T. Rowe Price®
INVEST WITH CONFIDENCE

NEWS RELEASE

T. ROWE PRICE EXPERTS SHARE 2022 GLOBAL MARKET OUTLOOK

AFTER ROBUST RALLY IN EQUITY AND BOND MARKETS SINCE THE COVID BOTTOM IN 2020, MORE MUTED RETURNS EXPECTED NEXT YEAR DUE TO INCREASING RISKS

Equity performance strong this year, but near-term outlook mixed due to slowing economic and earnings growth, tapering of stimulus, higher inflation, elevated valuations, and the potential for rising interest rates. Decent returns may be possible, but will be harder to achieve next year.

Amid peaking monetary and fiscal policy accommodation, T. Rowe Price fixed income experts expect a bumpier ride ahead for interest rates, credit spreads, and the U.S. dollar. However, they expect inflation to moderate in 2022 below currently high historical levels.

Compelling investment opportunities remain for active investors.

The firm's experts also outlined the key issues, including environmental and social matters, that might arise in the 2022 proxy voting season and the growing importance of capital allocation to company financial success and shareholder returns.

Baltimore: November 16, 2021

NEWS

T. Rowe Price held its 39th annual global market outlook press briefing today, with the firm's experts addressing the outlook for global equities and fixed income, the likely issues to emerge in the 2022 proxy voting season, and the growing importance of capital allocation to successful company financial performance in an era of lower global economic growth. Portfolio managers **David Eiswert** and **Christopher Brown** shared their thoughts on, respectively, the equity and fixed income markets. **Donna Anderson**, head of corporate governance, anticipated the outlook for next year's proxy season, including the continued ascent of ESG-related shareholder resolutions. Finally, **David Giroux**, Chief Investment Officer for equity and multi-asset, addressed the growing importance of effective capital allocation.

Key Outlook Observations

Global Equities

- Among the many variables that are likely to impact global equity performance next year, Eiswert noted three key worldwide distortions that may be main drivers: behavioral changes in the aftermath of the COVID-19 pandemic; monetary and fiscal policy distortions; and ongoing policy reforms in China.
- In a world where Covid-19 lingers and the threat of future pandemics remains omnipresent, Eiswert highlighted the emergence of a new, hybrid work environment, the enormous impact on the labor force, childcare, and the reliability of global supply chains. In business, there will be companies that adapt successfully to the new world and those that don't, presenting compelling opportunities for active managers to identify companies on the right side of those changes.
- The unprecedented global monetary and fiscal stimulus injected into the economy -- which includes net zero interest rates, quantitative easing, the relaxing of bank capital buffer rules to

facilitate increased lending, and trillions of dollars of fiscal stimulus -- will ultimately subside, leading to a more normalized interest rate environment. But it will take some time.
- As for China, regulatory cycles are not new there. Historically, the government has instituted reforms when economic conditions in the country are favorable. They are "fixing the roof while the sun is shining." Eiswert thinks the current regulatory cycle has likely peaked and the actions taken by President Xi should make the economy more resilient longer term. However, the near-term uncertainty in China presents opportunities for active stock pickers as investors can transition into companies outside the crosshairs of regulation and those poised to benefit from the changes.
- As society and the global economy adapt to these distortions, Eiswert sees inflation eventually receding from today's heightened levels, interest rates rising, though still below historical averages, a steeper yield curve, economic stabilization as the labor force returns to work, and an easing of supply chain disruptions.

Global Fixed Income

- Given that policy accommodation has peaked, Brown expects increased volatility ahead for interest rates, credit spreads, and the U.S. dollar.
- The Federal Reserve will have a challenge in convincing investors that tapering is not tightening and that their new framework of flexible average inflation targeting (FAIT) will be implemented effectively. Under FAIT, the Fed's intention is to temporarily allow for inflation moderately above its two percent target to compensate for past undershoots and address the structurally disinflationary environment that characterized the post-GFC period.
- While inflation has been "persistently transitory" and running at relatively high levels of late, Brown expects price pressures to ease in 2022. The firm's fixed income managers expect possible Fed rate hikes to begin in the second half of 2022.
- Aside from the inflation debate, other key questions facing fixed income investors in 2022 include whether businesses will continue to invest amid slower earnings and economic growth; if individual savings and increased consumer spending can offset the impending fiscal cliff as stimulus in the U.S. plummets by an estimated US$1.8 trillion from this year to next; and the impact of any slowdown in the Chinese economy.
- In conclusion, Brown expects 2022 to be a transition year as COVID evolves from pandemic to endemic and policy – both monetary and fiscal – begins to normalize. He expects an easing of price pressures and slowing but above-trend global growth to lead to moderately higher interest rates and a choppy U.S. dollar. While he believes the Fed can achieve a soft landing, fixed income investors should adopt a defensive stance on credit given that spreads over treasuries are now below historical averages across nearly all fixed income sectors and provide little margin for error.
- In this environment of tight spreads yet healthy fundamentals, T. Rowe Price fixed income managers favor select securitized markets and floating rate bank loans.

Outlook on Shareholder Activism

- In the proxy season just ended, an already strong interest in ESG issues intensified quickly, centering on systemic racial injustice, employee treatment, COVID-related worker safety, and pay equity.
- While shareholder resolutions on ESG issues draw outsized attention, they represent a small fraction of overall proposals. Of more than 63,000 resolutions voted on this year, only 294 were related to environmental and social matters. More than half were uncontested elections of directors.
- In 2022, a rapid rise in support of environmental and social resolutions by certain investors is likely to increase the number of proposals and decrease the propensity of activists to negotiate.

