



Global Market Environment

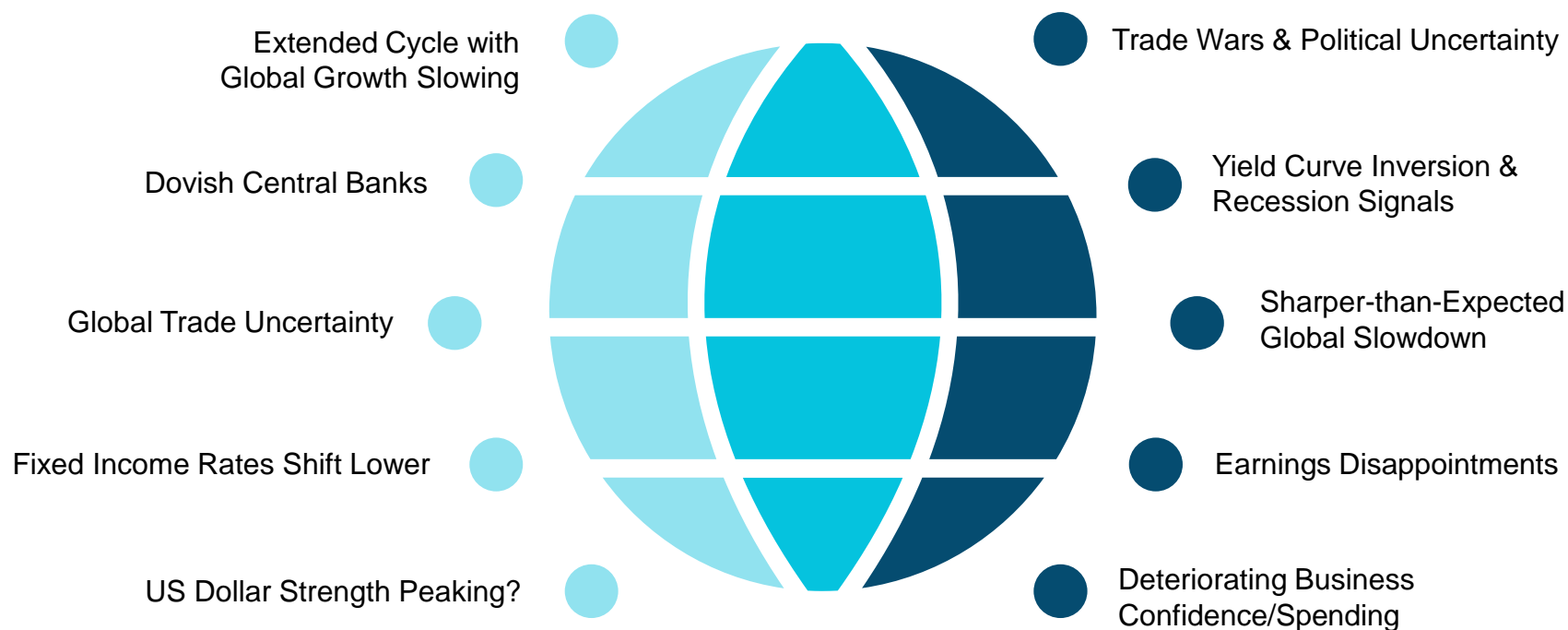
Second Quarter 2019



Market Themes and Risks

Market Themes

Market Risks



Global Market Environment

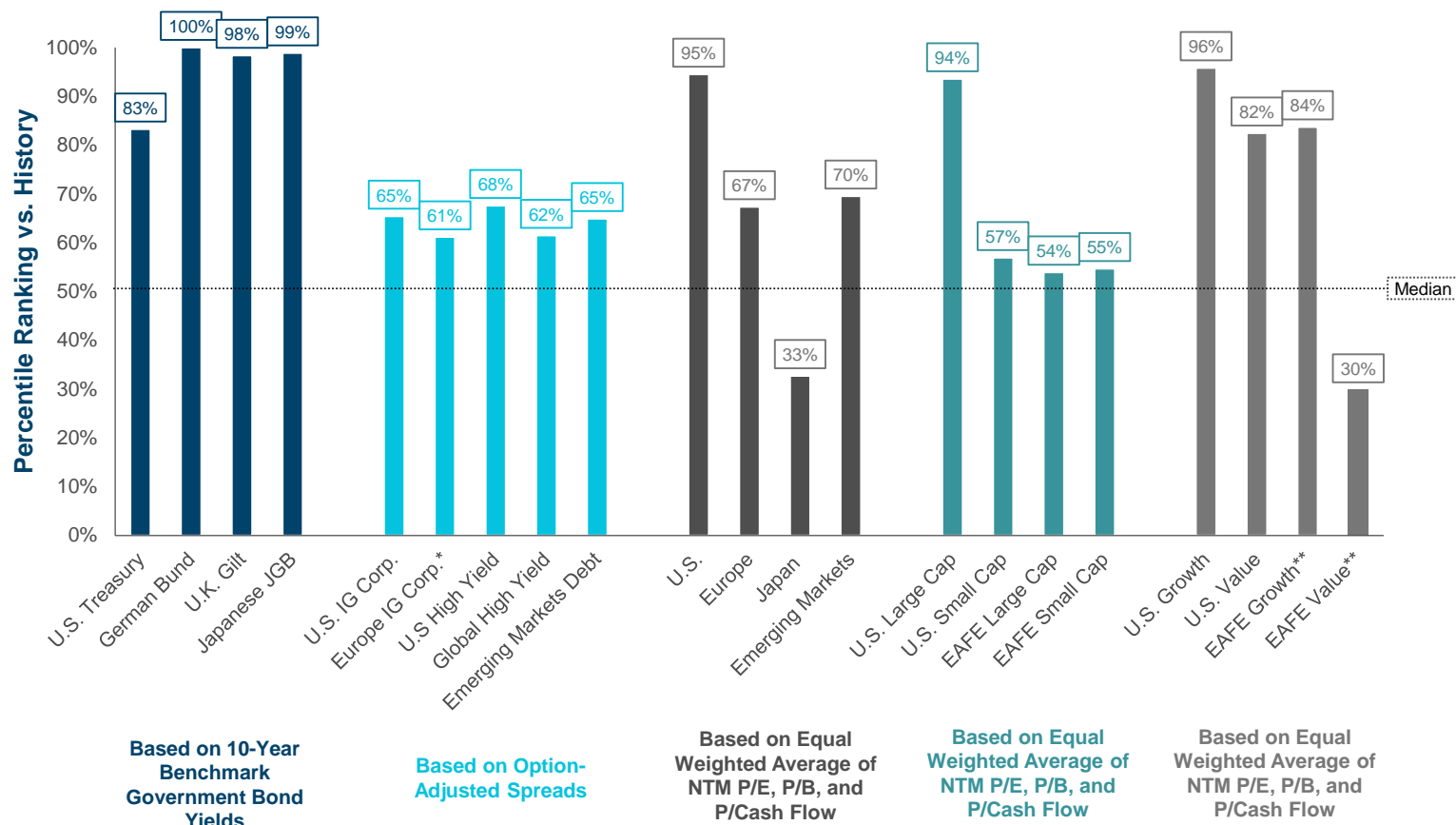
- U.S. Treasuries have rapidly become more expensive, but remain cheaper than other sovereign options
- U.S. Equity valuations remain elevated, particularly large-cap and growth stocks
- Valuations have become more reasonable in select equity markets, but these markets are heavily weighted toward structurally challenged sectors

Valuation Comparisons



VALUATION COMPARISONS

Percentile Rankings vs. Past 15 Years, As of 30 June 2019



*Only includes November 30, 2004 to present due to data availability **Does not include P/Cash Flow due to data availability

Indices used, from left to right above, beginning with U.S. IG Corp.: Bloomberg Barclays U.S. Investment Grade Corporate, Bloomberg Barclays Euro Aggregate Credit, Bloomberg Barclays U.S. Aggregate Credit – Corporate High Yield, Bloomberg Barclays Global High Yield, Bloomberg Barclays Emerging Markets USD Aggregate, MSCI USA, MSCI Europe, MSCI Japan, MSCI Emerging Markets, S&P 500, S&P 600, MSCI EAFE Large Cap, MSCI EAFE Small Cap, S&P 500 Growth, S&P 500 Value, MSCI EAFE Growth, MSCI EAFE Value

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Global Market Environment

What is next for equity markets?

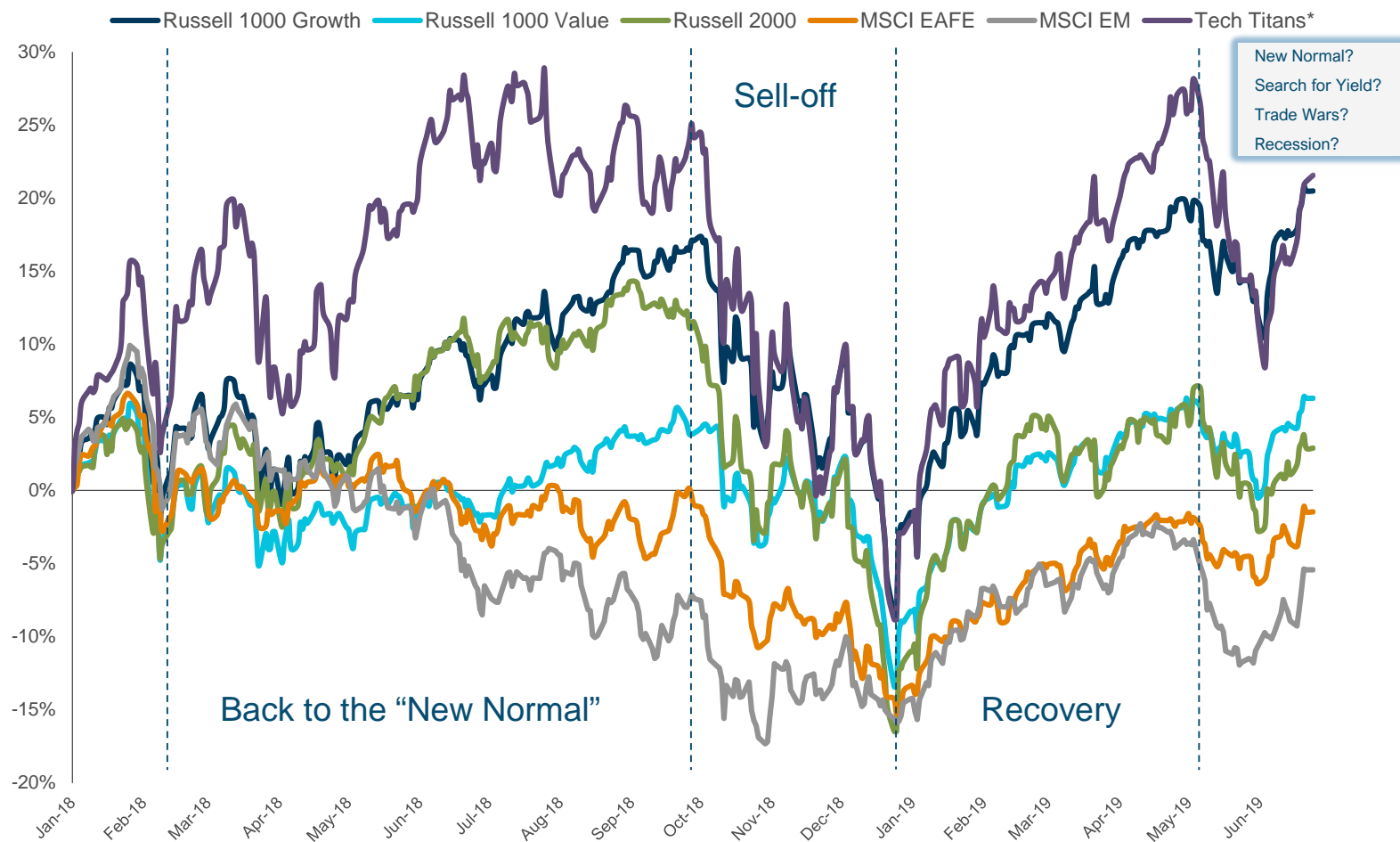


- After a “round trip” for equity markets in October through April, **a new narrative has yet to emerge.**

- Will we see a return to the “New Normal” narrative (slow but steady growth with low inflation) that has dominated the majority of the current economic expansion?
- Will the drop in interest rates drive a renewed interest in high dividend yields?
- Will markets continue to react sharply to developments in U.S.—China trade negotiations?
- Will rising recession fears cause another sharp sell-off? Or does the market believe central bank actions will extend the cycle?

EQUITY MARKET PERFORMANCE

1 January 2018 to 30 June 2019



Past performance is not a reliable indicator of future performance.

*Equal weighted basket of Facebook, Amazon, Apple, Netflix, Google, Microsoft, Baidu, Alibaba, and Tencent

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Source: MSCI. See Additional Disclosures on slide 30.

Global Market Environment

Global Growth

Global growth has been deteriorating since the beginning of 2018, with the global manufacturing PMI rapidly approaching contraction territory. Will we see stabilization in 3Q19 or a further deterioration?

Fed Expectations

Futures market expectations for Fed Funds has moved dramatically from November to June. Markets believe the Fed is about to embark on a series of rate cuts.

Political Uncertainty

Political uncertainty continues to reach new levels, with numerous unique drivers, including trade tensions, Middle East tensions, Brexit, the U.S. Presidential Election, tech regulation, Italian budget concerns, and E.U. leadership changes.

China Stimulus

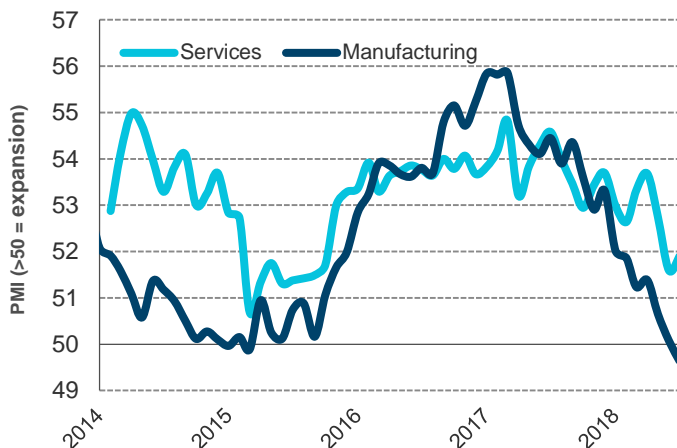
As in 2015-16, China has enacted economic stimulus measures. However, this round has thus far been more muted and more domestically-oriented. The impact of these measures will have on both Chinese and global growth remains unclear.

What are the main drivers of market volatility?

