December 3, 2013

T. Rowe Price Investment And Economic Outlook: The Next Five Years Won't Look Like The Last Five

Opportunities around the globe prevail for 2014 but risks are building, say investment professionals

BALTIMORE, Dec. 3, 2013 /PRNewswire/ -- Five years after being roiled by the onset of a financial crisis, the global investment environment appears to be approaching an inflection point. This view was discussed by T. Rowe Price (Nasdaq: TROW) investment professionals who shared their thoughts today at the company's annual Investment and Economic Outlook press briefing in New York City. T. Rowe Price has conducted an outlook briefing for financial journalists for more than 30 consecutive years.

The briefing's overriding theme for 2014: Be careful. Many financial markets around the world have been in bull market territory since the nadir of the crisis in March 2009. U.S. stocks are up more than 160% off of their lows in 2009[1], while non-U.S. stocks are up more than 107%[2]. For most of this time, markets have climbed a "wall of worry" and many investors stayed on the sidelines. Recently, however, money has begun to move into riskier asset classes. While attractive investing opportunities continue to exist in many global financial markets, T. Rowe Price believes that investors should temper their expectations as the strong performance in many of these markets over the last five years is unlikely to be matched during the next five years.

More information on the T. Rowe Price 2014 Investment and Economic Outlook press briefing, including speaker biographies and presentations, can be found at www.troweprice.com/pressbriefing. Additional content from the briefing will be posted to this site in the coming days.

Investment and Economic Observations

The U.S. economy and many other economies around the world are poised to gain traction in 2014, albeit in a slower-growth mode than they enjoyed before the crisis began. Tapering from the U.S. Federal Reserve is coming in the next three to six months, and could lead to volatile conditions in global equity and fixed income markets. With unemployment still high in the U.S. and inflation pressures muted, the pace of monetary policy adjustment is likely to be gradual.

Despite the bull market, equity valuations appear to be reasonable overall. On the international equity front, many developed markets are seeing improving fundamentals. Europe's economic recovery is still in its early stages, which could give European stocks more room to run than their U.S. counterparts. In Japan, government reform efforts have the potential to pull the moribund economy from its chronic slump, but structural challenges remain, including ineffective corporate governance and dated labor and regulatory rules. In emerging markets, equity valuations appear to be inexpensive relative to historical norms.

Global fixed income markets are vulnerable to interest rate increases, but value can still be found in certain pockets, including emerging market debt. Credit fundamentals are trending up for many states and municipalities, leading to generally good conditions for U.S. municipal bonds. Moreover, revenues are increasing, due to economic improvement and tax rate hikes, while budget gaps are shrinking. T. Rowe Price favors revenue-backed municipal bonds, especially in areas such as public utilities, transportation authorities, and hospital systems, all of which have limited regional competition and essentially operate as monopolies.

Quotes from Press Briefing Presenters

Alan Levenson, Chief Economist: "In both developed and emerging economies, policymakers are ramping up the search for internal growth drivers. In the U.S. there are tailwinds for a modest advance in consumer spending and headwinds are fading. The economy should gain momentum next year, with housing construction likely to pick up. The impact of political uncertainty in Washington should be less than it was this year, once we get past the January sequestration talks and the focus turns to elections."

Bill Stromberg, Head of Equity: "Aggressive central bank stimulus has helped developed market economies recover from the global financial crisis of 2007-2009. Many investors moved away from equities and into bonds during that time, but long-term equity investors fared the best during the downturn and recovery. Risk/reward is now more balanced and investors should be more risk-aware. Confidence has been restored, but it is important to be vigilant as the U.S. bull market is aging. International investments, especially in emerging markets, represent the best long-term value from here in fixed income and equity."

John Linehan, Head of U.S. Equity: "Moving forward, U.S. stocks are unlikely to match their recent strength. This bull market has lasted for 57 months so far, which is the average length of bull markets since 1930. On the plus side, corporate health remains strong and valuations are neutral. There are still attractive areas, such as companies that are benefiting from the reindustrialization of America. Market tailwinds and headwinds are now more balanced, so we believe it's time to be cautious."

Ray Mills, portfolio manager, T. Rowe Price Overseas Stock Fund: "Performance of international stocks has been strong overall, but economic follow through is needed to propel shares much higher. Developed market valuations are reasonable, with generally supportive fundamentals. In Japan, Prime Minister Abe has evoked the will to reignite the Japanese economy but has yet to test formidable vested interests with key "Third Arrow" structural reforms. Implementing Abe's proposed reforms will be challenging and not without risks."

Dean Tenerelli, portfolio manager, T. Rowe Price European Stock Fund: "European equities are undervalued and the economies are recovering. Luxury goods companies, banks in consolidated markets, broadcasters, and Spanish utilities are a few examples of where we see opportunity. The macroeconomic environment has transformed from an end-of-the-world scenario and fears of a Eurozone break-up to a story of improving confidence, modest recovery, and improving company fundamentals."

Mike Gitlin, Head of Fixed Income: "Fixed income markets have performed exceptionally well since March 2009, but the next five years won't look like the last five. Tapering is coming soon and total return expectations on fixed income investments need to be reset lower. But opportunities still exist. The market for emerging market local bonds is relatively liquid and offers attractive risk/reward characteristics. Bank loans and high yield bonds have low expected default rates, strong credit fundamentals, and reasonable yields."

Hugh McGuirk, Head of Municipal Bonds: "Despite headlines created by the situations in Detroit and Puerto Rico, municipal bonds still provide a high-quality, time-tested way to earn tax-free income. Munis have evolved away from being a predominantly interest-rate sensitive market to a more credit-driven market, which places a premium on strong internal credit research. Underfunded pensions continue to represent a critical challenge for state and local governments."

About T. Rowe Price

Founded in 1937, Baltimore-based T. Rowe Price Group, Inc. is a global investment management organization with $647.2 billion in assets under management as of September 30, 2013. The organization provides a broad array of mutual funds, subadvisory services, and separate account management for individual and institutional investors, retirement plans, and financial intermediaries. The company also offers 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, Twitter (twitter.com/troweprice), YouTube (youtube.com/troweprицegroup), LinkedIn (linkedin.com/company/t.-rowe-price), or Facebook (fb.com/troweprice).

[1] Standard & Poor's 500 Index, March 9, 2009-October 31, 2013
[2] MSCI ACWI ex USA Investable Markets Index, March 9, 2009-October 31, 2013

SOURCE T. Rowe Price