T.RowePrice®
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints and Investment Environment

SEPTEMBER 2018

1 MARKET THEMES As of August 31, 2018

U.S. VS. MEXICO: A WIN?

The threat of trade wars has dominated the market narrative since the beginning of this year with tensions emerging on multiple fronts between the U.S. and its major trading partners. The recent breakthrough in NAFTA talks with Mexico could provide a blueprint for resolving these trade spats. It could also incentivize Canada to rejoin talks and ultimately close this front, which would allow the U.S. administration to focus on other open-trade negotiations, mainly China. However, the real question is whether this agreement is evidence of Mr. Trump's willingness to reach bilateral agreements, or if the impetus for the deal was a desire by the U.S. to focus its "war" on a single opponent—China.

EMERGING MARKETS: RISK OF CONTAGION?

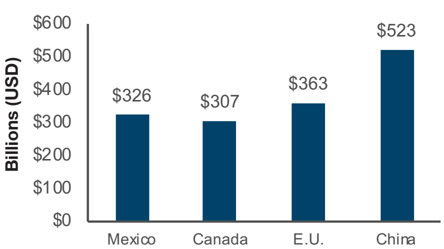
Recent U.S. dollar strength has exacerbated some of the economic weakness in several countries, such as Turkey, Argentina, and South Africa. Most emerging market countries are much less reliant on U.S. dollar funding than they were in the past, lessening the likelihood of a taper tantrum-like event, but countries that have large current account deficits remain vulnerable, particularly in the face of rising inflation, Fed tightening, global trade uncertainty, and China's slowdown. While many of the risks have been brewing for some time, weakness has been spreading, and idiosyncratic issues have begun to shade a greater percentage of the emerging world. However, concerns of a full-blown crisis appear premature at this point as weakness has primarily been focused on the most vulnerable countries.

BULL RUNS THROUGH WALL OF WORRY

Global trade wars, emerging markets currency devaluations, central banks tightening, higher rates, and a stronger dollar have done little to slow the rise of U.S. equity markets, which reached a milestone in late August by becoming the longest bull market in history—surpassing the run in the 1990s. With limited recessionary risks on the horizon and U.S. earnings significantly outpacing the rest of the developed world on the back of taxes and stronger fundamentals, U.S. equity markets have continued their upward trajectory, further diverging from other equity markets. The rally has largely been unloved and underowned as concerns that this could be as good as it gets have trumped the fear of missing out.

U.S. IMPORTS BY COUNTRY/REGION

12 Months Ending May 31, 2018



Source: [IMF] / Haver Analytics.

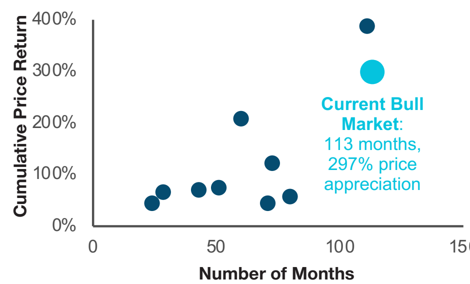
J.P. MORGAN EM CURRENCY INDEX

December 31, 2010–August 31, 2018

Source: J.P. Morgan Chase and Co. Please see additional disclosures on last page.

S&P 500 BULL MARKETS

January 1, 1958–August 31, 2018



Past performance is not a reliable indicator of future performance.

Source: T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved.

2 PORTFOLIO POSITIONING

EQUITY

- We maintain an underweight to equities. While equity valuations are more attractive than levels seen at the start of the year, they remain elevated relative to history against a backdrop of receding global liquidity, tightening financial conditions, an aging U.S. economic cycle and rising trade tensions.
- We remain overweight to U.S. small-caps. Despite a strong year-to-date rally in small-caps, relative valuations versus large-caps remain reasonable. Small-caps could continue to benefit from supportive growth, capex, M&A and earnings growth that is expected to outpace large-caps over the near term.
- We remain overweight global equities outside the U.S. based on more attractive valuations and the potential for greater earnings upside over the intermediate term. However, we remain concerned about the stresses within the European banking sector.

FIXED INCOME

- We added to U.S. dollar denominated emerging markets (EM) debt. Valuations have become attractive, as EM bonds have been punished, in our view, due to currency concerns stemming from the crisis in Turkey as well as trade war fears.
- We are underweight to high yield bonds as valuations appear elevated late in the credit cycle, despite high corporate leverage.
- We favor floating rate loans within the high yield sector. With the Fed expected to continue raising rates this year and into 2019, loans should benefit from their rate-reset feature and shorter-duration profile.

