



2021 Global Multi-Asset Outlook

Uncovering Opportunities
Amid the Recovery
January 2021



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INTRODUCTION: WORLD ON THE MEND

A Broadening of Opportunities and Leadership

KEY INSIGHTS

- The year ahead will likely be defined by how quickly vaccines can combat COVID-19's spread and unlock the global economy.
- The global recovery should create a broadening of investment opportunities and rotation toward more cyclically oriented regions and sectors.
- Post-pandemic winners and losers will emerge as consumers, businesses, and economies adapt to the new environment.

Markets are entering the new year optimistic about the successful development of vaccines to combat the spread of COVID-19, seeing the news as a light at the end of the dark tunnel that was 2020. The extreme enthusiasm, however, has driven many markets to record highs, extending valuations and creating a rotation toward cheaper stocks in more cyclically exposed parts of the economy. In contrast with last year, 2021 is likely to be a year of reversion rather than

momentum, reinforcing the benefits of broader diversification.

Reopening to Unleash Pent-Up Global Demand

While there is reason to be optimistic about the effectiveness of the vaccines as a catalyst for recovery in 2021, global economies still face unprecedented logistical challenges in deploying the vaccines. At the same time, fears about another wave of the coronavirus are



Sébastien Page
Head of Global Multi-Asset



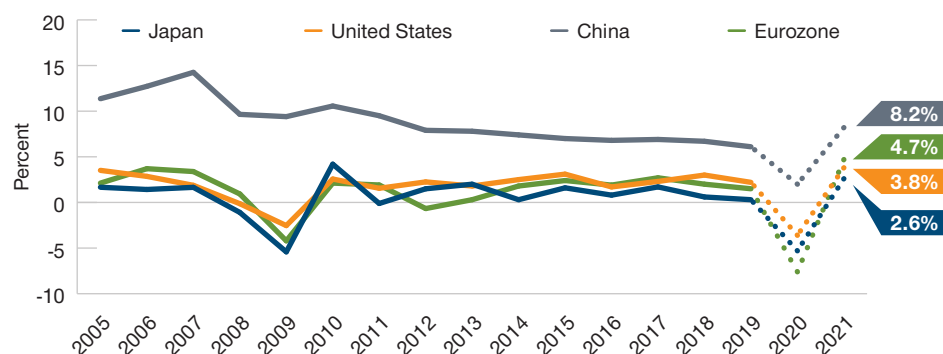
Tim Murray
Capital Markets Strategist,
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Peter Austin
Head of Global
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Pent-Up Demand Could Boost Recovery

(Fig. 1) Real year-over-year gross domestic product growth*



As of November 30, 2020.

*Dotted lines represent Bloomberg consensus estimates for 2020 and 2021.

Source: Bloomberg Finance L.P.

“
More cyclically
exposed
economies and
sectors may
outperform...”

again forcing many countries to enforce lockdowns. The path to successful global immunization by the spring could be winding and uneven as different parts of the world deal with the current crisis while potentially exhausting their stimulus measures, leaving extended markets vulnerable to near-term volatility. Although the path may be choppy, we expect the recovery to take hold once broad immunization occurs, allowing economies to safely reopen and unleashing pent-up global demand.

The improving economic backdrop, supported by monetary policies set to remain ultra-accommodative, will create opportunities and risks as markets rotate toward the “COVID-off recovery.” The environment should be supportive for risk assets, including stocks and corporate bonds, as growth and earnings outlooks improve, potentially leading to a broadening of performance

across asset classes and sectors. More cyclically exposed economies and sectors may outperform, although investors will be cautious in avoiding segments of the markets that may be impaired by post-pandemic trends, warranting the need to be selective.

Improving growth trends, however, may put upward pressure on longer-term interest rates, leaving nominal U.S. Treasuries and other high-quality global sovereign bonds as unattractive diversifiers. Investors will likely trend toward higher-yielding sectors, inflation-linked securities, and other investments with less interest rate sensitivity. Although the new year is beginning with little perceived upside to extended valuations, attractive relative valuation opportunities persist across markets—notably those that have been on the losing side of decades-long trends.

MULTI-ASSET INSIGHTS

Closing the Gap



Christina Dove
Investment Analyst,
Global Multi-Asset



Toby Thompson
Portfolio Manager,
Global Multi-Asset

“...we favor markets more leveraged to an acceleration in global trade and Chinese growth...”

End of an Era...or Beginning of a New One?

The U.S. market has outpaced other markets since the global financial crisis, benefiting from its more defensive profile and larger concentration in disruptive, fast-growing technology companies. Meanwhile, Europe has been plagued by multiple recessions, debt crises, and Brexit uncertainty. Asian economies have done better but have weathered bouts of slower growth in China and trade wars.

Partly because of its role as a safe haven amid the pandemic, the outperformance by the U.S. was magnified in 2020, further extending U.S. relative valuations versus the rest of the world. However, 2021 is looking more favorable for markets outside the U.S. as the coronavirus pandemic and other headwinds should begin to fade amid accelerating and synchronized global growth.

Regional Sector Differences Key to Transition

A key driver of the handoff to markets outside the U.S. lies in the composition of the markets. Non-U.S. markets have more than a 50% exposure to cyclical areas, such as industrials and materials, compared with the S&P 500 Index's roughly one-third allocation. This linkage to global trade should play favorably

for markets outside the U.S. as global economies reemerge from lockdowns.

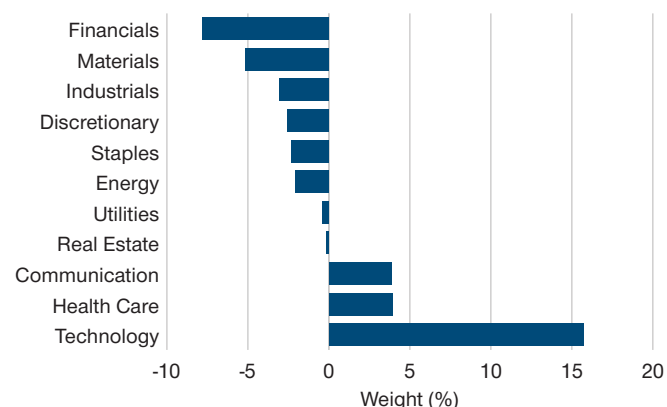
The change in U.S. presidential leadership should also prove supportive of a cyclical shift. We expect less uncertainty around foreign policy from the Biden administration, which is unlikely to push for further tariffs—even if it does not roll back current ones. This would provide a more stable backdrop for global trade and allow supply chains to be rebuilt.

