

U.S. Equity Market Update

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T.RowePrice 
INVEST WITH CONFIDENCE

Macro Is Challenging

- The European Debt Crisis is becoming a contagion for U.S. markets and will require major (not minor) policy response.
- Policy-makers will maintain an accommodative monetary policy. Developed market need for fiscal austerity is at odds with calls for short-term stimulus.
- The U.S. economy has stalled and could move into recession if conditions continue to deteriorate. Weakness in consumer and business confidence is worrisome. Unemployment and housing remain challenging.

Aug. personal incomes fell 0.1%, the 1st drop since Oct. '09. Private wages and gov't benefits both sank. Spending rose 0.2% but was flat when adjusted for inflation.

ECRI: 'Tipping Into Recession'

Aug. pending sales of existing homes fell 1.2% to a 4-month low

Ingersoll warns, tumbles 12%

Just 20 companies went public in Q3 vs. 34 a year earlier as market volatility, fueled by concerns about the euro debt crisis, stifled new offerings

Copper has careened into a bear market, catching commodities traders off guard and triggering alarm bells across financial markets.

German and some other euro zone members want private-sector bondholders to take a bigger haircut on Greek debt, which would require reopening a 2nd rescue deal for Greece

Japan retail sales tumble

Sales dropped a greater-than-expected 2.6% in Aug. vs. a year ago

Switzerland's economy will slow to 1.5% in '12 from an estimated 2.3% this year

Greeks revolt against austerity

U.K. retail sales weaken

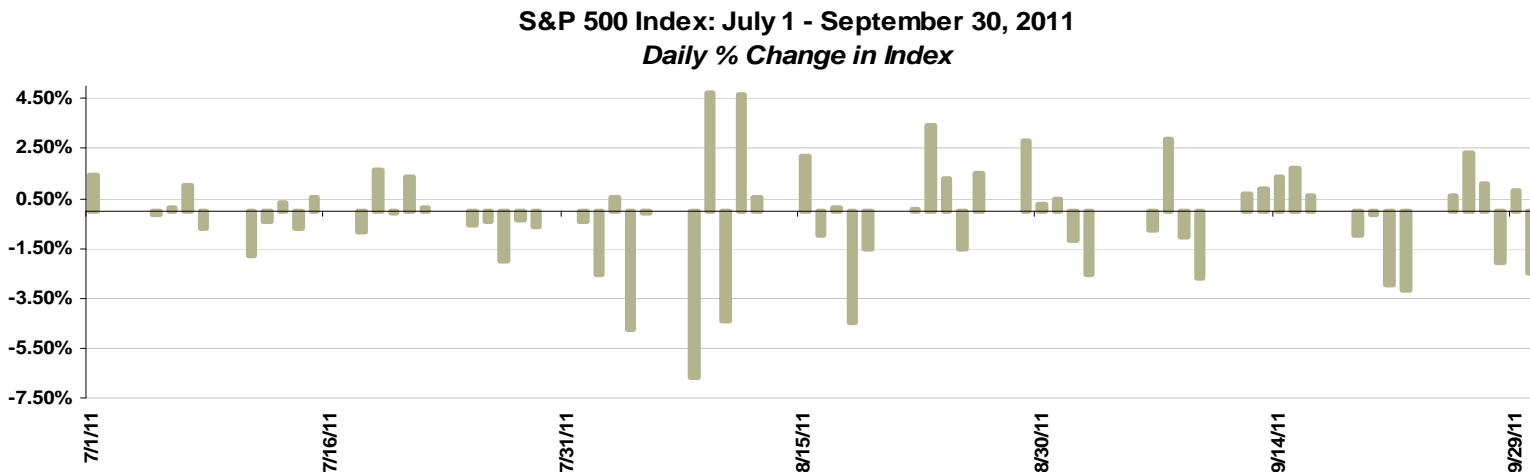
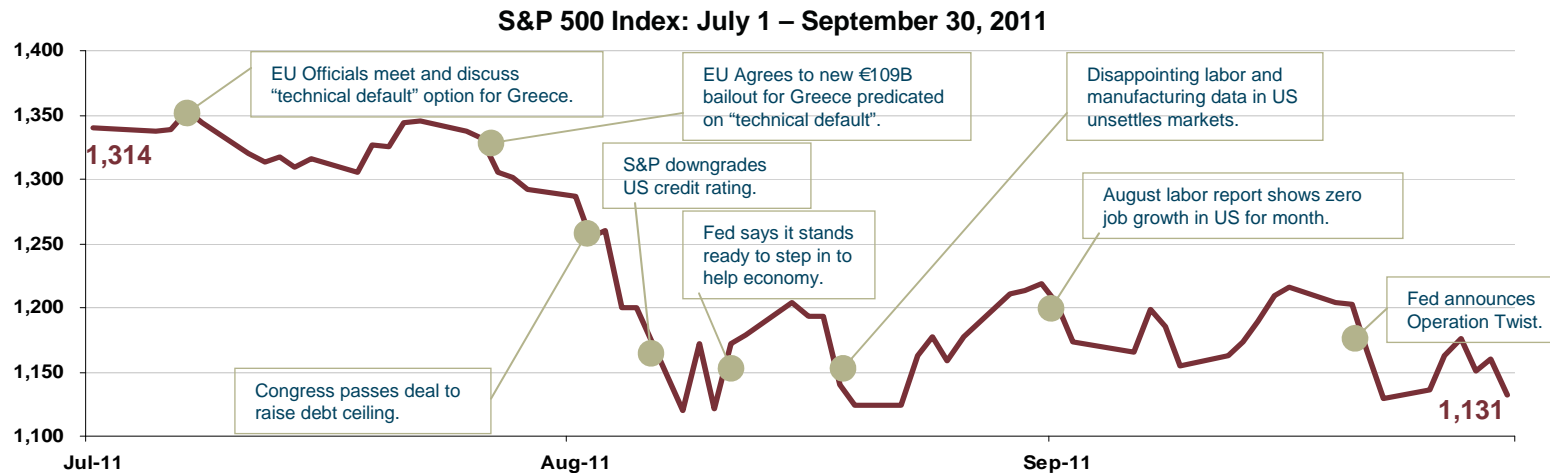
HSBC's China manufacturing index remained below the neutral 50 for a 3rd straight month

