T. Rowe Price®
INVEST WITH CONFIDENCE

QUARTERLY REVIEW

New Income Fund

As of June 30, 2020

PORTFOLIO HIGHLIGHTS

The portfolio outperformed the Bloomberg Barclays U.S. Aggregate Bond Index for the three-month period ended June 30, 2020.

Relative performance drivers:

- Sector allocation contributed.
- Security selection was also helpful.
- Interest rate management had a slightly additive effect on performance.

Additional highlights:

- As the volatility eased in the corporate sector starting at the beginning of the quarter, we became more active in the IG corporate new issue market and added to the portfolio's corporate allocation
- The economy and markets appear to have moved from a crisis phase into a more typical recessionary phase. As the economy reopens in phases, we expect a slow, steady recovery in the second half of 2020 into 2021.

FUND INFORMATION

Symbol	PRCIX
CUSIP	779570100
Inception Date of Fund	August 31, 1973
Benchmark	Bloomberg Barclays US Agg Index
Expense Information (as of the most recent Prospectus)*	0.51% (Gross) 0.50% (Net)
Fiscal Year End	May 31
12B-1 Fee	–
Total Assets (all share classes)	$22,409,598,854
Percent of Portfolio in Cash	0.7%

*The Fund operates under a contractual expense limitation that expires on September 30, 2020. The fund's net expense ratio reflects a permanent waiver of a portion of the T. Rowe Price Associates, Inc. management fee charged to the fund. This waiver is an amount sufficient to fully offset any acquired fund fees and expenses related to investments in other T. Rowe Price mutual funds. T. Rowe Price funds would be required to seek regulatory approval in order to terminate this arrangement.

PERFORMANCE

(NAV, total return)

				Annualized					
	Three Months	Year-to-Date	One Year	Three Years	Five Years	Ten Years	Fifteen Years	30-Day SEC Yield	30-Day SEC Yield w/o Waiver°
New Income Fund	5.70%	2.58%	5.24%	4.12%	3.57%	3.49%	4.28%	1.92%	1.92%
Bloomberg Barclays U.S. Aggregate Bond Index	2.90	6.14	8.74	5.32	4.30	3.82	4.39	–	–

CALENDAR YEAR PERFORMANCE

(NAV, total return)

	Inception Date	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
New Income Fund	Aug 31 1973	7.16%	6.25%	5.86%	-2.26%	5.74%	0.18%	2.64%	4.01%	-0.63%	9.26%
Bloomberg Barclays U.S. Aggregate Bond Index		6.54	7.84	4.21	-2.02	5.97	0.55	2.65	3.54	0.01	8.72

Performance data quoted represents past performance and is not a reliable indicator of future performance. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. To obtain the most recent month-end performance, visit troweprice.com. Consider the investment objectives, risks, and charges and expenses carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, call 1-800-638-7780 or visit troweprice.com. Read it carefully. The Fund's total return figures reflect the reinvestment of dividends and capital gains, if any.
°Excludes the effect of contractual expense limitation arrangements. If the expense waiver was not in effect for the 30-Day period shown, there may not be a difference in the 30-day SEC yields shown above.
The fund is subject to the risks of fixed income investing, including interest rate risk and credit risk.
The fund(s) may have other share classes available that offer different investment minimums and fees. See the prospectus for details. For Sourcing Information, please see Additional Disclosures.

PERFORMANCE REVIEW

Credit sectors snap back in second quarter
The U.S. investment-grade bond market posted solid returns in the second quarter as credit spreads tightened after widening in the first quarter.

U.S. Treasuries produced modest returns amid slight yield curve steepening. Investor risk appetite increased as economies slowly began reopening. After the economy shed over 20 million jobs in April, nonfarm payrolls rose by 2.5 million in May versus consensus forecasts for a decline of 8 million, surprising the market. The unemployment rate for May decreased to 13.3% from 14.7% the prior month. However, due to a misclassification of furloughed workers in the household survey, the unemployment rate was likely at least 16.0%, according to the Bureau of Labor Statistics. After its June policy meeting, the Federal Open Market Committee announced that it would continue purchasing Treasuries at its current pace of approximately USD 80 billion per month, along with agency MBS at its current pace of roughly USD 40 billion per month, to support market functioning and broader financial conditions.

Investment-grade (IG) corporate bonds generated robust returns in the second quarter, benefiting from healthy investor demand for yield amid low global rates. Explicit support from the Federal Reserve's asset purchase programs provided a boost to sentiment as well, and spreads tightened. Spread tightening lost some momentum toward the end of the period, though, as increasing coronavirus cases and geopolitical tensions between the U.S. and China put upward pressure on corporate spreads at times. Technical conditions remained supportive. Companies took advantage of extremely low rates, generating a record level of new supply that was met with solid demand from yield-seeking investors.

