



Global Asset Allocation Viewpoints

April 2020

1 Portfolio Positioning

As of 31 March 2020

Leaning Into Weakness



- Amid the coronavirus-related sell-off in risk assets, we have incrementally added to equities over the month as the broad-based, indiscriminate selling has created opportunities to buy into quality companies at discounted levels. We are averaging into positions as volatility is likely to persist over the near term and markets could revisit recent lows.
- We have pared back exposure to higher-quality, U.S. Treasuries that have reached extreme valuations as yields have fallen to record-low levels.
- Within fixed income, we added to high yield bonds as spreads have reached attractive entry points that historically have led to the sector delivering equity-like returns, with lower volatility over our 12- to 18-month investment horizon.
- We also added modestly to floating rate loans as the sector has sold off, leaving spreads at historically attractive levels relative to high yield bonds; loans also have less exposure to the energy sector and higher standing in the capital structure.

2 Market Themes

As of 31 March 2020

Cushioning the Blow

Pledges of fiscal spending have been quick to follow actions taken by major central banks to combat the looming impacts of the coronavirus pandemic. G-20 countries have pledged more than \$5 trillion USD in stimulus through a wide range of avenues to stave off the effects on the global economy. The U.S. has passed a record-setting \$2 trillion USD stimulus package, nearly 10% of its gross domestic product, that includes checks paid directly to families as well as loans and guarantees to impacted sectors, including airlines, hotels, and hospitals. Other major countries have followed suit, with a similar emphasis of broad support to both workers and businesses, large and small. While the measures thus far have been quick to be enacted, their effects will take months to come through and positively impact the economy. Only time will tell if these efforts will be enough to offset the damage thus far. The longer the pandemic keeps the global economy on pause, the more support it is going to need to bounce back.

How Low Can It Go?

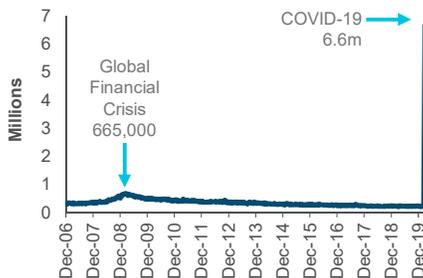
Oil prices slid more than 60% in the first quarter while many oil stocks have lost more than half their value. If the demand-destructing impacts of the coronavirus-related shutdowns were not bad enough, already oversupplied markets were challenged by the market share war between Saudi Arabia and Russia, which is now showing signs of healing. While the steep decline in oil prices has resulted in low fuel prices not seen in decades, with current social distancing measures in place, consumers and airlines are unable to take advantage of the low levels. With prices near \$20 USD per barrel many producers are operating well below their break-even levels, notably U.S. shale producers that continue to operate to generate cashflow despite the low levels. The rising risk is evident in the U.S. high yield market—with approximately a 10% exposure to energy—as yields have blown out to more than 10%. While the battle between OPEC+ members may be resolved, lingering structural imbalances and the severity of the economic downturn will further weigh on the sector.

Emergency Plumbing Fix

As markets faced sharp declines in response to the coronavirus outbreak, liquidity strains in bond markets exacerbated the situation as investors flocking out of bonds were unable to find buyers in the open market and forced to sell at unattractive levels. Some of this issue can be attributed to dispersed traders and the sheer magnitude of the outflows coming from bonds, but the crux of the issue lies with the enhanced regulations placed on banks after the global financial crisis—limiting banks ability to leverage their balance sheets—leaving fewer buyers to step in. In rapid response to the looming liquidity crisis, the Fed swiftly injected a massive amount of liquidity into markets including unlimited, open-ended quantitative easing, as well as corporate and municipal government bond-buying, in hopes to instill a floor in bond pricing. For now, the extreme measures appear to be alleviating some of the pain as credit markets have shown signs of stabilization. However, it remains to be seen if these measures will be enough to get markets through this crisis, otherwise the Fed may need to show what they meant by “whatever it takes.”

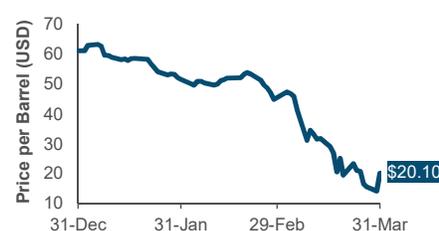
U.S Initial Claims for Unemployment Insurance

As of 31 March 2020



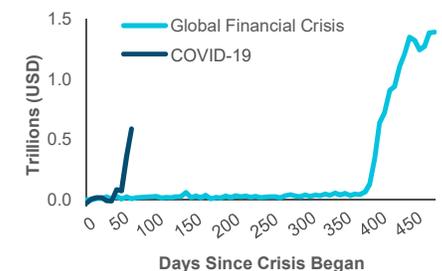
WTI Crude Oil Price

As of 31 March 2020



Fed Balance Sheet Changes Since the Beginning of Crises

As of 31 March 2020



3 Regional Backdrop

As of 31 March 2020



Positives

Negatives

United States

- Unprecedented levels of monetary and fiscal support
- Healthy consumer balance sheets prior to the crisis
- Pause in trade war escalation
- Health care infrastructure is stronger than most regions
- Greater share of secularly advantaged companies (e.g., cloud computing, internet retail) than rest of the world