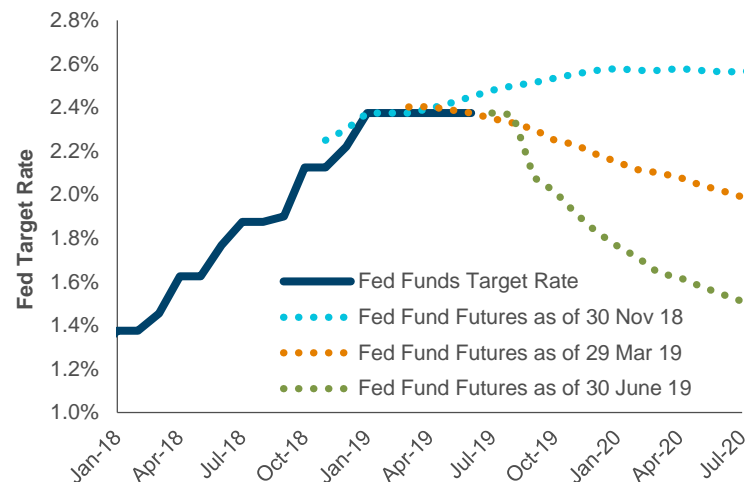


GLOBAL GROWTH CONCERNS

Global PMI's, December 2014 to June 2019

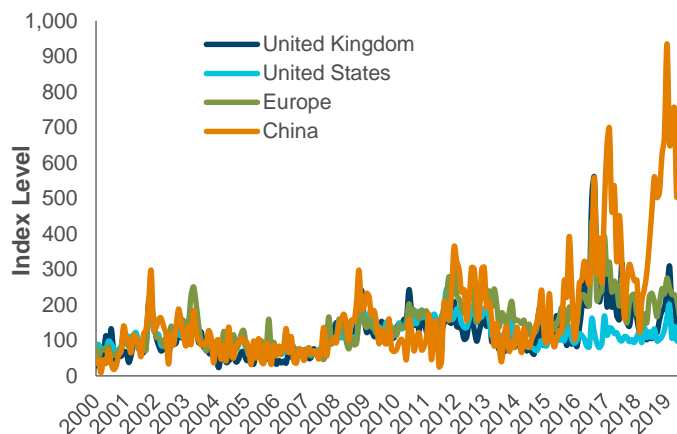


SHIFTING FED EXPECTATIONS



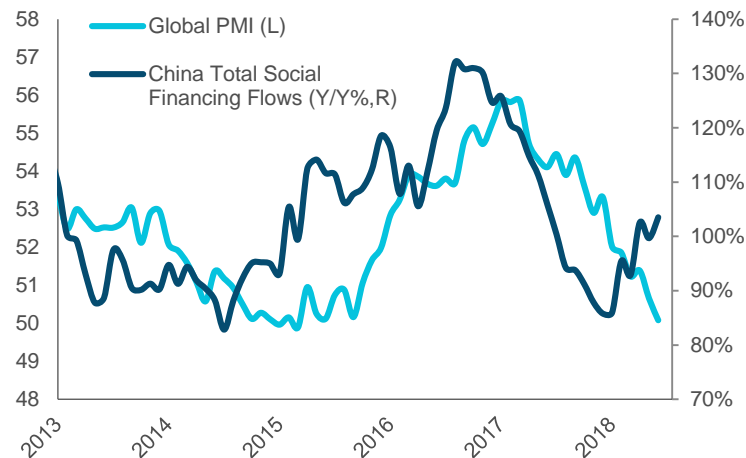
POLITICAL UNCERTAINTY

Economic Policy Uncertainty Indices, January 2000 to May 2019



CHINA STIMULUS

December 2013 to June 2019



Sources: T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved., www.policyuncertainty.com, Haver Analytics/JP Morgan/IHS Markit, People's Bank of China.

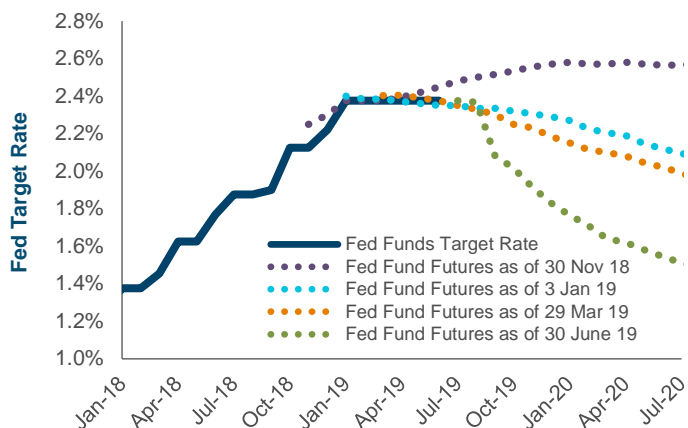
A dovish turn by the Fed



- Fed expectations have been falling sharply since mid-December despite no actual change to the Fed Funds rate.
- Charmain Powell has sent increasingly dovish signals about the Fed's willingness to be more proactive with monetary stimulus, given a (thus far) limited threat from inflation.
- The FOMC's forward projections of the future Fed Funds rates (aka "the Fed Dot Plot") have also shifted lower.
- If the futures market is correct, the current target rate of 2.25 to 2.50%, will mark the high point for this Fed cycle.

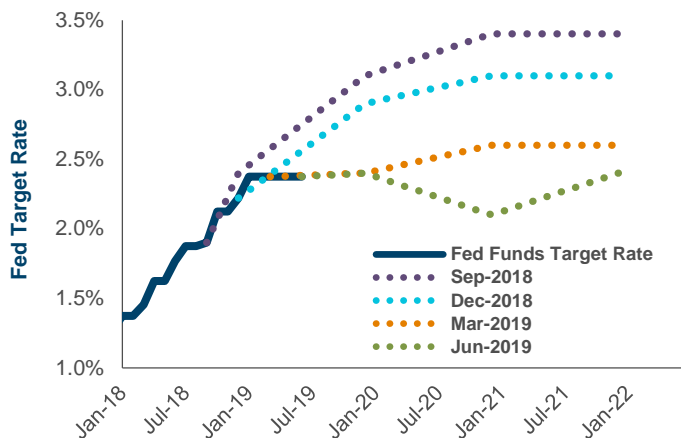
FUTURES MARKET EXPECTATIONS

January 2018 – June 2019



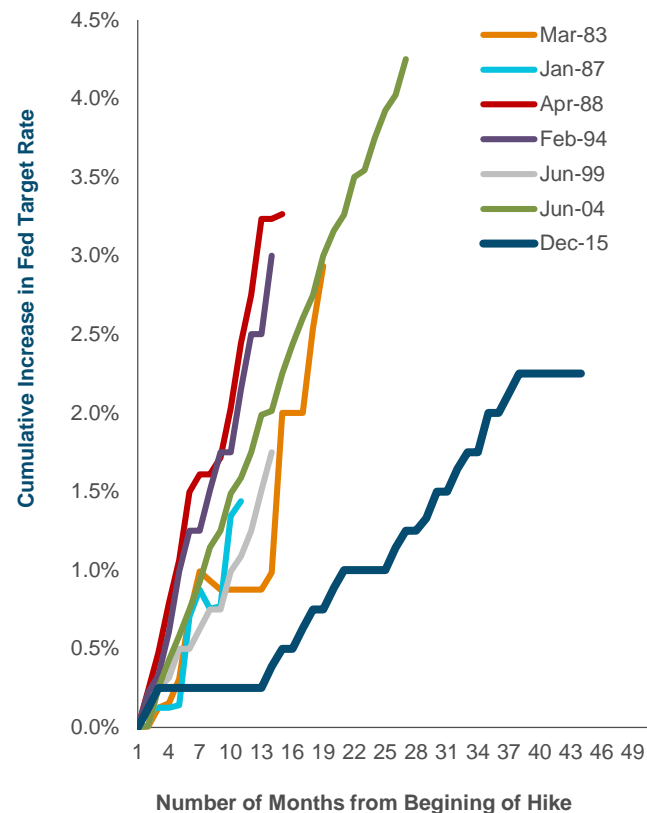
FOMC PROJECTIONS

January 2018 – June 2019



A COMPARISON OF FED HIKING CYCLES

March 1983 – June 2019



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Sources: T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved. Haver Analytics/Federal Reserve Board.

Global Market Environment

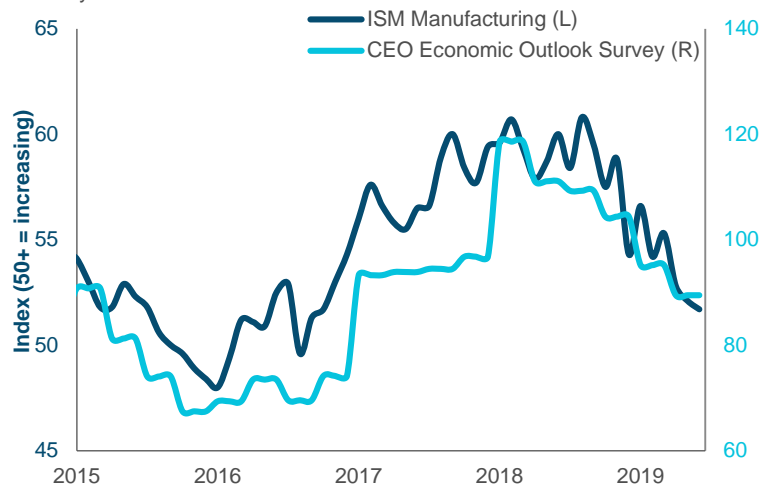
- Forward looking and high frequency economic data indicate a sharply slowing economy both in the U.S. and globally.
- While most economists do not expect a recession in the near term, recession risks are clearly rising.

Global Growth Stalling



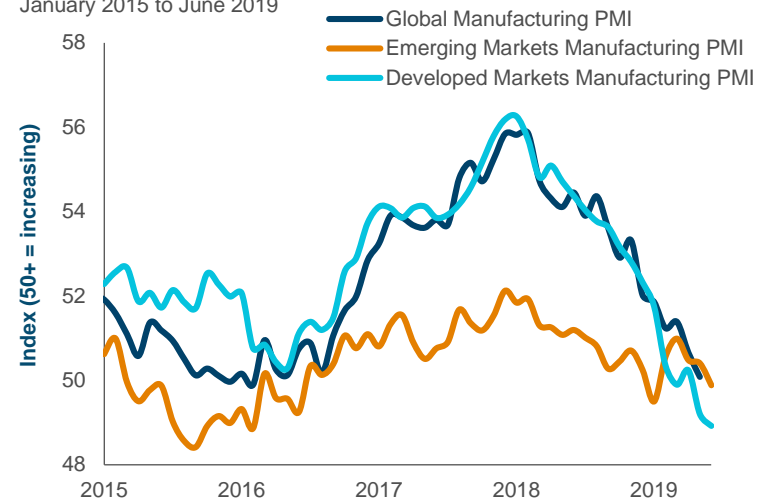
U.S. ECONOMIC CONDITIONS DETERIORATING

January 2015 to June 2019



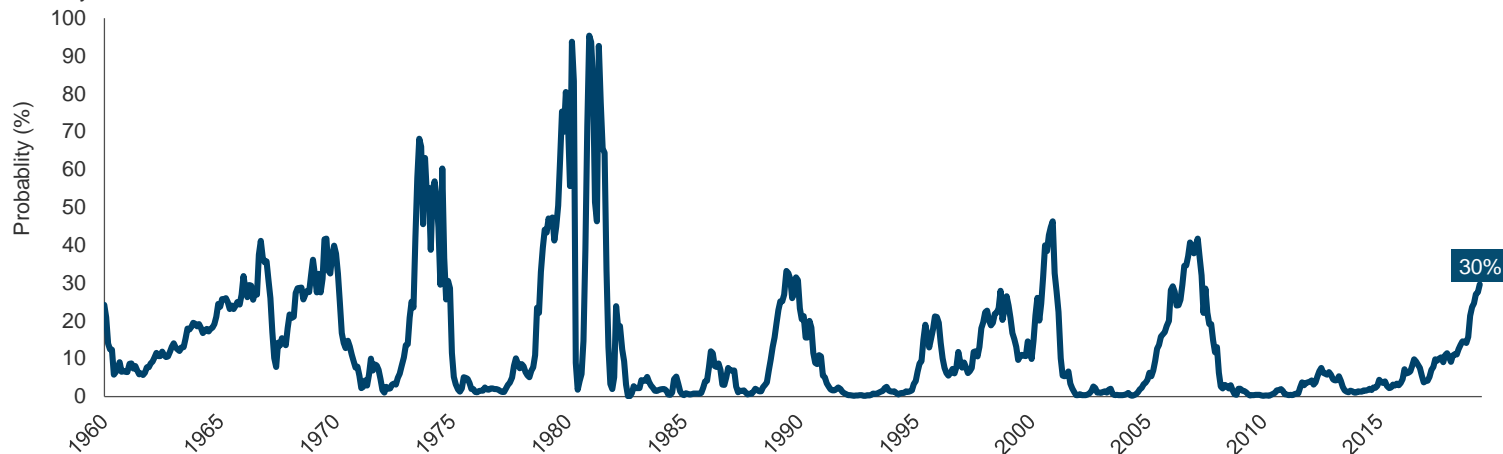
GLOBAL ECONOMIC CONDITIONS DETERIORATING

January 2015 to June 2019



U.S. RECESSION PROBABILITY, NEXT 12 MONTHS

Based on the Treasury Spread (Per the Federal Reserve Bank of New York)
January 1960 to June 2019



Sources: Haver Analytics/JP Morgan/IHS Markit, Business Roundtable, Federal Reserve Bank of New York.

Global Market Environment

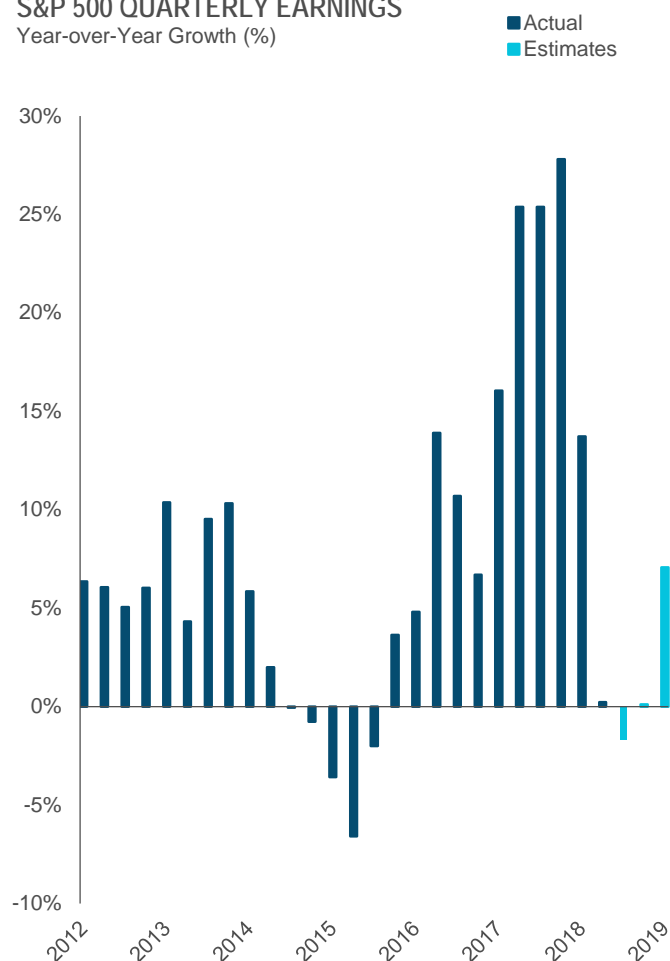
Earnings Outlook Deteriorating



- Earnings growth estimates for 2019 have deteriorated in concert with economic data.
- S&P 500 growth estimates for 2019 remain positive, but this is heavily reliant on a strong 4Q19.
- Estimates for markets outside of the U.S. have fallen further as these markets are more cyclically sensitive and more reliant on trade.

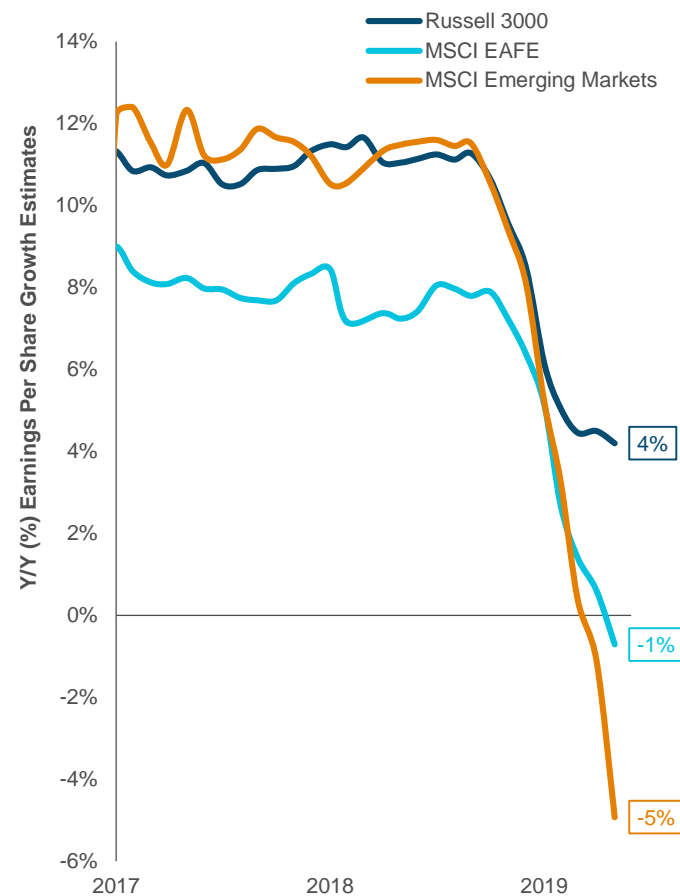
S&P 500 QUARTERLY EARNINGS

Year-over-Year Growth (%)



2019 EPS GROWTH ESTIMATE PATHS

1 January 2017 30 June 2019, in U.S. Dollars



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Source: MSCI. See Additional Disclosures on slide 30.

