



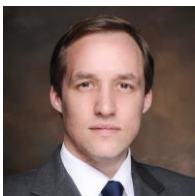
**PRICE
POINT®**

June 2018

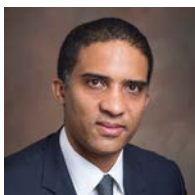
Timely intelligence and
analysis for our clients.

Emerging Markets Debt

7 QUESTIONS CLIENTS ARE ASKING



Andrew Keirle
*Portfolio Manager,
Emerging Local Markets
Bond Strategy*



Ben Robins
*Portfolio Specialist,
Emerging Markets Debt*

1. Is today's background of higher oil prices, rising rates and a strong dollar bad news for emerging markets?

The recent combination of high oil prices, rising rates and a strong dollar has had a negative impact on emerging market (EM) assets. However, we take some comfort that these risks appear to be broadly priced in. So far, we have seen only moderate outflows of capital from the asset class, suggesting there has not been a full-scale change in investor sentiment.

The effects of higher oil prices are mixed, as some countries benefit (Russia, Colombia, Malaysia) while others don't (India, Turkey, Central and Eastern Europe). In aggregate, the universe is roughly neutral to oil prices. If a more typical relationship between commodity prices and the dollar reasserts itself, it should provide something of a cushion to EM currencies (FX).

Rising US rates were felt in the hard currency EM debt (EMD) market in the first quarter, but local yields have remained close to January 2018 levels. We don't think 10-year Treasuries at 3% will fundamentally change the value proposition for EM, though investors may rotate away if rates continue rising. We think the market has largely priced in the present US rate outlook, but there is some risk if US growth or employment surprise on the upside.

The dollar is the hardest to call in the near term. A rebound in European growth would likely slow or arrest dollar appreciation, as would further EM rate hikes. Longer term, we are focused on fundamental FX valuations, which look (generally) cheap in EM.

2. Will inability to finance current account deficits trigger an EM crisis?

The average current account is balanced across EM, and some countries (Russia, Brazil) have enough reserves to cover all of their external liabilities. However, external liabilities are a risk for certain countries (Argentina, Turkey) and remain something we watch very closely both from a fundamental and technical perspective.

3. Will sovereign and corporate issuers be unable to repay US dollar borrowing?

Understanding the ability of EM issuers to repay borrowing requires country-by-country and company-by-company analysis. But at both a corporate and national level, US dollar liabilities are not presently a point of widespread vulnerability. Most corporate borrowers and countries prefunded their medium-term spending needs early in 2018 or in 2017 when markets were more accommodative.

There are, however, countries and companies that are very dependent on external funding, such as Turkey, Argentina, and lower-quality financials and real estate developers. These we have avoided.

4. Against a backdrop of widespread political turmoil, how do you see geopolitical risk?

Some of the weakness in countries like Brazil is a justified reaction to political uncertainty, while outcomes in Mexico and Russia may be more benign than the market expects. We tend to tackle these issues country-by-country and try to reduce or partially hedge exposure if we are not getting paid for the volatility.

Broader geopolitical risks (euro-area stress, North Korea, Iran, US trade policy etc.) are harder to forecast and hedge, as their materialization would likely catalyze a broad sell-off across all risk assets. We hold small positions in safe havens or hedges (such as the Japanese yen or CDS) against these types of risks but will not try to make wholesale changes to positioning, as we do not think we (or anyone else, for that matter) have an edge in precisely forecasting geopolitical flash points.

5. Many investors went long EM in their hunt for yield. Higher developed-market rates are forcing a painful technical unwinding. Do these EM outflows reflect the beginning of problem?

Thus far we have not seen a wholesale change in risk appetite (flows are actually positive year to date), but emerging markets have recently seen notable outflows from shorter term or retail-based investors. It is not our base case, but there is a risk this could turn into a vicious cycle if capital outflows lead to more fundamental problems, as they have in Argentina.

However, we think the combination of good fundamentals and a still-significant yield premium will keep many investors in their EM positions. This is consistent with flow data and what we are hearing from institutional clients.

6. If they are forced to tighten interest rates to defend their currencies, will EM economies slow down, or even collapse?

This is certainly a risk in some markets, but not currently a major concern as monetary conditions remain broadly neutral. That said, Indonesia and India have made defensive rate hikes recently and Argentina and Turkey have made aggressive adjustments to address cyclical and external risks.

At this point we have not seen widespread tightening, but we may see more tightening and slowing growth if currencies are still under pressure in two to three months. However, most EMs have rate hikes priced into expectations, so market disappointment may be limited.

7. Will currency declines lead to deleveraging and negative consequences across emerging markets?

At this point, emerging markets stresses are predominantly idiosyncratic. However, if countries with good fundamentals come under significant pressure, there is the risk of a self-fulfilling prophecy whereby FX depreciation leads to rate hikes, leading to stagflation. However, a significant proportion of EMs—including many in Asia and CEE but also the Andean countries (Bolivia, Colombia, Ecuador, Peru)—have seen limited fallout from recent volatility, underscoring our view that it remains a case-by-case phenomenon.

INVEST WITH CONFIDENCE®

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

To learn more, please visit troweprice.com.

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

Transactions in securities denominated in foreign currencies are subject to fluctuations in exchange rates which may affect the value of an investment. Returns can be more volatile than other, more developed, markets due to changes in market, political and economic conditions. Debt securities could suffer an adverse change in financial condition due to ratings downgrade or default which may affect the value of an investment.

Important Information

This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, and 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 noted on the material 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.

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.

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—Issued in the European Economic Area 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.

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

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. All rights reserved.

201806-527727