T.RowePrice®
INVEST WITH CONFIDENCE

GLOBAL ASSET ALLOCATION: THE VIEW FROM EMEA

Yoram Lustig
Head of Multi-Asset Solutions, EMEA

Michael Walsh
Solutions Strategist, EMEA

December 2020

MARKET INSIGHTS

As of 30 November 2020

Digging for Value

Promising news on COVID-19 vaccines has triggered optimism for a return to normal next year, buoying deeply cyclical segments of the market that have been the hardest hit by shutdowns. November saw a strong rebound in many of these unloved sectors, including materials, energy, financials and industrials. Following a period of meaningful underperformance, a significant beneficiary of the abrupt rotation away from technology-heavy growth sectors has been emerging markets (EM) value stocks, which have more than 50% exposure to these sectors. Expectations in 2021 for unleashed pent-up global demand, increased fiscal spending, aggressive monetary policies and higher energy prices could provide a strong backdrop for cyclical companies in EM. An additional boost could come from a rebound in EM currencies, as they face less depreciatory pressure versus the US dollar. Ignored for nearly a decade, EM value companies may finally see more interest from investors as they dig for cyclical opportunities with very attractive valuations.

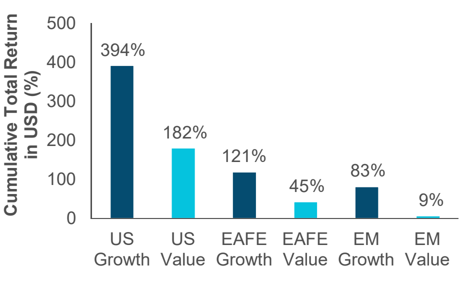
Cleaning House

A wave of defaults across some highly rated—including AAA—Chinese companies with perceived state support have shaken local markets causing investors to reassess risk in the growing Chinese bond market. The Chinese corporate bond market has grown substantially over the past decade since the global financial crisis as China sought to open its capital markets to foreign buyers and increase its representation in the Bloomberg Barclays Global Aggregate Index. Although there were signs of bond market weakness heading into the coronavirus pandemic, China policymakers were forced to pull back on credit reform initiatives as economic conditions deteriorated, temporarily masking potential solvency issues. However, with the recent improvement in economic growth, policymakers have begun re-tightening financial conditions, exposing the overhang of weak corporates, many of which have been kept alive by forbearance. Chinese authorities may see the current economic strength as an opportunity to clean up weak companies, which, in the long run, could improve the perception of Chinese corporate credit markets.

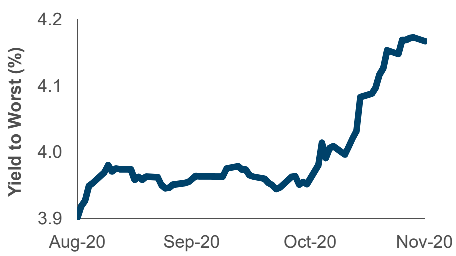
Feeling Blue?

After Democratic candidate Joe Biden won the US presidential election and Democrats retained control of the House of Representatives last month, markets seemingly cheered the prospects of a split government, with the US Senate likely to remain controlled by the Republicans. However, the balance of power remains uncertain, hinging on the result of two very close runoff elections in Georgia on 5 January 2021. If Republicans win either of the Georgia runoff races, they will retain control of the Senate. However, if they were to lose both seats to the Democrats, the result would be a 50/50 split in the Senate with the tie-breaker vote going to the new vice president, tipping power in favour of the Democrats. With Democrats in control of the presidency, House of Representatives and Senate, markets may begin to factor in the likelihood of more progressive policies on taxes and tighter regulation. Given the market's strong rebound in November, driven by positive vaccine news and prospects for a balanced political environment, the market could be in for a negative shock.

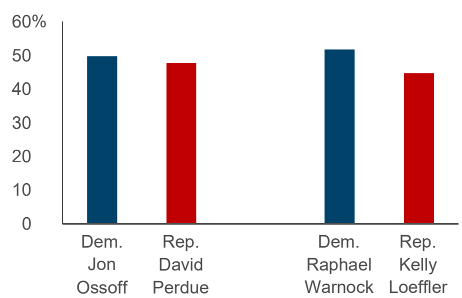
10-Year Cumulative Total Return (USD) by Regional Style
As of 30 November 2020



Chinese Corporate Bond Index[1] Yield to Worst
As of 30 November 2020



Georgia Senate Race Election Poll
As of 2 December 2020



Past performance is not a reliable indicator of future performance.
US Growth = Russell 1000 Growth Index, US Value = Russell 1000 Value Index, EAFE Growth = MSCI EAFE Growth Index, EAFE Value = MSCI EAFE Value Index, EM Growth = MSCI Emerging Markets Growth Index, EM Value = MSCI Emerging Markets Value Index.
[1]Chinese Corporate Bond Index represented by Bloomberg Barclays China Aggregate Corporate Bond Index.
Sources: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"), MSCI, Bloomberg Finance L.P., Bloomberg Index Services Limited, and SurveyUSA (see Additional Disclosures).