BoE fears 'downward spiral'

German inflation picks up

Consumer prices rose a greater-than-expected 2.6% in Sept. vs. a year ago, the most in 3 years and up from Aug.'s 2.4% increase

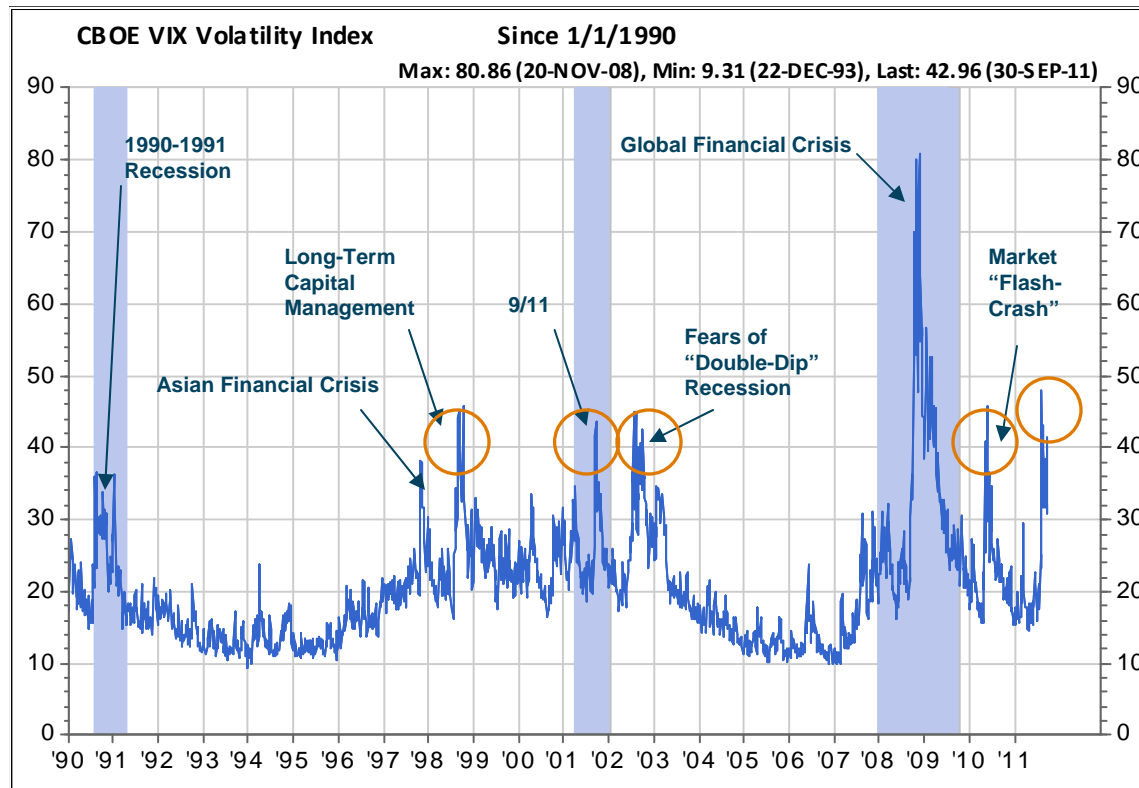
Recent Market Activity Suggests Concerns About the U.S. Economy



Source: Factset, Morgan Stanley, The Wall Street Journal, T. Rowe Price

The S&P 500 is made up of primarily large-capitalization companies that represent a broad spectrum of the U.S. economy and a substantial part of the U.S. stock market's total capitalization.

