Webinar Transcript:

2024 Global Market Outlook: Tectonic Shifts Create New Opportunities

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Ritu Vohora: Hello, and thank you for joining us, for T. Rowe Price's Global Market Outlook – Tectonic Shifts Create New Opportunities. I'm Ritu Vohora, an investment specialist covering global capital markets. My role is to provide clients with a broad perspective into the views of our multi-asset, equity, and fixed income investors at T. Rowe Price. I'm delighted to be joined in the studio today by Justin Thomson, head of International Equity and Chief Investment Officer. Welcome, Justin. Also joining us Arif Husain, head of International Fixed Income and CIO. Welcome, Arif. And joining us from Baltimore, Sebastien Page, head of Global Multi Asset and CIO. Sebastien is also the author of Beyond Diversification. Thank you all for joining us today.
It's been an extraordinary year since we were here last year when the outlook was bleak, and markets were bracing for the most anticipated recession. The pandemic continues to distort economic data and we have seen tectonic shifts in the global investment landscape. Investors have had to navigate conflicting macroeconomic signals and a market narrative that has gyrated almost every few weeks. However, many economies have demonstrated remarkable resilience in 2023, despite aggressive rate hikes and tightening liquidity. This is fueled hopes of a soft landing as we look forward to 2024, though uncertainties remain.
So, Sebastien, maybe I could start with you. When we sat here in our midyear market outlook, you said you were reluctant bear. Is that still your view today?

Sebastien Page: So, Ritu, I think there's an unwritten rule that says the less you like a nickname or moniker, the most likely it is that it will stick. I think I learned that in kindergarten, so I've had to embrace the reluctant bear expression. Thank you, Ritu, for reminding our audience. I love it.
But in any case, I'm no longer a reluctant bear in the asset allocation committee. We recently bought stocks and we're now neutral on stocks versus bonds. We have some interesting positioning under the hood, but the word of the day Ritu for audience today that I want to leave with all of you is balance.
We started buying stocks at the bottom on October 27th and we were done by the following Monday's close. We managed very large portfolios, so even though we were closing a small 75 basis points underweight, we actually bought 3 billion worth of stocks at an average S&P level. Smidge above 4100. Now this looks like very timely execution. I want to remind everybody that our horizon is still 6 to 18 months for tactical asset allocation, but this is an example of how we allow for aggressive, timely execution in markets.
Ritu the triggers for us to close our underweight and for me to go from reluctant bear to neutral were the following, first stocks were down 10% from peak. Second, our indicator of sentiment and positioning was down one standard deviation, and you know we too we like to be contrarian. Third valuations were, are perhaps more reasonable than it looks, if you consider the high return on equities of the Magnificent Seven and the price earnings ratio on the S&P equal weight, which at the bottom at the end of October was at 15 1/2. Which you know is very close to the bottom of its 10-year range. Believe it or not. So, you know Ritu on CNBC, I have become a semiofficial reluctant bear. But I'm going to say now for this outlook right now and aligned with our asset allocation committee - I am confidently, aggressively, enthusiastically neutral.

Ritu Vohora: Well, thank you for Sebastien. There lots of adverbs for neutral. I'm not sure that will stick quite as much as reluctant bear.
But you know, Justin, maybe we can bring you into the conversation, you know, so Sebastien talked there about a neutral position now between stocks and bonds. And when we look at equity markets, you know where we were here a year ago, things looked pretty bleak, and we were all anticipating a Black Swan event. And I think we got lucky with maybe even a rarer golden swan in terms of generative AI, which has propelled the Magnificent Seven that Seb talked about. But I think it's also been a definitive driver of the equity rally as we look to 2024. What's your view of stocks?

