



Integrated Equity

A unique approach to quantitative and fundamental research integration in equity portfolios

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Philosophy—Better analysis, better decisions

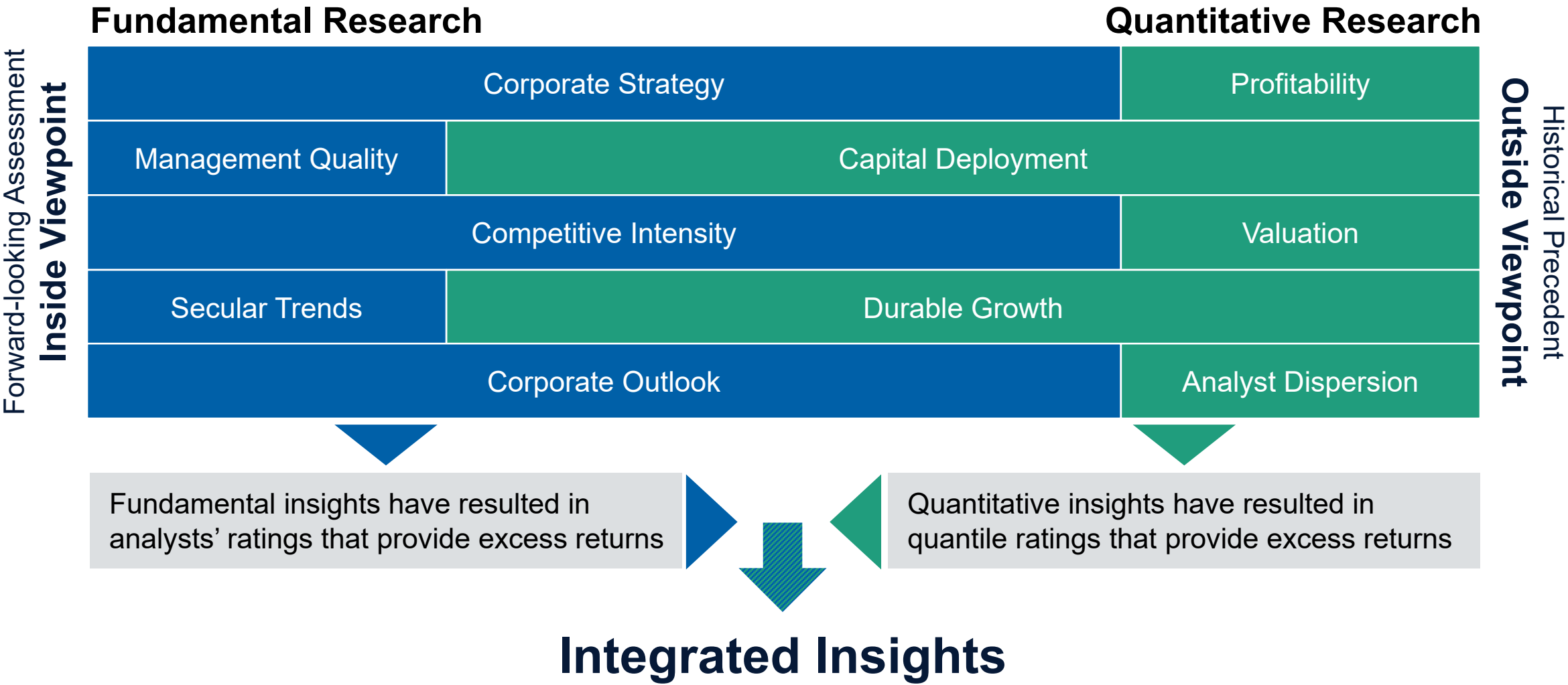
The Inside View

- What we know about the situation
- Your contractor's estimate
- Fundamental Research

The Outside View

- How other similar situations have unfolded
- Your contractor's other projects
- Quantitative Research

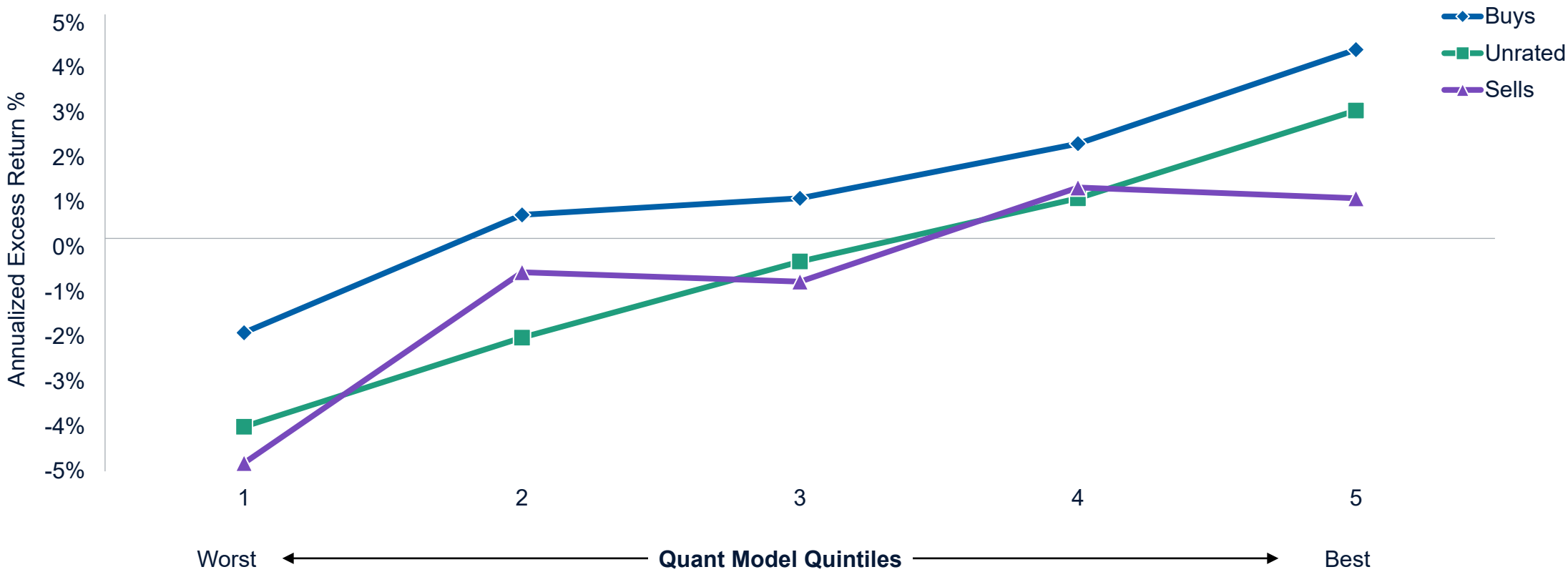
What is Integrated Equity?



Combining the Inside View and the Outside View

Excess Return by Intersection of Fundamental Rating and Quant Quintile

MSCI ACWI Universe June 2005 – December 2023



Past performance is not a reliable indicator of future performance.

Annualized excess returns of the MSCI All Country World Index over median stock return within the MSCI All Country World Index universe over time period 30 June 2005 - 31 December 2023, most recent data available.
Source I/B/E/S © 2024 Refinitiv. All rights reserved.

