
- Limited long-term catalysts for earnings growth
- Global trade remains impacted by supply chain issues and geopolitical uncertainty
- Uptick in inflation is leading to tighter monetary conditions

- Emerging Markets**
- Chinese authorities are easing monetary, regulatory and credit conditions
 - Equity valuations are attractive relative to the US

- Global trade remains impacted by supply chain issues and geopolitical uncertainty
- Fiscal pressures remain a challenge

5 Asset Allocation Committee Positioning

As of 30 June 2022



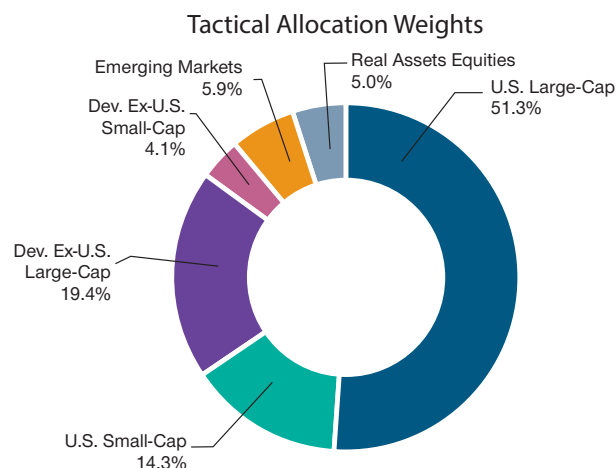
¹ For pairwise decisions in style & market capitalization, positioning within boxes represent positioning in the first mentioned asset class relative to the second asset class. The asset classes across the equity and fixed income markets shown are represented in our Multi-Asset portfolios. Certain style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

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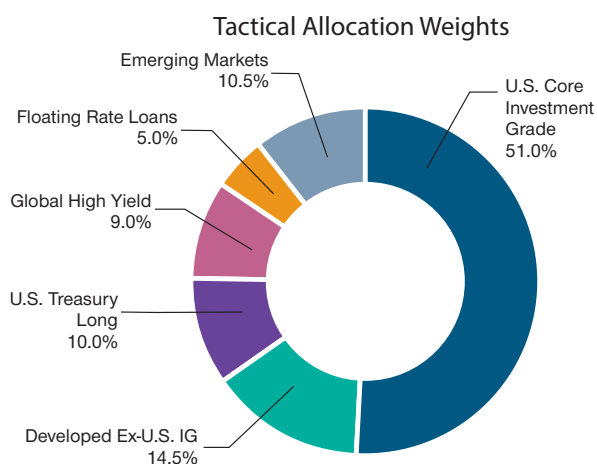
6 Portfolio Implementation

As of 30 June 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 | 19.4 | -1.6 |
| ■ Dev. Ex-U.S. Small-Cap | 4.0 | 4.1 | +0.1 |
| ■ Emerging Markets | 4.0 | 5.9 | +1.9 |
| ■ Real Assets Equities | 5.0 | 5.0 | 0.0 |
| Total Equity: | 100.0% | 100.0% | |



| 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 | 9.0 | +1.0 |
| ■ Floating Rate Loans | 2.0 | 5.0 | +3.0 |
| ■ Emerging Markets - (Local/Hard Currency) | 10.0 | 10.5 | +0.5 |
| 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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