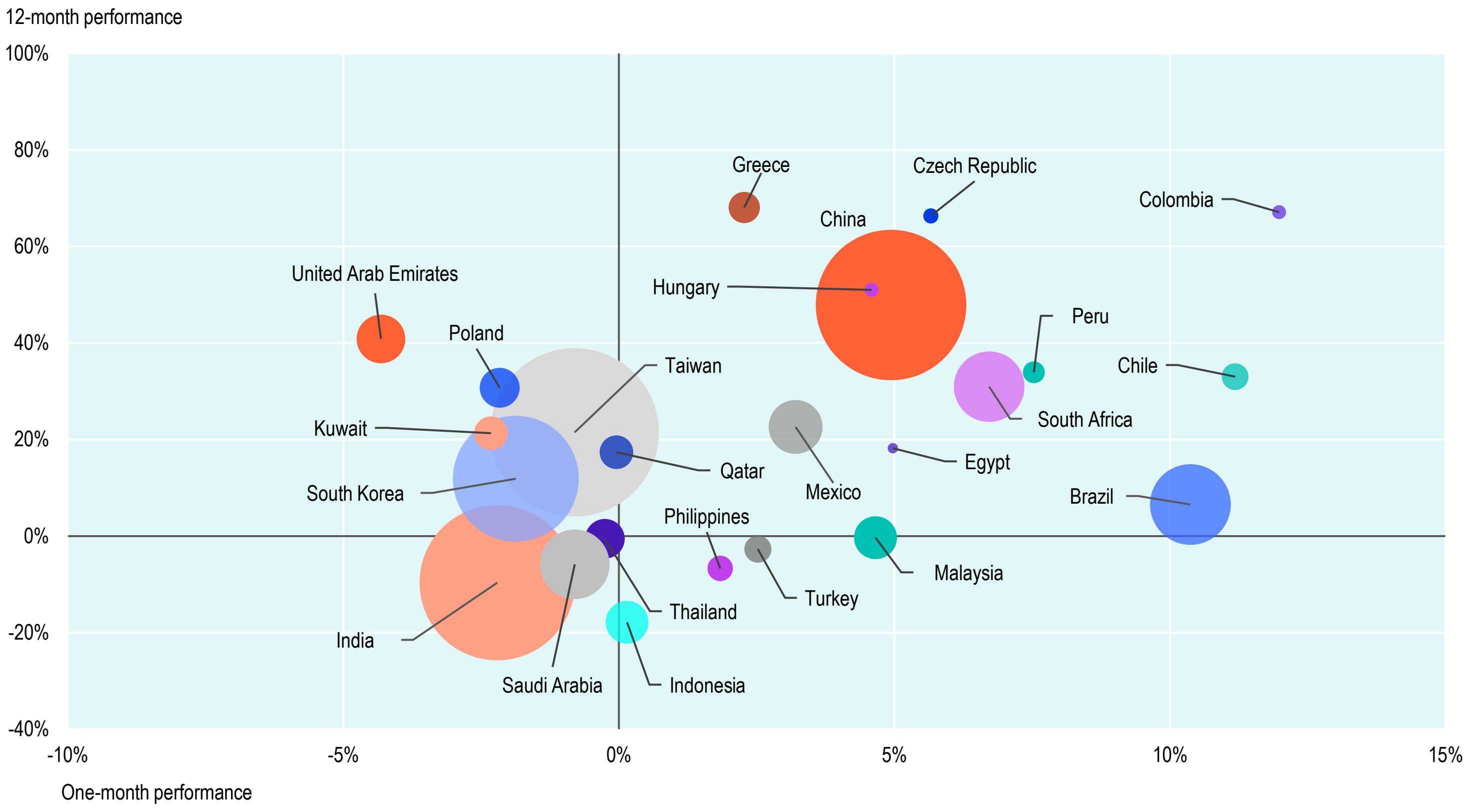
Winners and losers from tariff shifts

Emerging Markets Insights

Exhibit 1: Emerging Market Country Performance
As of August 31, 2025



Sources: FactSet, MSCI. Note: Bubbles' size reflect relative market capitalization, ex China, which is resized to 50% of actual market capitalization. Performance as represented by individual/respective MCSI country indexes. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future results.** For illustrative purposes only and not reflective of the performance or portfolio composition of any Franklin Templeton fund. Important data provider notices and terms available at www.franklintempletondatasources.com.

Three things we are thinking about today:

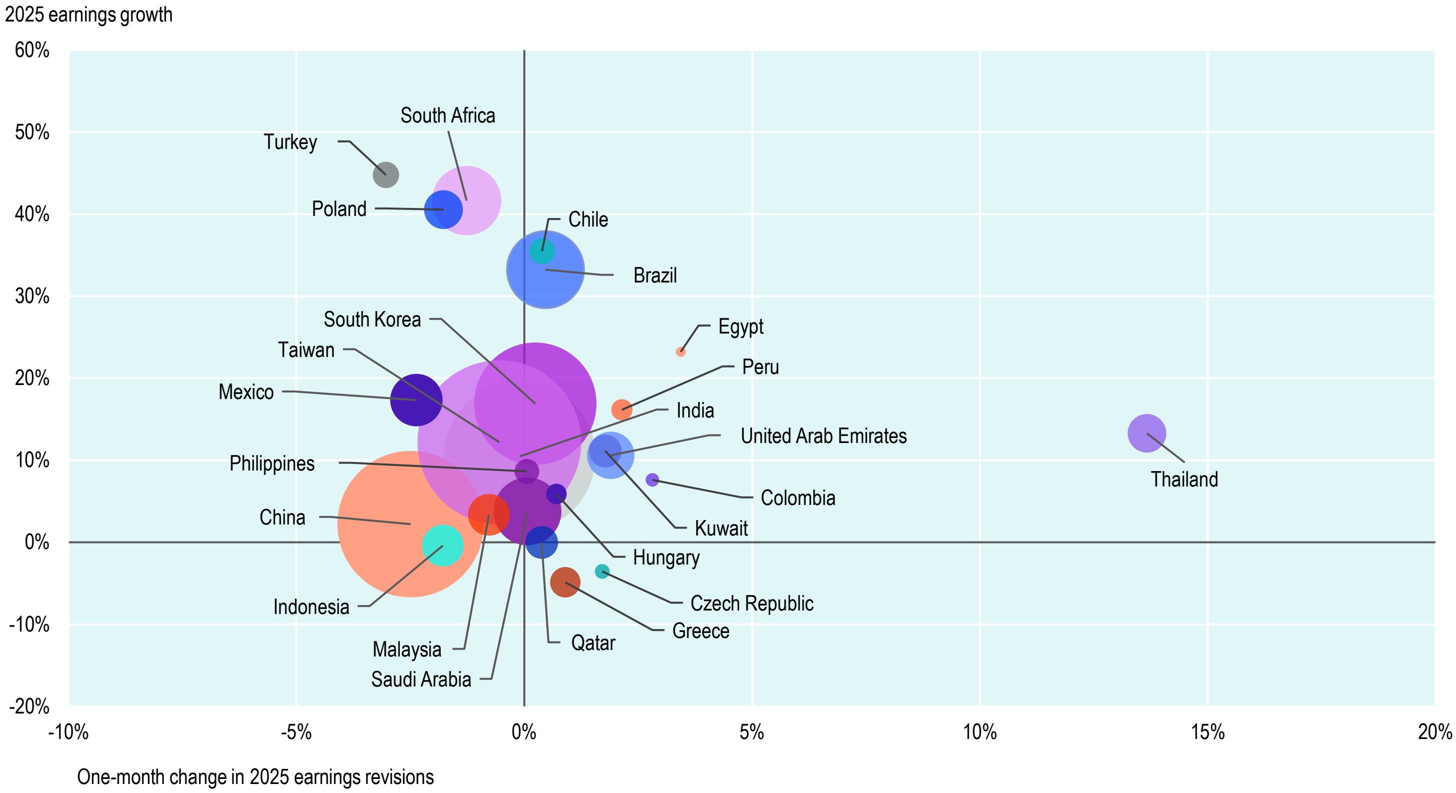
1. **India—weathering higher tariffs:** The United States increased tariffs on imports from India to 50% on August 27, 2025. The MSCI India Index has declined a modest 5% from its second quarter peak, weathering the initial tariff storm. These tariffs will likely impact an estimated 55%–65% of India's exports to the United States, mostly in the apparel, auto parts and chemical sectors. High-value exports, including electronics and pharmaceuticals, are currently exempt. Our base case remains that these tariffs could eventually be lowered. While negotiations have been delayed, many countries have been able to lower tariffs through negotiation with the United States.

