FRANKLIN TEMPLETON

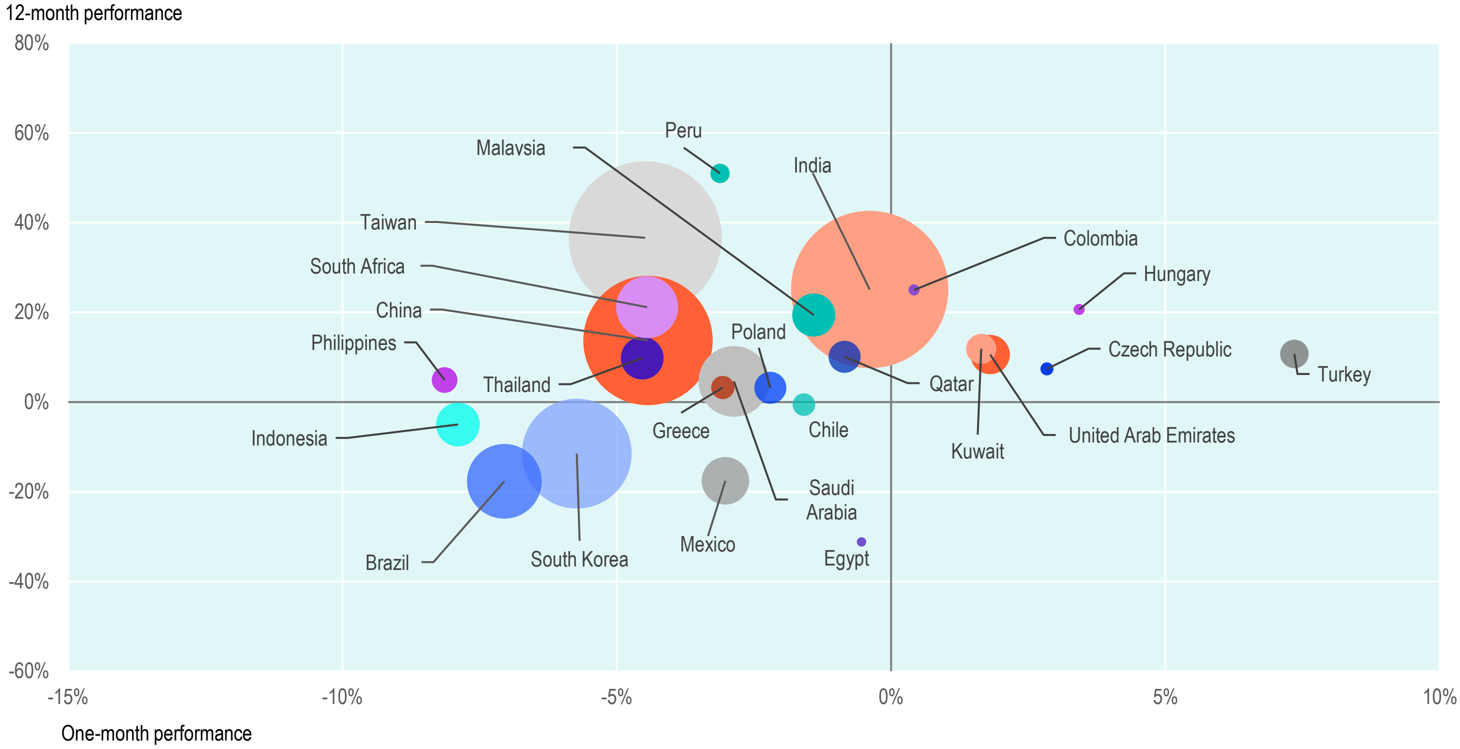
Investment team update
December 2024

Potential impact of US tariffs

Emerging Markets Insights

Exhibit 1: Emerging Market Country Performance

As of November 29, 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.

