T. Rowe Price

Global Asset Allocation: The View From the UK

October 2024

1 Market Perspective

- Economic data are showing resilience as inflation is nearing central banks' targets, providing room for further easing.
- US data are holding up, confirming a soft landing as inflation nears its target. European growth remains modest and bolstered by services, while manufacturing lags. Japanese growth rebounds from contraction earlier in the year contraction, supported by exports. Surveys indicate re-acceleration in UK growth. Chinese policymakers take decisive action to support growth.
- The path of Fed cutting is largely dependent on incoming data, while the European Central Bank (ECB) looks to advance easing as inflation data provide support. The Bank of Japan (BoJ) signals a commitment to its divergent path of rates hikes. The Bank of England (BoE) is likely to cut rates gradually. China cuts rates as part of broad stimulus measures to shore up the economy.
- Key risks to global markets include elevated geopolitical tensions, the upcoming US election, central bank policy missteps and the path of Chinese growth.

2 Portfolio Positioning

As of 30 September 2024

- We remain modestly overweight equities. While valuations are elevated, easing monetary policy, Chinese stimulus measures and potential broadening earnings growth should be favourable for equities.
- Within equities, we remain overweight value based on more attractive relative valuations and as global central bank easing should provide a backdrop for broader market participation.
- We maintain an overweight to cash relative to bonds. Cash yields remain attractive even as the BoE embarks on easing as we expect a gradual path.
- Within fixed income, we continue to underweight government bonds and favour higher-yielding sectors, including high yield bonds and emerging markets bonds.

3 Market Themes

Out of the Woods

The Chinese equity market is up nearly 30% since announcing a larger-than-expected stimulus package intended to help stave off further deterioration in growth and quell concerns about its troubled property sector. The coordinated efforts of the People's Bank of China and financial regulators span across monetary and fiscal measures, including lower rates to support housing and loans to encourage share buybacks. Chinese equities have been a notable laggard this year, reflecting the struggles of policymakers to reverse slumping growth and falling well short of their 5% growth target. And with the potential threats of a shift in US policy on the horizon, their export-heavy economy could find itself under more pressure. So, while the far-reaching measures are a step in the right direction and have been cheered by emerging market investors, the structural headwinds facing China are vast, leaving many skeptical that China is out of the woods just yet.

Hold the Bubbly

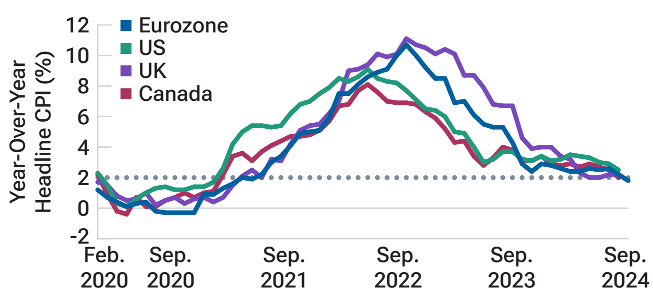
Amongst major central banks, the ECB just saw its first read on inflation below its 2% target, down from an 11% peak in September 2022, freeing up the path to lowering rates further. This is welcome news for other central banks as well, which are seeing similar progress toward their targets. Notably, this progress is being achieved while global growth is holding up, with some areas showing surprising resilience. The forces that had driven inflation higher, including COVID-related supply shortages, excess savings supporting consumer spending and unleashed pent-up demand driving services inflation, have faded. By all measures, it is looking like central bankers may have pulled off the once unthinkable 'soft landing' and should be celebrating. But, unfortunately, the current backdrop of geopolitical tensions and the threat of policy shifts having an impact on growth and possibly reigniting inflation concerns has them holding off on popping the bubbly, for now.

From Laggard to Leader[1]

As of 30 September 2024

Nearing Their Inflation Targets[2]

As of 30 September 2024



Past performance is not a reliable indicator of future performance.

[1] Source: MSCI. Emerging Markets ex-China and China are represented by the MSCI Emerging Markets ex-China Index and MSCI China Index, respectively. Please see Additional Disclosures for more information about this sourcing information.

[2] Source: Bloomberg Finance L.P.