Securitized credit sectors produced solid excess returns but trailed corporates. Performance was bifurcated as bonds at the top of the capital structure retraced nearly all of their first-quarter spread widening, but bonds with lower levels of credit enhancement and areas more adversely impacted by the virus continued to struggle with fundamental challenges.

Corporate rebound drove relative performance
Credit markets strongly recovered in the second quarter following the worst sell-off since the global financial crisis, which struck at unprecedented speed over the course of just four weeks from late February through early March. The rebound was similarly impressive as the Federal Reserve's support for financial markets, both actual and pledged, successfully compressed large liquidity premiums that had been priced into credit spreads.

With credit spreads tightening, the portfolio's underweight to U.S. Treasuries and overweight to IG corporate bonds, along with out-of-benchmark exposures to high yield, leveraged loans, and EM corporate bonds, were significant contributors to relative performance. Corporate bonds generated strong excess returns versus duration-matched Treasuries as the Fed began buying corporate ETFs as well as a broad basket of individual corporate bonds. Ultralow government bond yields also stimulated large inflows into corporate bond funds, enabling companies to issue record amounts of new bonds to raise capital and help weather the recession.

Security selection added value overall
Within the IG corporate sector, energy names contributed as oil prices rallied after briefly plunging into negative territory in April. Overweight positions in companies such as Diamondback Energy, Williams Companies, Energy Transfer Partners, and Boardwalk Pipelines produced strong results. A position in index-level credit default swaps in the IG corporate sector was another significant contributor.

Holdings in the CMBS sector also contributed to relative performance. Single-asset/single-borrower and some subordinated issues, two areas that performed poorly in the first quarter as the economy shut down, rebounded as the economy began to gradually reopen and investors were drawn by attractive valuations.

Interest rate management was slightly additive
Duration positioning had a slightly negative effect overall. We entered the quarter with a slightly longer duration posture than the benchmark before shifting to a neutral posture in mid-April. The portfolio's yield curve positioning was slightly additive versus the benchmark as the Fed's zero interest rate policy and large-scale asset purchases kept Treasury yields suppressed. Although there was some upward pressure on longer-term yields in early June as economic data improved, highlighted by a surprisingly strong employment report, the 10-year Treasury yield ended the quarter at 0.65%, marginally lower than its level at the end of March.

PORTFOLIO POSITIONING AND ACTIVITY

As the positive effects of the massive injections of monetary and fiscal stimulus started to take shape over the quarter, we shifted to a more neutral overall duration positioning. We believe a neutral duration posture is appropriate with Treasury yields vacillating in a tight range. We also built a bias for a steepening yield curve into the portfolio.

Added to IG corporate bonds
As the volatility eased in the corporate sector near the beginning of the quarter, we became more active in the IG corporate new issue market and added to the portfolio's corporate allocation and rotated some exposure away from emerging market corporates. We worked closely with our analysts to ensure that what we hold in the portfolio has more upside potential in a stronger recovery scenario and less downside if the economic recovery stalls. The Fed's purchase program in the corporate sector should help mitigate any spread

Emerging markets (EM) allocations have been a source of funds for the rotation into IG corporate credit. We believe that IG corporates offer better fundamentals than EM credit and should benefit more from direct central bank support.

Within corporates, we are overweight in sectors where we believe spreads may have room to recover, such as real estate investment trusts and energy.

Maintained securitized allocation
The portfolio's exposure to securitized debt remained relatively steady over the quarter. However, we worked actively in collaboration with our analysts to identify and eliminate positions where we had credit concerns in the wake of the recession.

MANAGER'S OUTLOOK

The economy and markets appear to have moved from a crisis phase into a more typical recessionary phase. As the economy reopens in phases, we expect a slow, steady recovery in the second half of 2020 into 2021. While some recent growth data have surprised to the upside, this recovery phase will likely be less linear going forward as the primary risk becomes the long tail of the lockdown and associated solvency risk. Fiscal risk will also move to the forefront as the current emergency provisions enacted by Congress must soon be extended to address consumer and small business solvency. Fiscal policy uncertainty is likely to be resolved, particularly in an election year, but not without causing volatility.

While the fiscal debate plays out, monetary policy can largely work in the background with the appropriate forward guidance. The combination of fiscal and monetary support can help the economy weather a potential second wave of the virus, as there is now a better understanding of virus risks and progress toward a vaccine.