2. **China equities at a four-year high:** The MSCI China Index has risen to a four-year high on optimism that US President Trump will likely agree to a US-China trade deal. Resilient corporate earnings among Chinese companies with a domestic focus has also buoyed sentiment. There is also recognition that while challenges remain, the lows the market reached in 2024 discounted an overly pessimistic outlook given the fiscal and monetary resources available to Chinese policymakers.

3. **US Federal Reserve (Fed) set to cut interest rates:** US Fed Chairman Jerome Powell signaled at the Jackson Hole Economic Policy Symposium last month that the cooling labor market trumps what may prove to be transitory inflation pressures. Fed funds futures declined following his speech and imply, as of September 1, an 80%–85% likelihood that the Fed will likely cut interest rates at its September 16-17 meeting. We believe this has positive implications for emerging markets (EMs) given a portion of corporate debt is denominated in US dollars.

Exhibit 2: Earnings Per Share (EPS) and Earnings Revisions

As of August 31, 2025



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Outlook

Our industrials sector analyst recently embarked on a machinery tour in China. In the wake of a longer timeline and prolonged uncertainty for US-China tariff negotiations, this trip created some insights into how companies are finding their footing in an uncertain environment.

Domestic sales: China for China

A leg of the tour was in Taicang, an industrial hub in China, where local government officials gave an overview of the city economy. The city hosts several industries, such as automotive spare parts, biomedicine and high-end equipment, among others. The area also benefits from a well-developed infrastructure designed to support emerging industries.

A visit to a major Chinese construction machinery manufacturer underscored the continued importance of the domestic market. Local demand is enjoying a continued recovery in construction machinery, and the profitability of domestic-oriented companies is expected to increase via a focus on large projects. In fact, several multinational companies have revealed that the Chinese operations are one of the most profitable.

Intercompany sales: China for global

As some companies scale back their exposure to the US market, a strategic shift toward expanding into other international markets is becoming increasingly evident. A Chinese heavy equipment manufacturing company is seeing strong demand in Asia and Africa—with gold mining driving the latter. The company is investing in a more robust global dealership and sales infrastructure to support this growth.

At another automotive parts supplier, the "China-for-global" strategy involves exporting domestically developed expertise and technology for integration into global product lines. The company conducts its research and development operations in China, leveraging lower energy costs and a comprehensive local supply chain.

In contrast, another industrial firm is pursuing a complementary strategy: leveraging its global network to assist Chinese clients in expanding internationally. This includes offering support on regulatory compliance and product strategy, thereby enhancing the value proposition for its Chinese customer base.

Underscoring our approach, amid times of uncertainty, is the bottom-up view of the investment landscape in EMs. We believe companies are evolving to cope with the changes in their operating environment, and there are still numerous companies with long-term earnings power in the investment universe.

Market review: August 2025

EM equities rose in August 2025. While trade focus shifts to sectoral tariffs, global equity markets rose on optimism of an interest-rate reduction by the US Fed. For the month, the MSCI EM Index returned 1.47%, while the MSCI World Index delivered 2.64%.

Equities in the emerging Asia region rose, with most country benchmark indexes showing gains. Several sectors in China were beneficiaries of government policies—share prices of food delivery companies rose as they pledged to cease price wars and curb excessive competition. However, these gains were reversed after price competition dented their quarterly results. Chinese semiconductor firms rose on the nation's push to self-reliance. An extension of US tariffs on China into mid-November also drove optimism, and the rollout of interest subsidies for loans to boost consumption. Several large semiconductor names in Taiwan and South Korea benefited from an exemption of 100% import tariffs in the United States if they invest in the United States, although they came under pressure later as they tracked a technology selloff in the United States.

