



2015 Global Market Outlook Press Briefing

GLOBAL FIXED INCOME

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Global Fixed Income Outlook: Summary

ENVIRONMENT

- Slower global growth.
- Divergent economies and central banks' actions.
- Greater differentiation across fixed income asset classes.

LOOKING AHEAD

- Liquidity to deteriorate and volatility to increase.
- Opportunities remain in fixed income.
- Bottom-up security selection key to success going forward.

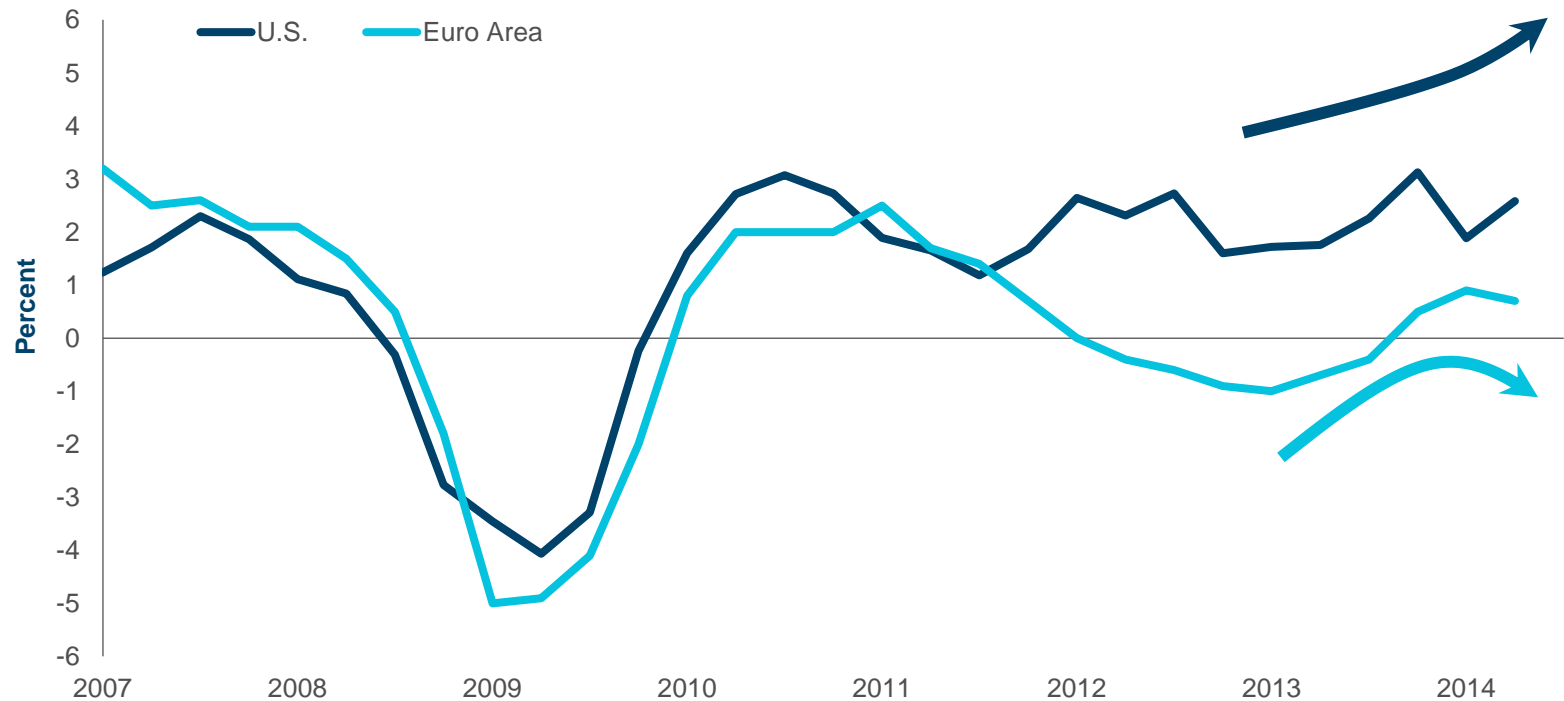


Key Economic Question: Can the U.S. Go It Alone?

REAL GDP(%)

As of 30 September 2014

Percent Year-over-Year Change, Since 2007



Sources: Eurostat, U.S. Bureau of Economic Analysis, and Haver Analytics.



Global Growth Context: Slower, More Internally Dependent Growth

POSTCRISIS, SLOWER GROWTH EVERYWHERE

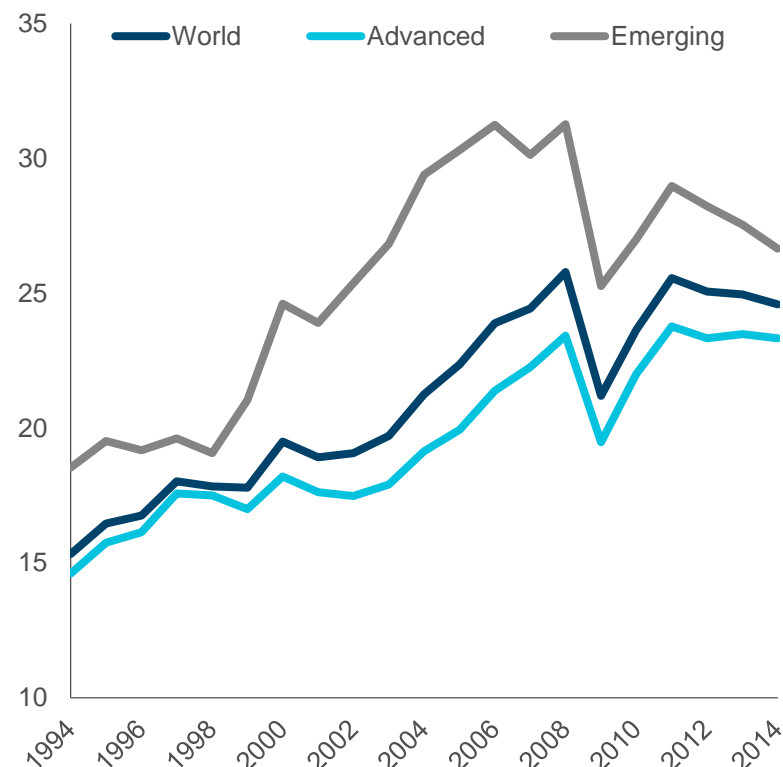
As of 30 September 2014

Percent Change	2004–2007	2010–2013	2014	2015–2016
World	5.1	4.1	3.3	3.9
Advanced Economies	3.0	1.8	1.8	2.4
Canada	2.7	2.4	2.3	2.4
Euro area	2.5	0.6	0.8	1.5
Japan	1.9	1.8	0.9	0.8
United Kingdom	3.1	1.2	3.2	2.6
United States	2.9	2.2	2.2	3.1
Emerging Economies	8.0	5.9	4.4	5.1
Brazil	4.7	3.4	0.3	1.8
China	12.1	8.8	7.4	7.0
India	9.1	6.7	5.6	6.4
Mexico	3.9	3.6	2.4	3.7
Russia	7.6	3.4	0.2	1.0

WORLD TRADE CORRECTION PROMPTS INWARD SEARCH FOR GROWTH

As of 30 September 2014

Share of Exports, % of GDP



Real GDP Growth, Selected Regions and Countries.

