T. Rowe Price

Global Asset Allocation: The View From the UK

May 2024

1 Market Perspective

- The global growth outlook remains positive against a backdrop of gradually easing inflationary pressures across most economies.
- US growth continues to be resilient, buoyed by a strong consumer, while optimism around European growth is building. Japanese growth remains challenged, and in China, there are signs that policy support is helping stabilise the economy, although risks remain. The UK economy expanded by a stronger-than-expected rate in the first quarter of 2024, exiting a recession that started in the second half of last year.
- The US Fed is still looking towards rate cuts this year, but sticky inflation and resiliency in the economy have tempered expectations. Meanwhile, the European Central Bank (ECB) appears closer to easing given progress with inflation. After hiking in March, the Bank of Japan (BoJ) continues to assess further hikes. The Bank of England (BoE) indicated that it could ease policy as soon as June.
- Key risks to global markets include a retrenchment in growth, stubborn inflation, volatility surrounding central banks' policy divergence, geopolitical tensions and the trajectory of Chinese growth.

2 Portfolio Positioning

As of 30 April 2024

- We remain modestly overweight equities, supported by resilient economic growth, positive earnings trends and areas with more reasonable valuations.
- Within equity, we reduced the underweight to Europe because it seems the worst is behind the region in terms of economic growth and inflation. We increased the overweight to Japan due to continued improvements in corporate governance, the BoJ remaining accommodative and the weak yen supporting exporters.
- Within fixed income, we neutralised the allocation to inflation-linked gilts because inflation is expected to ease further, and to reduce duration. We also neutralised the allocation to UK investment grade corporates because of more attractive opportunities elsewhere in fixed income.
- Additionally, across fixed income, we remain overweight high yield and emerging markets bonds on still attractive absolute yield levels and reasonably supportive fundamentals.

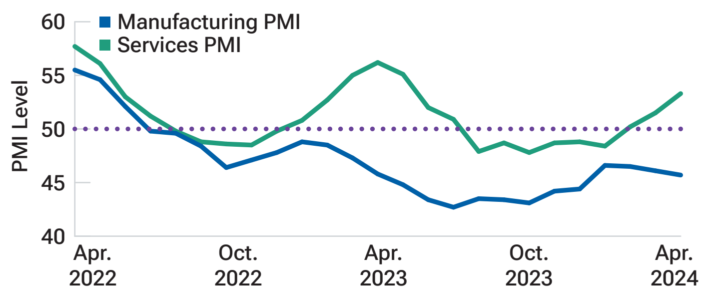
3 Market Themes

Green Shoots?

Economic growth in Europe is showing signs of life after several years of teetering near recessionary levels, with better-than-expected first-quarter GDP growth, largely driven by a services-led revival. Muted foreign demand especially from China, fears around a natural gas shortage and decades-high inflation had all weighed on European sentiment in recent years. But the tide appears to be turning on the back of a milder-than-expected winter and falling inflation, increasing the odds for an upcoming rate cut by the ECB in June. This has given way to an uptick in consumer spending and provided a boost to Europe's tourism and hospitality sectors—notably coming from countries such as Spain, Portugal and Greece. However, it's Europe's manufacturing powerhouse, Germany, that continues to struggle given its dependence on exports to China and consequences of having relied on Russian energy, with no quick fix on the horizon. For now, positive sentiment on the heels of better-than-expected growth, lower inflation and hopes for near-term rate cuts may draw investors' attention, but questions remain whether these green shoots will lead to a broader and more sustainable recovery.

Eurozone: All About Services as Manufacturing Lags

As of 30 April 2024



The Almighty Dollar

Despite multiple calls for the end of the US dollar's dominance over recent years, it remains near all-time highs and has strengthened against every major currency in the world so far this year. Its most recent push higher has stemmed from resilient growth in the US sustained in part by elevated fiscal spending along with sticky inflation, causing a shift to less aggressive Fed rate cut expectations. Meanwhile, many other countries have seen a faster decline in inflation, which has put downward pressure on their currencies versus the dollar on expectations that their central banks move sooner on rate cuts. The strong dollar has many countries seeing their currencies falling to multi-decade relative lows, with talk of intervention, as in the case of Japan struggling with a slumping yen. While a weaker currency has aided many of these countries' exporters, it comes with other consequences, including capital competition versus higher-yielding markets such as the US, import inflation and raising dollar-denominated borrowing costs for countries that are funding in US dollars. With the Fed expected to move slower on rate cuts, US growth remaining resilient, a packed election calendar and a still unsettled geopolitical environment, it's hard to see what breaks the buck before it may break something else.

