T. Rowe Price
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints

September 2020

1 Portfolio Positioning

As of 31 August 2020

Seeing Light at the End of the Tunnel

- We remain neutral stocks versus bonds as we balance extended equity valuations, fading fiscal support, and upcoming U.S. election risks against still ultra-low interest rates and a gradually improving economic environment.
- Anticipating a gradual recovery as global economies emerge from coronavirus-related shutdowns, we favor cyclical exposure through U.S. small-cap and emerging markets equities in lieu of value-oriented equities. Value stocks could rally off oversold levels, but any rally is unlikely to be sustained as it may require a stronger growth environment, higher rates, and durable improvement in energy prices.
- Within fixed income, we remain overweight high yield and emerging market bonds given still attractive yield levels. Stabilizing growth and low rates should be supportive for fundamentals, while selectivity remains important.

2 Market Themes

As of 31 August 2020

Inflated Expectations?

After more than a decade of below-target inflation in the U.S., some investors are speculating that inflation may finally rise due to the magnitude of monetary stimulus coinciding with fiscal stimulus supporting the economic recovery from the coronavirus-induced recession. Historically, inflation and money supply have been highly correlated—with increased money supply leading to more money chasing fewer goods—ultimately leading to higher prices. However, despite increased stimulus following the global financial crisis (GFC), over the past 10 years, inflation in consumer prices has remained muted, while only asset prices have increased. An uptick in inflation could provide a long-awaited boost to cyclically oriented companies at the expense of highly valued growth stocks, especially high-flying tech stocks that have led the stock market. The Fed's recent policy change emphasizing "average" inflation of 2% suggests lower rates for longer and a willingness to overshoot on inflation. Could a return of inflation be the catalyst needed to get a sustained rotation from growth to value stocks?

A Trillion Here, a Trillion There

Democrats in Congress and the Trump administration remain at a stalemate over additional fiscal support for American workers after earlier stimulus measures expired in July. Consumer spending received a boost in recent months from the nearly U.S. $2.8 trillion in fiscal measures passed in March, but it may begin to falter if additional support isn't agreed upon soon. In early August, the president signed executive orders to extend enhanced employment benefits and halt evictions as the sides had made little progress. About a trillion dollars still separates the two sides and aid to state and local governments continues to be the biggest sticking point. While the consequences of not acting quickly could surely have a negative impact on the economy, further stimulus measures could cause U.S. public debt to reach U.S. $30 trillion next year, pushing the ratio of U.S. debt to gross domestic product to levels not seen since World War II. While there is no doubt that additional stimulus may be necessary to lift the economy out of the current crisis, Americans can only hope Washington is getting the best bang for the trillions it is spending.

Home Improvement

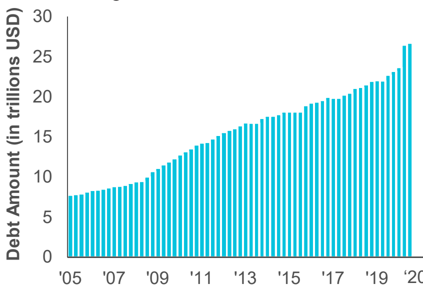
As many businesses and households continue to struggle amid the coronavirus pandemic, one surprising bright spot in the economy has been the U.S. housing market. Demographic trends, ultra-low interest rates, tight supply, work-from-home capabilities, and urban flight have driven demand for existing and new home sales higher, leading to bidding wars and soaring home prices. A strong housing market could provide a boost for the economy as home purchases often lift other sectors through lending and spending on furniture, appliances, and renovations. The stock market has cheered the news, with the Home Builders Index up 120% since March lows. The irony is that while housing is surging, we're in the midst of recovering from the deepest recession in U.S. history, with unemployment still at high levels. Is it possible that the coronavirus has created structural changes in the way home ownership is viewed going forward?

U.S. Inflation Expectations

As of 31 August 2020

U.S. Debt Outstanding

As of 31 August 2020



Home Builders Index

As of 31 August 2020

Past performance is not a reliable indicator of future performance.
Sources: Bloomberg Finance L.P., Bloomberg Services Limited., Standard & Poor's. Please see additional disclosures on the final page.

U.S. Inflation Expectations are represented by Bloomberg Barclays U.S. 10 Year Breakeven. S&P Home Builders Index is represented by the S&P Home Builders Industry Select Index.