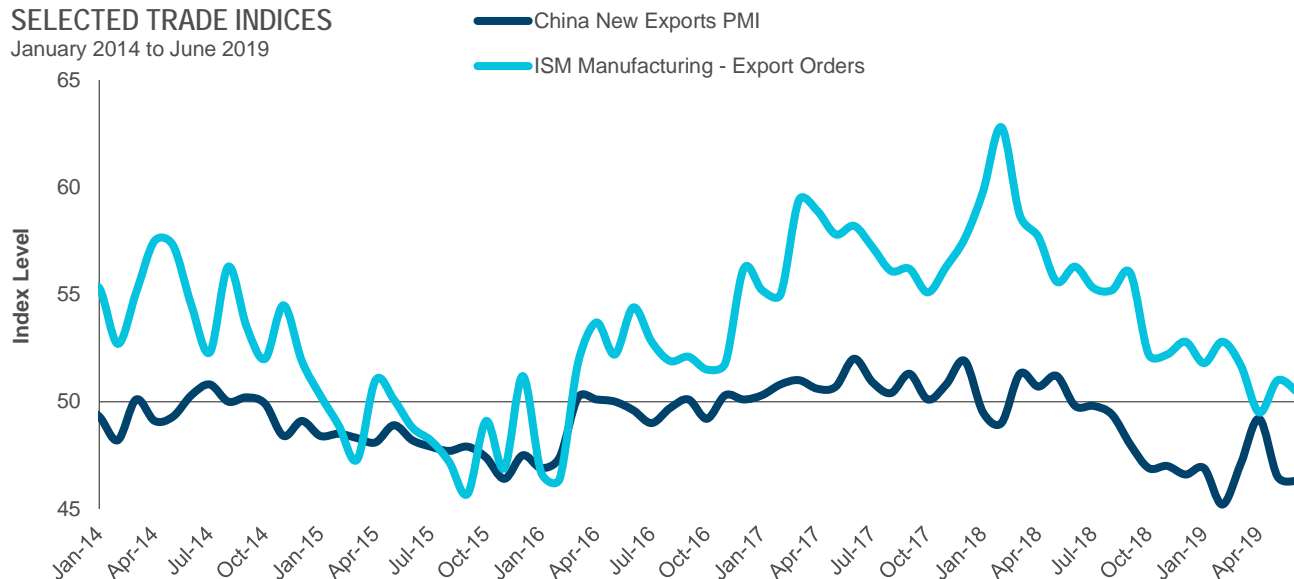
Will global trade stabilize?



- Global trade weakened significantly in the latter half of 2018 amid aggressive trade negotiations between the U.S. and its major trading partners.
- Will the G20 truce between the U.S. and China be enough to spark an acceleration in trade? While the truce agreement was a step in the right direction, significant uncertainty remains.

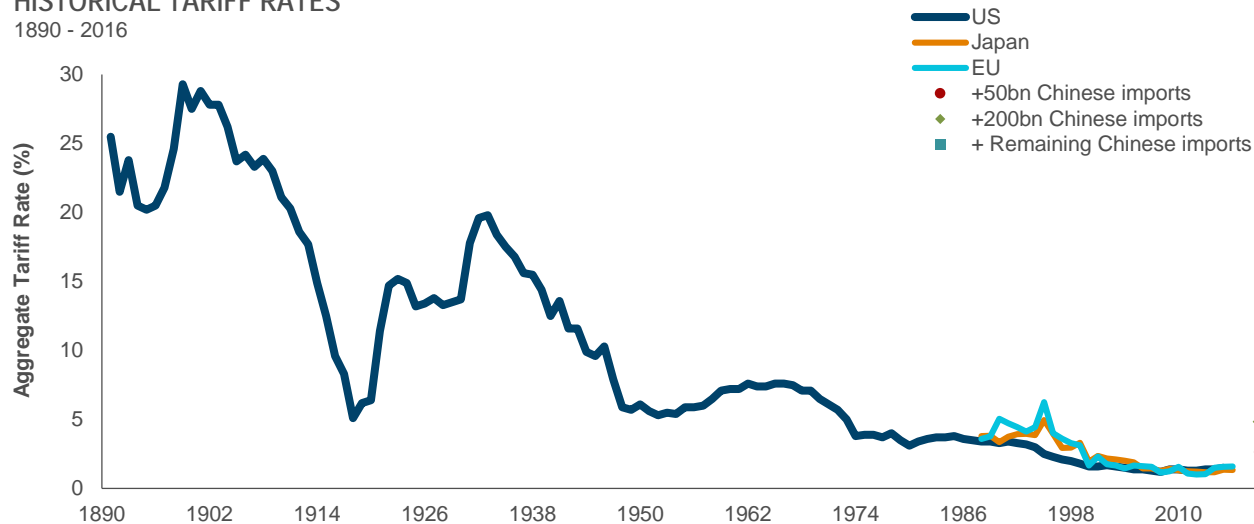
SELECTED TRADE INDICES

January 2014 to June 2019



HISTORICAL TARIFF RATES

1890 - 2016



Sources: U.S. Federal Reserve Board, European Central Bank, Bank of Japan/Haver Analytics, Absolute Strategy Research



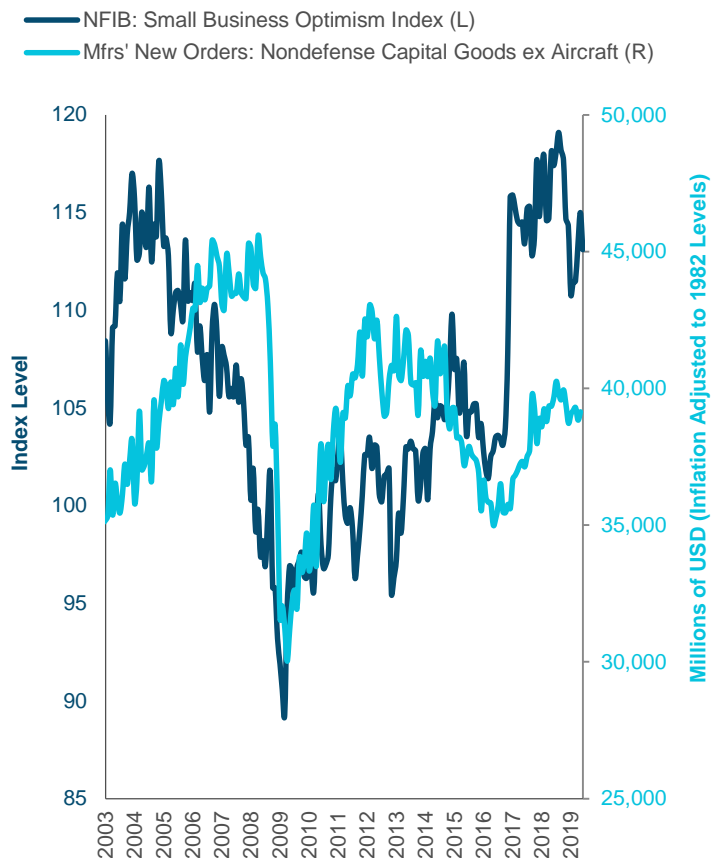
Global Market Environment

- Political uncertainty continues to be a significant factor in both the economic and market outlook.
- Optimism in the U.S. among both small business owners and CEOs increased dramatically following the election of Donald Trump, presumably due to promises of business friendly policies.
- Thus far this optimism has resulted in an increase in business spending, but one that is more modest and gradual than the increase in confidence would normally have engendered—presumably due to the level of uncertainty about future regulatory conditions and trade policy.
- The resurgence of populism has abruptly reshaped global politics over the past few years, but what it means for economic growth and financial assets has yet to become clear. With Brexit looming and Eurosceptic parties rising in popularity, the stability of the European Union remains in question.

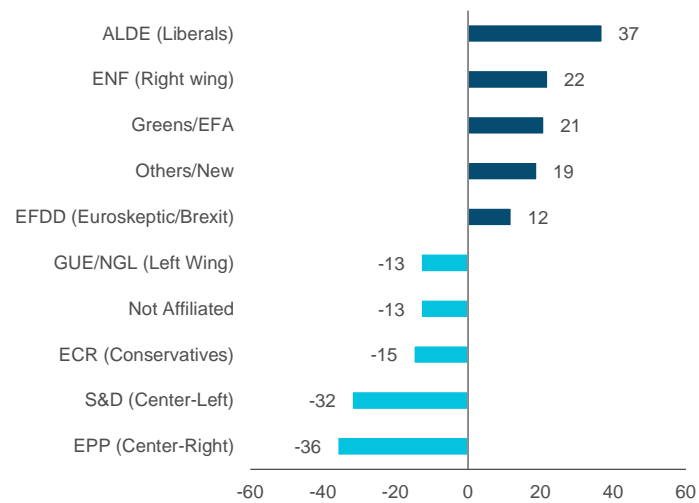
Political Uncertainty

SMALL BUSINESS OPTIMISM VS. CAPITAL SPENDING

31 January 2003 to 30 June 2019

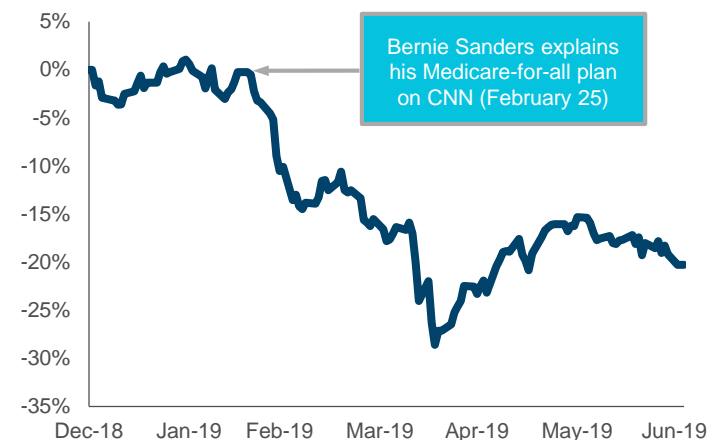


2019 EUROPEAN PARLIAMENT CHANGE IN SEATS



PERFORMANCE OF S&P 500 HEALTH CARE PROVIDERS & SERVICES RELATIVE TO S&P 500

YTD as of 30 June 2019



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Sources: T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved. European Union (<https://election-results.eu>) Haver Analytics/National Federation of Independent Business, The Conference Board.



Is it “different this time”?

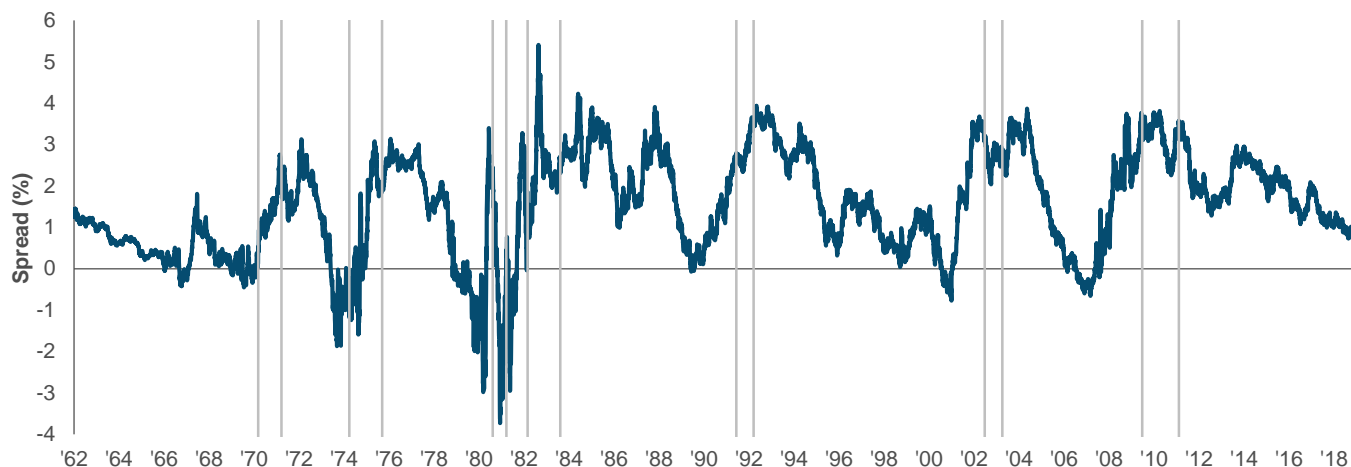
- An inverted yield curve (3 months vs. 10 years) has preceded each of the last seven recessions
- But three inversions have not been followed by recessions
- Lead times between inversion and recession have been in the range of 8 to 22 months

Notable differences in this inversion:

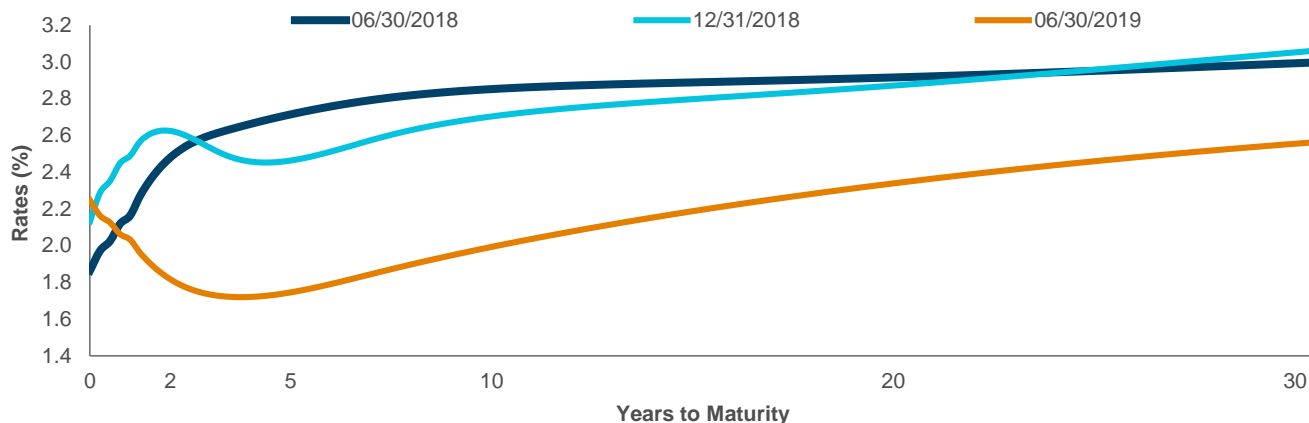
1. Driven by a Fed pause rather than a hike
 2. Limited to the front part of the curve (2 year vs 10 year not inverted)
- While inversion has often signaled a recession, underlying economic fundamentals (including credit spreads) are currently less concerning

