



# Asset Allocation Outlook

Sébastien Page, CFA  
Head of Global Multi-Asset and Chief Investment Officer

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# Capital markets: what to watch

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Sentiment

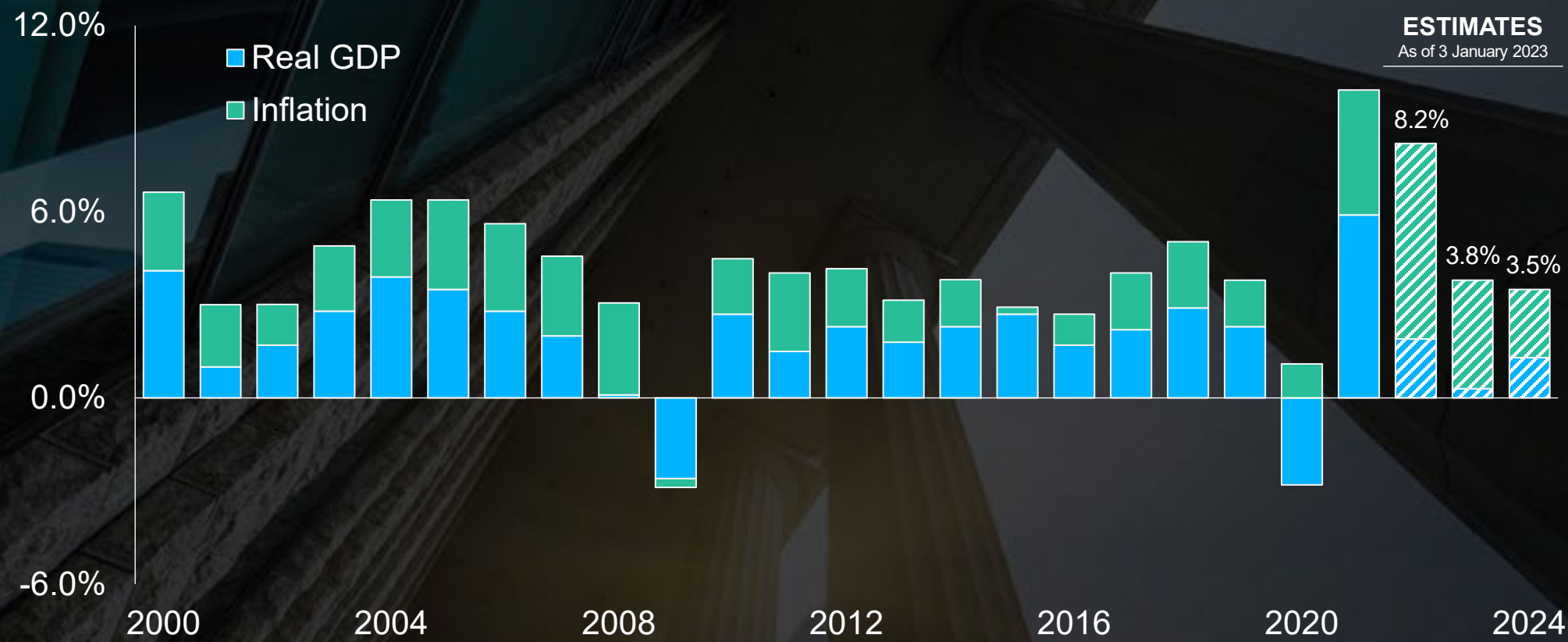
