FRANKLIN TEMPLETON

Templeton Emerging Markets Income Fund

TEI | **Commentary | as of September 30, 2026**

Key Takeaways

- **Markets:** Global growth data released during the third quarter of 2026 continued to paint a generally resilient picture despite the ongoing war in the Middle East and lingering trade-related uncertainty. Inflation outcomes were mixed in direction, but inflation remains above target in many developed markets, and some emerging markets' (EM) inflation rates are showing the effects of higher energy prices. The renewed surge in oil prices over the quarter has kept energy risks to inflation at the forefront. The US dollar (USD) rose modestly over the quarter, partly supported by a more hawkish US Federal Reserve (Fed). Currency performance against the USD was mixed across both developed and emerging markets. The Fed and the European Central Bank both raised policy rates over the quarter, as did some other developed markets. A handful of (EM) central banks also raised interest rates, although many kept policy unchanged during the period. In bond markets, sovereign bond yields rose in most countries during the period, reaching multi-year highs in the United States and the euro area. The US 10-year Treasury note yield rose 82 basis points to 5.28%, its highest level since mid-2007. EM sovereign credit came under pressure from both higher bond yields and widening spreads over the quarter.
- **Contributors:** Interest-rate strategies contributed to absolute fund performance, followed by currency positions.
- **Detractors:** Overall credit exposures detracted from absolute fund results.
- **Outlook:** Despite the current geopolitical backdrop, our thesis of "global rewiring" remains intact, and we expect global relations to continue shifting and realigning for some time yet. We expect select EMs to benefit from these realignments.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	10.20%
30-Day SEC Yield (Fund)—Without Waiver	10.19%

Performance Review

- **Interest-Rate Strategies:** Sovereign bond yields rose across most markets during the period. Duration exposures in Egypt and Kazakhstan contributed to absolute fund performance. We hold bond positions in countries where we identify supportive fundamentals.
- **Currencies:** The USD saw modest gains over the third quarter. Positions in the Kazakhstani tenge, South Korean won and Colombian peso contributed to absolute results, while the fund's position in the Egyptian pound detracted. We believe the USD remains overvalued against a number of currencies.
- **Credit:** EM sovereign credit came under pressure from both higher bond yields and widening spreads over the quarter. Select subinvestment-grade sovereign credits in Latin America and Africa detracted from absolute fund return.
- **Positioning:** In local-currency positions, we hold select countries in EMs. Our currency positions focus on potential upside based on our assessment of long-term undervaluation against the USD. A number of these countries historically have had robust balances of payments and growth fundamentals. In bonds, we hold positions in countries where we identify supportive fundamentals. These might cover a range of factors, such as inflation and interest-rate outlooks, fiscal progress and other economic reforms, and/or anticipated economic benefits from reshoring or other deeper integration into the global economy. We aim for a relatively high overall portfolio yield by holding higher-yielding, local-currency positions in specific EMs that we view as having attractive risk-adjusted yields. Taking all these factors into account, our main local currency exposures at present include South Africa, India, the euro, Brazil and Kazakhstan. In hard-currency-denominated sovereign credit positions, we favor EMs with improving fundamentals and policy responses. We always closely monitor idiosyncratic factors in different countries to identify relative valuation opportunities. We remain highly selective at the sovereign level, given significant variations in economic fundamentals and policy responses, particularly under current circumstances.

Outlook

- We continue to closely monitor developments in the ongoing Middle East conflict, and the risks posed to the global growth and inflation outlook. The International Monetary Fund (IMF), in its latest growth outlook, noted a likely uneven set of growth outcomes, with the conflict weighing on oil importers and vulnerable economies but artificial intelligence-driven demand supporting countries that are well-integrated into the global technology value chain. We highlight that the latter grouping includes a number of EMs. In general, the IMF continues to project EMs growing faster than developed markets.
- The global fiscal outlook remains one of our key structural concerns, particularly among core developed markets, though some EMs' debt metrics have worsened as well. Consequently, we remain wary of longer-term bonds, which we would expect to bear the brunt of the implications of fiscal loosening. In our view, the recent US debt buyback announcement is not sufficient to offset these concerns without an underlying significant fiscal adjustment.
- The global monetary policy cycle has shifted into a tighter cycle, even if not all countries have started raising rates yet. A handful of countries may yet ease further due to idiosyncratic factors, but it appears most are set to pause or tighten. Significant uncertainty remains around the extent to which hiking cycles may go, given the current global and geopolitical situation.
- We continue to regard the USD as broadly overvalued, despite some current support from the geopolitical backdrop and tighter Fed policy. We expect further depreciation over the medium term. We believe the shift into EM assets is a recognition both of their structural improvements and greater role in the world economy, rather than just a cyclical opportunity. Cyclically, we note that with a number of other countries already raising or set to raise rates, relative interest rate differentials may be less favorable for the USD going forward.
- At present, our core regional views remain largely unchanged, though we continue to monitor the effects of the Middle East conflict and individual country sensitivities. We see value in specific countries within the Asia-Pacific region and Latin America. In Asia, we generally focus on countries with positive fundamentals and undervalued currencies, those we expect to

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be more insulated from tariff effects and countries that have exposure to the global tech supply chain. We are cognizant of potential energy shock effects and are monitoring these. In Latin America, we favor countries with prudent macroeconomic policies, relatively high yields and undervalued currencies.

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Average annual total returns (%) - as of September 30, 2026

Product	Ticker	Listed Exchange	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Inception Date
Market Price Return	TEI	NYSE	-6.46	7.20	2.07	13.59	23.39	6.99	3.75	7.48	9/23/1993
NAV Returns	—	—	-0.28	9.55	8.20	17.49	20.33	7.73	3.16	6.93	9/23/1993
Benchmark	—	—	-3.97	-0.10	-1.24	1.76	8.98	1.80	2.68	—	—

*Cumulative total returns

Benchmark(s)

Benchmark =JP Morgan EMBI Global Index

Performance shown represents past performance and is no guarantee of future results. *Current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so shares, when sold, may be worth more or less than the original cost. Returns based on Market Price or NAV, and assume the reinvestment of all distributions at the Dividend Reinvestment Plan Price or NAV, respectively. All returns include the deduction of management fees, operating expenses and all other fund expenses, and do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares. When applicable, performance would have been lower if fees had not been waived in various periods. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expense or sales charges. Returns for periods of less than one year are not annualized. Please visit franklintempleton.com for the most recent month-end performance.*

What are the Risks?

All investments involve risks, including possible loss of principal. Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets. Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. The manager may consider **environmental, social and governance (ESG) criteria** in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated.

Glossary

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

A **buyback** is the repurchase of outstanding shares (repurchase) by a company in order to reduce the number of shares on the market.

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

Important Information

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

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The **JP Morgan EMBI Index** tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds and local market instruments.

Source: JP Morgan.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

The **30-day SEC yield** is calculated using the net income (interest and dividends) per share earned over a trailing 30-day period (annualized), divided by the fund's share price at the end of that period. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

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