US TREASURY YIELD CURVE (3 MONTH VS. 10 YEAR)
1 January 1962 through 30 June 2019

|| Gray lines denote recession beginning and end



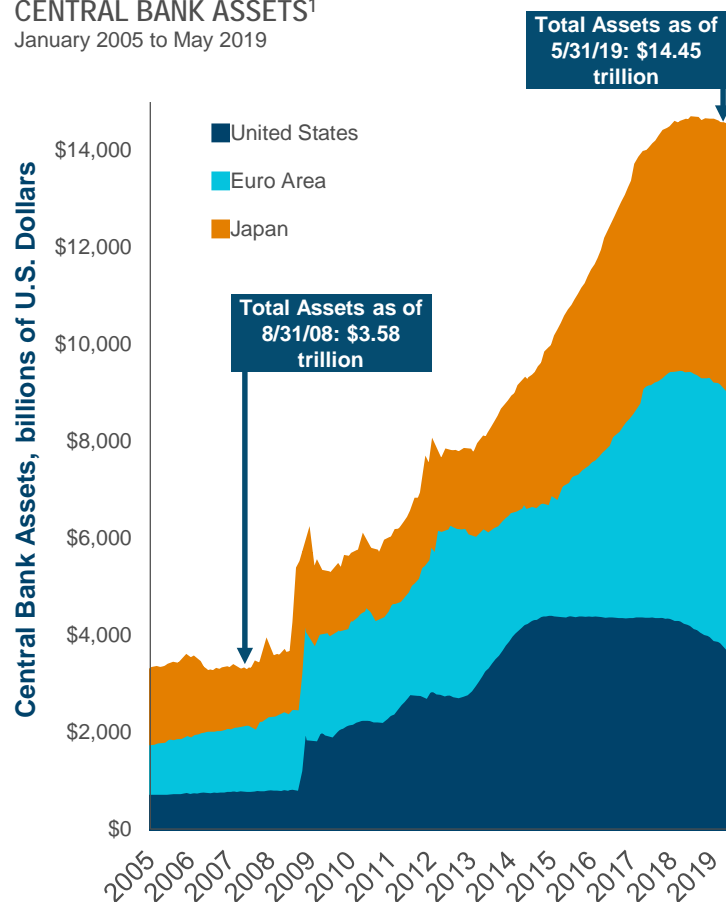
U.S. TREASURY YIELD CURVES





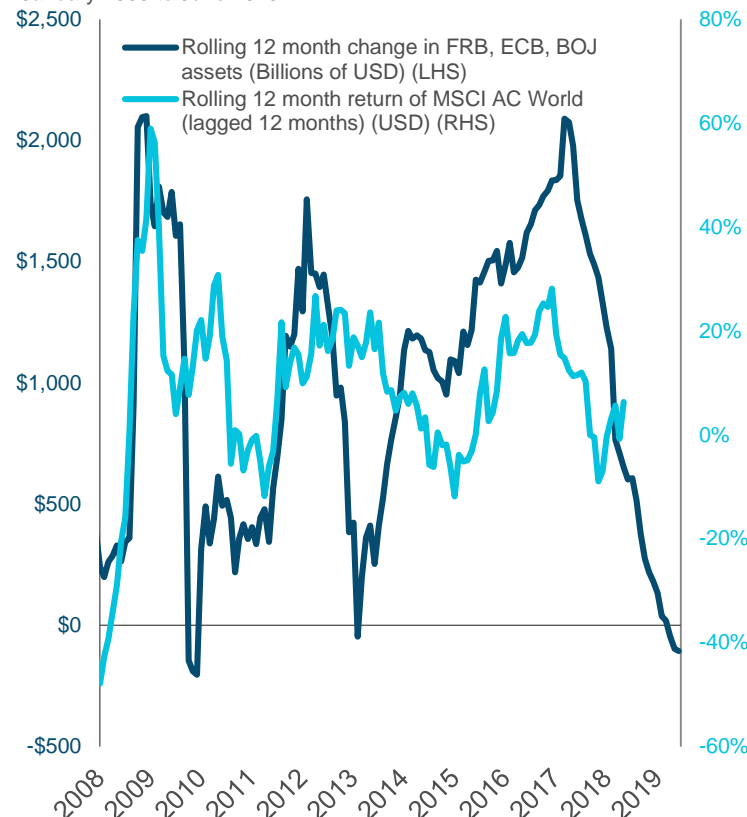
- The current economic and market cycle has featured unprecedented monetary stimulus from central banks across the globe. Since August 2008, the three major central banks have increased their balance sheet assets by almost \$11 trillion (USD).
- This pillar of support has faded as the U.S. Federal Reserve has been gradually reducing its balance sheet since October 2017, though this is expected to end later this year.
- However, balance sheet normalization for the ECB and BOJ have yet to commence, and appear unlikely to do so in the near future.

CENTRAL BANK ASSETS¹
January 2005 to May 2019



**CHANGE IN "BIG 3" CENTRAL BANK ASSETS
VS. MSCI AC WORLD RETURN**

January 2008 to June 2019



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Sources: U.S. Federal Reserve Board, European Central Bank, Bank of Japan/Haver Analytics, T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved.

¹In U.S. Dollars, based on exchange rates as of 6/28/2019.

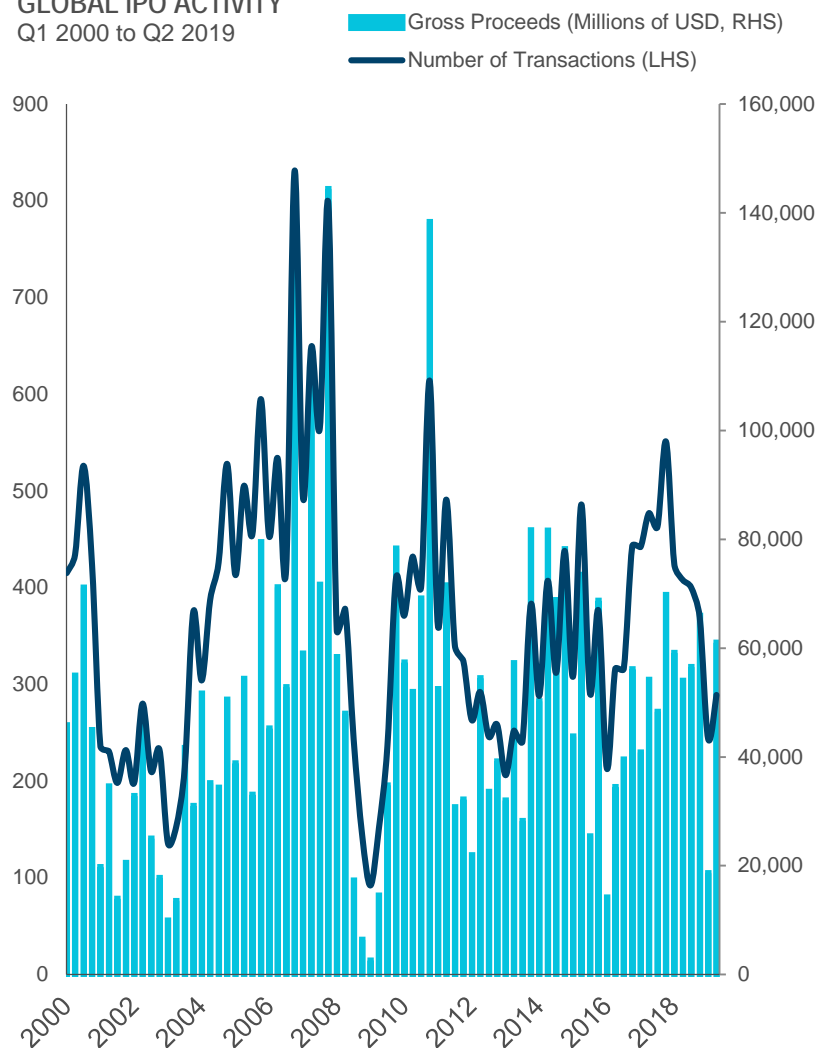
Global Market Environment

- IPO activity has typically been a good indicator of investment sentiment, with periods of “irrational exuberance” presaging the last two bear markets
- But this economic cycle has been characterized by shorter, less exuberant periods than seen in the past

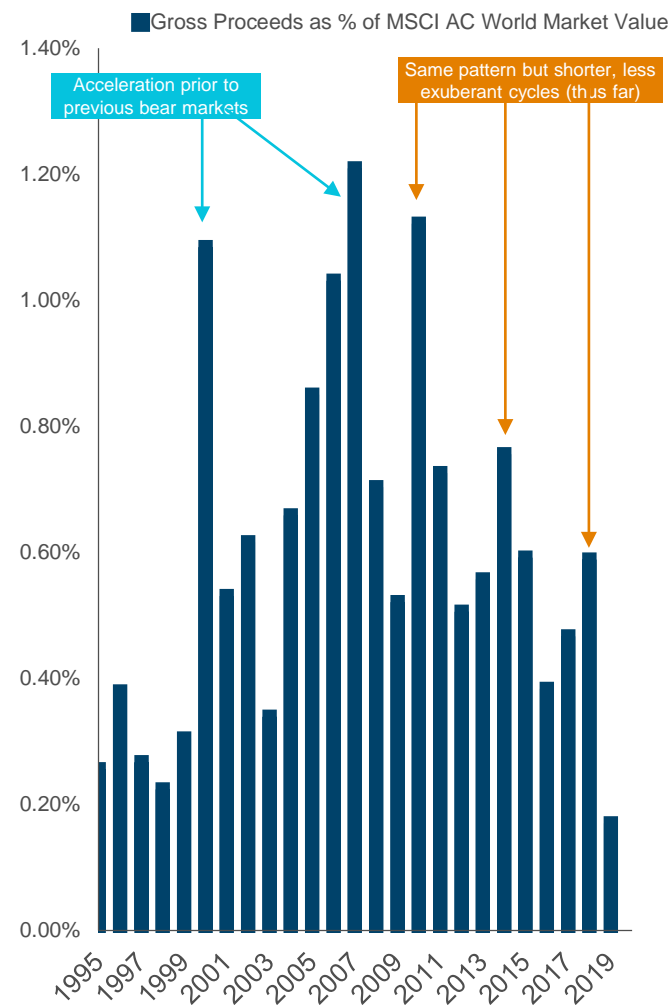
Irrational IPO Exuberance?



GLOBAL IPO ACTIVITY
Q1 2000 to Q2 2019



GLOBAL IPO ACTIVITY (SCALED TO MARKET CAP)
1995 to 2019 (as of 6/30/19)



Source: T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved., MSCI. See Additional Disclosures on slide 30.

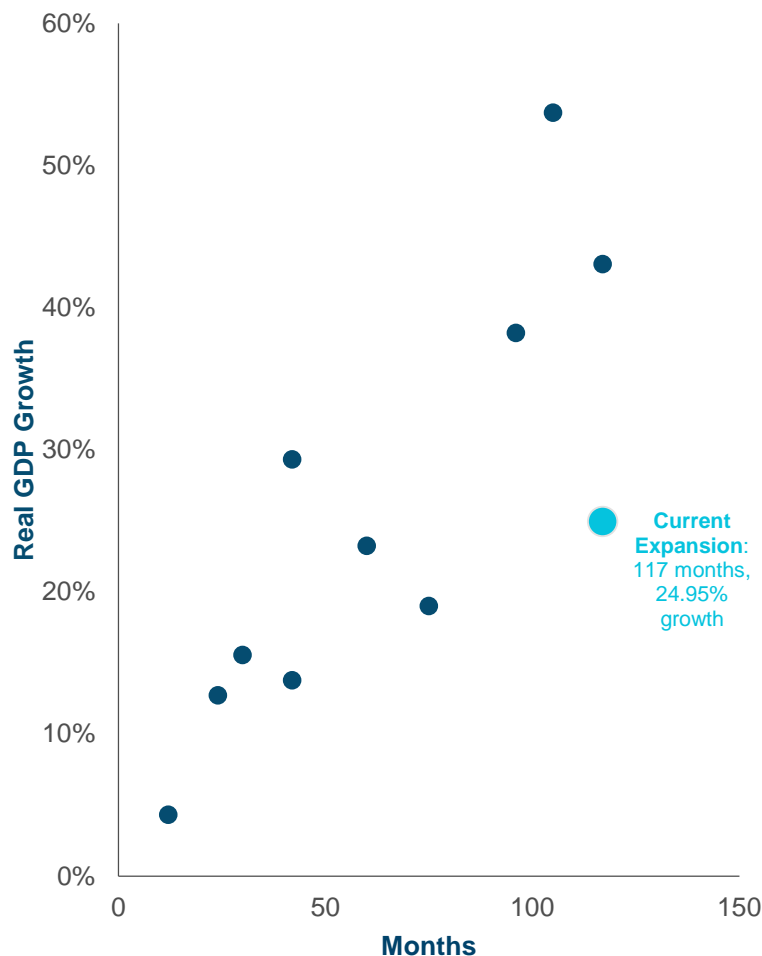
Global Market Environment

How much longer can this cycle last?

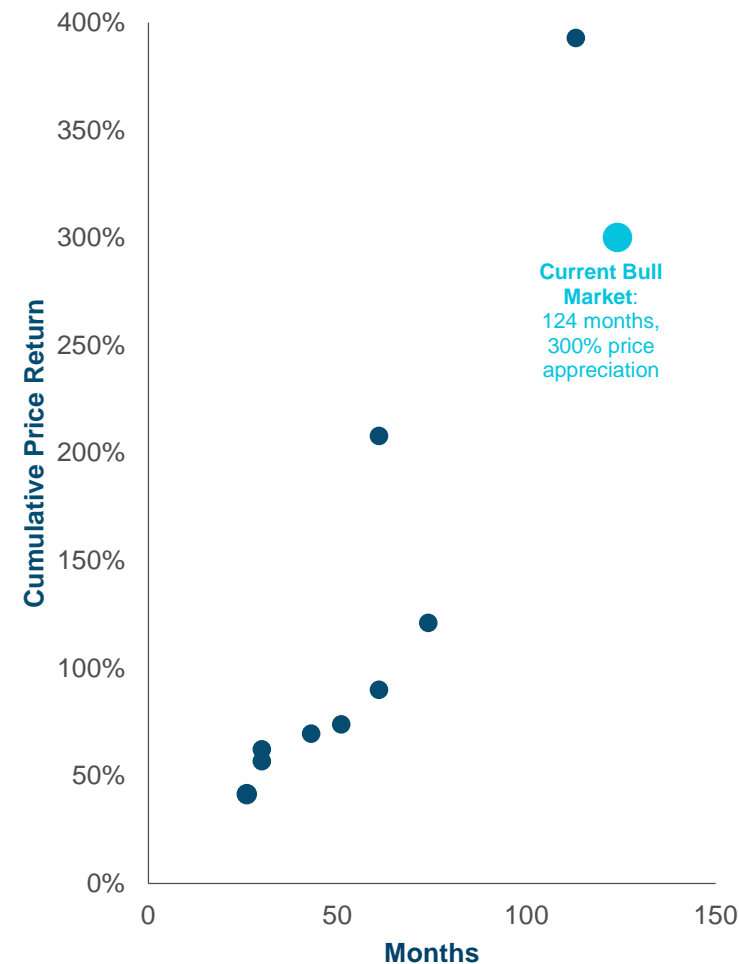


- Both the current economic cycle and bull market are already very long by historical standards.
- While there are many reasons to be concerned that this cycle will come to an end soon, it is difficult to find clear warning signs in the current economic or market data.
- Most economic models (including T. Rowe Price's proprietary model) still place the current expansion in mid-cycle territory, and show a relatively small chance of recession within the next twelve months.

