T. Rowe Price®
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints and Investment Environment

1 MARKET THEMES

As of December 31, 2019

MAKING "GLOBAL EX-U.S." GREAT AGAIN?

In 2019, the U.S. stock market continued its streak of outperforming, rising by more than 31% versus 21% for the rest of the world, as measured by the S&P 500 Index and the MSCI All Country World ex-U.S. Index (in USD). More amazing is that U.S. markets have outpaced the rest of the world by nearly 200% over the past decade. Markets outside the U.S. were plagued by a decade that saw the European debt crisis, two recessions in Europe, bouts of political uncertainty across the globe, including Brexit, and more recently, the impacts of the trade war. Entering 2020, markets outside the U.S. are benefiting from easing trade tensions and stabilizing global growth, which could be a tailwind due to their more cyclically oriented economies. Given these improvements, still attractive relative valuations, and cheap currencies—notably within emerging markets—could this be the beginning of the end of U.S. (markets) exceptionalism or just a temporary reprieve?

UN-PRICING A RECESSION

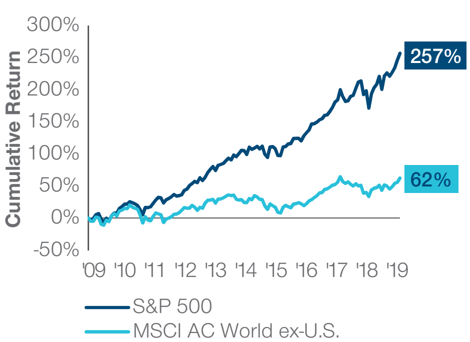
The U.S. yield curve has reached its steepest level since October 2018 as investors continue to gain confidence in the growth outlook amid waning concerns about trade. In fact, yield curves around the world are showing signs of re-steepening as investors begin to shed lower-yielding assets for riskier ones. The curve steepening reflects a reversal of the safe-haven trade we saw in August that drove the U.S. yield curve into inversion, a common predictor of a recession. Although consensus is not calling for a full-blown reflation trade at this stage of the cycle, investors' appetite for sectors that benefit from higher rates, like financials, has increased alongside inflation protected securities. Further improvement in sentiment and growth could lead to a continued repricing higher of inflation and rate expectations. However, there remains no shortage of global risks entering 2020, notably unresolved trade issues, tensions in the Middle East, and the upcoming U.S. presidential election.

SHOW ME THE EARNINGS!

After 2018's tumultuous close to the year, U.S. stocks didn't look back throughout 2019, with the S&P 500 Index closing near record levels, up more than 31%. The stellar performance more than compensated for 2018's 4% loss, resulting in just over 12% annualized returns over the past two years. Despite flat earnings growth throughout 2019, stocks found support from improving trade negotiations and the U.S. Federal Reserve (Fed) success in engineering a "mid-cycle adjustment." With valuations back near 2018 highs, markets will likely look for earnings growth to sustain the recent momentum. Currently, earnings estimates for 2020 are slated for close to 10%. Although many investors are reluctant to buy into the optimistic estimates, further improvement in economic data and abating trade risk could spur corporate and consumer spending, making the current 2020 earnings growth rate of 10% not so far-fetched.

U.S. VS. GLOBAL EX-U.S. EQUITY MARKET RETURNS

December 31, 2009 to December 31, 2019

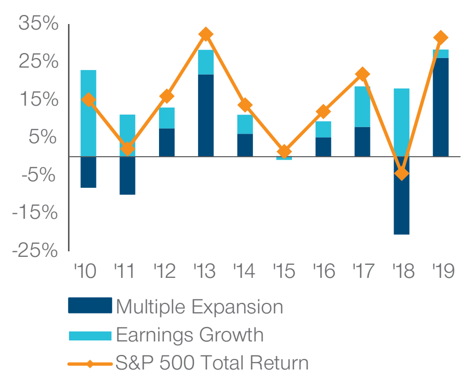


U.S. TREASURY YIELD CURVE SLOPE

Difference between 10-Year and 2-Year Yield
June 30, 2018 to December 31, 2019

S&P 500 RETURN DRIVERS

Earnings Growth vs. Multiple Expansion
December 31, 2009 to December 31, 2019



Past performance is not a reliable indicator of future performance.

