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- U.S. Stocks
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April 2018

MONTHLY MARKET REVIEW

T.RowePrice®
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Monthly Market Review
U.S. STOCKS
APRIL 2018

STOCKS END SLIGHTLY HIGHER AFTER ANOTHER TURBULENT MONTH

Most of the major benchmarks ended slightly higher in April after late weakness drained away mid-month gains. In an unusual pattern, the small-cap Russell 2000 Index performed best, while the S&P MidCap 400 Index lagged the large-cap benchmarks and recorded a modest decline. A climb in oil prices to their highest levels since 2014 helped energy shares perform best within the S&P 500 Index, while consumer staples and industrials and business services shares suffered the largest declines. Volatility remained elevated during the month, with the S&P 500 seeing eight daily swings of over 1%—the same number recorded in all of 2017.

Total Returns

	April	Year-to-Date
Dow Jones Industrial Average	0.34%	-1.63%
S&P 500 Index	0.38	-0.38
Nasdaq Composite Index	0.04	2.36
S&P MidCap 400 Index	-0.26	-1.03
Russell 2000 Index	0.86	0.78

Past performance is not a reliable indicator of future performance.
Note: Returns are for the periods ended April 30, 2018. The returns include dividends based on data supplied by third-party provider RIMES and compiled by T. Rowe Price, except for the Nasdaq Composite, whose return is principal only. Frank Russell Company (Russell) is the source and owner of the Russell index data contained or reflected in these materials and all trademarks and copyrights related thereto. Russell® is a registered trademark of Russell. Russell is not responsible for the formatting or configuration of these materials or for any inaccuracy in T. Rowe Price Associates' presentation thereof.

EARNINGS RETURN TO THE SPOTLIGHT…

After a prolonged period dominated by economic and political headlines, the release of first-quarter earnings reports encouraged investors to turn their attention back to corporate fundamentals in April. In general, the reports exceeded the already elevated expectations for corporate profits in the wake of December's tax cuts and amid a healthy global economic expansion. By the end of the month, analysts polled by data and analytics firm FactSet were expecting first-quarter earnings for the S&P 500, as a whole, to have expanded by more than 23% on a year-over-year basis. Analysts at Thomson Reuters were even more bullish, anticipating that earnings would grow by nearly 25%, led by energy and technology firms. In either case, profits seemed poised to record their best performance since rebounding following the Great Recession of nearly a decade ago.

…BUT TRADE FEARS AND OTHER CONCERNS REMAIN

The failure of strong earnings to drive a corresponding rally in stock prices seemed largely due to ongoing trade worries. Stocks headed sharply lower at the start of the month, following China's announcement that it would

retaliate on the U.S. aluminum and steel tariffs that were announced in March with USD $3 billion in new tariffs of its own, targeting roughly 130 U.S. products and concentrated on agricultural exports. The U.S. then upped the ante, outlining a list of USD $50 billion in proposed tariffs on 1,300 Chinese products. The tit-for-tat continued, with China responding with another USD $50 billion list of tariffs on U.S. soybeans, cars, and aircraft and President Trump ordering the consideration of an additional USD $100 billion in tariffs on Chinese goods.

Actual tariff increases remained limited, however, which helped stocks rally back at mid-month. Trade tensions eased a bit and stocks climbed as President Trump appeared to soften his stance, while China's President Xi Jinping repeated a vow to ease access to sectors ranging from banking to auto manufacturing and to protect intellectual property in a "new phase of opening up." President Trump's threats to strike at the Syrian regime in retaliation for its alleged use of chemical weapons appeared to spark some volatility early in the month, but the rhetoric seemed harsher than the reality in this case, as well. Stocks rose after the U.S. led a limited airstrike with no casualties, which was met with a muted response from the regime's ally, Russia.

SIGNALS ARE POSITIVE, BUT WORRIES GROW THAT PROFIT MARGINS MAY HAVE PEAKED

The month's economic data appeared to have a mixed impact on the market. Stocks fell sharply on April 6 following news of a disappointing rise in March payrolls—although most observers agreed that heightened trade tensions were mostly to blame for the shortfall. Certainly, much of the rest of the month's data confirmed that the almost nine-year economic expansion remained intact. Weekly jobless claims fell to a new multi-decade low, and average hourly earnings rose at a healthy pace. Housing sales and new construction picked up in March, reversing recent declines, and surveys showed that the manufacturing and service sectors continued to expand, if at a slightly slower rate than at the start of the year.

