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ASSET ALLOCATION INSIGHTS

It May Be Time to Consider Non-U.S. Equities

September 2020

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KEY INSIGHTS

- We believe that stretched relative valuations and potential U.S. dollar weakness have created attractive diversification opportunities in non-U.S. equities.
- Investors seeking to maintain their current exposure to technology may want to consider tilting their non-U.S. equity allocations toward the emerging markets.

U.S. stocks have outperformed non-U.S. equities over the past 12 years, stretching relative valuations. Compared with both developed and emerging markets (EMs), valuation premiums on U.S. stocks currently are twice as high as their 20-year averages.

There are numerous reasons for this divergence, but we would highlight two in particular: U.S. dollar strength and the dominance of technology in U.S. equity benchmarks.

Historically, periods of sustained U.S. dollar strength have coincided with U.S. equity outperformance. So it is notable that the dollar recently has weakened significantly. The Intercontinental Exchange (ICE) U.S. Dollar Index fell almost 10% over the six months ended August 31, 2020.

We believe dollar weakness could continue, as interest rate differentials and economic growth expectations between the U.S. and the rest of the world both have narrowed. Technology dominance is a different story, however. The drivers of technology outperformance have been strengthened by the global pandemic, and we believe they are unlikely to fade soon.

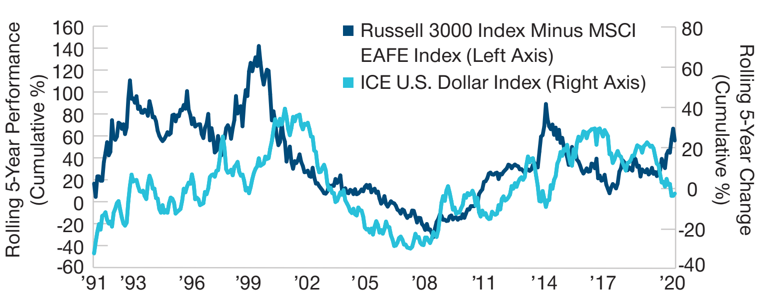
As of September 21, 2020, technology, interactive media, and internet retail combined accounted for less than 10% of the Morgan Stanley Capital International Europe, Australasia, and the Far East Index (MSCI EAFE). The MSCI Emerging Markets Index, however, had higher technology exposure than the MSCI USA Index.

We believe investors may be able to take advantage of potential dollar weakness while maintaining exposure to technology by tilting their non-U.S. equity allocations toward emerging markets.

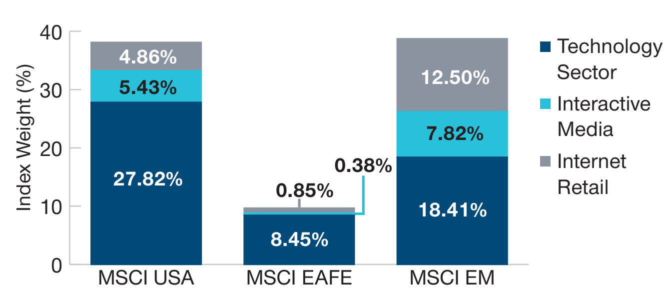
A Picture Emerges in Non-U.S. Stocks

U.S. dollar weakness and higher technology exposure could favor EM equities

U.S. Dollar Index and U.S. vs. Non-U.S. Equity Performance



Exposure to Technology-Related Industries by Region



Past performance is not a reliable indicator of future performance.
January 31, 1991, through September 21, 2020 (left chart). As of September 21, 2020 (right chart).
Sources: Russell, MSCI, and ICE (See Additional Disclosures). T. Rowe Price calculations using data from FactSet Research Systems Inc. All rights reserved.

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ID0003643 (09/2020)
202009-1341097