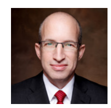
T.RowePrice®
INVEST WITH CONFIDENCE

GLOBAL ASSET ALLOCATION: THE VIEW FROM EMEA

JULY 2019

MARKET INSIGHTS

As of June 30, 2019



Yoram Lustig
Head of Multi-Asset Solutions, EMEA

It's The Central Banks, Stupid!

Global manufacturing data continued to sow doubts on the outlook for economic growth as the impact of lingering trade uncertainty on corporate sentiment became more pronounced. Data have continued to weaken over the first half of the year with the global manufacturing PMI falling below the expansion threshold in June, marking the lowest level since February 2016. Weakness was broad-based with the headline number and new orders falling in all regions. Despite these persistent signs of a weakening global environment, markets seem confident that central banks will provide a backstop. So far, central bank rhetoric has supported markets, but, if needed, will the response be sufficient to reverse the economic trend?

Synchronized Pivot

Macro risks remain to the downside as business sentiment and global capex have been adversely impacted by trade uncertainty, leading expectation for central bank easing to become increasingly synchronized. Following the pivot by the Federal Reserve, recent comments from European Central Bank (ECB) President Mario Draghi increased expectations that monetary easing would be forthcoming in the eurozone, and Australia has moved to an easing stance. This could be good news for emerging markets as dovishness in developed markets and signs that the U.S. dollar strengthening trend may have peaked would provide cover to cut rates amid still-low inflation.

Truce, But Not Real Progress

While expectations for the meeting between U.S. President Donald Trump and Chinese President Xi Jinping at the G-20 summit were low, the resulting truce is a positive development following months of escalating tensions. But will it be enough to support markets from here? Risk assets had already rallied strongly year-to-date on the back of dovish comments from the Fed and the ECB, with U.S. equities posting the best start to the year since 1997. However, the recent strength of safe-haven assets such as gold and sovereign bonds raises some concerns. While the truce avoided further escalation, the core issues (e.g., intellectual property) remain unresolved. Markets rejoice in the detente, but there are no clear signs that the trade war is over.

FIG. 1: Manufacturing PMI
December 2016 to June 2019

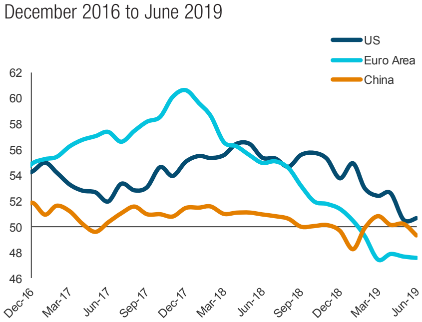


FIG. 2: Futures Market Expectations for Rate Cut in July
December 31, 2018 to June 30, 2019

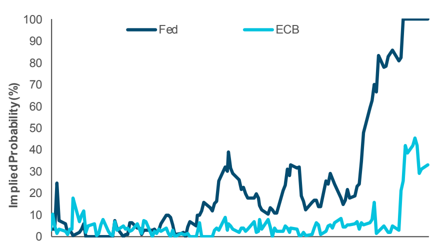


FIG. 3: Year-to-Date Total Return
As of June 30, 2019

Past performance is not a reliable indicator of future performance.
Sources: The European Union, MSCI, Standard & Poor's, FactSet, and Bloomberg Index Services Limited (see Additional Disclosures).

FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.

	Positives	Negatives
Developed Europe	▪ Monetary policy remains very accommodative ▪ Indirectly benefiting from China stimulus ▪ Dividend yields remain strong	▪ Economic growth is muted ▪ Limited scope for ECB to stimulate further ▪ Export weakness, vulnerable to trade and China growth ▪ Banking sector remains challenged ▪ The composition of the new European Union Parliament could lead to difficulties
United Kingdom	▪ The number of people working in the UK recently reached a record high ▪ Unemployment remains at its lowest level in around 44 years ▪ The extension of Article 50 to October 31, 2019, has deferred the prospect of a disorderly Brexit	▪ PMI data suggest that the UK economy may have contracted during the second quarter ▪ The prospect of a no-deal Brexit is rising, which—if it occurs—could trigger a recession ▪ Weak economic outlook likely to continue weighing on sterling
United States	▪ Dovish Fed, stable inflation ▪ Healthy consumer spending, strong employment, and improving wages ▪ Lower rates driving a rebound in housing ▪ Pause in trade war escalation ▪ Greater share of secularly advantaged companies (e.g., cloud computing, internet retail) than rest of world	▪ Election in 2020 ▪ Slowing economic growth with fading fiscal stimulus ▪ Muted near-term earnings expectations ▪ Faltering capex spending and corporate confidence ▪ Late-cycle concerns: tight labor market, rising wages, and elevated margins ▪ Elevated corporate and government debt levels

