



Global Asset Allocation Viewpoints and Investment Environment

MAY 2019

1 Portfolio Positioning

As of 30 April 2019

On board for slow but steady growth



- We **added back to small-cap stocks outside the U.S.** and are now neutral as stabilizing domestic growth and reasonable valuations should be supportive.
- We continued to **add back to high yield bonds** and are now neutral as reasonable yields and low default expectations support outlook. High yield bonds also offer a lower-beta alternative to equities.
- We **pared back emerging market bonds** given the rise of country-specific risks creating the potential for near-term volatility.

2 Market Themes

As of 30 April 2019

Earnings: And the “beats” go on

After several months of downward earnings revisions and fears of an earnings recession in the U.S., companies are beating lowered expectations this earnings season. The better-than-expected earnings-per-share growth has been supported by slightly better revenue growth, stable margins, and share buybacks. Having seemingly avoided an earnings recession, U.S. equities have sharply outperformed the rest of the world again, with both large-cap and small-cap stocks recording their largest four-month gain since December 2010. With equity prices up more than 15% year-to-date and full-year earnings growth expectations at less than 5%, the market may have gotten a bit ahead of itself.

U.S.: Extending the cycle

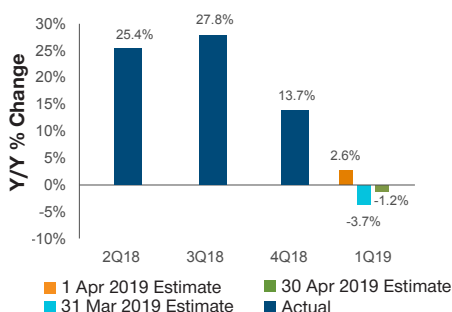
U.S. gross domestic product (GDP) grew 3.2% year-over-year in the first quarter, extending the current expansion and tying the record from the 1990s, which had been the longest in history. Growth was surprisingly strong in a quarter that featured a government shutdown and severe winter weather. While the current cycle has been durable, it has also been relatively modest from a cumulative growth perspective. However, the recent strength suggests that the cycle may have more room to run with a strong U.S. consumer, stabilizing Chinese growth, and a potential trade deal in the works. The resilience in growth has not been isolated to the U.S., as recent Chinese data and the eurozone's first-quarter GDP also surprised to the upside. Though long in tenure, we are reminded that cycles don't die of old age alone.

EM: Idiosyncratic risks rising, again

While much of the focus in emerging markets has been on the growth trajectory in China, a growing number of hot spots have emerged among some of the large debt issuers once again. The economic and political crisis in Venezuela continues to deteriorate. Argentina remains in a deep economic recession, pressuring the peso to another record low and prompting the nation's central bank to take further action to stabilize the currency. Turkey suffered its first recession in a decade amid political uncertainty and an unconventional central bank. While emerging markets bond yields remain attractive and broadly supported by positive fundamentals and low inflation, the recent rise in idiosyncratic risks bears watching.

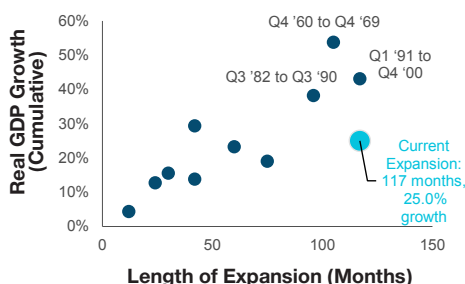
S&P 500 EPS Growth

As of 30 April 2019



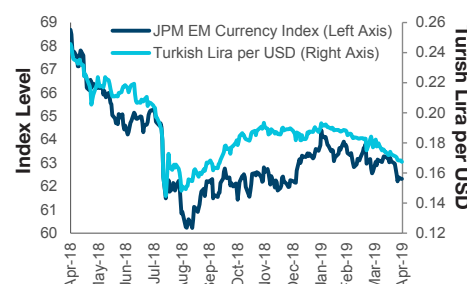
U.S. Economic Expansions

Q4 (31 Dec) 1949 to Q1 (31 Mar) 2019



Emerging Markets Currencies

30 April 2018 through 30 April 2019



Past performance is not a reliable indicator of future performance.