Indeed, a general sense that business and economic conditions could not get any better seemed to weigh on sentiment toward the end of the month. The major indexes and industrials shares, in particular, tumbled on April 27 after officials at industrial equipment giant Caterpillar cautioned that profits may have reached a "high-water mark for the year." T. Rowe Price traders noted that investors seemed generally worried that rising labor costs, a pickup in investment in new plants and equipment, and higher input prices were resulting in peaking profit margins. Investors also worried as the yield on the benchmark 10-year Treasury note crossed the 3% threshold for the first time in several years. Higher bond yields threatened to both increase corporate borrowing costs and make stock returns and dividend yields less appealing in comparison.

CIO SHARPS: MOST OF THE LEVERS TO BOOST GROWTH HAVE BEEN PULLED

T. Rowe Price Group Chief Investment Officer Rob Sharps believes that the market's fundamental backdrop remains excellent. Nevertheless, he suspects that stocks and other financial assets have discounted the benefits of solid economic growth and low inflation, making for tougher sledding ahead. Volatility has returned to the market, and technology stocks seem to have lost the ability to guide the indexes higher. In addition, most of the levers available to boost economic growth have been pulled now that the Trump administration has reduced regulation, lowered taxes, and increased spending. Indeed, Sharps observes, the administration seems now to have pivoted from a market-friendly agenda to raising tariffs and threatening crackdowns on mergers and market concentration.

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Monthly Market Review
INTERNATIONAL STOCKS
APRIL 2018

INTERNATIONAL EQUITIES GAIN GROUND

Developed international stocks rose in April. Key drivers in the markets' performance included rising energy prices, optimism that a global trade war could be avoided, and positive investor reaction to corporate earnings reports. Volatility was relatively high as investors searched for direction amid myriad conflicting news events. European markets broadly mirrored stock gyrations in the U.S. Most major currencies, including the British pound, the euro, and the Japanese yen weakened versus the U.S. dollar.

Within the MSCI EAFE Index, all sectors reported gains. Energy, telecommunication services, utilities, consumer discretionary, materials, real estate, and financials outperformed the benchmark. Information technology stocks gained the least. Value stocks outperformed growth stocks, and emerging markets underperformed developed market stocks.

Total Returns

MSCI Indexes	April	Year-to-Date
EAFE (Europe, Australasia, Far East)	2.39%	0.94%
All Country World ex USA	1.68	0.58
Europe	2.94	1.02
Japan	0.67	1.66
All Country Asia ex Japan	0.72	1.42
EM (Emerging Markets)	-0.42	1.04

All data are in U.S. dollars as of April 30, 2018. This chart is shown for illustrative purposes only and does not represent the performance of any specific security. **Past performance cannot guarantee future results.**
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EUROPEAN STOCKS WERE VOLATILE

Major European indexes began April with lighter than usual trade volumes and higher than normal volatility. The European Central Bank (ECB) made no policy changes at its April meeting, but according to its policy minutes, a strengthening euro versus non-U.S. dollar currencies and an increased risk of a global trade war could detract from the economic recovery currently underway in the eurozone. Following the ECB's warning, European markets were somewhat volatile as investors weighed the impact. As the month progressed, investors seemed to turn their attention from mixed economic indicators to corporate earnings reports showing rising revenues and profits. Despite the strong returns, fund managers pulled money out of stocks in Europe in each of the first four weeks in April, according to a Bank of America Merrill Lynch note citing EPFR Global data.

RESULTS MIXED IN KEY EUROPEAN MARKETS

German stocks, which underperformed the broader MSCI Europe benchmark, were particularly volatile as its export-heavy DAX 30 Index weathered geopolitical and trade uncertainty. T. Rowe Price traders noted that the implied volatility for the DAX hovered near a record high compared with the measure for the broader Euro Stoxx 50 Index. Italian stocks strongly outperformed among the major European countries. Investors in Italian stocks were seemingly unperturbed that two months after the national election political leaders have been unable to form a government. Instead, Italy's improved corporate profits and economy attracted investors' attention. French and UK stocks performed well even though data showed that economic growth in both countries slowed. Spain's stock market performed in line with the benchmark.