U.S. ECONOMIC EXPANSIONS
Q4 1949 to Q1 2019



S&P 500 BULL MARKETS
January 1958 to June 2019



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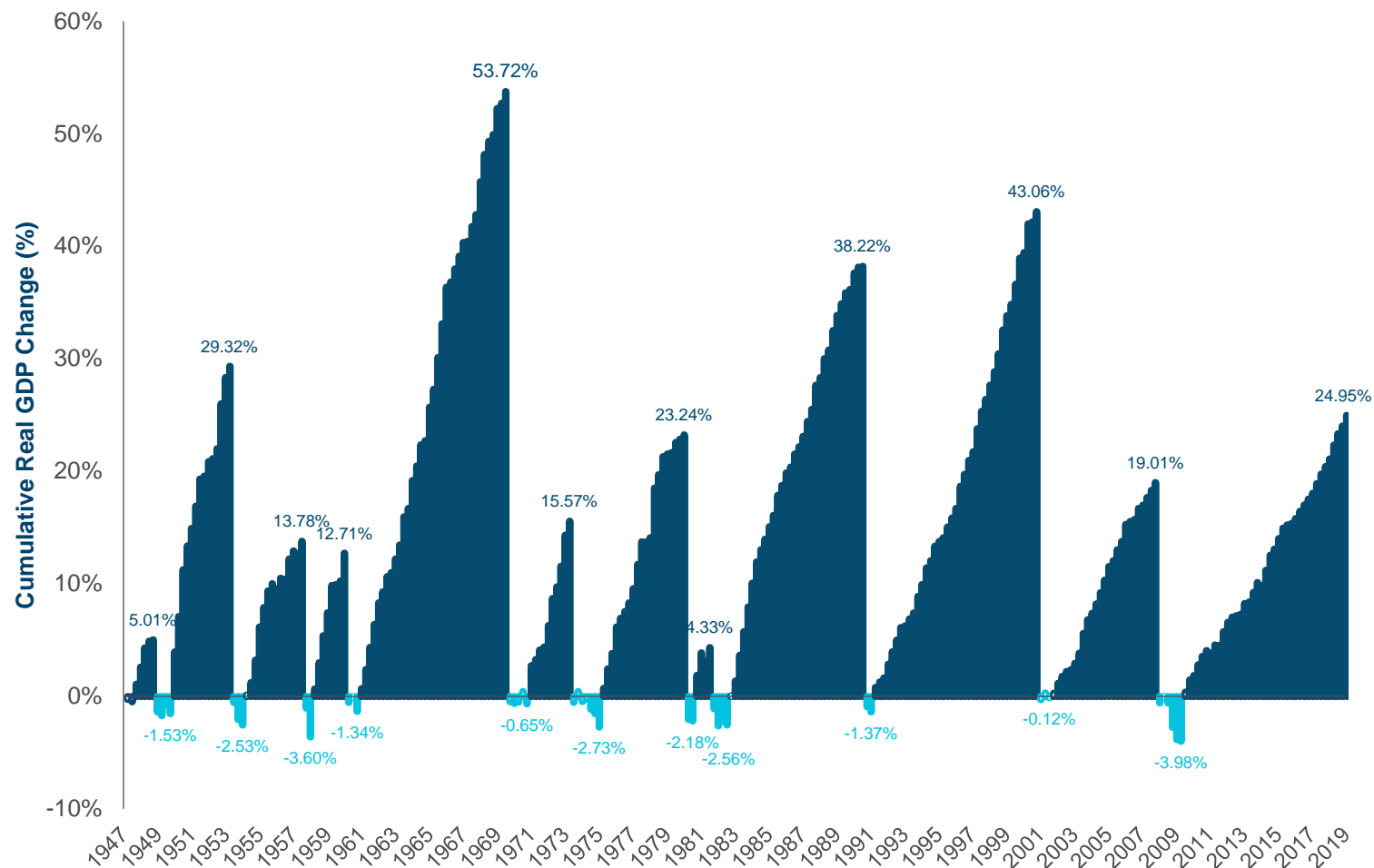
Sources: T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved., Bureau of Economic Analysis/Haver Analytics, S&P. See Additional Disclosures on slide 30.

A long expansion, but at a modest pace



- As of the end of Q1 2019, the current economic expansion has equaled the longest in U.S. (recorded) history. However, it is notable that long expansions have become common in recent decades. The average length of the past four expansions (including this one) is more than eight years.
- However, the cumulative growth of real GDP has been very modest compared to other lengthy expansions in U.S. history.

U.S. REAL GDP CHANGE IN ECONOMIC EXPANSIONS AND RECESSIONS
Q1-1947 to Q1-2019



Sources: T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved.

Global Market Environment

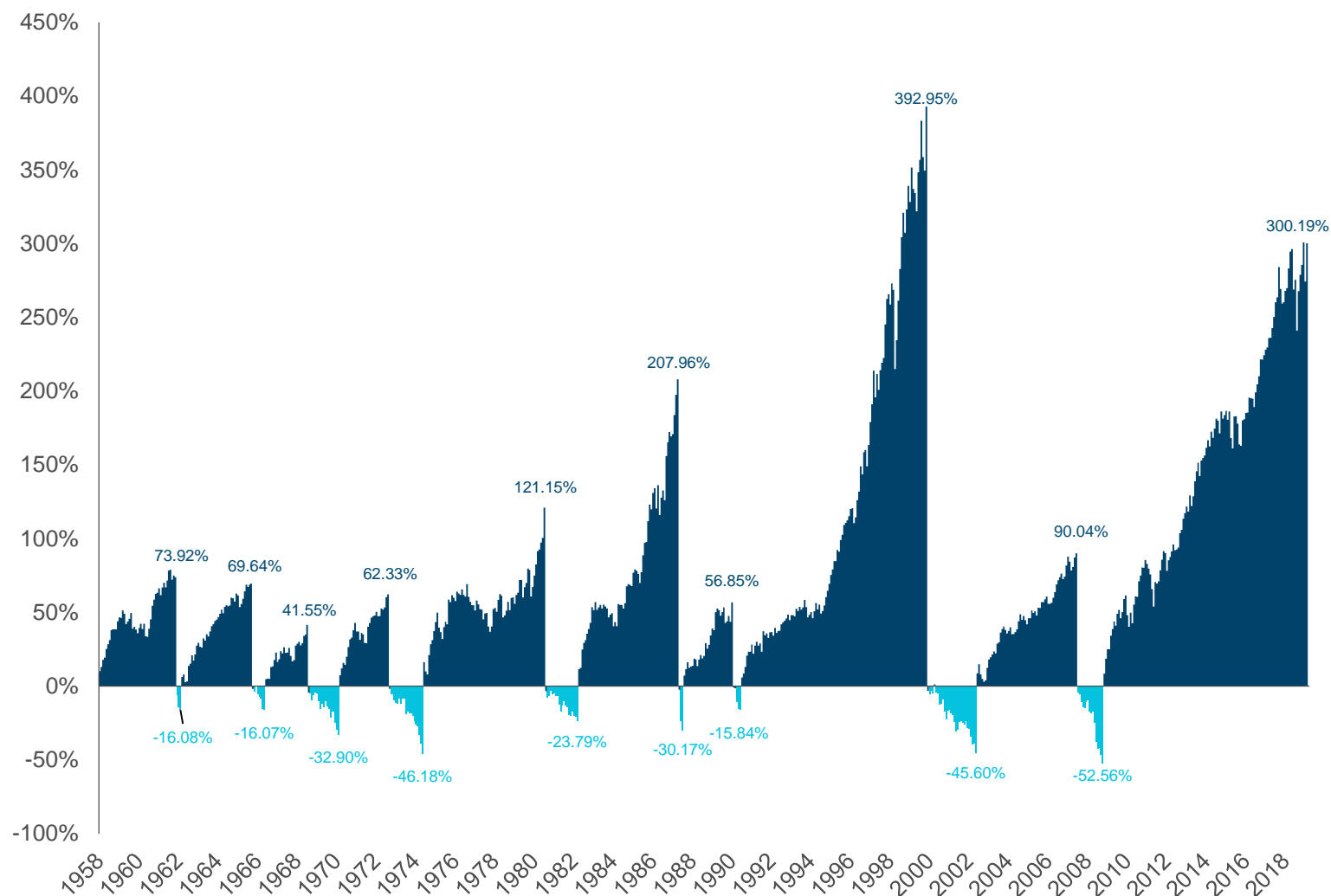
- The current bull market is also one of the longest in U.S. (recorded) history.
- Despite a modest economic expansion, the magnitude of the bull market has not been modest relative to other cycles.
- There are numerous potential explanations for this incongruity, including financial engineering (i.e. higher corporate leverage, reduction in share count), the increase in globalization (corporate profits are less reliant on domestic economic growth), higher profit margins, and the depth of the prior bear market.

A long bull market, at a strong pace



S&P 500 CUMULATIVE PRICE RETURN IN BULL AND BEAR MARKETS

Using month-end data, January 1958 to June 2019, bear market defined as a 15% price drop (or more)



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Global Market Environment

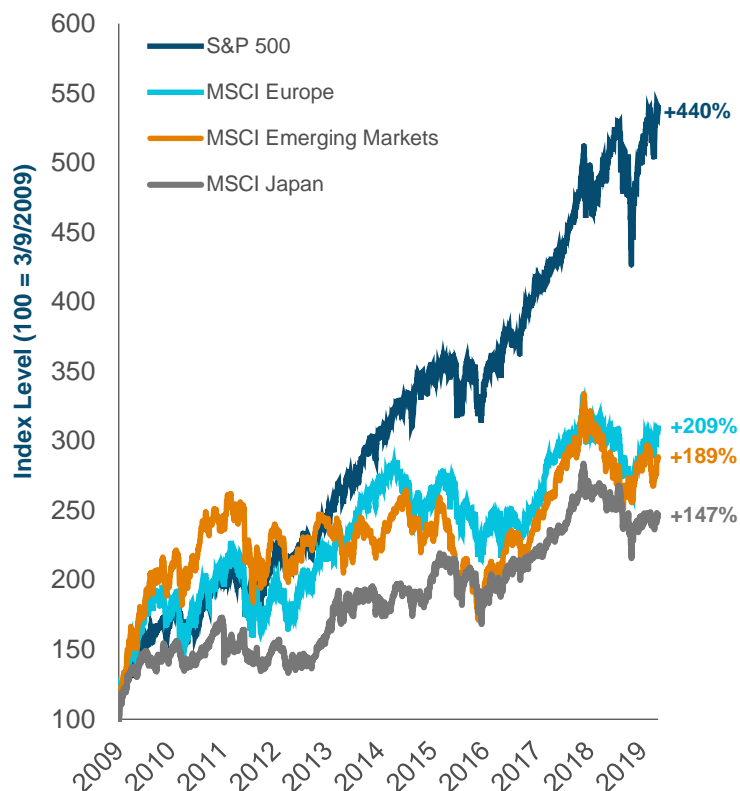
Cycle divergence: U.S. vs. the rest of the world



- U.S. Equities dramatically outperformed the rest of the world during the post-financial crisis period.
- While the U.S. economy rebounded fairly soon after the peak of the financial crisis, other regions have faced additional challenges. Europe experienced a second recession in the wake of its sovereign debt crisis. Japan has faced challenges due to unfavorable demographics and poor corporate governance. And emerging markets have been hampered by the on-going slowdown in China and deterioration of commodities prices.

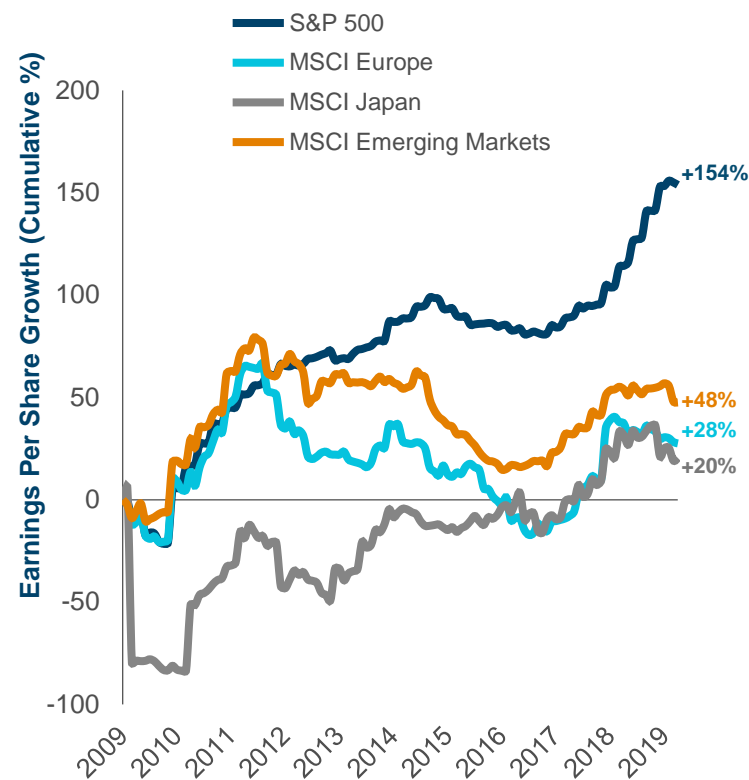
REGIONAL RETURNS

9 March 2009* to 30 June 2019, in USD



TRAILING EPS BY REGION

March 2009 to June 2019



*Begins on March 9, 2009 which was the low point for the S&P 500 during the financial crisis

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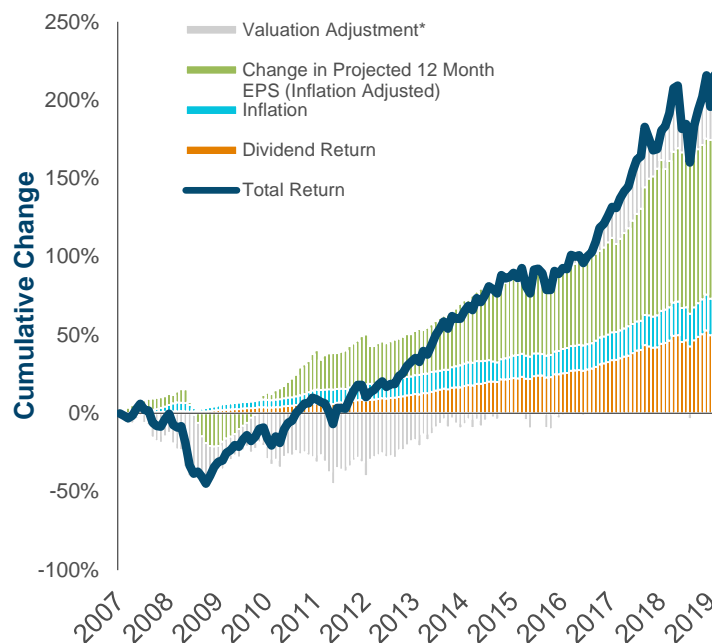
Source: MSCI, T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved. Returns in USD. See Additional Disclosures on slide 30.



- The divergence between growth and value was also notable during this cycle. The Russell 1000 Growth index has outperformed the Value index 196% vs. 81% from 6/1/07 to 5/31/19.
- While growth stocks have enjoyed a higher increase in valuations during the current cycle, the dramatic advantage in earnings growth has been the key driver of the growth outperformance.

