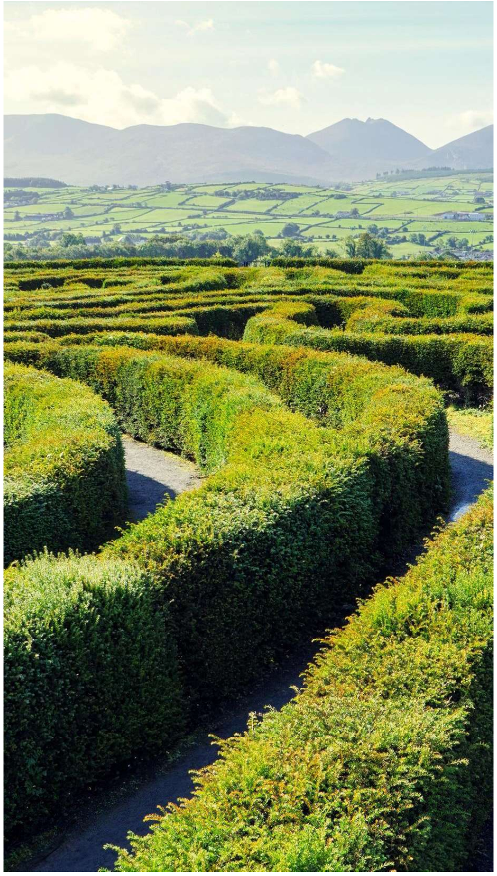


T.RowePrice

April 2025

Investment topics not often discussed but should be…

Chris Dillon, CFA

Outline

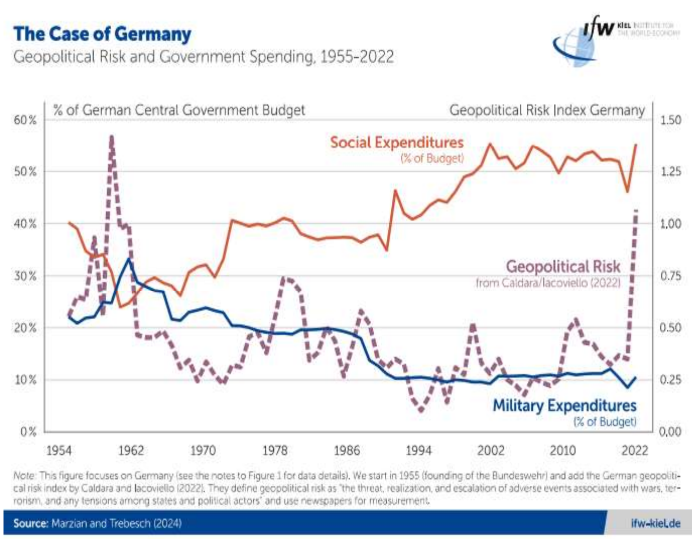
- The world doesn't often dramatically change overnight. This year it has…
- The US economy has reset lower, but is not recessionary for now…
- Global economic update
  Slower US, better Europe, stabilizing China
- Potential good news
  Productivity and fiscal discipline could be a way forward for the US… getting to that theoretical destination is going to be another story…
- Global fixed income perspective
  Diverging outcomes, rates and policies
- Questions around US Exceptionalism have dampened US equity returns
- Geopolitical and capital market "wildcards" abound…

The world has changed (a lot) since the end of last year

- Markets reacted quickly (and favorably) to the idea of deregulation and an extension of 2017 tax cuts in the wake of last year's Presidential election.
- The Davos World Economic Forum in mid-January represented a moment of peak "US exceptionalism."
- China's DeepSeek startup that launched a Generative AI app on Trump's Inauguration day was a "wake up call."
- The market then awoke to the other side (Tariffs / Immigration Policy / Foreign Policy) of the Trump Administration's action plan for a very different vison of the government's relationship with the economy.
- Markets were surprised with the aggressive trade and foreign policy stance taken with historical allies (why did this happen?).
  - Triffin's Dilemma / Trade policy response to "Trump 1.0"
- Germany launched an economic fiscal policy "bazooka" to address future defense and other needs…
- China is addressing its broken consumption economy…
- US growth exceptionalism (and expectations it came with) that the year began with have been reset lower but are not recessionary at this time (in our view). The US Dollar has materially weakened against this backdrop…
- Modestly negative YTD S&P 500 Index Returns are trailing strong returns from International stocks.
- Productivity and a "back to the future moment" appears to be the aim of the Trump administration.
- A world order that has been in place for almost 80 years is being rapidly dismantled. Tail risks have risen.
- Staying invested but being globally diversified takes on heightened importance.

The US is no longer the world's "policeman"…this development (decades in the making) has broad ramifications

As of 16 February 2025



Additional source: https://www.ifw-kiel.de/institute/events/guns-vs-butter-in-the-21st-century-msc-2024/

"Today, the global financial system is evolving, and America's 'world policeman' has become obsolete.

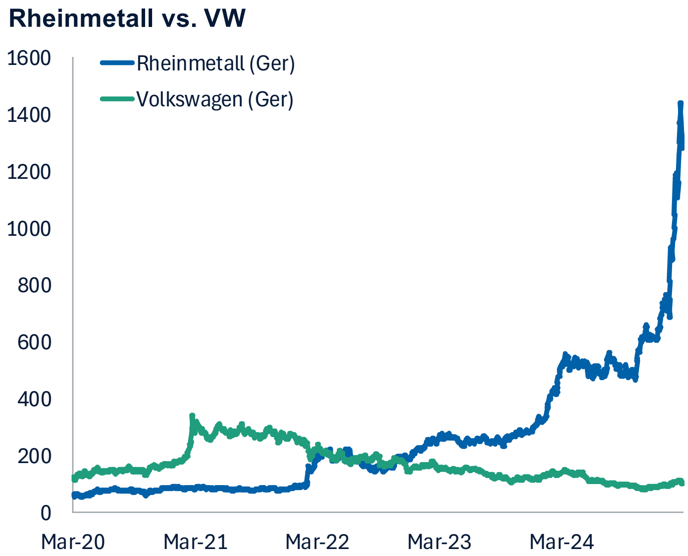
A strong military presence can no longer ensure the stability of the American economy as it once did.

The BRICS group, which holds significant influence in the energy and consumer markets, is increasingly asserting itself on the global stage…"

Source: https://tass.com/world/1933065

And suddenly…German defense company, Rheinmettal, leaves Volkswagen in the dust!

As of 25 March 2025



"German lawmakers gave the green light on Tuesday for a colossal spending boost for defense and infrastructure pushed by chancellor-in-waiting Friedrich Merz amid deep fears in Europe over the future strength of the transatlantic alliance.