# Macro

# TIPS breakeven yields



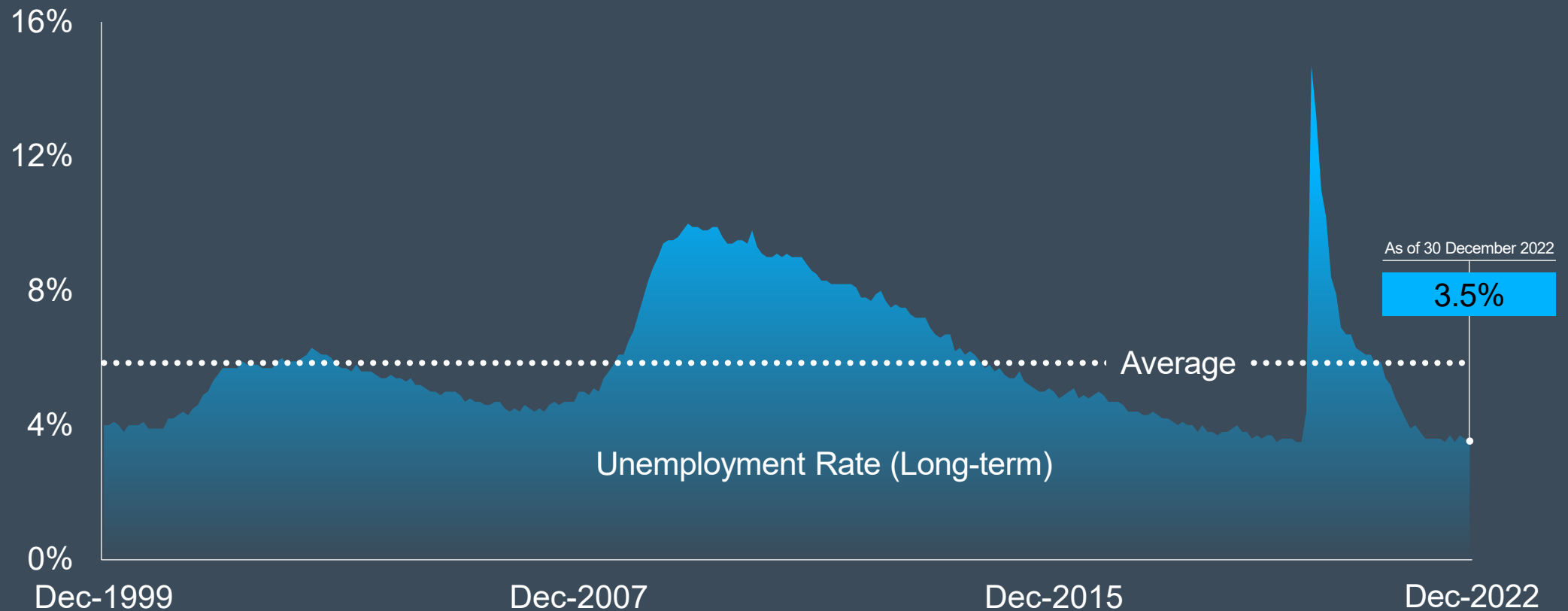
Source: Bloomberg Finance L.P.

# Nominal and real growth



There is no guarantee that any forecasts made will come to pass.  
Source: Bureau of Economic Analysis/Haver Analytics, Bloomberg Finance L.P.; data analysis by T. Rowe Price.