Indian equities traded against tariff headwinds, but easing inflation and plans to reduce goods and services taxes helped to pare some losses.

Equities in the emerging Europe, Middle East and Africa region rose, taking heed from global markets. Strong investor confidence, economic reforms and robust corporate earnings lifted stocks in Egypt. However, oil price volatility weighed on Kuwait and Saudi Arabia's energy-heavy equity markets, dampening investor sentiment in those countries. Mixed corporate earnings results across sectors also led to mixed results in the region.

Equities in the emerging Latin America (LatAm) region recovered and advanced. Market-friendly political movements and structural reform expectations in the region bolstered investor confidence during the period. Brazilian equities shrugged off roadblocks in tariff negotiations with the United States. Brazil announced a plan to support exporters that the US tariffs have affected; the plan included a credit line. Mexico reduced its benchmark interest rate, reaching its lowest since mid-2022.

Franklin Templeton Emerging Markets Equity

Local knowledge, global reach

In a sea of overlooked and under-researched companies, there's no substitute for local market knowledge. Our on-the-ground investment team of 72 portfolio managers and analysts across nearly 14 countries distinguishes Franklin Templeton Emerging Markets Equity from the crowd. Investors benefit from our networks of local business contacts, access to in-person company visits and real time response to local market events.

Our global reach through Franklin Templeton Investments provides access to sophisticated risk management and trading resources. Portfolio management collaborates closely with the Investment Risk Management Group, which provides detailed risk analytics to complement the team's assessment of risk exposures.

- **72 portfolio managers and research analysts**
- **18 years on average of industry experience**
- **9 years on average with Franklin Templeton**

Index Definitions

Past performance is not an indicator or a guarantee of future performance. Indexes are unmanaged and one cannot invest directly in an index. Important data provider notices and terms available at www.franklintempletondatasources.com.

1. The **MSCI All Country World Index** is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global developed and emerging markets.
2. The **MSCI Brazil Index** is designed to measure the performance of the large- and mid-cap segments of the Brazilian market.
3. The **MSCI China Index** captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g., ADRs).
4. The **MSCI EM Asia ex Japan Index** captures large- and mid-cap representation across two of three developed markets (DM) countries (excluding Japan) and eight emerging markets (EM) countries.
5. The **MSCI EM EMEA Index** captures large- and mid-cap representation across 11 emerging markets (EM) countries in Europe, the Middle East and Africa (EMEA).
6. The **MSCI EM Latin America Index** captures large- and mid-cap representation across five emerging markets (EM) countries in Latin America.
7. The **MSCI EM EMEA Index** captures large- and mid-cap representation across 11 emerging markets (EM) countries in Europe, the Middle East and Africa (EMEA).
8. The **MSCI EM Index** is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global emerging markets.
9. The **MSCI India Index** is designed to measure the performance of the large- and mid-cap segments of the Indian market.
10. The **MSCI Mexico Index** is designed to measure the performance of the large- and mid-cap segments of the Mexican market.
11. The **MSCI South Korea Index** is designed to measure the performance of the large- and mid-cap segments of the South Korean market.
12. The **MSCI Turkey Index** is designed to measure the performance of the large- and mid-cap segments of the Turkish market.
13. The **MSCI World Index** captures large- and mid-cap representation across 23 developed market countries.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

Equity securities are subject to price fluctuation and possible loss of principal.

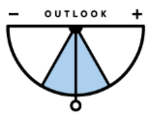
International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. These risks are magnified in emerging markets. Investments in companies in a specific country or region may experience greater volatility than those that are more broadly diversified geographically.

The government's participation in the economy is still high and, therefore, investments in **China** will be subject to larger regulatory risk levels compared to many other countries.

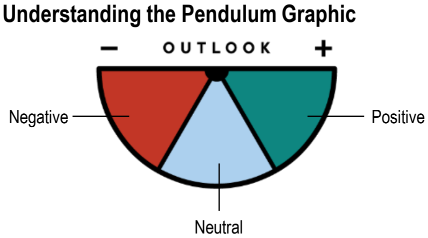
There are special risks associated with investments in **China, Hong Kong and Taiwan**, including less liquidity, expropriation, confiscatory taxation, international trade tensions, nationalization, and exchange control regulations and rapid inflation, all of which can negatively impact the fund. **Investments in Taiwan** could be adversely affected by its political and economic relationship with China.

