FRANKLIN TEMPLETON

Anatomy of a Recession: 4Q'26 Outlook

As of November 1, 2026

US Economic and Market Outlook

- The overall signal from the US Recession Dashboard remains firmly in green "expansion" territory, which has been a critical determinant of economic cycle durability during prior energy shocks.
- The AI capex boom is likely to continue, with current spending within the range seen during prior technological innovation cycles.
- The rally continues to be supported by strong fundamentals with earnings driving the upside this year, while valuations have de-rated. Historically, the 12-month period following midterm elections has been very favorable to investors.
- Market leadership has fluctuated over the past few years, which we believe reinforces the benefits of a diversified approach to equity exposure across style, capitalization and geography.

Anatomy of a Recession (AOR): US Recession Risk Indicators

The Franklin Templeton Institute utilizes 12 different economic indicators to assess the risk of recession. Each individual indicator can signal expansion, caution or recession in the economy. The signals from each of the 12 indicators are combined into an overall dashboard signal. The indicators, signals and changes are based on our interpretation of the data. The dashboard is not a crystal ball, but can serve as a tool to evaluate the risk of recession in the US economy.

		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**

Data as of October 31, 2026. Sources: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, Bloomberg, CME, FactSet and Macrobond. The US 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.

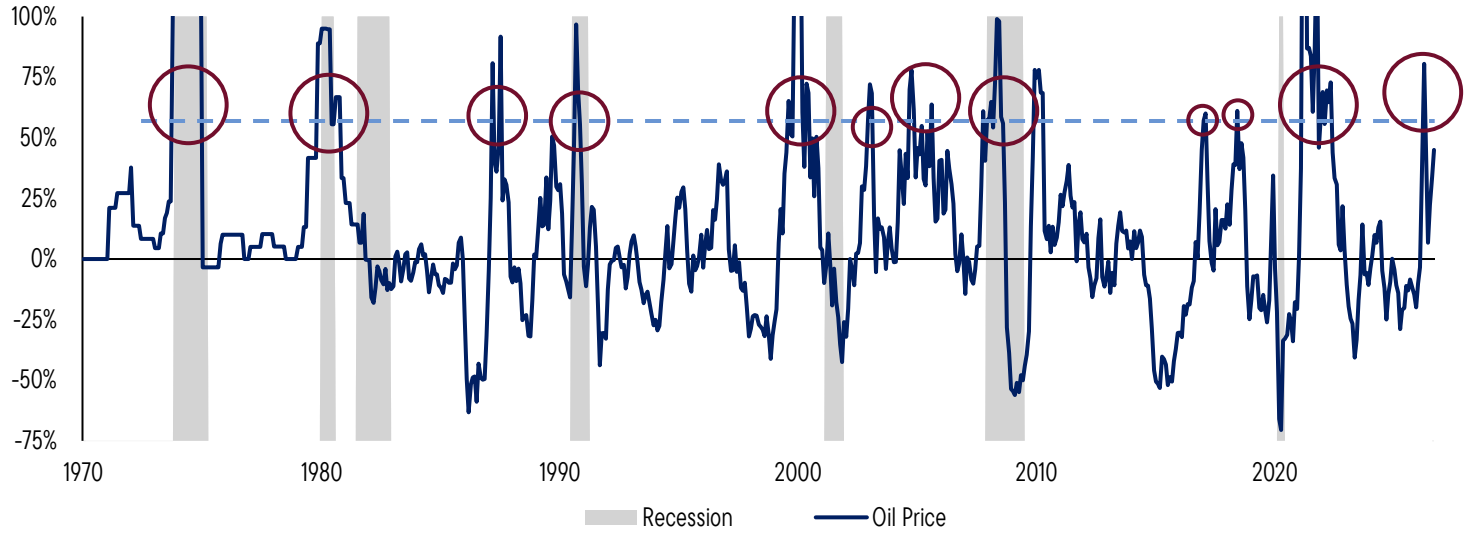
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Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

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The Dashboard and the US Economy's Fate

Oil Price Y/Y Percentage Change



	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	???

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..

- 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.

Not All Peaks Are Equal

S&P 500 Index 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

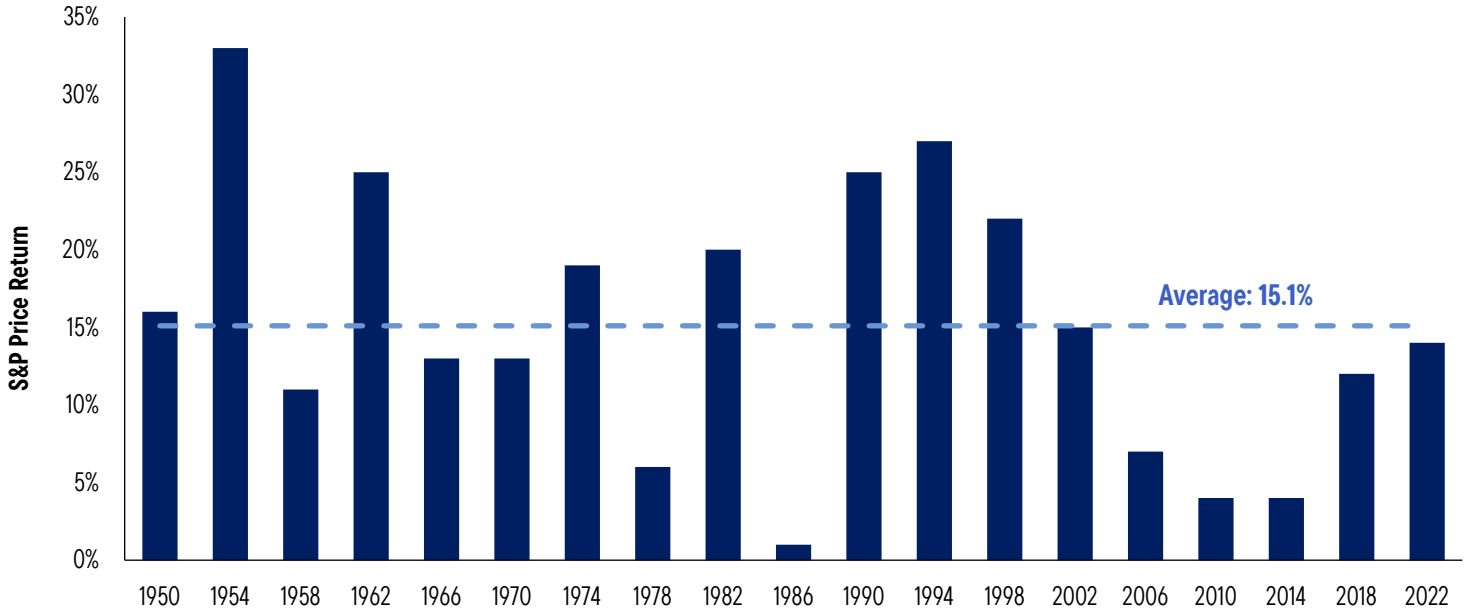
EPS Growth + 1 Year	Return (Next 6 Months)	Return (Next 12 Months)
All Periods	5.2%	11.0%
<10%	1.8%	6.1%
>10%	**11.2%**	**19.6%**

