

Templeton Emerging Markets Income Fund

TEI

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** Global growth data was largely mixed during the fourth quarter of 2025; third-quarter growth outcomes were strong in the United States, modest but stable in the euro area and negative in Japan, as the effects of earlier front-loading ahead of tariffs unwound. There was also some uncertainty over economic momentum in the United States as the government shutdown that lasted through October and continued into November affected data collection. Inflation outcomes remained mixed, with trends in developed markets somewhat higher, while emerging markets (EMs) saw sideways to lower moves. Global monetary policy largely seemed to be in the late stages of an easing cycle, with pauses and a slower rate cutting pace becoming more common. The US Federal Reserve (Fed) delivered two 25 basis-point (bp) rate cuts over the quarter, bringing the fed funds target range to 3.50%–3.75%, though dissent over the moves among Fed members highlighted uncertainty over the outlook. Most developed market sovereign bond yields rose, while EM bonds showed mixed performance. The 10-year US Treasury note's yield rose two bps to 4.17% over the quarter. The US dollar (USD) edged higher on average during the period, even as most developed market currencies appreciated against it.
- **Contributors:** Overall credit exposures contributed to absolute fund performance for the quarter, as did interest-rate strategies and currency positions.
- **Detractors:** There were no meaningful detracted from absolute fund results for the period.
- **Outlook:** We expect global growth to be weaker than we had expected prior to tariff imposition, but we anticipate a recession is likely to be avoided.

Fund Characteristics

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	10.53%
30-Day SEC Yield (Fund)—Without Waiver	10.52%

Performance Review

- **Credit:** EM debt indexes largely rose over the quarter. Select subinvestment-grade sovereign credits in Latin America and Africa contributed to absolute fund return.
- **Interest-Rate Strategies:** EM sovereign bond yields were mixed during the period. Duration exposures in South Africa, Egypt and Kazakhstan contributed to absolute fund performance. We hold positions in select countries where we have identified opportunities from inflation and interest-rate outlooks, or where we see positive fundamentals in a range of factors, including fiscal progress, other economic reforms and reshoring.
- **Currencies:** The USD strengthened early in the quarter, but weakened in November and December. Emerging Asian currencies were generally weaker against the USD, while most Latin American and eastern European currencies strengthened against it, as did a number of African currencies. Positions in the South African rand, Kazakhstani tenge and Colombian peso contributed to absolute fund results. We believe the USD remains overvalued against a number of currencies.
- **Positioning:** We continue to hold select exposures in EMs. Our currency positions focus on potential upside based on our assessment of undervaluation against the USD. These countries tend to have robust balances of payments and growth fundamentals. In bonds, we hold positions in countries where we identify supportive fundamentals. We aim for a relatively high overall portfolio yield by holding higher-yielding local-currency positions in specific emerging and frontier markets that we view as having attractive risk-adjusted yields. Taking all of these factors into account, our top local-currency exposures include South Africa, India, Egypt, Colombia and Brazil. We hold a net-negative position against the Chinese yuan, which has been providing positive carry. We expect this position to also help hedge our portfolios against potential risks to other EM currencies. In hard-currency-denominated sovereign credit positions, we favor emerging and frontier markets 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

- We expect global growth to be weaker than we had expected prior to tariff imposition, but we anticipate a recession is likely to be avoided. We are cognizant that some of the higher growth recorded in some countries earlier in 2025 was likely front-loading ahead of tariffs, and we are watchful for further signs of possible payback through lower growth in coming quarters.
- Inflation remains of some concern for now, particularly in developed markets. We continue to monitor outcomes to discern whether, and where, tariff increases might become more permanently embedded in inflation, especially as surveys across a range of countries still show higher inflation expectations compared to before tariff announcements.
- We maintain the view that the USD is broadly overvalued, and we expect further depreciation over the medium term for both cyclical and structural reasons, though we note that the magnitude of further weakness may not be as great as was seen during 2025.
- The fiscal outlook in a number of countries remains concerning. Already-high debt levels in major economies are set to rise further, while some political developments also complicate efforts to consolidate fiscal expenditures. In our view, such fiscal burdens raise risks for longer-dated maturities in the bond market.

Average annual total returns (%) - as of December 31, 2025

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	11.33	17.75	44.92	44.92	18.90	8.02	5.14	7.59	9/23/1993
NAV Returns	—	—	8.59	16.06	37.05	37.05	18.05	5.15	3.24	6.83	9/23/1993
Benchmark	—	—	3.04	7.56	13.45	13.45	9.83	1.74	4.26	—	—

*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.

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

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.

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.