- Size of country and freedom of movement means there is higher potential for continued outbreaks
- Elevated corporate leverage going into the crisis
- Service-oriented economy, means higher economic impact from social distancing
- Margins under pressure going into the crisis
- Elevated government debt levels

Europe

- Long awaited fiscal stimulus measures are finally coming
- Monetary policy remains very accommodative
- Inexpensive valuations have become even more inexpensive as Europe has born the brunt of the sell-off

- Weak economic growth going into crisis
- Limited scope for the European Central Bank (ECB) to stimulate further
- De-centralized government structure means fiscal response is somewhat delayed
- Banking sector was weak going into the crisis

Developed Asia/Pacific

- Outbreaks in this region have thus far been milder than in the rest of the world
- Strong and aggressive fiscal stimulus
- Japanese companies generally hold high cash levels, meaning they have more cushion for weakness

- Highly sensitive to global industrial production and trade trends
- Australia holds high exposure to natural resource prices, which have weakened considerably

Emerging Markets

- Virus outbreak in China appears to be contained
- Policy response from China has been significant
- Younger population likely to be less affected by virus
- Dovish Fed has given emerging markets central banks flexibility to ease
- Easing trade tensions
- Equity valuations attractive relative to developed markets

- Weak health care infrastructure in many regions
- Limited ability to enact fiscal stimulus (excluding China)
- Highly sensitive to global industrial production and trade trends
- Commodity prices under pressure
- Instability in several key markets could weigh on sentiment
- Potential for elevated currency volatility

