T.RowePrice®
INVEST WITH CONFIDENCE

GLOBAL ASSET ALLOCATION: THE VIEW FROM EMEA

Yoram Lustig
Head of Multi-Asset Solutions, EMEA

FEBRUARY 2020

MARKET INSIGHTS

As of January 31, 2020

Pandemic Threat

The coronavirus outbreak has become a worldwide health crisis, impacting lives across the globe. The uncertain extent of the outbreak has caused a sell-off in risk assets. Many have compared this health emergency with the severe acute respiratory syndrome (SARS) outbreak in 2002–2003 but note stark differences in the increased size of the Chinese economy and how integrated the country is in supply chains worldwide. Another key difference is that the MSCI All Country World Index (in USD) had lost nearly 20% in 2002, just before SARS, compared with a 27% surge in 2019, putting today's market at risk for a larger correction. As the virus continues to spread, it remains to be seen if it will be a temporary shock to the global economy or have more long-lasting impacts. While China's initial steps to support its economy may provide temporary relief for the markets, volatility is likely to persist around the news flow.

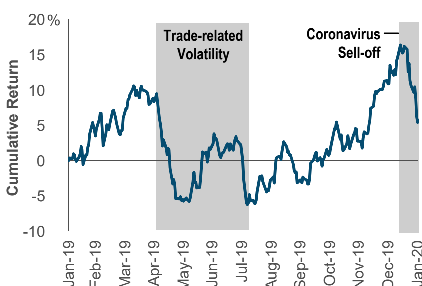
U.S. GDP: Consumer Getting Frugal?

U.S. gross domestic product (GDP) growth for Q4 2019 came in at 2.1%, matching estimates and potentially solidifying investor confidence in the improving global growth narrative. Net exports led the way due to an unusual and temporary 9% plunge in U.S. imports, resulting from the trade war. It is important to note that the tariffs simply reduced U.S. demand for imports, which increased net exports, as opposed to an increase in U.S. exports and production as the catalyst. Continuing to look under the hood, the steady headline number may be masking some soft spots in consumer and business spending. With tax cuts and government spending from 2017 and 2018 now behind us, the economy has been reliant on the U.S. consumer to buoy the markets. We have now seen consumer spending moderate over recent months, and while it is hard to call it a trend at this point, it is certainly worth watching, particularly as unemployment remains low and wages are improving.

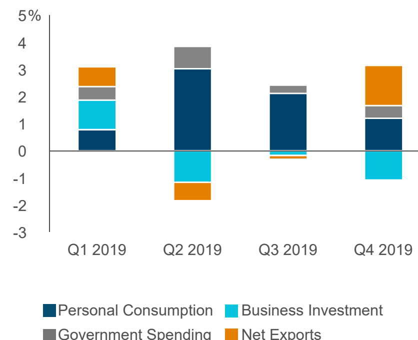
Back in the Game?

At its January meeting, the Federal Reserve (FED) kept interest rates on hold but stated that it would take measures to combat global disinflation, implying a dovish path for rates. With the coronavirus outbreak threatening to stifle global growth, market sentiment indicates that the Fed may need to step back in, now pricing in at least one rate cut by the end of 2020. Amid the dovish shift in sentiment, the three-month to 10-year part of the yield curve has inverted for the first time since October 2019, further signaling fears that the nascent recovery in growth may stall. While acknowledging that the Fed is closely monitoring current risks, Chairman Jerome Powell indicated that it would take a longer-term threat to growth to reengage the Fed. While hopeful the virus outbreak crisis proves temporary, markets are at least suggesting that the Fed may need to get off the bench and start warming up.

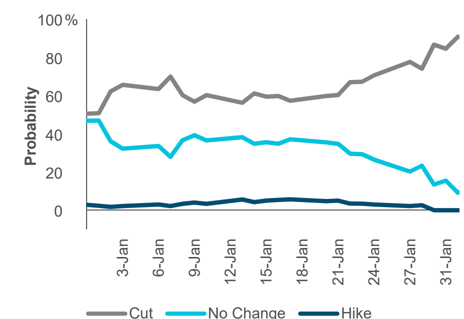
MSCI China Equity Index
Fig. 1: As of January 31, 2020
Figures are in USD



U.S. Real GDP Growth
Fig. 2: Breakdown by Expenditure
As of December 31, 2019



Probability of Fed Rate Changes
Fig. 3: By December 2020 Meeting
As of January 31, 2020



Past performance is not a reliable indicator of future performance.

Sources: MSCI and Bloomberg Finance L.P., see (Additional Disclosures). Financial data and analytics provider FactSet. Copyright 2020 FactSet. All Rights Reserved.

FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.

	Positives	Negatives
Developed Europe	▪ Monetary policy remains very accommodative ▪ Services sector of the economy resilient ▪ Dividend yields remain strong ▪ Political uncertainty waning	▪ Economic growth is challenged, with notable weakness in the German manufacturing sector ▪ Limited scope for ECB to stimulate further ▪ Export weakness, vulnerable to trade and China growth ▪ Banking sector remains weak ▪ Persistent potential for political turbulence
United Kingdom	▪ Wage growth remains positive despite continued uncertainty over Brexit ▪ Very strong rebound in composite PMI due to reduction of political uncertainty, indicates sharp improvement in activity ▪ Inflation remains steady, albeit below target ▪ The trade balance deficit remains in a range that can be sustained by the net excess returns on the UK's external balance sheet ▪ Britain's fiscal position provides flexibility for government spending to be increased should the economy weaken	▪ Rise in uncertainty about comprehensive trade deal (phase two) by December 2020 ▪ Sterling will continue to make hard yards ▪ Weaker global activity due to the coronavirus will affect the UK as well
United States	▪ Fed likely on hold, inflation low ▪ Growth expected to stabilize, hard data remain muted ▪ Healthy, albeit muted, 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 ▪ 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