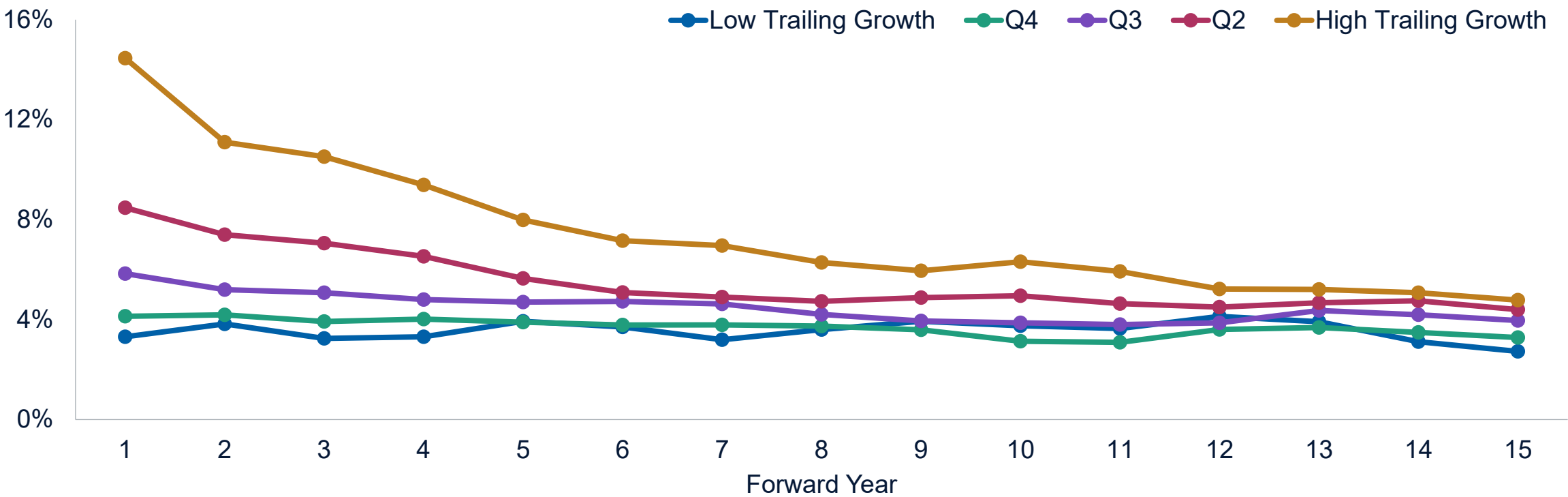
The quant model quintiles are the rankings from our stock selection model, from best to worst by quintile of the MSCI ACWI. 1 is the lowest ranked quintile and 5 is the best ranked.
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Sales growth is mean reverting

As of August 31, 2024

Strong fundamentals generally mean-revert

Russell 1000: Sales Growth Reversion



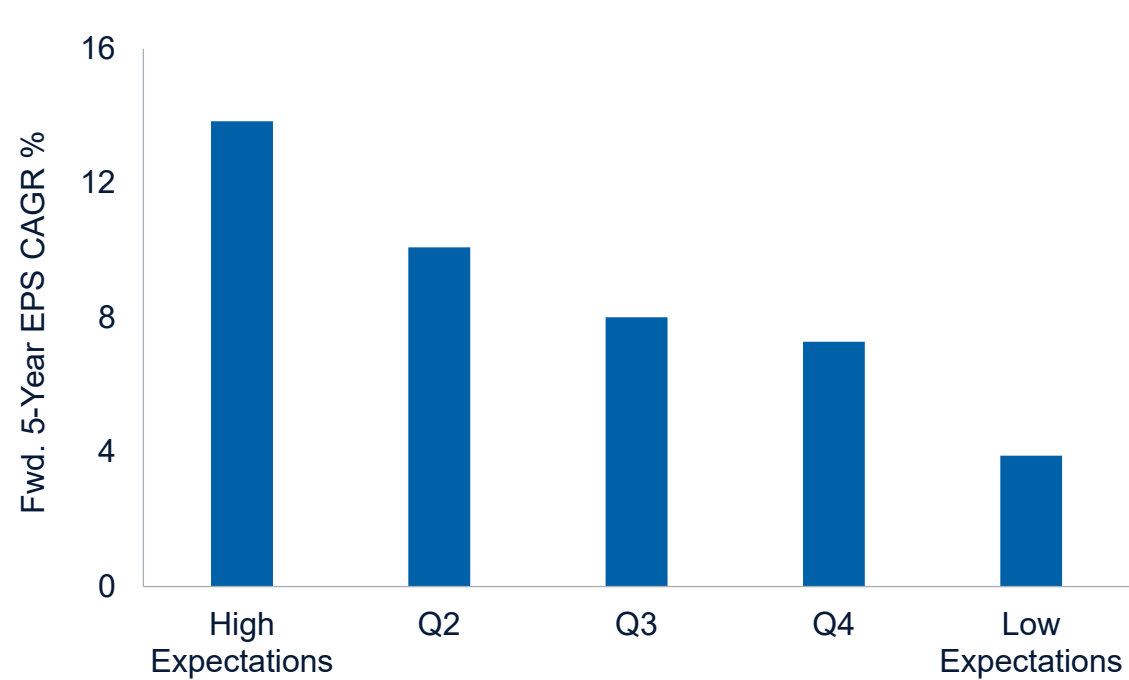
Sources: Russell, Compustat, FactSet. Analysis by T. Rowe Price. See Appendix for additional detail. Analysis covers the Russell 1000 Index from 1990–2024. T. Rowe Price calculations using data from FactSet Research Systems, Inc. All rights reserved. See Additional Disclosures.

High-expectation stocks

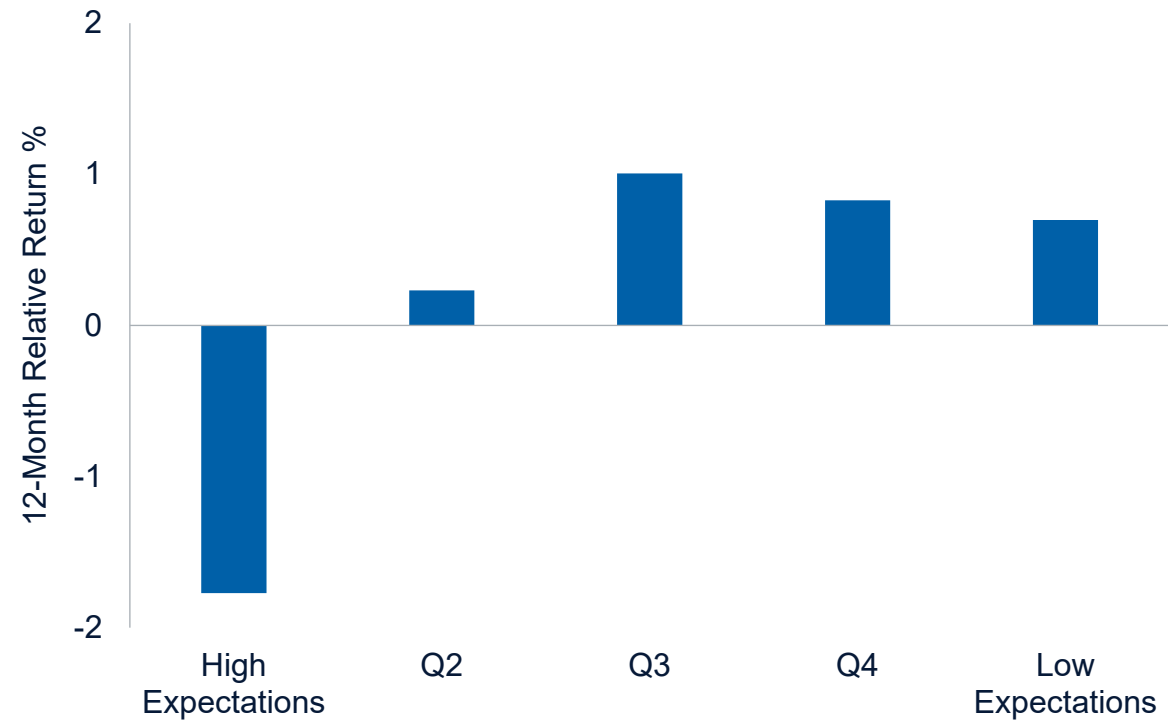
As of August 31, 2024

While high-expectation stocks have generally experienced above-average future growth, they also experienced below-average stock returns