Fed policymakers have repeatedly stated that they want to keep interest rates low as we work through this unprecedented economic recession and will likely keep policies focused on expanding the balance sheet in place for the foreseeable future to shore up financial markets. The Fed has also made repeated references to wanting to see inflation persistently higher before reengaging with rate hikes, suggesting to us that policy will likely remain accommodative longer than expected.

With short-term rates held near zero, we also expect that longer-term yields, especially the 30-year tenor, will be more responsive to economic activity and inflation expectations, meaning that as lockdowns unwind and virus concerns abate, we could see yields in this area of the curve rising faster relative to the short end. Fiscal expansion likely will continue into the next presidential term regardless of the administration. But, clearly, volatility can work in both directions-although we expect longer-term yields to rise in line with better economic data, this could also be where we see the most potential for a response if we hit another bout of economic turbulence, so we remain cautious.

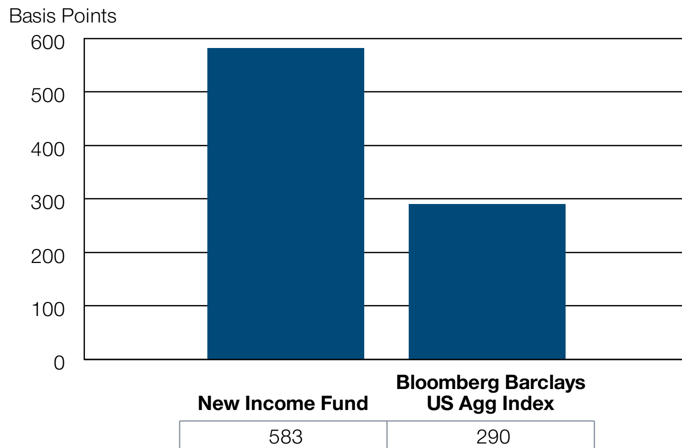
Risks around the outlook and market narrative are now more balanced than they were earlier in the second quarter. Bouts of volatility should provide opportunities, particularly with the view that we will transition into a classic early-cycle growth environment as 2021 approaches. Spreads remain attractive from a long-run perspective, and fiscal and monetary policy continue to support an overall low volatility environment. Credit markets are recovering at different speeds, and we expect the more cyclical parts of the market along with sectors and securities that were impacted more by the virus to experience significant recoveries alongside the economy into 2021.

As the economy exits recession and begins to recover, we intend to focus on a combination of those positions that still offer high-risk premiums (e.g., CMBS, ABS, and certain corporate subsectors) and classic early-cycle sectors, such as high yield bonds and longer-duration IG corporates. In terms of interest rate management, we plan to position for a steeper curve but keep duration tactically around neutral until the midcycle phase, when Fed rate hikes may start to come into view.

QUARTERLY ATTRIBUTION

OVERALL PERFORMANCE: FUND VS. BLOOMBERG BARCLAYS US AGG INDEX

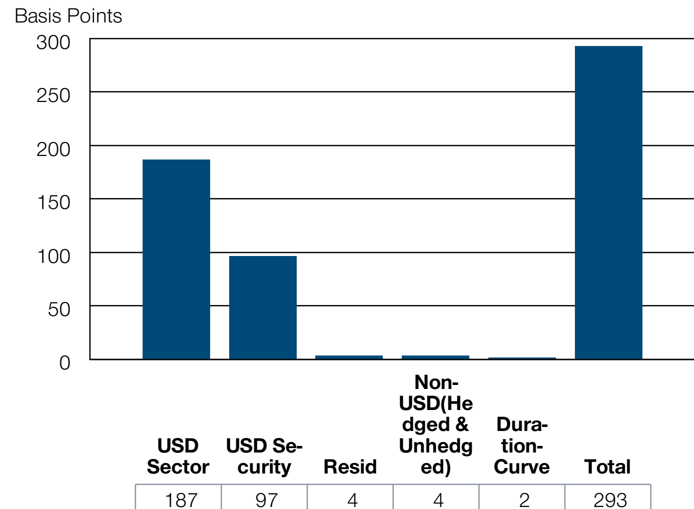
(3 months ended June 30, 2020)



