



2018 CFA Society | Presentation

T. Rowe Price High Yield: Investing Dynamically in a Low Yield Market

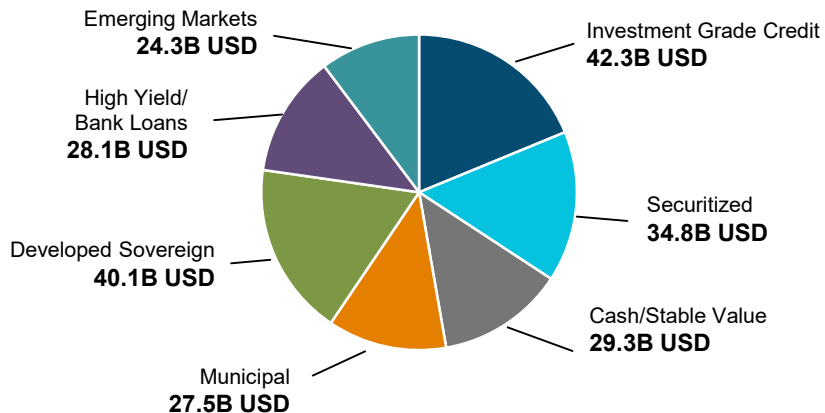
Rodney M. Rayburn, CFA – High Yield Portfolio Manager; Lead Portfolio
Manager, Credit Opportunities Strategy
Michael Lesesne – High Yield Portfolio Specialist

RIGHT
SIDE
OF
CHANGE

Breadth and Depth in Every Major Global Fixed Income Sector

As of June 30, 2018

226.5 BILLION USD IN FIXED INCOME AUM¹



DEDICATED TEAMS ACROSS MAJOR SECTORS AND MARKETS

Our dedicated teams ensure that every investment decision is made by experts who are completely immersed in every aspect of their sector. Along with our broad knowledge of global markets, this focused expertise helps uncover opportunities that other companies might miss.

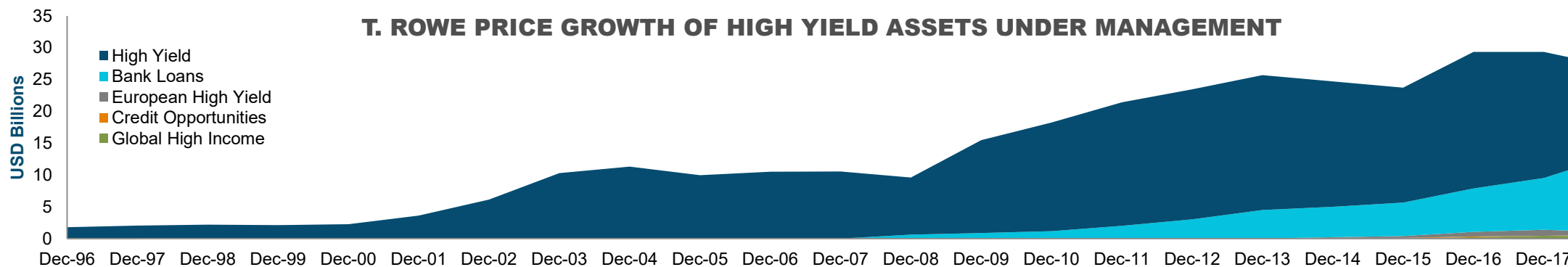
TOTAL NUMBER OF FIXED INCOME INVESTMENT ASSOCIATES²

75	44	48
RESEARCH & ANALYSIS	TRADING	PORTFOLIO MANAGEMENT

DEDICATED GLOBAL FIXED INCOME TEAMS³

24	24	53
EMERGING MARKETS	GLOBAL INVESTMENT GRADE	GLOBAL AND U.S. MULTI-SECTOR
35	18	12
GLOBAL HIGH YIELD	MUNICIPAL	SECURITIZED

T. ROWE PRICE GROWTH OF HIGH YIELD ASSETS UNDER MANAGEMENT



¹ The total fixed income assets managed by T. Rowe Price Associates, Inc. and its investment advisory affiliates. Total fixed income assets include all fixed income separate accounts and funds along with a portion of certain T. Rowe Price U.S.-registered multi-asset funds.

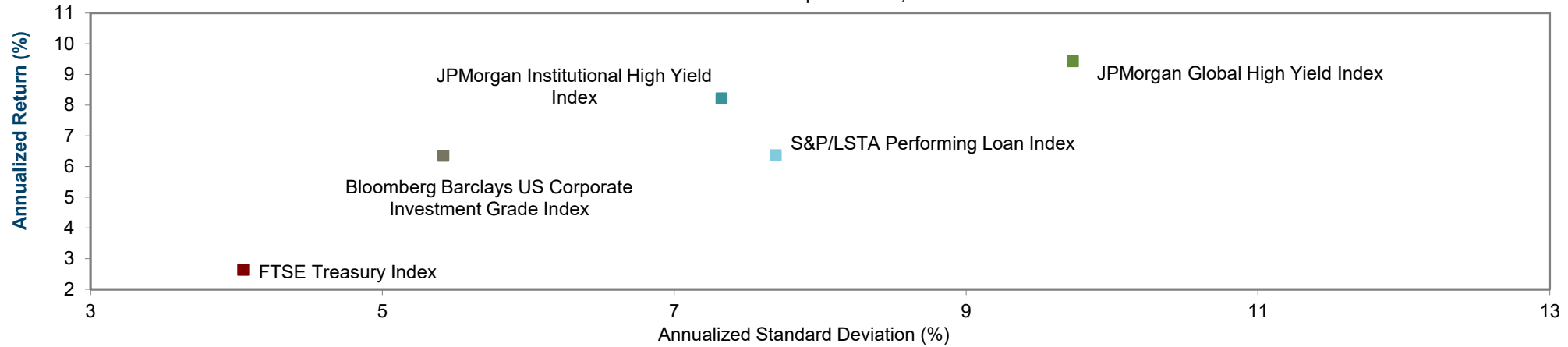
² Research & Analysis includes credit analysts, associate analysts, and quantitative research analysts. Trading includes traders and trading analysts. Portfolio management includes portfolio managers, and associate portfolio managers. Counts do not include Fixed Income associates who support Fixed Income investments (Portfolio Specialists, Management, and Economists). Count, additionally, does not include associates with Stable Value Analyst role.