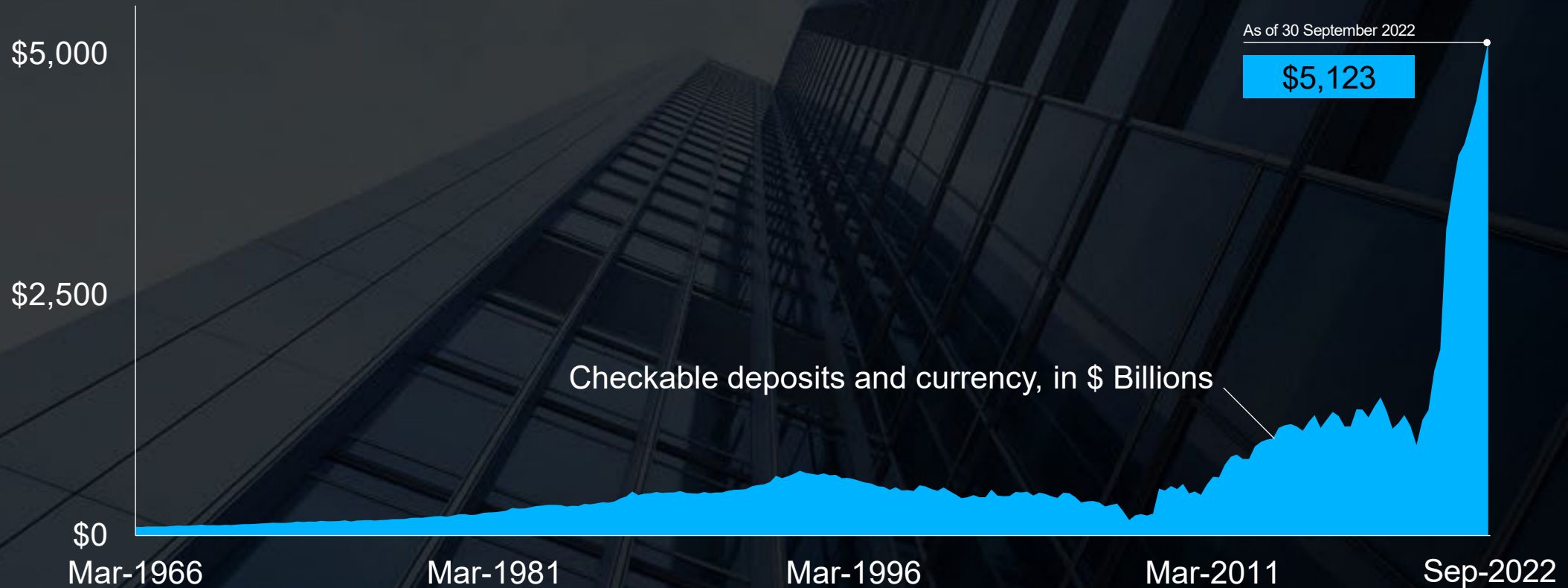
# U.S. Labor market



Source: Bureau of Labor Statistics/Haver Analytics.



# Household accumulated savings

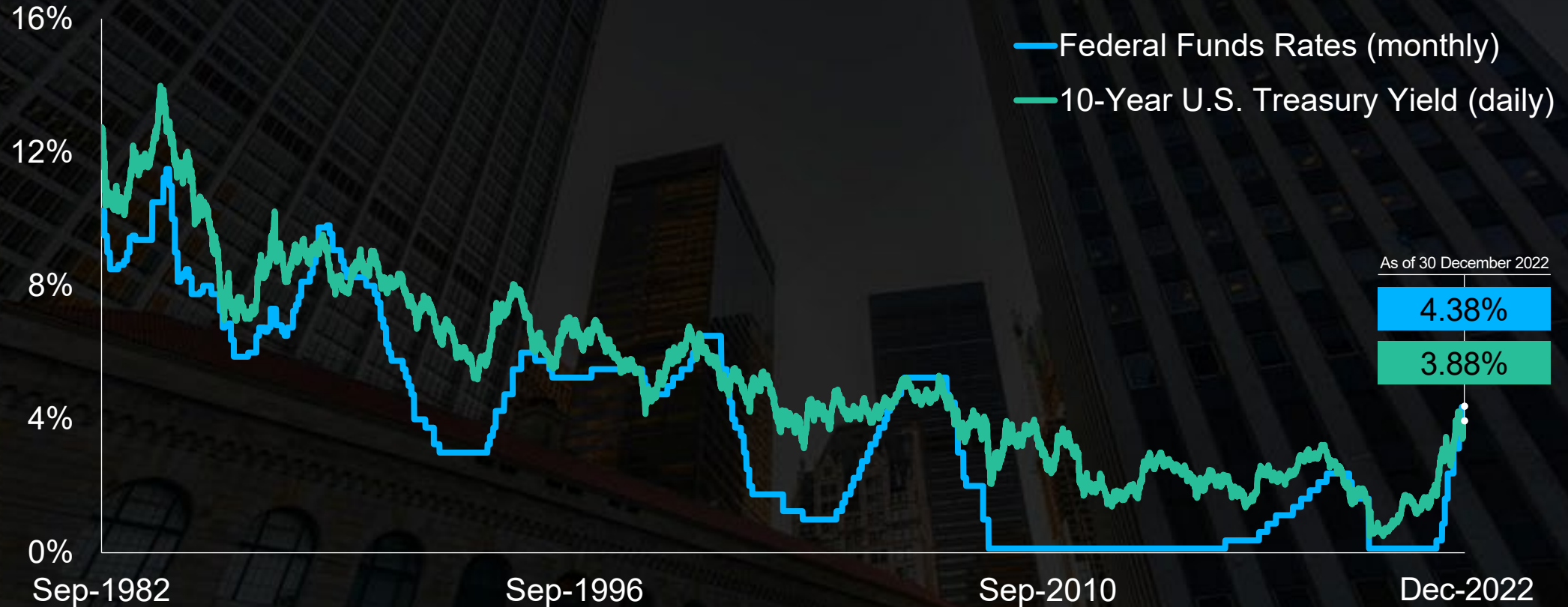


Source: Federal Reserve Board/Haver Analytics.



# Markets

# Interest rates



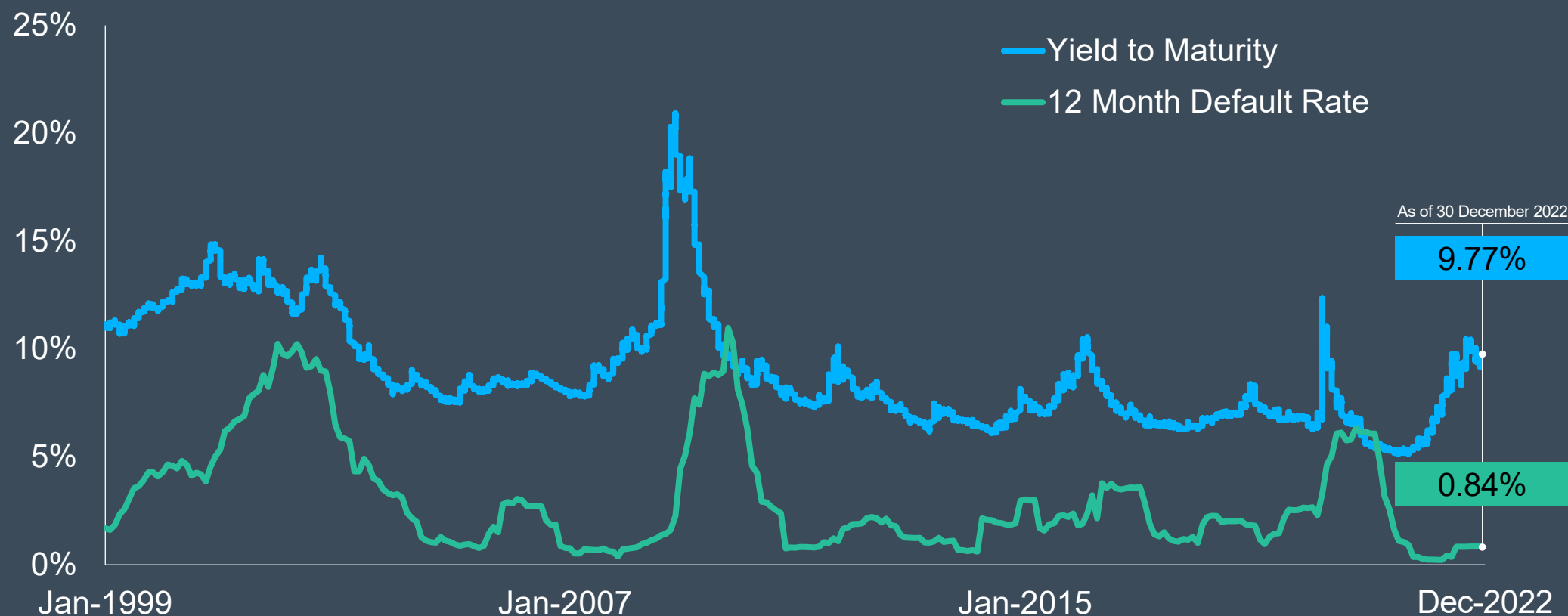
Sources: Federal Reserve Board/Haver Analytics, financial data and analytics provider FactSet. Copyright 2023 FactSet. All Rights Reserved.

# S&P 500 12M forward Price-to-Earnings Ratio



Source: Please see Additional Disclosures for information about this S&P information.

