

The Anatomy of a Recession

First Quarter 2026

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Economic Outlook

US recession dashboard

	Jan. 31, 2026	Dec. 31, 2025	Sept. 30, 2025	June 30, 2025
Consumer	Housing Permits	-	●	↑
	Job Sentiment	×	×	×
	Jobless Claims	↑	↑	↑
	Retail Sales	-	↑	↑
	Wage Growth	↑	↑	↑
Business Activity	Commodities	↑	↑	↑
	ISM New Orders	×	●	×
	Profit Margins	●	●	●
	Truck Shipments	↑	↑	↑
Financial	Credit Spreads	↑	↑	↑
	Money Supply	↑	↑	↑
	Yield Curve	↑	●	●
Overall Signal		↑	↑	↑

↑ Expansion
● Caution
× Recession
- Not Available

- The overall dashboard is currently signaling expansion.

'Not Available' reflects data that has not been updated due to the government shutdown. Data as of January 31, 2026. Sources: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, Bloomberg, CME Group, FactSet and Macrobond. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it would have sent in the years prior to January 2016 are based on how the underlying data was reflected in the component indicators at the time.

US recession dashboard: historical lookbacks

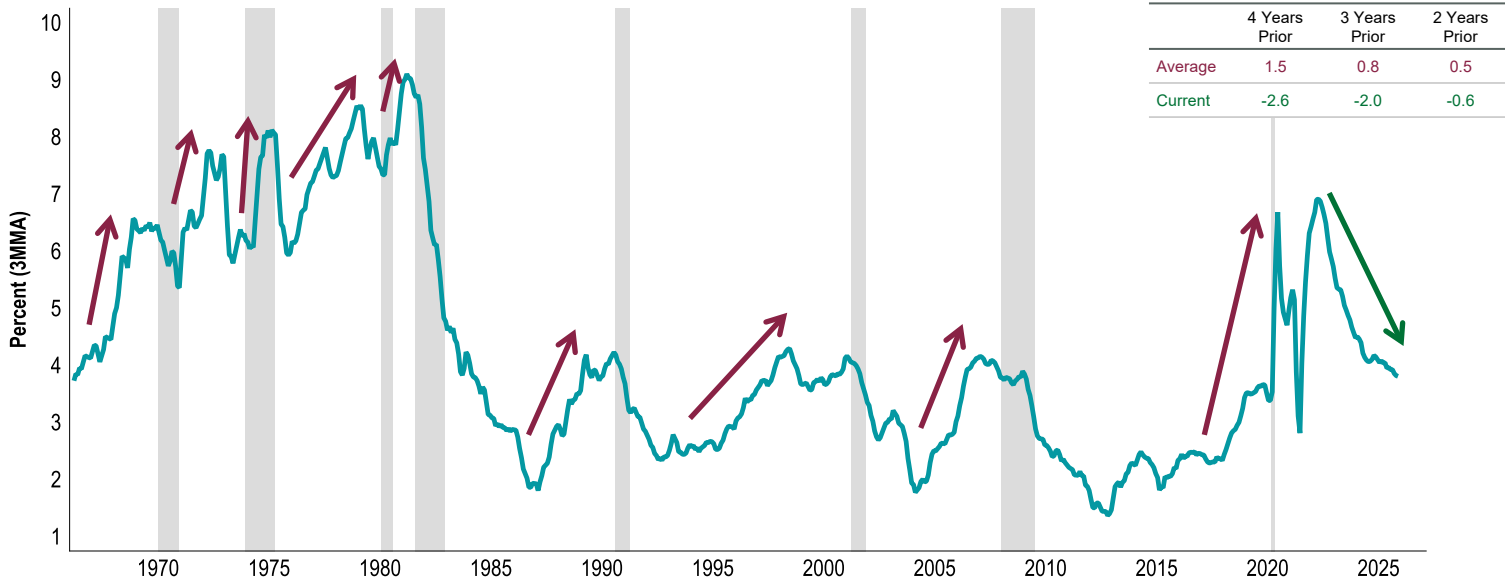
	Current	2020	2007-2009	2001	1990-1991	1981-1982	1980	1973-1975	1969-1970
Consumer	Housing Permits	—	↑	×	●	×	×	×	×
	Job Sentiment	×	●	×	×	×	●	●	●
	Jobless Claims	↑	↑	●	×	×	×	↑	×
	Retail Sales	—	↑	×	×	×	×	●	×
	Wage Growth	↑	×	×	×	×	×	×	×
Business Activity	Commodities	↑	↑	×	×	×	●	●	●
	ISM New Orders	↑	●	×	×	×	×	×	×
	Profit Margins	●	×	×	×	×	×	●	×
	Truck Shipments	↑	↑	●	×	×	×	n/a	n/a
Financial	Credit Spreads	↑	↑	×	×	×	×	↑	●
	Money Supply	↑	↑	×	×	×	×	×	×
	Yield Curve	↑	×	×	×	×	×	×	×
Overall Signal		↑	●	×	×	×	×	●	×
		↑ Expansion	● Caution	×	— Not Available				

- The overall dashboard is currently signaling expansion.

'Not Available' reflects data that has not been updated due to the government shutdown. Data as of January 31, 2026. Sources: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, Bloomberg, CME Group, FactSet and Macrobond. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it would have sent in the years prior to January 2016 are based on how the underlying data was reflected in the component indicators at the time.

Wage trend, expansion's friend

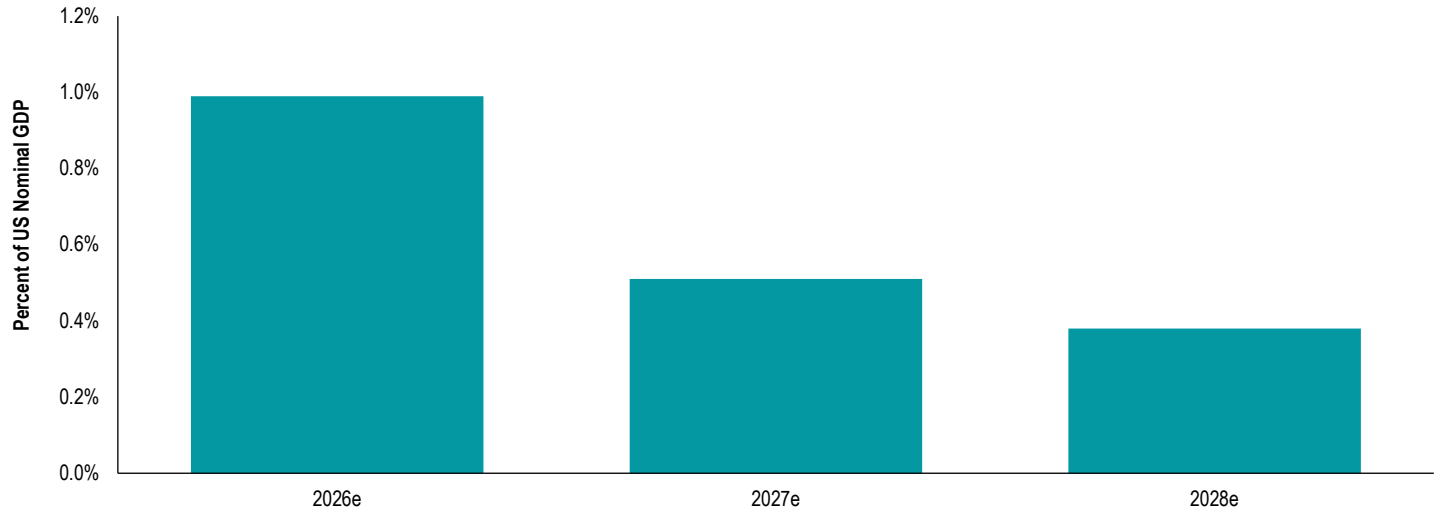
US Average Hourly Earnings (YoY)



- **Maturing economic expansions typically see accelerating wage pressure that drives a tightening bias for the Federal Reserve (Fed), choking off economic growth culminating in a recession.**
- **By contrast, wage growth has been decelerating and the Fed easing over the past several years.**

Gray shading marks recessionary periods. As of Dec. 16, 2025, latest available as of Dec. 31, 2025. Sources: US Bureau of Labor Statistics (BLS), NBER, Macrobond.

Net Fiscal Impulse of the One Big Beautiful Bill (OBBB) as Percentage of Nominal GDP

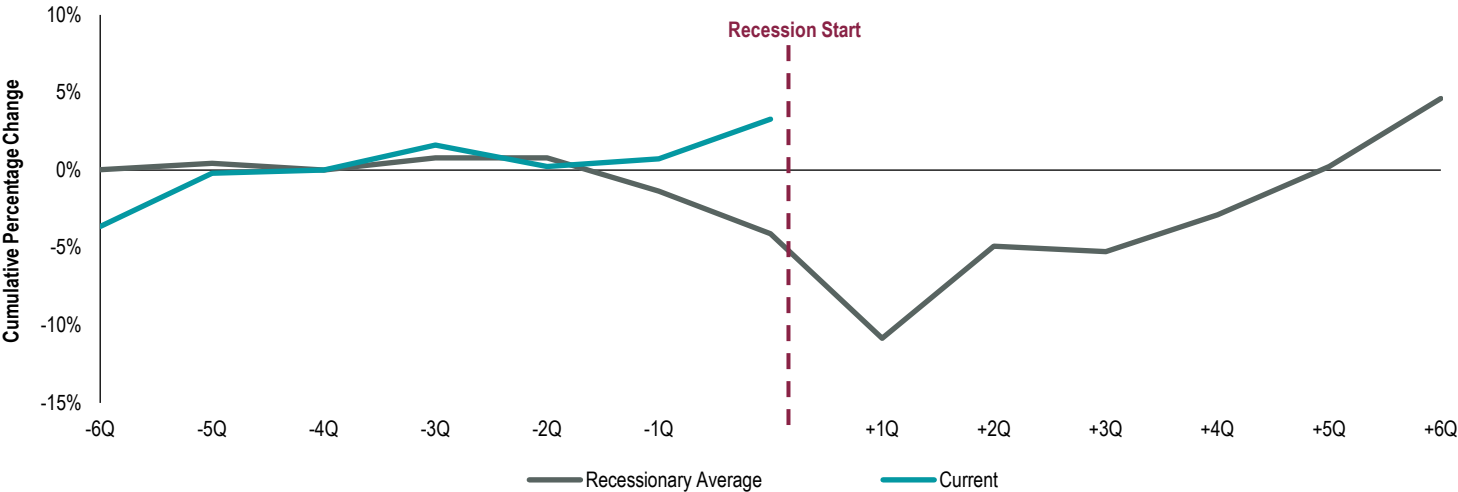


- The OBBB is expected to deliver fiscal stimulus equivalent to ~1% of GDP in 2026.
- The bill's impact should wane in 2027 and 2028 but will likely remain supportive at ~0.5% according to Congressional Budget Office (CBO) estimates.

Sources: Wolfe Research, CBO, Macrobond. Based on CBO's Baseline Budget Projections from January 2025's report The Budget and Economic Outlook: 2025 to 2035. There is no assurance that any estimate, forecast or projection will be realized.

Profits don't look recessionary

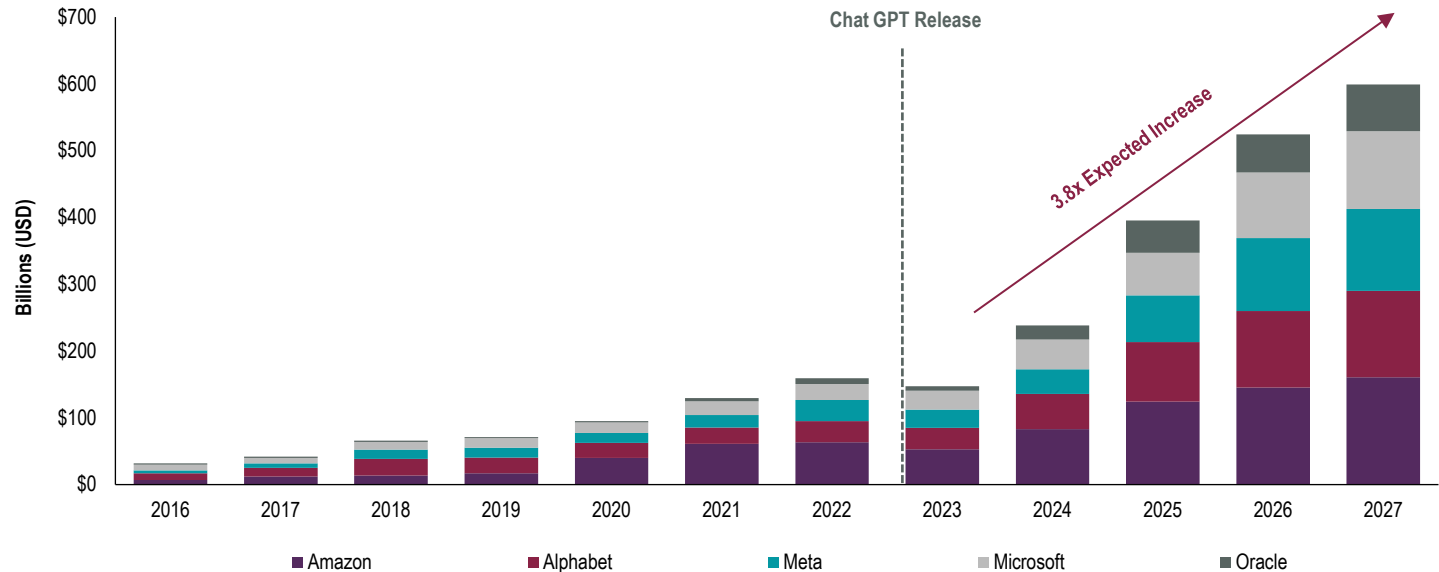
US Corporate Profits and Recessions



- Corporate profits have historically plateaued and then declined beginning two quarters prior to past recessions going back to 1965, on average.
- With profits picking up once again, the recent trajectory bears little resemblance to these past periods, suggesting less of a need for corporations to lay off workers.

Note: Nonfinancial Corporate Profits w/IVA and CC Adj (Gross Value Add), 1965-Present. Data as of Sept. 30, 2025, latest available as of Dec. 31, 2025. Sources: BEA, NBER, and Bloomberg.
Past performance is not a guarantee of future results.

Hyperscaler capex boom



- Since the release of Chat GPT in late 2022, artificial intelligence (AI) investment has skyrocketed with hyperscaler capital expenditure (capex) expected to jump by 3.8x over the subsequent five years.

Data as of Dec. 31, 2025. Source: FactSet. Past performance is not a guarantee of future results. There is no assurance that any estimate, forecast or projection will be realized.

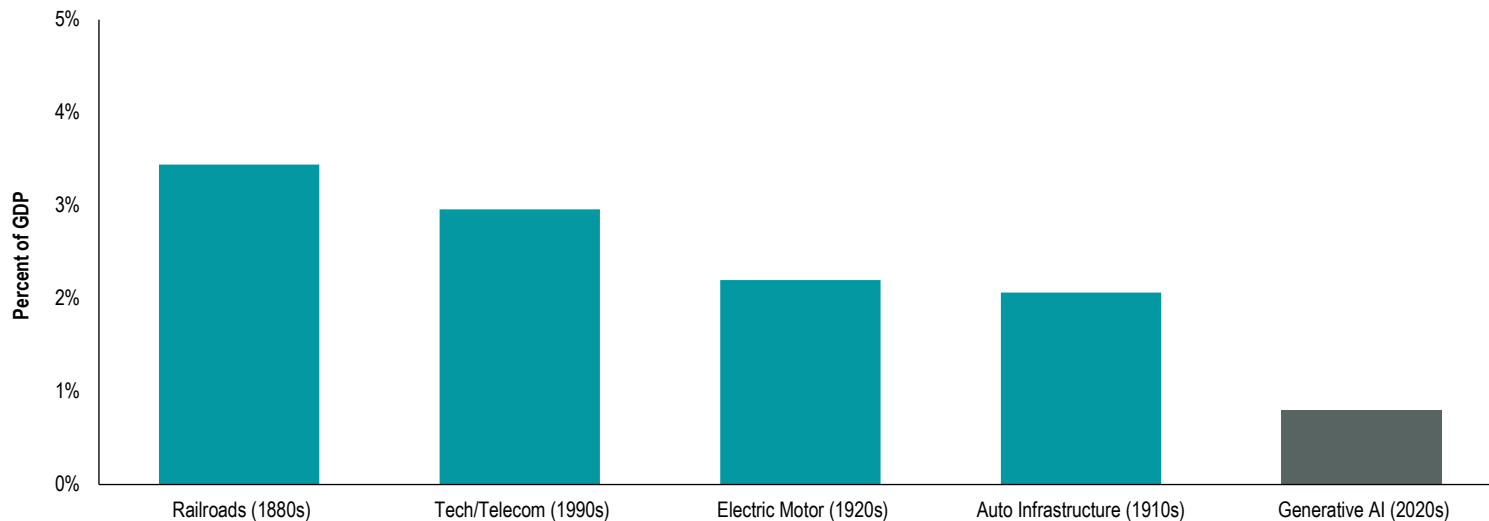
US Technology Sector: Capex-to-Free Cash Flow



- During the 1990s, US technology companies had substantial capital investment programs (capex) relative to their free cash flow (FCF), forcing them to rely on capital markets for funding.
- In contrast, today's leaders are flush with cash, meaning there is less of a need to raise capital to fund the AI buildout, so far.

More AI capex ahead?

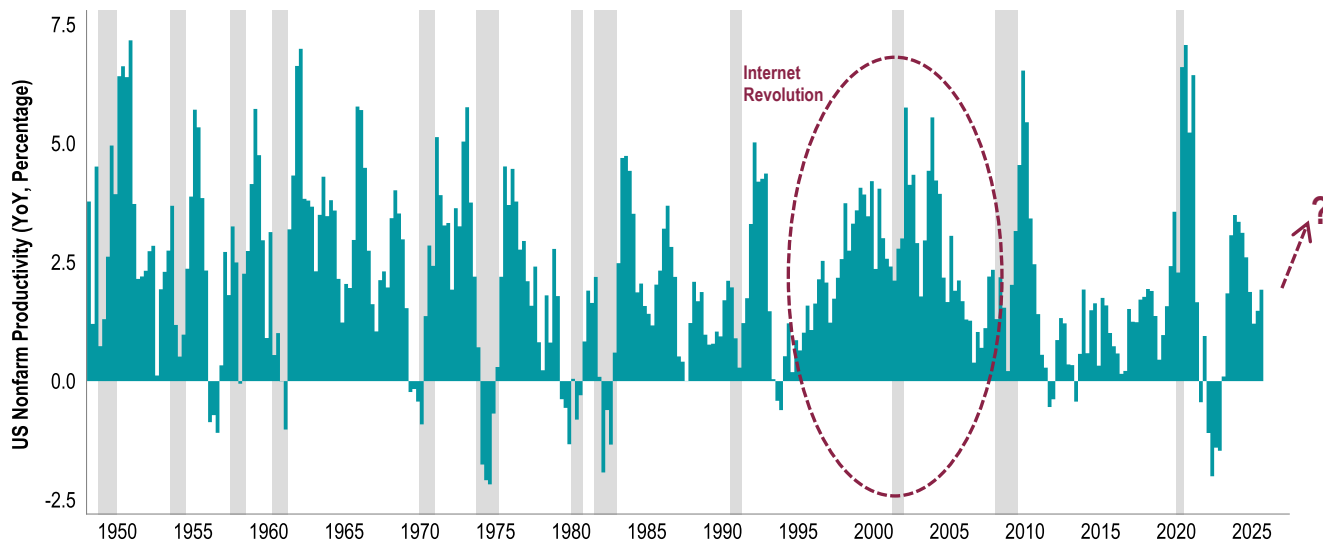
Peak Historical Investment, Innovative US Technologies



- **Current levels of AI capex pale in comparison to peak spending seen during prior large US innovative technology cycles.**
- **Should history repeat, AI investment could surprise to the upside, which we believe would provide continued support for both the US economy and financial markets.**

Data as of Oct. 20, 2025; latest available as of Dec. 31, 2025. Sources: Bureau of Economic Analysis, Goldman Sachs Global Investment Research.

The productivity pickup



Sources: U.S. Bureau of Labor Statistics (BLS), NBER, and Macrobond.
Data last updated on: 1/8/2026.

