**LIVE WEBCAST**

**June 28, 2017**
**4 p.m. (ET)**

# What's on Your Mind:
## Answers for Today's Individual Investors

Views on Equities, Bonds, and Asset Allocation Positioning

*Featured Speakers*


**Darrell Riley**
**Kurt Umbarger, CFA**

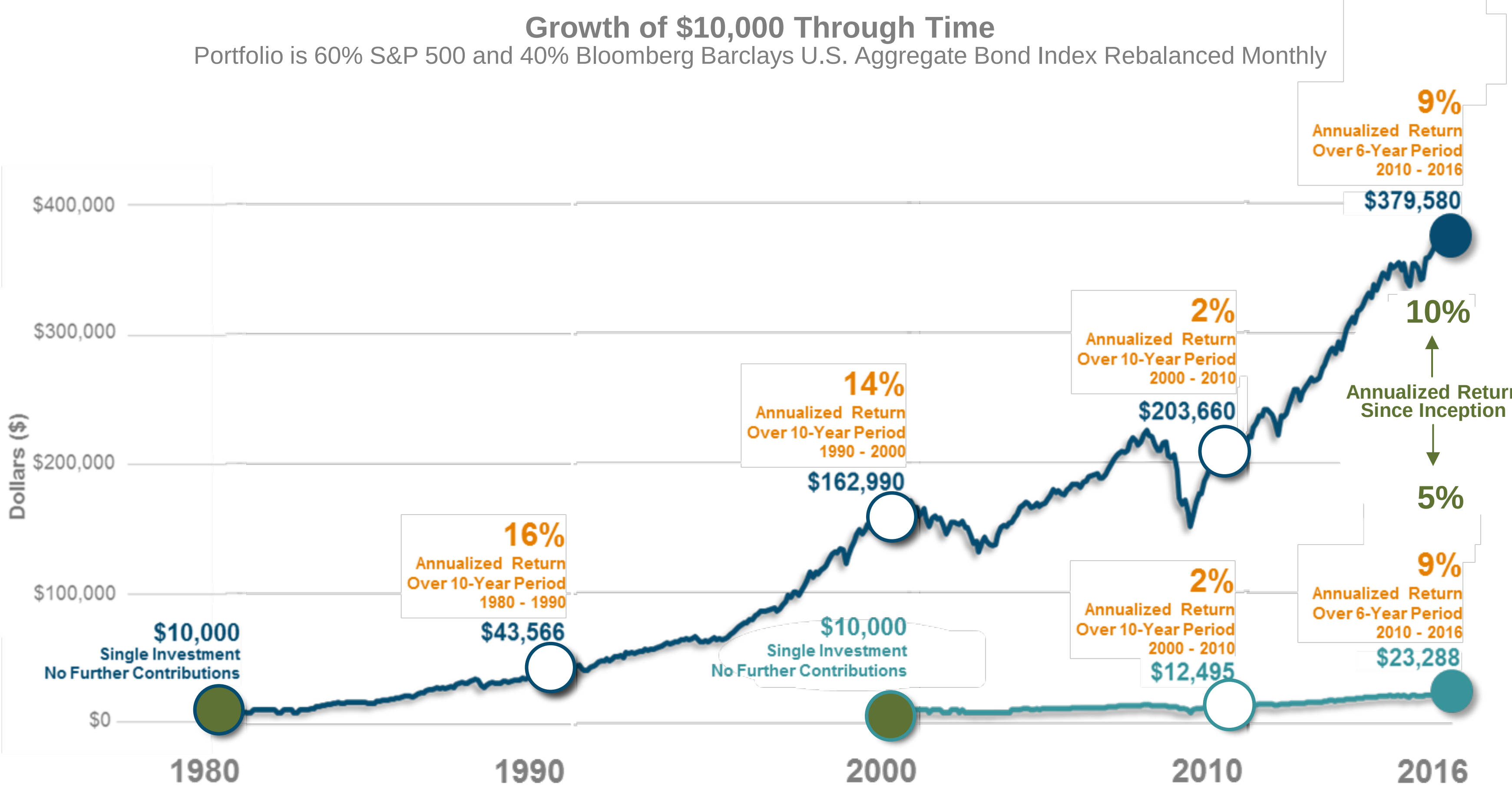
**Terry Moore, CFA**
**Roger Young, CFP®**

Where are we in the current market cycle?

What return assumptions are realistic today?

How is T. Rowe Price positioning stocks versus bonds?

# Your Investment Lifetime




**The example provided is hypothetical and used for illustration purposes only.** It is not possible to invest directly in an index.
Source: Bloomberg Index Services, Ltd., Copyright 2017, Bloomberg Index Services Ltd. Used with permission.
Does not consider taxes, fees and account type.



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# Forces Behind Slow Growth and Low Rates

## Aging Demographics

- Fewer workers
- Shortage of demand

## Weak Productivity Growth

- Loss of worker skill
- Less educational attainment

## Globalization

- Lower wages
- Fewer middle-class jobs

## Over-indebtedness

- Leads to fiscal austerity
- Less consumer spending

## Global Savings Glut

- Strong capital inflows
- Drives interest rates lower

# Solutions

## Solutions for Slow Growth and Low Rates

### Grow the Labor Force

- Immigration of high skilled workers
- Increasing labor force participation

### Improve Worker Competitiveness

- Improve the skill set of new workers
- Re-skill workers displaced by automation

### Provide Incentives for Investment

- Tax and regulatory reform
- Repatriation of overseas profits

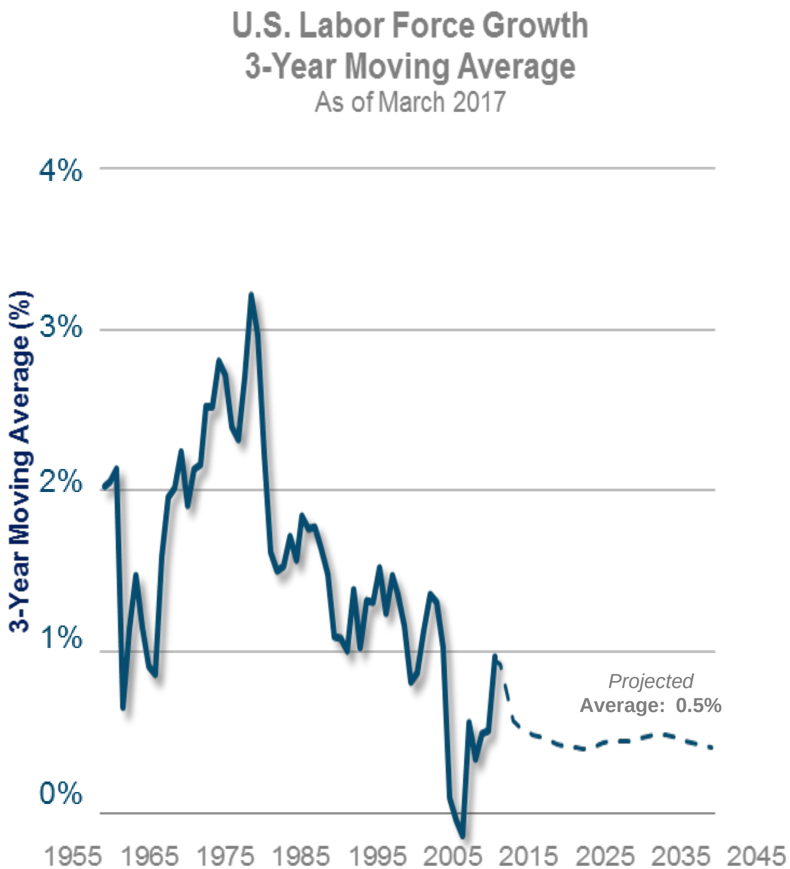
### Enhance Productivity Innovation

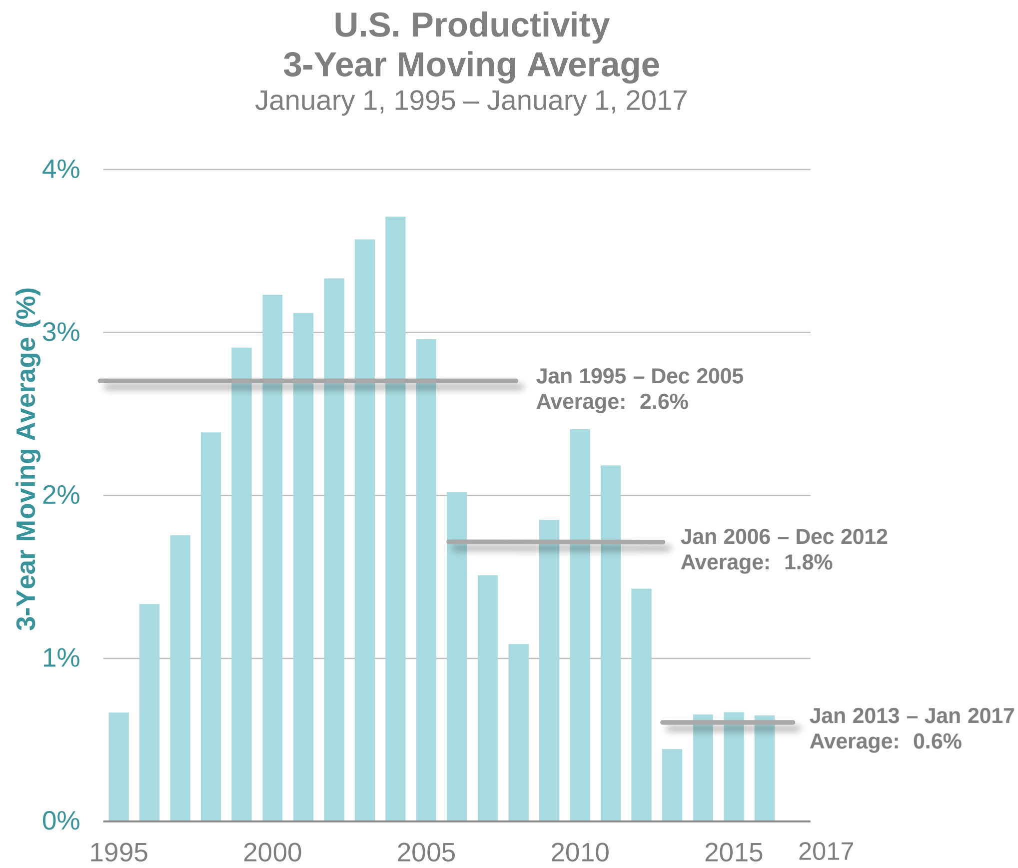
- Investment in the next miracle technology
- Other countries enjoy American innovation

### Increase Government Spending

- Expansionary fiscal policy
- Infrastructure to boost employment

# Labor Force and Productivity Growth




Two big headwinds to economic growth in the U.S. are the slowdown in the growth of the labor force as the population ages, and weak productivity growth, for reasons that are not entirely clear.