RUSSELL 1000 GROWTH - TOTAL RETURN DECOMPOSITION

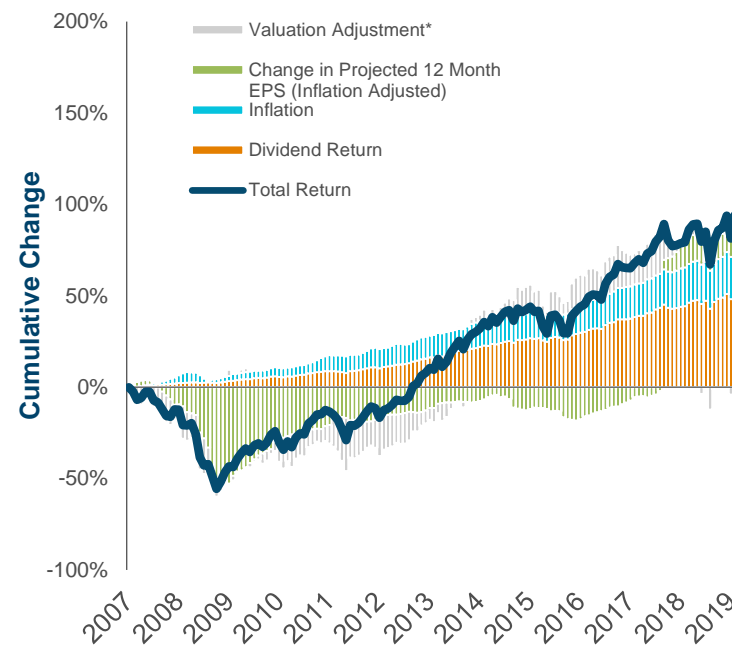
1 June 2007 to 31 May 2019



COMPONENT	CUMULATIVE
Dividends	50.00%
Real Earnings Growth	124.55%
Inflation	23.15%
Valuation Adjustment*	21.17%
Total Return	195.73%

RUSSELL 1000 VALUE - TOTAL RETURN DECOMPOSITION

1 June 2007 to 31 May 2019



COMPONENT	CUMULATIVE
Dividends	48.14%
Real Earnings Growth	14.11%
Inflation	23.15%
Valuation Adjustment*	-4.03%
Total Return	81.37%

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*Valuation adjustment represents the total return after dividends, real earnings growth, and inflation have been subtracted out. It may represent P/E changes, share count reduction, and other factors.

Source: T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved. Russell. See Additional Disclosures on slide 30.

Global Market Environment

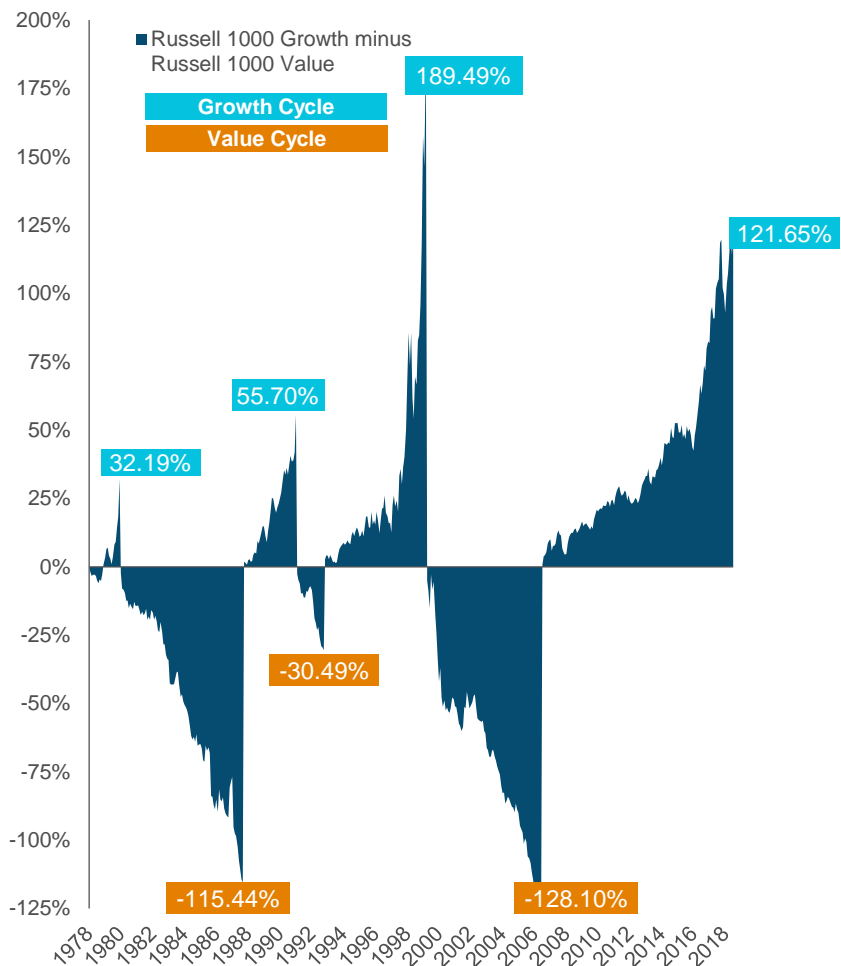
Growth vs. Value cycles since 1978



- The ongoing period of growth outperforming value is the longest style cycle ever (using the Russell 1000 Growth and Value indices, which go back to 1978).
- However, it is not the largest in magnitude—as the growth index outperformed value by 189.49% between October 1993 and February 2000.

CYCLE* RELATIVE TOTAL RETURN SINCE 1978

31 December 1978 to 30 June 2019



START DATE	END DATE	MAGNITUDE	LENGTH (MONTHS)
Jan-79	Nov-80	32.19%	16
Dec-80	Aug-88	-115.44%	93
Sep-88	Dec-91	55.70%	40
Jan-92	Sep-93	-30.49%	21
Oct-93	Feb-00	186.49%	77
Mar-00	May-07	-128.10%	87
Jun-07	Jun-19	121.65%	145
Average Value Cycle		-91.34%	67
Average Growth Cycle		99.01%	70
Average Cycle		95.72%	68
Median Value Cycle		-115.44%	87
Median Growth Cycle		88.67%	59
Median Cycle		115.44%	77

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*Cycle defined as cumulative periods using month end data where there is more than a 20% swing in relative performance.

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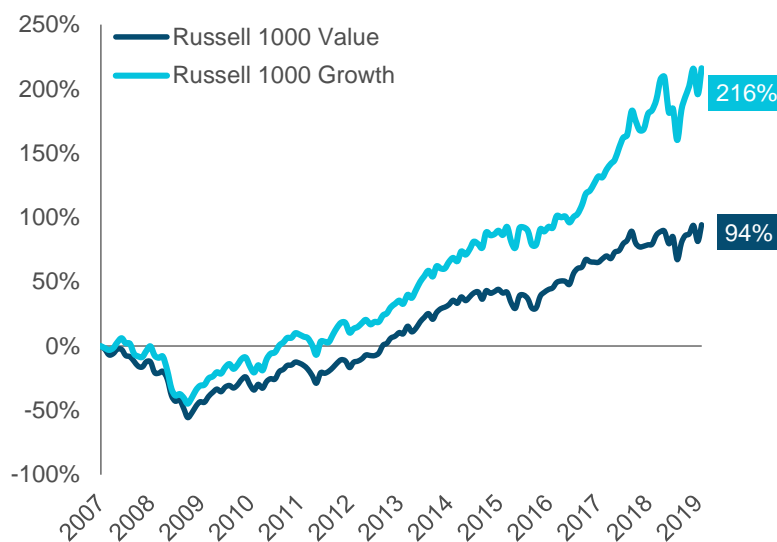
Global Market Environment

Growth vs. Value: Fundamentals

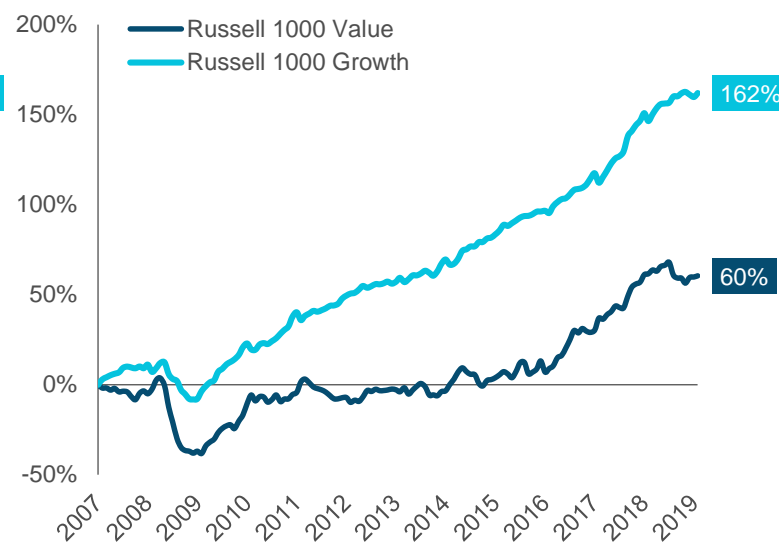


- Fundamental metrics support superior performance by growth stocks during the current cycle. However, the magnitude of excess performance can be questioned.

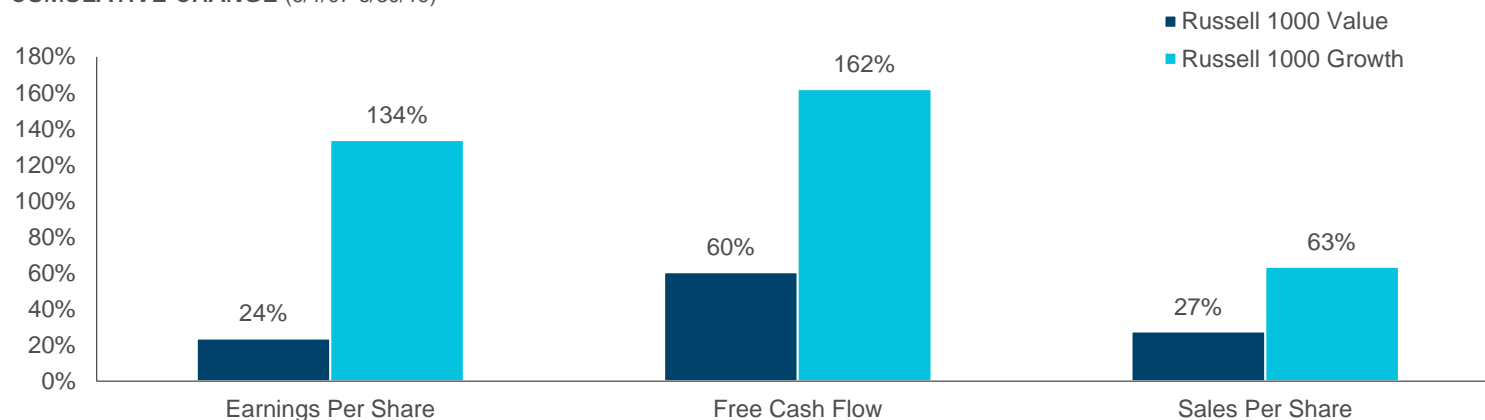
CUMULATIVE TOTAL RETURN (6/1/07-6/30/19)



FREE CASH FLOW GROWTH (6/1/07-6/30/19)



CUMULATIVE CHANGE (6/1/07-6/30/19)



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Source: T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved.

Global Market Environment

- Despite ongoing economic weakness, nearly all equity markets rallied during 2Q19, driven primarily by a more dovish central bank outlook.
- Developed markets outperformed emerging markets, as EM is more levered to global trade.

Broad strength in equity markets

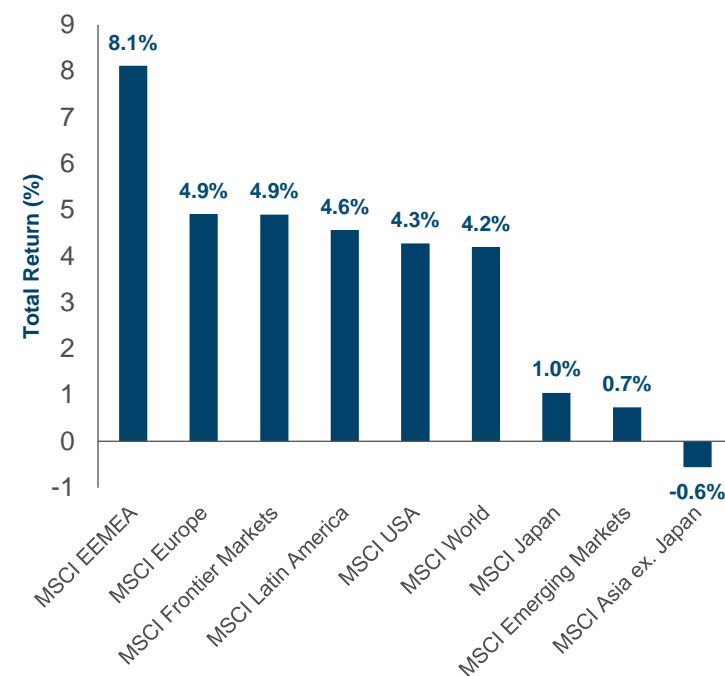


PERFORMANCE FOR MSCI REGIONS

In USD, Total Return – Annualized if Greater than 1 Year, Gross*

	Quarter	1 Year	3 Year	5 Year	10 Year
MSCI World	4.2	6.9	12.4	7.2	11.3
MSCI USA	4.3	10.2	14.2	10.6	14.7
MSCI Europe	4.9	2.5	9.8	1.9	7.6
France	7.3	4.0	14.2	4.6	8.1
Germany	7.8	-3.0	9.0	1.0	7.8
Italy	3.6	0.4	13.1	-1.2	2.1
Spain	2.9	-1.5	9.9	-3.2	1.9
United Kingdom	0.9	-2.0	6.9	-0.2	6.9
MSCI Japan	1.0	-3.8	8.4	4.8	6.1
MSCI Emerging Markets	0.7	1.6	11.0	2.9	6.2
MSCI Asia ex. Japan	-0.6	-0.2	11.8	5.1	8.2
China	-3.9	-6.5	14.5	7.6	6.4
India	0.5	7.9	10.5	5.4	6.5
MSCI Emerging Europe Mid East & Africa	8.1	14.3	11.8	-1.0	3.4
Russia	17.3	28.4	21.9	5.6	6.9
Egypt	7.9	5.7	1.9	-2.1	0.8
South Africa	6.8	-0.2	5.7	-0.3	5.7
MSCI Latin America	4.6	18.9	11.2	-0.4	2.6
Brazil	7.2	39.9	17.9	2.0	2.2
Mexico	1.3	-7.1	-1.7	-5.9	3.8
MSCI Frontier Markets	4.9	5.2	8.7	-0.4	5.2

PERFORMANCE DURING THE QUARTER



Past performance is not a reliable indicator of future performance.

*Returns shown with gross dividends reinvested

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[MSCI EEMEA = MSCI Emerging Europe, Middle East, and Africa

Figures shown in USD.

Global Market Environment

U.S. Equities: Growth led the rebound in 1H'19

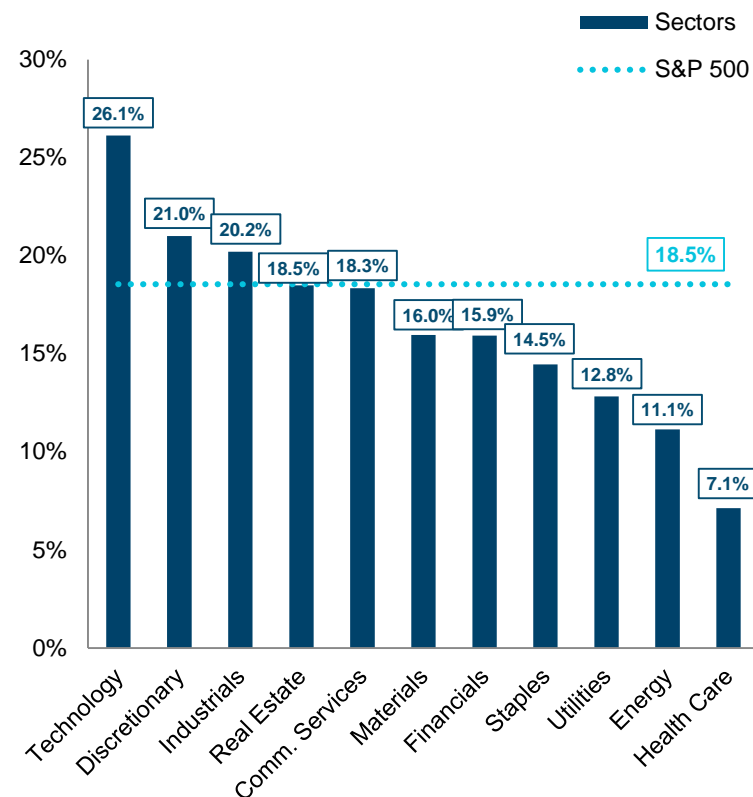


- Growth continued to outperform value in 2019, as has been the case through most of the current bull market.
- Cyclical sectors have been the best performers thus far in 2019.

