Economic and Fixed Income Market Overview

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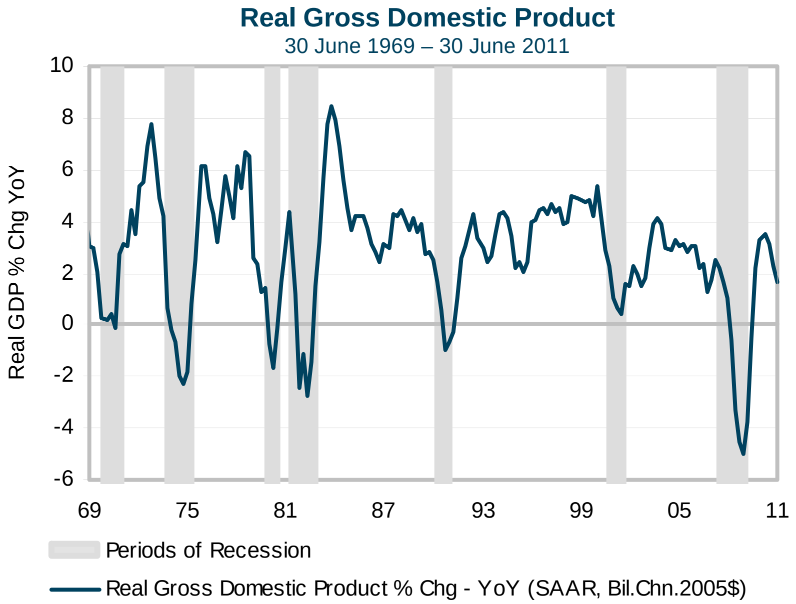
T. Rowe Price
INVEST WITH CONFIDENCE

U.S. Economy:
Modest Growth for the U.S.

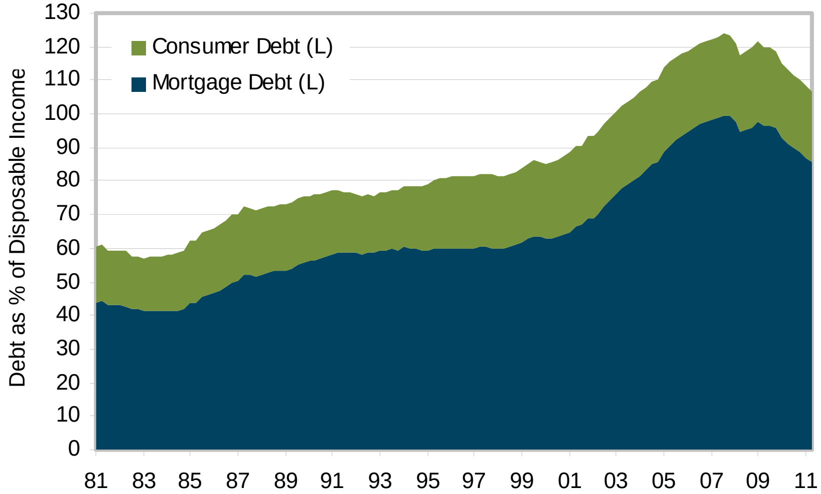


- Growth expectations have been reduced due to tighter financial conditions and greater uncertainty
- We expect growth to be modestly positive at 1.4% during Q4 2011 and approximately 1.5% to 2.0% in 2012 (Wall Street consensus is 1.8% to 2.5% for FY2012)
- Unemployment will likely remain above 8% until 2013
- If we add approximately 200,000 jobs per month, it would take until Q4 2014 to reach 6.0-6.25% unemployment
- A downside risk is a "growth recession" in which real GDP is positive but unemployment rises

