



Gains Still to Be Found in Global Equities

Seizing the opportunities that higher volatility and mixed news flow will create.

January 2021

Equity markets delivered extraordinary returns in 2020, but the first quarter of 2021 will certainly test investors, given the return of uneven and contradictory news flow. Expectations of further monetary and fiscal stimulus, along with positive news on vaccines, have helped support equity markets. However, a new variant of the virus is putting increased pressure on health care systems, and we are seeing more and more countries locking down again. We believe this will have economic repercussions for many and, at a minimum, will defer some of the fundamental rebound investors have been anticipating. We also need to factor in political change. What does the “blue wave transition” in the U.S. mean for companies and policy decisions, especially around taxation and U.S.-China relations?

As we look out to the rest of 2021, we remain optimistic when we analyze the return potential of global equity markets. However, volatility is likely to increase, in part, as higher dispersion within factors, styles, and sectors emerges. For investors to try to make money in this environment, they will have to be more selective and active, which may at times mean taking a more contrarian approach.



Scott Berg

Portfolio Manager, Global Growth Equity Strategy

Navigating Through a COVID-On/COVID-Off Environment

We expect the COVID-on/COVID-off trade to continue to flip-flop back and forth as it did through the later stages of 2020. We believe secular growth stocks, at the right price, should continue to compound good returns, but the setup into midyear might imply a continuation of the rotation trade into value, small-caps, and non-U.S. stocks that began toward the end of last year. Certainly, increasing exposure to stocks with earnings sensitivity at this point in the market cycle could potentially reap rewards. But selectivity will remain crucial in a world that remains defined by extreme outcomes.

Further positive news on vaccines would also help those sectors that have been most damaged by the virus, such as travel, leisure, energy, and financials. Indeed, we have been adding individual

“As we look out to the rest of 2021, we remain optimistic when we analyze the return potential of global equity markets.”

“...increasing exposure to stocks with earnings sensitivity at this point in the market cycle could reap rewards.”

names to these areas but have been very selective, using our global research platform to identify the best candidates.

We have increased our exposure to financials. However, rather than focusing on traditional banks—where zero and negative interest rates continue to hurt balance sheets—we have instead been concentrating on areas such as investment banking, insurance, and investment managers. These are companies that should actually benefit from a lower interest rate environment.

While new vaccines should eventually allow us to exit this pandemic, we believe that many of the trends that have evolved over the course of the past year will endure. COVID-19 has unleashed these trends even further. We expect increased adoption of digital payments, having food delivered to your door, and using technology to connect with each other.

There has been a meaningful step change in the penetration of e-commerce globally, and we believe there is still a long way for this dynamic to go. The advantage for us, as global investors, is that the opportunity set afforded to us allows us to scour all geographies, using our global research platform, to find, in our view, the best investment opportunities.



Looking Beyond the U.S. to Discover New Alpha Opportunities

With U.S. equities having performed so strongly, we have been looking for better value elsewhere. Asia-Pacific and Europe are the two places where we have been increasing our exposure. It is our belief that Asia is the place where the gravity of the world is moving toward. It's where markets are deepening the most, where economies have been growing the fastest, and where, currently, the most billionaires are now being created. In that sense, it is where the most unpriced change can be found for investors.

China's recovery from the pandemic has been in stark contrast to developed markets. It is likely to be one of the few countries to see positive economic growth in 2020. More generally, while the emerging market (EM) growth premium has been decelerating for some time and collective earnings have been disappointing, many individual EM economies retain long-term advantages when thinking about potential return generation from equities. Today, our preferred markets are in India, Indonesia, the Philippines, and Peru, while we also have high-conviction positions in Chinese consumer stocks.

We also believe that Europe now looks more attractive. Although it doesn't offer the breadth of high-growth opportunities that the U.S. or China can offer, there are a number of change-driven stocks that we feel confident about in a world that should be marked by improvement, especially from spring 2021 onward—either where stock valuations have fallen sharply, priming them for reversion, or where we have identified fundamental change in a company's earnings profile. Key for us at this point in the equity cycle is the ability to find profits growth, as this remains the most powerful driver of stock prices over the long term.



In a Complex Macro Environment, a Stock-Specific Focus Is Key

One natural concern is whether equity markets have rebounded too strongly and quickly, especially given the concentration of stock returns. This does create some potential for a broad bubble to form if good news is uninterrupted.

Our view, however, is that although valuations are at a premium in an absolute sense, we are also in a world of unparalleled monetary and fiscal support, which has naturally supported risk assets. Interest rates across the globe are at rock bottom, while at

“
...we don't believe
that valuations
are extreme, and
equity markets
will continue to
offer opportunity,
especially relative
to alternatives.”

the same time, there is a huge wall of money looking for a home. On that basis, we don't believe that valuations are extreme, and equity markets will continue to offer opportunity, especially relative to alternatives.

The environment, however, is inherently more stock-specific than it has been for some time. 2021 is likely to present opportunities to invest on bouts of volatility. This is certainly likely if conditions worsen before they get better, and we believe there will certainly be data points for market bears to point to in the coming months ahead.

There are also clear concerns in the market that, beyond monetary support, there is no fundamental improving “bull” case for global equities. However, this aggregate top-down perspective on the world belies the ongoing breadth of stock-specific fundamentals we continue to find, especially in secular growth stocks benefiting from changes in society and in our economy.

A world of dispersed valuations and corporate outcomes is ultimately beneficial to active investors, and we shall look to exploit those factors for our clients in 2021.

Key Risks—The following risks are materially relevant to the strategy highlighted in this material:

Transactions in securities of foreign currencies may be subject to fluctuations of exchange rates which may affect the value of an investment. The portfolio is subject to the volatility inherent in equity investing, and its value may fluctuate more than a portfolio investing in income-oriented securities. The portfolio may include investments in the securities of companies listed on the stock exchanges of developing countries.

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

T.RowePrice[®]

Important Information

This material is being furnished for general informational and/or marketing purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

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

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

Canada—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

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

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

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

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

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

Korea—This material is intended only to Qualified Professional Investors upon specific and unsolicited request and may not be reproduced in whole or in part nor can they be transmitted to any other person in the Republic of Korea.

Malaysia—This material can only be delivered to specific institutional investor upon specific and unsolicited request. The strategy and/or any products associated with the strategy has not been authorised for distribution in Malaysia. This material is solely for institutional use and for informational purposes only. This material does not provide investment advice or an offering to make, or an inducement or attempted inducement of any person to enter into or to offer to enter into, an agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities. Nothing in this material shall be considered a making available of, solicitation to buy, an offering for subscription or purchase or an invitation to subscribe for or purchase any securities, or any other product or service, to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the laws of Malaysia.

New Zealand—Issued in New Zealand by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

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

Singapore—Issued in Singapore by T. Rowe Price Singapore Private Ltd., No. 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

South Africa—T. Rowe Price International Ltd ("TRPIL") is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (FSP Licence Number 31935), authorised to provide "intermediary services" to South African investors.

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

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

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

UK—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

USA—Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

© 2021 T. Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the bighorn sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc.