T. Rowe Price
INVEST WITH CONFIDENCE

Global Asset Allocation Viewpoints

July 2020

1 Portfolio Positioning

As of 30 June 2020

Balancing Act

- We moved to neutral equities by paring our overweight as the market continued to rebound amid a still-uncertain economic backdrop.
- While moderating our risk profile between stocks and bonds, we continue to have modest overweights in emerging market and small-cap stocks, as well as high yield and emerging market (EM) bonds where valuations remain supportive.

2 Market Themes

As of 30 June 2020

Double Dip?

With the coronavirus largely contained across Europe and Asia and some parts of the U.S., there is a sense that the worst of the pandemic may be behind us. As the global economy continues to reopen, many are still hopeful of a V-shaped economic recovery, as economic data such as purchasing managers' indices are showing signs of life. Aggressive monetary and fiscal support, improved liquidity conditions, and lack of inflation provide a supportive backdrop for the rebound in economic activity. However, the recent uptick in infections in parts of the U.S. has raised fears that economic activity could once again be derailed. If these outbreaks fail to be contained and another round of lockdowns is enacted, it would deal a terrible blow to an economy already facing a severe contraction. A second wave could further paralyze business investment and consumer behavior—turning hopes for a V-shaped recovery into a W.

Fueling the Rally

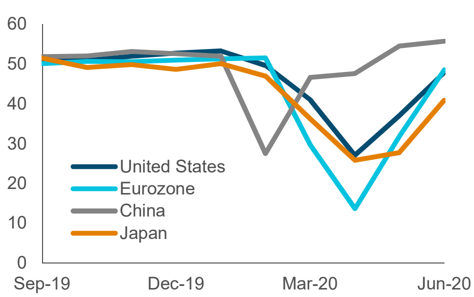
Oil prices have continued to rebound from lows reached in late April, trending near $40 USD per barrel, yet still below pre-crisis levels. Amid the virus-related shutdowns, global demand for oil was down nearly 30% year-over-year as economic activity worldwide was brought to a halt. At the same time, tensions flared between Russia and OPEC+ regarding market share, resulting in increased supply and further downward pressure on prices. As stay-at-home restrictions have eased across the globe and supply remains constrained, oil prices have rebounded. However, if a second wave of the coronavirus ends the rally in oil prices, hopes for a quick recovery in the energy sector could be dashed as we are already seeing rising bankruptcies and energy-exporting economies facing severe fiscal pressures.

The Buck Stops Here?

The U.S. dollar (USD), a traditional safe-haven currency, has been volatile as it weighs evidence of improving global economic data against a resurgence in coronavirus infections. Over the past quarter, the U.S. Dollar Index (DXY Index) has fallen by almost 3% amid the global risk-on environment sparked by economic reopenings across the globe. However, there is no shortage of risks that could cause the USD's recent downtrend to reverse course. Evidence of a second wave of the coronavirus growing, uncertainty surrounding the upcoming U.S. presidential election and resurfacing tensions with China could send investors flocking back to the USD. But for now, a weaker dollar could be a respite for emerging market economies and their currencies as they struggle with the impacts of the global pandemic.

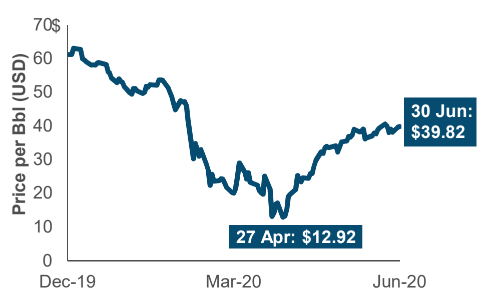
Composite Purchasing Managers Index

As of 30 June 2020



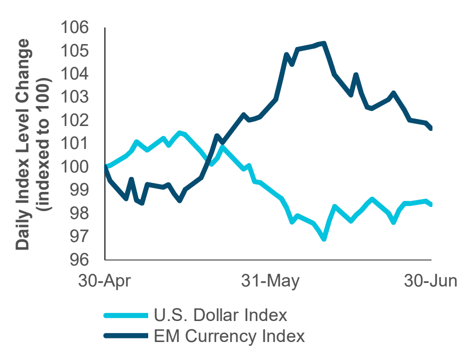
WTI Oil Price

As of 30 June 2020



U.S. Dollar vs. EM Currencies[1]

As of 30 June 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. Please see additional disclosures on the final page.
[1]EM Currency Index is represented by J.P. Morgan EM Currency Index.
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3 Regional Backdrop

As of 30 June 2020

United States

Positives

- 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

Negatives

- Size of country, freedom of movement, and inconsistent policies mean there is higher potential for continued outbreaks
- Heightened political tensions
- Elevated corporate leverage going into the crisis
- Margins under pressure going into the crisis
- Elevated government debt levels

Europe

Positives

- Virus containment and re-opening strategies have been largely successful
- Long awaited fiscal stimulus is coming
- Monetary policy remains very accommodative
- Equity valuations are inexpensive

