T. Rowe Price®
INVEST WITH CONFIDENCE

2022 Global Market Outlook

Playbook for a Shifting Economic Landscape

Executive Summary

As the economy roared back, inflation has replaced COVID-19 as investors' top concern.

The pandemic has postponed, not prevented, global economic activity—leaving runway for additional growth in 2022. However, many of the same factors fueling economic recovery are also fueling inflation pressures.

We may (finally) see rotations to value and to non-U.S. stocks.

The stage is setting for a rotation from expensive growth stocks to relatively cheaper cyclicals, and from U.S. equities to non-U.S. equities. It's a premise that investors have heard for years at this point, but will it actually happen?

Fixed income investors must pick their spots carefully in a challenging market.

Low-yielding government bonds could be vulnerable to rising interest rates. And with central banks tightening monetary policy at different speeds across the world, diversifying across regions and sectors could pay off.

Sustainability has emerged as a powerful investment theme.

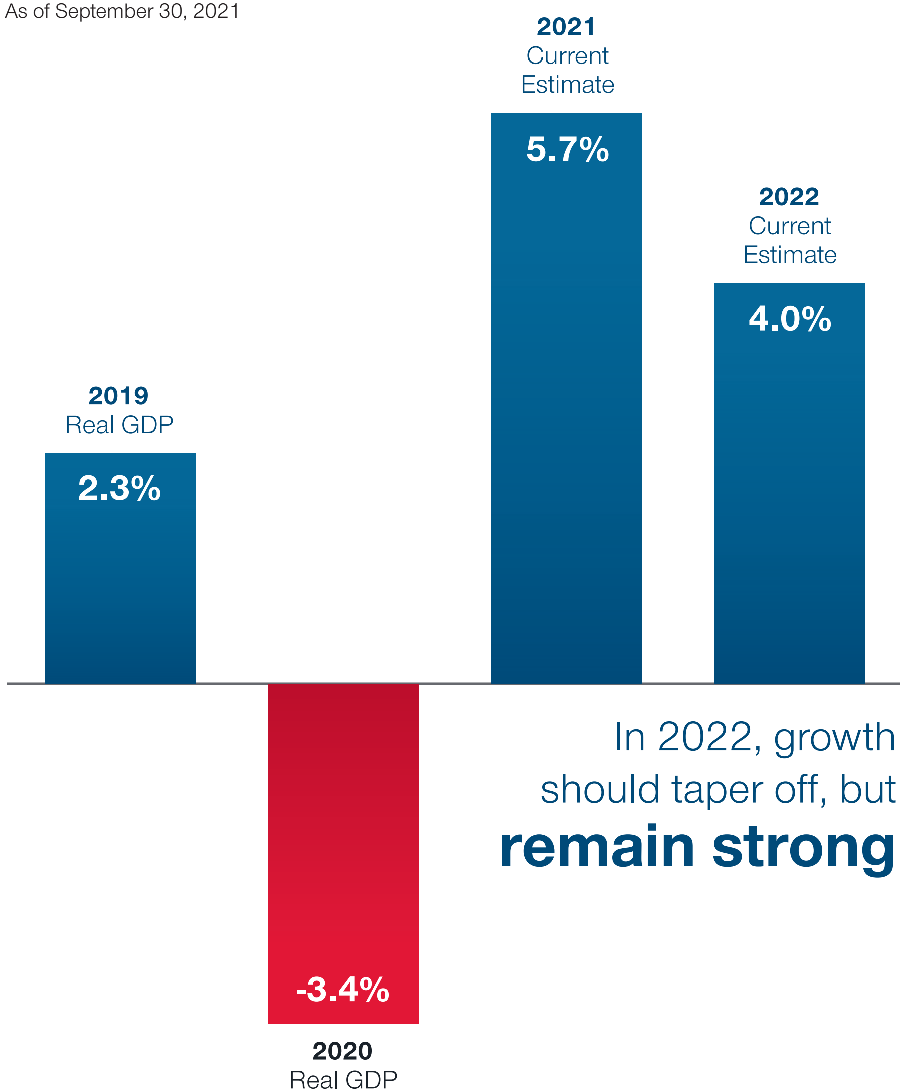
Interest in sustainability is starting to be followed by trillions of dollars of investment capital—presenting opportunities to investors looking to increase exposure.