A tailwind for non-U.S. markets could also come from a weaker U.S. dollar. The greenback has already declined nearly 10% in 2020 and is likely to trend lower still as growth picks up in other countries, notably across emerging markets.

Looking into 2021, we favor markets more leveraged to an acceleration in global trade and Chinese growth, including emerging markets and cyclically oriented sectors that are supported by attractive relative valuations. While our base case is for non-U.S. markets to outperform in 2021, we believe leadership trends in the following years may be more dispersed. Growing middle classes and other secular forces should support some countries, notably across Asia, while demographic trends and fiscal burdens continue to weigh on others.

Regional Sector Differences

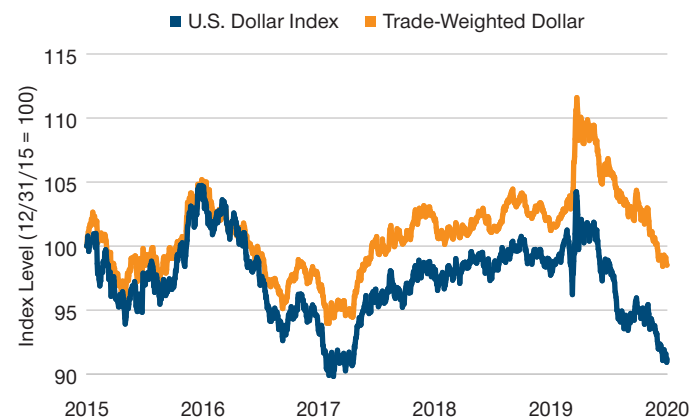
(Fig. 2) S&P 500 Sector Weights vs. MSCI AC World ex. U.S.



As of November 30, 2020.
Sources: Standard & Poor's and MSCI. See Additional Disclosures.

Will U.S. Dollar Weakness Continue?

(Fig. 3) The dollar's strength moderated in 2020



As of December 31, 2020.
Source: Bloomberg Finance L.P.

MULTI-ASSET INSIGHTS

Leaning Into Recovery



Charles Shriver

Portfolio Manager
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Allocation Committee



Wyatt Lee

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U.S. and Other Major Economies Poised for Robust Recovery in 2021

We believe that while the precise timing of vaccine distribution remains uncertain, and many hurdles in the fight against COVID-19 remain, we can look forward to a much healthier economic environment by year-end. Not only can we expect many of 2020's shuttered businesses to reopen, but we are also likely to see two important growth catalysts in the form of pent-up demand and renewed fiscal stimulus.

The pandemic has imposed a period of involuntary austerity on consumer spending, helping the personal savings rate in the U.S. reach a remarkable 33% in April, and hover well above 10% over the following months (see Figure 4). This leaves many consumers in a position to dramatically increase spending in 2021, as they likely release pent-up demand aimed primarily at those areas that were largely out of reach during the pandemic—most notably, travel and dining out. And the appetite for increased spending won't be limited to consumers, as more fiscal stimulus is likely to come. The size of the stimulus remains somewhat in question, and it will certainly require considerable

political wrangling, but even conservative estimates call for close to USD 1 trillion to be deployed in the U.S. alone in 2021.

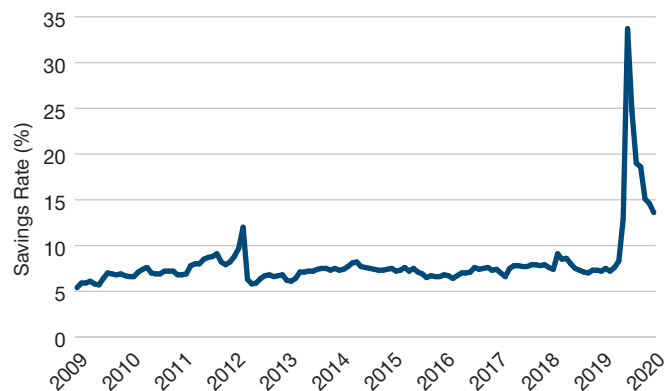
Anticipating a Leadership Shift

We believe this will lead to a leadership shift within U.S. equity markets to those areas most sensitive to the pace of economic growth, namely small-cap and value. With the rising tide of a robust economy lifting all boats, we can expect many previously out-of-favor companies to see significantly improved earnings and stronger balance sheets. Even rate-sensitive areas, such as financials, are likely to benefit from a steepening yield curve and hints of rising inflation. Given the sizable valuation gaps that emerged within equity markets in 2020, small-caps and value appear poised for a comeback in 2021.

However, we would caution investors that this leadership shift is likely to be temporary. Pent-up demand and stimulus will ultimately fade, resulting in a return to the muted growth environment that prevailed throughout the past decade. Eventually, innovation and disruption are likely to return to prominence, which would lead once again to a challenging environment for value and small-caps.

Jump in Savings Rate

(Fig. 4) U.S. personal savings rate

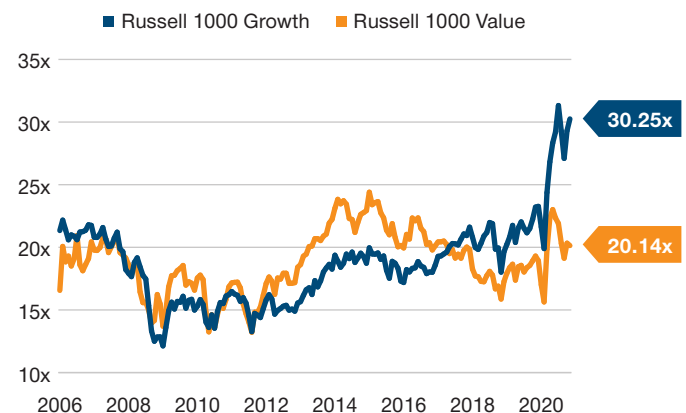


As of October 31, 2020.

