

Perspective from
**Franklin Equity
Group**

Global equity outlook 2026

Renewed tailwinds for quality growth

December 2025

**Franklin Equity
Group Global
Growth team**

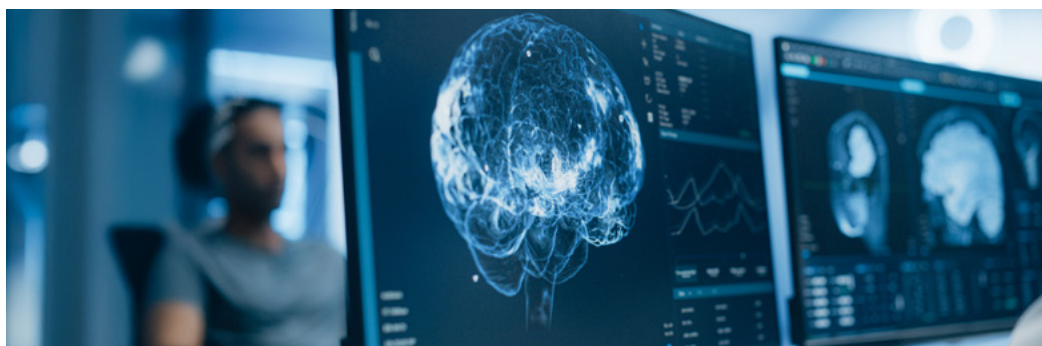
Key Takeaways:

- Easing inflation and rate cuts create renewed tailwinds for quality growth—especially mid-caps poised for earnings and multiple recovery.
- Market leadership should broaden beyond mega-cap technology, lifting selected underappreciated European growth areas and undervalued health care innovators.
- Artificial Intelligence's (AI) next phase is shifting from infrastructure builders to integrators. Companies embedding AI into products and operations unlock new profit pools despite near-term volatility.

Setting the stage

The past several years have witnessed extraordinary technological and economic shifts. The proliferation of AI has transformed business models and driven investor enthusiasm, propelling a small group of dominant United States companies—most notably the “Magnificent Seven”—to outsized market leadership. In contrast, European equity markets, with their heavier weightings in financials and consumer sectors and lighter exposure to technology, have favored value-oriented segments.

However, as we approach 2026, the market environment continues to evolve. Trade policy uncertainty, geopolitical tensions, and supply-chain realignments have tested corporate resilience and investor confidence. Cost pressures remain elevated and businesses have been forced to adapt to a fragmented and dynamic operating environment. Yet, amid this complex backdrop, we remain focused on what has long defined our investment discipline: Owning high-quality growth companies with durable competitive advantages. This steadfast approach—research-driven, benchmark-agnostic, and risk-aware—continues to be our guide in pursuing sustainable alpha across cycles. As we look ahead to 2026, we see several reasons for optimism for active growth investors.



“With fundamentals improving and capital costs declining, mid-caps look poised to benefit from earnings re-acceleration and multiple expansion.”

Lower rates: Tailwinds return for growth

Between 2022 and 2025, central banks worldwide tightened policy to combat inflation, pushing bond yields sharply higher. This environment was challenging for growth and mid-cap equities, where valuations are more sensitive to discount-rate dynamics.

Now, however, inflationary pressures appear to be moderating, and rate-cutting cycles are underway across major economies, particularly in the United States. Lower discount rates have historically re-anchored valuation multiples and improved financing conditions, especially for companies with long-duration cash flows. As global liquidity improves, we see this as a pivotal tailwind for quality growth investing.

Broadening of returns: Opportunities down the market-cap spectrum

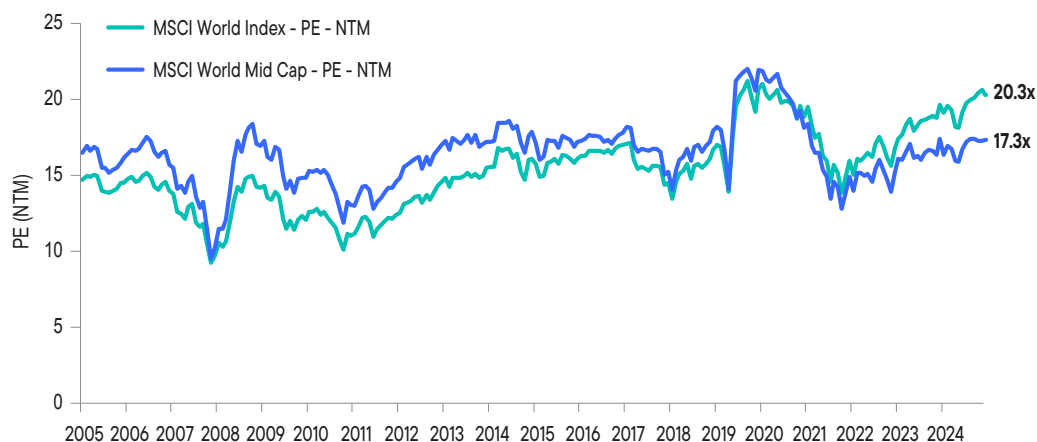
After several years of narrow market leadership dominated by mega-cap technology names, we believe market breadth is poised to expand. Elevated valuations at the top end have prompted investors to rediscover opportunities in mid- and smaller-cap equities, which now trade at multi-decade valuation discounts. These companies—often earlier in their growth cycles, more nimble, and with focused business models— can combine the innovation potential of smaller firms with the stability of established players. With fundamentals improving and capital costs declining, mid-caps look poised to benefit from earnings re-acceleration and multiple expansion.