	Positives	Negatives
Japan	▪ Expectations for economy and corporate earnings have been marked down significantly given poor economic momentum, creating upside surprise risk ▪ Recent data suggest economic slowdown may have found a bottom ▪ Japanese stocks have rarely been cheaper. Meanwhile, improving governance seen through buybacks and return on equity, along with increasing number of start-ups, remains underappreciated	▪ Corporate earnings are highly sensitive to the global economy, which is, at best, stabilizing at below-potential growth rate ▪ Japan is left out of global monetary easing trend. Despite the Bank of Japan's (BoJ) commitment to an ultra-loose monetary policy, there is not much room left for additional easing ▪ The yen is likely to appreciate given weak valuation, uncertain risk sentiment, and lower interest rate differential with the U.S. An exchange rate below 109 versus the U.S. dollar raises earnings concerns
Asia ex Japan	▪ Benefits from Chinese stimulus measures yet to be seen. Recent data have been mixed, but it is too early to call a bottom in growth trajectory ▪ Chinese monetary policy is labeled as prudent, but new proactive measures can still be expected to address specific stress areas for small businesses and banks ▪ Australian economy seems resilient with business confidence stabilizing and housing-related downside risks diminishing ▪ The Reserve Bank of Australia delivered on the first rate cut as expected. Given the explicit focus on the NAIRU measure of unemployment, more rate cuts are expected	▪ Uncertainty in Chinese trade talks with the U.S. presents the major risk. The impact on capex, supply chains, and trade activity are still difficult to fully evaluate ▪ A firm political stance from China versus the U.S. might create undesired consequences domestically in the medium term ▪ Recent buoyant price movements in Australia seem disconnected with below-potential economic growth and could reflect overly optimistic expectations for the RBA and newly elected government ▪ Commodity prices are set to roll over as the global economy slows and specific supply disruptions are progressively resolved
Emerging Markets	▪ Muted inflation, more dovish Fed give central banks flexibility to ease ▪ Benefit from Chinese stimulus ▪ Equity valuations attractive relative to developed markets ▪ With growing importance of tech sector, less tied to commodity cycle	▪ Export-driven economies are highly vulnerable to rising trade tensions ▪ Instability in several key markets (Turkey, Argentina, and Brazil) could persist ▪ Long-term China growth trajectory remains a headwind ▪ China stimulus more measured and domestically focused

ASSET ALLOCATION COMMITTEE POSITIONING

As of June 30, 2019

Underweight — *Neutral* — *Overweight* ▼ or ▲ Month-Over-Month Change

	Change	*Underweight*	*Underweight*	*Neutral*	*Overweight*	*Overweight*	**These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.**
ASSET CLASSES							
Equities			■				Above-average valuations with risks rising. Equities vulnerable to further political uncertainty and economic weakness.
Bonds					■		Yields lower amid slowing global growth, credit fundamentals still supportive, provide a buffer to equity volatility.
Cash					■		U.S. yields most attractive among developed markets but may have peaked with Fed on hold.
EQUITIES							
Regions							
U.S.			■				Earnings growth weakening with valuations elevated. U.S. market less vulnerable to slowing global growth.
Europe				■			Growth outlook pressured amid concerns over exports, banking system, and elevated political risks.
UK				■			Valuations attractive relative to the U.S., but uncertainty due to Brexit has been prolonged by the EU's decision to grant a six-month extension.
Japan				■			Trends in corporate governance and monetary policy are supportive. Export dependency and stronger yen potential are headwinds.
Asia ex Japan			■				Valuations are still attractive relative to U.S. China stimulus measures are likely to flow through to the broader region, and improving economic activity is expected in the second half of 2019.
Emerging Markets					■		Valuations attractive amid growing trade concerns and earnings weakness. China stimulus measures and more dovish Fed should be supportive.
Style							
Global Equity Growth					■		Quality growth bias, less exposed to global growth slowdown, but valuations are extended versus history.
Global Equity Value			■				Cyclical orientation and financials exposure are challenged by persistently low rate environment and fading growth outlook.
Capitalization							
Global Equity Large-Cap				■			Exposed to strength of global trade. Upside dependent on impact of China stimulus.
Global Equity Small-Cap				■			Valuations reasonable. Weak domestic growth trends and political uncertainty weighing on confidence in key markets.