Justin Thomson: Well, if we're giving ourselves nicknames, which we seem to be, and Sebastien was the reluctant bear, I'd say I was the careful contrarian. I mean, you talk about black Swans. I always find it amazing how frequently black Swans appear in markets, but there's the GFC. Quantitative easing. Trade tariffs COVID. Response to COVID. I think the collective noun for Swans is a wedge where we've had a wedge of a wedge of black Swans. The Golden Swan scenario that you've that you refer to, you know? If we look back. At this year for equity markets? At the beginning of the year, I think, I think most forecasters were forecasting equities down. In fact, we've had. At least on the face of it, we've had a. Strong year for equities. And I guess there's been 3 surprises here, one. Earnings have held up well, partly

because developed market economies have held up well surprised too, but I guess it also speaks to the fact that equities are a are a call on real assets. So, they are something of an inflation hedge, but earnings have been much better than we feared when we were sitting here this time last year.
And the third surprising thing was the emergence of a strong market narrative, which was the AI narrative. And that's driven equity markets. In a surprising way, at least empirically surprising way, because the market has funneled into a limited number of stocks in the US, we're referring to them as the Magnificent Seven and to give you some statistics around that, the Magnificent Seven or up approximately 100%. The SPS 493 the rest of the SPS S&P 500 is up 4%, so the median stock therefore has done worse than cash. These are remarkable statistics. And it's driven largely by AI, which is considered to be at the moment an arms race, the arms race is manifesting in the war for silicon, the war for infrastructure. And that takes resources. So, the market has placed their bets at this stage on mega cap tech. It has meant that returns in markets are very concentrated, and I think, that in itself represents a risk.

Ritu Vohora: And I guess as we look forward to 2024 resilience of our earnings is going to be critical to make sure that they can sustain those level of earnings as well.

Justin Thomson: I think resilience of the Magnificent Seven is important. I think our view is that the Magnificent Seven themselves become less of a factor and there'll be more dispersion of returns within them. So, stock picking will be more important rather than the overall factor risk. In as much as we think the market broadens, so we could have a scenario where the headline indices in the US is down, but the medium stock is up, which is an atypical environment, but in a slightly shameless plug for active fund management, it should be a better environment. For active fund management.

Ritu Vohora: Great. And we can touch on some of those opportunities later.
Arif, I want to bring you into the conversation. Now Sebastien's neutral. Justin sounds a bit more optimistic on equity markets and we look at bond markets. You know bond yields have been on a roller coaster this year. I mean, the US 10-year Treasury yield reached 5% as well you know, are you buying into this soft-landing narrative or you know how are you sort of looking at the view?

Arif Husain: First of all, I'm not going to give myself a nickname. Let's move on from there. I'll allow others to do that for me. So, I think when we spoke last, I didn't believe in the soft landing and that is still the case. Ultimately what I look at is several 100 rate hikes basis points of rate hikes across the world, not just in the US, everywhere has been raising rates, quantitative tightening and effectively the end game is a hard landing. The question is when.
As you asked Justin, you know that we didn't have that Black Swan event and I think there was a reason for that. There was a lot of one-off effects. Whether it was nice weather in Europe or actually a lot of fiscal stimulus came out of the US which kept things going pretty nicely. And then we saw a big easing of financial conditions after the SVB banking crisis. So there there's a bunch of reasons to understand why that Golden Swan has dominated, but ultimately the long term is these rate rises quantitative tightening and I'm going to take a guess that most countries are pretty much done with fiscal.
Now I think that's subtle because we're heading into an election year and actually rather than soft landing what next year may even be a “no landing.” You know as I don't think many politicians are going to go to the polls threatening to cut spending. I don't think that's a good way to get voted. Everyone's going to want to spend something. We may have the same situation rolling over year over year, but eventually you know we know where the destination is. It's just plotting that journey.

Ritu Vohora: I think it's that long and variable lags are going to bite at some point. It's just a matter of when.

Arif Husain: Exactly
Ritu Vohora: And so, Sebastien, maybe I can come back to, you know, given what you know, Justin's talked about and Arif and its concerns around that hard landing coming at some point. If you were to highlight the top three risks that investors should be worried about in 2024, what would they be?