# High Yield default rate and yield-to-maturity



U.S. Default Rate, based on par amount. Yield to Maturity and Default Rate correspond to the J.P. Morgan High Yield Index.  
Source: J.P. Morgan Chase & Co. Please see Additional Disclosures for information about this J.P. Morgan information.

# Relative equity valuations vs. 10-year history

97%

Emerging  
vs. Developed  
Markets



90%

Stocks  
vs. Bonds



57%

Ex-U.S.  
vs. U.S.



32%

International  
Value vs. Growth



26%

U.S. Value  
vs. Growth



22%

International  
Small vs. Large



10%

U.S. Small  
vs. Large



As of 4 January 2023. Valuations reflect percentile rank of differential in P/E between asset class pairs.  
Source: Please see Additional Disclosures for more information on this Bloomberg, FTSE Russell, MSCI, and S&P information and asset class index definitions.



# Relative fixed income valuations vs. 10-year history

99%

EM Local vs.  
Inv. Grade



98%

U.S. Long  
Treasury vs.  
Inv. Grade



74%

EM Dollar vs.  
Inv. Grade



25%

High Yield vs.  
Inv. Grade



2%

Floating Rate  
Loans vs.  
Inv. Grade



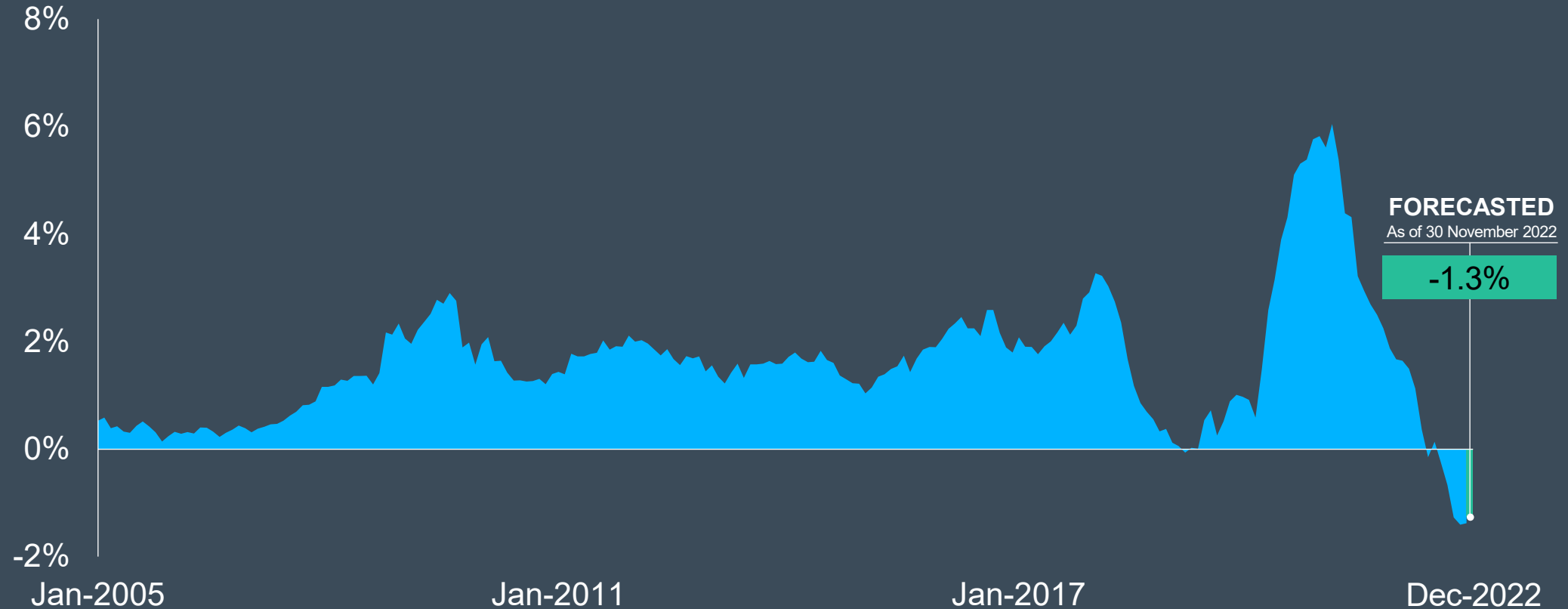
2%

International  
Hedged vs.  
Inv. Grade



As of 4 January 2023. Valuations reflect percentile rank of differential in yield (Yield to Maturity or Yield to Worst) between asset class pairs.  
Source: Please see Additional Disclosures for more information on this Bloomberg and J.P. Morgan information and asset class index definitions.