Growth Delayed, Not Derailed

Global Economic Growth Should Remain Strong

U.S. Real GDP Growth

As of September 30, 2021



Source: Bloomberg Finance L.P.; analysis by T. Rowe Price.

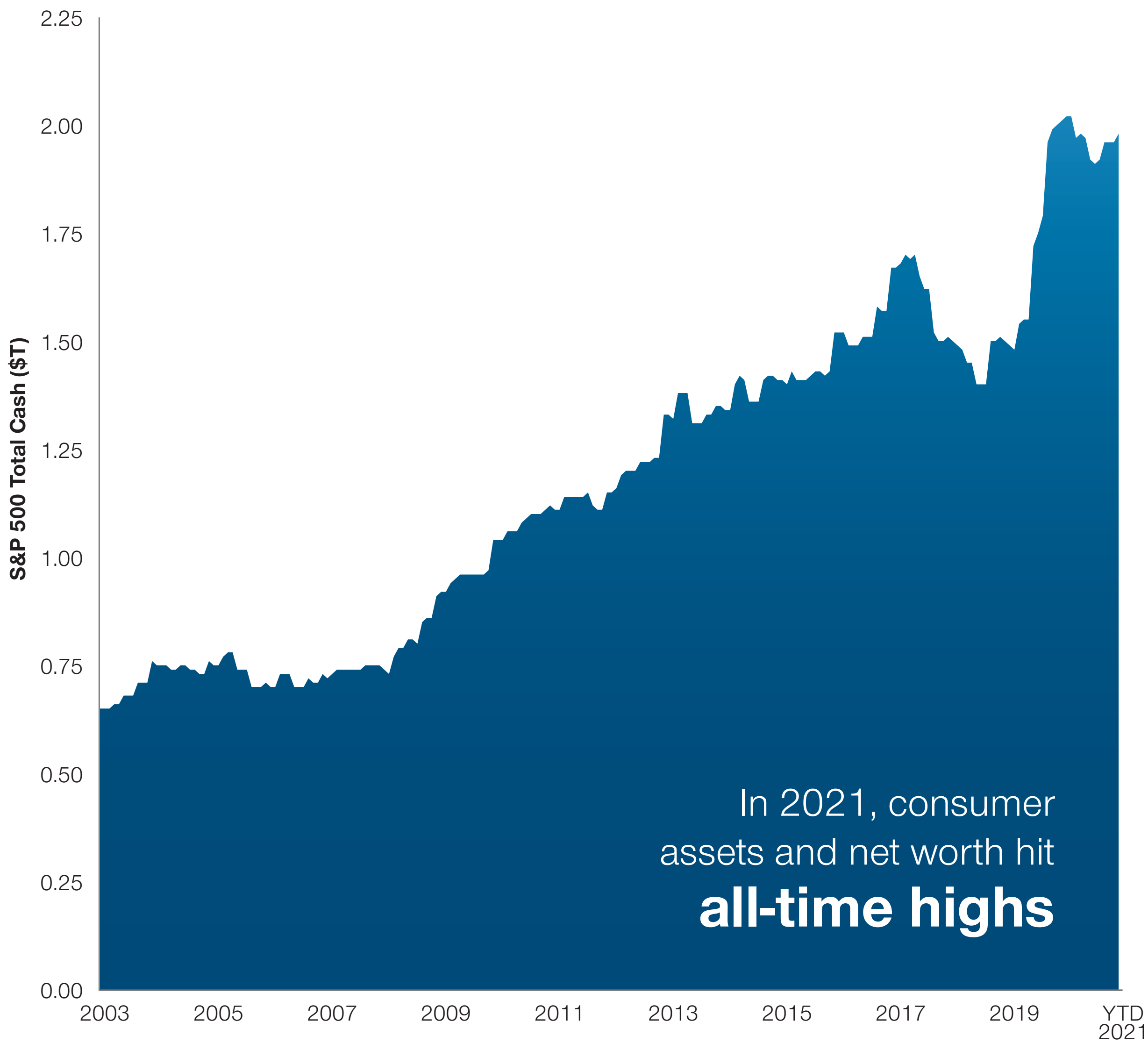
The economic comeback continues.