Russell 1000: Realized Future 5-Year EPS Growth

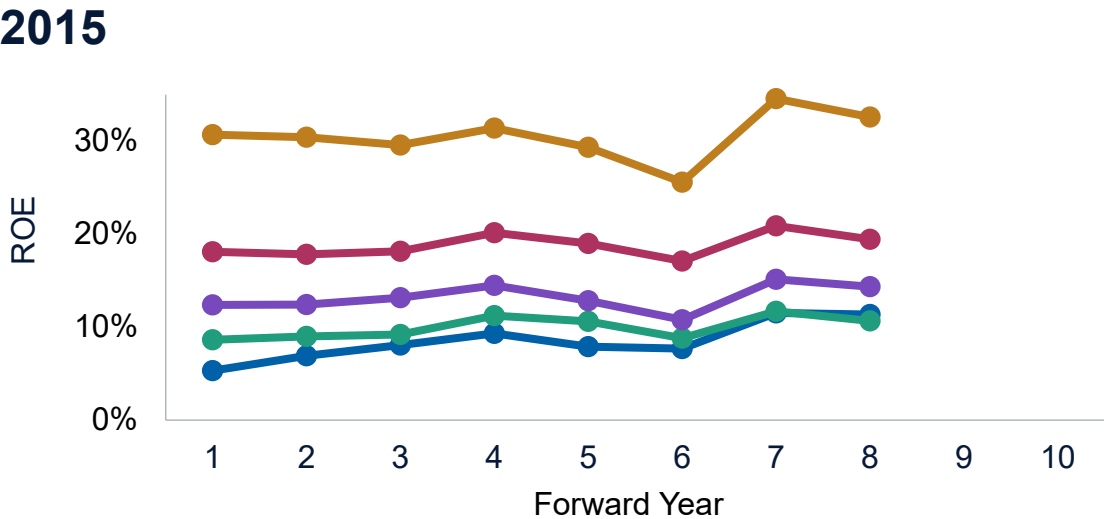
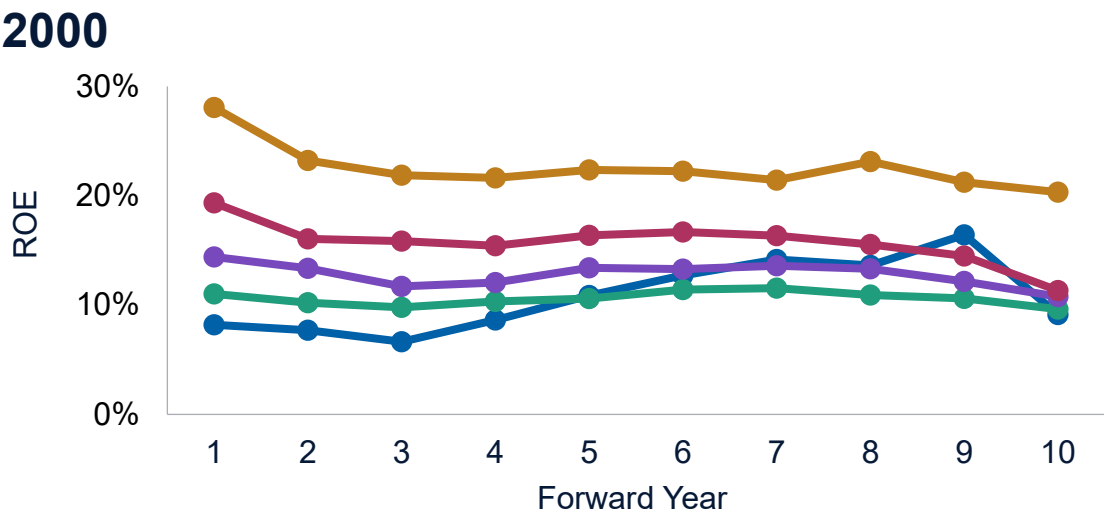


Russell 1000: Forward 12-Month Excess Returns



Past performance is not a reliable indicator of future performance.
Sources: Russell, IBES, Compustat, FactSet. Analysis by T. Rowe Price. High expectations are defined as high sell-side consensus long-term earnings growth rate. Analysis covers the Russell 1000 Index from 1990–2024. Quintiles are rebalanced monthly and are equal-weighted and compared to an equal-weighted universe of the Russell 1000 Index universe. T. Rowe Price calculations using data from FactSet Research Systems, Inc. All rights reserved. See Additional Disclosures. I/B/E/S © 2024 Refinitiv. All rights reserved.

Increasing Persistence of Winners



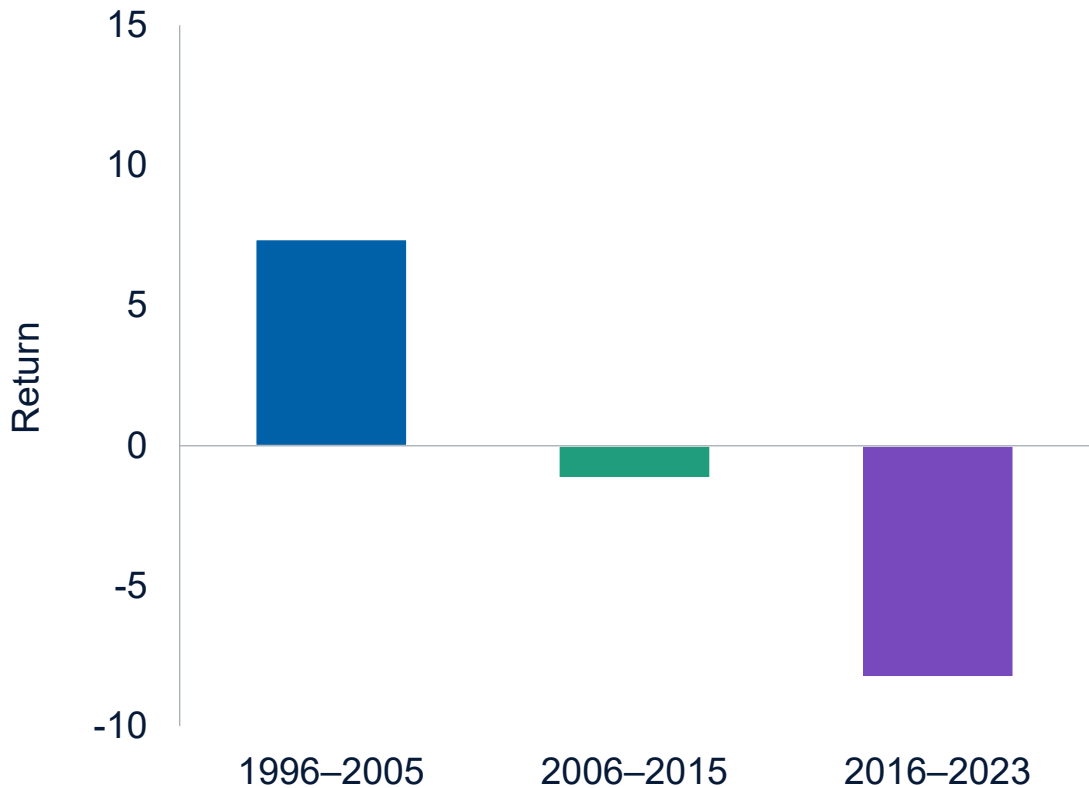
● Q5 (Worst) ● Q4 ● Q3 ● Q2 ● Q1 (Best)

Source: FactSet, Analysis by T. Rowe Price. The Russell 1000 Index is the universe for the ROE Quintiles, with the x-axis representing the forward year values for the respective time-period plotted.

