



Global Asset Allocation Viewpoints and Investment Environment

1 MARKET THEMES

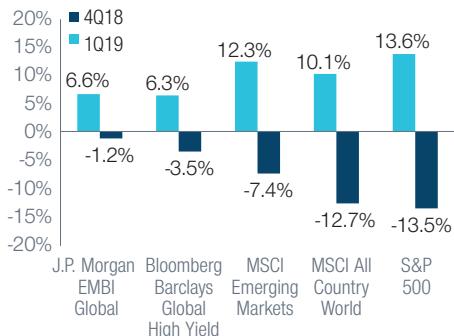
As of March 31, 2019

RISK ON!

On the back of the Fed's dovish pivot, risk assets are off to a banner start with the Morgan Stanley Capital International All World Index AC World (on a local currency basis) and the S&P 500 indexes returning 12.4% and 13.6%, respectively over the first three months of the year. This is their strongest quarterly return since September 2009 and the best first quarter since 1998. Commodities were also up strongly as oil had its best quarter in almost a decade. Does this foreshadow significant upside for the remainder of the year, or will markets trade sideways from here? Unusually strong starts have historically led to further strength, but with the bond market signaling that the end of the cycle may be near, markets may need another catalyst to carry the torch from here.

ASSET CLASS PERFORMANCE

Price Return in USD as of March 31, 2019

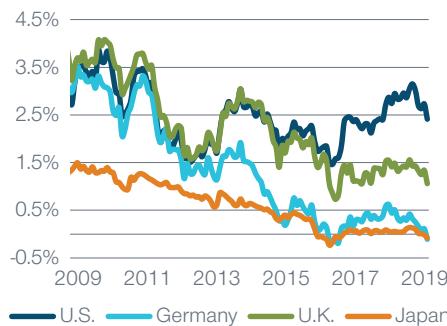


RETURN TO NEW NORMAL

Government bond yields around the world continued to slide as dovish signals for both the Fed and the European Central Bank (ECB) sent the yield on the 10-year U.S. Treasury note to its lowest level since December 2017. While the U.S. Fed sees solid underlying economic fundamentals, they have indicated their willingness to be patient in the face of low inflation and slowing growth, and the bond market is pricing in an outright cut in 2019. At the same time, the ECB has further delayed its timeline for policy normalization and announced additional stimulus, highlighting concerns about slowing global growth. Is the recent rally in rates simply an extension of the cycle or a harbinger of recession?

10-YEAR GOVERNMENT BOND YIELDS

March 31, 2009 to March 31, 2019

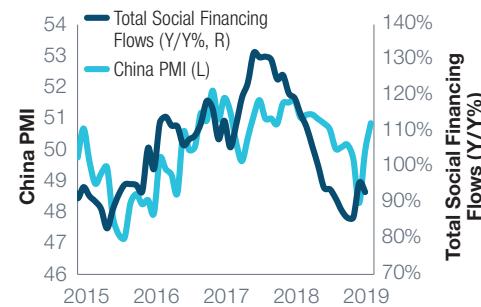


COMING IN FOR A (SOFT) LANDING

China's recent economic slump appears to be stabilizing as the effects of stimulus measures begin to filter through the economy. Chinese fixed-asset investment and manufacturing purchasing managers' index (PMI) beat expectations last month thanks to infrastructure spending, with the PMI posting the biggest increase in seven years and the first significant monthly improvement since mid-2018. Additionally, despite ongoing posturing from negotiators from the U.S. and China, both sides seem keen to broker a deal to head off an escalation of a trade war that has been weighing on global sentiment. While clearly positive, will these green shoots be enough to stabilize global growth?

CHINA CREDIT GROWTH VS. CHINA PMI

January 1, 2015 to March 1, 2019



2 REGIONAL BACKDROP

As of March 31, 2019

Positives

- More dovish Fed, stable inflation
- Healthy consumer spending, improving wages
- Trade deal with China appears likely
- Greater share of secularly advantaged companies than rest of world

UNITED STATES

Negatives

- Moderating economic growth with fading fiscal stimulus
- Late-cycle concerns: tight labor market, rising wages, and elevated margins
- Political uncertainty and trade tensions
- Deteriorating near-term earnings expectations

Past performance is not a reliable indicator of future performance.

Sources: J.P. Morgan Chase & Co., Standard & Poor's, Haver Analytics / People's Bank of China, Caixin / IHS. Financial data and analytics provider FactSet. Copyright 2019 FactSet. All Rights Reserved.

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2 Regional Backdrop (cont.)