Source: Bureau of Economic Analysis.

Valuation Disparity Currently Favors Value Stocks

(Fig. 5) Forward price/free cash flow ratios



As of December 31, 2020.

Source: FactSet (see Additional Disclosures).

MULTI-ASSET INSIGHTS

Yield Scarcity and Modest Reflation



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U.S. Treasury Yield Curve Likely to Steepen

After four decades of trending lower, U.S. short-term rates reached their presumptive bottom of 0% following the onset of the coronavirus pandemic in March 2020. The Federal Reserve (Fed), which dropped the federal funds rate to 0%–0.25% in response, has shifted its policy framework to reach maximum employment before raising rates and has signaled no rate hikes through 2023. Since short-term Treasury yields have historically tracked the federal funds rate, we see short-term rates staying anchored in 2021.

Longer-term Treasury yields, driven more by inflation and growth outlooks, also reached historic lows in 2020. Fortunately, multiple promising vaccines have given the market a likely path to recovery as we progress through 2021. As more segments of the economy reopen and inflation pressures build, we expect corresponding increases in longer-term rates.

Narrow Democratic control of Congress following the U.S. elections improves the prospects for fiscal spending, which Fed officials have advocated as the central bank runs low on monetary policy tools to support the economy. To keep

longer-term yields and borrowing rates low, the Fed could focus its bond purchases on longer-maturity securities. While this would make the yield curve steepening less drastic, we expect that long-maturity assets will still be challenged in 2021, so investors should look to shorten their duration¹ profiles.

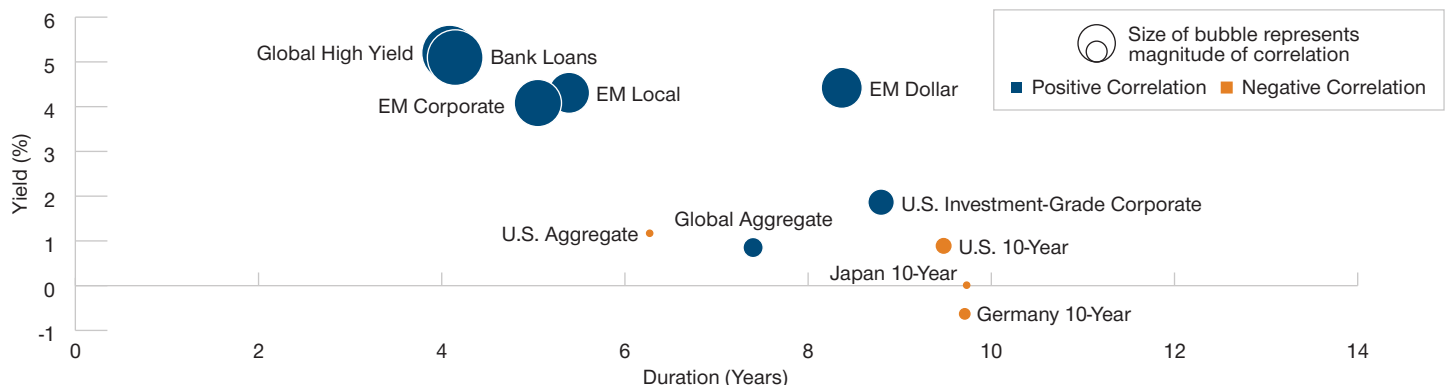
Similar Forces in Play Outside U.S.

Globally, similar recovery forces are in play, and investors will have to weigh the timing of recovery versus a withdrawal of fiscal and monetary support. High levels of supply as governments around the world issue new debt to fund virus-related stimulus put upward pressure on rates, but a weaker U.S. dollar may present non-U.S. bonds as a hedge against faster-rising U.S. rates.

Investors buying into the recovery can find better yields and lower duration in high yield assets, where fundamentals have improved and the outlook is brightening. However, the return potential is limited, as credit spreads² have already clawed back most of their pandemic widening. With yields compressed across the fixed income spectrum, the challenging environment presents opportunities for active managers to add value across global rates, credit, and currencies.

Yield vs. Interest Rate Risk

(Fig. 6) Fixed income sector yield, duration, and correlation* with stocks



As of December 11, 2020.

Sources: J.P. Morgan, Bloomberg Barclays, S&P/LSTA (see Additional Disclosures). Data is for 10-year U.S. Treasury bond, 10-year Japanese government bond, Bloomberg Barclays Global High Yield Index, J.P. Morgan Leveraged Loan Index (S&P/LSTA Leveraged Loan 100 Index for correlation), J.P. Morgan Corporate Emerging Market Bond Index Broad Diversified, J.P. Morgan Global Bond Index Emerging Market Global Diversified Composite, J.P. Morgan Emerging Market Bond Index Global, Bloomberg Barclays U.S. Aggregate Index, Bloomberg Barclays Global Aggregate Index, Bloomberg Barclays U.S. Investment Grade Corporate Index.

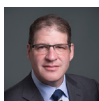
*Correlation versus S&P 500 Index. **Past performance is not a reliable indicator of future performance.**

¹Duration measures a bond's sensitivity to changes in interest rates.

²Credit spreads measure the additional yield that investors demand for holding a bond with credit risk over a similar-maturity, high-quality government security.

REGIONAL PERSPECTIVES

United States



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Supportive Outlook for 2021 Growth

Economic activity in the U.S. is likely to continue on its path to recovery in 2021, supported by Fed policy, fiscal stimulus, and a resilient U.S. consumer. Upside to growth could come from sooner-than-expected distribution and greater uptake of FDA-approved vaccines, infrastructure spending, and a strong housing market. Potential threats and headwinds to growth could be a continued resurgence in coronavirus cases leading to further shutdowns and weaker-than-expected employment.

While risks from trade policy have diminished with the incoming Biden administration, they could be a source of unexpected risk as countries and companies seek to address vulnerabilities to supply chains. Domestically, we expect less extreme tax policies given a narrow Democratic margin in Congress, although the regulatory environment could become less favorable for certain sectors.

