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NEWS RELEASE

T. ROWE PRICE INVESTMENT PROFESSIONALS SHARE GLOBAL MARKET OUTLOOK FOR 2020

The financial markets' long climb higher should continue, but with elevated risks

Baltimore: November 19, 2019

NEWS

T. Rowe Price held its annual Global Market Outlook press briefing today in New York City, during which several of the firm's experts reflected on key market drivers in 2019 and shared their expectations for various asset classes in 2020. Speakers included Alan Levenson, chief U.S. economist; John Linehan, portfolio manager and chief investment officer, Equity; Justin Thomson, portfolio manager and chief investment officer, Equity; Mark Vaselkiv, portfolio manager and chief investment officer, Fixed Income; and David Giroux, portfolio manager, chief investment officer, Equity and Multi-Asset, and head of Investment Strategy.

KEY OUTLOOK OBSERVATIONS

Global Economy

- Although growth has slowed, the U.S. economy is in a late-stage expansion, a scenario that can potentially last for a long time.
- Globally, a near-term economic pickup is on the horizon as global trade concerns ease and manufacturing economies stabilize.
- The U.S. and China, two of the world's dominant economies, are expected to slow further even if a trade truce holds.
- Inflation is broadly low around the world relative to central bank targets, though pockets of wage pressure are emerging.
- For 2020, the upside for global growth is limited, with risks skewed to the downside.

U.S. Equity

- The slowing economic environment and concerns around the ongoing China tariff war this year led to high demand for safety. Investors were therefore attracted to lower-beta companies with high valuations for much of the year. However, that trend began to reverse in early September this year, with investors rotating back to high-beta, more cyclically oriented stocks amid easing monetary policy and optimism for a new trade agreement between the world's largest economies.
- Despite the market reaching new highs, investors are grappling with elevated risks. Geopolitical uncertainty has increased, and not only because of the tariff war. Brexit, discord in the Middle East, unrest in Hong Kong, and the impending U.S. presidential election are among many factors contributing to elevated geopolitical concerns for the market to digest.
- While the S&P 500 gained 449% from its trough in March 2009 through September 30, 2019, there is little sign that company valuations have become extended. With some exceptions, such as defensive parts of the market, valuations are roughly in line with historical norms around the world.
- Widespread innovation and automation have created winners and losers in many industries, including health care, media, energy, and the internet, among others. We believe this dynamic will persist.
- Corporate fundamentals are slowing while the range of potential outcomes is wider, creating the likelihood for muted returns in 2020 with more volatility.

International Equity

- International equity markets have serially lagged U.S. markets over the last 10 years. This was the result of a combination of structural factors, currency (U.S. dollar strength), widening valuation disparities, and cyclical factors.
- This year has seen a continuation of underperformance as global economies have slowed and international earnings have been disproportionately affected by the U.S.-China trade dispute.
- Considering markets are 18 months into a capital expenditure recession, are eight months into an inventory correction, and have been facing political headwinds from the U.S.-China trade war and Brexit, there is reason to believe that growth and inflation expectations have now bottomed. Given these circumstances and undervalued currencies, it's our view that the cyclical conditions for international equities to outperform are present.
- Structural merits for international markets, both developed and emerging, include rising innovation, better corporate governance models, better demographics (emerging markets), and the potential for valuation to catch up.

Global Fixed Income

- The year 2019 has been a strong one for fixed income, with healthy bond returns across the quality spectrum, especially in investment-grade corporates given the decline in rates this year.
- Around the world, central banks have generally renewed accommodative policies, extending the current cycle with cautious optimism about reflation.
- The low-/negative-yield environment strengthens the case for higher-income areas of the global market, particularly as high yield has migrated up in its quality composition.
- High yield and emerging markets debt have generated strong risk-adjusted returns over the last 10 years, and core bonds, such as U.S. investment grade debt, have posted annual losses in only three of the last 40+ years, justifying a permanent fixed income allocation even if 2020 gains are not as strong as this year.
- Key market risks include trade wars, political uncertainty, yield curve inversion, a sharper-than-expected global slowdown, earnings disappointments, and deteriorating business confidence and spending.