- Experiments such as climate-centered “Vote No” campaigns and “Say on Climate” proposals (modeled on annual votes to approve compensation) are unlikely to gain traction in North America. Instead, the focus will shift to director elections.
- While social activists have been emboldened by changes in stance by some big investors, companies are likely to start drawing a line on these proposals.

Capital Allocation

- Capital allocation prowess is an increasingly important source of competitive advantage, yet it is largely overlooked by boards of directors, investors, and the media.
- With the majority of companies generating more free cash flow and having increased debt capacity, effective deployment of excess capital is becoming a larger driver of long-term shareholder returns.
- Most firms don’t deploy capital adequately. Companies spend more than US$2 trillion every year on mergers and acquisitions, but the failure rate on these marriages is 70 percent to 90 percent.[i] They also do not deploy excess capital or execute share repurchases with utmost efficiency.
- However, firms that deploy capital well are expected to grow materially faster than their peers, likely experience multiple expansion, and benefit all stakeholders over the long term.

QUOTES

David Eiswert, CFA, Portfolio Manager, Global Focused Growth Equity Strategy

“One of the biggest risks in markets is distortion complacency. These are not normal times. The world is experiencing tremendous disruption and innovation across sectors, struggling with waves of behavioral change around Covid, and awash in money. We believe that we are on the long road back to the future. Things will not be the same as they were, but distortions will fade over time bringing economic relationships into more normal equilibrium. This will mean better supply chains, more workers willing to work, more moderate inflation, and ironically higher interest rates. Complacency leads to crowed trades and excess that will need to unwind. Active management’s job will be to guide clients through this period of change.”

Chris Brown, CFA, Co-Portfolio Manager, U.S. Total Return Bond Strategy

“While there is no shortage of global variables for fixed income investors to consider, by far the most important one is the path of inflation. Currently, the prospect of stagflation has dominated the market narrative. I believe that price pressures will ease in 2022, and the Fed is right to preach patience in gauging how the post-COVID world will unfold. If I’m right, then we are left with the following expectations: moderating but above-trend growth; moderating but historically robust inflation; and monetary policy that is still very accommodative even if we’ve passed the point of peak accommodation. This scenario is a solid backdrop for fixed income markets but also one that demands prudent and, crucially, active risk management to effectively navigate.”

Donna Anderson, CFA, Head of Corporate Governance

“Shareholder activism of all varieties changed considerably in 2021, particularly across North America, Europe and Japan. We see some of these changes leading to permanent shifts in the landscape, but others were just a reflection of unique pandemic-related factors that rose to prominence this year. On ESG and other shareholder resolutions, asset managers have a responsibility to carefully consider the proponent’s identity and mission, because the potential for unintended consequences is significant. While the perfect storm for ESG issues this year may be downgraded to a tropical storm in 2022, they are likely to whip through proxy seasons for years to come.”

David Giroux, CFA, Chief Investment Officer, Equity & Multi-Asset

T.RowePrice®
INVEST WITH CONFIDENCE

"Capital allocation is by far the most underappreciated financial subject that I have ever come across in my investment career. The historical record indicates that most firms deploy capital inadequately including through mergers, capital expenditures, and share repurchases. However, companies are not somehow predestined to fail with regard to deployment of excess capital. The principles, strategies, and processes that a handful of great capital allocation companies have followed over the last two decades demonstrates the power of good capital allocation to create long-term, sustainable shareholder value."

About T. Rowe Price

Founded in 1937, Baltimore-based T. Rowe Price Group, Inc., is a global investment management organization with US$1.67 trillion in assets under management as of October 31, 2021. The organization provides a broad array of commingled funds, subadvisory services, and separate account management for individual and institutional investors, retirement plans, and financial intermediaries. The organization also offers a variety of sophisticated investment planning and guidance tools. T. Rowe Price's disciplined, risk-aware investment approach focuses on diversification, style consistency, and fundamental research. For more information, visit **troweprice.com**, or **LinkedIn**.

IMPORTANT INFORMATION

This material is being furnished for general informational and/or marketing purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date noted on the material and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

Canada - Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to accredited investors as defined under national instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

USA - Issued in the USA by T. Rowe Price Associates, Inc., and T. Rowe Price Investment Services, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which are regulated by the U.S. Securities and Exchange Commission and Financial Industry Regulatory Authority, Inc., respectively.

© 2021 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.

T.RowePrice®
INVEST WITH CONFIDENCE

CONTACT T. ROWE PRICE, PUBLIC RELATIONS

Bill Benintende
443-248-2424
bill.benintende@troweprice.com

Kim Francois
443-687-0249
kim.francois@troweprice.com

Ed Giltenan
917-744-6140
edward.giltenan@troweprice.com

Lara Naylor
410-215-7998
lara.naylor@troweprice.com

Laura Parsons
443-472-2281
laura.parsons@troweprice.com

Bill Weeks
914-762-2858
bill.weeks@troweprice.com

---

[i] "The Big Idea Playbook", by Clayton Christensen, Richard Alton, Curtis Rising, and Andrew Waldeck, *Harvard Business Review*, March 2011