T. Rowe Price®
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints and Investment Environment

OCTOBER 2019

1 Portfolio Positioning

As of 30 September 2019

Uneasy Equilibrium

- We remain **broadly neutral** from a risk standpoint with a modest underweight to equities and are finding pockets of opportunity to add yield in lieu of capital appreciation.
- Within developed markets outside the U.S., we **reduced our exposure to growth stocks in favor of value** as relative valuations are stretched, considering supportive central bank policy responses.
- Within fixed income we **added to floating rate loans** as they offer attractive yields with reasonable valuations.

2 Market Themes

As of 30 September 2019

Easy money, again

The dovish shift of monetary policy this year has been dramatic as negative trade headwinds and geopolitical uncertainty are weighing on growth. So far, 21 central banks have moved into outright easing mode, which should help stabilize global growth and allay fears of an impending recession. However, monetary policy is at an unusual starting point. After a decade of unprecedented monetary stimulus around the world, rates are already at historically low levels and inflation remains stubbornly low, raising questions on its effectiveness. While policymakers continue to stress that they are ready to do more, policy has been restrained and largely reactive to date, allowing trade negotiations to drive the macro outlook.

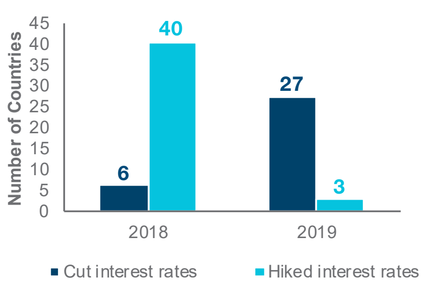
Head fake?

In late August/early September, equity markets experienced a sharp rotation out of momentum-driven growth stocks into more cyclically oriented value names. This was a significant reversal in leadership as cyclical companies had long been shunned by investors amid weak global growth, while defensive growth stocks continued to lead. Bond markets similarly showed signs of inflection as interest rates bucked their downward trend, reversing a large part of August's steep decline. Was this an unwind of extended growth equity valuations and overly bearish sentiment that sent rates to record lows? Or does the market truly believe that economic growth will pick up enough to sustain earnings and price momentum of cyclical sectors?

Achtung!

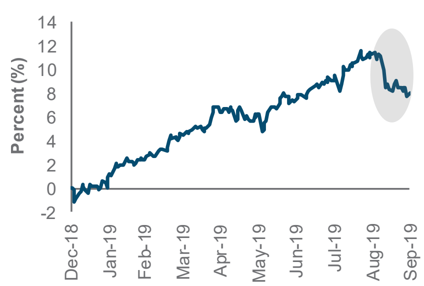
While sentiment within eurozone services has remained resilient, confidence within manufacturing dropped to its worst level in nearly seven years. The decline, largely driven by weakness in Germany, the region's largest economy, has raised fears that Europe may be headed for a recession. Uncertainty surrounding Brexit, trade disputes, and issues in the auto industry have all weighed on growth within the region. Monetary policymakers have already stepped back in to support growth, and after years of austerity, an increasing number of countries are expected to provide fiscal stimulus. The question remains whether policymakers can deliver enough support to avert a third euro-area recession in the past decade.

Central Bank Action Comparison
As of 30 September 2019



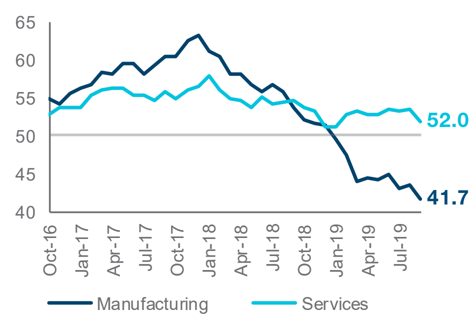
Source: International Monetary Fund (IMF). Analysis based on the 30 largest IMF countries based on GDP (nominal).

MSCI ACWI Index Growth Less Value
31 December 2018 to 30 September 2019



Shading represents inflection point on the chart. Source: Financial data and analytics provider FactSet. Copyright 2019 FactSet. All Rights Reserved. Based on daily returns.

