



Are we there yet?



**MARKETS SUMMIT**

Tuesday 16 February 2010

# Theme 3

## Global equity markets (part 2)



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## **Global equity markets**

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# Global equity markets

**Kurt Umbarger**

Portfolio Specialist, T. Rowe Price, USA



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## Global Equity Markets Current Status & Outlook

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PortfolioConstruction Markets Summit 2010  
16 February 2010

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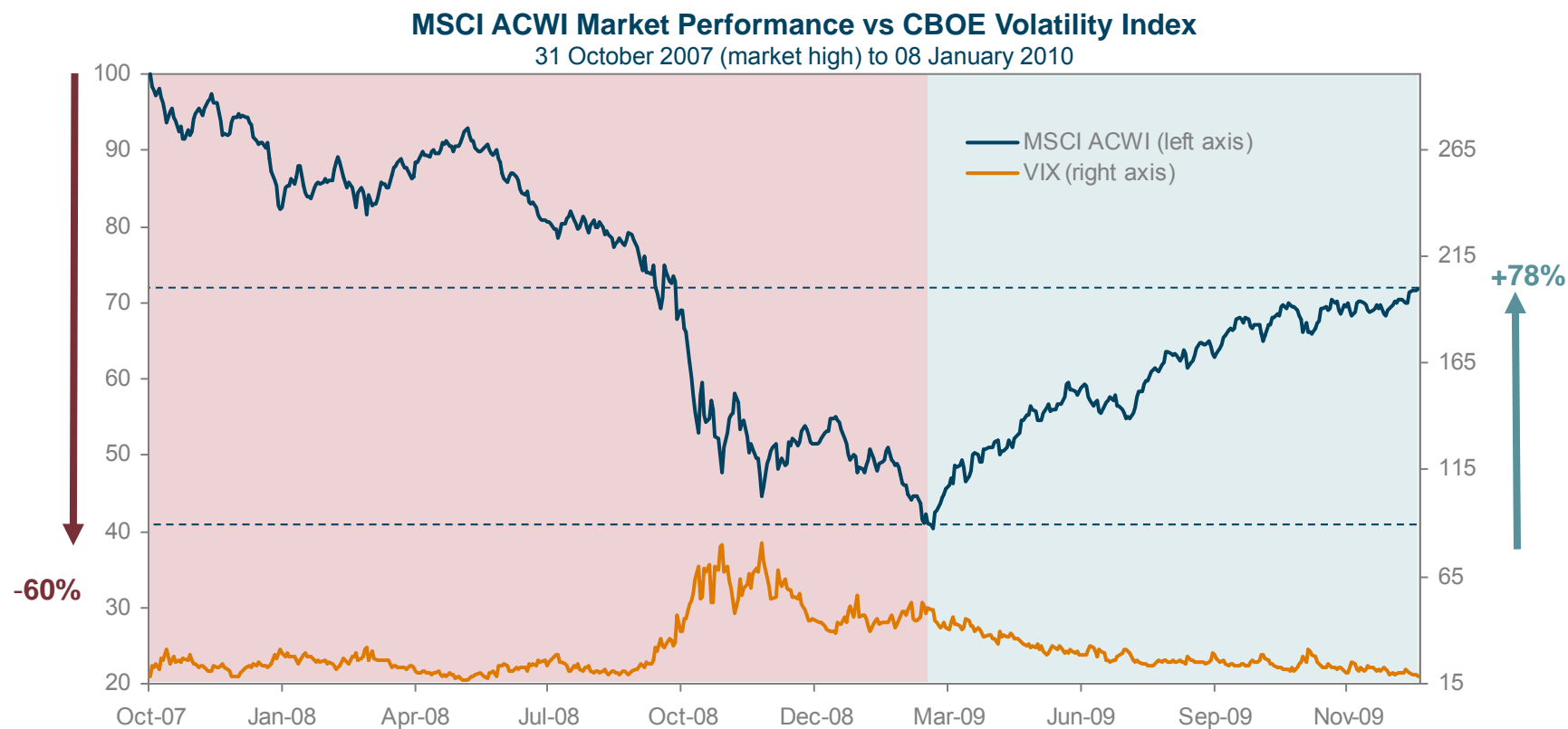
# 10 Lessons From a Tumultuous Year December 2009

1. Watch Your Liquidity.
2. Balance Sheet Strength Matters.
3. We Are All Connected.
4. Financial Innovation Helps Wall Street, Not Main Street.
5. Get a Map of Washington, D.C.
6. Simplicity Is a Virtue.
7. If It Sounds Too Good to Be True...
8. Don't Reach for Yield in Money Market Funds.
9. The World Doesn't End That Often.
10. We Will Have Other Crises.