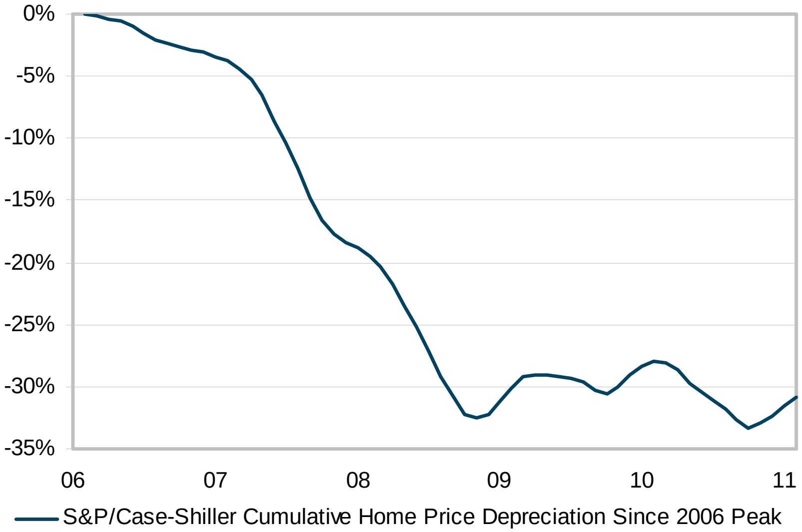
 Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Haver Analytics

U.S. Economy:
Expect Further Decline in Housing

Household Debt
31 March 1981 – 30 June 2011



Cumulative Home Price Depreciation Since 2006 Peak
31 July 2006 – 31 July 2011

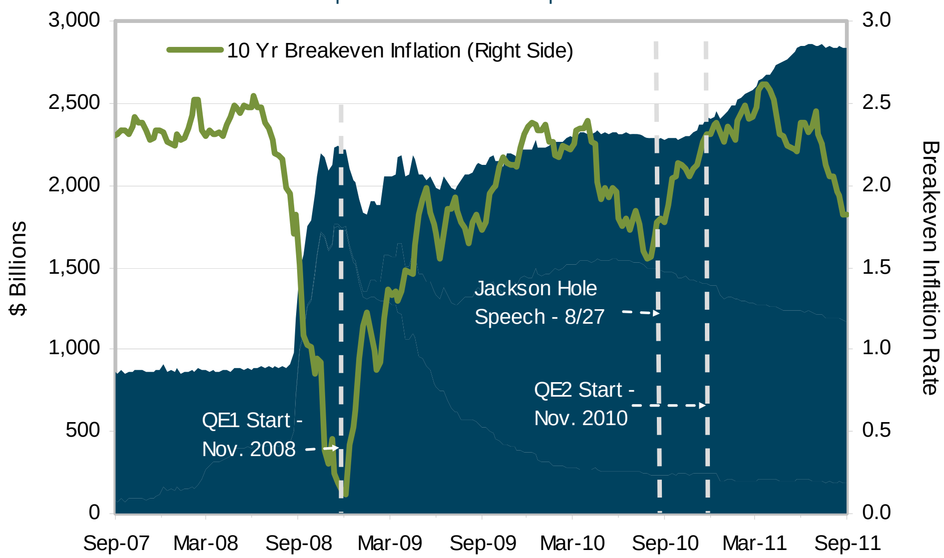


- Repayments and defaults have combined to reduce the debt/income ratio from a peak of 124% in 2007 to 107% in 2011
- Debt service (not pictured) has declined from 14% in 2007 to 11.5% of disposable income as a result of debt reduction and lower interest rates, freeing cash flow for current purchases
- S&P estimates it would take 47 months to clear the shadow inventory of delinquent and foreclosed loans
- We expect another 5-10% depreciation in home prices

