FRANKLIN TEMPLETON

The Anatomy of a Recession

Fourth Quarter 2026

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Economic Outlook

US Recession Dashboard

		October 31, 2026	June 30, 2026	March 31, 2026
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**

- **The overall dashboard is currently signaling expansion.**

Data as of October 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 US Recession 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

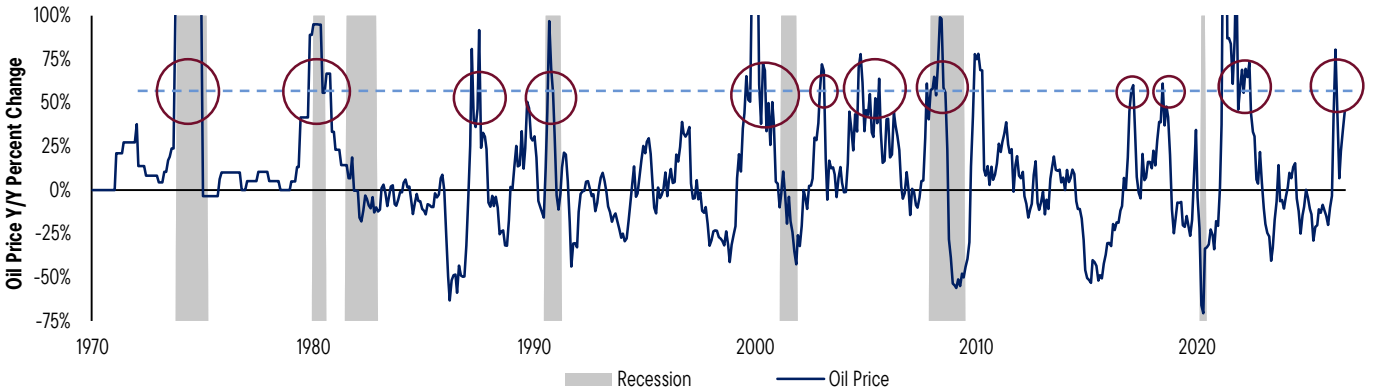
		Current	2020	2007–2009	2001	1990–1991	1981–1982	1980	1973–1975	1969–1970
Consumer	Housing Permits	▲	▲	●	■	●	●	●	●	●
	Job Sentiment	●	■	●	●	●	●	■	■	■
	Jobless Claims	▲	▲	■	●	●	●	●	▲	●
	Retail Sales	▲	▲	●	●	●	●	●	■	●
	Wage Growth	▲	●	●	●	●	●	●	●	●
Business Activity	Commodities	▲	▲	●	●	●	●	■	■	■
	ISM New Orders	▲	■	●	●	●	●	●	●	●
	Profit Margins	▲	●	●	●	●	●	●	■	●
	Truck Shipments	▲	▲	■	●	●	●	●	n/a	n/a
Financial	Credit Spreads	▲	▲	●	●	●	●	●	▲	■
	Money Supply	▲	▲	●	●	●	●	●	●	●
	Yield Curve	▲	●	●	●	●	●	●	●	●
	Overall Signal	▲	■	●	●	●	●	●	■	●

▲ **Expansion** ■ **Caution** ● **Recession**

- **The overall dashboard is currently signaling expansion.**

Data as of October 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 US Recession 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.

Dashboard and the US Economy's Fate



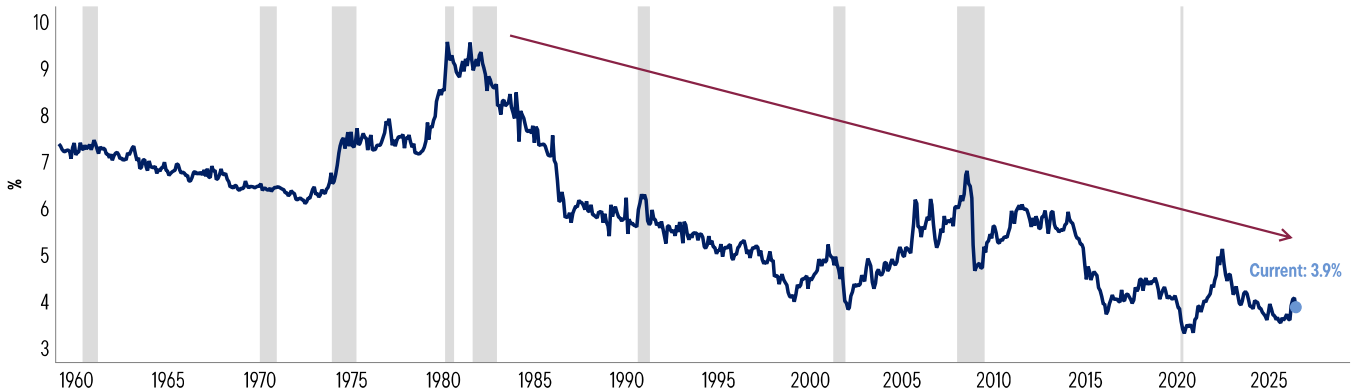
	1973	1979	1987	1990	1999	2004	2005	2007	2017	2018	2022	Current
Overall Signal	●	●	▲	●	▲	▲	▲	●	▲	▲	▲	▲
Recession	Yes	Yes	No	Yes	Yes	No	No	Yes	No	No	No	???

- **The health of the US Recession Dashboard has historically been pivotal in determining if oil price spikes of 60% Y/Y or more have metastasized into recessions or not.**
- **Given the current strength of the US Recession Dashboard, we believe the chances of an oil shock induced recession are low.**

Note: Oil price is Arabian Gulf Arab Light prior to April 1993, and West Texas Intermediate from April 1993 – present. Oil "spikes" occurring in the aftermath of recessions are excluded. Data as of September 30, 2026. Oil price sources: Bloomberg, Federal Reserve Bank of St. Louis, Economic Research Division, NYMEX. Recession Dashboard Sources: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, Bloomberg, S&P, NBER. The US Recession 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. **Past performance is not a guarantee of future results.**

Don’t Be So “Energy" Sensitive

Energy Goods & Services as a % of Personal Consumption

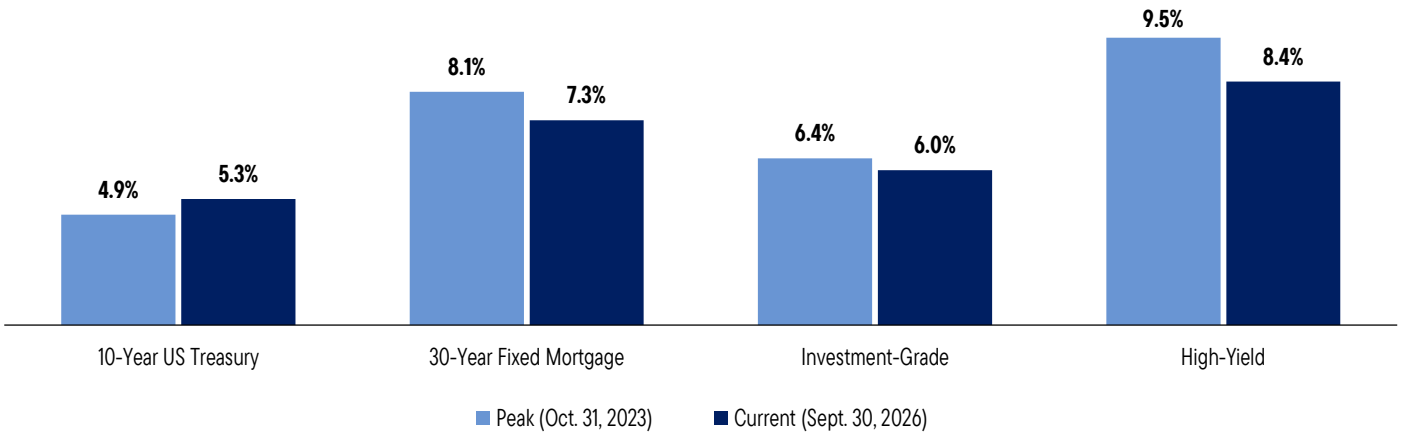


- **Americans allocate the smallest share of their (aggregate) wallets to energy goods and services today compared to any point in history except for the years immediately following the COVID-19 pandemic.**
- **This has come following decades of efficiency gains such as rising mile-per-gallon standards for autos as well as overall growth in wallet size, meaning the drag from higher oil is less than history would suggest.**

Gray shading reflects recessionary periods.
Sources: US Bureau of Economic Analysis (BEA), NBER, Macrobond. Data as of September 30, 2026.

Borrowing Rates Below Peak … But Not For Uncle Sam

Yield Comparison

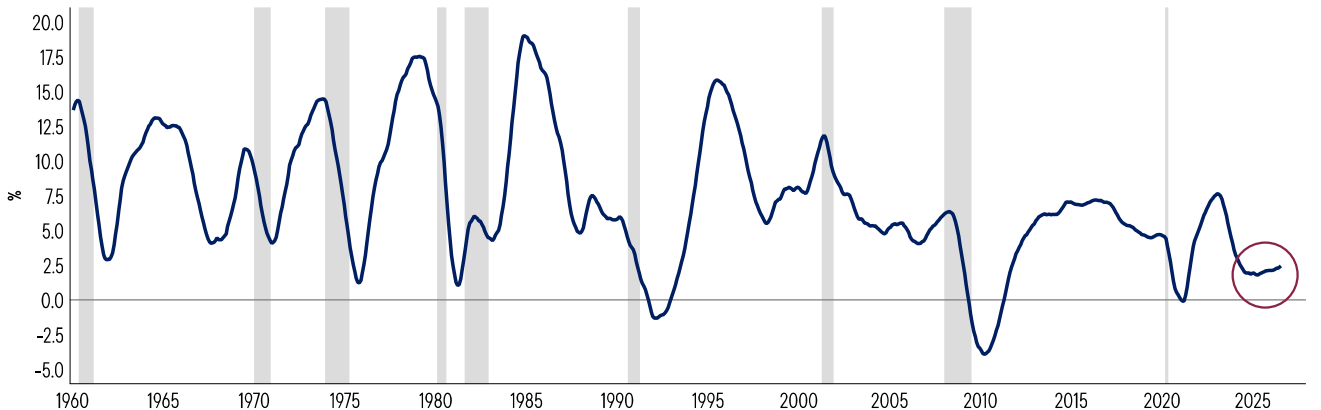


- **While 10-Year Treasuries have risen sharply in recent months, most consumer and corporate borrowing rates are still below recent peak levels seen in 2023 when Treasuries last neared 5%.**
- **This suggests that higher rates are likely to be less of a headwind on the underlying economy than Treasury yields alone indicate.**

Data as of September 30, 2026. Sources: Bloomberg, US Department of Treasury, Bankrate, FactSet, Macrobond. **Past performance is not a guarantee of future results.**
Note: 30-Year Fixed Mortgage represented by the Bankrate 30-year fixed mortgage rate, average interest rate, Investment Grade Yield represented by the Bloomberg US Corporate Investment Grade – YTW, High-Yield represented by the Bloomberg US Aggregate Credit - Corporate - High Yield (1983) - YTW.

Consumer Not Tapped Out

Consumer Credit Growth Y/Y

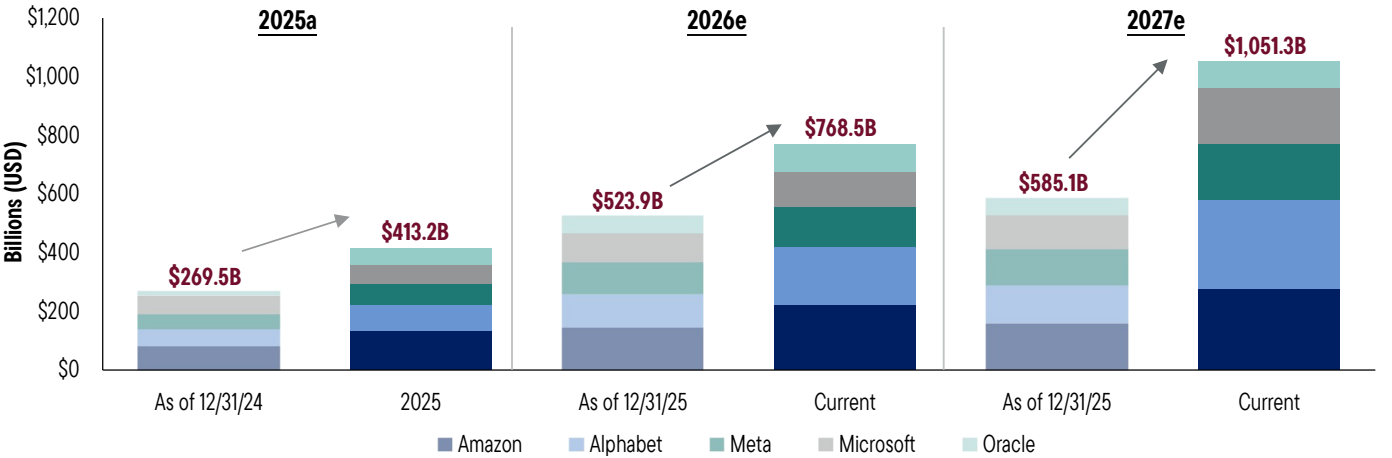


- **Over the past few years, consumer credit has been growing at the weakest non-recessionary levels in history.**
- **Borrowing capacity could act as a potential buffer to support consumption should the consumer come under additional strain.**

Gray shading reflects recessionary periods.
Source: Macrobond, Federal Reserve. Data as of September 30, 2026. Gray shading reflects recessionary periods. Note: Two-quarter moving average.

Chronically Underestimated

Sell-Side Consensus Hyperscaler Capex Expectations

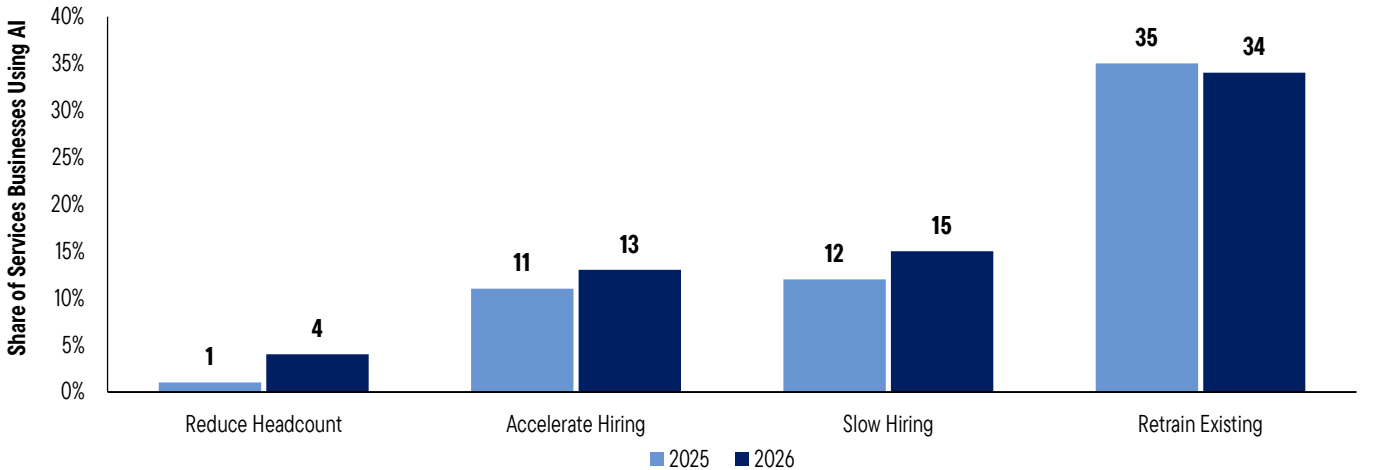


- **Sell-side consensus expectations for hyperscaler AI capex have been chronically underestimated over the past several years.**
- **Consensus expectations for this metric have risen by $245B for 2026 and $466B for 2027 over the past 9 months (since year-end 2026), suggesting the AI infrastructure buildout is likely to continue supporting the US economy next year.**

The term "consensus" for the hyperscaler capital expenditure (capex) estimates refers to the average of capex estimates made by professionals. Data as of September 30, 2026. Source: FactSet.
There is no assurance that any estimate, forecast or projection will be realized.