- **Productivity dropped well below the historical average in the aftermath of the global financial crisis but has rebounded more recently and is now back in line with the long-term average.**
- **While the economy is only beginning to experience benefits from AI, this technology could unleash a sustained productivity wave similar to the internet revolution.**

Gray shading marks recessionary periods.

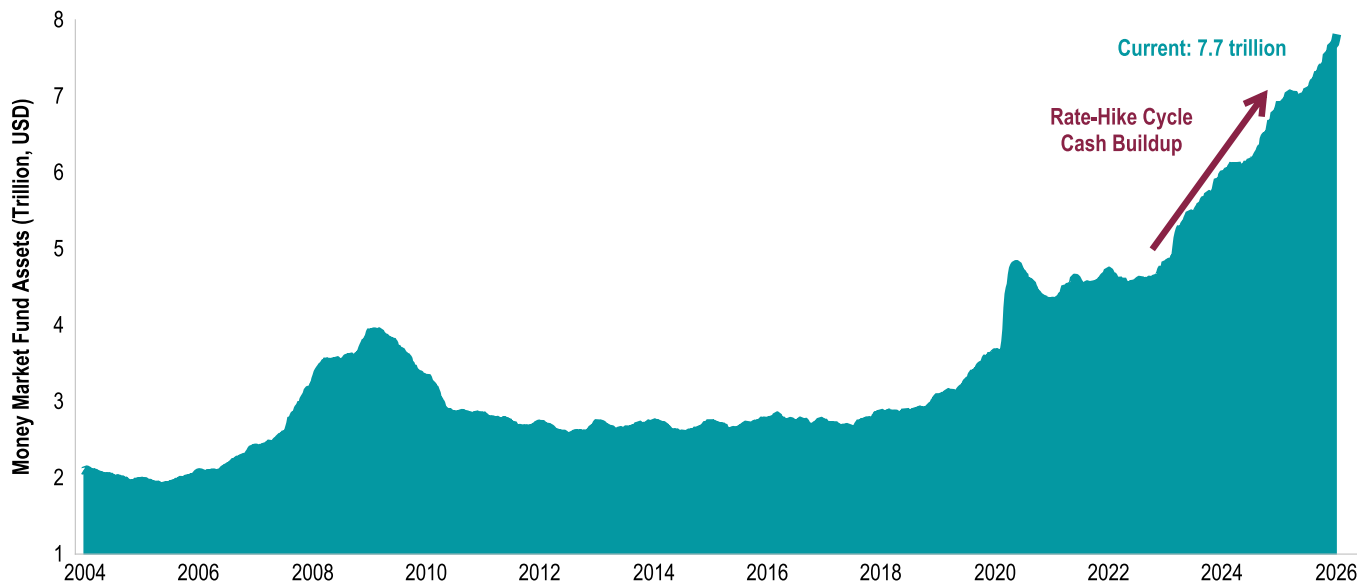
Market Outlook

Not all cuts are equal

Initial Cut Date	Economic Outcome	-1Y EPS Growth	+1Y EPS Growth	S&P 500 Price Change		
				6-Month	12-Month	24-Month
Apr. 1980	Recession	12.2%	-3.0%	22.8%	33.1%	9.6%
June 1981	Recession	0.5%	-5.6%	-4.6%	-15.5%	22.6%
Oct. 1984	Soft Landing	22.5%	-9.4%	10.4%	11.3%	41.4%
June 1989	Recession	16.4%	-15.7%	7.4%	12.2%	21.1%
July 1995	Soft Landing	33.8%	20.3%	11.2%	21.1%	59.8%
Sept. 1998	Soft Landing	3.6%	5.5%	18.0%	25.9%	44.7%
Jan. 2001	Recession	11.0%	-16.8%	-9.1%	-14.8%	-34.7%
Sept. 2007	Recession	10.6%	-8.9%	-12.4%	-15.6%	-32.8%
July 2019	Recession	9.5%	-12.1%	8.2%	9.8%	47.5%
Sept. 2024	Soft Landing	6.9%	10.8%	6.0%	15.0%	???
Recessionary Average		10.0%	-10.3%	2.0%	1.5%	5.5%
Soft Landing Average		16.7%	6.8%	11.4%	18.3%	48.6%
Sept. 2025	???	10.8%	12.9%*	???	???	???

- **Soft landing rate-cut cycles have historically been associated with superior EPS growth and S&P 500 returns.**
- **Sell-side consensus expected 12.9% EPS growth over the next 12 months at the time first cut (September), which if realized, would be consistent with past soft-landing cycles.**

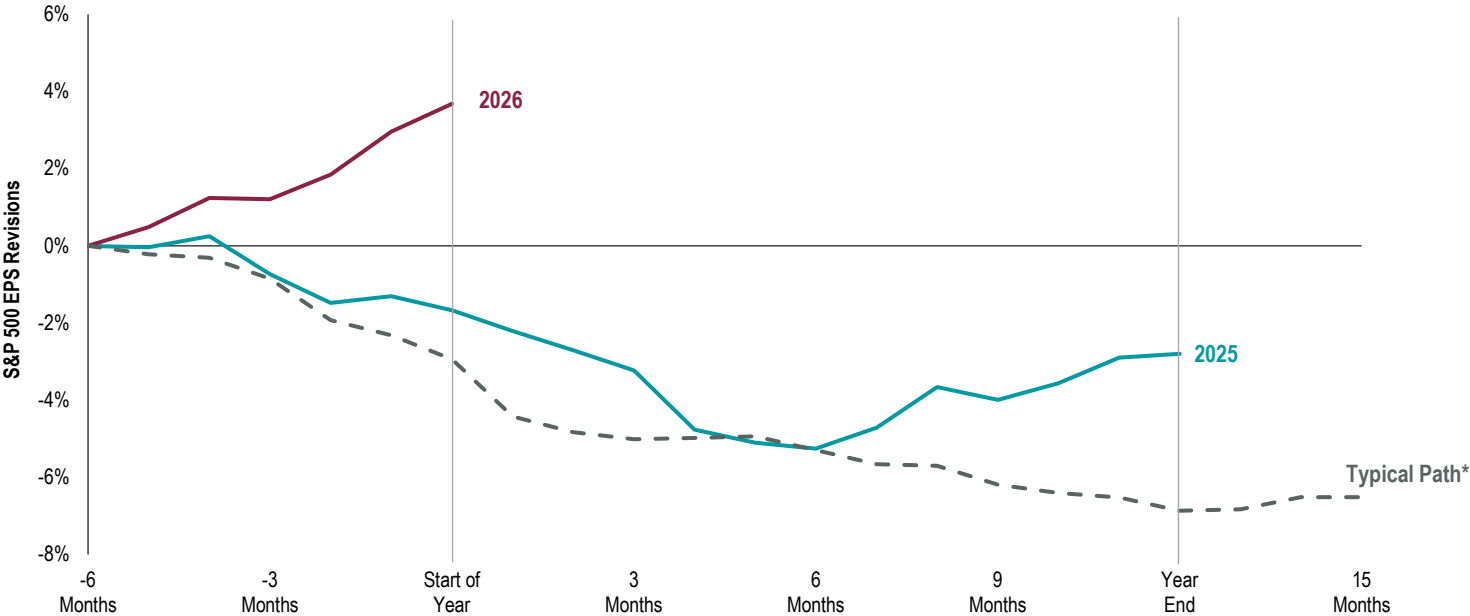
*Sell-side consensus expected next-12-month EPS growth at time of first rate cut.. Rate-cut cycles of at least 75 basis points (bps). The term "consensus" within the capital markets industry refers to the average of earnings estimates made by professionals. Sources: FactSet, Shiller, S&P. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.



Sources: Investment Company Institute (ICI), Macrobond.
Data last updated on: 1/8/2026.

- **Cash holdings in money market funds have increased dramatically over the past three years.**
- **Investors may reconsider their asset allocations should the Fed decide to further lower interest rates.**

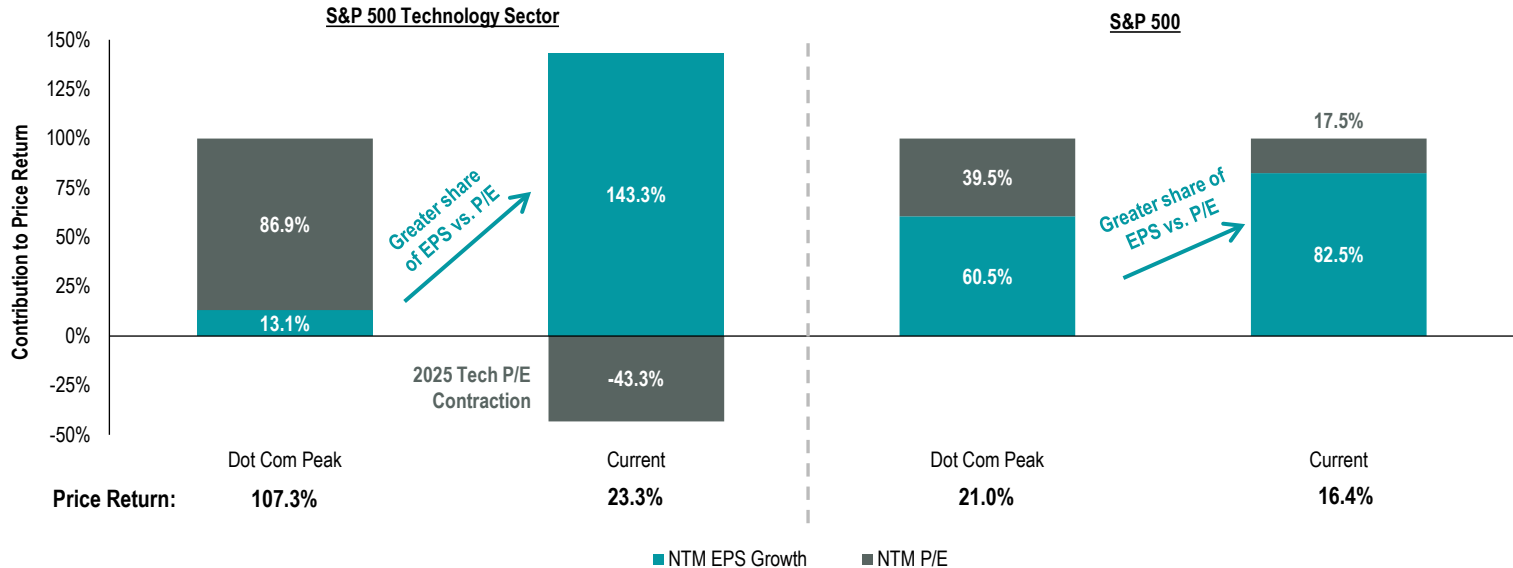
EPS revisions resilient



- Earnings estimates typically fall coming into the year and drift lower as rosy forecasts meet a harsher reality.
- Over the past six months, expectations for 2025 and 2026 have turned higher, providing support to the market rally.

*Typical path is 2012-2017, 2019, and 2022-2024; 2018 is excluded due to TCJA (Tax Cuts and Jobs Act) distortion; 2020-2021 is excluded due to COVID-19 pandemic distortion; Percent change in \$ EPS expectations. Data as of Dec. 31, 2025. Sources: FactSet, S&P. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

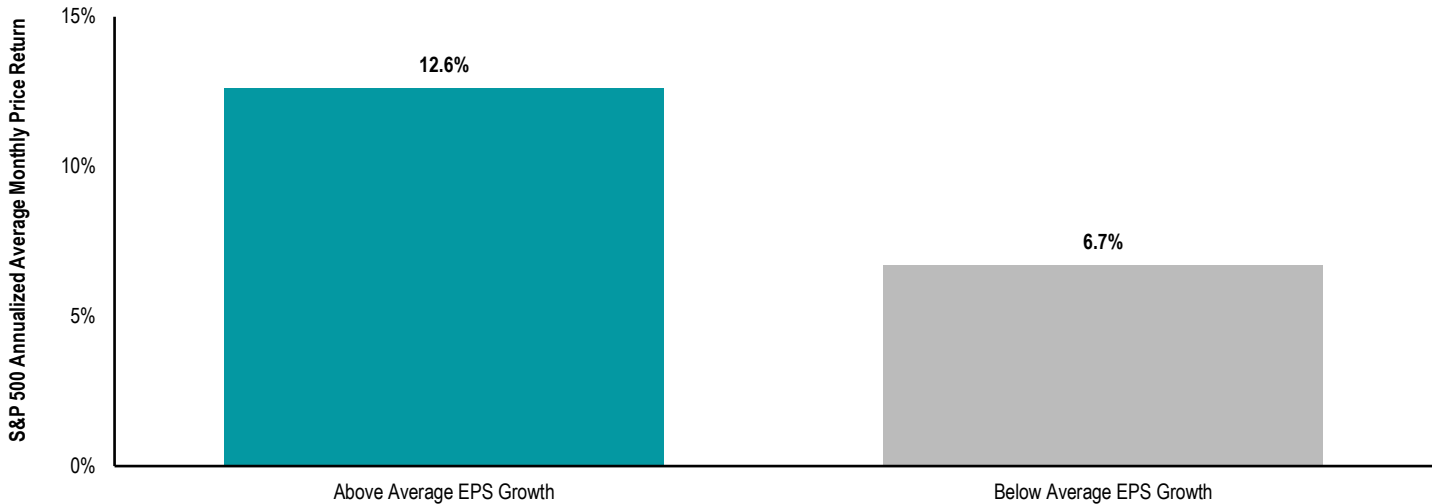
Contribution to Return From EPS and P/E: Prior 12 Months



- Although recent market strength has similarities to the late 1990s, 2025's rally was primarily driven by improving EPS expectations as opposed to P/E expansion, a stark contrast to the final surge of the “dot com” bubble.
- With improving fundamentals driving recent market strength, we believe the rally can be sustained in 2026.

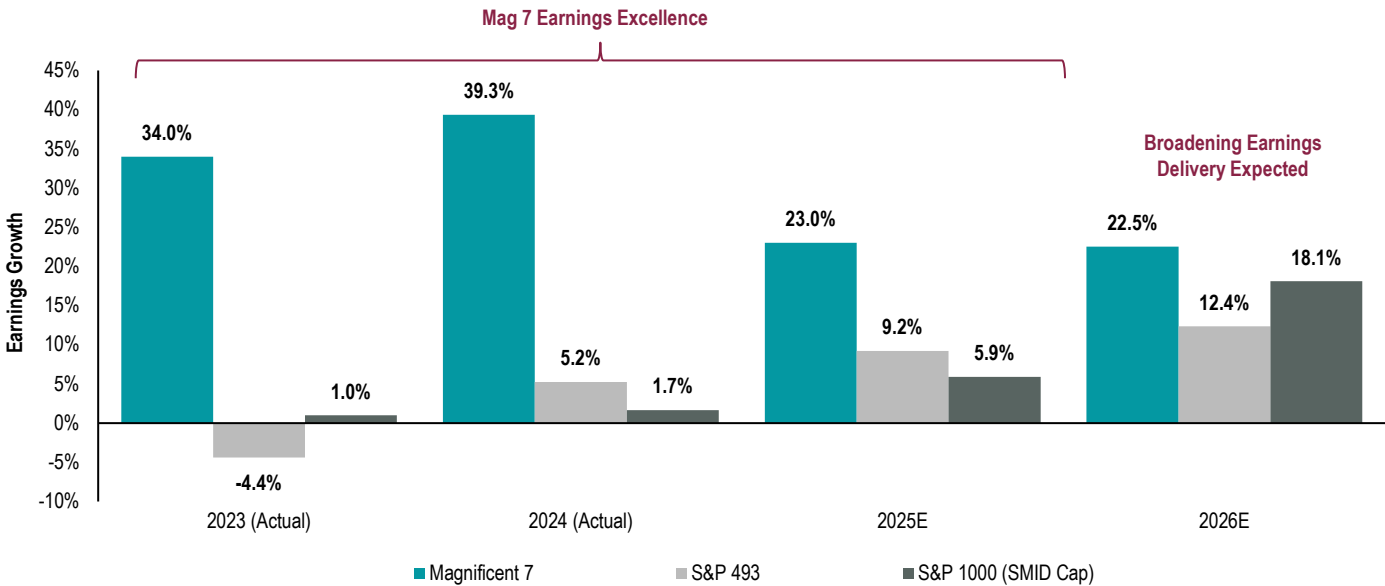
Note: Dot com peak was March 23, 2000; Contribution to price return based on change in sell-side consensus NTM EPS expectations and NTM P/E. Data as of Dec. 31, 2025. Sources: S&P, FactSet.

S&P 500 Price Return in Above and Below Average EPS Growth Regimes



- **Benchmark returns have historically been stronger when EPS growth is above average (9%).**
- **Sell-side consensus currently expects 15% EPS growth in 2026, suggesting a healthy market backdrop for the coming year.**

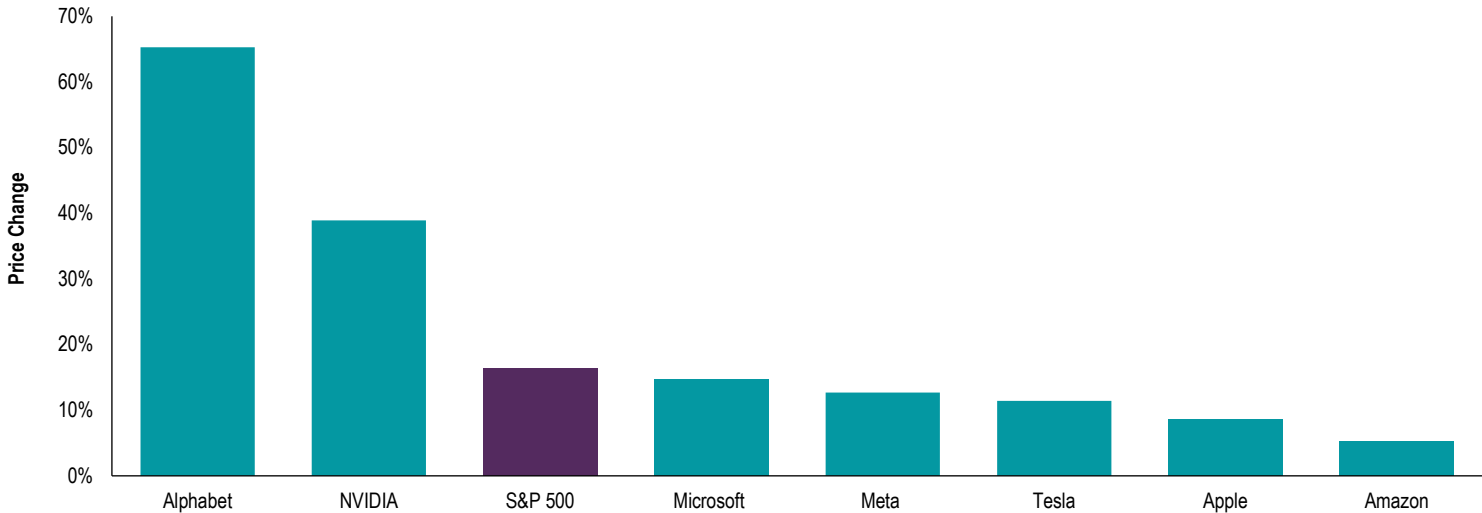
Note: Annualized average monthly returns based on actual 12-month EPS growth. The term "consensus" within the capital markets industry refers to the average of earnings estimates made by professionals. Data as of Dec. 31, 2025.
Sources: FactSet, S&P. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.



- A key driver of the Magnificent 7 outperformance has been superior earnings growth.
- Bottom-up consensus expects this advantage to dissipate with broader earnings delivery across US equities in 2026.

The term "consensus" within the capital markets industry refers to the average of earnings estimates made by professionals. Magnificent 7 data refers to the following set of stocks: Microsoft (MSFT), Amazon (AMZN), Meta (META), Apple (AAPL), Google parent Alphabet (GOOGL), Nvidia (NVDA), and Tesla (TSLA). Data as of Dec. 31, 2025. Sources: FactSet, S&P. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. There is no assurance that any estimate, forecast or projection will be realized. Company references are used for illustrative purposes and should not be construed as an endorsement or sponsorship of Franklin Templeton companies. This information is not intended as an investment recommendation, nor does it constitute investment advice.