The unprecedented fiscal package—dubbed "XXL-sized" and a cash "bazooka" by German media—could pave the way for more than one trillion euros in spending over the next decade in Europe's top economy.

The historic parliament vote signaled a radical departure for a country famously reluctant to take on large state debt—or to spend heavily on the armed forces, given its dark World War II history…"

Source: Bloomberg Finance, L.P.

International equity PMs believe we have transitioned to a new paradigm…

As of September 2024

Post GFC Era	Post Pandemic Era	Tailwind to International?
Benign Disinflation	Higher Trend Inflation	✓
Low and Falling Bond Yields	Rate Normalization	✓
Maintenance Level Capex	Higher Capital Spending	✓
Max Globalization	Reshoring	?
Disruptive Innovation	Disruptive Innovation	✗
Beneficiaries: Secular Growth, Leverage	**Beneficiaries:** Real Assets, Valuations	

This is not intended to be investment advice or a recommendation to take any specific investment action.

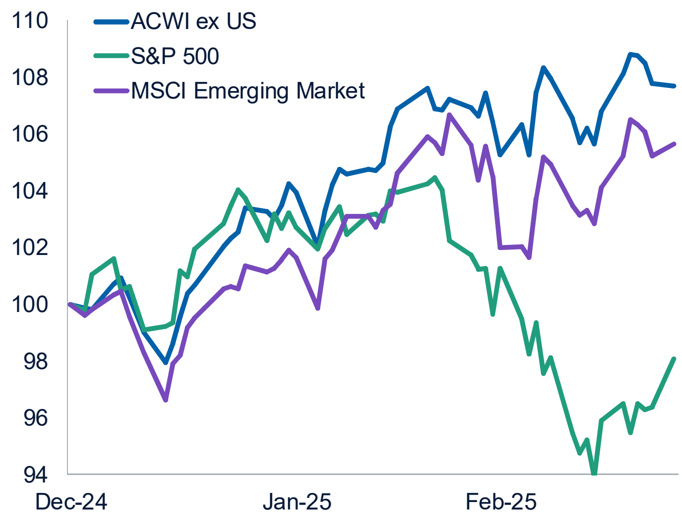
History doesn't repeat itself, but it often rhymes…

US vs. International Equities 2017

As of 31 December 2017

US vs. International Equities YTD 2025

As of 25 March 2025

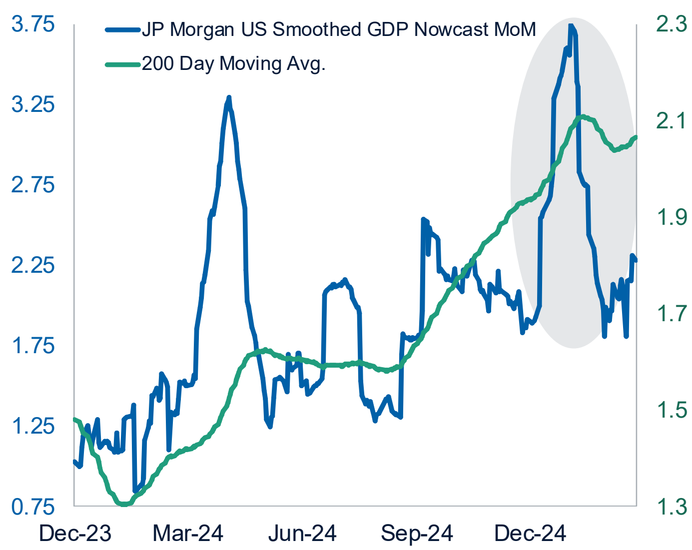


Source: Bloomberg Finance, L.P.

Turning to the US—The US economy have been reset lower, but is not recessionary for now…

As of 24 March 2025

US GDP—a reset lower but not recessionary



"While the US economy shows signs of slowing, with some indicators suggesting a potential reset lower, it's not currently in a recession, and the risk of a recession appears relatively low based on current data."

Source: Google AI, 24 March 2025

Support for the US economy stems from:

- A resilient labor market and low unemployment rate.
- Consumer spending, while softening, remains solid
- The Federal Reserve appears likely to cut Fed Funds by 25bps twice before year end. A 3.75% Fed Funds is close to TRP's view of a "neutral" policy rate in a less globalized world…

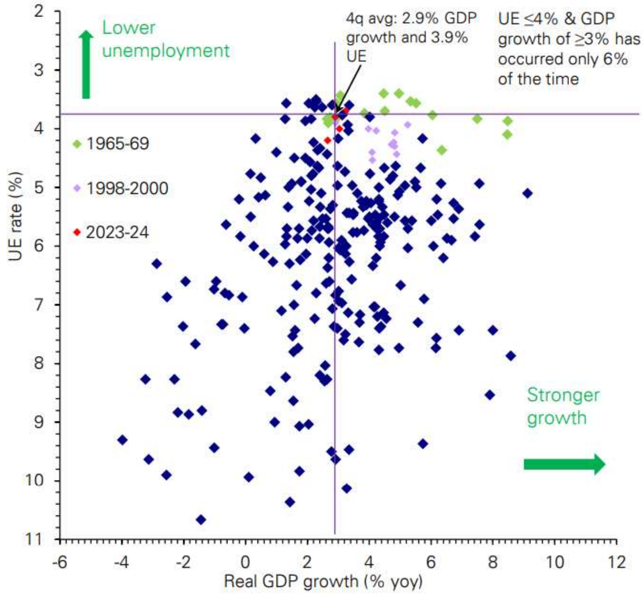
Source: T. Rowe Price

Left Source: Bloomberg Finance, L.P.