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3 Regional Backdrop

As of 31 August 2020

	Positives	Negatives
United States	▪ Unprecedented levels of monetary and fiscal support ▪ Greater share of secularly advantaged companies (e.g., cloud computing, internet retail) than rest of the world ▪ Healthy consumer balance sheets prior to the crisis	▪ Heightened political tensions ▪ Substantial corporate leverage going into the crisis ▪ Elevated government debt levels ▪ U.S. dollar strength has faded
Europe	▪ EU recovery fund provides further fiscal stimulus and is the first step toward a fiscal union ▪ Monetary policy remains very accommodative ▪ Equity valuations are inexpensive ▪ Strong EUR outlook	▪ Lower share of secularly advantaged companies ▪ Banking sector was weak going into the crisis ▪ Weak economic growth going into the crisis ▪ Limited scope for ECB to stimulate further
Developed Asia/Pacific	▪ Outbreaks in this region have thus far been milder than in the rest of the world ▪ Strong fiscal and monetary support ▪ Japanese companies generally hold high cash levels, meaning they have more cushion for weakness	▪ Weak economic growth going into the crisis, driven by long-term demographic headwind ▪ Highly sensitive to global industrial production, trade trends, and natural resource prices, which have improved but remain low ▪ Japan faces political uncertainty due to the resignation of Prime Minister Shinzō Abe
Emerging Markets	▪ Chinese economy has largely rebounded ▪ U.S. dollar strength has eased ▪ Dovish Fed has given central banks flexibility to ease ▪ Equity valuations attractive relative to developed markets	▪ Virus spread still increasing in some areas ▪ Limited ability to enact fiscal stimulus (excluding China) ▪ Highly sensitive to global industrial production, trade trends, and natural resource prices, which have improved but remain low