New Income Fund	Bloomberg Barclays US Agg Index
583	290

CONTRIBUTION TO EXCESS RETURN: FUND VS. BLOOMBERG BARCLAYS US AGG INDEX

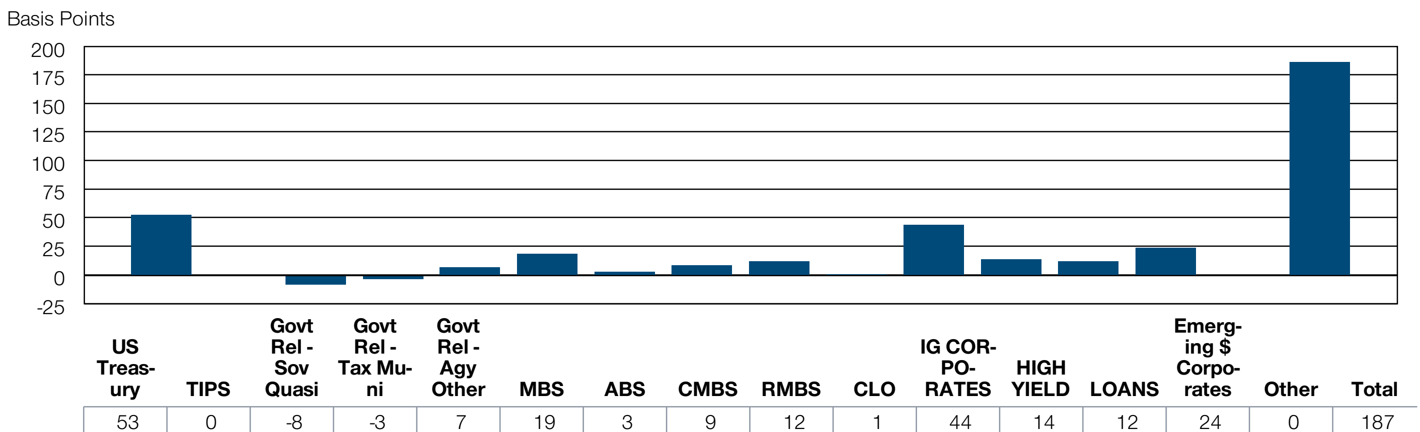
(3 months ended June 30, 2020)



USD Sector	USD Security	Resid	Non-USD(Hedged & Unhedged)	Duration-Curve	Total
187	97	4	4	2	293

SECTOR ALLOCATION: FUND VS. BLOOMBERG BARCLAYS US AGG INDEX

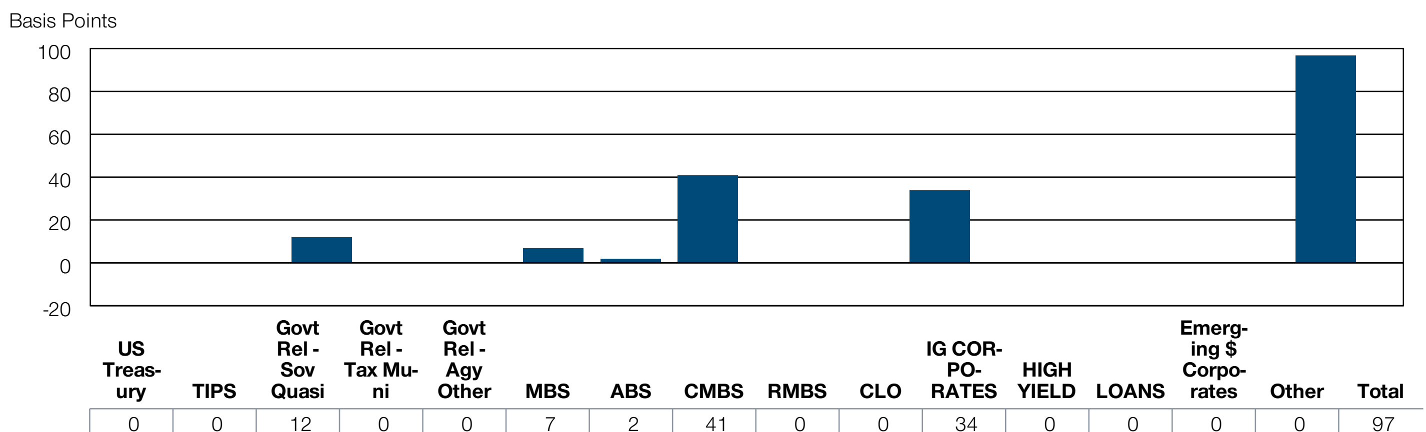
(3 months ended June 30, 2020)



US Treasury	TIPS	Govt Rel - Sov Quasi	Govt Rel - Tax Muni	Govt Rel - Agy Other	MBS	ABS	CMBS	RMBS	CLO	IG CORPORATES	HIGH YIELD	LOANS	Emerging $ Corporates	Other	Total
53	0	-8	-3	7	19	3	9	12	1	44	14	12	24	0	187