US Dollar: Holding Its Strength[1]

As of 30 April 2024

Past performance is not a reliable indicator of future performance.
Source: Bloomberg Finance L.P.
[1] Data are represented by the US Dollar Index (DXY).

REGIONAL BACKDROP

		Positives	Negatives
United Kingdom	N	– Inflation has been steadily declining – Bank of England is likely to cut rates this year – Labour market has been resilient	– Fiscal consolidation may need to be accelerated – Tight labour markets could keep wage inflation elevated
Europe	U	– Inflation has been steadily declining – ECB is expected to cut rates soon – Economy is gradually improving – Inflation is moderating	– Monetary policy is restrictive – Economic growth remains weak – Geopolitical uncertainty is heightened
United States	O	– Earnings expectations are increasing – Consumer spending remains strong – Labour market has been very resilient	– Progress on inflation has stalled – Stock valuations have become challenging – Lagged effects of monetary policy remain a risk – Political uncertainty is heightened
Japan	O	– Economy welcomes inflation after decades fighting deflation – Corporate governance continues to gradually improve – BoJ remains more accommodative – Yen weakness is a tailwind for export businesses	– Expectations are high, raising the bar for upside surprises – Yen weakness and rising inflation could raise pressure on the BoJ to hike
Asia Pacific ex-Japan	N	– Macro data in China are marginally improving – China investment flows are turning positive, seconded by attractive valuations – In Australia, government support to the economy continues to be a net positive	– Prolonged China deflation is a concern – China property market issues are dampening consumer confidence and retail sales – Australia consumer spending shows early signs of weakening on the back of a weaker job market
Emerging Markets (EM)	N	– Equity valuations are attractive relative to the US – Chinese economy is incrementally improving – Investment flows are positive – Regulatory concerns are easing	– Chinese property deleveraging continues to weigh on activity – Chinese consumer and business confidence are fragile – Meaningful fiscal stimulus measures appear unlikely

U Underweight N Neutral O Overweight

Views are informed by the Asset Allocation Committee and regional investment committees (United Kingdom, Europe, Australia, Japan and Asia) and reflect the equity market.

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				■		Earnings continue to strengthen but face elevated expectations. Potential for broader market participation as economic growth improves, commodity prices increase and consumer spending remains resilient.
ASSET CLASSES	Fixed Income		■				Yields remain attractive, but volatility could persist due to global divergence in growth, inflation and central bank expectations. Credit fundamentals remain supportive; however, spreads remain tight.
ASSET CLASSES	Cash			■			Cash continues to offer attractive yields as the yield curve remains inverted and continues to offer liquidity should market opportunities arise.
	Region						
EQUITIES	US				■		Earnings expectations are improving as economic activity remains resilient and as financial conditions have loosened. Technology and pharmaceutical innovation are key differentiators. However, valuations may limit upside from here.
EQUITIES	Europe ex-UK		■				European equity valuations remain relatively attractive, and headline inflation has fallen. However, the economy has stalled, and manufacturing remains weak.
EQUITIES	UK			■			Equity valuations are appealing versus history and against major peers. However, domestic factors, such as Brexit adjustments, are inflationary and may keep rates higher for a while longer.
EQUITIES	Japan				■		Economic indicators in Japan are reaching new highs in this cycle, while corporate governance improvements continue to improve companies' fundamentals. However, higher inflation prints may see the Bank of Japan step up its hawkish stance.
EQUITIES	Developed Asia ex-Japan[1]		■				China macro data are marginally improving, while investor-friendly regulation can support confidence. However, ongoing property market issues are dampening consumer confidence and retail sales. In Australia, government support to the economy continues to be a net positive. However, Australia consumer spending shows early signs of weakening on the back of a weaker job market.
EQUITIES	Emerging Markets			■			Valuations and currencies are attractive, and central bank tightening may have peaked. China government policy support and broadly supportive market fundamentals are positives. However, geopolitical tensions with the US could rise in advance of the US presidential election.
	Style and Market Capitalisation						
EQUITIES	Global Growth vs. Value[2]		■				Improving economic outlook and further broadening of equity market performance could be supportive for value. Cyclical strength and improving prospects for energy demand should be positive for value-oriented sectors.
EQUITIES	Global Small-Cap vs. Large-Cap[2]			■			Small-caps offer attractive relative valuations but are more challenged by higher-for-longer interest rates. Profit margins and leverage are also becoming more of a concern, warranting a higher-quality bias.