JAPANESE EQUITIES WERE WEAK

Japanese equities underperformed the broad EAFE index. Core inflation in March, which was reported in April, recorded it first lower reading since 2016. The Bank of Japan (BoJ) kept monetary policy on hold, but in its policy statement, the bank removed language forecasting that inflation would reach 2% in fiscal 2019 and replaced it with language indicating that inflation would remain below 1.8%. BoJ Governor Haruhiko Kuroda said that protectionism is a significant risk to Japan's economy and could stall Japan's economic growth. Chinese and Japanese leaders gathered in Tokyo for high-level economic discussions for the first time in eight years.

EMERGING MARKETS STRUGGLE

Emerging markets were under pressure in April due in part to a strengthening U.S. dollar and concerns about trade tensions between China and the U.S. as well as some negative economic and political news in key regions. Emerging markets in Europe were notably weak, held down by a nearly 11% drop in Turkish stocks in U.S. dollar terms. Turkey's central bank increased one of its policy rates by an unexpectedly large 75 basis points (0.75%), a move seen as an attempt to boost the lira before an early election in June called by Turkey's president. Russia fell after the U.S.-imposed sanctions on some Russian oligarchs and companies in retaliation for the country's actions in Syria and other aggressions worldwide. Yuan-denominated Chinese A shares underperformed the MSCI emerging markets benchmark. China's economy grew a surprisingly strong 6.8% in the first quarter, though activity is expected to cool as Beijing presses on with its deleveraging campaign and U.S. trade relations possibly worsen. Asia was the only emerging markets region to post a gain, helped by the outperformance of Indian and South Korean stocks. The Latin American region was led by Colombia's roughly 10% advance as investors anticipated that the right-wing, investor-friendly candidate would win the country's May 27 presidential election. Mexico's stocks, aided by better-than-expected economic growth, also provided lift to the region.

OUTLOOK: GLOBAL GROWTH REMAINS POSITIVE IN 2018

The broadening global economic recovery should be supportive for risk assets in 2018, according to T. Rowe Price's Asset Allocation Committee. Positive factors include continued domestic demand-driven recoveries underway in Europe and Japan to underpin their respective markets, although T. Rowe Price Chief International Economist Nikolaj Schmidt notes that growth in both regions is decelerating. Risks to the outlook include a rise in geopolitical or trade tensions, the possibility of a central bank policy misstep, and increasing trade tension.

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Monthly Market Review
FIXED INCOME MARKETS

APRIL 2018

INFLATION CONCERNS HELP PUSH 10-YEAR TREASURY YIELD OVER 3% THRESHOLD

Treasury yields increased in April, with the benchmark 10-year Treasury note's yield moving above 3% for the first time in more than four years. Generally strong economic data and signs that inflation pressures were firming reduced demand for Treasury debt (bond yields and prices move in opposite directions). The 10-year yield peaked at 3.03% on April 25 but finished the month at 2.95%, up from 2.74% at the end of March. The yield curve continued to flatten in April as yields on Treasury debt with maturities of two and five years increased more than longer-maturity yields, reflecting expectations that the Federal Reserve will raise its short-term lending rate at least two more times this year.

Rising inflation erodes the value of the income that bonds produce over time, and investors have become more concerned about inflation as the labor market has tightened in recent months and crude oil prices have reached a three-year high. Data released in April showed that the consumer price index (CPI) rose 2.4% during the 12-month period through March—its highest reading in a year—and the Fed's preferred inflation gauge, the personal consumption expenditure (PCE) index, hit the central bank's 2% target. Ten-year breakeven spreads, a measure of investors' inflation expectations, increased to 2.17% by month-end, the highest since September 2014.

Increased borrowing by the Treasury and reduced demand from the Fed for Treasury securities as it normalizes its balance sheet may also have contributed to higher yields. The Fed did not have a policy meeting in April, but the futures market indicated that many investors have already priced in 0.25-percentage-point increases in the fed funds rate at the central bank's June and September meetings. Another measure of short-term interest rates, the three-month London interbank offered rate (Libor), increased modestly in April, rising to 2.36% by month-end from 2.31% at the end of March.