—Brian Rogers, *Chairman and Chief Investment Officer, T. Rowe Price Group, Inc.*

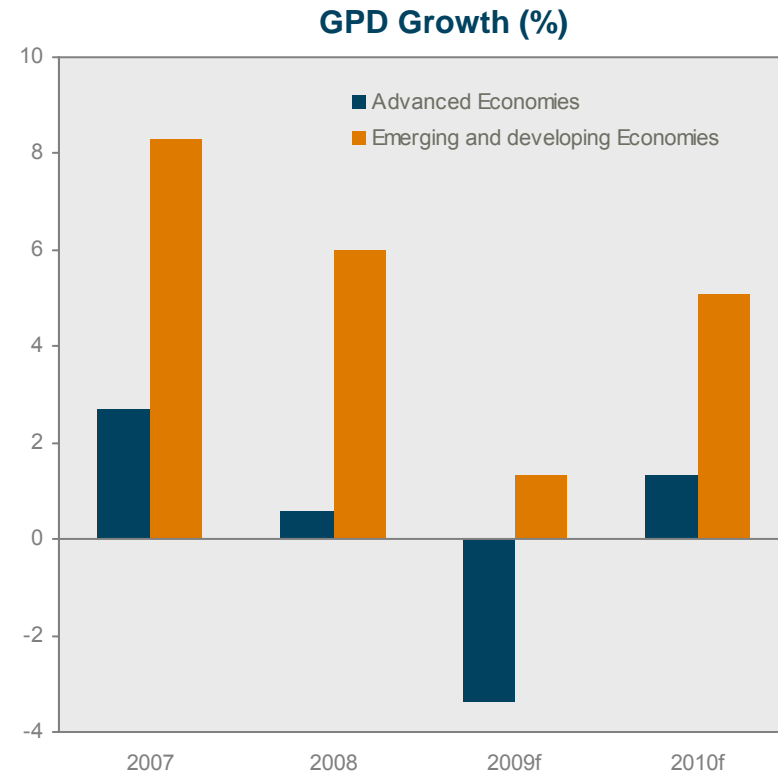
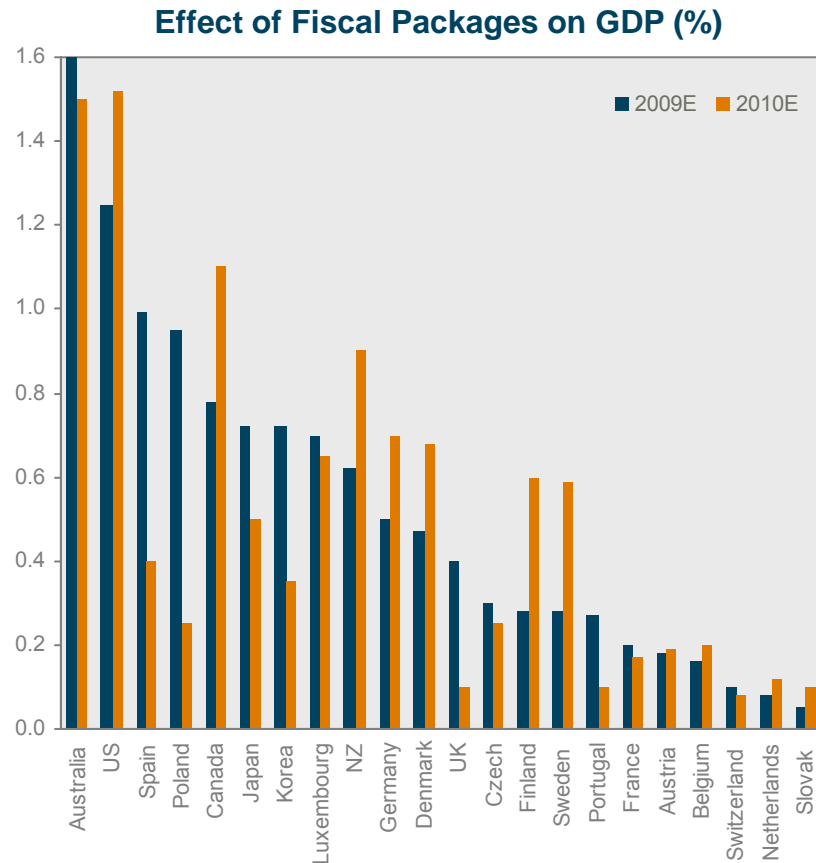
# A Tale of Two Markets...