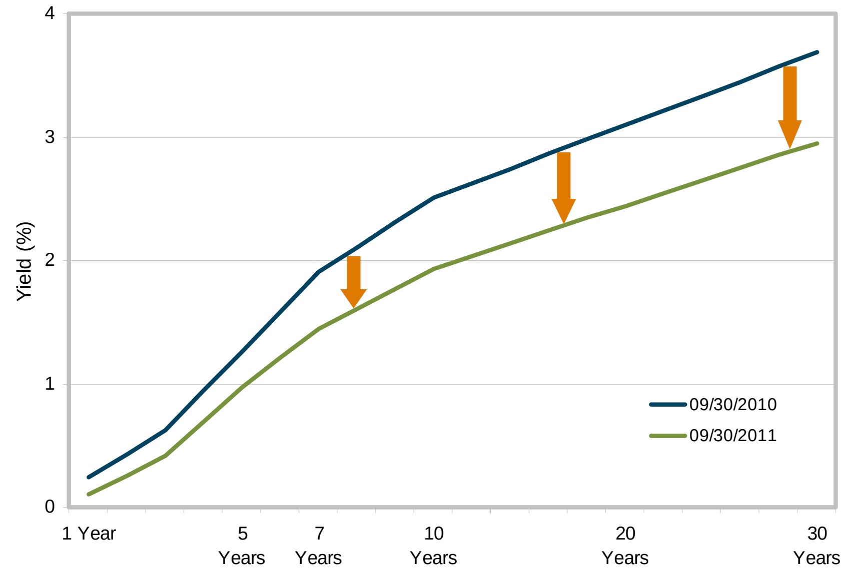
 Source: Bureau of Economic Analysis, Federal Reserve Board, Haver Analytics, Standard & Poors, T. Rowe Price

U.S. Economy:
Accommodative Monetary Policy

Federal Reserve Balance Sheet vs. 10-Year Breakeven Inflation
30 September 2007 – 30 September 2011



Treasury Yield Curve Change
30 September 2010 vs 30 September 2011

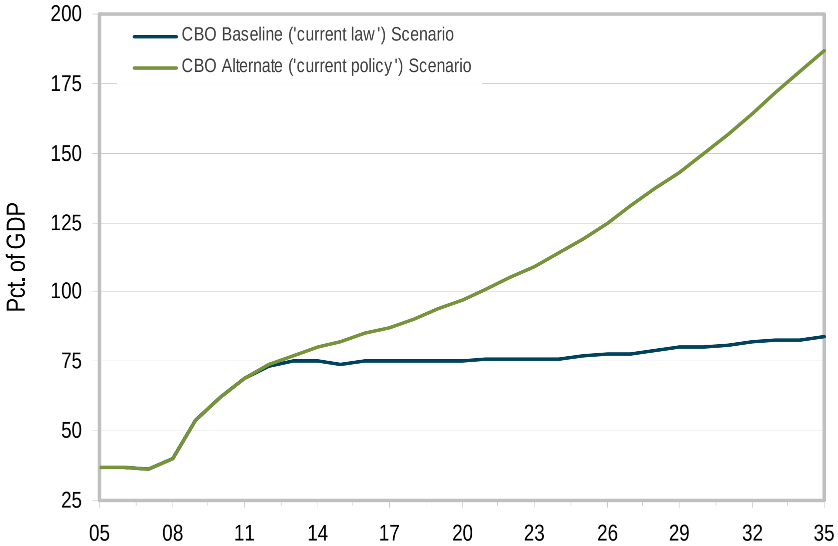


- The Fed announces "Operation Twist" – Selling $400 billion of short duration Treasuries and purchasing long duration Treasuries
- Fed's Surprise Announcement – Reinvestment of Mortgage-Backed Securities (MBS) & Agency debt pay downs back into MBS market
- The hurdle for QE3 remains high – Fed would likely act if deflation became a risk and risk assets substantially sold off

