T. Rowe Price

PANORAMA

QUARTERLY THOUGHT LEADERSHIP PUBLICATION FOR OUR CLIENTS

WELCOME......

.........to the second quarter 2025 edition of Panorama, T. Rowe Price's investment magazine for Asian investors.

We begin with the issue that is on every investor's mind: What do investors need to know about the threat from higher U.S. import tariffs? Global Multi-Asset Division's capital markets strategist Tim Murray argues that some caution is warranted near term as markets reprice the heightened level of uncertainty, though one should also be monitoring for potential opportunities amid the dislocation.

Turning from macro to micro, Justin Thomson, who heads T. Rowe Price's Investment Institute, believes investors will be better served by remaining invested, avoiding the temptation of trying to call the bottom in volatile market. There may be a silver lining to the tariff upsets impacting markets. Truly great companies are rare, while opportunities to buy them at bargain prices are even rarer!

In global fixed income markets, Adam Marden and Pranay Subedi ask what is behind the recent volatility in the U.S. Treasury bond market. They view upcoming Treasury auctions as being critical to watch for signs of whether the demand for U.S. government bonds is faltering.

Next, Michael Davis – Head of Global Retirement Strategy at T. Rowe Price – explains how the firm aims to bring its global expertise and full suite of retirement capabilities to investors in Asia Pacific, including postretirement solutions.

Our Global Multi-Asset team look at a number of alternative ways to access the opportunities offered by global emerging market (EM) equities, such as a core, style, or regional building block approach. They conclude no one approach is consistently superior to another, and the active EM portfolio manager needs to be skilled in stock selection, country, style and factor allocation.

In our Personal Profile interview, we spoke with Vincent Chung. Based in London, Vincent is the co-portfolio manager for T. Rowe Price's Diversified Income Bond Strategy, alongside Ken Orchard. He aims to deliver an attractive income stream over the full economic cycle, managing risk in such a way that an investor need not worry unduly about market timing.

As always, we welcome feedback and comments from our readers - our contact details can be found on page 27.

T. Rowe Price Australia

Tariffs: What investors need to know

Key Insights

- New tariffs could more than double the effective U.S. tariff rate, impacting global economies and financial markets.
- As a result, economic uncertainty is at its highest since the worst of the COVID crisis, risking potential recessions.

Tim Murray, CFA®
Capital Markets Strategist
Multi-Asset Division

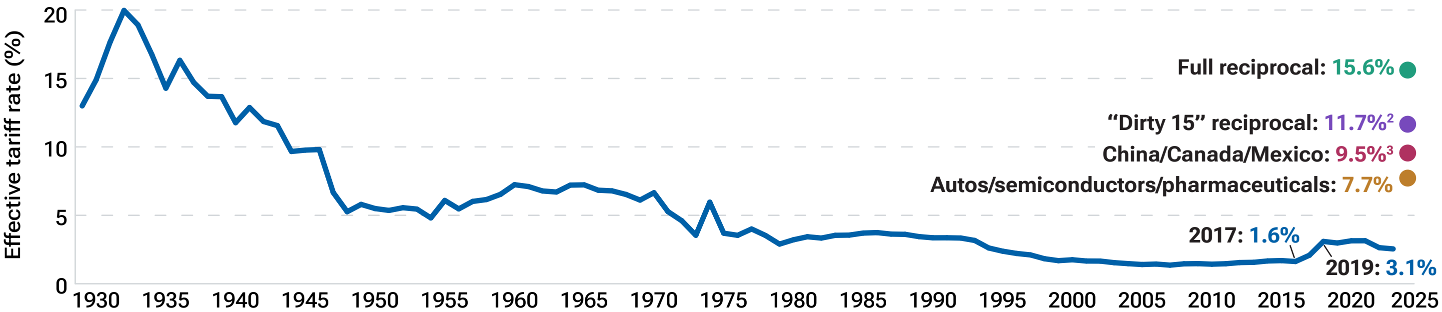
Markets have been extremely concerned that the Trump administration's proposed tariff increases could trigger a global trade war. Here's a look at what could be at stake for U.S. and global investors.

The most important thing investors should know is that the current tariff proposals are significantly larger in scope than those put in place by the first Trump administration in 2017. The tariffs now threatened would cover a much wider range of countries and a much longer list of industries.

In 2017, the focus was almost entirely on China. This time, it includes nearly all U.S. trading partners. In 2017, only a few specific products were targeted—most notably aluminum and steel. The scope is much broader this time around.

Tariff proposals are much bigger this time around

(Fig. 1) Effective U.S. tariff rate versus current proposals[1]

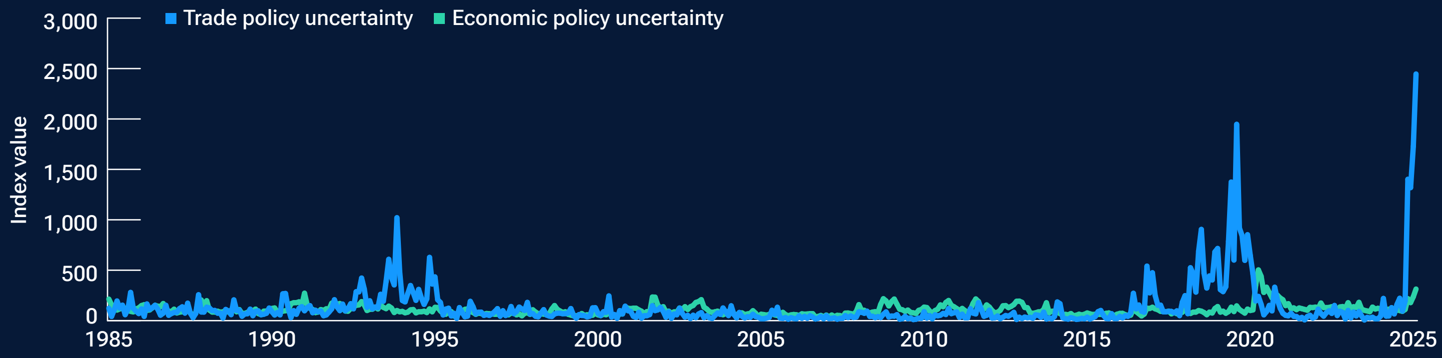


Annual averages, 1929 through 2024. Proposed tariffs as of March 31, 2025.
Source: Piper Sandler & Co., based on analysis of data from the U.S. Census Bureau, U.S. Bureau of Economic Analysis, and Yale Budget Lab (see Additional Disclosures).

[1] The effective tariff rate is defined as U.S. tariff revenue divided by the value of U.S. goods imports.
[2] The Trump administration hasn't named the "Dirty 15" countries, but they are believed to include a number of U.S. trade partners that currently run extremely large trade surpluses with the U.S.
[3] Tariff rate for Canada and Mexico does not include the United States-Mexico-Canada Agreement exemption.

Uncertainty has skyrocketed

(Fig. 2) U.S. Economic Policy Uncertainty Index



Monthly, January 1985 to February 2025.
Sources: 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom, and Steven J. Davis at www.PolicyUncertainty.com / Macrobond.

This means the potential impact could dwarf what was seen in 2017. Then, the effective tariff rate that the U.S. imposes on all imports only rose from 1.6% to 3.1% (Figure 1). But this time around, even if deals are made with numerous trading partners, the effective tariff rate is likely to be substantially higher. The measures announced by President Trump on April 2nd would move the rate above 20%, even higher than the peak levels seen in the 1930s.

What is the Trump administration trying to achieve?

While the ultimate objectives of the tariff proposals are not certain, the president's public statements suggest three possible goals:

- One goal may be to strengthen the U.S. trade negotiating position. Because the U.S. runs trade deficits with most countries, higher tariffs generally would be more painful for U.S. trading partners than for the U.S.—even if those countries retaliated by raising their own tariffs. This could give Trump leverage in any negotiations to reduce trade barriers.

- A second objective appears to be to raise revenues. In theory, higher tariffs could help reduce the U.S. federal government's giant budget deficit. However, this will only work if the negative impact of tariffs on the U.S. economy doesn't offset any potential gains in U.S. tax revenue.

- A third goal may be to bring manufacturing jobs back to the U.S. If tariff rates were set high enough, it could make it cheaper for U.S. and foreign companies to shift production of domestically sold goods to factories in the U.S. However, this almost certainly would raise manufacturing costs considerably and could take years to fully implement.

If President Trump's primary goal is to gain negotiating leverage, and U.S. trading partners are willing to make deals, then any tariff hikes might be temporary and the ultimate economic impacts could be minimal. This is clearly the outcome most investors are hoping for.

However, if Trump's objectives are broader, or if any negotiations end up being long and drawn out—like the 2017 and 2018 tariff talks with China, which lasted 19 months—investors are likely to face more stock market volatility in the months ahead.

Where things stand

So far, tariff concerns do not appear to have significantly impacted U.S. economic activity. Most real-time barometers of GDP growth have decreased, but only slightly. Earnings estimates generally have held up. But we have seen an enormous increase in business uncertainty (Figure 2). Trade uncertainty is higher than at any time since at least the mid-1980s. And one widely followed index of economic policy uncertainty has spiked to a level previously only eclipsed at the height of the COVID pandemic.

As a result, businesses and consumers appear to be putting some major spending decisions on hold. If this level of uncertainty persists, a U.S. recession—and, probably, a global one as well—are not out of the question.

Conclusion

The bottom line is that higher tariffs pose a significant risk to the current economic outlook. While this risk may ultimately prove to be temporary, we think concerns are likely to get worse before they get better. As a result, T. Rowe Price's Asset Allocation Committee is seeking to reduce risk exposure over the near term.