Recovery from the economic lows of the pandemic has occurred much faster than in previous recessions—helped along by pent up demand for goods, services, and experiences, but also multiple coronavirus vaccines and the most generous combination of monetary and fiscal stimulus in history. Looking ahead, we believe GDP growth should remain strong, though not as strong as last year.

Growth Delayed, Not Derailed

Record High U.S. Corporate Cash Levels

December 2003 to November 2021



Source: Strategas Research Partners.

Consumers and corporations are flush with cash.

Much of the record stimulus payments is now sitting in checking accounts and other short-term deposits. In 2021, consumer assets and net worth hit all-time highs especially in the U.S. Many global corporations are faring just as well, thanks to strong earnings, spending restraint during the pandemic, and a surge in low-cost borrowing. For example, Companies in the S&P 500 Index held almost $2 trillion in cash at the end of November 2021.

Growth Delayed, Not Derailed

Spotlight on Inflation

Many of the same factors powering this global economic growth—such as free cash, reopenings, and pent-up demand—are also driving inflation, which hit a 30-year high in October 2021. Rising wages and rents could present the most significant inflation risk. While faster income growth would help support consumer spending, it could also contribute to a wage-price spiral as businesses pass on higher costs to consumers—putting more upward pressure on wages in turn.

The price is not right: Rising costs in 2021

Gas ↑58%	Used Cars ↑31%	Eggs ↑8%
TVs ↑8%	Hotels ↑26%	Transportation ↑4%

Inflation Hit a 30-Year High in 2021

Source: Bureau of Labor Statistics Consumer Price Index Report, November 2021

The good news—lower inflation expected ahead.

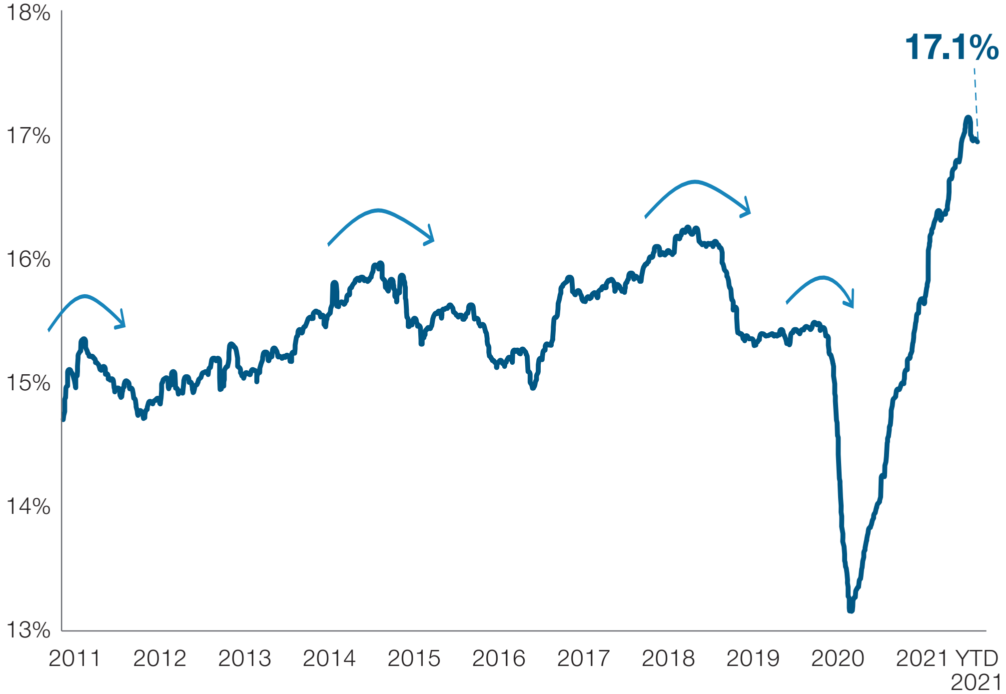
It's important to keep recent, shorter-term inflation in perspective, That's especially true in light of the longer-term deflationary trends that we've seen for decades because of factors like globalization and advances in technology. For example, although TV prices may have increased by 8% in 2021, flatscreen TVs are about 97% cheaper than they were 20 years ago. Furthermore, the price hikes seen in products that were hit by pandemic-related supply/demand imbalances—like the 58% increase in gas prices in 2021—are unlikely to be repeated in 2022. As supply chain and other supply/demand issues associated with the pandemic are resolved, we expect inflationary pressures to ease in 2022 before settling at slightly higher levels than seen in the previous decade.