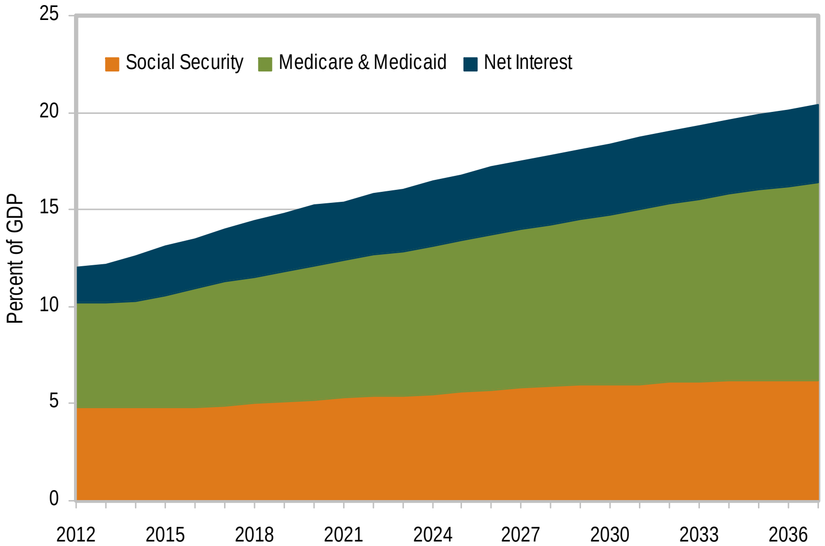
 Source: Barclays Capital, Federal Reserve Board, Haver Analytics, T. Rowe Price, U.S. Treasury

U.S. Economy:
But Fiscal Reform Looms

CBO Forecast of Debt Held By Public as % of GDP
2005 – 2035 (Forecasted)



Entitlements and Net Interest on Unsustainable Paths (as % of GDP)
CBO Forecasts as of 2011



- Current fiscal debt policies are on an unsustainable path
- The cost of entitlement programs (Medicare, Medicaid and Social Security) poses the largest risk to the federal budget. Currently, 43% of federal outlays cover these entitlement programs
- The demographics also turn less favorable as the ratio of 15-64 year olds to 65+ year olds falls from 5.0 to 4.0 over the next decade

Source: Congressional Budget Office, Social Security Administration, Haver Analytics

Europe:
Further Progress is Necessary

Potential Scenarios

Indefinite ECB purchase program

The European Central Bank (ECB) is forced to continue buying bonds from Spain and Italy in order to support the market and avoid any rapid deterioration of liquidity

Expansion of the EFSF program

EU members agree to increase the European Financial Stability Facility (EFSF) program to €3 trillion, essentially funding all the peripheral government bonds for the next few years

Creation of a Euro-bond market

A separate Euro-bond market is created to partly replace domestic government's outstanding debt, via a European debt agency

European Bank Recapitalization

Mandatory substantial recapitalization — seeking private resources first, but using public funds if necessary

Total breakup of the Euro-zone

Fragmentation of the Eurozone with periphery countries leaving the Eurozone membership