4 Asset Allocation Committee Positioning

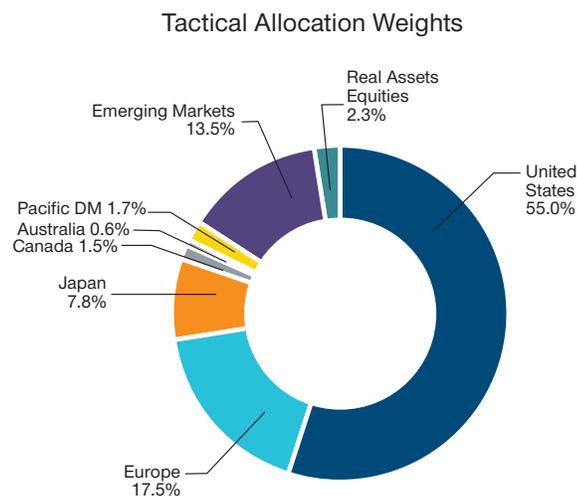
As of 31 March 2020

| | | 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. |
| ASSET CLASS | Equities | | | ▲ | Equity prices at attractive levels relative to extreme lows in bond yields, amid market sell-off. Monetary and fiscal policy efforts supportive, earnings outlook clouded by impacts of virus. |
| | Bonds | ▼ | | | Yields near record lows on risk-off sentiment. Credit spreads wider but not at extreme levels. Credit fundamentals at risk, monitoring impacts of virus on vulnerable sectors. |
| | Cash | | | | Cash yields retreat amid central banks' intervention and investor demand; U.S. yields remain higher than other developed markets. |
| | <i>Regions</i> | | | | |
| EQUITIES | U.S. | | ▼ | | Outperforming the rest of the world amid sell-off, magnitude of fiscal and monetary stimulus supportive, but earnings outlook remains uncertain due to impacts of virus. |
| | Global Ex-U.S. | | | ▲ | Already fragile economies facing contraction amid virus outbreak. Scope of fiscal support increasing, despite stretched central bank tools. |
| | Europe | | | ▲ | After heavy sell-off, price level is compelling; however, region continues to be heavily impacted by virus. European Central Bank (ECB) remains supportive, and fiscal stimulus is coming. |
| | Japan | | | ▲ | Facing fallout from virus outbreak and postponement of the Olympics ramps up fiscal support. Extent of economic and trade impacts uncertain, and yen strength a risk. |
| | Emerging Markets (EM) | | | ▲ | Increase in stimulus and successful containment of the virus by China will be supportive. However, commodity- and export-driven economies face serious challenges. |
| | <i>Style</i> | | | | |
| | U.S. Growth | | | ▲ | Secular growth companies less sensitive to macro environment. Growth-oriented equities held up in sell-off, leading to less attractive relative valuations. |
| | U.S. Value | | ▼ | | Cyclically oriented equities hit hardest amid sell-off, leaving valuations more attractive should economic growth stabilize over the near term. |
| | Global Ex-U.S. Growth | | ▼ | | Valuations extended as durable growth companies have benefited from defensive characteristics. However, trade and supply chain impacts may prove significant. |
| | Global Ex-U.S. Value | | | ▲ | Valuations significantly cheaper due to cyclical orientation and rate sensitivity. Potential upside if growth stabilizes and virus impacts abate. |
| | <i>Capitalization</i> | | | | |
| U.S. Large-Cap | | ▼ | | Valuations lower but have fared better than small-caps amid sell-off. Vulnerable to further spread of virus, global supply chain disruption, and the potential impact on earnings. | |
| U.S. Small-Cap | | | ▲ | Relative valuations more extreme as small-caps suffered the most amid sell-off. Remain vulnerable to impacts on consumer spending, fiscal stimulus could provide support. | |
| Global Ex-U.S. Large-Cap | | | ▼ | Supply chain disruption and global contraction weighing on earnings outlook. Further impacts from virus outbreak remain uncertain. | |
| Global Ex-U.S. Small-Cap | | ▼ | | Have underperformed large caps amid sell-off. Vulnerable to consumer retrenchment in regional economies. | |
| <i>Inflation-Sensitive</i> | | | | | |
| Real Assets Equities | ▼ | | | | Pressured by virus-related demand shock and oil price war. Stabilization in Chinese growth outlook could provide support; however, structural oversupply remains a concern. |
| BONDS | U.S. Investment Grade (IG) | | ▼ | | Treasury yields near record lows amid risk-off sentiment. IG corporate spreads wider, but not at extreme levels. Impact on fundamentals warrants caution. |
| | Developed Ex-U.S. IG (Hedged) | | | ▲ | Hedged U.S. dollar yields remain attractive on rate differential. ECB bond buying supportive. U.S. dollar strength moderating. |
| | Inflation-Linked | | ▼ | | Inflation expectations lower on growth scare. Central banks remain supportive, but longer-term downward pressures on inflation persist. |
| | Global High Yield | ▲ | | ▲ | Credit spreads at historically attractive levels on risk-off sentiment and growing downgrade/default risks. Impacts of virus outbreak to weigh on consumer-related and energy sectors. |
| | Floating Rate Loans | ▲ | | ▲ | Offering attractive yields after sell-off. Fed anchored at zero rate level. Relative to high yield bonds, less exposure to energy sector and higher in capital structure. |
| | EM Dollar Sovereigns | | | ▲ | Relative valuations attractive amid sell-off. Idiosyncratic risks, liquidity challenges and trade implications are sources of uncertainty. |
| | EM Local Currency | | | ▲ | EM currency valuation remains attractive; lower developed market rates and a weaker U.S. dollar could provide support. |

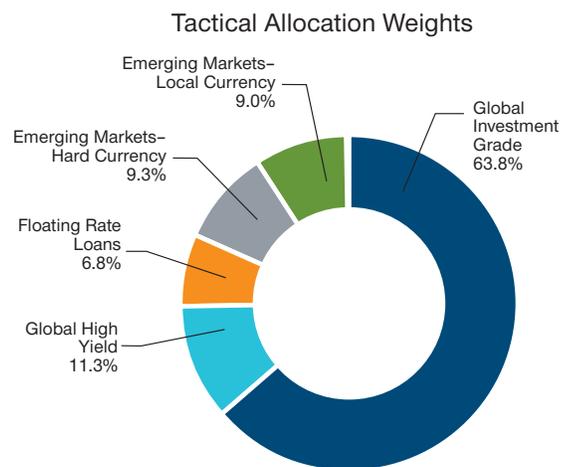
5 Portfolio Implementation

As of 31 March 2020

| Equity | Neutral Weight | Tactical Weight | Relative Weight |
|----------------------------------|----------------|-----------------|-----------------|
| United States | 54.4% | 55.0% | +0.6% |
| Europe | 16.7 | 17.5 | +0.8 |
| Japan | 7.3 | 7.8 | +0.5 |
| Canada | 2.5 | 1.5 | -1.0 |
| Australia | 1.6 | 0.6 | -1.0 |
| Pacific – Developed Markets (DM) | 1.4 | 1.7 | +0.3 |
| Emerging Markets | 11.1 | 13.5 | +2.4 |
| Real Assets Equities | 5.0 | 2.3 | -2.7 |
| Total Equity: | 100.0% | 100.0% | |



| Fixed Income | Neutral Weight | Tactical Weight | Relative Weight |
|-----------------------------------|----------------|-----------------|-----------------|
| Global Investment Grade (Hedged) | 70.0% | 63.8% | -6.3% |
| Global High Yield | 10.0 | 11.3 | +1.3 |
| Floating Rate Loans | 5.0 | 6.8 | +1.8 |
| Emerging Markets – Hard Currency | 9.0 | 9.3 | +0.3 |
| Emerging Markets – Local Currency | 6.0 | 9.0 | +3.0 |
| Total Fixed Income: | 100.0% | 100.0% | |



Source: T. Rowe Price.

Neutral equity portfolio weights broadly representative of MSCI All Country World Index regional weights; includes allocation to real assets equities. Core global fixed income allocation broadly representative of Bloomberg Barclays Global Aggregate Index regional weights.

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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 favour depending on market conditions and investor sentiment.

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