Source: Bureau of Labor Statistics.

# Return Decomposition

| 5% - 8% | | 1% - 2% | | 2% | | 2% - 4% | | 0% |
|---|---|---|---|---|---|---|---|---|
| **U.S. Equity Return** | = | **Inflation Expectations[1]** | + | **Dividend Yield** | + | **Real Earnings Per Share Growth** | + | **Valuation Changes[2]** |

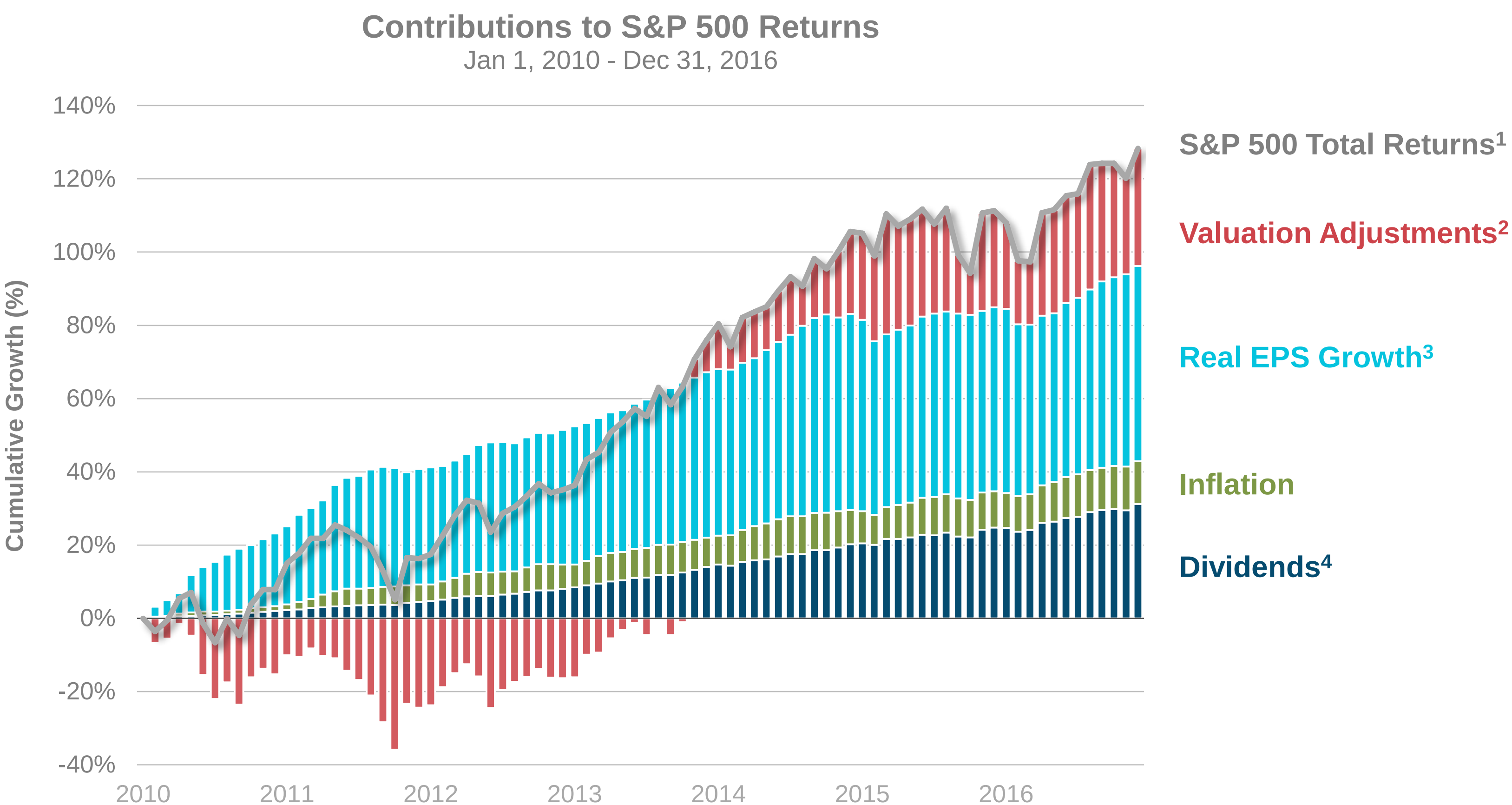
Return assumptions take a long-term view, given the duration of investment decisions, and reflect the reality of intermediate-term demographic, economic, and market conditions.

**For illustrative purposes only.**

[1] Our long-term inflation expectation is 3%.

[2] Over short-time horizons, valuation changes can dominate equity returns. Over longer periods, the impact of valuation changes will approach zero as short-term fluctuations offset each other.

# S&P 500 Return Decomposition




The current bull market is characterized by a steady contribution from earnings, inflation, and dividends. There have been periods of both multiple compression and multiple expansion.

Sources: FactSet, Standard & Poor's, and Haver Analytics.

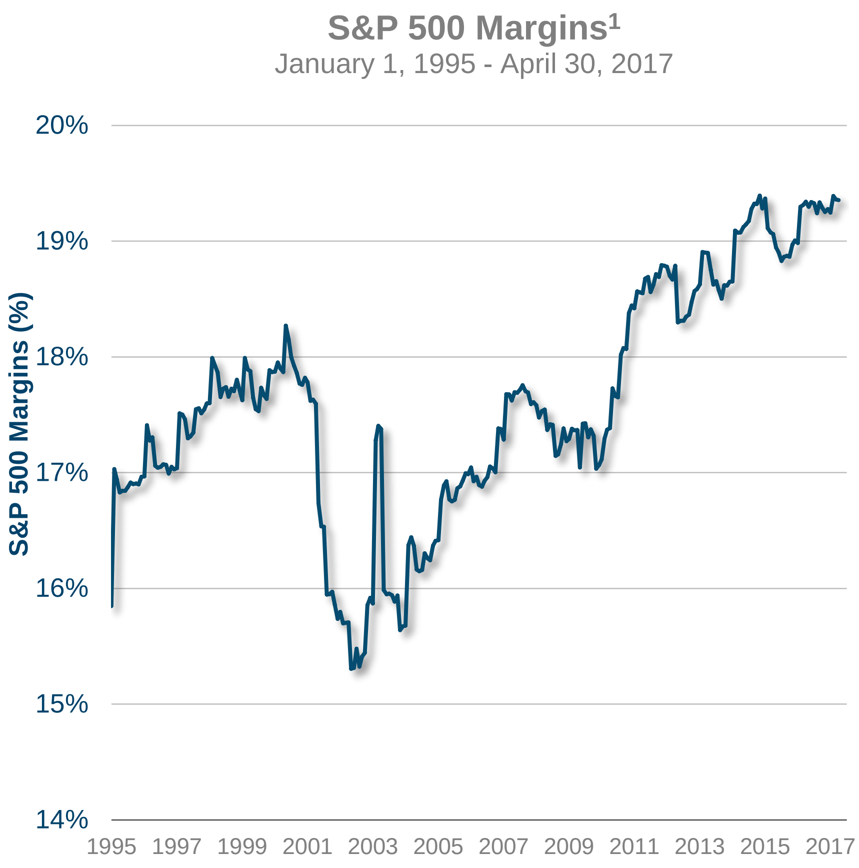
[1] S&P 500 total returns includes dividends.

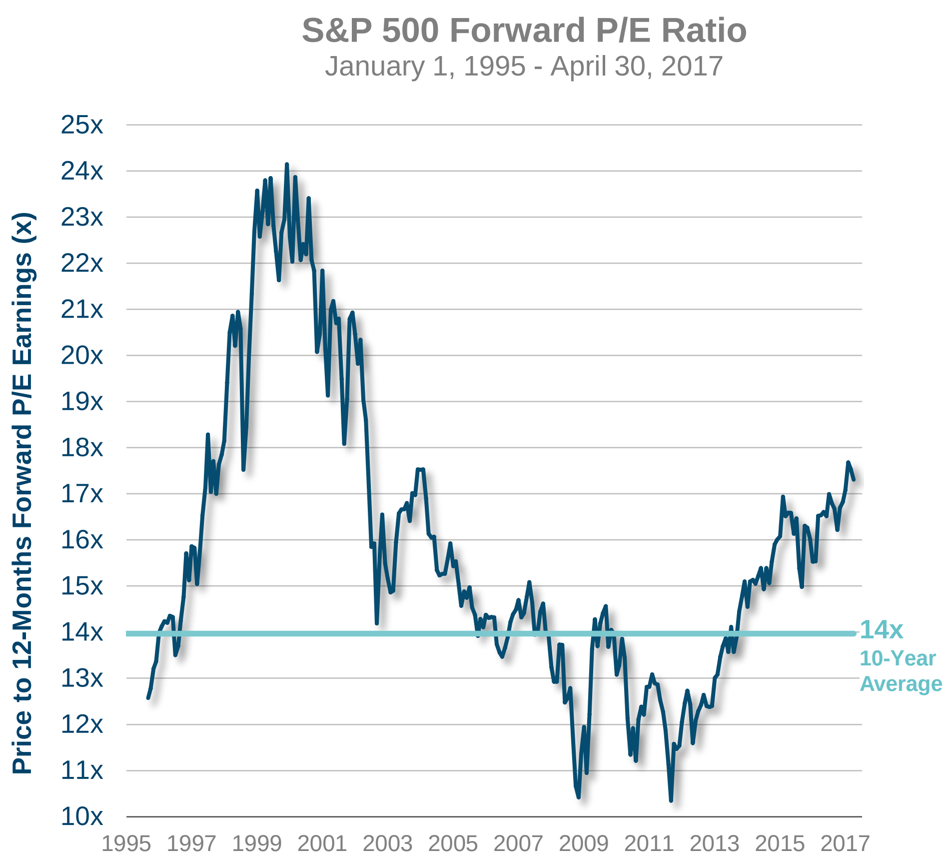
[2] Valuation adjustments include multiple expansion and contraction, effects of compounding, and share count reduction.

[3] Real earnings per share (EPS) Growth shows the inflation-adjusted cumulative next 12 months' EPS growth for the S&P 500.

