



Global Asset Allocation Viewpoints

May 2020

1 Portfolio Positioning

As of 30 April 2020

Paring Back



- We moderated our equity overweight, taking the opportunity to capitalize on gains as the market rebounded into a bull market at an unprecedented pace off lows reached in late March.
- Within our regional equity positioning we moved to neutral U.S. equities from an underweight. The U.S. market's profile is more defensive—with heavier weights to technology and communications—and its economy may be better positioned to support a rebound in growth buoyed by unprecedented fiscal and monetary stimulus.
- Within the U.S., we moderated our overweight to small-cap stocks. Despite still attractive relative valuations, smaller companies are likely to face near-term headwinds given their broadly higher exposure to consumer spending and more limited balance sheet flexibility relative to larger companies.
- Outside the U.S., we moderated our exposure to more cyclically exposed value stocks as economic growth is likely to remain challenged. We also pared emerging markets exposure as many countries, other than better-resourced economies like China, face challenges containing the coronavirus outbreak and have limited tools to support growth.

2 Market Themes

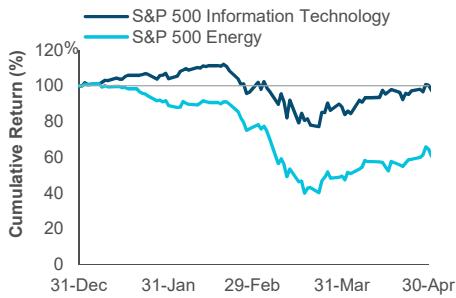
As of 30 April 2020

Price Discovery

Trying to put a price on the stock market in the current environment is extremely challenging. The velocity of the market decline and subsequent recovery are unparalleled, with day-to-day price swings that can look more like returns for a full year. Similar to the “P”, in price-to-earnings measures, the “E” is challenging to pin down as estimating earnings is hampered by uncertainty around the duration of the global shutdown and the post-crisis environment. First quarter earnings reports are starting to shed some light, and the broad picture shows a steep decline with S&P 500 earnings down nearly 15%. In this environment, there have been winners and losers, with technology and communications sectors resilient, while other more cyclical sectors have been hard hit, including energy and industrials. Compared with previous crises, today’s crisis is not normal and the speed of the recovery may not be normal either. What may be very different, though, are the winners and losers, making it ever more important to watch what you’re paying for “normalized” earnings for companies that will likely be facing an abnormal world.

S&P 500: Info Tech vs. Energy

As of 30 April 2020



Fed Extinguishing Liquidity Risk, Solvency Smolders

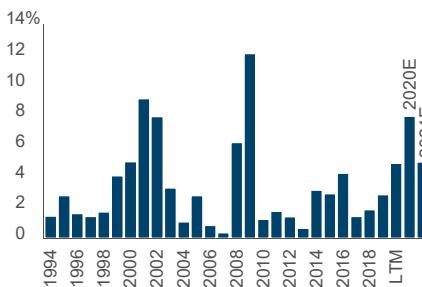
Global central bankers have unleashed unprecedented monetary policies to help offset contracting growth and ease widespread liquidity strains. In the U.S., the Federal Reserve has launched several lending and asset purchase programs that have provided much needed stability within the commercial paper, U.S. Treasury debt, corporate bond, municipal bond, mortgage-backed, and money market sectors. The most direct support will come through the launch of the Main Street Lending Program under which the Fed is directly providing loans through its network of banks to small and mid-size businesses that are too large to participate in the Treasury’s Paycheck Protection Program (PPP). However, these loans will need to be paid back, whereas the PPP lending converts to grants if used directly to fund employee wages. While these actions by the Fed provide much needed liquidity, eventually these businesses must be able to stand on their own. Given the uncertain future for many industries post-crisis, markets are likely to shift their focus to solvency risk, where some companies’ profitability may not be able to sustain their debt obligations.

Looking Through

First quarter gross domestic product (GDP) growth rates around the world are showing levels of contraction not seen since 2008, with the U.S. slipping -1.2% quarter over quarter (4.8% on an annualized basis) and the eurozone down -3.3%. The steep declines were largely due to the extensive lockdown measures implemented worldwide, which hampered the previously resilient consumer and severely impacted services industries such as entertainment, health care, and food. As bad as these first quarter numbers were, the data only reflected economic closures that started around the second week of March, indicating that next quarter’s data will be much worse, with nearly the entire economy impacted by lockdowns in April and significant portions of May. Despite the alarming economic growth, unemployment, and manufacturing data, global stock markets have shrugged off the weakness as temporary in hopes that recovery will not be too far off once economies reopen. With a headline second quarter GDP number in the U.S. that could be as low as -40%, we’ll see if markets will continue to look through the negative data or begin to react in a different direction.