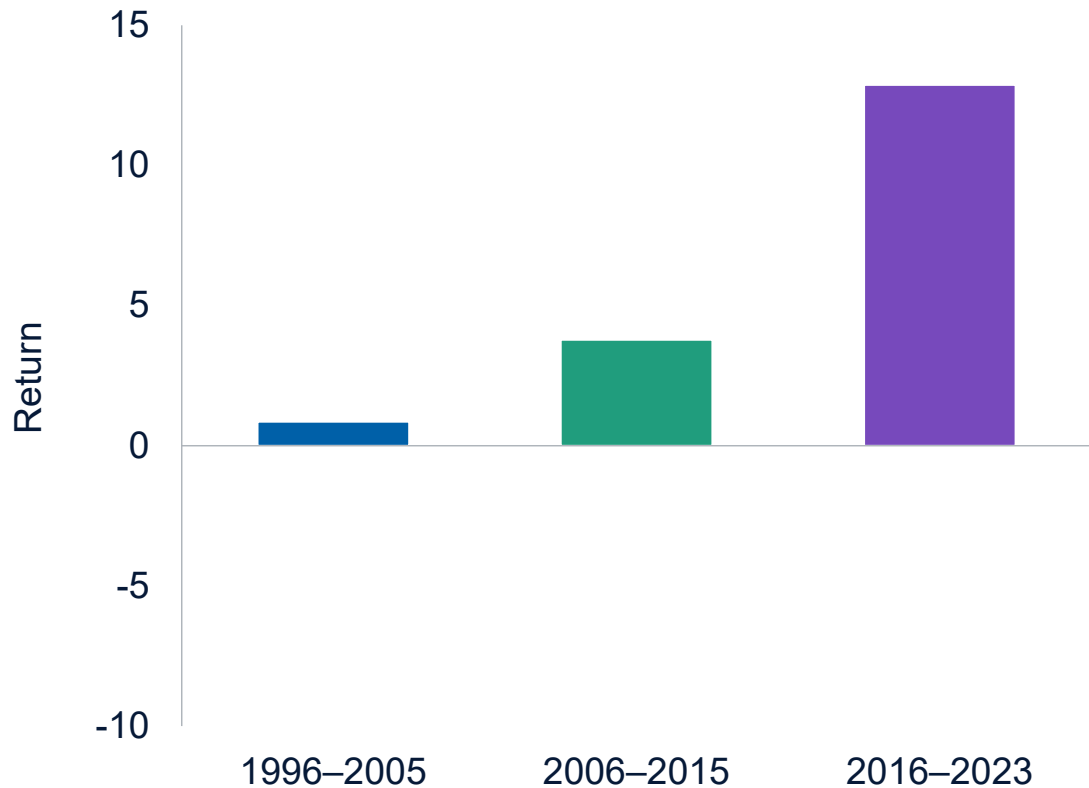
Value and Durable Growth Performance by Decade Group

Periods from 1996 through 2023

Average 12-Month Forward Returns of Value Long-Short by Decade



Average 12-Month Forward Returns of Durable Growth Long-Short by Decade



Left chart sources: LSEG, IDC data, Compustat, and Russell. Analysis by T. Rowe Price. See Additional Disclosures. The universe is the Russell 1000 Index for value quintiles for periods from 1996 through 2023. Returns are calculated using a cap-weighted 12-month forward return of the quintile spreads.

Right chart sources: LSEG, IDC data, Compustat, Russell, and FactSet. Analysis by T. Rowe Price. See Additional Disclosures. The universe is the Russell 1000 Index for durable growth scores for periods from 1996 through 2023. Returns are calculated using a cap-weighted 12-month forward return of the durable growth spreads.

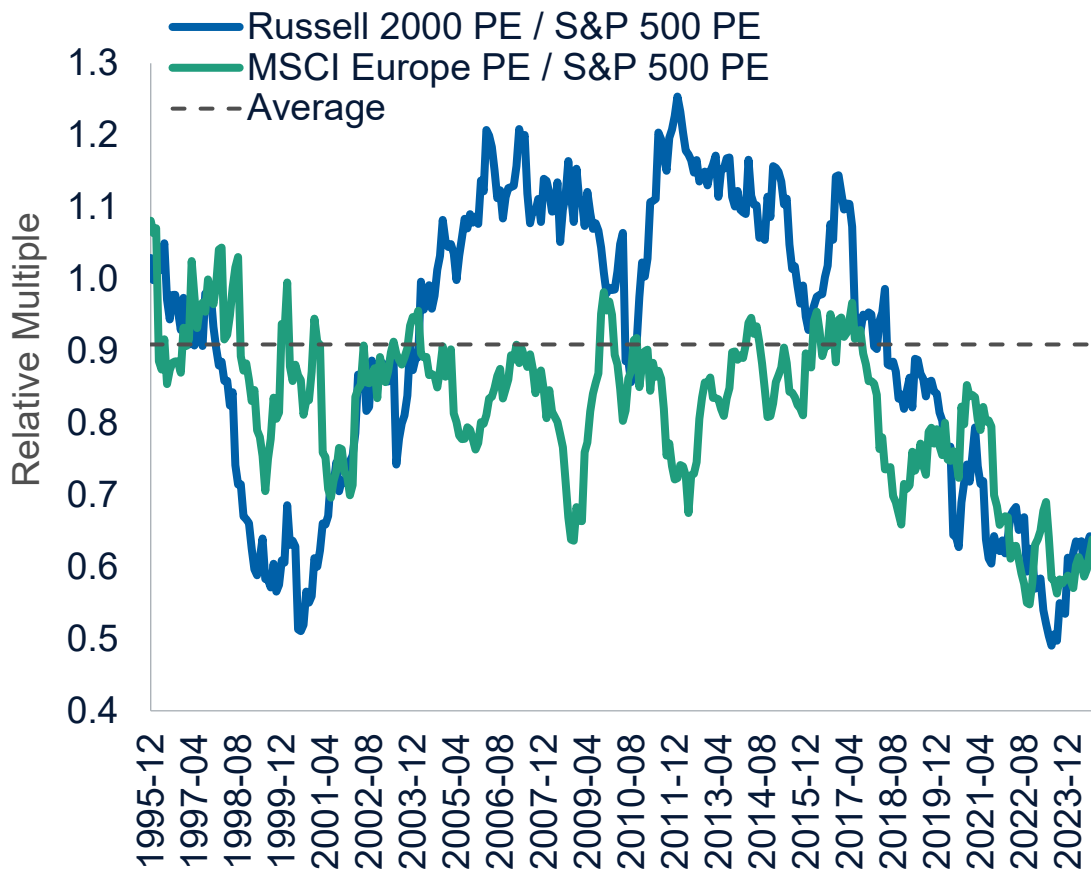
Durable growth: a five-factor framework developed to identify companies that have demonstrated superior growth in a sustainable way.

Quintile spread: Also referred to as long-short returns, is calculated by sorting securities based on a specific characteristic or factor criterion, dividing them into five groups (or quintiles), equal-weighting the securities within each quintile, and then subtracting the bottom-quintile returns (lowest 20%) from the top-quintile returns (highest 20%).

