



Franklin Templeton comprises multiple independent investment teams located around the world. As individual portfolio managers and teams pursue different fund mandates, there will always be different views held on the markets, and we consider that a strength. The insights below represent some of the current views of senior investment leaders at the various specialist investment managers.

## ...About THE ECONOMY

### WESTERN ASSET

#### Base case outlook: Elongated, U-shaped global economic recovery

- We expect the battle against COVID-19 will take time; however, we are encouraged by signs of progress in the global race for a vaccine and the decline in global mortality rates.
- We expect central banks to remain very accommodative.
- Forceful policy action to date has buoyed global economic activity and restored market functioning, but we are wary of potential disruptors, including: fallout from the US presidential election, post-Brexit trade negotiations, US-China trade discussions and geopolitical tensions.

### TEMPLETON GLOBAL MACRO

#### Modeling two phases to the global crisis

- Financial markets currently remain in the first phase, characterized by a prolonged period of elevated risks and uncertainty, with the potential for additional market shocks that could last for multiple quarters.
- In phase two, we expect a more sustainable recovery to take hold, preceded by periods of distorted asset prices and compelling investment opportunities. A global recovery is likely to remain gradual.
- Many risk assets appear detached from underlying economic fundamentals, in our view, and remain vulnerable to a correction.

### BRANDYWINE GLOBAL INVESTMENT MANAGEMENT

#### Roaring Twenties redux

- In some ways we are replicating the last pandemic almost a hundred years ago. We had a pandemic in 1918 and that was followed by the “Roaring Twenties,” and our sense is that this is going to play out again.
- Looking at classic macro factors that you'd normally look to anticipate how things might flow—the lag effect of declining bond yields, the low level of energy prices, the cumulative effect of past policy stimulus, high personal savings rates that exist in the United States, China and Europe—it's like a well of potential spending power.

### CLEARBRIDGE INVESTMENTS

#### Strong likelihood the economy has started a new expansion

- Strong stimulus measures have supported a robust recovery in consumer spending. A fly in the ointment: Jobless claims are well below the COVID-19 peak, but they remain well above prior periods of stress. Policymakers have addressed near-term liquidity concerns. However, longer-term bankruptcy risks remain possible due to shifts in consumer behavior.
- The US personal savings rate has far exceeded levels typically seen in the post-WWII era. This money will help insulate consumer spending until the economy improves or another fiscal package is passed. →

## ...About US EQUITIES

### FRANKLIN EQUITY

#### Tech is still king

- We have to recognize that what's been driving technology has really been this idea of digital transformation and how it's affecting the global economy. The move to a truly digital world is still in its early days of adoption. We see it expanding beyond technology, moving into other sectors across the market.
- Tech's role as an agent of change will only grow in the next decade. We think any infrastructure bill will include a large allocation to technology, broadband access, 5G infrastructure type of things.
- We believe the outlook for tech continues to be very bright from a valuation perspective. Tech is supported by tremendous cash flows and incredible profitability.
- We think the long-term outlook for health care remains strong with the backdrop of a global demographic wave of an aging population, a rising middle class demanding greater access to health care, better cures and treatments and outcomes from the health care industry.

### CLEARBRIDGE INVESTMENTS

#### Potential selling pressure less likely

- A lot of the uncertainty has actually been removed from the market. Historically, when we've had a Democratic president and a split Congress, markets have been up about 13.5%.<sup>1</sup>
- If there was a blue sweep, it was likely that we'd get the most substantial rise in capital gains tax in over 50 years. That could have released a lot of selling through the end of this year, particularly in the tech sector or stocks with the greatest gains, which could have been a near-term negative. That appears to be off the table.
- We believe that a more cyclical positioning will remain in favor as investors look forward to widespread vaccinations in the U.S. However, fiscal stimulus remains important to bridge the gap and maintain economic momentum.

US Personal Savings Rate as a % of Disposable Income  
12/31/1959-9/30/2020



Source: FactSet. US Bureau of Economic Analysis.

## ...About FIXED INCOME

### WESTERN ASSET

#### Favoring investment grade

- Our bias in the near term is to remain overweight investment grade (IG) credit, especially through the higher-quality issuers.
- Understanding the outlook for fundamentals will be challenged in the near term and subject to the path of the virus. Given our outlook, we continue to position for a “reopening trade” and remain overweight certain cyclical sectors in high yield.
- In Europe, the IG market remains well supported by the sizeable ECB program and a market starved of yield, though valuations are not cheap in a historical context.
- We expect Q4 to be a light issuance period for bank loans. We expect demand to outstrip supply and continue ultimately to drive the bank loan market higher into year-end.
- We continue to favor high-quality hard currency bonds from both a carry and total return standpoint, while being observant of ongoing fundamental growth challenges in EM.

### FRANKLIN TEMPLETON FIXED INCOME

#### US election may be a muni positive

- COVID is going to continue to impact state and local governments. In general, we're not expecting there to be massive defaults or huge increases in bankruptcies. There could be pockets of stress.
- We're interested to see if the SALT [state and local tax] deduction comes back. It would be particularly helpful in high-tax states.
- Biden has already mentioned putting more money towards health care and infrastructure. That is likely to be good for local governments. Infrastructure creates jobs and anything to improve the economy will improve tax revenues to both state and local governments.