Shock and Awe

Investors are reeling from the worse-than-expected level of Trump tariffs, further exacerbating already high levels of uncertainty. Either triggering negotiations or retaliations, a quick fix seems unlikely. Near-term global growth expectations have already worsened, but the longer-term impacts on global order could be even more worrisome.

What we know

- The tariff rates announced on "Liberation Day" were shockingly higher than expected. They included "baseline + reciprocal" levels by country. These tariff rates were based entirely on the size of each country's trade deficit with the U.S. A 90-day reprieve on the reciprocal tariffs has since been announced, while the administration attempts to negotiate deals with individual trading partners.

What we think

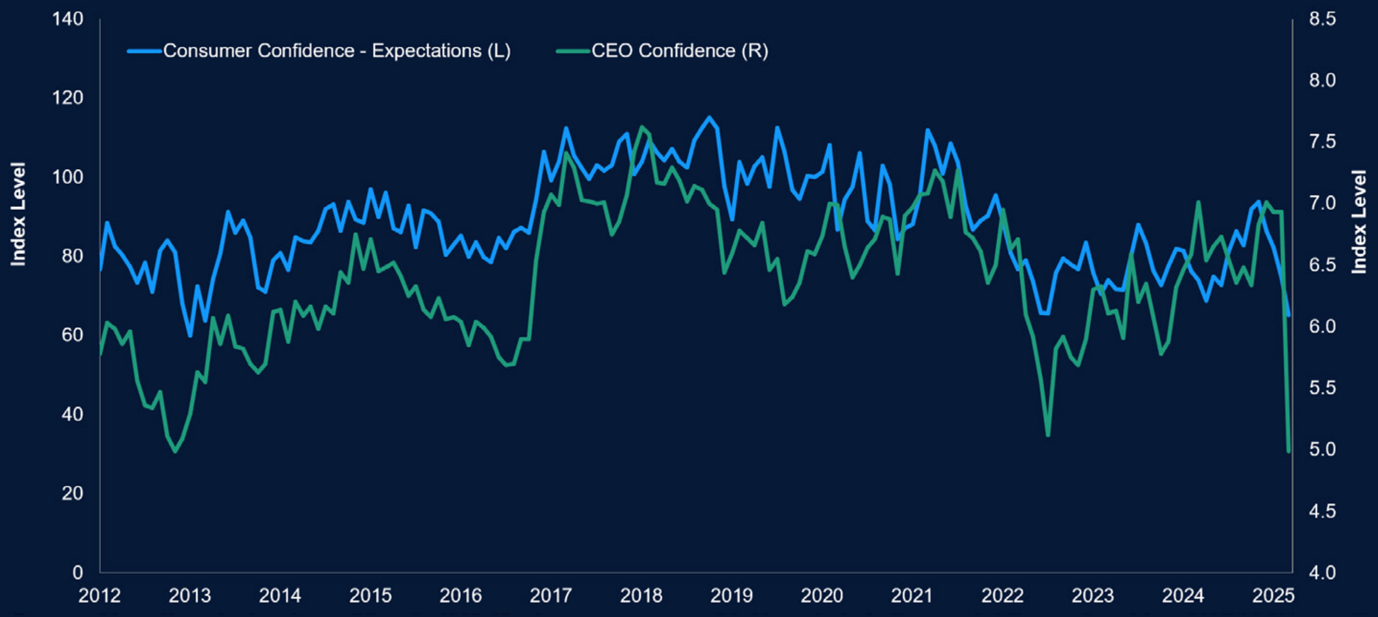
- Should these tariff levels be implemented and persist for an extended period, it is increasingly likely to lead the U.S. economy into recession with upside risk to inflation, leaving the U.S. Fed in a precarious position.
- Already elevated negative consumer and business sentiment is likely to intensify, further restraining spending and likely bleeding through to labor markets.
- While looking to appease political base by aligning to a U.S. manufacturing renaissance, we believe the tariff rates were chosen with the goal of maximizing negotiating leverage.
- While downplaying near-term risk to the economy in favor of long-term gains, political pressure is likely to intensify and could influence the speed of some sort of resolution.

Investment Implications

- We remain cautious as near-term volatility is likely to remain elevated. We have been aiming to decrease risk through moderating equity exposures, given the unprecedented level of trade policy uncertainty.
- We continue to rotate away from U.S. equities into markets outside the U.S. Should the unilateral trade war persist, the U.S. economy faces significantly more risk than the rest of the world.
- As markets try to reprice this heightened level of uncertainty, we are monitoring for potential opportunities amid the dislocation.

Unchartered Tarifftory

January 2012 to March 2025



Sources: Chief Executive Group, Conference Board / Macrobond.

Five rules for investing in volatile times

Key Insights

- The financial crises of the past offer useful lessons for investing in periods of heightened volatility.
- Remaining invested, understanding everything you own in your portfolio, and avoiding the temptation of trying to call the bottom of the market have been crucial.
- Truly great companies are rare, and opportunities to buy them at great prices are even rarer. Be on alert for when they are "on sale."

Justin Thomson
Head of the T. Rowe Price Investment Institute

The Trump administration's seismic policy shifts and the sharp swings in the market, coupled with declining economic indicators and rising geopolitical tensions, sent me down memory lane for useful lessons from some of the most challenging times of my career.

This remembrance of crises past included the 1990s recession, the Asian financial crisis in 1997, the collapse of Long-Term Capital Management, the 2008–2009 global financial crisis, the 2011–2012 European sovereign debt crisis, and the shutdown of broad swathes of the global economy during the coronavirus pandemic. What can investors learn from these extraordinarily difficult market environments to help them navigate periods of heightened volatility and economic stress?

Lessons from market crises of the past

Here are five suggestions to help you survive the market's gyrations and thrive afterward. The key is to stay calm and focused on the long term.

1. Be patient and know your competitive advantage.

It is natural to look at your entire portfolio at once and think that getting market direction right is the only thing that matters and that fundamental security analysis is pointless. This is incorrect. A deep understanding of companies can give investors the confidence to buy in the scariest markets. These moves should ultimately be rewarded when conditions improve. Use a longer-than-average lens to view the world in front of you, and stay focused on what matters.

2. Use volatility to your advantage.

When volatility becomes extreme, markets become disorderly. Avoid wholesale portfolio changes as I'd say your chances of getting it right are around 50% minus trading costs, which, incidentally, will be elevated. Conversely, extreme dislocation at security level pricing provides opportunity, assuming you have done your homework.

3. Avoid precision.

You cannot pick the exact bottom, so why beat yourself up about it? It is easy to start the day with optimism only to look foolish by midafternoon. Nobody, no matter what they claim, has the power of precognition—so avoid becoming obsessed with it. Being approximately right is better than being precisely wrong. Averaging in is a valid strategy.

4. Stay invested.

Keep embracing risk and remain invested and diversified. When reversals occur, they are often powerful. Much of the potential upside tends to come in a limited number of trading sessions, making it difficult to reinvest in time. In all the bear market cycles since the 1990s, the inflection point only became apparent with the passage of time. No bell is ever rung to signify the bottom.

> “Use a longer-than-average lens to view the world in front of you....

The case for staying invested

The bar chart below illustrates how a long-term investment strategy can generate much higher returns. Let’s examine three individuals, each starting with USD 10,000 in the S&P 500 over the past 20 years.

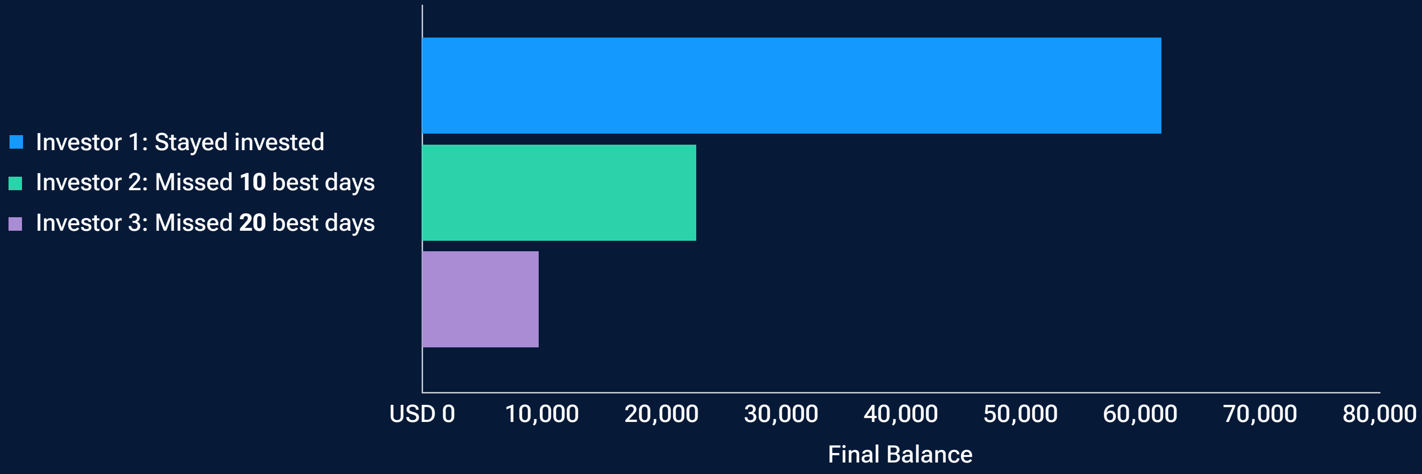
- **Investor 1:** Stayed invested and ended up with USD 61,750.
- **Investor 2:** Missed the 10 best days, resulting in USD 22,871.
- **Investor 3:** Missed the 20 best days, ending with a balance of USD 9,724.

