

Quick thoughts: Pessimists may miss the up market— don't become one



Stephen Dover, CFA
Head of Equities
Franklin Templeton

MARCH 18, 2020

With any public health pandemic, investors' reactions can be based on fear and uncertainty. Fear may encourage people to isolate, helping reduce the pandemic's spread, but panic is never good for investors or our economy. The bottom line: all economic and financial forecasts depend more on the extent of this "fear factor" than on the course of the Covid-19 pandemic itself.

- **Consumption drives economies, especially in the United States, but also in Europe, and consumption underpins the hope for growth in China.** That is why a strictly monetary response is of limited help. All countries are creating massive fiscal stimuli directed at first containing Covid-19, but also at driving demand and consumption. Over the next few months, effective government policy will have to be directed at reducing the fear factor and providing enough economic security so that once Covid-19 is contained, people will go out, and start rebuilding and consuming again. We're in a demand/consumption-driven slowdown, and so we believe effective fiscal responses must be geared toward consumption policies.
- **High equities' correlations create opportunities for active investors.** Most investments—equities, fixed income, commodities, etc.—are highly correlated during panic selling (with the great exception of government securities, as investors generally move toward their perceived safety). High correlations between equities have continued as investors sell their holdings in passive vehicles, which in turn, has resulted in selling of all stocks proportionately.
- **We believe that investors should try to project what the economy will look like in a year instead of extrapolating today's events.** Longer-term paradigm shift implications of population masses learning how to, and shifting to, working remotely or from home include: gig-economy essentials, supply-chain changes, social and event industries (restaurants, bars, movie theaters and travel), etc. During the 1918 influenza pandemic, marriages, divorces and birth rates all increased. Might we have a mini-baby boom?
- **It's too late to panic-sell. In our view, it's better now to consider reallocating within equities and to potentially rebalance asset allocations in balanced portfolios.** We believe the current market should provide long-term opportunity for investors who stay the course or take opportunities as they arise.

Pessimists will miss the up market—Don't become one. As noted, we think the best approach is to stay invested in the market and use this time to assess where the opportunities are, and/or to reallocate toward better companies. We believe some of the best opportunities may be in blue-chip companies that have a long history of paying dividends. Dividend yields may decrease as dividends could be reduced, but we are not seeing a massive shrinking in dividends at this time.

A handwritten signature in black ink, reading "Stephen A. Omer". The signature is written in a cursive, flowing style with a large initial "S" and "O".

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Diversification does not guarantee profit or protect against risk of loss. Actively managed strategies could experience losses if the investment manager's judgement about markets, interest rates or the attractiveness, relative values, liquidity or potential appreciation of particular investments made for a portfolio, proves to be incorrect. There can be no guarantee that an investment manager's investment techniques or decisions will produce the desired results.

IMPORTANT LEGAL INFORMATION

This material is intended to be of general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. It does not constitute legal or tax advice.

The views expressed are those of the investment manager and the comments, opinions and analyses are rendered as of March 18, 2020, 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.

Data from third party sources may have been used in the preparation of this material and Franklin Templeton Investments ("FTI") has not independently verified, validated or audited such data. FTI accepts no liability whatsoever for any loss arising from use of this information and reliance upon the comments opinions and analyses in the material is at the sole discretion of the user.

Products, services and information may not be available in all jurisdictions and are offered outside the U.S. by other FTI affiliates and/or their distributors as local laws and regulation permits. Please consult your own professional adviser or Franklin Templeton institutional contact for further information on availability of products and services in your jurisdiction.

Issued in the U.S. by Franklin Templeton Distributors, Inc., One Franklin Parkway, San Mateo, California 94403-1906, (800) DIAL BEN/342-5236, franklintempleton.com—Franklin Templeton Distributors, Inc. is the principal distributor of Franklin Templeton Investments' U.S. registered products, which are not FDIC insured; may lose value; and are not bank guaranteed and are available only in jurisdictions where an offer or solicitation of such products is permitted under applicable laws and regulation.