2025 Performance

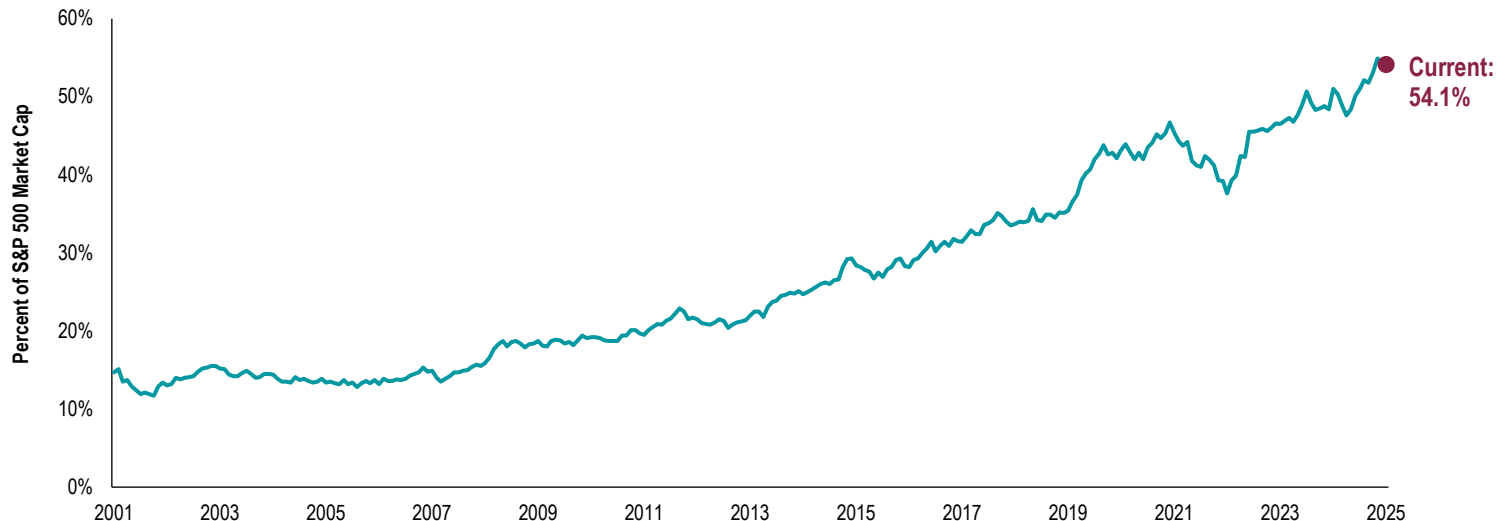


- **After leading the charge over the past few years, Mag 7 performance began to diverge in a more meaningful way in 2025.**
- **We believe this trend will continue in 2026, providing an opportunity for active stock pickers.**

Data as of Dec. 31, 2025. Sources: FactSet, S&P. Magnificent 7 data refers to the following set of stocks: Microsoft (MSFT), Amazon (AMZN), Meta (META), Apple (AAPL), Google parent Alphabet (GOOGL), Nvidia (NVDA), and Tesla (TSLA). Company references are used for illustrative purposes and should not be construed as an endorsement of sponsorship of Franklin Templeton companies. This information is not intended as an investment recommendation, nor does it constitute investment advice. **Past performance is not a guarantee of future results.**

Not your father's S&P 500

Percent of S&P 500 Market Cap That Overlaps with QQQ

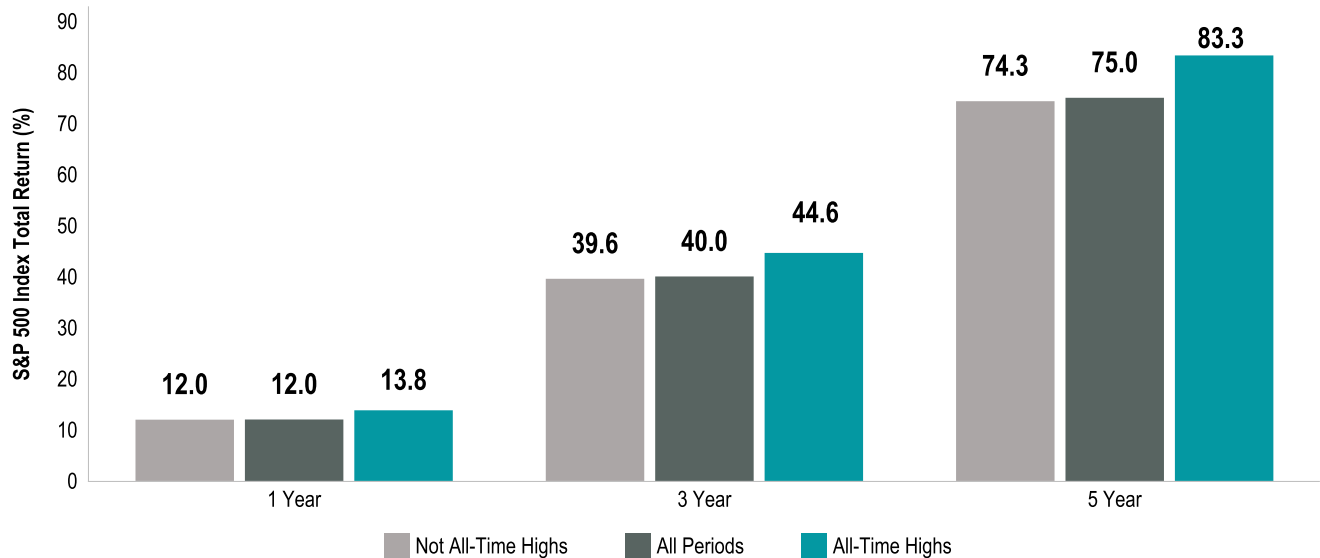


- Since the global financial crisis, the composition of the S&P 500 index has increasingly mirrored the more growth- and technology-oriented QQQ.
- Many investors may be overexposed to growth and technology due to this dynamic with the current overlap breaching 50% in 2025.

Note: QQQ is an ETF that tracks the Nasdaq 100 index. Data as of Dec. 31, 2025. Sources: S&P, Factset. Market cap is calculated using the sum of constituents.

Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Don't be afraid of all-time highs



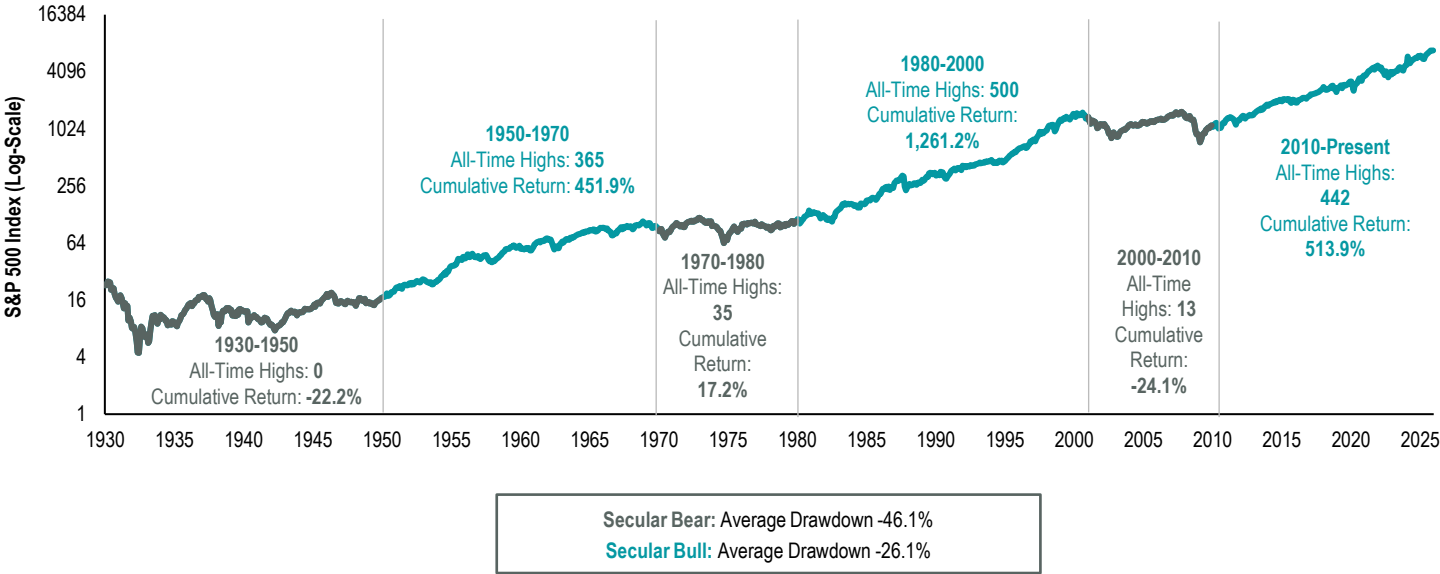
Sources: S&P Global, Macrobond.
Data last updated on: 1/13/2026.

- Surprisingly, putting money to work at All-Time Highs has historically outperformed deploying capital when the benchmark is below peak, on average.

Data from Sept. 1989 – present. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

New secular bull market?

S&P 500 Price Returns



- In the 12 months following an All-Time High, stocks have historically been up 8.5% on average with positive returns 71% of the time.

Secular bear market average drawdown includes selloff beginning September 1929. Data as of Dec. 31, 2025. Sources: Bloomberg, FactSet, S&P. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Economic and market summary

First quarter 2026

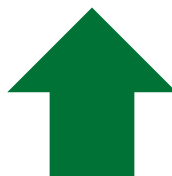
US Economic Outlook

- Fiscal and monetary support should provide the foundation for solid economic growth to continue in 2026.
- The AI capex boom is likely to continue with current spending well within the range seen during prior technological innovation cycles.
- The overall signal from the ClearBridge Recession Risk Dashboard remains firmly in green "expansion" territory.

US Market Outlook

- The S&P 500 has continued to march higher on the back of an improving earnings outlook over the past six months, bringing 2025's price return to 16%.
- Last year's market returns were driven almost exclusively by earnings delivery rather than multiple expansion, a healthy dynamic we expect to continue in 2026.
- Market leadership began to broaden in the fourth quarter of 2025, a trend we believe will continue over the next 6-12 months which is likely to benefit value, small cap, and international equities.

Recession Dashboard Overall Signal



Expansion

As of December 31, 2025.

All opinions and data included in this commentary are as of the publication date and are subject to change. The opinions and views expressed herein are of the author and may differ from other portfolio managers or the firm as a whole and are not intended to be a forecast of future events, a guarantee of future results or investment advice. This information should not be used as the sole basis to make any investment decision.

One-year outlook

Themes that may drive the market over the next 12 months



Fixed Income



AI



Market Concentration



Market Leadership



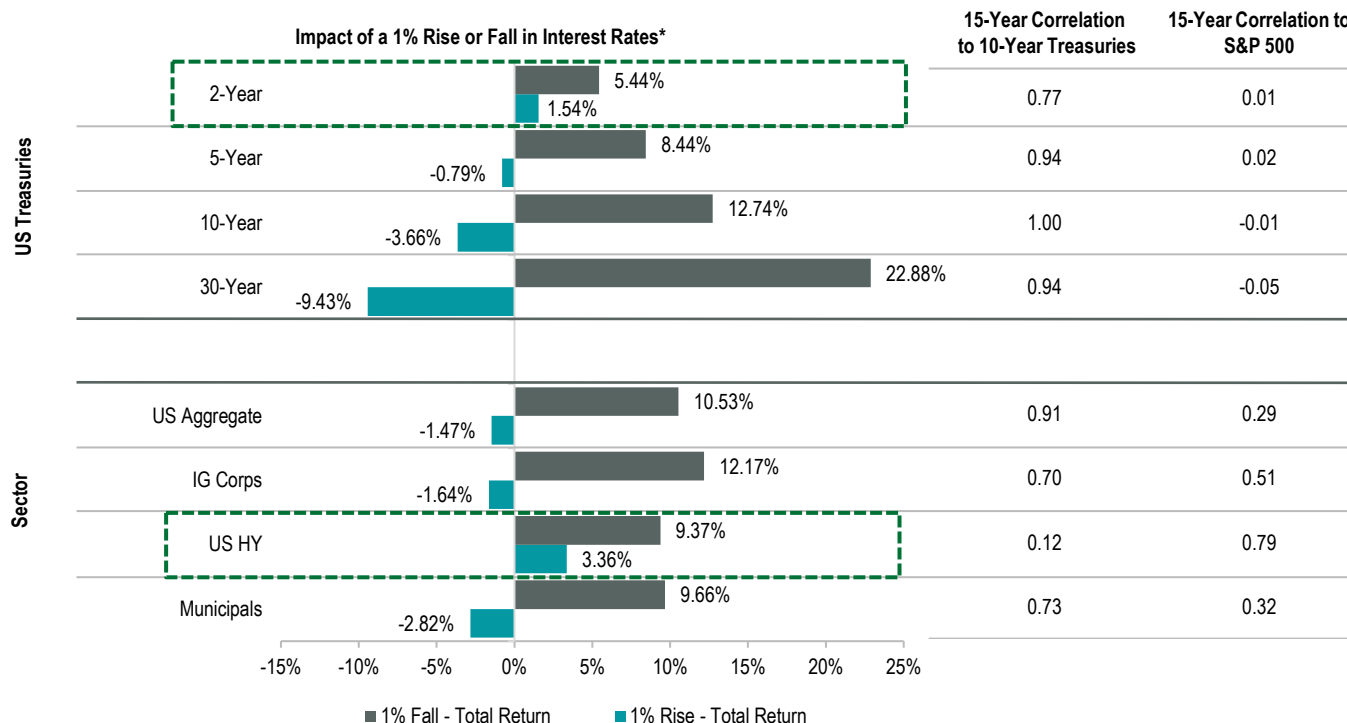
Non-US



Investor Pitfalls

Fixed Income

Interest rate impact by asset class



- **Short-term bonds and US high yield are two areas of the US fixed income complex that could fare well regardless of the direction of interest rates in 2026.**

*Total return assumes a parallel shift in the yield curve. Data as of Dec. 31, 2025. Sources: Bloomberg, ICE, Credit Suisse, S&P, Morningstar Direct. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Bond leadership following the cut

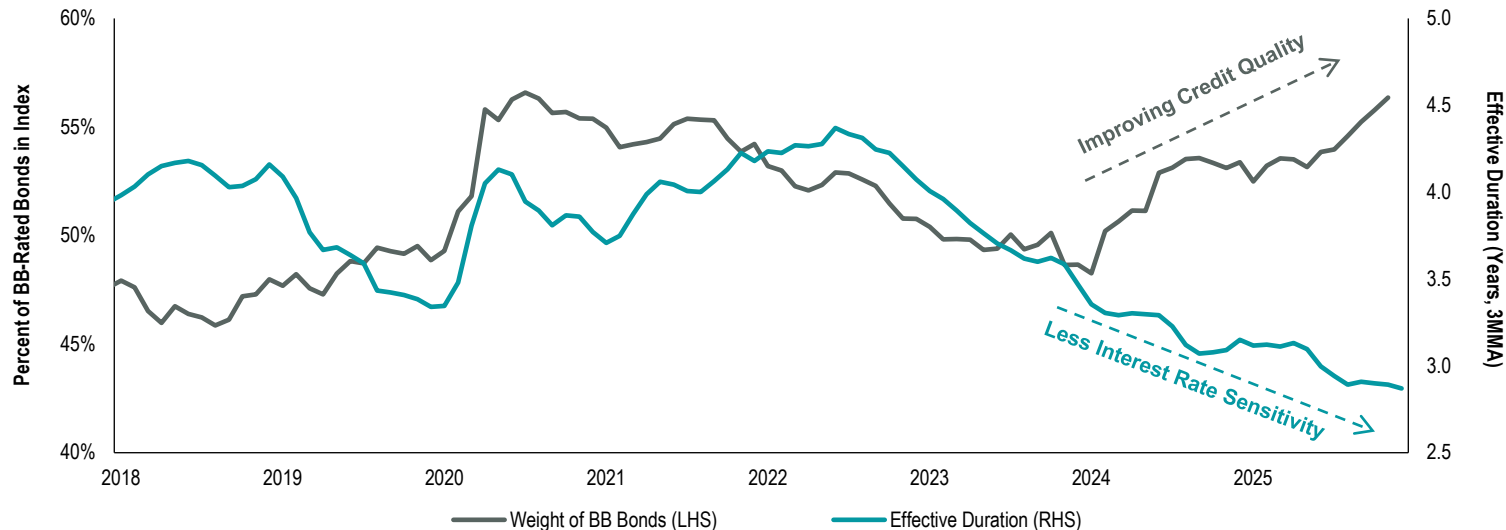
Initial Rate Cut	Economic Outcome	Subsequent 12-Month Return					
		Cash (3M T-Bills)	Short-Term Bonds	U.S. Treasury Bonds	Core/Core Plus Bonds	Investment-Grade Corporate Bonds	High-Yield Bonds
Apr. 1980	Recession	13.5%	15.1%	13.1%	13.0%	13.2%	-
June 1981	Recession	15.9%	16.9%	15.2%	14.9%	14.6%	-
Oct. 1984	Soft Landing	8.9%	16.4%	20.6%	22.0%	23.8%	22.7%
June 1989	Recession	8.7%	9.3%	8.7%	9.4%	9.2%	-2.6%
July 1995	Soft Landing	5.5%	5.5%	2.8%	3.3%	3.0%	9.7%
Sept. 1998	Soft Landing	4.7%	3.6%	-1.1%	0.3%	-0.6%	3.5%
Jan. 2001	Recession	4.4%	8.0%	4.9%	7.0%	8.8%	5.1%
Sept. 2007	Recession	3.2%	5.9%	10.6%	6.0%	-1.7%	-4.7%
July 2019	Recession	1.5%	4.4%	12.0%	10.2%	12.6%	4.0%
Sept. 2024	Soft Landing	4.4%	4.2%	1.7%	2.6%	3.5%	7.9%
Sept. 2025	?	?	?	?	?	?	?
Average		7.1%	8.9%	8.9%	8.9%	8.6%	5.7%
Recessionary Average		7.8%	9.9%	10.8%	10.1%	9.5%	0.5%
Soft Landing Average		5.9%	7.4%	6.0%	7.1%	7.4%	11.0%

- Following historical soft-landing cutting cycles, investors have been rewarded by taking on credit risk whereas Treasuries have fared best during recessions.
- With the Fed commencing a new rate-cutting cycle in September 2025, history suggests a favorable backdrop for risk assets in 2026.

Note: rate-cut cycles of at least 75 bps. Short-term bonds represented by the Bloomberg 1-3 Yr US Gov/Credit Total Return Index, U.S. Treasury bonds represented by the Bloomberg US Treasury Total Return Unhedged USD, Core/core plus bonds represented by the Bloomberg US Agg Total Return Value Unhedged Index, Investment-grade corporate bonds represented by the Bloomberg US Corporate Total Return Value Unhedged Index, High-yield bonds represented by the Bloomberg US Corporate High-Yield Total Return Index Value Unhedged USD Index. Sources: FactSet, Bloomberg, ICE, NBER. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. For illustrative purposes only and not reflective of the performance or portfolio composition of any Franklin Templeton fund.