The risks of market timing

These figures underscore the risk of trying to time the market. Short-term investors who mistime their market entries and exits could miss the best days and leave substantial returns on the table. By focusing on long-term goals and adopting a strategic allocation approach, individuals can benefit from growth potential over time.

Staying invested produced a bigger balance over the long term

(Fig. 1) Hypothetical USD 10,000 investment in the S&P 500 (January 1, 2005–December 31, 2024)



Sources: T. Rowe Price, S&P. See Additional Disclosures.
Past performance is no guarantee or a reliable indicator of future results. It is not possible to invest directly in an index. Graph is shown for illustrative purposes only.

5. Accept the world has changed and challenge your own assumptions.

Do not get anchored to the prices from which stocks have fallen. You cannot trade at yesterday's prices. In security selection, we are always making a relative bet. We therefore need to understand how the relative earnings power of companies has changed and, where appropriate, sell low to buy low. In behavioral terms, this is a hard thing to do.

The challenges of today

Bear markets tend to bucket into three types: event-driven, cyclical and structural—in descending order of duration. The diagnosis here would appear to be event-driven turning into a cyclical issue with a prognosis of medium-term duration as the market comes to terms with what tariffs mean for earnings and inflation.

The extremely aggressive tariffs that the Trump administration unveiled on what the president dubbed "Liberation Day" were a shock to the global economy and, potentially, the world order.

It was a seminal moment.

Even with President Trump announcing a 90-day pause on so-called reciprocal tariffs for much of the world, the remaining 10% across-the-board levy is still a significant increase relative to what was in place at the start of the year. And that says nothing of the escalating trade war between the U.S. and China or President Trump's threatened tariffs on copper, lumber, pharmaceuticals, and semiconductors.

From my vantage point, extreme tail events—for example, a complete withdrawal of tariffs or the economic Armageddon that could follow a total decoupling of China and the U.S.—appear unlikely. However, the middle path, which is likely to be paved with permanently higher tariffs and further trade negotiations, is still winding, and visibility is hazy.

Economic orthodoxy would tell you that tariffs are likely to be inflationary and that the hit to demand would cause meaningful damage to the U.S. economy and around the world. That said, there is very little about policymaking now that is orthodox.

If we enter a recession, the tactical response of favoring defensive sectors, such as utilities, health care, and consumer staples, likely still holds from the old playbook. But we also need to be strategic and factor in potential structural changes. Europe, for example, appears to be heeding its wake-up call and is increasing defense spending, opening the door to fiscal stimulus, and operating more as a unified market.

Now, more than ever, investors must be calm and rational. We need to remain detached from all the noise on social media and be among the seemingly small percentage of market participants who remain calm, confident, energized, focused, knowledgeable, and anticipatory.

A final reminder

Truly great companies are rare. A 2016 study by Hendrik Bessembinder at Arizona State University, for example, found that from 1926 through 2015, just 86 stocks out of 26,000 examined accounted for 50% of the market's return. The top 1,000 companies (less than 4% of the total) accounted for 100% of the wealth creation during that time.

Chances to buy great companies at great prices are even rarer—so we believe in taking a shot when the opportunity arises.

> “Now, more than ever, investors must be calm and rational.

What's behind the U.S. Treasury market's roller coaster ride?

Key Insights

- The U.S. Treasury market has experienced abrupt moves in the aftermath of the tariff announcement.
- There is unlikely to be a major policy response unless there is an outright breakdown in market structure.
- Treasury auctions are critical to watch going forward for signs of whether demand is faltering.

Adam Marden
Portfolio Manager, Macro and Absolute Return Strategies, and Portfolio Manager, Fixed Income

Pranay Subedi
Associate Portfolio Manager, Fixed Income

Recent abrupt shifts in the multi-trillion-dollar U.S. Treasury market have garnered significant attention. In this Q&A, we explore the factors driving the moves, the potential for policy responses, and the key factors to watch out for next.

What has been going on in U.S. Treasury markets?

U.S. Treasuries have been on a roller coaster ride. The initial rally following the April 2 tariff announcement gave way to a dramatic sell-off in a liquidity-strained market that prompted some calls for policy action to help alleviate the pressures. Although the April 9 90-day pause in additional tariffs on countries has helped restore some calm to the world's biggest bond market, it's important to understand the factors behind the sell-off and how developments could evolve from here.

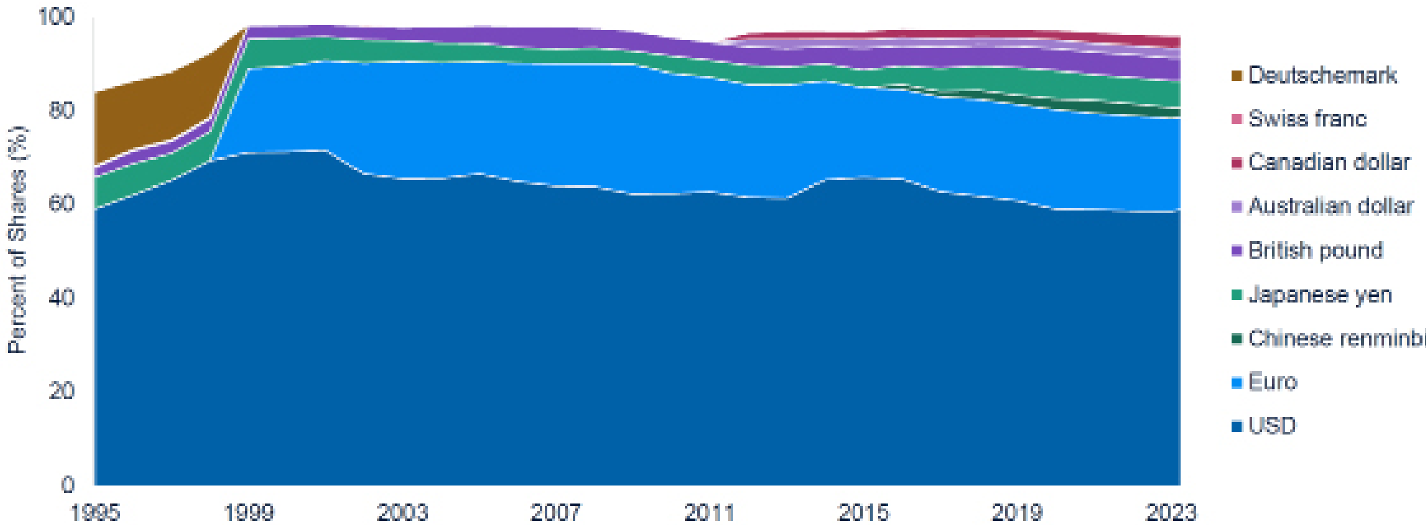
In a nutshell, the combination of poor liquidity and rapidly shifting narratives driving sentiment caused outsized yield moves in U.S. Treasuries. Some of these narratives involved hedge funds unwinding trades designed to profit from small price differences between cash Treasuries and futures contracts, as well as foreign holders of Treasuries selling their positions.

But the real reason that Treasury yields have been so volatile is that the Treasury Department issued approximately USD 2.3 trillion in new debt annually from 2020 through 2024. At the same time, regulators have not allowed bond dealers to expand their balance sheet market-making capacity. This has created a situation that is the rough equivalent of funneling the traffic on a busy four-lane highway into only one lane.

For now, it appears that the worst of the situation may have passed, but volatility in Treasury markets is here to stay. Taking a step back, it's important to understand the interconnection between the U.S. trade deficit and the financial account surplus. For the past four to five decades, the global economic order was structured so that the U.S. imported cheap goods, meaning that dollars were being exported globally.

The US's exorbitant privilege

(Fig. 1) Share of Allocated Global Foreign Currency Reserves



As of 31 March 2024.
Source: Currency Composition of Official Foreign Exchange Reserves (COFER), International Financial Statistics (IFS), International Monetary Fund (IMF).

These dollars served as the basis for the majority of trade transactions, global central bank reserves, and financial transactions globally, which underpinned the U.S. dollar's reserve currency status. This was further supported by the rule of law and the sheer depth and breadth of U.S. financial markets. These dollars were then recycled back into the U.S. in the form of a financial account surplus.

Consequently, the U.S. announcement about curbing its current account deficit has the super-secular potential to partially unwind the financial surplus that the U.S. has benefited from. We are monitoring this closely as it could have broad long-term implications for all U.S. assets. The U.S. Treasury market, where almost a third is held by investors outside the U.S., could be meaningfully affected over the secular horizon (See Fig. 1).

Could heightened volatility prompt a policy response?

The Federal Reserve can make tweaks to help market functioning, but the central bank is unlikely to start buying Treasuries through quantitative easing—as it did in March 2020—unless there is an outright breakdown in market structure. These relatively minor adjustments are likely to include changes to the dynamics of the standing repo facility (SRF) to widen timing or collateral acceptance to ease funding issues.

Keep in mind that the Fed also needs to maintain its independence from politics in dealing with the ramifications of the Trump administration's tariffs.

What is the condition of the plumbing that underpins bank funding?

Bank funding pressures are building amid the market volatility, but we are not seeing signs of stress along the lines of those that appeared at the onset of the pandemic in early 2020. Secured funding rates (SOFR and tri-party repo) have moderated from their quarter-end levels and remain only slightly elevated relative to longer history. Part of the increase is due to the ever-growing financing needs of primary dealers, whose holdings account for a growing percentage of all bank reserve balances.

On the positive side, sponsored repo has grown significantly. The Fed's SRF remains unutilized, although shortened hours of operation and the lack of small banks on the approved counterparty list can also be limiting factors. Bank commercial paper spreads have been well behaved, staying much lower than their levels following the regional banking crisis in 2023. Similarly, advances from the Federal Home Loan Banks (FHLB) have increased only marginally.

Looking across banks by size, the large banks have allowed liquidity to run at the lower end of their historic range. More positively, small banks have shored up liquidity ahead of tax season, when they tend to see more volatility in cash balances.

What indicators are you monitoring for signs of further liquidity deterioration or bank funding stress?

Treasury auctions are critical to watch for signs of faltering demand, and we agree that problems selling new issues—even with meaningful yield concession—would be a negative signal.

Looking beyond the Treasury market, credit markets have been relatively orderly as of early April, although new corporate bond issuance has almost ground to a halt. We're closely watching data on outflows from credit exchange-traded funds (ETFs) and institutional credit funds. A rush to exit these products could drive a liquidity freeze in credit markets that could then lead to even more selling pressure on Treasuries to raise cash.

In the bank funding markets, we're monitoring primary dealer holdings as a percentage of reserves and the use of backstop lending facilities like the SRF. Sudden upticks in FHLB funding demands would also indicate elevated stress levels in bank funding.

T. Rowe Price Brings Global Retirement Capabilities to APAC

Michael Davis
Head of Global Retirement Strategy, T. Rowe Price

Key Insights

- T. Rowe Price aims to bring the firm's global expertise and full suite of retirement capabilities to investors in Asia Pacific, including postretirement solutions.
- We believe target date retirement strategies have significant growth potential in APAC. Target date funds adjust the asset mix over time via an automatic glide path.
- T. Rowe Price is the third largest provider of target date funds globally. These currently account for around 30% of the firm's total AUM.

T. Rowe Price is widely recognized as a leader in the retirement savings industry. We are noted for our strong commitment in pursuit of compelling retirement outcomes that meet the evolving needs of plan providers and plan participants. With a commitment to helping individuals and households to prepare for, save for, and live comfortably in retirement, T. Rowe Price offers a comprehensive suite of capabilities designed to address the complexities of retirement planning and income solutions. Approximately two-thirds of the firm's assets under management (AUM) are comprised of retirement strategies. Additionally, we are the largest active target date manager globally and we provide defined contribution plan recordkeeping services for 2.4 million participants across more than 8,000 different retirement plans (Fig. 1).

A key highlight of T. Rowe Price's capabilities is our innovative approach to retirement income solutions. The firm has developed a patent-pending five-dimensional (5D) framework that provides a comprehensive method for understanding and quantifying the unique preferences and needs of investors post-retirement. This framework helps decision-makers evaluate retirement income solutions by considering factors such as longevity risk, level and volatility of income payments, and liquidity. By incorporating these critical attributes, T. Rowe Price helps clients to make informed decisions that align with their individual retirement goals.

In 2024, T. Rowe Price achieved several milestones, including surpassing USD1 trillion in retirement assets and launching innovative tools and services,

T. Rowe Price Is A World Retirement Leader

(Fig. 1)

2/3 Total firm AUM that are retirement-related	**#1** Largest active target date manager in the world[1]	**2.4m** Retirement Plan Services participants across 8,000+ plans
20 years Average tenure of clients above $750m in target date solutions	**20+** Years of T. Rowe Price Target Date	**2019** Launched first in-plan retirement income solution

Sources: T. Rowe Price.
[1] Sway Research, The State of the Target-Date Market 2024. Excludes assets in "custom" products.
As of 30 September 2024.
Figures shown in US dollars.

such as a proprietary tool for personalized, tax-aware retirement drawdown strategies and a managed payout investment strategy paired with a deferred annuity insurance product. The firm has also increased its retirement focus within the APAC region, providing retirement provision solutions across the region. We aim to bring the firm's global expertise and full suite of retirement capabilities to investors in APAC. Our diversification, personalization, and postretirement solutions can help to better prepare an aging APAC population for retirement.

Challenges in the retirement landscape include the increasing median age and the decline in the working-age population, which erodes the sustainability of national retirement systems. Improved diversification may provide distinct benefits for many of these retirement systems and that benefit extends beyond basic strategic asset allocation to include additional asset classes and sectors, and may also involve mixing active and passive elements, or combining multi-asset solutions with post-retirement annuities. We see personalization in APAC retirement schemes as a growing trend, with the potential to improve retirement outcomes by taking into consideration factors such as wealth, income, education, and an individual's risk tolerance. T. Rowe Price sees potential benefit for APAC retirement systems to integrate personalization into their retirement solutions, leveraging advances in technology and data to enhance each participant's retirement journey. The firm has seen similar benefits in the U.S. and therefore launched a personalized retirement solution, in the U.S., tailoring investment allocations based on individualized retirement preferences.

A leader in active target date funds

We believe that target date retirement strategies are an area with significant growth potential in APAC. Target date funds (TDF) automatically adjust the asset mix according to a selected time path this is judged to be appropriate for a particular investor. For workers who are early in their working career, a relatively high share devoted to risky assets, notably equity, may be appropriate. But for older workers approaching retirement age, whose ability

> " We see personalization in Asian retirement schemes as a growing trend.

to bear risk is less, fixed income assets should account for a larger share of their retirement fund. T. Rowe Price is the third largest provider of target date funds (TDF) globally.[2] These currently account for around 30% of the firm's total AUM.[3] T. Rowe Price is one of the largest providers of actively-managed TDF strategies, offering a range of solutions tailored to meet diverse retirement client needs. For many individuals, investing in a TDF within a retirement plan will often be their primary retirement holding as they prepare for retirement, making it critically important.

Active TDF management is typically associated with a higher equity share within the portfolio. Our research and investment experience supports a higher equity share and our experience is that such an allocation is more supportive of the greater longevity rates being experienced around the world, and especially in Asian countries. Over time, we have seen our competitors evolve closer to our position favoring a higher equity allocation within a TDF strategy. Within the U.S. retirement industry, the average level of equity in a TDF has increased by around 10 percentage points over the last twenty years (T. Rowe Price estimate, as of 31 December 2024). There is an increased level of recognition that designing retirement portfolios for increased longevity rates suggests a greater allocation to growth assets and thus a higher equity share.

In addition to fully active portfolios, T. Rowe Price also offers blended retirement strategies, which combine both active and passive components. The blended sector is gaining traction in the U.S. and has been experiencing faster growth compared to purely active or passive TDF strategies. T. Rowe Price's blended design maintains a good balance between active and passive management, particularly in equity and fixed income allocations, which gives greater potential for excess performance. T. Rowe Price has gained the prestigious Gold Morningstar Medalist Rating for the

> "Active TDF management is typically associated with a higher equity share within the portfolio."

Key 2024 global retirement milestones

(Fig. 2)

MARCH
- T. Rowe Price crossed $1 trillion in retirement assets
- Launched a proprietary tool that creates highly personalized, tax-aware retirement drawdown strategies

JUNE
- Released the patent-pending 5-Dimensional Framework

SEPTEMBER
- Launched a personalized service, pairing a Target Date with a Managed Account investment solution
- Sponsored and presented at the ERISA[4] 50th Symposium

OCTOBER
- Launched a managed payout investment paired with a qualified longevity annuity contract investment

NOVEMBER
- Launched Canadian Target Date product
- Presented at the Global Fiduciary Symposium in Tokyo
- Finalized T. Rowe Price's Global Retirement Principles

For illustrative purposes only. This is not intended to be an offer or solicitation of any of these products.
Sources: T. Rowe Price.
As of 31 December 2024.
Figures shown in US dollars.

[2] Source: T. Rowe Price estimate. As of 30 September 2024.

[3] Firmwide AUM and combined target date portfolios include assets managed by T. Rowe Price Associates, Inc. and its investment advisory affiliates as of 31 December 2024.

[4] Employee Retirement Income Security Act of 1974.

T. Rowe Price Retirement Funds–I Class and Retirement Blend Trust Series.[5]

Future trends in target date retirement funds

Decumulation is likely to be the next major development in TDF. It is a natural extension of the TDF concept to also offer a decumulation path for investors to thoughtfully derive income from their retirement assets. In the U.S., it is becoming more common for sponsors to want to keep participants in their plan after age 65, rather than simply see them roll out of the plan into an investment portfolio on their own. Age 65 is an important threshold age since it marks a transition for many individuals as they go from working and saving their assets to retirement and drawing their assets down. If you still have 20 to 25 years left in terms of life expectancy after retirement, then you're still going to need a meaningful level of growth potential in your portfolio to fund your later needs in retirement.

In the U.S., T. Rowe Price also offers solutions like managed payout strategies and managed lifetime income strategies, which provide participants with a paycheck-like experience in retirement. These solutions aim to provide retirees with a sustainable income stream while also addressing growing longevity risk. The aim is to gradually spend down assets accumulated over their working years in order to fund living expenses in retirement, while managing risks such as longevity and inflation, avoiding excessive drawdowns and a resulting shortage of assets.

The managed payout strategy provides a mechanism to create a stream of income for a participant of roughly 5% that pays out on a monthly basis. It is fully liquid and there is no additional fee. On reaching retirement age, a participant has the ability to move their assets into the managed payout solution and starts to receive a regular income payment from the plan. The managed payout strategy is designed to create an income stream that is sustainable throughout retirement. This strategy does not provide an embedded guarantee like an annuity. Some plan sponsors and participants may prefer the insurance protection offered by an annuity and for them we offer a managed lifetime income strategy. This strategy embeds a third party insurance component in the form of a deferred annuity that starts making payments 15 years after retirement.

To conclude this section, the U.S. retirement industry is seeing growing interest in guaranteed options and the integration of insurance products such as annuities into TDF solutions. To meet these requirements, T. Rowe Price continues to evolve its retirement offerings, reflecting our commitment to increased personalization and goal-driven investment processes.