## ...About ALTERNATIVES

### K2 ADVISORS

#### It all revolves around rotation

- There is a rotation that is playable, a geographical rotation, factor rotation, sector rotation, and asset class rotation.
- In macro, a lot of the managers are looking outside the US. They're looking at some Asian currencies...some emerging market fixed income areas. Some are going to rotate geographically. With a weak dollar, they're likely to hold, if not add to, emerging markets. So the short story is that they're going to probably de-risk a bit in the US and up risk offshore.
- A lot of the fixed income relative value managers, are definitely rotating away from some of the strategies that have done well. The big conversation we're having with our equity long/short managers is value versus growth and sector rotation in general.

## ...About REAL ESTATE

### CLARION PARTNERS

#### Industrial warehouse outperformance accelerates

- While retail store closings surge, e-commerce sales from Amazon, Walmart, Home Depot, Lowe's have dramatically increased during the pandemic, helping the industrial warehouse sector outperform.
- The Q3 US industrial warehouse vacancy rate remained 4.7%.
- The US multifamily vacancy rate is near the 20-year low of 4.4%. Vacancy rates rose in selected central business districts and fell in some nearby suburbs. The sector has been relatively resilient with average rent collections at 95% in Q3.
- The US office vacancy rate edged up to 14.0%. Year-to-date, NYC and San Francisco lead many cities in a surge of negative absorption.

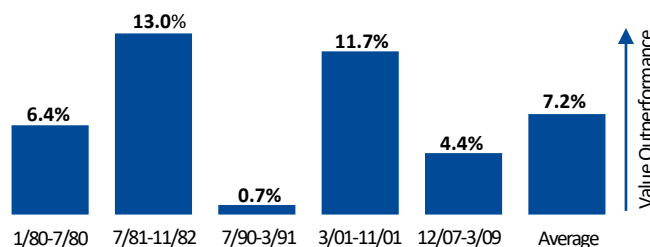
## ...About GLOBAL EQUITIES

### TEMPLETON GLOBAL EQUITY GROUP

#### Balancing near-term opportunity with long-term risk

- We are cautious on the longer term, but we actually have pretty substantial exposure to cyclicals and industrial cyclicals.
- We are more concerned longer term about the potential for inflation, rising interest rates, and debasement of the US currency.
- But in the meantime, we know that governments are just going to spend money until they can't anymore. And that is going to find its way into people's pockets. It's going to find its way into infrastructure, broader industrial stocks.
- We temper enthusiasm with realism. If government activity at the moment succeeds, it's inevitable that we get inflation, and that ultimately ends the cycle. If government intervention doesn't succeed, it's inevitable that the recession is prolonged.

Value Outperformed Growth Coming Out of Recessions Since 1980  
12 months after Recession Based on PMI Change<sup>2</sup>



## About EMERGING MARKETS

### FRANKLIN TEMPLETON EMERGING MARKETS EQUITY

#### Small is beautiful

- As we see normalcy return more rapidly in key emerging markets, it should enable broader economic and market recovery, as evidenced by the recent outperformance of EM small caps.
- We believe that the long-term structural story for EM small caps remains compelling, underpinned by domestic economic drivers and the consumption growth story.
- Recent weakening of the US dollar relative to EM currencies can be attributed in part to the unprecedented level of US fiscal stimulus and dovish monetary policy, and market expectations of subsequent fiscal stimulus. The weaker US dollar is generally beneficial for EM equities—especially Asian equities—with many companies domestically oriented. As such, earnings should improve in US dollar terms.
- EMs, including China, India and Brazil, have shown a continued appetite for structural reforms that could lay the foundation for lasting economic recoveries.

### MARTIN CURRIE

#### Sustainable growth to the fore

- The emerging markets equities' recovery this year has been driven by an acceleration of growth in already high growth sectors of the market.
- We have long-held conviction in areas like mobile entertainment, e-commerce, electric vehicle adoption and food delivery; growth in these areas has come through strongly.
- We built a portfolio with valuation discipline—tilted towards quality and growth but retaining enough value exposure in the portfolio should mean that outcomes don't hinge in binary fashion on whether or not a market rotation takes place.

## Key Themes

### THEME

### RATIONALE

#### VALUE ROTATION

With the advent of a potential vaccine, markets are likely to anticipate a return to normal, which may help precipitate a sustainable economic recovery. Cyclical and value-oriented stocks may be favored in such an environment, and are long overdue for their day in the sun. While growth and value have historically taken turns leading and lagging each other, the recent bout of value underperformance is unprecedented. It's been even more exaggerated within the small cap realm. The narrow leadership of technology-centered names has appeared to broaden out, and with an expectation of recovery, that could continue.



#### TIME FOR EXPANDING HORIZONS?

The US has been a global leader in equity performance relative to most other developed markets. On a relative value basis, however, global equities are significantly less expensive than US equities on traditional measures such as trailing and forward looking price/earnings. While higher multiples in the US may be deserving given what has been a higher growth rate, the magnitude of the divergence may be unwarranted.

