Why Active Duration Management Matters

As market dynamics twist and turn, a flexible approach delivers results.

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Dynamic Global Bond Strategy

KEY INSIGHTS

- Having the flexibility to shift duration within a wide latitude enables us to be dynamic and to adapt quickly to different market environments, such as rising rates.
- To uncover what we feel are the best opportunities for our clients, our country selection is supported by our global research platform, covering both developed markets and emerging markets.
- Since inception, our duration views, country selection, and yield curve positioning have been the largest positive contributors to performance.

Among absolute return strategies, we believe that the Dynamic Global Bond Strategy stands out as it seeks to provide not only regular returns in different environments but also diversification from risk markets. That means that during periods of volatility, when risky assets such as equities sell off, we strive to be a performance anchor. To help achieve this, we have a high-quality bias—investing a large portion of our portfolio in high-quality government bond markets where liquidity is typically better. But it's not just a case of being long sovereign bond duration at all times as that simply won't work when interest rates are rising like they did in the first half of this year. That's why we manage duration actively and within a wide latitude—an approach that enables us to adapt to changing market conditions. This has been critical in 2022, so far, and we believe it will continue to be, given the likelihood that volatility persists as fixed income markets enter a new market regime without the liquidity support of central banks.

Flexibility Around Duration Management

We manage duration dynamically and within a wide latitude, implementing both long and short duration positions. This gives us the flexibility to adapt to different market cycles and environments, including when rates are rising. For example, when interest rates are rising, we could move to quickly cut the portfolio's overall duration (as low as zero) to minimize potential losses. By contrast, when rates are falling, we can increase overall duration to as high as six years to maximize possible gains.

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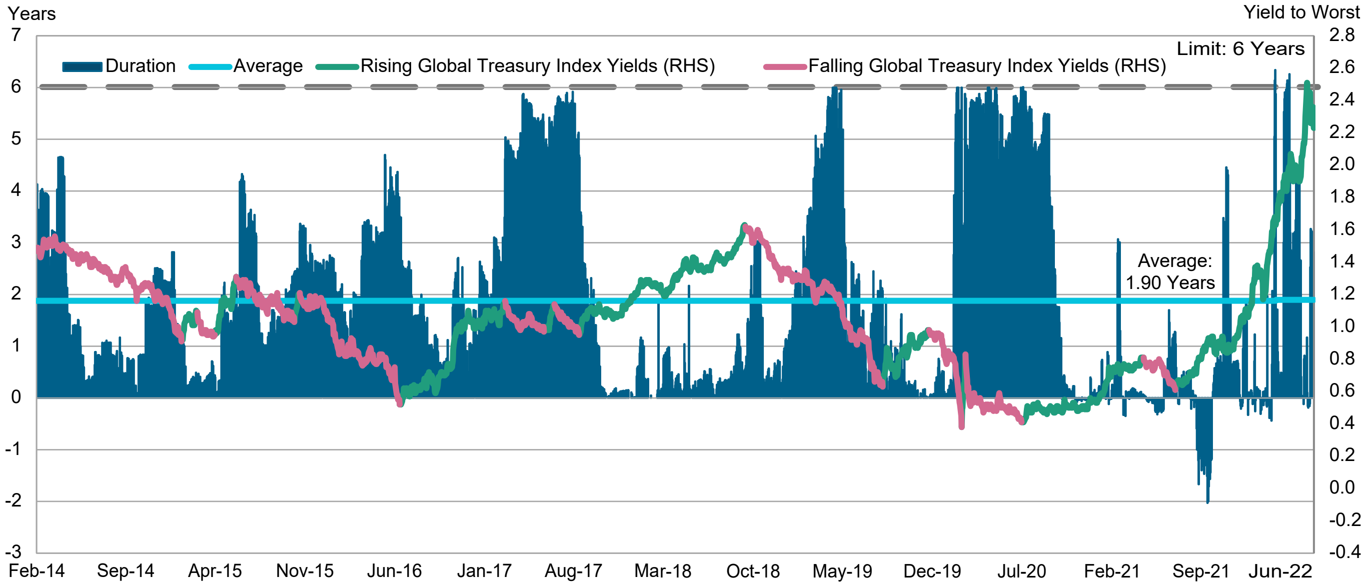
Active Approach to Duration Management

(Fig. 1) Historical duration of the T. Rowe Price Dynamic Global Bond Fund



As of June 30, 2022.

Past performance is not a reliable indicator of future performance.

Analysis by T. Rowe Price. Bloomberg Index Services Limited. Please see Additional Disclosures page for more information on this Bloomberg information. Index yield shown is for the Bloomberg Global Treasuries Index. Periods of rising / falling yields have been determined as periods of changes in yields of 15 bps or greater.

