FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.

T.RowePrice®
INVEST WITH CONFIDENCE

PRICE POINT
December 2015

Timely intelligence and analysis for our clients.

European Equities.
MUTED EUROPEAN RECOVERY CALLS FOR SELECTIVE APPROACH.



Raymond Mills
Portfolio Manager, International Core Equity Strategy

EXECUTIVE SUMMARY

A muted market and economic environment suggests that stock selection will be critical going forward.

- Europe's economy started to grow again in 2015, but the recovery remains modest and vulnerable.
- Corporate earnings have yet to recover, but they have room to grow if the economic recovery continues.
- Stock valuations vary widely by sector. Some consumer staples and health care stocks look richly priced, while select financials and consumer discretionary names look more reasonable.
- Fundamental research and effective stock selection will be important in this uncertain, slow-growth environment.

ECONOMIC RECOVERY REMAINS MODEST AND VULNERABLE

Europe's economy edged into expansive territory in 2015. The European Central Bank's (ECB) quantitative easing (QE) program weakened the euro and helped eurozone exporters become more competitive in the global marketplace. In addition, low energy costs are boosting consumer pocketbooks, and some observers are optimistic that businesses will eventually increase capital spending amid the increased liquidity and reduced financing costs resulting from QE.

Several factors suggest that the recovery remains modest and fragile, however. Despite the easy-money environment, many businesses are reluctant to spend due to the potential for slowing growth in China and other emerging markets to weigh further on an already modest recovery. Additionally, the flip side of low financing costs is that they may allow inefficient "zombie" companies to hang on longer than is healthy for the

As a result, we are optimistic that even modest revenue growth could generate sizable earnings gains for companies with strong operating leverage.

region's economy. Although core inflation has risen since the beginning of 2015, it remains well below the ECB's 2% target rate. While a few European governments have made progress on economic restructuring—Italy and Spain, for instance—overall progress has been spotty, and some countries, such as France, have made little headway.

Recent data reflect the uneven backdrop: second-quarter 2015 gross domestic product (GDP) growth in the eurozone was revised up to a 1.6% annualised rate, but full-year growth is likely to remain below 1%, and expectations for 2016 have been revised modestly lower according to the ECB. The euro area's year-over-year seasonally adjusted unemployment rate inched down in 2015, but the overall rate remains elevated, and conditions vary widely between individual countries.

EARNINGS AND VALUATIONS ARE A MIXED BAG

Earnings and profit margins for European companies are still well below pre-global financial crisis levels, and a meaningful earnings recovery remains elusive. In the most recent earnings season, enthusiasm over companies that beat expectations was largely offset by earnings disappointments and profit warnings. However, many European companies have slashed costs in recent years by moving operations to lower-cost locations, rationalising their business models, and refinancing debt at lower interest rates. As a result, we are optimistic that even modest revenue growth could generate sizable earnings gains for companies with strong operating leverage. A close relationship has historically existed between European economic growth and earnings for European companies. Improved operating leverage suggests room to grow earnings if economic recovery can be sustained.

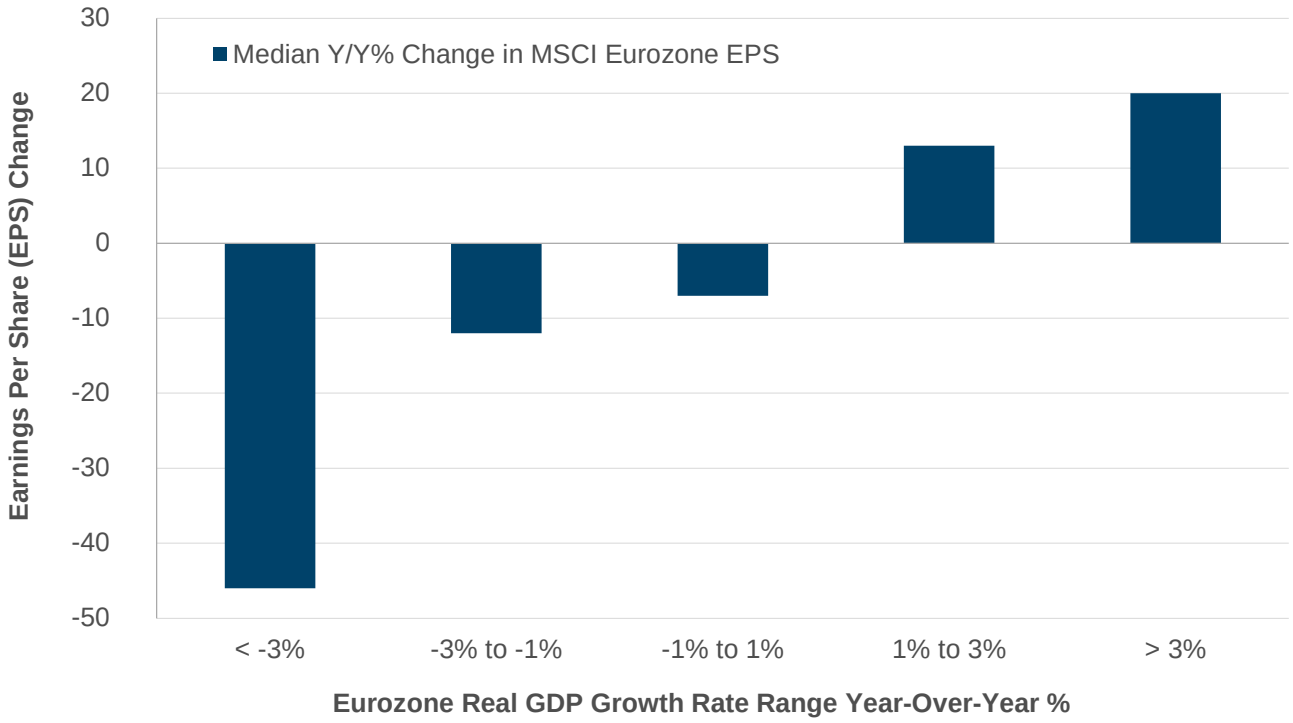
As of November 2015, the forward price-to-earnings ratio of the MSCI Europe Index is around 15x, but there are major differences between sectors. The traditionally defensive consumer staples and health care sectors have had a good run over recent years, but both sectors appear richly priced as a result. Stock-specific opportunities can still be found, however. For instance, a number of health care stocks have been hurt due to their exposure to slowing economic growth in emerging markets. Nevertheless, growth prospects for many of these names remain solid as recent economic weakness is unlikely to weigh heavily on the growing secular demand for better health care in developing economies.