As of 08 January 2010  
Figures in USD



**We've seen the most significant correction and market rally since the 1930's.**

# Global Growth Is Rebounding

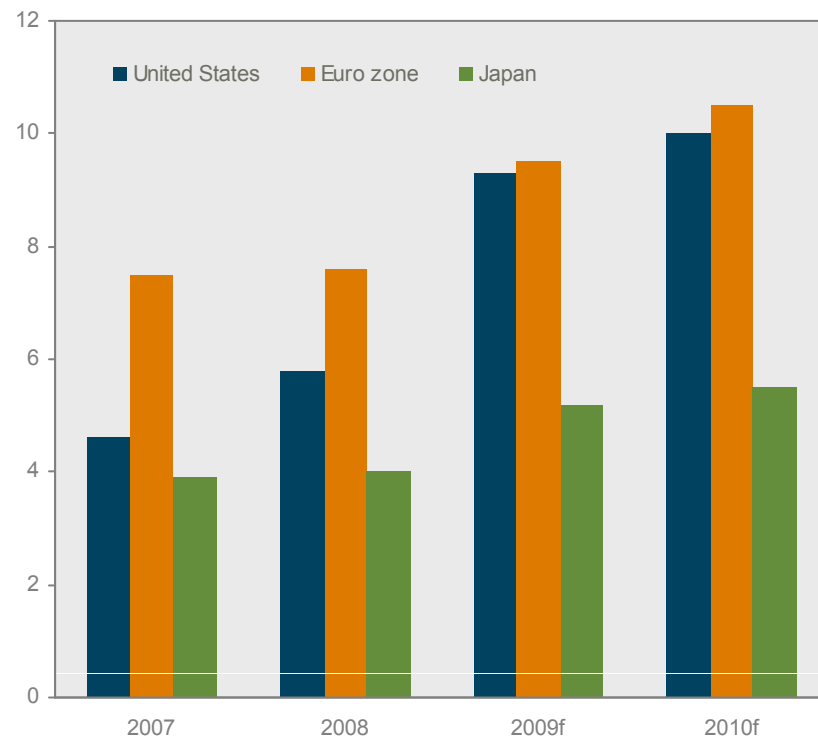


**Substantial global fiscal stimuli and loose monetary policy is making an impact**

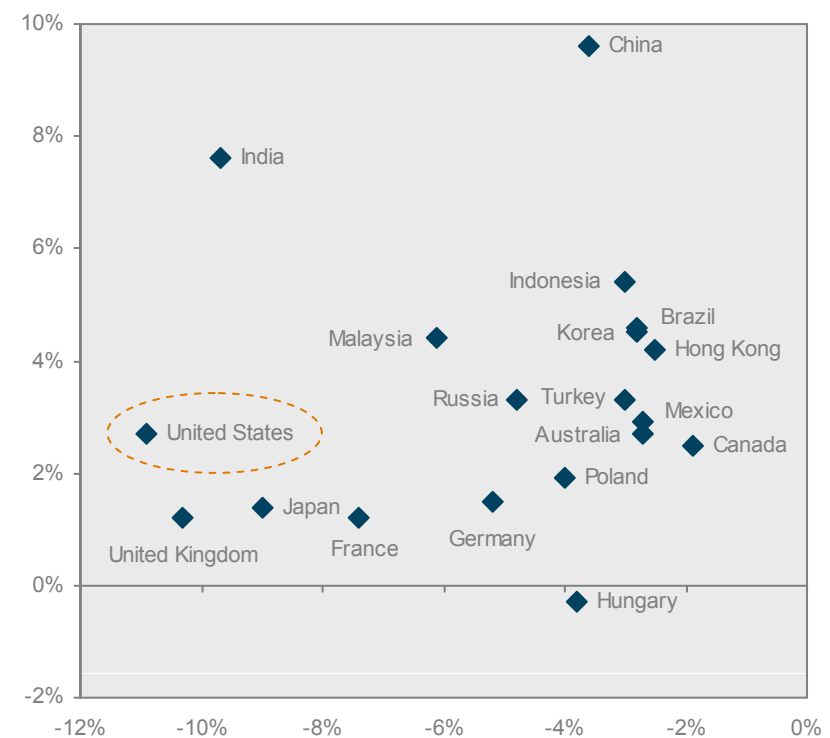


## ...But We Are Not Completely Out of the Woods Yet

Unemployment (%)



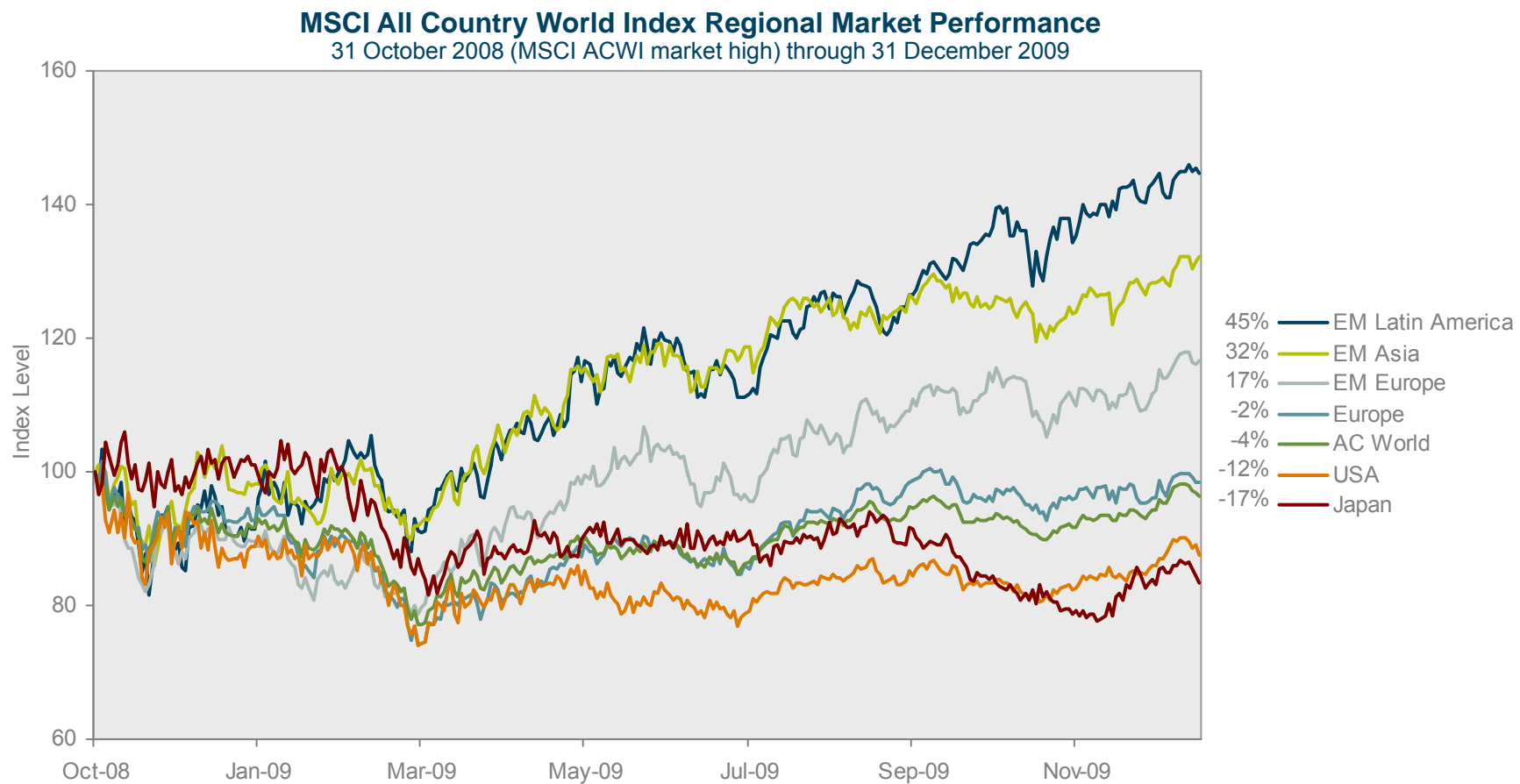
2010 Budget Balance vs. Estimated GDP Growth