³ Includes portfolio specialists, economists and stable value analyst, and does not include trading analysts. Head of International Fixed Income Trading included in both Global Investment Grade and Global High Yield counts due to dual trading coverage. Staff figures include associates who joined the firm through a fund acquisition in May 2017 and whose trading and research in our Philadelphia office remains fully separate and distinct from T. Rowe Price's existing High Yield platform. Numbers may not total due to rounding.

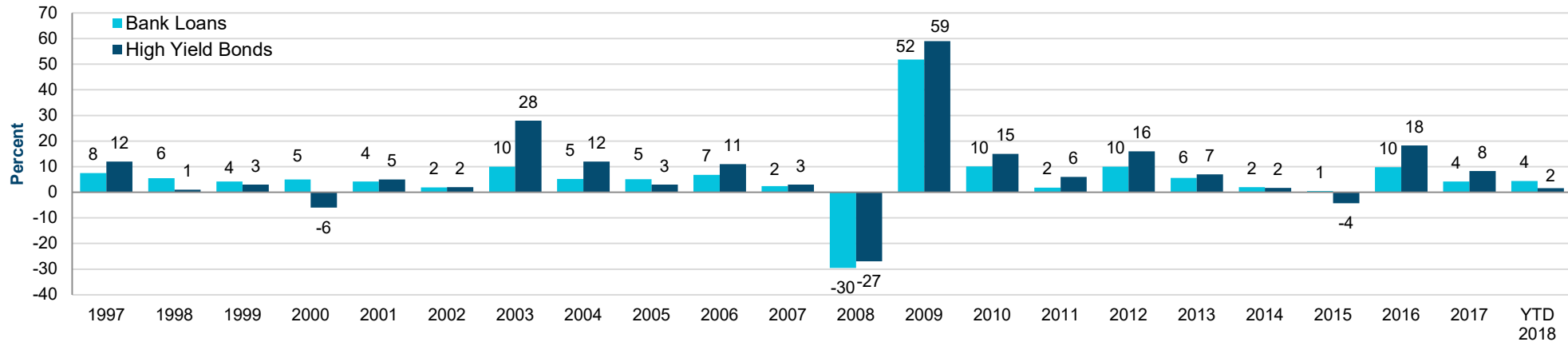
High Yield: Risk and Return

As of September 30, 2018

Risk and Return
10 Years as of September 30, 2018



High Yield and Bank Loan Annual Returns



Past performance cannot guarantee future results.

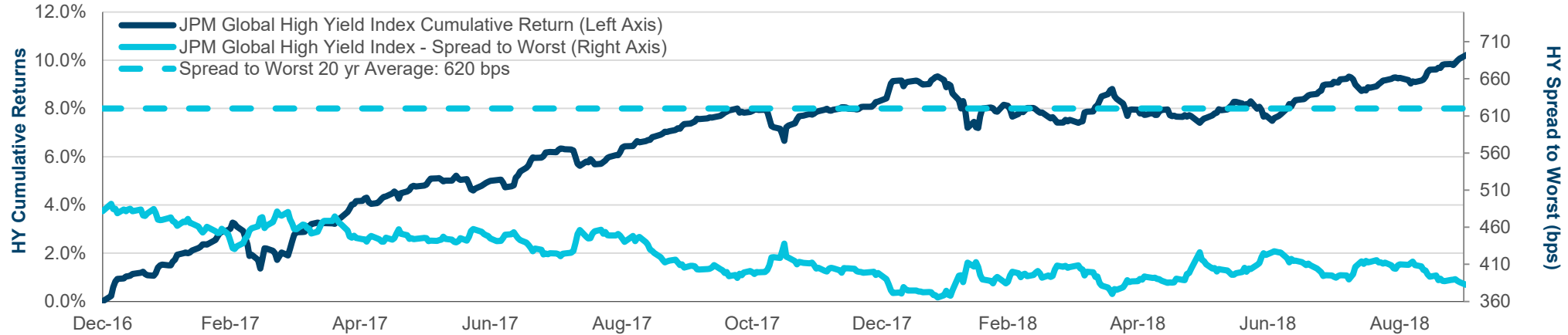
Source: J.P. Morgan, Bloomberg Barclays, FTSE, S&P and T. Rowe Price

Annual returns represented by the J.P. Morgan Leveraged Loan Index and J.P. Morgan Global High Yield Index