The high yield golden cross

Risk Profile of High Yield Has Improved

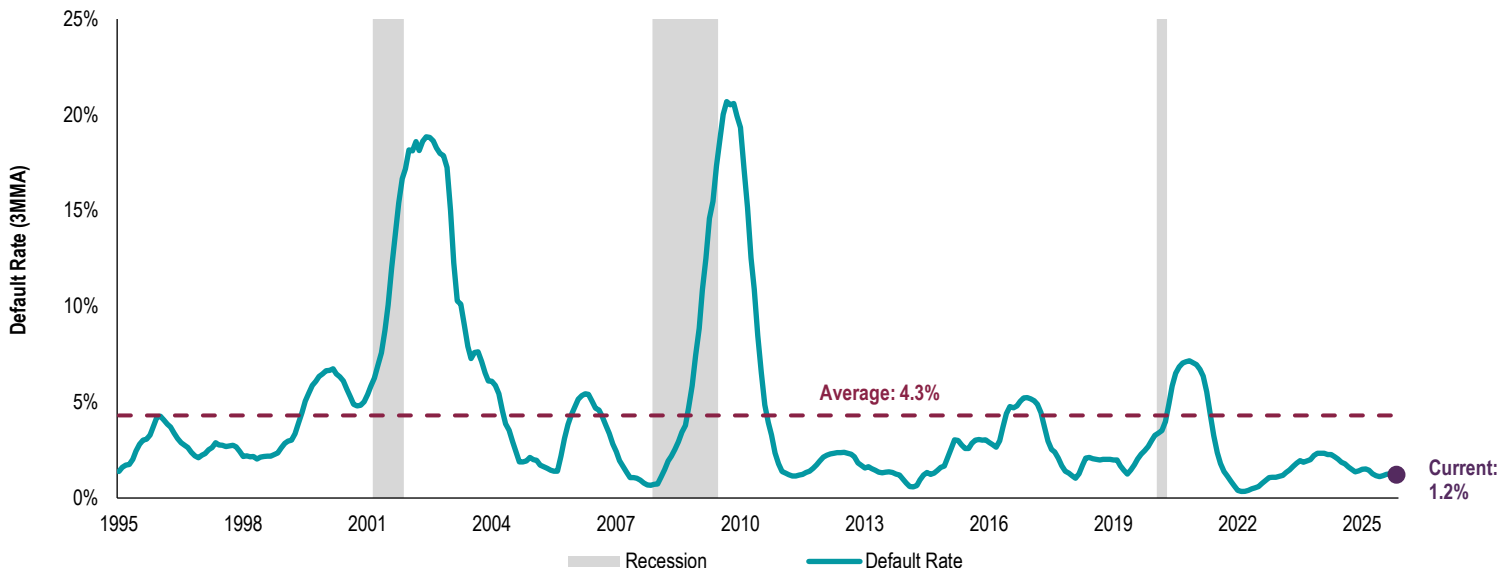


- Over the past few years, high-yield bonds have seen a favorable combination of improving credit quality (more BB bonds) and less interest rate sensitivity (shorter duration).
- This dynamic has improved the risk profile for high yield as an asset class and driven tighter spreads.

Weight of BB Bonds is as of Nov. 30, 2025, latest available as of Dec. 31, 2025; Effective Duration is as of Dec. 31, 2025. Sources: Bank of America Securities, FactSet.

Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

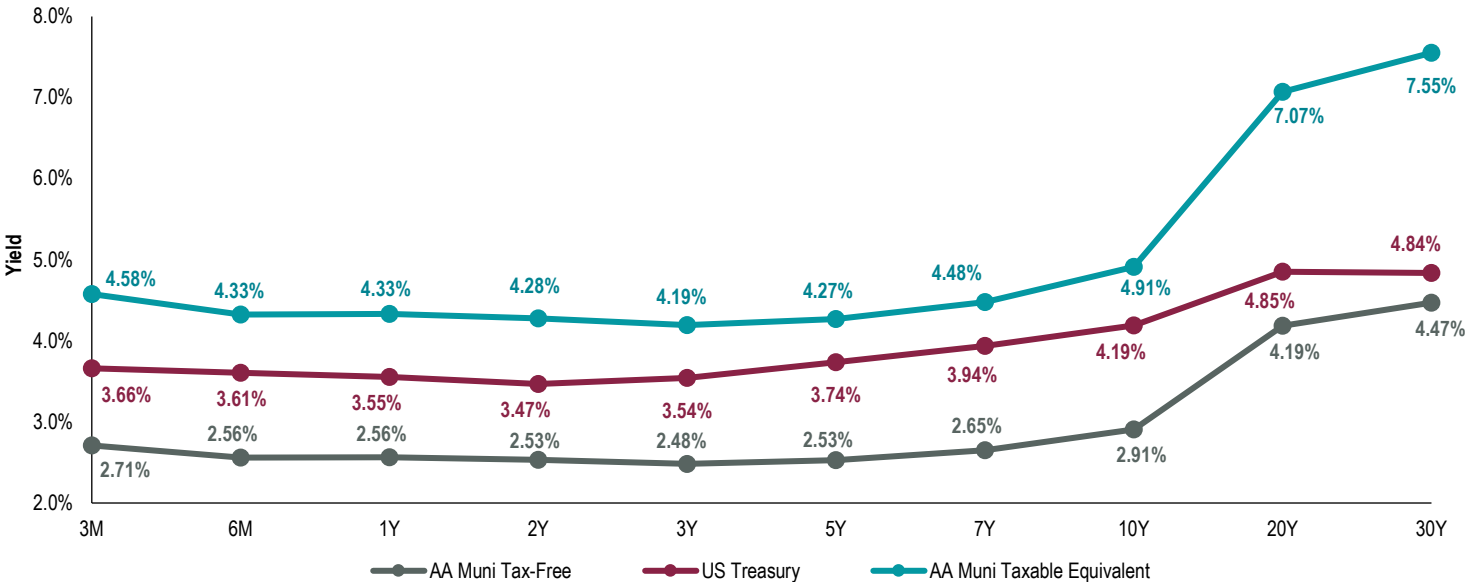
Monthly Default Rates for US High-Yield Bonds



- High-yield bonds have experienced low default rates over the past few years, consistent with past economic expansions.
- If default rates hold steady, investors are likely to be rewarded for adding credit risk to their portfolios.

Data as of Nov. 30, 2025, latest available as of Dec. 31, 2025. Sources: Bank of America Securities, Franklin Templeton, NBER. Past performance is not a guarantee of future results.

Muni's shine after tax

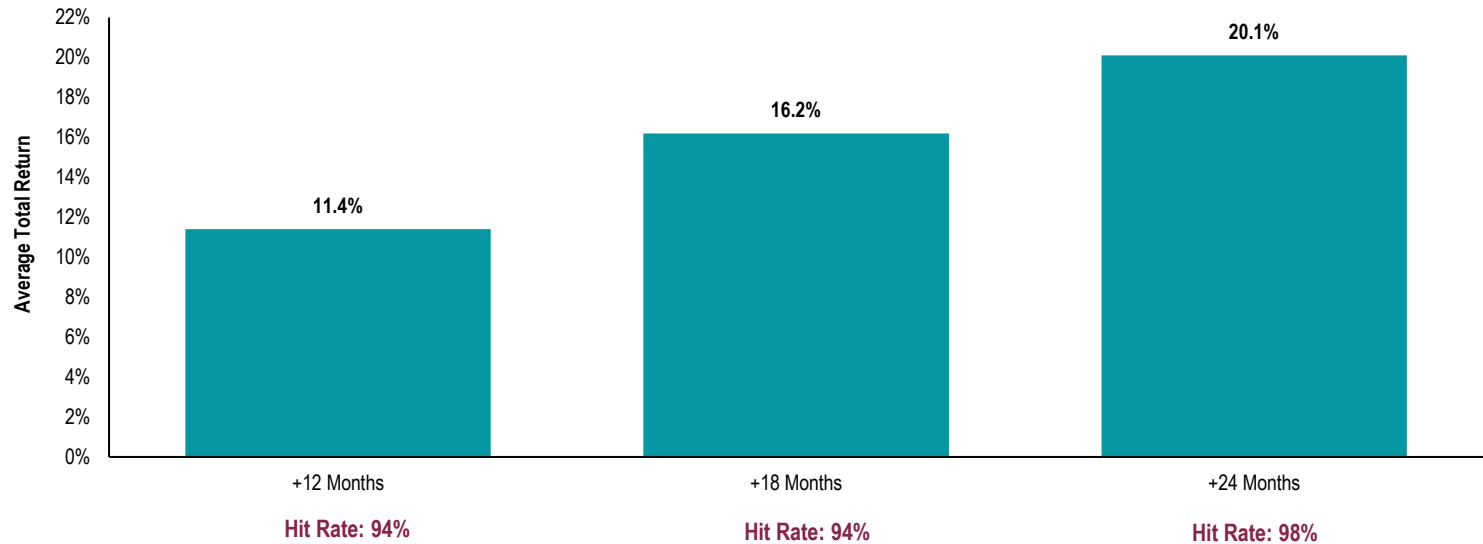


- Following the rise in interest rates, high-quality municipal bonds offer attractive yields on an after-tax basis compared with US Treasuries.
- Over 50% of the Bloomberg Municipal Bond Index is rated AA, equivalent to US Treasuries.

Note: Taxable equivalent assumes highest US marginal tax rate. As of Dec. 31, 2025. Source: Bloomberg. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

The muni bounce back?

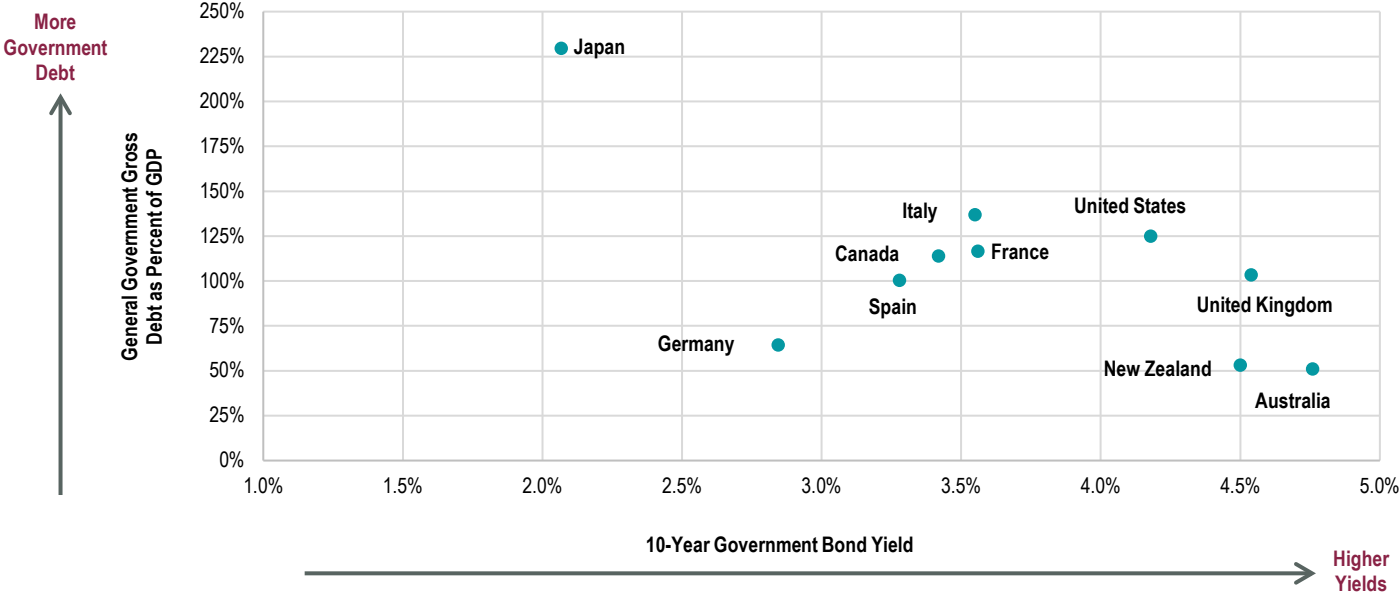
Average Returns Following 0% (or worse) Trailing 12-month Municipal Bond Performance



- **Municipal bonds have historically recovered following periods of negative performance over the prior 12 months. This threshold was triggered in the third quarter of 2025.**

Hit rate is percent of positive historical observations. Reflective of period from January 1980–present, as of Dec. 31, 2025. Bloomberg Municipal Bond Total Return Index. Sources: FactSet, Bloomberg. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

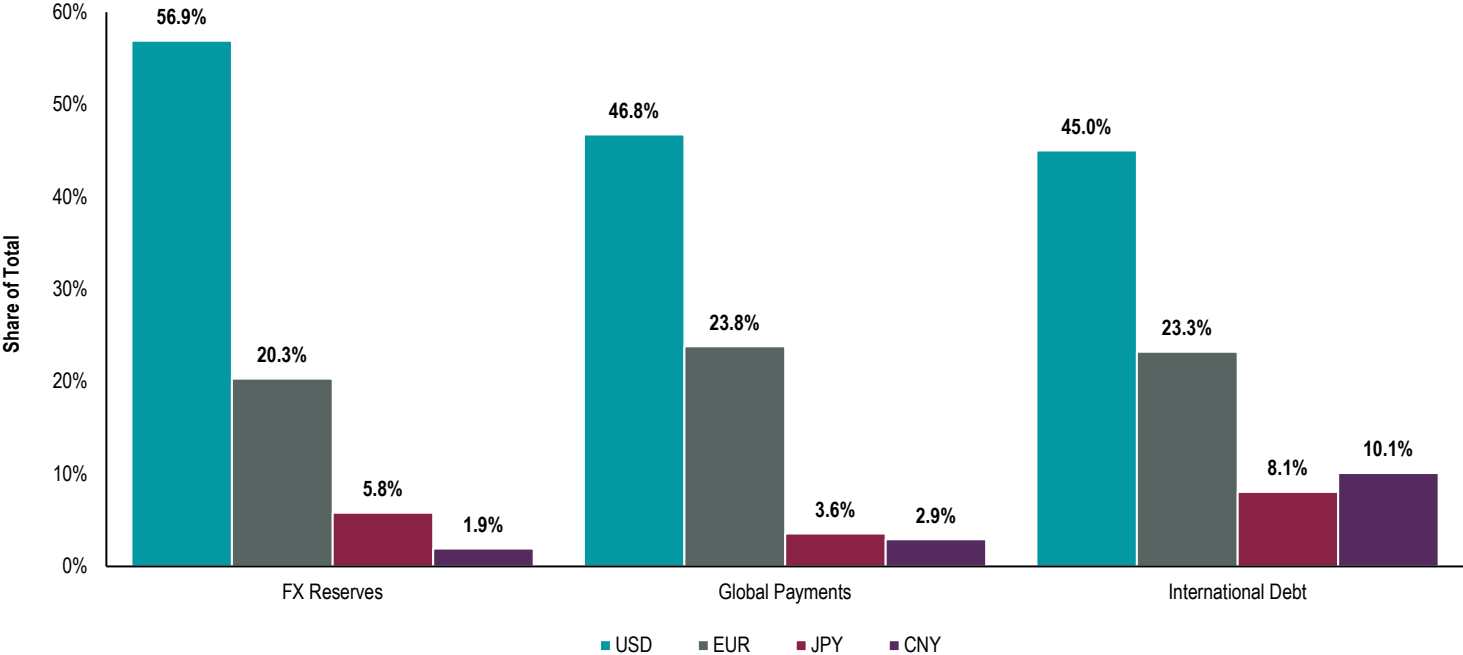
Debt doesn't determine yield



- **Contrary to popular belief, higher government debt loads have not typically translated to higher yields on long-term government debt.**

Data as of Dec. 31, 2025. Sources: IMF World Economic Outlook Database 2024, Federal Reserve, Reserve Bank of New Zealand, Macrobond. **Past performance is not a guarantee of future results.**

US dollar (still) dominates



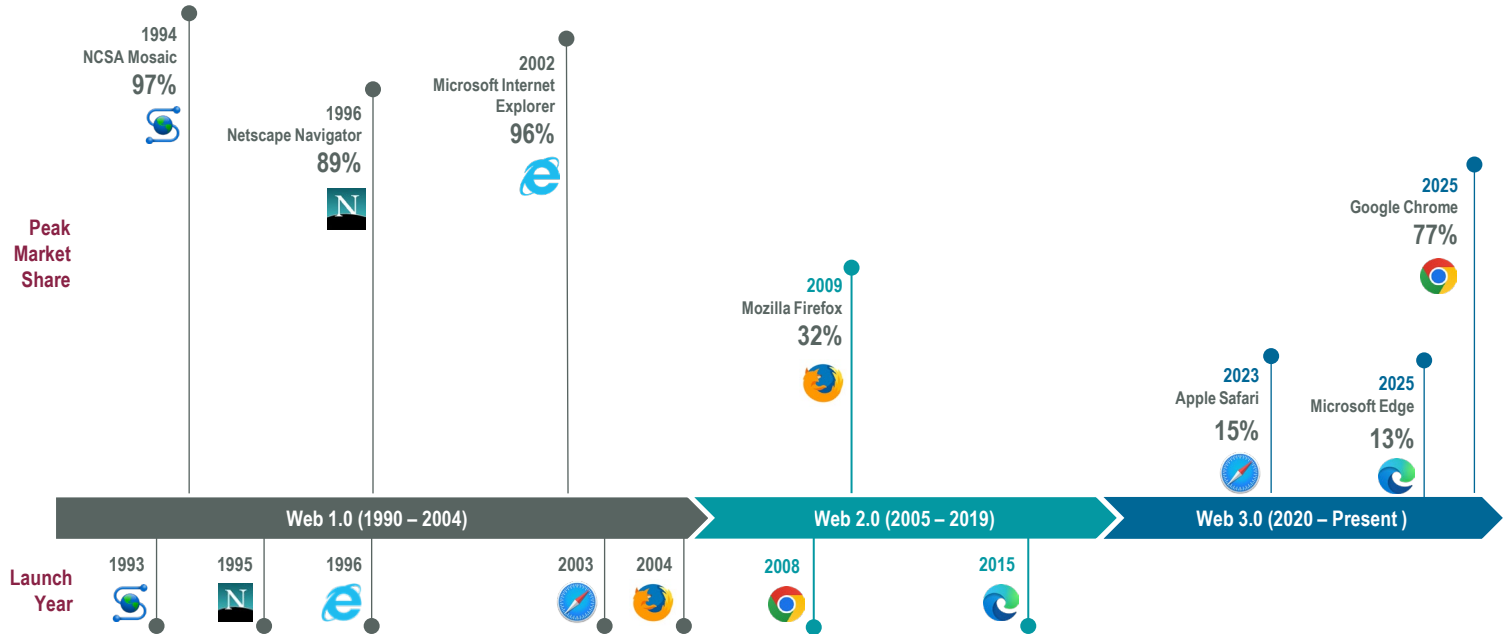
- The greenback remains firmly entrenched as the world’s reserve currency despite recent concerns.

Data as of Dec. 31, 2025. International Debt represented by the Bloomberg Global Aggregate benchmark. Sources: Bloomberg, SWIFT, International Monetary Fund (IMF), Macrobond.

Artificial Intelligence

Case study: the browser wars

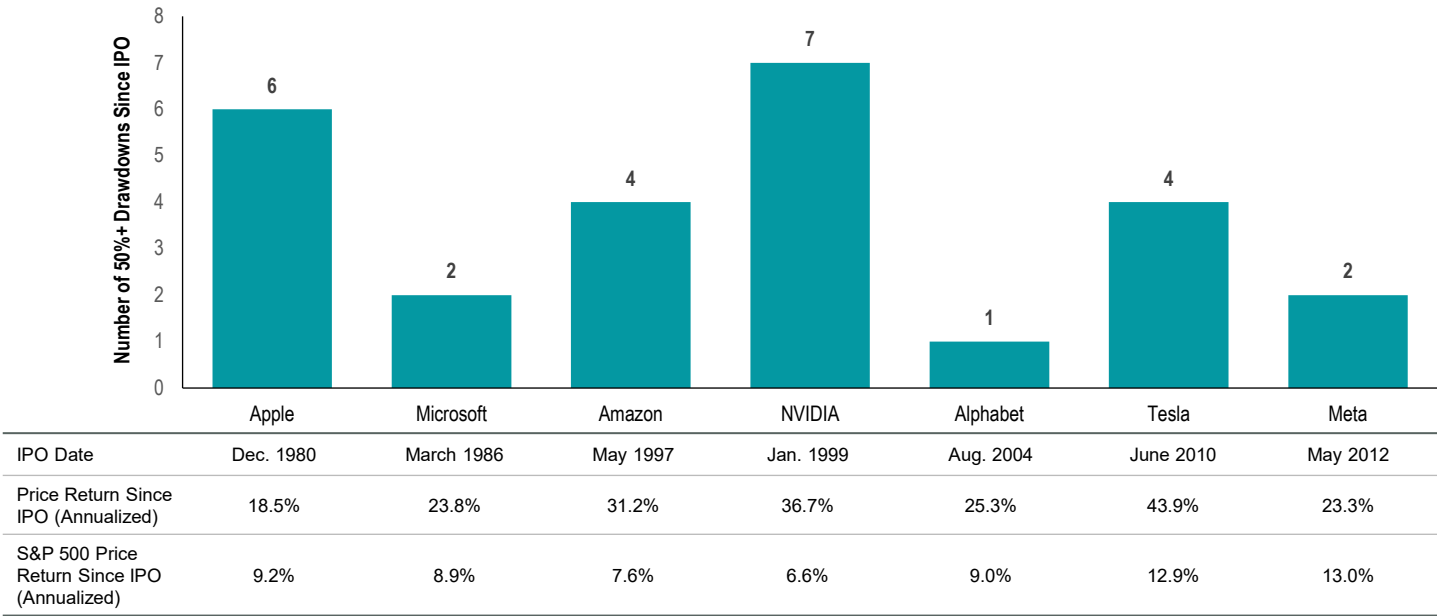
Internet browser market share timeline



- The internet browser wars show that early leaders in new technologies are often disrupted. Today's dominant browser (Google Chrome) wasn't released until 2008, 15 years after the browser wars began.
- We view this case study as a good reminder that today's artificial intelligence leaders may not be tomorrow's winners, providing an advantageous backdrop for active stock pickers as this technology evolves.

