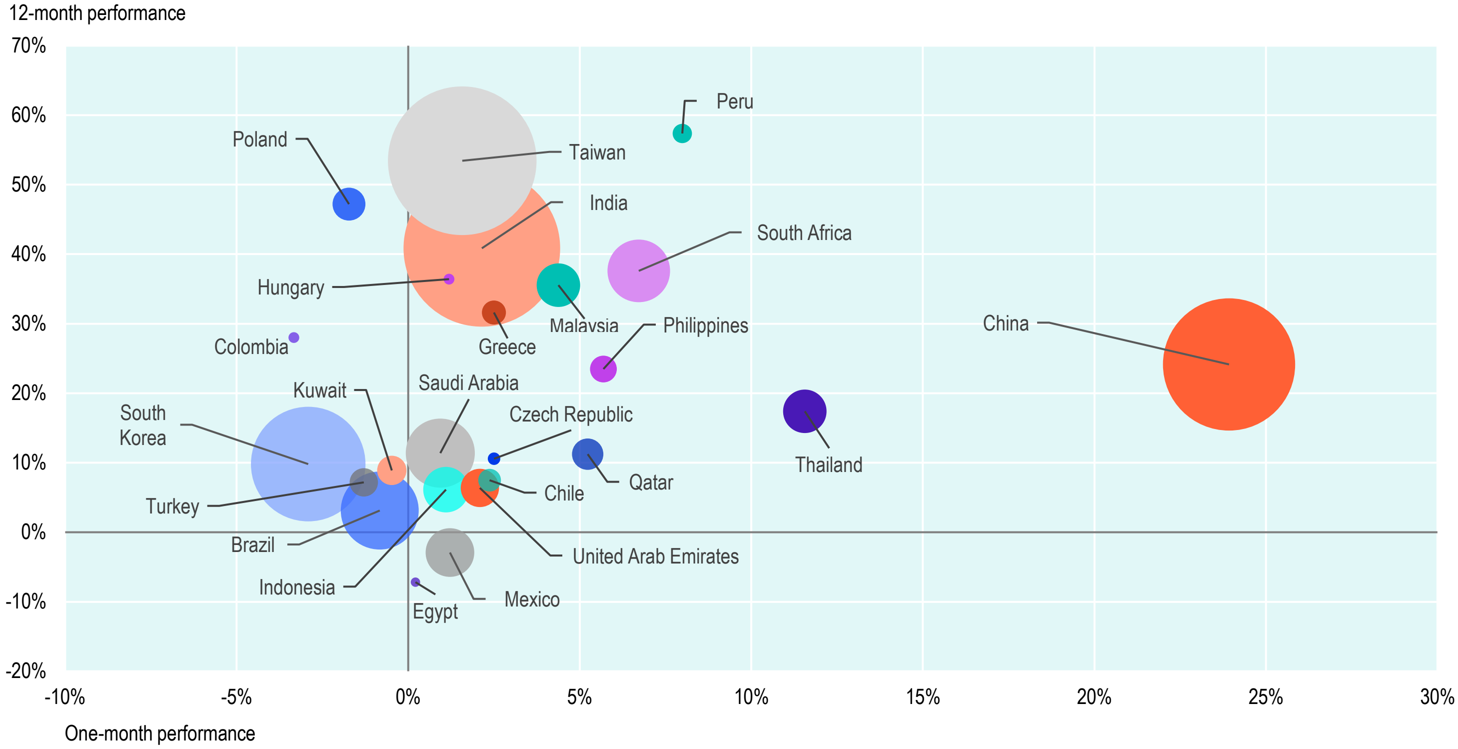
China steps up

Emerging Markets Insights

Exhibit 1: Emerging Market Country Performance

As of September 30, 2024



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're thinking about today:

1. **China steps up:** Chinese policymakers have announced a slew of stimulus measures targeted at reversing the downturn in economic growth and deflationary forces in the economy. Similar to the end of COVID-19 lockdowns in 2022, the policy change is sudden and dramatic. Reasons for the change in policy direction are being hotly debated. One potential factor was the start of the US Federal Reserve's (Fed's) interest-rate-cutting cycle, which has put downward pressure on the US dollar (USD), which fell 4% in the third quarter. The weaker USD has taken some pressure off the USD-renminbi spot rate, which Chinese policymakers did not want to see weaken excessively.

