T. Rowe Price
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints

December 2020

1 Portfolio Positioning

As of 30 November 2020

Going Global for Value

- Within equities, we continued to lean into more cyclically exposed sectors by tilting toward value globally, including the U.S., developed ex-U.S., and emerging markets (EM) as more cyclically oriented companies may benefit from gradually improving economic growth and a steepening yield curve.
- We tilted to an overweight position in markets outside the U.S., particularly within EM, as the combination of favorable valuations, prospects for improving global growth profile, and favorable currency trends should be supportive.
- Within fixed income, we pivoted a portion of our below investment-grade exposure in high yield bonds into floating rate loans based on loans' more attractive relative valuations, higher standing in the capital structure, and shorter duration profile.
- Overall, we remain neutral stocks versus bonds as we balance broadly extended valuations in both markets and near-term risk of increasing coronavirus cases versus ultra-supportive monetary policy, upside potential from fiscal policy, and potential for a vaccine early next year.

2 Market Themes

As of 30 November 2020

Digging for Value

Promising news on COVID-19 vaccines has triggered optimism for a return to normal next year, buoying deeply cyclical segments of the market that have been the hardest hit by shutdowns. November saw a strong rebound in many of these unloved sectors, including materials, energy, financials, and industrials. Following a period of meaningful underperformance, a significant beneficiary from the abrupt rotation away from technology-heavy growth sectors has been EM value stocks, which have more than 50% exposure to these sectors. Expectations in 2021 for unleashed pent-up global demand, increased fiscal spending, aggressive monetary policies, and higher energy prices could provide a strong backdrop for cyclical companies in EM. An additional boost could come from a rebound in EM currencies, as they face less depreciatory pressure versus the U.S. dollar. Ignored for nearly a decade, EM value companies may finally see more interest from investors as they dig for cyclical opportunities with very attractive valuations.

Cleaning House

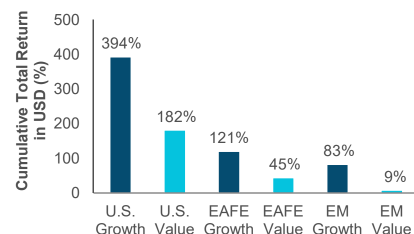
A wave of defaults across some highly rated—including AAA—Chinese companies with perceived state support have shaken local markets causing investors to reassess risk in the growing Chinese bond market. The Chinese corporate bond market has grown substantially over the past decade since the Global Financial Crisis as China sought to open its capital markets to foreign buyers and increase its representation in the Bloomberg Barclays Global Aggregate Index. Although there were signs of bond market weakness heading into the coronavirus pandemic, China policy makers were forced to pull back on credit reform initiatives as economic conditions deteriorated, temporarily masking potential solvency issues. However, with the recent improvement in economic growth, policy makers have begun re-tightening financial conditions, exposing the overhang of weak corporates, many of which have been kept alive by forbearance. Chinese authorities may see the current economic strength as an opportunity to clean up weak companies, which, in the long run, could improve the perception of Chinese corporate credit markets.

Feeling Blue?

After Democratic candidate Joe Biden won the U.S. presidential election and Democrats retained control of the House of Representatives last month, markets seemingly cheered the prospects of a split government, with the U.S. Senate likely to remain controlled by the Republicans. However, the balance of power remains uncertain, hinging on the result of two very close runoff elections in Georgia on January 5. If Republicans win either of the Georgia runoff races, they will retain control of the Senate. However, if they were to lose both seats to the Democrats, the result would be a 50-50 split in the Senate with the tie-breaker vote going to the new vice president, tipping power in favor of the Democrats. With Democrats in control of the presidency, House of Representatives, and Senate, markets may begin to factor in the likelihood of more progressive policies on taxes and tighter regulation. Given the market's strong rebound in November, driven by positive vaccine news and prospects for a balanced political environment, the market could be in for a negative shock.

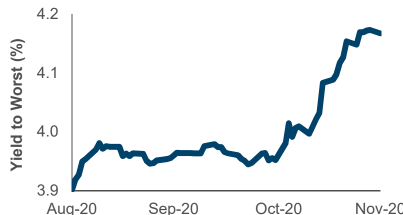
10 Year Cumulative Total Return (USD) by Regional Style

As of 30 November 2020



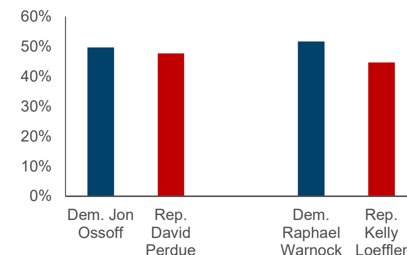
Chinese Corporate Bond Index[1] Yield to Worst

As of 30 November 2020



Georgia Senate Race Election Poll

As of 2 December 2020



Past performance is not a reliable indicator of future performance.
U.S. Growth = Russell 1000 Growth Index, U.S. Value = Russell 1000 Value Index, EAFE Growth = MSCI EAFE Growth Index, EAFE Value = MSCI EAFE Value Index, EM Growth = MSCI Emerging Markets Growth Index, EM Value = MSCI Emerging Markets Value Index.