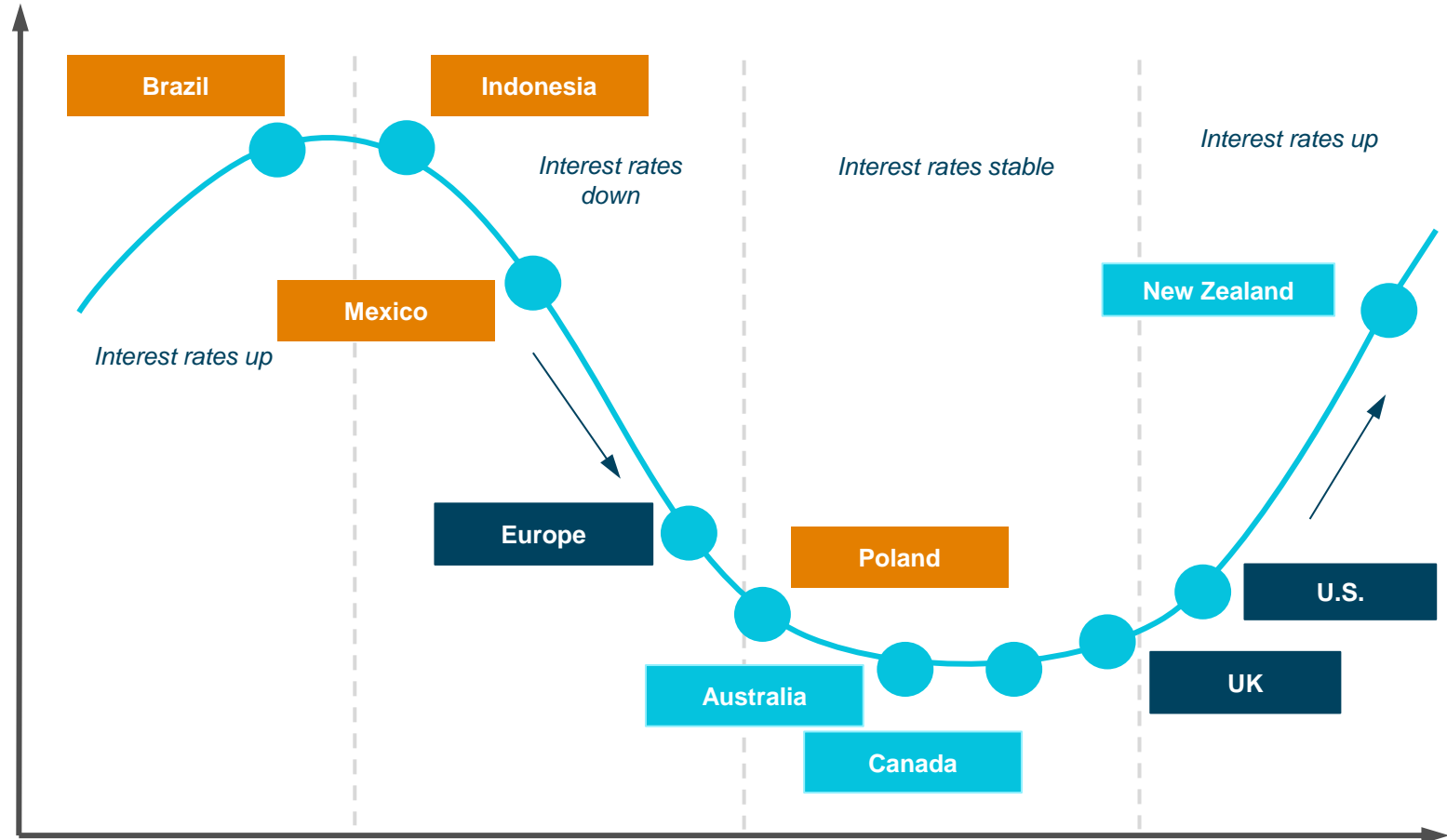
Sources: International Monetary Fund, Haver Analytics, World Bank, and T. Rowe Price.



Divergence in Policy Outlooks

ILLUSTRATIVE INTEREST RATE CYCLE

As of 30 September 2014



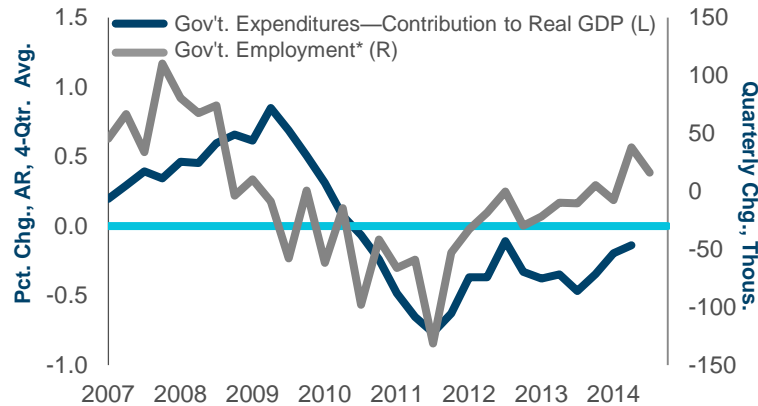
Source: T. Rowe Price.



