Crisis Playbook (Part II)—The Power of “Stop Getting Worse”
Looking beyond to find the best outcomes for clients.

We believed the coronavirus would spread, so we acted early. We moved to reduce risks in the portfolio that weren’t conducive to the deteriorating backdrop, and we neutralized balance sheet issues as much as possible. We leveraged our global research platform to focus on the stocks we want to own as this crisis deepens, but also for when we come out on the other side.

If you are going to de-risk, you need to do it early. Why? Because as any crisis unfolds, the longer-term opportunities become potentially compelling. This crisis is no different.

We believe the Global Focused Growth Equity Strategy is a tool that offers exposure to compelling investment ideas, always balancing conviction at the stock level with risk mitigation individually and collectively. We have made changes to the strategy in the past few weeks and, importantly, feel good about how it is positioned today for the medium to long term.

David Eiswert
Portfolio Manager,
Global Focused Growth Equity Strategy

The freezing of economic activity is too powerful for the global economy to withstand without a significant impact.

We believe there are three key signposts to look out for:

1. Massive and virtually unconstrained fiscal and monetary stimulus.

   Already, we are seeing this scenario rapidly unfold globally. Governments and policymakers have learned the disconnect between longer-term economic value (the present value of free cash flow) and the acute impact of short-term financial obligations (rent, interest and principal payments, payrolls, etc.). This is not a debt crisis, or in any way a normal economic cycle, because of the root cause.

   Stocks typically bottom when the economic environment “stops getting worse,” not when economic or earnings data are trending better. Given this, we need to focus on signs that indicate when it will “stop getting worse” as opposed to focusing on the elimination of all risk until things get better.

   We believe there are three key signposts to look out for:

   1. Massive and virtually unconstrained fiscal and monetary stimulus.

      Already, we are seeing this scenario rapidly unfold globally. Governments and policymakers have learned the
lessons of the global financial crisis. Stimulus is necessary to bridge the gap between longer-term economic value and short-dated financial obligations. In the same way I will personally support my local restaurant through this crisis, we expect governments to support jobs in their individual countries. To this end, huge fiscal and support packages are being planned or announced around the world. Crisis causes change, and fiscal and monetary support is needed along with lower interest rates. Governments have the will and the balance sheets to do this.

2. Treatment and testing for the virus.

Although a vaccine is not likely in the short term, treatments should begin to improve over the coming months, and testing will become more ubiquitous. Our health care research team has been doing amazing work analyzing progress in these areas and mapping out likely outcomes.

3. Peaking infection rates.

Things will get worse, especially for the developed world that is behind China and the rest of Asia. For some countries, the “peak of this virus” is yet to come, and we will see more and more restrictive measures implemented. However, there should be a strong correlation between peaking infection rates and troughing stock prices. U.S. infection rates should peak in the next couple of months, based on an acceleration of quarantine restrictions and social distancing. If people take this seriously, we know that infection rates will peak, with the experience in Asia providing a useful guide.

All three of these signposts are indicators that can signal the emergence of a “stop getting worse” period—the peak of the crisis. Stocks are likely to bottom as these factors align, and we want to be positioned appropriately.

Look to the Future

Looking beyond the immediate disruption to the global economy, we must imagine dealing with this virus over the longer term and how the world might change. We believe there is a high probability that a vaccine will be developed. We have faith in science and human ingenuity. But this could be 12 months or more away. In the meantime, some businesses will recover quickly as the crisis normalizes, while others will take longer. It is important to be focused on those that can recover fastest, but at the same time, we need to understand the real value of companies that may take longer and then pick our spots for investment.

We also want to be focused on companies that see accelerated fundamental momentum within their industries directly resulting from the coronavirus shock. This crisis is going to allow for experimentation that could potentially translate to longer-lasting behavioral changes within society. If we can use our global research platform to identify companies that will benefit from this, we can be ahead of the curve. Many of these companies are likely to be in the technology and health care space.

Finally, what does massive fiscal and monetary stimulus mean for interest rates and the financials sector? Do we begin to see crowding out? Do government demand for cash and friction in the economy lead to inflation and higher interest rates, contrary to the forces of technology unlocking capacity and demographics pressuring deflation? This all needs to be worked out.

As I noted in my last blog, T. Rowe Price Insights: Crisis Playbook—The Fear of Loss and Regret, my experience is that investors often regret not buying
great assets in times of crisis. While being respectful of risk control, both our experience and investment framework tell us that if we focus on great assets on the right side of change, we can potentially reap rewards over the long term.

The recession will cause economic hardship, and its origin is clearly frightening. The question we face day to day is how to invest around the circumstances to best help our clients.

Our aim remains the same—to provide our clients with a vehicle to capitalize on the long-term value creation of great companies while at the same time balancing risk and reward.

This is the time for active management to shine, both in mitigating risk on the downside, but also in creating value as we work our way through this crisis to the other side.
T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

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.

Australia—Issued in Australia by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. For Wholesale Clients only.

Canada—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.’s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

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.

Hong Kong—Issued by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

New Zealand—Issued in New Zealand by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

Singapore—Issued in Singapore by T. Rowe Price Singapore Private Ltd., No. 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

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.

USA—Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors 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.