



## Webinar Transcript

### 2024 Global Market Outlook: Tectonic Shifts Create New Opportunities

#### Speakers:

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

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

Justin Thomson, Head of International Equity and Chief Investment Officer

Ritu Vohora, CFA®, Investment Specialist, Global Capital Markets

---

**Ritu Vohora:** Hello, and thank you for joining us for the T. Rowe Price's 2024 Global Market Outlook, "Tectonic Shifts Create New Opportunities."

I'm Ritu Vohora, an investment specialist covering global capital markets. My role is to provide clients with a broad perspective into the views of our multi-asset, equity, and fixed income investors at T. Rowe Price. I'm delighted to be joined in the studio today by Justin Thomson, head of International Equity and chief investment officer. Welcome, Justin.

Also joining us Arif Husain, head of International Fixed Income and CIO. Welcome, Arif.

And joining us from Baltimore, Sébastien Page, head of Global Multi-Asset and CIO. Sébastien is also the author of *Beyond Diversification*. Thank you all for joining us today.

It's been an extraordinary year since we were here last year when the outlook was bleak, and markets were bracing for the most anticipated recession. The pandemic continues to distort economic data, and we have seen tectonic shifts in the global investment landscape. Investors have had to navigate conflicting macroeconomic signals and a market narrative that has gyrated almost every few weeks. However, many economies have demonstrated remarkable resilience in 2023, despite aggressive rate hikes and tightening liquidity. This has fueled hopes of a soft landing. As we look forward to 2024 though, uncertainties remain. So, Sébastien, maybe I could start with you. When we sat here in our Midyear Market Outlook, you said you were a reluctant bear. Is that still your view today?

**Sébastien Page:** So, Ritu, I think there's an unwritten rule that says the less you like a nickname or moniker, the most likely it is that it will stick. I think I learned that in kindergarten, so I've had to embrace the reluctant bear expression. Thank you, Ritu, for reminding our audience. I love it.

But in any case, I'm no longer a reluctant bear. In the Asset Allocation Committee, we recently bought stocks, and we're now neutral on stocks versus bonds. We have some interesting positioning under the hood, but the word of the day, Ritu, for our audience today that I want to leave with all of you is balance.

We started buying stocks at the bottom on October 27, and we were done by the following Monday's close. We manage very large portfolios, so even though we were closing a small 75-basis-points underweight, we actually bought \$3 billion worth of stocks at an average S&P level, a smidge above 4100. Now, this looks like very timely execution. I want to remind everybody that our horizon is still six to 18 months for tactical asset allocation, but this is an example of how we allow for aggressive, timely execution in markets.

Ritu, the triggers for us to close our underweight and for me to go from reluctant bear to neutral were the following: First, stocks were down 10% from peak. Second, our indicator of sentiment and positioning was down one standard deviation, and you know, Ritu, we like to be contrarian. Third, valuations were, are perhaps more reasonable than it looks, if you consider the high return on equities of the "Magnificent Seven" and the price/earnings ratio on the S&P equal weight, which at the bottom at the end of October was at 15.5, which you know is very close to the bottom of its 10-year range, believe it or not. So, you know, Ritu, on CNBC, I have become a semiofficial reluctant bear, but I'm going to say now for this outlook right now, and aligned with our Asset Allocation Committee, I am confident, aggressively, enthusiastically neutral.

**Ritu Vohora:** Well, thank you Sébastien there, lots of adverbs for neutral. I'm not sure that will stick quite as much as reluctant bear, but, you know, Justin, maybe we can bring you into the conversation.

So Sébastien talked there about a neutral position now between stocks and bonds. And when we look at equity markets, where we were here a year ago, things looked pretty bleak, and we were all anticipating a "Black Swan" event. And I think we got lucky with maybe even a rarer "Golden Swan" in terms of generative AI, which has propelled the Magnificent Seven that Seb talked about. But I think it's also been a definitive driver of the equity rally. As we look to 2024, what's your view of stocks?

**Justin Thomson:** Well, if we're giving ourselves nicknames, which we seem to be, and Sébastien was the reluctant bear, I'd say I was the careful contrarian. I mean, you talk about Black Swans. I always find it amazing how frequently Black Swans appear in markets—there's the GFC, quantitative easing, trade tariffs, COVID, response to COVID. I think the collective noun for swans is a wedge. Well, we've had a wedge of Black Swans. The Golden Swan scenario that you've that you refer to, if we look back at this year for equity markets, at the beginning of the year, I think most forecasters were forecasting equities down. In fact, we've had, at least on the face of it, we've had a strong year for equities. And I guess there's been three surprises here. One, earnings have held up well, partly because developed market economies have held up well, surprise two, but I guess it also speaks to the fact that equities are a call on real assets. So, they are something of an inflation hedge, but earnings have been much better than we feared when we were sitting here this time last year.

And the third surprising thing was the emergence of a strong market narrative, which was the AI narrative. And that's driven equity markets in a surprising way, at least empirically surprising way, because the market has funneled into a limited number of stocks—in the U.S. we're referring to them as the Magnificent Seven—and to give you some statistics around that, the Magnificent Seven are up approximately 100%. The SPS 493, i.e., the rest of the S&P 500, is up 4%, so the median stock therefore has done worse than cash. These are remarkable statistics. And it's driven largely by AI, which is considered to be, at the moment, an arms race. The arms race is manifesting in the war for silicon, the war for infrastructure. And that takes resources. So, the market has placed their bets at this stage on mega-cap tech, and it has meant that returns in markets are very concentrated, and I think, that in itself represents a risk.