Conclusion

T. Rowe Price's global retirement capabilities are characterized by a deep commitment to optimal retirement outcomes, innovative solutions, and a personalized approach to retirement planning. With a robust global presence, thoughtful partnerships, and a focus

> “T. Rowe Price is well-positioned to navigate the complexities of the global retirement landscape...”

[5] **For illustrative, informational purposes only. The information shown above refers to the U.S. investment products which are not registered for sale outside the U.S., and this information is not intended to be a solicitation for these products. There is no guarantee that the same performance will be achieved in the future or in other products/vehicles/structures.**

Past performance is no guarantee or a reliable indicator of future results.

Morningstar Medalist RatingTM Analyst-Driven % for Retirement, Retirement Blend, and Target are 100%, 100%, and 55%, respectively. Data Coverage % for Retirement, Retirement Blend, and Target are 100%, 100%, and 100% respectively.

Gold Ratings also apply to certain classes of the Retirement Trusts. The Retirement Blend Funds, Investor Class, certain other classes of the Retirement Trusts, and the Target Funds--I Class are rated Silver. The Retirement Funds, Investor Class and Target Funds, Investor Class are rated Bronze. Ratings for the Retirement and Retirement Blend Series as of 30 December 2024, and Target Series as of 30 November 2024. The Retirement Hybrid Trusts are not rated. Medalist Ratings for other classes may differ.

See Morningstar Rating Disclosure page for more information and this Morningstar sourcing information.

on research and innovation, T. Rowe Price is well-positioned to navigate the complexities of the global retirement landscape and strive to deliver tailored solutions that meet the diverse needs of retirement savers worldwide, including clients in APAC. Within APAC, we expect a rapidly evolving retirement landscape that will require innovation and education to enable plan sponsors and participants to navigate the complexities of wealth accumulation, decumulation and inheritance planning. We believe T. Rowe Price's thoughtful strategy design and commitment to delivering strong solutions positions us well to meet future retirement challenges.

MORNINGSTAR RATING DISCLOSURE

The Retirement Trusts classes D, E, G, H, J, and K are Gold and the Retirement Trusts classes A, B, C, and F are Silver as of 30 December 2024.

The Morningstar Medalist RatingTM is the summary expression of Morningstar's forward-looking analysis of investment strategies as offered via specific vehicles using a rating scale of Gold, Silver, Bronze, Neutral, and Negative. The Medalist Ratings indicate which investments Morningstar believes are likely to outperform a relevant index or peer group average on a risk-adjusted basis over time. Investment products are evaluated on three key pillars (People, Parent, and Process) which, when coupled with a fee assessment, forms the basis for Morningstar's conviction in those products' investment merits and determines the Medalist Rating they're assigned. Pillar ratings take the form of Low, Below Average, Average, Above Average, and High. Pillars may be evaluated via an analyst's qualitative assessment (either directly to a vehicle the analyst covers or indirectly when the pillar ratings of a covered vehicle are mapped to a related uncovered vehicle) or using algorithmic techniques. Vehicles are sorted by their expected performance into rating groups defined by their Morningstar Category and their active or passive status. When analysts directly cover a vehicle, they assign the three pillar ratings based on their qualitative assessment, subject to the oversight of the Analyst Rating Committee, and monitor and reevaluate them at least every 14 months. When the vehicles are covered either indirectly by analysts or by algorithm, the ratings are assigned monthly. For more detailed information about these ratings, including their methodology, please go to global.morningstar.com/managerdisclosures/.

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Investing in Emerging Markets Equity

Key Insights

- There are a number of ways to access the investment opportunities offered by EM equities, such as a core, style, or regional building block approach.
- Our study focused on the monthly historical returns of the median manager in the eVestment EM equity database from January 2007 to December 2024.
- No one approach is consistently superior to another. An active EM manager needs to be skilled in stock selection, country, style and factor allocation.

Wenting Shen
Solutions Strategist and Portfolio Manager, Global Multi-Asset Team

Nathan Wang
Senior Solutions Analyst, Global Multi-Asset Team

Chester Cheng
Solutions Analyst, Global Multi-Asset Team

In a series of research papers, Wenting Shen, Nathan Wang and Chester Cheng from T. Rowe Price's Global Multi-Asset Team discuss the investment case for emerging markets (EM). In this paper, they look at EM equity, historically the EM asset class that first attracted the attention of international investors.

Core, style and regional EM access

Traditionally, there have been a number of ways for international investors to access the opportunities offered by the EM equities, such as via a core, style, or regional building blocks approach. A straightforward way is to invest via EM core managers. In this case, the regional and sector calls are left in the hands of external EM managers.

Another popular approach is to invest in EM equities through a style lens. By tilting between growth and value stocks within the portfolio, investors can seek opportunities to add alpha versus a broad EM equities benchmark. This can be a sound approach for experienced investors with a strong conviction over style factors.

A third common approach is to invest by EM sub-regions: Asia; Europe, the Middle East and Africa (EMEA); Latin America (LatAm). Given the different return and risk drivers operating in different regions, tilting the EM portfolio among the regions on a tactical basis may generate excess returns.

The purpose of this study is to examine the empirical evidence regarding the effectiveness of the above three approaches. Our universe consists of all EM equities managers in the eVestment

T. Rowe Price's investing approach

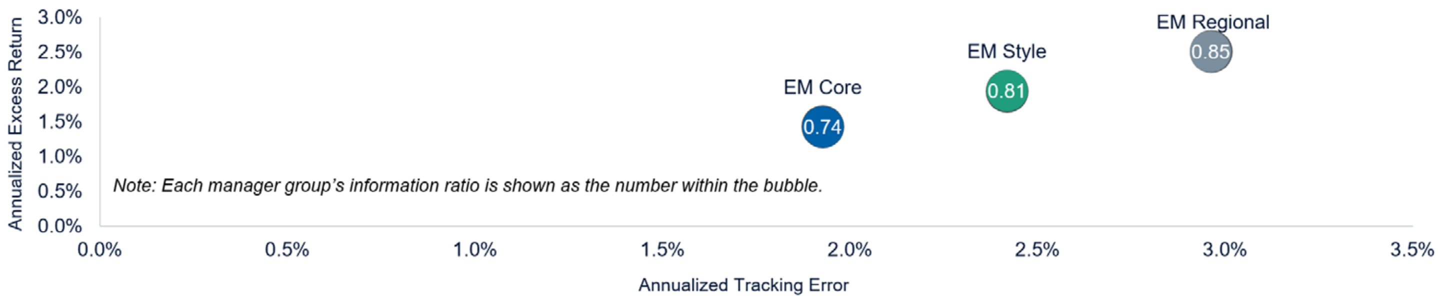
At T. Rowe Price, we don't stop at surface-level analysis, drawing on the size and depth of our global research organization to pursue opportunities across asset classes, sectors, geographies, and styles.

We focus on pursuing greater returns over long time horizons and take a proven and repeatable approach to carefully manage risk and pursue investment opportunities.

EM Core had the lowest excess return and track error

(Fig. 1) Excess return vs. tracking error

	5 Years		10 Years		Full Period	
	Excess Return	Tracking Error	Excess Return	Tracking Error	Excess Return	Tracking Error
EM Core	1.3%	1.9%	1.2%	1.9%	1.4%	1.9%
EM Style	1.7%	2.8%	1.5%	2.4%	1.9%	2.4%
EM Regional	2.7%	2.4%	3.0%	2.8%	2.5%	3.0%



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Hypothetical results were developed with the benefit of hindsight and have inherent limitations. Hypothetical results do not reflect actual trading or the effect of material economic and market factors on the decision-making process. Results do not include management fees, advisory fees, trading costs, and other related fees. Results have been adjusted to reflect the reinvestment of dividend and capital gains. Actual results experienced by investors may vary significantly from the hypothetical illustrations shown.
Data: Excess return and tracking error annualized versus MSCI EM Index gross of fees.
Sources: T. Rowe Price, eVestment and Bloomberg.
For the period of 01 January 2007 through 31 December 2024. Figures are calculated in USD.
The analysis period starts in January 2007 to ensure there were more than one manager under each eVestment emerging markets equity manager category at any point in time.

database over a 18-year period from January 2007 through December 2024.[1] The study includes 216 core managers, 70 growth managers, and 58 value managers. When filtered by EM sub-region, there are 13 Asia managers, 32 EMEA managers, and 26 LatAm managers.

Historical emerging market returns dataset

The historical return series of a median EM equity manager was constructed by calculating the median monthly returns of all managers in the relevant eVestment universe, starting from January 2007. For the style portfolio, we constructed a 50/50 portfolio consisting of a median growth and a median value manager. In constructing the regional portfolio, we allocated weights to a median EM Asia manager, a median EM EMEA manager and a median EM LatAm manager based on their respective regional weights in the MSCI EM Index over time. One limitation of this approach is that, in reality, no single manager would always be ranked at the median consistently every month. Thus, an investor's actual return experience would have differed significantly from the median return.