Sources: GVU WWW Survey, Web Side Story, TheCounter.com, and StatCounter. As of December 31, 2025.

Mag 7 Stocks: Number of 50% (or Worse) Drawdowns Since IPO



- History shows that the substantial outperformance of today's market leaders has not been a straight line, with large drawdowns frequently occurring along the way.

Data as of Dec. 31, 2025. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Are valuations at bubble levels?

December 1972	
Nifty Fifty	NTM P/E*
IBM	35.5
Eastman Kodak	43.5
Sears Roebuck	29.2
General Electric	23.4
Xerox	45.8
3M	39.0
Procter & Gamble	29.8
Average	35.2
--	--
12M Change in Fed Funds	2.1

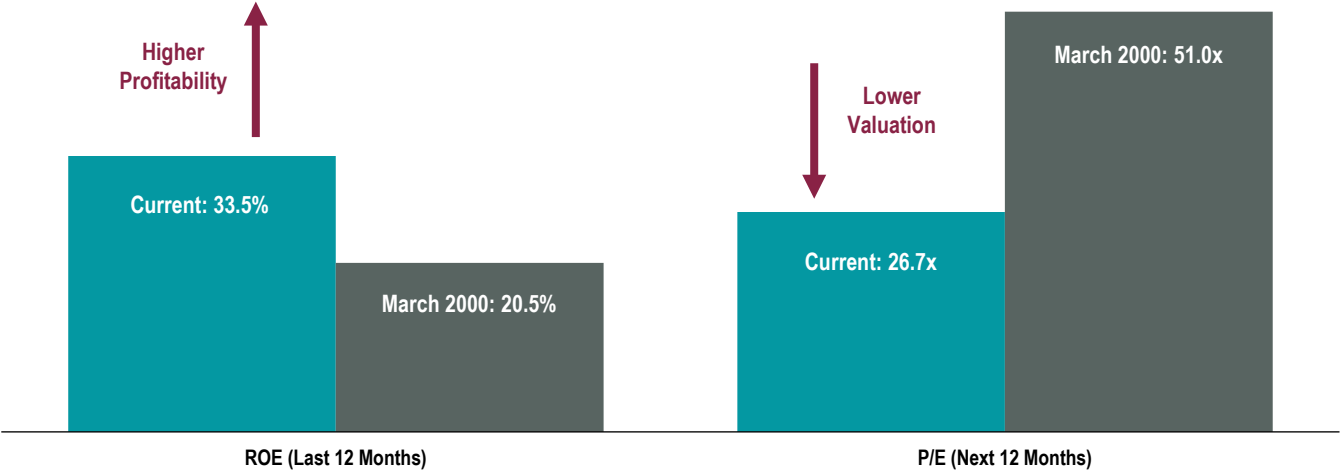
March 2000	
Dot-Com Darlings	NTM P/E
Microsoft	60.3
Cisco	127.9
Intel	48.5
Oracle	120.3
IBM	25.8
Lucent	42.0
Nortel	100.6
Average	75.1
--	--
12M Change in Fed Funds	1.3

Current	
Mag 7	NTM P/E
NVIDIA	25.2
Apple	32.1
Microsoft	27.7
Alphabet	27.9
Amazon	29.2
Tesla	208.6
Meta	22.1
Average	53.3
Average ex-TSLA	27.4
12M Change in Fed Funds	-0.8

- Although many investors are concerned about valuations, the multiples assigned to market darlings during past bubbles were much higher.
- Historically, market bubbles have tended to pop following Fed tightening. With the Fed currently in easing mode, we believe the current rally has further room to run despite elevated P/Es for the Mag 7 stocks.

*Actual P/E ratios; forward P/Es unavailable for this period. Data as of Dec. 31, 2025. Sources: FactSet, *Valuing Growth Stocks: Revisiting the Nifty Fifty*; AAll, October 1998, Goldman Sachs. Company references are used for illustrative purposes and should not be construed as an endorsement of sponsorship of Franklin Templeton companies. This information is not intended as an investment recommendation, nor does it constitute investment advice.

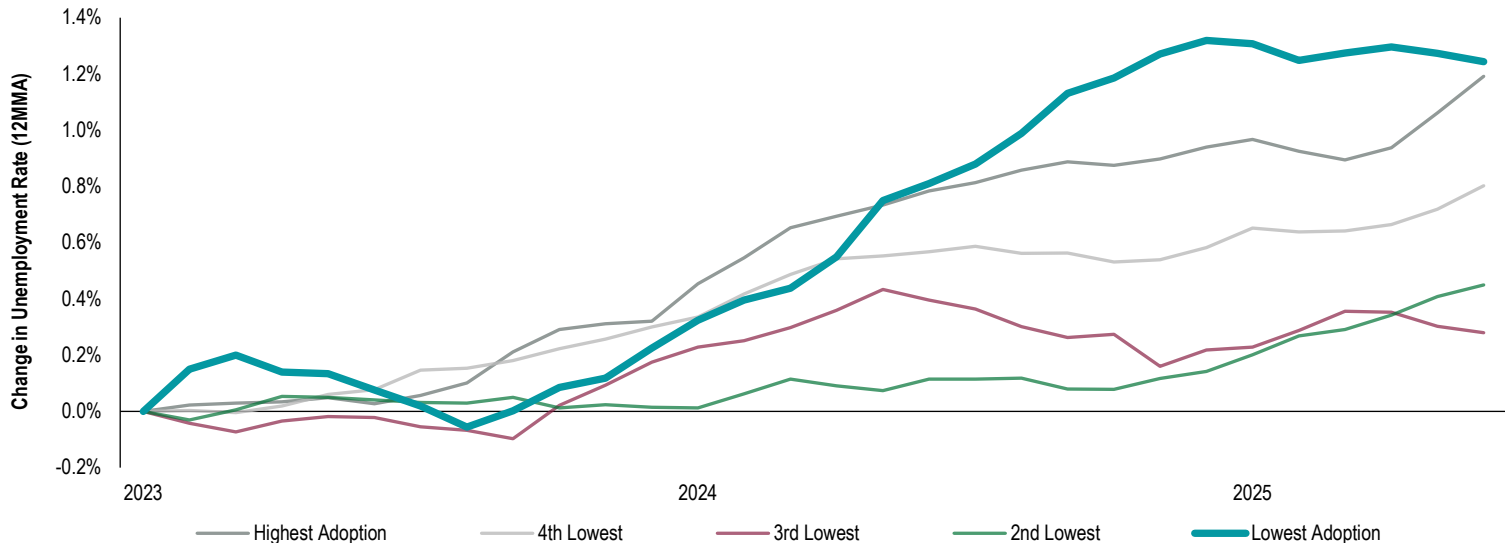
S&P 500 Technology Sector Profitability and Valuation



- Although valuations for AI beneficiaries have expanded rapidly, the technology sector remains well below the levels seen at the height of the dot-com bubble.
- Importantly, companies today are more profitable (higher ROEs), which we believe may provide a buffer against future disappointments.

Data as of Dec. 31, 2025. Sources: FactSet, S&P. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Change in Unemployment Based on AI Industry Adoption Rate



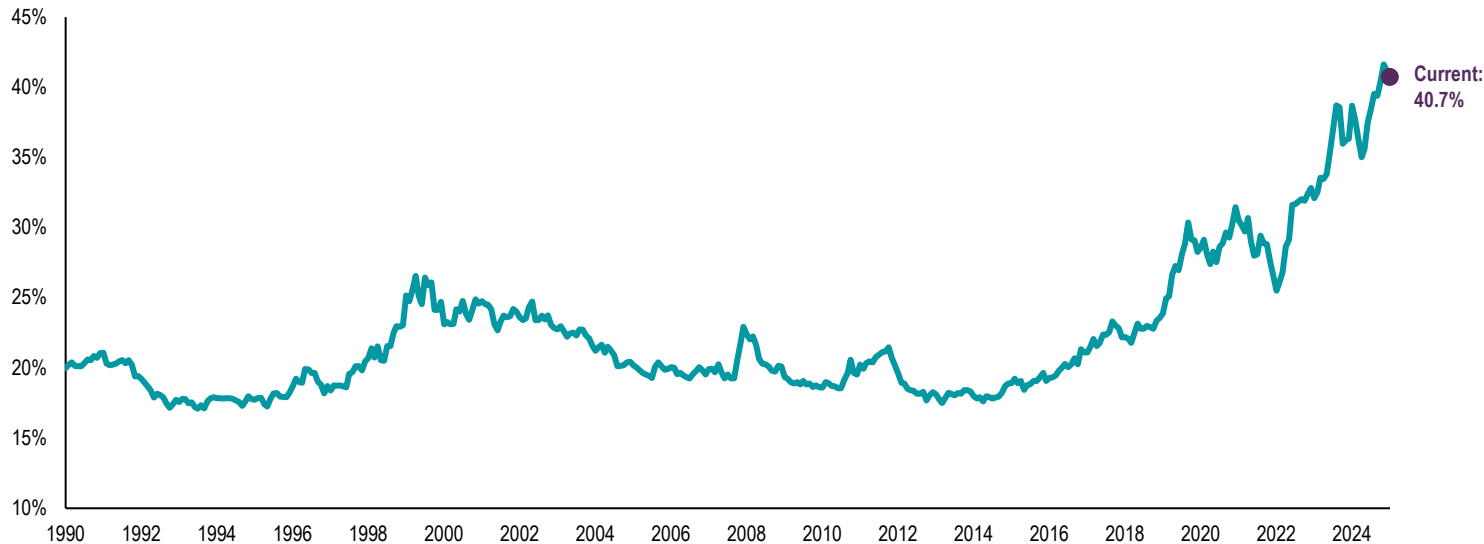
- **Contrary to popular belief, the largest rise in unemployment has come from industries with the lowest AI adoption rates over the past few years.**
- **Although AI could be a headwind to the labor market, the disruption appears manageable so far.**

Data as of Nov. 30, 2025; latest available as of Dec. 31, 2025. Sources: Wolfe Research, Haver Analytics.

Market Concentration

Trouble concentrating?

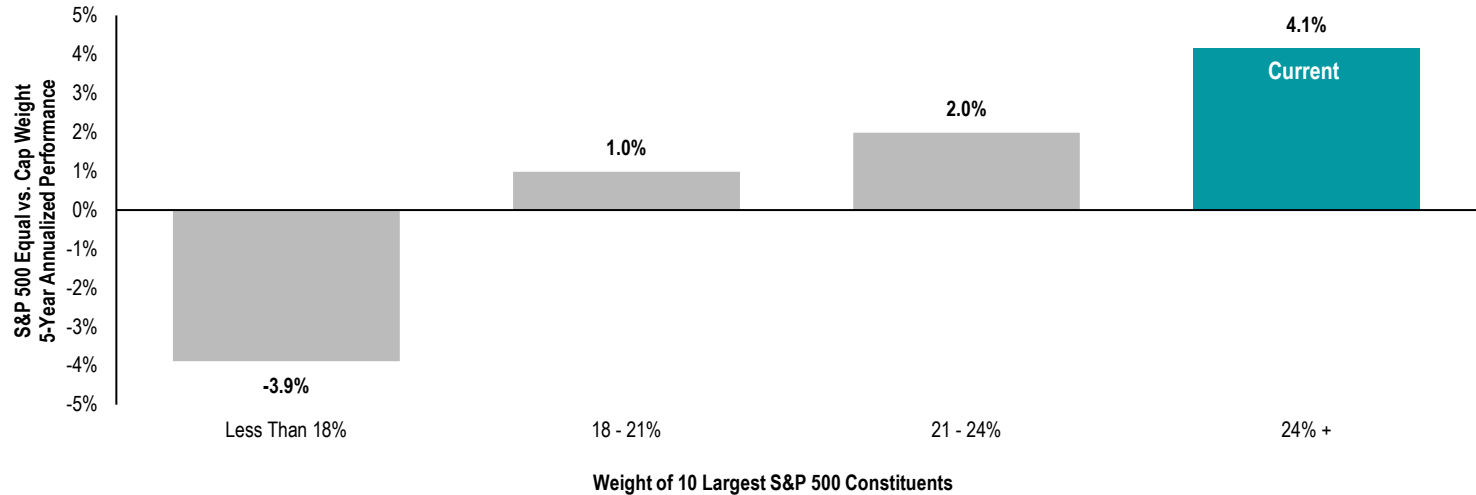
Sum of 10 Largest Company Weights in the S&P 500



- The weight of the largest stocks in the benchmark is near record highs.

Data as of Dec. 31, 2025. Sources: S&P, FactSet, and Bloomberg. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. For illustrative purposes only and not reflective of the performance or portfolio composition of any Franklin Templeton fund.

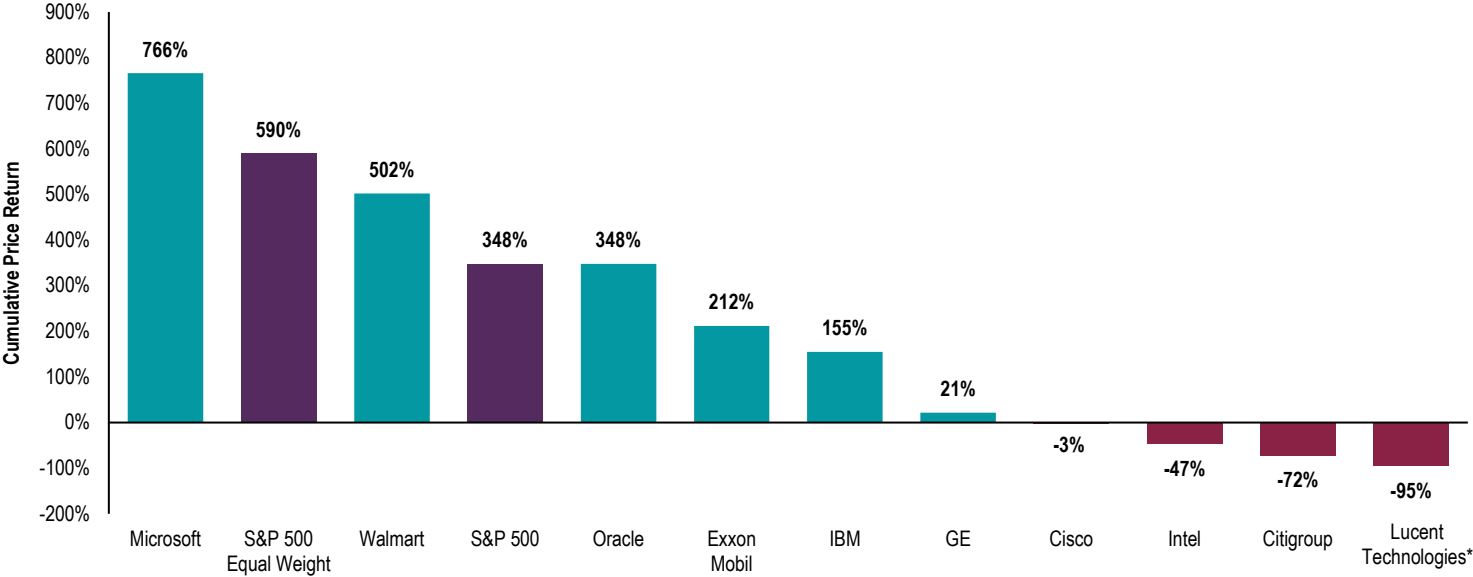
Index Concentration vs. Next Five-Year Performance of Equal vs. Cap-Weighted S&P 500



- When the 10 largest companies in the S&P 500 have historically accounted for over 24% of the benchmark, the equal weight S&P 500 has outperformed its cap-weighted counterpart by an average of 4.1% (annualized) over the next five years.
- The top 10 weights in the S&P 500 currently make up over 40% of the benchmark.

Data shown is from Dec. 1989 – present, as of Dec. 31, 2025. Sources: S&P, FactSet, and Bloomberg. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. For illustrative purposes only and not reflective of the performance or portfolio composition of any Franklin Templeton fund.

Where are they now: dot-com darlings

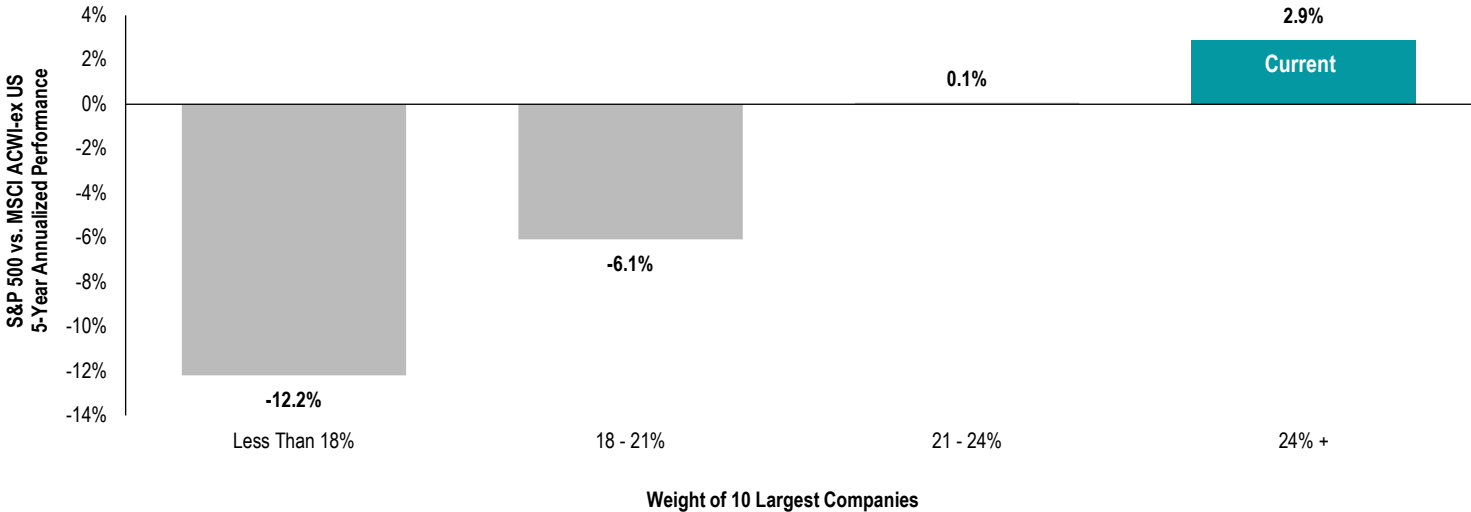


- Following the peak of the “dot-com” mania, the prospects of the 10 largest S&P 500 constituents have varied widely.
- We believe that a similar dynamic may play out in the coming years, presenting an opportunity for active managers.