REAL ASSETS

- We remain underweight real assets equities as we are still cautious on the long-term prospects for energy and commodity prices, given continued advances in productivity growth in extractive industries and further signs of a slowdown in China.
- Real estate investment trust (REIT) fundamentals are broadly positive, with muted supply growth and healthy occupancy rates and rental income. However, valuations have become somewhat less attractive, and rising rates may pose a near-term headwind.

FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.

3 Regional Backdrop

As of August 31, 2018

	Macro-Economic	Equity Fundamentals	Interest Rates	Currencies
UNITED STATES	▪ In the later stages of the economic cycle, with recession risks still moderate but rising ▪ Pro-cyclical policies of tax reform and deregulation are driving the current period of strong growth, but late-cycle stimulus may result in overheating ▪ Inflation and labor costs gradually rising amid tighter labor markets ▪ Aggressive trade policy poses a significant and growing risk but may ultimately be limited in scope	▪ Valuations above historical averages, with significant bifurcation between winners and losers ▪ Earnings are very strong, but current pace of growth unlikely to be sustainable and may ease from current level ▪ Margins are likely to face headwinds from higher rates, wages and input costs ▪ Earnings disappointments are being harshly punished	▪ Short-term rates rising in unison with Fed rate increases, which could extend into 2019 ▪ Longer rates are stable but biased slightly higher amidst above potential growth, the expanding budget deficit, and Fed balance sheet unwind	▪ The dollar has benefited further from flight to quality over the summer, particularly as the crisis in Turkey escalated ▪ Amid signs that U.S. growth indicators are fading relative to global growth and optimism that trade tensions may ease, the U.S. dollar may weaken over the near term
DEVELOPED EUROPE	▪ Eurozone growth is moderating but is expected to stabilize and remain above potential with downside risks from trade disputes ▪ Upcoming elections in Sweden, where a populist party is likely to do very well, could bring political instability concerns back to the forefront ▪ The Italian budget remains the key focus, with sovereign credit concerns heightened until there is greater visibility on the fiscal path	▪ Valuations are modestly attractive relative to the U.S. ▪ Operating leverage offers further earnings upside potential, with the recent uptrend in earnings expected to continue ▪ European banks are still significantly weaker both on an absolute basis and versus the broader market for the year, with Turkey and Italy worries likely to weigh on the sector	▪ Recent euro weakness and further evidence of rising inflation could gradually push rates higher ▪ Italian debt continues to be sold at a record pace among fears that the coalition government will increase fiscal borrowing in its first budget	▪ Political risks, European Central Bank (ECB) policy, and relatively lackluster activity data have continued to restrain the euro versus the dollar ▪ Valuations remain attractive as do both the medium-term economic and ECB policy trajectories versus the U.S. dollar and other currencies
UNITED KINGDOM	▪ Economic growth appears strong, with low unemployment, reasonable wage growth and limited degrees of slack ▪ With the summer recess ending, September negotiations will be critical for a successful post-Brexit transition ▪ Both the UK and the European Union have stepped up planning for a "no deal" situation, a risk that significantly increased in August	▪ Valuations continue to trade at a discount to global equity markets ▪ Allocations to UK equities by global investors are at extremely low levels	▪ As expected, the Bank of England (BOE) increased the base rate in August from 50bps to 75bps ▪ Over the next year, rates will be heavily dependent on Brexit negotiations and the exit process	▪ Despite a modestly more hawkish BOE of late and attractive valuations versus history, we remain concerned over the implications of the political and economic outlook both before and after Brexit
DEVELOPED ASIA & PACIFIC	▪ Trade-driven economies are healthy but slowing, as global growth continues to moderate ▪ The slowdown in Japan has continued although a near-term rebound seems likely, absent any external shock ▪ Australian economic activity is healthy, but banking and housing markets are areas of concern	▪ Valuations within the region remain attractive relative to other developed markets, but earnings remain vulnerable to a slowdown in global trade ▪ Japanese equities remain supported by better relative valuations, strong earnings growth, and gradually improving corporate governance ▪ Australian equities face challenges due to weakness in the financials sector and commodity price uncertainty	▪ A continued gradual rise in global yields could impact long rates in the region ▪ The Bank of Japan (BOJ) continues to hold its accommodative policy, with no meaningful change expected in the near-term, despite rumors to the contrary ▪ RBA appears to be delaying its next rate increase	▪ The yen has recently seen support from the potential for a more active BOJ vis-a-vis its yield curve control program ▪ On a medium-term view, the yen remains cheap and external positions are supportive ▪ The Australian dollar has remained soft on the back of noisy domestic politics and ongoing China growth concerns
EMERGING MARKETS	▪ The U.S.-China trade war remains an overhang, with no near-term easing of tensions in sight ▪ Economic momentum in China is fading, but policy makers will likely continue to respond with accommodative measures ▪ Idiosyncratic and political risks remain elevated in several key countries but do not appear to be systemic although a continued strengthening of the U.S. dollar would potentially have a meaningful impact more broadly across EM	▪ Valuations are considerably more attractive, as equities have sold off on trade concerns, U.S. dollar strength, and the currency crisis in Turkey ▪ Earnings growth remains broadly strong, with ROEs improving ▪ Global trade risks remain an overhang, as external demand remains vitally important to many EM companies	▪ Interest rates trending higher as financial conditions tighten in response to rising inflation and higher U.S. rates ▪ Many central banks have shifted toward a tightening bias	▪ The dislocation in Turkish assets earlier this month has driven EM currency valuations to extremely cheap historic levels ▪ The Turkish lira still looks vulnerable to heightened geopolitical risks ▪ In contrast, some EM FX look to have oversold in this episode (RUB, ZAR) and may recover from oversold levels ▪ The Mexican peso could also benefit from the apparent breakthrough in trade negotiations with the US

