T.RowePrice®
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints and Investment Environment

JANUARY 2018

1 MARKET THEMES

Growth Momentum Poised to Extend Into 2018

Broad-based global growth momentum continues into 2018, supported by strength outside the U.S., notably in Europe and Japan. Tax policy changes in the U.S. could provide a near-term boost to U.S. profit growth next year, while the longer-term economic impact is less certain. Emerging markets growth could be buoyed by higher commodity prices and improving global trade. Stronger macro backdrop has translated into positive earnings momentum across many regions, particularly Europe, Japan, and emerging markets.

U.S. Dollar May Become a Headwind

The U.S. dollar (USD) finds support after declining for much of the year against major developed and emerging market currencies. Despite higher short-term rates resulting from the Fed's steps toward rate normalization, the U.S. dollar declined through most of 2017 as growth and inflation expectations outside the U.S. improved. The weaker dollar has been a major support for emerging markets, commodity prices and U.S. multi-national companies which may now find the currency a headwind. So too will U.S. dollar-based investors who have seen their foreign asset returns inflated by currency gains this year.

Central Banks May Finally See (Modestly) Higher Inflation

Stronger global growth, tighter labor markets and more stable commodity prices may finally begin to push inflation higher next year providing further support for central banks already unwinding policy. The U.S. Federal Reserve is well into its stimulus reduction process and the European Central Bank recently announced plans to halve its asset purchases beginning next year. The Bank of Japan remains the furthest from achieving its goal, but has been quietly reducing its bond purchases and may modify its target for yield curve control. Emerging markets may also turn more hawkish next year amidst stronger growth and higher inflation.

2 PORTFOLIO POSITIONING

Equity

- We remain modestly underweight equities as valuations are extended and earnings growth expectations appear elevated against a backdrop of improving, yet still modest economic growth and potential for increased volatility as central banks cautiously reign in policy.
- Within capitalization, we increased our overweight to U.S. small-cap stocks based on attractive relative valuations and potential benefits from lower corporate tax rates.
- Within style, we are overweight value-oriented stocks outside the U.S and neutral within the U.S., as signs of more durable and synchronized economic growth, higher interest rates and stabilization in commodity prices should provide support for more cyclical sectors.

Fixed Income

- We moved to an underweight emerging market bonds due to less compelling valuations (Figure 1) and increased political uncertainty amongst several key countries, including Mexico, Turkey, Brazil and South Africa that collectively make up more than 25% of the market. (Figure 2)
- Within EM bonds we favor local currency bonds as select countries may see further upside potential from their currency appreciation.
- We remain underweight high yield bonds as valuations offer limited upside potential from current levels, although fundamentals remain supportive and defaults are expected to remain at low levels. Tax policy impact is mixed as interest deductibility could weigh, while muted supply could provide support.

Real Assets

- We remain underweight real assets equities as we are still cautious on the prospects for energy and commodity prices, given continued concerns over supply and demand imbalances.
- Despite the recent rise, energy prices are likely to remain challenged by rapid production increases and lower input costs among U.S. shale producers.
- Industrial metals prices remain structurally challenged by oversupply and demand as China continues on a slower growth path.
- After lagging broader markets, REITs appear fairly valued relative to earnings expectations and trade at a modest discount to private market net-asset values. Fundamentals remain broadly positive, supported by improving economic environments and limited supply.

FIGURE 1: EM DEBT[1] YIELD TO WORST
Fifteen Years Ending December 31, 2017

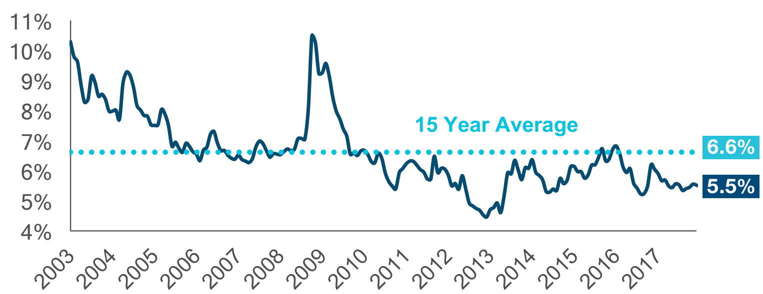
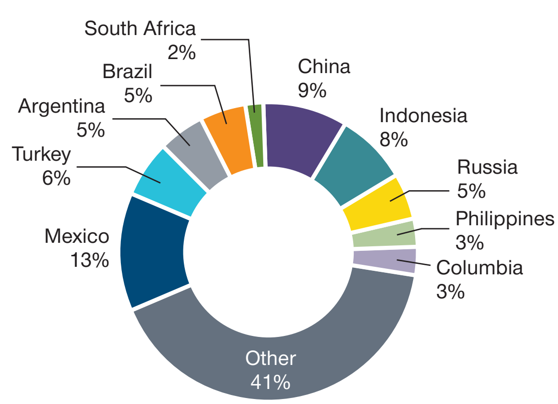


FIGURE 2: EM DEBT[1] INDEX WEIGHTS BY COUNTRY
As of December 31, 2017



[1]Based on the J. P. Morgan Global Emerging Markets Bond Index.
Sources: J. P. Morgan.

FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.

3 Regional Backdrop

As of December 31, 2017

	Macro-Economic	Equity Fundamentals	Interest Rates	Currencies
UNITED STATES	▪ In the later stages of the economic cycle, but recession risks remain low ▪ Inflation likely to trend higher supported by tight labor market ▪ Tax reform and deregulation offer a potential near-term catalyst ▪ Monetary policy unwind continues but at very measured pace	▪ Valuations trending above historical averages ▪ Earnings growth expectations are elevated, offering limited room for upside surprise ▪ Tax reform likely to provide a near term boost to 2018 earnings ▪ Margins may face headwinds from higher interest rates and wages	▪ Yield curve flattening as short-term rates are rising on Fed tightening; longer rates modestly higher amidst improving growth and Fed balance sheet unwind ▪ Markets anticipate three more hikes in 2018, which may be a high bar without evidence of a pickup in inflation	▪ USD supported by rate differential reinforced by improving economic growth and near-term boost from tax reform ▪ Extended economic cycle and wide non-oil external deficits are structural headwinds
DEVELOPED EUROPE	▪ Eurozone business cycle is in earlier stages as compared to the U.S., with growth trending above potential, benefitting from improving global trade ▪ Political risks remerge with Merkel's difficulties in forming a coalition in Germany. Brexit negotiations and Italian elections in 2018 remain a source of uncertainty ▪ ECB takes dovish first steps toward tapering	▪ Valuations are modestly attractive relative to the U.S., provided earnings continue to rebound ▪ Operating leverage provides for further earnings upside potential, with the recent uptrend in earnings expected to continue ▪ Financials in the periphery are challenged, but improving	▪ Rates largely unchanged as ECB signals a modest downshift in policy accommodation ▪ Sustained growth and further evidence of rising inflation could gradually push rates higher	▪ Improved economic outlook and potential ECB action expected to be positive drivers over the near to intermediate term ▪ Cheap valuations are supportive of longer term strength
UNITED KINGDOM	▪ Heightened uncertainty from Brexit negotiations likely to weigh on business confidence ▪ Elevated inflation, driven by currency weakness, could weigh on consumer spending	▪ Valuations relatively attractive following underperformance, high dividend yield ▪ Exporters may benefit from pound weakness ▪ Domestically-driven revenues remain disappointing	▪ BoE raised its base rate by 0.25% to 0.50% in November 2017, the first rate hike in a decade, citing higher inflation ▪ Stabilizing inflation and subdued growth may diminish pressure on BoE to continue raising rates	▪ BoE may be on hold after single rate increase, softening support for the pound. Expect volatility around Brexit negotiations ▪ Longer-term outlook is challenging and uncertain given concerns over post-Brexit growth
DEVELOPED ASIA & PACIFIC	▪ Most economies benefiting from leverage to global growth and trade ▪ Japanese monetary and fiscal policy remain tailwinds, despite some concerns at the BoJ regarding the negative impacts of the extended easy policy ▪ The tight labor market is not yet filtering through to wage growth and consumption spending in Japan, where structural challenges remain daunting ▪ Australian growth is set to accelerate in 2018 on the back of the synchronized global growth and Chinese demand for higher quality commodities	▪ Japanese valuations are relatively attractive despite the recent rally; Australian valuations are also compelling and offer relatively attractive yield ▪ Margins and earnings have upside potential, but remain vulnerable to currency and commodity price volatility ▪ Japanese corporate governance and shareholder returns are improving, but gradually	▪ Rates may trend higher as BoJ acknowledges fewer bond purchases and may look to modestly increase target for yield curve control ▪ Japan's stubbornly low wage growth contributes to benign inflation outlook, keeping yields anchored for the near term ▪ Regional yields are at risk to move higher due to exogenous factors such as the US yield curve	▪ Yen mostly driven by actions of other major central banks while BoJ remains anchored ▪ Aussie dollar susceptible to a pullback in commodities, but likely to remain stable
EMERGING MARKETS	▪ Emerging market growth differential relative to developed economies should improve further on the back of the global recovery ▪ Lower inflation has provided latitude for EM central banks to be accommodative, but may become a headwind next year ▪ Chinese growth likely to trend modestly lower as President Xi Jinping's government emphasizes quality over quantity ▪ Cautious of rising idiosyncratic and political risks in several key countries – including Mexico, Brazil, South Africa and Turkey	▪ Commodity and energy prices have provided stability to commodity exporters—but remain a risk ▪ Earnings boost from technology sector may be fading ▪ Relative valuations modestly attractive versus developed markets yet elevated to own history	▪ Interest rates likely to trend higher as central banks respond to stronger growth, increasing inflation and higher U.S. rates ▪ Significant inflation disparity to remain between commodity producers versus commodity consumers	▪ Broadly cheap valuations are supportive, but near-term headwinds could grow if central banks become less accommodative or Chinese growth softens ▪ Oil-sensitive currencies such as the Malaysian ringgit have scope to benefit from recent strength in oil prices