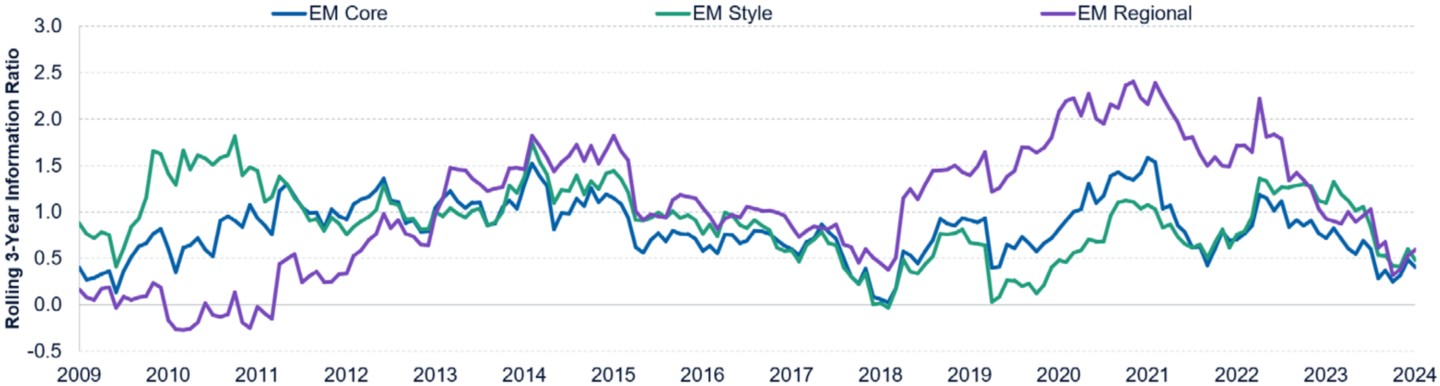
Based on the median EM managers' track record, compared to the core portfolio, the style and regional portfolios generated higher excess returns at the cost of higher tracking errors (See Figure 1). To reduce the potential impact from the selection of sample end point, we looked at the rolling 3-year information ratio (IR) of the median portfolios over the same back-testing period. Figure 2 shows that the EM core strategy had a more stable 3-year rolling IR than either the EM style or EM regional portfolio over the sample period. The style and regional EM equities portfolios had higher information ratios than the core EM portfolio during 55.8% and 71.8% of the time, respectively. Thus, on a risk-adjusted basis, the style and regional portfolios looked more attractive as measured by the information ratio, with an average rolling 3-year IR of 0.90 and 1.05 compared to 0.81 for the core.

To validate the conclusion above, we analyzed the factor sensitivities of the three median EM equity portfolios over the sample period to see if the differences in performance could be attributed to the three portfolios' distinct factor profiles (Figure 3). All three median portfolios showed balanced factor profiles. The style portfolio showed a modest bias toward small-cap stocks, while the regional portfolio was slightly biased toward names with higher valuation and lower beta. None of these biases were regarded as being large enough to have a significant bearing on performance.

[1] The data analysis period starts in January 2007 in order to ensure that there was more than one manager under each EM equity manager category at each point in time.

EM Core had more stable IR than EM Style and EM Regional

(Fig. 2) Rolling 3-year information ratio



	EM Core	EM Style	EM Regional
Average Rolling 3-year Information Ratio	0.81	0.90	1.05

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Data: Excess return and tracking error annualized versus MSCI EM Index gross of fees.
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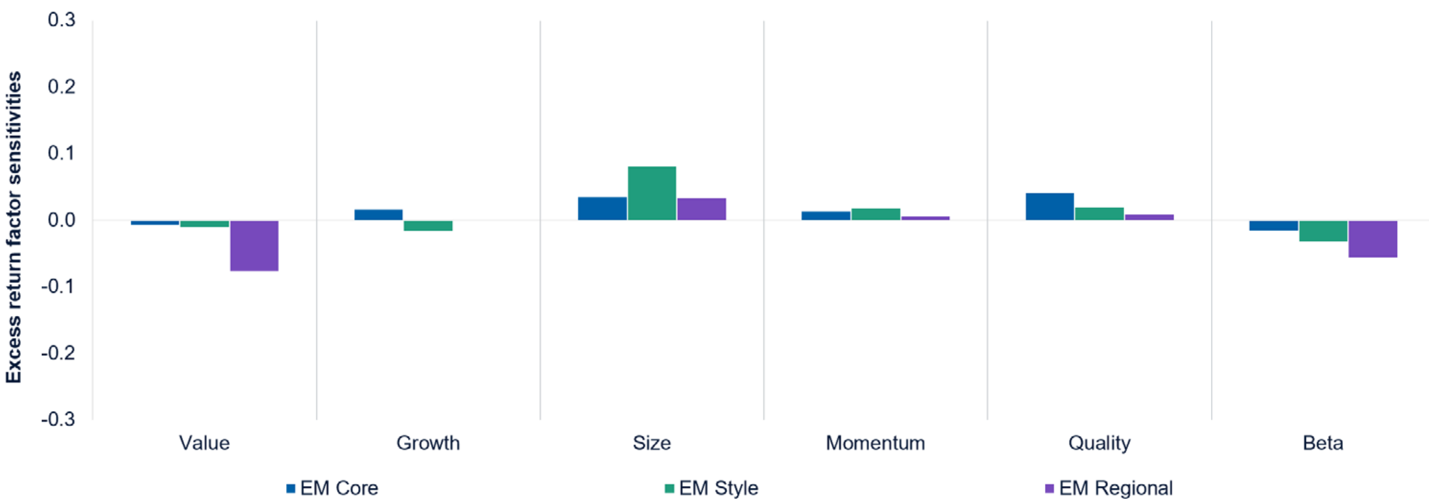
For the period of 01 January 2007 through 31 December 2024. Figures are calculated in USD.
The analysis period starts in January 2007 to ensure there were more than one manager under each eVestment emerging markets equity manager category at any point in time.

Factor sensitivities showed balanced profiles

(Fig. 3) Excess return factor sensitivities



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The analysis period starts in January 2007 to ensure there were more than one manager under each eVestment emerging markets equity manager category at any point in time.

EM equity performance with TAA country shifts

In addition to returns generated by underlying EM equity managers, seasoned investors with strong conviction could earn extra alpha by dynamically tilting their allocations between styles, sub-regions, and single countries. Among the different levers of tactical asset allocation (TAA) calls, historical data points to country rotation within EM as having the highest potential for delivering alpha. To gauge the potential for significant country selection alpha, Figure 4 shows the annual return differences between the best and the worst performing EM countries over time. Return divergences between EM regions and styles are also given in Figure 4, and these were much less prominent than the return spreads for countries.

However, tactically adjusting allocations to individual markets within an EM equities portfolio presents a challenging task. The top and bottom three performing EM countries over 2007 to 2024 are shown in Figure 5 (returns in US dollars). EM country returns have varied notably from year to year (low autocorrelation), with countries often switching from top three in one year to bottom three in the subsequent year.

As an example, T. Rowe Price's quantitative EM Country Rotation Model seeks to identify the most and least attractive EM equity markets using four broad categories of metrics: macro, macro financial, fundamental, and sentiment. Each month, the model 'longs' the five most attractive EM equity markets and 'shorts' the five least attractive markets. An illustrative model ranking for 31 December 2024 is shown in Figure 6. The long and short country positions were scaled to target 15% annualized portfolio volatility. Since the start of the back-test in February 1999, the model delivered a Sharpe Ratio of 1.1 and an attractive annualized return of 20.4% (Figure 7).

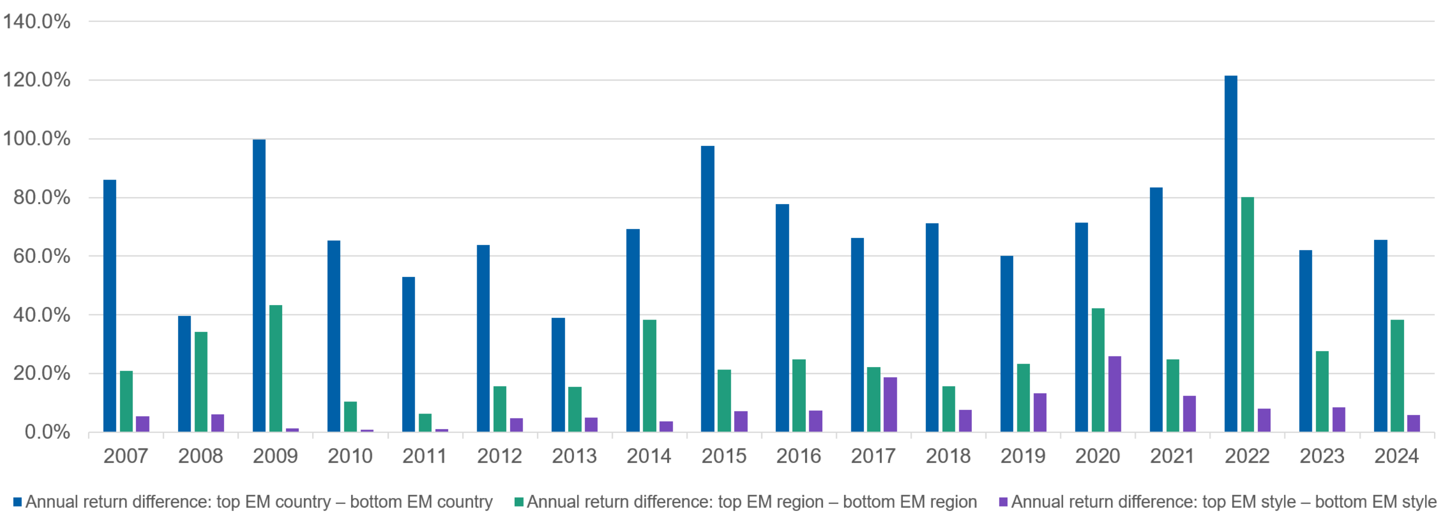
Compelling as the back-test result appears, the actual implementation of dynamic country rotation introduces new challenges:

- Liquid country index ETFs are not always available. They are missing in the case of Czechia, Egypt, Greece, Hungary, Kuwait, Peru, Qatar, and the United Arab Emirates.
- The expense ratios of EM single country ETFs are high: on average, we estimate that EM single country ETFs charge an expense ratio of 67 basis points. This is only a touch lower than that of an actively-managed EM equity fund.
- Liquid country index futures are not always available, as in the case of Colombia, Czechia, Hungary, Egypt, Turkey, Greece, Peru, and the Philippines.
- At times, it could be hard to find reliable broker counterparties for EM country index total return swaps.
- Moreover, TAA investors would often need to allocate to countries with small index weights, increasing the practical implementation difficulties.
- Managing direct security EM country portfolios can also be operationally difficult.