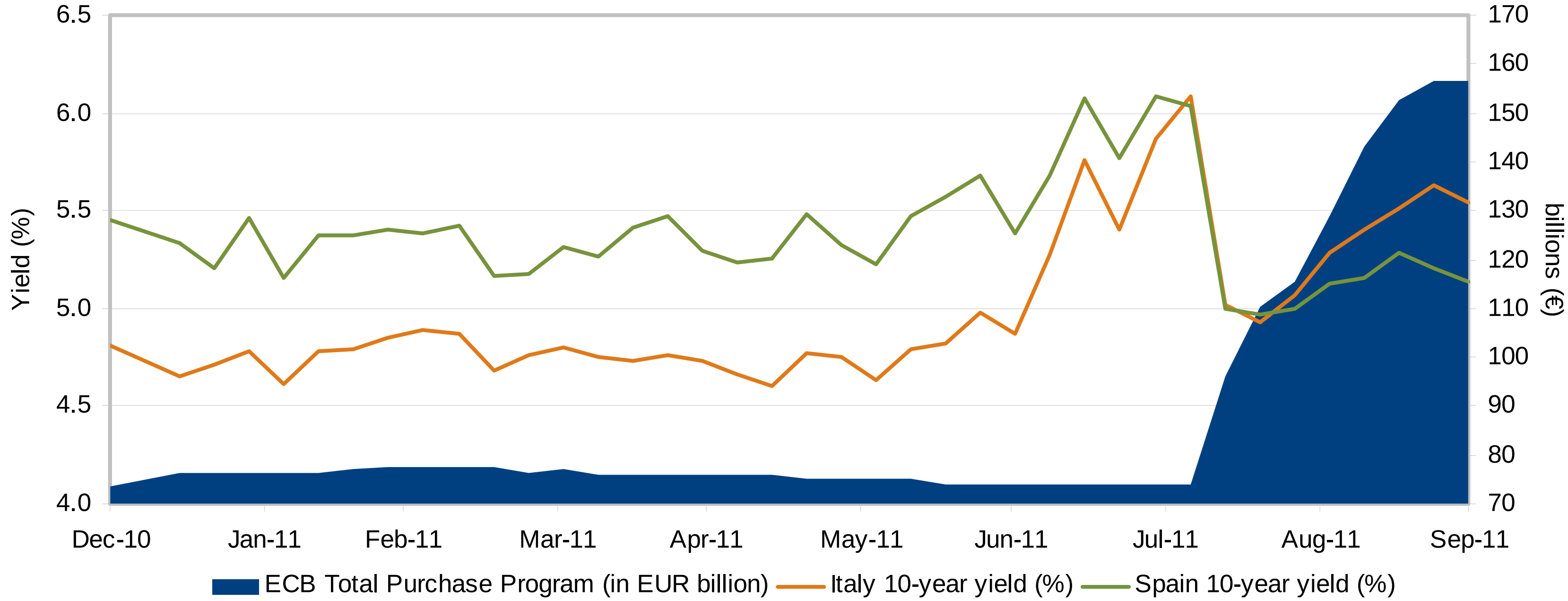
- The market expects more progress and will test the politician's will for change
- Further periods of stress in the market should be expected
- Expect progress to be slow and gradual in nature

Source: T. Rowe Price

Europe:
ECB Purchases Stabilize Markets For Now

YTD 2011: 10-Year Yields in Italy and Spain vs. ECB Cumulative Purchase Program

31 December 2010 – 30 September 2011

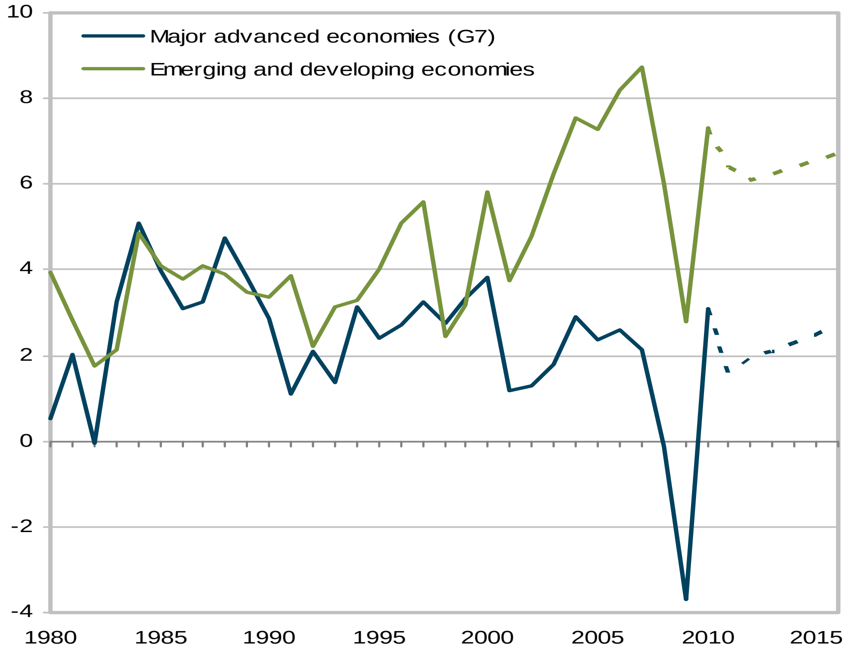


- The ECB has managed to stabilize markets thanks to ongoing purchases
- The market now expects the ECB to continue its purchase program
- The ECB initially targeted 5% on 10-year Italy/Spain yields but are watching austerity programs carefully