The US economy has been in a soft landing for over two years…

As of 9 December 2024

US Real GDP growth vs. UE rate since 1948



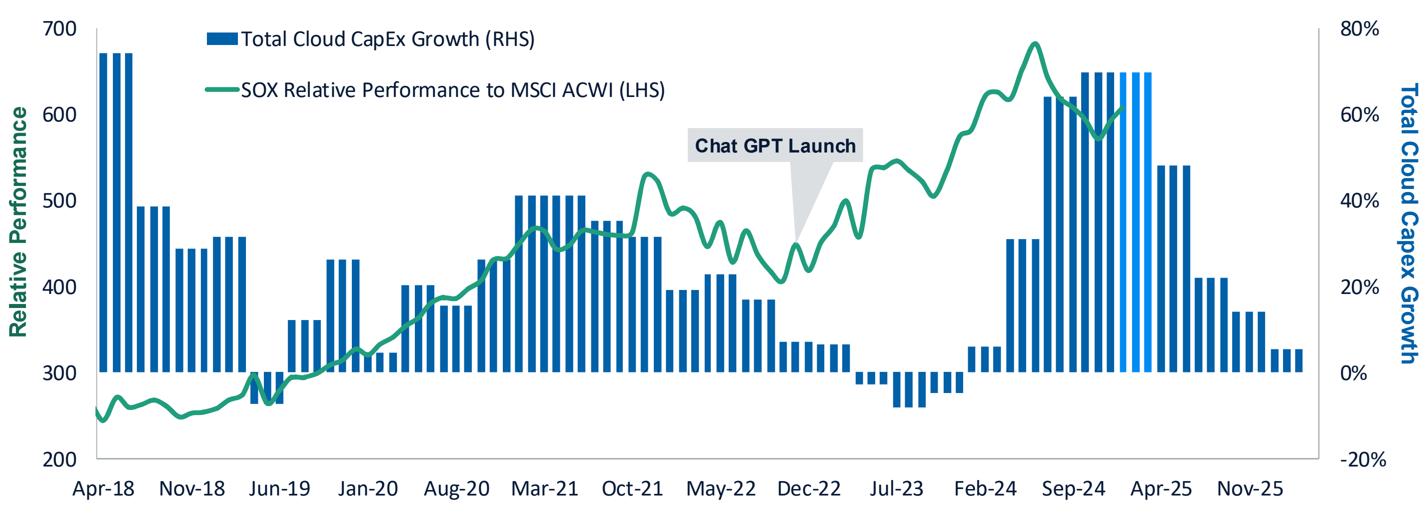
Source: BLS, BEA, Haver, Deutsche Bank Asset Allocation, Deutsche Bank

- The US economy has been growing at an annualized rate above +2.5% for just about two years...
- The US Unemployment Rate hasn't exceeded 4.3% for more than three years...
- Beyond the post pandemic years of 2023 and 2024, one has to harken back to the late 1960's and 1990's for similar sustained periods of economic resilience.

We may be at peak year-over-year growth in cloud capital expenditures

As of 31 December 2024

SOX Relative Performance vs. Total Cloud CapEx*

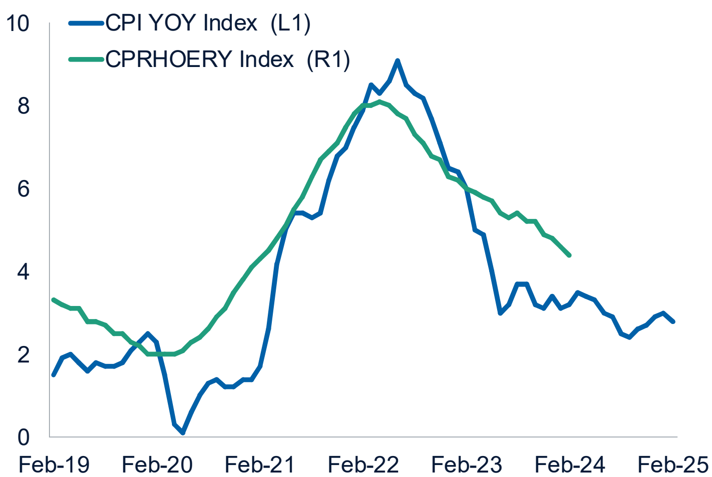


Performance quoted represents past performance which is not a guarantee or a reliable indicator of future results.
Source: T. Rowe Price calculations using data from FactSet Research Systems Inc. All rights reserved.
*To read these charts, the dark blue bars are quarterly y/y growth rates (the light blue bars are 2Q24E) and the green line is the SOX relative performance to MSCI ACWI.
There is no guarantee that any forecasts made will come to pass.

US inflation trends have been constructive near term…

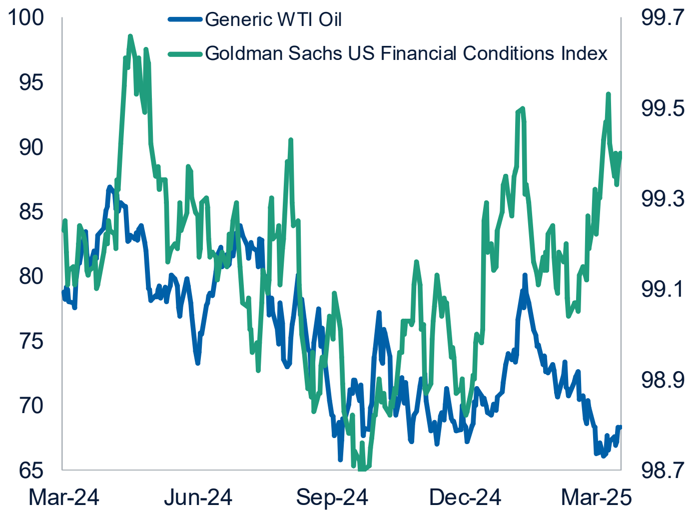
US CPI vs. Owners Equivalent Rent (OER) on a one-year lag

As of 28 February 2025



Domestic Oil vs. US Financial Conditions

As of 21 March 2025



Source: Bloomberg Finance, L.P.

But tariff policy has impacted the Fed's summary of economic projections…

As of 19 March 2025

Variable	2025 Median	2026 Median	2027 Median	Longer run Median
Change in real GDP	**1.7**	1.8	1.8	1.8
December projection	**2.1**	2.0	1.9	1.8
Unemployment rate	**4.4**	4.3	4.3	4.2
December projection	**4.3**	4.3	4.3	4.2
PCE inflation	**2.7**	2.2	2.0	2.0
December projection	**2.5**	2.1	2.0	2.0
Core PCE inflation	**2.8**	2.2	2.0	
December projection	**2.5**	2.2	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	**3.9**	3.4	3.1	3.0
December projection	**3.9**	3.4	3.1	3.0

"The Fed's March Summary of Economic Projections points to a **stagflation** mix in 2025 with slower growth and higher inflation.

Nevertheless, the median dot was unchanged suggesting that the increased uncertainty about the economic policy mix has put FOMC members in a corner and led to "inertia in updating" the policy path as chair Powell put it.

The new projections also reveal that in the eyes of the FOMC risks to both sides of their mandate have increased significantly: upside risks to inflation and downside risks to full employment…"

Source: Blerina Uruci Chief US Economist for T. Rowe Price

Meanwhile, "Liberation Day" looms on April 2…

Left Source: https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20250319.htm

As for the USD, we've seen this movie before…

As of 24 March 2025

The Trump USD "Bump" now and late 2016 through 2017…

"Among the most impactful appears to be what has come to be known as the "Trump slump". In the wake of the new US government's failure to pass healthcare and tax-cut reforms as initially promised, the dollar's strength has taken a hit as concerns continue to be raised over the Trump Administration's ability to fulfil its agenda.