Source: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"), MSCI, Bloomberg Finance L.P, Bloomberg Index Services Limited., SurveyUSA. Please see Additional Disclosures for information about this FTSE Russell and MSCI information.
[1]Chinese Corporate Bond Index represented by Bloomberg Barclays China Aggregate Corporate Bond Index.
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3 Regional Backdrop

As of 30 November 2020

	Positives	Negatives
United States	▪ Potential for additional round of fiscal support ▪ Monetary policy remains very accommodative ▪ Healthy consumer balance sheets and high savings rate ▪ Low rates driving strong housing market	▪ Heightened political uncertainty ▪ Increasing COVID-19 cases ▪ Elevated corporate and government debt levels ▪ U.S. dollar weakness
Europe	▪ Higher exposure to more cyclically oriented sectors that should benefit from economic recovery ▪ Monetary and fiscal policy remain accommodative ▪ Equity valuations remain attractive ▪ Stronger long-term euro outlook	▪ Second wave of virus leading to new lockdowns ▪ Elongated process to enact further stimulus ▪ Brexit likely to negatively impact trade ▪ Limited scope for European Central Bank to stimulate further
Developed Asia/Pacific	▪ Outbreaks thus far have been milder than in the rest of the world ▪ Strong fiscal and monetary support ▪ Smooth political transition gives hope for continued reforms ▪ Equity valuations are inexpensive	▪ Weak economic growth going into 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 ▪ Experiencing a weaker recovery than other developed regions
Emerging Markets	▪ Chinese economy has largely rebounded ▪ U.S. dollar weakness ▪ Exposure to cyclical areas of economy should benefit from broad global recovery ▪ Equity valuations attractive relative to developed markets	▪ Limited ability to enact fiscal stimulus (excluding China) ▪ Highly sensitive to global industrial production and trade trends, which have improved but remain muted ▪ Capacity and infrastructure to combat COVID-19 varies

4 Asset Allocation Committee Positioning

As of 30 November 2020

▼ or ▲ Month-Over-Month Change

These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.

