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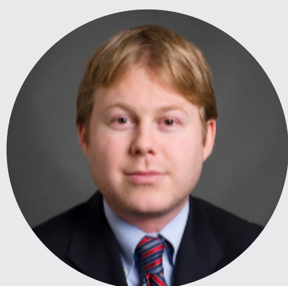
Meet Gabe Solomon

Portfolio Manager,
US Large-Cap Value Equity Strategy

June 2022



Gabe earned a B.A., summa cum laude, in economics from the University of California, Los Angeles (UCLA), where he was a Regents Scholar and a member of Phi Beta Kappa. He also earned an M.B.A. in finance and accounting from the University of Pennsylvania, The Wharton School.

19 years
Investment Experience

17 years
With T. Rowe Price

Baltimore
Office Location

April 2022
Lead Portfolio Manager,
US Large-Cap Value Equity Strategy

October 2021
Co-portfolio Manager,
US Large-Cap Value Equity Strategy

2014–2021
Portfolio Manager,
Financial Services Equity Strategy

2004–2014
Joined T. Rowe Price as a financial sector analyst

2002–2004
Joined Wellington Management Company as an equity analyst intern, information technology sector

Gabe Solomon's time as an analyst and portfolio manager (PM) focused on the financials sector serves as an excellent training ground for a value investor. The sector's size, diversity, and cyclical nature, and the complexity of many company balance sheets, provide a great grounding for investing across the value universe. The combination of a strong personal value discipline and working closely with a team of specialist sector analysts is instrumental in the decision-making that helps deliver value for our clients. This experience, and a long-term investment perspective, means Gabe is well placed in his current role as lead portfolio manager of the US Large-Cap Value Equity (LCV) Strategy.

Tell us about your background and how your prior T. Rowe Price role led to new portfolio management responsibilities.

Previously, I was portfolio manager of the Financial Services Equity Strategy, a large value-oriented sector. My investment approach is very much about collaboration, and this strategy certainly reflected this team-oriented approach. The combination of my own strong value orientation, together with being able to work alongside a team of expert analysts, was pivotal in making sound investment decisions and ultimately adding long-term value for our clients.

What attracted me to the LCV Strategy is that I am very much a value investor—I want to take a longer-term investment horizon, typically three to five years, to try and build value for clients. This time frame is important as it enables me to lean into controversy and to take contrarian positions when the risk/reward balance looks appealing. This is a strategy that really allows me to do that.

T. Rowe Price is a large firm with many talented analysts and investment managers. Something that I have learned during my experience both as an analyst and later as a portfolio manager is that the analysts really want to interact and work closely with the PMs. They want to question them and challenge them, and they also want to be challenged on their ideas and analysis. This is hugely important to me as a portfolio manager. I want open and constructive discussion, so I am very keen to foster these partnerships with the analyst team. I believe that this dynamic interaction, throughout the investment process rather than just at the concluding or recommendation stages, helps achieve better investment decisions and better outcomes for our clients.

What have you gleaned from the transition process, your predecessor, and the other investment professionals in the advisory group and elsewhere?

When I joined the LCV Strategy as co-manager in October 2021, the first thing I needed to do was learn about a lot of new industries, given I was moving from a sector-specific strategy to a broader, diversified value strategy. The support from the other co-managers on the strategy during this time, and the knowledge I was able to soak up, was invaluable.

I worked very closely with Heather McPherson, prior Lead Manager, throughout my transition process. Sitting in on countless company meetings and making investment decisions alongside her, as well as fellow Co-portfolio Managers Mark Finn and John Linehan, I had a tremendous opportunity to learn and to leverage their deep knowledge across the value spectrum. I was also able to spend a huge amount of time working closely with the analysts and getting to know them and their respective processes. They have all been tremendously helpful in making my transition onto the LCV portfolio a smooth one. The breadth of knowledge and different skill sets of my fellow co-managers, as well as the team of analysts, has been crucial in the lead-up to me taking over as lead manager earlier this year.

Having recently taken the helm as lead manager on the strategy, what changes have been made, and how long did the process take?

The transitioning of the portfolio from the previous lead manager is complete, and the process was finished roughly a month before I took over as lead manager in April 2022. We were able to do this so efficiently for a couple of reasons. First, I joined as co-portfolio manager on the strategy in October 2021, and I moved off my previous responsibility as Financial Services Equity Strategy manager at the beginning of July 2021. This allowed me a period of three to four months to focus solely on the LCV portfolio and work closely alongside Heather on the transition process.