U.S. Growth Gaining Momentum Toward 3%

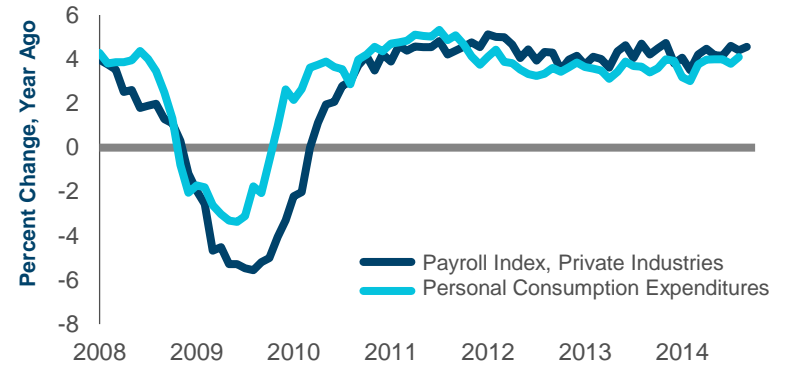
FISCAL HEADWINDS EASING

As of 30 September 2014



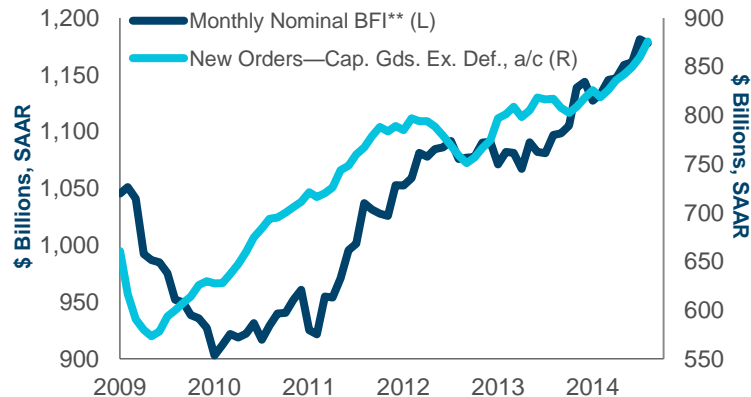
LABOR MARKET RECOVERY DRIVES INCOME, SPENDING

As of 30 September 2014



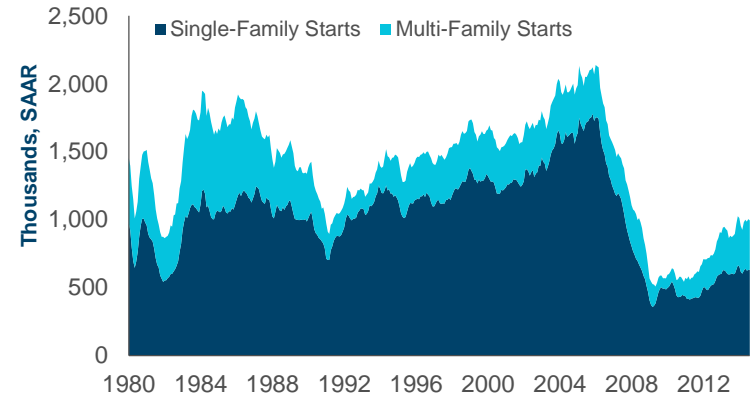
BUSINESS CAPEX ON THE RISE

As of 30 September 2014



HOUSING SUPPLY RECOVERY: SLOW, LOW VALUE

As of 30 September 2014



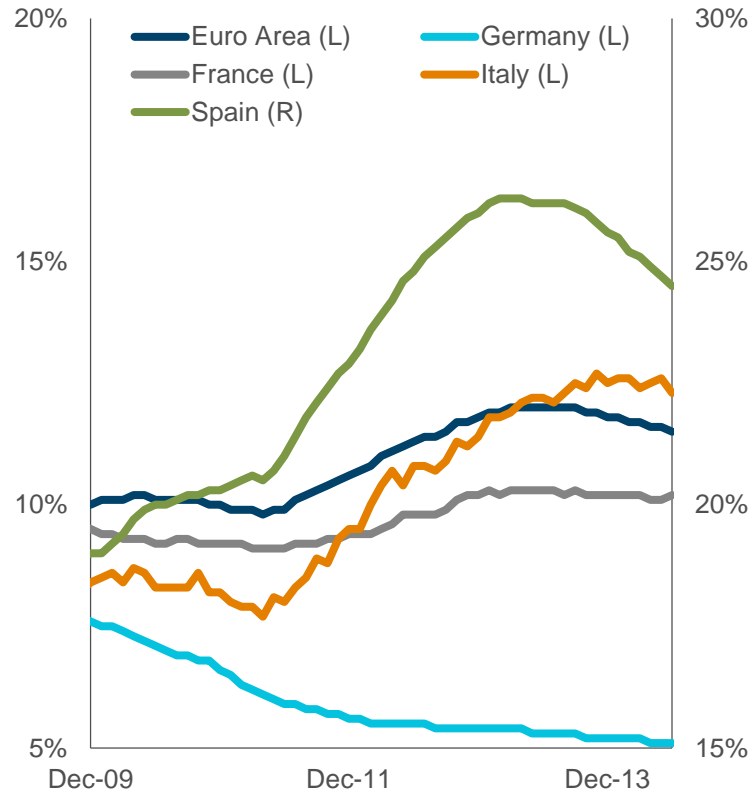
* Q3 is TRP estimate based on July-August data. ** Shipments of capital goods excluding defense and aircraft + nonresidential construction put-in-place. Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, Haver Analytics, and T. Rowe Price.



But the Euro Area Is Lagging (Badly)...

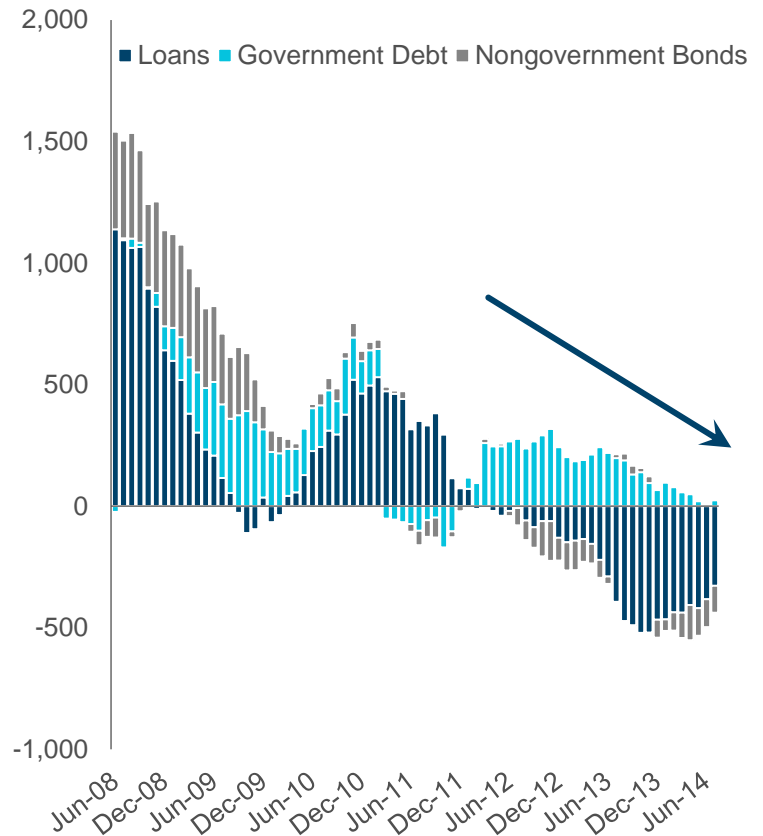
UNEMPLOYMENT STILL HIGH

As of 30 September 2014



EUROZONE BANK ASSETS

As of 30 September 2014
Year-over-Year Change



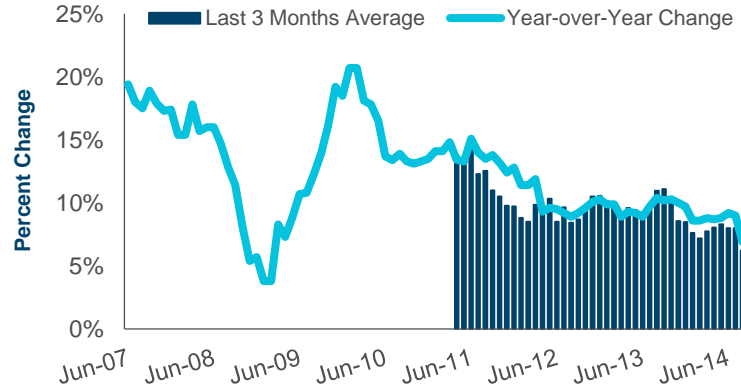
Sources: Eurostat, Haver Analytics, and T. Rowe Price.



China—7% Growth or Below?

