T. Rowe Price

Global Asset Allocation: The View From the UK

December 2024

1 Market Perspective

- While global growth remains broadly resilient, with inflation trending lower, paths forward may vary as policy impacts create divergence.
- US growth expectations are higher on the back of hopes for pro-growth policies, while inflation remains moderately above target. European, UK and Japanese growth remain soft. Chinese policy is expected to remain supportive to bolster growth.
- The US Federal Reserve (Fed) policy easing is expected to lag other central banks amid a better growth backdrop, while the European Central Bank (ECB) and the Bank of England (BoE) are likely to act faster amid economies facing weaker growth and lower inflation. The Bank of Japan (BoJ) is expected to remain on its divergent path, with incoming inflation data supporting further hikes.
- Key risks to global markets include elevated geopolitical tensions, central bank policy missteps and uncertainty around trade policies leading to a reacceleration in inflation or hampering of growth.

2 Portfolio Positioning

As of 30 November 2024

- We have a modest risk-on stance through our overweight to stocks versus bonds.
- Despite broadly elevated equity valuations, we find opportunities in a widening market—supported by easing monetary policy and resilient growth—while bonds remain vulnerable to higher rates.
- Within equities, we favour more cyclical, value-oriented areas of the market as we expect a broadening of participation away from mega-cap technology companies.
- We modestly overweight cash relative to bonds. Cash yields remain attractive even as the BoE embarks on easing as we expect a more gradual path.

3 Market Themes

Here comes Santa pause

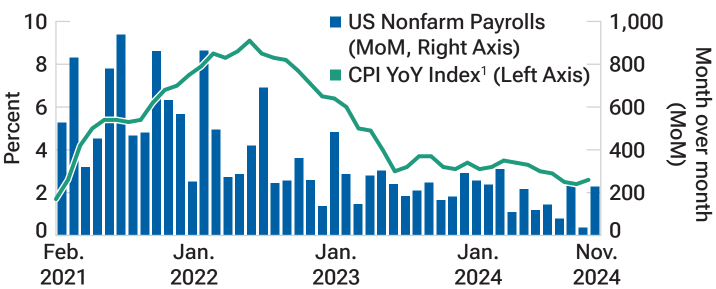
The resiliency of economic growth and rising expectations for pro-growth policies seem to be having an impact on Fed policymakers. Chairman Jerome Powell and other Fed members' recent comments have been notably more upbeat, highlighting the strength of the economy and labour markets, as inflation moves closer to target, calling into question how many more cuts are really needed. While we expect an additional cut this month, it seems likely they will take a 'wait and see' approach from here amid heightened policy uncertainty, some of which could reignite inflation. And while expectations of this easing cycle have moved dramatically up and down over the past few years given the mixed data, its unlikely to get any clearer anytime soon. So while some investors may be disappointed if they get a pause in their stocking this holiday, they may really not like what ultimately could come at the end of it—a potential hike?

Joy to the world?

As we enter the new year, consensus is even stronger that US economic and market exceptionalism will continue their dominance. US election results have fuelled that view as pro-growth policies are expected to boost the domestic economy, while the rest of the world may face headwinds from US trade policies and a stronger dollar. This comes on top of several factors that have been holding back markets outside the US, including weaker growth, political instability, regional wars, demographics and fiscal consolidation, to name a few. But what if all that is going against these markets just happens to not be as dire next year? While it is hard to weigh the risk amid the current policy uncertainty, relative valuations are on their side, and consensus seems extremely bearish, which if things do show some signs of improvement could quickly bring some joy to world equities beyond the US for a change.

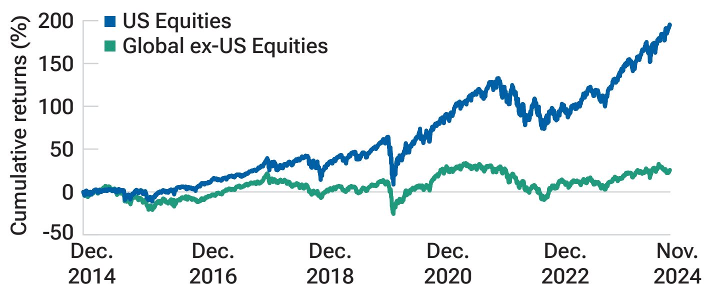
Who needs a rate cut?

As of 30 November 2024



Due for reversal[2]

As of 30 November 2024



Past performance is not a reliable indicator of future performance.

[1] Data to 31 October 2024.

[2] US Equities are represented by the S&P 500 Index. Global ex-US Equities are represented by the MSCI ACWI ex-US Index.
Sources: Bloomberg Finance L.P., S&P and MSCI. Please see Additional Disclosures for more information.