Second, rather than wholesale change, the transition process was more focused on evolving the portfolio with a fresh set of eyes and reflective of the current environment. One of the early changes I wanted to make, for example, was to take some cyclical risk out of the portfolio. Previously, Heather and the team had done an excellent job of being contrarian and adding to cyclical stocks throughout 2020, at a time when you were well rewarded for the risk. And a lot of these additions, in financials and semiconductors, for example, have risen strongly since then. But by the end of 2021, valuations in some areas were looking full, such that you were no longer getting rewarded for the risk. Therefore, Heather and I jointly concluded that it was prudent to reduce some cyclical risk.

As the market environment has changed more recently, so too has the opportunity set changed. On the LCV Strategy, it has moved from us having far more sell ideas, or trimming candidates, toward the end of 2021 to finding many more attractively valued buy ideas in 2022. And we are incrementally adding some risk to the portfolio again. While the more attractive opportunities in late 2021 and early 2022 were defensive names in areas like utilities and pharmaceuticals, some cyclical companies have started to look appealing again more recently.

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Amid the current concerns about inflation and worries about a potentially stalling economy, cyclical sectors have borne the brunt of investor fears. These concerns, and the potential bad news, have been more than priced into valuations, in our view. We have spent a lot of time concentrating on the fundamental stories of these industries and the individual companies. We are finding good opportunities to buy fundamentally strong, long-term businesses at overly discounted valuations. This is particularly the case within the industrials sector, where the devaluation of many companies appears overdone and somewhat indiscriminate.

The technology and media sectors—areas not traditionally associated with value—are also looking more interesting, and we are spending a lot of time in this space given the prices of many large names have fallen substantially over recent quarters. We do not think we are quite over the hump of idiosyncratic risks affecting some of these businesses, but this is certainly an area of interest.

Conversely, the banking sector is one area where we are still quite cautious, as there is still considerable uncertainty as to where we are precisely in the current cycle.

Describe how the portfolio is positioned as well as your outlook.

In terms of the near-term U.S. outlook, I think we are at a fork in the road—will the economy slip into recession, or will it be avoided? If it is the former, I think it will likely be a mild recession. Company balance sheets are healthy, and some inflationary pressures will slowly start to recede, although not completely. At the margin, supply chains should also improve, and we may see some commodity prices weaken simply due to the demand destruction that tends to occur when entering a recession. This tends to put a lid on prices, which is precisely what the Fed is also trying to achieve. In the event of a mild recession, I think a lot of the stocks in the LCV portfolio are priced pretty well. We may see some near-term downside in areas like industrials but, again, the longer-term upside potential in many of the companies we own far outweighs any near-term volatility in our view.

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The second possibility is that we muddle through and that the Fed is able to successfully balance the competing challenges of supporting growth while also reining in inflation. We could also see some pressure released via a potential fall in commodity prices, for example. In this scenario, where recession is avoided, we believe a lot of the more cyclical stocks we own have a tremendous amount of potential upside, given the subdued pricing levels we are currently seeing.

My personal view is that a mild recession is the more likely possibility, but we are spending a lot of time thinking about potential downside, and managing risk appropriately, in either of the scenarios. The good news is that the investment ecosystem is still healthy—credit is not a big problem, consumers are in reasonable shape, and company balance sheets are healthy. So, this is no 1970s-like environment of 15%+ interest rates.

Market sentiment currently feels almost binary—if there is a recession, there are a lot of stocks that will potentially fall considerably, but if recession is avoided, then these same stocks have the potential to rise sharply. We aim to ensure that we are managing risk appropriately and are well positioned for either scenario. As such, we are applying a barbell approach in the portfolio, with some cyclical stocks, particularly industrials, that may see some near-term downside if there is a recession, but that have strong upside potential over the next three- to five-year period. Meanwhile, we maintain some more defensive exposure, in utilities and health care, for example—companies that offer solid longer-term potential, but that are expected to be more resilient amid near-term uncertainty or recession.

Tell us about your personal interests and how they might (or might not) intersect with your professional work.

Striking a healthy balance between work and personal life is important. My main interests are movies and sports. Growing up in the United States on the West Coast, I am a big LA Lakers basketball fan, and I follow the Dodgers in baseball. I also love simply spending quality time with my family.

Risks

The following risks are materially relevant to the portfolio.

Style risk—Different investment styles typically go into and out of favor depending on market conditions and investor sentiment.

General Portfolio Risks

Capital risk—The value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

Equity risk—In general, equities involve higher risks than bonds or money market instruments.

Environmental, social, and governance and sustainability risk—May result in a material negative impact on the value of an investment and performance of the portfolio.

Geographic concentration risk—To the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.

Hedging risk—A portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended.

Investment portfolio risk—Investing in portfolios involves certain risks an investor would not face if investing in markets directly.

Management risk—The investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably).

Operational risk—Operational failures could lead to disruptions of portfolio operations or financial losses.

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