T. Rowe Price
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints and Investment Environment

AUGUST 2019

1 Portfolio Positioning

As of 31 July 2019

Caution Ahead

- We continue to **underweight equities in favor of cash and bonds** as elevated equity valuations could be susceptible to downside risk from trade tensions and moderating global growth.
- Despite year-to-date strength, we remain **modestly overweight high yield bonds** as they still offer attractive income with less downside relative to equities.
- We remain **overweight emerging market equities** as valuations remain attractive and could find support from more dovish central banks, low inflation, and a weaker U.S. dollar.

2 Market Themes

As of 31 July 2019

The first cut is (unlikely) the deepest

As expected, the Fed cut interest rates for the first time since 2008 to "insure against downside risks" and ended the balance sheet runoff two months early. The 25 basis point cut was less than some pundits had hoped and was widely viewed as hawkish following Powell's suggestion that this was a "midcycle adjustment" rather than the start of an easing cycle. However, history has shown that "insurance cuts" are often the first in a series to follow. President Trump's subsequent ratcheting up of the trade war by extending tariffs to nearly all Chinese imports could likely necessitate the need for further easing. With U.S. 10-year treasury yields falling to the lowest level since 2016 on the news, the next cut may be right around the corner.

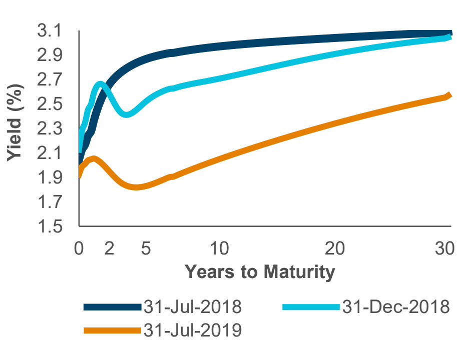
Will the EU bend to Boris' hard line?

As expected, Boris Johnson sealed the Conservative Party leadership contest and was named UK prime minister. Since then Johnson has been galvanizing Brexit support and increasing pressure on negotiators with his commitment to renegotiating May's Withdrawal Agreement, deleting the Irish backstop, and assuring exit will occur on October 31st, with or without a deal. With both sides entrenched and just three the months to go, the odds of a no-deal Brexit are perilously high. The uncertainty has sent the pound to a two-year low with further downside likely should a no-deal exit occur. Johnson's slim majority leaves him vulnerable to a no-confidence vote but, even if a general election was called, it is not clear that any single party would gain enough support to stop what is looking more like the inevitable.

U.S. multi-nationals feeling the pain

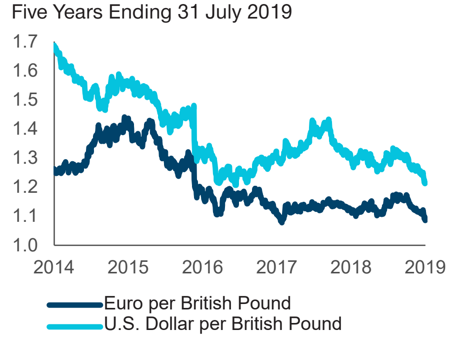
As 2nd quarter U.S. earnings season winds down, earnings beats have lifted results modestly into positive territory for the quarter, allaying fears of a possible earnings recession. However, slower global growth, a strong dollar, and trade disruption are taking a toll on multi-national companies, especially those with more that 50% revenue exposure outside the U.S., which have posted double-digit earnings declines this quarter. In contrast, domestically-oriented businesses are reporting mid-single digit growth supported by a resilient U.S. consumer. With the ratcheting up of tariffs on goods such as toys, apparel, and smartphones, U.S. consumer spending could retrench, and domestic-oriented companies may start feeling the pain too.

U.S. Treasury Yield Curves



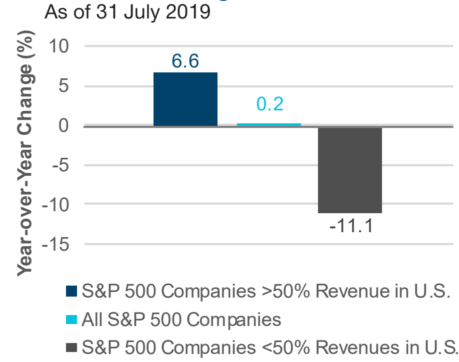
British Pound Cross Rates

Five Years Ending 31 July 2019



S&P 500 Earnings Growth: Q2 2019

As of 31 July 2019



Past performance is not a reliable indicator of future performance.
Source for Bloomberg Finance L.P.

Sources: Standard & Poor's. Financial data and analytics provider FactSet. Copyright 2019 FactSet. All Rights Reserved.
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3 Regional Backdrop

As of 31 July 2019

United States

Positives

- Fed easing, stable inflation
- Healthy consumer spending, strong employment, and improving wages
- Lower rates driving a rebound in housing
- Greater share of secularly advantaged companies (e.g., cloud computing, internet retail) than rest of world

Negatives

- Trade negotiations remain adversarial
- Slowing economic growth with fading fiscal stimulus
- Muted near-term earnings expectations
- Faltering capex spending and corporate confidence
- Late-cycle concerns: tight labor market, rising wages, and elevated margins
- Elevated corporate and government debt levels

Europe

Positives

- Monetary policy increasingly accommodative
- Indirect beneficiary of China stimulus
- Economic growth showing signs of stabilization
- Dividend yields remain strong

Negatives

- Economic growth is muted
- Limited scope for ECB to stimulate further
- Geopolitical risks remain elevated (e.g., Brexit)
- Export weakness, vulnerable to trade and China growth
- Banking sector remains challenged

