T.RowePrice
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints

June 2020

1 Portfolio Positioning

As of 31 May 2020

Securing the Rebound

- We have continued to moderate our equity overweight as the market has rebounded at an unprecedented pace off lows reached in late March, providing the opportunity to capitalize on gains and trim risk exposure.
- We added to high yield bonds based upon the sector's potential to deliver attractive risk-adjusted returns over the next 12 to 18 months.

2 Market Themes

As of 31 May 2020

Melt Up

Global markets are up nearly 40% off March lows, as countries ease restrictions on businesses and resume some level of economic activity. Although the rapid rebound in the equity market appears to price in returning to some sense of "normalcy," the economic reality may be a gloomier picture as many furloughed workers in sectors most directly impacted by the virus face the potential for permanent job loss and more businesses struggle to remain afloat as a result of the crisis. At the crux of this disconnect between economic data and stock valuations are growth stocks, which have proven resilient by being on the right side of behavioral changes that have occurred due to social distancing guidelines such as shopping online and watching streaming services. Prior to the crisis, value stocks had lagged growth stocks persistently and they are likely to require clear evidence of economic improvement before they can stage a meaningful rebound. In the meantime, many investors continue to bet on growth stocks at the expense of cyclicals.

Uneasy Truce?

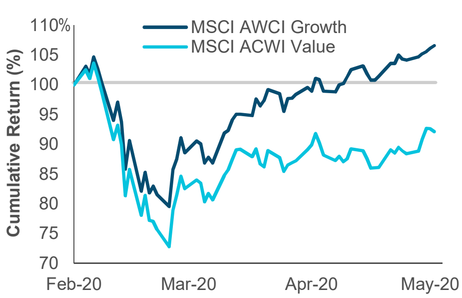
Relations between the U.S. and China have quickly turned fragile again amid controversy surrounding the coronavirus and China's political influence on Hong Kong. Recent turmoil has reignited tensions that markets had hoped were resolved following last year's Phase One trade deal. Recent escalations include U.S. sanctioning of Chinese companies, threats of breaches to the Phase One trade deal and the U.S. suggesting it could remove Hong Kong's special status. With the U.S. presidential election only months away, the Trump Administration is likely to keep pressure on China and maintain a tough stance on trade as it angles for re-election. While markets ended 2019 hopeful that the relationship between China and the U.S. was mended, with the return of recent tensions, a more volatile environment for markets could lie ahead.

"Coronabonds" to the Rescue?

The European Union (EU) is planning to announce an unprecedented fiscal stimulus package worth as much as €750 billion as the economic bloc attempts to lift itself out of recession. The package could consist of €500 billion in loans and €250 billion in grants, funded by issuing pan-European bonds. All members must approve the proposal and as the details of the plan continue to be negotiated, resistance is expected from more austere members, such as the "Frugal Four"–Austria, Sweden, Denmark and the Netherlands–who believe the recovery plan should be based solely on loans. Although this recovery plan marks an important step towards shared debt and fiscal ties among EU members, it is unclear whether the stimulus will be enough to lift the region out of this pandemic-led recession and what the longer term implications of the potential fiscal ties could be.

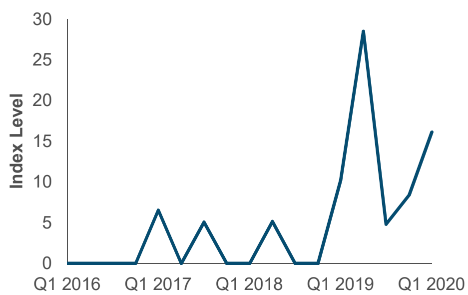
MSCI ACWI Growth vs. Value

As of 31 May 2020



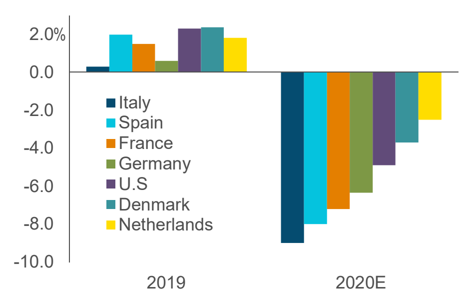
China Trade Uncertainty Index

As of 31 May 2020



Real GDP Growth

As of 31 May 2020



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3 Regional Backdrop

As of 31 May 2020

	Positives	Negatives
United States	▪ Unprecedented levels of monetary and fiscal support ▪ Healthy consumer balance sheets prior to the crisis ▪ 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 ▪ Margins under pressure going into the crisis ▪ Elevated government debt levels ▪ Heightened political tensions
Europe	▪ Long-awaited fiscal stimulus is 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 ECB to stimulate further ▪ De-centralized government structure means fiscal response is delayed ▪ Lower share of secularly advantaged companies ▪ 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 ▪ Japanese companies generally hold high cash levels, meaning they have more cushion for weakness	▪ Weak economic growth going into the crisis ▪ Highly sensitive to global industrial production and trade trends ▪ Australia holds high exposure to natural resource prices, which have weakened considerably
Emerging Markets	▪ Number of new cases is accelerating in most of EM ▪ Younger population likely to be less affected by virus ▪ Dovish Fed has given 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 May 2020

