T.Rowe Price[SM]
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints

August 2020

1 Portfolio Positioning

As of 31 July 2020

Eye on Style

- Within equities, we moved to a neutral stance between growth and value as relative valuations have become more stretched within growth, with segments of technology and healthcare particularly expensive, most notably in small-cap.
- While the outlook for growth stocks' fundamentals remains positive, elevated valuation levels could leave them vulnerable to disappointment.
- Cyclically oriented, value stocks' extreme underperformance and favorable valuations could be catalysts for near-term outperformance should there be a sustained period of improving economic growth.

2 Market Themes

As of 31 July 2020

Don't Fight the FAANGs?[1]

Year-to-date growth stocks have outperformed value by over 30%, not only in the downturn given their defensive characteristics, but also during the recovery. While growth stocks have benefited from secular trends, as well as asset-light business models and less cyclical exposure, for more than a decade, the recent shutdowns have actually benefited many growth companies due to accelerated trends in areas such as online shopping, video streaming, and cloud computing. With S&P 500 earnings expected to be down close to -35% in the quarter, the FAANGs are expected to report an average growth of 20% in earnings. Although growth stock valuations appear stretched, fundamentals remain strong and many expect the current low growth and low rate environment to continue, which has historically favored growth stocks. While value stocks have been written off by the market, progress on a coronavirus vaccine or signs of a rebound in global growth could have them poised for a much overdue rally – but it is unlikely to be the start of a new value cycle.

Not so Fast on That "V"

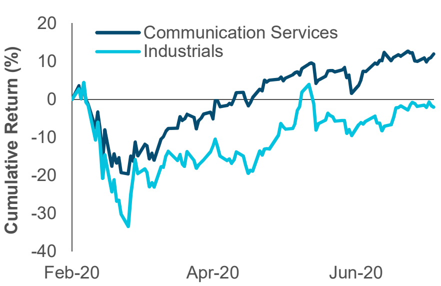
Global growth came in at record low levels in the second quarter, with output in the U.S. contracting by nearly 33% and the Eurozone down over 40% (on an annualized basis). While the headline gross domestic product numbers were not unexpected, hopes in the U.S. that the rapid recovery that we saw in May and June would continue through the rest of the year have been called into question by the recent mixed jobs data. The two consecutive weeks of increasing initial jobless claims in July challenged the labor market recovery, although the most recent week's initial jobless claims data showed a bit of a reversal. If this muddle through environment continues and the federal government reduces additional support for unemployed Americans—which has kept many Americans afloat during the crisis—the equity market's hopes for a V-shaped recovery in the back half of the year may be dashed.

Dollar Can't Buy EM Relief

In July, the U.S. dollar (USD) and U.S. Treasury yields both fell to multi-year lows, pressured by a resurgence in coronavirus cases and the Fed's pledge to keep monetary policy loose. Normally, this backdrop would be supportive for higher yielding emerging markets (EM), amid a low yield environment, and provide a boost to their currencies. However, continued economic impacts of the current crisis and limited capacity for fiscal and monetary stimulus, except for China, has weighed on sentiment despite the slump in the USD. This has been evident in the divergence in EM regional currency performance during the virus-related sell-off and recovery. Idiosyncratic issues including financial instability continue to hinder some Latin American countries, leading to significant underperformance versus their more stable, Asian EM counterparts. While a lower USD removes a significant headwind for EM assets, bigger risks abound for broader EM as they continue to weather the crisis.

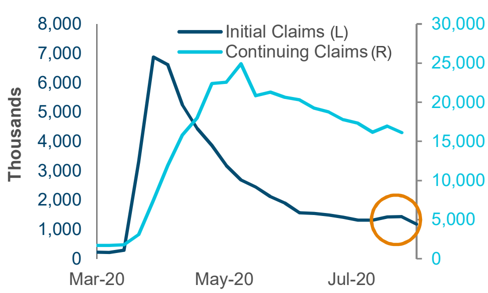
S&P 500: Communication Services vs. Industrials

As of 31 July 2020



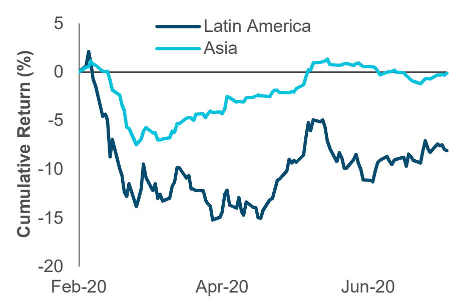
U.S. Unemployment Insurance

As of 31 July 2020



EM Currencies: Latin America vs. Asia

As of 31 July 2020



Past performance is not a reliable indicator of future performance.

