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NEWS RELEASE

T. ROWE PRICE EXPERTS SHARE 2024 OUTLOOK FOR GLOBAL FINANCIAL MARKETS

New regime of "higher for longer" inflation, elevated interest rates, and slower economic growth are setting the context for stock and bond markets

NEWS

BALTIMORE (November 14, 2023) - T. Rowe Price held its 41st annual global market outlook press briefing today in New York City, with a panel of the firm's experts sharing their expectations for global financial markets in 2024.

Chief U.S. Economist **Blerina Uruçi** spoke about the Fed's challenges managing a broad range of risks, the impact of inflation and rising rates, the cooling of the U.S. labor market, and the outlook for high deficits and debt levels going into 2024. **Steve Boothe**, portfolio manager and head of global investment-grade debt, said that fixed income markets currently exist in a fragile equilibrium but that the historic sell-off in bonds in 2022 has created opportunities for all types of investors. **Peter Bates**, portfolio manager of the Global Select Equity Strategy, believes that the market environment in the next 10 years could be fundamentally different than the pre-pandemic period, transitioning from a higher-growth regime supported by low inflation and low interest rates to a new, lower-growth regime characterized by higher inflation and higher rates. Capital markets strategist **Tim Murray** opined that we may well avoid a recession but that there will be no real recovery until the Fed pivots; in the meantime, investors' portfolios need to account for both inflation and recession risk. **Dom Rizzo**, portfolio manager of the Global Technology Equity Strategy, discussed the investment opportunities in artificial intelligence (AI), which he thinks may be the biggest technological innovation since the advent of electricity.

Quotes and Key Observations

Global Economy

Blerina Uruçi, Chief U.S. Economist, Fixed Income Division

- *"The major takeaway from recent economic data is a resilient U.S. economy supported by a resilient consumer. Inflation has decelerated, and the labor market is gradually cooling through slower employment growth and a decline in the job vacancy rate, but it is not rolling over."*
- Based on Fed Chair Jerome Powell's and other hawkish Federal Open Market Committee (FOMC) members' responses to the rise in yields, the Fed has likely reached a peak in interest rates, and the next decision will be for how long to keep interest rates at the current level.
- My view that interest rates have peaked goes counter to the September Summary of Economic Projections, which indicated that another rate hike was likely this year. This expectation is driven by the recent tightening in financial conditions. Many in the FOMC will eventually conclude that higher yields and tighter financial conditions may be a substitute for further increases in the policy rate. If the economy remains resilient, the market will gradually price in fewer rate cuts in 2024.

Global Fixed Income

Steve Boothe, Portfolio Manager, Head of Global Investment-Grade Debt, Fixed Income Division

- *"Fixed income markets sit at a fragile equilibrium. High-quality yields are attractive, but economic growth will eventually succumb to the Fed's hiking cycle, so a mild recession is still possible. The open question is when, and to what degree."*
- It's a good time to be a bond investor, but it's a complicated environment. The temporary benefits of looser financial conditions and U.S. fiscal spending in 2023 will soon wear off. We have reached "peak everything"—as all the factors (fiscal policy, liquidity, China growth, housing, credit, and employment) that have contributed to the global economy's resilience are showing signs of weakness.
- Liquidity remains a concern: Money markets have absorbed the heavy supply of U.S. Treasuries in 2023, but Treasury supply in 2024 is expected to remain heavy due to deficit spending, so that capacity for absorption is likely to change.
- Households are significantly underinvested in fixed income relative to long-term patterns, and cash holdings are near all-time highs. The historic sell-off in bonds in 2022 has created a buying opportunity for investors of all kinds. Short duration and intermediate duration high-quality assets, among other sectors of the bond market, offer both income and the potential for price appreciation.

Asset Allocation

Tim Murray, Capital Markets Strategist, Multi-Asset Division

- *"The global market environment is now in a state of purgatory, with continued uncertainty about both inflation and recession risks as the Fed considers its next move. Stock/bond correlations are constantly shifting. Investors need to hedge their bets accordingly, taking advantage of attractive yields while choosing their stock, bond, and real asset allocations wisely."*
- Mega-cap tech stocks—"The Magnificent Seven" (Apple, Alphabet, Amazon, Meta, Microsoft, NVIDIA, and Tesla)—have distorted valuation metrics to the extent that they have become, in effect, a separate asset class.
- Tactical positioning: Reflecting these trends, T. Rowe Price's multi-asset portfolios are currently positioned around four themes:
  - Recession uncertainty: Overweight cash for liquidity and flexibility.
  - Attractive yields: Overweight high yield, floating rate, and emerging market bonds.
  - Inflation mitigation: Overweight real assets as a hedge against sticky inflation; commodity and real sectors attractively priced.
  - Selective opportunities: Overweight small cap amid stabilizing earnings estimates and attractive valuations.

Global Equities and the Evolving New Regime

Peter Bates, Portfolio Manager, Global Select Equity Strategy, Equity Division

- *"The old, pre-pandemic regime— characterized by efficient global trade, cheap abundant energy, and excess labor— was supported by low inflation and low interest rates. Fast-forward to today and we see a new regime unfolding, characterized by deglobalization, peaking energy productivity, and tight labor, likely to result in higher-for-longer inflation and interest rates."*
- Equities are still the best place to be for the long term, but the playbook that worked for the last 10 years won't work for the next 10. In a more uncertain environment, valuations will become even more important.
- A sensible investing approach to generating excess returns in the new regime is to balance growth and value style factor tilts, to invest in durable growth themes, to balance recession and macro risk,

and to find companies with a positive catalyst for change.
- In an uncertain world, areas of investment opportunity include artificial intelligence (the semiconductor ecosystem and AI infrastructure), health care innovation (obesity drugs and bioprocessing), and residential and commercial construction.

Artificial Intelligence Investing

Dom Rizzo, Portfolio Manager, Global Technology Equity Strategy, Equity Division

- *"Artificial intelligence is a big deal, in both the boardroom and in the public's imagination. We can all feel it – AI is going to proliferate in nearly every facet of our daily life. This unique technology has the potential to be the biggest productivity enhancer for the global economy since electricity, and we're positioning our strategy to navigate this rapidly changing environment responsibly."*
- The digital semiconductor ecosystem remains the most attractive place for investors in tech. The total addressable market for AI chips is expected to rapidly grow from $30 billion dollars this year to $150 billion in 2027, an approximately 50% compound annual growth rate (CAGR). This AI buildout is completely revolutionizing the $1 trillion data center market. Digital semiconductors provide the linchpin technologies that will power this artificial intelligence revolution.
- AI is a sustaining innovation and benefits those companies that already have the compute resources, talent, data, and distribution. The big may still get even bigger.
- There is no shortage of places to look for good ideas that benefit from this and many other megatrends. The global technology opportunity set extends across all geographies, all markets, and all major subsectors of tech—hardware, software, internet, and payments.

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