Focus on Fundamentals

How Much Higher Can Corporate Earnings Go?

Projected Next 12-Month S&P 500 Operating Margin

As of November 30, 2021



Sources: Strategas Research Partners, S&P.

What goes up has to come down—or does it?

Corporate earnings—both realized and projected—surged in 2021. Stock prices rose even faster, pushing valuations in many markets toward record highs. Yet there are also clear and concerning signs of speculation in areas like cryptocurrencies and nonfungible tokens. These factors, combined with the fact that the upcoming earnings hurdles could be challenging for many companies to clear, feeds conjecture that equities may be vulnerable. In short, further margin expansion is possible but there's little room for it. Much will depend on which companies can support their valuations with strong fundamentals and earnings growth.

Multiple Mega Trends Appear to be Reversing

Equities, and growth stocks in particular, have been lifted by decades-long tailwinds: globalization, low corporate taxes, low interest rates, and low inflation. But the economic climate of 2022 will be different: globalization may have peaked, corporate tax rates are expected to rise—as are interest rates—and inflation has already risen sharply. Historically, trend reversals such as these have favored cyclicals. For example, financial stocks, which make up a large component of stock indexes outside the U.S. and carry a heavy weight in the value universe, have tended to deliver their best relative performance in rising interest rate environments (which most regions across the world are about to enter). Another example are small-cap stocks, which have historically done well during economic recoveries.

The right environment for cyclicals:

	Last Decade	2022 Expectations
Globalization	↑	↓
Tax Rates	↓	↑
Interest Rates	↓	↑
Inflation	↓	↑

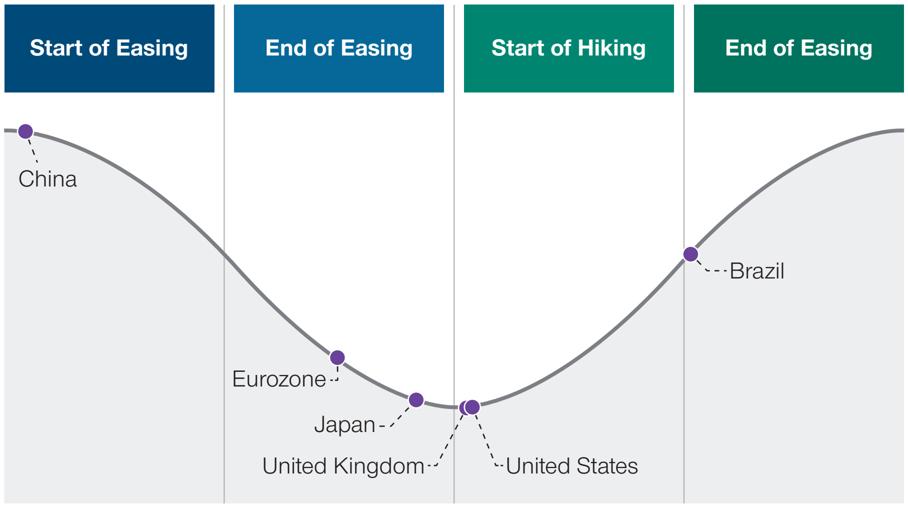
Past performance is not a reliable indicator of future performance.