YTD 2019 RUSSELL STYLE RETURNS*

	Value	Core	Growth
Large	16.2%	18.8%	21.5%
Mid	18.0%	21.3%	26.1%
Small	13.5%	17.0%	20.4%

YTD 2019 S&P 500 SECTOR RETURNS



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*Returns above are for Russell Indices which correspond to each style-box category.

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Global Market Environment

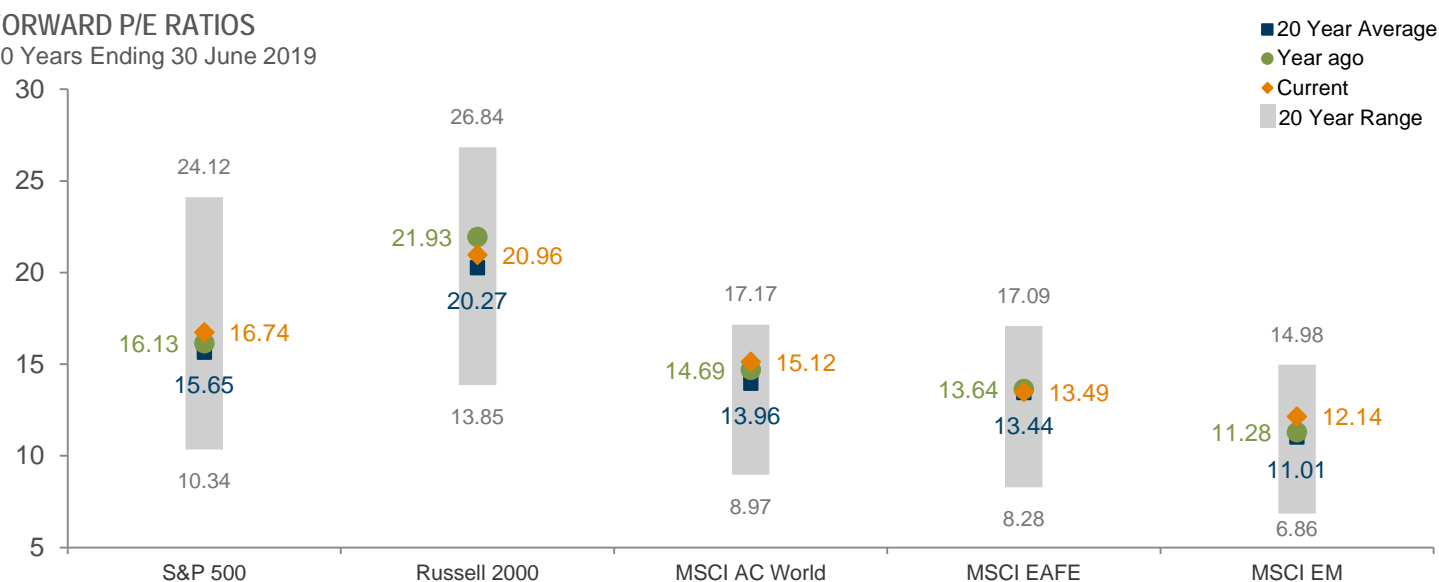
Global: Valuations remain slightly elevated



- Global equity valuations remain slightly elevated relative to 20 year averages.

FORWARD P/E RATIOS

20 Years Ending 30 June 2019



	S&P 500	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM
Current	16.74	20.96	15.12	13.49	12.14
Prior Quarter	16.44	21.29	14.78	13.27	11.84
Year ago	16.13	21.93	14.69	13.64	11.28
20 Year Average	15.65	20.27	13.96	13.44	11.01
High	24.12	26.84	17.17	17.09	14.98
Low	10.34	13.85	8.97	8.28	6.86

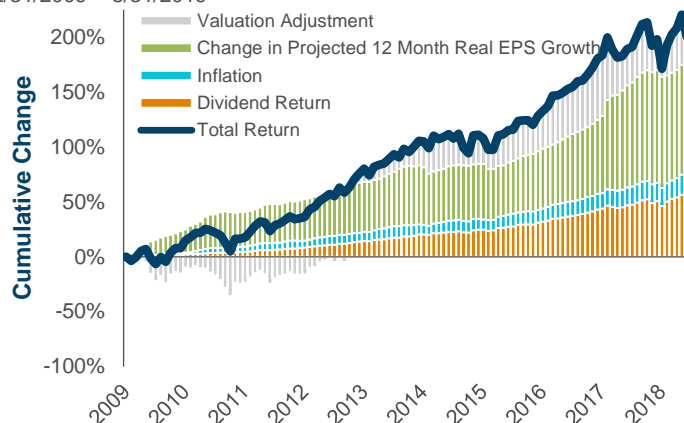
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Global: Where have returns come from during the current bull market cycle?

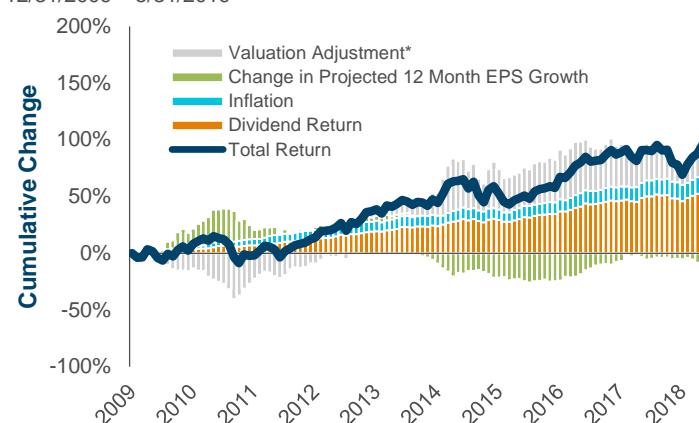


- During the current cycle U.S. equity returns have been driven by a relatively balanced blend of EPS growth, dividend yield, and valuation increases.
- Japanese equities have seen a significant decrease in valuation during the current cycle, despite relatively healthy earnings growth.
- Alternatively, European and emerging markets equity gains have been almost entirely due to dividend yield and valuation improvements, as EPS trends have been disappointing.

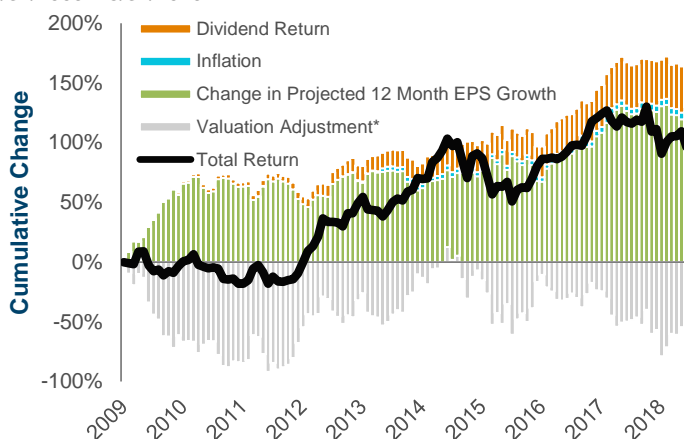
S&P 500 TOTAL RETURN DECOMPOSITION
12/31/2009 - 5/31/2019



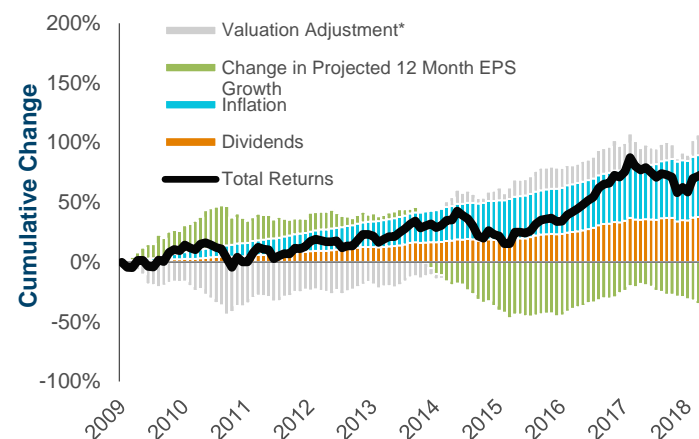
MSCI EU TOTAL RETURN DECOMPOSITION
12/31/2009 - 5/31/2019



MSCI JAPAN DECOMPOSITION
12/31/2009 - 5/31/2019



MSCI EM DECOMPOSITION
12/31/2009 - 5/31/2019



Past performance is not a reliable indicator of future performance.

*Valuation adjustment represents the cumulative change in index prices excluding changes in earnings or inflation. It may represent P/E changes, share count reduction, and other factors. Inflation measure used is CPI. All numbers are based on local currency.

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Global Market Environment

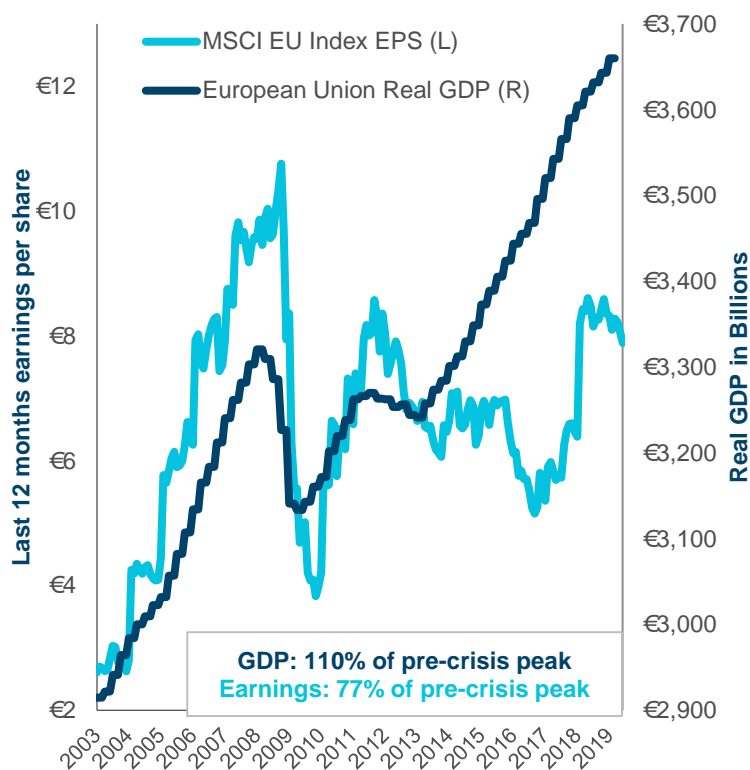
Europe: Earnings rebound stalled in 2018



- Changes in European Union GDP and the earnings per share of the MSCI EU Index were highly correlated in the prior economic cycle. That correlation has broken down in recent years.
- Much of the earnings weakness has been concentrated in the energy, materials, and financials sectors. Earnings in financials have not rebounded in the post-financial crisis era, while earnings in energy and materials have been affected by significant price volatility.

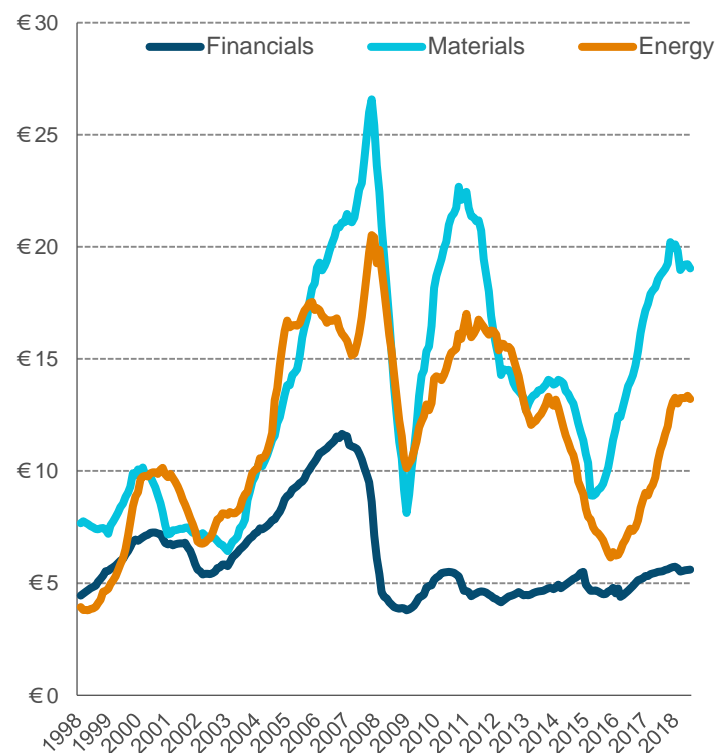
EUROPEAN UNION: GROSS DOMESTIC PRODUCT (GDP) VS. EARNINGS

January 2003 to June 2019, figures shown in euros



MSCI EU INDEX: EARNINGS PER SHARE IN ENERGY MATERIALS, AND FINANCIALS

December 1998 to June 2019



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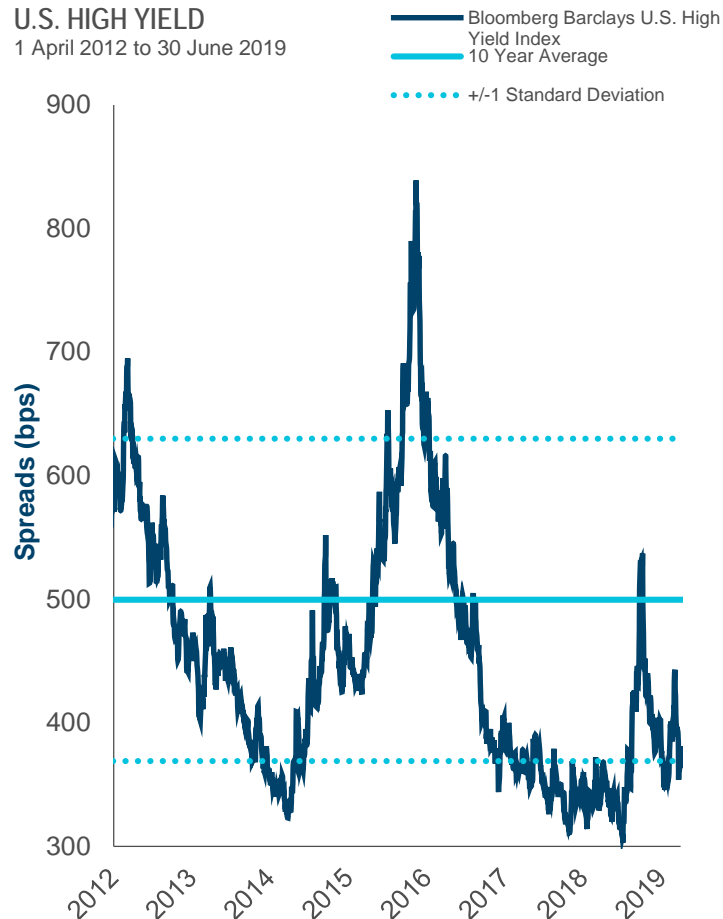
Sources: T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved. Statistical Office of the European Communities/Haver Analytics. MSCI. See Additional Disclosures on slide 30.