As of March 31, 2019

Positives

- Highly accommodative monetary policy
- Indirect beneficiary of China stimulus
- Political headwinds in Italy and France have eased

EUROPE

Negatives

- Eurozone economy struggling, with limited scope for ECB to respond
- Export weakness, vulnerable to trade and China growth
- Political unity remains a concern with Brexit looming
- Banking sector remains challenged

UNITED KINGDOM

- The economy has softened after a strong summer
- Brexit (Britain leaving the European Union) uncertainty remains a significant headwind, with intense political divisions enduring and no clear path forward

DEVELOPED ASIA & PACIFIC

- Bank of Japan (BOJ) committed to aggressive policy, Reserve Bank of Australia (RBA) on hold in face of rising inflation
- China stimulus could support regional trade
- Japanese fiscal stimulus to be implemented in April
- Broadly attractive valuations, particularly in Japan
- Improving corporate governance trends in Japan

- Valuations continue to trade at a discount to global equity markets
- Allocations to UK equities by global investors are at extremely low levels

EMERGING MARKETS

- Muted inflation, more dovish Fed give central banks flexibility to ease
- Chinese stimulus appears to be taking hold
- U.S.-China trade deal appears likely
- Global trade indicators appear to be stabilizing
- With growth in tech sector, less tied to commodity cycle

- Highly exposed to slowing global economic growth and trade tensions
- Japanese economic and earnings growth continue to be much weaker than hoped
- Stronger yen on risk aversion could weigh on exports
- Australia facing slowing economy with weakness in housing
- Australian earnings down sharply

- Long-term China growth trajectory remains a headwind
- China stimulus more measured and domestically focused
- Highly linked to global trade
- Currencies face renewed pressure
- Near-term earnings expectations deteriorating
- Instability in Turkey could persist

3 PORTFOLIO POSITIONING

As of March 31, 2019

EXECUTIVE SUMMARY

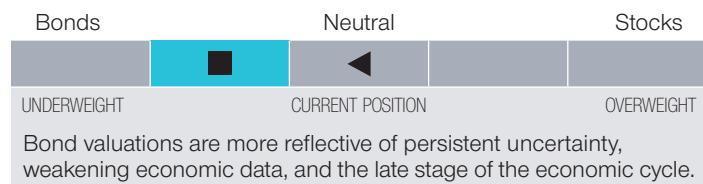
The T. Rowe Price Asset Allocation Committee evaluates the relative attractiveness of major asset classes over a 6- to 18-month time horizon. These positions are currently reflected across our family of multi-asset investment strategies, which accounted for approximately **\$286 billion** in assets under management as of March 31, 2019.*

EXUBERANCE MAY BE OVERTONE

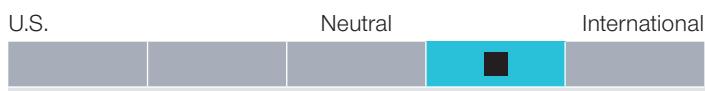


- We **moderated our position in small-cap stocks in the U.S.** given recent strength and favorable liquidity in the face of moderating domestic growth.
- We continued to **reduce our exposure to developed market value stocks outside the U.S. in favor of growth** as value-oriented sectors within those regions, such as financials, may be challenged by moderating economic growth.
- We **added to hedged international bonds** as they offer an attractive hedged yield for U.S. dollar investors.

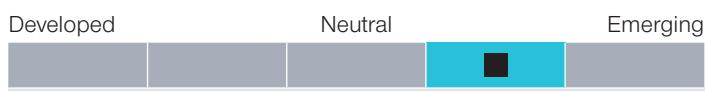
*The combined asset allocation assets managed by T. Rowe Price Associates, Inc. and its investment advisory affiliates, including T. Rowe Price Investment Services, Inc. This figure includes assets that are held outside of T. Rowe Price but where T. Rowe Price influences trade decisions.



EQUITIES



International equities have attractive valuations relative to history but slowing global growth and trade risks present headwinds.



Emerging markets equities are attractive, supported by improving sentiment.



Declining global growth and oversupply could weigh on energy and commodity prices.

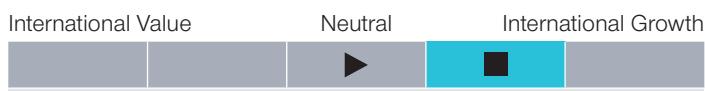


U.S. small-cap equities are attractive and less susceptible to trade and global growth concerns.



U.S. growth stocks are priced above historical averages, while value stocks lack a catalyst to advance

EQUITIES (CONT.)



International value stocks may be challenged by broad economic weakness.

FIXED INCOME



High yield corporate fundamentals remain broadly positive with low default expectations.



Broad emerging markets debt yields are attractive, supported by improving fundamentals.



International bond durations remain extended.

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