Special Topic: Utilities—The Most Underappreciated Sector

- As we head into 2020, utilities appears to offer the best potential for risk-adjusted returns of any sector over the long run. The best entry point would have been last year, but we believe the long-term opportunity is still very attractive.
- From 1986 to 1998, the S&P 500 earnings per share grew 159% while utilities earnings did not grow. This was due to poor regulatory structures, higher inflation and rising natural gas prices, cost overruns on large projects, and the constant battle between utilities wanting to grow their rate base and regulators wanting to limit the impact on customer bills.
- Lower natural gas prices, the conversion from coal to gas generation, and lower-cost renewables have enabled utilities to grow their rate bases and profits without driving up costs for customers.
- Earnings growth rates have converged as S&P 500 growth has slowed and utilities growth has accelerated. With the higher dividend yields on utilities versus the S&P 500, the total return profiles of the two are now similar. This gives utilities investors the opportunity to pursue S&P 500-type of returns without the economic, foreign exchange, and secular risk of the index and with approximately only one-quarter of the index's volatility.
- Potential concerns about this thesis: a fracking ban, which would raise natural gas prices and put pressure on customer bills; poor regulation; a significant increase in inflation or interest rates; and a reduction in allowed returns on equity.

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Please see link here for more information from the T. Rowe Price 2020 Global Market Outlook press briefing, including **speaker biographies and speaker presentations**.

QUOTES

Alan Levenson, chief U.S. economist:
"I anticipate the fiscal policy impulse next year broadly to be neutral, though the potential for further interest rate cuts varies across global economies. Inflation is generally and stubbornly low, which sustains a bias toward monetary accommodation. Europe is seeing cyclical headwinds to core demand, while the U.S. economy should slow as 2020 progresses. The slowing economy in China is here to stay, even without a trade war, as urbanization slows. We expect stimulus to China to be restrained to contain the growth of debt in the country."

John Linehan, portfolio manager and chief investment officer, Equity:
"The current bull market is the longest, but not the strongest, in modern history. Bull markets typically don't die of old age, but rather from a combination of factors including an economic downturn, Federal Reserve policy errors, regulatory and political uncertainty, and valuation excess. Elevated risks are present for 2020, and there is a wide range of potential outcomes. But in aggregate, we expect to see positive returns, with opportunities in nondefensive companies with high dividend yields as well as attractively priced platform companies."

Justin Thomson, portfolio manager and chief investment officer, Equity:
"I anticipate that the cyclical conditions are right for international equities to outperform. A series of factors have contributed to the lagging of international equity over the last 10 years, but we may be on the verge of a shift. The burden of political headwinds from the U.S., the China trade war, and Brexit have been more heavily felt across international markets. The tide may be turning as these could give way to the tailwinds of rising innovation in developed and emerging markets, better corporate governance models, and better demographics in emerging markets. There is also the potential for valuation to catch up in international equities."

Mark Vaselkiv, portfolio manager and chief investment officer, Fixed Income:
"While fixed income returns may not be as strong in 2020 as we have seen in 2019, the case remains for core bonds being an important investment within your asset allocation mix. Low defaults and extended maturities bode well for credit, but markets are unforgiving for fragile businesses, including the energy companies that are so much a part of the high yield bond market. Duration is a double-edged sword. Even though we're not expecting to see rates go meaningfully higher, even slightly higher rates would negatively impact bond performance."

David Giroux, portfolio manager, chief investment officer, Equity and Multi-Asset, and head of Investment Strategy:
"The conventional wisdom about utilities—that companies' fortunes are tied to the direction of interest rates and not earnings growth—is outdated. Industry dynamics are changing rapidly for multiple reasons, and earnings are growing at a faster rate than before. In our view, this is the only defensive sector without the risk of secular disruption. Utilities' strong investment in renewables creates a flywheel that can benefit everyone. Companies get faster growth and improved regulatory relations and the public and politicians get more clean energy without negatively impacting customer bills."

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