*Lucent Technologies was acquired by Alcatel in 2006, cumulative price return is calculated based on the final pre-merger trading day (11/30/2006). Note: data shown from March 2000 – present, as of Dec. 31, 2025. Sources: FactSet, S&P. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Concentration leads to non-US opportunity

Index Concentration vs. Next Five-Year Performance of S&P 500 vs. MSCI ACWI-ex US

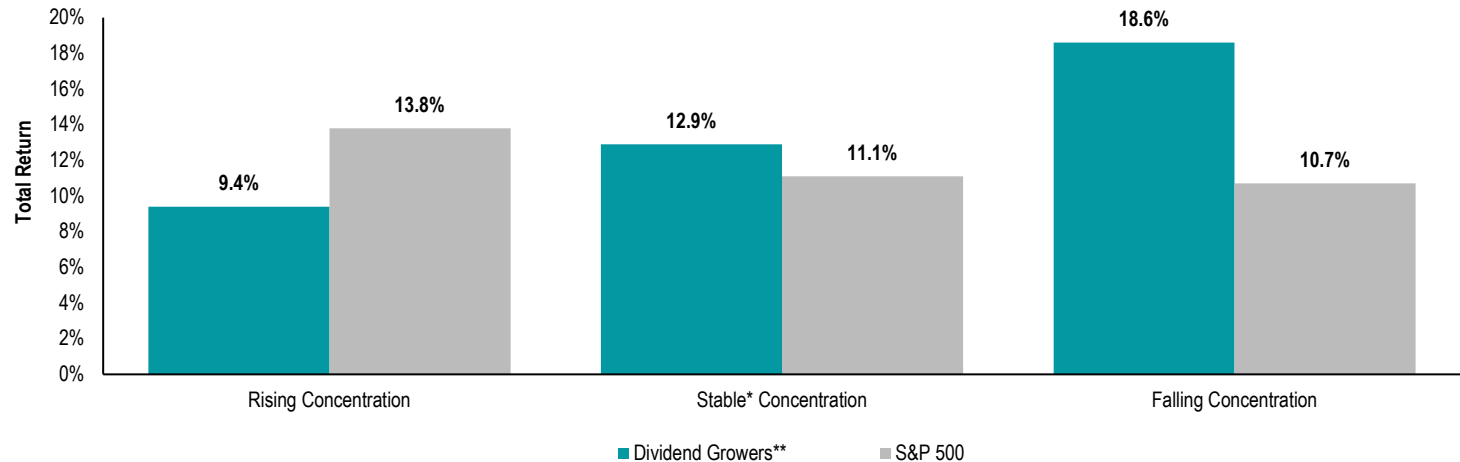


- When the 10 largest companies in the S&P 500 have historically accounted for over 24% of the benchmark, the MSCI ACWI ex-US has outperformed by an average of 2.9% (annualized) over the next five years.
- The top 10 weights in the S&P 500 currently make up over 40% of the benchmark.

Data shown is from Dec. 1989 – present, as of Dec. 31, 2025. Monthly constituent level market cap data. Sources: FactSet, S&P, MSCI. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Losing concentration? Focus on dividend growers

Average One-Year Total Return Based on S&P 500 Market Concentration Level



- Companies that have demonstrated the ability to consistently increase their dividends have historically outperformed the benchmark during periods of stable and falling market concentration.
- With S&P 500 market concentration at historically elevated levels, we think dividend growers may be well-positioned over the next few years.

*Stable concentration is based on YoY change of +/- 100 bps in combined weight of the ten largest S&P 500 companies, rising +100 bps or more, falling -100 bps or less.

Dividend growers are S&P 500 stocks with three consecutive trailing years of positive dividend growth (inclusive of special dividends) on a rolling basis (quarterly), evaluated monthly, equal weighted. Data shown is from Jan. 1994 – present, as of Dec. 31, 2025. Sources: Bloomberg, S&P, FactSet. **Past performance is not a guarantee of future results. Dividends may fluctuate and are not guaranteed, and a company may reduce or eliminate its dividend at any time. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Market Leadership

Equity leadership following the cut

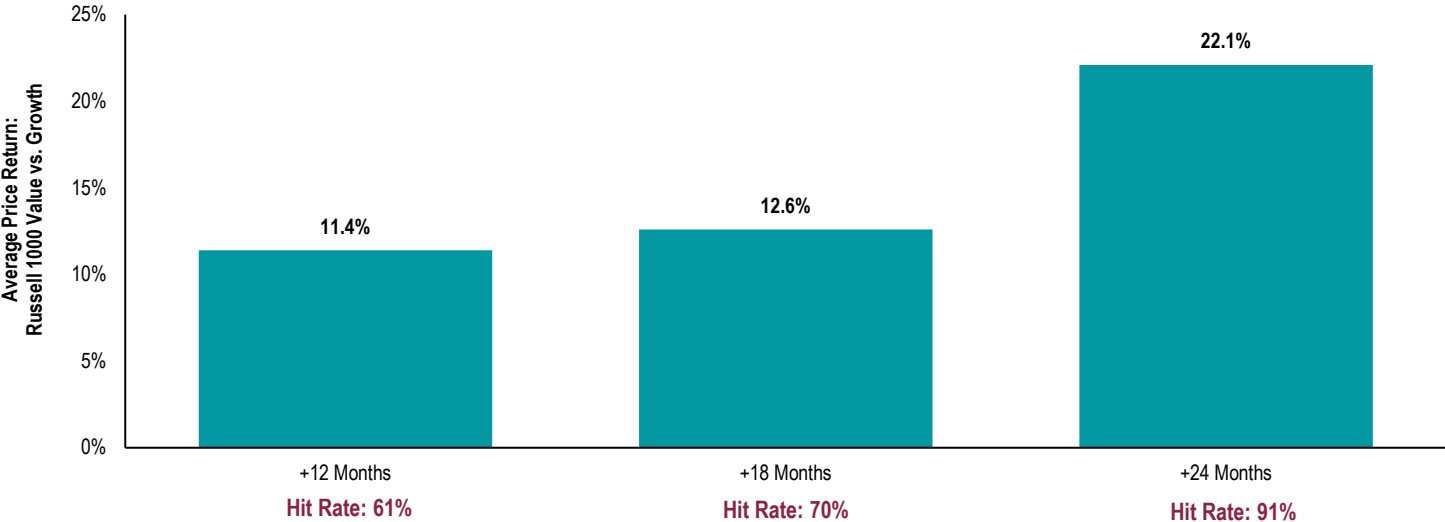
Subsequent 12-Month Price Return

Initial Rate Cut	Economic Outcome	Cash (3M T-Bills)	Russell 1000 Growth	Russell 1000 Value	Russell Mid Cap	Russell 2000
Apr. 1980	Recession	13.5%	39.0%	30.1%	51.4%	66.3%
June 1981	Recession	15.9%	-18.4%	-15.2%	-18.3%	-20.5%
Oct. 1984	Soft Landing	8.9%	9.5%	10.8%	12.0%	8.5%
June 1989	Recession	8.7%	17.5%	4.2%	4.5%	-1.5%
July 1995	Soft Landing	5.5%	22.5%	18.2%	17.3%	19.1%
Sept. 1998	Soft Landing	4.7%	30.4%	12.8%	13.7%	13.6%
Jan. 2001	Recession	4.4%	-15.6%	-5.7%	-3.1%	5.3%
Sept. 2007	Recession	3.2%	-17.6%	-25.4%	-19.3%	-12.8%
July 2019	Recession	1.5%	24.9%	-9.2%	-0.7%	-5.7%
Sept. 2024	Soft Landing	4.4%	26.2%	8.2%	10.7%	9.2%
Sept. 2025	?	?	?	?	?	?
Average		7.1%	11.8%	2.9%	6.8%	8.2%
Recessionary Average		7.8%	5.0%	-3.5%	2.4%	5.2%
Soft Landing Average		5.9%	22.2%	12.5%	13.4%	12.6%

- **Equities have meaningfully outperformed cash following the commencement of soft-landing rate-cut cycles, with large-cap growth leading the way.**
- **With the Fed commencing a new rate-cutting cycle in September 2025, history suggests a favorable backdrop for risk assets in 2026.**

Rate-cut cycles of at least 75 bps. Sources: FactSet, Bloomberg, Russell, ICE BofA, NBER. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. For illustrative purposes only and not reflective of the performance or portfolio composition of any Franklin Templeton fund.

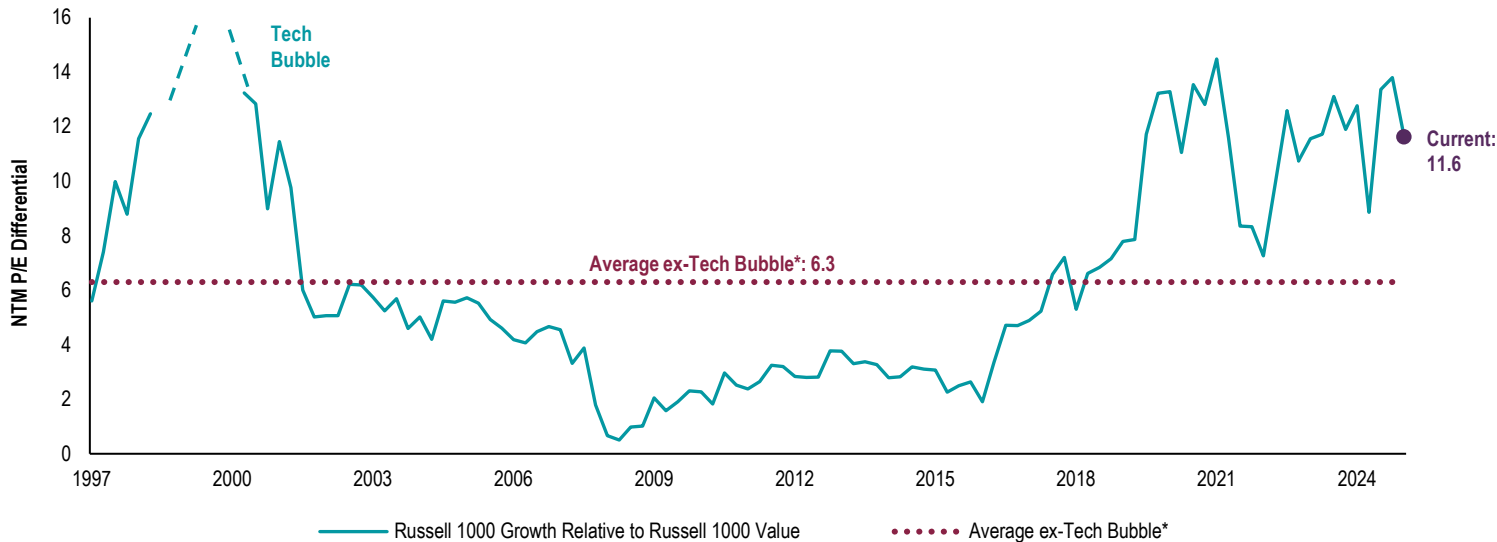
Relative Return of Value vs. Growth Following -25% 12-Month Value Underperformance



- Value has historically recovered following periods of sizeable (-25%) underperformance vs. growth. This threshold was triggered during the first quarter of 2025.

Hit rate is percent of positive historical observations. Russell 1000 Growth, Russell 1000 Value, reflective of period from 1979 – present, as of Dec. 31, 2025. Sources: FactSet, Russell. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

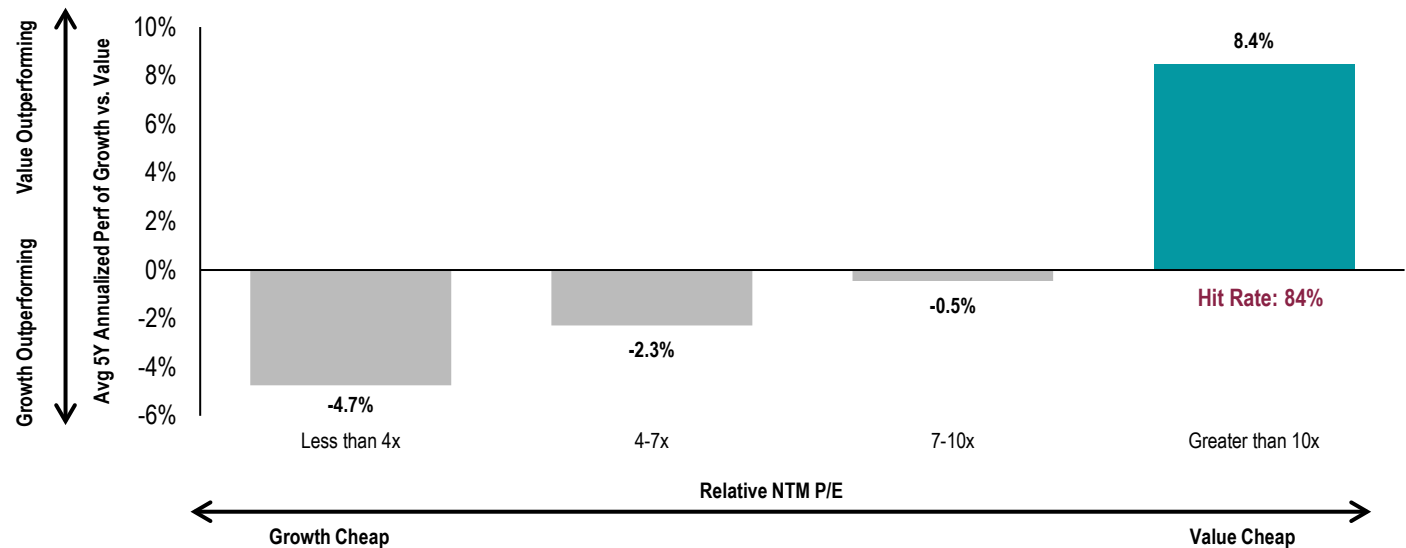
Russell 1000 Growth P/E Minus Russell 1000 Value P/E



- Value vs. growth leadership and valuation have been in a tug-of-war over the past several years, with value recently regaining the upper hand.

Note: Price return. NTM = Next 12 months. *The tech bubble period removed from the chart is from June 30, 1999 through Dec. 31, 2000. Data as of Dec. 31, 2025. Sources: FactSet, Russell. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

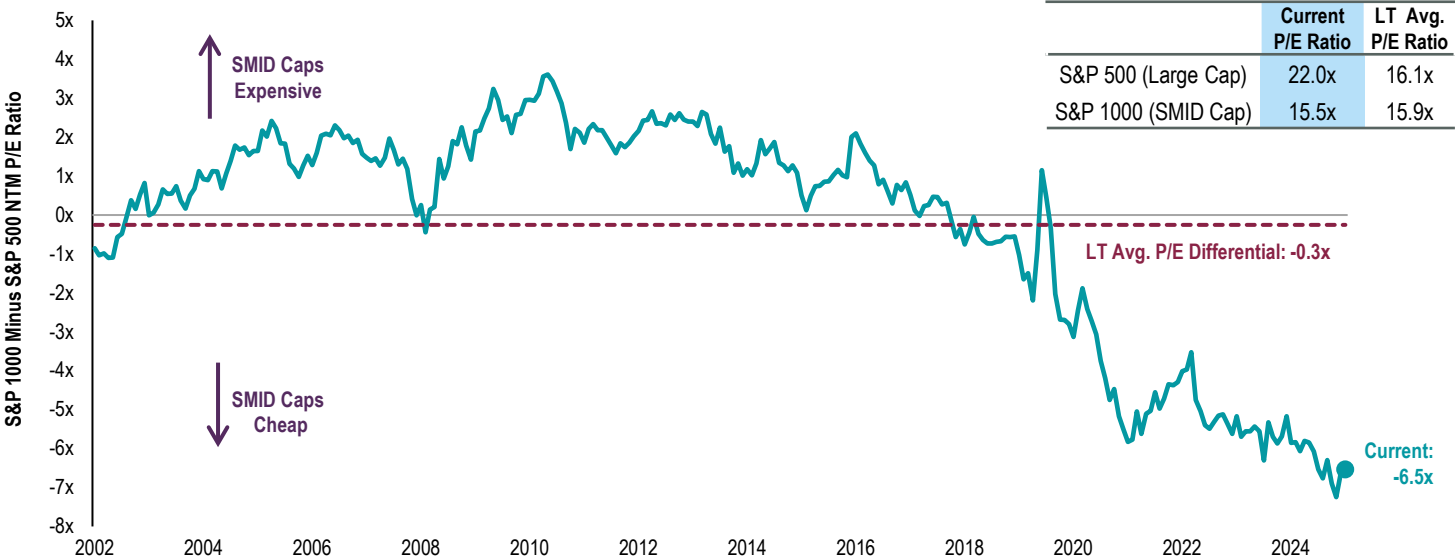
Performance of Value vs. Growth Based on Starting P/E Differential



- Value has historically outperformed growth by a healthy margin when the valuation gap (P/E differential) is above 10x. The valuation gap is currently 11.6x.

Hit rate is percent of positive historical observations. Russell 1000 Growth, Russell 1000 Value, 1997-Present. Data as Dec. 31, 2025. Sources: FactSet, Russell. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. **Past performance is not a guarantee of future results.**

SMID caps on sale



- **Small- and mid-cap (SMID) stocks have historically traded at similar multiples to large.**
- **With large caps leading since the pandemic, the valuation discount for small and mid is near the widest in over two decades.**

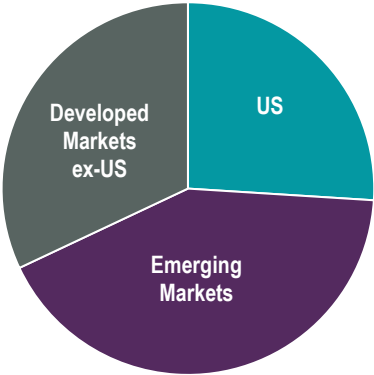
As of Dec. 31, 2025. Sources: FactSet, S&P. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Non-US

Home country bias

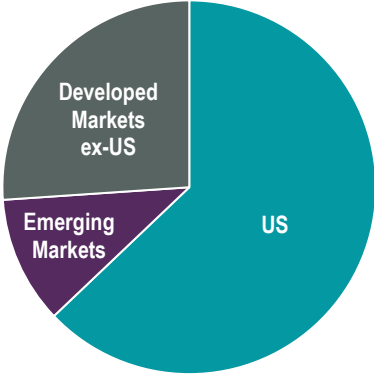
Investors tend to over-allocate to their home country

% GDP



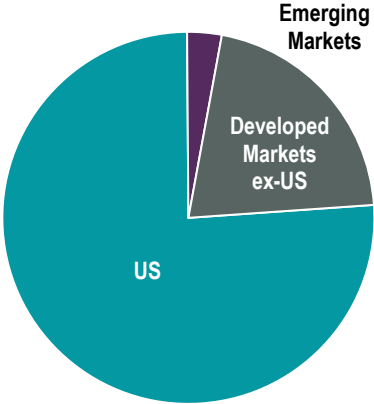
The US represents 26% of global GDP

% Market Cap



The US represents 63% of global market cap

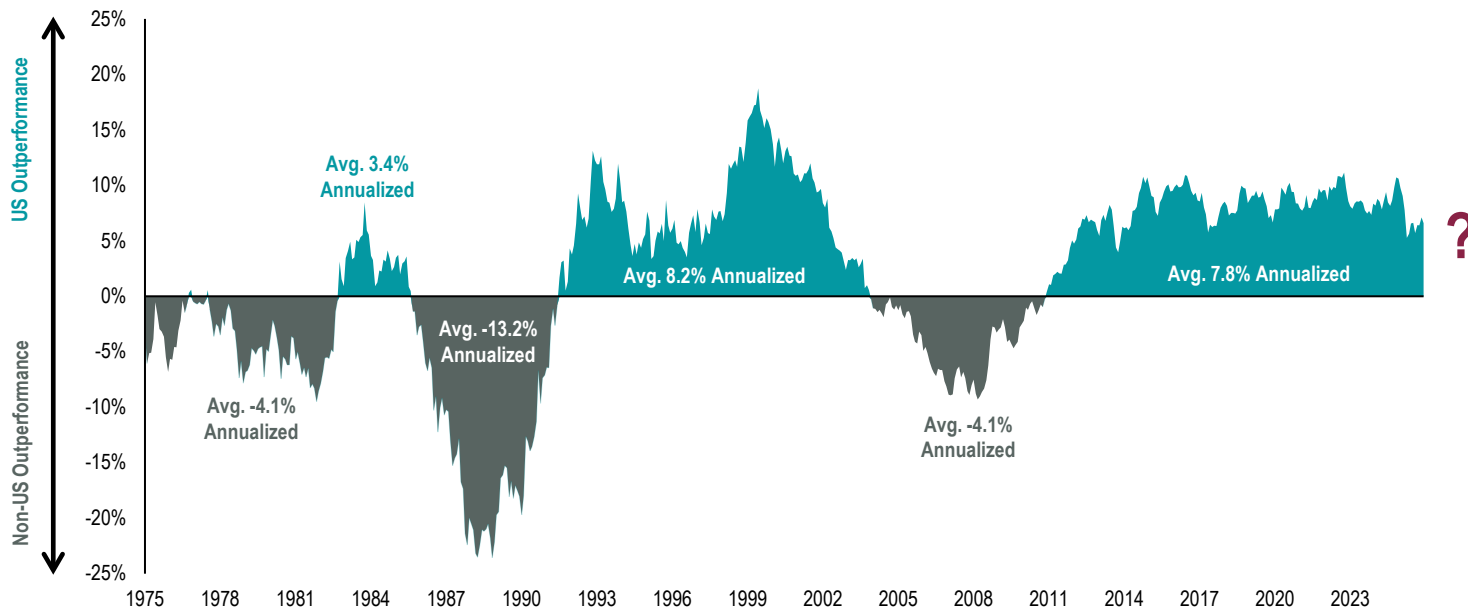
% Assets



The US represents 76% of US investor portfolios

Morningstar Category Assets as of Nov. 30, 2025. GDP as of Dec. 31, 2025. MSCI ACWI Index as of Dec. 31, 2025. Sources: Morningstar, Macrobond, IMF, MSCI, FactSet. Data most recent available as of Dec. 31, 2025.



















































Global leadership cycles



- History shows that geographic leadership tends to persist for longer than investors appreciate.
- The United States has been in the driver's seat since the global financial crisis, although a turning point may be near.