Compared to November 2016, when the dollar rallied on expectations of the so-called "Trump trade"—that is, that the new regime would implement significant tax reductions, spend up to $1 trillion on improvements to America's infrastructure and stimulate a higher trajectory for economic growth—confidence in Trump's ability to push through legislation is now considerably on the wane…"

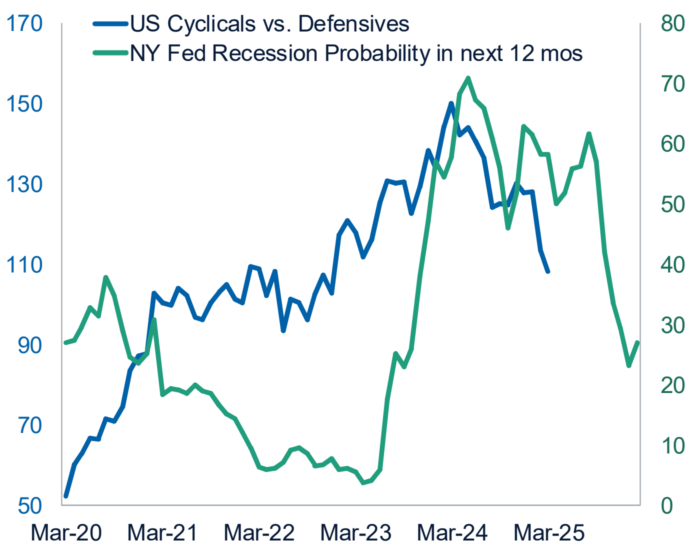
Source: "Why has the US Dollar been consistently falling through 2017?" September 20, 2017, International Banker

Left: Source: Bloomberg Finance, L.P.

US equity market themes vs. recession odds vs. ?

As of 26 March 2025

US Equity Cyclical Tone vs. Recession Odds



"Cyclical" equities (relative to "defensives") arguably entered a "bear" market in March 2024 at the height of "classic" recession indicators flashing "red."

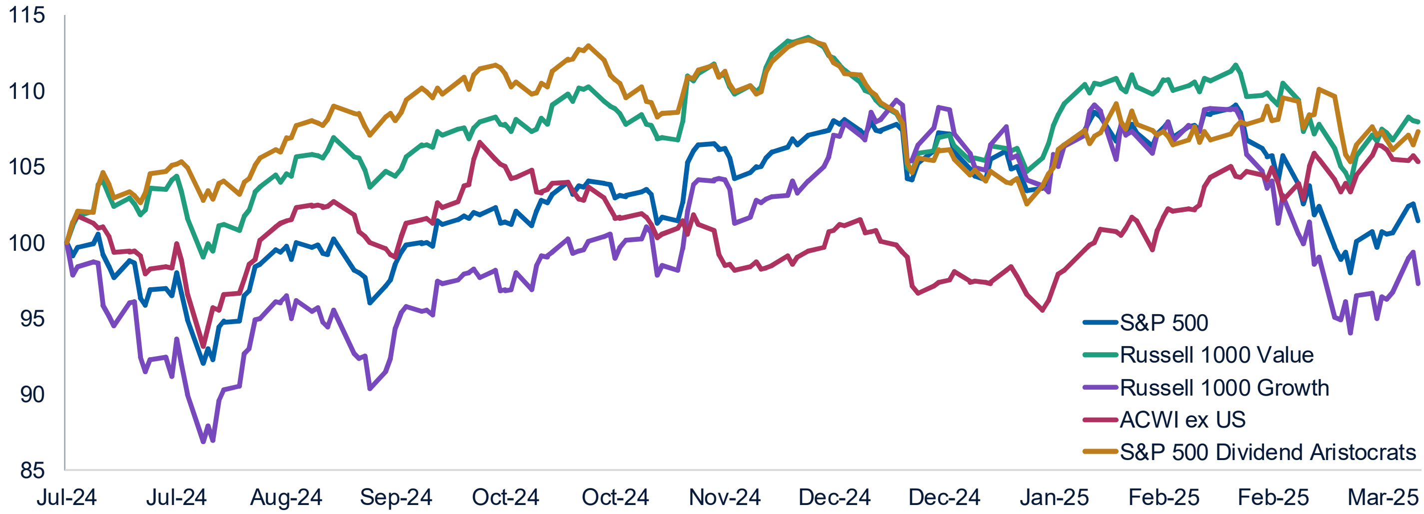
US equity cyclicals have continued to underperform "defensives" even as classic recession signals have abated…

Left: Source: Bloomberg Finance, L.P.

More broad-based global equity market returns since early last July

As of 27 March 2025

The Russell 1000 Growth Index has been a laggard since July 10, 2024

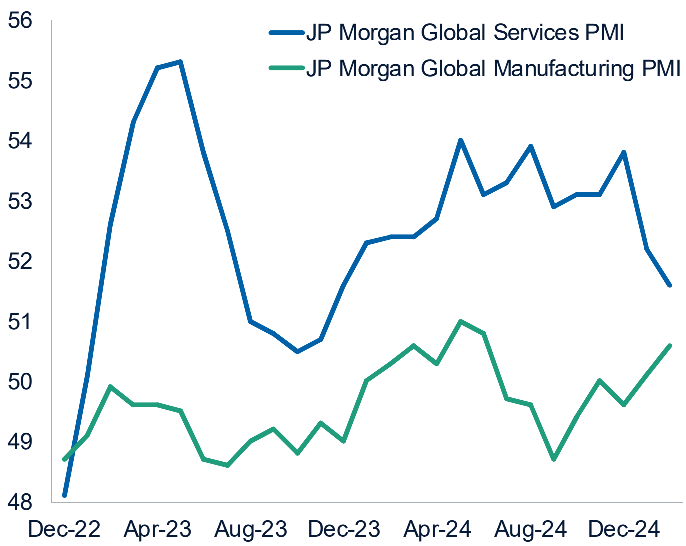


Source: Bloomberg Finance, L.P.