4 Asset Allocation Committee Positioning

As of 31 August 2020

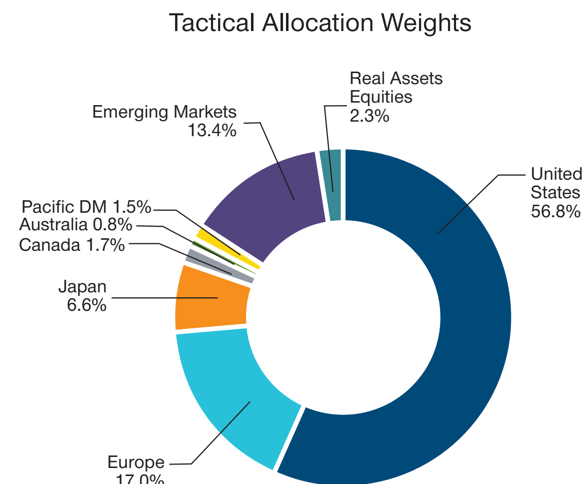
▼ or ▲ Month-Over-Month Change

		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.
	Change						
ASSET CLASS	Equities			■			Elevated valuations reflecting optimistic pace in earnings recovery. Fiscal and monetary stimulus are key supports amid still nascent economic recovery.
ASSET CLASS	Bonds			■			Yields anchored at low levels amid central bank pledges of support. Yields attractive within pockets of credit sectors.
	Regions						
EQUITIES	U.S.			■			Defensive sector profile supportive despite extended valuations. Fiscal and monetary stimulus providing backstop and improved sentiment around earnings.
EQUITIES	Global Ex-U.S.			■			Economies outside of the U.S. showing signs of improving following coronavirus-related weakness. Aggressive stimulus measures and rebound in Chinese demand are supportive.
EQUITIES	Europe			■			Cyclically oriented sector profile sensitive to the low rate and low growth environment. Fiscal support from EU recovery fund and U.S. dollar weakness could provide tailwinds.
EQUITIES	Japan			■			Fiscal and monetary stimulus continue to provide a solid backdrop for economic recovery. Remains highly sensitive to global trade, which has recently rebounded.
EQUITIES	Emerging Markets (EM)				■		Chinese economic acceleration, weaker U.S. dollar, and limited rate sensitivity supportive. However, most countries are unable to provide the same level of stimulus as developed markets.
	Style						
EQUITIES	U.S. Growth			■			Valuations of growth-oriented equities further extended as pandemic has accelerated secular growth trends in key industries. Sector benefits from less sensitivity to macro environment.
EQUITIES	U.S. Value			■			Cyclically oriented equities trailing in recovery, leaving valuations more attractive with potential upside should economic growth stabilize over the near term.
EQUITIES	Global Ex-U.S. Growth			■			More defensive profile, with greater weights in staples and health care less susceptible to economic weakness. However, trade and supply chains could be negatively impacted.
EQUITIES	Global Ex-U.S. Value			■			Low rates, auto industry challenges, and commodity oversupply remain headwinds. Some cyclically oriented value sectors, such as industrials and materials, are showing signs of repair.
	Capitalization						
EQUITIES	U.S. Large-Cap		■				Larger companies are better positioned to weather economic downturn but offer limited upside due to full valuations.
EQUITIES	U.S. Small-Cap				■		Relative valuations attractive and offer potential upside in periods of economic recovery. Remain vulnerable to impacts of the coronavirus on the consumer and increased bankruptcy risk.
EQUITIES	Global Ex-U.S. Large-Cap			■			Economic weakness, secular challenges, and low rate environment weighing on earnings outlook. However, valuations reflect these headwinds.
EQUITIES	Global Ex-U.S. Small-Cap			■			Vulnerable to consumer retrenchment in economies with less balance sheet flexibility. However, less exposure to banking system and idiosyncratic opportunities are plentiful.
	Inflation-Sensitive						
EQUITIES	Real Assets Equities	■					Inflation expectations are modestly increasing and supply/demand dynamics for natural resources have improved. Real estate remains under pressure.
BONDS	U.S. Investment Grade (IG)				■		Despite signs of improving growth and rising inflation expectations, nominal Treasury yields remain at low levels.
BONDS	Developed Ex-U.S. IG (Hedged)				■		Yields anchored by aggressive central bank response to coronavirus-related economic weakness. Hedged yield advantage less pronounced with narrow yield differential.
BONDS	U.S. Treasury Long	■					Yields near record lows with heightened interest rate risk as duration is extended, vulnerable to long end steepening should growth expectations improve.
BONDS	Inflation-Linked			■			Inflation expectations rising amid improving growth outlook and seemingly unlimited monetary and fiscal support.
BONDS	Global High Yield				■		Credit spreads remain at attractive levels. Cautious on downgrade/default risks. Impacts of coronavirus outbreak could weigh on consumer-related and energy sectors.
BONDS	Floating Rate Loans				■		Yield spreads remain attractive, although Fed anchored at zero rate level. Relative to high yield bonds, less exposure to energy sector and higher in capital structure.
BONDS	EM Dollar Sovereigns				■		Relative valuations less attractive after recent rally. Still offer attractive yield versus developed markets.
BONDS	EM Local Currency				■		Improving sentiment on EM currency; valuations remain attractive with supportive developed market central banks and weaker U.S. dollar.

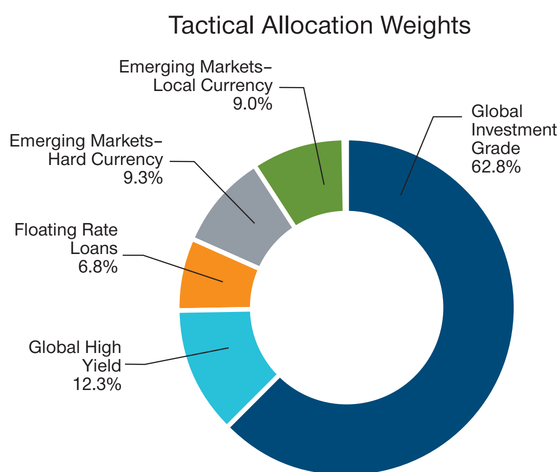
5 Portfolio Implementation

As of 31 August 2020

Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	54.6%	56.8%	2.1%
Europe	16.4	17.0	0.6
Japan	6.4	6.6	0.3
Canada	2.7	1.7	-1.0
Australia	1.8	0.8	-1.0
Pacific – Developed Markets (DM)	1.2	1.5	0.3
Emerging Markets	11.9	13.4	1.5
Real Assets Equities	5.0	2.3	-2.8
Total Equity:	**100.0%**	**100.0%**	



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
Global Investment Grade (Hedged)	70.0%	62.8%	-7.3%
Global High Yield	10.0	12.3	2.3
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%**	



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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Source for Bloomberg Barclays index data: Bloomberg Index Services Limited. Please see “Additional Disclosures” on final page for information.

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