[4] Dividends reflect the difference between the S&P 500 Total Return Index and the S&P 500 Price Index. The 2 indices diverge because in the S&P 500 Total Return Index, dividends are reinvested back *into the index* when received and continue to grow. Consequentially, the annualized return from dividends and reinvestment will be higher than the simple dividend yield in the S&P 500.

# Late in the Market Cycle? Yes




Investors who believe U.S. equities are late in the market cycle are concerned about peak corporate profit margins and rich valuations relative to history.

Sources: FactSet, Standard & Poor's, before interest, taxes, depreciation, and amortization. IMF World Economic Outlook.
[1] Earnings before Interest, taxes, depreciation and amortization



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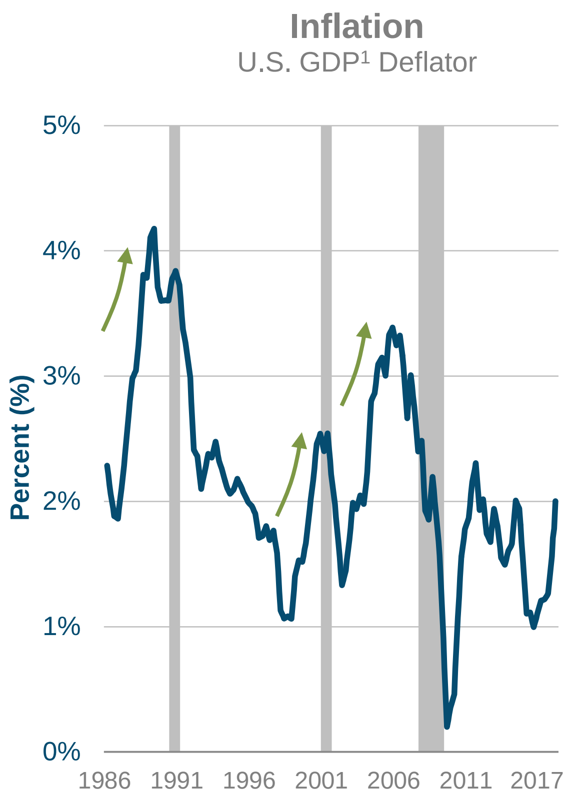
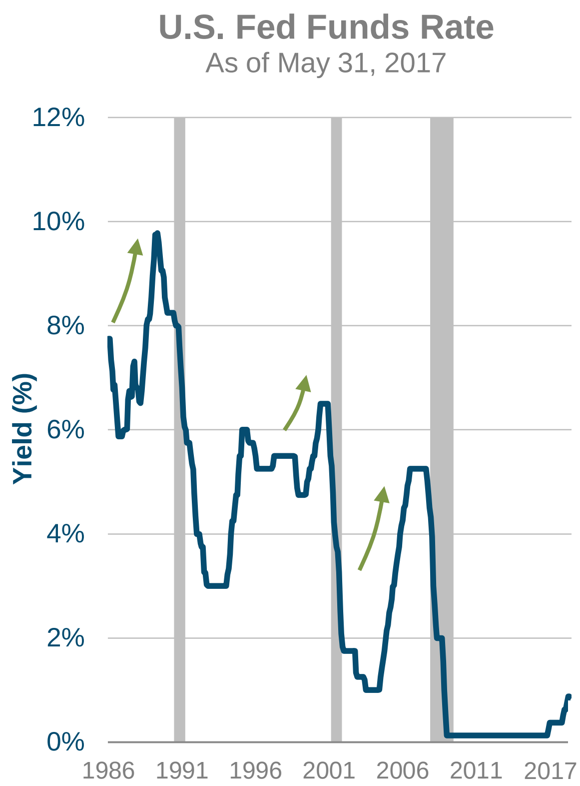
# Late in the Market Cycle? No

As of March 31, 2017



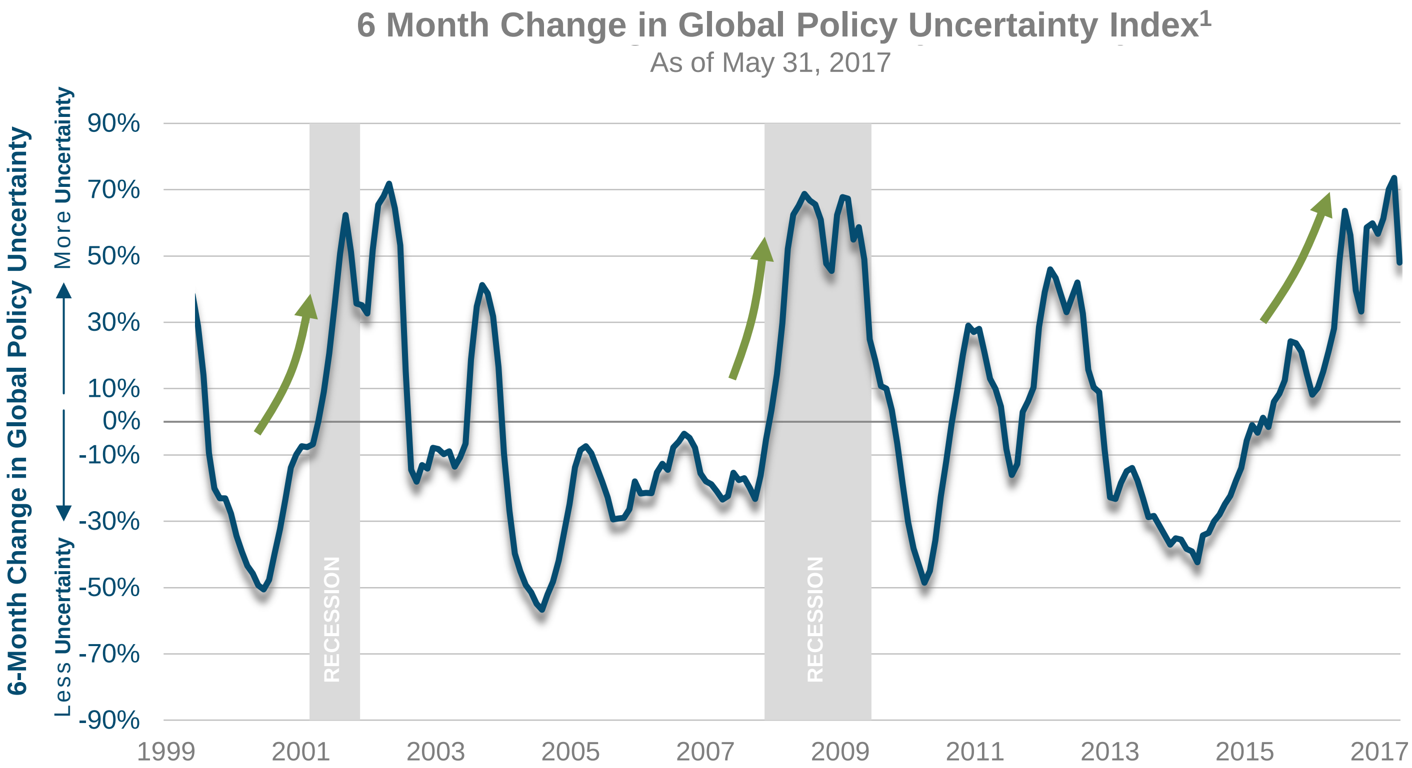





Investors who believe U.S. equities will go into "extra innings", - point to low inflation, a Fed early in its rate hiking cycle, and a positively sloped yield curve.

Sources: Federal Reserve Board, Bureau of Economic Analysis, Bureau of Labor Statistics, Haver Analytics, and FactSet; gray regions represent recessions.
[1] Growth domestic product.

# Business and Policy Uncertainty




Rising policy uncertainty is a concern for investors because it has been associated with recession in the recent past.

Sources: Haver Analytics, National Federation of Independent Business, and T. Rowe Price.

[1] the Global Policy Uncertainty Index is based on the work by Baker, Bloom, and Davis. The index reflects the frequency of articles in 10 leading U.S. newspapers that contain the following trio of terms: “economic” or “economy”; “uncertain” or “uncertainty”; and one or more of “Congress,” “deficit,” “Federal Reserve,” “legislation,” “regulation,” or “White House.” In this analysis, the Global Policy Uncertainty Index has been smoothed over trailing 6-month periods with the goal of reducing one-off impacts.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# Portfolio Composition

As of June 2017

## Asset Class Positioning

| Sample Balanced Strategy | Equity | Fixed Income[1] |
|---|---|---|
| **Neutral Weights** | **60%** | **40%** |
| Target Weights | 58% | 42% |
| ***Under / Over Weights*** | ***Under -2%*** | ***Over +2%*** |

Our multi-asset strategies are currently underweight global equities. Global equities appear expensive, leaving them vulnerable to policy or earnings growth disappointments.

**For illustrative purposes only. Under normal market conditions.**

[1] Bonds include cash and cash-benchmarked strategies.

# Equity Overview

Speaker: **Kurt Umbarger, CFA**
Equity Portfolio Specialist

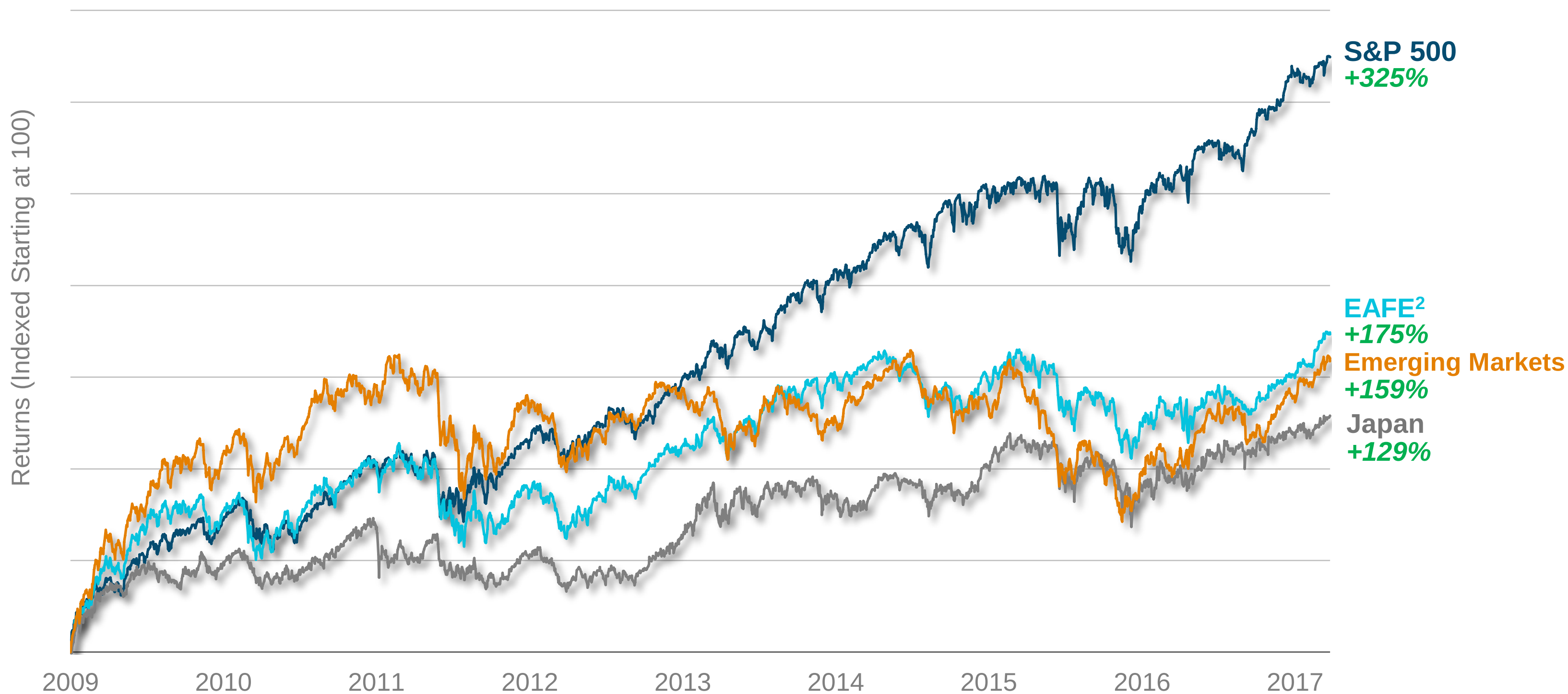
How much longer can this bull market run?