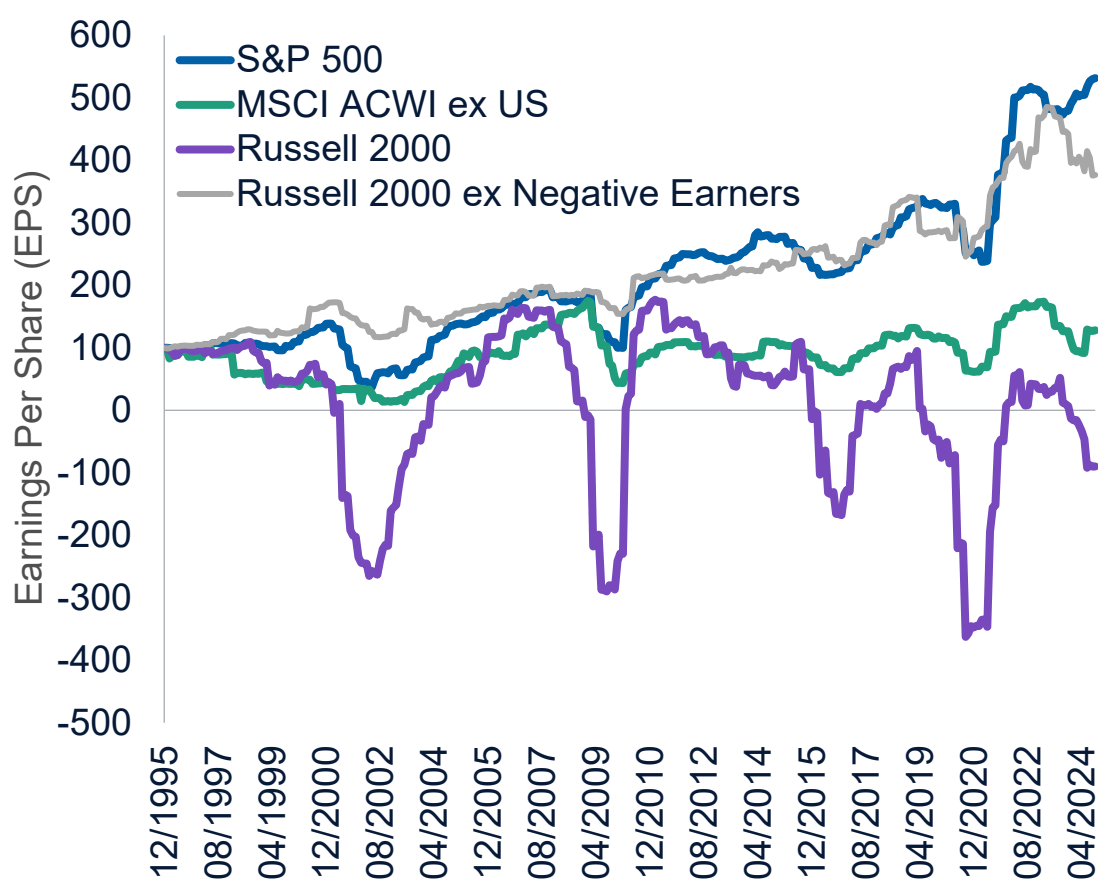
Value and Durable Growth Performance by Decade Group

As of September 30, 2024

Relative PE to S&P 500



Trailing EPS (Indexed to December 1995)

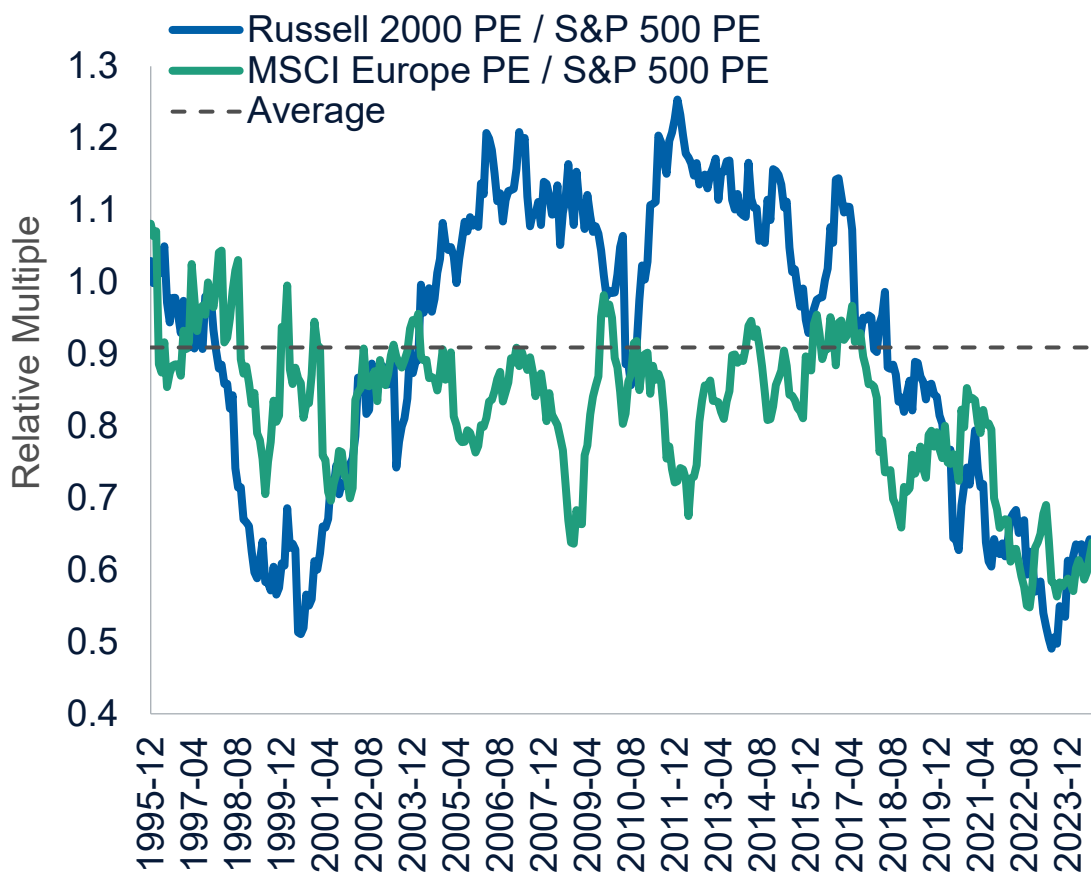


Sources: LSEG, IDC data, Compustat, MSCI, Russell, and S&P Global. Analysis by T. Rowe Price. See Additional Disclosures.

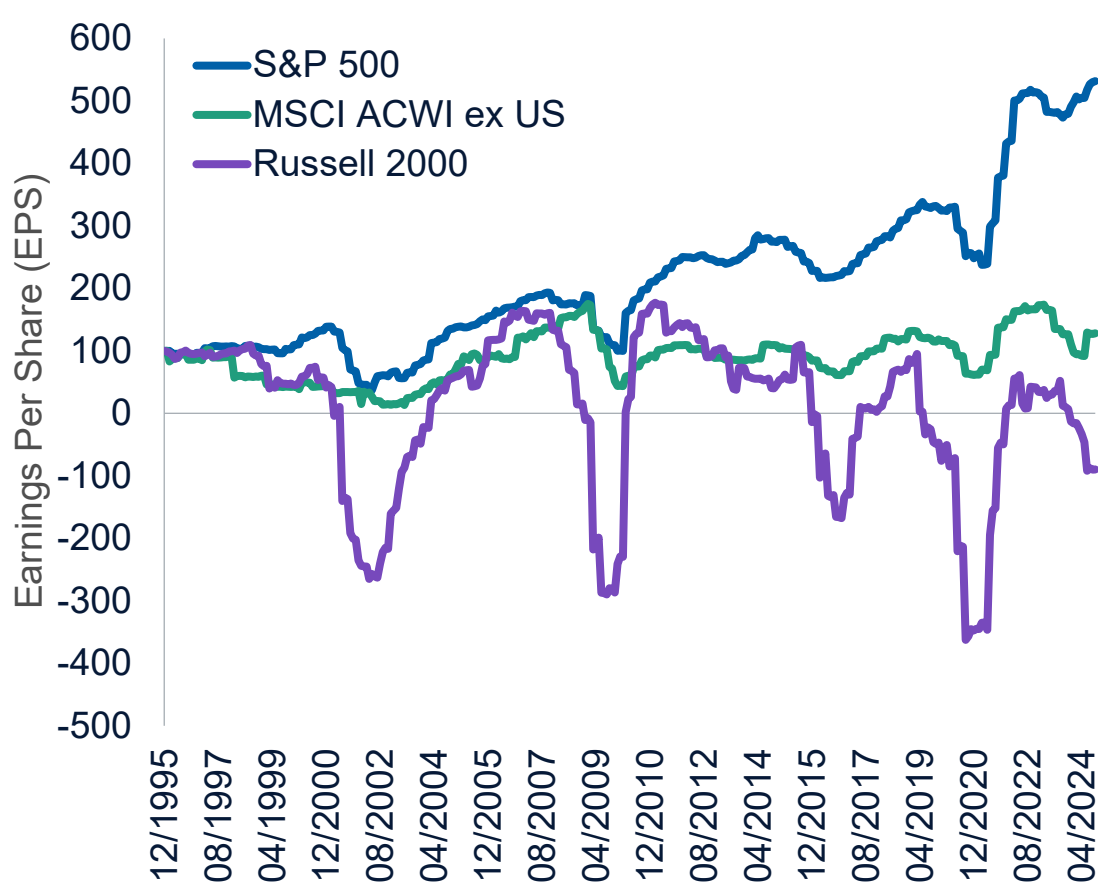
Value and Durable Growth Performance by Decade Group