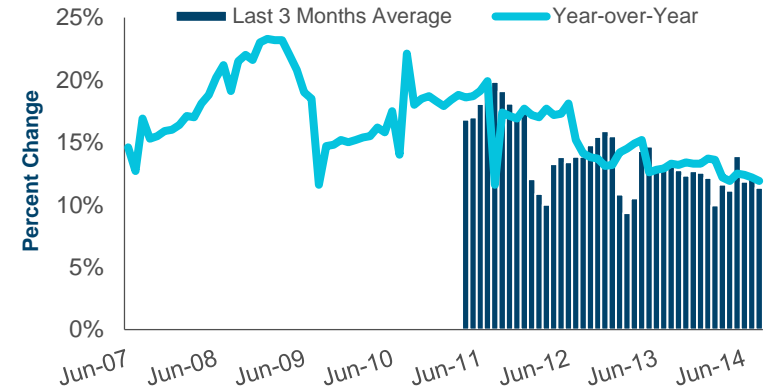
CHINA IP

As of 30 September 2014



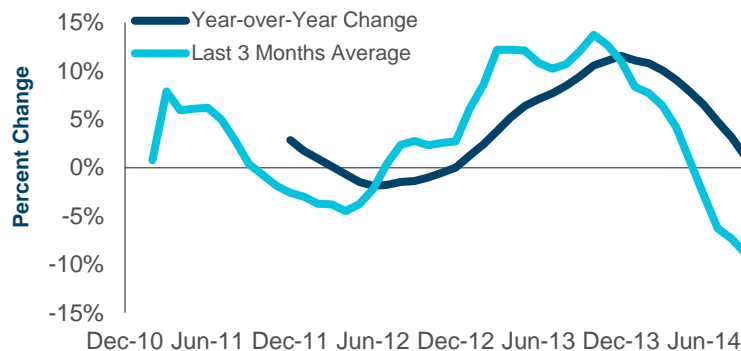
CHINA NOMINAL RETAIL SALES

As of 30 September 2014



CHINA: SOUFUN 100 CITY HOME PRICE INDEX

As of 30 September 2014



CHINA TRADE: IMPORTS AND EXPORTS

As of 30 September 2014



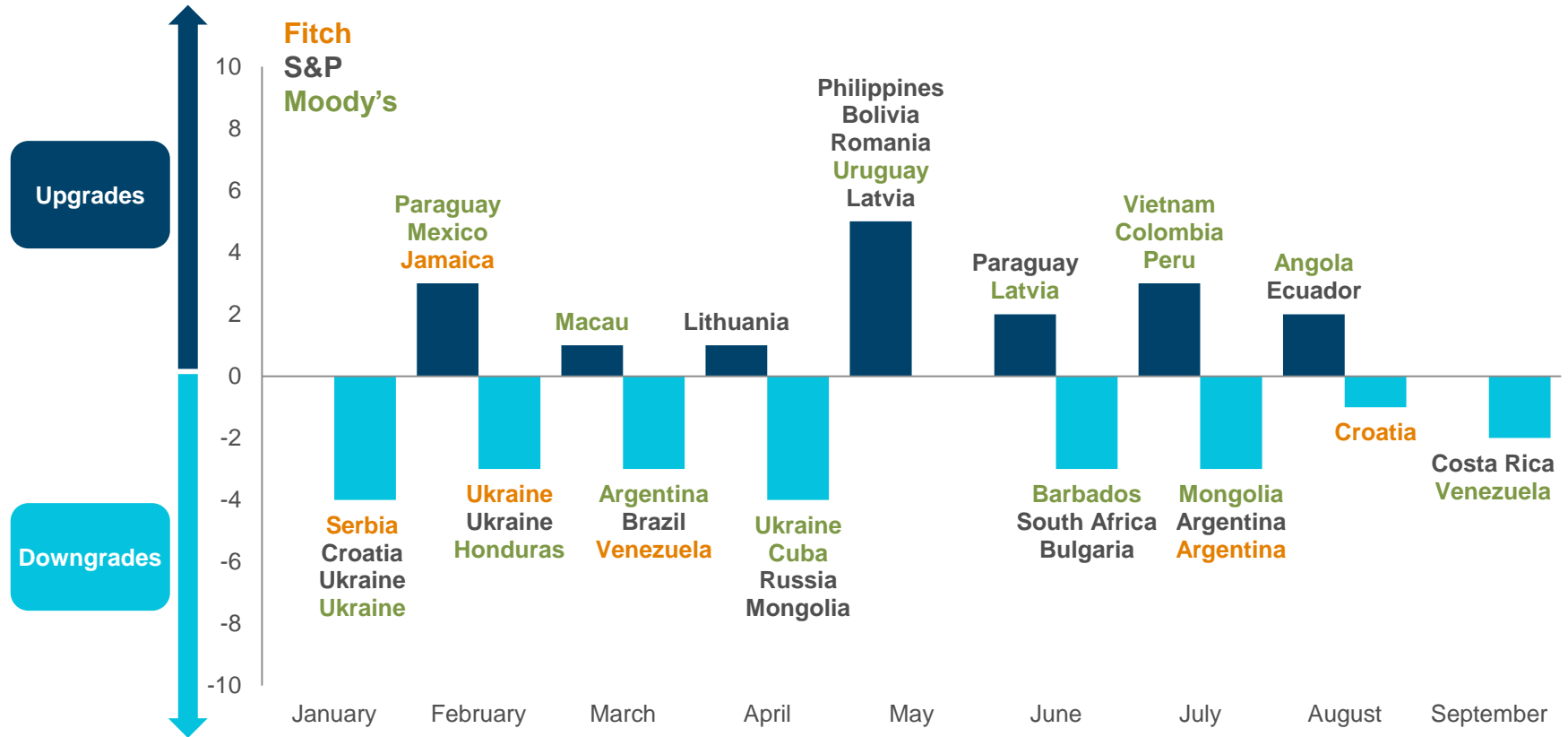
Sources: National Bureau of Statistics and Haver Analytics.



Emerging Markets: Still a Lot of Divergence Remains in Fundamentals

2014 CREDIT RATING UPGRADES/DOWNGRADES

As of 31 August 2014



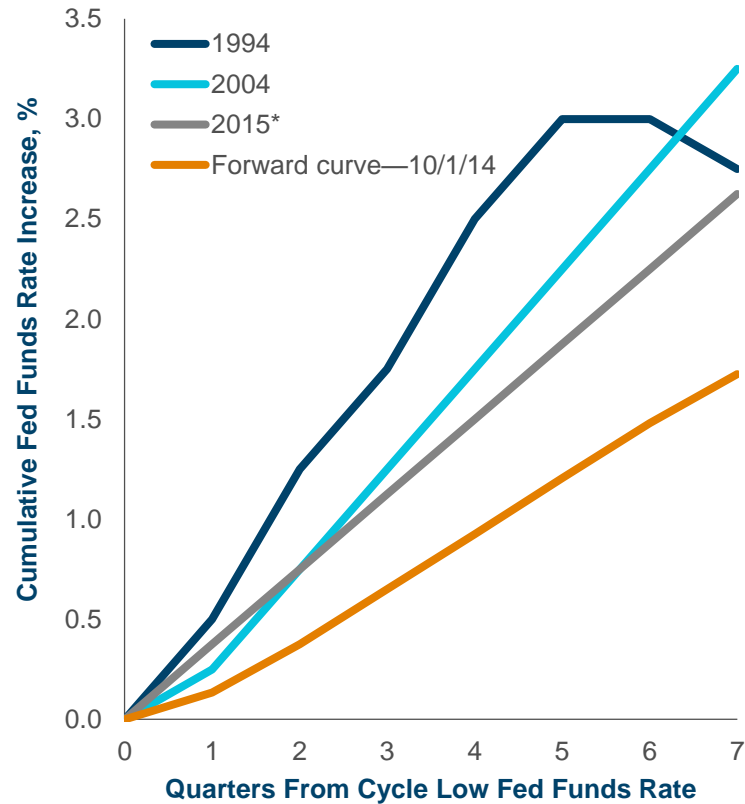
Sources: J.P. Morgan, Fitch, S&P, Moody's, and T. Rowe Price.