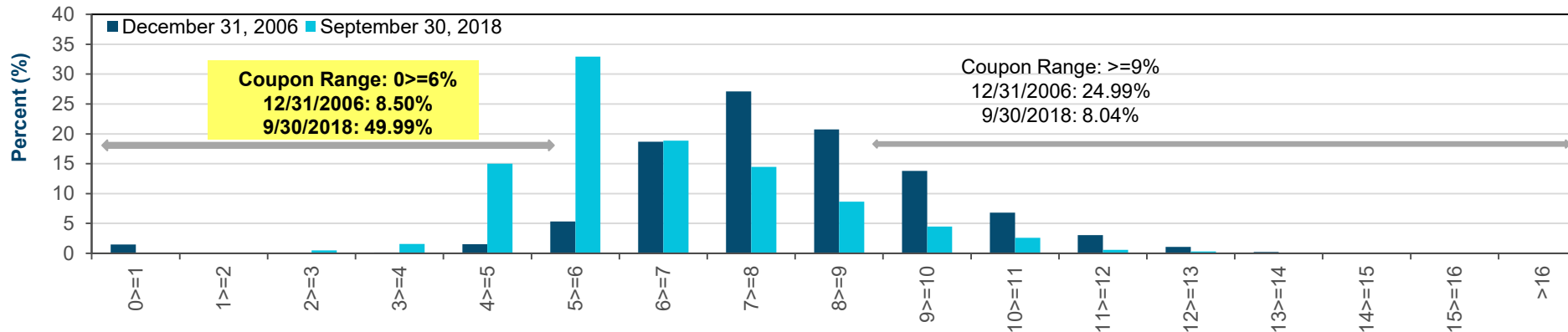
High Yield Spreads Remain Well Below Average

As of September 30, 2018

High Yield Spreads Remain Range Bound and Well Below Average



Coupon Distribution of the HY Market

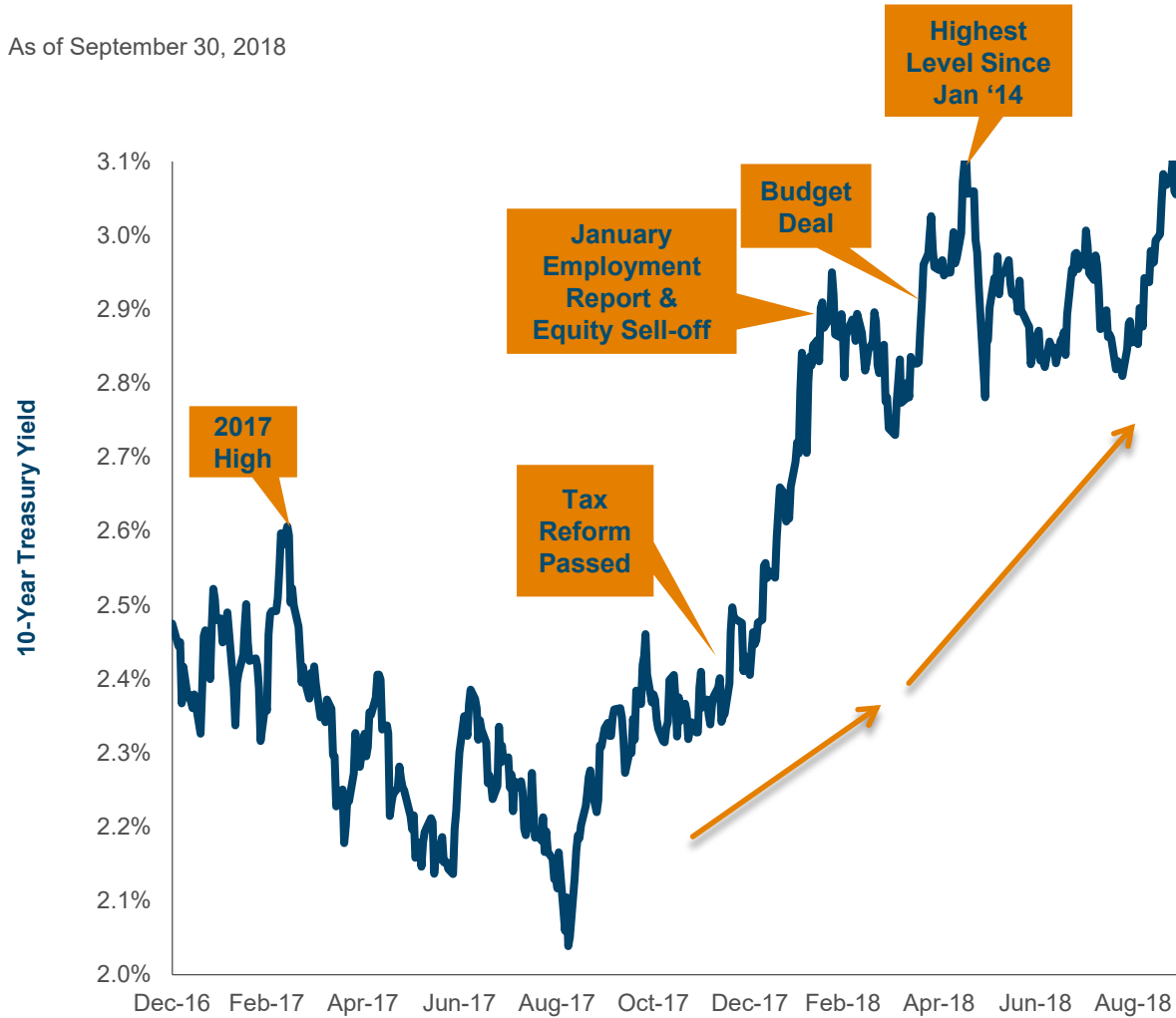


Past performance cannot guarantee future results.