Valuations are more reasonable in select European financial companies, and we are looking for opportunities that should benefit if business and consumer loan demand improve along with the region's economy. Concerns about China's slowing growth and global overcapacity have weighed on some industrial stocks, but we continue to search for high-quality companies able to separate themselves from the pack through stronger balance sheets, better technology, and greater efficiency. Softer demand from China and other emerging markets has also hurt some of the larger multinational companies in the consumer discretionary space, and opportunities are becoming harder to find. However, the recent weakness has resulted in a number of well-managed companies selling at favourable valuations.

Elsewhere, weak global demand growth and overcapacity concerns will continue to weigh on commodities prices and materials-related companies. Energy and utilities shares have also been hit hard by a global supply/demand imbalance and sluggish economic growth, and we do not expect a meaningful reversal of these trends over the near term. With that said, we are always interested in companies with strong business models and good growth prospects that may get caught in a broader downdraft.

Figure 1: A Close Relationship Has Historically Existed Between European Economic Growth and Earnings For European Companies. Improved Operating Leverage Suggests Room to Grow Earnings If Economic Recovery Can Be Sustained.

(1992 to June 2015)



Past performance is not a reliable indicator of future performance.

Source: J.P. Morgan.

FINDING OPPORTUNITIES IN A MODEST RECOVERY

We expect Europe's economic recovery to slog ahead with muted overall growth. At the same time, we are keeping a watchful eye on potentially disruptive near-term risks, including a sharper-than-expected economic slowdown in China and other emerging markets. Longer-term challenges include social and political unrest associated with rising immigration, as well as the mountain of debt burdening several countries, particularly France.

In this uncertain market and economic environment, we are focused on high-quality, domestically oriented businesses and potentially oversold global franchises. As always, our decision to invest in a particular stock depends on a detailed analysis of a company's fundamentals where we look for well-managed companies with healthy balance sheets, attractive business models, and the potential to grow earnings over time.

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.

Important Information

This material (including any statements, information, data, and content contained within it) and any materials, information, images, links, graphics, or recording provided in conjunction with this material are being furnished by T. Rowe Price for general informational purposes only. The material is not intended for use by persons in jurisdictions that 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. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price. The material does not constitute a distribution, an offer, an invitation, a recommendation, or a solicitation to sell or buy any securities in any jurisdiction. The material has not been reviewed by any regulatory authority in any jurisdiction. The material does not constitute advice of any nature, and prospective investors are recommended to seek independent legal, financial, and tax advice before making any investment decision. 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 views contained herein are as of December 2015 and may have changed since that time. Unless indicated otherwise, the source of all market data is T. Rowe Price.

Source for MSCI data: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

Australia - Issued in Australia by T. Rowe Price International Ltd (ABN 84 104 852 191), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. T. Rowe Price International Ltd is exempt from the requirement to hold an Australian financial services licence in respect of the financial services it provides in Australia. T. Rowe Price International Ltd is authorised and regulated by the UK Financial Conduct Authority under UK laws, which differ from Australian laws. For Wholesale Clients only.

Canada - Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services. T. Rowe Price (Canada), Inc. is not registered to provide investment management business in all Canadian provinces. The investment management services provided by T. Rowe Price (Canada), Inc. are only available for use by Accredited Investors as defined under National Instrument 45-106 in those provinces where it is able to provide such 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 Limited, 60 Queen Victoria Street, London EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

Hong Kong - Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 21/F, Jardine House, 1 Connaught Place, Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

Japan - Issued in Japan by T. Rowe Price International Ltd, Tokyo Branch (KLFB Registration No. 445 (Financial Instruments Service Provider), JIAA Membership No. 011-01162), located at GranTokyo South Tower 7F, 9-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6607. This material is intended for use by Professional Investors only and may not be disseminated without the prior approval of T. Rowe Price International Ltd, Tokyo Branch.

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

Switzerland - Issued in Switzerland by T. Rowe Price (Switzerland) GmbH ("TRPSWISS"), 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. in the United States, European Union, and other countries. This material is intended for use only in select countries.