WHAT FRANKLIN TEMPLETON THINKS…

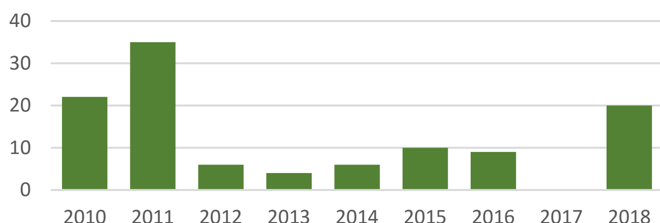
Q1 2019

…About VOLATILITY

Healthy Normal: Volatility Is a Positive and Likely to Persist

- A bull market typically sustains itself with pullbacks.
- After many years of low volatility, the higher volatility regime may feel uncomfortable but is not out of line with historical norms.

S&P 500 Index Daily Price Moves of +/- 2%[1]



1. Source: FactSet (Standard & Poor's).

- Large market moves, in conjunction with lower correlations, allow ample rebalancing opportunities.
- Active managers may be a beneficiary of the new regime.

…About TRADE & TARIFFS

The Big IFs in Tariffs

- A 90-day pause in the US tariff hike from 10% to 25% on $200B of Chinese imports is in place while US and China hold trade negotiations.
- Markets welcomed the time out for compromise, but questions remain:
  - **IF** there is no resolution, how will the global economy be impacted?
  - **IF** companies pass through costs, will consumer spending hold up?
  - **IF** companies absorb costs, how will their margins fare?
- We believe there's a reasonable likelihood some agreement between the US and China will be reached in the next few months, but trade tensions, a symptom of larger geopolitical issues, are likely to be chronic.

…About US EQUITIES

Recession Highly Unlikely for 2019; Positive Fundamentals Backdrop

- Interest rates have risen, but they are still relatively low—not at levels likely to impede economic activity.
- We maintain high conviction in longer-term growth in the US supported by the consumer. US households, deleveraging throughout most of this cycle, have elevated savings rates relative to net worth. Labor markets remain solid. Cheaper gasoline prices should act as a second tax cut. All of this bodes well for consumption growth in 2019.
- We remain confident about growth staying strong enough to support risk assets over a longer-term horizon.
- The US government shutdown creates short-term uncertainty and defers economic activity; if it persists, it could have negative outcomes.
- Lower energy prices are a windfall, as cheaper energy is the single most important factor for increased productivity.

…About EUROPEAN EQUITIES & BREXIT

The Relentless Tick Tock Toward March 29 Leaves UK Scrambling

- With the UK parliament's overwhelming rejection of PM Theresa May's proposed withdrawal agreement, chances of a no-deal "Hard" Brexit increased. Rescinding Brexit seems least likely to us, while some form of extension, which needs the support of all EU members, may be likeliest.
- The UK market appears cheap after moving from a premium at the time of the Brexit referendum to a discount today. If the UK economy proves more resilient than feared there is scope for share prices, particularly of domestic cyclicals, to rebound strongly.
- A hard Brexit could lower EU growth by 0.2-0.3%. Underlying market fundamentals suggest to us the potential for a near-term rebound in European equities. Without the tax benefits goosing US company 2019 earnings, US and European equities may have more equal footing.

…About EMERGING MARKETS EQUITIES

Positive Signs Are Developing

- We expect EM earnings growth to resume momentum in 2019.
- Fundamentals remain strong and many EM currencies adjusted significantly in 2018.
- Tentative signs of a respite in US-China trade tensions also have supported emerging markets.
- EMs are leapfrogging established models in innovation and technology. Several EMs have seized the lead in innovation in areas such as e-commerce, digital payment, mobile banking and electric vehicles.
- In addition, we are looking for attractive opportunities related to health care, consumption and manufacturing upgrades, which are less directly impacted by tariff regime changes.

…About INTEREST RATES & INFLATION

Expectations for the End of the Economic Cycle Appear Overstated

- We believe the US economy has broad-based strength to weather another rate hike or two in the coming year, while many now expect no further rate hikes.
- We believe inflation risk remains to the upside.
- The 10-year Treasury rate rapidly unwound its 2018 rise to 3.23% as investors fled equities in the final two months, but we think it's more likely to push back toward that level, if not higher, than stay near the recent low.

…About FIXED INCOME

A Time for Balance of Rate Exposure and Credit Risks

- High-yield bonds are enjoying positive tailwinds, given shrinking supply.
- Volatility in the bank loan market is allowing research to be rewarded.
- Broad-based selloff in asset classes offer bargains for the selective investor.
- Positioning is important in emerging markets, as some countries are more exposed to the rising cost of capital.

Franklin Templeton Investments 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 above represent the current views of senior investment leaders and are subject to change.

FRANKLIN TEMPLETON INVESTMENTS

Not FDIC Insured | May Lose Value | No Bank Guarantee

Key Themes

THEME	RATIONALE
US Equities: Fasten Your Seatbelts	The ride may be bumpy, but we think a return of volatility to the equity markets is a positive. Corporate fundamentals are on par with historical norms, with above-average margins and return-on-equity ratios. Growth is slowing but that is to be expected after the tax stimulus provided in 2018. Fundamentals continue to be positive, with no signs a recession is due this year. For long-term investors, lower valuations provide an opportunity to build or upgrade portfolios.
Opportunities Emerging on the International Front	Stocks went on sale in November and December, as investor fears rose, and indices fell. We see opportunities globally as earnings and economic disparities narrow between the United States and other countries. EM valuations have been approaching crisis levels due to weakened confidence (and performance), yet cash flows and earnings generally have remained resilient. These conditions, when paired with less pressure from rising rates and a rising US dollar, as well as improving corporate governance that includes dividend payouts and buybacks, present an increasingly attractive long-term buying opportunity.
Bond Management Requires an Active Hand	Ongoing global growth and inflation risk lead us to prefer lower exposure to government bonds and duration. Long-term valuations have remained expensive despite the rise in yields. Fiscal measures have been supportive of corporate bonds, and bank loans have been looking more attractive given less duration risk. The high demand for these loans has led to investors relinquishing control over credit terms—but volatility potentially can reward active managers with the opportunity to sift wheat from chaff at favorable prices. Bargains in select emerging markets have been made available by broad based selloffs.
If Bonds Aren't the Answer to Stock Volatility Is There an Alternative?	To address the volatility associated with traditional stocks and bonds, multi-manager hedge strategies may offer a different risk/return profile, with the potential to deliver downside protection and upside participation. The drivers of rising dispersion (valuation differentials, tax reform impact, regulatory changes, etc.) may provide greater long/short opportunities.

All investments involve risks, including the possible loss of principal. 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. Investments in fast-growing industries like the technology sector could result in increased price fluctuation. 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. Floating-rate bank loans and high yield bonds carry a greater degree of credit risk relative to investment-grade securities.

ETFs trade like stocks, fluctuate in market value and may trade at prices above or below the ETF's net asset value. Brokerage commissions and ETF expenses will reduce returns. There is no guarantee that any strategy will achieve its objective. Franklin LibertyShares ETFs are not riskless investments, and investors can lose money.

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 advisor, call us at (800) DIAL BEN®/342-5236 or visit ***franklintempleton.com.*** *Please read the prospectus carefully 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

© 2019 Franklin Templeton Investments. All rights reserved.