Turning to the global economy—A slower US, faster growing Europe and "stabilizing" China leave a resilient global economy for now

As of 28 February 2025

Global Economic Perspective



"As of March 24, 2025, the global economy is showing signs of stabilization, with growth expected to hold steady in 2025 and 2026, but faces persistent challenges like slower growth, persistent services inflation, and geopolitical tensions…"

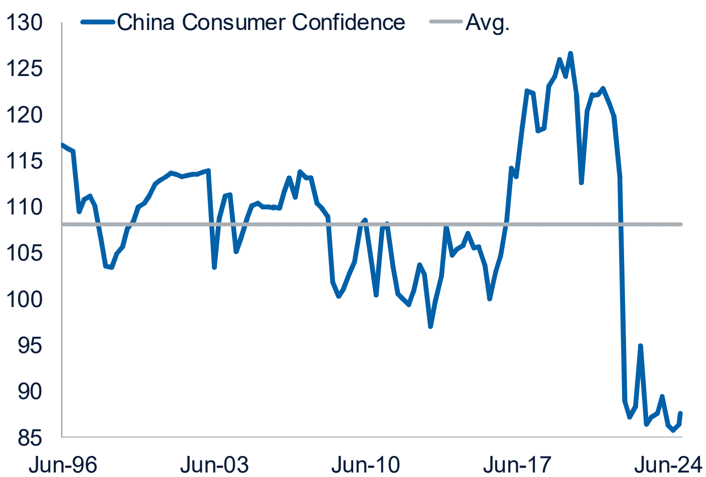
Source: Google AI, March 24, 2025

Left Source: Bloomberg Finance, L.P.

An economically "stabilizing" China represents a future "wildcard" for US inflation

Residential property woes have impacted consumer confidence in China

As of 31 January 2025



US Inflation on an 8-month lag vs. China PPI

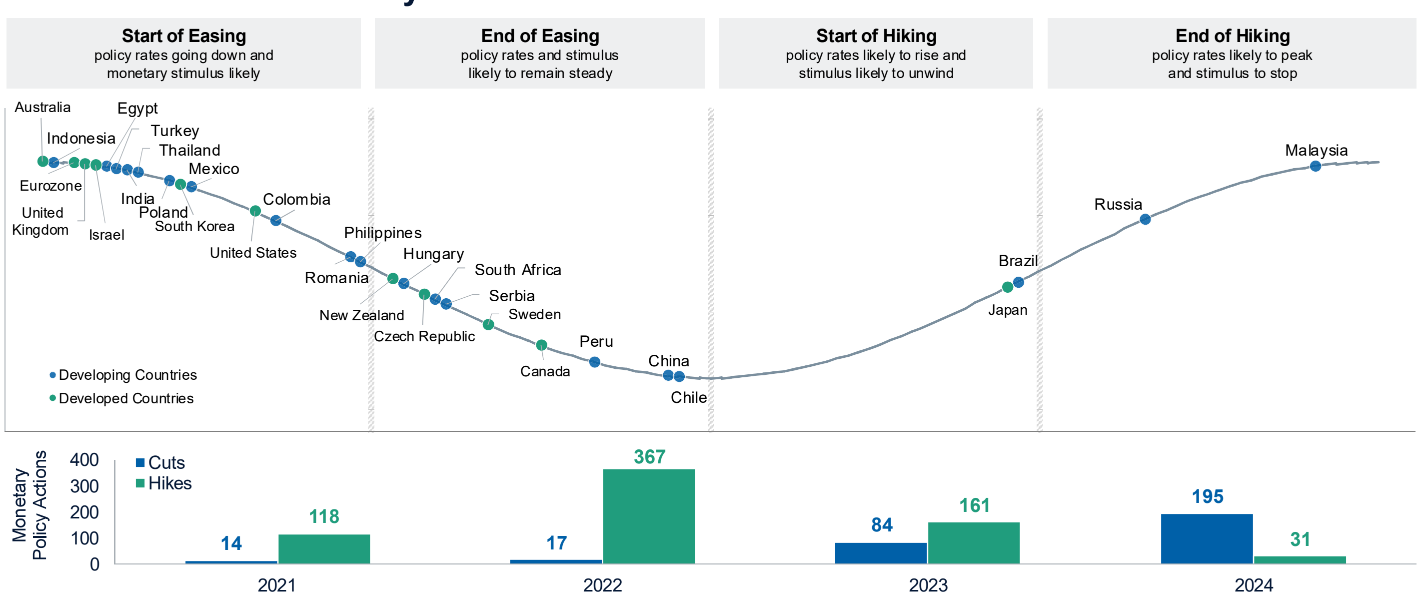
As of 28 February 2025

Past performance is no guarantee of future results.
Source: Bloomberg Finance, LP,

Economic and policy divergence exists in a less globalized world

As of 31 December 2024

Illustrative Interest Rate Cycle



The 'Monetary Policy Actions' charts show the number of rate cuts and rate hikes made by all central banks globally. Country classifications in the chart are in line with IMF groupings as of reporting date.
Sources: IMF, CB Rates. Analysis by T. Rowe Price.

Diverging sovereign bond yield trends and policies also mean that actively managed global fixed income represents diversification…

As of 26 March 2025

Diverging Global Economic Outcomes and Rates

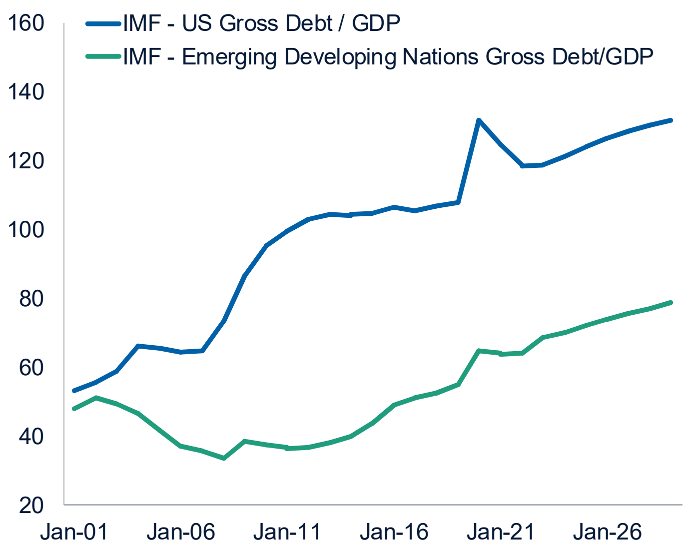
Past performance is no guarantee of future results.