Negatives

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

Developed Asia/Pacific

Positives

- 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

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 weakened considerably

Emerging Markets

Positives

- Younger population likely to be less affected by virus
- Dovish Fed has given central banks flexibility to ease
- USD strength has eased
- Demand from China has largely rebounded
- 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 30 June 2020

▼ or ▲ Month-Over-Month Change

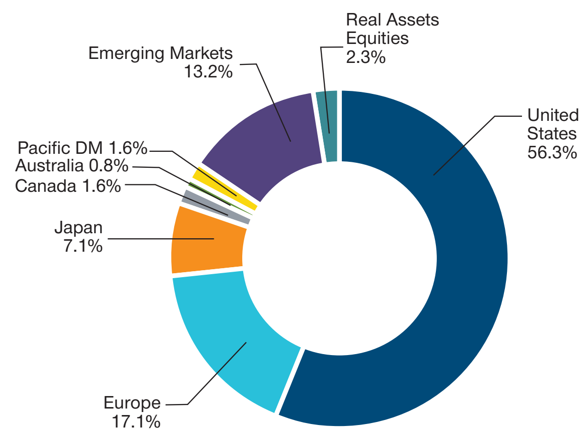
		Change	*Underweight*	*Underweight*	*Neutral*	*Overweight*	*Overweight*	**These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.**
ASSET CLASS	Equities	▼			■			Limited upside to equities as market has outpaced still uncertain economic recovery. Fiscal and monetary stimulus are key supports, as earnings outlook remains clouded.
	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.
	U.S. Cash	▲				■		U.S. cash yields anchored at low levels by Fed but remain attractive versus other developed markets at or below zero levels.
EQUITIES	*Regions*							
	U.S.				■			Heavily defensive sector profile supportive despite extended valuations. Fiscal and monetary stimulus providing backstop, while earnings recovery timetable remains uncertain.
	Global Ex-U.S.				■			More cyclically oriented economies beginning to show signs of life after coronavirus related shutdowns. Aggressive stimulus measures and rebound in Chinese demand are supportive.
	Europe				■			Regional economies benefiting from successful reopening; however, long term outlook remains challenged. Monetary and fiscal stimulus remain supportive.
	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.
	Emerging Markets (EM)					■		China stabilization and weaker USD supportive for EM broadly. However, unable to provide the same level of stimulus as developed markets.
	Style							
	U.S. Growth					■		Valuations of growth-oriented equities remain extended as pandemic has accelerated secular growth trends in key industries. 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				■			Pandemic-related weakness, low rates, and commodity oversupply are headwinds, but some more cyclically oriented value sectors showing signs of repair.
	Capitalization							
	U.S. Large-Cap			■				Larger companies better positioned to weather economic downturn but offer limited upside due to full valuations. Remain vulnerable to global supply chain disruption.
	U.S. Small-Cap					■		Vulnerable area due to high debt levels, but small-caps offer significant upside potential and have typically outperformed during economic recovery periods.
	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		■					Despite recent rally in oil prices, inflation expectations remain low. Real estate demand trends vulnerable to lasting impacts of coronavirus.
BONDS	U.S. Investment Grade (IG)			■				Despite risk-on environment, Treasury yields remain anchored at low levels amid low inflation expectations. Caution warranted on credit fundamentals amid weak earnings trends.
	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.
	Inflation-Linked				■			Inflation expectations remain low amid slightly improving 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					■		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.
	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 and reversal in USD strength supportive.

5 Portfolio Implementation

As of 30 June 2020

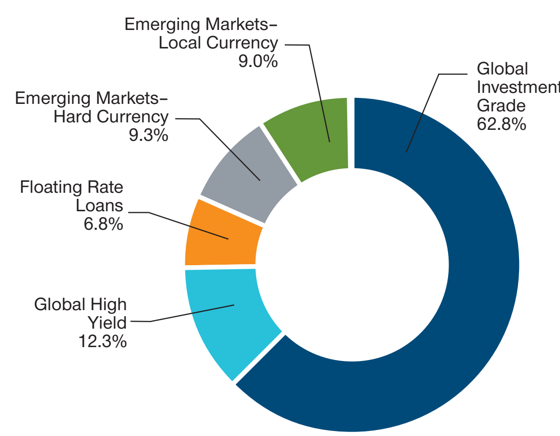
Equity	Neutral Weight	Tactical Weight	Relative Weight
United States	54.2%	56.3%	+2.1%
Europe	16.5	17.1	+0.6
Japan	6.8	7.1	+0.3
Canada	2.6	1.6	-1.0
Australia	1.8	0.8	-1.0
Pacific – Developed Markets (DM)	1.3	1.6	+0.3
Emerging Markets	11.8	13.2	+1.5
Real Assets Equities	5.0	2.3	-2.8
Total Equity:	**100.0%**	**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.

ADDITIONAL DISCLOSURES:

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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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