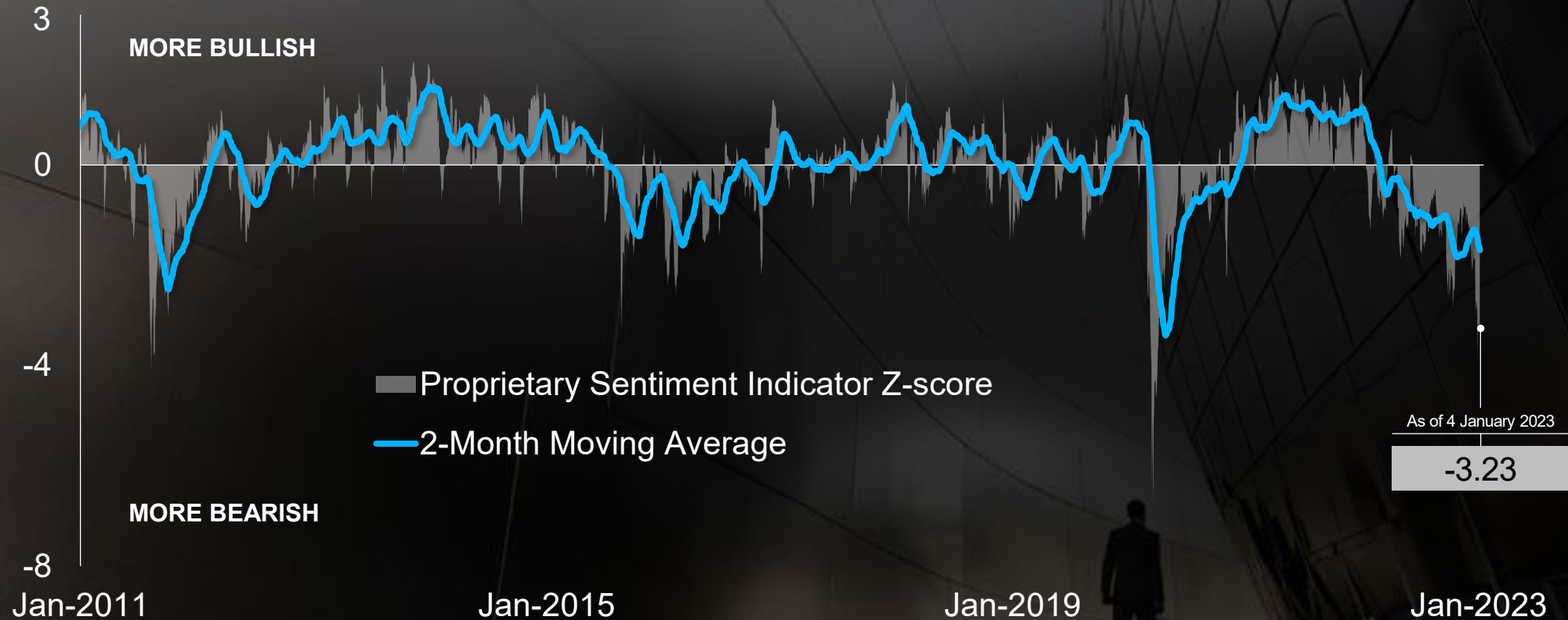
# Global stimulus to asset impulse



There is no guarantee that any forecasts made will come to pass.  
Source: Please see Additional Disclosures for more information on the data sources; data analysis by T. Rowe Price.



# Sentiment and positioning



Sources: Barron's, Commodity Futures Trading Commission, Investment Company Institute/Haver Analytics, Bloomberg Finance L.P.; data analysis by T. Rowe Price.