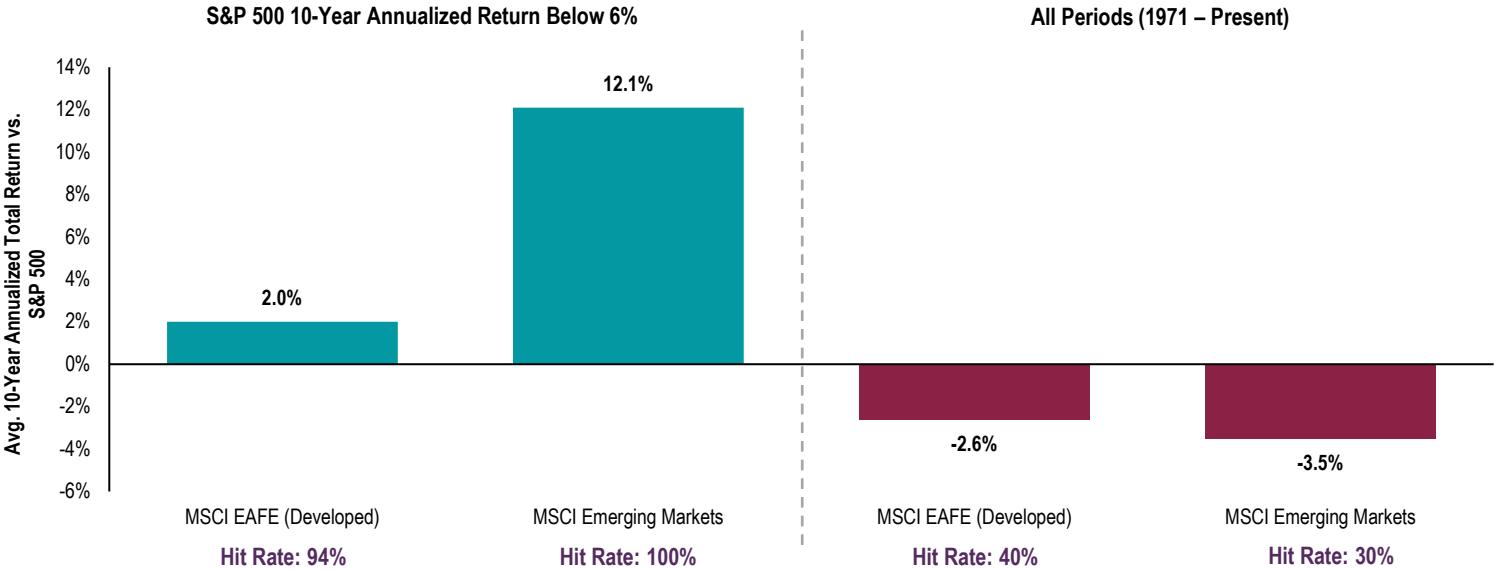
Note: Price return. Data shows rolling five-year annualized performance differential between S&P 500 and MSCI ACWI ex-US indices. Data as of Dec. 31, 2025. Sources: Macrobond, S&P, MSCI. **Past performance is no guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Top 10 Companies by Market Value at Decade End

1980	1990	2000	2010	2020
 IBM	 NTT	 Microsoft	 Exxon	 Apple
 AT&T	 Bank of Tokyo	 GE	 PetroChina	 Microsoft
 Exxon	 Industrial Bank of Japan	 NTT Docomo	 Apple	 Alphabet
 Standard Oil	 Sumitomi Mitsui	 Cisco	 BHP Billiton	 Amazon
 Schlumberger	 Toyota	 Walmart	 Microsoft	 Facebook
 Shell Oil	 Fuji Bank	 Intel	 ICBC	 Alibaba
 Mobil	 Dai-ichi Kangyo Bank	 NTT	 Petrobras	 Berkshire Hathaway
 Eastman Kodak	 IBM	 Exxon	 China Construct. Bank	 Tencent
 Atlantic Richfield	 UFJ Bank	 Lucent	 Royal Dutch Shell	 JPMorgan
 GE	 Exxon	 Deutsche Telecom	 Nestle	 Visa

- The largest companies in the world have rarely held onto their leadership position for prolonged periods in the past.
- With US companies currently dominating the list, history suggests the potential for a stronger non-US showing in the coming decade.

Source: Strategas. Past performance is not a guarantee of future results. For illustrative purposes only and not reflective of the performance or portfolio composition of any Franklin Templeton fund.



- Although the US has outperformed non-US equities historically, investors have been rewarded for holding non-US stocks during periods of softer US performance.

Hit rate is percent of positive historical observations. Note: Data shows 10-year rolling monthly periods. Data as of Dec. 31, 2025. Sources: Morningstar, S&P, MSCI. Past performance is no guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. Diversification does not guarantee a profit or protect against a loss.

Non-US equity leadership following the cut

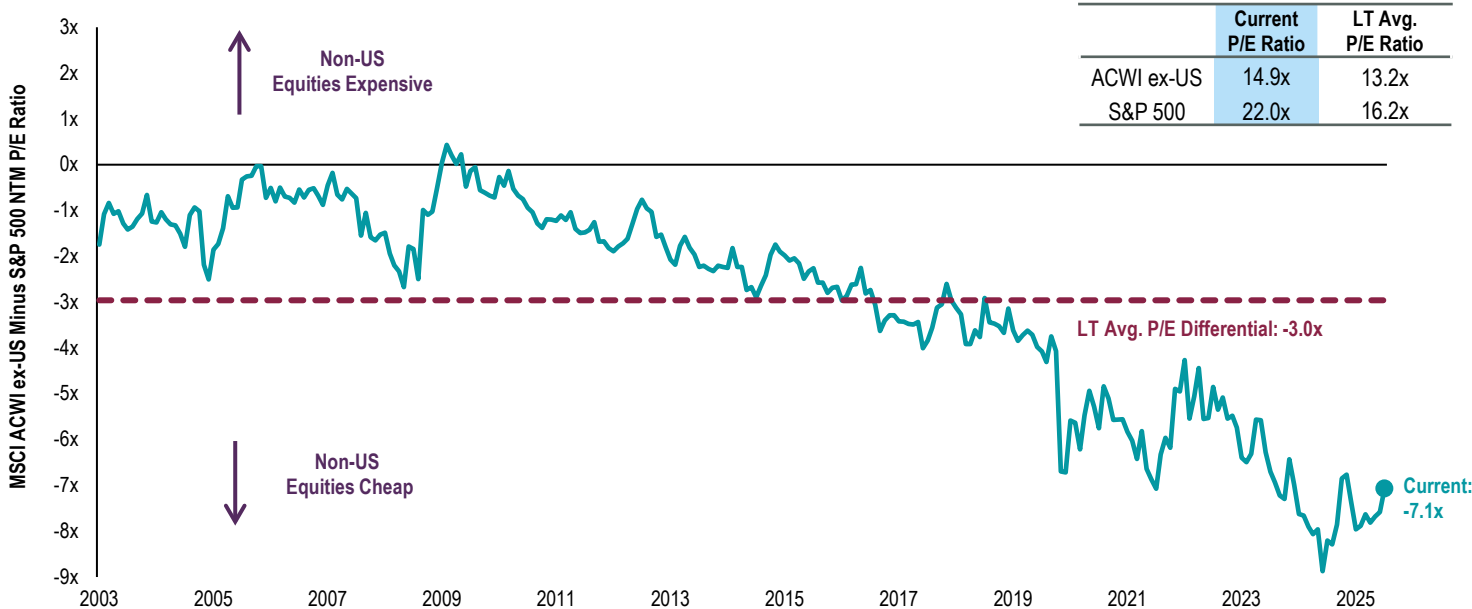
Subsequent 12-Month Price Return

Initial Rate Cut	Economic Outcome	MSCI EAFE	MSCI EAFE Growth	MSCI EAFE Value	MSCI Emerging Markets
Apr. 1980	Recession	32.5%	32.4%	32.5%	--
June 1981	Recession	-7.0%	-11.0%	-4.2%	--
Oct. 1984	Soft Landing	40.7%	41.5%	40.6%	--
June 1989	Recession	2.4%	-0.3%	5.5%	22.3%
July 1995	Soft Landing	13.3%	11.6%	15.4%	5.4%
Sept. 1998	Soft Landing	25.7%	20.3%	30.7%	51.4%
Jan. 2001	Recession	-21.2%	-24.2%	-18.4%	-1.2%
Sept. 2007	Recession	-24.0%	-20.3%	-27.6%	-28.4%
July 2019	Recession	-0.4%	10.5%	-11.1%	6.2%
Sept. 2024	Soft Landing	17.6%	10.7%	24.7%	26.2%
Sept. 2025	?	?	?	?	?
Average		8.0%	7.1%	8.8%	11.7%
Recessionary Average		-2.9%	-2.2%	-3.9%	-0.3%
Soft Landing Average		24.3%	21.0%	27.9%	27.6%

- **Non-US equities typically surge following the commencement of past soft-landing Fed rate-cut cycles.**
- **With the Fed commencing a new rate-cutting cycle in September 2025, history suggests a favorable backdrop for risk assets in 2026.**

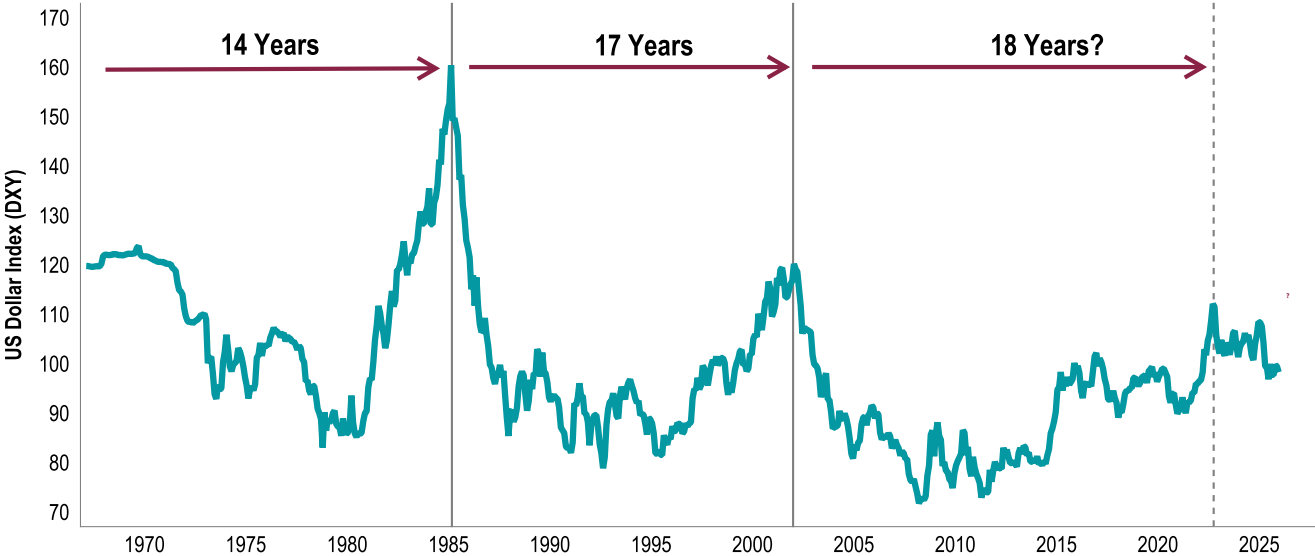
Note: rate-cut cycles of at least 75 bps. Sources: FactSet, MSCI, NBER. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. For illustrative purposes only and not reflective of the performance or portfolio composition of any Franklin Templeton fund.

Global valuations attractive



- Non-US equities remain cheap relative to US stocks despite outperforming in 2025.

As of Dec. 31, 2025. Sources: FactSet, MSCI, S&P. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

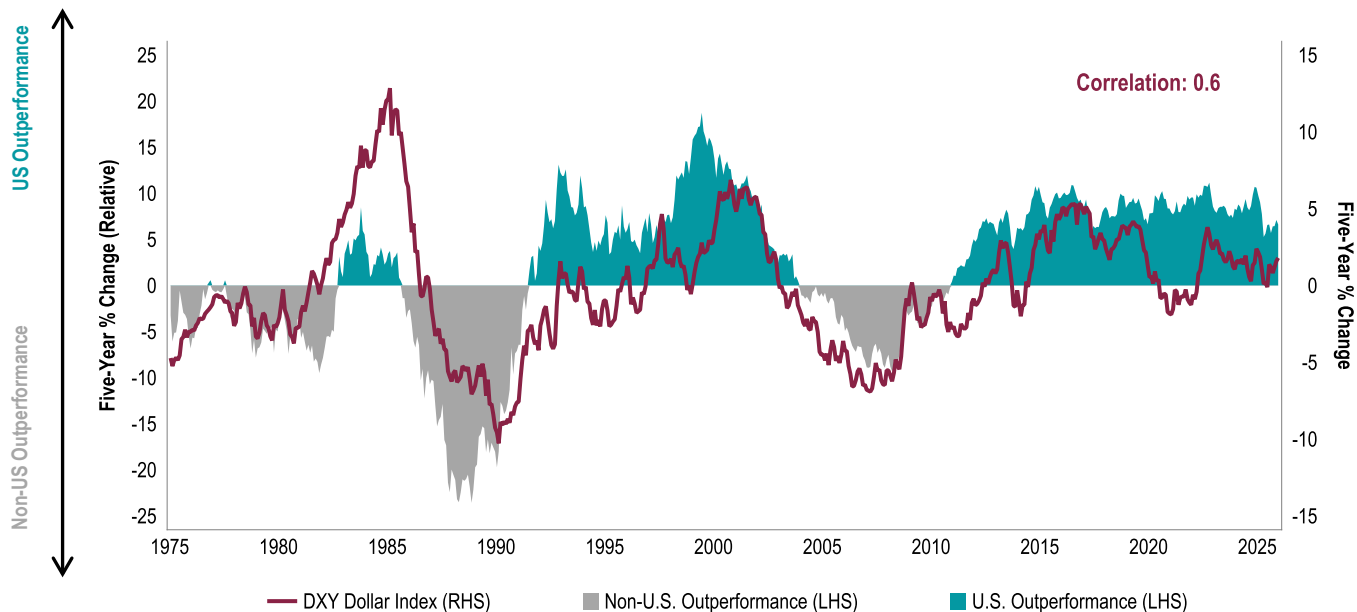


Sources: Intercontinental Exchange (ICE), Macrobond.
Data last updated on: 1/13/2026.

- **US dollar cycles have historically lasted ~16 years with a potential inflection point having been reached in 2022.**

Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Regional leadership tethered to the dollar

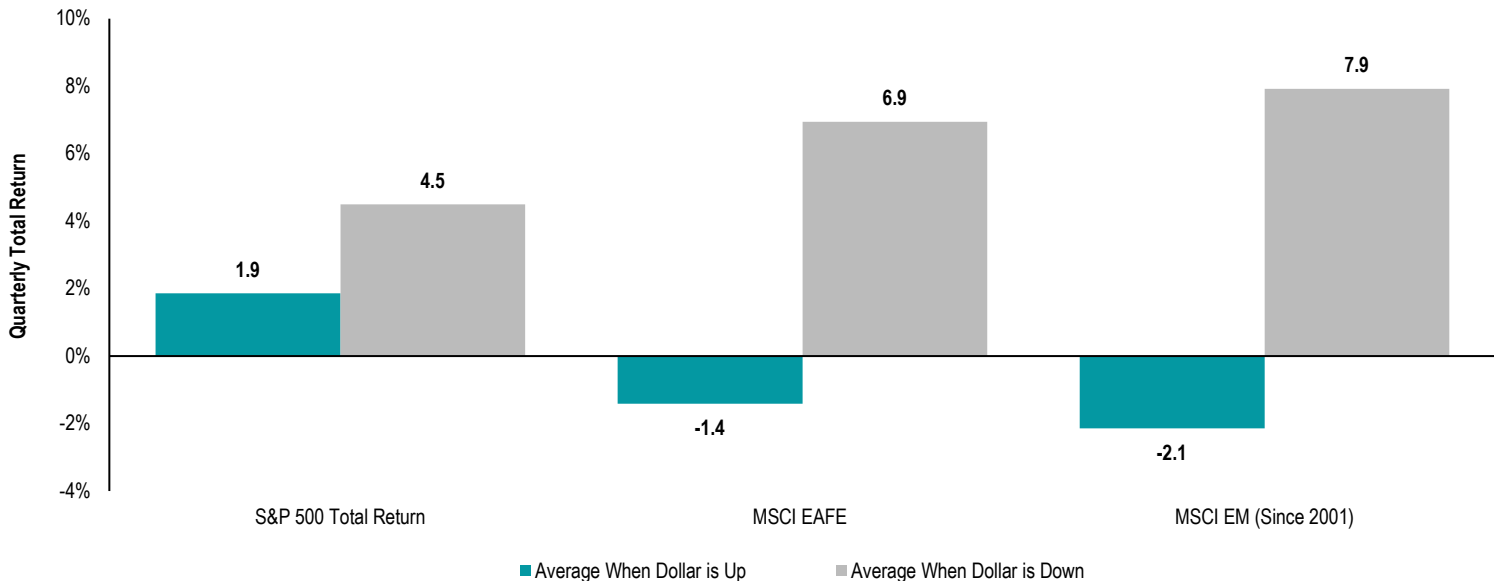


- History shows that geographic leadership is more closely tied to currency moves than investors appreciate.
- Recent dollar weakness suggests a turning point may be near.