To illustrate the impact of these constraints, if we were to implement the EM Country Rotation Model by employing liquid country index ETFs only, the Sharpe ratio would have dropped to 0.6 and the annualized return fallen to 11.8% (Figure 8).

Country selection represents the largest TAA alpha potential

(Fig. 4) Annual return spreads



Past performance is not a reliable indicator of future performance.
Data: Total returns gross of fees.
Source: T. Rowe Price and Bloomberg.
For the period of 01 January 2007 through 31 December 2024. Figures are calculated in USD.

However, picking the winners can be difficult

(Fig. 5)

Top performing EM countries

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Top 1 (Best)	Peru	Colombia	Indonesia	Thailand	Indonesia	Turkey	Taiwan	Egypt	Hungary	Brazil	Poland	Qatar	Greece	South Korea	Czech Republic	Turkey	Hungary	Taiwan
Top 2	Turkey	Chile	India	Peru	Malaysia	Egypt	Egypt	Indonesia	India	Peru	China	Peru	Egypt	Taiwan	UAE	Chile	Poland	Malaysia
Top 3	India	South Africa	Turkey	Chile	Philippines	Philippines	Malaysia	Philippines	South Korea	Hungary	South Korea	Brazil	Taiwan	China	Saudi Arabia	Brazil	Greece	UAE
Total top 3 index weight	8.4%	1.8%	9.5%	3.3%	5.6%	2.2%	14.4%	3.3%	22.0%	6.1%	41.7%	7.8%	11.7%	57.7%	3.0%	4.6%	1.2%	18.6%

Bottom performing EM countries

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Bottom 3	South Africa	Indonesia	Malaysia	Egypt	Hungary	Chile	Chile	Poland	Turkey	Turkey	Mexico	South Korea	Qatar	Colombia	Brazil	Poland	Turkey	South Korea
Bottom 2	Hungary	Hungary	Poland	China	Turkey	Indonesia	Indonesia	Colombia	Brazil	Mexico	Egypt	South Africa	Malaysia	Brazil	Peru	South Korea	Kuwait	Mexico
Bottom 1 (Worst)	Colombia	Turkey	Egypt	Czech Republic	India	Czech Republic	Turkey	Hungary	Colombia	Greece	UAE	Greece	Poland	Egypt	China	Taiwan	Thailand	Brazil
Total bottom 3 index weight	9.7%	4.1%	5.3%	18.7%	9.9%	5.1%	6.4%	3.0%	11.5%	6.4%	4.5%	22.7%	4.8%	8.0%	44.5%	29.5%	3.8%	21.5%

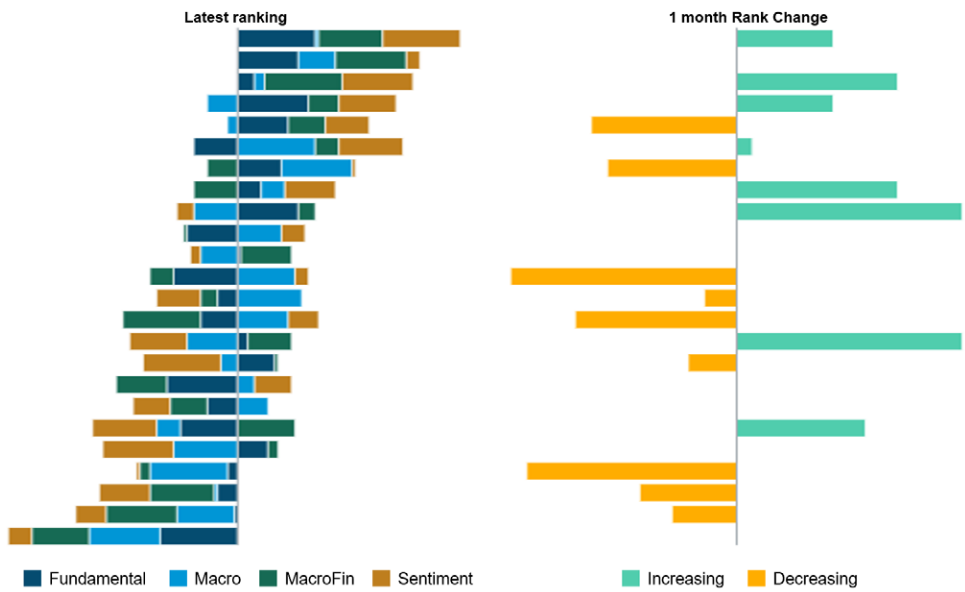
LatAm ME/A Asia Europe Eurozone

Past performance is not a reliable indicator of future performance.
Source: T. Rowe Price, MSCI (country indices) and Bloomberg.
For the period of 01 January 2007 through 31 December 2024. Figures are calculated in USD.

T. Rowe Price EM country rotation model

(Fig. 6) Illustrative model ranking as of 31 December 2024

Country	Rank	Region
Brazil	1	LatAm
United Arab Emirates	2	ME/A
Mexico	3	LatAm
Hungary	4	Europe
Colombia	5.5	LatAm
Czech Republic	5.5	Europe
Chile	7	LatAm
Egypt	8	ME/A
Kuwait	9	ME/A
Indonesia	10	Asia
Poland	11	Europe
Taiwan	12	Asia
China	13	Asia
Korea, Republic of	14	Asia
Qatae	15	ME/A
Greece	16	Eurozone
South Africa	17	ME/A
Malaysia	18	Asia
Saudi Arabia	19	ME/A
Peru	20	LatAm
Turkey	21	ME/A
Thailand	22	Asia
Philippines	23	Asia
India	24	Asia



For illustrative purpose only. This is not intended to be investment advice or a recommendation to take any particular investment action.
Source: T. Rowe Price.

T. Rowe Price EM country rotation model

(Fig. 7)

Annualized Return	Annualized Volatility	Sharpe Ratio	Maximum Drawdown	Beta to MSCI EM Index
20.4%	15.7%	1.1	-19.5%	0.1

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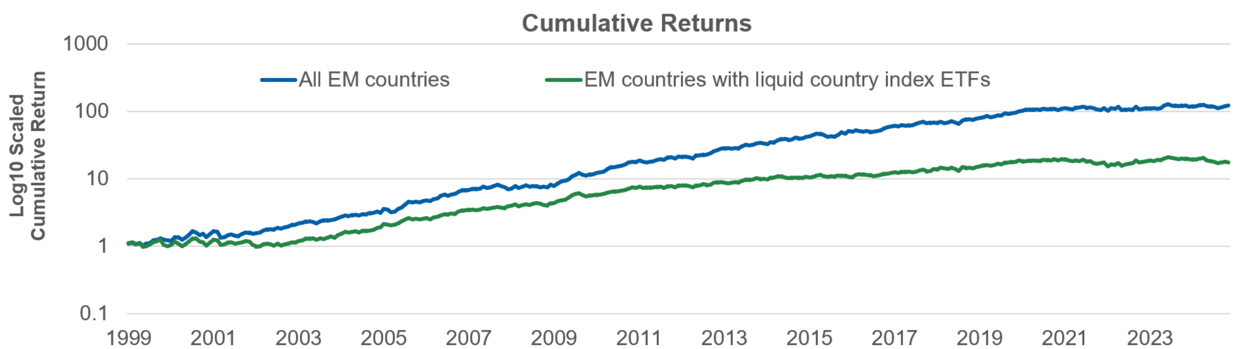
Data: Total returns gross of fees.
Source: T. Rowe Price.
For the period of 01 February 1999 through 31 December 2024. Figures are calculated in USD.
The performance data above reflects in-sample back-test from 01 February 1995 to 31 January 2020 and out-of-sample track record from 01 February 2020 to 31 December 2024.

T. Rowe Price EM country rotation model

(Fig. 8)

EM Models	Annualized Return	Annualized Volatility	Sharpe Ratio	Maximum Drawdown	Beta to MSCI EM Index
All EM countries	20.4%	15.7%	1.1	-19.5%	0.1
EM countries with liquid country index ETFs ^	11.8%	15.0%	0.6	-22.8%	0.1



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The performance data above reflects in-sample back-test from 01 February 1995 to 31 January 2020 and out-of-sample track record from 01 February 2020 to 31 December 2024.

Conclusion

There are many different approaches to investing in EM equities. As such, it is not possible to say one approach is consistently superior to another. Investors should make informed decisions based upon their alpha generation capabilities, tracking error budget and implementation constraints. It is also important to understand and leverage a third-party EM manager's active management skills as expressed through stock selection, country selection, or style and factor allocation.

Meet Vincent Chung

Portfolio Manager, Diversified Income Bond strategy, T. Rowe Price

BIOGRAPHY
Career

Vincent Chung is a portfolio manager in the Fixed Income Division. He is a vice president of T. Rowe Price Group, Inc., and T. Rowe Price International Ltd.

Vincent has 11 years of investment experience, 5 of which have been with T. Rowe Price. Vincent's investment career began in 2014, and he has been with T. Rowe Price since 2019, beginning in the Fixed Income Division. Prior to this, Vincent was employed by Observatory Capital Management LLP as an investment analyst, focusing on emerging market sovereign and corporate debt. Vincent also was employed by the Royal Bank of Scotland as an analyst in the markets division.