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[1] Includes Australia.

[2] For pairwise decisions in style and market capitalisation, positioning within boxes represents 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 and market capitalisation asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.

UK INVESTMENT COMMITTEE POSITIONING

As of 30 April 2024

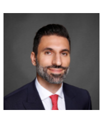
Underweight — *Neutral* — *Overweight* ▼ or ▲ Month-Over-Month Change

These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.

		Change	*Underweight*	*Underweight*	*Neutral*	*Overweight*	*Overweight*	
FIXED INCOME	UK Gilts			■				Recovering economic activity, persistent services inflation, accelerating quantitative tightening, large gilt issuance and US spillovers can keep the long-term gilt yields under pressure.
	UK Inflation Linked	▼			■			Inflation indicators (services, core goods) are trending higher, although the UK labour market has eased a little. The Bank of England's inclination is to cut rates, but we may have to wait a bit longer.
	UK Investment-Grade (IG) Corporates	▼			■			Investment grade credit is looking less attractive in terms of valuations, given the tight nature of spreads.
	US IG Aggregate			■				US inflation and a resilient economy could see the Fed keeping rates higher for longer than the market expects. Meanwhile, investment grade spreads remain tight.
	European IG Aggregate			■				Expectation of higher global rates and dynamics of quantitative tightening may weigh on European rates. Credit spreads could widen if the economy slows down.
	Global High Yield					■		Attractive absolute yield levels remain supportive, but tight spreads may be reflecting too optimistic of a backdrop. Default rates are likely to rise to historical long-term averages, although much appears to be priced in.
	EM Dollar Sovereigns					■		Yields still look modestly attractive. With central banks embarking on easing cycles and inflation continuing to moderate, EM bonds may benefit.
	EM Local Currency					■		Central bank easing and lower inflation could be tailwinds, but a higher-for-longer Fed could sustain dollar strength.
	EM Corporates				■			We prefer to overweight sovereigns rather than corporates in emerging markets because credit spreads may widen as the global economy slows. We will look for a potentially better entry point to consider overweighting EM corporates.
CURRENCIES	GBP vs. USD					■		In a benign market environment, the US dollar may soften, particularly from current expensive levels.
	GBP vs. EUR					■		The markets may price more interest rate cuts once the ECB cut rates in June.
	GBP vs. JPY					■		Following March's increase, the BoJ is unlikely to make any further interest rate moves in the near term. Japanese economic growth is weak. Interest rate differentials do not favour the yen.

Past performance is not a reliable indicator of future performance.
The specific securities identified and described are for informational purposes only and do not represent recommendations.

UK INVESTMENT COMMITTEE



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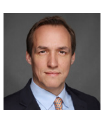

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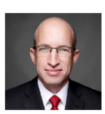

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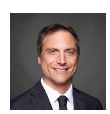

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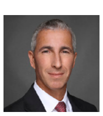

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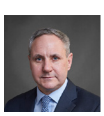

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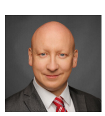

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INVEST WITH CONFIDENCE™

T. Rowe Price identifies and actively invests in opportunities to help people thrive in an evolving world, bringing our dynamic perspective and meaningful partnership to clients so that they can feel more confident.

Additional Disclosures

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