What is the outlook for U.S. equities versus international equities?

What are the key opportunities and risks going forward?

# U.S. Has Led the Global Equity Bull Market

**Regional Returns**
March 9, 2009[1] - May 31, 2017




U.S. equities have led the bull market run, but international markets are earlier in their economic recovery and offer opportunity from current levels.

**Past performance cannot guarantee future results.**

[1] Index level begins on March 9, 2009, which was the low point for the S&P 500 during the financial crisis.

[2] Europe, Australia, Asia, and Far East.

Sources: FactSet, Standard & Poor's, and MSCI. Returns in USD.

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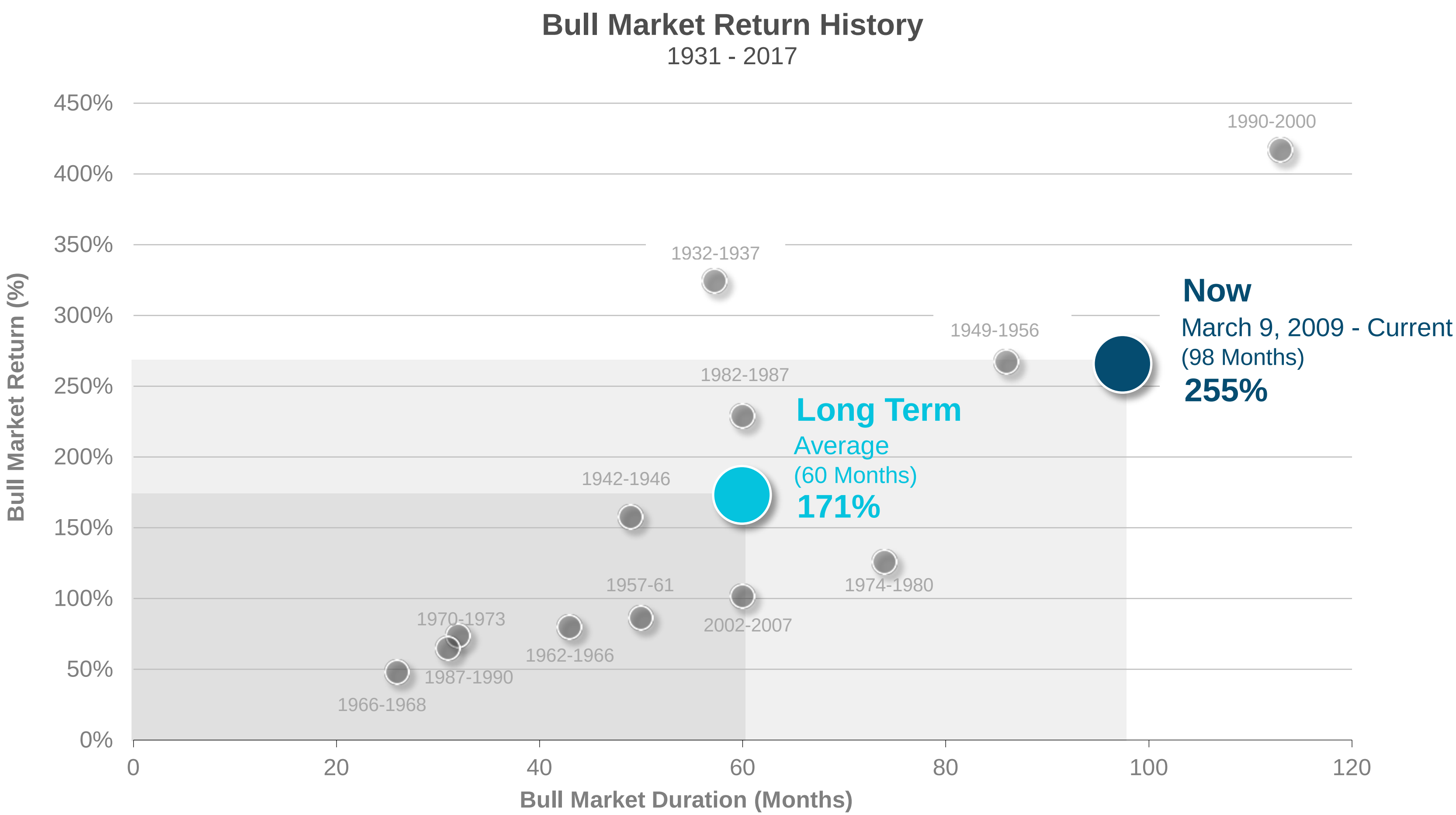
# How Much Longer Can the Bull Run?




The current bull market has already lasted longer than all but one bull market since 1928.

Source: Strategas Research Partners.



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# The Economic Data Remain Supportive…

As of June 2, 2017

| | *Pre-recession* Peak | | | | | |
|---|---|---|---|---|---|---|
| Recession Period | Unemployment Rate (%) | Wage Growth (%) | Yield Curve (%) | Inflation (%) | Fed Funds Rate (%) | GDP Growth (%) |
| *Dec 1969 – Dec 1970* | +3.4% | +6.8% | -0.28% | +6.1% | +5.0% | +5.5% |
| *Nov 1973 – Apr 1975* | +4.6% | +8.1% | -1.27% | +4.7% | +10.3% | +7.6% |
| *Jan 1980 – Aug 1980* | +5.6% | +8.6% | -1.65% | +12.0% | +13.4% | +6.7% |
| *Jul 1981 – Dec 1982* | +7.2% | +9.4% | -2.65% | +12.4% | +17.5% | +3.1% |
| *Jul 1990 – Apr 1991* | +5.0% | +4.4% | +0.13% | +5.7% | +8.3% | +4.3% |
| *Mar 2001 – Dec 2001* | +3.8% | +4.3% | -0.53% | +2.8% | +5.3% | +5.3% |
| *Dec 2007 – Jul 2009* | +4.4% | +4.2% | -0.38% | +2.9% | +3.1% | +2.9% |
| **Current Level** | **+4.3%** | **+2.4%** | **+1.17%** | **+2.3%** | **+1.0%** | **+2.0%** |

While the current economic expansion has lasted a very long time, economic data do not point to an imminent recession.

Pre-recession peak is defined as the peak or trough (whichever applicable) of the data series during the 18 months prior to recession. Wage growth is defined as the year-over-year change of average hourly earnings of production and non-supervisory employees. Yield curve is defined as the 10-year U.S. Treasure benchmark yield minus the 3-month U.S. Treasure benchmark yield. Inflation is defined as the year-over-year change of core CPI. GDP growth is defined as the year-over-year change of real GDP.

Sources: RBC Capital Markets, Haver Analytics, Federal Reserve, FactSet.

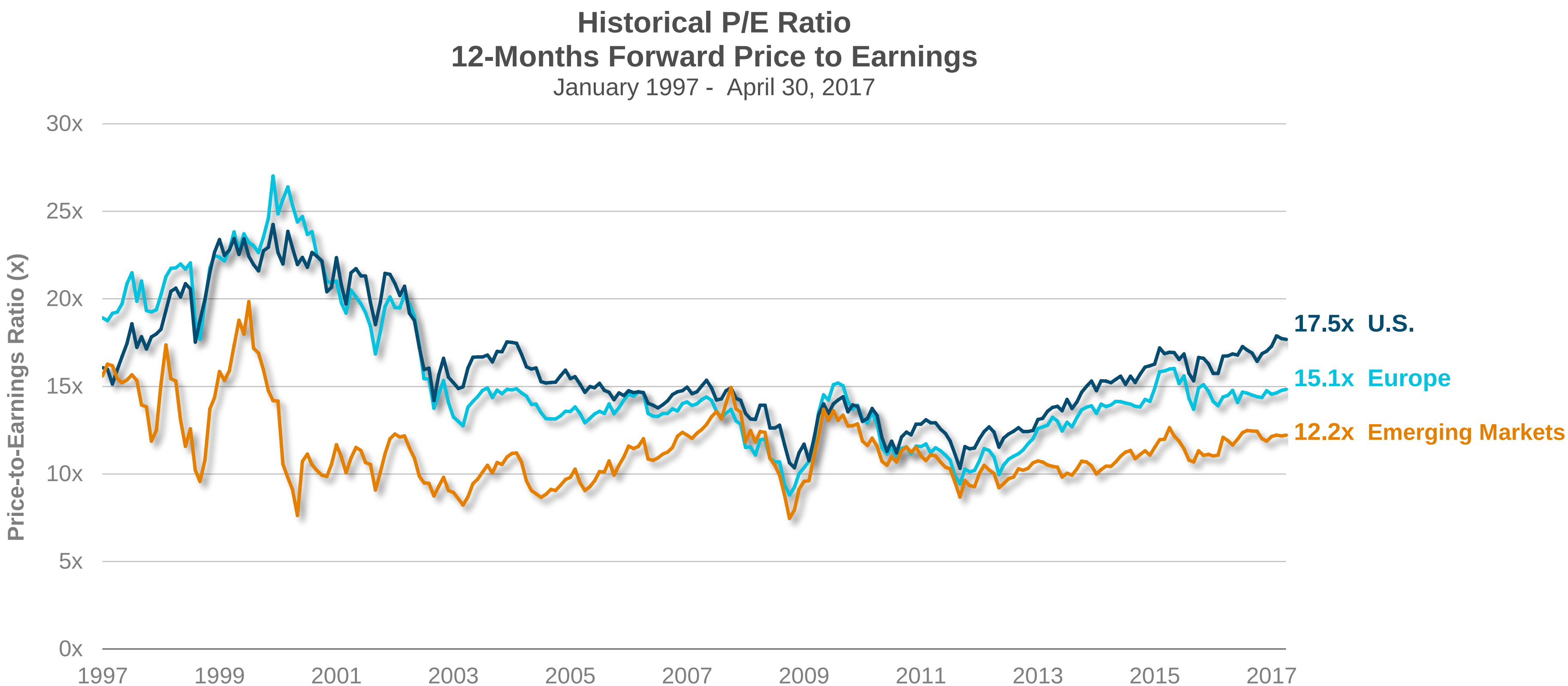
# ...However, Bear Markets Typically Begin Before a Recession