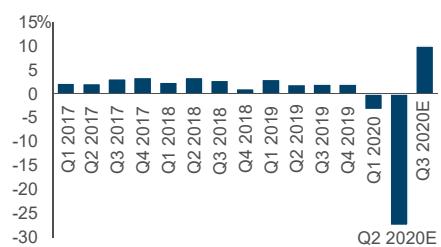
U.S. High Yield Default Rate

As of 30 April 2020



U.S. Real GDP Growth (Annualized)

As of 31 March 2020



Past performance is not a reliable indicator of future performance.

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3 Regional Backdrop

As of 30 April 2020



Positives

United States

- Unprecedented levels of monetary and fiscal support
- Healthy consumer balance sheets prior to the crisis
- Pause in trade war escalation
- Health care infrastructure is stronger than most regions
- Greater share of secularly advantaged companies (e.g., cloud computing, internet retail) than rest of the world

Negatives

- Size of country and freedom of movement means there is higher potential for continued outbreaks
- Inconsistent policies from state to state
- Elevated corporate leverage going into the crisis
- Service-oriented economy means higher economic impact from social distancing
- Margins under pressure going into the crisis
- Elevated government debt levels

Europe

- Long-awaited fiscal stimulus is coming
- Monetary policy remains very accommodative
- Inexpensive valuations have become even more inexpensive as Europe has borne the brunt of the sell-off

- Weak economic growth going into crisis
- Limited scope for ECB to stimulate further
- De-centralized government structure means fiscal response is delayed
- Banking sector was weak going into the crisis
- Political tensions heightened by the crisis

Developed Asia/Pacific

- Outbreaks in this region have thus far been milder than in the rest of the world
- Strong and aggressive fiscal stimulus
- Japanese companies generally hold high cash levels, meaning they have more cushion for weakness

- Highly sensitive to global industrial production and trade trends
- Australia holds high exposure to natural resource prices, which have weakened considerably

Emerging Markets

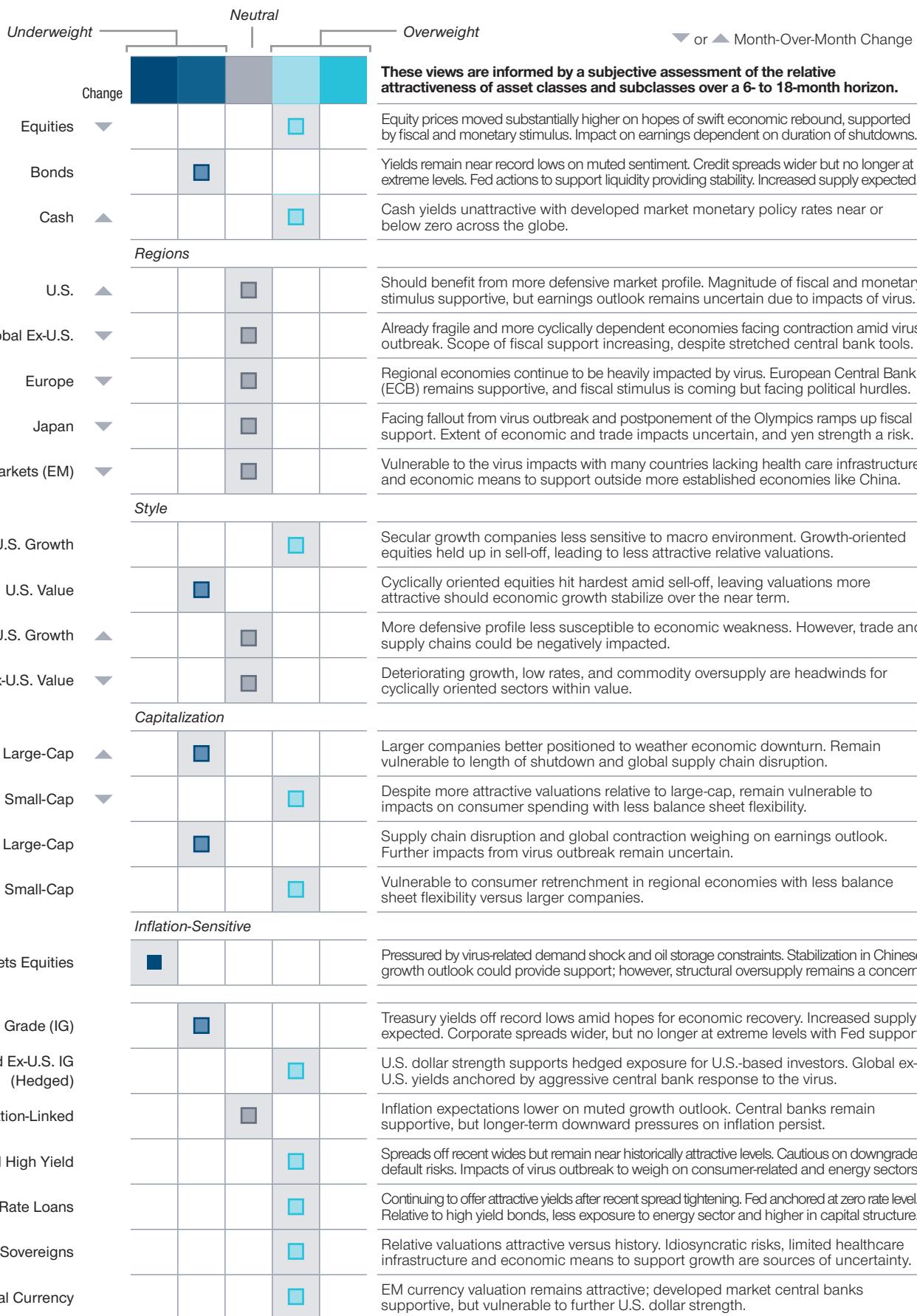
- Virus outbreak in China appears to be contained
- Policy response from China has been significant
- Younger population likely to be less affected by virus
- Dovish Fed has given central banks flexibility to ease
- Easing trade tensions
- Equity valuations attractive relative to developed markets