Source: J.P. Morgan, Bloomberg Barclays, Citigroup, S&P and T. Rowe Price
Annual returns represented by the J.P. Morgan Leveraged Loan Index and J.P. Morgan Global High Yield Index

Treasury Yields Gradually Ascended in Late 2017 Before Spiking in Early 2018

As of September 30, 2018



Confluence of Factors Propelled Yields Higher:

- Firmer inflation expectations and wage data
- Synchronized global growth
- Fed more committed to policy tightening path
- Concerns about impact of ECB/BoJ QE tapering
- Late-cycle fiscal stimulus from tax cuts and budget deal
- Increased Treasury supply, reduced global demand

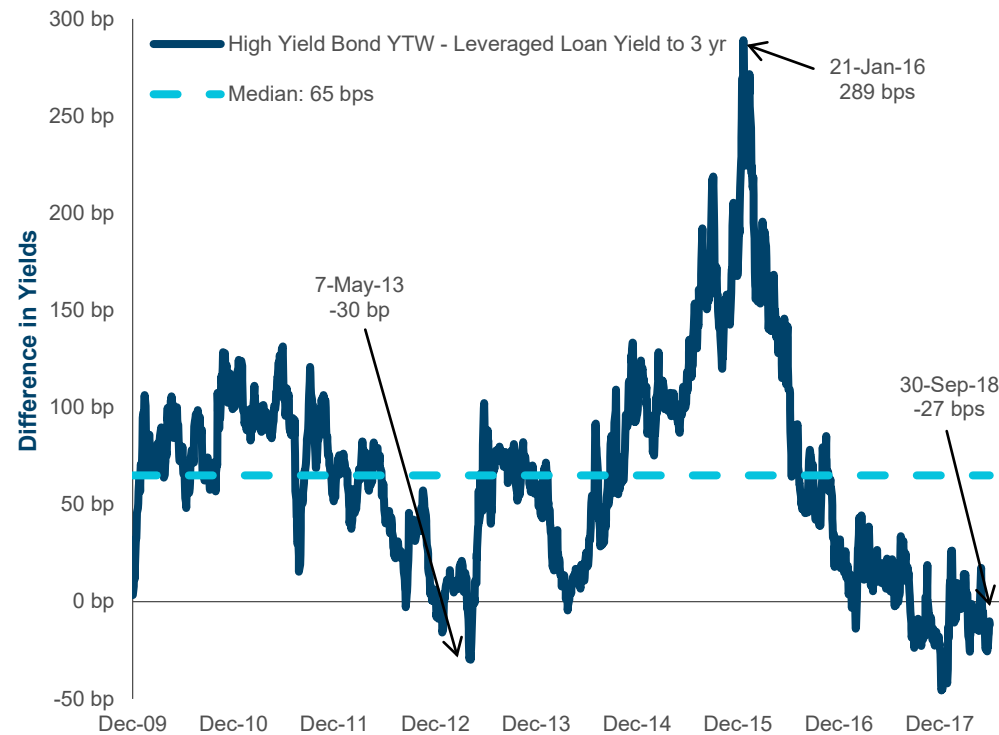
Rising Rates Led to Weakness for Higher Quality Bonds

As of September 30, 2018

Rating	YTD 2018 Total Return	Duration	Coupon
BB	0.04%	4.5 Years	5.6%
B	2.73	3.6	7.1
CCC & Below	6.74	3.1	8.4
Global High Yield Index	1.65	3.9	6.5

Difference in Yields, High Yield Bonds vs. Loans

December 31, 2009 Through September 30, 2018



Higher quality bonds have underperformed in 2018; based on historical spread differentials, leveraged loans appear attractive relative to BB bonds

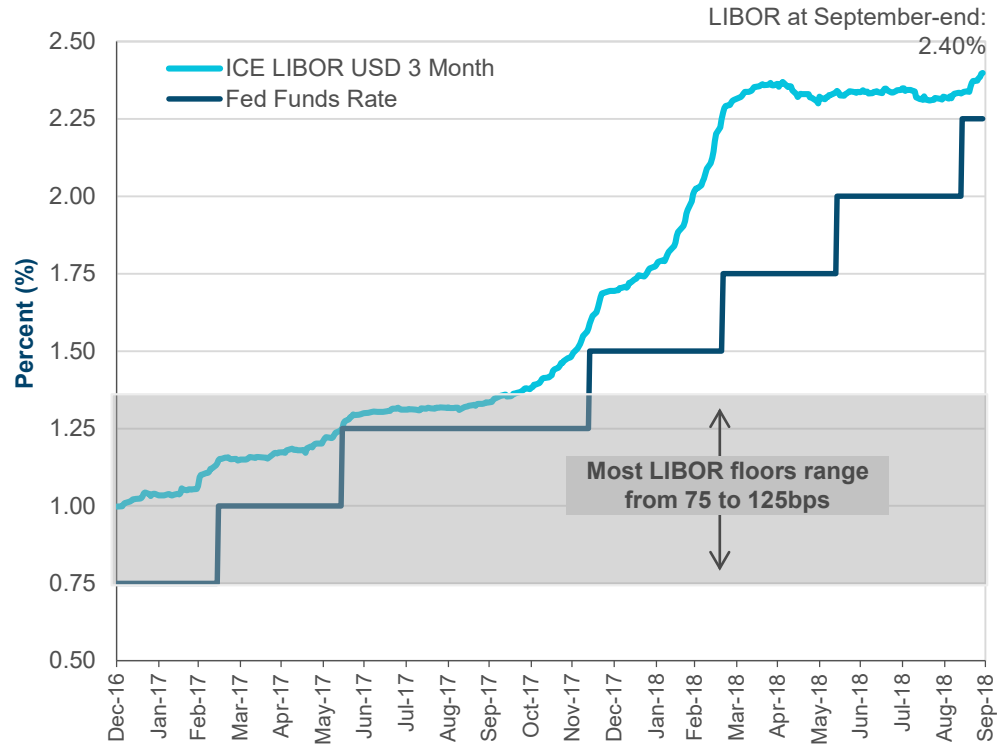
Past performance cannot guarantee future results.