| Recession Period | Start Date | # of Months *Before* Recession | # of Months *After* Trough Until Market Hit Pre-recession Peak | Bear Market Peak-to-Trough (%) |
|---|---|---|---|---|
| | **Bear Market Timing** | | | **S&P 500 Cumulative Price Return** |
| ***Dec 1969 – Dec 1970*** | May 26, 1969 | 6 | 22 | -36.06% |
| ***Nov 1973 – Apr 1975*** | Jan 11, 1973 | 10 | 69 | -48.20% |
| ***Jan 1980 – Aug 1980*** | Feb 13, 1980 | -1 | 4 | -17.07% |
| ***Jul 1981 – Dec 1982*** | Nov 28, 1980 | 8 | 3 | -27.11% |
| ***Jul 1990 – Apr 1991*** | Jul 16, 1990 | 0 | 4 | -19.92% |
| ***Mar 2001 – Dec 2001*** | Mar 24, 2000 | 12 | 38 | -49.15% |
| ***Dec 2007 – Jul 2009*** | Oct 9, 2007 | 2 | 48 | -56.78% |
| **Average** | **---** | **5.3** | **31** | **-36.33%** |

While a recession does not appear imminent, we do appear to be in the mid-to late stages of the current economic expansion. Bear markets typically begin before the recession occurs.

Sources: RBC Capital Markets, FactSet, Standard & Poor's.

# Valuations Have Risen, but Are Not Extreme




Equity valuations have risen as markets have moved higher, particularly in the U.S. International valuations are more compelling, but economic and earnings improvement are necessary for the value to be realized.

**Past performance is not a reliable indicator of future performance.**
Sources: FactSet,and MSCI.

# Earnings Are Expected to Improve

| Earnings Per Share Growth | 2014 | 2015 | 2016 | 2017 Estimate | 2018 Estimate |
|---|---|---|---|---|---|
| **S&P 500** | +6.8% | -0.3% | +0.5% | +10.5% | +11.6% |
| **Europe** | -12.9% | -7.3% | -7.0% | +22.3% | +9.2% |
| **Japan** | +18.6% | +2.0% | +1.1% | +14.3% | +8.0% |
| **Emerging Markets** | -11.1% | -18.0% | +9.1% | +20.1% | +11.5% |

Earnings ultimately drive markets and expectations have been rising. Delivering on those expectations will be critical for equity returns to move higher.

Source: FactSet. Earnings per share growth estimates are as of April 30, 2017.

# Global Market Outlook

As of March 31, 2017

| Major Market Themes | Improving, but Low Global Economic Growth | Expectations for Improving Corporate Earnings | Gov't. Policy Initiatives | Industry Disruption |
|---|---|---|---|---|

| Key Market Risks | Gov't. Policy Missteps | Corporate Earnings Disappoint | Heightened Market Valuations | Geopolitical Instability |
|---|---|---|---|---|

# Fixed Income Overview

Speaker: **Terry Moore, CFA**
Fixed Income Portfolio Specialist

Is this the end of the bull market in bonds?

What is the outlook for interest rates?

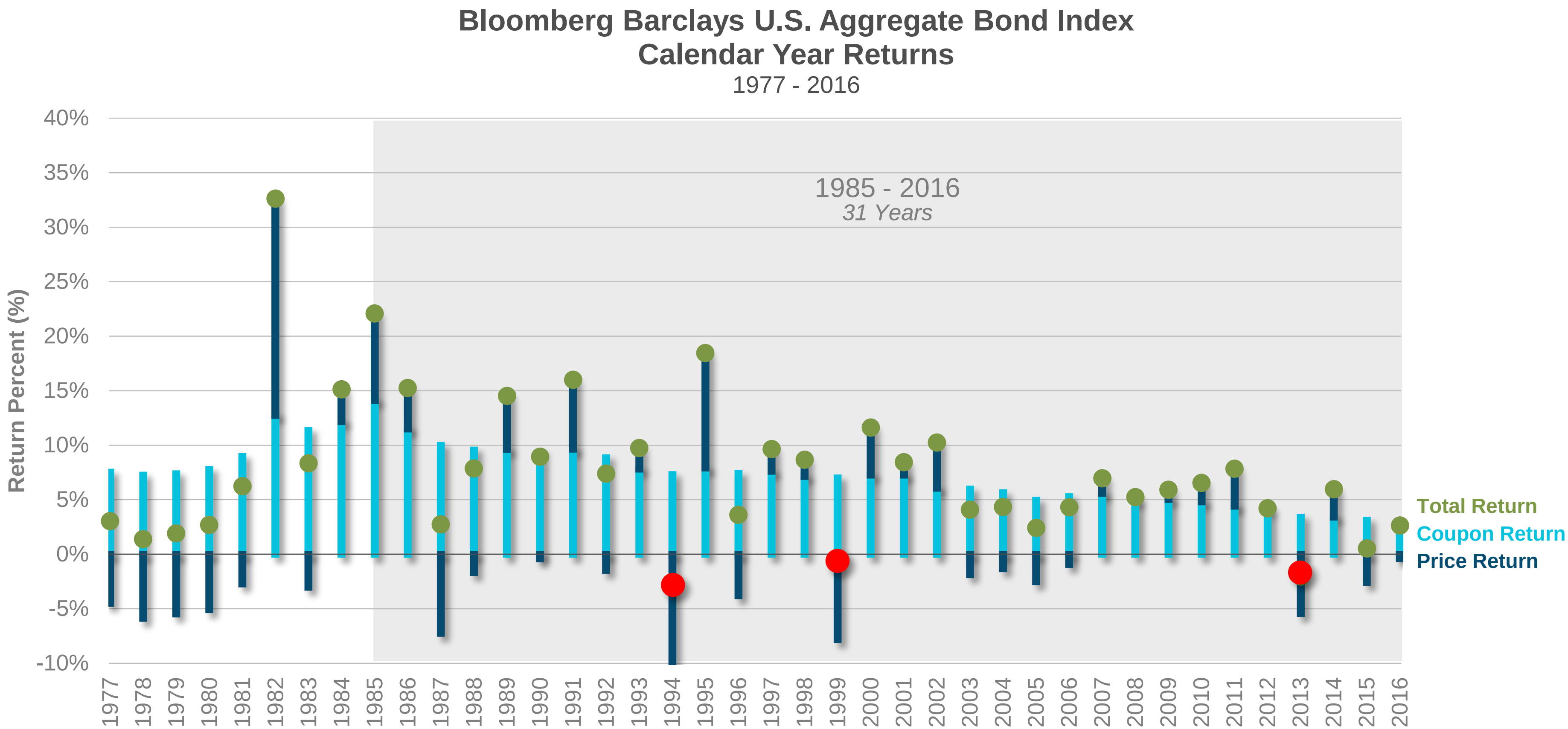
How does the rate outlook impact bond allocation?

# Global Market Outlook

As of March 31, 2017

| Major Market Themes | Low Bond Yields | Uncertain Political Environment | Monetary Stimulus Fading |
|---|---|---|---|
| **Key Market Risks** | **Geopolitical Instability** | **Potential for Monetary Policy Missteps** | **Sustainability of Chinese Economic Growth** |

# Bond Coupons Have Declined for 31 Years




The current environment is more challenging because the cushion from coupon payments is much lower than normal.

**Past performance cannot guarantee future results.**
Sources: Bloomberg.



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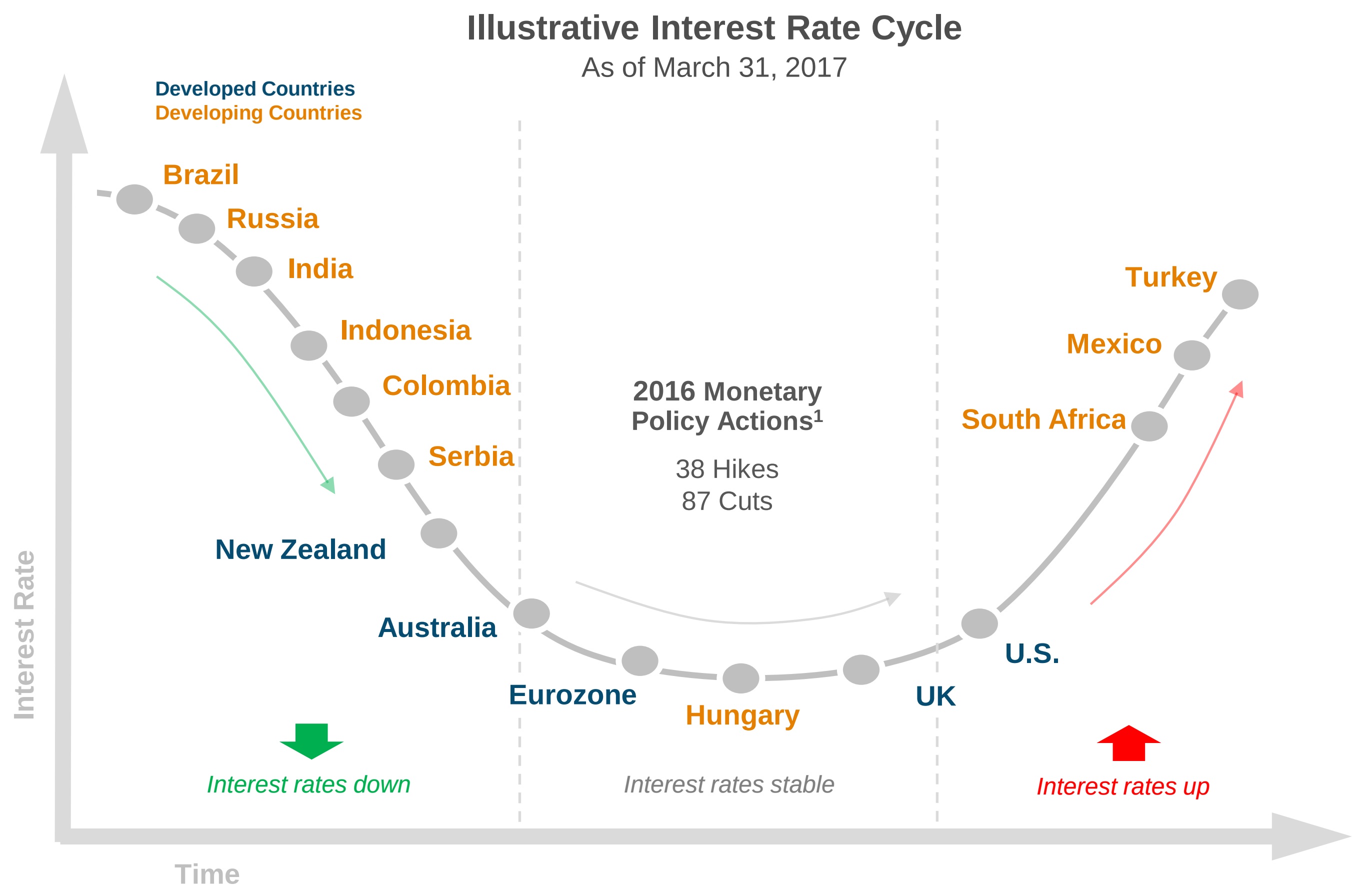
# Monetary Policy Cycles Around the World Can Diverge