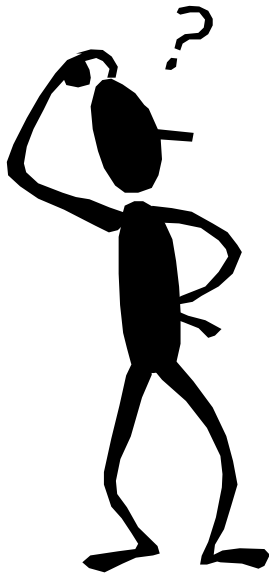
Historical Perspective on Market Volatility



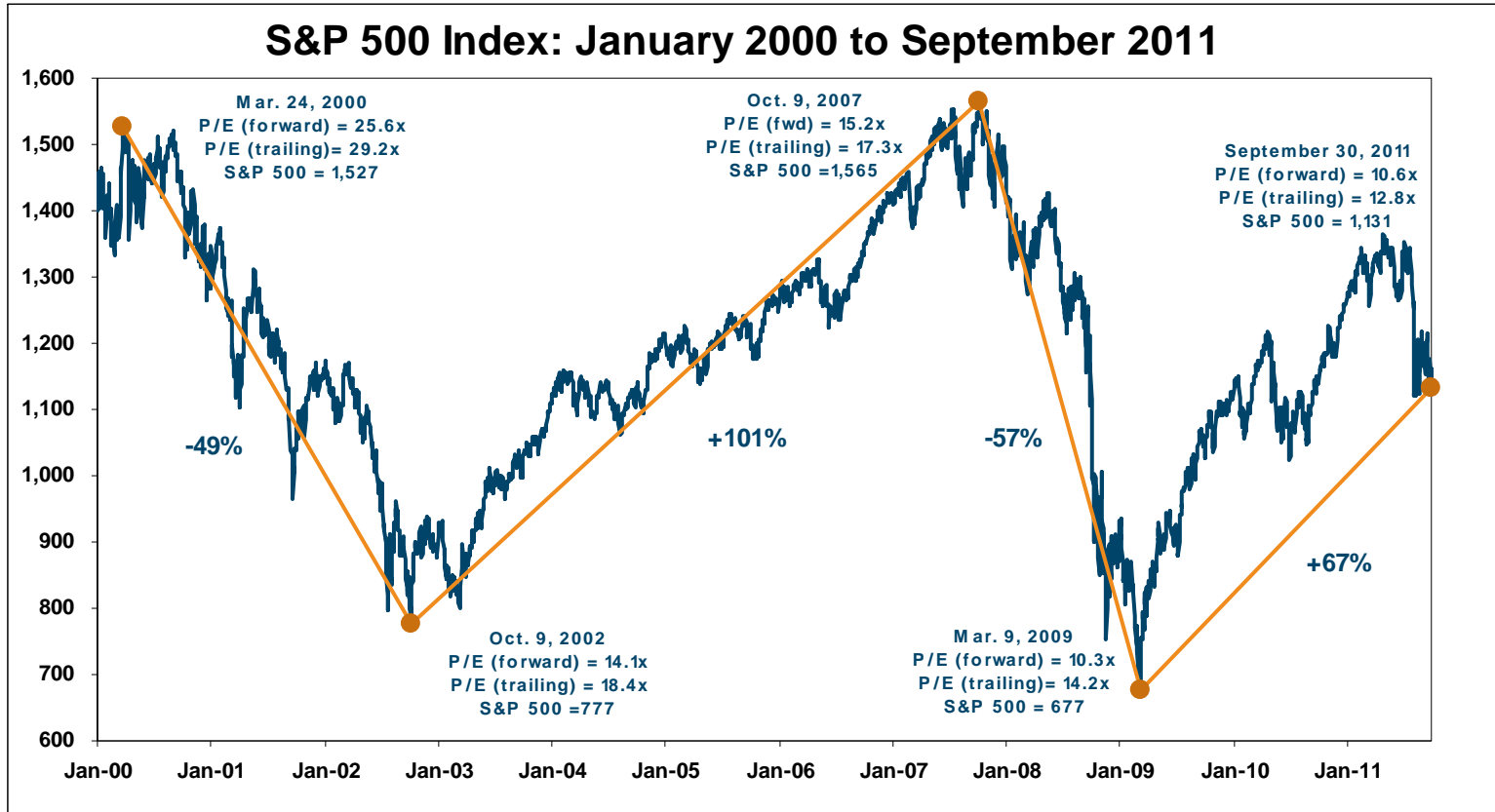
- Market volatility, as measured by the VIX Volatility Index, has risen significantly in Q3. Current volatility is similar to levels reached with other market crisis events since 1990.
- The VIX has experienced seven similar spikes since 1990, but only on three occasions has the U.S. economy entered into a recession.