Sebastien Page: I would say my top three risks are rates, inflation, and valuations. Now this is where I'm going to start sounding bearish and I have tremendous respect for my colleague Arif. But Arif, if you're looking for a nickname, it's probably the depressing bear. You're usually a glass half full investor as a fixed income investor. But again, I'm going to give you the disclaimer before I go through my own top three risks. We're neutral on risks, so I don't want you all to feel too depressed.
Number one rates, I think the market has gotten a bit complacent on rates with 100 basis points of rate cuts priced in for next year. The 10-year yield is down 60 to 70 basis points in only a few weeks, and we have to remember that there are factors pushing the 10-year rate up that were there a few weeks ago and that are still there. Supply from the Treasury, the Fed is doing quantitative easing. We still have to deal with a rising so-called term premium. Investors want compensation for volatility in rates and in uncertainty on inflation. So perhaps the base case is for rates to come down over time. But if you ask me to Ritu where the risk is it is not symmetrical. I think there's a risk for the market to be

surprised by an upward movement in rates where we sit today more than a downward surprise in rates, which is kind of already priced in. So, because we're talking about risks here today.
#2 inflation. Same idea, inflation, if you ask me, could it surprise on the upside or the downside. I think the risk around the base case that inflation is coming down is that it could surprise on the upside relative to what the market is expecting. So, we're talking about sticky inflation going from 5% to 4% inflation is one thing. From 4% to 3%, maybe a little bit harder. From 3% to 2% might be much harder. So, oil prices are still up 12% in six months despite the recent drop. Labor markets remain tight. If you just look at the data and tune out the narratives, labor markets remain tight. So, year over year energy prices are down and that is the wild card in inflation energy prices. So, we had a CPI print in the US at 3.2%. But if you look under it, it actually bakes in, for example, a drop of 21% in fuel oil. So, are we going to get a similar drop in energy prices with tensions in the Middle East and possible cuts by the Saudis? Or OPEC? This is the wild card for inflation. And therefore, I think the risk is skewed to the upside.
#3 I always go back to valuation. We as tactical investors in the asset allocation committee tend to lean against the wind. We pay attention to valuation. So, Ritu, you didn't know what's going to do that. But here's a quiz for you. And it's a tricky question and hopefully our audience will follow along.
The price earnings ratio on the S&P 500 right now is around 21 and that includes the valuation on the Magnificent Seven, and there's a huge spread as Justin mentioned with the rest of the market. The price earnings ratio peaked recently in late 2020 at 28, so 28 versus 21 now. And it peaked at 28 because earnings were depressed due to COVID, but stimulus measures were pushing stocks higher. So, the price earnings ratio went way up. So, the trick question Ritu is are markets more or less expensive now than there were in late 2020, and this is just with rhetorical, because you could just say, well, a price earnings ratio of 21 is cheaper than a price earnings ratio of 28. However, it depends how you look at it. If you're just for the level of rates. Currently you get an earnings yield in excess of bond yields for treasuries of 36 basis points. This is the so-called equity risk premium. When the PE ratio was at 28, the 10 year was at 90 basis points and therefore the equity risk premium, the stock yield, the yield on stocks relative to the yield on treasuries was at 260 basis points. So, you could say stocks are more expensive now relative to bonds or relative to the level of yields. So, we're close to the most depressed equity risk premium in 20 years. Therefore, my third risk is indeed valuation cash yields for the S&P 500, they're at about the same. So, if you look at cash earnings 5 and 5 1/2% and the yield you get on the S&P 500, you get about the same number. Now, this does not mean you should panic. The equity risk premium is a long-term signal. It's not very good for tactical asset allocation. It just indicates a certain level of fragility, but that's it. Besides, we've had strong equity markets through history with rates above 5%, especially if you look at the longer history of capital markets.
But you know, it does raise questions if you if you're feeling like you want to go “All in”, because the narrative right now is positive, right? So, listen to Arif and don't go “all in” with a very large overweight in stocks. Arif is often the voice of reason in our committee when we get too bullish. So, you know it may, it may sound boring, but the macro distortions are still very high. Now's not the time to be a hero.
Ritu my dentist asks me for investment advice. I don't have this ever happened to you. If your dentist asks you for investment advice, it's very stressful cause you have 5 seconds before they start drilling. The only thing I can think of saying is “Stay invested. Stay diversified” and stay invested stay diversified is contrite as advice, but it's actually relevant right now. When I go back to my word of the day, Ritu, balance.