	Positives	Negatives
Japan	▪ Economic data should rebound following the global recovery and some base effects ▪ Large fiscal stimulus announced in December should be additive to growth in 2020 and relieve some pressure from the Bank of Japan to ease further ▪ Japanese stocks remain attractive from a valuation perspective; earnings momentum is finally improving ▪ Fiscal stimulus enacted	▪ Topline growth and earnings are subdued relative to global peers ▪ Consumer and business confidence indices remain weak ▪ A U-turn in expectations regarding the next move from the Bank of Japan weighed on yields and could potentially push the Japanese yen higher
Asia ex-Japan	▪ Stabilizing global economic outlook would be supportive for export-driven economies ▪ Improving corporate governance trends in Japan ▪ Australian housing market stabilizing	▪ Potential sharp slowdown in demand from China ▪ Highly sensitive to global industrial production trends and trade tensions ▪ Market may be pricing in an unrealistic level of support from the Japanese and Australian central banks ▪ Earnings growth remains tepid
Emerging Markets	▪ Muted (but rising) inflation, dovish 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	▪ Negative impact of the coronavirus ▪ Commodity prices under pressure ▪ Instability in several key markets could weigh on sentiment ▪ Long-term China growth trajectory remains a headwind ▪ China stimulus more measured than in previous slowdowns

ASSET ALLOCATION COMMITTEE POSITIONING

As of January 31, 2020

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 higher earnings expectations. Global central bank liquidity supportive of growth outlook but near-term outlook clouded by the coronavirus outbreak.
	Bonds			■				Yields lower on risk-off sentiment. Valuations remain extended. Credit spreads wider but still tight relative to history, with fundamentals broadly supportive.
	Cash				■			U.S. cash yields less attractive post-Fed easing but remain higher than other developed markets.
	Regions							
EQUITIES	U.S.			■				Valuations extended with margins under pressure; however, earnings expected to rebound amid improving growth outlook.
	Europe					■		Growth outlook stabilizing, but German manufacturing, impact of Brexit, Chinese demand, and banking system remain concerns. ECB continues to be supportive.
	UK	▲				■		Valuations attractive relative to the U.S., but Brexit uncertainty is likely to remain elevated. There have been some improvements in the economy since the December general election.
	Japan					■		Monetary and fiscal policy supportive; export dependency and yen remain key drivers.
	Developed Asia ex-Japan			■				Valuations are still attractive relative to the U.S. while China stimulus measures may flow through to the broader region. The coronavirus is likely to impact tourism from China.
	Emerging Markets (EM)					■		Fed on hold, cheap currencies, and China stimulus supportive; the magnitude of the coronavirus outbreak impacts difficult to gauge.
	Style							
	Global Equity Growth					■		Secular growth companies less sensitive to macro environment; valuations remain elevated, and election-driven regulatory concerns a potential risk.
	Global Equity Value			■				Valuations attractive and could benefit on improving economic growth sentiment; however, still lack durable catalysts for sustained performance.
	Capitalization							
	Global Equity Large-Cap			■				Valuations trending above historical averages, with earnings expected to rebound in 2020.
	Global Equity Small-Cap					■		Valuations attractive amid improving late-cycle growth, but high leverage and wage pressure are risks.

ASSET ALLOCATION COMMITTEE POSITIONING

As of January 31, 2020

Underweight — *Neutral* — *Overweight*   ▼ 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.

Category	Asset Class	Change	Underweight	Underweight	Neutral	Overweight	Overweight	Comment
BONDS	U.S. Investment Grade (IG)			■				Yields higher on growth improvement, but upside limited amid still low inflation. IG corporate spreads remain tight relative to history.
BONDS	European Investment Grade					■		Historically low yields are underpinned by a dovish ECB. Credit remains trapped in a tug of war between tight valuations and weakening fundamentals and a supportive technical backdrop.
BONDS	UK Investment Grade				■			Following the UK's formal departure from the EU, trade negotiations form a risk during 2020. The UK economy has seen some improvements since December's general election.
BONDS	Inflation Linked				■			Inflation expectations lower on growth scare. Central banks remain supportive, but longer-term downward pressures persist.
BONDS	Global High Yield					■		Yield carry attractive with near-term default expectations low. Vigilant on late-stage risks of credit cycle.
BONDS	Floating Rate Loans					■		Yields remain attractive with limited new issuance, and lower duration profile supportive.
BONDS	EM Dollar Sovereigns					■		Yields remain attractive, with central banks supportive; idiosyncratic/political risks remain a source of uncertainty.
BONDS	EM Local Currency					■		EM currency valuation remains attractive; improving growth and a weaker U.S. dollar could provide tailwinds.
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 USD rallied in January, reversing part of the weakness seen at the end of 2019. Positioning had become extended in the short term, and that likely weighed on global fixed income.
CURRENCIES	Euro					■		Recent data in Europe continue to support our view that growth has found a floor. We expect both deepening and broadening of the commitment to fiscal impulse over the coming quarters.
CURRENCIES	UK Sterling					■		Sterling has effectively tracked sideways since the Conservative Party's election victory in December. With electoral uncertainty gone, GBP could still outperform given attractive valuations.
CURRENCIES	Japanese Yen				■			The JPY tracked in a broad range during the month, ending stronger as its typical safe-haven qualities came to the fore.

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

Source: Unless otherwise stated, all market data are sourced from Factset. Financial data and analytics provider FactSet. Copyright 2020 FactSet. All Rights Reserved.

Used with permission of Bloomberg Finance L.P.

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 and/or marketing purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. 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.

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.

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.

© 2020 T. Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the bighorn sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc.

ID0003003 (02/2020)
202002-1092693