Augmentation, Not Substitution

Service-Oriented Company's Labor Actions Following AI Adoption

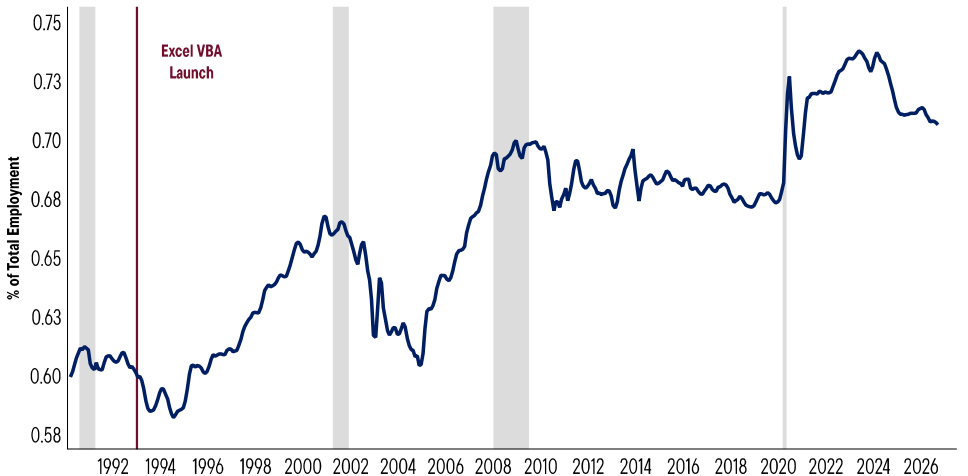


- **Contrary to popular wisdom, service firms that have adopted AI have not generally reduced headcount. Rather, the majority have opted to hire additional staff and/or retrain their existing workforce.**

Source: Federal Reserve Bank of New York, Regional Business Surveys, August 2025 and 2026.

Case Study: Jevons Paradox

Accounting & Bookkeeping Services Employment as a Percent of Total Employment

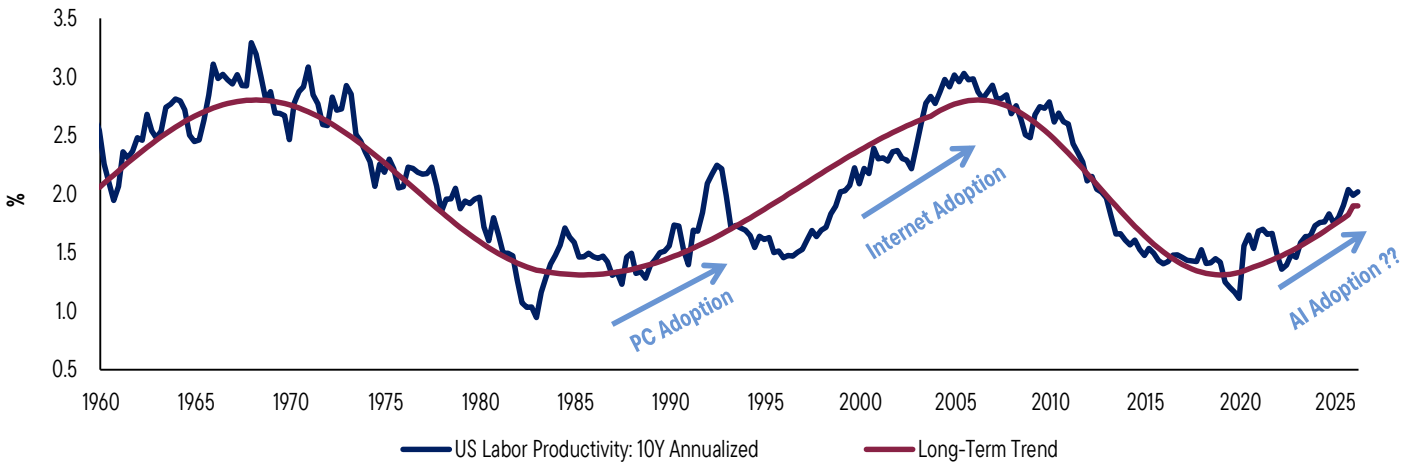


- **Jevons Paradox occurs when technological progress increases the efficiency of a resource, driving down costs but surprisingly driving up overall utilization.**
- **An example of this dynamic can be found in accounting services following the launch of Excel VBA which many feared would automate away accounting jobs.**
- **Instead, employment in the sector has grown steadily as lower costs have opened the door to wider access to accounting services.**

Gray shading reflects recessionary periods. Note: Three-month moving average.
Sources: US Bureau of Labor Statistics (BLS), NBER, Macrobond. Data as of October 2, 2026.

A New Wave

US Nonfarm Labor Productivity



- **US labor productivity has historically experienced cycles measured in decades, with an inflection occurring around the COVID-19 pandemic.**
- **While the economy is already experiencing early benefits from AI, this technology could unleash a sustained productivity wave similar to the PC and internet adoption waves of the 1980s and 1990s.**

Note: 10-Year Annualized Labor Productivity. Data as of March 31, 2026, latest available as of September 30, 2026. Sources: BLS and Macrobond. **Past performance is not a guarantee of future results.**

Market Outlook

Higher Valuation Regime: S&P 500 Index

S&P 500 NTM Price-Earnings (P/E)

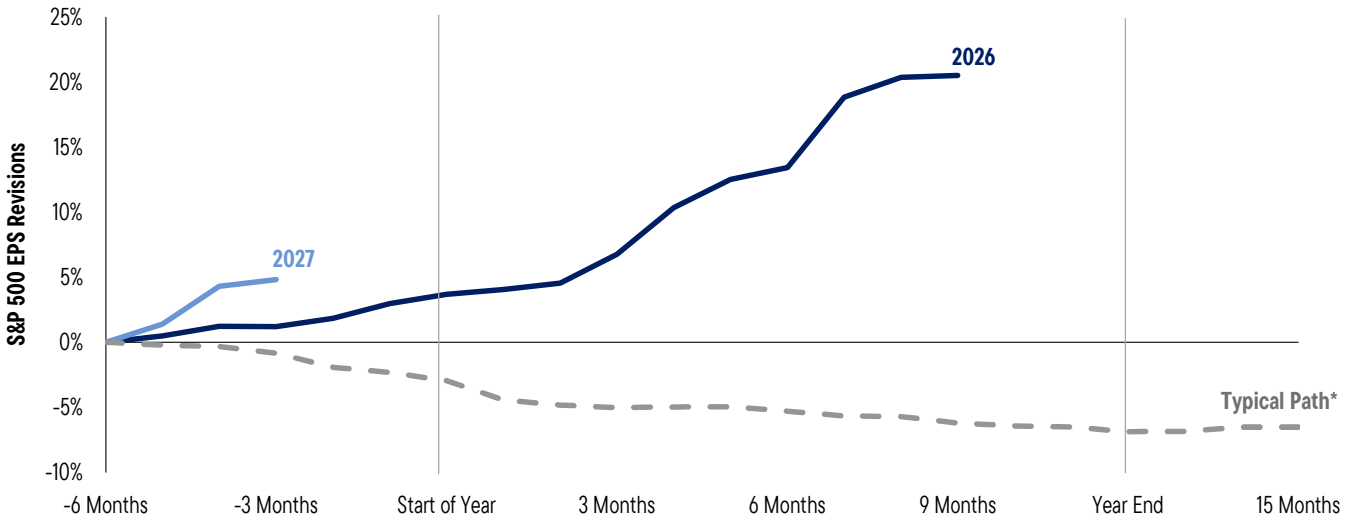


S&P 500 Index		
	April 2020	Current
Index Level	2,912	7,652
NTM EPS	$145	$403
NTM P/E	20x	19x

- **Since the pandemic, the S&P 500 has traded in a higher valuation regime (above 20x) 63% of the time since first crossing this level in April 2020.**
- **With multiples holding largely steady, this cycle's returns have been entirely driven by EPS growth rather than P/E expansion.**

Note: NTM = Next Twelve Months. NTM EPS and NTM P/E % Change Compound to Index Level Change. Sources: FactSet, S&P. Data as of September 30, 2026. **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.

EPS Revisions Robust

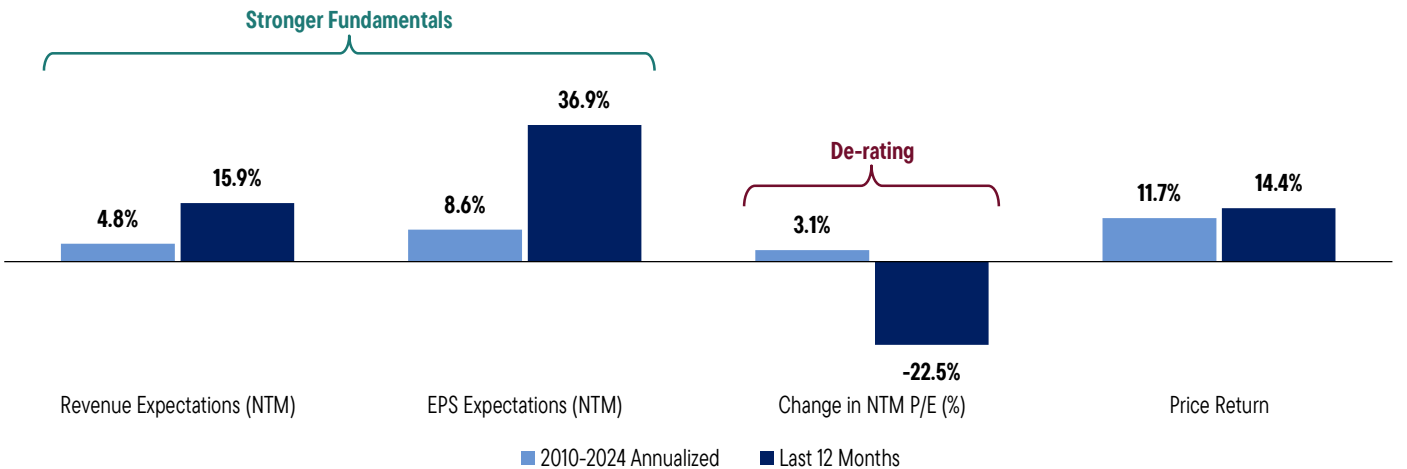


- **Earnings estimates typically fall coming into the year and drift lower as rosy forecasts meet a harsher reality.**
- **2026 and 2027 expectations have bucked this trend, with strong positive revisions helping to support the market rally.**

*Typical path is 2012-2017, 2019 and 2022-2025; 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 US dollar EPS expectations. Data as of September 30, 2026. 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.

Stronger Fundamentals, Cheaper Multiples

S&P 500 Top/Bottom-Line Growth Estimates, Multiples, and Price Returns



- **The past 12 months have experienced a very different backdrop from the post-global-financial-crisis era, with materially strong revenue and EPS growth expectations, compressing valuations (as opposed to expanding), and high-teens price appreciation.**
- **With the potential for continued upside from AI spending and adoption, the United States may be entering a new regime.**

Data as of September 30, 2026. Sources: S&P, FactSet.

Not All Peaks Are Equal

S&P 500 Returns Following Peak EPS Growth Since 1980

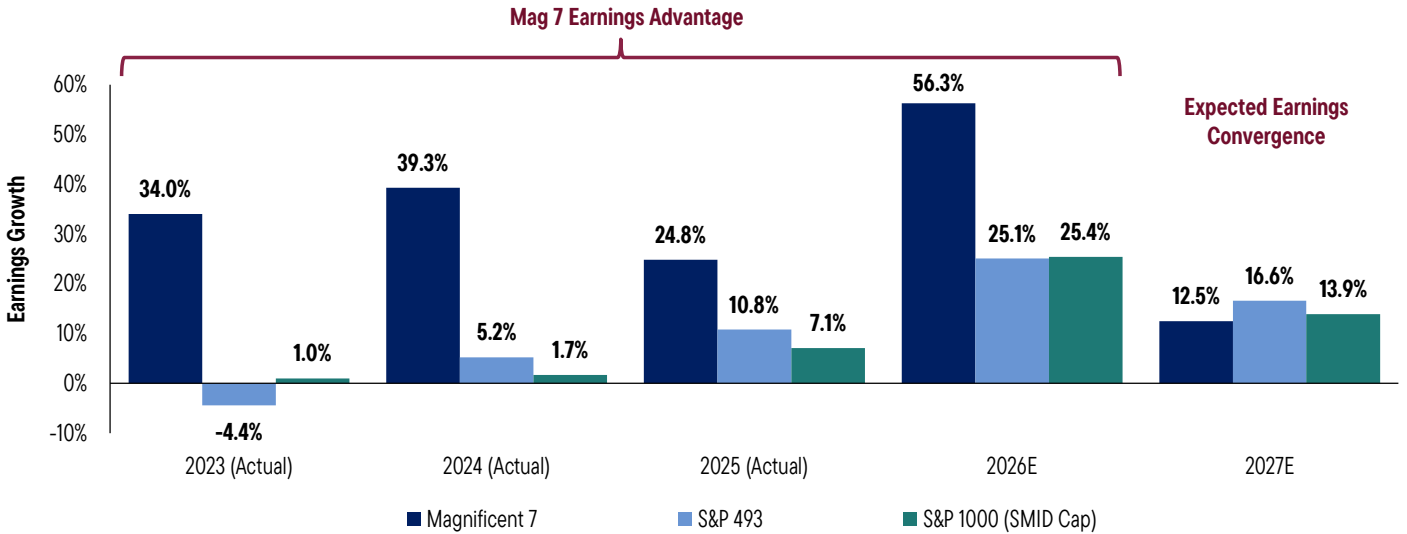
EPS Peak (S&P 500)	EPS Growth	EPS Growth + 1 Year	Return (Next 6 Months)	Return (Next 12 Months)
Q3 1984	29.9%	-2.6%	8.8%	9.6%
Q3 1988	52.2%	16.6%	8.4%	28.4%
Q4 1992	5.8%	-7.3%	3.4%	7.1%
Q2 1995	51.7%	3.9%	13.1%	23.1%
Q1 1997	20.1%	11.4%	25.1%	45.5%
Q2 2000	15.1%	-5.8%	-9.2%	-15.8%
Q2 2004	36.7%	15.8%	6.2%	4.4%
Q4 2010	46.2%	18.3%	5.0%	0.0%
Q4 2014	10.2%	-2.3%	0.2%	-0.7%
Q4 2018	23.7%	2.9%	17.3%	28.9%
Q1 2022	49.1%	5.6%	-20.9%	-9.3%

Average Returns Post EPS Growth Peak		
EPS Growth + 1 Year	Return (Next 6 Months)	Return (Next 12 Months)
All Periods	5.2%	11.0%
<10%	1.8%	6.1%
>10%	**11.2%**	**19.6%**

- **Where earnings settle following peak growth has historically been an important barometer for forward 12-month returns.**
- **While consensus estimates for the S&P 500 suggest peak EPS growth may be upon us, growth expectations for the next 12 months remain comfortably above 10% at 18.7%.**

Sources: S&P, 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.