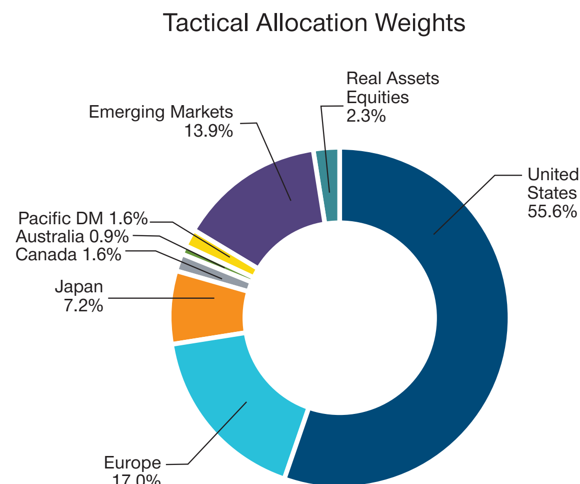
		Change	Underweight	Underweight	Neutral	Overweight	Overweight	
ASSET CLASS	Equities				■			Elevated valuations reflecting optimistic recovery outlook. Timing of vaccine distribution and pending fiscal stimulus will be key drivers.
ASSET CLASS	Bonds				■			Short-term yields remain anchored amid central bank pledges of support. Longer rates expected to move higher on improving growth and hints of inflation.
	Regions							
EQUITIES	U.S.	▼		■				Defensive sector profile is less supportive amid improving 2021 outlook. Potential U.S. dollar weakness could be an additional headwind. Stimulus still providing a backstop.
EQUITIES	Global Ex-U.S.	▲				■		Procyclical sector profile and attractive relative valuation amid improving global growth outlook. Aggressive stimulus measures and stable Chinese demand are supportive.
EQUITIES	Europe				■			Cyclically oriented sector profile and extremely low valuations among financials are supportive. However, long-term catalysts for sustained growth are scarce.
EQUITIES	Japan				■			Improving global trade outlook is a key driver. Potential refocus on reform efforts remains an important catalyst for higher valuations.
EQUITIES	Emerging Markets (EM)	▲				■		Exposure to global trade and favorable currency trends offer strong tailwinds. Within EM, we favor cyclical sectors (financials and industrials) and regions (Latin America and EMEA).
	Style							
EQUITIES	U.S. Growth	▼		■				Vulnerability to extended valuations, narrow leadership, and improving economic growth outlook could drive rotation toward more cyclical companies. Earnings trends remain supportive.
EQUITIES	U.S. Value	▲				■		Value equities could benefit from pent-up demand and economic improvement. Valuations have increased but remain attractive on a relative basis.
EQUITIES	Global Ex-U.S. Growth	▼		■				More defensive profile, with greater weights in staples and health care, is undesirable given the improving outlook for reopening.
EQUITIES	Global Ex-U.S. Value	▲				■		Deep cyclical orientation, cheap valuations, and rising rates could be catalysts for improving backdrop. Low rate levels and auto industry challenges remain headwinds.
	Capitalization							
EQUITIES	U.S. Large-Cap			■				Larger companies face challenging valuations, particularly in tech, and could lag as recovery advances. Less chance of tax reform risk is positive.
EQUITIES	U.S. Small-Cap					■		Relative valuations are attractive and continue to offer upside potential to economic recovery. Fiscal stimulus, positive vaccine news and consumer confidence have tempered bankruptcy risks thus far.
EQUITIES	Global Ex-U.S. Large-Cap				■			Economic weakness, secular challenges, and low rate environment are weighing on earnings outlook. However, improving economic outlook will be supportive going forward.
EQUITIES	Global Ex-U.S. Small-Cap				■			Vulnerable to consumer retrenchment in economies facing mobility restrictions. However, idiosyncratic opportunities are plentiful.
	Inflation-Sensitive							
EQUITIES	Real Assets Equities		■					Supply/demand dynamics for natural resources have improved, but transition to renewables is an overhang for entrenched players. Commercial real estate remains under pressure.
BONDS	U.S. Investment Grade (IG)			■				Nominal Treasury yields remain at low levels; potential for improving growth and additional fiscal stimulus could place upward pressure on yields.
BONDS	Developed Ex-U.S. IG (Hedged)					■		Yields remain anchored by central bank response to coronavirus-related economic weakness. Hedged yield advantage less pronounced with narrow yield differential.
BONDS	U.S. Treasury Long		■					Yields remain range-bound near record lows with extended duration and are vulnerable to steepening at the long end of the yield curve should growth expectations improve.
BONDS	Inflation-Linked				■			Inflation expectations could continue to rise amid improving growth outlook and highly accommodative monetary policy and supportive fiscal policy.
BONDS	Global High Yield	▼				■		Although spreads remain at attractive levels, relative valuations are less compelling after a significant rally since March. Risks remain with potential for downgrades and defaults.
BONDS	Floating Rate Loans	▲				■		Relative valuations are favorable and sector should benefit from shorter duration profile, supportive technical environment and higher standing in the capital structure.
BONDS	EM Dollar Sovereigns				■			Although sector offers attractive yield versus developed markets, relative valuations are less attractive after recent rally and concerns around fiscal support remain.
BONDS	EM Local Currency					■		Valuations remain attractive with continued accommodative monetary policy from developed market central banks and potential for weaker U.S. dollar.

5 Portfolio Implementation

As of 30 November 2020

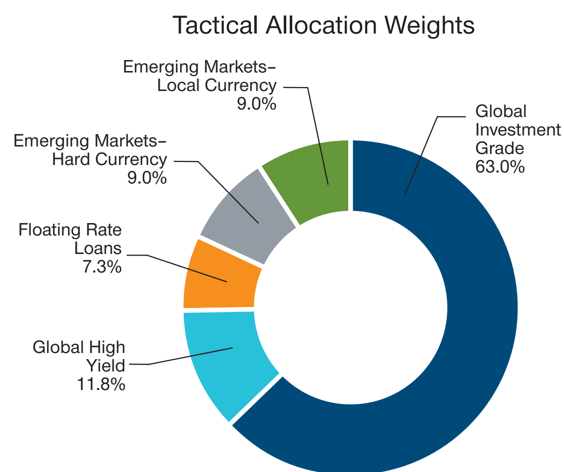
Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	53.9%	55.6%	+1.6%
Europe	16.4	17.0	+0.6
Japan	6.9	7.2	+0.3
Canada	2.6	1.6	-1.0
Australia	1.9	0.9	-1.0
Pacific – Developed Markets (DM)	1.3	1.6	+0.3
Emerging Markets	11.9	13.9	+1.9
Real Assets Equities	5.0	2.3	-2.8
Total Equity:	**100.0%**	**100.0%**	

Tactical Allocation Weights



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
Global Investment Grade (Hedged)	70.0%	63.0%	-7.0%
Global High Yield	10.0	11.8	+1.8
Floating Rate Loans	5.0	7.3	+2.3
Emerging Markets – Hard Currency	9.0	9.0	0.0
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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Source for Bloomberg Barclays index data: Bloomberg Index Services Limited. Please see “Additional Disclosures” on final page for information.

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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.
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