Sources: Factset. Financial data and analytics provider FactSet. Copyright 2020 FactSet. All Rights Reserved. J.P. Morgan Chase & Co. Standard & Poor's. Please see additional disclosures on the final page.

[1]FAANGs refer to Facebook, Amazon, Apple, Netflix, and Alphabet (parent company of Google). The specific securities identified and described are for informational purposes only and do not represent recommendations.

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3 Regional Backdrop

As of 31 July 2020

United States

Positives

- Unprecedented levels of monetary and fiscal support
- Greater share of secularly advantaged companies (e.g., cloud computing, internet retail) than rest of the world
- Healthy consumer balance sheets prior to the crisis

Negatives

- Size of country, freedom of movement, and inconsistent policies means there is higher potential for continued outbreaks
- Heightened political tensions
- Elevated corporate leverage going into the crisis
- Elevated government debt levels
- USD strength is fading

Europe

Positives

- Virus containment and re-opening strategies have been successful
- EU recovery fund provides further fiscal stimulus and is the first step toward a fiscal union
- Monetary policy remains very accommodative
- Equity valuations are inexpensive
- Strong EUR outlook

Negatives

- Lower share of secularly advantaged companies
- Banking sector was weak going into the crisis
- Weak economic growth going into crisis
- Limited scope for ECB to stimulate further

Developed Asia/Pacific

Positives

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

Negatives

- Weak economic growth going into crisis
- Highly sensitive to global industrial production and trade trends
- Australia holds high exposure to natural resource prices, which have improved but remain low

Emerging Markets

Positives

- Demand from China has largely rebounded
- USD strength has eased
- Dovish Fed has given central banks flexibility to ease
- Equity valuations attractive relative to developed markets

Negatives

- Weak health care infrastructure in many regions
- Limited ability to enact fiscal stimulus (excluding China)
- Trade tensions have been re-ignited
- Highly sensitive to global industrial production and trade trends
- Commodity prices under pressure