Ritu Vohora: I think that's a great one to end on. So, balance and diversification.
Justin, would you add any risks on that? So, Sebastien mentioned inflation rates, valuation.

Justin Thomson: I can't argue with any of that I would add concentrated benchmarks in themselves. Because if you look at the degree of concentration in not just U.S. equity markets, but you've seen it in other developed markets as well where Investors are funneling into a limited number of names. That in itself represents a risk, certainly a headline. It represents a risk both to passive investors and active strategies of how they express bets in that scenario.
I would add fiscal deficits and the how sustainable that is, and as we've described during this webinar so far. What might be the implications of the of the fading of that fiscal impulse? They say a bond investor walks along the sidewalk looking for the cracks. And an equity investor lies in the gutter, looking up at the stars. I don't know where that leads a multi-asset guy, neutral, I guess but and balanced.
A risk given where positioning is. And we know we know that asset allocators are long the risk free, are long cash. Think about what could go right. Think about what could go right and where, where your assets are allocated and if we have another strong year for inflation or we have another strong year for equities. Is that a risk? Is that a risk to your wealth?

Ritu Vohora: And I guess the discount rate matters across the valuations for all asset classes.
Sebastien talked around you know inflation is sticky. But it's starting to roll over and we look at some of the pressures and central banks have probably reached the end of this hiking cycle. What’s next for central banks? Is 2024 going to be the year of rate cuts?

Arif Husain: So, Ritu, it is interesting. I noticed you didn't ask me about risks because I guess we haven't got all day. But I would throw in geopolitics. Both what’s going in the Middle East. What's going on in Ukraine? But also, the

election that that's really important. And I just don't think that's really being perceived strongly enough in markets, yet. Lots of other things to be thought about.
In terms of central banks. I think the question isn't necessarily will they cut rates? The question is, is there any evidence to expect them to cut rates? Certainly. And the second question would be. Is there any evidence to expect them to cut rates more than is priced into the markets? So, Seb said earlier there's around four rate cuts priced into the US next year. There is no evidence you know, again, Seb talked about it, inflation still running in in you know well above where the Fed's target is. Employment still coming out. 150,000 per month in in the US, you know that that's way above where we need it to be to actually just get to a neutral economy. So, things are still looking pretty good.
The I think the idea of a rate cut is more of a hope now. There is no solid evidence, just yet. Now it may happen, it may happen, and if it happens, I think it's going to be deep and probably more than four cuts. However, right now looking at the world, there is not enough evidence for rate cuts. In fact, I'd probably go as far as to say, the next move globally is probably for more tightening and that that's probably going to come from Japan. But if you listen to central bankers, they're not ready. They're not ready to cut rates. They're pushing back against the market. And I think we all the whole investment community like to second guess and put ourselves onto the FOC or onto the ECB's governing committee. But we're not. We actually have to predict what they're going to do, not what we would do in their seat. And so, I'm not, I'm not into Rate cuts Yet there's not enough evidence. There isn't. There's very little evidence. And I'd probably even go as far as to say I don't think we have seen the high highs in bond yields yet big rally recently, but I do not think we've seen the peak in bond yields just yet.

Ritu Vohora: Do you think unemployment needs to crack for the narrative to change?