Closing the Gap

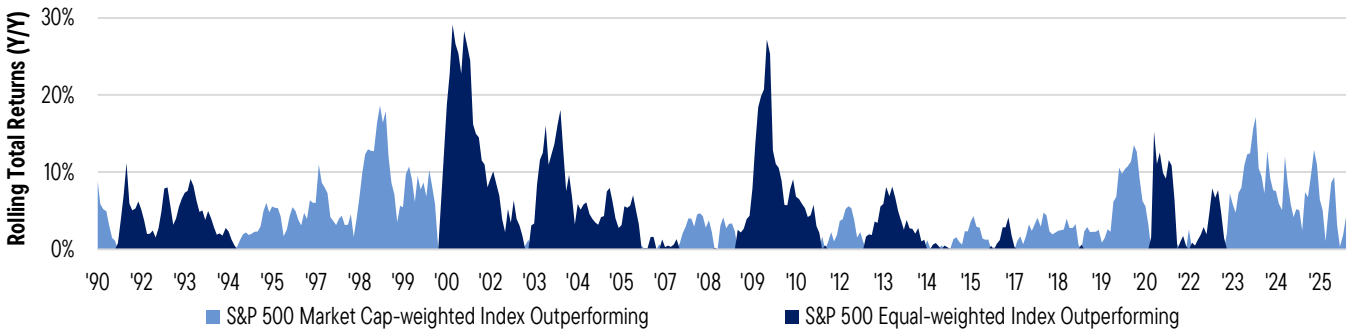


- **A key driver of the Magnificent 7 outperformance has been superior earnings growth.**
- **Bottom-up consensus expects this advantage to dissipate in 2027, with S&P 493 and S&P 1000 (SMID) earnings converging.**

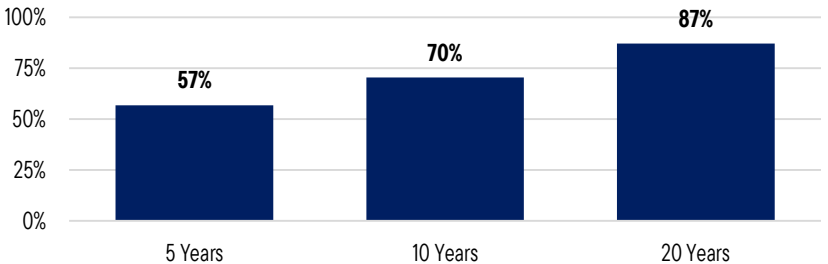
The term "consensus" within the capital markets industry refers to the average of earnings estimates made by professionals. Magnificent 7 data refers to the following set of stocks: Microsoft (MSFT), Amazon (AMZN), Meta (META), Apple (AAPL), Google parent Alphabet (GOOGL), Nvidia (NVDA), and Tesla (TSLA). Data as of September 30, 2026. 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 of sponsorship of Franklin Templeton companies. This information is not intended as an investment recommendation, nor does it constitute investment advice.

Equal-Weight to Take the Baton?

S&P 500 Market Cap vs. Equal-Weighted Relative Rolling Total Return Y/Y



Frequency of S&P 500 Equal-Weight Outperformance*

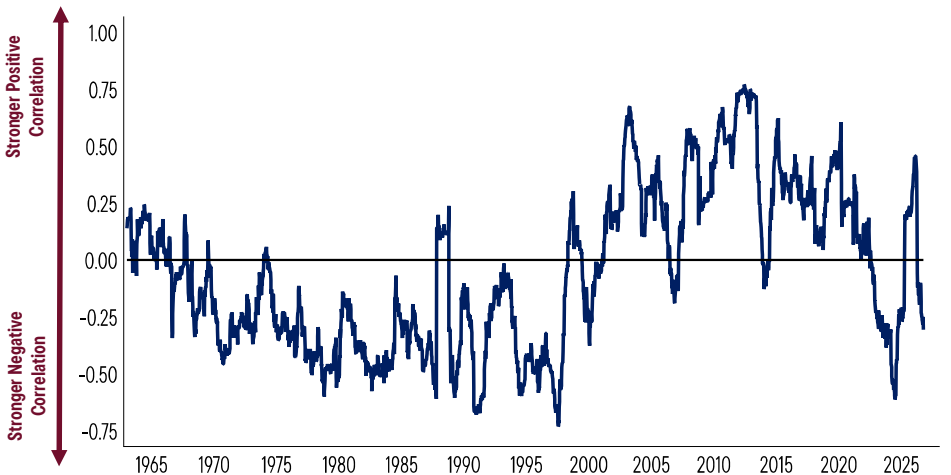


- **Equal vs. cap-weighted S&P 500 leadership has frequently oscillated.**
- **With cap-weight having led the way for much of the past decade, history suggests that equal-weight could be poised to take back the leadership baton.**

Note: Annualized monthly total return indexes.
Sources: FactSet, S&P Dow Jones Indices; analysis by Franklin Templeton Institute and Global Research Library. From December 31, 1990, to September 30, 2026.

Negative Correlation Is Back

Rolling 1-Year Weekly S&P 500 and US 10-Year Treasury Yield Correlation



- **Stocks and bonds have oscillated between positive and negative correlation regimes, historically.**
- **After a multi-decade positive correlation regime, the relationship turned negative following the pandemic-induced inflationary surge.**
- **After a brief stretch back in positive territory, stock-bond correlation is once again negative.**

Sources: US Department of Treasury, S&P Global, Macrobond. Data last updated on September 30, 2026. **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.

Negative Correlation, What Now: Equities

Equity Asset Class Returns During Historical Negative Stock-Bond Correlation Periods

Annualized Returns								
Start Date	**End Date**	**# of Days**	**S&P 500**	**Russell Midcap**	**Russell 2000**	**MSCI EAFE**	**MSCI EM (Emerging Markets)**	**FTSE Global Core Infrastructure 50/50 Index**
Oct. 1988	April 1998	3472	15.9%	-	13.4%	5.5%	58.4%	--
June 1999	Jan. 2001	602	1.3%	9.9%	8.0%	6.0%	1.9%	--
June 2006	Feb. 2007	245*	17.4%	20.0%	20.2%	21.5%	30.2%	26.1%
Nov. 2013	June 2014	203*	8.9%	10.1%	6.2%	3.9%	2.1%	8.3%
July 2022	March 2025	980	13.8%	8.6%	3.9%	8.8%	6.1%	2.6%
April 2026	?	?	?	?	?	?	?	?
Average			**11%**	**12%**	**10%**	**9%**	**20%**	**12%**

- **The correlation between stocks and bonds has once again turned negative, the second instance since the outbreak of higher inflation following the COVID-19 pandemic.**
- **Emerging market, mid-cap and infrastructure equities have fared best during historical negative stock-bond correlation periods.**

*Periods shorter than one-year are cumulative return. Note: Periods of negative stock-bond correlation based on S&P 500 and 10-Year US Treasury Yield. Sources: Macrobond, Federal Reserve, FactSet, Russell and 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.

The Honey Badger Market

Higher 10-Year Treasury Yields Have Not Been A Headwind to US Equities

10-Year Treasury Yield and S&P 500



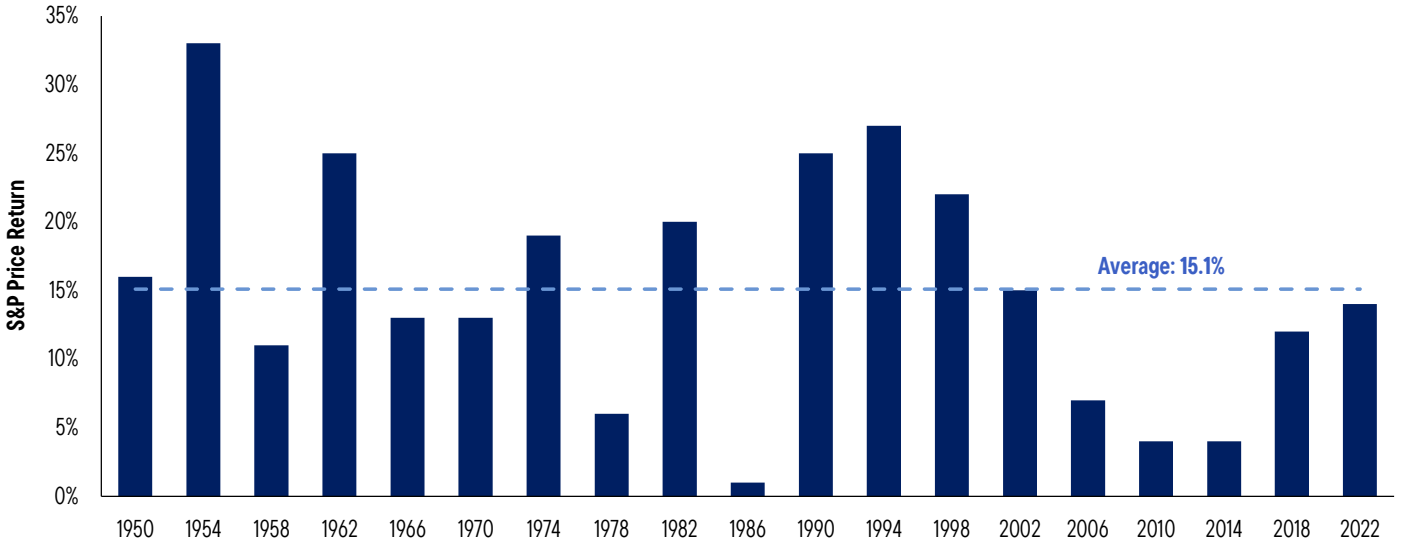
Sources: U.S. Department of Treasury, S&P Global, Macrobond.
Data last updated on: 10/2/2026.

- **The US 10-Year Treasury yield has spiked into the high-4% range in each year since the Fed's 2022 hiking cycle.**
- **US equity markets have continued to advance despite the headwind from higher rates, with robust earnings growth more than offsetting the drag from contracting valuation multiples.**

Sources: US Department of Treasury, S&P Global, Macrobond. Data last updated on October 2, 2026. **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.

Post-US Midterm Election Stock Market Performance

12-Month S&P 500 Performance Following Midterms Since 1950

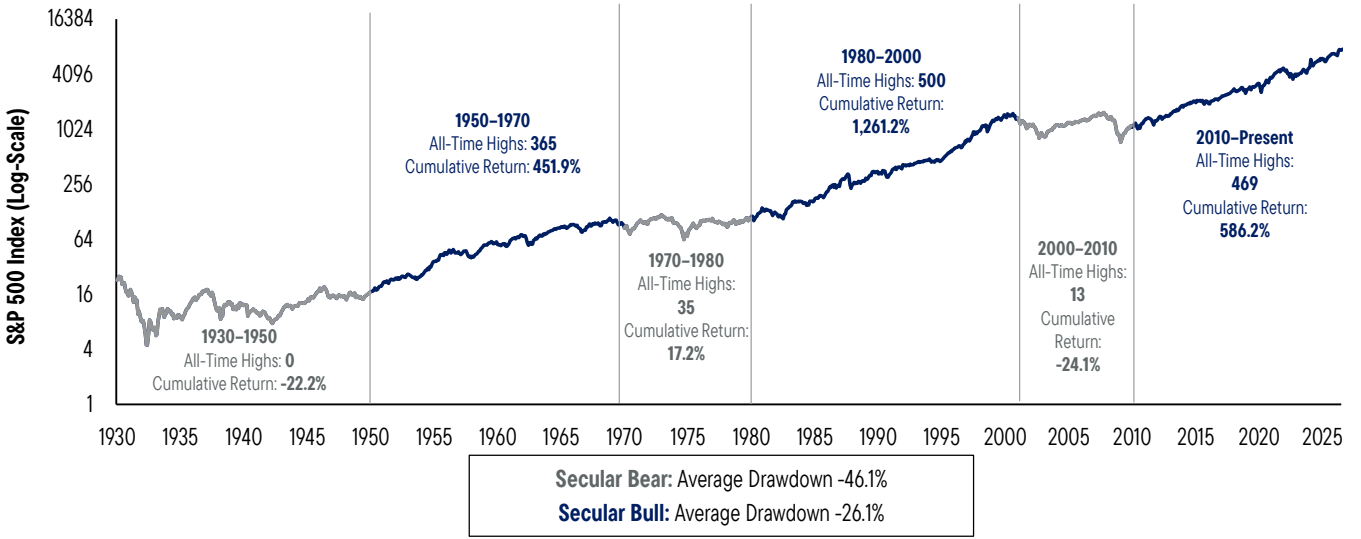


- **In the 12 months following a midterm election, the S&P 500 has been up 15.1% on average, historically.**
- **Since 1950, every 12-month period following the midterms has had a positive return.**

Sources: S&P, 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.

New Secular Bull Market?

S&P 500 Price Returns



- **In the 12 months following an all-time high, stocks have historically been up 8.7% on average with positive returns 72% of the time.**

Secular bear market average drawdown includes selloff beginning September 1929. Data as of September 30, 2026. 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

Fourth Quarter 2026

US Economic Outlook

- The AI capex boom is likely to continue with current spending within the range seen during prior technological innovation cycles.
- Higher energy prices and rising interest rates pose a risk to the US economy, although reduced energy intensity and moves to term out debt (when rates were lower) should dampen the impact.
- The overall signal from the US Recession Dashboard remains firmly in green “expansion” territory.

US Market Outlook

- The market’s rally has continued through the first nine months of 2026, putting the S&P 500 on pace to deliver its fourth consecutive year of double-digit returns.
- The rally continues to be supported by strong fundamentals with earnings driving the upside this year, while valuations have de-rated.
- Market leadership has fluctuated over the past few years, reinforcing the benefits of a diversified approach to equity exposure across style, capitalization and geography.

Recession Dashboard Overall Signal



Expansion

As of September 30, 2026.
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



Rates



Market Concentration



Market Leadership



Non-US



Investor Pitfalls

Fixed Income

Normalizing Vol, Higher Returns?

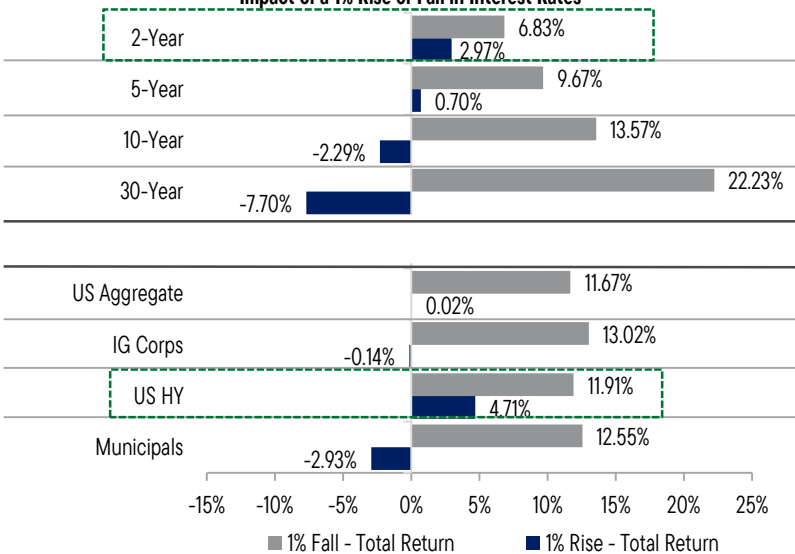
Historical 12-Month Annualized Returns By Starting MOVE Index Level										
	Short-Term Bonds	US Treasury Bonds	MBS	Global Bonds	Multi-Sector	TIPS	Leveraged Loans	Corporate Bonds	High Yield Bonds	Emerging Market Bonds
MOVE <76	1.85%	2.15%	2.09%	1.27%	1.41%	2.74%	4.10%	3.05%	5.25%	3.34%
MOVE 76-100	3.10%	4.12%	4.30%	3.30%	3.45%	5.75%	4.66%	4.87%	5.24%	8.27%
MOVE >100	4.12%	4.88%	5.46%	5.75%	5.97%	6.66%	6.83%	7.33%	10.42%	12.41%
Average	2.99%	3.64%	3.87%	3.39%	3.56%	4.93%	5.21%	5.04%	7.07%	7.85%

Current MOVE Index (as of September 30, 2026): 110.45

- **Historically, when bond market volatility has been elevated at these levels (MOVE >100), subsequent 12-month returns were strong.**

The MOVE Index measures US interest rate volatility through US Treasury options pricing and is designed to measure fixed income market sentiment. Data represents period from January 29, 1999–September 30, 2026, as of September 30, 2026. Sources: ICE, Bank of America Merrill Lynch, Bloomberg, Credit Suisse. **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.