SECURITY SELECTION DETAILS: FUND VS. BLOOMBERG BARCLAYS US AGG INDEX

(3 months ended June 30, 2020)



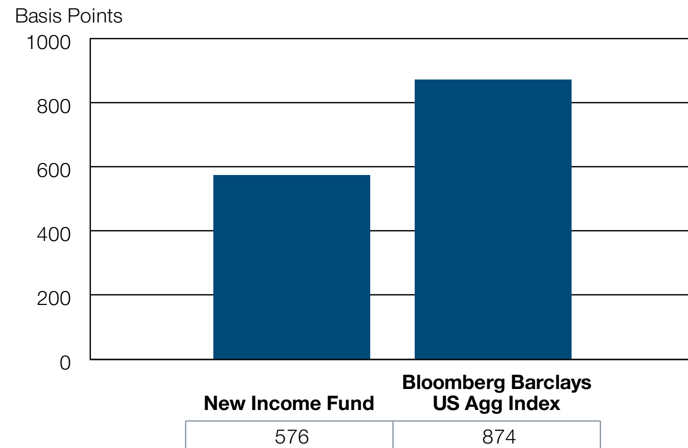
US Treasury	TIPS	Govt Rel - Sov Quasi	Govt Rel - Tax Muni	Govt Rel - Agy Other	MBS	ABS	CMBS	RMBS	CLO	IG CORPORATES	HIGH YIELD	LOANS	Emerging $ Corporates	Other	Total
0	0	12	0	0	7	2	41	0	0	34	0	0	0	0	97

Past performance is not a reliable indicator of future performance.
Source: Bloomberg Index Services Limited.
Analysis represents the performance of the portfolio compared to its benchmark as calculated by the Bloomberg attribution model. Performance is attributed to a set of portfolio decisions such as credit quality, duration and yield curve exposures, relative sector weightings, and security selection. Performance for each security is obtained in the local currency and, if necessary, is converted to U.S. dollars using an exchange rate determined by an independent third party. Figures are shown gross of fees. Returns would have been lower as a result of the deduction of such fees. For Sourcing Information, please see Additional Disclosures.

12-MONTH ATTRIBUTION

OVERALL PERFORMANCE: FUND VS. BLOOMBERG BARCLAYS US AGG INDEX

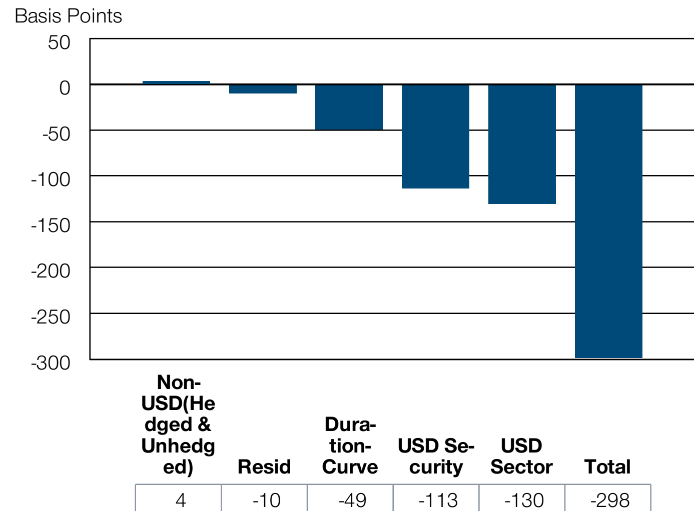
(12 months ended June 30, 2020)