Key Question...

If we might be headed into a recession, then why invest in the market?



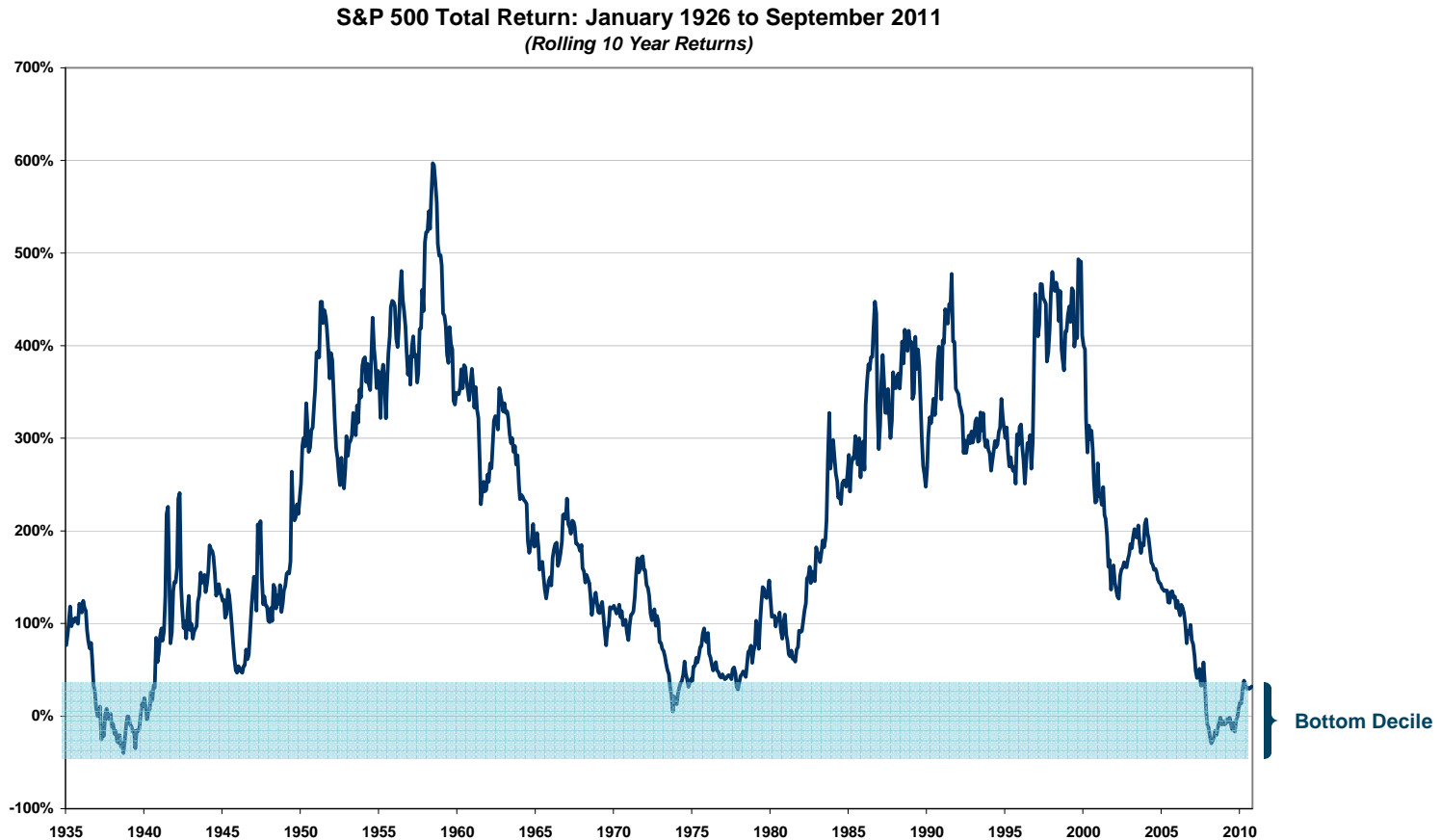
Recent History Provides No Reason to Invest In U.S. Equities



THE "LOST DECADE"

Source: T. Rowe Price, IBES
 Past performance cannot guarantee future results.