As of September 30, 2024

Relative PE to S&P 500



Trailing EPS (Indexed to December 1995)

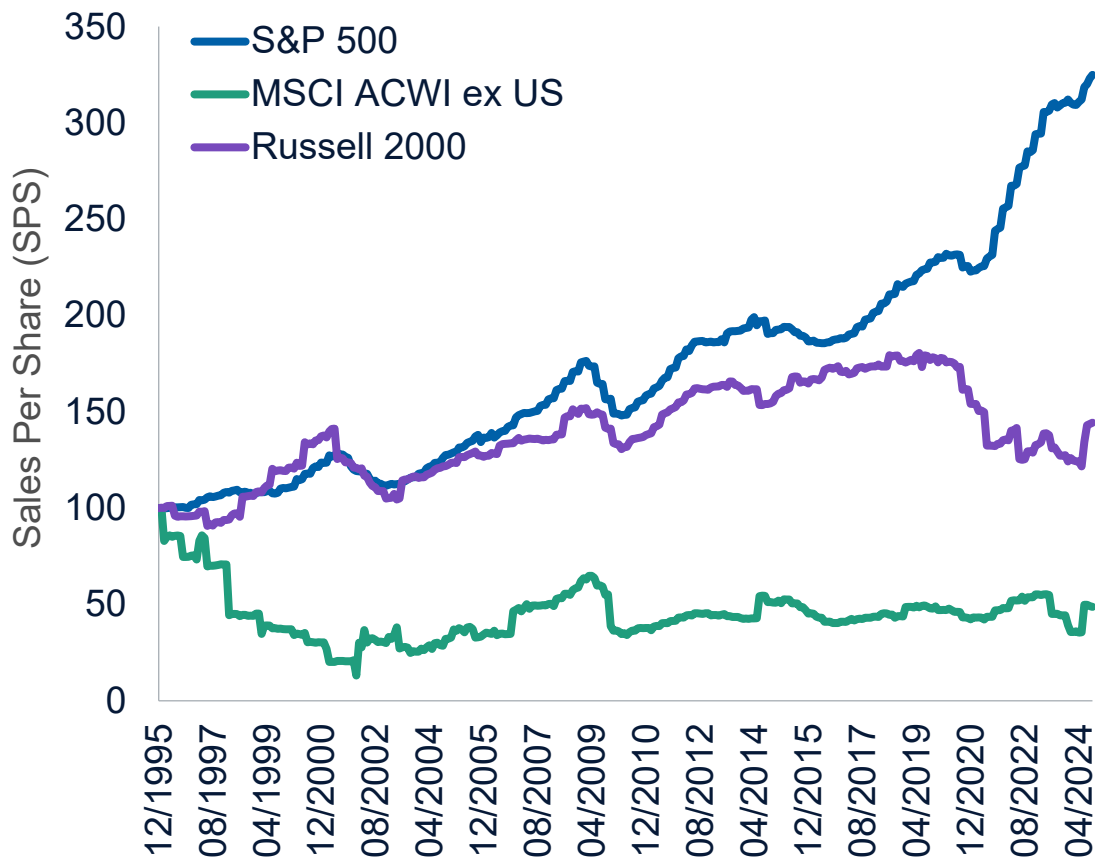


Sources: LSEG, IDC data, Compustat, MSCI, Russell, and S&P Global. Analysis by T. Rowe Price. See Additional Disclosures.

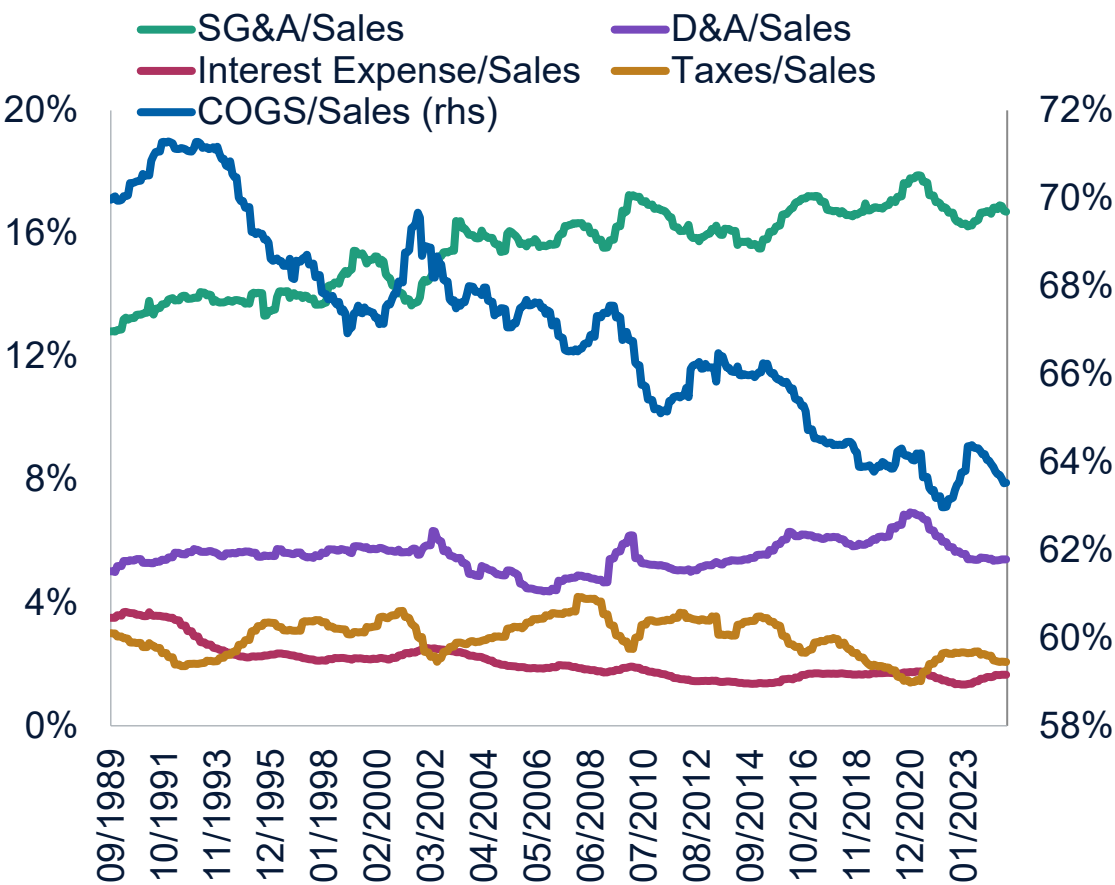
Value and Durable Growth Performance by Decade Group

As of September 30, 2024

Trailing SPS (Indexed to December 1995)



