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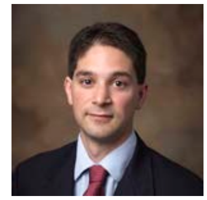
US EQUITIES: DELIVERING IN A WEAKER ENVIRONMENT



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A degree of calm has returned to global equity markets in early 2019, following the tumultuous end to 2018. However, the concerns that were so prevalent during the fourth quarter of 2018, have not disappeared, so a higher level of general market volatility is anticipated in 2019. That said, the basic building blocks of company performance remain intact – corporate earnings continue to grow at a solid rate and the revenues underlying that earnings growth is also resilient. Meanwhile, the steep declines seen in late 2018, particularly among growth stocks, has generally brought valuations down to more reasonable levels.

TARGETING ‘ALL-SEASON’ GROWTH COMPANIES

Whatever the prevailing environment, we are essentially trying to build a portfolio of “all-season” growth companies that we think can do reasonably well in most economic and market environments. Accordingly, we remain selective and opportunistic in our approach, targeting high-quality companies that benefit from long-term, secular trends, and so offer durable growth potential.

Perhaps the best example of the all-season resilience of this approach, was during the volatile 4th quarter of 2018. Uncertainty and sharp declines characterized global equity markets at the end of 2018, as concerns about weaker global trade, rising US interest rates and slowing economic growth, all took a toll on sentiment. This backdrop proved particularly challenging for growth-oriented investors as higher beta and higher P/E names saw heavy selling.

Despite the market turmoil of Q4 2018, during which the S&P 500 Index fell -13.5%, this period helps to highlight that, despite the T. Rowe Price U.S. Large Cap Growth Equity Strategy’s clear growth remit, investment discipline and strong stock selection can add value in both rising and falling market environments.

KEY INSIGHTS UNDERAPPRECIATED BY THE MARKET

In terms of portfolio positioning, stock selection within the information technology (IT) sector proved a decisive factor in the strategy’s performance recently. In Q4 2018, for example, the sector saw heavy selling pressure, finishing nearly -20% lower for the quarter. However, our large underweight in poor-performing Apple, (given our view of softening product cycles), and positive relative performance from certain cloud-related holdings, meant that our IT exposure provided a large part of the strategy’s performance.

Elsewhere, we maintain an overweight position in health care, largely due to our high-conviction view of managed care companies. Health care services is an area where we believe we have some real insights that are under appreciated by the market. One of these relates to the ongoing shift in U.S. health care costs, with users having to pay an ever-increasing out of pocket cost for their health care. In the past, health care users had almost all their costs paid by an external party. However, with users increasingly having to cover more of their health care costs themselves, this is driving more rational spending behavior, more predictable claims, and higher profitability for the healthcare insurance companies.

From a fundamental perspective, 2019 looks like being another strong year for health care services. As such, despite stellar returns over the past year, company valuations do not look particularly stretched, in our view. In fact, current earnings multiples are little changed from a year ago, given the roughly 40% growth in health care services company earnings in 2018.

The sharp decline in equity markets in late 2018 means that valuations in some of the more expensive, growth-oriented stocks are now looking less onerous. We continue to favour high-conviction names in areas like health care, IT and communication services. Conversely, we are cautious about structurally challenged industries like retail, cyclical sectors like industrials and defensive areas such as consumer staples.

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

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