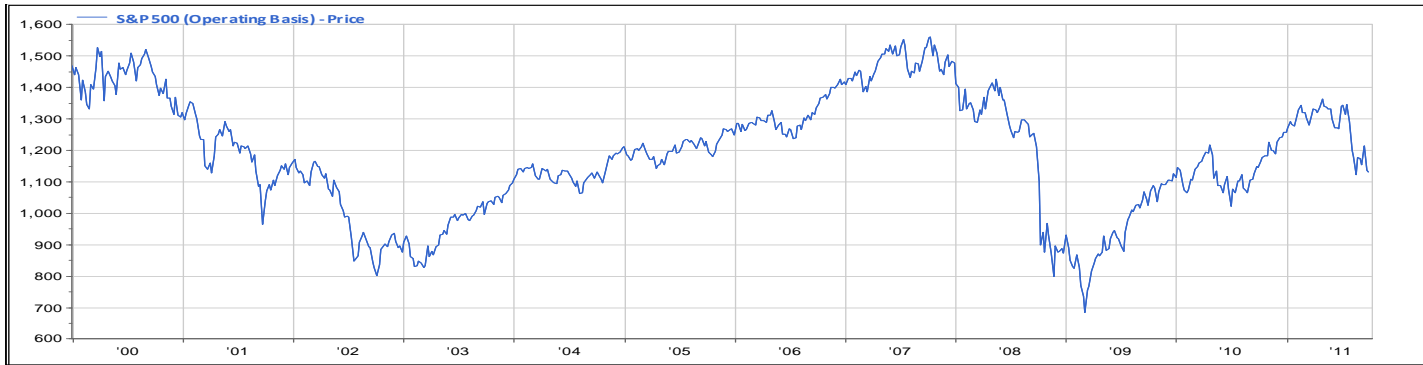
S&P 500 Index: Rolling Ten Year Returns Since 1926



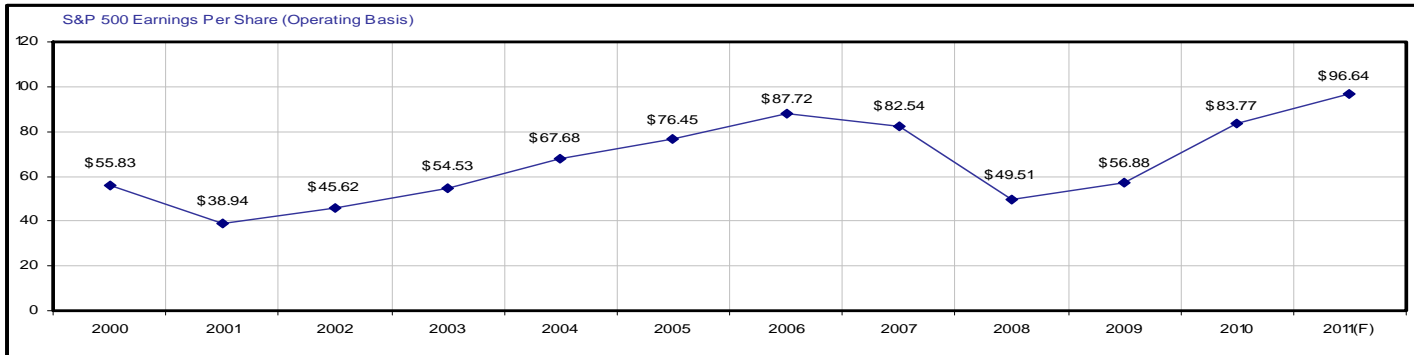
- The S&P 500 median total return across all 10-year periods is 176%.
- The 10-year period ended September 30, 2011 is in the bottom decile of S&P 500 total returns for all 10-year periods.
- On average, the market has gained nearly 200% across all 10-year periods following a bottom-decile performing decade.

Source: T. Rowe Price
Past performance cannot guarantee future results.