REGIONAL BACKDROP

		Positives	Negatives
United Kingdom	N	– The BoE has begun cutting rates – Inflation has been steadily declining – Economic growth outlook has stabilised	– Fiscal consolidation may need to be accelerated – Tight labour market could keep wage inflation stubbornly high
Europe	U	– Monetary policy is expected to ease further – Inflation has been steadily declining – Unemployment remains low – Equity valuations are attractive	– Economic growth remains weak – Geopolitical uncertainty remains heightened – Earnings growth is structurally weak, with minimal tailwinds from innovative technologies
United States	O	– The Fed has begun cutting rates – Corporate earnings are resilient – Wage growth is moderating to sustainable levels – Recent inflation reports have been favourable	– Stock valuations have become challenging – Economic growth is modest – Consumption trends are weakening – Political uncertainty is heightened
Japan	O	– The reflationary environment remains intact – Corporate governance continues to improve – Valuations are again supportive after a soft third quarter	– The BoJ is maintaining a hawkish bias due to inflation – Equities may face headwinds from a stronger yen
Asia Pacific ex-Japan	N	– A coordinated policy response in China creates a short-term rally opportunity from extreme bearish sentiment and cheap valuations – More fiscal measures are expected by year-end to support China domestic consumption – In Australia, government support to the economy continues to be a net positive	– China's housing sector faces structural challenges that will take time to recover – China corporate earnings prospects may undermine the rally as policy measures will take time to flow through – Australia market pricing appears to be too optimistic about future rate cuts. Elevated valuations and weak earnings forecasts are not supportive of the domestic market
Emerging Markets	N	– China has enacted coordinated stimulus efforts – Monetary policy is loosening in many emerging markets – A weaker US dollar favours emerging markets	– Chinese property deleveraging continues to weigh on activity – Export demand from developed markets remains muted – Geopolitical risks are rising

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 September 2024

▼ or ▲ Month-Over-Month Change

		Underweight		Neutral	Overweight		
	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.**
ASSET CLASSES	Equities				■		Potential for broadening of earnings growth as the Fed cuts rates; however, concerns remain on peaking artificial intelligence (AI) spending, modest economic growth and rising geopolitical tensions.
	Fixed Income		■				Weaker growth, moderating inflation, and central bank easing could bias yields lower, but a lot has been priced in. 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 as the yield curve is fairly flat and offers liquidity should market opportunities arise.
		Region					
EQUITIES	US				■		Valuations are elevated, particularly for mega-cap tech stocks. However, monetary policy easing could stimulate broader economic activity and earnings growth. Technology and pharmaceutical innovation remain key differentiators.
	Europe ex-UK		■				Valuations remain relatively attractive. Services inflation is volatile and might surprise on the upside. Economic activity is likely to stay weak for now but improve medium-term.
	UK			■			Valuations are appealing. A Wage inflation is easing slowly, but services inflation remains persistent.
	Japan				■		Economic indicators are reaching new highs in this cycle. Corporate governance improvements continue to support Japanese company fundamentals.
	Developed Asia ex-Japan[1]		■				In Australia, government support to the economy is positive. Consumer activities are showing some rebound, thanks to a resilient job market. The Reserve Bank of Australia could pivot to a more hawkish tone.
	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 has been supportive of rate-sensitive sectors and could lead to earnings broadening. Meanwhile, growth stocks face elevated expectations, challenging valuations and growing AI scepticism.
	Global Small-Cap vs. Large-Cap[2]			■			Small-caps offer attractive relative valuations and could continue to benefit from a dovish tilt in Fed expectations. However, small-caps could be challenged by a modest economic growth backdrop.

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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 September 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 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				■		Overall yield levels remain attractive, fundamentals remain supportive and default expectations are expected to remain near long-term averages. However, upside beyond carry from further spread compression is limited.
	EM Dollar Sovereigns				■		Yields look modestly attractive; however, higher-quality sovereign spreads look tight. The backdrop is constructive as central banks embark on easing cycles and inflation continues to moderate.
	EM Local Currency				■		Lower inflation and a weaker dollar could continue to be tailwinds, along with the global central bank easing cycle.
	EM Corporates			■			We currently prefer to overweight emerging market sovereigns rather than corporates as credit spreads may widen as the global economy slows.
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.

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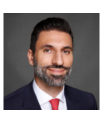
The specific securities identified and described are for informational purposes only and do not represent recommendations.

UK INVESTMENT COMMITTEE



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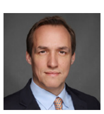

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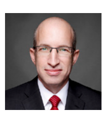

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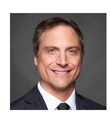

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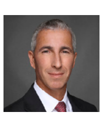

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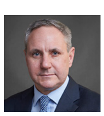

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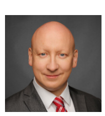

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INVEST WITH CONFIDENCE™

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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