Fed Likely to Remain Accommodative

We believe the Fed will remain accommodative given an increase in focus on the labor market relative to

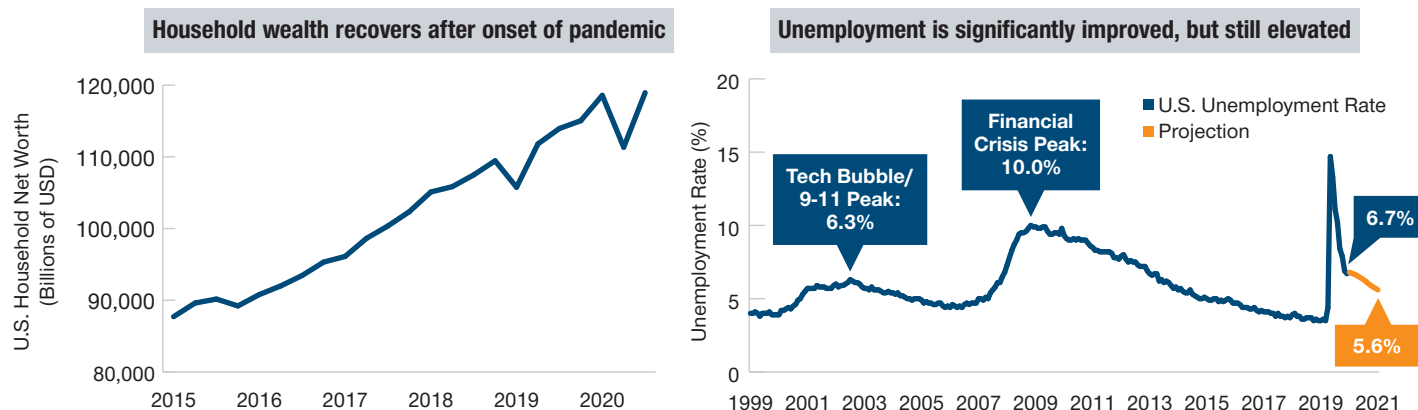
inflation. Fiscal policy is also likely to remain strong, but likely more targeted in measures with the potential for increased infrastructure spending. Inflation may trend modestly higher as economic growth improves but should remain contained and lead to only a modest steepening of the yield curve.

In a recovery, rising longer yields will weigh on U.S. Treasuries, while corporate credit in the U.S. will be supported by potentially stronger fundamentals and improving corporate earnings. The U.S. dollar is likely to trend lower as short-term interest rate differentials have narrowed and economic growth outside the U.S. improves.

Market leadership may be challenged as expectations have led to extended valuations for many U.S. stocks. This may lead investors to consider other market segments with more attractive valuations. As economic growth broadens, we expect more cyclically oriented areas of the markets to benefit, including small-cap and value stocks. However, for a value rally to be maintained, we need to see a more substantial and sustained increase in global growth, interest rates, and commodity prices.

Household Wealth, Employment Improve

(Fig. 7) Rising wealth, falling unemployment should support growth



Household wealth as of June 30, 2020. Unemployment as of November 30, 2020.

Sources: Bureau of Economic Analysis and Bureau of Labor Statistics. Unemployment projections from Bloomberg consensus forecast. See Additional Disclosures.

REGIONAL PERSPECTIVES

Europe and the UK



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Tailwinds Set to Offset Risks for European Expansion

We expect an economic recovery in Europe and the UK in 2021. Tailwinds include ultra-accommodative monetary policy from the European Central Bank (ECB) and the Bank of England (BoE), along with additional fiscal stimulus and improving global trade.

A successful rollout of vaccines could boost growth, leading to economies reopening and services rebounding. The main risk to our view would be inefficacy of vaccines with new waves of infections, leading to lockdowns and dented confidence.

Other risks include the needed economic adjustments for Brexit, which may be disruptive. Political tensions within the European Union may also delay further fiscal support.

Benign Inflation

We expect inflation to remain benign. While an improving economic outlook may be inflationary in the short term, the ECB is still struggling with deflationary forces. We do not expect inflation in the UK to rise materially. If the UK economy struggles due to post-Brexit adjustments

and fiscal consolidation, the BoE may revert to negative policy rates.

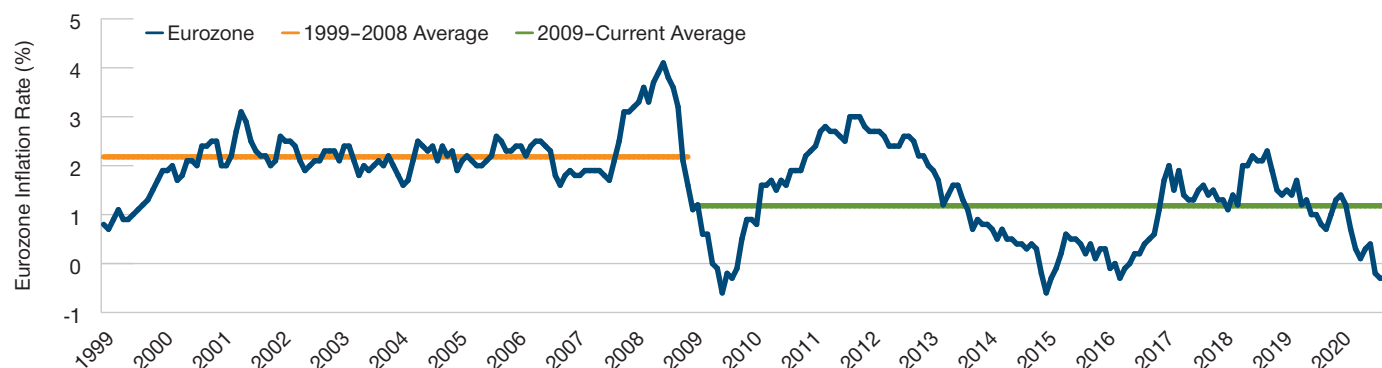
Rising long-term yields may weigh on core government bonds. Corporate bonds could outperform government bonds as the fundamentals and yields on offer look more attractive. For investors seeking income, central banks' actions and an improving economic backdrop may support high yield bonds.