Arif Husain: I think unemployment, so wages is one of the most important contributors to the long-term inflation picture, right? So, unemployment does need to crack, and history tells you when employment cracks, unemployment cracks it cracks quickly and goes, you know, snowballs. Again, we've probably seen what from the from the bottom of the unemployment rate in the US. Is up half Percent so you know, it's been incremental we we've seen, we're starting to see that a little bit in Germany same we saw in Italy. So, you know jobs are less plentiful now, but we're not seeing mass unemployment yet.
My yeah, but maybe it may be extended a little bit more. I think it's going to be really hard. for unemployment to go up dramatically while the equity market is still going up, you know its CEO's, CFO's are looking at their stock price and they think things are good. If it's going up, they're not going to be letting people go. So, I actually think you got to see a financial market recession before you see an unemployment recession and then an economic recession.

Justin Thomson: I actually found myself nodding during a lot of what Arif was saying. So, there you go. It's another Black Swan event.

Ritu Vohora: Cause on that, Justin, I mean, you know we've talked about inflation rates and obviously central banks equity markets are still very strong. We've talked about Magnificent Seven. Do we see leadership changing next year?

Justin Thomson: I would expect a change in market leadership consistent with regime change. And I'm going to quote two people. One is Huw Pill, who is the on the Bank of England's monetary Policy Committee. And he used the analogy of "Table Mountain" when describing the path of rates. And there's a hike. I thought this was strong. So, Table Mountain has a very steep rise, followed by a long plateau. And I think that long plateau is that is what is driving regime change.
So, my second quote and I'm re quoting Sebastien on this, comes from Naseem Taleb who said. "Studying finance in a world of 0 discount rates is like studying physics in a world of 0 gravity", but gravity is back, so gravity is back. How does that manifest? One, the gravitational pull of different asset class. So, you're getting 5 1/2% at the moment risk free. You're getting 8 ½ % on high yield. Assuming, assuming we don't get a severe credit cycle, those look like interesting returns to me.
I think within equity markets continue to expect a regime change and one of the consequences of gravity is that valuations, as Sebastien has alluded to, valuations have an anchor. And therefore, as a careful contrarian I would be playing for relative value.
So, what does that mean within international? Within equity markets, it means international versus US. It means EM versus DM. It means small cap versus large cap. Small cap indices in the US are actually down year to date. And I think it means value as a style, but rather than growth. I think these are all the careful contrarian trades.

Ritu Vohora: And within that I mean I know when I looked at our asset allocation committee where neutral on value versus growth in the US to your point. We're overweight value internationally. Where are some of the big themes beyond styles that we're going to see opportunities in equity markets?

Justin Thomson: Well, the obvious the obvious things with internationally, obviously attractions are sectors that tend to be valued lower, whether it's banks. Whether it's resource stocks. We can see a scenario where we have a long bull market in resources that are starting. A lot of that is driven by energy and by oil. And that's partly because we think that the big productivity wave that drove oil lower for a long time, in the marginal producer, which is US shale for both oil

and gas. That productivity wave is over. Plus, there's been quite a lot of inflation, oil, oil, field services. Therefore, the cost curves in in energy are up. And on the economic maxim that the price of the commodity tends towards the cost of the marginal barrel, then we think that the path of least resistance for energy, but probably for more broadly for commodities is up. And of course, if energy is up that accelerates other themes like carbon transition, new energy, alternative sources of energy. I think those are all themes that that we should playing.

Ritu Vohora: Yeah. And I guess, you know, innovation continues to be a theme that will play, whether it's artificial intelligence or healthcare. When we look at things like GLP one, which is all the rage now, given the impact not only diabetes but obesity and the economics of healthcare as well.

Justin Thomson: You are absolutely right and we've described AI as the greatest productivity enhancer, since electricity, which is a bit which is big statement. Look you know, one of the one of the parts of this narrative is the adoption of generative AI and GPT. These chat services that happened much faster than the adoption of the initial Internet browser Netscape. It's faster than the adoption of the iPhone. This has happened very quickly.
We've been through the initial wave here, which has been the infrastructure. I think it'll take time for the genuine user cases for AI to come through, just as it did during the dot.com. What were the winning technologies? But you know, hold tight. It will continue to be a theme.
GLP-1 massive impact on healthcare, both winners and losers. We've described GLP-1 as an iPhone moment in in the Pharmaceutical industry. And we truly believe that this will be the most valuable a class of drug that has been in history. Obviously, there are direct ways to play to that 2nd and 3rd order effects. The premise of GLP-1 has created distortions in markets so. Staples, beverage, snack foods, those things have all sold off and as sound staple companies think, probably at the moment are representing something of an opportunity.

