T.RowePrice®
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints and Investment Environment

MARCH 2019

1 Portfolio Positioning

As of February 28, 2019

Going to Growth as Growth Slows

- We further **reduced our exposure to developed market value stocks outside the U.S.** in favor of growth as value-oriented sectors within those regions may be challenged by moderating growth.
- We continued to **add back to high yield bonds** as they can offer attractive carry and potentially reduced downside relative to stocks.
- We continued to **pare floating rate loans** as short-term rates in the U.S. may have limited upside with the Fed on hold.

2 Market Themes

As of February 28, 2019

Bonds vs. Stocks: Who's got it right?

The bond market reflects a downbeat outlook with a flat Treasury curve and yields remaining well off their November highs, reflecting persistent uncertainty, weakening economic data, and that we are late in a protracted cycle. However, despite declining earnings expectations for this year, the MSCI All Country World Index is up almost 11% since the start of the year, led by cyclical stocks. Equity investors seem enamored with a more dovish Fed and progress toward a trade deal between the U.S. and China. Clearly, stock and bond markets are signaling a very different story, but which one of them will ultimately be right?

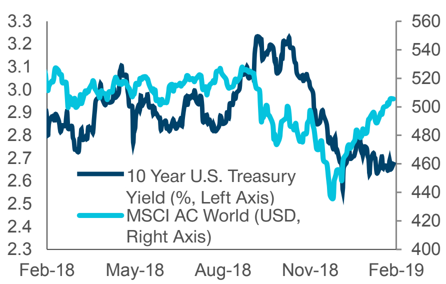
U.S. (Earnings) Recession?

While the probability of a near-term U.S. recession remains low and fears of a policy mistake have subsided in light of the more dovish tone from the Fed, the earnings growth outlook remains in question. After growing more than 20% in 2018, boosted by strong topline growth and tax reform, analysts have been revising 2019 earnings growth estimates downward. Current expectations are for an outright decline in the first quarter and low single-digit growth for the following two quarters. Historically, earnings estimates trend lower as the quarter approaches, but this year's revisions have been unusually sharp. With 2018 tailwinds fading, it's challenging to identify a catalyst in the current environment for a reacceleration of earnings.

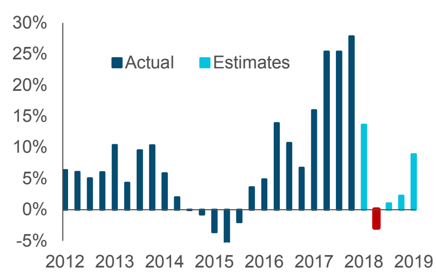
ECB: No Dry Powder

It's been a tough few months for the eurozone economy with growth at a four-year low and the ECB conceding that risks to growth have "moved to the downside." Economic data continue to disappoint as exporters have come under pressure from the slowdown in Chinese growth. Not only is growth weakening, but inflation remains subdued, leaving little room for the ECB to normalize the current ultra-loose monetary policy. With growth slowing and threats of U.S. tariffs on autos looming, there have been talks of a new round of stimulus to boost liquidity. Policymakers have very few tools remaining should the region's economy come under further pressure, and Mario Draghi may end his term without ever raising rates.

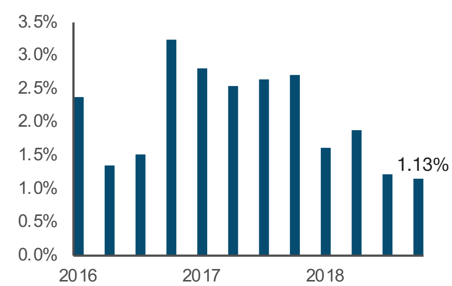
10 Year U.S. Treasury Yield vs. MSCI AC World
Quarter-Over-Quarter, Annualized
One Year Ended February 28, 2019



S&P 500 Quarterly Earnings
Year-Over-Year Growth
January 1, 2012 to February 28, 2019



European Union GDP Growth
Quarter-Over-Quarter, Annualized
January 1, 2016 to December 31, 2018



Past performance is not a reliable indicator of future performance.
Sources: MSCI, FactSet, Haver Analytics/EuroStat.
Please see the Additional Disclosures on final page for information about this MSCI information.