**Ritu Vohora:** And I guess as we look forward to 2024, resilience of our earnings is going to be critical to make sure that they can sustain those level of earnings as well.

**Justin Thomson:** I think resilience of the Magnificent Seven is important. I think our view is that the Magnificent Seven themselves become less of a factor and there'll be more dispersion of returns within them, so stock picking will be more important rather than the overall factor risk. In as much as we think the market broadens, so we could have a scenario where the headline indices in the U.S. is down, but the medium stock is up, which is an atypical environment, but in a slightly shameless plug for active fund management, it should be a better environment for active fund management.

**Ritu Vohora:** Great. And we can touch on some of those opportunities later. So Arif, I want to bring you into the conversation now. Sébastien's neutral. Justin sounds a bit more optimistic on equity markets. When we look at bond markets, bond yields have been on a roller coaster this year. I mean, the U.S. 10-year Treasury yield breached 5% as well. Are you buying into this soft-landing narrative? How are you sort of looking at the view?

**Arif Husain:** First of all, I'm not going to give myself a nickname. Let's move on from there. I'll allow others to do that for me. So, I think when we spoke last, I didn't believe in the soft landing, and that is still the case. Ultimately what I look at is several hundred basis points of rate hikes across the world, not just in the U.S., everywhere has been raising rates, quantitative tightening, and effectively the endgame is a hard landing. The question is when.

As you asked Justin, we didn't have that Black Swan event, and I think there was a reason for that, there was a lot of one-off effects. Whether it was nice weather in Europe or actually a lot of fiscal stimulus came out of the U.S., which kept things going pretty nicely. And then we saw a big easing of financial conditions after the SVB banking crisis. So there's a bunch of reasons to understand why that Golden Swan has dominated, but ultimately the long term is these rate rises, quantitative tightening, and I'm going to take a guess that most countries are pretty much done with fiscal.

Now I think that's subtle, because we're heading into an election year. And actually, rather than a soft landing what next year may even be a "no landing." I don't think many politicians are going to go to the polls threatening to cut spending. I don't think that's a good way to get voted. Everyone's going to want to spend

something. We may have the same situation rolling over year over year, but eventually, we know where the destination is. It's just plotting that journey.

**Ritu Vohora:** I think it's that long and variable lags are going to bite at some point, it's just a matter of when.

**Arif Husain:** Exactly.

**Ritu Vohora:** And so Sébastien, maybe I can come back to. Given what you know, Justin's talked about and Arif and concerns around that hard landing coming at some point. If you were to highlight the top three risks that investors should be worried about in 2024, what would they be?

**Sébastien Page:** I would say my top three risks are rates, inflation, and valuations. Now this is where I'm going to start sounding bearish, and I have tremendous respect for my colleague Arif, but Arif, if you're looking for a nickname, it's probably the depressing bear. You're usually a glass half full investor as a fixed income investor. But again, I'm going to give you the disclaimer before I go through my own top three risks. We're neutral on risks, so I don't want you all to feel too depressed.

Number one: rates. I think the market has gotten a bit complacent on rates, with 100 basis points of rate cuts priced in for next year. The 10-year yield is down 60, 70 basis points in only a few weeks, and we have to remember that there are factors pushing the 10-year rate up that were there a few weeks ago and that are still there. Supply from the Treasury, the Fed is doing quantitative easing. We still have to deal with a rising so-called term premium. Investors want compensation for volatility in rates and uncertainty on inflation. So perhaps the base case is for rates to come down over time. But if you ask me, Ritu, where the risk is, it is not symmetrical. I think there's a risk for the market to be surprised by an upward movement in rates where we sit today more than a downward surprise in rates, which is kind of already priced in, because we're talking about risks here today.

Number two: inflation. Same idea. Inflation, if you ask me, could it surprise on the upside or the downside. I think the risk around the base case that inflation is coming down is that it could surprise on the upside relative to what the market is expecting. So, we're talking about sticky inflation. Going from 5% to 4% inflation is one thing. From 4% to 3% may be a little bit harder. From 3% to 2% might be much harder. So, oil prices are still up 12% in six months despite the recent drop. Labor markets remain tight. If you just look at the data and tune out the narratives, labor markets remain tight. And year-over-year energy prices are down, and that is the wild card in inflation—energy prices. So we had a CPI print in the U.S. at 3.2%. But if you look under it, it actually bakes in, for example, a drop of 21% in fuel oil. So, are we going to get a similar drop in energy prices with tensions in the Middle East and possible cuts by the Saudis or OPEC? This is the wild card for inflation. And therefore, I think the risk is skewed to the upside.

Number three: I always go back to valuation. We as tactical investors in the Asset Allocation Committee tend to lean against the wind. We pay attention to valuation. So, Ritu, you didn't know what's going to do that, but here's a quiz for you. And it's a tricky question and hopefully our audience will follow along.