S&P 500 Since 2000



S&P 500
Down 22%



EPS
Up 73%

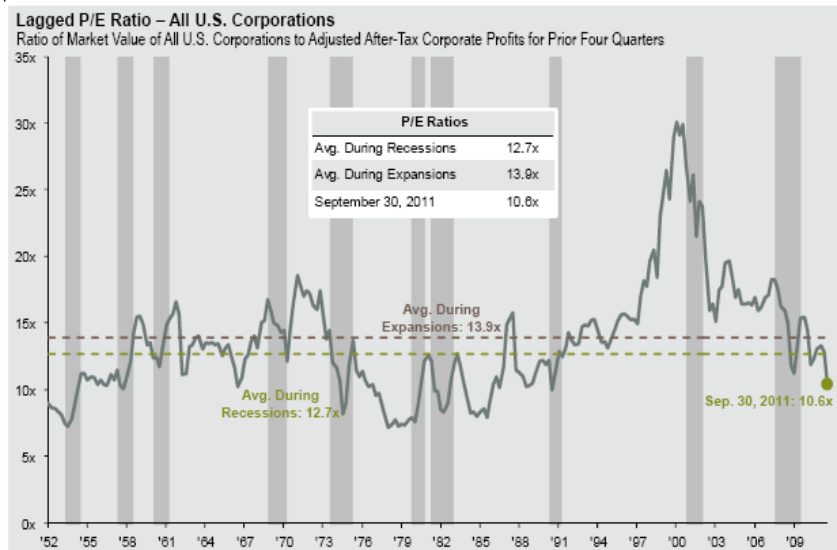


P/E Ratio
Down 55%

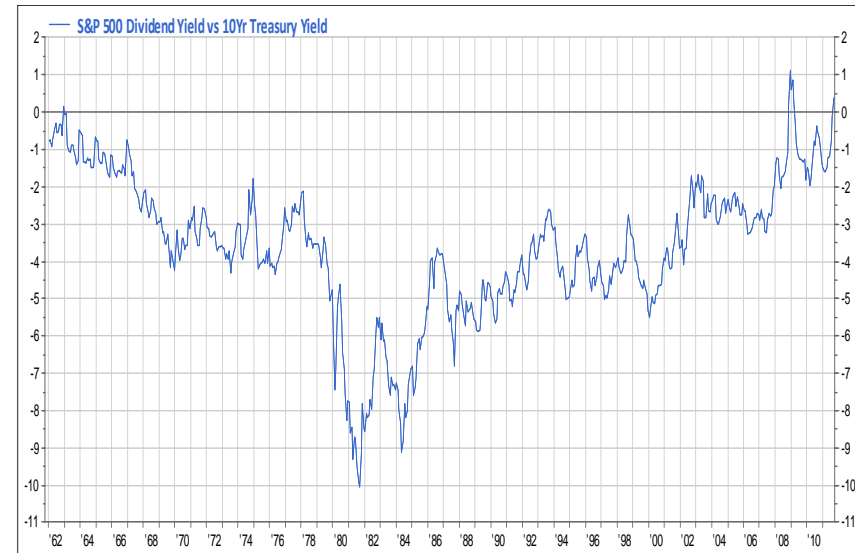
Source: Factset, T. Rowe Price

Reasons to Invest in the Market: Valuation

Price-to-Trailing EPS

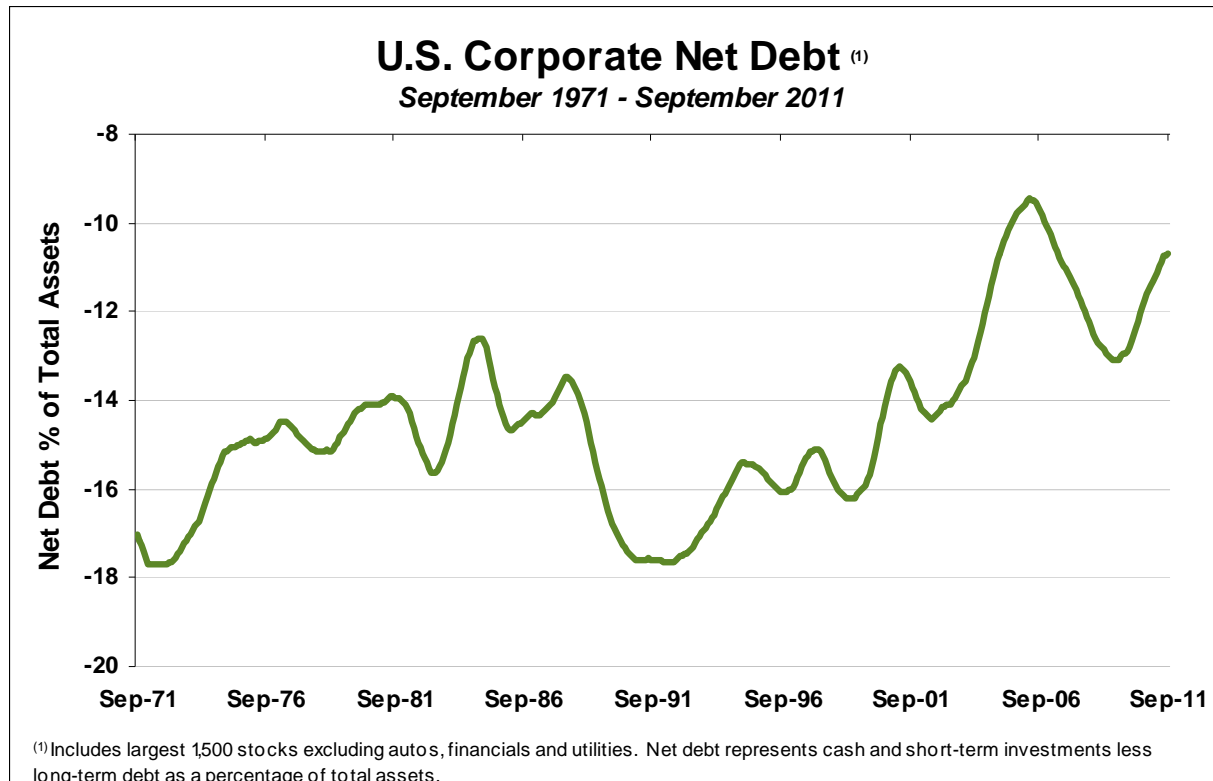


S&P 500 Dividend Yield vs. 10-Year Treasury



- The multiple of company earnings that investors are willing to pay is at a 20-year low, and is nearing historic lows over the past 60 years. The current P/E ratio is well below the average ratio during past recessions.