Interest Rate Impact by Asset Class



	15-Year Correlation to 10-Year Treasuries	15-Year Correlation to S&P 500
2-Year	0.79	0.04
5-Year	0.95	0.06
10-Year	1.00	0.05
30-Year	0.94	0.02
US Aggregate	0.91	0.32
IG Corps	0.72	0.52
US HY	0.20	0.78
Municipals	0.73	0.35

- **Short- and intermediate-term bonds, along with US high yield, are two areas that we believe 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 September 30, 2026. 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 Hike

Initial Hike	Cumulative Hikes (bps)	Cycle Type	12-Month Return Following Initial Hike					
			Short-Term Bonds	US Treasury Bonds	Core/Core Plus Bonds	Investment-Grade Corporate Bonds	High-Yield Bonds	Emerging Markets Bonds
Aug. 1980	1,050 bps	Aggressive	3.6%	-1.5%	-5.0%	-8.2%	--	--
May 1983	325 bps	Aggressive	7.8%	3.1%	2.2%	-0.9%	--	--
Dec. 1986	137 bps	Modest	5.3%	0.9%	1.8%	1.6%	2.2%	--
March 1988	325 bps	Aggressive	4.7%	2.9%	3.7%	4.6%	7.6%	--
Feb. 1994	300 bps	Aggressive	1.3%	-2.3%	-1.2%	-2.4%	-1.8%	-17.5%
Jun. 1999	175 bps	Modest	5.1%	5.9%	5.1%	3.3%	-1.1%	21.2%
Jun. 2004	425 bps	Aggressive	2.4%	7.3%	7.1%	8.3%	10.7%	19.9%
Dec. 2015	225 bps	Modest	1.0%	0.1%	1.7%	4.8%	17.2%	9.1%
March 2022	525 bps	Aggressive	-0.4%	-5.4%	-5.5%	-5.7%	-3.9%	-3.8%
Sept. 2026	120 bps*	?	?	?	?	?	?	?
Average (All)			3.4%	1.2%	1.1%	**0.6%**	4.4%	**5.8%**
Average (Modest < 250 bps cumulative)			3.8%	**2.3%**	2.8%	3.3%	6.1%	**15.2%**
Average (Aggressive > 250 bps cumulative)			**3.2%**	0.7%	0.2%	**-0.7%**	3.1%	-0.5%

- **Following the commencement of Federal Reserve rate hikes, investors have historically been rewarded for taking on credit risk during modest hiking cycles in particular and shortening duration generally.**

Cumulative current cycle hikes based on peak fed fund futures market pricing as of September 30, 2026. Short-term bonds represented by the Bloomberg 1-3 Yr US Gov/Credit Total Return Index, US 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, Emerging markets bonds represented by the Bloomberg EM USD Aggregate Total Return Index Value Unhedged 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.

Negative Correlation, What Now: Fixed Income

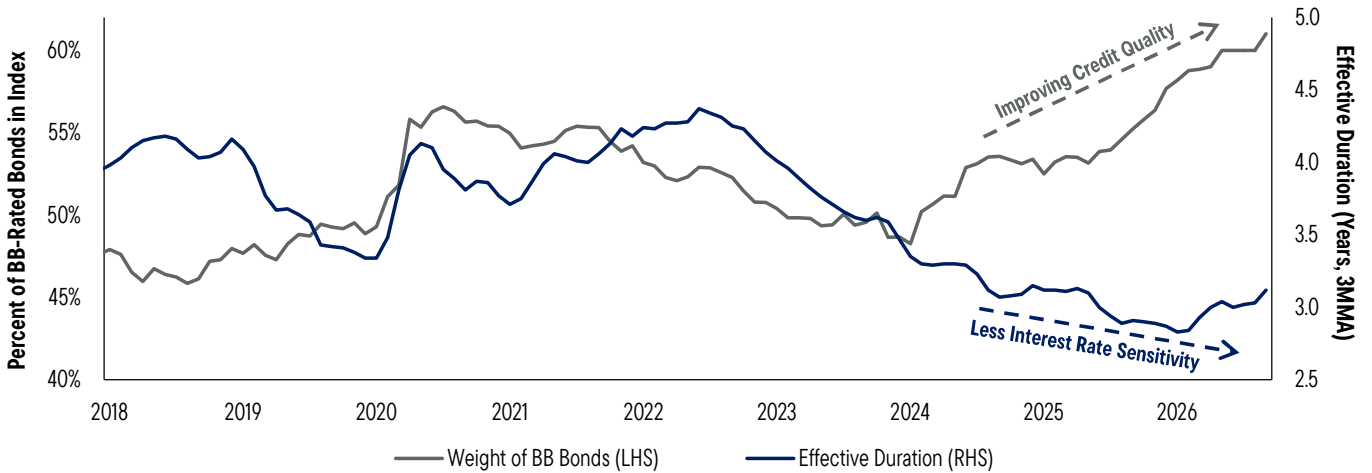
Annualized Returns									
Start Date	**End Date**	**# of Days**	**Cash (3M T-Bills)**	**Short-Term Bonds**	**US Treasury Bonds**	**Core/Core Plus Bonds**	**Investment-Grade Corporate Bonds**	**High-Yield Bonds**	**Emerging Markets Bonds**
Oct. 1988	April 1998	3472	5.82%	7.37%	8.92%	9.13%	9.82%	11.56%	N/A
June 1999	Jan. 2001	602	5.87%	6.99%	8.18%	8.00%	6.94%	0.16%	19.96%
June 2006	Feb. 2007	245*	3.42%	3.94%	5.32%	6.14%	7.46%	11.35%	11.64%
Nov. 2013	June 2014	203*	0.04%	0.43%	1.16%	2.49%	4.77%	6.05%	7.28%
July 2022	March 2025	980	4.70%	3.63%	1.02%	1.83%	3.33%	7.98%	7.43%
April 2026	?	?	?	?	?	?	?	?	?
	Average		**3.97%**	**4.47%**	**4.92%**	**5.52%**	**6.46%**	**7.42%**	**11.58%**

- **The correlation between stocks and bonds has once again turned negative, the second instance since the outbreak of higher inflation following the COVID-19 pandemic.**
- **Emerging market, high-yield and investment-grade bonds have fared best during historical negative stock-bond correlation periods.**

Periods shorter than one year are cumulative return. Short-term bonds represented by the Bloomberg 1-3 Yr US Gov/Credit Total Return Index, US 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, Emerging markets bonds represented by the Bloomberg EM USD Aggregate Total Return Index Value Unhedged 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

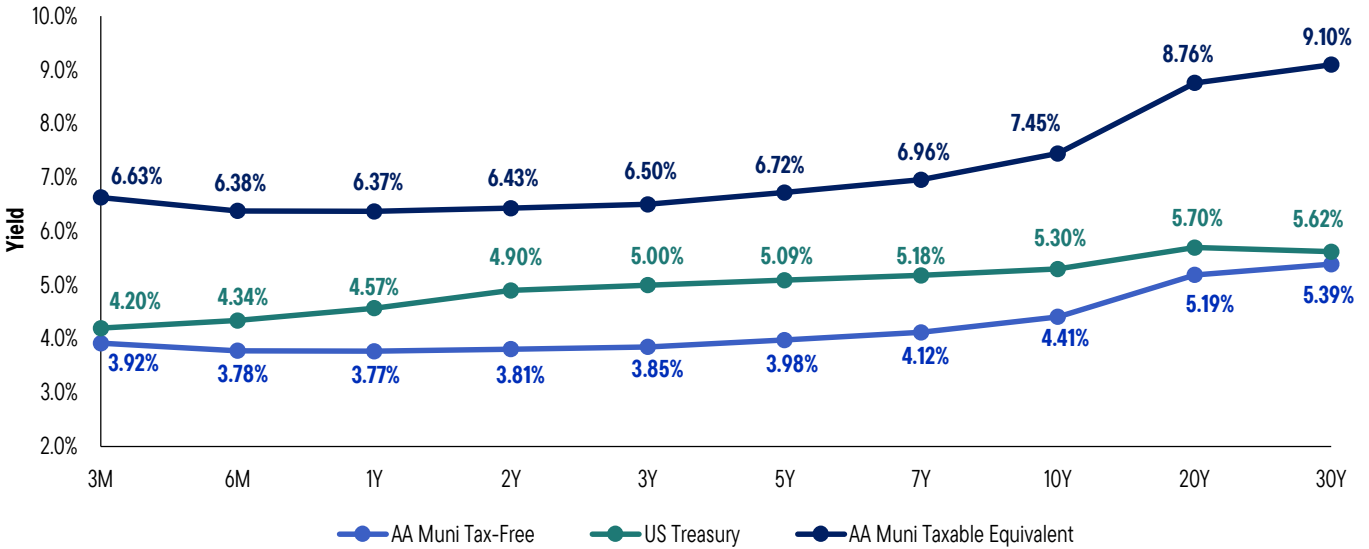
Risk Profile of High-Yield Has Improved



- **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.**

Data as of September 30, 2026. Sources: Bank of America Securities, FactSet. High-yield bonds represented by ICE BofA High-Yield 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.

Muni's Shine After Tax



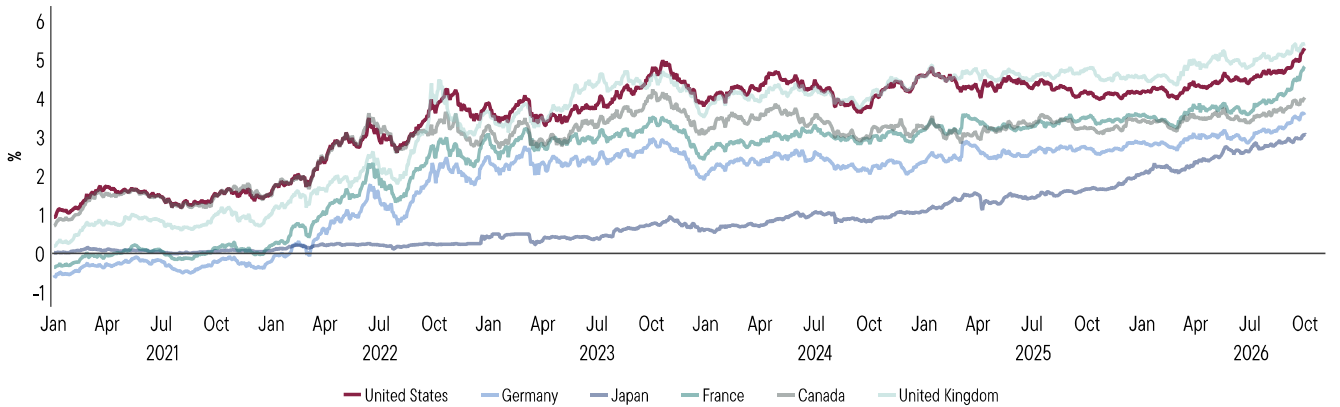
- **With the recent rise in interest rates, we believe high-quality municipal bonds offer attractive yields on an after-tax basis compared with US Treasuries.**
- **Over 50% of the Bloomberg Municipal Bond Index is rated AA or better, equivalent to US Treasuries.**

Note: Taxable equivalent assumes highest US marginal tax rate. As of September 30, 2026. 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.

Rates

Rising Rates a Global Phenomena

Sovereign 10-Year Yields

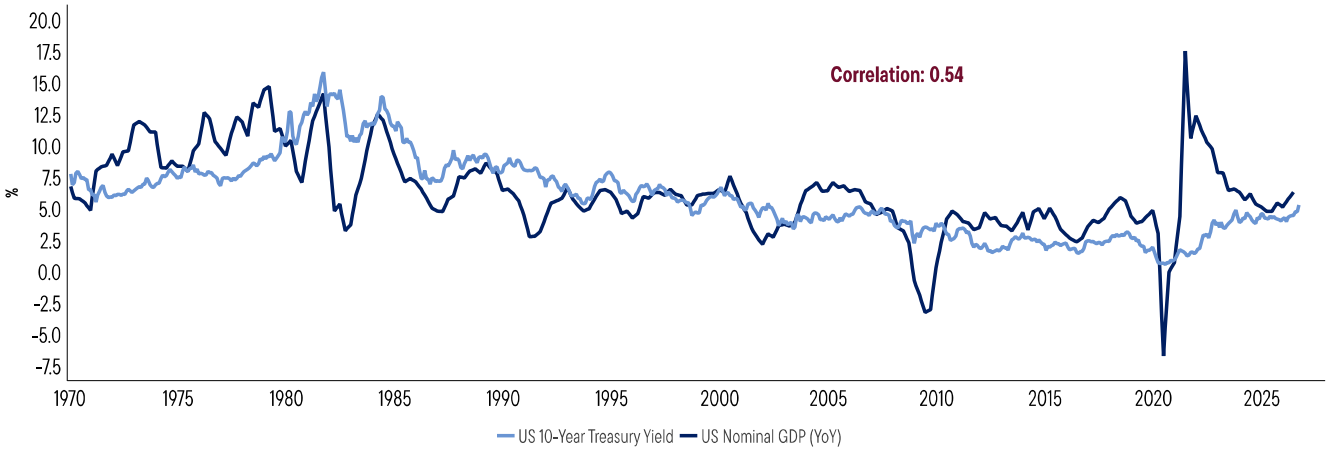


Sources: U.S. Treasury, Macrobond.
Data last updated on: 9/30/2026.

- **Although there has been substantial focus on the rise in yields for US Treasuries lately, this move higher began five years ago and has occurred in tandem with increasing global yields.**
- **Put differently, higher rates are not a new development, nor just a US phenomenon.**

Sources: US Treasury, Macrobond. Data last updated on September 30, 2026. **Past performance is not a guarantee of future results.**

Normalization?



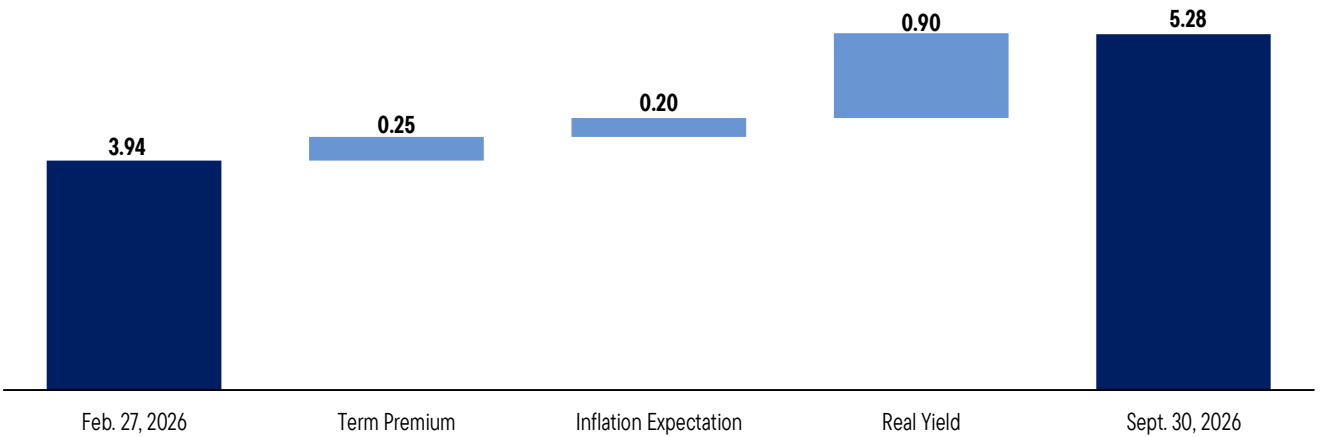
Sources: U.S. Bureau of Economic Analysis (BEA), U.S. Department of Treasury, Macrobond.
Data last updated on: 9/30/2026.