- 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.

Post-US Midterm Election Stock Market Performance

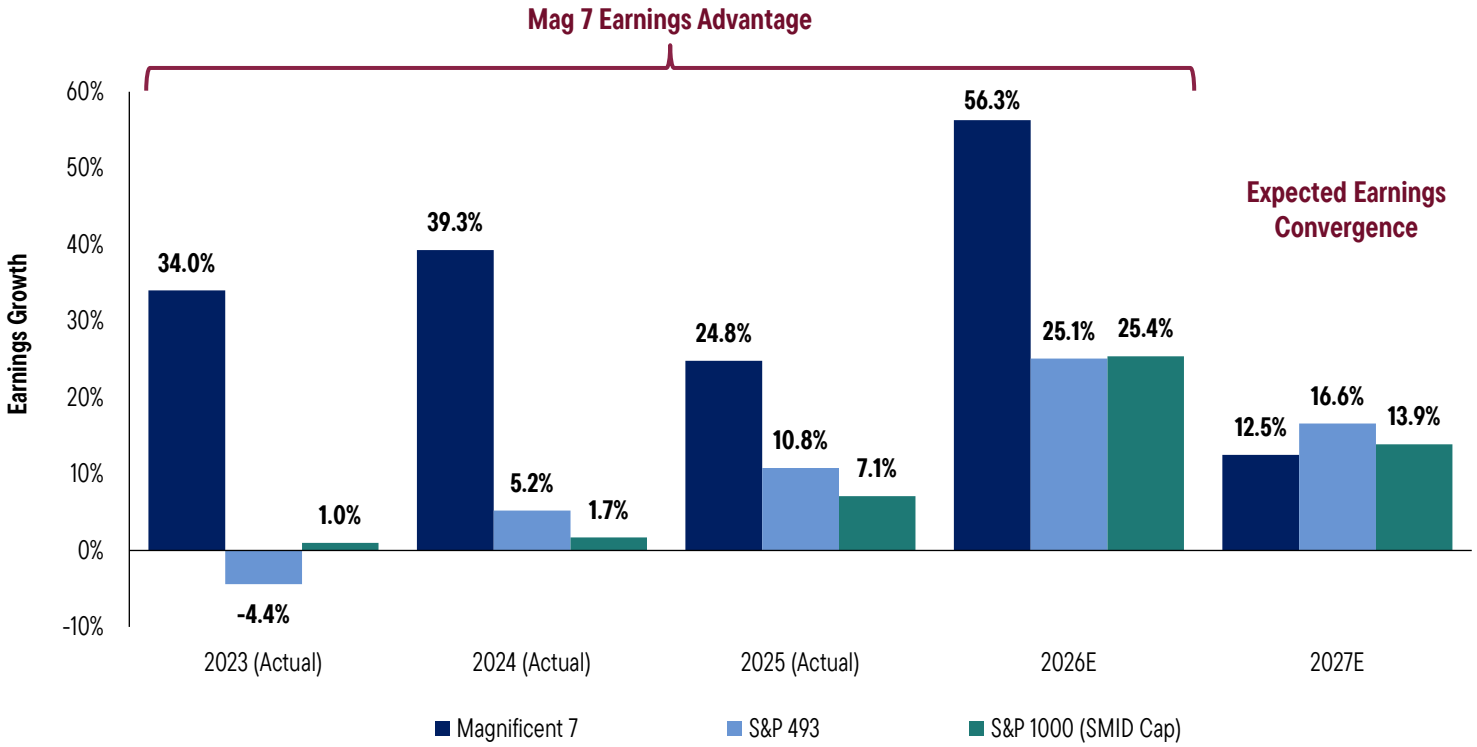
12-Month S&P 500 Performance Following Midterms Since 1950



Sources: S&P, FactSet.

- 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.

Closing the Gap



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. 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.

- 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.

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%
Jun. 1999	175 bps	Modest	14.1%	17.5%	10.1%	7.2%
Jun. 2004	425 bps	Aggressive	10.7%	9.0%	12.4%	32.1%
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%**

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

- Fed fund futures are currently pricing in a "modest" hike cycle, an environment that has typically benefited non-US developed equities over emerging markets and value over growth.

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

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.

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

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