Although the U.S. Federal Reserve is currently hiking overnight interest rates, many countries are decreasing interest rates.

[1]The actual number of cuts and rate hikes that have happened across countries worldwide.
Sources: CRB Rates and T. Rowe Price.

# What Happens When Rates Increase?

## Time Periods When Treasury Yields Rose 100+ bps

Figures Are Calculated in U.S. Dollars

**Total Returns – One-Year Period**

| 12-Months Ended | 10-Year UST Yield Move | U.S. 10-Year Treasury | U.S. Aggregate | U.S. Corp. Inv. Grade Corp. | High Yield | Bank Loans | Emerging Market – Hard Currency | Emerging Market – Corporate Bond | Emerging Market – Local Currency | Global Aggregate | U.S. Dollar Index |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *Dec 31, 1999* | +179 bps | -8% | -0.8% | -2% | +3% | +4% | +24% | ---- | ---- | +0.8% | +8% |
| *May 31, 2004* | +130 bps | -5% | -0.4% | -0.4% | +13% | +8% | +3% | +4% | +4% | -0.3% | -5% |
| *Jun 30, 2006* | +120 bps | -6% | -0.8% | -2% | +5% | +6% | +5% | +1% | +3% | -0.1% | -4% |
| *Dec 31, 2009* | +162 bps | -10% | +6% | +19% | +59% | +53% | +28% | +35% | +2% | +5% | -4% |
| *Sep 30, 2013* | +140 bps | -6% | -2% | -2% | +7% | +5% | -4% | +0.3% | -1.6% | +0.5% | +2% |

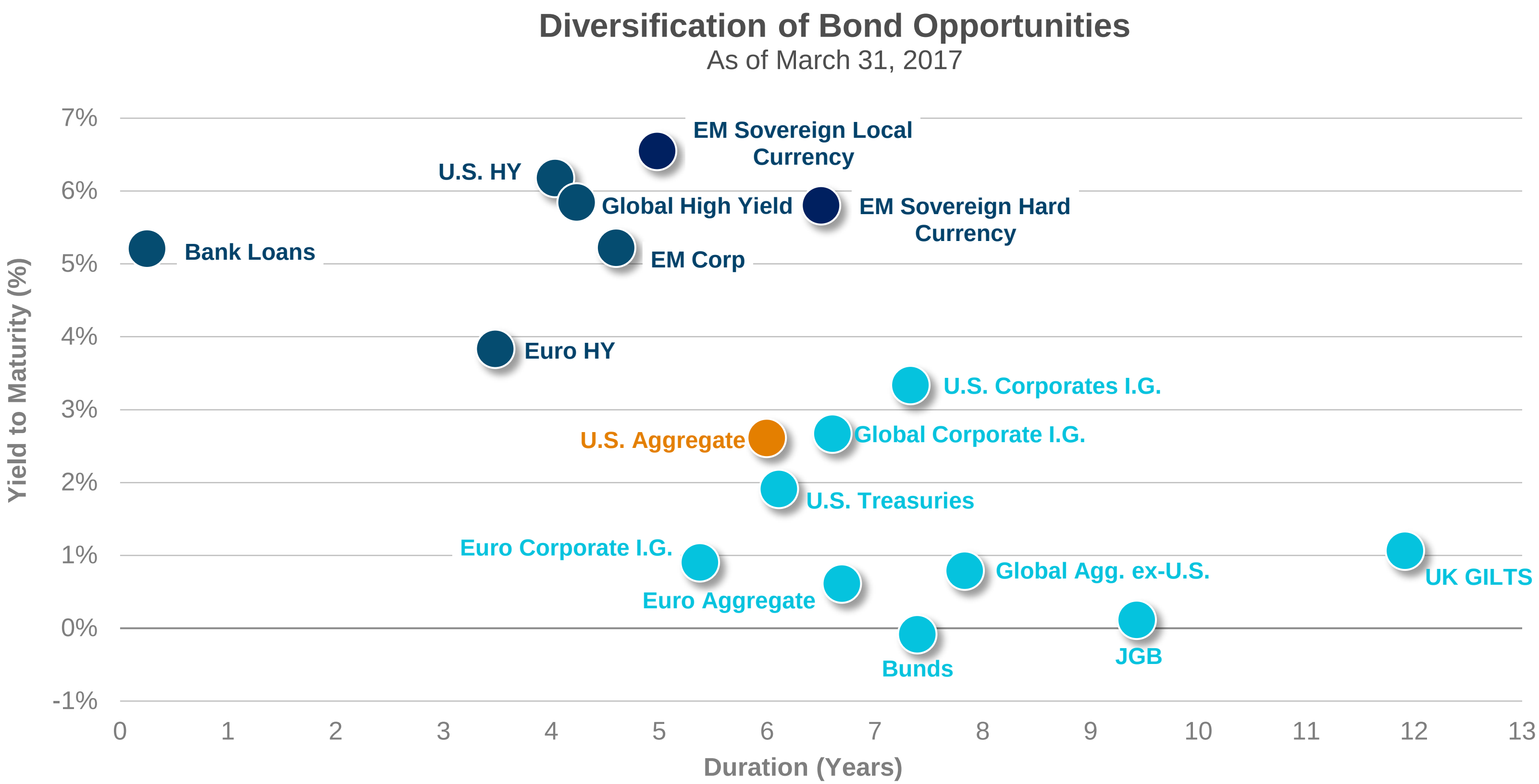
**Total Returns – Periods** Less Than **One Year**

| 12-Months Ended | 10-Year UST Yield Move | U.S. 10-Year Treasury | U.S. Aggregate | U.S. Corp. Inv. Grade Corp. | High Yield | Bank Loans | Emerging Market – Hard Currency | Emerging Market – Corporate Bond | Emerging Market – Local Currency | Global Aggregate | U.S. Dollar Index |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *Apr 30, 2013 – Aug 31, 2013* | +112 bps | -8% | -4% | -5% | -2% | +0.5% | -10% | -6% | -12% | -3% | -2% |
| *Jul 8, 2016 – Dec 16, 2016* | +123 bps | -10% | -4% | -4% | +6% | +5% | -3% | +0.2% | -5% | -3% | +6% |

When 10-year U.S. Treasury yields have increased in the past, not all fixed income sectors necessarily declined in value.

**Past performance cannot guarantee future results**.
Sources: JP Morgan Chase & Co., Bloomberg Barclays, and S&P/LSTA.

# Diversification of Bond Opportunities




Depending on an investor's objectives and risk tolerances, diversifying the fixed income allocation may offer increased opportunities.

**Past performance cannot guarantee future results.**

Sources: U.S. Treasuries: Bloomberg Barclays U.S. Treasury Index; U.S. Aggregate: Bloomberg Barclays U.S. Aggregate Bond Index; U.S. Corporates: Bloomberg Barclays US Corp IG Index; U.S. High Yield: Bloomberg Barclays U.S. High Yield Index; EM Sovereign Hard Currency: JPM Emerging Market Global Diversified Bond Index; EM Corporates: JPM CEMBI Broad Diversified; EM Sovereign Local Currency: JPM GBI EM GD Index; Global Bonds: Bloomberg Barclays Global Aggregate Index; International Bonds: Bloomberg Barclays Global Aggregate ex-U.S. Index; Euro Corporates: Bloomberg Barclays Euro Agg: Corporates Index; Euro HY: Bloomberg Barclays Pan-European High Yield Index; Euro Agg: Bloomberg Barclays Capital Euro Agg Index; JGB: Bloomberg Barclays Asian Pacific Japan Index; Bunds: Bloomberg Barclays Global Treasury Germany Index; UK Gilts: Bloomberg Barclays Global Treasury UK Index; Global High Yield: Bloomberg Barclays Global High Yield Index; Bank Loans: S&P/LSTA Performing Loan Index (loan yield as of March 31, 2017).

# Summary

## Fixed Income Considerations

Given the starting point of low bond yields, future returns are likely lower than past returns.

Consider diversification of the fixed income opportunity set.

Active security selection is important in fixed income.

# Financial Planning Overview

Speaker: **Roger Young, CFP®**
Senior Financial Planner

How do current market conditions affect my allocation strategy?

Should investors anticipate more or less market volatility?

How often should I look to respond and rebalance my portfolio?

# Financial Planning in This Environment

| | |
|---|---|
| **Asset Allocation** | • Primarily driven by your time horizon / risk tolerance<br>• Diversification[1] can reduce risk and volatility<br>• Modest tactical shifts are preferable to aggressive bets |
| **Volatility**<br>*Prepare, don't react* | • Choose a risk level that enables you to weather the dips<br>• More of a concern when starting to withdraw assets |
| **Rebalancing** | • Keeps portfolio properly diversified<br>• May help preserve capital, and improve risk-adjusted returns |

Financial planning basics stay the same even as markets change. Focus on what you can control.