- **Historically, long-term Treasury yields have closely tracked nominal GDP.**
- **The post-pandemic pickup in rates has occurred against a stronger nominal GDP backdrop. This suggests normalization of the relationship following a prolonged undershoot during the economically weaker post-global-financial-crisis period.**

Sources: US Bureau of Economic Analysis (BEA),US Department of Treasury, Macrobond. Data last updated on September 30, 2026. **Past performance is not a guarantee of future results.**

Is This a “Real” Problem?

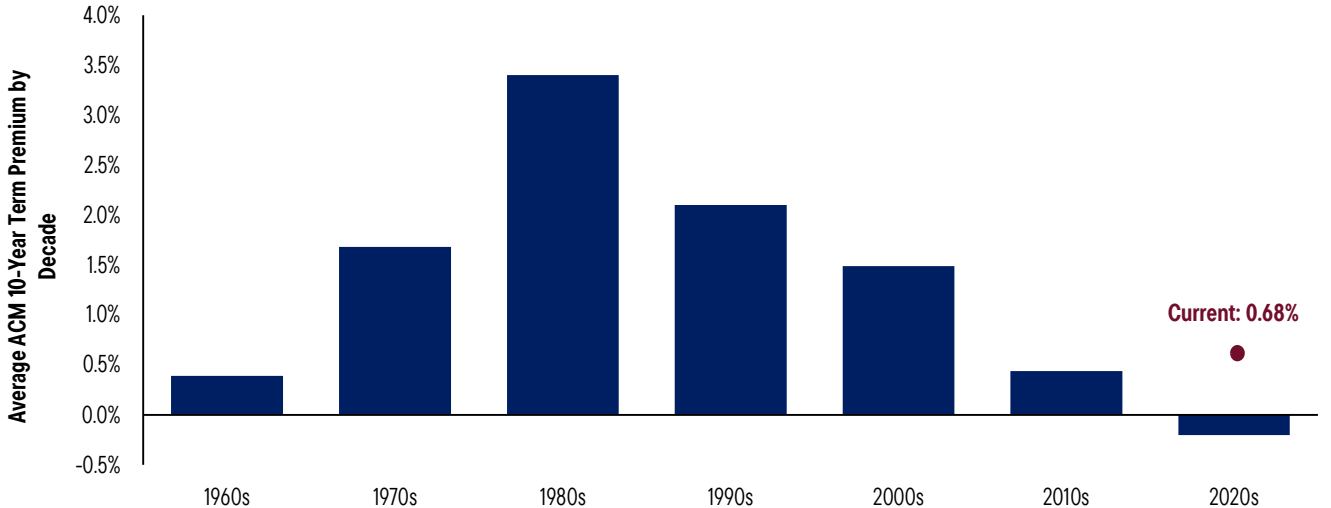
10-Year Treasury Yield Decomposition



- **Since the late February lows, the increase in long-term Treasury yields has come primarily from real yields (improving economic growth) rather than inflation expectations or the term premium (uncertainty).**
- **Through this lens, concerns about fiscal sustainability and the Fed have not been the primary driver of the move in bond yields.**

Sources: Federal Reserve and Bloomberg. Data as of September 30, 2026.

Term Premium in Context



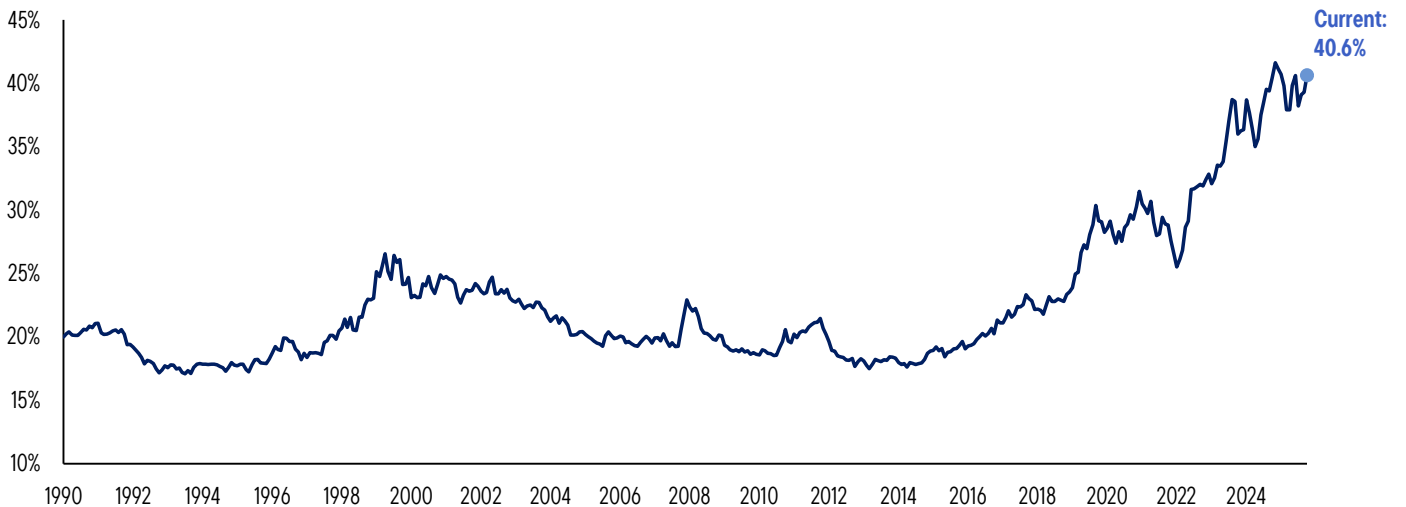
- **10-year Treasury term premium mainly captures uncertainty and tends to rise when there is less confidence in the inflation outlook.**
- **While the term premium has moved higher since 2022, it started from a low base after spending much of the last decade in negative territory but remains moderate when compared to history.**

Note: 10-Year US Treasury estimated term premium using ACM model. Sources: Federal Reserve Bank of New York, Macrobond. Data as of September 30, 2026. **Past performance is not a guarantee of future results..**

Market Concentration

Trouble Concentrating?

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

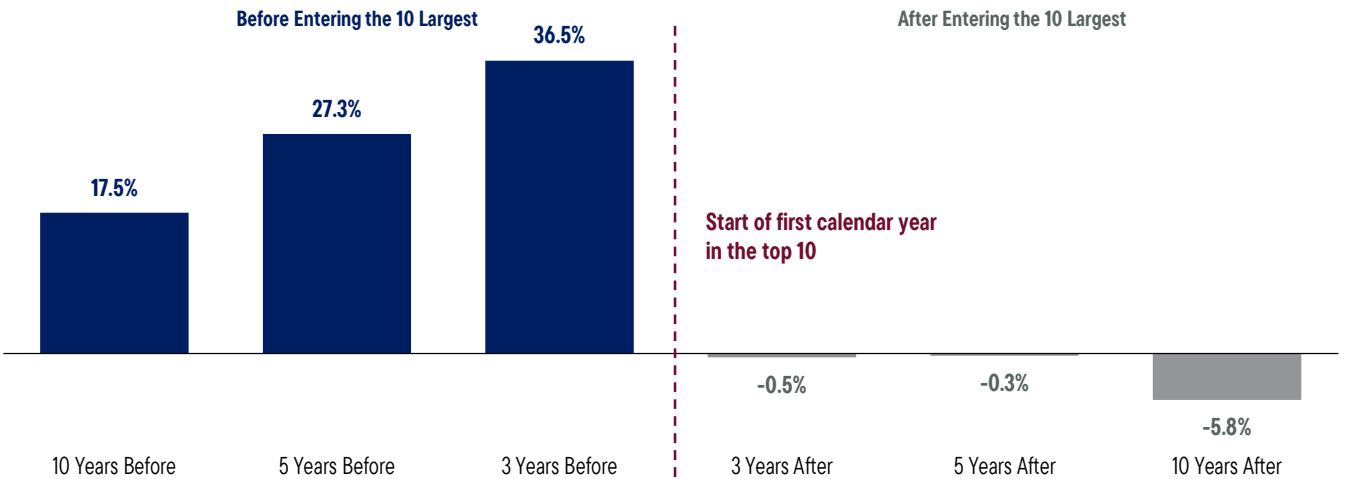


- **The weight of the largest stocks in the benchmark is near record highs.**

Data as of September 30, 2026. Sources: S&P, FactSet, and Bloomberg. **Past performance is not a guarantee of future result**s. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Trees Don’t Grow to the Sky

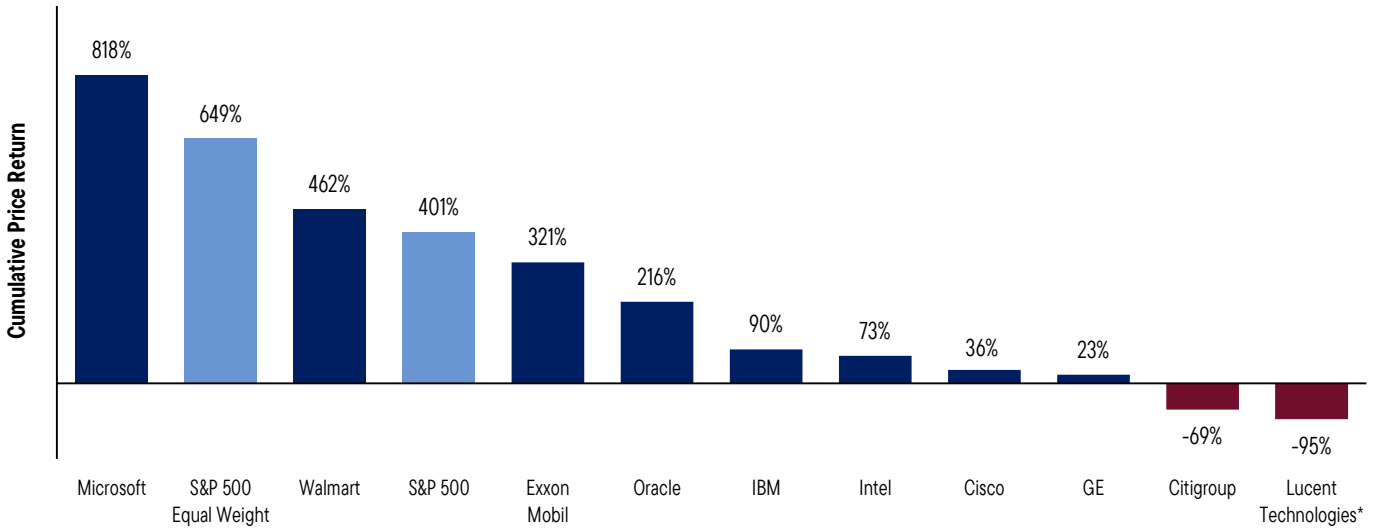
Relative Annualized Performance Before and After Becoming 10 Largest S&P 500 Companies



- **Historically, stocks that become one of the 10 largest S&P 500 companies have strongly outpaced the benchmark on the way up, only to run out of steam once this milestone is achieved.**

Data as of September 30, 2026. 1985-Present. Annualized performance relative to S&P 500. Sources: S&P, 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. 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

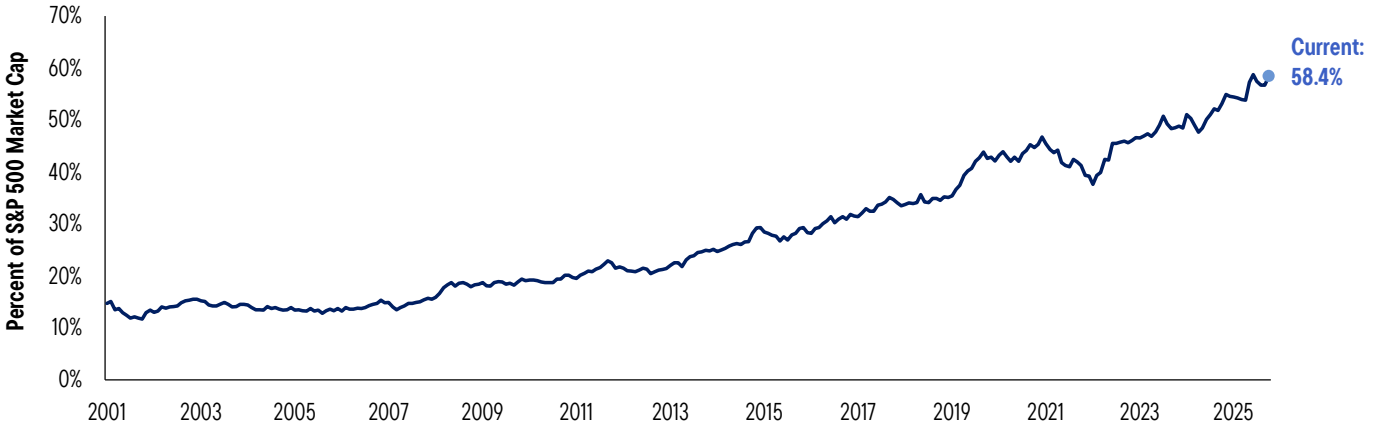


- **Following the peak of the "dot-com" mania, the prospects of the 10 largest S&P 500 constituents have varied widely.**
- **We believe that a similar dynamic may play out in the coming years, presenting an opportunity for active managers.**

*Lucent Technologies was acquired by Alcatel in 2006; cumulative price return is calculated based on the final pre-merger trading day (Nov. 30, 2006). Note: data shown from March 2000–present, as of September 30, 2026. 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. 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.

Not Your Father's S&P 500

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

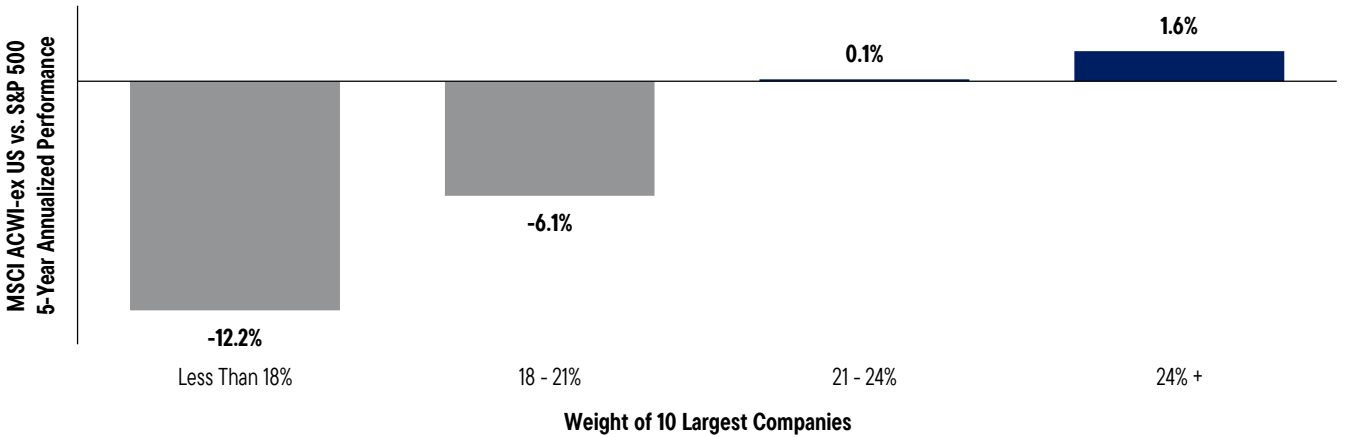


- **Since the global financial crisis (GFC), the composition of the S&P 500 index has increasingly mirrored the more growth- and technology-oriented QQQ.**
- **Many investors may be overexposed to growth and technology due to this dynamic with the current overlap breaching 50% in 2025.**

