Global Asset Allocation Viewpoints

April 2025

Outlook

- Increased trade policy angst has threatened the resiliency of global growth while stoking fears of inflation, warranting a more cautious stance.
- U.S. growth expectations slowing under weight of uncertainty, while sentiment in Europe and China improving on policy support hopes, despite tariff threats.
- With monetary policy remaining broadly accommodative, disruptive trade policies could force central banks to make uneasy choices to support growth despite threats of higher inflation, which is most pronounced in the U.S.
- Key risks to global markets include escalating trade wars' impact on growth and reaccelerating inflation, central bank missteps, and geopolitical tensions.

Themes Driving Positioning

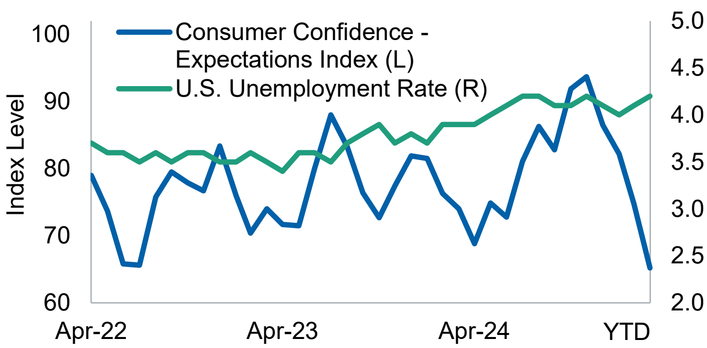
Cold Feet

Almost every measure of consumer and business sentiment, aka "soft data," has notably deteriorated amid rising uncertainty around trade policy. While sentiment usually lags "hard data," like employment and spending, today's soft data is signaling a far more dire outlook than the hard data is implying. The real concern is if businesses and consumers continue to face this level of uncertainty for a prolonged period. If this is the case, they are likely to have cold feet when it comes to investment, purchasing, and hiring decisions. With trade disputes lasting for nearly a year and a half during President Trump's first term, the sentiment could be right this time around, foreshadowing a deeper slowdown in the economy. Given the heightened risk, we continue to **lower our equity exposure.**

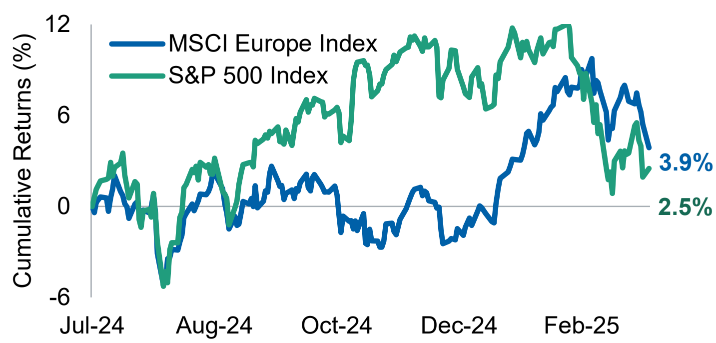
European Vacation?

For most investors, the outperformance in European equities this year has been a big surprise. The start of the year saw Europe facing a bleak economic backdrop, lingering war between Ukraine and Russia, political discord and threats of U.S. tariffs on the horizon. This follows decades of turmoil, including political instability, debt crisis and Brexit, leaving most investors skeptical in allocating to the continent. The recent outperformance, however, comes amid notable policy shifts, including increased fiscal spending from Germany on defense and infrastructure and a more unified commitment from leaders across the region on improving competitiveness. Despite tariff uncertainty, sentiment toward the region has quickly shifted and flows are following. We see this as more than a short vacation, and are **adding to European equities**, on upside potential to capex spending and lending.

Perception vs. Reality



The Great Rotation?



Performance data quoted represents past performance which is not a guarantee or a reliable indicator of future results.
Data as of 31 March 2025 unless otherwise noted.
Sources: Bloomberg L.P., Standard & Poor's and MSCI. Please see Additional Disclosures for more information about this sourcing information.

Asset Class Positioning

Equities

- As uncertainty around trade persists, we trimmed our overweight to equities, but remain modestly overweight supported by still solid earnings growth and potential for pro-growth fiscal policies.
- Within equities, we favor value, which should benefit from a continued broadening away from U.S. large-cap growth, where valuations are more expensive.
- Within regions, we see better opportunities outside of the U.S. on improving sentiment supported by increased fiscal spending as well as dovish central banks.

Bonds

- We maintain a modest underweight position in bonds as we expect rate volatility to persist around mixed growth and inflation data as well as policy uncertainty.
- We remain overweight spread sectors including high yield, emerging market bonds, and floating rate loans on attractive all-in yields. Fundamentals remain supportive, although spreads are vulnerable to impacts of trade uncertainty.
- We added to global bonds outside the U.S. on a USD-hedged basis given attractive yield levels following recent shift upward in rates.

Cash

- We remain modestly overweight cash, as it still provides attractive yields and liquidity.
- Cash could provide liquidity to take advantage of market opportunities amid expected volatility.