Note: Price return. Sources: S&P, MSCI, Intercontinental Exchange (ICE), Macrobond. Data as of Dec. 31, 2025. Data shows rolling five-year annualized performance differential between S&P 500 and MSCI ACWI ex-US indices vs. US Dollar Index. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Weaker dollar supercharges non-US stocks

US Dollar Impact on Equity Performance Since 1974



- **Non-US equities have tended to outperform during periods of dollar weakness.**

Data as of Dec. 31, 2025. MSCI EAFE and MSCI EM are net returns; MSCI EM data starts in 2001. Sources: FactSet, S&P, MSCI. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

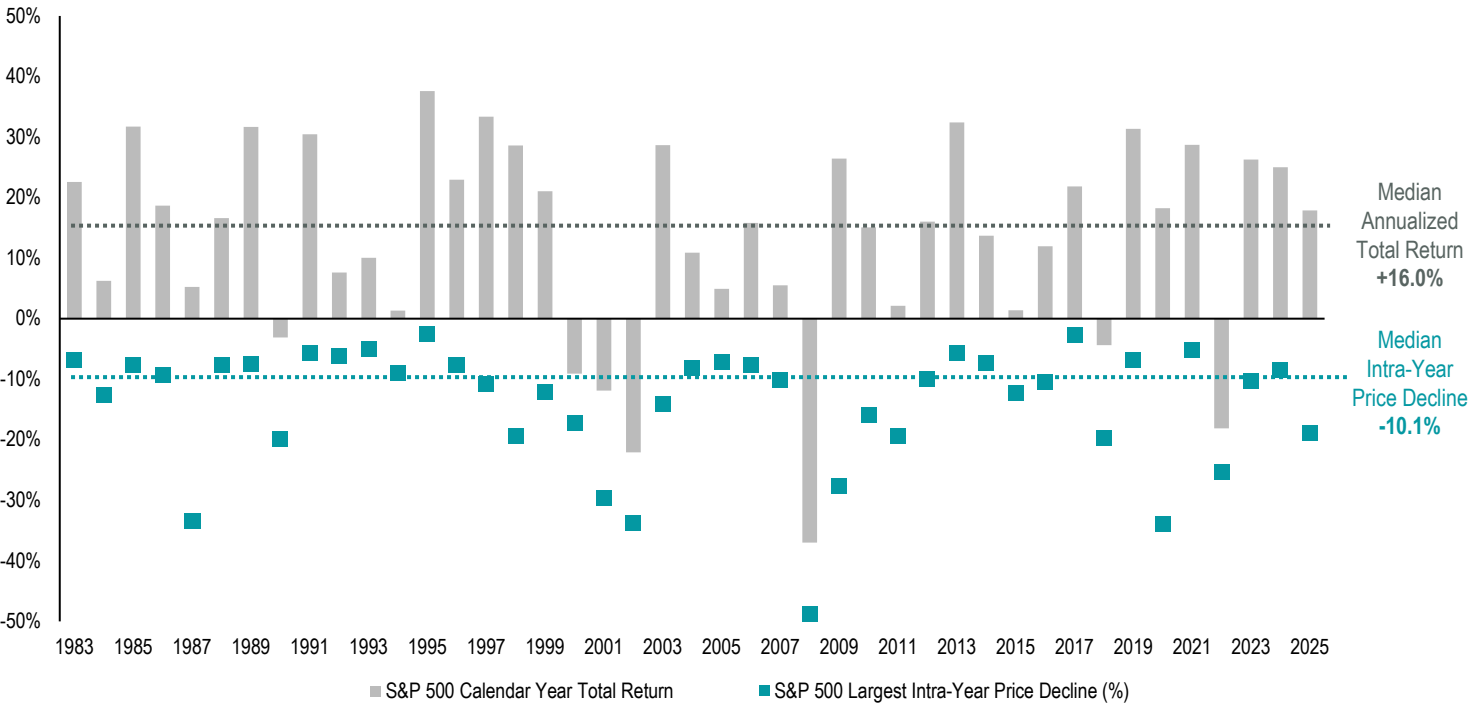
Investor Pitfalls

Panic attacks and the S&P 500

Year	Panic Attacks	S&P 500 Max Drawdown	Cumulative S&P 500 Price Return*
2000	Tech Bubble Bursts	-17.2%	365.9%
2001	September 11th, 2001 Recession	-29.7%	418.5%
2002	Final Tech Bubble Flush, Corporate Scandals (Worldcom)	-33.8%	496.3%
2003	Iraq War	-14.1%	678.1%
2004	Oil Price Breakout	-8.2%	515.6%
2005	Hurricane Katrina	-7.2%	464.8%
2006	Fed Culminates Hiking Cycle	-7.7%	448.4%
2007	Subprime Cracks Emerge	-10.1%	382.7%
2008	Global Financial Crisis, Bank Failures, Auto Bailouts	-48.8%	366.2%
2009	Global Financial Crisis Culminates	-27.6%	657.9%
2010	European Debt Crisis, Flash Crash	-16.0%	513.9%
2011	S&P Downgrades US Debt, Greek Debt Writedowns	-19.4%	444.3%
2012	Euro Crisis, Second Greek Bailout	-9.9%	444.3%
2013	Taper Tantrum	-5.8%	380.0%
2014	Ebola	-7.4%	270.4%
2015	Chinese Slowdown, Yuan Devaluation, Deflation Scare	-12.4%	232.5%
2016	Brexit, Global Negative Rates	-10.5%	234.9%
2017	North Korea Tensions Escalate	-2.8%	205.8%
2018	Trade Wars, Short Vol Unwind	-19.8%	156.0%
2019	Repo Crisis, Yield Curve Inversion	-6.8%	173.1%
2020	COVID-19 Pandemic	-33.9%	111.9%
2021	COVID-19 Variants, Chinese Regulatory Crackdown	-5.2%	82.3%
2022	Russian Invasion of Ukraine, Fed's Hawkish Pivot	-25.4%	43.6%
2023	Regional Bank Crisis, Debt Ceiling Drama	-10.3%	78.3%
2024	Inflation Scare, Sahm Rule Triggered	-8.5%	43.5%
2025	Liberation Day	-18.9%	16.4%

*Cumulative S&P 500 price return is calculated from day prior to the new year (ex. 2000 looks at Dec. 31, 1999) to present. Data as of Dec. 31, 2025. Sources: Bloomberg, Federal Reserve, S&P. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

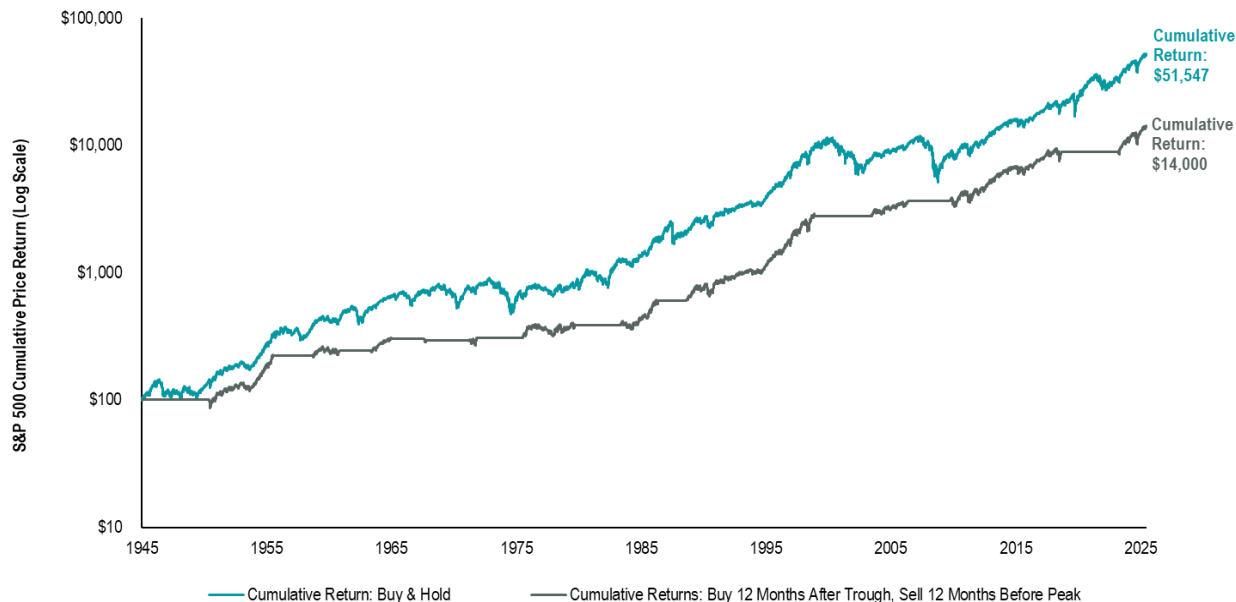
Volatility not a financial loss unless you sell



As of Dec. 31, 2025. Sources: FactSet, S&P. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Can you time the market?

Growth of \$100: Buy and Hold vs. Market Timing Since 1945



- Since 1945, an investor that consistently sold 12 months prior to a market peak and bought back 12 months after the trough was worse off overall than a buy-and-hold investor.

Data as of Dec. 31, 2025. Sources: FactSet, S&P. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

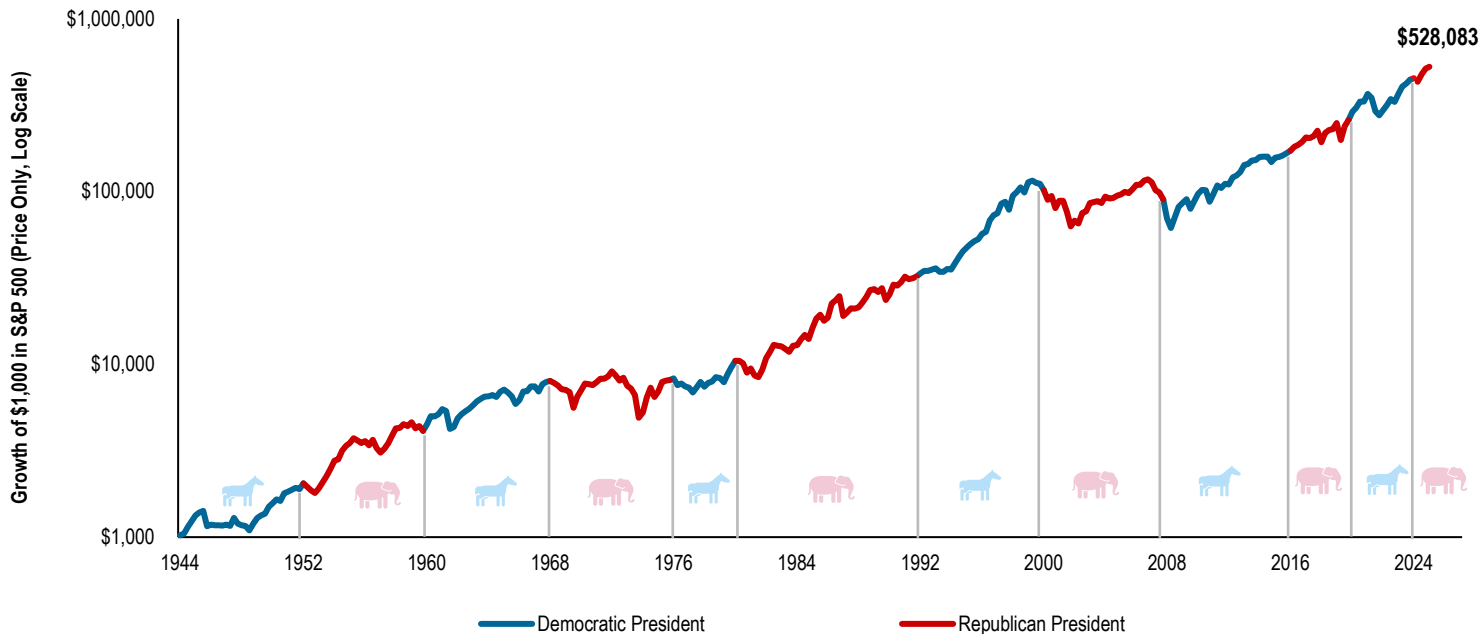
Don't miss the best days

Cumulative

Decade	S&P 500 Price Return	Excluding 10 Best Days Per Decade
1930	-42%	-79%
1940	35%	-14%
1950	257%	167%
1960	54%	14%
1970	17%	-20%
1980	227%	108%
1990	316%	186%
2000	-24%	-62%
2010	190%	95%
2020	112%	11%
Average Since 1930	114%	41%

- **Missing the best 10 days per decade would result in 73% lower returns on average, historically.**

Don't mix politics and investing

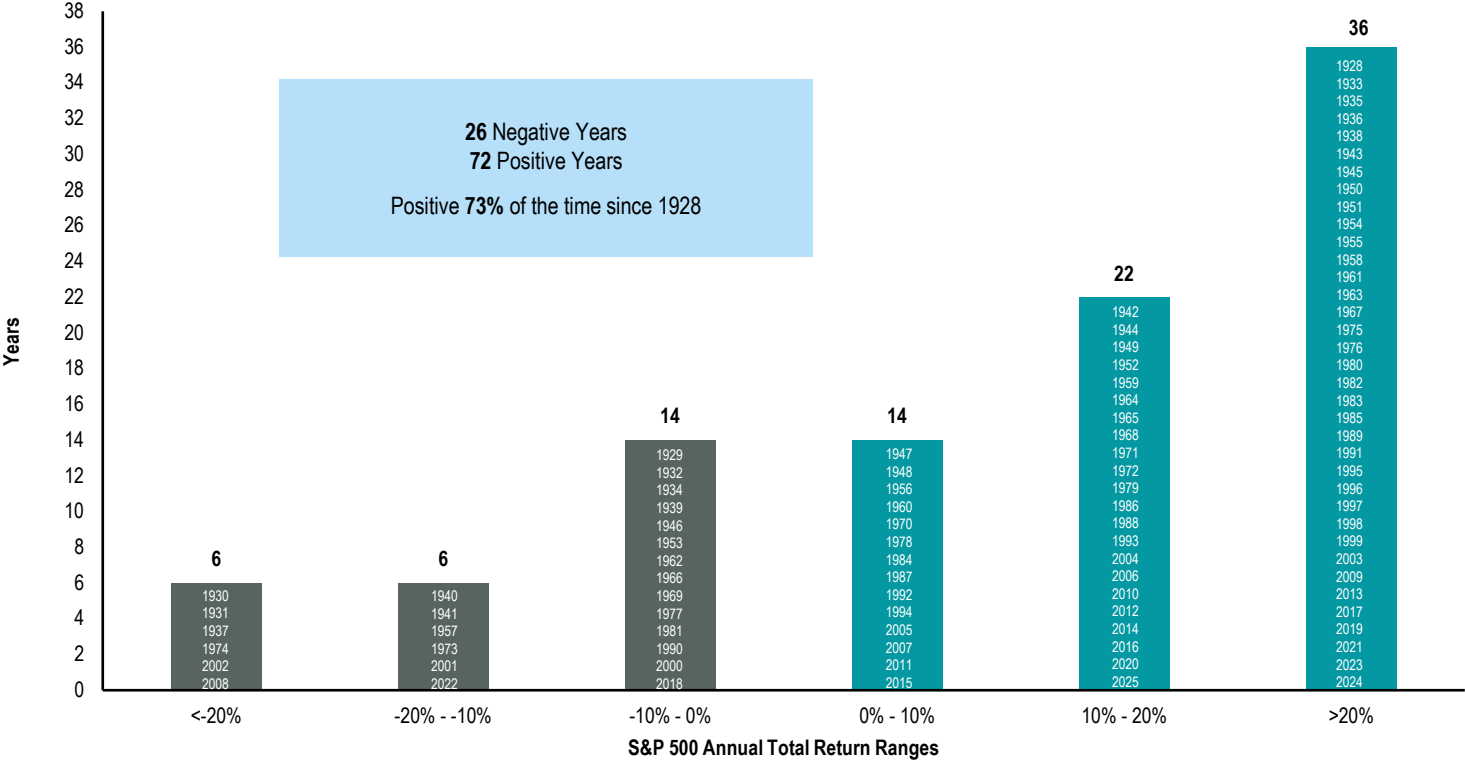


- **Historically, the equity market has moved higher irrespective of which party occupies the Oval Office.**



Data as of Dec. 31, 2025. Sources: FactSet, S&P. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Market annual returns

Distribution of S&P 500 total returns since 1928



Data as of Dec. 31, 2025. Sources: NYU (Damodaran Online), FactSet. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Name and Position	Industry Experience	ClearBridge Tenure	Education, Experience and Professional Designations
<div>  <div> Josh Jamner, CFA Director, Senior Investment Strategy Analyst </div> </div>	17 years	<ul style="list-style-type: none"> Joined firm in 2017 	<ul style="list-style-type: none"> RBC Capital Markets - Assistant Vice President, Associate Strategist – US Equity Bessemer Trust - Assistant Vice President, Client Portfolio Analyst BA in Government from Colby College CFA® charterholder
<div>  <div> Jeffrey Schulze, CFA Managing Director, Head of Economic and Market Strategy </div> </div>	21 years	<ul style="list-style-type: none"> Joined firm in 2014 	<ul style="list-style-type: none"> Lord Abbett & Co., LLC – Portfolio Specialist BS in Finance from Rutgers University CFA® charterholder

WHAT ARE THE RISKS?

Equity securities are subject to price fluctuation and possible loss of principal. **Small- and mid-cap** stocks involve greater risks and volatility than large-cap stocks. **Large-capitalization** companies may fall out of favor with investors based on market and economic conditions. **Active management** does not ensure gains or protect against market declines. **Diversification** does not guarantee a profit or protect against a loss.

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. Low-rated, high-yield bonds are subject to greater price volatility, illiquidity and possibility of default. **Floating-rate loans** and debt securities are typically rated below investment grade and are subject to greater risk of default, which could result in loss of principal.

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**.

Glossary of terms

BEA: Bureau of Economic Analysis

Bloomberg US Aggregate Bond Index: an unmanaged index of US investment-grade fixed-income securities.

Bloomberg US Corporate Investment Grade Bond Index: an unmanaged index of US investment-grade corporate bond securities.

Bloomberg Global Aggregate Total Return Index: measure of global investment grade debt from a multitude of local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

CPI (Consumer Price Index): measure of the average change in US consumer prices over time in a fixed market basket of goods and services as determined by US Bureau of Labor Statistics.

EPS (Earnings per Share): the portion of a company's profit allocated to each outstanding share of common stock.

Fed (Federal Reserve Board): the US central bank, responsible for policies designed to promote full economic growth, full employment, and price stability.

GDP: Gross Domestic Product

GFC (Global Financial Crisis): the severe economic and market downturn experienced in 2007-2008.

Hit Rate: Metric that measures the percentage of successful outcomes relative to the total number of opportunities.

Home Sales Median Price: measures the price at which half of existing homes sold for more and half sold for less.

MSCI All Country Asia Index: unmanaged index of large and mid cap stocks across Developed Markets countries and Emerging Markets countries in Asia.

MSCI EM Index: unmanaged index of large- and mid-cap stocks in 27 emerging market countries.

MSCI Europe Index: unmanaged index of large- and mid-cap stocks across 15 Developed Markets (DM) countries in Europe.

MSCI EAFE Index: unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia.

MSCI Germany Index: unmanaged index of large- and mid-cap stocks across the German market.

MSCI Japan Index: unmanaged index of large- and mid-cap stocks across the Japanese market.

MSCI UK Index: unmanaged index of large- and mid-cap stocks across the UK market.

MSCI USA Index: unmanaged index of US large- and mid-cap equity securities.

NAREIT All-Equity REITS Total Return Index: free-float-adjusted market capitalization weighted index that includes all tax qualified REITS listed in the NYSE, AMEX and NASDAQ National Markets.

NFIB (National Federation of Independent Business): a US small business advocacy association, representing over 350,000 small and independent business owners.

NFIB Small Business Optimism Index: measure of small business sentiment produced by the National Federation of Independent Business based on its monthly survey of small business owners.

Glossary of terms (continued)

P/E Ratio: Price/Earnings ratio

PMI: Purchasing Manager's Index

Russell 1000 Index: a subset of the Russell 3000 Index that includes approximately 1,000 of the largest companies in the US equity universe.

Russell 1000 Growth Index: unmanaged index of large-cap stocks chosen for their growth orientation.

Russell 1000 Value Index: unmanaged index of large-cap stocks chosen for their value orientation.

Russell 2000 Index: unmanaged index of small-cap stocks.

Russell 2000 Growth Index: unmanaged index of small-cap stocks chosen for their growth orientation.

Russell 2000 Value Index: unmanaged index of small-cap stocks chosen for their value orientation.

Russell Mid Cap Index: unmanaged index consisting of the 800 smallest companies in the Russell 1000 Index.

Russell Mid Cap Growth Index: unmanaged index of mid-capitalization US equities that exhibit growth characteristics.

Russell Mid Cap Value Index: unmanaged index of mid-capitalization US equities that exhibit value characteristics.

S&P MidCap 400 Index: unmanaged index of 400 US mid-cap stocks

S&P 400 Growth Index: unmanaged index of mid-cap stocks having higher price-to-book ratios relative to the S&P 400 MidCap as a whole.

S&P 400 Value Index: unmanaged index of mid-cap stocks having lower price-to-book ratios relative to the S&P 400 MidCap as a whole.

S&P 500 Growth Index: unmanaged index of large-cap stocks selected based on sales growth, the ratio of earnings change to price and momentum.

S&P 500 Value Index: unmanaged index of large-cap stocks selected based on the ratios of book value, earnings, and sales to price.

S&P 600 Index: unmanaged index of 600 US small-cap stocks

S&P 600 Growth Index: unmanaged index of US small-cap growth stocks, selected based on sales growth, the ratio of earnings change to price, and momentum.

S&P 600 Value Index: unmanaged index of US small-cap value stocks, selected based on ratios of book value, earnings, and sales to price.

S&P 500 Index: Unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the US

Yield Curve: Comparison of interest rates at a point in time of bonds with equal credit quality but different maturity dates.

YoY: Year Over Year

US Treasuries: Direct debt obligations issued and backed by the "full faith and credit" of the US government. The US government guarantees the principal and interest payments on US Treasuries when the securities are held to maturity. Unlike US Treasury securities, debt securities issued by the federal agencies and instrumentalities and related investments may or may not be backed by the full faith and credit of the US government. Even when the US government guarantees principal and interest payments on securities, this guarantee does not apply to losses resulting from declines in the market value of these securities.

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