**High unemployment and substantial budget shortfalls in advanced economies will continue to be a headwind**

# Regional Performance

As of 31 December 2009  
Figures in AUD



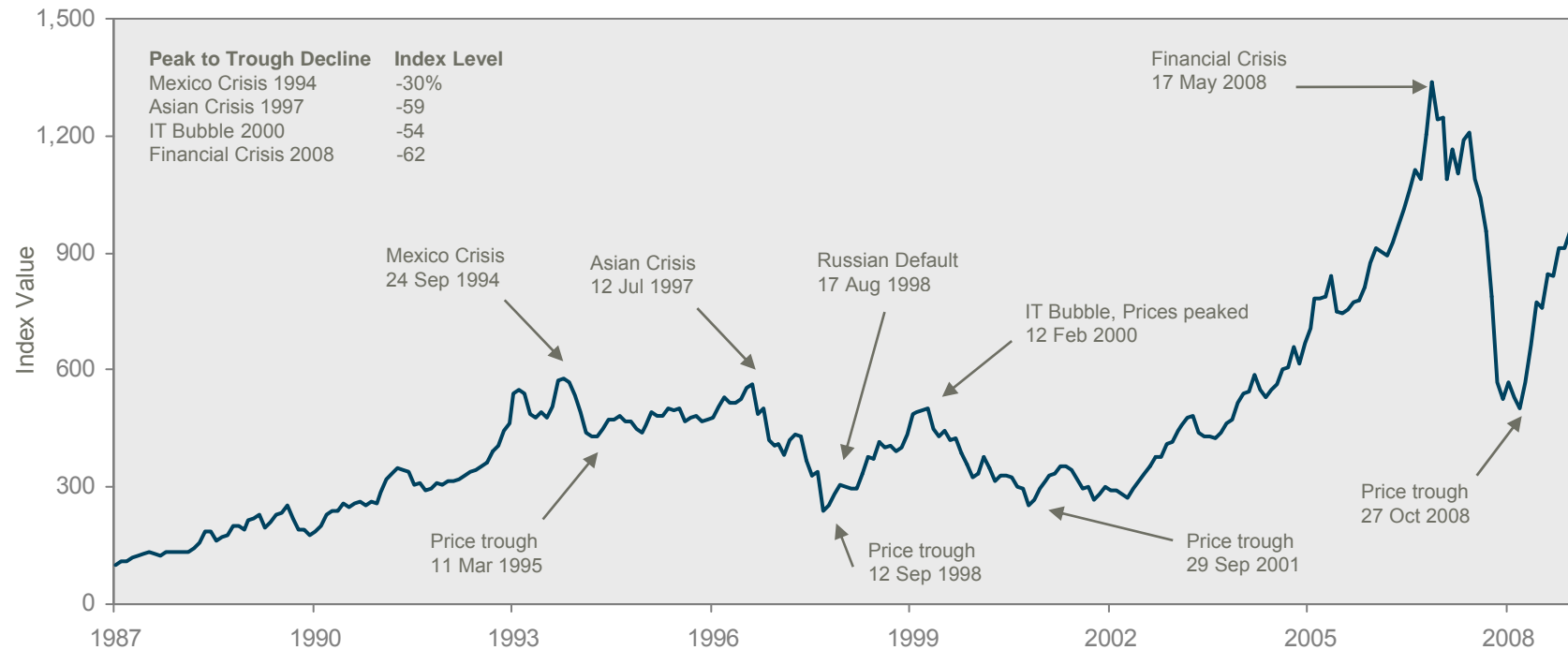
Source: MSCI

Past performance cannot guarantee future results.

# Volatile Times But the Case Remains

As of 31 December 2009

MSCI Emerging Markets Price Performance (USD)



**May 08–Feb 09 represented the worst EM crisis in recorded history—worse than both the Mexico “tequila” crisis, the Asian crisis and post 2000 IT bubble—despite the catalyst for the sell-off residing outside of the emerging world.**

# The Global Landscape Is Transitioning

	Old Norm	Transition Period	New Norm
Global Real GDP	>5%	0% or below	2% to 4%
Inflation	Modest but rising	Spike then collapse	Deflation or Inflation?
Real Interest Rates	At 0%	Rising	Resetting higher
Consumer	Excess consumption	Deleveraging	Moderate consumption
Pricing Power	Strong	Disappeared	Return slowly
Profit Margins	Continuously improving	Free fall	Improving
ROEs	All-time highs	Collapsing	Normalizing
Fixed-Asset Investment	Excessive	Falling sharply	Recovering
Valuations	Modest expansion	Rock bottom	Normalizing
Risk Premiums	Historic lows	Historic highs	Declining
Source of Global GDP Growth	< 50% emerging markets	>100% emerging markets	~ 75% emerging markets

This information demonstrates, in part, the firm's analysis of the global economic landscape. This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment action.