Regional outlook

Three-month period ending September 30, 2025

Market	Conviction	Investment Thesis
Latin America		
Brazil		Economic growth is showing resilience despite the increase in interest rates. Valuations are discounted, and we believe interest rates should fall eventually. Also, the low popularity of the government increases the chances of a positive economic policy shift, which markets are likely to anticipate.
Mexico		Mexico's 2025 outlook balances opportunity and risk. Strong private sector ties and improved energy policies, bolstered by the 2024 energy law, support long-term growth, in our view. The judicial reform introduces uncertainty but is manageable. GDP growth is modest at 0.2%, with private consumption as a key driver. Fiscal challenges, including the state-owned petroleum corporation's strain and a 7.1% GDP deficit projection, pose risks. Inflation is nearing 4%, with convergence to 3% by the third quarter of 2026. The central bank's 50 basis-point interest-rate cut in June and the USMCA (United States-Mexico-Canada Agreement) review will shape the landscape. Plan México's execution and the 2025 budget are critical for infrastructure and growth.
Peru		Peru's economic outlook for 2025 appears positive, with upward revisions to GDP growth forecasts and expectations of a new growth cycle, particularly in the banking sector. Domestic demand and investment, including significant mining and non-mining project pipelines, are expected to drive activity. Inflation is projected to remain within the central bank's target range, allowing for monetary policy easing. Key developments include the government's initiatives to boost investment through streamlining regulations and promoting large project portfolios. The signing of the Huancayo-Huancavelica Railway concession is a notable infrastructure development. However, challenges persist, particularly regarding fiscal sustainability, as the deficit is projected to be above targets and additional measures are needed, and political instability and security crises are impacting industries like mining. Risks to the outlook include potential negative political surprises, global trade conflicts, external demand and challenges in fiscal consolidation. Addressing the security crisis, including tackling illegal mining, is a critical focus.
Emerging Europe		
Czech Republic		Sentiment indexes from the European Commission confirmed the constructive message of the Czech national statistical office's data, showing an improvement in sentiment across sectors—including industry, where the biggest challenges are concentrated. All categories (industry, construction, retail, and selected services) posted confidence indexes meaningfully above last February's levels: retail rose by 11 points year-on-year, industry by 7.9 points, services by 7.7 points, and construction by 3.6 points.
Hungary		Economic sentiment surveys suggest consumers may cut back on spending, as February's data revealed heightened unemployment fears and worsening perceptions of both current and expected inflation. More broadly, business surveys do not yet indicate sustained stability, with forward-looking demand concerns prevalent across the services, retail, and construction sectors.
Poland		Consumer confidence improved in February, according to the European Commission survey, recovering from the sharp dip in December 2024 and reaching the highest level since July 2024. February sentiment surveys from Statistics Poland also show early signs of improvement, after a decent recovery in the consumers' survey in January. Expectations have risen for a second consecutive month across manufacturing, construction, transport, and accommodation services—a positive near-term signal and an early indication of improving economic prospects.

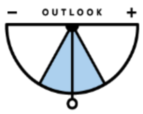
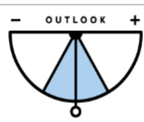
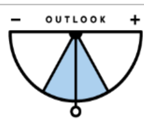
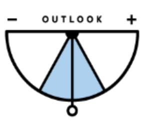
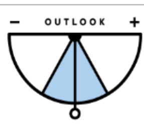
Understanding the Pendulum Graphic



The graphic reflects the views of Templeton Emerging Markets Equity regarding each region are updated on a quarterly basis. All viewpoints reflect solely the views and opinions of Franklin Templeton Emerging Markets Equity. Not representative of an actual account or portfolio. These views reflect those of the analyst research team; those of the portfolio managers may differ.

