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NEWS RELEASE

T. ROWE PRICE EXPERTS SHARE 2025 OUTLOOK FOR GLOBAL FINANCIAL MARKETS

Though inflation remains sticky, market conditions appear favorable for a growing U.S. economy and constructive for stock selection

BALTIMORE (November 19, 2024) – T. Rowe Price held its 42nd annual global market outlook press briefing today, featuring a panel of the firm's investment experts sharing their forecasts for the 2025 global financial markets. Speakers included, Blerina Uruçi, Chief U.S. Economist, Ken Orchard, Head of International Fixed Income, Jennifer Martin, Global Equity Portfolio Specialist, Sébastien Page, Head of Global Multi-Asset and Chief Investment Officer, and Donna Anderson, Global Head of Corporate Governance.

Uruçi highlighted her expectation for another year of strong U.S. economic growth, bolstered by positive non-residential investment, continued development of artificial intelligence (AI) related technologies, and the green energy transition. Orchard noted that given resilient economic growth, inflation likely remains stickier than expected, limiting the ability of central banks to cut rates as much as once priced in by the markets. Martin believes that the outlook for global equities appears constructive; the U.S. economy is growing, and consumer and business balance sheets are strong. Page said that while unemployment, the manufacturing purchasing managers index (PMI), and the yield curve may point to a recession, when a broader model is employed, the outlook is decidedly more optimistic. Anderson discussed how shareholder activism is shaping the corporate governance landscape and the drivers behind T. Rowe Price's response to be more vocal than in the past.

QUOTES AND KEY OBSERVATIONS

Blerina Uruçi, Chief U.S. Economist, Fixed Income Division

Quote

“Improving productivity could signal the end of generally lackluster growth seen since the global financial crisis. Though rare, some of the factors that have historically driven positive productivity shocks appear to be in place today. With rising labor and non-labor costs, businesses are seeking to maintain output without sacrificing profits. Moreover, investments in capital and intellectual property have advanced AI and other technologies, increasing productivity with high capital and low labor needs.”

Key Observations

- The ingredients are present for another year of robust growth in the U.S. In recent years, healthy expansion in the U.S. has spilled over to the rest of the world, helping offset the softness in Europe and China. We expect this to continue in 2025.
- The positive fiscal impulse in the U.S. is now fading, but measures like the Inflation Reduction Act and the CHIPS and Science Act will ensure further disbursement of tax incentives and industry specific grants during the coming years.

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- Despite this positive backdrop, job creation will likely slow down next year as companies have front-loaded hiring and are likely to focus on productivity improvements. Without a catalyst for mass layoffs, the expectation is for unemployment rates to remain low.

Jennifer Martin, Portfolio Specialist, Global Equity

Quote

“We expect the coming year will present a constructive environment for stock selection. Consumer and business balance sheets are in good shape, and the U.S. economy is growing. Broadly, we are witnessing fundamental changes taking place globally that have led to unsynchronized cycles across different sectors, which are not as correlated as they have been in the past. We believe adopting an active approach will be required to navigate global markets responsibly.”

Key Observations

- Inflation has fallen to near target ranges, enabling the U.S. Federal Reserve to lower interest rates.
- The market has been supported by powerful investment trends, such as artificial intelligence and GLP-1s, alongside recent economic policy measures and a broadening of market returns.
- The outlook could shift with recent developments in China, where in late September, policymakers announced a wide range of measures designed to support the economy. It will be critical to observe how these new Chinese stimulus efforts will influence global inflation.
- Looking forward, the two wildcards for markets will likely be energy, which could be a leading inflationary indicator, and the consumer, where signs of weakness may rebound post-election.

Ken Orchard, Head of International Fixed Income

Quote

“Credit assets, while generally fundamentally sound, are expensive in the face of uncertain geopolitics and likely volatility. The expectation is for credit to perform well over the medium term, but the short-term setup is relatively unattractive. In the current market, we favor securitized credit and bank loans over investment grade corporate credit.”

Key Observations

- Fixed income instruments that typically benefit from inflation have been attractive, including Treasury inflation-protected securities (TIPS), global linkers – also known as inflation-indexed bonds – and breakeven inflation swaps.
- China’s coordinated easing may help boost growth globally and in related emerging markets, but the extent of the fiscal stimulus remains to be seen.
- Large U.S. fiscal deficits could also increase growth and Treasury yields. In an environment of “U.S. exceptionalism,” we believe global bonds are attractive and may be less risky than U.S. Treasuries.
- Real, inflation-adjusted yields have moved higher to reflect the new macroeconomic regime, and interest rate volatility will likely remain high.

Sébastien Page, Head of Global Multi-Asset and Chief Investment Officer

Quote

“T. Rowe Price’s Multi-Asset investment team anticipates a broadening of the market over the next six to 18 months. The team is long value stocks, emerging markets, real asset equities, and international small caps, but neutral on U.S. small caps. Value appears cheap relative to Growth, and the catalyst could be a

passing of the baton on fundamentals. By the fourth quarter of 2025, year-over-year earnings growth for value stocks is expected to be comparable to that of growth stocks due to more favorable comparisons.”

- A three-factor model including rising unemployment, manufacturing PMI, and the inverted yield curve shows a 90% probability of a U.S. recession in the next 12 months. However, using services PMI instead of manufacturing, the likelihood of drops to 22%. When also adding stock returns from the last year and the level of unemployment, the statistical recession probability drops to 11%.
- The market isn't pricing in enough inflation risk. Commodities remain an important factor, goods disinflation may have bottomed, and real estate and services inflation could remain sticky.

Donna Anderson, Global Head of Corporate Governance

Quote

"In 2024, shareholder activism has surged globally. This has prompted T. Rowe Price to voice its opinions more frequently, especially when public narratives around contested situations and shareholder proposals have been off the mark."

Key Observations

- On shareholder proposals, T. Rowe Price's approach has been consistent over time; the industry more broadly rode the pendulum too far in both directions.
- In 2025, expect U.S. and European investors' standards continuing to diverge further, increased investor activism via social media, and early signs of pullback on "performance-based" compensation and sustainability metrics in executive pay programs.
- There are several themes where we are out of consensus, including the underappreciated costs of activism on long-term company performance.

A recording of today's event can be found on the Global Market Outlook Press Briefing [registration page](#); registration can be completed at any time for access.

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