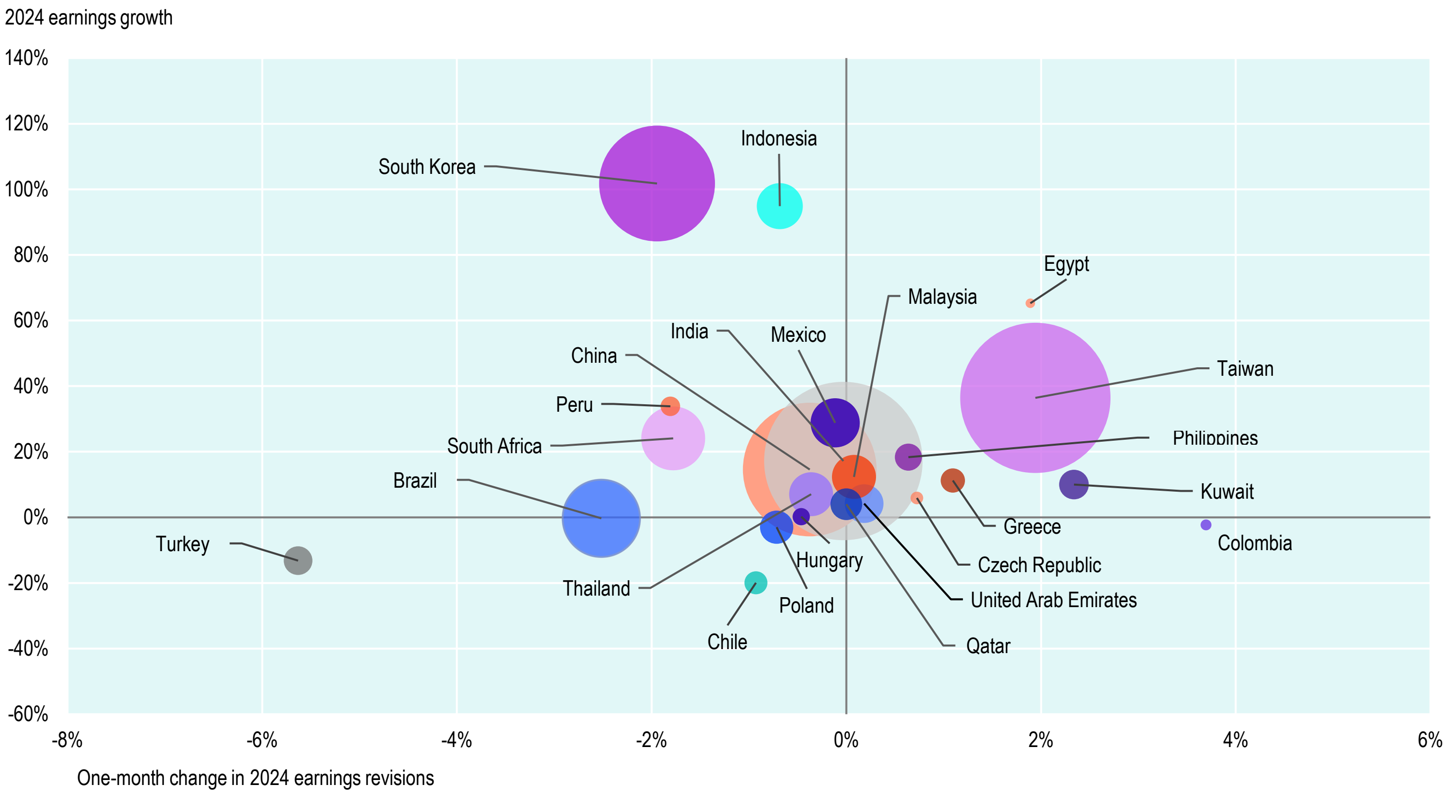
2. **Middle East tensions rise:** The Middle East conflict has escalated, with Israel conducting multi-front offensives. Iran's missile barrage on Israel marks a significant development and is challenging the stability of the region. Despite these developments, a full-scale war between Israel and Iran remains a low probability event the short term. The escalating tensions have impacted the regions asset markets and global oil markets. This region accounts for 40% of the world's seaborne oil trade. We remain watchful of the situation and managing risk associated to our investment exposure to the region.