Professional & Education

Vincent earned an M.S., first-class honors, in physics from Imperial College London. Vincent also has earned the Chartered Financial Analyst® designation.

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Can you begin by telling us about your background? How did you come to pursue a career in asset management and what first brought you to T. Rowe Price?

At university I studied physics, I chose the subject because I was very interested in deriving how things worked in the world, and I thought physics would give me an insight into that. What attracted me to financial markets is, again, a problem although not an exact science. I liked thinking about how some companies succeed while others fail and then how countries manage to get resources and how they deploy it. I believe the mathematical nature of physics pulled me more towards the fixed income and currency markets over time. In physics, many things derive from first principles in trying to understand how the world works. Financial markets are not the same, though there are some underlying relationships which govern how they tend to work. So it's a bit like an 'augmented' version of physics, where there is a major difference in terms of the uncertainty of outcomes.

The uncertainty arises because the psychology of investor behaviour can very often have a major impact on how financial asset prices move through time. This is where the economics or finance diverge from the physical sciences. In asset management you face a much wider spectrum of outcomes compared to the more specific outcomes of classical physics. Arguably, you could say it's more similar to quantum physics, where you can have many outcomes.

Turning to what attracted me to T. Rowe Price, it was the ability to work at a truly global asset management company where I could learn and expand my product skill set. Prior to joining T. Rowe Price, I had spent a couple of years at a global credit hedge fund, working on emerging market corporate and sovereign credit. Moving to T. Rowe Price and working with the global multi-sector bond funds has allowed me to expand my skill set into both emerging and developed market rates, as well as into other DM credit.

A more rounded skill set has made me a better investor. It was also apparent to me that the liquidity in fixed income markets was changing, and one needed to have a more expansive skill set in those times when liquidity in certain asset classes could become quite constrained. For example, there are time when you may not be able to enter or exit a trade very easily within parts of emerging market credit.

As co-manager, can you tell us about T. Rowe Price's Diversified Income Bond strategy. Why might it be a good option for fixed income investors in today's volatile markets?

I am one of the co-portfolio managers of the Diversified Income Bond strategy together with Ken Orchard. Our aim is to deliver an attractive income stream over the full cycle, managing risk in such a way that our investors do not need to worry greatly about market timing. And so how do we go about doing that? Firstly, we look to manage actively both our duration and credit risk. We manage overall portfolio duration between 0 to 8 years. With exposure to global bond markets, we can take duration risks in different countries. This is an advantage in times like the present where there are divergences in monetary and fiscal policies among Developed Markets and Emerging Market economies.

In terms of credit exposure, we have experienced much shorter market cycles in recent years. So being able to be flexible in terms of asset allocation in credit is an advantage for the strategy. It's beneficial for our investors since they do not have to be actively managing their bond exposures in order to try to capture the alpha that's available at

different points in the bond market cycle. Lastly, in terms of the way that we take credit risk in the strategy, we do not impose structural overweights in certain asset classes. Rather, Ken Orchard and I are looking at what is the best risk reward that we see from our sector allocation process. At the macro level, we first ask "Is it a good time to take credit risk?" And if so, "Which asset classes do we want to take that credit risk in?"

We have five sector PMs who cover securitized debt, emerging market credit, corporate credit, investment grade and mortgage backed securities. So we allocate a portion of capital to each sector PM, while also giving them guidance in terms of what we would like to see in the sleeve to manage overall risk, for example in terms of energy credits. There is flexibility with regards to where sector PMs deploy their capital, meaning it is very much a collaborative process. Sector PMs have the important task of funnelling the best ideas from T. Rowe Price's bottom up analysts to the global multi-sector strategies like Diversified Income Bond strategy.

We saw some sharp initial moves in U.S. Treasury yields following President Trump's tariff announcements. Might this also create opportunities for investors in non-US bond markets?

Investors today are more interested in fixed income strategies that are able to invest globally, because the opportunity set is quite wide in terms of country selection. Before we talked about the importance of credit issues - selecting the right sectors within fixed income and within each sector, selecting the right securities. I believe that today picking the right duration exposure within each sovereign bond market is very important. The tariff uncertainties are not uniformly distributed, and some non-U.S. bond markets are currently behaving more like a safe haven asset than others. Also, the prospect of greater divergence in monetary policies is creating opportunities for capital gains for fixed income investors with a global mandate.

The short term impacts coming from President Trump's tariffs will be inflationary for the U.S. economy and likely deflationary for the rest of the world. Chinese goods exports to America will likely be rerouted via different countries where possible.

It also brings into question the longer term implications as to whether international investors who hold significant amounts of U.S. Treasury bonds will reconsider their exposure. Countries which have a stronger net international investment position than the U.S. and more conservative fiscal policies, such as Germany and Sweden, may see firmer demand for their bonds internationally. This could extend to those Asian countries where there has been a build-up of credibility over time, especially those countries that have been able to manage their monetary policy and exchange rates successfully.

Congressional Budget Office projections show exceptionally high US fiscal deficits over the medium term. How worried should bond investors should be that we might see a secular rise in yields?

We are currently seeing an increased scrutiny of the U.S. Treasury market by investors because of the increased policy uncertainty in the U.S., where tariffs and fiscal prospects are clearly interconnected. Some have gone as far as to question the continuing role of U.S. government bonds as a preferred 'safe haven' asset for many global investors. In April during the tariff turmoil, the correlation breakdown that we saw between the dollar, Treasuries and U.S. risk assets has increased investor scrutiny. The sharp spike in the 10-year U.S. yield as the dollar fell after the 2 April Liberation Day tariff announcement is a key reason why investors may not want all of their duration exposure to be in the U.S. bond market.

Fiscal discipline will definitely remain one of the key concerns for market participants in 2025. Many would say that the Federal budget deficit in the U.S. is too high for this stage of the economic cycle, for an economy that had been doing well and which was seen to be close to full employment by mainstream economists. Why is this so important? If the U.S. economy is about to enter a tariff-driven downturn, as a growing number of analysts now seem to expect, is there sufficient fiscal space for the Trump government to take offsetting stimulus? And if fiscal stimulus is required, what will be the projected deficits over the medium term starting from a CBO baseline which is already around 6% of GDP.

Any additional fiscal impulse could create even more worrying dynamics in terms of how quickly the U.S. Federal debt is expected to grow. How the government tackles the next economic slowdown – which could arrive later this year - will be very important. The greater the fiscal spend, the more investors will demand a higher risk premium, leading to rising U.S. bond yields. The other side of the U.S. fiscal problem is that it could also lead to increased inflation pressures further down the line. I believe we are already living in a world where trend inflation is higher than during the post-GFC norm. And in the event that high U.S. tariffs accelerate a structural breakdown in global trade, then this kind of supply-side shock also points to higher inflation over the medium term.

The U.S. tariff threat has led to a rise in both short- and long-term inflation expectations. Are markets exaggerating the inflation risk from what may be more of a one-off adjustment in the price level?

While import tariffs in the short term are expected to impart a one-off shock to the price level, the other side of the argument discussed above is that loose budget policies over the medium term could lead to rising inflation pressures.

After the COVID years, many governments seem prepared to issue more debt with increased reliance on fiscal spending. In the near term the concern of U.S. investors is that inflation will be higher in the next couple of years, boosted in 2025 by higher import tariffs. In the longer term, it is quite possible that the widespread adoption of AI will boost productivity and lower costs, creating deflationary pressures. But that development could be longer term.

Given how election cycles have worked in the past and how economic policies have recently become more populist, it's difficult to imagine scenarios where a U.S. government tightens fiscal policy significantly in order to contain inflation, raising taxes as well as cutting spending. President Trump has signalled a strong desire to cut public spending while simultaneously cutting taxes. That is the intention, but whether the DOGE (Department of Government Expenditure) can trim government spending enough to finance meaningful tax cuts seems an open question. Also, if the proposed spending cuts are backloaded, they are less certain to be delivered under what could be a different government. So I think it's hard to make a case that the U.S. budget deficit is going to shrink materially in the next couple of years, which is likely to maintain a degree of pressure on government bond yields.

Lastly, Vincent can you please share with us some of your personal interests. How do you relax outside work?

I have a young child of eighteen months, so most of my time outside of work is spent with my family. I especially like taking my young son to places that hopefully will pique his interest in the world around him. I have always liked museums, and in London we have so many to choose from such as the Science Museum and the Natural History museum, with its world-famous exhibition of dinosaur skeletons.

And in terms of my own interests, when I get the time one of my key hobbies is scuba diving. What's interesting for me about diving is that it puts you into a state which is vulnerable. You have to think carefully about the completely different environment that you are in. Night diving, for example, is a completely different experience compared to normal daylight scuba diving. You feel very vulnerable because it is almost pitch black. However, on the positive side, it opens up another silent world of nocturnal marine activity.

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Baltimore, USA in 1937

USD1.57
trillion in assets under management[1, 2]

806
investment professionals worldwide[3]

Local presence in
17
markets

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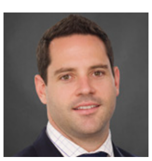

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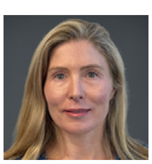

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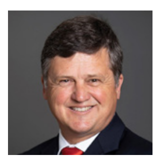

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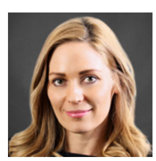

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[1] Firmwide AUM includes assets managed by T. Rowe Price Associates, Inc. and its investment advisory affiliates. Preliminary data. Subject to adjustment.
[2] As at 31 March 2025.
[3] As at 31 March 2025.

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