# Snapshot of the World Economy

As of 20 January 2010  
Figures in USD and trillions where applicable.

	Share of Global			Estimated GDP Growth		Savings Rate	P/E Ratio
	Market Cap	Total GDP	GDP Growth <sup>1</sup>	2010	2011	As % of GDP 2010	2010
Australia	3%	2%	1%	2.0%	3.4%	n.a.	15.0
Europe <sup>2</sup>	28%	30%	18%	0.3%	1.3%	18.3%	13.0
United States	42%	24%	17%	1.5%	2.8%	12.6%	15.5
Japan	9%	8%	4%	1.7%	2.4%	23.4%	19.3
Emerging Markets	12%	31%	53%	5.1%	6.1%	33.5%	13.9
Total	T\$24 <sup>3</sup>	T\$57	93% <sup>4</sup>	3.1%	4.2%	22.6%	14.9

<sup>1</sup> Share of GDP Growth calculated by averaging IMF 2009-2011 GDP growth estimates.

<sup>2</sup> The Europe figures are for the European Union only.

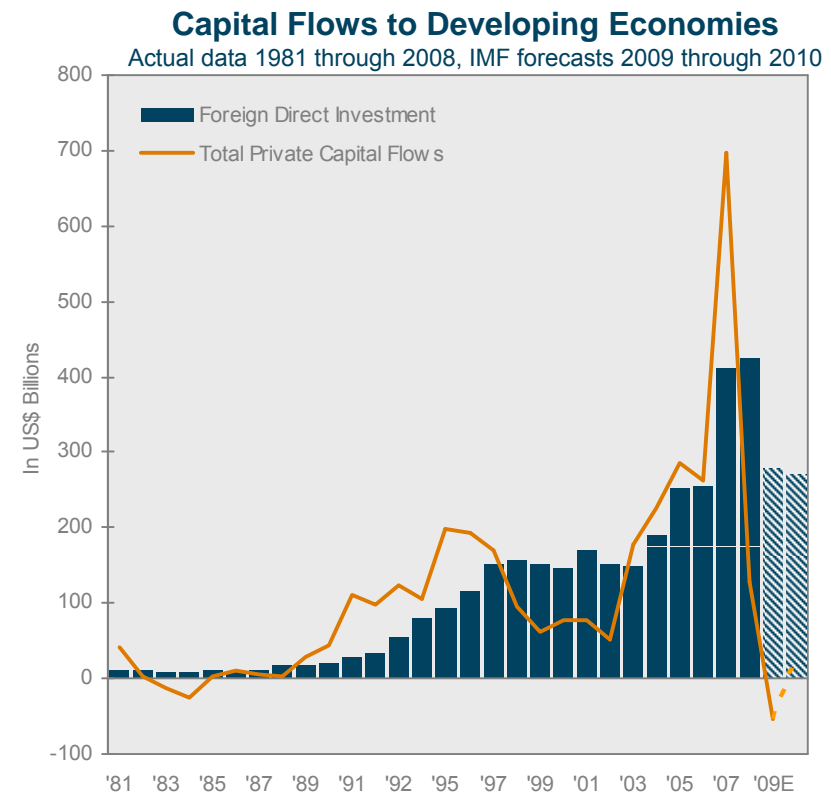
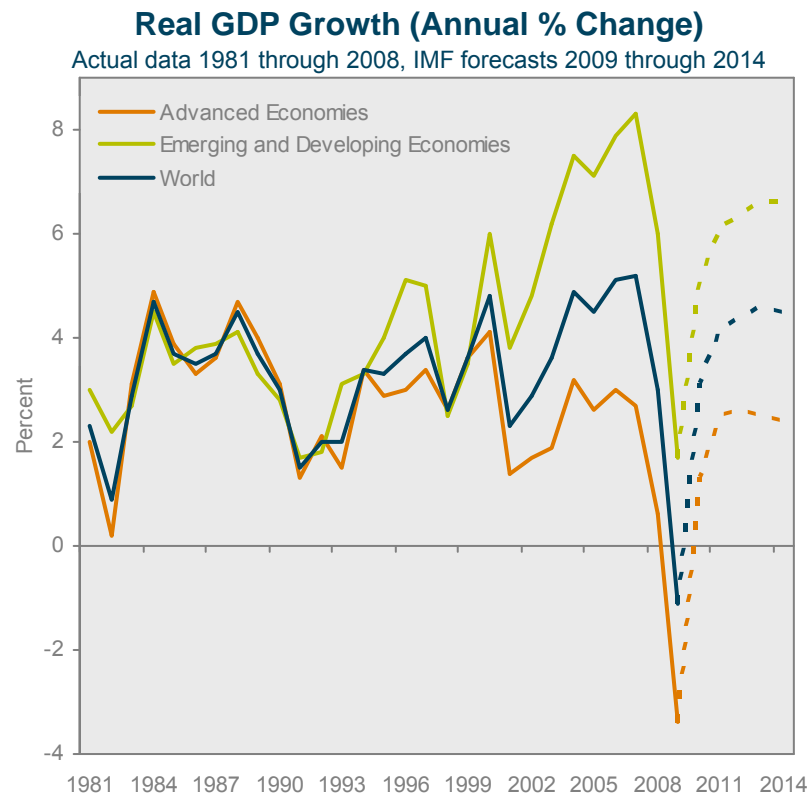
<sup>3</sup> Based on MSCI free float adjusted market cap.