Margin Improvement

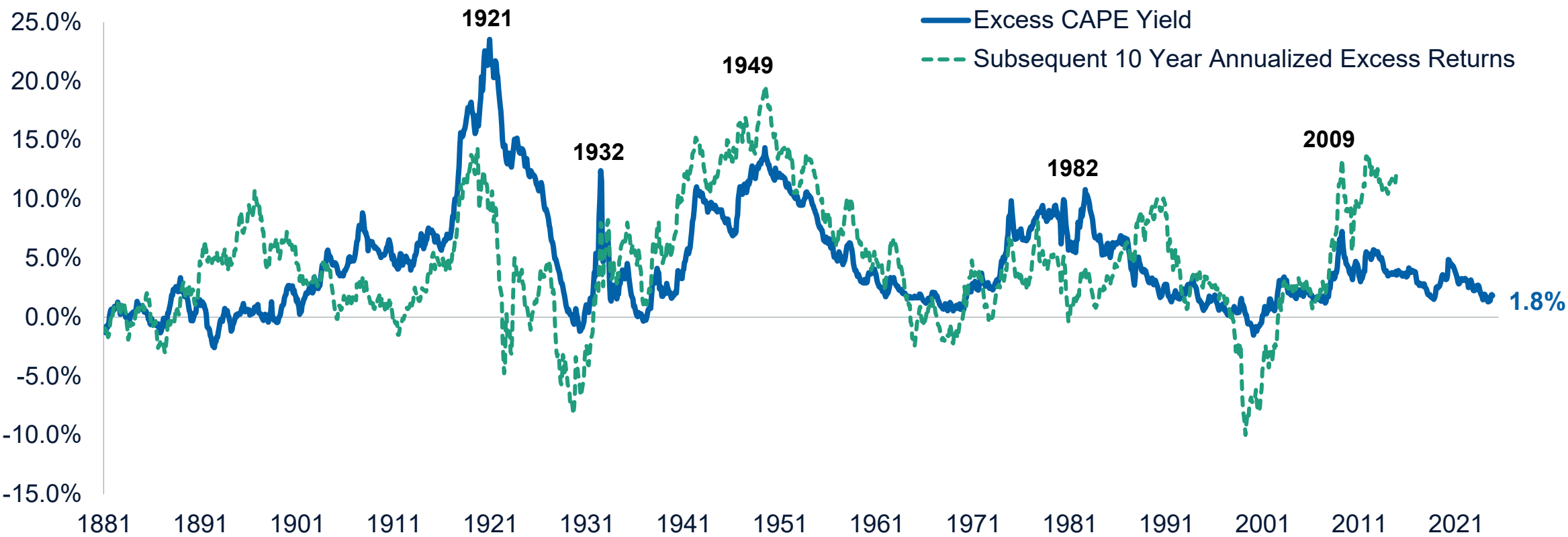


Sources: LSEG, IDC data, Compustat, MSCI, Russell, and S&P Global. Analysis by T. Rowe Price. See Additional Disclosures.
Abbreviations: SG&A - selling, general & administrative; D&A - depreciation and amortization; COGS - cost of goods sold.

Forward 10-year returns are going to be challenged

As of October 31, 2024

Excess CAPE Yield (ECY) and Subsequent 10 Year Annualized Excess Returns



Source: Robert Shiller (http://www.econ.yale.edu/~shiller/data/ie_data.xls)

Small cap relative valuations attractive on the surface...

As of July 31, 2024

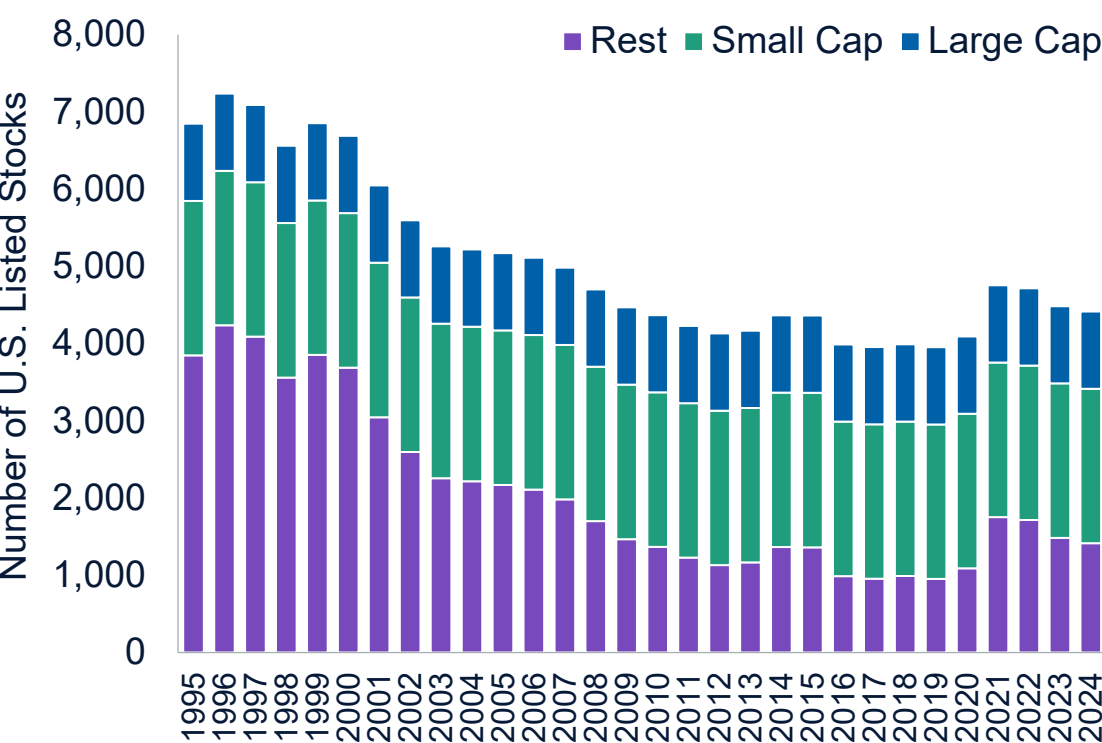


Source: Russell, IDC data/Refinitiv. Analysis by T. Rowe Price. See Additional Disclosures. This chart is showing Russell 2000 relative valuation to Russell 1000 in terms for Forward Price to Earnings. Valuation measurement is based on aggregated 12-month forward price-to-earnings ratio, excluding real estate and substituting with trailing 12-month earnings when next 12-month earnings are not available.

...due in part to weaker fundamentals...