The Nasdaq 100 Index is comprised of the 100 largest non-financial companies traded on the Nasdaq exchange. Ticker Symbol QQQ represents the Invesco QQQ Trust, Series 1, an exchange-traded fund operated by Invesco and its affiliates and was chosen as an ETF that tracks the Nasdaq 100 index. Data as of September 30, 2026. Sources: S&P, FactSet. Market cap is calculated using the sum of constituents. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. This information should not be construed as a recommendation of any index or investment product. **Past performance is not a guarantee of future results.**

Concentration Leads to Non-US Opportunity

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

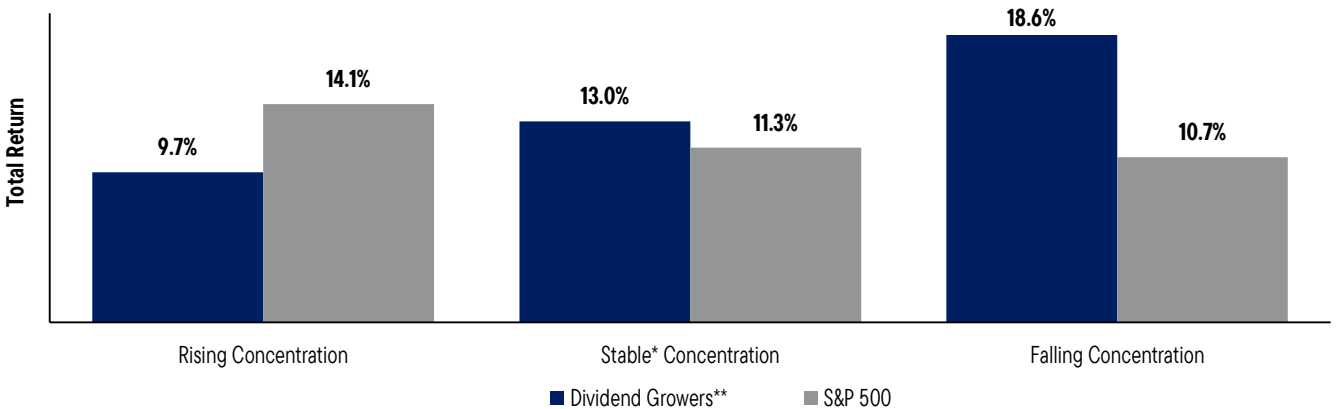


- **When the 10 largest companies in the S&P 500 have historically accounted for over 24% of the benchmark, the MSCI ACWI ex-US has outperformed by an average of 1.6% (annualized) over the next five years.**
- **The top 10 weights in the S&P 500 currently make up over 40% of the benchmark.**

Data shown is from Dec. 1989–present, as of September 30, 2026. 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.**

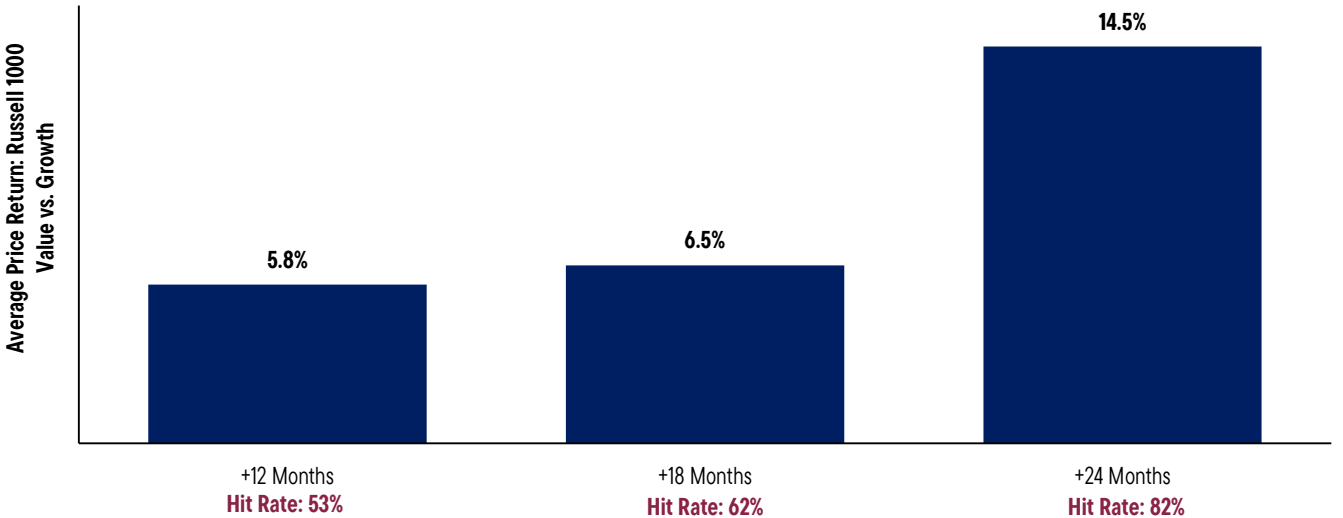
*Stable concentration is based on Y/Y change of +/- 100 bps in combined weight of the ten largest S&P 500 companies, rising +100 bps or more, falling -100 bps or less.

**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 September 30, 2026. 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

Value, Down But Not Out

Relative Return of Value vs. Growth Following -20% 12-Month Value Underperformance

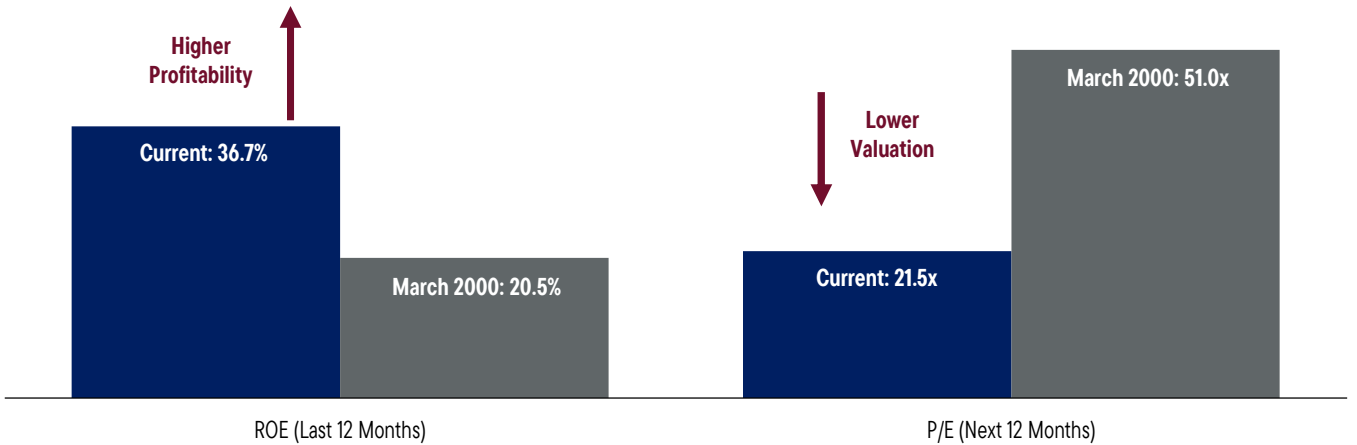


- **Value has historically recovered following periods of sizeable (-25%) underperformance vs. growth. This threshold was triggered during the fourth quarter of 2025.**

Hit rate is percent of positive historical observations. Russell 1000 Growth, Russell 1000 Value, reflective of period from 1979 – present, as of September 30, 2026. 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.

Not the Dot Com

S&P 500 Technology Sector Profitability and Valuation

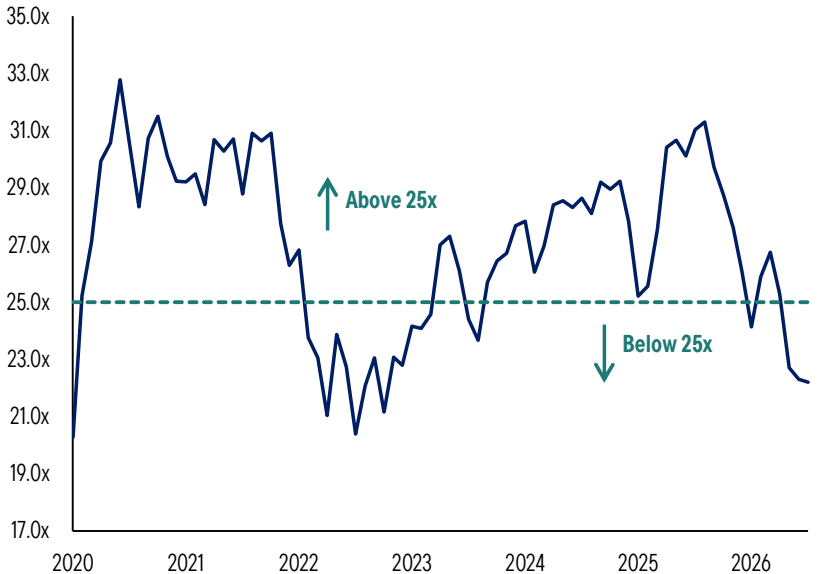


- **Although valuations for AI beneficiaries are currently elevated, the technology sector remains well below the levels seen at the height of the dot-com bubble.**
- **Importantly, companies today are more profitable (higher ROEs), which may provide a buffer against future disappointments.**

Data as of September 30, 2026. 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.

Higher Valuation Regime: Growth

Russell 1000 Growth NTM P/E



Russell 1000 Growth		
	April 2020	Current
Index Level	1,150	3,335
NTM EPS	$46	$152
NTM P/E	25x	22x

- **Since the pandemic, the Russell 1000 Growth Index has traded in a higher valuation regime (above 25x) 74% of the time since first crossing this level in April 2020.**
- **Multiples for large-cap growth stocks have de-rated from over 30x in 2H25 to below 25x at present.**
- **With multiples holding largely steady, this cycle's returns have been entirely driven by EPS growth rather than P/E expansion.**

Data as of June 30, 2026. Sources: FactSet. **Past performance is not a guarantee of future results.**

SMID caps on sale



	Current P/E Ratio	LT Avg. P/E Ratio
S&P 500 (Large Cap)	19.0x	16.3x
S&P 1000 (SMID Cap)	14.3x	15.9x

- **Small- and mid-cap (SMID) stocks have historically traded at similar multiples to large caps.**
- **A substantial valuation discount to large-cap stocks emerged this cycle. Although this gap has considerably narrowed over the past year, it remains historically large.**

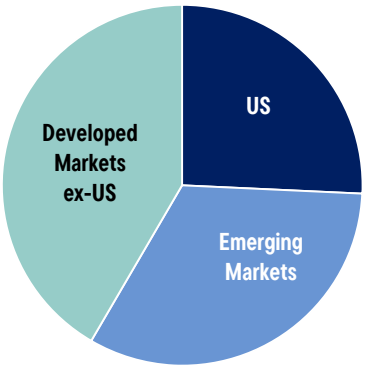
As of September 30, 2026. Sources: FactSet, S&P. **Past performance is not a guarantee of future results.** Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Non-US

Home Country Bias

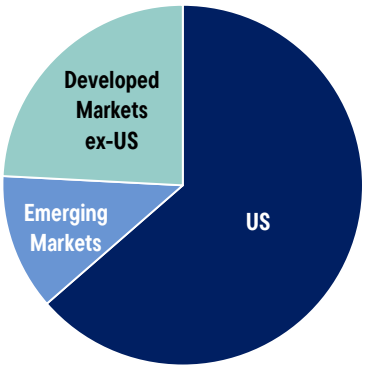
Historically, investors have over-allocated to their home country

% GDP



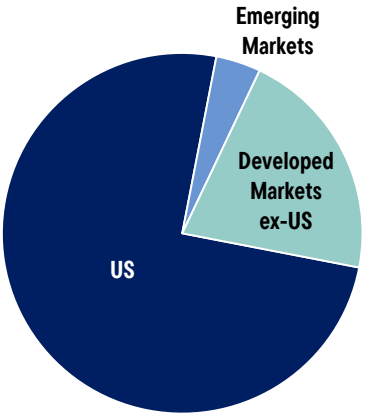
The US represents 26% of global GDP

% Market Cap



The US represents 64% of global market cap

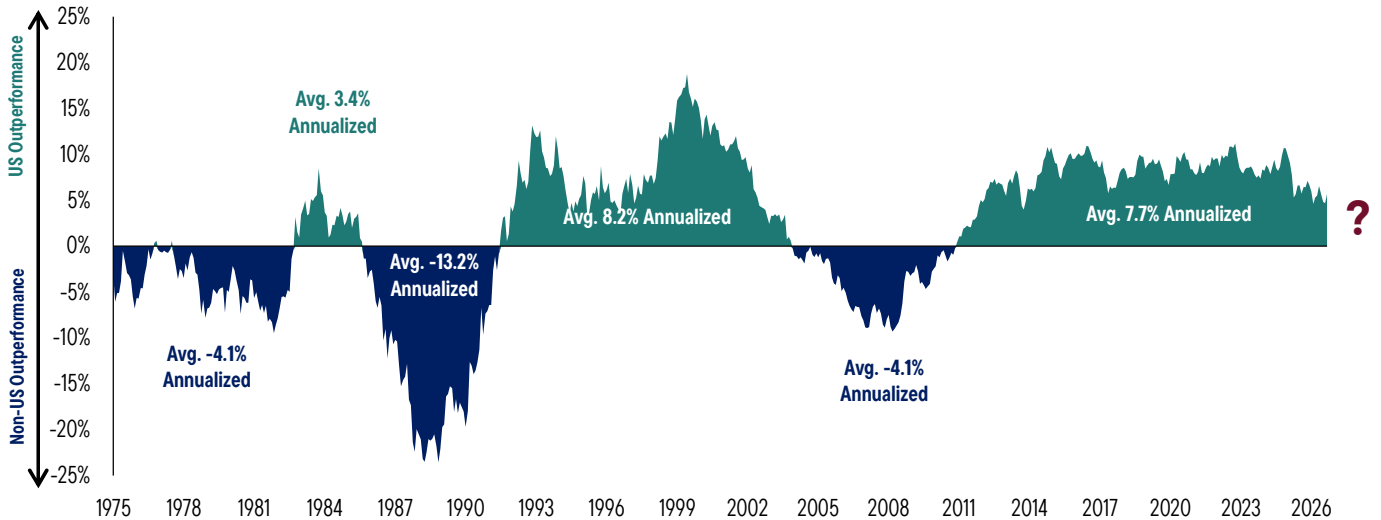
% Assets



The US represents 75% of US investor portfolios

Sources: Morningstar, Macrobond, IMF, MSCI, FactSet. Data most recent available as of September 30, 2026. Morningstar Category Assets as of August 31, 2026. GDP as of September 30, 2026. MSCI ACWI Index as of September 30, 2026.

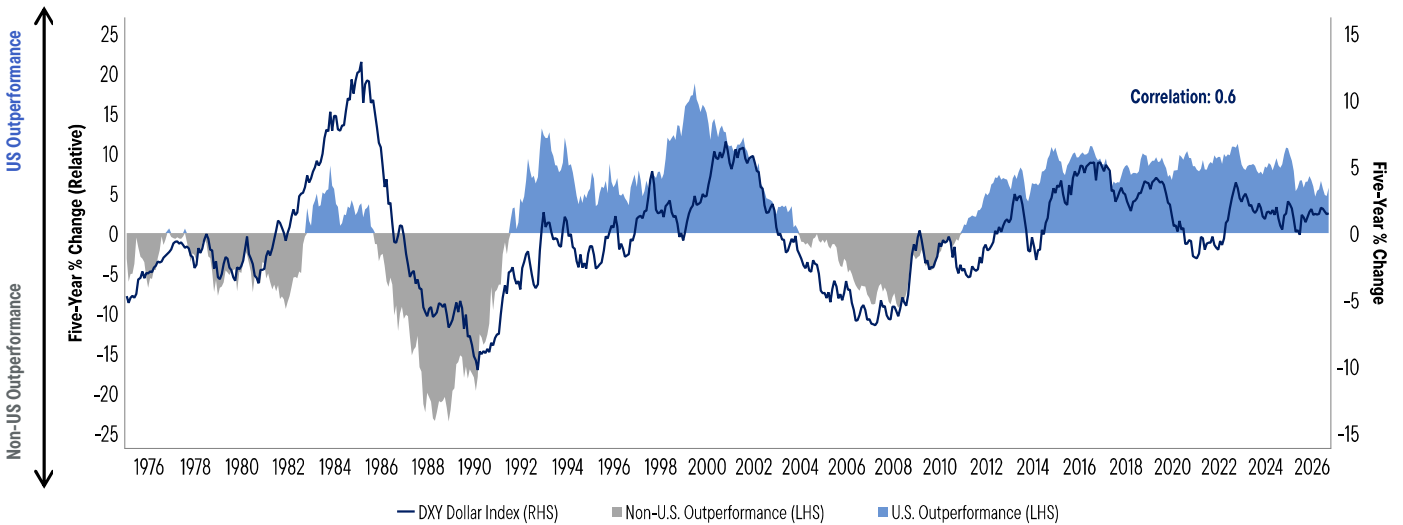
Global Leadership Cycles



- **History shows that geographic leadership has persisted 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 indexes. Data as of September 30, 2026. 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.