3. **US election countdown:** US voters go to the polls on November 5, with some early voting already underway. The impact of early voting on the election is potentially significant, with a Massachusetts Institute of Technology (MIT) study[1] highlighting that 60% of Democrats and 32% of Republicans voted by mail in 2020.

However, a Republican or Democrat president may not be as significant for asset markets as the makeup of the House and Senate. A clean sweep for either party is likely to be unsettling for investors, whereas a divided Congress has historically been positive as it has provided a check-and-balance on the tax and spending priorities of the president.

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

As of September 30, 2024



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Outlook

The investment landscape in emerging markets (EMs) is peppered with inflection points. We are seeing several turns in market sentiment of in selected EM countries. However, we continue to balance the market's reactions with our own in-depth analysis.

China's equity markets are cheering the rollout of more stimulus measures. The measures announced can broadly be classified into three buckets—policy rate cuts (which we largely expected), property market measures (which continues from previous policies to aid a recovery) and equity market policies (which were new and were a pleasant surprise). While some skepticism remains on the efficacy of the policies, our China equity portfolio manager believes that the rally in Chinese equities could continue. He also thinks that more policy support will come, sensing renewed urgency on meeting economic targets. While economic data to support the rally comes with a lag, we remain watchful for additional policy measures to reverse the downturn in growth and deflationary pressures.

Several of our portfolio managers attended a conference in Latin America (LatAm). The interest and upgrade in Argentinian equities, especially banking stocks, was noted by our portfolio managers. However, our Argentina-based research analyst was more cautious. In his view, Argentine banks are fairly valued. While expectations of macroeconomic improvement are rife, the country is not one that he encourages excessive investments in. Another LatAm-based research analyst echoed this view. He believes that while there are bargains in Argentina, they may not be worth the risk.

Another one of our LatAm-based research analysts also had an unconventional view. Market-watchers have noted that the judicial reform in Mexico may derail the country's relationship with the United States. However, a conversation he had with a law professor threw up a contrasting view—it would take a much bigger issue to derail the relationship. There are also ways to resolve this judicial concern, such as arbitration. The analyst's Mexican coverage is of companies which, in his view, have low valuations and are exposed to the consumption story.

In all, we abide by our bottom-up investment approach and leverage our on-the-ground presence and extensive network for a balanced view. This network goes beyond just companies, channel checks and independent research providers. We continue to keep a watchful eye on changes in the investment environment to identify opportunities.

Market Review: Third quarter 2024

EM equities rose over the quarter. The Fed's long-anticipated interest-rate cut overshadowed earlier fears of a recession in the United States. For the quarter, the MSCI EM Index returned 8.88% while the MSCI World Index rose by 6.46%.

The emerging Asia region rose. In China, geopolitical tensions continued to feature heavily. The latest development was the Biosecure Act, which impacted biotechnology companies. However, some positive news helped the Chinese equity market. This included an e-commerce firm's inclusion on mainland stock exchanges, and more support measures. Indian equities continued to benefit from positive economic data. The reduction in US interest rates, which may lead to foreign inflows into Indian equities, was also supportive. The trading debut of a housing finance company marked India's biggest new listing of 2024.