Total Returns

Index	April 2018	Year-to-Date
Bloomberg Barclays U.S. Aggregate Bond Index	-0.74%	-2.19%
J.P. Morgan Global High Yield Index	0.39	-0.31
Bloomberg Barclays Municipal Bond Index	-0.36	-1.46
Bloomberg Barclays Global Aggregate Ex-U.S. Dollar Bond Index	-2.27	1.27
J.P. Morgan Emerging Markets Bond Index Global Diversified	-1.45	-3.17
Bloomberg Barclays U.S. Mortgage Backed Securities Index	-0.50	-1.69

Figures as of April 30, 2018**. Past performance cannot guarantee future results.** This chart is shown for illustrative purposes only and does not represent the performance of any specific security. Bloomberg Index Services Ltd. Copyright 2018, Bloomberg Index Services Ltd. Used with permission.
Source: Third-party vendor RIMES.

HIGH YIELD BONDS PRODUCE GAINS, BUT MOST SECTORS FACE HEADWINDS FROM RISING RATES

The rising rate environment weighed on most fixed income sectors; however, after two months of losses, high yield bonds produced positive results. The sector, which generally is less sensitive to interest rate fluctuations than other fixed income segments, benefited from stock gains and generally positive earnings reports. Light issuance and inflows also provided support, and below investment-grade energy issuers received a boost from rising oil prices. Bank loans also recorded gains.

Mortgage-backed securities lost ground but held up better than other segments of the U.S. taxable investment-grade bond market as bank demand and subdued supply provided support. Investment-grade corporate bonds underperformed. The sector received solid inflows, but rising rates and heavy supply driven by merger activity weighed on results.

U.S. Treasury Yields

Maturity	March 31	April 30
3-Month	1.73%	1.87%
6-Month	1.93	2.04
2-Year	2.27	2.49
5-Year	2.56	2.79
10-Year	2.74	2.95
30-Year	2.97	3.11

Source: Federal Reserve Board.

REDUCED SUPPLY CONTINUES TO BOOST MUNI MARKET

Municipal bonds were pressured by the rising rate environment but held up better than Treasuries and the broader investment-grade bond market. Issuance picked up after a very slow first quarter, but the muni market still benefited from a favorable technical environment as issuance for the first four months of the year is down more than 20% from the same period in 2017. New deals—especially those offering relatively high yields—were met by strong investor demand. S&P Global Ratings downgraded its credit rating on Connecticut municipal debt to A from A+ amid concerns about the state's growing debt and unfunded pension liability.

DOLLAR STRENGTH WEIGHS ON RETURNS OF BONDS DENOMINATED IN OTHER CURRENCIES

Sovereign bond yields in key developed markets outside the U.S. generally moved higher for the month, although central banks in the UK, the eurozone, and Japan kept their key benchmark lending rates unchanged. Weaker economic data in the UK seemed to decrease the likelihood of another rate increase by the Bank of England in May. The U.S. dollar strengthened against nearly all other currencies in April, weighing on returns of nondollar-denominated bonds.

EMERGING MARKETS: RUSSIA FACES SANCTIONS

Higher Treasury yields dampened investor demand for emerging markets bonds, which also faced some country-specific challenges. In Russia, bonds were pressured after the U.S. imposed sanctions on Russian business leaders, government officials, and companies, including Rusal, one of the world's largest aluminum producers. Rusal said that the sanctions could trigger a default on some of its debt. T. Rowe Price analysts expect less foreign participation in Russian bond sales, resulting in more domestic funding and increased ruble volatility. The Mexican peso declined sharply against the U.S. dollar amid the uncertainties presented by the country's July 1 presidential election and the ongoing renegotiation of the North American Free Trade Agreement (NAFTA). Argentina's central bank responded to currency weakness by hiking its benchmark rate three percentage points to over 30%.

OUTLOOK: BANK LOANS COULD OFFER POTENTIAL IN RISING RATE ENVIRONMENT

T. Rowe Price's multi-sector bond portfolio managers believe that bank loans are a compelling option for fixed income investors who are seeking an asset class with less sensitivity to rising interest rates. Unlike most other fixed income alternatives where prices fall as rates rise, bank loans, which are also called leveraged loans, have their coupons reset higher as rates increase. As a result, bank loans have historically outperformed other fixed income asset classes during periods of rising Treasury rates and monetary policy tightening.