	Positives	Negatives
Europe	▪ Higher exposure to more cyclically oriented sectors that should benefit from economic recovery ▪ Monetary and fiscal policy remain accommodative ▪ Equity valuations remain attractive ▪ Strong long-term euro outlook	▪ Second wave of virus leading to new lockdowns ▪ Elongated process to enact further stimulus ▪ Brexit likely to negatively impact trade ▪ Limited scope for European Central Bank to stimulate further
United Kingdom	▪ Encouraging vaccine news means that there is light at the end of the tunnel for the UK economy, which is heavily services-based ▪ An exuberant housing market will help support consumption in the short term, driven by stamp duty cuts and pent-up demand	▪ Longer-term restrictions imposed on exit from the second national lockdown will be impactful ▪ The transition to new trade arrangements will be very economically disruptive ▪ Projections forecast 11.5% of gross domestic product structural fiscal tightening for 2021 ▪ Combination of risks makes a move to negative interest rates more likely, which will weigh on sterling
United States	▪ Potential for additional round of fiscal support ▪ Monetary policy remains very accommodative ▪ Healthy consumer balance sheets and high savings rate ▪ Low rates driving strong housing market	▪ Heightened political uncertainty ▪ Increasing COVID-19 cases ▪ Elevated corporate and government debt levels ▪ US dollar weakness

	Positives	Negatives
Japan	▪ The economy continues to recover, while further stimulus measures are also expected ▪ Equity momentum has been fuelled by strong money supply and foreign inflows; despite setting new highs, equity markets remain reasonably valued relative to peers ▪ While current recovery will be centred on traditional industries like automakers, Japan Inc. is changing with a push toward digitisation	▪ The economic recovery has been slower than in other developed economies, while a resurgence in COVID-19 cases has led to curbs of certain stimulus programmes ▪ Equity markets reaching new highs might lead to some profit taking in the near term ▪ Market indicators continue to signal a stronger yen, which would reduce companies' competitiveness and profitability
Asia Pacific ex-Japan	▪ Positive economic growth momentum in China should continue well into 2021, with a clear focus on domestic consumption ▪ We expect the renminbi to remain strong and Chinese bonds to stay attractive given the global low-yield environment ▪ Australian consumer spending should continue to be supported by pent-up demand and an improving job market ▪ The Australian economy could outperform in the near term after effectively containing a COVID-19 outbreak	▪ China may be the first major economy to normalise monetary and fiscal policy since it effectively contained COVID-19 outbreaks early ▪ Tech regulations and the suspension of Ant Group's record initial public offering create headwinds for market leaders ▪ Risk exists that support measures could be wound down too quickly, creating a hangover effect if the fiscal tap is turned off ▪ A strong Australian dollar might be the target of future measures from the central bank
Emerging Markets	▪ Chinese economy has largely rebounded ▪ US dollar weakness ▪ Exposure to cyclical areas of economy should benefit from broad global recovery ▪ Equity valuations attractive relative to developed markets	▪ Limited ability to enact fiscal stimulus (excluding China) ▪ Highly sensitive to global industrial production and trade trends, which have improved but remain muted ▪ Capacity and infrastructure to combat COVID-19 varies