The euro is likely to trend higher relative to the U.S. dollar as short-term interest rate differentials have narrowed. The British pound could also enjoy a post-Brexit surge but may weaken if the UK economic recovery stalls and the BoE becomes even more dovish.

Due to relatively attractive valuations versus other major markets, European and UK equity markets could outperform in 2021. In particular, the potential rotation to more cyclical stocks could prove beneficial. However, on a long-term basis, the financials and energy sectors remain challenged because of ultralow interest rates and a shift to green energy. We expect environmental, social, and corporate governance (ESG) factors to become increasingly important for investors.

Eurozone Struggles to Avoid Deflation

(Fig. 8) Inflation expected to remain benign in Europe



As of November 30, 2020.
Source: Eurostat.

REGIONAL PERSPECTIVES

Developed Asia and Australia



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Hajime Takigawa
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Corporate activity
is expected to drive
Japan's near-term
recovery...

Japan's Recovery Set to Continue and Possibly Exceed Expectations

Japanese economic activity should continue to recover in 2021, encouraged by the global economic rebound. We expect GDP growth to exceed the market consensus. Monetary authorities are supportive, and additional fiscal stimulus is also possible. Coronavirus-related events will intermittently negatively impact the economy; however, there are potential positives: Growth in capex is one indicator to watch, where we expect an uptick in 2021.

Corporate activity is expected to drive Japan's near-term recovery, especially in the manufacturing industry. Japanese companies are relatively highly leveraged, so stronger performance is expected as global and domestic economies recover.

These conditions continue to favor stocks and other risky assets, despite some asset valuations appearing stretched. Major changes in the bond and interest rate environment are not anticipated. Low interest rates, however, could cause the U.S. dollar to depreciate and force the yen higher, due to the narrowing gap between domestic and foreign rates.

Australian Economy Has Strong Momentum Going Into 2021

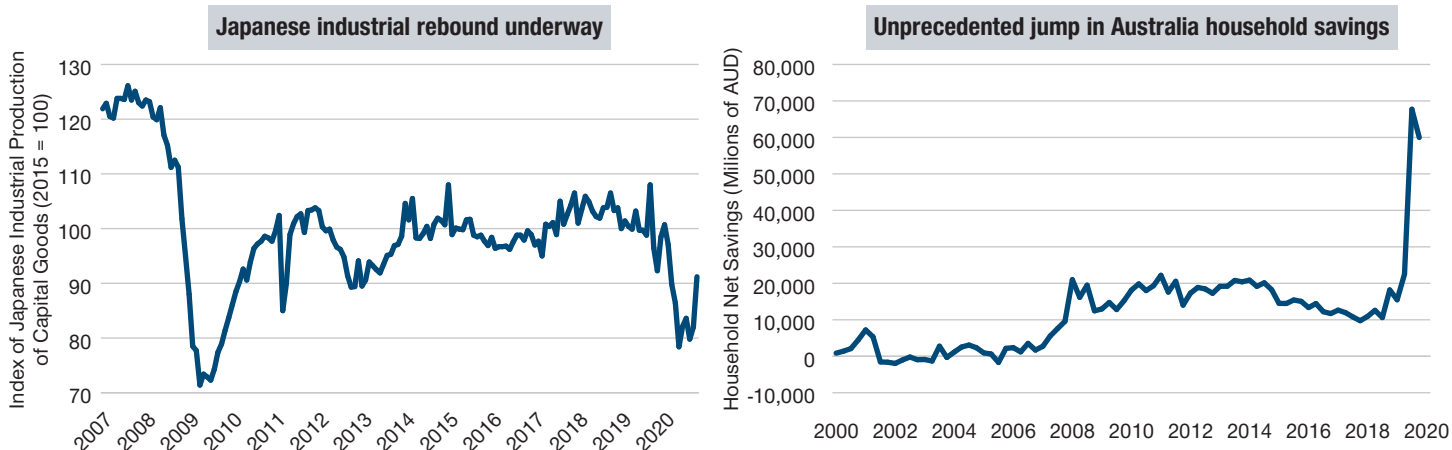
Many indicators have recovered from their 2020 troughs, with some—savings rate, money supply, and economic surprise—at decade-high levels. Pent-up consumer demand and a recovery in business spending should drive growth toward the consensus estimate of 3.2% gross domestic product (GDP). Business confidence and exports remain subdued but improving, and while the labor market will take time to heal, this is unlikely to derail the recovery.

Low yields are unanimously forecast, given the Reserve Bank of Australia's yield control policy and dovish stance. Hence, equity earnings yields, relative to bond yields, support a higher allocation to stocks. The dominant banking and materials sectors should see the Australian market benefit from the anticipated rotation from growth to value. While the tech and health care sectors look expensive, consumer companies should benefit from expected higher spending in 2021.

Successful containment of the pandemic globally remains important to the outlook. Among other risks, Australian stimulus spending could prove too aggressive, leading to excessive house price inflation and currency appreciation.

Recovery Tailwinds in Japan, Australia

(Fig. 9) Economic momentum should extend into 2021



Japan data as of October 30, 2020. Australia data as of September 30, 2020.

Sources: Japan Ministry of Economy, Trade & Industry and Australian Bureau of Statistics.

REGIONAL PERSPECTIVES

China



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Head of Multi-Asset
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Wenting Shen
Solutions Strategist and
Portfolio Manager

“...policymakers
will not hesitate
to control any
excesses and
normalize the policy
setting to a neutral
stance if needed.”

China Looks to Maintain Economic Momentum

For 2021, we believe that China will look to maintain the solid economic momentum from the second half of 2020 but not at all costs. China should be the only G7 country with positive GDP growth in 2020. Consensus expects gross domestic product (GDP) growth to accelerate to 8% in 2021, before normalizing to around 5% in the following five years.

The drivers of growth should broaden from fixed-asset investments in 2020 to domestic consumption in 2021. We expect a lower contribution from trade due to cancelling effects between a resilient export sector, which gained market share this year, and a reduced need for commodity imports as the housing stimulus fades. China's focus on domestic affairs is supported by the successful suppression of the pandemic and the low premium attached to the normalization of geopolitical relationships.