<sup>4</sup> Does not total 100% as residual percentage is derived outside regions that are shown.

Sources: IMF, Economist Intelligence Unit, UBS

# GDP Growth & Capital Flows to Emerging Market Economies

As of 31 December 2009

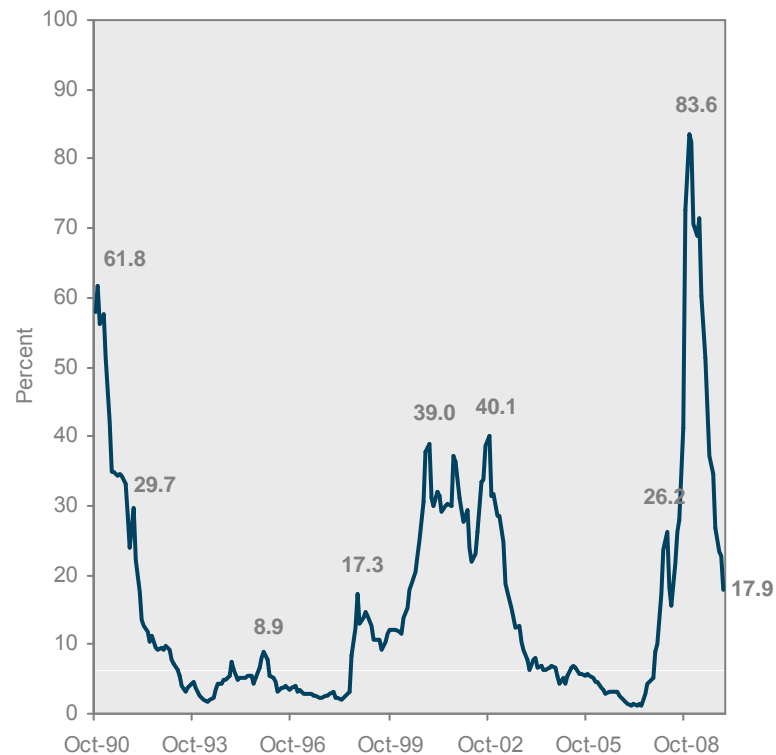


**Relative growth and capital flows favors emerging market countries.**

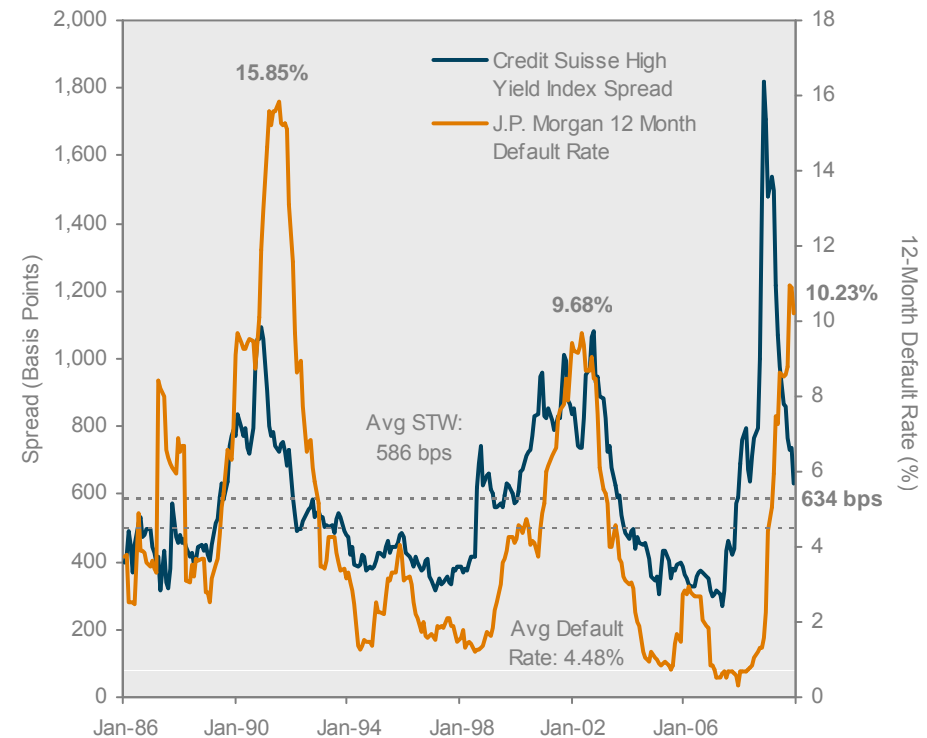
# Signposts - Credit Markets Continue to Operate Freely

As of 31 December 2009

## Merrill Lynch High Yield Distressed Ratio<sup>1</sup>



## High Yield Spread vs. Default Rate



<sup>1</sup> The Merrill Lynch Distressed Ratio is the number of issues with spread to worst (STW) > 1,000 bps divided by the total universe. The total universe contains cash pay only issues and does not include defaulted bonds.