4 Asset Allocation Committee Positioning

As of December 31, 2017

▼ or ▲ Month Over Month Change

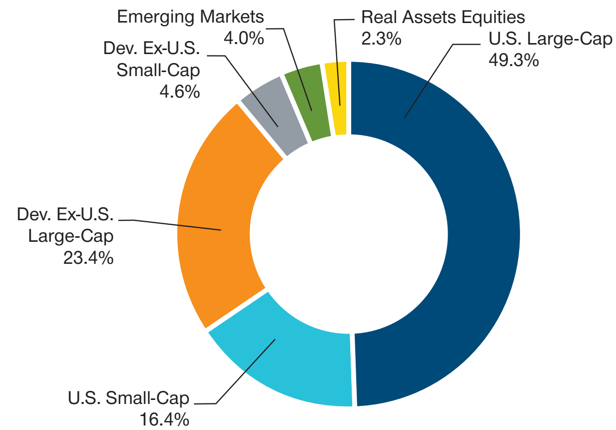
		Change	Underweight	Underweight	Neutral	Overweight	Overweight	These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.
ASSET CLASS	Equities			■				Valuations extended, particularly in the U.S., with elevated earnings expectations. Improving global growth trend supportive
ASSET CLASS	Bonds					■		Despite low yields and extended duration, bonds may still help reduce portfolio volatility. Rates likely to rise gradually with Fed tightening and inflation trending modestly higher
ASSET CLASS	Cash					■		Yields modestly higher on Fed rate hikes, yet still unattractive historically. Cash provides a buffer to the drawdown risk from elevated stock and bond valuations
EQUITIES	*Regions*							
EQUITIES	U.S.			■				Valuations are extended, amid muted economic growth and policy uncertainty. Earnings momentum is positive, but expectations are elevated
EQUITIES	Global Ex-U.S.					■		Modestly attractive valuations relative to U.S., improving economic growth, positive earnings trends and higher beta to global trade
EQUITIES	Europe					■		Modestly attractive relative valuations, stable and improving growth, and positive earnings trends with further potential upside from operating leverage
EQUITIES	Japan						■	Most attractive developed market valuations, progress on corporate reform, supportive monetary policy, and exposure to global trade. Earnings vulnerable to yen volatility
EQUITIES	Emerging Markets				■			Modestly attractive relative valuations, with improving global growth and positive earnings trends. Higher rates, hawkish trade policies and energy price stability are potential risks
EQUITIES	*Style*							
EQUITIES	U.S. Growth				■			Expect secular growers to continue to benefit in low growth environment, but valuations are less attractive after strong outperformance and narrow leadership
EQUITIES	U.S. Value				■			A sustained pickup in economic growth and higher rates would be supportive for cyclical stocks. Financials benefit from decreasing regulation. Tax reform could be near-term catalyst
EQUITIES	Global Ex-U.S. Growth			■				Valuations are above historical averages after strong performance, particularly within cyclically sensitive areas, notably industrials and consumer sectors
EQUITIES	Global Ex-U.S. Value					■		Attractive relative valuation, Eurozone and Japanese economies earlier in the cycle, and improved outlook for European financials
EQUITIES	*Capitalization*							
EQUITIES	U.S. Large-Cap	▼		■				Narrowly driven performance and extended valuations against a backdrop of modest economic growth. Tailwind from weaker U.S. dollar is likely abating
EQUITIES	U.S. Small-Cap	▲				■		Reasonable relative valuations versus large-caps. Pro-growth domestic policies and lower corporate taxes could be catalysts
EQUITIES	Global Ex-U.S. Large-Cap			■				Valuations are reasonable, while earnings growth momentum is strong, particularly in Europe. Improving global trade is also supportive
EQUITIES	Global Ex-U.S. Small-Cap					■		Small-caps may offer higher leverage to improving domestic growth trends, including Europe and Japan
EQUITIES	*Inflation-Sensitive*							
EQUITIES	Real Asset Equities		■					Energy supply/demand imbalances and slower Chinese growth are headwinds. REITs fairly valued, though late cycle in U.S. and vulnerable to rising rates
BONDS	U.S. Investment Grade	▲				■		Despite low yields and extended duration, U.S. yields remain the most attractive among developed markets with Fed likely to advance policy at modest pace
BONDS	Developed Ex-U.S. IG			■				Low yields and long duration create a less attractive outlook for bonds outside of the U.S. European bonds at risk from rising rates as ECB tapers policy
BONDS	Inflation-Linked			■				Inflation expectations likely to rise gradually from current levels, but Fed tightening and stronger dollar should keep inflation contained
BONDS	Global High Yield			■				Limited upside potential from current valuations. Despite late stage of credit cycle, fundamentals remain broadly positive with low default expectations. Tax policy impact mixed as interest deductibility could weigh, while less supply could provide support
BONDS	Floating Rate Loans						■	Floating-rate feature and shorter duration offer defense against rising rates. Fundamentals broadly positive with less energy exposure. Covenant protections declining in new issues
BONDS	EM Dollar Sovereigns	▼			■			Valuation extended and vulnerable to developed market central bank tightening, a stronger U.S. dollar, increased political risk and slower Chinese growth
BONDS	EM Local Currency					■		Yields less compelling following strong rally, but carry still attractive versus investment grade with potential upside from currencies