Sources: Standard & Poor's, MSCI, Bloomberg Finance L.P., financial data and analytics provider FactSet. Copyright 2020 FactSet. All Rights Reserved.
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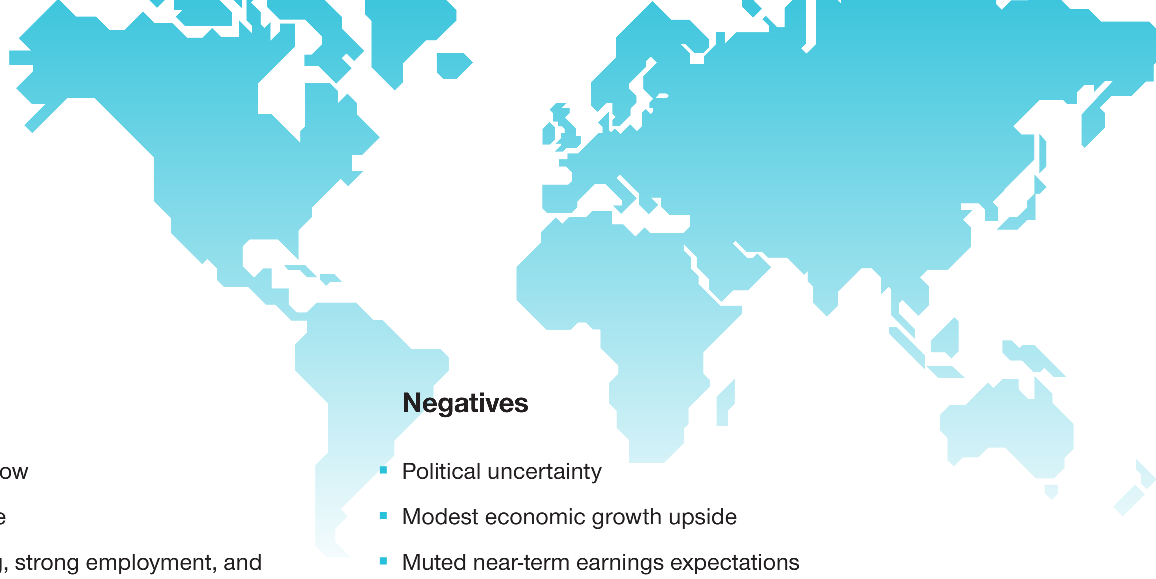

2 Regional Backdrop

As of December 31, 2019

	Positives	Negatives
UNITED STATES	▪ Fed likely on hold, inflation low ▪ Growth expected to stabilize ▪ Healthy consumer spending, strong employment, and improving wages ▪ Lower interest rates driving a modest rebound in housing ▪ Pause in trade war escalation ▪ Greater share of secularly advantaged companies (e.g., cloud computing, internet retail) than rest of the world	▪ Political uncertainty ▪ Modest economic growth upside ▪ Muted near-term earnings expectations ▪ Weak capex spending and corporate confidence ▪ Late-cycle concerns: tight labor market, rising wages, and corporate margins under pressure ▪ Elevated corporate and government debt levels
EUROPE	▪ Monetary policy remains very accommodative ▪ Services sector of the economy resilient ▪ Dividend yields remain strong ▪ Political uncertainty waning ▪ Indirect beneficiary of China stimulus	▪ Economic growth is challenged, with notable weakness in the manufacturing sector ▪ Limited scope for European Central Bank (ECB) to stimulate further ▪ Export weakness, vulnerable to trade and China growth ▪ Banking sector remains weak
DEVELOPED ASIA & PACIFIC	▪ Stabilizing global economic outlook should be supportive for export-driven economies attractive valuations, particularly in Japan ▪ Improving corporate governance trends in Japan ▪ Fiscal stimulus enacted in Japan ▪ Australian housing market stabilizing	▪ Highly sensitive to global industrial production trends and trade tensions ▪ Market may be pricing in an unrealistic level of support from Bank of Japan and Reserve Bank of Australia ▪ Earnings growth remains tepid
EMERGING MARKETS	▪ Muted (but rising) inflation, Fed has given central banks flexibility to ease ▪ Easing trade tensions ▪ Equity valuations attractive relative to developed markets ▪ With growing importance of tech sector, less tied to commodity cycle	▪ Instability in several key markets could weigh on sentiment ▪ Long-term China growth trajectory remains a headwind ▪ China stimulus more measured and domestically focused ▪ Commodity prices remain under pressure

3 PORTFOLIO POSITIONING

As of December 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 as of December 31, 2019.

STEPPING INTO CYCLICAL EXPOSURE

- Modestly added to equities from bonds as sentiment has continued to improve for risk assets due to supportive monetary policy and further stabilization in global growth.
- Within equities, we added to markets outside the U.S., including emerging markets and global ex-U.S. value, based on attractive relative valuations, improving global growth, and potential upside in currencies, notably within emerging markets.
- Within fixed income, we further trimmed duration exposure by rotating from long-term U.S. Treasuries into less duration-sensitive floating rate loans that should be supported with the Fed on hold.

4 ASSET ALLOCATION COMMITTEE POSITIONING

As of December 31, 2019

Bonds | Neutral | Stocks

UNDERWEIGHT | CURRENT POSITION | OVERWEIGHT

Stabilizing global growth may be supportive for equities.

EQUITIES

U.S. | Neutral | International

International equities have attractive valuations relative to the U.S. and are supported by accommodative central banks.

Developed | Neutral | Emerging

Emerging markets equities are attractive, given easing trade tensions and an improving growth outlook.

Global Equity | Neutral | Real Assets

Improving global growth outlook could be supportive for commodities, but an oversupply may weigh on prices.

Large-Cap | Neutral | Small-Cap

U.S. small-cap equities are attractive with cyclical tailwinds, but they are susceptible to late-cycle pressures.

U.S. Value | Neutral | U.S. Growth

U.S. growth stocks are less sensitive to broad economic events, while U.S. value stocks lack a durable catalyst to advance.

EQUITIES (CONT.)

International Value | Neutral | International Growth

International value stocks could benefit from improving global growth and higher interest rates.

FIXED INCOME

U.S. Investment Grade | Neutral | U.S. High Yield

U.S. investment-grade spreads remain relatively tight, while high yield bonds are attractive with low default expectations.

U.S. Investment Grade | Neutral | Emerging Markets

Emerging markets debt yields are broadly attractive, but country-specific risks are a challenge.

U.S. Investment Grade | Neutral | Ex U.S. Investment Grade

International bond durations remain extended but central bank policies are favorable.

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