▼ or ▲ Month-Over-Month Change

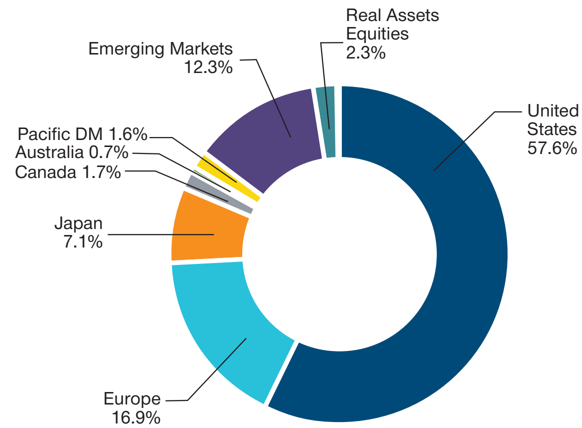
		Change	Underweight		Neutral	Overweight		These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.
ASSET CLASS	Equities	▼				■		Equity rally extends as economies reopen, supported by fiscal and monetary stimulus despite weakness in economic data and uncertain earnings impact.
	Bonds	▲		■				Yields near record lows despite risk rally. Credit remains attractive as spreads have narrowed amid liquidity stabilization and, monetary/fiscal support while digesting increased supply.
	Cash	▲				■		Cash yields remain anchored at low levels as developed market monetary policy rates remain near or below zero across the globe.
EQUITIES	*Regions*							
	U.S.				■			More defensive market profile supports outperformance versus the rest of the world. Magnitude of fiscal and monetary stimulus supportive, but earnings outlook remains uncertain.
	Global Ex-U.S.				■			Already fragile and more cyclically dependent economies facing contraction amid virus outbreak. Scope of fiscal support increasing, despite stretched central bank tools.
	Europe				■			Regional economies continue to be heavily impacted by virus. European Central Bank (ECB) remains supportive, and increased possibility of fiscal stimulus on the horizon.
	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)					■		China stabilization supportive for EM broadly. However, many countries remain vulnerable to virus with insufficient health care infrastructure and economic means to support growth.
	Style							
	U.S. Growth					■		Valuations of growth-oriented equities further extended as they have continued to outperform. Sector benefits from less sensitivity to macro environment.
	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				■			More defensive profile less susceptible to economic weakness. However, trade and supply chains could be negatively impacted.
	Global Ex-U.S. Value				■			Economic weakness, low rates, and commodity oversupply are headwinds for cyclically oriented sectors within value, reflected in low valuations.
	Capitalization							
	U.S. Large-Cap			■				Larger companies better positioned to weather economic downturn. Remain vulnerable to global supply chain disruption.
	U.S. Small-Cap					■		Despite more attractive valuations relative to large-cap, remain vulnerable to impacts on consumer spending with less balance sheet flexibility.
	Global Ex-U.S. Large-Cap			■				Supply chain disruption and global contraction weighing on earnings outlook. Further economic impacts from virus outbreak remain uncertain.
	Global Ex-U.S. Small-Cap					■		Vulnerable to consumer retrenchment in regional economies with less balance sheet flexibility versus larger companies.
	Inflation-Sensitive							
	Real Assets Equities		■					Pressured by virus-related demand shock and oil storage capacity constraints. Stabilization in Chinese growth outlook could provide support; however, structural oversupply remains a concern.
BONDS	U.S. Investment Grade (IG)	▼		■				Treasury yields at low levels with Fed expected to remain on hold indefinitely. Corporate spreads tighter despite increased supply amid improved liquidity and policy support.
	Developed Ex-U.S. IG (Hedged)					■		U.S. dollar strength supports hedged exposure for U.S.-based investors. Global ex-U.S. yields anchored by aggressive central bank response to the virus.
	Inflation-Linked				■			Inflation expectations lower on muted growth outlook. Central banks remain supportive, but longer-term downward pressures on inflation persist.
	Global High Yield	▲				■		Credit spreads remain at attractive levels. Cautious on downgrade/default risks. Impacts of virus outbreak could weigh on consumer-related and energy sectors.
	Floating Rate Loans					■		Yields remain attractive. 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 versus history. Select opportunities among distressed areas.
	EM Local Currency					■		EM currency valuation remains attractive; developed market central banks supportive, but vulnerable to further U.S. dollar strength.

5 Portfolio Implementation

As of 31 May 2020

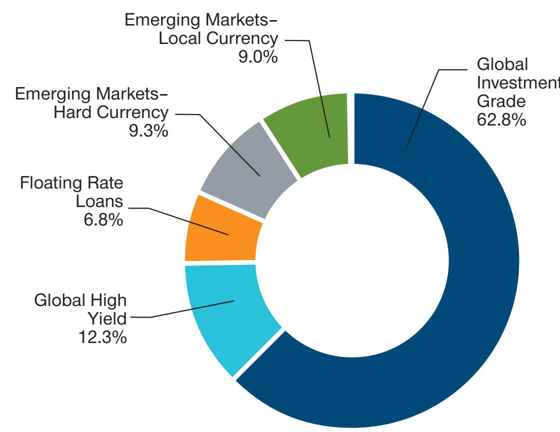
Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	55.4%	57.6%	+2.2%
Europe	16.3	16.9	+0.6
Japan	6.9	7.1	+0.3
Canada	2.6	1.7	-1.0
Australia	1.7	0.7	-1.0
Pacific – Developed Markets (DM)	1.3	1.6	+0.3
Emerging Markets	10.8	12.3	+1.4
Real Assets Equities	5.0	2.3	-2.8
Total Equity:	**100.0%**	**100.0%**	

Tactical Allocation Weights



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
Global Investment Grade (Hedged)	70.0%	62.8%	-7.3%
Global High Yield	10.0	12.3	+2.3
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%**	

Tactical Allocation Weights



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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