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3 Regional Backdrop

As of 30 April 2019

Positives

United States

- Dovish Fed, stable inflation
- Healthy consumer spending, strong employment and improving wages
- Lower rates driving a rebound in housing
- Potential trade deal with China in the works
- Greater share of secularly advantaged companies (e.g., cloud computing, internet retail) 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
- Muted near-term earnings expectations
- Elevated corporate and government debt levels

Europe

- Monetary policy remains very accommodative
- Indirect beneficiary of China stimulus
- Political headwinds have eased
- Economic growth showing signs of stabilization

- Eurozone economic growth is muted, with limited scope for ECB to respond
- Export weakness, vulnerable to trade and China growth
- Banking sector remains challenged
- Unity remains challenged amid rising populism and protectionism

Developed Asia/Pacific

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

- Highly exposed to slowing global economic growth and trade tensions
- Japanese economic and earnings growth continue to be much weaker than hoped
- Australia facing slowing economy with weakness in housing
- Australian earnings facing increased margin pressure

Emerging Markets

- Muted (but rising) inflation, more dovish Fed gives central banks flexibility to ease
- Chinese stimulus appears to be taking hold
- U.S.-China trade deal appears likely
- Global trade indicators appear to be stabilizing
- Equity valuations attractive relative to developed markets
- With growing importance of tech sector, less tied to commodity cycle

- Instability in several key markets (Turkey, Argentina, and Brazil) could persist
- Long-term China growth trajectory remains a headwind
- China stimulus more measured and domestically focused
- Highly linked to global trade
- Currencies facing renewed pressure

4 Asset Allocation Committee Positioning

As of 30 April 2019

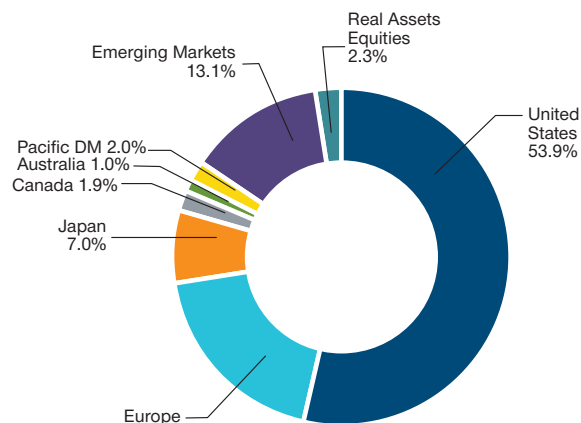
		Underweight	Neutral	Overweight	▼ or ▲ Month-Over-Month Change
ASSET CLASS		Change			
EQUITIES	Equities	■			Higher valuations reflecting fundamentals, amid stable but aging cycle, lower earnings expectations and lingering trade risk
	Bonds			■	Yields range-bound with modest inflation and Fed on hold. Credit fundamentals broadly supportive, amid elevated leverage and moderating earnings
	Cash		■		U.S. yields most attractive among developed markets but may have peaked with Fed on hold
	Regions				
	U.S.	■			Earnings growth moderating with valuations elevated. U.S. market less vulnerable to slowing global growth
	Global Ex-U.S.			■	Valuations attractive relative to history amid concerns over slowing global growth and trade
	Europe		■		Growth outlook pressured amid concerns over exports, banking system, and elevated political risks
	Japan		■		Trends in corporate governance and monetary policy supportive. Export dependency and stronger yen potential headwinds
	Emerging Markets			■	Sentiment improving on more dovish Fed, softer U.S. dollar expectations, China stimulus measures, and easing trade tensions
	Style				
	U.S. Growth			■	Secular growth companies more offer more durable growth in lower-growth environment, but valuations remain above historical averages
	U.S. Value	■			Valuations fair but lack catalyst with moderating economic growth and flat yield curve
	Global Ex-U.S. Growth			■	Quality growth bias, less exposed to global growth slowdown but valuations extended versus history
	Global Ex-U.S. Value	■			Cyclical orientation and financials exposure challenged by persistently low-rate environment and fading growth outlook
	Capitalization				
	U.S. Large-Cap	■			Softening earnings environment and global trade linkage are risks with valuations trending above historical averages
	U.S. Small-Cap			■	Valuations modestly attractive, less exposed to trade and global growth concerns. High leverage and wage pressure are risks
	Global Ex-U.S. Large-Cap ▼		■		Reliant on strength of global trade. Upside dependent on impact of China stimulus
	Global Ex-U.S. Small-Cap ▲		■		Susceptible to domestic growth trends and valuations reasonable. Political uncertainty weighing on confidence in key markets
	Inflation-Sensitive				
	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 still tight relative to history
	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
	Inflation-Linked		■		Inflation expectations higher since start of year amid modest growth and higher energy prices
	Global High Yield ▲		■		Yield carry attractive with near-term default expectations low but late stage of credit cycle a risk
	Floating Rate Loans		■		Yield level attractive but loan terms have weakened and liquidity a risk
	EM Dollar Sovereigns ▼			■	Yields are attractive supported by slower Fed path but rising country-specific risks could result in near-term volatility
	EM Local Currency			■	Despite healthy rebound, EM currencies valuation remains attractive in select areas

5 Portfolio Implementation

As of 30 April 2019

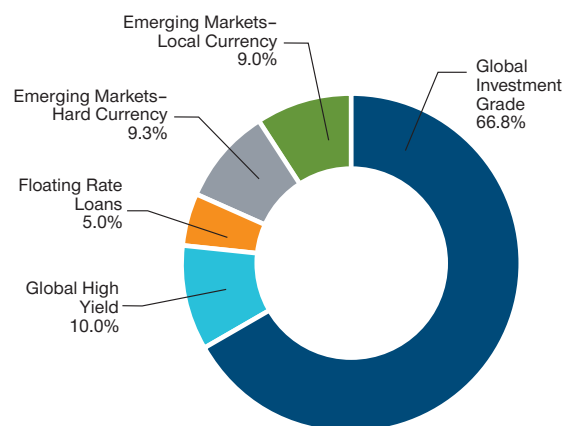
Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	52.3%	53.9%	+1.6%
Europe	18.3	18.9	+0.7
Japan	6.7	7.0	+0.3
Canada	2.9	1.9	-1.0
Australia	2.0	1.0	-1.0
Pacific – Developed Markets	1.6	2.0	+0.3
Emerging Markets	11.2	13.1	+1.9
Real Assets Equities	5.0	2.3	-2.8
Total Equity:	100.0%	100.0%	

Tactical Allocation Weights



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
Global Investment Grade (Hedged)	70.0%	66.8%	-3.3%
Global High Yield	10.0	10.0	0.0
Floating Rate Loans	5.0	5.0	0.0
Emerging Markets – Hard Currency	9.0	9.3	+0.3
Emerging Markets – Local Currency	6.0	9.0	+3.0
Total Fixed Income:	100.0%	100.0%	

Tactical Allocation Weights



Source: T. Rowe Price.

Neutral equity portfolio weights broadly representative of MSCI All Country World Index regional weights; includes allocation to real assets equities. Core global fixed Income allocation broadly representative of Bloomberg Barclays Global Aggregate Index regional weights.

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Key Risks – The following risks are materially relevant to the information highlighted in this material:

Even if the asset allocation is exposed to different asset classes in order to diversify the risks, a part of these assets is exposed to specific key risks.

Equity risk – in general, equities involve higher risks than bonds or money market instruments.

Credit risk – a bond or money market security could lose value if the issuer's financial health deteriorates.

Currency risk – changes in currency exchange rates could reduce investment gains or increase investment losses.

Default risk – the issuers of certain bonds could become unable to make payments on their bonds.

Emerging markets risk – emerging markets are less established than developed markets and therefore involve higher risks.

Foreign investing risk – Investing in foreign countries other than the country of domicile can be riskier due to the adverse effects of currency exchange rates, differences in market structure and liquidity, as well as specific country, regional, and economic developments.

Interest rate risk – when interest rates rise, bond values generally fall. This risk is generally greater the longer the maturity of a bond investment and the higher its credit quality.

Real estate investments risk – real estate and related investments can be hurt by any factor that makes an area or individual property less valuable.

Small and mid-cap risk – stocks of small and mid-size companies can be more volatile than stocks of larger companies.

Style risk – different investment styles typically go in and out of favour depending on market conditions and investor sentiment.

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