This dynamic approach to managing duration has been successfully applied during many changes in market trends and regimes since the strategy was launched:

2020—Concerns about pandemic and other risks to global economy

In 2020, for example, we kicked off the year with the portfolio's overall duration in negative territory. We quickly pivoted in February and significantly increased duration as our health care analysts and economists flagged concerns about the spread of the coronavirus and the risks to the global economy. The changes—particularly moving from a short duration to a long position in U.S. duration—bolstered performance at a time of heightened volatility and a huge sell-off in risk markets.

2022—Inflation pressures on the rise

Heading into 2022, we held the portfolio's overall duration close to zero, anticipating that major central banks would become more hawkish to combat rising inflation pressures. Specifically, we saw potential for the withdrawal of liquidity support, which could mark the end of quantitative easing and the start of a new regime in fixed income markets. As such, we felt comfortable holding short duration positions in select developed market countries, such as the U.S. and UK, which worked well with global bond yields rising materially in the first half of this year as central banks responded to inflation by tightening monetary policy.

Crucial to our success in capturing changes in trends and regimes is the research of our senior economists and analysts, helping to identify inflection points in monetary policies and economic cycles.

T. Rowe Price Fixed Income Capabilities

(Fig. 2) Dedicated experts in the U.S., Europe, and Asia

As of June 30, 2022.
*Includes investment professionals for T. Rowe Price Associates, Inc. and its investment advisory affiliates, including T. Rowe Price Investment Management, Inc.
Source: T. Rowe Price.

> "Our deep research capabilities enable us to uncover inefficiencies and exploit opportunities across the full fixed income investable base.

Tactical Opportunities vs. Long-Term Investment

Our global research platform is the engine that powers our investment ideas. Our deep research capabilities enable us to uncover inefficiencies and exploit opportunities across the full fixed income investable base. Since inception, the portfolio's investments have ranged from major government bonds to lesser-known developing country bonds rated below investment grade.

The strategy is designed so that we can be nimble and take advantage of short-term opportunities. In order to gain a holistic view of a country, analysts conduct in-depth research into the following key areas: fundamentals, valuations, and technicals. At different times, any one of those factors may hold sway. For example, compelling valuations may lead us to implement a long position, while at another time, we might initiate a short position based on concerns over deteriorating fundamentals. Getting the timing right on what feature is likely to influence bond prices the most is essential. Italy is an example of a country where we have tactically gone short and long at different times during the strategy's life.

Taking a long-term investment view is also important. In smaller and less developed countries, in-depth knowledge and research can go a long way. Taking the time to gain a deep understanding of a country's economic prospects, politics, and policymaking can open up potential attractive long-term investment opportunities that others miss or avoid because they do not have the resources to analyze the market properly. For example, we have been invested in local Serbian government bonds in the strategy since March 2015.

Since inception, our duration views, country selection, and yield curve positioning have been the largest positive alpha contributor in the strategy. Our ability to express these views on a range of different countries and be tactical in managing duration to capture trend changes and regime shifts has been the driver of this. That is why it is so important that we continue with this approach—particularly in the current environment, where volatility is likely to remain elevated as central banks tighten monetary policy at a time when growth is slowing.

PERFORMANCE TABLE

T. Rowe Price Dynamic Global Bond Fund I Class

Periods Ended June 30, 2022. Figures are Calculated in Australian Dollars.

				Annualized		
	Three Months	Year-to-Date	One Year	Three Years	Five Years	Since Inception 18 Feb 2014
T. Rowe Price Dynamic Global Bond Fund I Class (Net of Fees)	1.53%	5.17%	3.60%	4.15%	2.98%	3.78%
Bloomberg AusBond Bank Bill Index	0.07	0.08	0.10	0.33	0.95	1.48
Value Added (Net of Fees)*	**1.46**	**5.09**	**3.50**	**3.82**	**2.03**	**2.30**

Calendar Years	2014‡	2015	2016	2017	2018	2019	2020	2021
T. Rowe Price Dynamic Global Bond Fund I Class (Net of Fees)	3.29%	8.19%	6.43%	-0.35%	1.41%	-0.48%	8.43%	-0.04%
Bloomberg AusBond Bank Bill Index	2.33	2.33	2.07	1.75	1.92	1.50	0.37	0.03
Value Added (Net of Fees)*	**0.96**	**5.86**	**4.36**	**-2.10**	**-0.51**	**-1.98**	**8.06**	**-0.07**

Past performance is not a reliable indicator of future performance.

Net-of-fees performance is based on end-of-month redemption prices after the deduction of fees and expenses and the reinvestment of all distributions. Gross-of-fees performance is the net return with fees and expenses added back. Figures include changes in principal value. Investment return and principal value will vary, and an account may be worth more or less at termination than at inception.

‡ Since Inception 18 February 2014 through 31 December 2014.

* The Value Added row is shown as T. Rowe Price Dynamic Global Bond Fund I Class (Net of Fees) minus the benchmark in the previous row.

Source for Bloomberg index data: Bloomberg Index Services Limited. Please see Additional Disclosures page for information about this Bloomberg information.

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Additional Disclosures

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