Equities: Regional Views

Underweight — *Neutral* — *Overweight*

▼ or ▲ Month-Over-Month Change

	Change	Underweight	Underweight	Neutral	Overweight	Overweight	
U.S.	▼		U				U.S. equities face a difficult near-term environment given extreme policy uncertainty, potentially peaking capex spending, and elevated valuations.
Europe	▲		U				Upside economic surprises, the potential for increased fiscal spending, and reasonable valuations could provide near-term upside. However, the possibility of an extended trade war clouds the outlook.
U.K.					O		Valuations are attractive, and the U.K. is less susceptible to tariffs than continental Europe. Economic growth may be challenged over the near-term, but longer-term outlook is healthy.
Japan	▲				O		Modestly higher inflation coupled with rising wages are welcome changes, given the positive impact on consumption. Corporate governance improvement remains an intermediate-term tailwind.
Canada			U				The possibility of an extended trade war significantly complicates the outlook. However, corporate fundamentals and monetary policy are supportive, and political changes are expected to be business friendly.
Australia			U				Labor market remains very strong and commodity prices improving due to China stimulus. However, valuations are elevated despite tepid earnings growth.
EM					O		Stock valuations are attractive. Global economic growth likely to benefit from monetary policy tailwinds. However, tariff uncertainty is a notable area of concern.
China					O		Credit conditions appear to be bottoming, the housing sector is stabilizing, and further policy support is expected. However, structural challenges remain and tariffs could pose a headwind.

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

Equities: Style & Capitalization Views

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

	Change	Underweight	Underweight	Neutral	Overweight	Overweight	
U.S. Growth			U				AI monetization and capex spend continues to be scrutinized as earnings outlook has begun to deteriorate. Valuations remain elevated despite recent sell-off.
U.S. Value					O		Expectations for deregulation and manufacturing sector improvement supportive of cyclical sectors and could lead to continued broadening of earnings growth, although slower economic growth a risk.
Global Ex-U.S. Growth	▼		U				Growth stocks’ valuations are more expensive and face headwinds from persistent consumer weakness in emerging markets.
Global Ex-U.S. Value	▲				O		A paradigm shift in the fiscal spending outlook combined with still dovish monetary policy and a normalized interest rate environment should catalyze improvement.
U.S. Large-Cap				N			Elevated valuations and concentration risks remain a concern. However, strong fundamentals and healthy free cash flow levels offer a buffer against economic slowdown.
U.S. Mid-Cap					O		Mid-cap offers less exposure to financing risks and more potential for higher quality earnings growth relative to small-caps.
U.S. Small-Cap			U				Economic growth uncertainty and higher-for-longer rate environment have posed challenges. However, potential for deregulation and stronger M&A activity supportive.
Global Ex-U.S. Large-Cap			U				Trade uncertainty and geopolitical risk remain concerns, however, improving stimulus outlook and stabilization in Chinese growth offers support.
Global Ex-U.S. Small-Cap					O		Monetary easing, lower inflation, and less exposure to trade policy could provide tailwinds with still very attractive valuations.
Real Assets					O		Sector offers protection against sticky inflation. Increase in precious metals prices has been beneficial, while peaking shale productivity could ultimately lead to higher oil prices.

Bonds: Regional & Sector Views

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

	Change	Underweight	Underweight	Neutral	Overweight	Overweight	
U.S. Investment Grade (IG)	▼		U				Softer growth weighing on yields, while sticky inflation could keep upward pressure. Within credit, fundamentals supportive, though spreads remain tight.
Developed Ex-U.S. IG (Hedged)	▲				O		Hedged yields more attractive. Lower deficits in key regions outside the U.S. allowing for increased fiscal spend, while central banks have room to cut.
U.S. Long-Term Treasuries				N			Lower growth expectations weighing on yields, however, concerns around stickier inflation and increased fiscal uncertainty remain.
Inflation-Linked				N			Inflation could remain sticky or surprise higher due to effects from tariffs, however, breakeven levels are largely reflective of these risks.
Global High Yield					O		Spreads have widened recently on increased uncertainty but remain tight on supportive fundamentals and still muted default expectations.
Floating Rate Loans					O		Less aggressive Fed cutting path should benefit floating rate loans with valuations attractive and still strong underlying fundamentals.
EM Dollar Sovereigns					O		Sector supported by attractive yields, but risks include tighter financial conditions from a stronger U.S. dollar and rising U.S. interest rates.
EM Local Currency Bonds					O		Attractive yield levels, while U.S. dollar uncertainty and fiscal challenges continue to pose headwinds.

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

Portfolio Implementation

Portfolio implementation reflects the Asset Allocation Committee's tactical market views relative to a hypothetical neutral portfolio, where tactical refers to short-term active shifts, and neutral refers to our long-term asset allocation mix. The information is only intended to represent the views of the Committee and are not to be construed as a recommended portfolio.

Equities	Change	Neutral	Tactical	Relative
U.S. Large-Cap		53.0%	50.5%	-2.5%
U.S. Mid-Cap		6.5	6.8	+0.3
U.S. Small-Cap		6.5	5.6	-0.9
Dev. Ex-U.S. Large-Cap		21.0	20.3	-0.7
Dev. Ex-U.S. Small-Cap		4.0	4.5	+0.5
Emerging Markets		4.0	5.5	+1.5
Real Assets		5.0	6.8	+1.8
Total		**100.0%**	**100.0%**	

Bonds	Change	Neutral	Tactical	Relative
U.S. Core Investment Grade	▼	55.0%	51.3%	-3.8%
Dev. Ex-U.S. IG (Hedged)	▲	15.0	15.8	+0.8
U.S. Long-Term Treasuries		10.0	10.0	0.0
Global High Yield		7.0	9.0	+2.0
Floating Rate Loans		3.0	3.5	+0.5
EM Dollar Sovereigns		8.0	8.3	+0.3
EM Local Currency Bonds		2.0	2.3	+0.3
Total		**100.0%**	**100.0%**	

ADDITIONAL DISCLOSURES

Source: T. Rowe Price. Unless otherwise stated, all market data are sourced from FactSet. Copyright 2025 FactSet. All Rights Reserved.
These are subject to change without further notice. Figures may not total due to rounding.
Neutral equity portfolio weights are representative of a U.S.-biased portfolio with a 70% U.S. and 30% international allocation; includes allocation to real assets equities. Core fixed income allocation is representative of a U.S.-biased portfolio with 55% allocation to U.S. investment grade.
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