The price/earnings ratio on the S&P 500 right now is around 21, and that includes the valuation on the Magnificent Seven, and there's a huge spread as Justin mentioned with the rest of the market. The price/earnings ratio peaked recently in late 2020 at 28, so 28 versus 21 now. And it peaked at 28 because earnings were depressed due to COVID, but stimulus measures were pushing stocks higher. So, the price/earnings ratio went way up. So the trick question, Ritu, is are markets more or less expensive now than they were in late 2020? And this is just rhetorical, because you could just say, well, a price/earnings ratio of 21 is cheaper than a price/earnings ratio of 28. However, it depends how you look at it. If you adjust for the level of rates, currently, you get an earnings yield in excess of bond yields for Treasuries of 36 basis points. This is the so-called equity risk premium. When the P/E ratio was at 28, the 10-year was at 90 basis points, and therefore the equity risk premium, the stock yield, the yield on stocks relative to the yield on Treasuries was at 260 basis points. So you could say stocks are more expensive now relative to bonds or relative to the level of yields. So we're close to the most depressed equity risk premium in 20 years. Therefore, my third risk is indeed valuation, cash yields for the S&P 500, they're at about the same. So, if you look at cash earnings 5% and 5.5% and the yield you get on the S&P 500, you get about the same number. Now, this does not mean you should panic. The equity risk premium is a long-term signal. It's not very good for tactical asset allocation. It just indicates a certain level of fragility, but that's it. Besides, we've had strong equity markets through history with rates above 5%, especially if you look at the longer history of capital markets. But you know, it does raise questions, if you're feeling like you want to go all-in, because the narrative right now is positive, right? So, listen to Arif and don't go all-in with a very large overweight in stocks. Arif is often the voice of reason in our committee when we get too bullish. So it may sound boring, but the macro distortions are still very high. Now's not the time to be a hero.

Ritu, when my dentist asks me for investment advice—I don't know if this has ever happened to you. If your dentist asks you for investment advice, it's very stressful cause you have five seconds before they start drilling. The only thing I can think of saying is "Stay invested. Stay diversified." And "Stay Invested. Stay Diversified" is trite as advice, but it's actually relevant right now. When I go back to my word of the day, Ritu: balance.

**Ritu Vohora:** I think that's a great one to end on. So, balance and diversification. Justin, would you add any risks on that? Sébastien mentioned inflation, rates, valuation.

**Justin Thomson:** I can't argue with any of that, I would add concentrated benchmarks in themselves. Because if you look at the degree of concentration in not just U.S. equity markets, but you've seen it in other developed markets as well where investors are funneling into a limited number of names. That in itself represents a risk, certainly a headline. It represents a risk both to passive investors and active strategies of how they express bets in that scenario.

I would add fiscal deficits, how sustainable that is, and as we've described during this webinar so far, what might be the implications of the of the fading of that fiscal impulse. They say a bond investor walks along the sidewalk looking for the cracks. And an equity investor lies in the gutter, looking up at the stars. I don't know where that leads a multi-asset guy, neutral, I guess, and balanced.

But a risk, given where positioning is—and we know that asset allocators are long to risk-free, are long cash. Think about what could go right. Think about what could go right and where your assets are allocated. And if we have another strong year for inflation or we have another strong year for equities, is that a risk? Is that a risk to your wealth?

**Ritu Vohora:** And I guess the discount rate matters across the valuations for all asset classes. Arif, we've had a pre-submitted question here, which I think is relevant to the conversation right now, it's around rate cuts. Sébastien talked around inflation is sticky, but it's starting to roll over when we look at some of the pressures, and central banks have probably reached the end of this hiking cycle. What's next for central banks? Is 2024 going to be the year of rate cuts?

**Arif Husain:** So, Ritu, it is interesting. I noticed you didn't ask me about risks because I guess we haven't got all day. But I would throw in geopolitics. Both what's going in the Middle East, what's going on in Ukraine. But also, the election. That's really important. And I just don't think that's really being perceived strongly enough in markets, yet. Lots of other things to be thought about.

In terms of central banks. I think the question isn't necessarily will they cut rates? The question is, is there any evidence to expect them to cut rates? Certainly, and the second question would be, is there any evidence to expect them to cut rates more than is priced in to the markets? So, Seb said earlier there's around four rate cuts priced in to the U.S. next year. There is no evidence. Again, Seb talked about it—inflation still running well above where the Fed's target is. Employment still coming out 150,000 per month in the U.S. That's way above where we need it to be to actually just get to a neutral economy. So, things are still looking pretty good.

I think the idea of a rate cut is more of a hope now. There is no solid evidence, just yet. Now, it may happen, it may happen, and if it happens, I think it's going to be deep and probably more than four cuts. However, right now, looking at the world, there is not enough evidence for rate cuts. In fact, I'd probably go as far as to say, the next move globally is probably for more tightening, and that's probably going to come from Japan. But, if you listen to central bankers, they're not ready. They're not ready to cut rates. They're pushing back against the market. And I think we all, the whole investment community, like to second-guess and put ourselves onto the FOMC or onto the ECB's governing committee. But we're not. We actually have to predict what they're going to do, not what we would do in their seat. And so, I've not bought in to rate cuts yet, there's not enough evidence. There isn't—there's very little evidence. And I'd probably even go as far as to say I don't think we have seen the highs in bond yields yet. Big rally recently, but I do not think we've seen the peak in bond yields just yet.