5 Portfolio Implementation

As of December 31, 2017

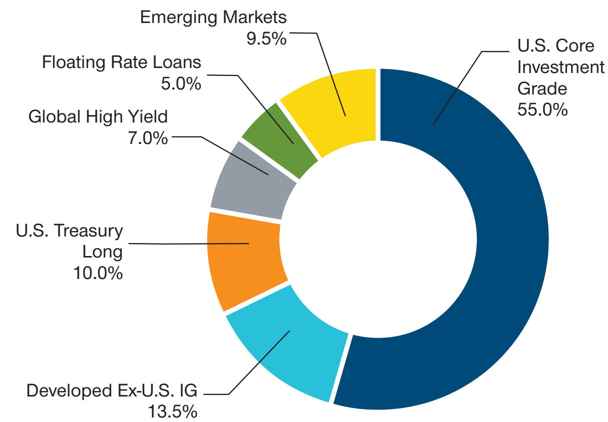
Equity	Neutral Weight	Tactical Weight	Relative Weight
U.S. Large Cap	51.0%	49.3%	-1.7%
U.S. Small Cap[1]	15.0%	16.4%	+1.4%
Dev. Ex-U.S. Large-Cap	21.0%	23.4%	+2.4%
Dev. Ex-U.S. Small-Cap	4.0%	4.6%	+0.6%
Emerging Markets	4.0%	4.0%	0.0%
Real Assets Equities	5.0%	2.3%	-2.8%
Total Equity:	**100.0%**	**100.0%**	

Tactical Allocation Weights



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
U.S. Core Investment Grade	55.0%	55.0%	0.0%
Developed Ex-U.S. IG (Hedged)	15.0%	13.5%	-1.5%
U.S. Treasury Long	10.0%	10.0%	0.0%
Global High Yield	8.0%	7.0%	-1.0%
Floating Rate Loans	2.0%	5.0%	+3.0%
Emerging Markets - (Local/Hard Currency)	10.0%	9.5%	-0.5%
Cash	0.0%	0.0%	0.0%
Total Fixed Income:	**100.0%**	**100.0%**	

Tactical Allocation Weights



Source: T. Rowe Price.
Information presented herein is hypothetical in nature and is shown for illustrative, informational purposes only. It is not intended to be investment advice or a recommendation to take any particular investment action. This material is not intended to forecast or predict future events and does not guarantee future results. These are subject to change without further notice. Figures may not total due to rounding.
Neutral equity portfolio weights 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 representative of U.S. biased portfolio with 55% allocation to U.S. Investment Grade.
Additional Disclosures:
Source for MSCI data - MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.
Source for Bloomberg Barclays index data - Bloomberg Index Services Ltd. Copyright© 2017, Bloomberg Index Services Ltd. Used with permission.
[1] U.S. Small-Cap includes both Small and Mid-Cap allocations.

IMPORTANT INFORMATION

This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, and prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date noted on the material and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

USA: For Institutional Investor Use Only. T. Rowe Price Investment Services, Inc. and T. Rowe Price Associates, Inc.

201801-347299