Fed Policy—Uncertainty Prevails

FED'S TIGHTENING CYCLE NOT YET FULLY DISCOUNTED

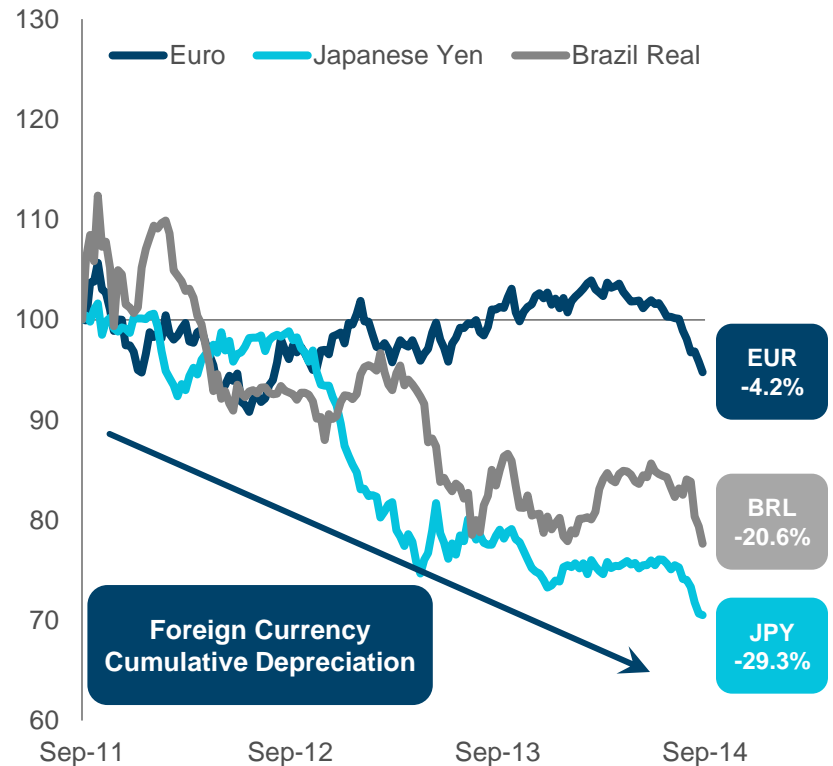
As of 30 September 2014



USD VS. SELECTED CURRENCIES SPOT

As of 30 September 2014

Last 36 months, Base 100 = 30 September 2011



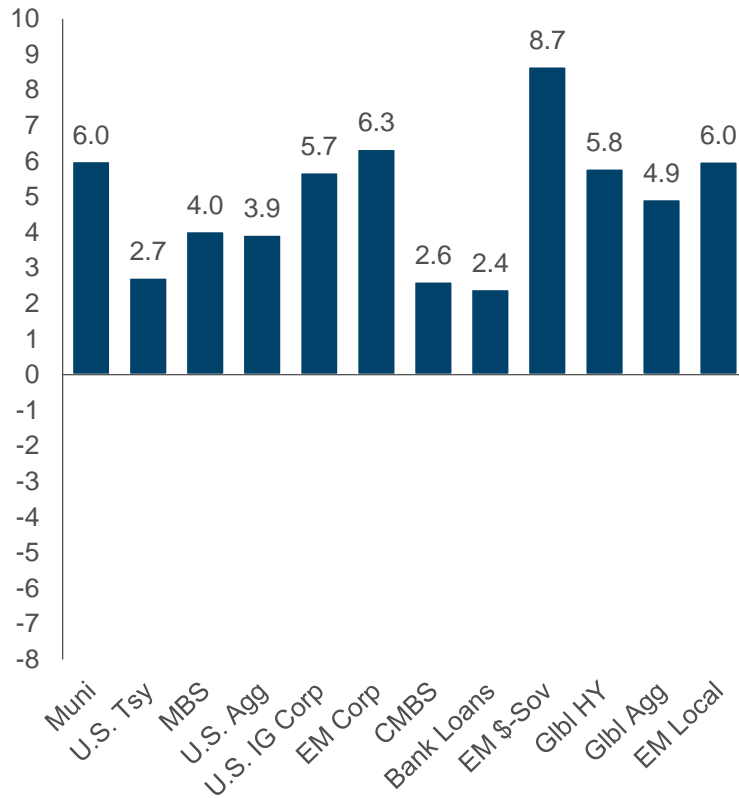
* Midpoint of participants' estimates in FOMC Summary of Economic Projections.
Sources: Federal Reserve, Haver Analytics, DTCC, Reuters, and T. Rowe Price.



Global Fixed Income Markets Take a Breather

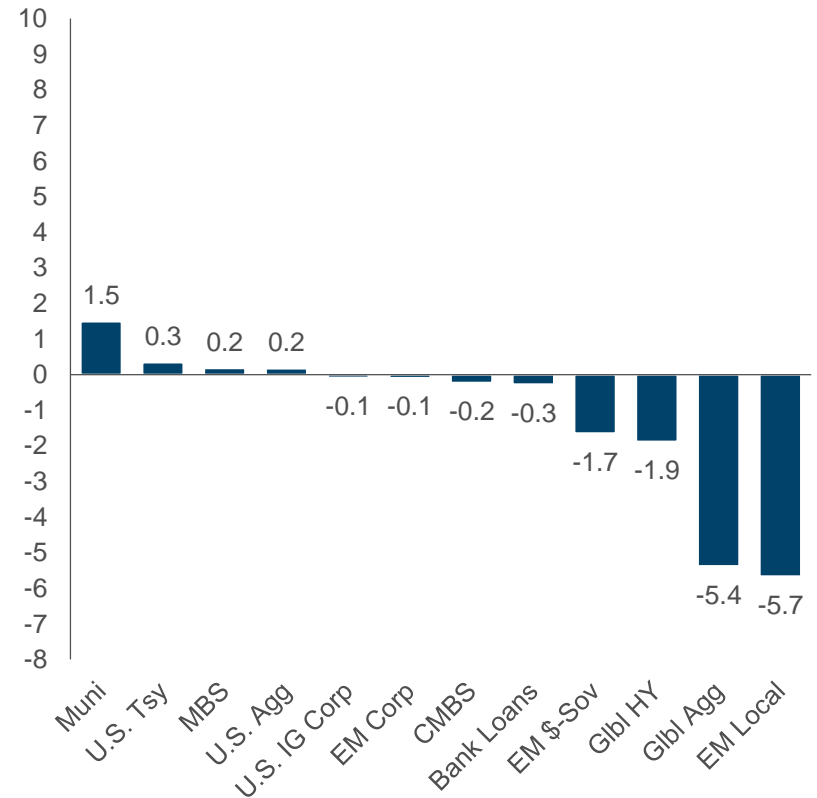
TOTAL RETURNS BY SECTOR

As of 30 September 2014
Year to Date (%)



TOTAL RETURNS BY SECTOR

As of 30 September 2014
3rd Quarter 2014



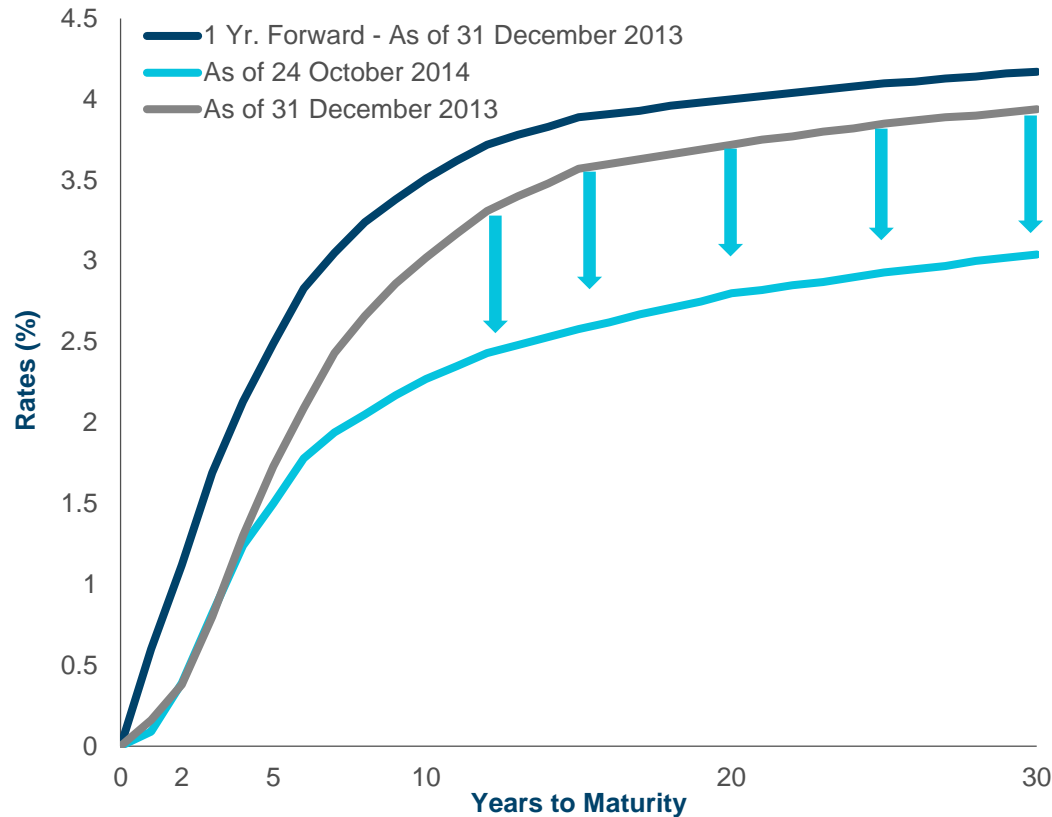
Sources: J.P. Morgan indices: Emerging Markets Bond Index Global Diversified, Global High Yield, GBI-EM Global Diversified, CEMBI Broad Diversified; Barclays indices: U.S. Corporate Investment Grade, CMBS ERISA-Eligible, Municipal Bond Index, U.S. Aggregate Bond Index, Global Aggregate Bond Index, U.S. Treasury component of Barclays U.S. Agg; Mortgage-Backed Securities: S&P LSTA Performing Loan Index.