[1] Diversification cannot assure a profit or protect against loss in a declining market.

# Use Age as a Guide

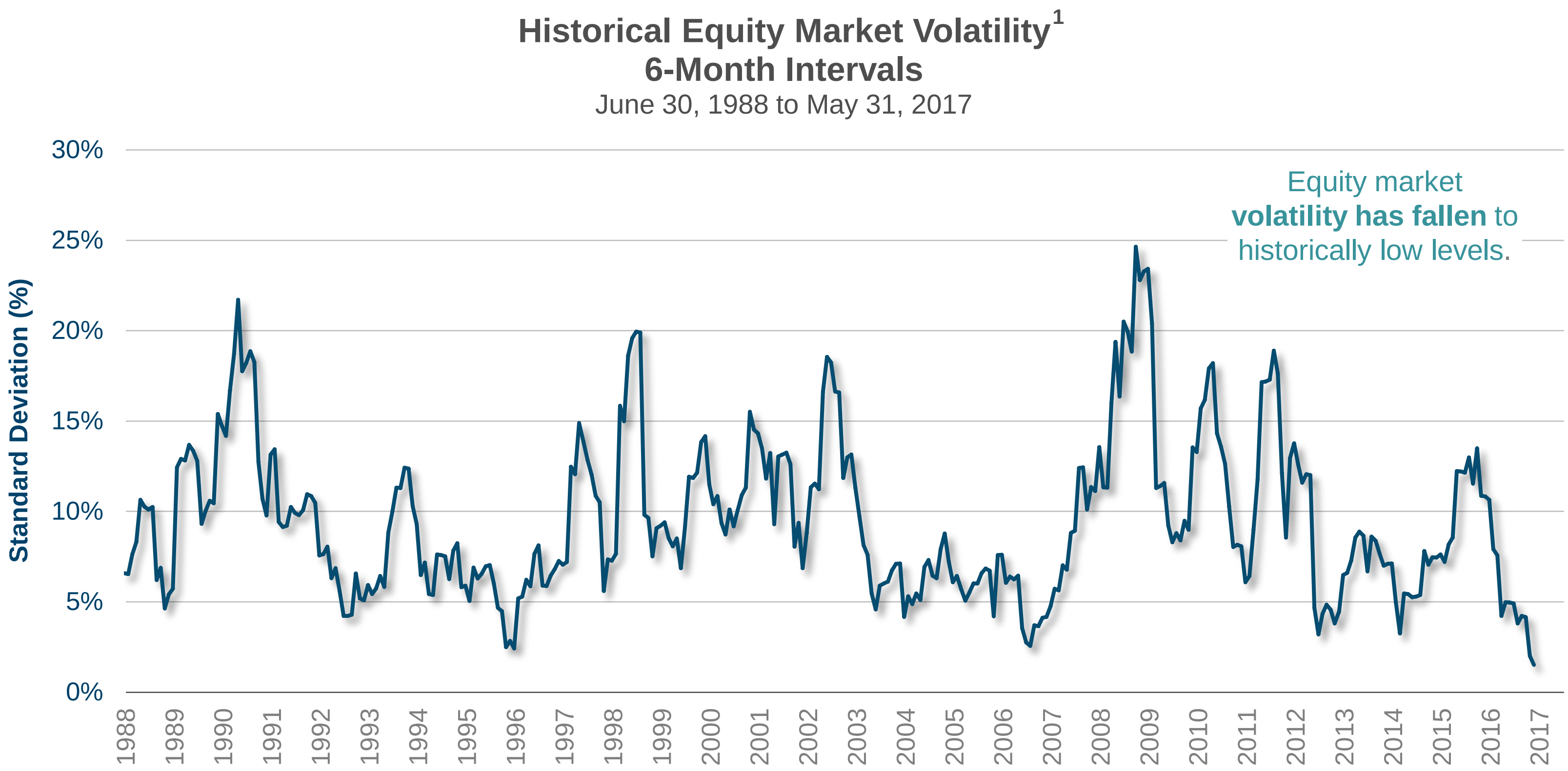
**Hypothetical Allocation Model for Retirement Portfolio**

| | 44 Years Old and Younger | 45 - 54 Years Old | 55 - 64 Years Old | 65 - 74 Years Old | 75 Years Old and Older |
|---|---|---|---|---|---|
| **Equity** | 90-100% | 80-100% | 60-80% | 50-65% | 20-50% |
| **Fixed Income** | 0-10% | 0-20% | 20-30% | 25-35% | 35-50% |
| **Short Term** | --- | --- | 0-10% | 5-15% | 15-30% |

As an investor gets closer to retirement, his or her portfolio may move gradually from more aggressive (*more* equity) to more conservative (*less* equity).

**For illustrative purposes only. Under normal market conditions.**
These allocations are age-based only and do not take risk tolerance into account. Our asset allocation models are designed to meet the needs of a hypothetical investor with an assumed retirement age of 65 and a withdrawal horizon of 30 years. The model asset allocations are based upon analysis that seeks to balance long-term return potential with anticipated short-term volatility. The model reflects our view of appropriate levels of trade-off between potential return and short-term volatility for investors of certain ages or time frames. The longer the time frame for investing, the higher the allocation is to stocks (and the higher the volatility) versus bonds or cash.
While the asset allocation models have been designed with reasonable assumptions and methods, the chart provides models based on the needs of hypothetical investors only and has certain limitations: The models do not take into account individual circumstances or preferences and/or may not align with your accumulation time frame, withdrawal horizon, or view of the appropriate levels of trade-off between potential return and short-term volatility. Investing consistent with a model allocation does not protect against losses or guarantee future results. Please be sure to take other assets, income, and investments into consideration when evaluating model allocations. Other T. Rowe Price educational tools or advice services use different assumptions and methods and may yield different outcomes.

# Volatility—Is It Too Quiet Out There?

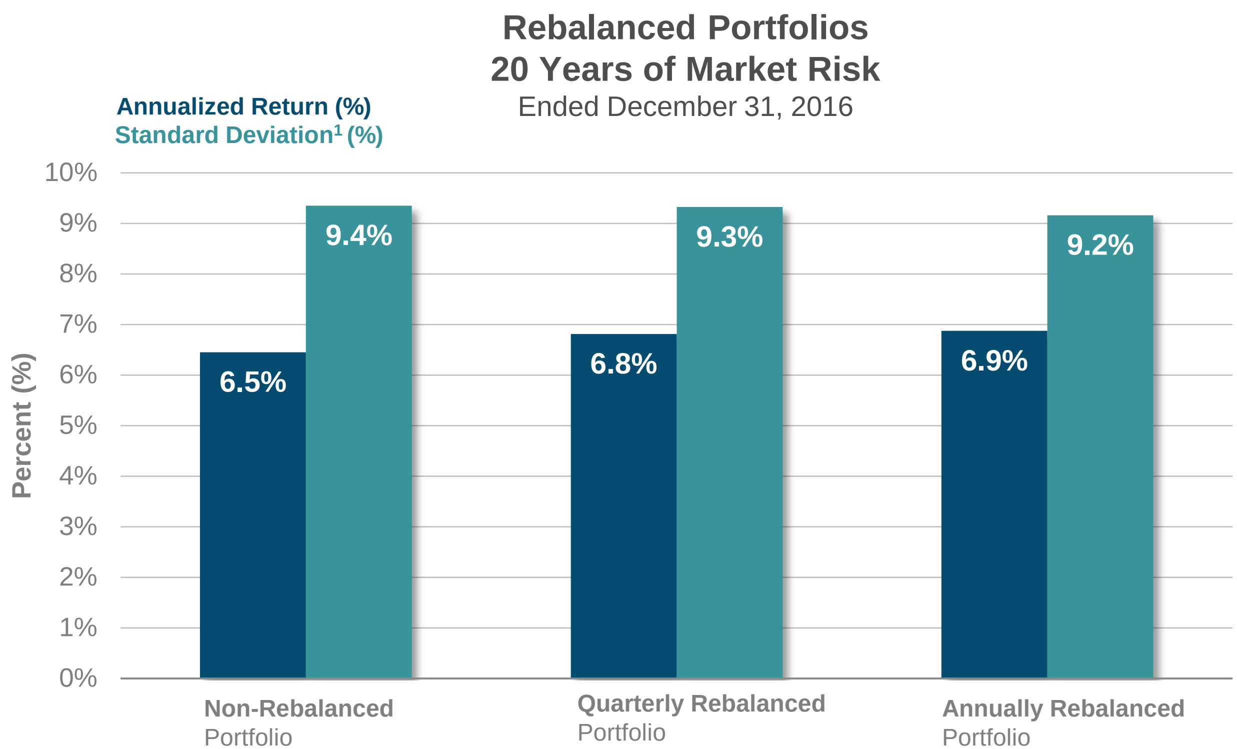



Relatively stable market levels may be indicative of positive changes in the global economy, but are likely not sustainable in the long run. A return to more volatility may create opportunities for investors.

Sources: FactSet and T. Rowe Price, April 2017 Price Point “It’s Quiet Out There…Too Quiet” by Scott Berg, portfolio manager, Global Growth Stock Fund.

[1] Volatility reflects the MSCI ACWI.

# Rebalancing Can Help Mitigate Market Risk




Rebalancing your portfolio regularly is a disciplined way to sell high and buy low.