ASSET ALLOCATION COMMITTEE POSITIONING

As of 30 November 2020

Underweight — *Neutral* — *Overweight*

▼ or ▲ Month-Over-Month Change

		Change	*Underweight*	*Underweight*	*Neutral*	*Overweight*	*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 CLASSES	Equities				■			Elevated valuations reflecting optimistic recovery outlook. Timing of vaccine distribution and pending fiscal stimulus will be key drivers.
ASSET CLASSES	Bonds				■			Short-term yields remain anchored amid central bank pledges of support. Longer rates expected to move higher on improving growth and hints of inflation.
	Region							
EQUITIES	US	▼		■				Defensive sector profile is less supportive amid improving 2021 outlook. Potential US dollar weakness could be an additional headwind. Stimulus still providing a backstop.
EQUITIES	Europe				■			Cyclically oriented sector profile and extremely low valuations among financials are supportive. However, long-term catalysts for sustained growth are scarce.
EQUITIES	UK				■			After heavy sell-off, price level is compelling. Bank of England and fiscal stimulus are supportive, but Brexit uncertainty remains.
EQUITIES	Japan				■			Improving global trade outlook is a key driver. Potential refocus on reform efforts remains an important catalyst for higher valuations.
EQUITIES	Developed Asia ex-Japan*				■			Valuations attractive relative to the US. Chinese stimulus and successful containment of virus are supportive. Export and commodity-driven economies face challenges.
EQUITIES	Emerging Markets					■		Exposure to global trade and favourable currency trends offer strong tailwinds. Within EM, we favour cyclical sectors (financials and industrials).
	Style							
EQUITIES	Global Equity Growth			■				Vulnerability to extended valuations, narrow leadership and improving economic growth outlook could drive rotation toward more cyclical companies. Earnings trends remain supportive.
EQUITIES	Global Equity Value					■		Value equities could benefit from pent-up demand and economic improvement. Valuations have increased but remain attractive on a relative basis.
	Capitalisation							
EQUITIES	Global Equity Large-Cap			■				Larger companies face challenging valuations, particularly in tech, and could lag as recovery advances. Less chance of tax reform risk is positive.
EQUITIES	Global Equity Small-Cap					■		Relative valuations are attractive and continue to offer upside potential to economic recovery. Fiscal stimulus, positive vaccine news and consumer confidence have tempered bankruptcy risks thus far.

* Includes Australia

ASSET ALLOCATION COMMITTEE POSITIONING

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.**
BONDS	Government Bonds		■					Yields remain range-bound near record lows with extended duration and are vulnerable to steepening at the long end of the yield curve should growth expectations improve.
	US Investment Grade			■				Nominal Treasury yields remain at low levels; potential for improving growth and additional fiscal stimulus could place upward pressure on yields.
	European Investment Grade				■			The extraordinary technical backdrop alongside positive vaccine news have let markets look through weak fundamentals, squeezing valuations to levels offering limited compensation.
	UK Investment Grade					■		Yields are at record lows following a rates rally, which may weigh on demand. Continued fallout from the pandemic alongside looming Brexit risks could further weaken fundamentals.
	Inflation Linked				■			Inflation expectations could continue to rise amid improving growth outlook and highly accommodative monetary policy and supportive fiscal policy.
	Global High Yield					■		Although spreads remain at attractive levels, relative valuations are less compelling after a significant rally since March. Risks remain with potential for downgrades and defaults.
	Floating Rate Loans					■		Relative valuations are favourable and sector should benefit from shorter duration profile, supportive technical environment and higher standing in the capital structure.
	EM Dollar Sovereigns				■			Although sector offers attractive yield versus developed markets, relative valuations are less attractive after recent rally and concerns around fiscal support remain.
	EM Local Currency					■		Valuations remain attractive with continued accommodative monetary policy from developed market central banks and potential for weaker US dollar.
	EM Corporates				■			The impact on the asset class of the global recession and the US presidential election is difficult to quantify. Country-specific risks are elevated, but there are attractive opportunities.
CURRENCIES	US Dollar			■				The dollar remains expensive on a global basis. Monetary and fiscal policy will continue to weigh on US interest rates, as will rising coronavirus infection rates, suppressing growth.
	Euro			■				Coronavirus concerns, weakening growth and ongoing Brexit risks weigh on the euro in the near term. However, beyond that, we expect the euro to appreciate.
	UK Sterling			■				We see growth impulse in early 2021 as very negative, with Brexit disruption and the lingering impact of coronavirus-related lockdowns feeding through, likely hurting sterling.
	Japanese Yen					■		Real yield differentials indicate appreciation pressures remain, as does a more supportive outlook for investment flows. Valuations also remain cheap.

INVEST WITH CONFIDENCE℠

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

T.RowePrice®

Additional Disclosures

London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2020. 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.

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® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

Important Information

This material is being furnished for general informational and/or marketing purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. 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 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 written 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 which 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.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

EEA ex-UK—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

South Africa—T. Rowe Price International Ltd ("TRPIL") is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (FSP Licence Number 31935), authorised to provide "intermediary services" to South African investors.

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

UK—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.