Treasury Yields—Long End... Lower for Longer

U.S. TREASURY YIELDS (%)

As of 30 September 2014



What market expected one year forward back in December 2013

Yields in December 2013

What actually happened (as of September 2014)

TREASURY YIELD CHANGES

Maturity	Dec. 2013	Sep. 2014	Change
2-YEAR	0.38%	0.57%	+0.19%
5-YEAR	1.73%	1.76%	+0.03%
10-YEAR	3.02%	2.49%	-0.53%
30-YEAR	3.94%	3.20%	-0.74%

Sources: Barclays and T. Rowe Price.

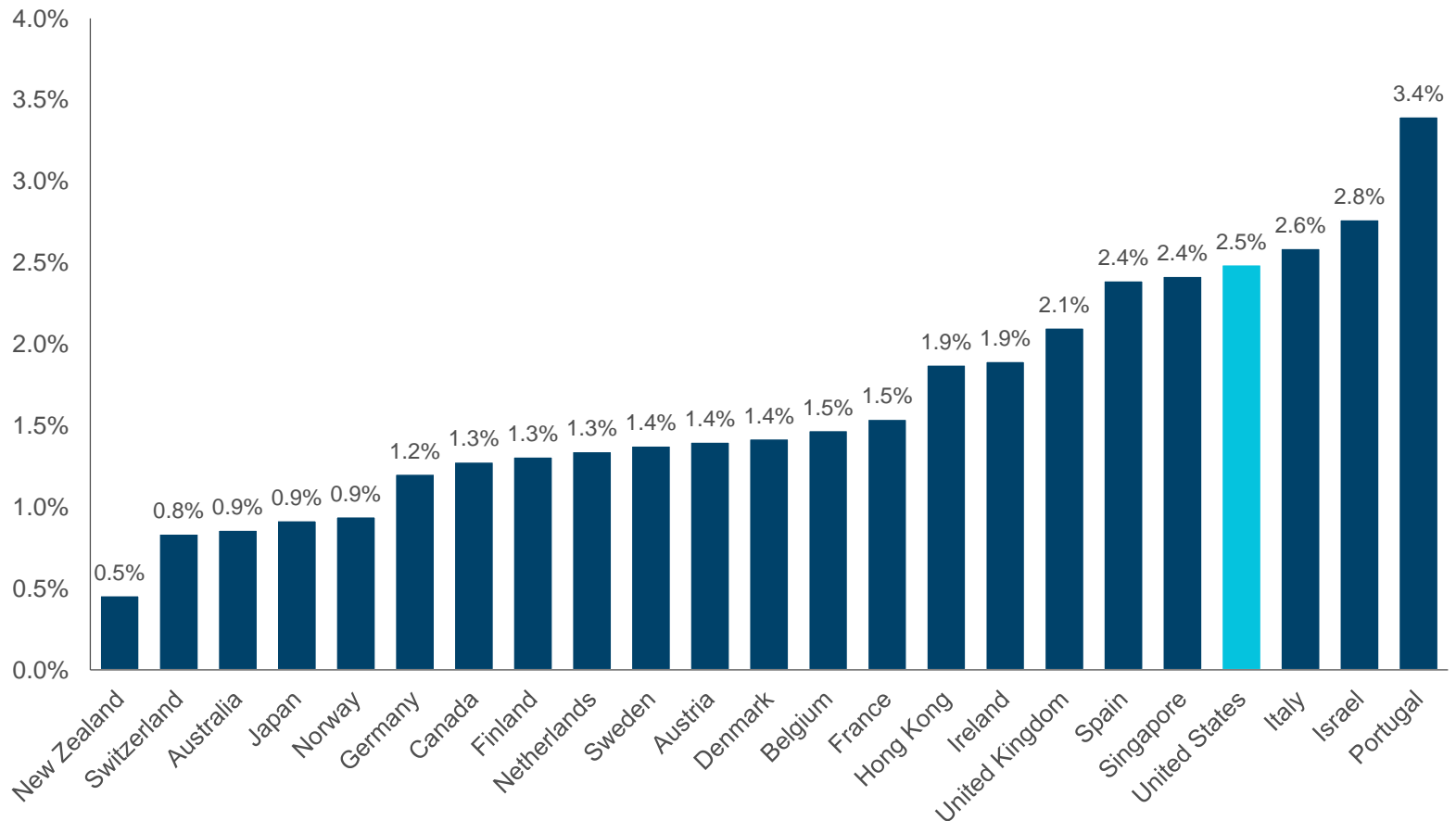


U.S. Yields Attractive versus Global

10-YEAR SOVEREIGN YIELDS (%)

As of 30 September 2014

Hedged yields using three-month implied currency hedging impact



Sources: Barclays, J.P. Morgan, and T. Rowe Price.



U.S. and Europe on Different Paths

10-YEAR U.S. TREASURY VS. GERMAN BUND YIELDS (%)

As of 30 September 2014

31 December 2010 to 30 September 2014



Key Events	
1	Summer 2012: European Central Bank (ECB) Head Mario Draghi's "whatever it takes" speech
2	U.S. Taper Tantrum (First sign of U.S. policy normalization)
3	UST/Bund spreads continue to widen as economic reports between the U.S. and the eurozone diverge

Sources: Barclays and T. Rowe Price.



Emerging Markets Still Offering Pockets of Opportunity

HEAT MAP

As of 30 September 2014

	Spread Levels (bps)			Relative Value Assessment (bps)				
	Current	2-Year Low	2-Year High	Expensive	Full	Fair	Attractive	Cheap
EM \$-Sovereign IG Vs. U.S. IG Corporate	99	4	139	< -25	+/- 25	+25 to +75	+75 to +125	> +125
EM \$-Sovereign Vs. EM Corp	8	(63)	24	< -25	+/- 25	+25 to +75	+75 to +125	> +125
EM Corporate IG Vs. U.S. IG Corporate	127	86	164	< 0	0 to +50	+50 to +100	+100 to +150	> +150
EM Corporate BB Vs. U.S. High Yield BB	120	82	198	< 0	0 to +50	+50 to +100	+100 to +150	> +150
EM Corporate B Vs. U.S. High Yield B	146	131	411	< 100	+100 to +150	+150 to +200	+200 to +250	> +250