Waning optimism about artificial intelligence (AI) impinged on the technology-heavy markets of South Korea and Taiwan. While South Korean semiconductor shipments expanded at the slowest pace in five months in August, Taiwan's AI- and high-performance computing-related shipments rose in the same month. In Southeast Asia, Indonesia's central bank implemented a surprise rate cut. Thai equities recovered as the political overhang in Thailand has appeared to conclude with the election of a new prime minister.

The emerging Europe, Middle East and Africa region edged higher. Middle Eastern markets benefited from the rate-easing cycle in the United States—monetary policy in the Gulf Cooperation Council often aligns with the US Fed's decisions. The rate cut in the United States may prompt central banks in the Middle East to adopt similar measures, which may enhance business conditions. South Africa's central bank followed global cues and reduced its interest rate in its latest monetary policy meeting as it battles sluggish economic growth amid moderating inflation.

Equities in the emerging LatAm region advanced. Mexican equities slid after a controversial judicial reform was signed into law. Brazil's central bank started raising interest rates to control inflationary environment amid stronger-than-expected economic activity. This move marks a contrast with most other global central banks, which have begun to ease rates.

Endnote

1. Source: "How we voted in 2020." MIT Election Lab. March 2021.

Index Definitions

1. The **MSCI Emerging Markets Index** is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global emerging markets. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges.
2. 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. MSCI Emerging Markets Index is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global emerging markets. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges.
3. The **MSCI EM Latin America Index** captures large- and mid-cap representation across five emerging markets (EM) countries in Latin America. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges.
4. The **MSCI Emerging Markets EMEA Index** captures large- and mid-cap representation across 11 emerging markets (EM) countries in Europe, the Middle East and Africa (EMEA). Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges.
5. 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. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges.
6. 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). Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges.
7. The **MSCI Emerging Markets ex-China Index** captures large and mid cap representation across 23 of the 24 Emerging Markets (EM) countries excluding China. With 672 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges.
8. The **MSCI Mexico Index** is designed to measure the performance of the large and mid cap segments of the Mexican market.

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

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.

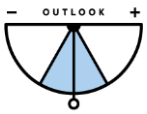
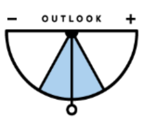
International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. These risks are magnified in emerging markets. Investments in companies in a specific 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.

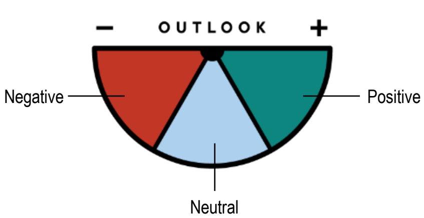
There are special risks associated with investments in **China, Hong Kong and Taiwan**, including less liquidity, expropriation, confiscatory taxation, international trade tensions, nationalization, and exchange control regulations and rapid inflation, all of which can negatively impact the fund. **Investments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

