

Templeton Emerging Markets Income Fund

TEI

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** Growth data was mixed over the first quarter of 2026, showing fourth-quarter outcomes weak in the United States as a result of the government shutdown, modest but stable in the euro area and rebounding in Japan, as capital expenditure in particular was robust. Financial markets were dominated largely by the effects of the Middle East conflict later in the quarter. The US dollar (USD) rose, supported by it traditionally being perceived as a safe haven in times of risk aversion. Global monetary policy largely seemed to be in the late stages of its easing cycle, with pauses and a slower pace of rate cuts becoming more common, but the surge in oil prices following the onset of the war led to uncertainty about both growth and inflation outcomes. The US Federal Reserve (Fed) kept the policy rate unchanged over the quarter, as did most other developed market central banks, including the European Central Bank (ECB). In bond markets, most developed market and emerging market (EM) sovereign bond yields rose during the period, as stagflationary concerns dominated moves following the onset of the war in the Middle East. The yield on the 10-year US Treasury note rose 15 basis points to end the quarter at 4.32% (after having fallen to 3.94% in the immediate reaction to the start of the Middle East conflict).
- **Contributors:** Interest-rate strategies contributed to absolute fund performance.
- **Detractors:** Currency positions detracted from absolute fund results.
- **Outlook:** Despite the war, recent developments around trade and other economic relationships continue to support our thesis that global rewiring is underway.

Performance Review

- **Currencies:** After weakening in January, strengthening in February and then rallying sharply in March, the USD ultimately ended the quarter higher on average. Positions in the Egyptian pound, South African rand and Indian rupee detracted from absolute fund performance. However, positions in the Brazilian real, Colombian peso, Kazakhstani tenge and Zambian kwacha contributed to absolute fund results. We maintain the view that the USD is broadly overvalued, though we acknowledge that it may be supported by risk aversion while the conflict in the Middle East continues.
- **Interest-Rate Strategies:** EM sovereign bond yields generally rose over the quarter. Duration exposures in Egypt, Uzbekistan and Kazakhstan contributed to absolute fund performance, while duration exposures in South Africa and Colombia detracted. 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.
- **Credit:** EM debt indexes largely fell over the quarter. Subinvestment-grade sovereign credits had a largely neutral effect on absolute fund return.
- **Positioning:** In local-currency positions, we hold select exposures in EMs. Our currency positions focus on potential upside based on our assessment of long-term undervaluation against the USD. 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. In hard-currency-denominated sovereign credit positions, we favor EMs with improving fundamentals and policy responses. In all positions, we 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.

Outlook

- Uncertainty about growth and inflation outcomes has increased markedly since the start of the war. A number of factors are at play, including whether countries are net oil importers or exporters, the oil dependency of economic activity, whether they have subsidy mechanisms to protect consumers from higher energy prices, and the extent to which monetary and fiscal policy might be expected to offset the effects on inflation, growth or both. We are continuously analyzing individual countries in terms of potential impacts on both growth and inflation.
- Central bank actions are diverging as the global monetary policy easing cycle nears its end, with potential spillover effects from the Iran war into inflation and growth adding uncertainty to the outlook. We still think the Fed may reduce rates further this year, while the recent ECB meeting suggests they will act decisively to adjust interest rates in the face of inflation pressure, if necessary. We expect the Bank of Japan to continue gradually normalizing rates.
- The global fiscal outlook remains a structural concern, particularly among core developed markets. Consequently, we remain wary of longer-term bonds, which we would expect to bear the brunt of the implications of fiscal loosening.
- We maintain the view that the USD is broadly overvalued, and we expect further depreciation over the medium term. That said, we concede that there may be some shorter-term "safe-haven" flows into the USD given the current Middle East situation. We believe the ongoing asset allocation shift into non-USD assets is likely a sustainable trend. We also think the shift into EM assets is also a recognition both of their structural improvements and greater role in the world economy. We are also constructive on select developed market currencies.
- We will continue to monitor the effects and outcomes of all geopolitical events, including the conflict in the Middle East.

Fund Characteristics

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	10.30%
30-Day SEC Yield (Fund)—Without Waiver	10.29%

Average annual total returns (%) - as of March 31, 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	-4.78	5.96	-4.78	28.13	19.02	7.70	4.11	7.37	9/23/1993
NAV Returns	—	—	-1.24	7.25	-1.24	29.78	17.06	6.22	2.91	6.74	9/23/1993
Benchmark	—	—	-1.14	1.86	-1.14	9.59	8.60	2.50	3.61	—	—

*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.

Gross expenses are the fund's total annual operating expenses as of the fund's annual report available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect voluntary fee waivers, expense caps and/or reimbursements. Voluntary waivers may be modified or discontinued at any time without notice.

Distribution Rate is calculated by annualizing the most recent distribution amount paid, divided by the closing market price or NAV as of the date indicated. The Distribution Rate calculation includes income and excludes special distributions. The Distribution Rate is subject to change and is not guaranteed nor a quotation of fund 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%).

Capital Expenditure (capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

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

Stagflation is a seemingly contradictory condition described by slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

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.

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

Source: JP Morgan.

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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Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, or summary prospectus, if available, at www.franklintempleton.com. Please read it carefully.