Navigating Policy Shifts

The Hiking Cycle is Underway

Illustrative Interest Rate Cycle

As of September 30, 2021



Sources: IMF, CB Rates, and T. Rowe Price.

Growth and Inflation: A Dilemma for Central Banks

With inflation emerging as both a leading investment risk and a hot political issue, a global turn towards raising interest rates in most regions appears imminent. The key, of course, for central banks is discerning the timing, cadence, and intensity of interest rate hikes. Moving too slowly could result in inflation becoming unmanageable. Moving too quickly could suppress economic recovery.

Raising Rates, The Fine Balance

Too slow Inflation continues to accelerate and markets react badly

Too quick Economic growth potentially falters and yield curves flatten

Low Yields and Rising Rates: An Equally Vexing Dilemma for Investors

For fixed income investors, recent, historically-low yields have made it difficult to achieve the returns they need with core bonds alone. What's more, as interest rates begin to move higher, they may end up incurring significant portfolio losses on those holdings. In order to potentially reap the benefits associated with fixed income exposure, but also generate relatively attractive returns—all while mitigating risk—investors should consider diversifying their bond portfolios.

Three strategies that merit attention are high yield bonds, floating rate loans, and emerging market bonds. High yield bonds look particularly attractive as corporations have spent the last two years repairing their balance sheets by issuing longer dated bonds with very low coupons—resulting in record low default rates. Interest payments on floating rate loans reset every 90 days, positioning them extremely well for rising interest rate scenario. Emerging market bonds underperformed in 2021, but that's created upside potential in some cases because the valuations for otherwise strong companies are now even more attractive relative to U.S. markets. Selectivity will be key.

Past performance is not a reliable indicator of future performance.

Path to Global Sustainability

To Meet "Green" Targets the World Must Spend

The Investment Appeal of a Cleaner, Greener World

Vulnerable supply chains, crumbling infrastructure, higher energy prices, and a longer-term need to reduce carbon emissions have all helped push economic sustainability to the forefront of the global policy agenda. China for example—already a leader in renewables and green energies, producing 70% of the world's solar panels and 50% of electric vehicles—has committed to going carbon neutral by 2060.

This push could generate a major, extended wave of investment in physical infrastructure such as ports, highways, power grids and in capital goods manufacturing. It could also trigger a boost in sales and earnings for capital goods manufacturers—potentially benefiting stock markets in Germany and Japan, which host some of the world's leading industrial companies. European banks, which have carved out a major role in financing investments in solar, wind, and other renewable energy sources, also could be indirect beneficiaries. Furthermore, massive amounts of capital will be required to finance the coming transition. That has long been a core competency for high yield bond markets, as evidenced by the role that high-yield financing played in getting the electric vehicle industry off the ground. That could make for years of new, attractive investment opportunities for credit investors looking to capitalize on the move from traditional carbon fuels to cleaner sources of energy.

Example: China's Climate Ambition and Spending

$12T (USD) Infrastructure spending in China

Investment Focus: Factories and Infrastructure

- Steel
- Cement
- Copper
- Oil
- Coal

2000–2010: **China's Supercycle**

$16T (USD) Preliminary estimation to reach carbon-neutral target

Investment Focus: Renewables and Grid

- Copper
- Aluminum
- Lithium
- Gas
- Nickel
- Hydrogen

2020 Onward: **Carbon Neutral by 2060**

Source: Haver Analytics / China National Bureau of Statistics, Goldman Sachs. Goldman Sachs estimates that $16 trillion of green technology infrastructure investments by 2060 in China's path to net zero.