Germany PMI
30 September 2016 to 30 September 2019



Source: Markit Economics Limited. Please see additional disclosures on the final page.

Past performance is not a reliable indicator of future performance.
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3 Regional Backdrop

As of 30 September 2019

United States

Positives

- Fed easing, low inflation
- Healthy consumer spending, strong employment, and improving wages
- Low interest rates driving a rebound in housing
- Pause in trade war escalation
- Greater share of secularly advantaged companies (e.g., cloud computing, internet retail) than rest of the world

Negatives

- Political uncertainty
- Modest economic growth with fading fiscal stimulus
- Muted near-term earnings expectations
- Weak capex spending and corporate confidence
- Late-cycle concerns: tight labor market, rising wages, and corporate margins under pressure
- Elevated corporate and government debt levels

Europe

Positives

- Monetary policy remains very accommodative
- Indirect beneficiary of China stimulus
- Services sector of the economy resilient
- Dividend yields remain strong

Negatives

- Economic growth is muted, with notable weakness in the manufacturing sector
- Limited scope for ECB to stimulate further
- Export weakness, vulnerable to trade and China growth
- Banking sector remains challenged
- Brexit uncertainty weighing on sentiment

Developed Asia/Pacific

Positives

- Further China stimulus could support regional trade
- Dovish stance from both the BOJ and RBA
- Broadly attractive valuations, particularly in Japan
- Improving corporate governance trends in Japan

Negatives

- Highly sensitive to global industrial production trends and trade tensions
- Australia facing slowing economy with weakness in housing
- Australian earnings facing increased margin pressure

Emerging Markets

Positives

- Muted (but rising) inflation, more dovish Fed has given central banks flexibility to ease
- Equity valuations attractive relative to developed markets
- With growing importance of tech sector, less tied to commodity cycle
- Beneficiary of China stimulus

Negatives

- Export-driven economies are highly vulnerable to rising trade tensions
- 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