ASSET ALLOCATION COMMITTEE POSITIONING

As of June 30, 2019

Underweight — *Neutral* — *Overweight*

▼ or ▲ Month-Over-Month Change

		Change	*Underweight*		*Neutral*	*Overweight*		**These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.**
BONDS	U.S. Investment Grade			■				Yields low on concerns from growth but limited inflation upside. Investment-grade (IG) corporate spreads still tight relative to history.
BONDS	European Investment Grade				■			Yields lower year-to-date driven by dovish ECB. IG corporate spreads tight relative to history, but technical backdrop is supportive.
BONDS	UK Investment Grade					■		Yields lower year-to-date amid slowing growth and modest inflation. Bank of England is likely to stay put until resolution of Brexit.
BONDS	Inflation Linked				■			Inflation expectations low but could drift higher with support from more dovish Fed.
BONDS	Global High Yield					■		Yield carry attractive with near-term default expectations low, but the late stage of credit cycle is a risk.
BONDS	Floating Rate Loans				■			Yield level remains attractive, but step-ups are less likely with Fed pivot.
BONDS	EM Dollar Sovereigns					■		Yields are attractive, but heightened political uncertainty in several key markets remains a significant headwind.
BONDS	EM Local Currency					■		Emerging market (EM) currency valuation remains attractive, but volatility likely to be elevated over the near term.
BONDS	EM Corporates					■		Yields are attractive relative to fundamentals. Rising country-specific risks are concerning but unlikely to become systemic.
CURRENCIES	U.S. Dollar	▼		■				The U.S. dollar continues to be relatively well supported on broad measures. Valuations remain a headwind to dollar strength as does easing growth and fiscal support.
CURRENCIES	Euro					■		Political uncertainties, largely related to Brexit, remain. Weak economic indicators and a dovish tilt to ECB policy continue to hold the common currency in check.
CURRENCIES	UK Sterling				■			The weak economic backdrop for GBP allied with ongoing uncertainty regarding UK political direction and Brexit fallout continue to cloud the outlook for sterling.
CURRENCIES	Japanese Yen					■		The Japanese yen has recently been buoyed by risk aversion, and we expect this support to dissipate. We expect little from the BoJ in terms of policy changes into year-end.

INVEST WITH CONFIDENCE℠

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

T.RowePrice®

ADDITIONAL DISCLOSURES

The S&P 500 Index is a product of S&P Dow Jones Indices LLC, a division of S&P Global, or its affiliates ("SPDJI"), and has been licensed for use by T. Rowe Price. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). T. Rowe Price's product is not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P or their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product nor do they have any liability for any errors, omissions, or interruptions of the S&P 500 Index.

Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

MSCI and its affiliates and third-party sources and providers (collectively, "MSCI") makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. Historical MSCI data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

Key Risks—The following risks are materially relevant to the information highlighted in this material:
Even if the asset allocation is exposed to different asset classes in order to diversify the risks, a part of these assets is exposed to specific key risks.

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

Credit risk—a bond or money market security could lose value if the issuer's financial health deteriorates.

Currency risk—changes in currency exchange rates could reduce investment gains or increase investment losses.

Default risk—the issuers of certain bonds could become unable to make payments on their bonds.

Emerging markets risk—emerging markets are less established than developed markets and therefore involve higher risks.

Foreign investing risk—investing in foreign countries other than the country of domicile can be riskier due to the adverse effects of currency exchange rates, differences in market structure and liquidity, as well as specific country, regional, and economic developments.

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.

Real estate investments risk—real estate and related investments can be hurt by any factor that makes an area or individual property less valuable.

Small and mid-cap risk—stocks of small and mid-size companies can be more volatile than stocks of larger companies.

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

Important Information

This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, and prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

It is not intended for distribution to retail investors in any jurisdiction.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

EEA ex-UK—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

UK—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

South Africa—T. Rowe Price International Ltd ("TRPIL") is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (FSP Licence Number 31935), authorised to provide "intermediary services" to South African investors.

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

ID0002444 (07/2019)
201907-893737