REGIONAL BACKDROP

Region	View	Positives	Negatives
United Kingdom	N	– Monetary policy is expected to ease further – Inflation has moderated – Economic outlook is improving	– Fiscal consolidation may need to be accelerated – Earnings growth is structurally weak, with minimal tailwinds from innovative technologies
Europe	U	– Monetary policy is expected to ease further – Unemployment remains low – Valuations are reasonable	– Economic growth remains weak – Geopolitical uncertainty is heightened – Earnings growth is structurally weak
United States	O	– Corporate earning are resilient – The Fed is cutting rates – There is potential for deregulation and lower corporate taxes	– Stock valuations have become challenging – Credit trends are weakening – Political uncertainty is heightened
Japan	N	– The reflationary environment continues – Corporate governance continues to improve – Valuations are supportive	– Political instability is impacting foreign investment flows – The BoJ will maintain a hawkish bias due to strong wage growth – Manufacturing indicators are weak due to a drop in global demand
Asia Pacific ex-Japan	N	– More stimulus announcements are expected in China, further boosting the equity market – An evident policy shift in China may support domestic sentiment – Australia may also continue to reap benefits from China stimulus measures in the form of increased resources demand	– China's housing sector faces structural challenges that have yet to be addressed – China earnings prospects could undermine the equity rally as policy measures will take time to feed through to the economy – In Australia, government support is positive, but elevated valuations and weak earnings forecasts are not encouraging of the domestic market
Emerging Markets	N	– Further stimulus efforts from China are likely – Monetary policy is loosening in many emerging markets – Valuations are attractive	– Export demand from developed markets remains muted – Geopolitical risks are rising – US tariffs could provide an additional headwind to global trade

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.

UK INVESTMENT COMMITTEE POSITIONING

As of 30 November 2024

▼ 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*		*Neutral*	*Overweight*		
ASSET CLASSES	Equities					■		We see potential for earnings growth broadening as key central banks continue to cut rates, although valuations are increasingly stretched. Artificial intelligence adoption, geopolitics and diverging economic growth trajectories complicate the landscape.
	Fixed Income			■				Yields remain elevated on resilient growth. Moderating inflation and further central bank easing could bias yields lower from here. Credit fundamentals remain supportive; however, spreads remain tight.
	Cash	▲				■		Despite a recent shift downward on the back of BoE easing, cash still provides attractive yields and offers liquidity should market opportunities arise.
			Region					
EQUITIES	US					■		Monetary policy easing, trends towards greater deregulation and removal of election uncertainty could stimulate broader economic activity. Technology and pharmaceutical innovation also remain key differentiators, although valuations are elevated.
	Europe ex-UK			■				Valuations remain attractive. Services inflation is volatile and may surprise on the upside. Economic activity is likely to stay weak, improving over the medium term.
	UK				■			Valuations are appealing. Domestically generated inflation is persistent, but the labour market is less tight. Surveys indicate a re-acceleration of economic growth.
	Japan	▼			■			The reflationary environment continues. Corporate governance improvements continue to support Japanese company fundamentals. However, political instability, a hawkish BoJ and weak manufacturing are headwinds.
	Developed Asia ex-Japan[1]			■				In Australia, government support is positive, but elevated valuations and weak earnings forecasts are not encouraging of the domestic market.
	Emerging Markets				■			Emerging markets (EM) stock and currency valuations are attractive. China's government policy is supportive. However, geopolitical tensions with the US could rise.
			Style and Market Capitalisation					
	Global Growth vs. Value[2]			■				Easing monetary policy and deregulation are likely to be supportive of rate and cyclically sensitive sectors and could lead to a broadening of earnings. Meanwhile, growth stocks face challenging valuations.
	Global Small-Cap vs. Large-Cap[2]				■			Small-caps could benefit from deregulation, stronger merger and acquisition activity and accelerating domestic economic growth. However, a higher-for-longer rate environment will be a challenge.

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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

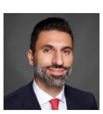
As of 30 November 2024

▼ 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.**
FIXED INCOME	UK Gilts		■				Recovering economic activity, persistent services inflation, accelerating quantitative tightening, large gilt issuance and US spillovers may keep yields under pressure.
	UK Inflation Linked				■		Inflation indicators (services, wages) remain elevated, although the UK labour market has eased a little.
	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			■			Stubborn inflation and a resilient economy could see the Fed cutting rates fewer times 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			■			Despite historically tight spreads, fundamentals remain supportive, and default expectations are expected to remain contained.
	EM Dollar Sovereigns			■			EM sovereign valuations are relatively attractive. Central bank easing also makes for a constructive backdrop, however, trade policy and the path of the US dollar add uncertainty.
	EM Local Currency				■		Central bank easing could provide a tailwind, while US dollar strength poses a headwind.
	EM Corporates			■			The valuations of EM corporates look less attractive given the tight spreads.
CURRENCIES	GBP vs. USD			■			In a benign market environment, the US dollar may soften, particularly from current expensive levels.
	GBP vs. EUR				■		The ECB is likely to cut rates more than the BoE to support economic growth.
	GBP vs. JPY			■			Interest rate differentials continue to favour the GBP. However, given recent volatility in the yen, we prefer to remain neutral.

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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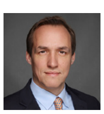

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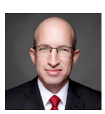

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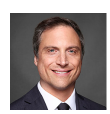

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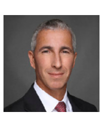

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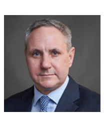

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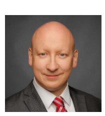

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INVEST WITH CONFIDENCE™

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.

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