3 Regional Backdrop

As of February 28, 2019

United States

Positives

- More dovish Fed, stable inflation
- Healthy consumer spending, improving wages
- Positive tone on trade
- Greater share of secularly advantaged companies than rest of world

Negatives

- Moderating economic growth with fading fiscal stimulus
- Late-cycle concerns: tight labor market, rising wages, and elevated margins
- Political uncertainty and trade tensions
- Deteriorating near-term earnings expectations

Europe

Positives

- Highly accommodative monetary policy
- Indirect beneficiary of China stimulus
- Political headwinds in Italy and France have eased

Negatives

- Eurozone economy struggling, with limited scope for ECB to respond
- Export weakness, vulnerable to trade and China growth
- Political unity remains a concern with Brexit looming
- Banking sector remains challenged

Developed Asia/Pacific

Positives

- BOJ committed to aggressive policy, RBA on hold in face of rising inflation
- China stimulus could support regional trade
- Broadly attractive valuations, particularly in Japan
- Improving corporate governance trends in Japan

Negatives

- Highly exposed to slowing global economic growth and trade tensions
- Japanese economic and earnings growth have been weaker than hoped
- Stronger yen on risk aversion could weigh on exports
- Australia facing slowing economy with weakness in housing

Emerging Markets

Positives

- Muted inflation, dovish Fed give central banks flexibility to ease
- China stimulating in face of slowdown and trade
- Idiosyncratic risks have faded (e.g., Brazil, Turkey)
- With growth in tech sector, less tied to commodity cycle

Negatives

- China growth trajectory remains a headwind
- China stimulus more measured and domestically focused
- Highly linked to global trade
- Currencies face renewed pressure
- Near-term earnings expectations deteriorating

4 Asset Allocation Committee Positioning

As of February 28, 2019

▼ or ▲ Month-Over-Month Change

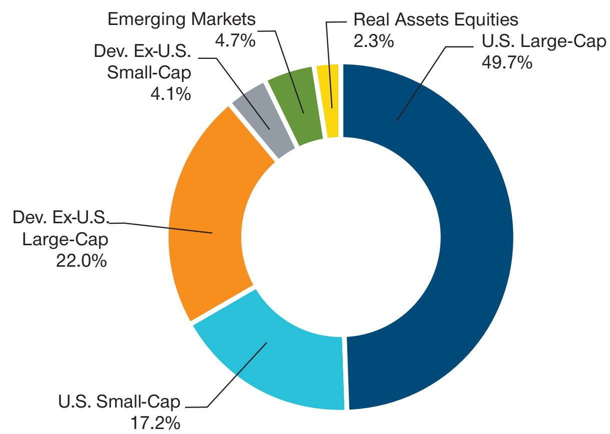
		Change	Underweight	Underweight	Neutral	Overweight	Overweight	**These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.**
ASSET CLASS	Equities	▼		■				Fundamentals and valuations are reasonable, but cycle is aging, earnings expectations are falling, and trade remains a risk
ASSET CLASS	Bonds	▲				■		Yields range-bound with modest inflation and Fed on hold. Credit fundamentals broadly supportive amid elevated leverage and moderating earnings
ASSET CLASS	Cash				■			U.S. yields most attractive among developed markets but may have peaked with Fed on hold
	Regions							
EQUITIES	U.S.	▲		■				Earnings growth moderating with valuations fair. U.S. market less vulnerable to slowing global growth
EQUITIES	Global Ex-U.S.	▼				■		Valuations attractive relative to history amid concerns over slowing global growth and trade
EQUITIES	Europe	▼			■			Growth outlook weakening amid concerns over exports, banking system, and elevated political risks
EQUITIES	Japan				■			Trends in corporate governance and monetary policy supportive. Export dependency and stronger yen potential headwinds
EQUITIES	Emerging Markets					■		Sentiment improving on more dovish Fed, softer U.S. dollar expectations, China stimulus measures, and easing trade tensions
	Style							
EQUITIES	U.S. Growth					■		Secular growth companies offer more durable growth in lower-growth environment, but valuations remain above historical averages
EQUITIES	U.S. Value			■				Cheap valuations but lack catalyst with moderating economic growth and flat yield curve
EQUITIES	Global Ex-U.S. Growth	▲				■		Quality growth bias, less exposed to global growth slowdown. Valuations have moderated and are in line with history
EQUITIES	Global Ex-U.S. Value	▼		■				Cyclical orientation and financials exposure challenged by persistently low-rate environment and fading growth outlook
	Capitalization							
EQUITIES	U.S. Large-Cap			■				Softening earnings environment and global trade linkage are risks with valuations trending above historical averages
EQUITIES	U.S. Small-Cap					■		Valuations modestly attractive, less exposed to trade and global growth concerns. High leverage and wage pressure are risks
EQUITIES	Global Ex-U.S. Large-Cap					■		Reliant on strength of global trade. Upside dependent on impact of China stimulus
EQUITIES	Global Ex-U.S. Small-Cap			■				Susceptible to domestic growth trends. Political uncertainty weighing on corporate and consumer confidence in key markets
	Inflation-Sensitive							
EQUITIES	Real Assets Equities		■					Declining global growth outlook could weigh on commodities. U.S. REITs supported by healthy fundamentals and stable rates outlook
BONDS	U.S. Investment Grade	▼				■		Yields remain low with limited concerns from growth and inflation upside. IG corporate spreads wider yet still tight relative to history
BONDS	Developed Ex-U.S. IG (Hedged)			■				Large short-rate differential between U.S. and other developed markets has made hedged USD yields more attractive, but durations remain extended
BONDS	Inflation-Linked					■		Inflation expectations remain low on slower growth and lower energy prices, making valuation more compelling but lacking catalysts
BONDS	Global High Yield	▲		■				Yield carry attractive with near-term default expectations low but late stage of credit cycle a risk
BONDS	Floating Rate Loans	▼			■			Rate reset feature less attractive with Fed on hold. Loan terms have weakened and liquidity a risk
BONDS	EM Dollar Sovereigns				■			Yields are attractive relative to fundamentals supported by slower Fed path and fading country-specific risks
BONDS	EM Local Currency					■		Despite healthy rebound, EM currencies valuation remains attractive in select areas