# Positioning

# T. Rowe Price Multi-Asset positioning

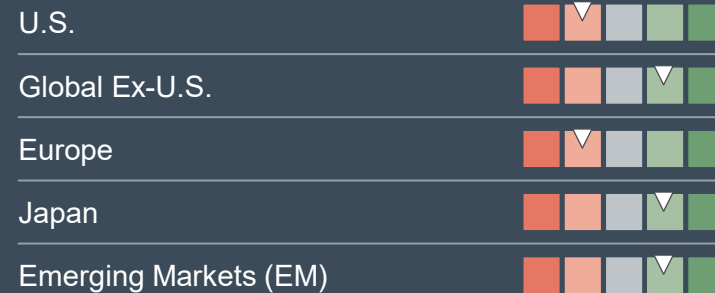
Underweight  
Overweight

▼ As of 31 December 2022

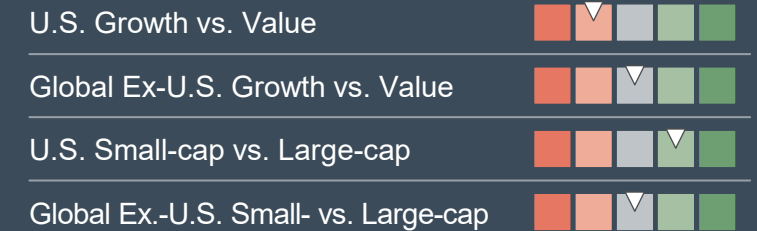
## Equities



### REGIONS



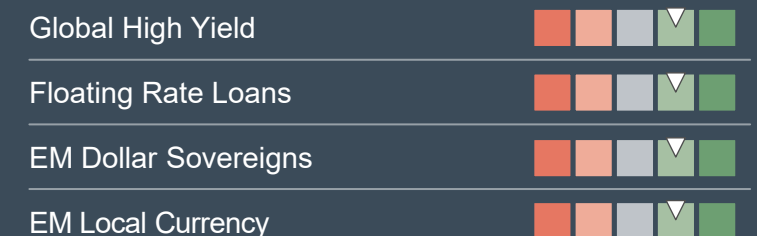
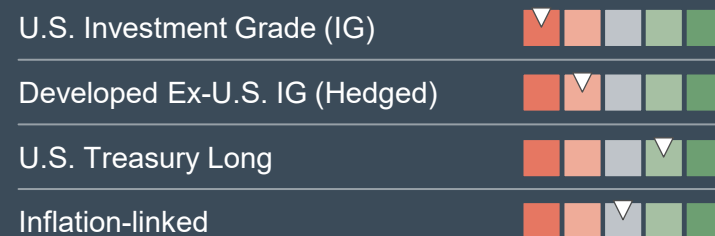
### STYLE & MARKET CAPITALIZATION



### INFLATION-SENSITIVE



## Bonds



## Cautious

We remain defensively positioned due to “sticky” inflation and liquidity withdrawals.