Source: J.P. Morgan Global High Yield Index; J.P. Morgan Leveraged Loan Index

LIBOR Tracked Higher

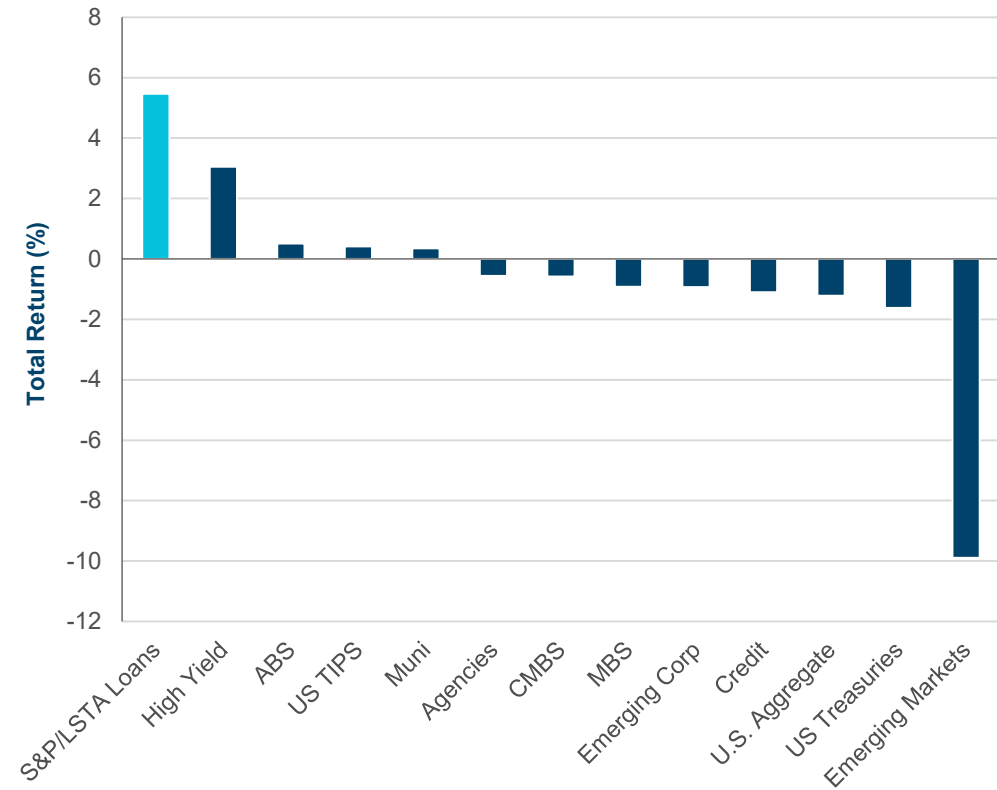
As of September 30, 2018

3 MONTH LIBOR AND FED FUNDS RATE December 31, 2016 Through September 30, 2018



FIXED INCOME RETURNS

September 30, 2017 through September 30, 2018



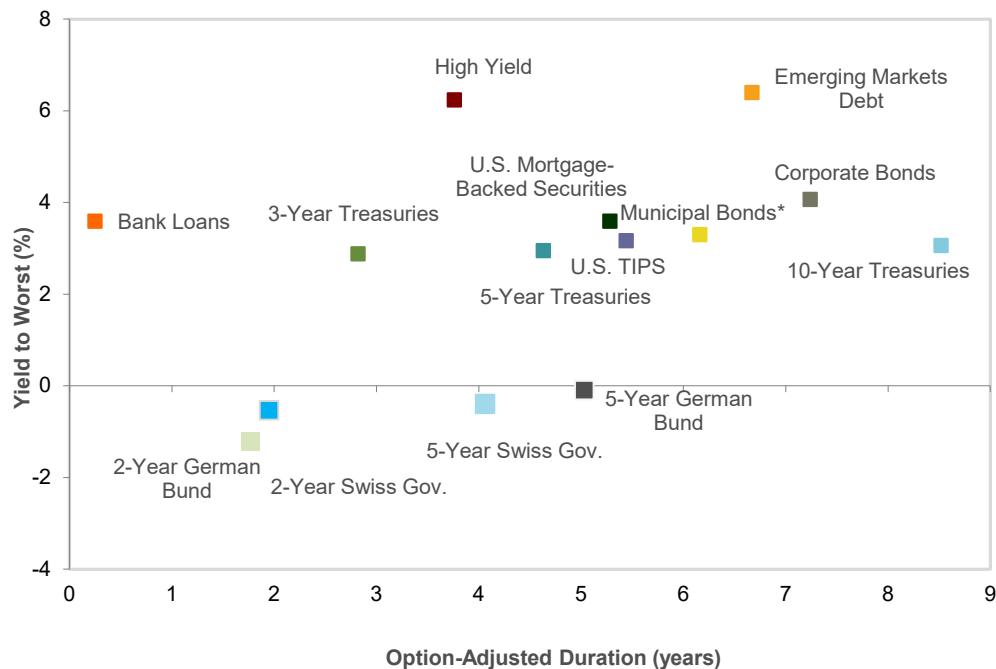
Past performance cannot guarantee future results.