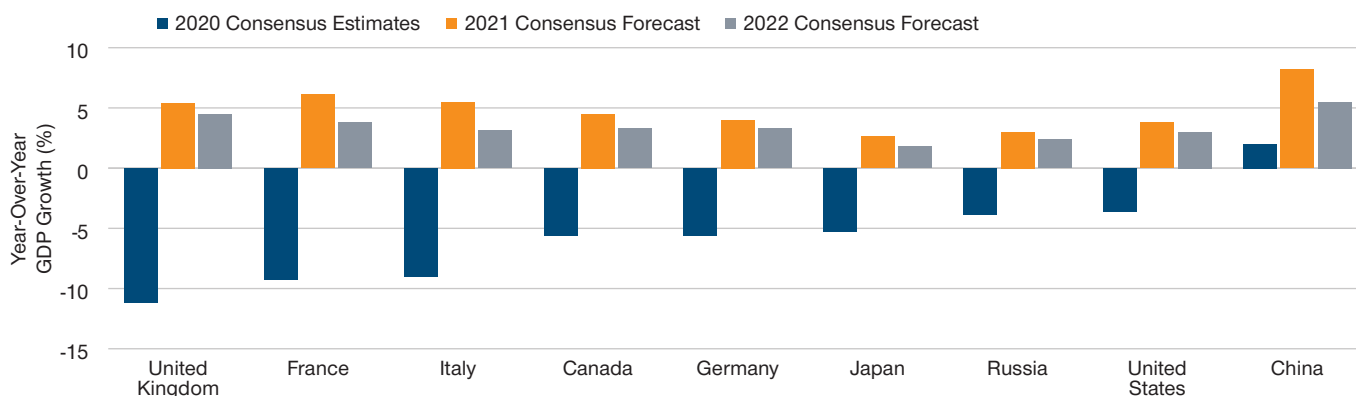
Policymakers Ready to Control Excesses

However, policy makers will not hesitate to control any excesses and normalize the policy setting to a neutral stance if needed. Money supply growth is already fading. The risk remains that asset prices could inflate too much on the back of the strong economic recovery before policy normalizes. An overreaction by policymakers to tighten too quickly could make the trajectory of growth throughout 2021 less favorable, with a larger drop than expected between the first and second half of 2021. Although we are expecting a year of two halves, the transition will be dependent on how the start of the year develops.

Equity investors should benefit from an earnings recovery even if price multiples contract on the back of higher yields. Foreign flows into Chinese bonds should put a cap on higher yields, though, supported by further index inclusion and attractive yield differentials. This could put further pressure on the yuan to appreciate.

Chinese Economic Growth Likely Outpaced the Rest of the World in 2020

(Fig. 10) Chinese economic strength expected to continue in 2021



As of December 21, 2020.

Source: Bloomberg Finance L.P.

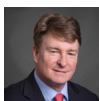
REGIONAL PERSPECTIVES

Emerging Markets Ex-China



David Clewell

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Pent-Up Developed Market Demand Could Boost EM Exporters

Emerging markets (EMs) excluding China currently enjoy significant tailwinds, which suggest that the acceleration in growth in the second half of 2020 will carry through into 2021. The rollout of vaccines in developed markets should help to release pent-up demand for goods, helping EM exporters, while rising demand for commodities as economies recover should also boost commodity-exporting countries like Brazil and Russia. A weaker U.S. dollar and the likelihood of some improvement on the trade front should also lend support to EM economies outside of China.

Ultra-loose monetary policy in developed markets will help to support financial conditions globally, giving EM countries—including nations with high-dollar debt burdens—scope to cut interest rates. Policymakers and central banks in EMs have more room to maneuver in terms of greater monetary and fiscal support. Compared with developed markets, EM authorities have

been less aggressive so far during the pandemic. Shutdowns have been more limited, and the impact on economies has therefore been lower.

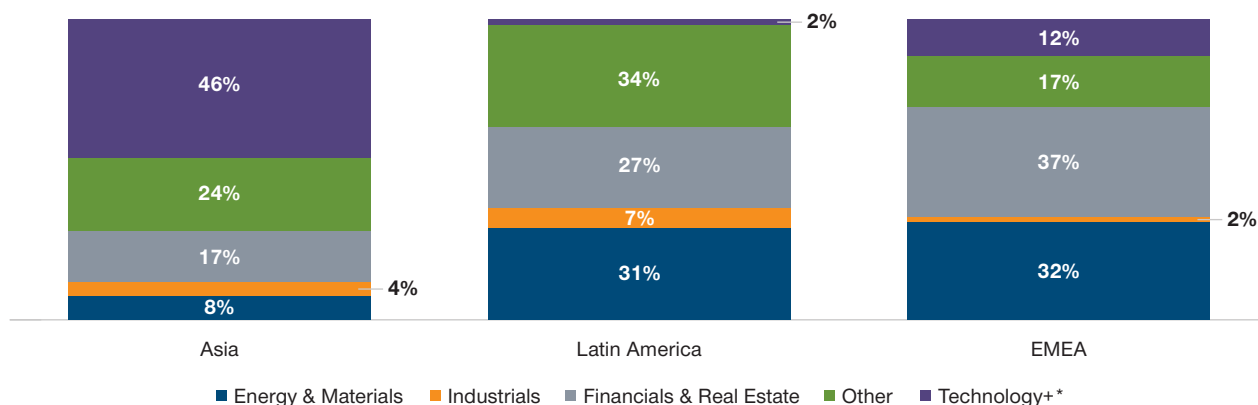
Pandemic Remains a Risk

Risks to this view include the continuation of the coronavirus pandemic. Renewed shutdowns in developed markets will cause short-term concerns, while in the longer term, countries that rely heavily on tourism or do not have early access to a viable vaccine may see their economic recovery pushed out later. We also have to be wary of inflation. Unprecedented stimulus in developed markets could potentially morph into inflationary pressures within emerging markets, which would require higher interest rates at a time when the U.S. dollar is weakening.

Overall, we remain constructive on the outlook for equities, corporate bonds, and EM currencies in 2021, but investors should be advised to watch for EM inflation and perhaps prepare for higher EM rates further down the line.