Regional Leadership Tethered to the Dollar



- **History shows that geographic leadership is more closely tied to currency moves than investors appreciate.**
- **A period of prolonged dollar weakness could be a catalyst for more pronounced non-US outperformance.**

Note: Price return. Sources: S&P, MSCI, Intercontinental Exchange (ICE), Macrobond. Data as of September 30, 2026. Data shows rolling five-year annualized performance differential between S&P 500 and MSCI ACWI ex-US indexes 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.

Non-US Equities After the Fed Hike

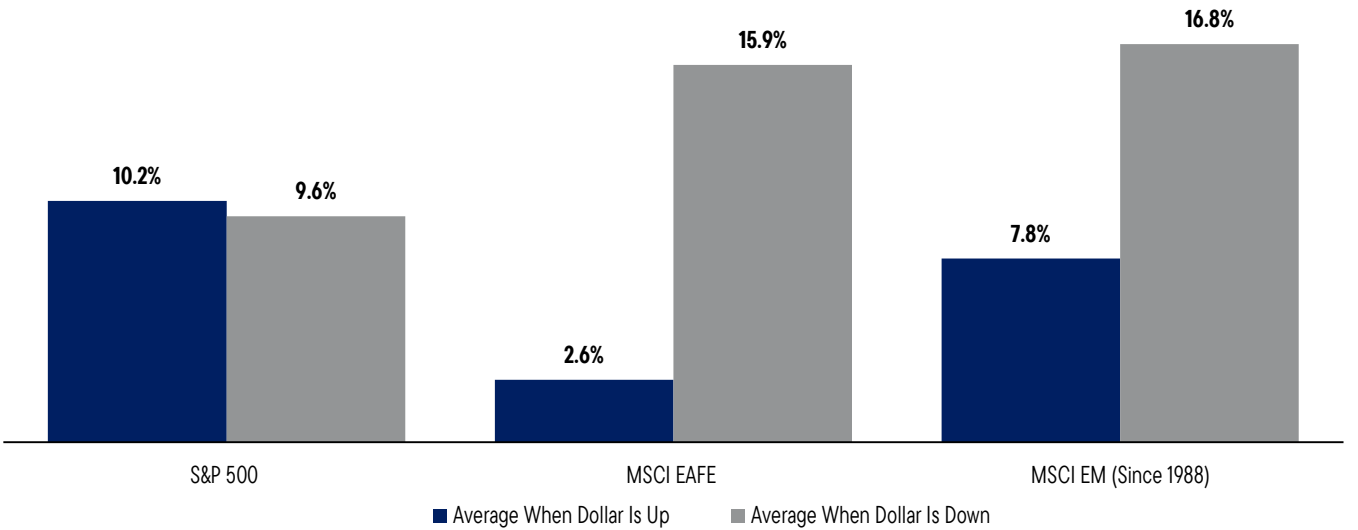
			12-Month Return Following Initial Hike			
Initial Hike	**Cumulative Hikes (bps)**	**Cycle Type**	**MSCI EAFE**	**MSCI EAFE Growth**	**MSCI EAFE Value**	**MSCI Emerging Markets**
Aug. 1980	1,050 bps	Aggressive	1.1%	-3.8%	6.1%	--
May 1983	325 bps	Aggressive	22.7%	24.9%	20.7%	--
Dec. 1986	137 bps	Modest	26.1%	25.6%	28.8%	--
March 1988	325 bps	Aggressive	10.2%	6.4%	14.0%	29.3%
Feb. 1994	300 bps	Aggressive	-6.1%	-7.7%	-3.9%	-19.2%
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Dec. 2015	225 bps	Modest	-0.6%	-4.6%	3.4%	10.2%
March 2022	525 bps	Aggressive	-4.0%	-4.1%	-4.1%	-7.8%
Sept. 2026	120 bps*	?	?	?	?	?
Average (All)			8.2%	**7.0%**	**9.7%**	8.6%
Average (Modest < 250 bps cumulative)			13.2%	12.8%	**14.1%**	**8.7%**
Average (Aggressive > 250 bps cumulative)			5.8%	**4.1%**	7.5%	**8.6%**

- **Non-US equities have proven resilient in the year following the onset of Fed rate hike cycles, historically.**
- **Fed Fund futures are currently pricing a "modest" hike cycle, an environment that has typically benefited non-US developed equities over emerging markets and value over growth.**

*Cumulative current cycle hikes based on peak fed funds futures market pricing as-of September 30, 2026. Sources: FactSet, Bloomberg, 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. For illustrative purposes only and not reflective of the performance or portfolio composition of any Franklin Templeton fund.

Weaker Dollar Supercharges Non-US Stocks

US Dollar Impact on Annual Equity Performance Since 1974



- **Non-US equities historically have outperformed during periods of dollar weakness.**

Note: Price Return. Data as of Dec. 31, 2025. 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.

Global Valuations Attractive



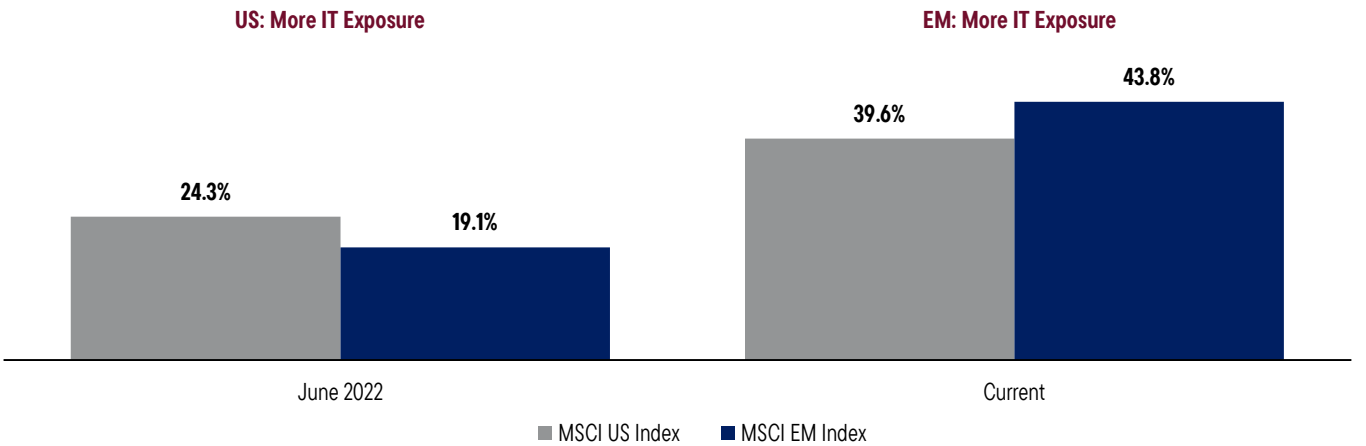
	Current P/E Ratio	LT Avg. P/E Ratio
ACWI ex-US	12.6x	13.2x
S&P 500	19.0x	16.3x

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

As of September 30, 2026. 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.

Emerging Markets and the AI Trade

Weight of Information Technology Sector

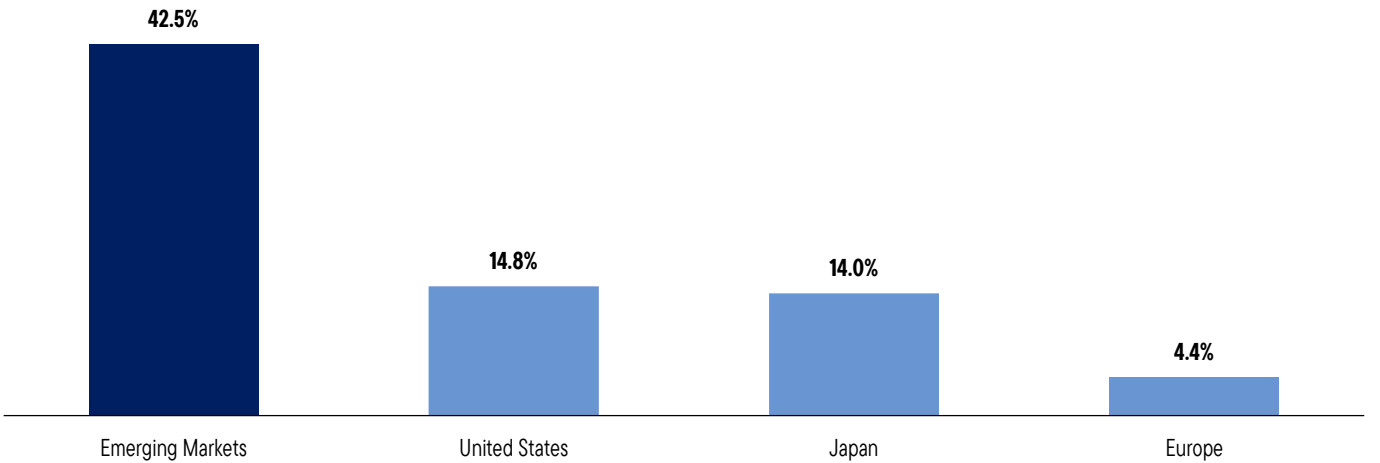


- **Although many think the US is the epicenter of the AI trade, emerging market benchmarks now have a larger exposure to the technology sector following this year's strong gains.**

Data as of September 30, 2026. Sources: FactSet, MSCI. **Past performance is not a guarantee of future results.**

Earnings Revisions Favor Emerging Markets

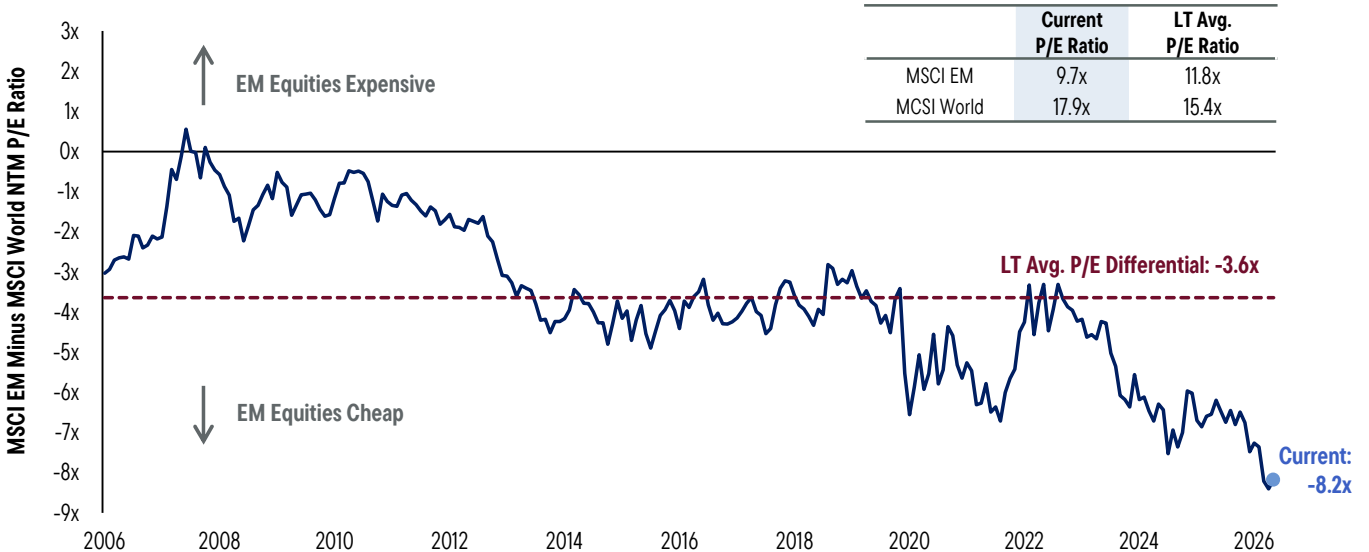
2026E YTD EPS Revisions in USD



- **Emerging markets are seeing materially higher earnings estimates for 2026 than other regions globally.**
- **Earnings drive the majority of stock movement over the long term, meaning this development could bode well for the asset class.**

Japan represented by the MSCI Japan index, Europe represented by the MSCI Europe index, emerging markets represented by the MSCI Emerging Markets index, and United States represented by the MSCI USA index. Data as of June 30, 2026.
Sources: FactSet, MSCI. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Emerging Markets Historically Cheap



	Current P/E Ratio	LT Avg. P/E Ratio
MSCI EM	9.7x	11.8x
MCSI World	17.9x	15.4x

- **Emerging market equities remain cheap relative to developed ex-US (MSCI World) stocks despite handily outperforming in 2025 and so far in 2026.**

Data as of September 30, 2026. Sources: FactSet, 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

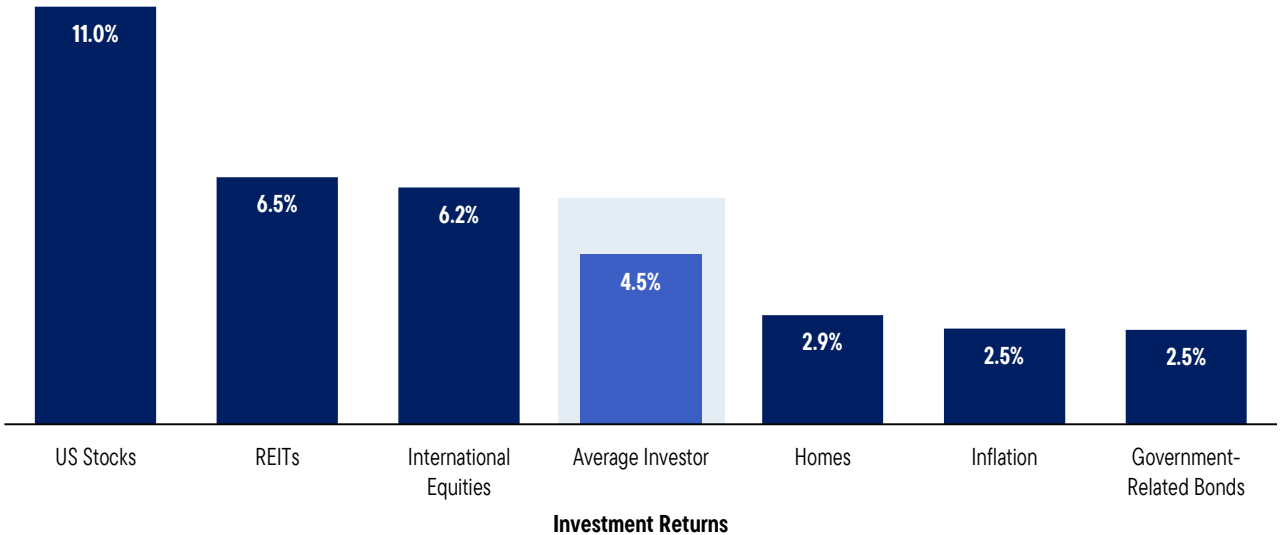
Panic Attacks and the S&P 500

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.