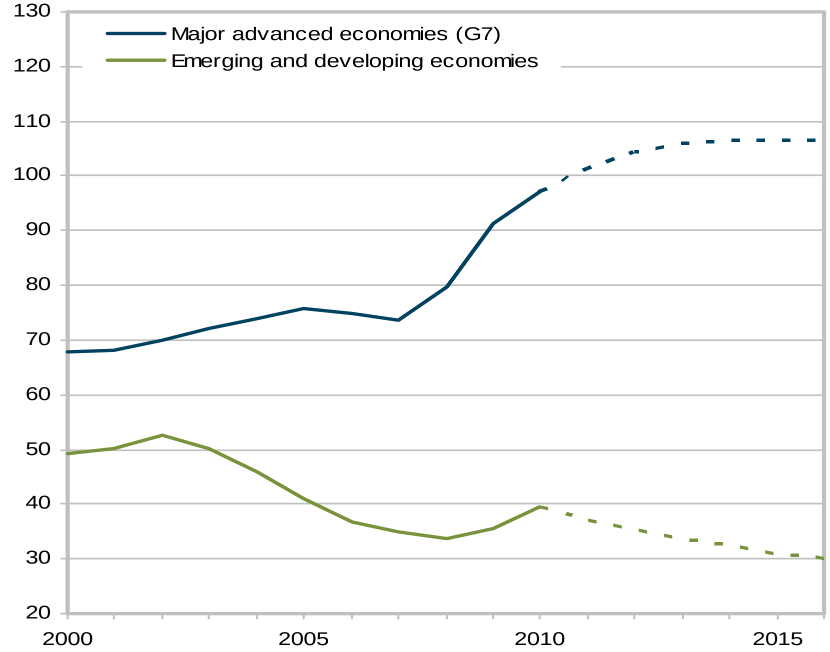
Sources: Italy, Spain, and European Central Banks

Global Macroeconomics:
Slower Growth in a Multi-speed Global Economy

Global GDP Growth
(Percent; quarter over quarter, annualized)
IMF forecasts as of September 2011



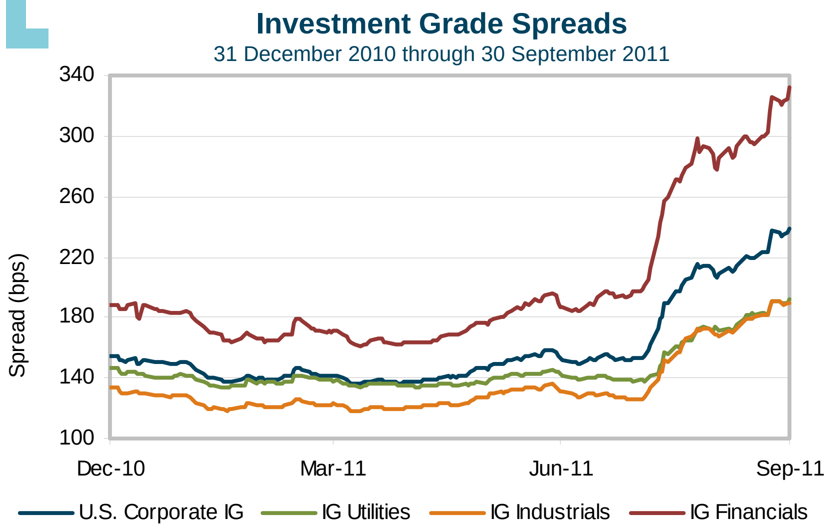
Emerging Markets vs. G7 Public Debt
(% of GDP)
IMF forecasts as of September 2011