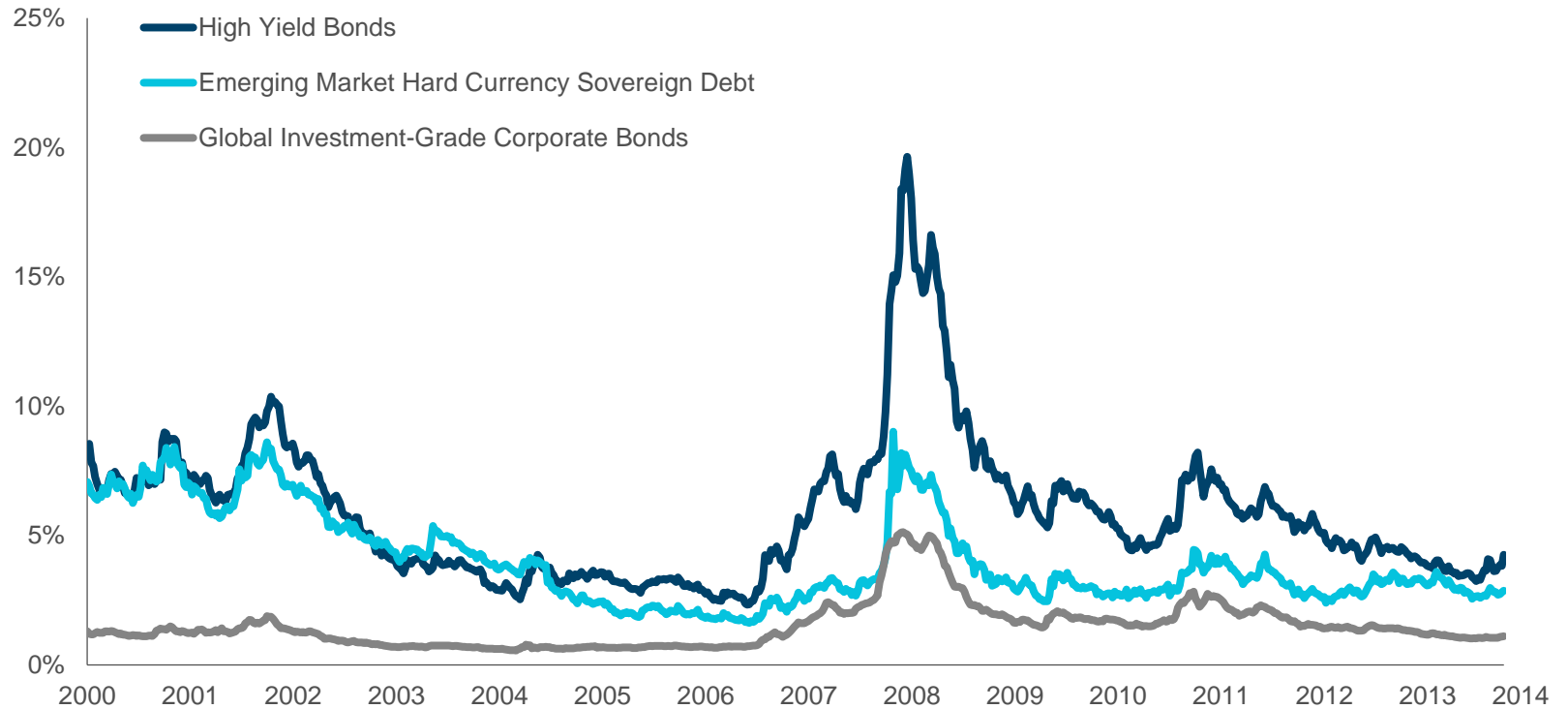
Sources: J.P. Morgan, Barclays, and T. Rowe Price.



Let's Talk About Credit

HISTORICAL OPTION-ADJUSTED SPREADS (%)

As of 30 September 2014
From 31 December 2000



Sources: J.P. Morgan, Barclays, and T. Rowe Price.

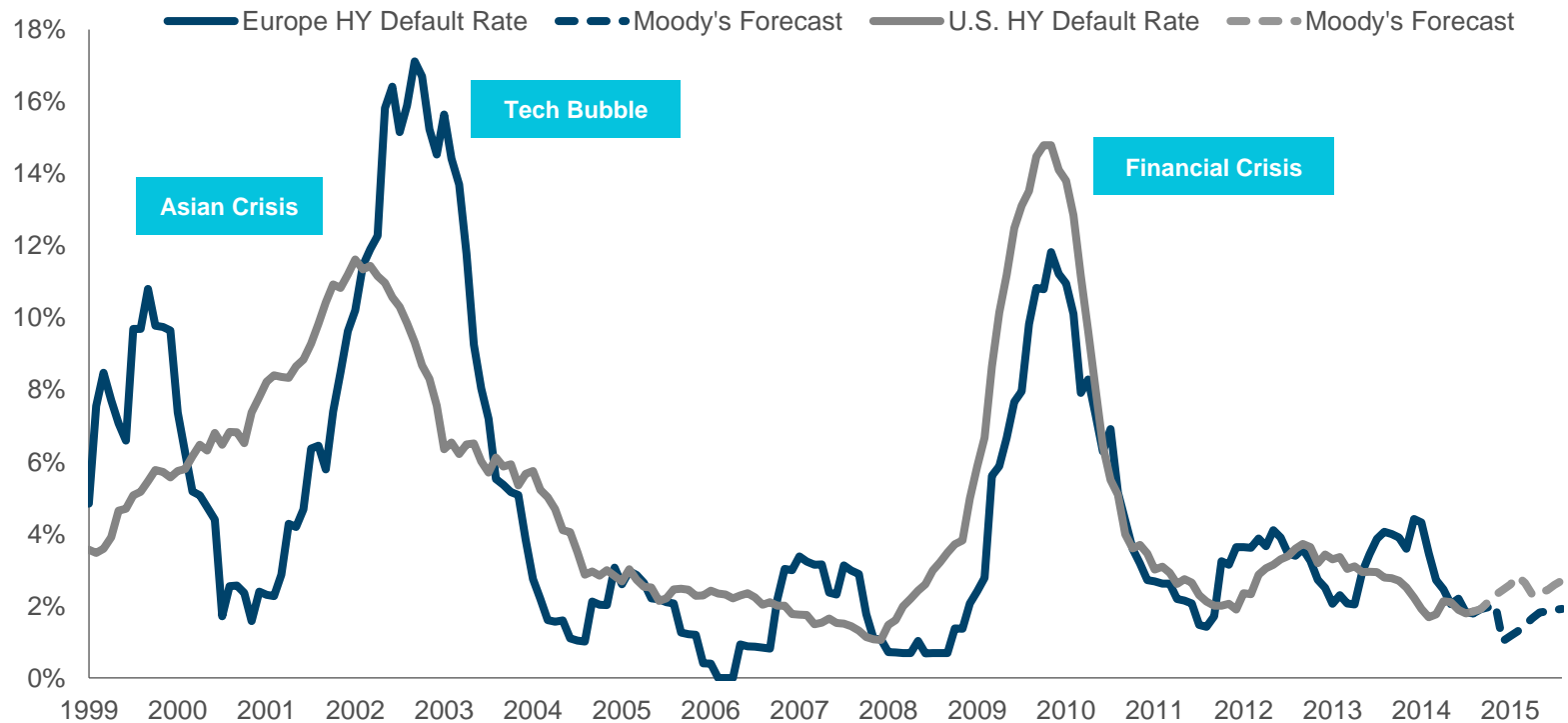


Nothing Wrong on This Side

HIGH YIELD TRAILING 12-MONTH DEFAULT RATE (%)