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Monthly Market Review

GLOBAL CAPITAL MARKETS ENVIRONMENT

APRIL 2018

Major U.S. stock indexes were little changed in April. Stocks struggled somewhat early in the month due to continuing concerns about potential tariffs hurting trade between China and the U.S. However, investors were encouraged by softer rhetoric from officials in both countries later in the month, raising hopes that a full-fledged trade war could be averted. The market also overcame increasing geopolitical tensions stemming from an alleged Syrian chemical attack and a U.S.-led retaliatory airstrike against suspected Syrian chemical weapons-related facilities. First-quarter corporate earnings reports were generally favorable, although weaker-than-expected profit outlooks from Caterpillar and 3M weighed on the market in the latter part of the month, as did an increase in the 10-year Treasury yield to as high as 3.03%, a level not seen in more than four years.

For the month, the small-cap Russell 2000 Index and the S&P 500 Index returned 0.86% and 0.38%, respectively, versus -0.26% for the S&P MidCap 400 Index. As measured by various Russell indexes, value stocks outperformed growth among small- and mid-caps, whereas large-cap growth and value stocks performed about the same.

In the large-cap universe, as measured by the S&P 500 Index, sector performance varied widely. Energy stocks were by far the best performers as oil prices reached a three-year high. Strong demand, decreasing inventories in the U.S., and increasing geopolitical risks in the oil-rich Middle East helped support higher prices, along with expectations that OPEC and Russia would maintain their global production cut agreement. Consumer discretionary and utilities stocks also posted positive returns, outpacing the broad index by smaller margins. Information technology shares were nearly flat, whereas consumer staples and industrials shares fell moderately.

	S&P 500 Index	S&P MidCap 400 Index	Russell 2000 Index
April	0.38%	-0.26%	0.86%
Year-to-Date	-0.38	-1.03	0.78

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Source: Third-party vendor RIMES, as of April 30, 2018.

Domestic bond returns were mostly negative. The Bloomberg Barclays U.S. Aggregate Bond Index returned -0.74%. In the investment-grade universe, Treasury yields increased across all maturities and bond prices fell amid concerns that strong economic and inflation data will prompt the Federal Reserve to raise short-term interest rates more aggressively (bond prices and yields move in opposite directions). Mortgage-backed securities also fell but held up better than Treasuries, as rising rates discourage mortgage prepayments and refinancing activity. Municipal bonds held up better than taxable bonds but still had slightly negative returns. Corporate bonds struggled, posting negative returns, as several large banks issued new bonds and some investors anticipated heavy new issuance in May. High yield bonds, which are less sensitive to interest rate fluctuations than

investment-grade issues, outperformed higher-quality corporates and posted modestly positive returns, helped in part by relatively light new issuance.

	Bloomberg Barclays U.S. Aggregate Bond Index	Bloomberg Barclays Municipal Bond Index	JPMorgan Global High Yield Index
April	-0.74%	-0.36%	0.39%
Year-to-Date	-2.19	-1.46	-0.31

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Source: Third-party vendor RIMES, as of April 30, 2018.

Stocks in developed non-U.S. markets advanced and outperformed U.S. shares. The MSCI EAFE Index, which measures the performance of stocks in Europe, Australasia, and the Far East, returned 2.39%. Developed Asian markets produced mostly positive returns in U.S. dollar terms. Japanese shares advanced less than 1% as the yen fell almost 3% versus the greenback. Japanese and Chinese officials gathered in Tokyo for the first time in eight years to discuss high-level economic matters concerning both nations, especially trade. European markets were volatile during the month but produced mostly positive returns in dollar terms. Italy, Finland, and France were the top performers in the region, with all three posting returns around 5%. The European Central Bank (ECB) released its policy minutes in the middle of the month, which noted that a strengthening euro coupled with the increased risk of a global trade war could hurt the region's economic recovery. The euro fell almost 2% versus the dollar in April, but it has strengthened 11% over the last 12 months. UK shares appreciated almost 5% in U.S. dollar terms. Although the weaker pound versus the dollar reduced returns in dollar terms, the pound's nearly 2% decline in April—which stemmed, in part, from diminishing expectations for an interest rate increase in May—boosted shares of multinational companies that earn most of their revenue outside the UK.