Credit spreads at tight levels, but rates sending bearish signal

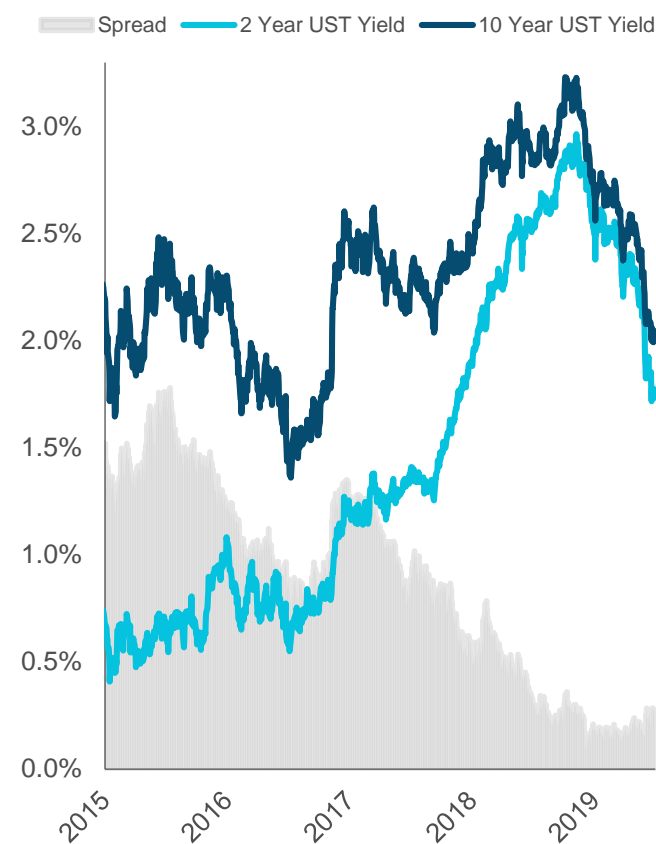


- The credit and rates sectors within fixed income are sending mixed messages about the economy.
- After a sharp sell-off in 4Q18, credit concerns abated this year alongside the sharp rally in equity markets.
- However U.S. treasury rates continued to move lower in throughout 2019, sending a somewhat opposing signal about forward expectations for economic growth.

U.S. HIGH YIELD
1 April 2012 to 30 June 2019



TREASURY YIELD COMPARISONS
1 January 2015 to 30 June 2019



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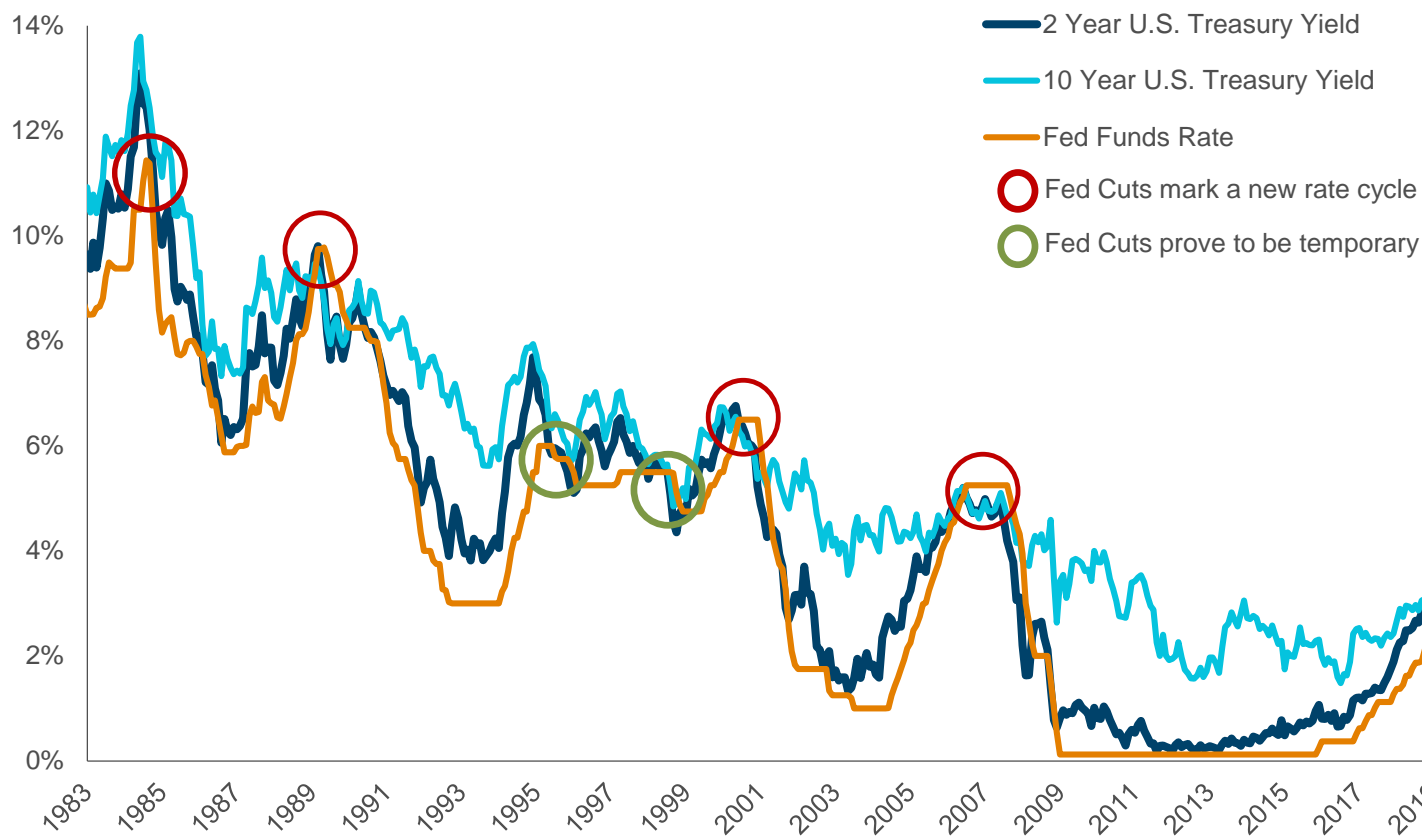
Treasury yields are based on benchmark U.S. Treasury bonds

Have U.S. rates peaked?



- The Fed is engaged in the 5th tightening cycle of the past 30 years.
- Except for two instances in the mid-1990's, a Fed pivot from hiking to cutting has marked a new interest rate cycle and was ultimately a prelude to recession.
- Even if Fed cuts prove to be temporary, further upside to rates may be limited. The current FOMC projection for the "longer run" Fed Funds rate stands at 2.50%.

FED FUNDS VS. 2 YEAR AND 10 YEAR TREASURY YIELDS
January 1983 to June 2019



Sources: Federal Reserve Board/Haver Analytics *Based on Federal Reserve June 19, 2019 Summary of Economic Projections

Global Market Environment

Credit Spreads Remain Tight

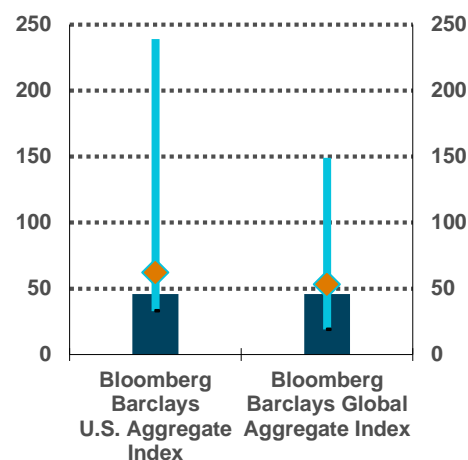


Option-Adjusted Spreads as of 30 June 2019

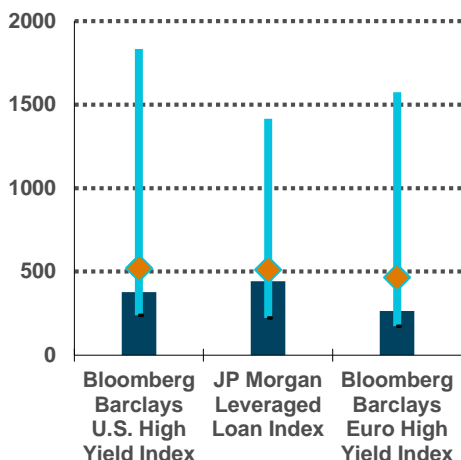
■ Current ◆ Average ■ Historical Range

- Credit spreads moved significantly higher in 4Q18, but have tightened in 2019 and are once again below 15 year averages.
- Corporate fundamentals appear quite strong. The credit cycle is in its latter stages, but there do not appear to be any red flags on the near term horizon.

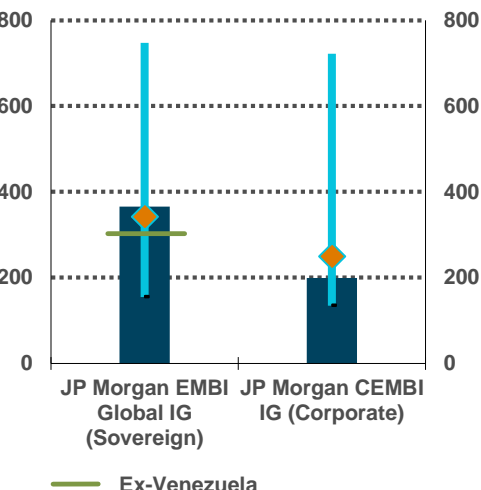
CORE INDICES



CREDIT INDICES



EM INDICES



Past 15 Years

HISTORICAL SECTOR SPREADS (PAST 15 YEARS)	CURRENT (6/28/2019)	AVERAGE	HIGH	LOW	CURRENT VALUATION TO 15-YEAR AVERAGE	CURRENT SPREAD TO 15-YEAR AVERAGE
Bloomberg Barclays U.S. Aggregate Index	46 bps	62 bps	239 bps	33 bps	-26%	-16 bps
Bloomberg Barclays Global Aggregate Index	46 bps	53 bps	149 bps	19 bps	-14%	-7 bps
Bloomberg Barclays U.S. High Yield Index	377 bps	522 bps	1833 bps	238 bps	-28%	-145 bps
J.P. Morgan U.S. Leveraged Loan Index ¹	442 bps	512 bps	1415 bps	222 bps	-14%	-70 bps
Bloomberg Barclays Euro High Yield Index	264 bps	465 bps	1574 bps	173 bps	-43%	-201 bps
JP Morgan EMBI Global IG (Sovereign)	366 bps	342 bps	748 bps	155 bps	7%	24 bps
JP Morgan CEMBI IG (Corporate)	199 bps	249 bps	722 bps	135 bps	-20%	-50 bps

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¹ Bank Loan Index data from 12/31/2006.

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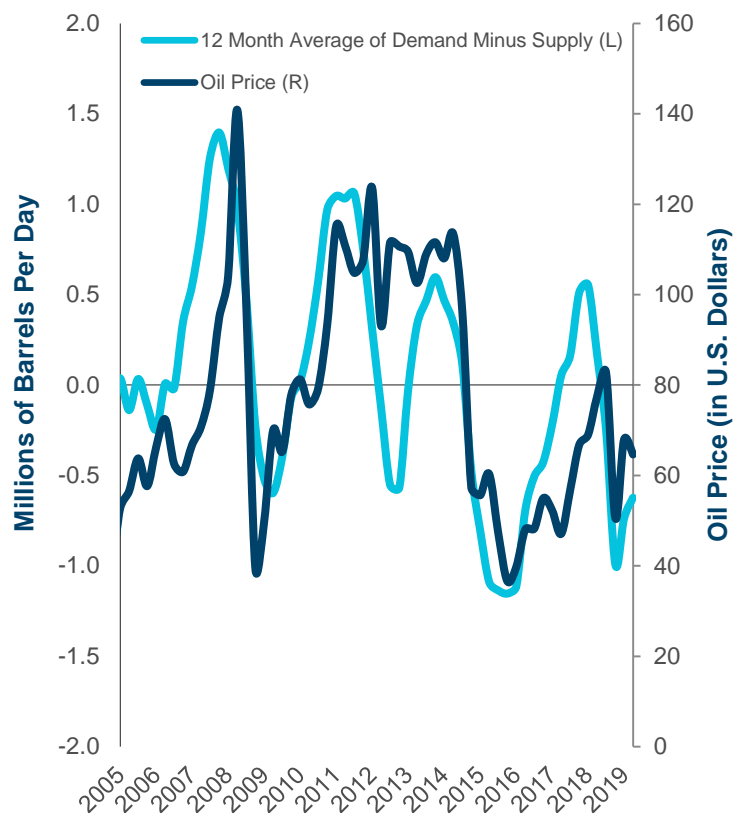
Global Market Environment

Oil: Oversupply weighs on prices

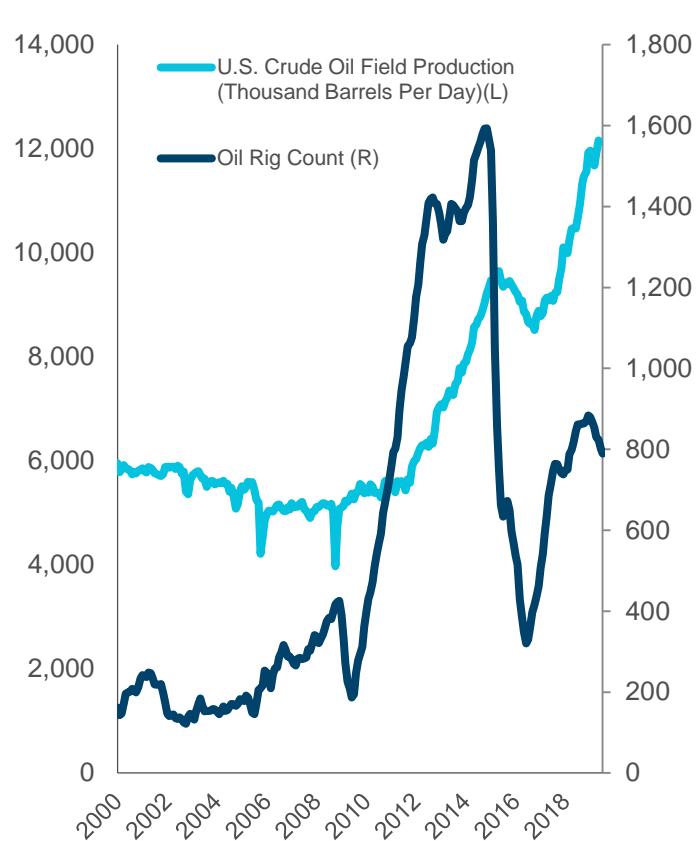


- Oil prices fell dramatically because of oversupply in the market in 2014 through 2016.
- The supply-demand imbalance receded in 2017 as global oil demand increased while OPEC and Russia took supply off of the market. But this reversal was only temporary, and the imbalance returned in the later part of 2018.
- While there has been a significant pullback in the number of oil rigs in the U.S., production did not fall significantly. This is because rig productivity is improving dramatically due to technology improvements. With U.S. production stubbornly high, a sustained rebound in oil prices seems unlikely in the near to medium term.

OIL PRICE (BRENT CRUDE) VS. GLOBAL DEMAND MINUS SUPPLY



U.S. OIL PRODUCTION VS. U.S. OIL RIG COUNT



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Even if the asset allocation is exposed to different asset classes in order to diversify the risks, a part of these assets is exposed to specific key risks.

Equity risk - in general, equities involve higher risks than bonds or money market instruments.

Credit risk - a bond or money market security could lose value if the issuer's financial health deteriorates.

Currency risk - changes in currency exchange rates could reduce investment gains or increase investment losses.

Default risk - the issuers of certain bonds could become unable to make payments on their bonds.

Emerging markets risk - emerging markets are less established than developed markets and therefore involve higher risks.

Foreign investing risk - Investing in foreign countries other than the country of domicile can be riskier due to the adverse effects of currency exchange rates, differences in market structure and liquidity, as well as specific country, regional, and economic developments.

Interest rate risk - when interest rates rise, bond values generally fall. This risk is generally greater the longer the maturity of a bond investment and the higher its credit quality.

Real estate investments risk - real estate and related investments can be hurt by any factor that makes an area or individual property less valuable.

Small and mid-cap risk - stocks of small and mid-size companies can be more volatile than stocks of larger companies.

Style risk - different investment styles typically go in and out of favour depending on market conditions and investor sentiment.

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