## Consensus

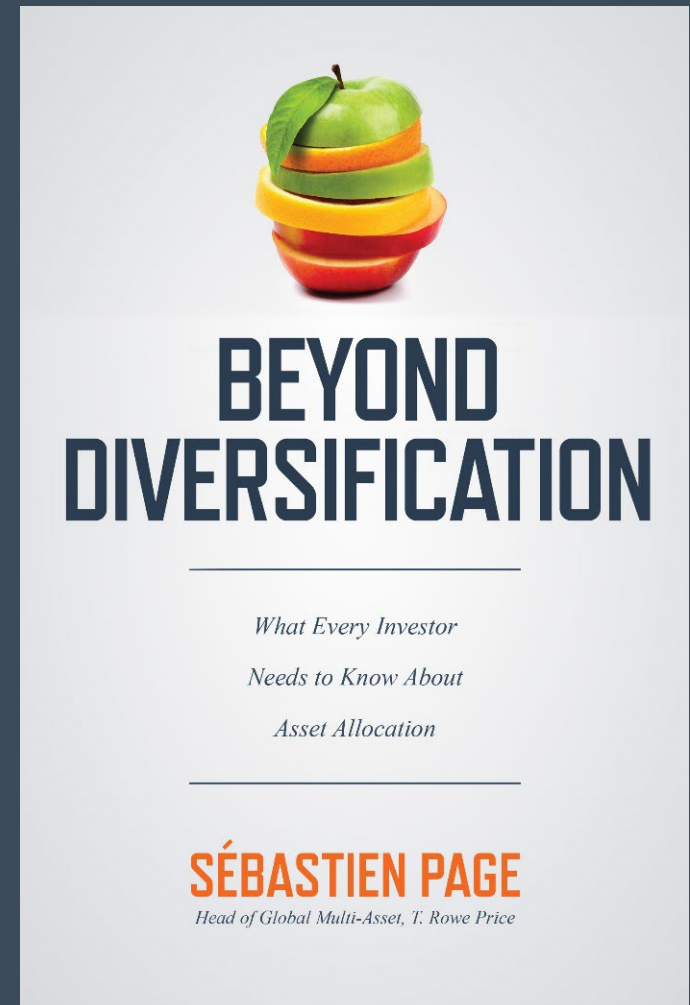
But the gloom-and-doom consensus is starting to get priced-in some asset classes.

## Contrarian

Timing the bottom is difficult and not necessary for those willing to lean against the wind.

For more on my views on these topics, see **Beyond Diversification: What Every Investor Needs to Know About Asset Allocation**, McGraw Hill, 2020.

Proceeds from book sales are donated to the **T. Rowe Price Foundation**, working to alleviate poverty in Baltimore and other cities where T. Rowe Price does business around the world.



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Source: <https://www.linkedin.com/pulse/linkedin-top-voices-finance-15-experts-follow-now-devin-banerjee-cfa/>

# Additional Disclosures

## Slide 8—Household accumulated savings

Data shown is End of Period, Not Seasonally Adjusted.

## Slide 13—Relative equity valuations vs. 10-year history

Indices used include U.S. = Russell 3000 Index, Ex-U.S. = MSCI ACWI ex-USA Index, Emerging Markets = MSCI Emerging Markets Index, Developed Markets = MSCI EAFE Index, U.S. Large Cap = Russell 1000 Index, U.S. Small Cap = Russell 2000 Index, International Large Cap = MSCI ACWI ex-USA Index, International Small Cap = S&P Global Small-cap ex-US Index, U.S. Growth = Russell 1000 Growth Index, U.S. Value = Russell 1000 Value Index, International Growth = MSCI EAFE Growth Index, International Value = MSCI EAFE Value Index, Stocks = Russell 3000 Index, Bonds = Bloomberg U.S. Aggregate Index.

## Slide 14—Relative fixed income valuations vs. 10-year history

Indices used include Inv. Grade = Bloomberg U.S. Aggregate Bond Index, High Yield = J.P. Morgan Global High Yield Index, Floating Rate Loans = J.P. Morgan Leveraged Loan Index, EM Dollar = J.P. Morgan EMBI Global Index, EM Local = J.P. Morgan GBI-EM Global Diversified Bond Index, International Hedged = Bloomberg Global Aggregate Bond Index Hedged USD, U.S. Long Treasury = Bloomberg Long Treasury Index.

## Slide 15—Global stimulus to asset impulse

Sources: Source for Bloomberg index is Bloomberg Index Services Limited. Bloomberg Finance L.P., U.S. Federal Reserve, U.S. Department of the Treasury, European Central Bank, Bank of Japan, and Bank of International Settlements.

Global Stimulus and Global Assets are calculated as: numerator = stimulus and denominator = assets. Numerator = 12m change in (U.S. Fed balance sheet + ECB balance sheet + BoJ balance sheet) + 12m rolling U.S. fiscal deficit + 12m change in Chinese banking system claims. Denominator = 12m average of (global equity market cap + Bank of International Settlements (BIS) total credit to the non-financial sector). Note that Bloomberg Global Aggregate Index is used where BIS data are not yet available.

## Slide 18—T. Rowe Price Multi-Asset positioning

The asset classes across the equity and fixed income markets shown are represented in our Multi-Asset portfolios. Certain style & market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.



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