- Weak health care infrastructure in many regions
- Limited ability to enact fiscal stimulus (excluding China)
- Highly sensitive to global industrial production and trade trends
- Commodity prices under pressure
- Instability in several key markets could weigh on sentiment
- Potential for elevated currency volatility

4 Asset Allocation Committee Positioning

As of 30 April 2020

ASSET CLASS

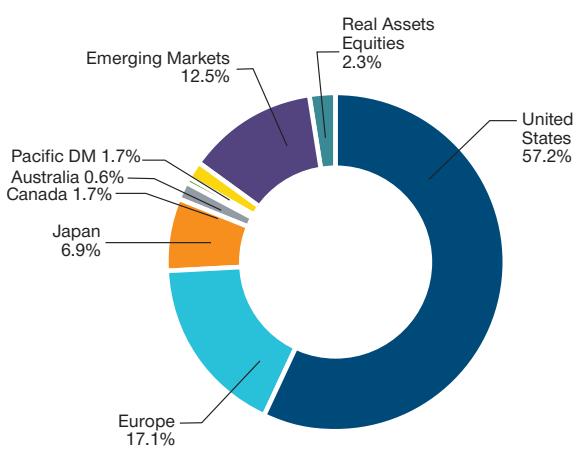


5 Portfolio Implementation

As of 30 April 2020

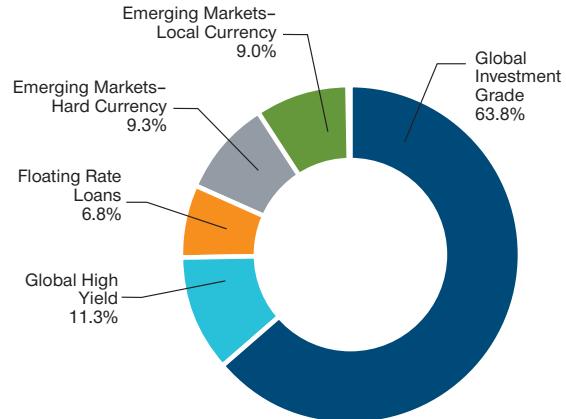
Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	55.0%	57.2%	+2.2%
Europe	16.5	17.1	+0.6
Japan	6.7	6.9	+0.3
Canada	2.7	1.7	-1.0
Australia	1.6	0.6	-1.0
Pacific – Developed Markets (DM)	1.4	1.7	+0.3
Emerging Markets	11.1	12.5	+1.4
Real Assets Equities	5.0	2.3	-2.8
Total Equity:	100.0%	100.0%	

Tactical Allocation Weights



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
Global Investment Grade (Hedged)	70.0%	63.8%	-6.3%
Global High Yield	10.0	11.3	+1.3
Floating Rate Loans	5.0	6.8	+1.8
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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