Regional outlook

Three-month period ending September 30, 2025

Market	Conviction	Investment Thesis
Middle East		
Kuwait		Strong fiscal position with issuance of the debt law giving the country additional flexibility. However, the lack of current spending reform (wages and subsidies) leaves the sustainability of the longer term in question. Valuations have picked up somewhat as investors start to price in a more positive political backdrop. The passing of a mortgage law can be a short-term positive for the market.
Qatar		Production expansion of liquefied natural gas is the central theme starting in 2026, but until then growth is likely to be muted. Qatar offers solid macro stability due to its high sovereign reserves and a low oil budget-breakeven oil price of US$45/barrel. We believe the economy requires diversification beyond the energy sector over a longer-term period.
Saudi Arabia		The outlook is promising but remains anchored to the Public Investment Fund (PIF)/private sector spending ratio and system liquidity. Foreign exchange reserves and PIF assets lend comfort.
UAE		High surpluses set the stage for the government to push its growth agenda. In the medium term, an increase in Abu Dhabi's oil production capacity and Dubai's increasing population and tourism bode well for the country's growth trajectory. The privatization/initial public offering program in Dubai and Abu Dhabi is helping to increase capital market depth. Decarbonization-related projects (nuclear, solar, green hydrogen) and the evident need to expand public infrastructure are likely to help drive medium term growth.
Emerging Asia		
China		China's policymakers have taken stronger actions to address key issues of the economy. With an improving earnings outlook, attractive valuations and light investor positioning, the risk-reward balance is asymmetric on the upside, in our view.
India		We believe that the Nifty index is expected to move up in line with earnings growth over the next 12 months. Mid- and small-cap stocks could see some further correction. Long-term themes such as under penetration, formalization, domestic manufacturing and stable government remain intact, in our view.
Indonesia		We reiterate our positive view on the Indonesian equity market, driven by resilience against external volatilities, improving domestic demand, and policy reforms in 2025. Indonesia has been one of the most resilient ASEAN economies amid the 2018-2019 trade war. Weakness amidst the strong US dollar and tightened liquidity could provide an attractive entry point, in our view.
South Korea		With the change of leadership in June 2025, South Korea's outlook is expected to gradually improve in the next 12 months, although there are risks with policy execution by the new government.

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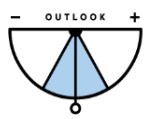
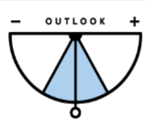
Regional outlook

Three-month period ending September 30, 2025

Market	Conviction	Investment Thesis
Emerging Asia		
Taiwan		Cross-strait geopolitical risk always exists and is well-known already. We keep the status-quo assumption unchanged, despite the recent relationship deterioration between China and Taiwan, and between the United States and Taiwan. There are concerns that fragile global economic conditions could lead to weak consumption, resulting in low visibility of end-demand of most technology products, with artificial intelligence (AI)-related products being the exception. The corporate operating environment has been improving but mainly building on expectations of a low base and an AI-induced boom. However, the sharp appreciation in the Taiwanese dollar would cap revenue growth and weigh on profit margins. Taiwan's equity market had a resilient performance in 2023 and 2024. Current valuations are still stretched even after the recent pullback. We are cautious on our outlook.
Thailand		We remain cautious on Thai equities. While we remain constructive on the country's policy reforms and government support in the near term, risks to exporters as well as demanding valuations could pressure market returns in 2025.
Africa		
Egypt		The United Arab Emirates, International Monetary Fund and other multilateral/bilateral entities have supported the macro rebalancing, although coming out of a debt cycle will take time. US dollar funding requirements are still quite high, estimated at about US$10 billion per year for the next two years. The army is relinquishing some control back to the private sector (for example initial public offering activity and reforms to bolster private sector capital expenditure), which can help restore investor confidence.
Kenya		Valuations are cheap, and the outlook is starting to improve for foreign exchange and external debt with its Eurobond maturity now resolved. Kenya seems to be moving through the inflection.
Nigeria		The risk of further currency weakness is reduced, in our view. However, a weak macro environment creates a weak environment for stocks, though some positive policy on subsidy and foreign exchange is encouraging to us.
South Africa		Long-term recovery is still dependent on the ability of government to execute and commit to other reforms.

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