Investment Strategies to Consider

Growth Delayed, Not Derailed

Investment Idea	Rationale	Strategies to Consider
Balanced View on Equities	Global economic growth could slow but should remain relatively strong. Inflation is a headwind. This suggests a broadly cautious approach, which could favor durable businesses with reasonable valuations.	▪ Overseas Stock Fund (TROSX) and International Core Equity SMA ▪ Dividend Growth Fund (PRDGX) and U.S. Dividend Growth Equity SMA ▪ All-Cap Opportunities Fund (PRWAX) ▪ Blue Chip Growth Fund (TRBCX) and U.S. Blue Chip Growth Equity SMA
Shorter Duration Fixed Income	Elevated inflation and central bank tightening could make longer duration[1] bonds unattractive. Shorter duration bonds could help reduce portfolio volatility. Inflation-linked securities adjust to keep pace with inflation.	▪ Floating Rate Fund (PRFRX) ▪ Inflation Protected Bond Fund (PRIPX) ▪ Ultra Short-Term Bond Fund (TRBUX)

Navigating Policy Shifts

Investment Idea	Rationale	Strategies to Consider
Shorter Duration Credit	We favor credit risk over interest rate risk in a rising interest rate environment. High yield bonds, certain core plus bonds, and floating rate bank loans offer attractive relative yields, shorter durations, and are supported by strong fundamentals, in our view.	▪ Floating Rate Fund (PRFRX) ▪ Total Return Fund (PTTFX) ▪ U.S. High Yield Fund (TUHYX) ▪ Ultra Short-Term Bond Fund (TRBUX)
Emerging Markets Corporate Debt	Valuations in EM corporate debt markets—Asian markets in particular—appear more reasonable to us than in other global credit sectors. We also think the Chinese economy could be poised to reaccelerate in 2022.	▪ Emerging Markets Corporate Bond Fund (TRECX) ▪ Global Multi-Sector Bond Fund (PRSNX)

Focus on Fundamentals

Investment Idea	Rationale	Strategies to Consider
Global Ex-U.S. Equities	Amid slowing U.S. earnings growth, markets with greater exposure to cyclical industries and global trade could benefit. While stock valuations are elevated globally, they appear more reasonable in some ex-U.S. markets.	▪ Emerging Markets Discovery Stock Fund (PRIJX) ▪ Japan Fund (PRJPX) ▪ Spectrum International Equity Fund (PSILX)
Cyclically Sensitive Equities	Value and small-cap appear to hold a valuation advantage. Unleashed demand could provide a tailwind for cyclical sectors and smaller companies. Operating leverage appears supportive for earnings growth in these sectors.	▪ Small-Cap Value Fund (PRSVX) ▪ Value Fund (TRVLX) and U.S. Value Equity SMA

Path to Global Sustainability

Investment Idea	Rationale	Strategies to Consider
More Cyclically Sensitive Asset Classes	Infrastructure needs and the shift to renewable energy could boost capital expenditures. Producers of capital goods and key raw materials could benefit. So could banks and high-yield investors who finance green projects.	▪ Overseas Stock Fund (TROSX) and International Core Equity SMA ▪ China Evolution Equity Fund (TCELX) ▪ Tax-Free High Yield Fund (PRFHX)

[1] Duration refers to how long it takes for an investor to be repaid a given bond's price by that bond's total cash flows.

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SMA stands for separately managed account.

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In a market defined by new normalities, **be active, look forward, and invest on the right side of change.**

"Change is the investor's only certainty."

Thomas Rowe Price, Jr.
(1898–1983)

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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.

Fixed-income securities are subject to credit risk, liquidity risk, call risk, and interest-rate risk. As interest rates rise, bond prices generally fall.

In periods of no or low inflation, other types of bonds, such as US Treasury Bonds, may perform better than Treasury Inflation Protected Securities.

Investments in bank loans may at times become difficult to value and highly illiquid; they are subject to credit risk such as nonpayment of principal or interest, and risks of bankruptcy and insolvency.

Small-cap stocks have generally been more volatile in price than the large-cap stocks.

Investments concentrating in a specific sector can be more volatile than investments in a broader range of industries.

International investments can be riskier than U.S. investments due to the adverse effects of currency exchange rates, differences in market structure and liquidity, as well as specific country, regional, and economic developments. These risks are generally greater for investments in emerging markets.

Value and growth investing styles may fall out of favor, which may result in periods of underperformance. Investments in high-yield bonds involve greater risk of price volatility, illiquidity, and default than higher-rated debt.

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