Developed Asia/Pacific

Positives

- Dovish stance from both the BOJ and RBA
- China stimulus could support regional trade
- Japanese fiscal stimulus implemented in April
- 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 continue to be weak, VAT increase looms
- Australia facing slowing economy with weakness in housing
- Australian earnings facing increased margin pressure

Emerging Markets

Positives

- Muted inflation, more dovish Fed give central banks flexibility to ease
- Beneficiary of Chinese stimulus
- Equity valuations attractive relative to developed markets
- With growing importance of tech sector, less tied to commodity cycle

Negatives

- Export-driven economies are highly vulnerable to rising trade tensions
- Instability in several key markets (Turkey, Argentina, and Mexico) could persist
- Slowing long-term China growth trajectory remains a headwind
- China stimulus more measured and domestically focused

4 Asset Allocation Committee Positioning

As of 31 July 2019

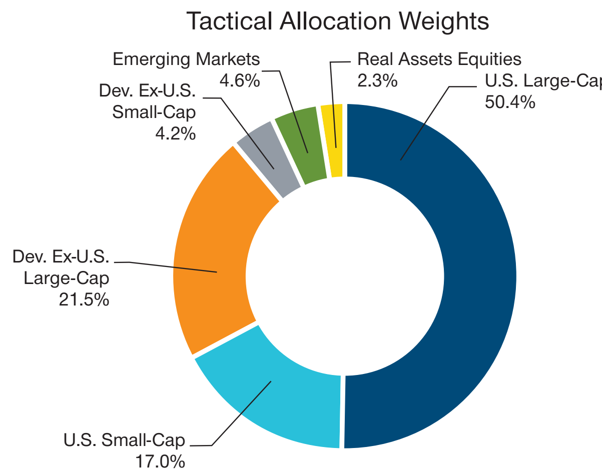
▼ or ▲ Month-Over-Month Change

		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			■				Above-average valuations with risks rising. Equities vulnerable to further political uncertainty and economic weakness
	Bonds					■		Yields lower amid slowing global growth, credit fundamentals still supportive, provides buffer to equity volatility
	Cash					■		U.S. yields most attractive among developed markets but may have peaked with Fed cut
EQUITIES	*Regions*							
	U.S.			■				Earnings growth weakening with valuations above average. 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 under pressure 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					■		More dovish Fed, China stimulus measures, and local currency strength supportive but susceptible to growing trade concerns and earnings weakness
	Style							
	U.S. Growth					■		Secular growth companies likely to offer more durable growth in lower-growth environment, but tech supply chains are at risk and regulatory concerns are growing
	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 sensitive 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			■				Weak earnings environment, global trade linkage, and strong USD are risks with valuations trending above historical averages
	U.S. Small-Cap					■		Valuations attractive, but cyclical headwinds, high leverage, and wage pressure are risks
	Global Ex-U.S. Large-Cap				■			Susceptible to global trade weakness but could benefit from impact of China stimulus
	Global Ex-U.S. Small-Cap				■			Valuations reasonable. Weak domestic growth trends and 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 lower rates
BONDS	U.S. Investment Grade			■				Yields low on concerns from growth but limited inflation upside. IG corporate spreads still tight relative to history
	Developed Ex-U.S. IG (Hedged)				■			ECB's renewed bond buying program supportive, hedged USD yields more attractive, but durations remain extended
	Inflation-Linked				■			Inflation expectations low with decelerating growth and hawkish pivot by the Fed
	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 remains attractive but step-ups less likely with Fed easing and liquidity remains a concern
	EM Dollar Sovereigns					■		Yields are attractive, central banks supportive but heightened political uncertainty in several key markets remain a headwind
	EM Local Currency					■		EM currency valuation remains attractive, but volatility likely to be elevated over the near term

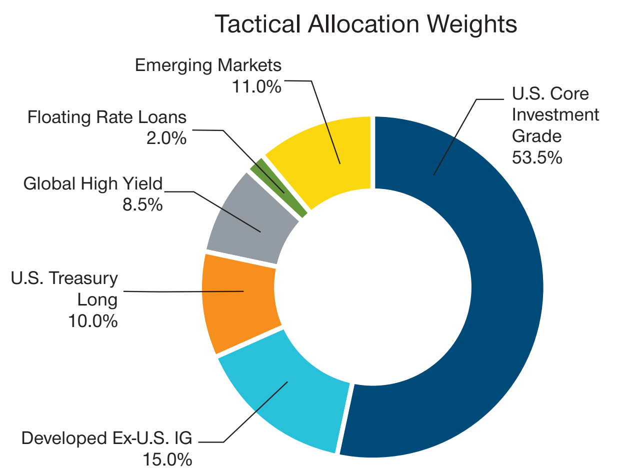
5 Portfolio Implementation

As of 31 July 2019

Equity	Neutral Weight	Tactical Weight	Relative Weight
U.S. Large-Cap	51.0%	50.4%	-0.6%
U.S. Small-Cap[1]	15.0%	17.0%	+2.0%
Dev. Ex-U.S. Large-Cap	21.0%	21.5%	+0.5%
Dev. Ex-U.S. Small-Cap	4.0%	4.2%	+0.2%
Emerging Markets	4.0%	4.6%	+0.6%
Real Assets Equities	5.0%	2.3%	-2.8%
Total Equity:	**100.0%**	**100.0%**	



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
U.S. Core Investment Grade	55.0%	53.5%	-1.5%
Developed Ex-U.S. IG (Hedged)	15.0%	15.0%	0.0%
U.S. Treasury Long	10.0%	10.0%	0.0%
Global High Yield	8.0%	8.5%	+0.5%
Floating Rate Loans	2.0%	2.0%	0.0%
Emerging Markets - (Local/Hard Currency)	10.0%	11.0%	+1.0%
Total Fixed Income:	**100.0%**	**100.0%**	



[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.

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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.

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