4 Asset Allocation Committee Positioning

As of 31 July 2020

▼ or ▲ Month-Over-Month Change

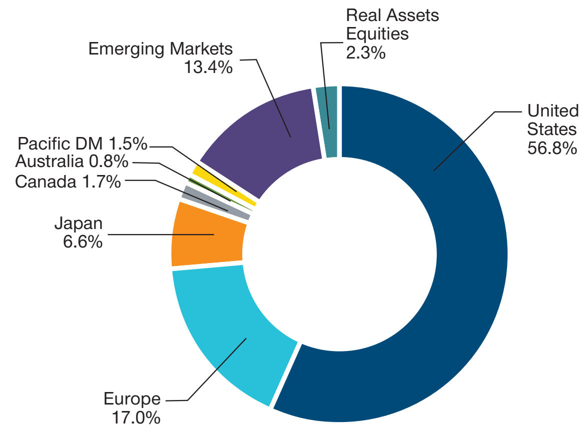
		Change	Underweight	Underweight	Neutral	Overweight	Overweight	These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.
ASSET CLASS	Equities				■			Limited upside to equities as market has outpaced still uncertain economic recovery. Fiscal and monetary stimulus are key supports, as earnings outlook remains clouded.
ASSET CLASS	Bonds				■			Yields anchored at low levels amid central bank pledges of unlimited support and elevated risks around growth and coronavirus resurgence. Yields attractive within pockets of credit sectors.
	Regions							
EQUITIES	U.S.				■			Defensive sector profile supportive despite extended valuations. Fiscal and monetary stimulus providing backstop, while earnings recovery timetable remains uncertain.
EQUITIES	Global Ex-U.S.				■			Cautious on second wave impact for cyclically oriented economies as recent stabilization in growth could be at risk. Aggressive stimulus measures and rebound in Chinese demand are supportive.
EQUITIES	Europe				■			EU recovery fund significantly improves fiscal and political outlook. However, cyclically oriented sector profile remains unfavorable given the low rate and low growth environment.
EQUITIES	Japan				■			Fiscal and monetary stimulus could provide a solid backdrop for economic recovery. Remains highly sensitive to trade, and yen could strengthen if global risk aversion spikes again.
EQUITIES	Emerging Markets (EM)					■		China stabilization and weaker USD supportive for EM broadly. However, most countries are unable to provide the same level of stimulus as developed markets.
	Style							
EQUITIES	U.S. Growth	▼			■			Valuations of growth-oriented equities further extended as pandemic has accelerated secular growth trends in key industries. Sector benefits from less sensitivity to macro environment.
EQUITIES	U.S. Value	▲			■			Cyclically oriented equities trailing in recovery, leaving valuations more attractive with potential upside should economic growth stabilize over the near term.
EQUITIES	Global Ex-U.S. Growth				■			More defensive profile, with greater weights in staples and healthcare, less susceptible to economic weakness. However, trade and supply chains could be negatively impacted.
EQUITIES	Global Ex-U.S. Value				■			Pandemic-related weakness, low rates, and commodity oversupply are headwinds, but some cyclically oriented value sectors, such as industrials and materials showing signs of repair.
	Capitalization							
EQUITIES	U.S. Large-Cap			■				Larger companies better positioned to weather economic downturn but offer limited upside due to full valuations.
EQUITIES	U.S. Small-Cap					■		Relative valuations attractive and offer upside potential in periods of economic recovery. Remain vulnerable to impacts of virus on consumer and access to capital.
EQUITIES	Global Ex-U.S. Large-Cap				■			Supply chain disruption, economic weakness, and low rate environment weighing on earnings outlook. However, valuations reflect these challenges.
EQUITIES	Global Ex-U.S. Small-Cap				■			Vulnerable to consumer retrenchment in economies with less balance sheet flexibility. However, less exposure to banking system and idiosyncratic opportunities are plentiful.
	Inflation-Sensitive							
EQUITIES	Real Assets Equities		■					Despite recent rally in oil prices, inflation expectations remain low. Real estate demand trends vulnerable to lasting impacts of the coronavirus.
BONDS	U.S. Investment Grade (IG)					■		Treasury yields remain anchored at low levels amid low inflation expectations. Cautious on IG given spread levels near fair value with weaker fundamentals and earnings trends.
BONDS	Developed Ex-U.S. IG (Hedged)					■		Yields anchored by aggressive central bank response to coronavirus-related economic weakness. Hedged yield advantage less pronounced with narrowing yield differential.
BONDS	U.S. Treasury Long		■					Yields near record lows with extended duration, vulnerable to steepening at the long end of the yield curve should growth expectations improve.
BONDS	Inflation-Linked				■			Inflation expectations remain low amid slightly improving growth outlook. Central banks remain supportive, but longer-term downward pressures on inflation persist.
BONDS	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.
BONDS	Floating Rate Loans					■		Yield spreads remain attractive, although Fed anchored at zero rate level. Relative to high yield bonds, less exposure to energy sector and higher in capital structure.
BONDS	EM Dollar Sovereigns					■		Relative valuations less attractive after recent rally. Still offer attractive yield versus developed markets.
BONDS	EM Local Currency					■		Improving sentiment on EM currency; valuations remain attractive with supportive developed market central banks and weaker USD.

5 Portfolio Implementation

As of 31 July 2020

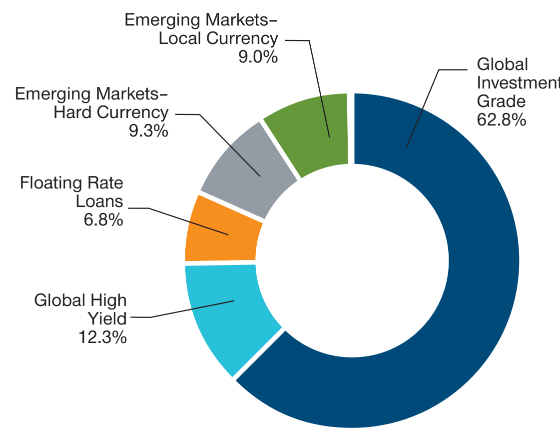
Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	54.6%	56.8%	2.1%
Europe	16.4	17.0	0.6
Japan	6.4	6.6	0.3
Canada	2.7	1.7	-1.0
Australia	1.8	0.8	-1.0
Pacific – Developed Markets (DM)	1.2	1.5	0.3
Emerging Markets	11.9	13.4	1.5
Real Assets Equities	5.0	2.3	-2.8
Total Equity:	**100.0%**	**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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Source for Bloomberg Barclays index data: Bloomberg Index Services Limited. Please see "Additional Disclosures" on final page for information.

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