Asia Is Much Less Cyclical Than Other EM Regions

(Fig. 11) MSCI emerging markets sector breakdown by region



As of December 21, 2020. Numbers may not total due to rounding.

Source: MSCI; T. Rowe Price analysis using data from FactSet Research Systems Inc. All Rights Reserved. See Additional Disclosures.

* "Technology+" includes the information technology sector as well as the internet retail and interactive media, which are part of the consumer discretionary and communications sectors, respectively.

RESEARCH

The View From Above



Sébastien Page

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The View From Above: How Much Should You Allocate to Stocks?

Probably more than you think.

In a low-yield environment, the traditional role played by bonds in a balanced equity/bond portfolio should be reevaluated. Bonds are important portfolio building blocks for two reasons: income and downside risk management. However, with today's pervasively low interest rates, the historically dependable income component of the bond universe is almost nonexistent, while the risk mitigation aspect is seriously challenged.

Case in Point

To forecast bond portfolio returns, investors may use the current 10-year yield, a reasonable estimate of the expected future 10-year return from holding U.S. Treasuries (see Figure 12). Given that the 10-year U.S. Treasury yield has been below 1% since late March, conservative bonds are likely to provide very little income over the next decade.

The bad news from bonds does not end there. With rates near zero, bonds are unable to offer the attractive returns that could help offset equity losses during crisis periods. Rates normally

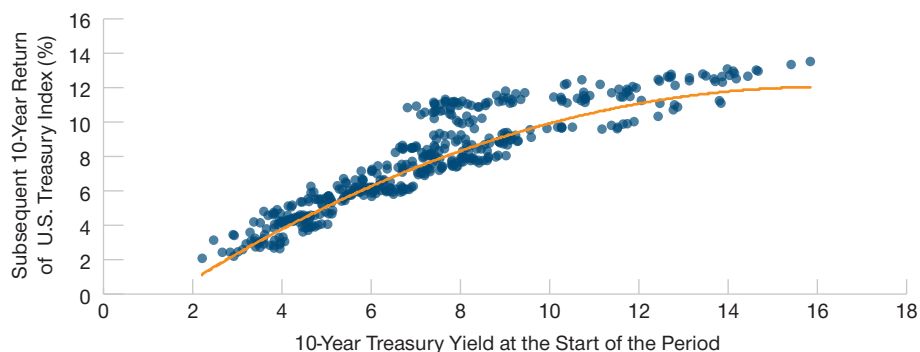
fall in a crisis, driving bond prices higher. What happens if rates are already low? A look at German bunds and Japanese government bonds—whose yields were already extremely low going into the pandemic-induced downturn—is informative and the answer, unfortunately, is quite disappointing (see Figure 13).

Options to Consider

With these challenging dynamics, how can investors adjust their portfolios? One option is to “stretch” bond holdings by incorporating longer-dated government bonds and lower-quality bond sectors—such as high yield bonds, bank loans, and emerging markets debt—that offer slightly higher yields. There are, however, risks to these yield-enhancing strategies. Longer duration means higher volatility and, with long-term rates at historic lows, downside risks far outweigh any upside potential. Further, low quality means higher credit risk (in the wake of one of the sharpest recessions of all time) as well as higher correlation to equities. In the end, we believe that neither “solution” offers a particularly attractive risk/reward profile as we head into 2021 and should, therefore, be applied with caution.

Treasury Yields a Reasonable Estimate of Returns

(Fig. 12) U.S. 10-year Treasury bond yield vs. subsequent 10-year return of U.S. Treasury*



Past performance is not a reliable indicator of future performance.

As of September 30, 2020.

Source: Bloomberg Finance L.P.

* January 1973–September 2020.

Based on month-end 10-year U.S. Treasury yields over the period 1/31/1973 through 9/30/2010 and annualized return of the Bloomberg Barclays U.S. Treasury Index over the corresponding subsequent 10-year period.

“How much to allocate between stocks versus bonds is a very important asset allocation decision...”

Another option would be a higher allocation to stocks. Although stocks do not offer the current income that bonds do, they have typically generated superior total returns. However, it is important to note that a high allocation to stocks needs to be customized to each investor's risk tolerance and time horizon, and it should be dynamic so that it evolves as these attributes change over time. This can be a daunting task but one that can be tackled through the use of glide paths.

Focus on the Long Term

Glide paths are designed to consider an individual's goals and how much risk they are willing to bear. It is the good old return versus risk portfolio construction process, but across multiple time periods and with multiple objectives.

In Sebastien Page's book, "Beyond Diversification," he explains how to design glide paths and outlines a popular allocation strategy where an individual 25 years away from retirement should have about 90% allocated to stocks. Their time horizon is quite long, so their risk tolerance is higher. This allocation then gradually decreases: 10 years from retirement,

the allocation to stocks is about 70%; the at-retirement allocation to stocks is 55%—which may seem high, but most individuals are under-funded, and they need their nest egg to keep up with inflation and last for 20+ years in retirement; and after retirement, the allocation to stocks continues to decrease at a measured pace all the way to about 25% in stocks.

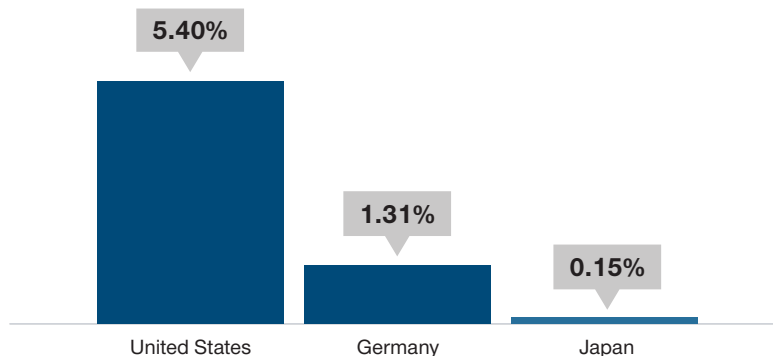
How much to allocate between stocks versus bonds is a very important asset allocation decision, which requires a "multi-period optimization"—investors contribute to their savings until they retire and then spend it over multiple periods in retirement, with a goal of meeting future income needs, i.e., replacing their salary.