**Ritu Vohora:** Do you think unemployment needs to crack for the narrative to change?

**Arif Husain:** I think unemployment...so wages is one of the most important contributors to the long-term inflation picture, right? So, unemployment does need to crack, and history tells you when unemployment cracks, it cracks quickly and snowballs. Again, we've probably seen what from the from the bottom of the

unemployment rate in the U.S. is up 0.5%, so it's been incremental. We're starting to see that a little bit in Germany, same we saw in Italy. So jobs are less plentiful now, but we're not seeing mass unemployment yet. Maybe extending it a little bit more, I think it's going to be really hard for unemployment to go up dramatically while the equity market is still going up. You know, CEOs, CFOs are looking at their stock price, and they think things are good if it's going up. They're not going to be letting people go. So, I actually think you've got to see a financial market recession before you see an unemployment recession and then an economic recession.

**Justin Thomson:** I found myself nodding during a lot of what Arif was saying. So, there you go, it's another Black Swan event.

**Ritu Vohora:** Cause on that, Justin, we've talked about inflation rates and obviously central banks, equity markets are still very strong. We've talked about the Magnificent Seven. Do we see leadership changing next year?

**Justin Thomson:** I would expect a change in market leadership consistent with regime change. And I'm going to quote two people. One is Huw Pill, who is on the Bank of England's Monetary Policy Committee, and he used the analogy of Table Mountain when describing the path of rates...I thought this was strong. So, Table Mountain has a very steep rise, followed by a long plateau. And I think that long plateau, that is what is driving regime change.

So, my second quote, and I'm re-quoting Sébastien on this, comes from Nassim Taleb, who said, "Studying finance in a world of zero discount rates is like studying physics in a world of zero gravity." But gravity is back, so gravity is back. How does that manifest? One, the gravitational pull of different asset class. So, you're getting 5.5% at the moment risk-free. You're getting 8.5% on high yield. Assuming we don't get a severe credit cycle, those look like interesting returns to me.

I think within equity markets, continue to expect a regime change. And one of the consequences of gravity is that valuations, as Sébastien has alluded to, valuations have an anchor. And therefore, as a careful contrarian, I would be playing for relative value.

So, what does that mean within equity markets? It means international versus U.S. It means EM versus DM. It means small-cap versus large-cap. Small-cap indices in the U.S. are actually down year to date. And I think it means value as a style rather than growth. I think these are all the careful contrarian trades.

**Ritu Vohora:** And within that, I know that when I looked at our Asset Allocation Committee we're neutral on value versus growth in the U.S., to your point. We're overweight value internationally. Where are some of the big themes beyond styles that we're going to see opportunities in equity markets?

**Justin Thomson:** Well, the obvious things with international, obviously attractions are sectors that tend to be valued lower, whether it's banks. Whether it's resource stocks. We can see a scenario where we have a long bull market in resources that are starting. A lot of that is driven by energy and by oil. And that's partly because we think that the big productivity wave that drove oil lower for a long time, in the marginal producer, which is U.S. shale for both oil and gas. That productivity wave is over. Plus, there's been quite a lot of inflation in oil field services. Therefore, the cost curves in energy are up. And on the economic maxim that the price of the commodity tends towards the cost of the marginal barrel, then we think that the path of least resistance for energy, but probably for more broadly for commodities is up. And of course, if energy is up that accelerates other themes like carbon transition, new energy, alternative sources of energy. I think those are all themes that that we should playing.

**Ritu Vohora:** And I guess innovation continues to be a theme that will play, whether it's artificial intelligence or health care. When we look at things like GLP-1, which is all the rage now, given the impact not only diabetes but obesity and the economics of health care as well.

**Justin Thomson:** You are absolutely right. We've described AI as the greatest productivity enhancer since electricity, which is a big statement. Look, one of the parts of this narrative is the adoption of generative AI and GPT, these chat services. That happened much faster than the adoption of the initial internet browser Netscape. It's faster than the adoption of the iPhone. This has happened very quickly. We've been through the initial wave here, which has been the infrastructure. I think it'll take time for the genuine user cases for AI to come through, just as it did during the dot-com. What were the winning technologies? But, you know, hold tight. It will continue to be a theme.

GLP-1s' massive impact on health care, both winners and losers. We've described GLP-1s as an iPhone moment in the pharmaceutical industry. And we truly believe that this will be the most valuable class of drug that has been in history. Obviously, there are direct ways to play that. Second- and third-order effects, the whole premise of GLP-1s has created distortions in markets, so staples, beverage, snack foods—those things have all sold off and sound staple companies I think probably, at the moment, are representing something of an opportunity.

**Ritu Vohora:** We all start changing our habits because we're all losing too much weight. So Sébastien, coming to you now. When we think about a multi-asset portfolio, stock and bond correlations have shown they can be very unstable. Particularly we saw that last year. How should investors think about diversification in a balanced multi-asset portfolio?