4 Asset Allocation Committee Positioning

As of August 31, 2018

▼ or ▲ Month Over Month Change

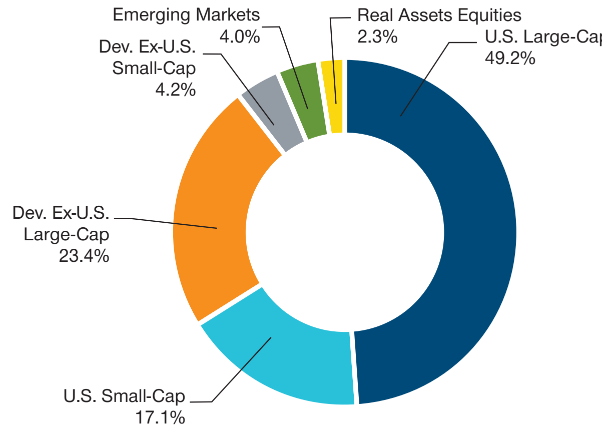
		Change	*Underweight*		*Neutral*	*Overweight*		**These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.**
ASSET CLASS	Equities			■				Valuations remain elevated against a backdrop of receding global liquidity, tightening financial conditions, an aging economic cycle in the U.S., and rising trade tensions
ASSET CLASS	Bonds					■		Upward trend in rates may be tempered by demand for yield, still modest growth expectations and increased volatility surrounding trade policies
ASSET CLASS	Cash					■		Yields more attractive as Fed raises rates. Cash can provide a buffer against extended stock and bond valuations
	Regions							
EQUITIES	U.S.			■				Valuations slightly elevated to history, with narrow market leadership. Earnings supported by strong revenue growth, yet likely to moderate from elevated levels
EQUITIES	Global Ex-U.S.					■		Attractive valuations relative to U.S., above-potential economic growth, and positive earnings trends. Increased risks from trade wars and weakness in European financials
EQUITIES	Europe					■		Modestly attractive relative valuations and earnings upside potential from operating leverage offset by rising political risks, moderating economic growth, and banking system weakness
EQUITIES	Japan				■			Valuations remain attractive, but dependence on global trade is a headwind as global growth momentum has peaked and trade war concerns loom
EQUITIES	Emerging Markets				■			Attractive relative valuations and healthy earnings are offset by U.S. dollar strength, rising rates, hawkish trade policies, and country-specific risks
	Style							
EQUITIES	U.S. Growth				■			Expect growth companies to benefit in a structurally low-growth environment. While valuations are elevated, leadership has been narrow, and trade policy could impact tech supply chains
EQUITIES	U.S. Value				■			Valuations attractive, with potential support from fiscal stimulus. However, late-stage credit-cycle, flat curve, and peaking deregulation could weigh on financials
EQUITIES	Global Ex-U.S. Growth			■				Relative valuations are above historical averages, particularly within cyclically sensitive areas, most notably industrials
EQUITIES	Global Ex-U.S. Value					■		Relative valuations are attractive, but fundamentals have weakened, most notably within European financials
	Capitalization							
EQUITIES	U.S. Large-Cap			■				Valuations still above historical levels, although optically less expensive on peak earnings growth. Tailwind from a weak dollar has faded, and trade policy remains a threat
EQUITIES	U.S. Small-Cap					■		Reasonable valuation; less vulnerable to trade policy and could benefit from tax-related capex spending and a pickup in mergers and acquisitions
EQUITIES	Global Ex-U.S. Large-Cap					■		Valuations are attractive relative to small-caps, with earnings upside potential due to depressed margins. Cautious on trade policy risks and fading global growth
EQUITIES	Global Ex-U.S. Small-Cap			■				Valuations have become more challenging and may be susceptible to fading liquidity, while domestic growth trends are healthy but moderating
	Inflation-Sensitive							
EQUITIES	Real Asset Equities		■					Energy supply/demand imbalances and fading Chinese metals demand remain headwinds. REIT valuations and fundamentals are relatively attractive but vulnerable to rising rates
BONDS	U.S. Investment Grade					■		Yields are more attractive since start of the year, with risk moderated due to limited upside potential from growth and inflation
BONDS	Developed Ex-U.S. IG (Hedged)			■				Expanding short-rate differential between U.S. and other developed markets has made hedged U.S. dollar yields more attractive, but durations remain extended
BONDS	Inflation-Linked					■		Inflation expectations have reset higher, making valuation uncompelling. Tight labor markets are a growing tailwind but have thus far had a muted effect on CPI
BONDS	Global High Yield			■				Limited upside potential from current valuations. Despite late stage of credit cycle, near-term default expectations remain low
BONDS	Floating Rate Loans					■		Fundamentals supportive, and rate-reset feature could offer defense against rising rates. However, loan terms have weakened, and strong flows have crowded a less liquid sector
BONDS	EM Dollar Sovereigns	▲			■			Yields are attractive relative to fundamentals after recent selloff. U.S. dollar strength and rising country-specific risks are concerning but unlikely to become systemic
BONDS	EM Local Currency					■		Many EM currencies have been unduly punished amid concerns surrounding the crisis in Turkey, making valuation very attractive in select areas

