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NEWS RELEASE

MIDYEAR 2023 INVESTMENT OUTLOOK: AFTER A TOUGH 2022, FINANCIAL MARKETS REMAIN CHALLENGED BY MULTIPLE THREATS

Stubborn inflation, higher interest rates, slower economic growth, and a regional banking crisis in the U.S. contribute to a murky near-term outlook

BALTIMORE, June 20, 2023 – T. Rowe Price released its outlook for global financial markets for the balance of 2023 and the message is reluctantly bearish for the short term, with more room for optimism over the longer term. Contributing factors making the near term uncertain include:

- Stubborn inflation, despite some recent slowing
- Tightening financial conditions and higher interest rates
- A risk of recessions in many developed markets
- Reduced lending after the failure of several U.S. regional banks

The resilience of many world economies is being tested as the effects of a steep U.S. Federal Reserve interest rate hiking cycle and a shift from quantitative easing to quantitative tightening are still being felt. Labor markets remain strong and are an important signal for investors to watch as any softening could increase the risk of a recession. As always, company earnings are an important focus. Although equity markets have delivered gains in the first half of 2023, earnings estimates may be too high for a weakening economy, putting further pressure on equity valuations. Bonds, which suffered badly in 2022 alongside stocks, present potentially attractive opportunities in high yield, bank loans, and sovereign and local currency debt in certain emerging markets.

QUOTES

Arif Husain, Head of International Fixed Income and Chief Investment Officer

"The market is trying to reconcile two very different scenarios – one where the U.S. economy remains fairly strong and the Fed doesn't cut rates, and one where the Fed has to cut by several percentage points. In Europe, I expect both the European Central Bank and the Bank of England to raise rates despite the associated economic risks. The Fed and other central banks in developed markets will lower rates eventually, but the timing is tricky. Rates are likely to remain higher for longer. Some emerging markets may be on the verge of rate cuts, but they are only attractive on a very selective basis."

Sébastien Page*, Head of Global Multi-Asset and Chief Investment Officer

"Whenever the Fed has slammed on the brakes, someone's head has gone through the windshield. This time it was some U.S. regional banks. Stock valuations aren't broadly attractive right now, but small- and mid-cap stocks are trading at significant discounts to their historical averages, with small-caps priced like it's 2008. In an uncertain environment, market dislocations are inevitable. With both stocks and bonds, skilled active management can help navigate market volatility by taking advantage of opportunities and avoiding riskier exposures. My takeaway fits in a fortune cookie: stay invested, stay diversified."

Justin Thomson, Head of International Equity and Chief Investment Officer

"Some major economies delivered a welcome boost to global growth in the first half of 2023. Falling energy prices helped eurozone economies avoid recession, while China lifted COVID restrictions faster than expected. A weak yen helped Japan's export sector. But much of the momentum has faded, with the exception of Japan, where corporations have seen a return of pricing power and positive governance reforms have taken root. Artificial intelligence (AI) should continue to drive investment in a range of tech sectors. There is an AI arms race underway, and the strong tech companies are likely to get stronger."

ABOUT T. ROWE PRICE

Founded in 1937, T. Rowe Price (NASDAQ: TROW) helps people around the world achieve their long-term investment goals. As a large global asset management company known for investment excellence, retirement leadership, and independent proprietary research, the firm is built on a culture of integrity that puts client interests first. Investors rely on the award-winning firm for its retirement expertise and active management approach of equity, fixed income, alternatives, and multi-asset investment capabilities. T. Rowe Price manages USD$1.35 trillion in assets under management as of May 31, 2023, and serves millions of clients globally. News and other updates can be found on Facebook, Instagram, LinkedIn, Twitter, YouTube, and troweprice.com/newsroom.

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