- Dividend yield on stocks recently surpassed the 10-Year Treasury yield, reflecting investor flight to lower risk asset classes. This has happened two other times over the past 50 years. Currently over 200 stocks in the S&P 500 are paying higher dividend yields than the 10-Year Treasury.
- Absolute valuations are attractive, but stocks could continue to decline without substantial policy action.

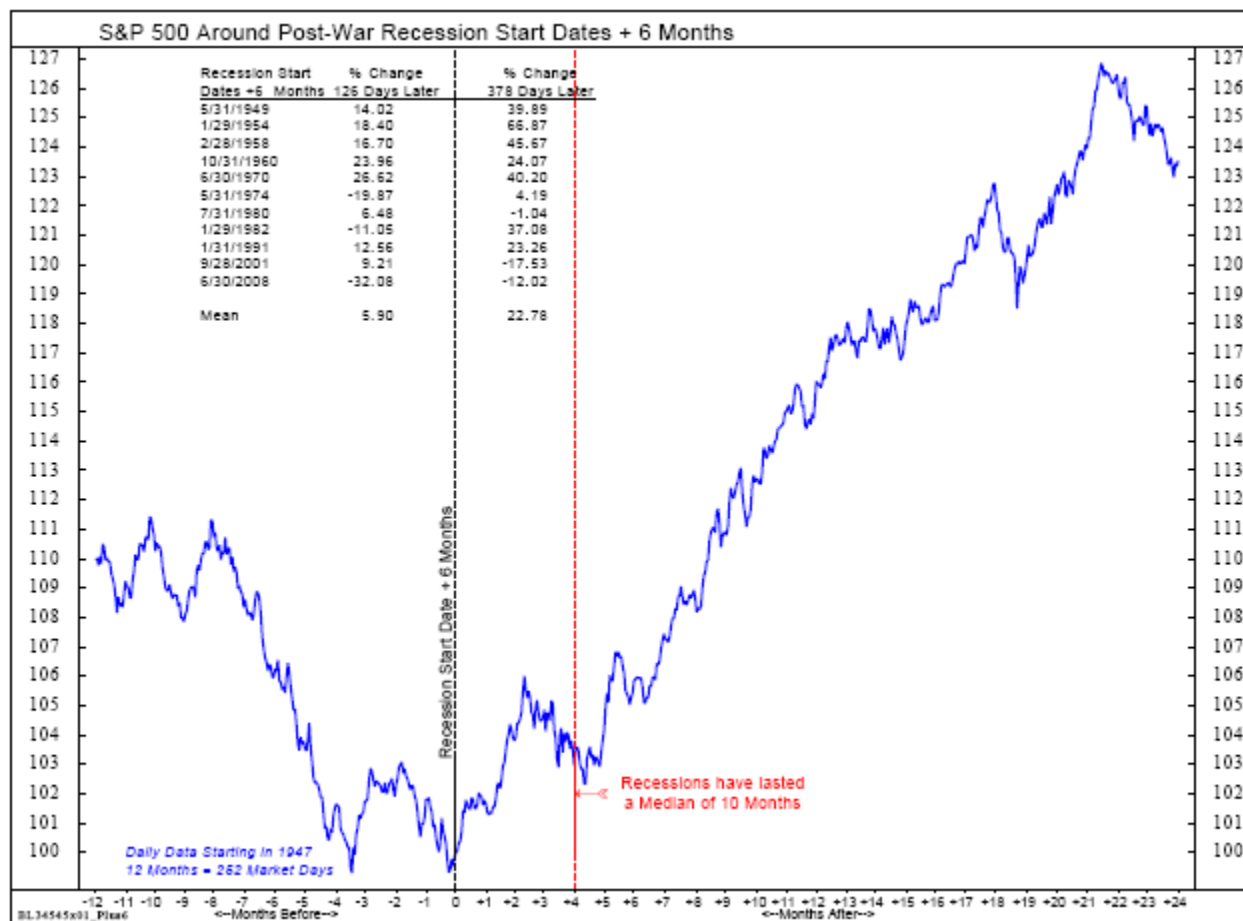
Reasons to Invest in the Market: Strength of Corporate Balance Sheets



- Corporate balance sheets have improved significantly since 2008-2009 as firms have deleveraged and increased their cash holdings.
- The build-up of corporate cash reflects current uncertainty about growth and investment opportunities.