Source: February 2017 Price Perspective "Rebalancing Can Help Mitigate Market Risk" by Judith Ward, CFP, senior financial planner.
Hypothetical portfolio assuming an investment on December 31, 1996, in a balanced portfolio: 36% large-cap U.S. stocks (Russell 1000 Index), 6% small-cap stocks (Russell 2000 Index), 18% international stocks (MSCI EAFE Index), and 40% U.S. investment-grade bonds (Bloomberg Barclays U.S. Aggregate Bond Index). In 1 scenario, the portfolio is never rebalanced; in the other 2 scenarios, the portfolio is rebalanced quarterly and rebalanced annually to maintain the original target asset allocation. Russell Investment Group is the source and owner of the trademarks, service marks, and copyrights related to the Russell indexes. Russell® is a registered trademark of Russell Investment Group.
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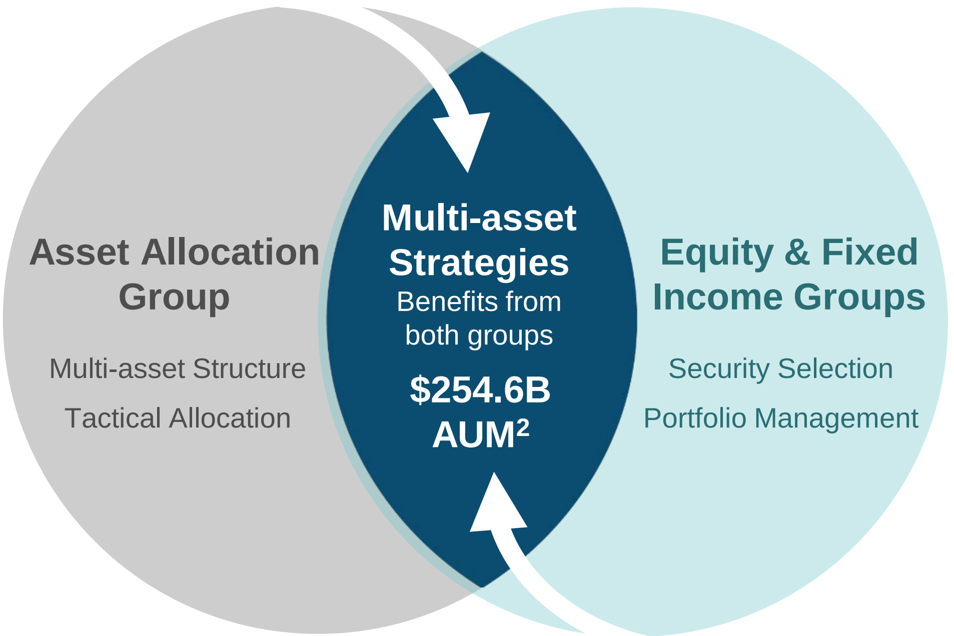
[1] Standard deviation is a measure of volatility that indicates the range of possible outcomes for a portfolio—positive or negative—over a given period of time. The higher the standard deviation, the greater the volatility or market risk.

# Investment Ecosystem

As of March 31, 2017

The investment ecosystem at T. Rowe Price consists of **two very distinct groups**



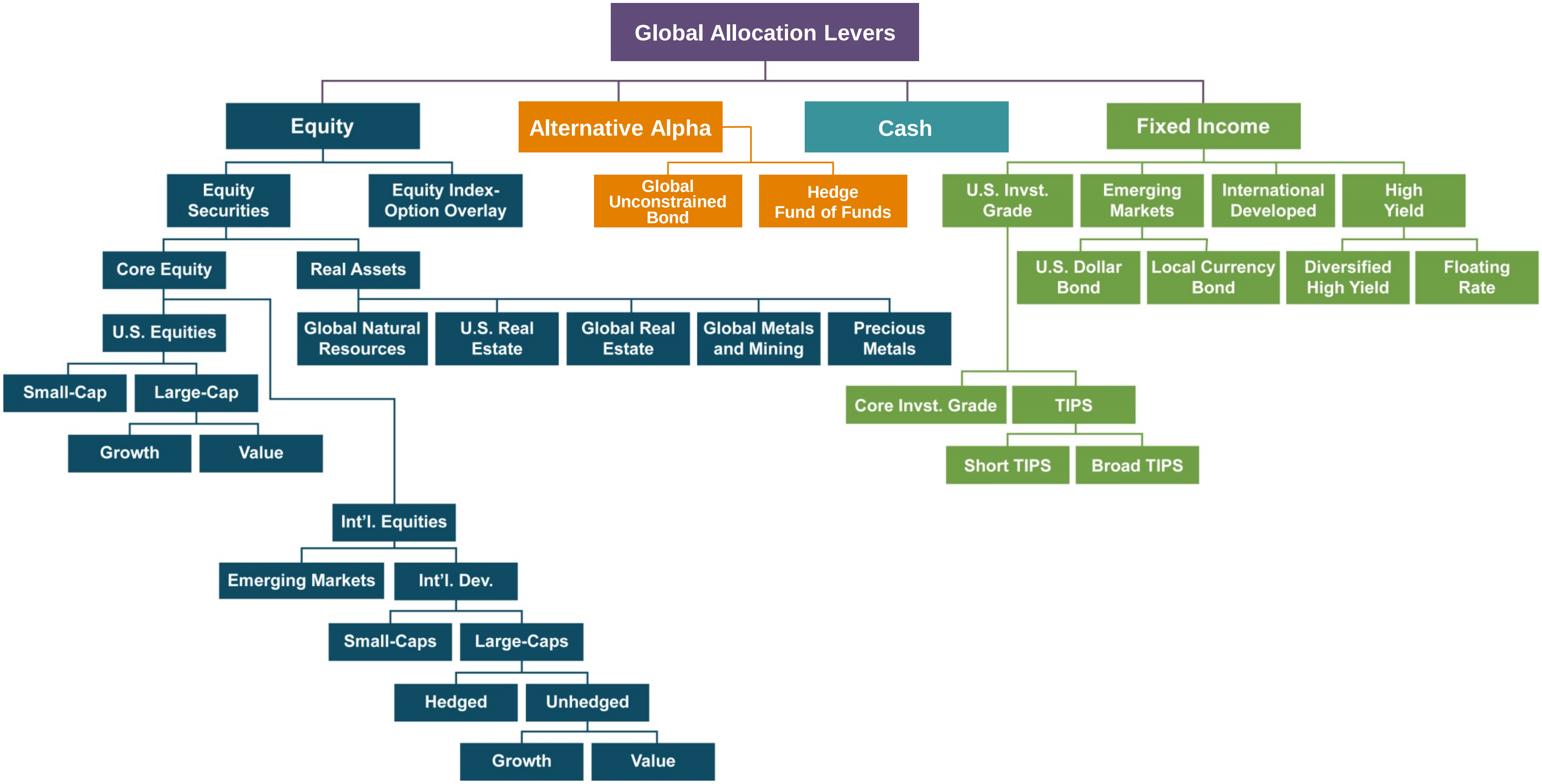

**$861.6 Billion Total[1]**

We manage US$254.6 billion in multi-asset strategies. A majority of the excess return in these strategies comes from security selection by component strategy portfolio managers.

[1] The combined assets under management of the T. Rowe Price group of companies as of March 31, 2017. The T. Rowe Price group of companies includes T. Rowe Price Associates, Inc., T. Rowe Price International Ltd, T. Rowe Price Hong Kong Limited, T. Rowe Price Singapore Private Ltd., and T. Rowe Price (Canada), Inc.

[2] The combined asset allocation portfolios managed by T. Rowe Price group of companies as of March 31, 2017. This figure includes assets that are held outside of T. Rowe Price, but where T. Rowe Price influences trade decisions.

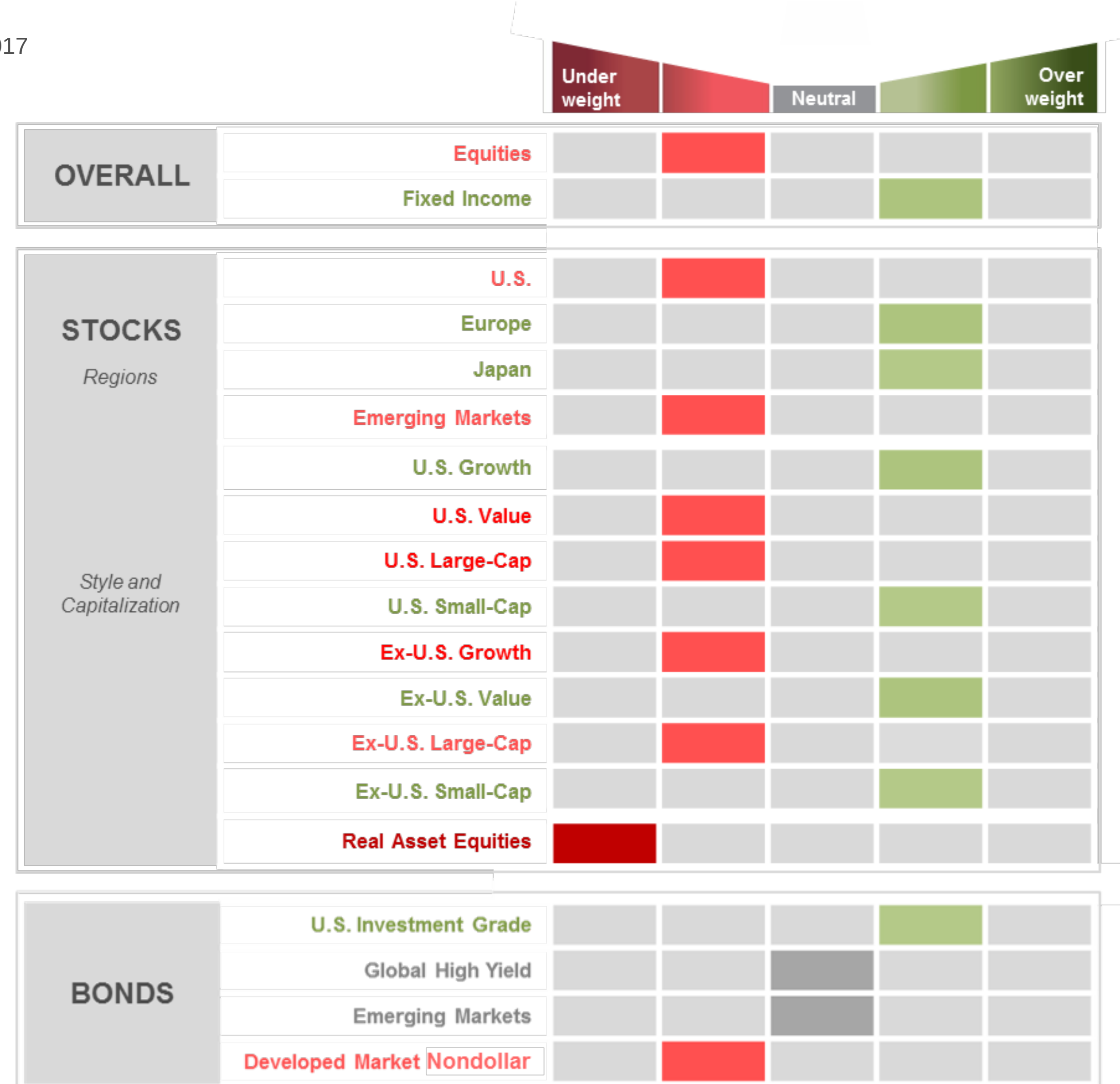
# Global Allocation Building Blocks




For illustrative purposes only.

# Multi-asset Portfolio Positioning

As of June 2017

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# Questions + Answers


What's on Your Mind:
Answers for Today's Individual Investors
For additional questions please contact
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