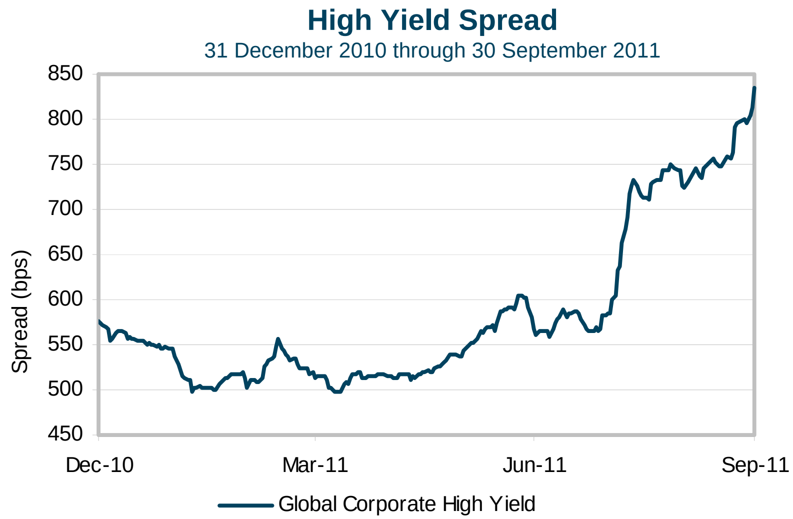


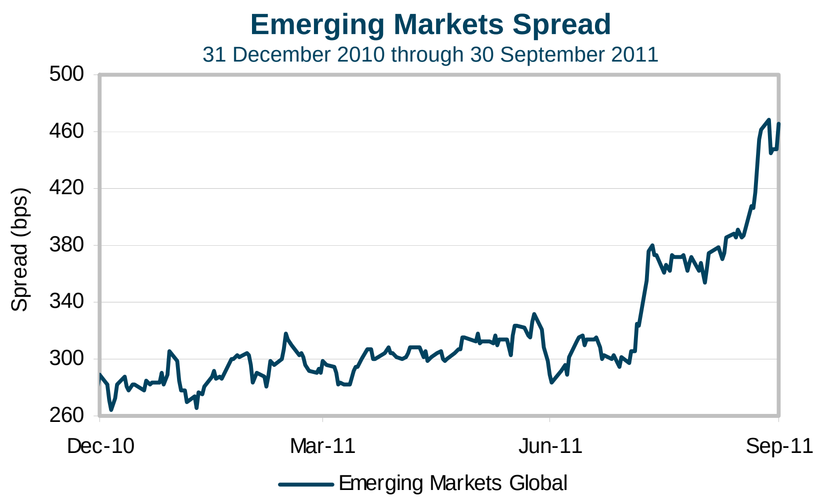
- Emerging markets appear poised to benefit from better fiscal conditions, coupled with decreasing interest payments, and strong growth relative to developed markets
- Carrying IMF projections into the future, Emerging Markets (EM) real GDP becomes half of the world total in 2033

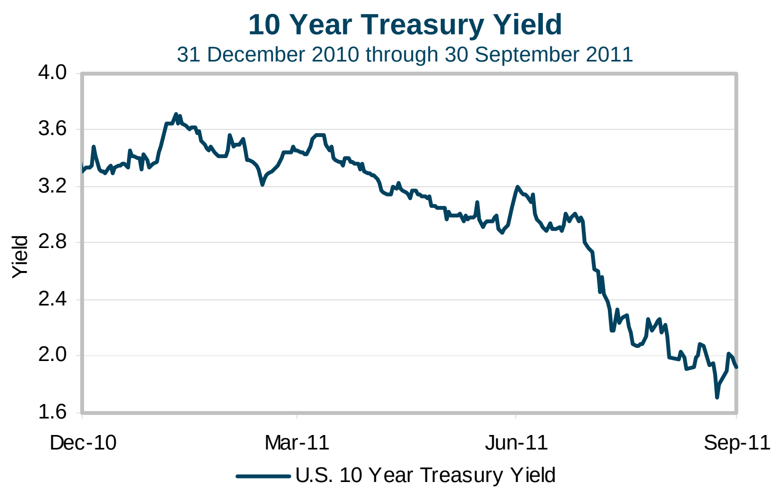
Source: International Monetary Fund (IMF)