Recessions Have Historically Been A Good Time to Buy U.S. Equities

On average, recessions have lasted ten months and stock returns have been positive after two-years.



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Source: Ned Davis Research, Inc.
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It's Critical to Remain in Stocks Even in a Down Market

By remaining in stocks, investors avoid missing out on significant growth opportunities over the long-term.

Average annual returns of the S&P 500 Index after declines of 20% or more (June 1962 to September 2011)					
Market Bottom	1-Year Later	2-Years Later	3-Years Later	5-Years Later	10-Years Later
3/9/2009	68.6%	47.6%	N/A	N/A	N/A
10/9/2002	33.7%	22.2%	18.0%	20.3%	N/A
10/19/1987	23.2%	27.2%	13.0%	16.9%	32.0%
8/12/1982	58.3%	30.8%	27.7%	44.9%	30.8%
12/6/1974	33.6%	29.7%	14.3%	13.2%	15.0%
5/26/1970	43.7%	29.9%	18.6%	6.1%	6.0%
6/26/1962	32.7%	27.9%	19.6%	15.0%	10.5%
Average Annual Returns:	42.0%	30.7%	18.5%	19.4%	18.9%

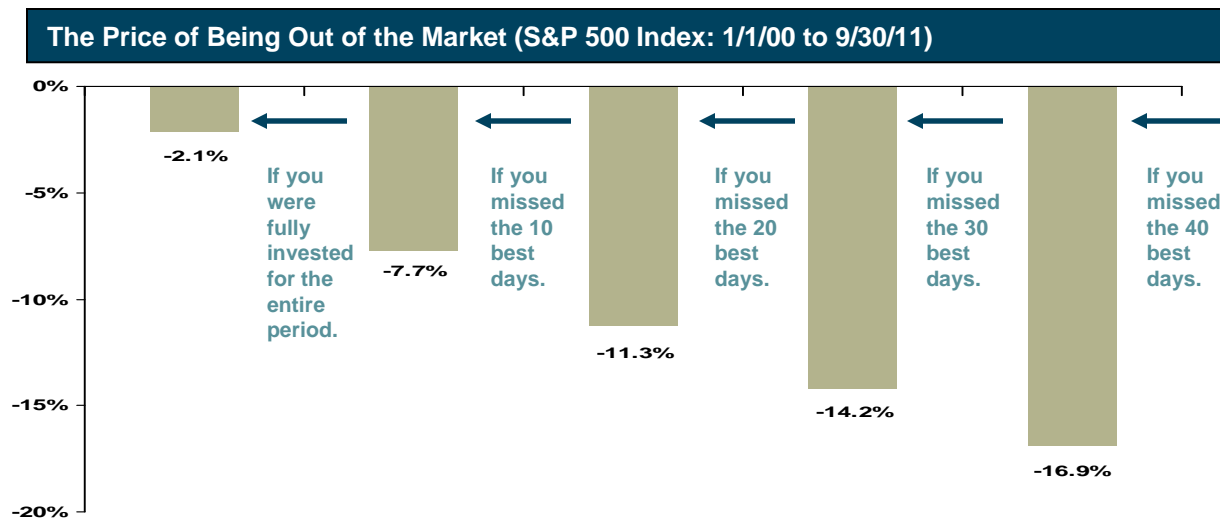
Source: Ned Davis Research, Inc.

Example is for illustrative purposes only. It is not possible to invest directly in an index. Past performance cannot guarantee future results.

It's Critical to Remain in Stocks Even in a Down Market

Avoid trying to time the market:

- You could miss the market's best days, resulting in lower overall returns.
- Bear market rallies may be brief, sudden and unpredictable.
- Recoveries from market bottoms can happen quickly.



Abandoning stocks, even temporarily, may significantly undermine your ability to achieve your long-term financial goals.

Source: Ned Davis Research, Inc.

Example is for illustrative purposes only. It is not possible to invest directly in an index. Past performance cannot guarantee future results.

Conclusion

- **The macro environment remains challenged. Questions for investors include:**
 - **Will the European Banking Crisis be a contagion for U.S. markets?**
 - **Does the recent price action and market decline catalyze the U.S. economy into a recession?**
- **Concurrently, equity valuations are attractive and corporate fundamentals are healthy.**
- **Key Question:**
 - **Which wins over time: macro concerns or valuation?**