New Income Fund	Bloomberg Barclays US Agg Index
576	874

CONTRIBUTION TO EXCESS RETURN: FUND VS. BLOOMBERG BARCLAYS US AGG INDEX

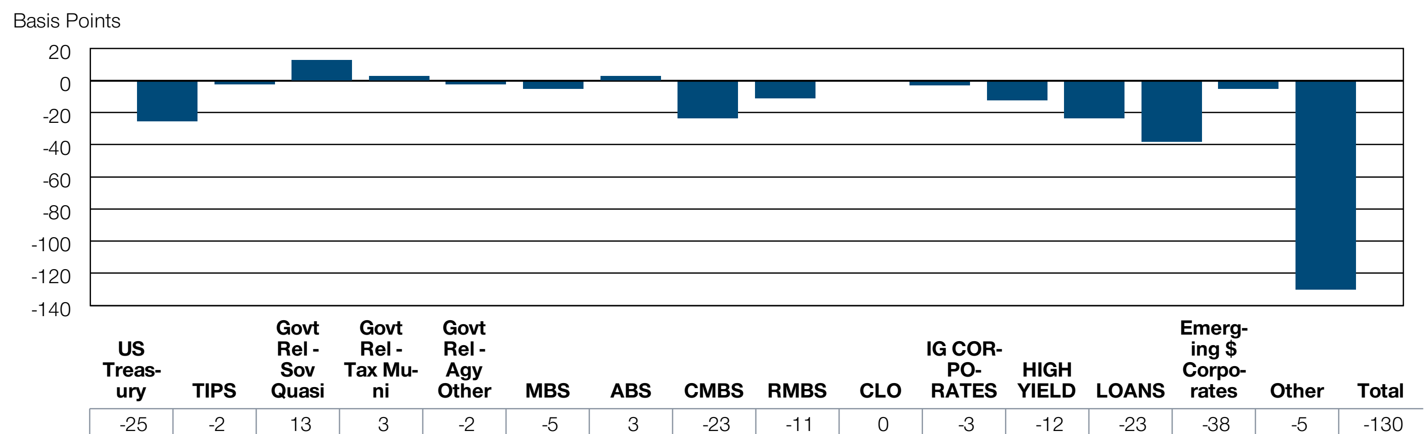
(12 months ended June 30, 2020)



Non-USD(Hedged & Unhedged)	Resid	Duration-Curve	USD Security	USD Sector	Total
4	-10	-49	-113	-130	-298

SECTOR ALLOCATION: FUND VS. BLOOMBERG BARCLAYS US AGG INDEX

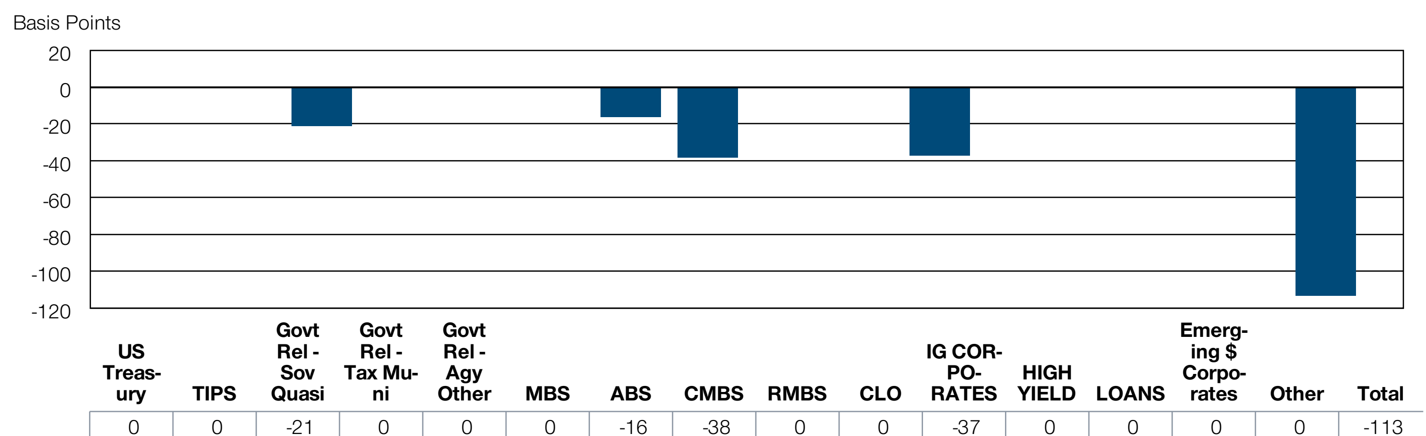
(12 months ended June 30, 2020)



US Treasury	TIPS	Govt Rel - Sov Quasi	Govt Rel - Tax Muni	Govt Rel - Agy Other	MBS	ABS	CMBS	RMBS	CLO	IG CORPORATES	HIGH YIELD	LOANS	Emerging $ Corporates	Other	Total
-25	-2	13	3	-2	-5	3	-23	-11	0	-3	-12	-23	-38	-5	-130

SECURITY SELECTION DETAILS: FUND VS. BLOOMBERG BARCLAYS US AGG INDEX

(12 months ended June 30, 2020)



US Treasury	TIPS	Govt Rel - Sov Quasi	Govt Rel - Tax Muni	Govt Rel - Agy Other	MBS	ABS	CMBS	RMBS	CLO	IG CORPORATES	HIGH YIELD	LOANS	Emerging $ Corporates	Other	Total
0	0	-21	0	0	0	-16	-38	0	0	-37	0	0	0	0	-113