**Sébastien Page:** Ritu, that's a great question and it speaks to strategic asset allocation, not just tactical asset allocation. On the stock/bond correlation, we've seen that when market volatility is driven by rate or inflation shocks, stocks and bonds can go down together like they did in 2022 and like they did in the '70s. So a takeaway from my book is that average correlations give you a false sense of security. They're misleading. If you look at a history of 80 years, the 12-month stock/bond correlation, Ritu, it has flipped signed 29 times from positive to negative or negative to positive, and it's ranged from about -80% to +80%. I recognize there were regimes, though, multiyear periods of time when the correlation between stocks and bonds was mostly positive and then long periods where it was mostly negative, but the bottom line is that we're likely to continue to go through environments when bonds are great diversifiers and environments when they're not diversifiers at all.

So you could say on average they're diversifiers, but what does that mean? The way I like to think about it, Ritu, is just imagine you put your head in the freezer and your feet in the oven. You can still claim that on average your body temperature feels very comfortable, but it's an average of two extremes. And the stock/bond correlation, on average, shows bonds as a diversifier, but it is very regime specific. And by the way, this is not a rant against bonds, they have their role to play. But to your question, Ritu, smart portfolio construction, if you think long-term, strategic asset allocation, must go beyond average correlations. So, in our portfolios, we're incorporating dynamic bond strategies—some of the strategies that Arif used to run—as much as 10%, let's say have a 60/40 mix, 40% bonds. A much as 10% of the 40% in some portfolios can be in dynamic bond strategies where you actually adjust the duration for the prevailing environment. And on the equity side, we're adding hedged equity strategies, right? If you can't diversify, hedge. And that can represent as much as 10% of the 60% in a 60% stocks, 40% bonds profile.

Now back to tactical. As we look at the next 12 months, we must balance—again I go back to that word, balance. And here's the biggest-picture view of what's going on for the next 12 months in my mind. Upside surprises to growth. And we've had those—Q3 in the U.S. was a huge upside surprise. So we must balance that with the lagged effects of rate hikes on the economy. So within stocks, just to mention, we're positioned for a broadening of markets—long, small, mid, emerging markets—and within bonds we're barbell between cash and credit, so we're modestly short duration. It's a balanced set of positions taking advantage of relative valuation opportunities.

**Ritu Vohora:** Great. Thank you, Sébastien. And so, Arif maybe I can come back to you now. Sébastien mentioned they're short duration. One of the key questions we keep getting from clients is, when do we add duration?

**Arif Husain:** I, recently traveling in Asia, met someone who's, their boss had assigned them the job of buying bond yields at the top of the market. I think that person has career longevity. So I think that's pretty good. So is it time to buy duration? Not necessarily in government bonds. Justin mentioned earlier the fiscal overhang. The market feels pretty good because the U.S. Treasury said we're not going to issue notes and bonds. We're going to issue T-bills. I can't think of many entities where you want them to only be able to borrow overnight, not long term. That's not a good thing. And again, as we look ahead to next year, there is some fiscal consolidation potentially, but we've got an election. So, I personally don't think it is time yet to buy duration.

For me the real trigger to buy duration will be to get bond yields well above that cash rate. So you get paid to invest longer. Until you're paid to invest longer, it doesn't really make that much sense. And to get bond yields above cash rates, one of two things needs to happen. Bond yields either need to rise, or central banks need to start cutting.

That's not to say there isn't value within fixed income. As Seb mentioned, within our asset allocation portfolios we're finding some great opportunities. More dynamic strategies is one place, but also in the credit

markets. Default rates remain remarkably low. There are some fantastic yields that you get offered to invest in credit, and you're getting offered by some really good companies.

Now, I think it's really important that we talk about selectivity here. We can't just assume those default rates stay rock bottom forever. Certainly if you prescribe to my "the hard landing is coming at some point," that's going to be challenging. And one of the reasons default rates are so low at the moment is because a lot of companies managed to refinance at very low rates and they're locked in low, but they will have to refinance eventually, right? So I think we have a credit issue coming down the road, but in the meanwhile, there are some fantastic yields. Justin mentioned you can get 8% to 9%, maybe a little bit even more, in high yield...exactly, but I would advise dollar cost averaging dripping in some money. You know you don't want to go all-in, and you want to be selective. You really do need to be selective in credit.

**Ritu Vohora:**

I guess you want to be on the curve as well, particularly if you think that curve is going to steepen as well.

**Arif Husain:**

For me, buy the short end, much more certainty over default rates and frankly, you're getting better yields.

**Ritu Vohora:** Thank you, Arif, for those thoughts. I now just wanted to look at some of the audience questions that have been pre-submitted, and the first one's for you, Justin, around China. China is one of the few countries that's still stimulating, but it's been piecemeal so far amid a crisis of confidence. Investors remain heavily underweight with concerns of whether geopolitics is going to drive the sources of financial returns. How are you thinking about China, and do you see opportunity there?