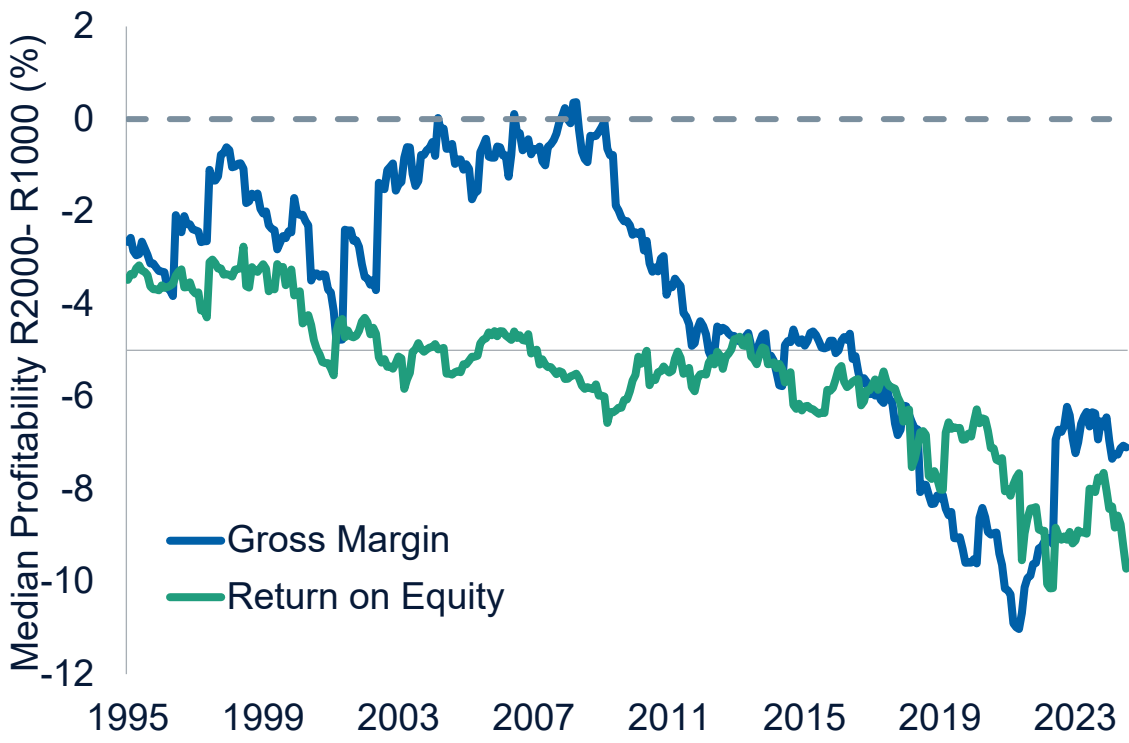
Shrinking universe of stocks

As of August 31, 2024



Lagging profitability

As of July 31, 2024



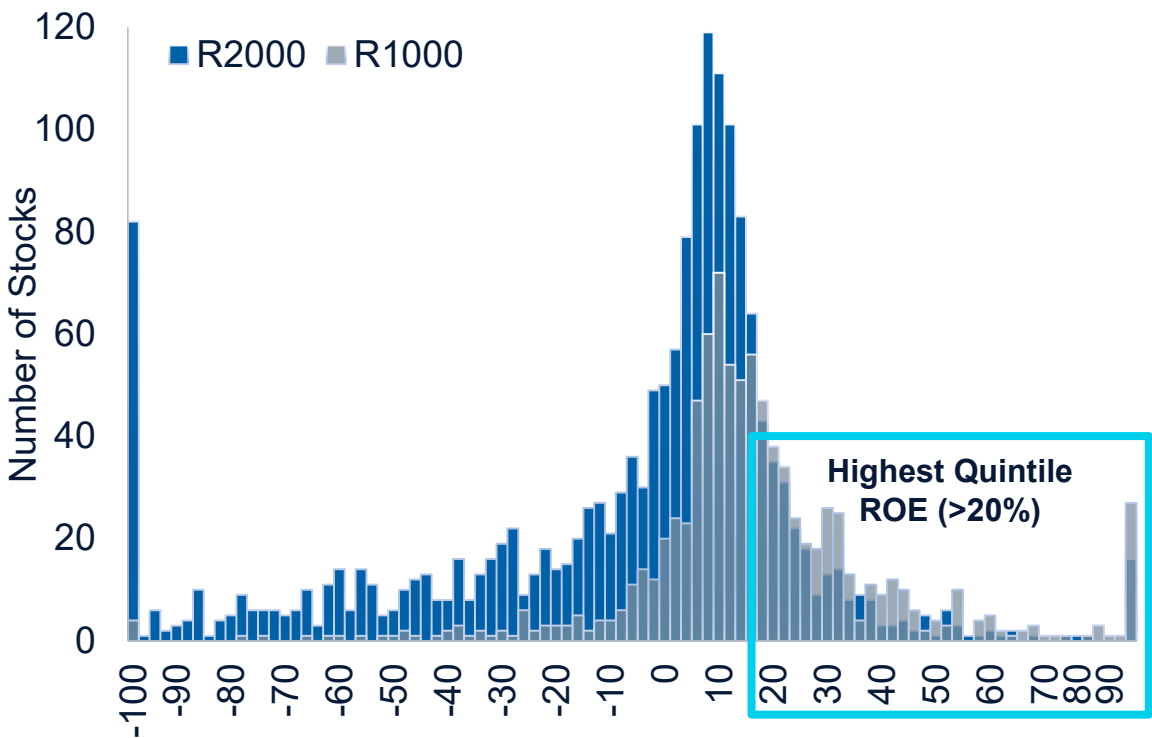
Left chart sources: Russell, Northfield, FactSet. Analysis by T. Rowe Price. See Additional Disclosures. See Additional Disclosures. Analysis based on Russell 3000 and Northfield U.S. Indexes, excluding real estates, ADRs, preferred stocks, SPACs, and non-U.S.-listed stocks.

Right chart sources: Russell, Compustat. Analysis by T. Rowe Price. See Additional Disclosures. This chart measures differences between Russell 2000 and Russell 1000 (both excluding real estate) median return on equity and median gross margin, where charted factors are available. Data reflect trailing gross margins and return on equity.

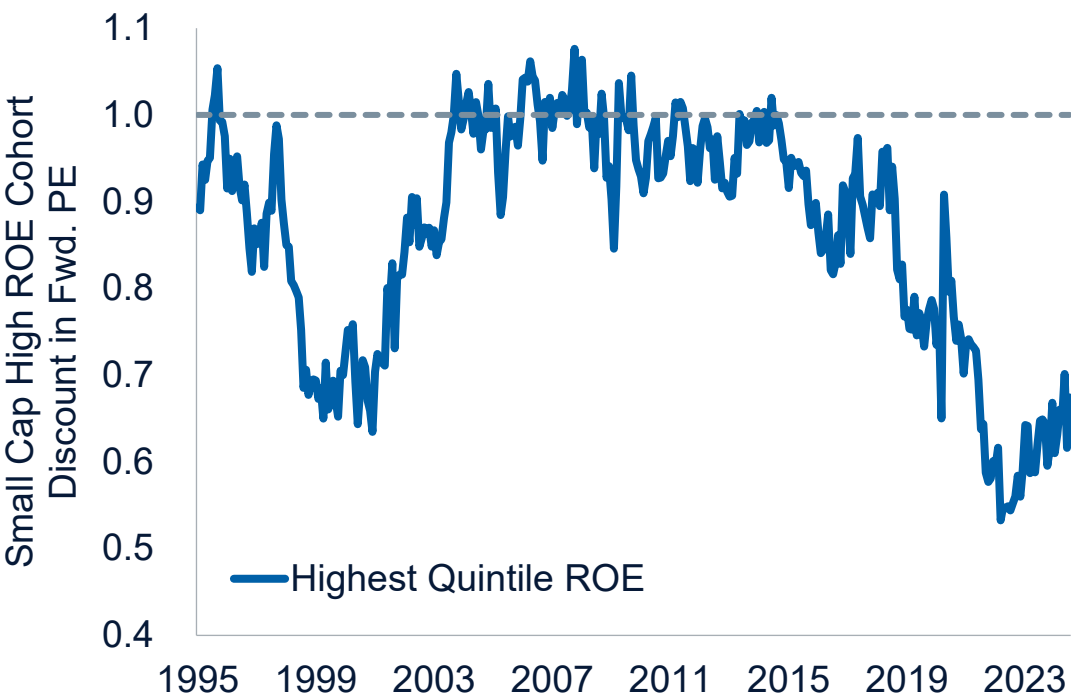
...but high-quality small caps are historically cheap

As of July 31, 2024

Identifying small caps with comparable ROEs to the best large caps...



...indicates an historic discount



Left chart sources: Russell, IDC data/Refinitiv, Compustat, FactSet. Analysis by T. Rowe Price. See Additional Disclosures. This chart shows the distribution of ROE ratios of Russell 2000 and Russell 1000 constituents, excluding real estate, capped between -100% and 100%. ROE is calculated by dividing the last 12 months' earnings of individual companies by the average of their book value.

Right chart sources: Russell, IDC data/Refinitiv, Compustat, Thomson/IBES, MSCI. Analysis by T. Rowe Price. See Additional Disclosures. Valuation measurement is based on median 12-month forward price to earnings, where ROE and forward price to earnings are available, excluding real estate. This chart measures valuation differences between small-cap stocks and large-cap stocks that rank in the first quintile of ROE in the Russell 3000 universe. Quintiles based on ROE are reconstituted monthly. ROE is calculated by dividing the last 12 months' earnings of individual companies by the average of their book value..

What should you remember in two weeks

- Combining the inside and outside view helps you make better decisions
- The outside view says, the U.S. is expensive
- The inside view says, valuation disparity is justified
- But there are opportunities to be found when combining the views

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