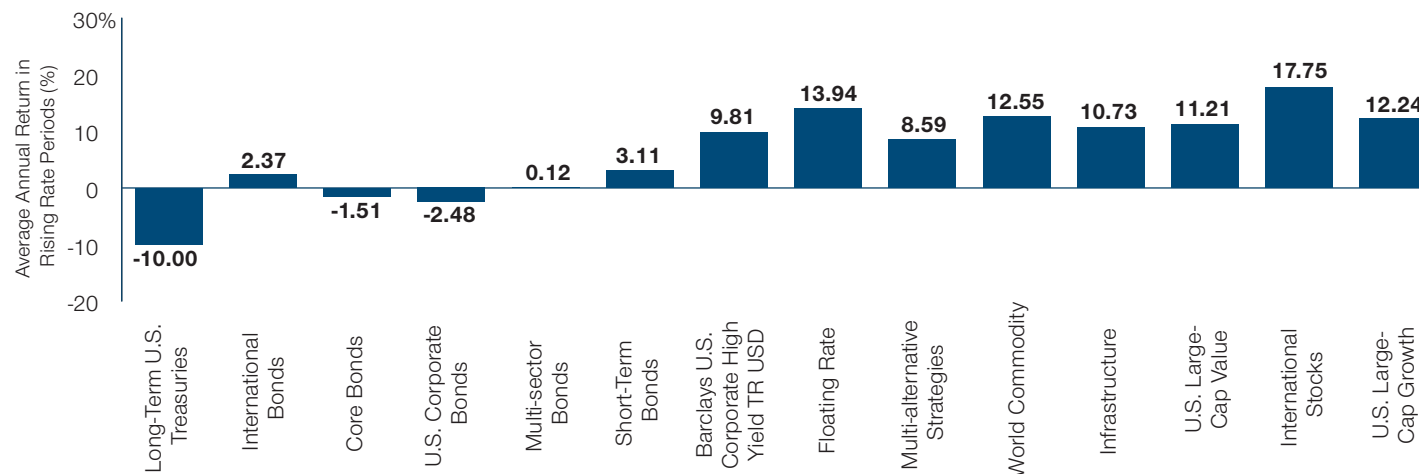




Historically, some asset classes performed better than others when interest rates rose

EQUITIES LED THE MARKETS

Asset Class
Performance in
Periods of Rising
Interest Rates



In the past...

- **Traditional, longer-duration fixed income has been the most sensitive to rising rates.**
- **Nontraditional fixed income and yield-oriented equity provided yield with less sensitivity to rate increases.**
- **Growth and international equities tended to outperform in rising rate environments.**

Chart depicts average annual returns for the following periods of rising rates: 4/79–3/80, 10/80–9/81, 6/83–5/84, 10/86–9/87, 11/93–10/94, 2/99–1/00, 6/03–5/04, 7/05–6/06, 1/09–12/09, 9/12–8/13.

Periods of rising interest rates represent 12-month periods that saw the largest increases in 10-year Treasury bond yields within broader periods of rising rates.

Long-term Treasuries are represented by Barclays Treasury Long Total Return Index, international bonds by Citi World Government Bond Index Non-USD USD, core bonds by Barclays U.S. Aggregate Bond Index, multi-sector bonds by Barclays Global Aggregate Index, short-term bonds by Barclays U.S. Govt/Credit 1–3 Yr. Treasury USD, floating rate by S&P/LSTA Performing Loan Index (Total Return), multi-alternative strategies by Hedge Fund Research, Inc.'s HFRX Global Hedge Fund Index (Total Return) (HFRGH) (April 03, 2014) and Hedge Fund Research Inc.'s Regional Investment Focus Fund of Funds Index 1989–2003, world commodity by S&P GSCI TR, infrastructure by UBS Global Infrastructure & Utilities Index (Total Return), U.S. large-cap value by Russell 1000 Value Index, international stocks by MSCI EAFE Index GR USD, U.S. large-cap growth by Russell 1000 Growth Index.

Source: Morningstar Direct.

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Performance is more than just returns

CONSIDER THE TAX IMPLICATIONS OF INVESTMENTS

Higher-yielding asset classes produced a tax drag		
Morningstar Fund Categories	5-Year Average Tax Cost Ratio	10-Year Average Tax Cost Ratio
U.S. OE High Yield Bond	2.48%	2.58%
U.S. OE Emerging Markets Bond	2.10	2.20
U.S. OE Long Government	2.49	2.09
U.S. OE Multi-sector Bond	1.89	1.94
U.S. OE Corporate Bond	1.65	1.76
U.S. OE Bank Loan	1.64	1.77
U.S. OE Global Real Estate	1.44	1.59
U.S. OE Tactical Allocation	1.32	1.40
U.S. OE World Bond	1.27	1.48
U.S. OE Foreign Large Value	0.99	1.22
U.S. OE Large Value	1.28	1.12
U.S. OE Large Growth	1.45	0.88
U.S. OE World Stock	0.98	0.90
U.S. OE Short-Term Bond	0.69	1.01
U.S. OE Commodities Broad Basket	0.74	1.78

■ Higher-yielding asset classes produced a tax drag of around 200 bps per year. Tax drag describes the potential loss in returns due to taxes.

Source: Morningstar.

Calculated on May 12, 2016, for the most recent month-end.

T. Rowe Price Investment Services, Inc.