Ritu Vohora: You know, we all start changing our habits because we're all losing too much weight. So, Sebastien coming to you now. You know, when we think about multi asset portfolio stock and bond correlations have shown they can be very unstable. Particularly we saw that last year. You know, how should investors think about diversification in a balanced multi asset portfolio?

Sebastien Page: Ritu, that's a great question and it speaks to strategic asset allocation, not just tactical asset allocation. On the stock bond correlation, we've seen that when market volatility is driven by rate or inflation shocks, stocks and bonds can go down together like they did in 2022 and like they did in the 70s.
So, a take away from my book. Is that average correlations give you a false sense of security. They're misleading if you look at a history of 80 years, the 12-month stock bond correlation which it has flipped signed 29 times from positive to negative or negative to positive, and it's ranged from about -80% to plus 80%. I recognize there were regimes, though multi year periods of time when the correlation between stocks and bonds was mostly positive and then long periods where was mostly negative> but the bottom line is that we're likely to continue to go through environments when bonds are great, diversifier and environments when they're not diversifies at all.
So, you could say on average they're diversifies, but what does that mean? The way I like to think about it too is just imagine you had you put your head in the freezer and your feet in the. Oven you can still claim that on average your body temperature feels very comfortable, but it's a an average of 2 extremes. And the stock bond correlation On average, shows bonds as a diversifier, but it is very regime specific. And by the way, this is not a rant against bonds, they have their role to play. But to your question, Ritu, smart portfolio construction if you think long term strategic asset allocation must go beyond. Average correlations. So, in our portfolios. We're incorporating dynamic bond strategies, some of the strategies that Arif used to run as much as 10%, let's say have a 60/40 mix, 40% bonds as much as 10% of the 40% in some portfolios can be in dynamic bond strategies where you actually adjust the duration for the prevailing environment and on the equity side, we're adding hedged equity strategies, right? If you can't diversify hedge. And that can represent as much as 10% of the 60% in 60% stocks, 40% bonds.
Profile now back to tactical. As we look at the next 12 months, we must balance again. I go back to that word balance. And here's the biggest picture view of what's going on for the next 12 months. In my mind, upside surprises to growth. And we've had those Q3 in the US was a huge upside surprise. So we must balance that. With the lagged effects of rate hikes on the economy, so within stocks, just to mention, we're positioned for a broadening of markets long, small mid emerging markets and within bonds were barbell between cash and credit. So, we're modestly short duration. It's a balanced set of positions taking advantage of relative valuation opportunities.

Ritu Vohora: Great. Thank you, Sebastien. And so, Arif maybe I can come back to you now, Sebastien mentioned their short duration. You know one of the key questions we keep getting from clients is when do we add duration?

Arif Husain: Yeah, I recently traveling in Asia, met someone who's their boss, had assigned them the job of buying Bond yields at the top of the market I I think that person has career longevity. So, I I think there's pretty good.
So is it time to buy duration, not necessarily in government bonds Justin mentioned earlier, the fiscal overhang. The market feels pretty good because the US Treasury said we're not going to issue notes and bonds. We're going to issue T-bills. I can't think of many credit, many entities where you want them to only be able to borrow overnight. Not long