As of 30 September 2014

31 December 1998



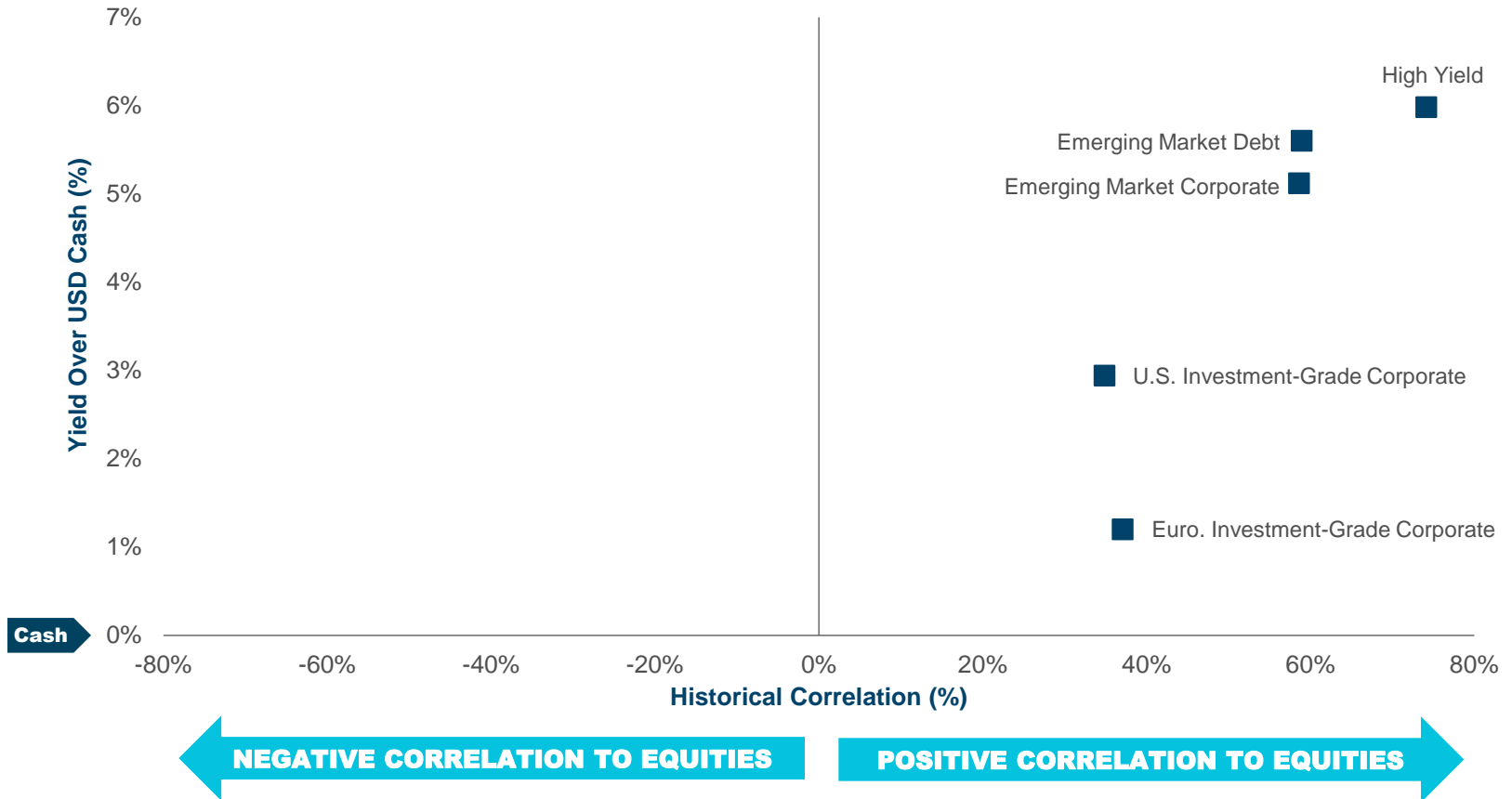
Sources: Moody's and T. Rowe Price.



But This is the Issue: Credit Tends to Have High Correlation with Equities

CURRENT YIELD ABOVE USD CASH VS. HISTORICAL CORRELATION

As of 30 September 2014
Last 10 Years



Sources: UBS, Barclays, J.P. Morgan, Bank of America/Merrill Lynch, S&P, MSCI, and T. Rowe Price.
Yield shown is on a hedged basis in U.S. dollars. Volatility is based on the monthly returns each asset class hedged into U.S. dollars.

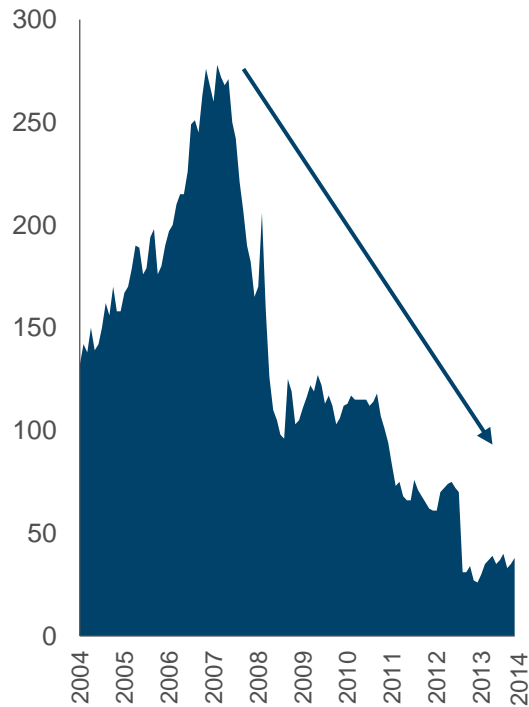


Liquidity has Deteriorated

LIQUIDITY CONDITIONS ON CORPORATE BOND MARKET

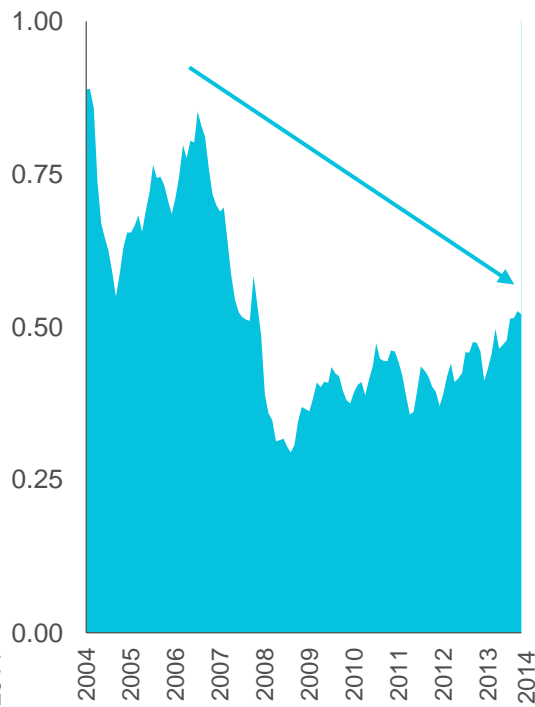
As of 30 September 2014

DEALER INVENTORIES
(US\$ billion)



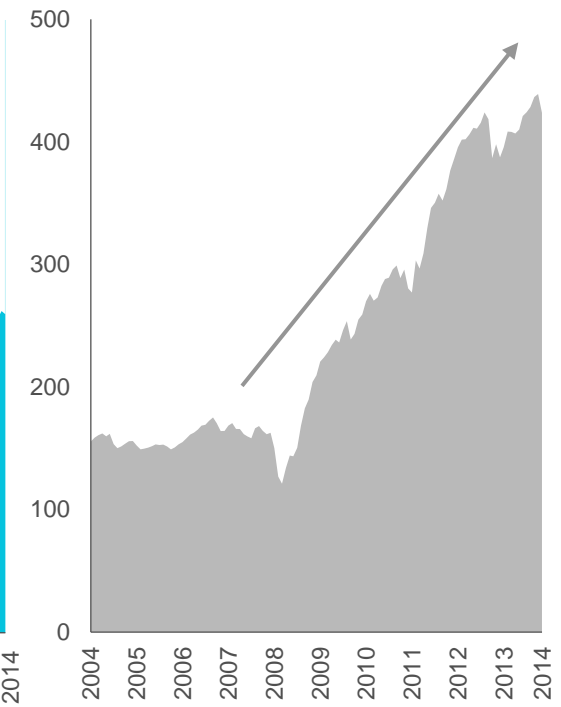
U.S. Corporate Market Statistics
Primary Dealers Positions,
Federal Reserve Bank of New York

AVERAGE TICKET SIZE
(US\$ million)



U.S. Corporate Market Statistics
MarketAxess

CUMULATIVE MARKET SIZE
(US\$ billion)



Morningstar U.S. Corporate Bond and
Morningstar High Yield Bond categories

Sources: Federal Reserve Bank of New York, MarketAxess, Morningstar, and T. Rowe Price.



Conclusions:

- The U.S. should be able to weather slower global growth.
- Expect greater divergence in economies and central bank action.
- Financial markets will also show greater differentiation.
- Expect higher volatility in fixed income markets to continue, providing greater opportunities.
- But investors should be mindful of their true objective.



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