5 Portfolio Implementation

As of February 28, 2019

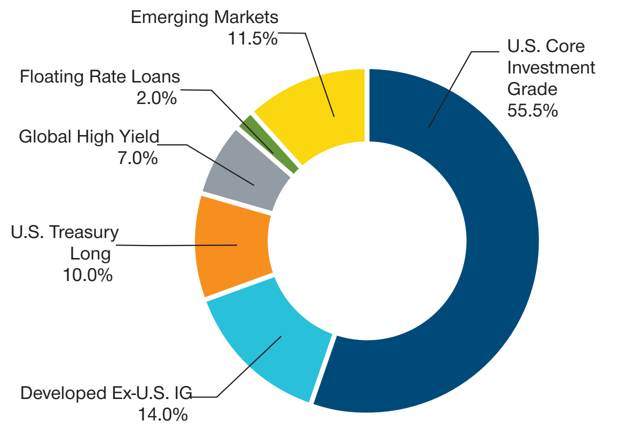
Equity	Neutral Weight	Tactical Weight	Relative Weight
U.S. Large-Cap	51.0%	49.7%	-1.3%
U.S. Small-Cap[1]	15.0	17.2	+2.2
Dev. Ex-U.S. Large-Cap	21.0	22.0	+1.0
Dev. Ex-U.S. Small-Cap	4.0	4.1	+0.1
Emerging Markets	4.0	4.7	+0.7
Real Assets Equities	5.0	2.3	-2.8
Total Equity:	**100.0%**	**100.0%**	

Tactical Allocation Weights



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
U.S. Core Investment Grade	55.0%	55.5%	+0.5%
Developed Ex-U.S. IG (Hedged)	15.0	14.0	-1.0
U.S. Treasury Long	10.0	10.0	0.0
Global High Yield	8.0	7.0	-1.0
Floating Rate Loans	2.0	2.0	0.0
Emerging Markets - (Local/Hard Currency)	10.0	11.5	+1.5
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. **Unless otherwise stated, all market data are sourced from FactSet.** Copyright 2019 FactSet. All Rights Reserved.
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. 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.

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 a 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 that 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.

201903-762735