term, that's that's not a good thing. And again we as we look ahead to next year. Yeah, there is some fiscal consolidation potentially, but. You know, we got an. Election. So, I personally don't think it is time yet to buy duration.
For me the real trigger to buy duration will be to get bond yields well above that cash rate, right? So. You get paid to invest longer until you're paid to invest longer. Doesn't really make that much sense and to get bond yields above cash rates, one of two things needs to happen. Bond yields either need to rise. Or central banks need to start cutting, right? That's not to say there isn't value within fixed income, as as Seb, Seb mentioned within our asset allocation portfolios we we're finding some great opportunities, more dynamic strategies is is one place, but also in the credit markets you know default rates remain Remarkably low. There are some fantastic yields that you get offered to invest in credit and you're getting offered by some really good companies.
Now. I think it's really important that we talk about selectivity here. We can't just assume those default rates stay rock bottom forever. If certainly if you prescribe to my the hard landing is coming at some point that's going to be challenging and and one of the reasons default rates are so low at the moment is because A lot of companies managed to refinance at very low rates and they're locked in look, but they will have to refinance eventually, right? So, I I think we have a credit issue coming down the road, but in the meanwhile. Some fantastic yields Justin mentioned you can get 8 to 9%, maybe a little bit even more in high yield, exactly, but I would advise dollar cost averaging dripping in some money. You know you don't want to go all in, and you want to be selective. You really do need to be selective in credit.

Ritu Vohora: I guess you want to be on the curve as well, particularly if you think like curve is going to steepen as well.

Arif Husain: For me buy the short end, much more certainty over default rates and frankly, you're getting better yields.

Ritu Vohora: Thank you, Arif, for those thoughts. So China is one of the few countries that's still stimulating, but it's been piece meal so far amid a crisis of confidence, investors remain heavily underweight with concerns of whether geopolitics is going to drive the sources of financial returns. How are you thinking about China and do you see opportunity there?

Justin Thomson: When you say investors remain underweight, I'd say they've become progressively underweight this year for reasons I understand. The economy has structural problems, not just cyclical problems. The property sector will continue to cast a shadow over the market. There have been negative wealth effects there. I think geopolitics will continue to matter, but again, think about what can go right. This could go better. This could go better. In the meantime, my message, and you know, I'm increasingly becoming a minority of one here, but my message is that don't conflate what's happening with Chinese GDP with the potential returns from Chinese asset classes. Sentiment positioning valuations are all in your favor and it doesn't require an awful lot to go right. It's actually requires a situation where things stop getting worse, and if things stop getting worse China as a whole can do better.
The other angle that I point to is China is a very broad markets, it's 6000 individual securities in the equity market, many, many more if you include the credit market. You know that gives you a wealth of opportunity, gives you dispersion of returns. I would also say that the further you get, the further you get away from China the more heightened the sense of those risks are. We took 50 investors to China earlier this year. We met a stream of companies. I met regulators, clients. My observations are that China is open for business and really want to do business with a Western asset manager. Two just the quality of the supply chains in China mean that China will remain the world's manufacturing base for a long time. And thirdly, its technology. China is making great strides in technology and has competitive advantage. I think the next wave is China beyond China. Chinese company either setting up overseas or exporting their technology. That and plus valuations. I think there's good opportunity.

Ritu Vohora: Great. So opportunity evaluations depressed, but hopefully if we see an earnings recovery that could help sentiment more broadly. So, Arif the next question I think is for you is is around the dollar. So, US exceptionalism has been the theme for for 2023 that's really propped up the dollar. Do you see the dollar strength carrying on in into 2024?

Arif Husain: Thanks for giving me the. Easy question, right? So, long term I think the dollar exceptionalism period that we've seen over the last decade is coming to an end. I really do. Countries are finding ways to transact without the dollar.
However, and going back to a conversation you had with Seb earlier, if you think about through this year, the one asset that has provided diversification and has been a regular diversifying portfolio is the dollar. It's generally done very well. I also think the case for the dollar is nuanced long term. I think steady depreciation, especially if Justin's right about things going less wrong or better in China, that will lift the rest of the world. But in the short term the dollar gives you good diversification, good portfolio characteristics, and I think the future that dollar will be very much linked to the future of that AI miracle that we talked about earlier. Yes, if that Magnificent Seven keep leading then the dollar is going to remain strong.

Ritu Vohora: OK. And I guess that is implications for emerging markets as well.