5 Portfolio Implementation

As of August 31, 2018

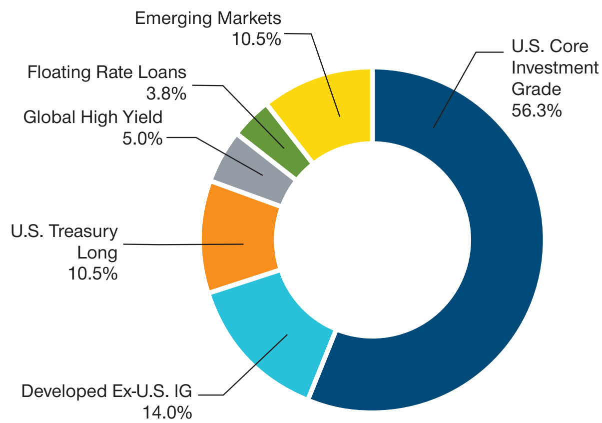
Equity	Neutral Weight	Tactical Weight	Relative Weight
U.S. Large Cap	51.0%	49.2%	-1.8%
U.S. Small Cap[1]	15.0%	17.1%	+2.1%
Dev. Ex-U.S. Large-Cap	21.0%	23.4%	+2.4%
Dev. Ex-U.S. Small-Cap	4.0%	4.2%	+0.2%
Emerging Markets	4.0%	4.0%	0.0%
Real Assets Equities	5.0%	2.3%	-2.8%
Total Equity:	**100.0%**	**100.0%**	

Tactical Allocation Weights



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
U.S. Core Investment Grade	55.0%	56.3%	+1.3%
Developed Ex-U.S. IG (Hedged)	15.0%	14.0%	-1.0%
U.S. Treasury Long	10.0%	10.5%	+0.5%
Global High Yield	8.0%	5.0%	-3.0%
Floating Rate Loans	2.0%	3.8%	+1.8%
Emerging Markets - (Local/Hard Currency)	10.0%	10.5%	+0.5%
Total Fixed Income:	**100.0%**	**100.0%**	

Tactical Allocation Weights



[1] U.S. Small-Cap includes both Small and Mid-Cap allocations.
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:

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.

201809-597210