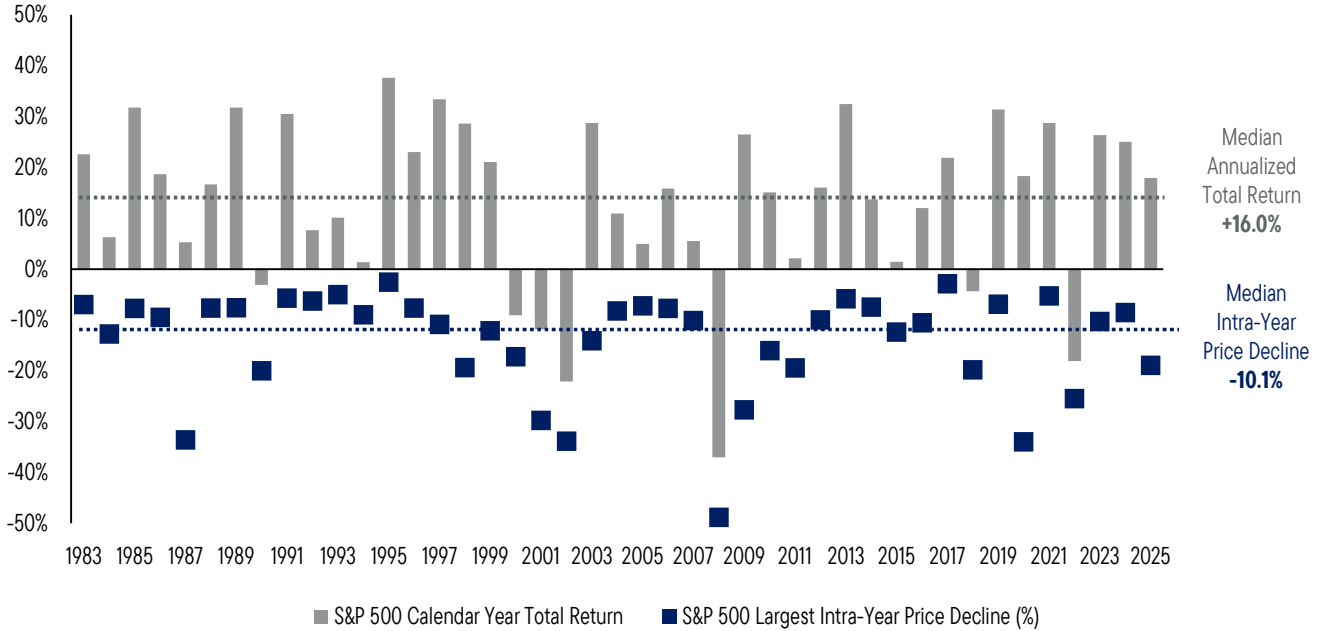
Don’t Fall Victim to Panic Attacks

20-year Annualized Returns (2006-2025)



Source: Bloomberg, as of Dec. 31, 2025. Average asset allocation investor return is based on an analysis by DALBAR, Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Indices shown are as follows: REITs are represented by the NAREIT Equity REIT Index, US stocks are represented by the S&P 500 Index, international equities are represented by the MSCI EAFE Index, government-related bonds are represented by the Bloomberg Global Aggregate TR Index, Homes are represented by US existing home sales median price, inflation is represented by the Consumer Price Index. **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.

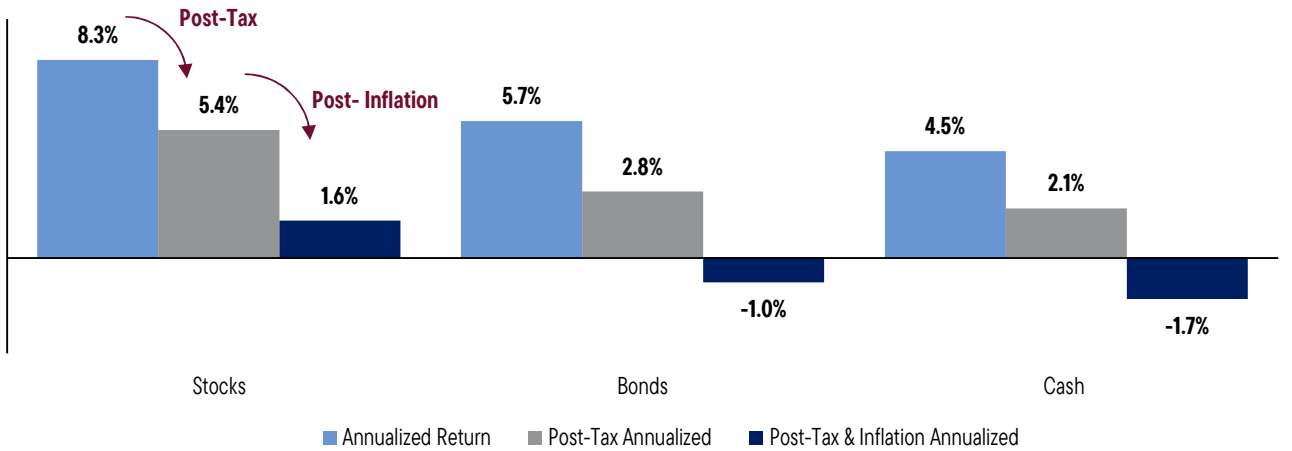
Volatility Not a Financial Loss Unless You Sell



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.

Stocks For the Long Haul

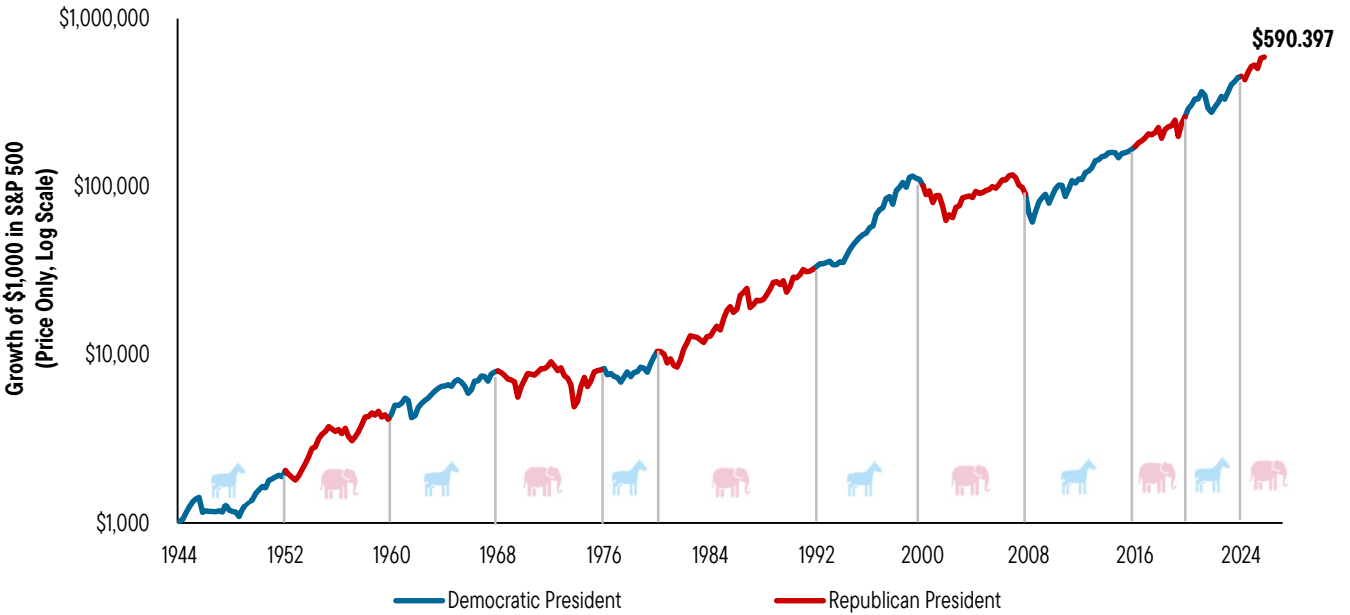
Compounded Annualized Total Returns Since 1961



- **Investors primarily focus on nominal returns when evaluating investments, with consideration of taxes and inflation often secondary.**
- **After accounting for these drags, only equities have historically delivered positive real returns.**

Stocks are represented by S&P 500 price change, assumes 10% annual turnover and 10-year holding period. Bonds are represented by US 10-Year Treasury bonds, cash is represented by US three-month Treasury bills. All income and capital gains are taxed at the top marginal rate. Inflation is represented by the US Consumer Price Index (CPI). Sources: Bloomberg, FactSet, S&P, BLS. Data as of May 31, 2026, latest available as of June 30, 2026. **Past performance is not a guarantee of future results.**

Don’t Mix Politics and Investing

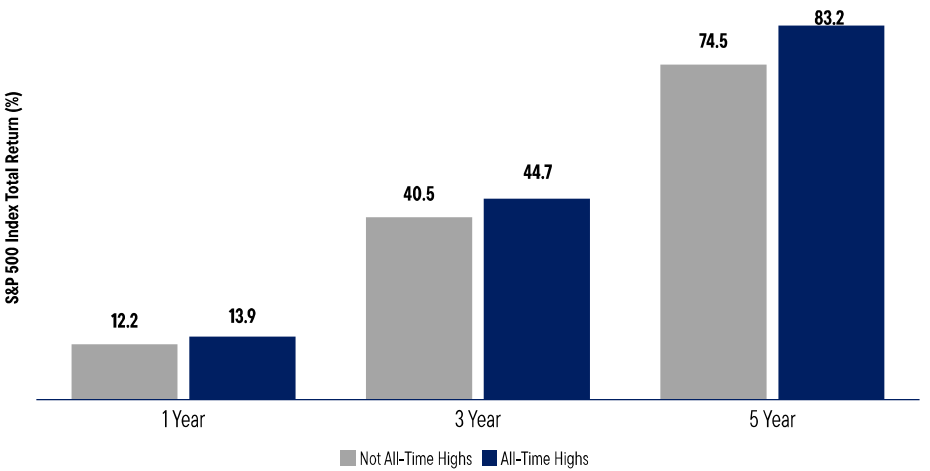


- **Historically, the equity market has moved higher irrespective of which party occupies the Oval Office.**

Data as of September 30, 2026. 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 Be Afraid of All-Time Highs

S&P 500 Index Total Return



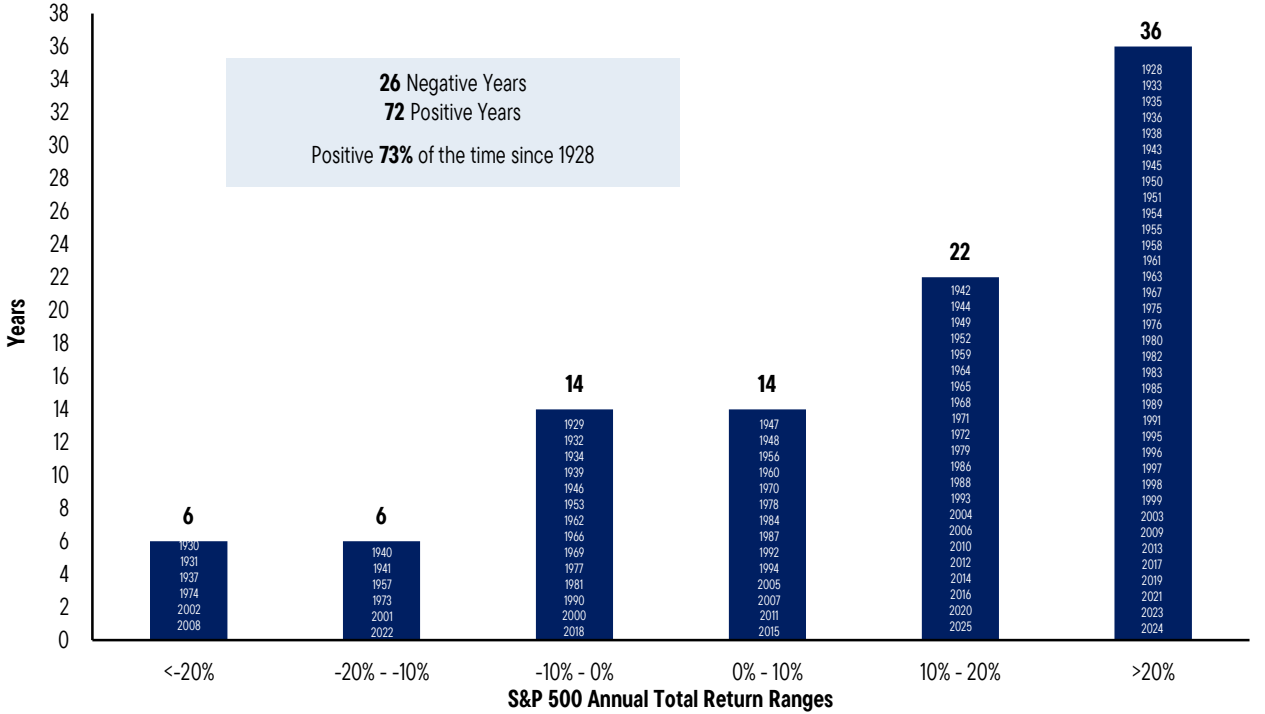
Sources: S&P Global, Macrobond.
Data last updated on: 10/9/2026.

- **Surprisingly, putting money to work at all-time highs has historically outperformed deploying capital when the benchmark is below peak, on average.**
- **The S&P 500 reached another new all-time high one year later 99.6% of the time after first achieving that milestone.**

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.

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.

Biography



Jeffrey Schulze, CFA
Head Investment Strategist
Franklin Templeton Institute

Jeffrey is a Head Investment Strategist with the Franklin Templeton Institute, the firm's global research and thought-leadership hub. In this role, he contributes capital market and economic insights to the institutional investor and financial advisor communities, drawing on the firm's diverse, specialist investment teams worldwide. Jeffrey synthesizes complex macroeconomic and capital market dynamics into clear, actionable insight, delivering high-impact client presentations. He provides strategic market commentary that represents the Franklin Templeton Institute's investment views across a wide range of forums.

He is the architect of the Anatomy of a Recession (AOR) program, which features a dashboard of 12 indicators tracking shifts in the US economy that could signal increased recession risk. Jeffrey has more than 20 years of investment industry experience.

Prior to joining the Franklin Templeton Institute in August 2026, Jeffrey spent more than a decade at ClearBridge Investments, a specialist investment manager of Franklin Templeton. He joined ClearBridge in 2014 as a Senior Portfolio Specialist, was named an Investment Strategist in 2017 and became Head of Economic and Market Strategy in 2023. Before joining ClearBridge, he was a Portfolio Specialist at Lord Abbett.

Jeffrey received a B.S. in finance from Rutgers University and is a member of the CFA Institute. He is frequently quoted in the financial media, including the Wall Street Journal, Bloomberg, CNBC and Reuters.

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**.

Asset-backed, mortgage-backed or **mortgage-related securities** are subject to prepayment and extension risks.

Real estate investment trusts (REITs) are closely linked to the performance of the real estate markets. REITs are subject to illiquidity, credit and interest rate risks, and risks associated with small- and mid-cap investments.

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 All-Country World Index (ACWI) Index: unmanaged index that captures large- and mid-cap representation across 23 developed markets and 24 emerging markets countries.

MSCI All-Country World Index (ACWI) ex US Index: unmanaged index that captures large- and mid-cap representation across emerging markets and developed markets (excluding the United States). The index covers approximately 85% of the global equity opportunity set outside the United States.

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 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.

P/E Ratio: Price/earnings ratio

PMI: Purchasing Managers' Index

Glossary of Terms (Continued)

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.

Y/Y: year-over-year

US Dollar Index (DXY): is a measure of the value of the US dollar against a basket of foreign currencies.

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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