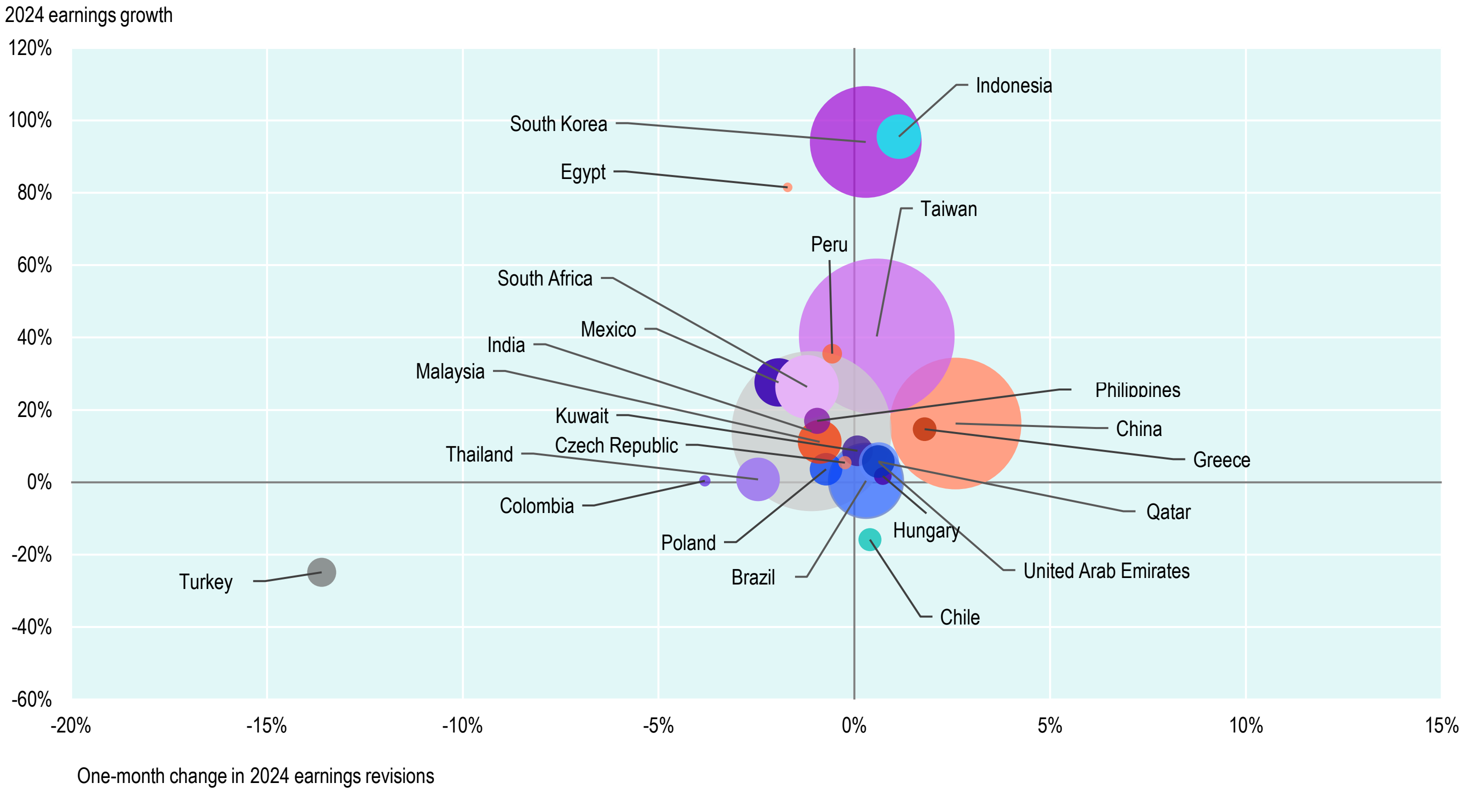
Three things we're thinking about today:

1. **Tariffs:** President-elect Donald Trump has indicated he will impose new tariffs on three of America's leading trading partners. He plans to sign an executive order placing 25% tariffs on goods imported from Canada and Mexico on day one of his presidency, with an additional 10% on goods from China. This is on top of earlier plans for 60% tariffs on China and 10%-20% on all other imports to the United States.
2. **Inflation:** Researchers at Harvard University[1] have analyzed the impact of increased tariffs during the president-elect's first term, concluding American importers and, to a lesser extent, consumers, paid for the tariffs. In the case of specific tariffs on washing machines imported from Asia, their research shows prices of domestically manufactured machines also rose, as did the selling prices of tumble dryers, which did not carry specific tariffs. However, the tariffs did encourage Asian manufacturers to set up factories in the United States and created over 2,000 jobs.[2] With even higher tariffs proposed in the president-elect's second term, the potential impact on US inflation could give investors pause for thought.

3. **Political turbulence in South Korea:** President Yoon's declaration of martial law and the subsequent swift vote to reverse the decree by parliamentarians indicates the checks and balances in South Korea's democracy are working well. Policymakers were quick to respond with unlimited liquidity, if required, to stabilize financial markets. In the short term, equity market volatility could increase given political uncertainty, as well as concerns over president elect Trump imposing 10%-20% tariffs on all imports, including those from South Korea. In our assessment, the medium- to long-term outlook for the market remains unchanged.

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

As of November 29, 2024



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Outlook

The Templeton Global Investments team recently joined our colleagues in India to leverage our network and meet with industry experts to update our assessment of India's growth potential. We met with management teams, visited company facilities and experienced for ourselves the rapid development of India's infrastructure. One interesting observation from a seasoned fund manager was India today reminds him of China 25 years ago.

Convenience in the green transition

We visited an electric **two-wheeler automobile original equipment manufacturer**. During our meeting, the management team shared an interesting insight—while the population in Tier 2 and Tier 3 cities in India are normally associated with lower purchasing power compared to the metros and Tier 1 cities, there is actually a higher demand for the company's electric scooters in Tier 2 and Tier 3 cities.