Emerging markets stocks generally declined. The MSCI Emerging Markets Index returned -0.42%. In Asia, shares in India and South Korea fared best, with returns of about 4% and 3%, respectively. Chinese stocks were flat, but yuan-denominated A shares dropped almost 6%. Stronger-than-expected first-quarter Chinese economic growth was supportive, but uncertainty about trade relations with the U.S. weighed on the market. In emerging Europe, smaller markets held up fairly well, but heavyweights Russia and Turkey fared poorly. Despite rising oil prices, Russian stocks tumbled more than 7% in dollar terms as the ruble weakened nearly 9% versus the dollar in response to severe U.S. sanctions on certain individuals and companies close to Russian President Vladimir Putin. Turkish shares tumbled almost 11% in dollar terms as the lira slipped more than 2%. Investor sentiment toward Turkey soured due to factors such as the country's high inflation, rising interest rates, a recent credit rating downgrade, currency weakness, and a large trade deficit. Latin American shares were mixed. Stocks in Brazil fell almost 4% despite a brief rally after the Brazilian Supreme Court refused Luiz Inácio Lula da Silva's appeal of his corruption conviction and ordered him jailed. This decision will almost certainly eliminate him as a contender in Brazil's October presidential election. Shares in Colombia led the region, returning more than 10% amid hopes that an investor-friendly candidate will win the country's presidential election at the end of May.

	MSCI EAFE Index	MSCI Emerging Markets Index
April	2.39%	-0.42%
Year-to-Date	0.94	1.04

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Source: Third-party vendor RIMES, as of April 30, 2018.

Bonds in developed non-U.S. markets produced negative returns in U.S. dollar terms, as a stronger dollar reduced local returns in dollar terms. In the eurozone, bond yields in Germany and other countries ended the month slightly higher as they tracked moves in the U.S. Treasury market. At its monetary policy meeting on April 26, the ECB kept policy unchanged and gave no update regarding its future plans with its current quantitative easing program, which is scheduled to end in September. In the UK, 10-year gilt yields were little changed for the month. Yields decreased late in the month as weak economic data reduced expectations for the Bank of England to raise rates in May. In Asia, the Bank of Japan (BoJ) voted to maintain short-term interest rates around -0.1% and the 10-year Japanese government bond near 0%. In a somewhat surprising move, the BoJ dropped its 2019 time line for achieving 2% inflation, signaling that it may not be achieved next year.

Bonds in developing markets also posted negative returns. Dollar-denominated bonds held up better than bonds denominated in local currencies, as several emerging markets currencies weakened versus the U.S. dollar. The Russian ruble and the South African rand posted particularly steep declines. The Mexican peso also struggled, falling almost 3% against the U.S. dollar. Investors have been selling Mexican assets amid the dual uncertainties of the July 1 Mexican presidential election and the ongoing negotiations regarding the North American Free Trade Agreement (NAFTA).

	Bloomberg Barclays Global Aggregate ex USD Bond Index	JPMorgan Emerging Markets Bond Index Global Diversified	JPMorgan GBI-EM Global Diversified Index
April	-2.27%	-1.45%	-2.96%
Year-to-Date	1.27	-3.17	1.36

Past performance is not a reliable indicator of future performance.

Source: Third-party vendor RIMES, as of April 30, 2018.

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Monthly Market Review
EMERGING MARKETS STOCKS
APRIL 2018

EMERGING MARKETS STOCKS DECLINE IN APRIL AS RISING U.S. TREASURY YIELDS DAMPEN DEMAND

Emerging markets stocks fell in April for the third straight month as the yield on the benchmark 10-year Treasury note surpassed 3.00% for the first time in more than four years near month-end, dimming the appeal of higher-risk assets. The dollar rose against nearly all major currencies, leading Indonesia to prop up the rupiah in the currency market and raising concern that other developing countries with economic imbalances would have to defend their currencies. The U.S.–China trade dispute also dampened risk sentiment as investors fretted that an escalating conflict would undermine the synchronized growth that drove last year's global economic expansion. The International Monetary Fund forecast the world economy would grow 3.9% this year and next but warned of mounting risks in later years as financial conditions tighten and other cyclical trends wane. Four of 11 sectors in the MSCI Emerging Markets Index fell, led by health care stocks. Materials stocks led advancers.