Australia: Issued by Franklin Templeton Investments Australia Limited (ABN 87 006 972 247) (Australian Financial Services License Holder No. 225328), Level 19, 101 Collins Street, Melbourne, Victoria, 3000. **Austria/Germany:** Issued by Franklin Templeton Investment Services GmbH, Mainzer Landstraße 16, D-60325 Frankfurt am Main, Germany. Authorised in Germany by IHK Frankfurt M., Reg. no. D-F-125-TMX1-08. Tel. 08 00/0 73 80 01 (Germany), 08 00/29 59 11 (Austria), Fax: +49(0)69/2 72 23-120, info@franklintempleton.de, info@franklintempleton.at. **Canada:** Issued by Franklin Templeton Investments Corp., 5000 Yonge Street, Suite 900 Toronto, ON, M2N 0A7, Fax: (416) 364-1163, (800) 387-0830, www.franklintempleton.ca. **Netherlands:** FTIS Branch Amsterdam, World Trade Center Amsterdam, H-Toren, 5e verdieping, Zuidplein 36, 1077 XV Amsterdam, Netherlands. Tel +31 (0) 20 575 2890. **United Arab Emirates:** Issued by Franklin Templeton Investments (ME) Limited, authorized and regulated by the Dubai Financial Services Authority. Dubai office: Franklin Templeton Investments, The Gate, East Wing, Level 2, Dubai International Financial Centre, P.O. Box 506613, Dubai, U.A.E., Tel.: +9714-4284100 Fax:+9714-4284140. **France:** Issued by Franklin Templeton France S.A., 20 rue de la Paix, 75002 Paris France. **Hong Kong:** Issued by Franklin Templeton Investments (Asia) Limited, 17/F, Chater House, 8 Connaught Road Central, Hong Kong. **Italy:** Issued by Franklin Templeton International Services S.à r.l. – Italian Branch, Corso Italia, 1 – Milan, 20122, Italy. **Japan:** Issued by Franklin Templeton Investments Japan Limited. **Korea:** Issued by Franklin Templeton Investment Trust Management Co., Ltd., 3rd fl., CCMM Building, 12 Youido-Dong, Youngdungpo-Gu, Seoul, Korea 150-968. **Luxembourg/Benelux:** Issued by Franklin Templeton International Services S.à r.l. – Supervised by the Commission de Surveillance du Secteur Financier - 8A, rue Albert Borschette, L-1246 Luxembourg - Tel: +352-46 66 67-1- Fax: +352-46 66 76. **Malaysia:** Issued by Franklin Templeton Asset Management (Malaysia) Sdn. Bhd. & Franklin Templeton GSC Asset Management Sdn. Bhd. **Poland:** Issued by Templeton Asset Management (Poland) TFI S.A.; Rondo ONZ 1; 00-124 Warsaw. **Romania:** Issued by Bucharest branch of Franklin Templeton Investment Management Limited ("FTIML") registered with the Romania Financial Supervisory Authority under no. PJM01SFIM/400005/14.09.2009., and authorized and regulated in the UK by the Financial Conduct Authority. **Singapore:** Issued by Templeton Asset Management Ltd. Registration No. (UEN) 199205211E. 7 Temasek Boulevard, #38-03 Suntec Tower One, 038987, Singapore. **Spain:** FTIS Branch Madrid, Professional of the Financial Sector under the Supervision of CNMV, José Ortega y Gasset 29, Madrid, Spain. Tel +34 91 426 3600, Fax +34 91 577 1857. **South Africa:** Issued by Franklin Templeton Investments SA (PTY) Ltd which is an authorised Financial Services Provider. Tel: +27 (21) 831 7400, Fax: +27 (21) 831 7422. **Switzerland:** Issued by Franklin Templeton Switzerland Ltd, Stockerstrasse 38, CH-8002 Zurich. **UK:** Issued by Franklin Templeton Investment Management Limited (FTIML), registered office: Cannon Place, 78 Cannon Street, London EC4N 6HL Tel +44 (0)20 7073 8500. Authorized and regulated in the United Kingdom by the Financial Conduct Authority. **Nordic regions:** Issued by Franklin Templeton International Services S.à r.l. , Contact details: Franklin Templeton International Services S.à r.l., Swedish Branch, filial, Blasieholmsgatan 5, SE-111 48, Stockholm, Sweden. Tel +46 (0)8 545 012 30, nordicinfo@franklintempleton.com, authorised in the Luxembourg by the Commission de Surveillance du Secteur Financier to conduct certain financial activities in Denmark, in Sweden, in Norway, in Iceland and in Finland. **Offshore Americas:** In the U.S., this publication is made available only to financial intermediaries by Templeton/Franklin Investment Services, 100 Fountain Parkway, St. Petersburg, Florida 33716. Tel: (800) 239-3894 (USA Toll-Free), (877) 389-0076 (Canada Toll-Free), and Fax: (727) 299-8736. Investments are not FDIC insured; may lose value; and are not bank guaranteed. Distribution outside the U.S. may be made by Templeton Global Advisors Limited or other sub-distributors, intermediaries, dealers or professional investors that have been engaged by Templeton Global Advisors Limited to distribute shares of Franklin Templeton funds in certain jurisdictions. This is not an offer to sell or a solicitation of an offer to purchase securities in any jurisdiction where it would be illegal to do so.

Please visit www.franklinresources.com to be directed to your local Franklin Templeton website.

CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.