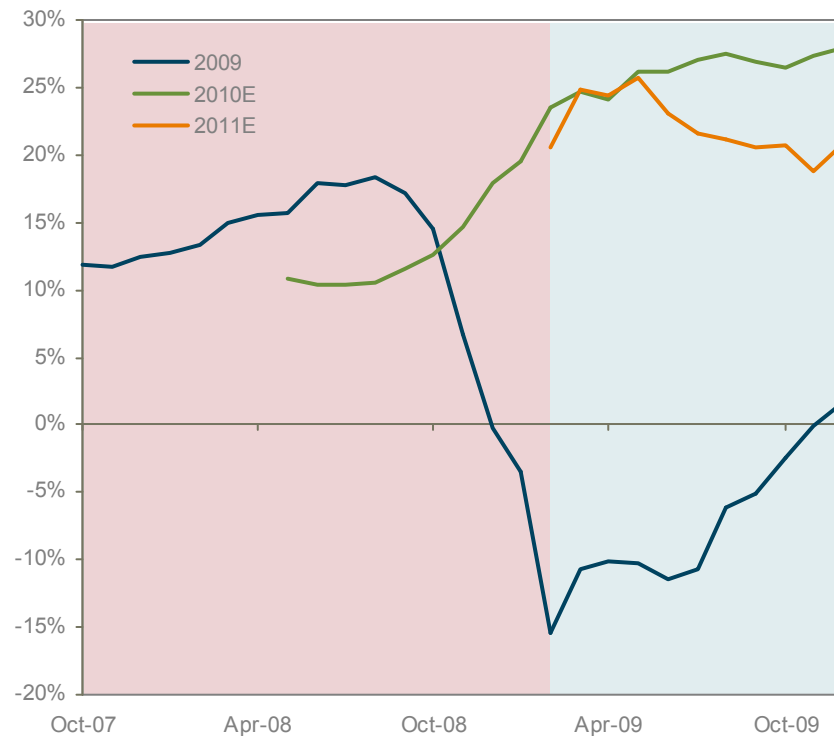
Past performance cannot guarantee future results.

Source: Merrill Lynch, Credit Suisse, JPMorgan

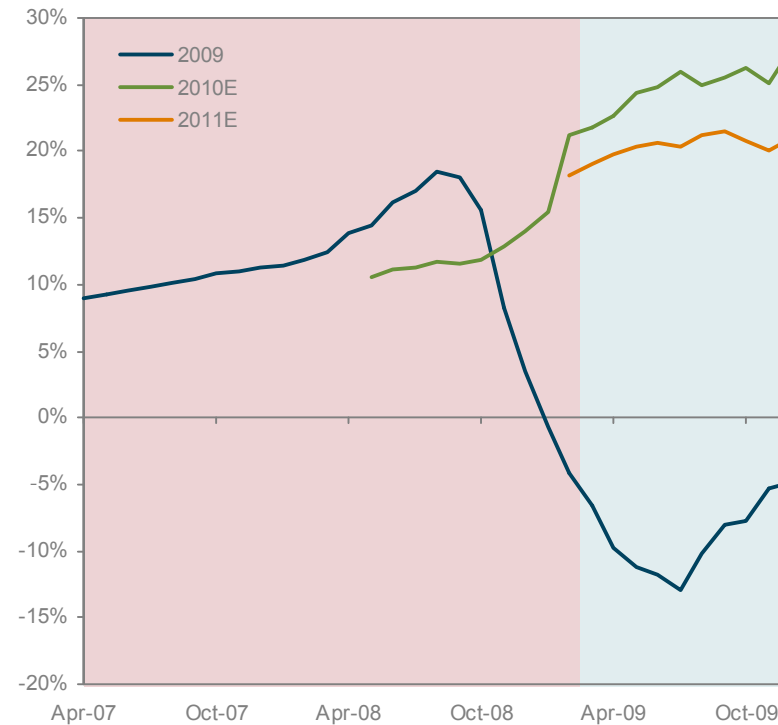
# Signposts - Earnings Outlook Is Brightening on All Fronts

As of 31 December 2009

## Earnings Per Share Growth for MSCI Emerging Markets



## Earnings Per Share Growth for MSCI World

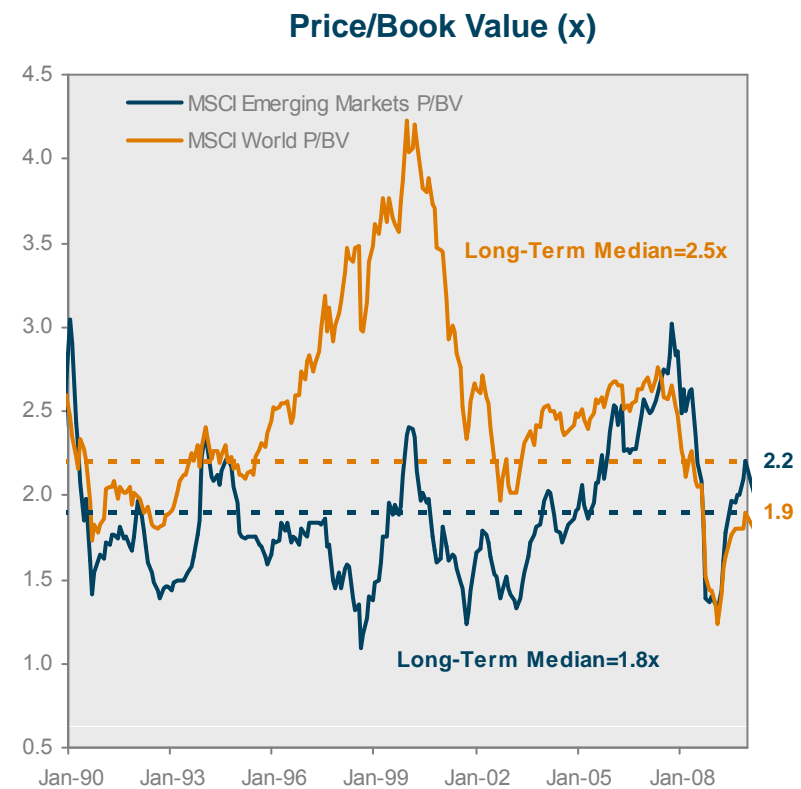


**Earnings growth is coming off a low base, but expectations are looking healthy in both emerging and developed markets**