Source: Bloomberg Finance, LP,

Arguably the divide between emerging and developed nations is becoming less…

As of 27 March 2025

US vs. Emerging Markets Debt / GDP



Five worrying signs where the US appears as an emerging market headed for trouble:

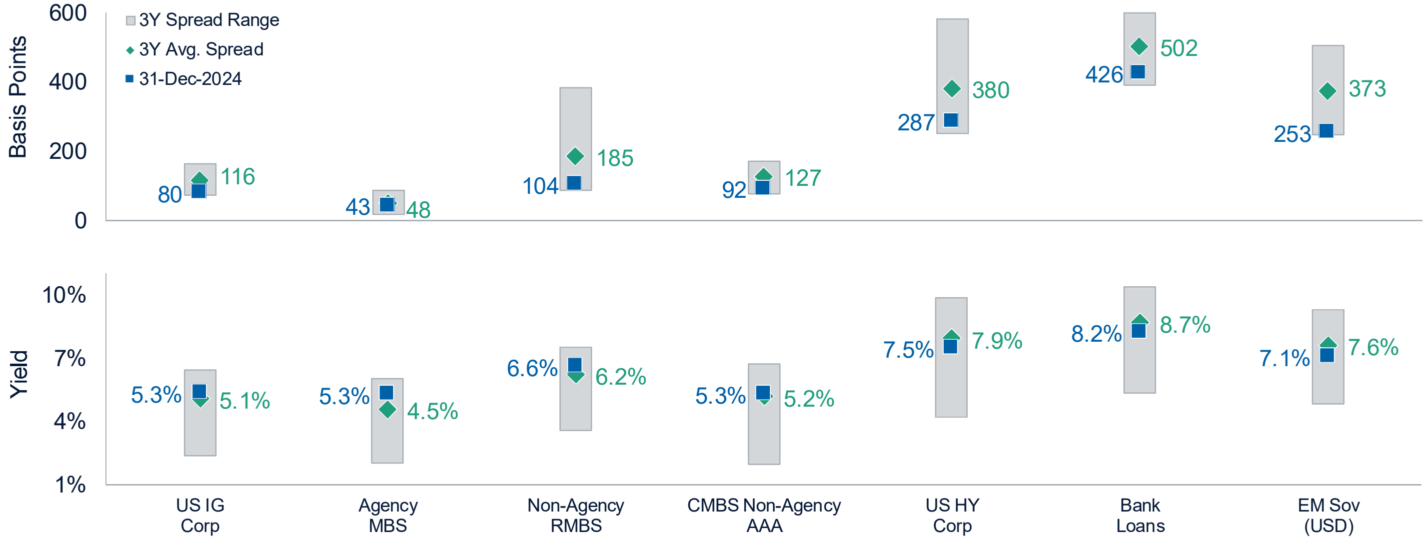
- Excessive tariffs
- Massive Debt
- Oligarchs with political power
- Erratic policymaking
- Waning confidence in the rule of law

Source: Fortune "The US now suffers from these 5 dead giveaways of an emerging-market economy in trouble, former IMF official say…" March 23, 2025

Left Source: Bloomberg Finance, L.P.

Global Fixed Income—Attractive absolute yields while “spreads” remain compressed

As of 31 December 2024

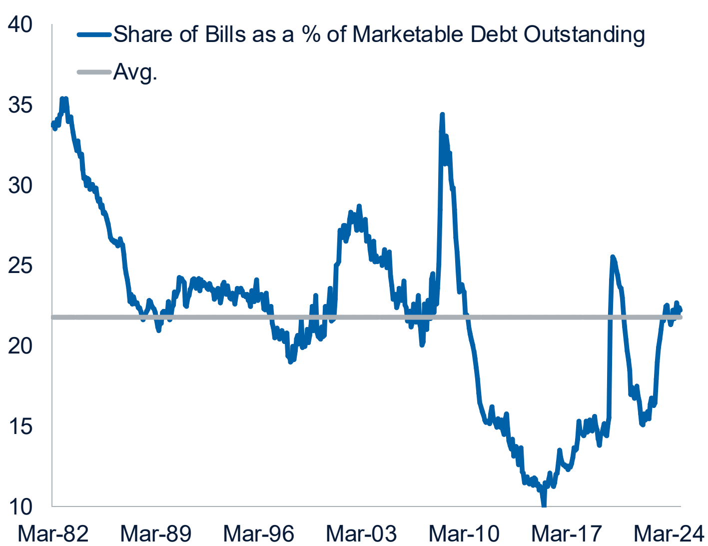


Sources: Bloomberg Index Services Ltd. Please see additional disclosures for more information. J.P. Morgan information has been obtained from sources believed to be reliable, but J.P. Morgan does not warrant its completeness or accuracy. The index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright © 2025, J.P. Morgan Chase & Co. All rights reserved. The index is used with permission. "US IG Corp" represents the Bloomberg US Corporate Investment Grade Bond Index; "Agency MBS" represents the Bloomberg US MBS Index; "Non-Agency RMBS" represents the Bank of America OTR A 5Y Floating Rate STACR M1A CRT Index; "CMBS Non-Agency AAA" represents the Bloomberg Non-Agency IG CMBS AAA Index; "US HY Corp" represents the Bloomberg US Corporate High Yield Index; "Bank Loans" represent JPMorgan Leveraged Loan Index; "EMD Sov (USD)" represents the Bloomberg EM USD Aggregate: Sovereign (Unhedged) Index.

Wildcards—Treasury issuance trends vs. the (Treasury Secretary) Scott Bessent “put”

As of 31 January 2025

US Tbills as a percent of overall UST Issuance



Left Source: Bloomberg Finance, L.P.

“Investors abroad sold longer term Treasuries for three consecutive months, a sign of central bankers reducing their reliance on the U.S. as a financial buffer…

The rationale for selling can be explained in two ways: Threat of sanctions, freezing of foreign assets, and tariffs work because the role U.S. and its currency plays in the financial machinery. Central banks working to shield their own economy from any potential U.S. punitive action in the future could be reducing their use of dollars.

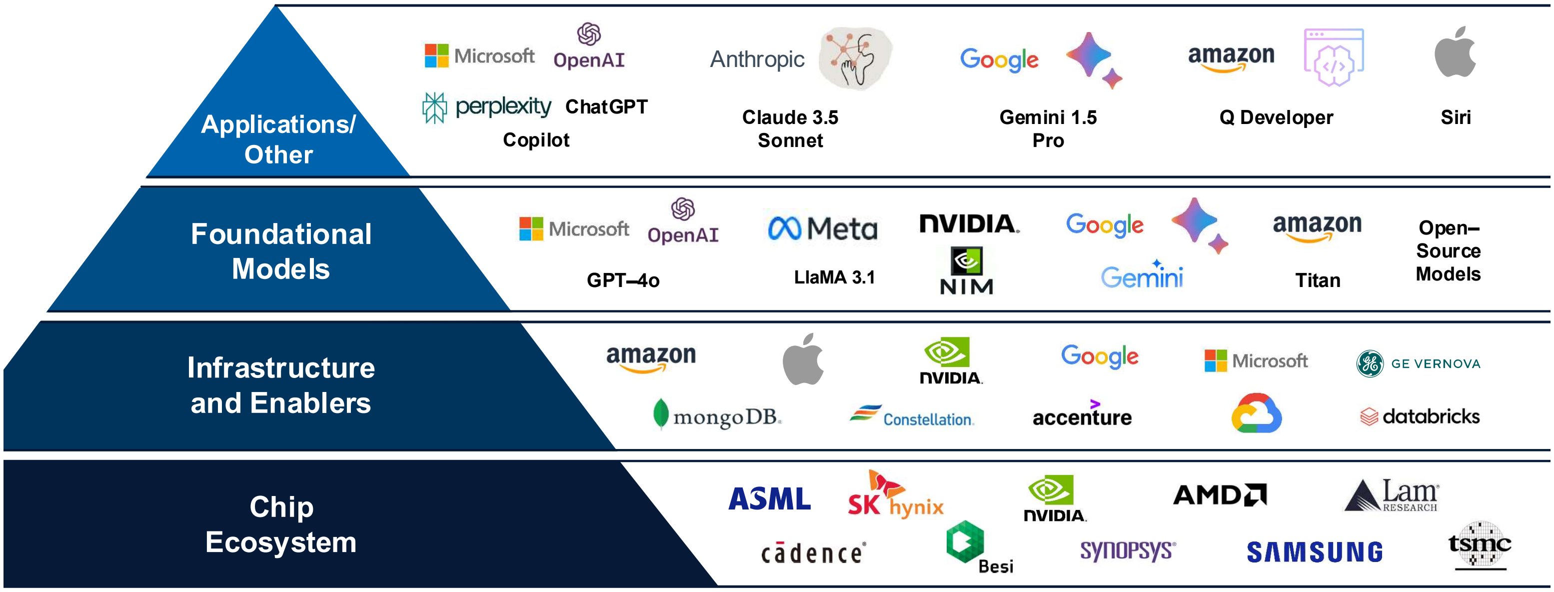
Conversely, central banks across the world have been consistently buying gold, replacing one safe haven asset for another…”