Expanding the opportunity set to consider bonds outside the US may also be beneficial, as a potentially weakening US dollar and currency benefits are just one of multiple performance levers.



#### SEEKING QUALITY IN BONDS

Traditional high-quality and investment grade bond funds offer income and some of the historical counterbalance to equities, especially in uncertain markets. Given the uncertainty in equities, added risk in higher yielding bonds may be less desirable, potentially all the more dangerous in passive, non-discriminating vehicles. We haven't seen the full impact of the fallout from COVID-19. While vaccine hope now offers a light at the end of the tunnel, there is still some ground to cover before we get there. Moreover, the risk from rising rates appears to be muted in the near term given the Fed's stance on allowing inflation to "catch up".

Municipal bonds can also offer a high-quality alternative to government bonds, but discerning quality from danger requires research. The impact of the virus has had different impacts on different sectors, for example transportation and hospital bonds vs. sewer bonds.

Lower volatility strategies in fixed income may help investors in managing overall portfolio fluctuations without going to cash.



#### DIVERSIFIED INCOME SOURCES

The traditional income component of bonds is difficult to achieve without descending the credit quality ladder or looking in non-traditional places. Diversified multi-sourced income funds can flexibly search out the best opportunities—even within a single company's capital structure—for the best yield/risk scenarios as conditions warrant. Global bond funds may have the ability to seek higher-yielding bonds that still carry investment grade credit quality. Real estate traditionally has generated an income stream with returns that are not correlated with bonds or stocks.



#### GROWTH DRIVES RETURNS OVER THE LONG-TERM

The coronavirus pandemic has accelerated the pace of innovation. In a low interest rate world, where tremendous change is taking place, growth equities have a favorable environment. The global demand picture for technology remains very strong. The long-term sustainable growth profiles of many companies, the large disruptive market opportunities, the innovation occurring that's disrupting really old-line industries—the growth outlook appears bright. The digital transformation affecting the global economy, moving it from an analog-based world to a truly digital world, is still in its early days.



## OUR MANAGERS

Franklin Templeton Investment Solutions	Franklin Templeton Emerging Markets	Western Asset
Royce Investment Partners	ClearBridge Investments	Martin Currie
Franklin Templeton Fixed Income	Franklin Mutual Series	Brandywine Global
Templeton Global Equity	Franklin Equity Group	K2 Advisors
Benefit Street Partners	Templeton Global Macro	Clarion Partners

1. Source: S&P Dow Jones Indices. Data 12/31/44 – 10/30/20.

2. The first month in which the 3-month change in the PMI turns positive 10%<sup>1</sup> or more, during a recession or shortly after it ends, is considered as recovery. After the positive PMI signal, the difference in 12-month change of Russell 3000 value and Russell 3000 Growth Total Return indices is used to calculate the outperformance. <sup>1</sup>For the recession of 07/90 - 3/91, 3-month PMI change of 9.2% is considered. Calculations by Franklin Templeton's Global Research Library with data sourced from FactSet, Russell Investments, Institute for Supply Management (ISM), National Bureau of Economic Research (NBER). Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com).

Brandywine Global Investment Management, LLC, Royce Investment Partners, ClearBridge Investments, Martin Currie, Clarion Partners, Western Asset and Legg Mason Investor Services, LLC, are subsidiaries of Franklin Resources, Inc.

**All investments involve risks, including the possible loss of principal.** Diversification does not guarantee a profit or protect against a loss. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in emerging markets involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. Smaller, mid-sized and relatively new or unseasoned companies can be particularly sensitive to changing economic conditions, and their prospects for growth are less certain than those of larger, more established companies. Investments in fast-growing industries like the technology sector could result in increased price fluctuation especially over the short term, due to the rapid pace of product change and development and changes in government regulation. Non-diversified funds concentrate in a single sector, which may entail higher risk. Alternative strategies may include risks in effectively allocating to subadvisors and currency, merger arbitrage and liquidity risks. Bond prices generally move in the opposite direction of interest rates. As the prices of bonds in a fund adjust to a rise in interest rates, the fund's share price may decline. Risks typically associated with real estate include, but are not limited to local, state, national or international economic conditions; including market disruptions caused by regional concerns, political upheaval, sovereign debt crises and other factors. Asset-backed, mortgage-backed or mortgage-related securities are subject to prepayment and extension risks.

The comments, opinions and analyses expressed herein are for informational purposes only and should not be considered individual investment advice or recommendations to invest in any security or to adopt any investment strategy. The opinions and analyses are rendered as of publication date and may change without notice. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market.

*Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial professional, call us at (800) DIAL BEN®/342-5236 or visit [franklintempleton.com](http://franklintempleton.com). Please carefully read the prospectus before you invest or send money.*



Franklin Templeton Distributors, Inc.  
 One Franklin Parkway  
 San Mateo, CA 94403-1906  
 (800) DIAL BEN® /342-5236  
[franklintempleton.com](http://franklintempleton.com)