Regional outlook

Three-month period ended September 30, 2024

Market	Conviction	Investment Thesis
Latin America		
Brazil		We maintain a constructive view of Brazil. However, we recognize that the country's positive catalysts are currently more linked to US monetary policy than before. Economic activity continues to surprise on the positive side, but in our view, has not been priced into equities yet.
Mexico		Political uncertainty resulting from the proposed reforms in Mexico, which we believe would have negative effects, along with the US election campaign, will weigh on markets in the short term. Although the institutional framework will deteriorate in Mexico with diminishing accountability from political authorities, the US-Mexico-Canada Agreement (USMCA) framework will provide a backstop to aggressive deterioration of checks and balances.
Peru		Peru's economy shows signs of improvement with a narrowing fiscal deficit, declining inflation and expected gross domestic product growth in 2024 and 2025. However, challenges remain, including tight financial conditions, weak governance, and potential policy uncertainties.
Emerging Europe		
Czech Republic		The Economic Sentiment Indicator (ESI) survey released by the European Commission showed a mild softening of activity in July and August. However, in our view, the breakdown is not as concerning and is consistent with a gradual recovery. Consumer sentiment stood flat with services and retail sectors sending mixed signals, while construction confidence points to improvement in order books. However, industrial sentiment remains anchored at a weak level with order books remaining virtually flat at subdued levels.
Hungary		August's ESI stood broadly stable as compared to the second quarter of 2024 with an improvement in consumer confidence that was reciprocated in retail sentiment and to a lesser extent, in services. On the other hand, construction sentiment remained subdued with weak demand cited as a factor, while industrial sentiment has not shown any improvement since late last year with ongoing worsening in export orders.
Poland		For August, the headline ESI remained broadly flat as compared to July, indicating stability. Beneath the surface, consumer sentiment slipped on higher perceived and expected inflation , stemming possibly from an expected energy price hike in January that also appeared to lower services confidence. Likewise, construction and industrial sentiments remained anemic, being restrained by high interest rates domestically and an unconducive exports backdrop externally.

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 ended September 30, 2024

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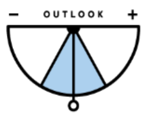
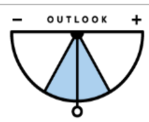
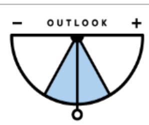
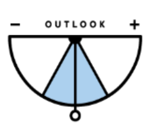
Middle East		
Kuwait		Strong fiscal position but delay in reform and issuance of debt law leaves the sustainability of the longer-term path in question. Valuations have come off somewhat so the moderate growth outlook with a potentially improving political landscape leads us to a neutral market view. Potential surprises on debt and mortgage laws can be short-term positives for the market.
Qatar		Production expansion of liquefied natural gas is the central theme starting in 2025, 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 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 improving earnings outlook, attractive valuations and light investor positioning, the risk-reward balance is asymmetric on the upside, in our view.
India		We believe the market is expected to move slightly upward over the next 6-12 months as some correction in valuation from current levels is offset by roll forward in earnings. 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 Indonesia equity market driven by weak US dollar, improving domestic demand and policy reforms. We also expect a new wave of election spending for the November 2024 nationwide governor elections to start kicking in from the third quarter onwards.
South Korea		Due to a high degree of global uncertainties, the recovery of macro indicators has been slower than government expectations. Concerns about domestic regulations have eased with the government's initiatives, but geopolitical tensions with North Korea and a future slowdown of global consumption led by high interest rates should be monitored.

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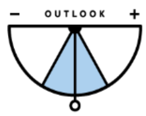
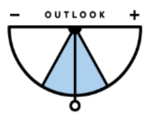
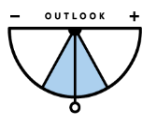
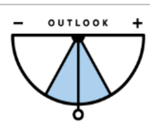
Three-month period ended September 30, 2024

Market	Conviction	Investment Thesis
Emerging Asia		
Taiwan		Cross-strait geopolitical risk has always existed and is already well-known. We keep the status-quo assumption unchanged, despite a recent deterioration in the relationship between China and Taiwan. There are concerns that fragile economic conditions could lead to weak consumption, resulting in low visibility of end demand. However, we still expect a mild recovery in 2024. The corporate operating environment has been improving but mainly building on expectations of an AI-induced boom. Meanwhile, other major end applications like smartphones, personal computers and regular servers have yet to see strong pick-up in demand. The Taiwan equity market had a resilient performance in 2023, which has extended to the second quarter of 2024. Current valuations look quite demanding after the rally. We are cautious on our outlook.
Thailand		We are neutral on Thailand. Economic activities have weakened materially over the past few months, pressuring the earnings outlook and making investment opportunities increasingly selective. However, the clearing of political overhangs and light positioning could support a near-term rebound, in our view.
Africa		
Egypt		The United Arab Emirates, International Monetary Fund and other multilateral/bilateral entities are supporting 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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