Source: Barron’s “Foreigners Dump U.S. Treasuries. Here’s Who Did the Most Selling” March 21st, 2025

The “institutional costs and risks of keeping bill shares permanently large are high, we believe the $1 trillion pile of accumulating bills will eventually have to be termed out…”

Source:
https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/635102_Activist_Treasury_Issuance_-_Hudson_Bay_Capital_Research.pdf

Wildcards—The AI "story" has considerable runway to run…



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The views expressed herein are those of the Global Technology portfolio manager as of July 31, 2024, and are subject to change without notice. These views may differ from those of other T. Rowe Price associates.

Wildcards—"Neo-mercantilism" is more than a fad…

As of 31 January 2025

Global Economic Policy Uncertainty Index

Past performance is no guarantee of future results.
Source: Bloomberg Finance, LP,

Wildcards—The US banking system is likely to get regulatory relief while credit markets remain wide open

As of 31 July 2024

"Since the global financial crisis, an increasing share of credit is created by nonbank lenders such as mortgage originators and private credit funds.

This is a well-documented trend largely stemming from a combination of increased bank regulation and a greater ability of nonbanks to underwrite credit due to technological improvements and a larger capital base."

"…banks take advantage of their liquidity position (QE driven) by making commitments to supply liquidity, such as revolving credit facilities….

…these facilities are often extended to the same parties that banks are losing loan share to, including mortgage originators and private credit funds…"

Source: "Ahead of the Curve 'Shadow banking system' creates a trickier path for the Fed" T. Rowe Price July 2024

Left Source: Bloomberg Finance, LP

Wildcards—Contrarian scenarios may factor into a "bumpy" 2025

Goldilocks U.S. scenario might be impacted by inflation + Upside surprise in Europe from a resolution in Ukraine, a change in German debt + Maybe China unleashes significant stimulus = **Alpha Opportunities**

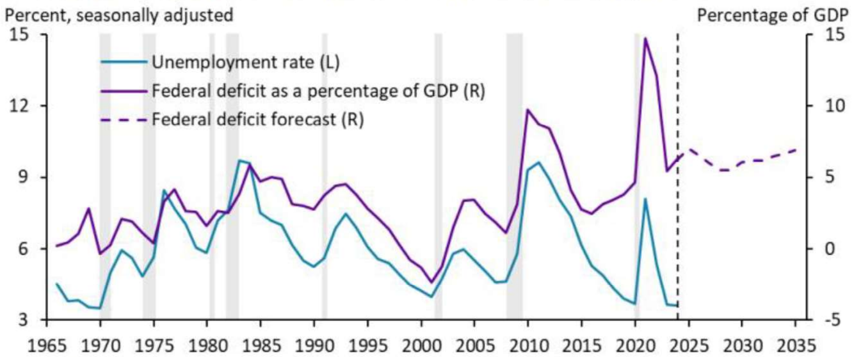
10-year U.S. Treasury Yields could reach 5%…and maybe 6%.

Wildcards

As of 22 November 2024

“Mr. Ness, everyone knows where the booze [US structural deficit] is. The problem isn’t finding it, the problem is who wants to cross Capone [voters].” Source: The 1987 movie “The Untouchables”

Chart 1: Historically, federal deficits have moved closely with the unemployment rate



Notes: Gray bars denote National Bureau of Economic Research (NBER)-defined recessions. The deficit reflects the Congressional Budget Office’s (CBO) baseline total deficit adjusted to exclude the effects of timing shifts. The forecast is from June 2024.
Sources: U.S. Bureau of Labor Statistics (BLS) and NBER (both accessed via Haver Analytics); CBO.

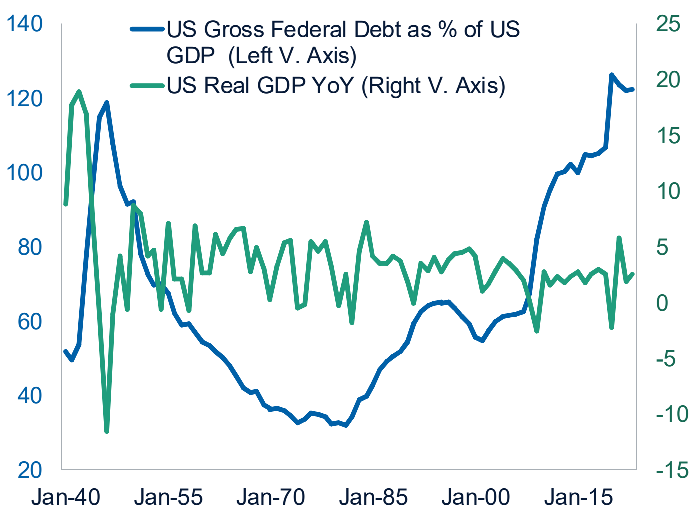
- “…the unemployment rate (blue line) and the federal deficit (purple line) indeed moved together between 1965 and 2007.
- After the 2007–2009 financial crisis, however, the deficit remained elevated even when unemployment rates normalized.
- Moreover, during the recovery from the COVID-19 pandemic, federal outlays and deficits remained higher than their pre-pandemic levels even after the unemployment rate had fully recovered…”

Source: “Federal Government Outlays Remain Historically Elevated, Spurred by Robust Transfers” By Huixin Bi and Alison Felix of the Kansas City Fed

Wildcards—A material challenge for the US has emerged…

As of 31 December 2023

Questions around US Debt Sustainability have emerged



“Cuts in spending to bring down the debt would be painful. Baby boomers are retiring and an aging population will rely on government services, such as Medicare…Americas defense spending, the transition to renewable energy and industrial policy will also add to the problem…Congress has been slow to act on America’s deficit but, **eventually the market may force its hand**.”