Justin Thomson: Of course, and just to be a little bit more prescriptive on emerging markets. There are pockets of emerging markets have been very good. India has been a good market. Latin American currencies have been very strong this year. But you are right, Ritu. The dollar matters. The interest rate cycle matters for emerging markets, despite diversification of their funding base, a lot of these economies still fund in dollars. So, if the dollar is weakening that as a form of monetary easing.

Ritu Vohora: Macroeconomic forecasts have been consistently wrong over the last two years. Do you still listen to economists?

Sebastien Page: I have a note coming out on LinkedIn and the first sentence of the article is we need to cut economists some slack. The data have been distorted by the COVID stimulus.
Forecasts that linked rate hikes with higher unemployment, economics 101, have spectacularly missed the mark. For example, the feds summary of economic projections. So back last year, in December 2022 predicted an unemployment rate of 4.6% for now, for 2023, we're at 3.9 and the year is over so this is a pretty big miss. Employment has been more resilient to rate hikes than expected, and Ritu, here's a whopper. Here's a bigness. Consensus forecasts for Q3 real GDP growth in the US, and we're done with that quarter, so we know what kind of growth we got, but at the beginning of the quarter, the consensus forecast was 0.50% on an annualized basis of GDP growth. Growth came in at 4.9% and we just got a second look, it actually looks like it was 5.2%. What a miss. So where do we go from here? As the economy continues to normalize, I believe inflation and unemployment will become more predictable again.
So, let's continue to listen to talented economists.

Ritu Vohora: Thanks for the for that, Sebastien.
I just want to close the session. We've covered a lot of ground and I think you know a lot of what we talked about, there's a lot of uncertainty. The pandemic has really distorted the signals that we've seen in the marketplace. And as we sit here today, there's a lot of cash on the sidelines sitting in money market funds. And I think as we've discussed today, there are plenty of opportunities to put that cash to work. So just a quick round now - if you could invest in one trade or one asset class in 2024, what would it be? Justin?

Justin Thomson: I'm pausing cause you've just given me one. I'm gonna give you where I started, being carefully contrarian by relative value. International versus US. Emerging markets versus DM, small cap versus large cap value stocks versus growth stocks.

Ritu Vohora: Great. So, looking on the other side of valuation, Arif.

Arif Husain: None of those because are they going to beat the 7,8, 9 percent yield you can buy, you can get from short credits. That's where you should put your money incremental from cash, but you're still keeping a lot of powder dry. That's where I put my money.

Justin Thomson: I was going to give you my own personal predictions for. The year. One, I'll have read book beyond diversification by Sebastien Page.

Sebastien Page: Thank you Justin

Justin Thomson: two, I would have lost weight with the help of GLP. three, I'll become more productive with the help of AI. And four, I will become increase my wealth by being carefully contrarian in equities.

Ritu Vohora: Fantastic. Well, there's something we can put on a post it note and hold you to next year. Sebastien, how about you from a multi asset perspective?

Sebastien Page: Well, I'm going to be contrarian on the question. I actually think it's an entertaining question to ask, but it's not a good question in the current environment. So, I'm going to actually reject the premise of the question if you'll allow me Ritu and say balance a balanced strategy of stocks and bonds broadly diversified. Most boring answer, but given the moment we're in. That's what I'm going with.

Ritu Vohora: We like boring, boring is stable. So, I think the key take away is, you know, stay balanced, stay diversified, be active and there are opportunities if you're selective and really focus on that quality. Well. Thank you all for a great conversation. We covered lots of ground and hopefully for the audience, there's lots of takeaways for you to take from today's session as well.
If I can summarize our discussion, The tide can change rapidly in markets, however the tectonic market shifts we are seeing, will create new opportunities. Staying active and staying diversified are going to be key.
To learn more about the T. Rowe Price 2024 Global Market Outlook and explore other first-hand insights and guidance on markets to help inform your investing journey – please visit troweprice.com.

Thank you to everyone who joined us today, we know your time is valuable and we appreciate you giving us a piece of your day. We look forward to seeing you again soon!

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