Source: Bloomberg and S&P LCD

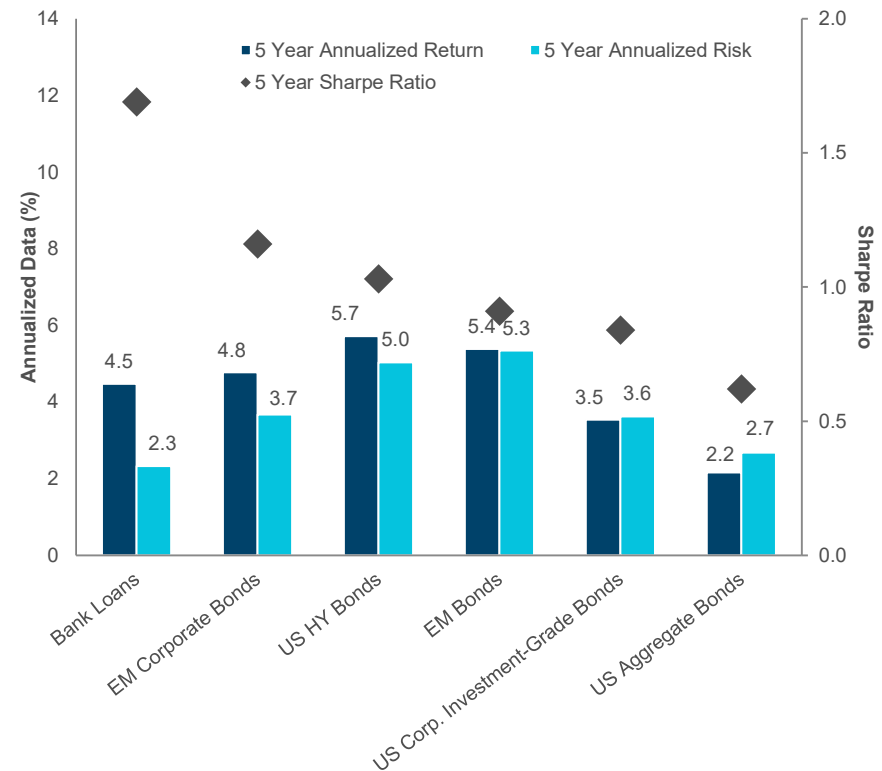
Bank Loans: High Conviction in a Low Yield Environment

As of September 30, 2018

RISK AND RETURN FOR FIXED INCOME SECTORS



STATISTICS ACROSS THE MARKETS



Past performance cannot guarantee future results

*Taxable-equivalent yield assuming a 43.4% tax rate

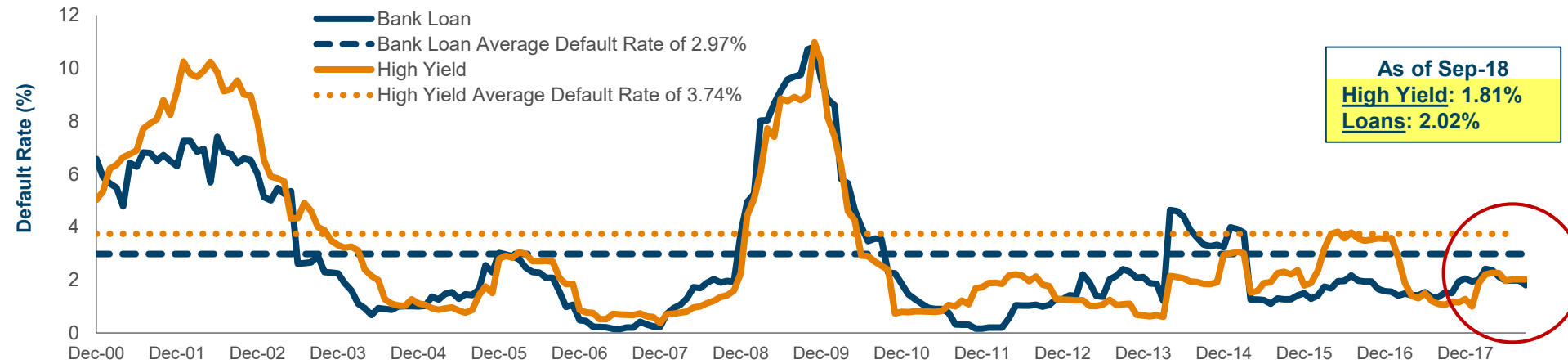
Bank Loans represented by S&P/LSTA Performing Loan Index, Corporate Bonds by the Bloomberg Barclays U.S. Corporate Investment Grade Index, Municipals Bonds by the Bloomberg Barclays Municipal Index, High Yield by the JPMorgan Global High Yield Index, Emerging Markets Debt by the JPMorgan EMBI Global Diversified Index, U.S. TIPS by the Bloomberg Barclays U.S. TIPS Index, U.S. Mortgage-Backed Securities by the Bloomberg Barclays U.S. Mortgage-Backed Securities Index

Source: Bloomberg Barclays, JP Morgan Chase & Co., and S&P/LSTA

Default Rates Expected to Remain Below Long-Term Average

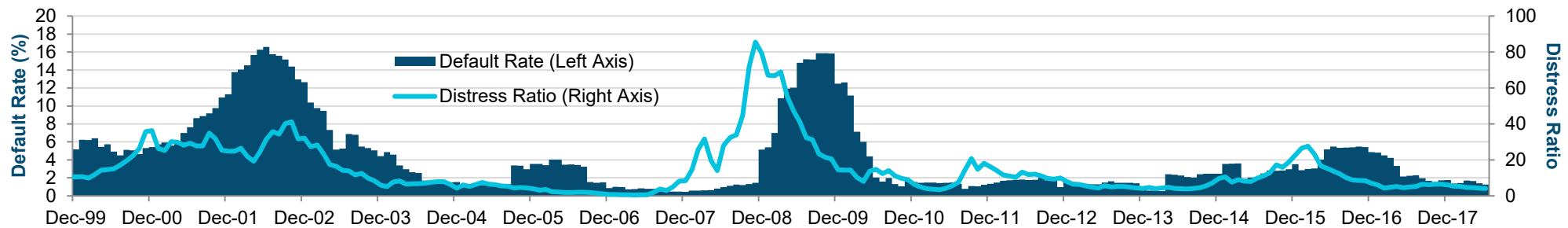
High Yield and Leveraged Loan Default Rates