There was also a hidden perk of choosing a scooter over another vehicle type in India. In India's busy traffic, it is easier to travel via a smaller—and therefore nimbler—vehicle as compared to a car. This convenience has also extended to mobility charging points, which are available on the ground floor of new buildings.

Convenience and speed

We also had the opportunity to visit one of India's **leading digital commerce entities**. The competitive e-commerce landscape in India has given rise to the 10-minute delivery phenomenon. We verified this phenomenon with a portfolio manager based in India, who showed us that his past orders on this company's platform were delivered in eight or nine minutes. While the rest of the world continues to shop online with delivery times spanning hours, India has already moved ahead.

These examples scratch the surface of what we witnessed in India. The bottom-up view of the investment landscape is a key part of our uncommon process. The ability to cross reference emerging growth trends, stress test our assumptions and engage with industry leaders contribute to our uncommon insights which we believe is our primary differentiator.

Market review: November 2024

EM equities fell in November. The US Federal Reserve (Fed) reduced interest rates, but US President-elect Donald Trump's announcement of the imposition of additional tariffs on several EMs caused a divergence in the performance of developed markets and EMs. For the month, the MSCI EM Index returned -3.58% while the MSCI World Index rose 4.62%.

Stock markets in the emerging Asia region fell. Chinese equities ran out of steam as fiscal stimulus disappointed investors. Continued deflation in China also sparked worries that the country's successive stimulus measures were insufficient to propel the economy. Soft third-quarter earnings from major e-commerce platforms in China added to underwhelming investor sentiment. Indian equities also experienced a mild decline. Subdued earnings for the second quarter of the 2025 fiscal year gave rise to concerns of a probable growth slowdown. Allegations of bribery plagued an Indian multinational conglomerate and pressured stock prices of its listed entities. However, the coalition party of India's prime minister, the BJP, secured a comfortable election win in Maharashtra, the country's richest state. This was an indication of policy continuity and provided a boost to sentiment.

While deepening concerns over potential tariffs from the United States impacted the performance of technology and industrial export companies in South Korea, there were some positive events. South Korea's most valued company—also one of the largest memory semiconductor manufacturers in the world—pared losses slightly after the approval of its share buyback program. In terms of monetary policy, South Korea's central bank reduced interest rates again. Taiwan's equity market took heed from regional equities and also ended the month lower. Indonesia, Malaysia and Thailand recorded year-on-year economic growth.

Equities in the emerging Europe, Middle East and Africa region closed lower in November. Oil prices were volatile, reacting to developments in geopolitical tensions. Israel reached a 60-day ceasefire agreement with Iran-backed Hezbollah. However, select equity markets in the Gulf Cooperation Council (GCC) benefited from the re-election of Donald Trump. This led to expectations of a stronger US dollar, which should aid GCC markets. While South Africa's central bank opted for a small cut in its interest rates, Turkey left its key interest rate unchanged for the eighth month in a row.

Equities in the emerging Latin America region declined. Inflation environments converged. Annual inflation in Mexico, Brazil and Chile sped up in October. This brought Brazil's reading above its central bank's tolerance ceiling. The Brazilian government's proposal to cut US$12 billion in spending also underwhelmed investors and dragged equity prices lower.

Endnotes

1. Source: Cavallo, Alberton, et al. "Tariff Pass-Through at the Border and at the Store: Evidence from US Trade Policy." American Economic Review. October 2019.
2. Source: "Washing-Machine Tariffs Come Out Clean, Sparkling for US Manufacturing." Industry Week. January 16, 2024.

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 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.

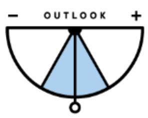
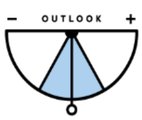
International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. These risks are magnified in emerging markets. Investments in companies in a specific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

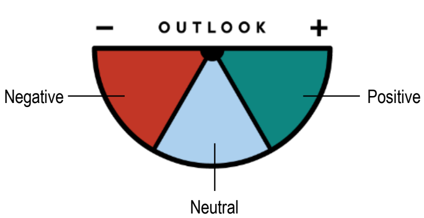
There are special risks associated with investments in **China, Hong Kong and Taiwan**, including less liquidity, expropriation, confiscatory taxation, international trade tensions, nationalization, and exchange control regulations and rapid inflation, all of which can negatively impact the fund. **Investments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

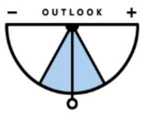
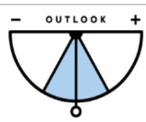
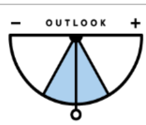
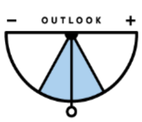
Understanding the Pendulum Graphic



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

Market	Conviction	Investment Thesis
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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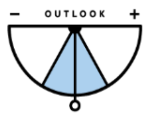
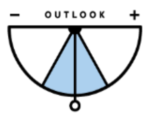
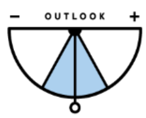
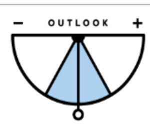
Regional outlook

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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