# Signposts - Valuations Are Reasonable

As of December 2009



**Valuations are not too far from long term median**

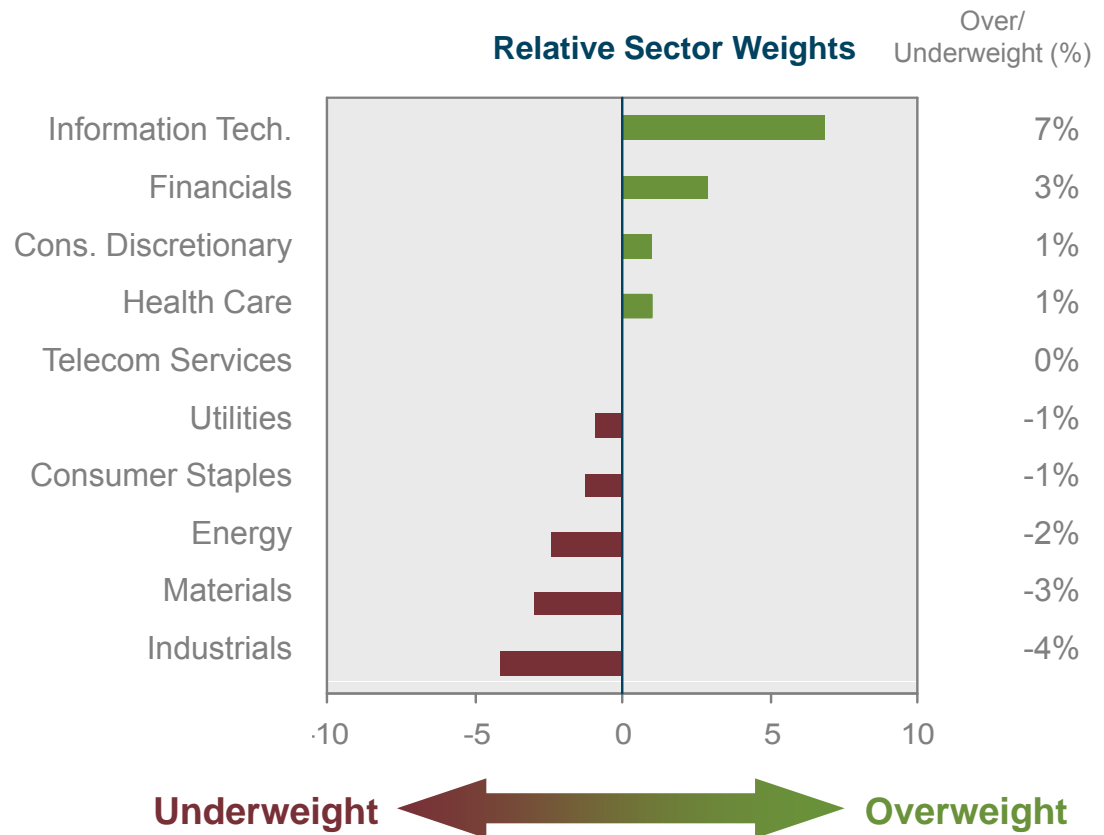
# Sector Positioning

As of 31 December 2009

## T. Rowe Price Global Equity Fund vs. MSCI All Country World ex Australian Index (unhedged)

### Key Structural Perspectives

- **Ubiquitous & Experience Rich Internet**
- **Cost Effective Health Care**
- **US Consumer – End of an Era?**
- **Emerging Market Exposure**
- **High Quality Energy**



Source: T. Rowe Price and MSCI. T. Rowe Price uses the MSCI/S&P Global Industry Classification Standard (GICS) for sector and industry reporting. Effective September 1 of each year, MSCI and S&P make changes to the GICS structure. T. Rowe Price will adhere to all future updates to GICS for prospective reporting.

# Key Short Term Risks and Opportunities

## Risks

- Increasing unemployment impact on corporate profitability/consumer spending
- Withdrawal of fiscal stimulus in developed economies
- Legislation (US Healthcare, financial regulation)
- Creditworthiness of governments (Ireland, Greece)
- Inflation leads to tightening of emerging market monetary policy combined with developed markets double dip recession

## Opportunities

- EPS growth
- Healthy balance sheets could translate to business spending
- Risk premiums continue to decline
- Developed market economies and corporates continue to recover
- Stock pickers market due to wide dispersion in returns

# Key Assumptions Moving Through 2010

- Credit crisis has passed, excess liquidity is potentially the next issue
- Financial system continues to improve, except for the government sector
- Improving economic and corporate fundamentals, but current valuations reflect mid-cycle levels
  - Profits and ROEs
  - Aggregate risk premiums
  - Risk free rates
- Very good individual stock opportunities, expect dispersion of individual results
- Quality companies taking market share will be rewarded, industry consolidation to accelerate
- Stock selection to become increasingly more important
- Bullish on a 3 to 5 year view
- Wide dispersion of returns

**T. Rowe Price is a strong, stable investment focused manager.**



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