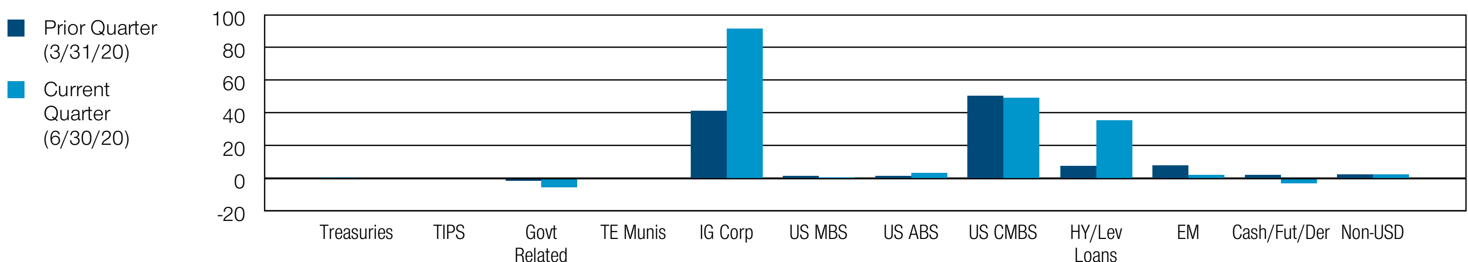
Past performance is not a reliable indicator of future performance.
Source: Bloomberg Index Services Limited.
Analysis represents the performance of the portfolio compared to its benchmark as calculated by the Bloomberg attribution model. Performance is attributed to a set of portfolio decisions such as credit quality, duration and yield curve exposures, relative sector weightings, and security selection. Performance for each security is obtained in the local currency and, if necessary, is converted to U.S. dollars using an exchange rate determined by an independent third party. Figures are shown gross of fees. Returns would have been lower as a result of the deduction of such fees. For Sourcing Information, please see Additional Disclosures.

RISK ANALYSIS

RISK FACTOR CONTRIBUTION

	Contribution to TEV (Annualized) 3/31/20 (Prior Quarter)	Contribution to TEV (Annualized) 6/30/20 (Current Quarter)
Systematic	114.7 bps	191.2 bps
Foreign Exchange	0.0	0.0
Curve	-6.3	4.9
Inflation Linked	0.0	0.0
Swap Spreads	3.8	2.4
Volatility	-0.3	-0.2
Spread Government Related	2.7	-5.3
Spread Credit and EMG	58.7	123.4
Spread Securitized	53.5	56.6
Spread Other	2.6	9.3
Equity	0.0	0.1
Idiosyncratic	4.4	1.9
Total	**119.0**	**193.1**

SECTOR CONTRIBUTION TO RISK VERSUS BENCHMARK



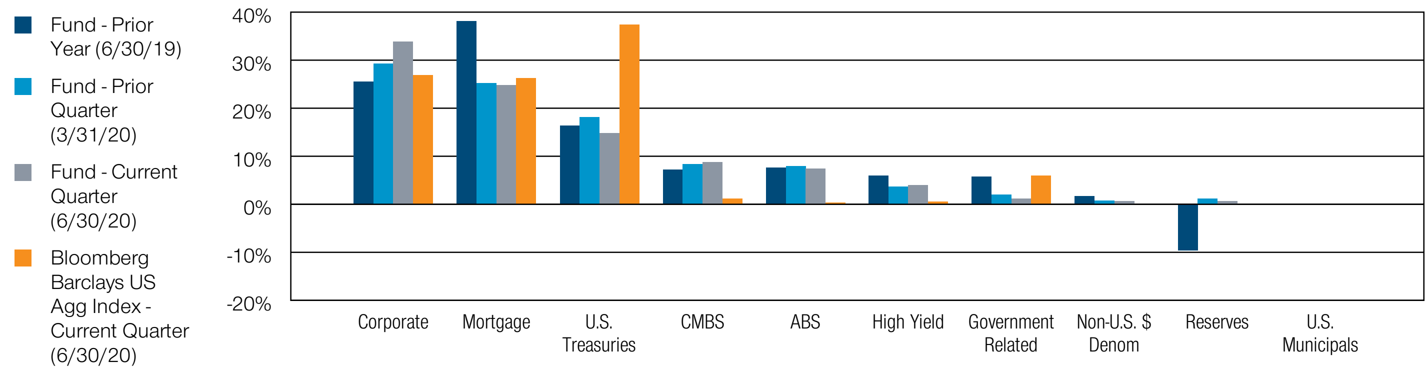
The Risk Factor Contribution and Sector Contribution to Risk charts above show the output from a quantitative ex-ante tracking-error modeling tool. The model estimates the realized tracking error an investor may reasonably expect over the next 12-month period, disaggregated into various sources of risk. The calculations take into account the correlations between each of the portfolio's systematic risk exposures. Our portfolio strategy team uses this output as a risk budget to confirm that the estimated contribution to tracking error from each component best reflects our active management themes.