December 31, 2000 Through September 30, 2018



Distressed Activity is Cyclical, but Consistently Present

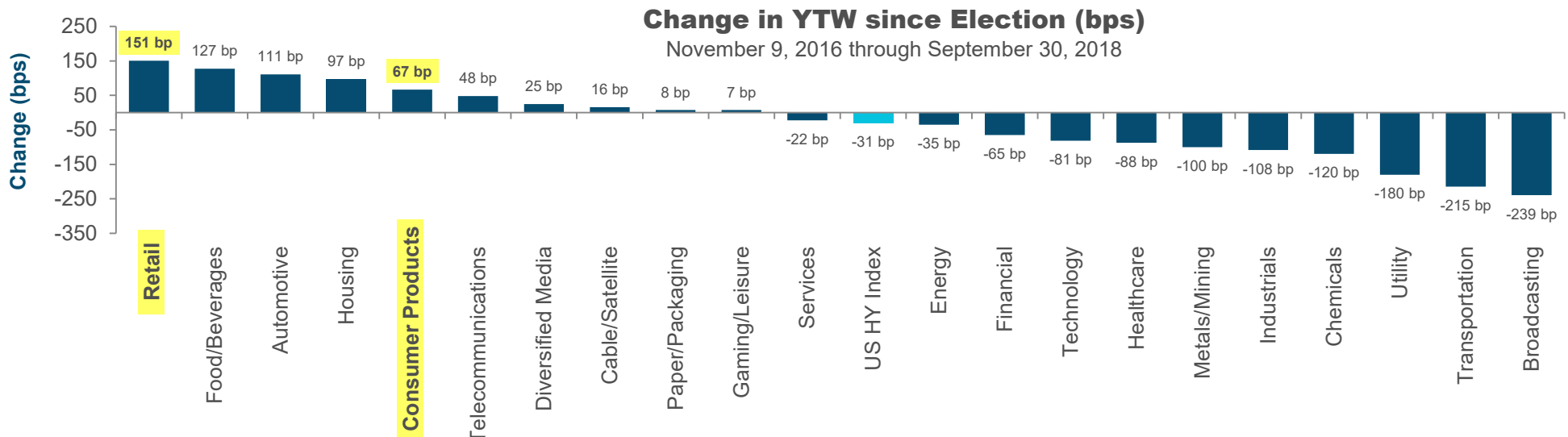
December 31, 1999 Through September 30, 2018



Source: J.P. Morgan Chase & Co., S&P, Credit Suisse and Bank of America/Merrill Lynch

Retail: Amazon Takes Over

As of September 30, 2018



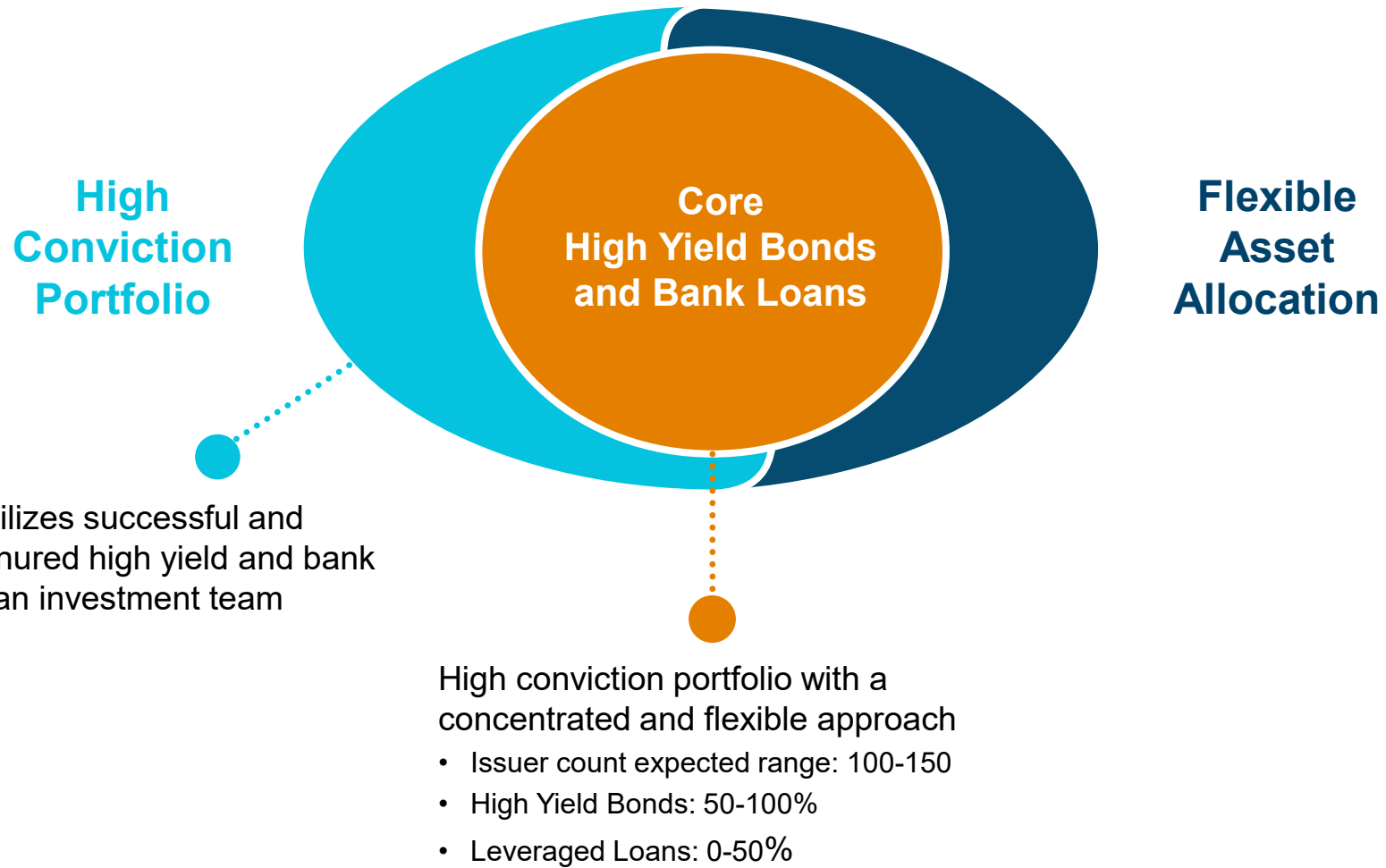
TOYS "R" US FILES...THEN LIQUIDATES?