**Justin Thomson:** When you say investors remain underweight, I'd say they've become progressively underweight this year for reasons I understand. The economy has structural problems, not just cyclical problems. The property sector will continue to cast a shadow over the market. There have been negative wealth effects there. I think geopolitics will continue to matter, but again, think about what can go right. I was reading Henry Kissinger's obituary today and you never know what's happening behind the scenes. In 1971, he was working the channels in China ahead of Nixon going to China in 1972. This could go better. This could go better. In the meantime, my message, and I'm increasingly becoming a minority of one here, but my message is that don't conflate what's happening with Chinese GDP with the potential returns from Chinese asset classes. Sentiment, positioning, valuations are all in your favor, and it doesn't require an awful lot to go right. It actually requires a situation where things stop getting worse. And if things stop getting worse, China as a whole can do better.

The other angle that I point to is that China is a very broad market, it's 6,000 individual securities in the equity market, many, many more if you include the credit market. That gives you a wealth of opportunity, gives you dispersion of returns. I would also say that the further you get away from China, the more heightened the sense of those risks are. We took 50 investors to China earlier this year. We met a stream of companies. I met regulators, clients. My observations are that China is open for business and really want to do business with a western asset manager. Two: Just the quality of the supply chains in China mean that China will remain the world's manufacturing base for a long time. And thirdly, its technology. China is making great strides in technology and has competitive advantage. I think the next wave is China beyond China. Chinese company either setting up overseas or exporting their technology. That, plus valuations, I think there's good opportunity.

**Ritu Vohora:** Great. So opportunity evaluations depressed, but hopefully if we see an earnings recovery that could help sentiment more broadly. So, Arif the next question, I think is for you is around the dollar. U.S. exceptionalism has been the theme for 2023, that's really propped up the dollar. Do you see the dollar strength carrying on into 2024?

**Arif Husain:**

Thanks for giving me the easy question, right? So, long term, I think the dollar exceptionalism period that we've seen over the last decade is coming to an end. I really do. Countries are finding ways to transact without the dollar.

However, and going back to a conversation you had with Seb earlier, if you think about through this year, the one asset that has provided diversification and has been a regular diversifying portfolio is the dollar. It's generally done very well. I also think the case for the dollar is nuanced. Long term, I think steady depreciation, especially if Justin's right about things going less wrong or better in China, that will lift the rest of the world. But in the short term, the dollar gives you good diversification, good portfolio characteristics, and

I think the future that dollar will be very much linked to the future of that AI miracle that we talked about earlier. If that Magnificent Seven keep leading, then the dollar is going to remain strong.

**Ritu Vohora:** OK. And I guess that has implications for emerging markets as well.

**Justin Thomson:** Of course, and just to be a little bit more prescriptive on emerging markets. China has been a bad asset class. Actually, there are pockets of emerging markets have been very good. India has been a good market. Latin American currencies have been very strong this year. But you are right, Ritu. The dollar matters. The interest rate cycle matters for emerging markets. Despite diversification of their funding base, a lot of these economies still fund in dollars. So, if the dollar is weakening that is a form of monetary easing.

**Ritu Vohora:** Just conscious of the time, so maybe I'll just take one more question from the audience here and this one's for you, Sébastien, and it's a great question. It says macroeconomic forecasts have been consistently wrong over the last two years. Do you still listen to economists?

**Sébastien Page:** Ritu, do you think this question was asked by an economist? I don't know. I have.

**Ritu Vohora:** Probably right.

**Sébastien Page:** I have a note coming out on LinkedIn and the first sentence of the article is, "We need to cut economists some slack." The data have been distorted by the COVID stimulus. Now here's a thought experiment for you Ritu, Justin, and Arif and for everybody in our audience: Imagine that we're in February 2022. And you buy put options. Those are options that provide protection on the stock market. February of 2022. And unfortunately, you fall into a coma. Now you've just woken up and you ask me, "I bought put options that should make money if stocks are down. What happened?"

And I tell you, "Well, the Fed has hiked 550 basis points. There's a war in Europe. In the U.S., we've had the number two, number three, and number four biggest bank failures in history. And now there's a war in the Middle East that could impact oil prices."

You would think stocks would be down, but they're not. And part of this has been the unwind of the COVID stimulus, the liquidity in the markets, the strong earnings, and so on. You can explain it, but it just shows that this has been a difficult time for economic or stock market projections. As you said, Ritu, it was the most anticipated recession. It's becoming the most delayed recession in history.

Forecasts that linked rate hikes with higher unemployment—economics 101—have spectacularly missed the mark. For example, the Fed's Summary of Economic Projections, back last year, in December 2022, predicted an unemployment rate of 4.6% for now, for 2023. We're at 3.9% and the year is over. So, this is a pretty big miss. Employment has been more resilient to rate hikes than expected, and Ritu, here's a whopper. Here's a big miss. Consensus forecasts for Q3 real GDP growth in the U.S., and we're done with that quarter, so we know what kind of growth we got, but at the beginning of the quarter, the consensus forecast was 0.50% on an annualized basis of GDP growth. Growth came in at 4.9% and we just got a second look, it actually looks like it was 5.2%. What a miss. So where do we go from here? As the economy continues to normalize, I believe inflation and unemployment will become more predictable again.