Source: Bloomberg Index Services Limited. Statistics based on monthly data. TEV, or Tracking error volatility, is the standard deviation of the difference between portfolio and benchmark returns. It is the square root of the tracking error variance, or TE variance. The TE variance is the projected variance of the difference between portfolio and benchmark returns. It is estimated from historical return data and from portfolio and benchmark characteristics. It can be decomposed into three sources: Systematic, Idiosyncratic and Default. Systemic (Market) Risk is the risk due to the effect of all systematic factors of the Bloomberg risk model. Idiosyncratic (nonsystematic) risk is the risk not explained by the combination of all systematic or default factors. It represents risk due to non-default events that affect only the individual issuer or bond. The contribution to TEV is the contribution, in basis points, of a risk factor to total TEV. This measure includes the effect of correlation. The risk factors included in this analysis and shown above are credit spreads, currency, and interest rate duration.This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment actions. **Past performance is not a reliable indicator of future performance.**
Change of methodology: Beginning with the second quarter of 2015, individual sector data is presented without the effects of curve and foreign exchange changes. Because these effects are systemic and generally not sector specific, T. Rowe Price believes the new method's data will better represent each sector's actual TEVs.

For Sourcing Information, please see Additional Disclosures.

PORTFOLIO POSITIONING

SECTOR DIVERSIFICATION – CHANGES OVER TIME



CREDIT QUALITY DIVERSIFICATION – CHANGES OVER TIME

*U.S. Treasury securities are issued by the U.S. Treasury and are backed by the full faith and credit of the U.S. government. The ratings of U.S. Treasury securities are derived from the ratings on the U.S. government.
**U.S. government agency securities are issued or guaranteed by a U.S. government agency, and may include conventional pass-through securities and collateralized mortgage obligations; unlike Treasuries, government agency securities are not issued directly by the U.S. government and are generally unrated but may have credit support from the U.S. Treasury (e.g., FHLMC and FNMA issues) or a direct government guarantee (e.g., GNMA issues). Therefore, this category may include rated and unrated securities.

HOLDINGS

TOP ISSUERS

Issuer	Industry	% of Fund
JPMorgan Chase	Banking	1.0%
Becton, Dickinson & Company	Consumer Non Cyclical	1.0
Bank of America	Banking	1.0
Wells Fargo	Banking	0.9
Comcast	Communications	0.9
AbbVie	Consumer Non Cyclical	0.8
Capital One Financial	Banking	0.8
Cigna	Insurance	0.7
British American Tobacco	Consumer Non Cyclical	0.7
Brixmor Property	REITs	0.6

For Sourcing Information, please see Additional Disclosures.

PORTFOLIO MANAGEMENT

Portfolio Manager:
Stephen Bartolini

Managed Fund Since:
2018

Joined Firm:
2010

Additional Disclosures

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.
The manager's views and portfolio holdings are historical and subject to change. This material should not be deemed a recommendation to buy or sell any of the securities mentioned. The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the Fund and no assumptions should be made that the securities identified and discussed were or will be profitable.
The Top Issuers excludes U.S. Treasuries, institutional funds, agencies and securitized products.
T. Rowe Price uses a custom structure for diversification reporting on this product.
Diversification exhibits may not add to 100% due to exclusion or inclusion of cash.
Sources for credit quality: Moody's Investors Service; if Moody's does not rate a security, then Standard & Poor's (S&P) is used as a secondary source. When available, T. Rowe Price will use Fitch for securities that are not rated by Moody's or S&P. T. Rowe Price does not evaluate these ratings, but simply assigns them to the appropriate credit quality category as determined by the rating agency. T. Rowe Price uses the rating of the underlying investment vehicle for credit default swaps.
Certain numbers in this report may not equal stated totals due to rounding. Unless otherwise stated, data is as of the report date.
Unless indicated otherwise the source of all data is T. Rowe Price.
This material has been prepared for informational purposes only. The views and opinions stated in this commentary are those of the portfolio managers listed as of the date indicated. These views and opinions are subject to change based on market or other conditions and may differ from those of other T. Rowe Price associates. Actual market and investment results may differ materially from expectations.
© 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.
T. Rowe Price Investment Services, Inc., Distributor.
202007-1224164