Source: “Can America afford its debts ?” *The Economist,* July 19, 2024

The analysis suggests that maintaining the US’s special status in global financial markets is crucial for debt sustainability. Efforts by other countries to establish competing safe assets could pose challenges to the US’s (currently) dominant position…

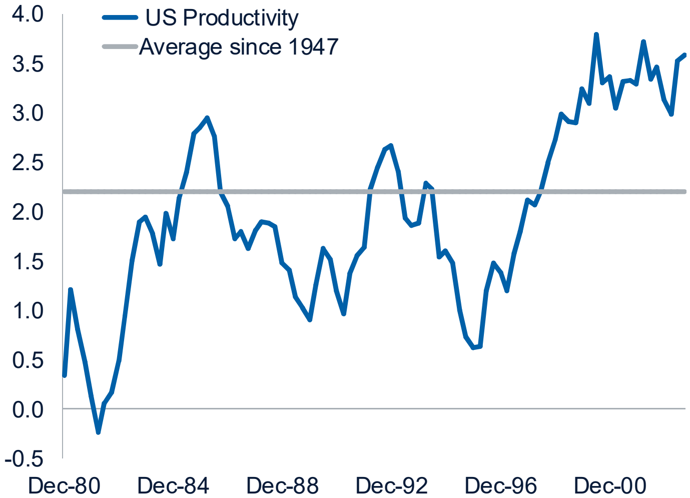
Source: “Exorbitant privilege and the sustainability of US public debt” Jason Coi, et. al. August 2024

Left Source: Bloomberg Finance, L.P.

US productivity emerges as a key 2025 and beyond economic and investment theme

As of 9 January 2025

US Productivity following the invention of the PC vs. LT AVG



Left Source: Bloomberg Finance, L.P.

Measures of labor productivity compare the growth in output to the growth in hours worked and measures of total factor productivity (TFP), also known as multifactor productivity (MFP), which compares growth in output to the growth in a combination of inputs that include labor, capital, energy, materials, and purchased services.

Source: US Bureau of Labor Statistics

"The widespread adoption of previous inventions, including the electric motor (1890) and the personal computer (1981), were followed by US labor productivity booms to the tune of 1.5% of labor productivity growth annually—circa 20 years for the electric motor and approximately 12 years for the PC—for a cumulative impact of ~15%.

These labor productivity growth phases also resulted in a 7% increase in annual global GDP over a ten-year period. If GenAI has a similar impact, the US may realistically be able to outgrow its debt…"

Source: "US Debt Sustainability: An Uncertain Fiscal Future" Goldman Sachs June 30, 2024

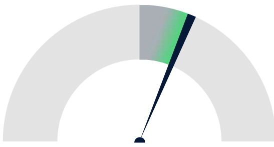
Key takeaways

- The US economy is slowing but remains resilient for now.
- Significant optimism for US equity earnings growth in 2025 depends on continued "American Exceptionalism."
- Credit markets remain fundamentally well supported and "spreads" reflect this reality.
- A more isolationist and "transactional" US foreign policy approach forces the developed world to make some tough decisions.
- Higher, instead of higher for longer, US rates creates "competition" for US equities. This is welcome news for a global 60/40 portfolio construct.
- Diverging economic cycles and central bank policies set up a powerful backdrop for global fixed income and equity investing.
- Stay invested, be diversified and "buckle up" for what looks to be a volatile 2025 investing experience.

T. Rowe Price Multi-Asset Positioning

Underweight
Overweight
As of 31 December 2024

Equities



REGIONS

U.S.
Global Ex-U.S.
Europe
Japan
Emerging Markets (EM)

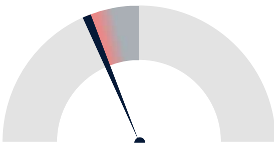
STYLE & MARKET CAPITALIZATION

U.S. Growth vs. Value[1]
Global Ex-U.S. Growth vs. Value[1]
U.S. Small-cap vs. Large-cap[1]
Global Ex.-U.S. Small- vs. Large-cap[1]

INFLATION-SENSITIVE

Real Asset Equities

Bonds



U.S. Investment Grade (IG)
Developed Ex-U.S. IG (Hedged)
U.S. Treasury Long
Inflation-linked
Global High Yield
Floating Rate Loans
EM Dollar Sovereigns
EM Local Currency

Cash

3-Month Treasury Bills

[1] For pairwise decisions in style & market capitalization, positioning within boxes represent positioning in the first mentioned asset class relative to the second asset class.
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Additional disclosures

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Risks: Fixed-income securities are subject to credit risk, liquidity risk, call risk, and interest-rate risk. As interest rates rise, bond prices generally fall. Investments in high-yield bonds involve greater risk of price volatility, illiquidity, and default than higher rated debt. Investments in bank loans may at times become difficult to value and highly illiquid; they are subject to credit risk such as nonpayment of principal or interest, and risks of bankruptcy and insolvency.

International investments can be riskier than U.S. investments due to the adverse effects of currency exchange rates, differences in market structure and liquidity, as well as specific country, regional, and economic developments. These risks are generally greater for investments in emerging markets. There are inherent risks associated with investing in the stock market, including possible loss of principal, and investors must be willing to accept them. The stocks of larger companies generally have lower risk and potential return than the stocks of smaller companies. Since small companies often have limited product lines, markets, or financial resources, investing in them involves more risk than investments primarily in large, established companies.

The growth approach to investing is subject to the volatility inherent in common stock investing, and the stock price may fluctuate more than that of income-oriented stocks. The value approach to investing carries the risk that the market will not recognize the security's intrinsic value for a long time or that a stock judged to be undervalued may actually be appropriately priced. Mid-caps generally have been more volatile than stocks of large, well-established companies. Small-cap stocks have generally been more volatile in price than the large-cap stocks. Dividends are not guaranteed and are subject to change.

Investing in technology stocks entails specific risks, including the potential for wide variations in performance and usually wide price swings, up and down. Technology companies can be affected by, among other things, intense competition, government regulation, earnings disappointments, dependency on patent protection and rapid obsolescence of products and services due to technological innovations or changing consumer preferences.

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