So, let's continue to listen to talented economists. And Ritu, let's remember what John Maynard Keynes wrote decades ago, and I think everybody knows that quote: "In the long run, we are all dead." What's interesting about that quote, "In the long run, we are all dead," is that most people don't know what Keynes wrote right after that quote, and it's very eloquent and it speaks to the current environment and to your question on whether I still listen to economists. Here's what Keynes wrote after "In the long run, we're all dead." "Economists set themselves too easy, too useless a task. If, in tempestuous seasons" in the middle of a storm, "they can only tell us that when the storm is past, the ocean will be flat again." So, this is an eloquent quote that's been forgotten by history. Everyone remembers "In the long run, we're all dead," but this is an eloquent way to argue for skilled tactical asset allocation to navigate through macro distortions and storms.

**Ritu Vohora:** Right. Well, I did not know the second half of that quote, so thanks for that, Sébastien. I just want to close the session. We've covered a lot of ground, and I think a lot of what we talked about, there's a lot of uncertainty. The pandemic has really distorted the signals that we've seen in the marketplace. And as we sit here today, there's a lot of cash on the sidelines sitting in money market funds. And I think as we've discussed today, there are plenty of opportunities to put that cash to work. So just a quick round now, if you could invest in one trade or one asset class in 2024, what would it be? Justin?



**Justin Thomson:** I'm pausing cause you've just given me one. I'm going to give you where I started, being carefully contrarian: Buy relative value. International versus U.S., emerging markets versus DM, small-cap versus large-cap, value stocks versus growth stocks.

**Ritu Vohora:** Great. So, looking on the other side of valuation, Arif?

**Arif Husain:** None of those because are they going to beat the 7%, 8%, 9% yield you can get from short credits? That's where you should put your money. Incremental from cash, but you're still keeping a lot of powder dry. That's where I'd put my money.

**Justin Thomson:** I was going to give you my own personal predictions for the year. One, I'll have read the book *Beyond Diversification* by Sébastien Page.

**Sébastien Page:** Thank you, Justin.

**Justin Thomson:** Two, I would have lost weight with the help of GLP-1s. Three, I'll become more productive with the help of AI. And four, I will increase my wealth by being carefully contrarian in equities.

**Ritu Vohora:** Fantastic. Well, there's something we can put on a Post-it note and hold you to next year. Sébastien, how about you from a multi-asset perspective?

**Sébastien Page:** Well, I'm going to be contrarian on the question. I actually think it's an entertaining question to ask, but it's not a good question in the current environment. So, I'm going to actually reject the premise of the question if you'll allow me, Ritu, and say balance. A balanced strategy of stocks and bonds broadly diversified. Most boring answer, but given the moment we're in, that's what I'm going with.

**Ritu Vohora:** We like boring, boring is stable. So, I think the key takeaway is stay balanced, stay diversified, be active, and there are opportunities if you're selective and really focus on that quality. Well thank you all for a great conversation. We covered lots of ground and hopefully for the audience, there's lots of takeaways for you to take from today's session as well.

Well, thank you all. So, if I can summarize our conversation, the tide can change rapidly in markets; however, the tectonic market shifts we're seeing will create new opportunities to put cash to work in 2024. It would also demand greater agility and a focus on fundamentals; diversification; and, importantly, managing risk. We believe this is a fertile ground for active investors.

You can learn more about our T. Rowe Price 2024 Global Market Outlook, tactical views, and future events by visiting [troweprice.com](https://troweprice.com), or contact your dedicated T. Rowe Price associate. Thank you for joining us, and we look forward to seeing you again soon.

## **Investment Risks**

All investments involve risk, including possible loss of principal.

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.

Small-cap stocks are generally more volatile than stocks of large, well established companies.

Fixed income investing includes interest rate risk and credit risk. When interest rates rise, bond values 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.

Alternative investments are speculative investments that typically involve aggressive investment strategies. In addition, alternative investments may be illiquid, difficult to value, and not subject to the same regulatory requirements as traditional investments. These factors may increase an investment's liquidity risks and risk of loss.

Diversification cannot assure a profit or protect against loss in a declining market.

## **Additional Disclosures**

Slide 5 (Household accumulated savings): Data shown at End of Period, Not Seasonally Adjusted.

Slide 6 (T. Rowe Price Multi-Asset positioning): The asset classes across the equity and fixed income markets shown are represented in our Multi-Asset portfolios. Certain style & market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.

CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.

**Bloomberg PORT** – Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, “Barclays”), used under license. Bloomberg or Bloomberg’s licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

**Credit Suisse** - © 2023 CREDIT SUISSE GROUP AG and/or its affiliates. All rights reserved.

**FactSet** – Financial data and analytics provider FactSet. Copyright © 2023 FactSet. All Rights Reserved.

**Haver Analytics** – (Ministry of Health, Labour & Welfare, Statistical Office of the European Communities, Bureau of Labor Statistics, US Bureau of Labor Statistics, US Bureau of Economic Analysis, European Central Bank, Standard & Poor’s Bureau of Economic Analysis, Federal Reserve Board, Tax Policy Center and Citizens for Tax Justice, China National Bureau of Statistics, Bank of Korea)/Haver.

**J.P. Morgan Chase** – Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan’s prior written approval. Copyright © 2023, J.P. Morgan Chase & Co. All rights reserved.