4 Asset Allocation Committee Positioning

As of 30 September 2019

Underweight — *Neutral* — *Overweight*

▼ or ▲ Month-Over-Month Change

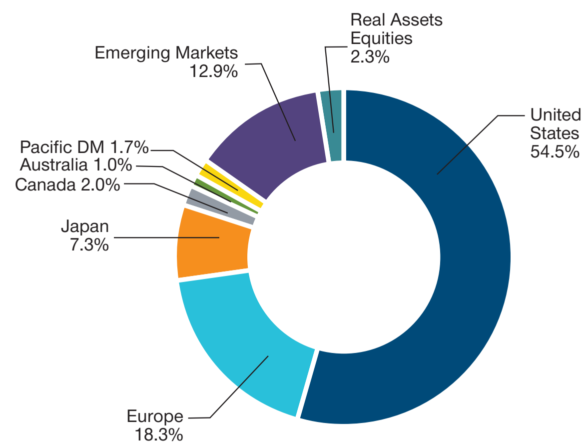
		Change	Underweight	Underweight	Neutral	Overweight	Overweight	**These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.**
ASSET CLASS	Equities			■				Limited upside with above-average valuations and risks elevated; fragile global growth and vulnerable to further political uncertainty.
ASSET CLASS	Bonds					■		Valuations extended with yields low due to growth concerns, trade uncertainty, and muted inflation; credit spreads tight but fundamentals supportive.
ASSET CLASS	Cash	▼				■		U.S. yields most attractive among developed markets but past peak with Fed easing.
	Regions							
EQUITIES	U.S.			■				Earnings growth weak on margin pressure and valuations above average; U.S. market less sensitive to global growth concerns and potentially easier comparables in 2020.
EQUITIES	Global Ex-U.S.					■		Central banks supportive and valuations attractive relative to history amid concerns over manufacturing slowdown and trade uncertainty.
EQUITIES	Europe				■			Growth outlook under pressure amid concerns over exports, banking system, and elevated political risks; potential tailwind from monetary and fiscal stimulus.
EQUITIES	Japan				■			Monetary and fiscal policy supportive; export dependency and stronger yen potential headwinds.
EQUITIES	Emerging Markets					■		Beneficiary of China stimulus measures, Fed easing, and cheap currencies supportive; susceptible to trade concerns and earnings weakness.
	Style							
EQUITIES	U.S. Growth					■		Secular growth companies less sensitive to macro environment; tech supply chains are at risk and regulatory concerns are growing.
EQUITIES	U.S. Value			■				Valuations fair but lack catalyst with modest economic growth and flat yield curve.
EQUITIES	Global Ex-U.S. Growth	▼				■		Sector profile has defensive and quality growth bias; valuations extended versus history.
EQUITIES	Global Ex-U.S. Value	▲		■				Cyclical orientation and financials exposure challenged by macro environment; cheap valuations beginning to look extreme.
	Capitalization							
EQUITIES	U.S. Large-Cap			■				Earnings outlook uninspiring with strong USD a headwind; valuations trending above historical averages.
EQUITIES	U.S. Small-Cap					■		Valuations attractive and benefit from low rates; high leverage and wage pressure are risks.
EQUITIES	Global Ex-U.S. Large-Cap				■			Central banks supportive, potential beneficiary of further China stimulus; susceptible to global trade weakness.
EQUITIES	Global Ex-U.S. Small-Cap				■			Weak domestic growth trends and political uncertainty weighing on confidence in key markets.
	Inflation-Sensitive							
EQUITIES	Real Assets Equities		■					Sluggish global growth outlook weighing on commodities; U.S. REITs supported by healthy fundamentals and low rates.
BONDS	U.S. Investment Grade			■				Yields low but anchored due to limited inflation upside; IG corporate spreads remain tight relative to history.
BONDS	Developed Ex-U.S. IG (Hedged)				■			Central banks supportive, hedged USD yields attractive, but durations remain extended.
BONDS	Inflation-Linked				■			Inflation expectations low but rising with coordinated central bank easing.
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	▲				■		Yield level remains attractive with near-term recession risk low; step-ups less likely with Fed easing, and liquidity remains a concern.
BONDS	EM Dollar Sovereigns					■		Yields are attractive and central banks supportive; idiosyncratic risks and potential contagion remain concerns.
BONDS	EM Local Currency					■		EM currency valuation remains attractive; volatility likely to be driven by trade tensions and persistent USD strength.

5 Portfolio Implementation

As of 30 September 2019

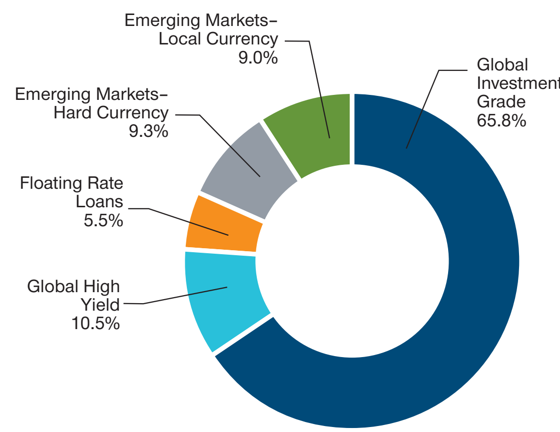
Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	53.0%	54.5%	+1.5%
Europe	17.7%	18.3%	+0.6%
Japan	7.0%	7.3%	+0.3%
Canada	2.9%	2.0%	-0.9%
Australia	2.0%	1.0%	-1.0%
Pacific – Developed Markets	1.4%	1.7%	+0.3%
Emerging Markets	11.0%	12.9%	+1.9%
Real Assets Equities	5.0%	2.3%	-2.7%
Total Equity:	**100.0%**	**100.0%**	

Tactical Allocation Weights



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
Global Investment Grade (Hedged)	70.0%	65.8%	-4.2%
Global High Yield	10.0%	10.5%	+0.5%
Floating Rate Loans	5.0%	5.5%	+0.5%
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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Please see "Additional Information" on final page for information about this MSCI information.

ADDITIONAL DISCLOSURES:

Certain numbers in this report may not equal stated totals due to rounding.

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