T. Rowe Price®
INVEST WITH CONFIDENCE

COMPLEX MARKET CALLS FOR ACTIVE STOCK PICKING

JULY 2021
Scott Berg
Portfolio Manager, Global Growth Equity Strategy

The current pushes and pulls in the market are incredibly complex. From a fundamental perspective, near to intermediate-term economic and corporate data are going to be very strong. However, from a valuation perspective, many contrarian segments of opportunity have been removed by the weight of money seeking return generation in an extraordinary period.

While stimulus, economic improvement and vaccination roll outs are all very real and very positive drivers of markets, we have seen growing risk-seeking behaviour drive single stock price movements in a way that is uncommon. This requires real thought and some very active risk management to differentiate between fundamental change and the flow of funds towards improving themes and factors, which is often a feature of more mature market cycles.

As for the ongoing health pandemic, despite a marked improvement in vaccine distribution in a number of developed nations, the virus will remain in our world for some time. The movement towards better treatment, control and management of COVID is real, but sadly we will need to adjust around the virus and its consequences for some time to come. This does not imply negativity on our part with respect to outlook, but it does imply balance in our portfolio and a want to avoid excesses of sentiment.

> “We have seen growing risk-seeking behaviour drive single stock price movements in a way that is uncommon”

The Biden administration’s emerging priorities are clearly very pro-growth and are set to create an intriguing clash between long term and structural disinflationary forces and near-term inflationary impetus. Widespread stimulus has supported asset prices since the emergence of COVID-19, but the likelihood of rising corporate tax will at some stage matter to after-tax corporate earnings. This year will be characterised by some of the strongest profits growth figures in investing careers, but the time to look out to 2022 and 2023 is already upon us and durability of growth will remain a key offensive and defensive weapon within portfolios.

Recognising the challenging pushes and pulls in the market, we are trying to be balanced within the portfolio, keeping the overall portfolio beta near 1, while focusing on picking stocks within sectors as opposed to expressing large sector bets. Under the surface, volatility at the single stock level feels high, in part due to the very large dispersion of factors and the aggressive rotation away from growth towards value in 2021. While many bullish statements are being made over the prospects for a long-term value cycle, we feel the forward-looking environment on a style basis is now much more neutral, which is well suited for diversified stock picking.

MARKET CONTINUES TO UNDERESTIMATE COVID IMPACT ON CONSUMERS

Our largest overweight at a sector level is in consumer discretionary. In our view, there is tremendous change occurring within the sector due to coronavirus, and this has led to a dramatic demarcation between winners and losers. Covid-19 has pulled forward years of e-commerce share gains, and we have a diverse set of stocks levered to this trend, which we believe to be structural in nature.

Specifically because a number of secular growth companies may not deliver rapid growth in mid-2021 (when compared to their outstanding and COVID influenced results of mid-2020), we believe there is a growing opportunity in the sector. Our perspective remains that the market is underestimating the profound effect the pandemic has had on the consumer landscape and the urgent need to have a competitive and differentiated product, matched by a competitive and differentiated digital presence. This perspective shapes our ownership of many stocks in the consumer discretionary sector.

To this point, we continue to hold a conviction position in Amazon. While many investors debate how much further the stock can run given its impressive performance over the years, we still think the company's strong position in e-commerce and cloud computing, via Amazon Web Services, means Amazon is still well positioned for attractive growth versus the market level, with good durability.

To the point of growth durability at a reasonable valuation, we find ourselves in a position of leaning into some of the scepticism surrounding large cap Technology names, in an environment that has been defined by an aggressive rotation towards Value and the re-opening theme. Key positions we find to be attractive on both an earnings and valuation dimension include Alphabet and Facebook, while Zoom remains one of our top holdings given our view on the persistency of videoconferencing as a medium of communication.

> "We feel the forward-looking environment on a style basis is now much more neutral, which is well suited for diversified stock picking"

Overall, this is a market that remains one defined by rapid change and a good dose of uncertainty, both of which require a disciplined focus on valuation and earnings fundamentals, in our view. With these principles being deeply embedded within our investment process, we remain encouraged by our portfolio holdings and their long-term ability to deliver durable growth to our clients.

Important Information

The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the portfolio, and no assumptions should be made that the securities identified and discussed were or will be profitable.

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. 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 written 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.

Australia—Issued by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. For Wholesale Clients only.

New Zealand—Issued by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, 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.

202107-1702846