**LSE Group** - London Stock Exchange Group plc and its group undertakings (collectively, the “LSE Group”). © LSE Group 2023. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company’s express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication

**Morningstar** - © 2023 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

**MSCI** – MSCI and its affiliates and third party sources and providers (collectively, “MSCI”) makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. Historical MSCI data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

**S&P** – Copyright © 2023, S&P Global Market Intelligence (and its affiliates, as applicable). Reproduction of (S&P 500 Index) in any form is prohibited except with the prior written permission of S&P Global Market Intelligence (“S&P”). None of S&P, its affiliates or their suppliers guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions, regardless of the cause or for the results obtained from the use of such information. In no event shall S&P, its affiliates or any of their suppliers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of S&P information.

## **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.

**For investment professionals only. Not for further distribution.**

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.

It is not intended for distribution to retail investors in any jurisdiction.

The specific securities identified and described are for illustrative purposes only and do not represent all of the securities purchased, sold, or recommended by T. Rowe Price, and no assumptions should be made that investments in the securities identified and discussed were or will be profitable.

**Australia** – Issued by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 28, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000, Australia. For Wholesale Clients only.

**Brunei** – This material can only be delivered to certain specific institutional investors for informational purpose only. Any strategy and/or any products associated with the strategy discussed herein has not been authorised for distribution in Brunei. No distribution of this material to any member of the public in Brunei is permitted.

**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.

**Mainland China** – This material is provided to qualified investors only. No invitation to offer, or offer for, or sale of, the shares will be made in the mainland of the People's Republic of China ("Mainland China", not including the Hong Kong or Macau Special Administrative Regions or Taiwan) or by any means that would be deemed public under the laws of the Mainland China. The information relating to the strategy contained in this material has not been submitted to or approved by the China Securities Regulatory Commission or any other relevant governmental authority in the Mainland China. The strategy and/or any product associated with the strategy may only be offered or sold to investors in the Mainland China that are expressly authorized under the laws and regulations of the Mainland China to buy and sell securities denominated in a currency other than the Renminbi (or RMB), which is the official currency of the Mainland China. Potential investors who are resident in the Mainland China are responsible for obtaining the required approvals from all relevant government authorities in the Mainland China, including, but not limited to, the State Administration of Foreign Exchange, before purchasing the shares. This document further does not constitute any securities or investment advice to citizens of the Mainland China, or nationals with permanent residence in the Mainland China, or to any corporation, partnership, or other entity incorporated or established in the Mainland China.

**DIFC** – Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd which is regulated by the Dubai Financial Services Authority as a Representative Office. For Professional Clients only.

**EEA** – Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

**Hong Kong** – Issued by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

**Indonesia** – This material is intended to be used only by the designated recipient to whom T. Rowe Price delivered; it is for institutional use only. Under no circumstances should the material, in whole or in part, be copied, redistributed or shared, in any medium, without prior written consent from T. Rowe Price. No distribution of this material to members of the public in any jurisdiction is permitted.

**Korea** – This material is intended only to Qualified Professional Investors. Not for further distribution.

**Malaysia** – This material can only be delivered to specific institutional investor. This material is solely for institutional use and for informational purposes only. This material does not provide investment advice or an offering to make, or an inducement or attempted inducement of any person to enter into or to offer to enter

into, an agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities. Nothing in this material shall be considered a making available of, solicitation to buy, an offering for subscription or purchase or an invitation to subscribe for or purchase any securities, or any other product or service, to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the laws of Malaysia.

**New Zealand** – Issued by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 28, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

**Philippines** – ANY STRATEGY AND/ OR ANY SECURITIES ASSOCIATED WITH THE STRATEGY BEING DISCUSSED HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE OF THE STRATEGY AND/ OR ANY SECURITIES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

**Singapore** – Issued by T. Rowe Price Singapore Private Ltd. (UEN: 201021137E), 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

**South Africa** – Issued in South Africa by T. Rowe Price International Ltd (TRPIL), Warwick Court, 5 Paternoster Square, London EC4M 7DX, is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (Financial Services Provider (FSP) Licence Number 31935), authorised to provide “intermediary services” to South African Investors. TRPIL’s Complaint Handling Procedures are available to clients upon request. The Financial Advisory and Intermediary Services Act Ombud in South Africa deals with complaints from clients against FSPs in relation to the specific services rendered by FSPs. The contact details are noted below: Telephone: +27 12 762 5000, Web: [www.faisombud.co.za](http://www.faisombud.co.za), Email: [info@faisombud.co.za](mailto:info@faisombud.co.za)

**Switzerland** – Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

**Taiwan** – This does not provide investment advice or recommendations. Nothing in this material shall be considered a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person in the Republic of China.

**Thailand** – This material has not been and will not be filed with or approved by the Securities Exchange Commission of Thailand or any other regulatory authority in Thailand. The material is provided solely to “institutional investors” as defined under relevant Thai laws and regulations. No distribution of this material to any member of the public in Thailand is permitted. Nothing in this material shall be considered a provision of service, or a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person where such provision, offer, solicitation, purchase or sale would be unlawful under relevant Thai laws and regulations.

**UK** – This material is issued and approved by T. Rowe Price International Ltd, Warwick Court, 5 Paternoster Square, London EC4M 7DX which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

**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 US Securities and Exchange Commission and Financial Industry Regulatory Authority, Inc., respectively. For Institutional Investors only.

© 2023 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.

202312-3263290