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NEWS RELEASE

T. ROWE PRICE MID-YEAR MARKET OUTLOOK: GENERALLY FAVORABLE ECONOMIC ENVIRONMENT SEEN, THOUGH VOLATILE CONDITIONS FROM FIRST HALF OF YEAR LIKELY TO PERSIST

Global economic expansion intact, strong earnings growth, moderate pace of monetary tightening keep investor confidence high in U.S.

Baltimore: June 25, 2018

NEWS

After a solid year with relatively little volatility in many global financial markets in 2017, volatility returned in the first half of 2018. High valuations across most global asset classes and a range of economic and policy risks – including the threat of trade protectionism – create the potential for volatility to persist moving into the second half of 2018. Such volatility could produce potentially attractive buying opportunities for long-term investors.

The global economic expansion appears to be intact, despite slowing momentum in Europe and Japan, and some developed markets are clearly in an interest rate tightening regime. China has been able to sustain its growth, which is fueling expansion in other emerging markets, although currency weakness could create risks for countries with large budget deficits. The growth outlook is most robust in the U.S., where confidence remains high on the heels of last year's tax cut legislation for individuals and corporations.

KEY MID-YEAR OBSERVATIONS

- Earnings growth has been strong, but it likely peaked in the first half of the year. The year-over-year rise in earnings per share of 25% experienced by companies in the S&P 500 Index in the first quarter was an extraordinary achievement for an economy not coming out of a recession. While this will be hard to beat, earnings are not expected to slow dramatically for the next few quarters.

- Tame inflation in the U.S. is allowing the Federal Reserve to pursue a moderate course of interest rate hikes. With the pace of rate increases unsurprising, underlying earnings growth should provide support for the broader equity market going forward.

- Titans of the technology sector have seen rapid earnings growth and led stocks higher, with much of that leadership concentrated in a relative handful of U.S. and Chinese mega-cap companies that have dominant platforms in internet search, social media, cloud computing, and streaming video. T. Rowe Price believes that these firms have unique advantages that could allow them to continue to lead the broad market. For now, the political or regulatory backlash some firms face about data privacy are dwarfed by the growth potential of their platforms.

- Despite recent softness, the outlook for European economies is generally positive with a major exception being the UK, where Brexit uncertainties continue to weigh on business confidence and capital spending. Political instability in Italy and higher bond yields in peripheral countries also could be negative for eurozone growth.

- Earnings growth in Asia, especially China, has been heavily concentrated in the technology sector, even more so than in the U.S. Earnings strength in Japan will largely depend on the economic cycle, specifically, demand for the country's exports. Corporate governance reforms there continue to be constructive and stocks appear to be inexpensive compared to longer-term averages.

- In fixed income, U.S. Treasury yields pushed sharply higher in the first half of 2018. Perhaps more significantly, the Treasury yield curve – the spread between shorter- and longer-term maturities – continued to flatten. The valuations of U.S. investment grade and high yield bonds have improved in an absolute sense due to the rise in Treasury yields. However, they appear historically expensive in a relative sense. Overall yields in the high yield sector have moved up in line with the increase in risk-free rates.

- Core European and Japanese sovereign bond yields remain anchored at extremely low – and, in some cases, negative – levels. The European Central Bank is widely expected to begin "tapering" its quantitative easing programs as the year progresses, which could put upward pressure on the yields of European sovereign bonds.

- U.S. dollar appreciation is creating headwinds for emerging markets. A number of currencies, including the Turkish lira, Argentine peso, and Brazilian real, have been weak against the U.S. dollar, which generally produces a negative environment for emerging markets. Beyond currency, these three markets and Russia have seen other troubles, which caused a big sell-off.

QUOTES

Rob Sharps, Head of Investments and Group Chief Investment Officer
"The key question going forward will be whether the global economic expansion and the bull market in risk assets have entered a late stage, a phase typically marked by inflationary pressures, rising interest rates, and deteriorating profit margins. Some signs point in that direction but it would be a mistake to assume that because the current expansion has been long, it must be nearing its end. The recovery has been long, but it has also been slow. It may be that markets are in a mid-cycle pause as central banks around the world recalibrate monetary policy for a more sustainable expansion."

"The fundamental environment is great, but it's not getting any better. Risks are rising, and investors should consider positioning their portfolios a little more conservatively at the margin, but not overdo it. We're not necessarily at the end of a bull cycle, but if you take a multi-year view, you should probably expect lower returns going forward than what we've experienced over the last couple of years."

Justin Thomson, Portfolio Manager and Chief Investment Officer of Equity
"We're seeing a similar pattern all over the world, emerging markets included, where markets are highly bifurcated between companies that can demonstrate structural growth and companies that are structurally challenged. And the blend that comes out in the aggregate is perhaps less meaningful than it once was. Europe's strong earnings momentum from 2017 will be difficult to replicate in 2018, in part because the technology sector has been the catalyst for earnings growth and it has a smaller weight in the major European indexes relative to the U.S. Still, underlying trends appear positive."

Mark Vaselkiv, Portfolio Manager and Chief Investment Officer of Fixed Income
"We could have some interesting dynamics going forward if the world starts to lose a little bit of confidence in our geopolitical situation, particularly our trillion dollar deficits. The potential for financial contagion among emerging markets can't be dismissed, particularly among countries that have made less progress in curbing chronic deficits. It's one of the key trends we will be watching over the next six months. And since all emerging countries economically revolve around China, a meaningful trade conflict between the U.S. and China would have serious implications."

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