Late Summer Sell-Off in Risk Assets





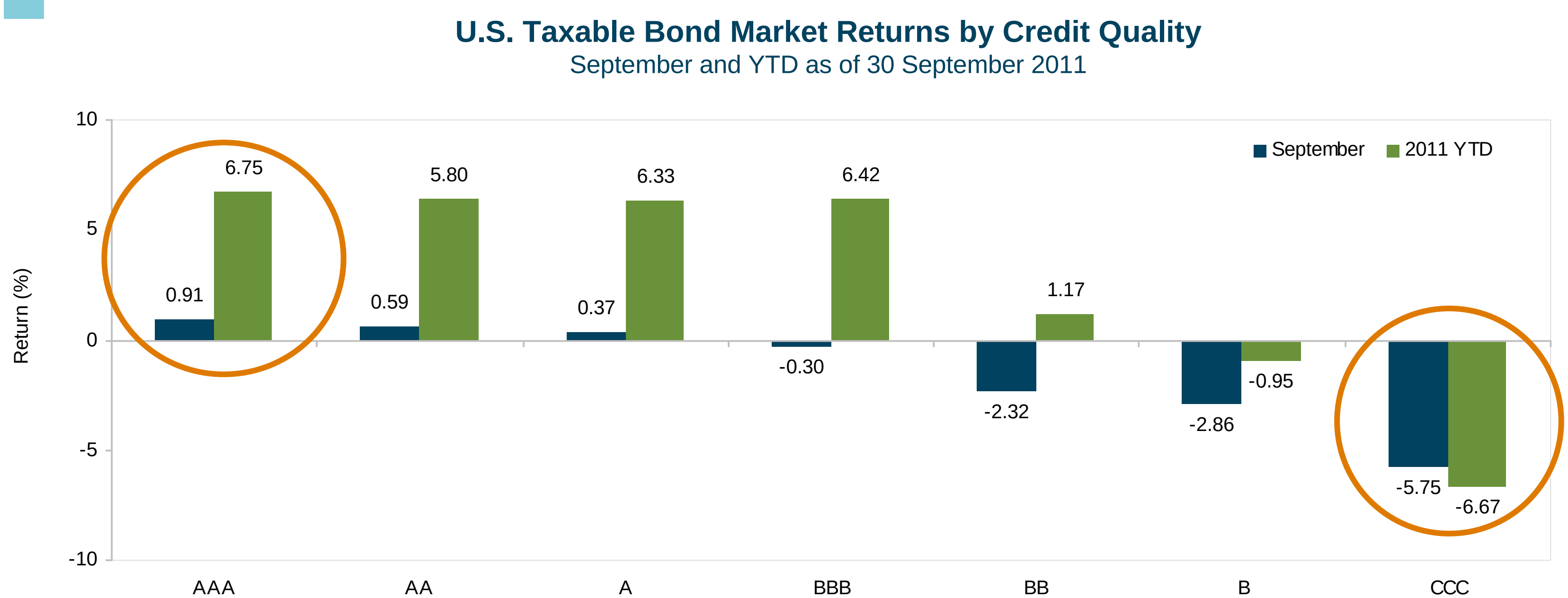




- The combination of slowing economic growth, the U.S. debt ceiling fiasco and the spread of the European sovereign/banking crisis to Italy and Spain caused a sharp sell-off in risk assets in July --- and a significant Treasury rally

Source: Barclays Capital, Inc. and JP Morgan

Total Return by Credit Quality:
The Higher, The Better



- Flight to quality and away from risk was significant in August
- Investment Grade bonds have outperformed Sub-Investment Grade YTD

Source: Barclays Capital, Inc.
Past performance cannot guarantee future results. It is not possible to invest directly in an index.

Conclusions

- U.S. will likely experience slower growth than typical post-recessionary periods
- Unemployment and housing remain challenging
- Europe will require major (not minor) policy responses
- Developed market fiscal austerity is at odds with calls for short-term fiscal stimulus
- Emerging markets may experience cyclical headwinds; long-term story is intact