Total Returns

MSCI Index	April	Year-to-Date
Emerging Markets (EM)	-0.42%	1.04%
EM Asia	0.10	0.97
EM Europe, Middle East, and Africa (EMEA)	-2.33	-3.17
EM Latin America	-1.25	6.76

All data is in U.S. dollars as of April 30, 2018**. Past performance cannot guarantee future results.**
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CHINESE STOCKS WEAKEN AS U.S. TRADE TENSIONS SIMMER; INDIAN STOCKS ADVANCE

- Chinese stocks declined, with yuan-denominated A shares trailing dollar-denominated shares. China's economy grew a surprisingly strong 6.8% in the first quarter, though activity is expected to cool as Beijing presses on with its deleveraging campaign and U.S. trade relations possibly worsen.
- Indian stocks rose. The Reserve Bank of India left its benchmark interest rate on hold as expected, but minutes from its latest policy meeting sounded surprisingly hawkish and raised expectations that a rate hike was likely in the near term. The central bank forecast economic growth of 7.4% in the fiscal year ending March 2019, exceeding this year's estimated 6.6% pace.
- Southeast Asian stocks retreated. Indonesian stocks fell the most as the rupiah sank to a two-year low despite intervention by Bank Indonesia, raising concerns that the central bank would have to raise interest rates sooner than expected. Philippine stocks fell as investors worried that rising inflation would force the country's central

bank to raise rates from a record low. Malaysian stocks declined on currency weakness, but the country's benchmark index rose to a record in mid-April ahead of a May 9 general election.

BRAZILIAN STOCKS DECLINE ON POLITICAL UNCERTAINTY; MEXICAN STOCKS GAIN DESPITE PESO WEAKNESS

- Brazilian stocks fell amid uncertainty ahead of the country's presidential election in October. After Brazil's former president and polling frontrunner turned himself in to start serving jail time for corruption, a wide-open field of candidates has raised worries that a new leader could roll back austerity measures. Moody's raised its outlook for Brazil from negative to stable but kept its junk credit ratings on the country's debt.

- Mexican stocks strengthened. Mexico's economy grew a seasonally adjusted, better-than-expected 1.1% in this year's first quarter from the prior quarter and 1.2% over a year earlier, according to early data. The peso fell from a six-month high in mid-April as investors anticipated that the leftist candidate currently leading in presidential polls will win the July 1 election and possibly unwind reforms implemented by the current administration.

- Andean markets rose, led by Colombia's roughly 10% advance as investors anticipated that the right-wing, investor-friendly candidate would win the country's May 27 presidential election. Stocks in Chile and Peru posted slimmer gains. Central banks in both countries left their benchmark interest rates on hold.

RUSSIAN STOCKS FALL ON U.S. SANCTIONS; TURKISH STOCKS SLUMP AS CURRENT ACCOUNT WORRIES INVESTORS

- Russian stocks shed more than 7% after the U.S. imposed sanctions on Russian oligarchs and companies in retaliation for the country's actions in Syria and other aggressions worldwide. The latest round of U.S. sanctions sparked a sell-off in Russian stocks and currency and led to a pause in the central bank's current easing cycle. The ruble fell nearly 9% in April, making it the worst-performing emerging markets currency.

- South African stocks declined, and the rand lost about 5% as investors paused to digest previous months' gains sparked by the election of President Cyril Ramaphosa, who has pledged to combat government corruption and revitalize the economy since he took office in December.

- Turkish stocks sank more than 10%. Turkey's central bank increased one of its policy rates by an unexpectedly large 75 basis points, a move seen as an attempt to boost the lira before an early election in June called by Turkey's president. The lira hit a record low earlier in April amid worries about Turkey's high inflation and current account deficit, which ranks among the widest in emerging markets.

SOLID FUNDAMENTALS IN EMERGING MARKETS OFFSET NEAR-TERM RISKS

We are optimistic about the outlook for emerging markets. Most developing countries have smaller current account deficits, larger foreign exchange reserves, and more flexible currencies than they did in previous decades, reducing the risk of a financial crisis. Compared with developed markets, most emerging markets have more attractive demographics and a stronger tailwind from rising consumption. Emerging markets stocks remain attractively valued relative to developed markets stocks.

Near-term risks include a rise in U.S. protectionism and a faster-than-expected pace of rate hikes by the Federal Reserve. However, we believe that emerging markets will be able to withstand a gradual tightening of monetary policy given that their financial positions have broadly improved in recent years. Economic growth in emerging markets has stabilized, and corporate earnings have begun to recover after years of disappointing performance. Nevertheless, we believe that careful stock selection will be crucial for producing good long-term returns as emerging markets continue to show wide dispersion in the performance of individual countries and companies.

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