Power of Compounding

Most people do not have enough money set aside for retirement, and their portfolio needs to work harder for them. Those far enough from retirement should consider accepting higher short-term volatility, if individual circumstances allow, because ultimately, as Albert Einstein supposedly said, "compounding is one of the most powerful forces in the universe."

10-Year Government Bond Returns Lagged in Crisis

(Fig. 13) Near-zero rates in Germany and Japan offered muted protection in equity sell-off*



Past performance is not a reliable indicator of future performance.

Government Bond Return in Local Currency from February 19, 2020 to March 23, 2020.

Source: Bloomberg Finance L.P.

Bloomberg Barclays U.S. Treasury Index, Bloomberg Barclays Germany Government All Bonds Index, and Bloomberg Barclays Japan Government Float Adjusted Bond Index.

*February 19–March 23, 2020.

2021 Tactical Views

◀●▶ Neutral ▲ Overweight ▼ Underweight

		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	Global Equities	◀●▶	Balanced view weighing historically elevated valuations against a positive outlook on improving global growth, earnings recovery, and monetary policy support. Equity risk premium remains attractive relative to ultralow bond yields.
	Global Bonds	◀●▶	Short-term rates to remain anchored by monetary policies. Cautious on government-related bonds and favoring shorter duration as yield curves likely to steepen. Earnings recovery and yield scarcity supportive for credit.
EQUITIES	<i>Regions</i>		
	U.S.	▼	Extended valuations versus rest of the world, narrow leadership, and defensive sector profile less supportive as investors should favor more cyclically oriented and trade-exposed economies with growth outlook improving.
	Global Ex-U.S.	▲	Improving global trade, supportive policies, and weaker U.S. dollar should benefit the more cyclically oriented economies, notably within select emerging markets. Additional upside potential from currency appreciation.
	Europe	▼	Improved backdrop supported by monetary and fiscal policy, cyclically oriented sector profile, earnings recovery, improving banking sector, and dividend stabilization. Structural headwinds, Brexit fallout, and stronger euro could weigh.
	Japan	▲	Should benefit from higher leverage to global trade and aggressive policy support. Summer Olympics could drive sentiment. Cautious on impact of rising yen on exporters.
	Emerging Markets (EM)	▲	Linkage to global trade, attractive relative valuations, increased China demand, and favorable currency trends provide tailwinds. Bias toward more cyclically oriented sectors (financials and industrials) and regions (Latin America and EMEA).
	<i>Style</i>		
	U.S. Growth	▼	Vulnerable to extended valuations, narrow leadership, and improving growth outlook that could drive rotation toward more cyclically oriented companies. Earnings trends remain supportive, while regulatory overhang may persist.
	U.S. Value	▲	Uptick in economy to support more cyclically exposed parts of the economy. Favorable relative valuations, higher rates, and inflation provide tailwinds. Sustainability of rally dependent upon growth outlook beyond 2021.
	Global Ex-U.S. Growth	▼	More defensive profile, with greater exposure to consumer staples and health care, is likely to weigh given the improving outlook and rotation toward cyclical sectors.
	Global Ex-U.S. Value	▲	Deep cyclical sector orientation, cheap valuations, and rising rates should provide catalysts. Stabilization in dividends and improving outlook for banking sector are tailwinds. Bias toward EM value on strong upside potential.
	<i>Capitalization</i>		
	U.S. Large-Cap	▼	Larger companies face challenging valuations, particularly within technology, and are less leveraged to economic recovery, which is likely to lead to a further rotation toward smaller, more cyclically leveraged companies.
	U.S. Small-Cap	▲	Smaller companies should benefit from early cycle recovery. Unleashed consumer spending, job growth, and housing market strength are supportive. Still attractive relative valuations and potential for additional fiscal stimulus provide tailwinds.
	Global Ex-U.S. Large-Cap	◀●▶	Economic weakness, secular challenges, and low rate environment weighing on earnings outlook. However, improving economic outlook should be supportive going forward.
	Global Ex-U.S. Small-Cap	◀●▶	Vulnerable to consumer retrenchment in economies facing mobility restrictions. Post-vaccine reopening could provide catalyst for domestic growth improvement.
BONDS	<i>Inflation-Sensitive</i>		
	Real Assets Equities	▼	Rising inflation expectations and growth outlook supportive for natural resources and energy over the near term. Commercial real estate remains under pressure from structural and coronavirus-related mobility trends.
	U.S. Investment Grade (IG)	▼	Improving growth and inflation could place upward pressure on yields. Bias toward credit over Treasuries as yield advantage and improving fundamentals provide support despite limited upside to prices.
	Developed Ex-U.S. IG (Hedged)	▲	Short-term rates to remain anchored by central banks' policies. Hedged yield advantage less pronounced with narrowed yield differential. U.S. dollar biased lower, principally against EM currencies.
	U.S. Treasury Long	▼	Treasury curve likely to steepen amid improving growth and inflation outlook. While challenged by higher yield outlook, long Treasuries remain attractive as a hedge against equity drawdowns should markets face volatility.
	Inflation-Linked	◀●▶	Inflation expectations could continue to rise amid improving growth outlook and highly accommodative monetary and fiscal policy, potentially driving already negative real yields lower.
	Global High Yield	▲	Yield advantage remains supportive despite higher valuations. Fundamentals should improve with earnings outlook, but potential remains for additional defaults. Overall quality supported by fallen angels and weighting toward BB issuers.
	Floating Rate Loans	▲	Relative valuations, shorter duration profile, collateralized loan obligation demand, and higher standing in the capital structure offer tailwinds. Floating rate characteristic provides optionality should short-term rates move higher.
	EM Dollar Sovereigns	◀●▶	Sector could continue to benefit from yield advantage over developed markets, but valuations are less compelling after recent rally. Global growth outlook supportive, but EM central bank easing is waning.
	EM Local Currency	▲	Attractive yields and lower duration profile supportive as fundamentals should improve along with global growth. U.S. dollar weakness a tailwind with select EM currencies well positioned to outperform given cheap valuations.

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