Past performance cannot guarantee future results.

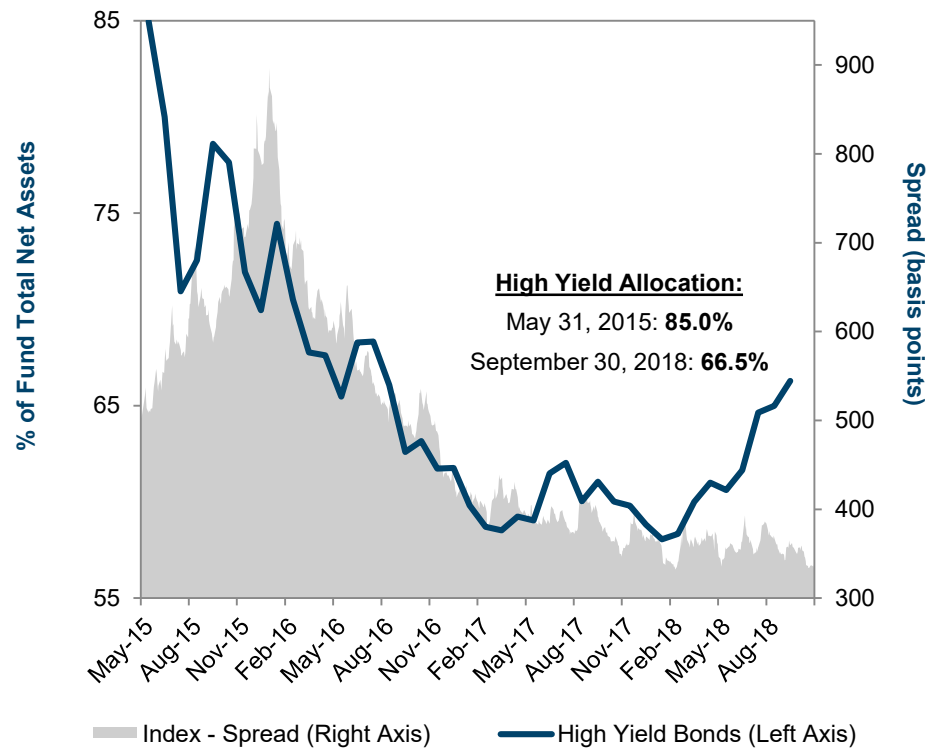
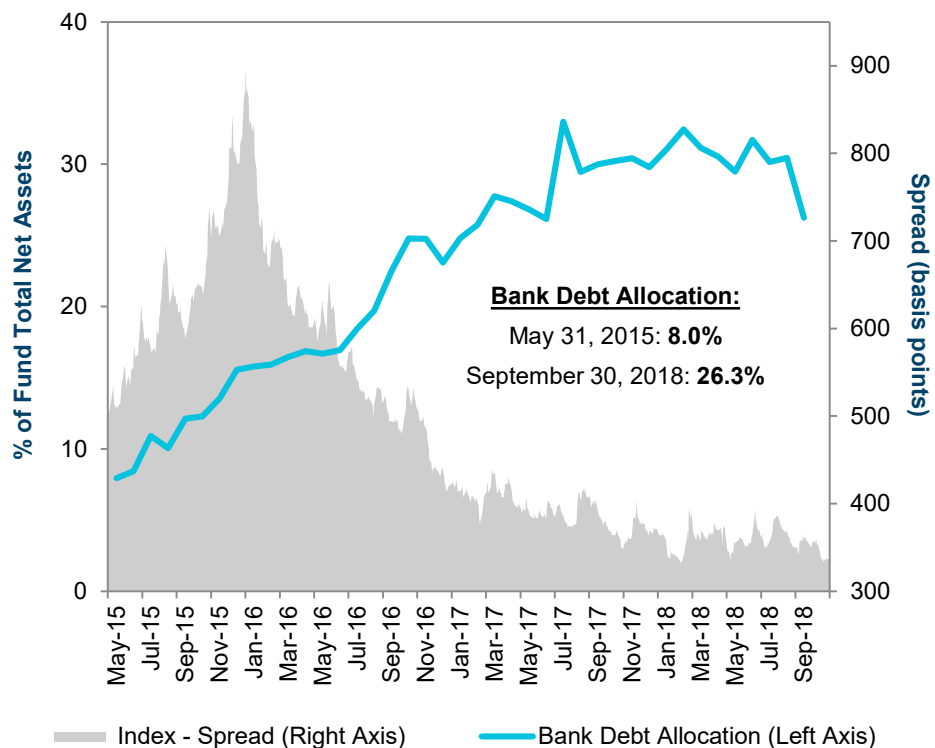
Source: J.P. Morgan Domestic High Yield Index, Bloomberg

“Invest Dynamically”



Credit Opportunities: Flexible Asset Allocation

As of September 30, 2018



Flexible portfolio construction allows for allocations that will fluctuate meaningfully based on market conditions and relative value

Index: Bloomberg Barclays U.S. High Yield 2% Issuer Capped Index and T. Rowe Price



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