This “broadening of returns” not only supports more diversified equity performance but we believe favors active bottom-up investors seeking differentiated companies.

**Exhibit 1:
Global Mid-Cap
stocks trade at a
discount to the
broader index**

MSCI World and MSCI World Mid-Cap Price Earnings

Next 12 Months (NTM) 20 years



Source: FactSet, December 4, 2025. 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 performance. Important data provider notices and terms available at www.franklintempletondatasources.com.

“While the US remains the global innovation hub, Europe is quietly undergoing structural renewal.”

Europe’s structural growth engines: Secular resilience beyond the US

While the United States remains the global innovation hub, Europe is quietly undergoing structural renewal. Several long-term trends are creating fertile ground for select non-US growth companies to outperform:

- **Health care innovation:** European firms are leaders in biologics, oncology, and rare-disease therapies—segments benefiting from demographic shifts and global unmet medical needs.
- **Defense and infrastructure revitalization:** Following Germany’s landmark defense and infrastructure commitments, European industrials and engineering firms are positioned to capture sustained multi-year demand growth.

In the near term, global investors remain generally underweight European growth, partly due to trade and tariff uncertainty. Over the long term, we believe this presents an opportunity as international growth equities are trading at meaningful valuation discounts to their US peers despite a myriad of positive catalysts.

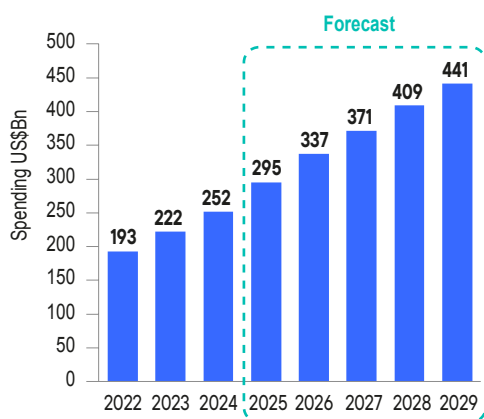
Health care recovery: Undervalued innovation reawakens

Health care has lagged the broader markets since the pandemic. Investors’ focus on AI-related enablers diverted attention and capital from high-quality health care innovators, while regulatory and pricing headwinds weighed on sentiment. Yet beneath the surface, the pace of scientific and technological innovation has accelerated. The sector benefits from powerful tailwinds—aging demographics, the rising prevalence of chronic disease, and expanding access to health care across emerging markets. These forces underpin sustained demand for innovation that we believe should improve outcomes, reduce costs, and increase system efficiency. We highlight oncology below as growing cancer prevalence and ongoing unmet medical needs are fuelling investment in next-generation targeted therapies.

Exhibit 2: Oncology is a durable growth theme in health care

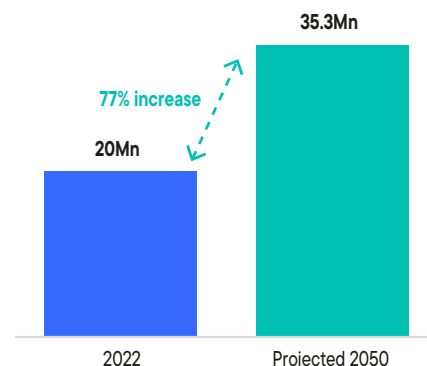
Cancer medicine spending expected to continue to increase

(Actual 2022 – 2024; Forecasted 2025 – 2029)



Incidence of cancer is projected to increase significantly

(2022 and Projected 2050)



Source: Source: IQVIA Institute, 2024. IARC Global Cancer Observatory. Notes: Spending is for oncology medicines only and does not include medical costs or supportive care. There is no assurance that any estimate, forecast or projection will be realized.

Furthermore, the backdrop appears to be improving as valuations are well below historical averages and fundamentals are strengthening, and pricing and regulatory risks are abating. As rate pressures subside, we expect earnings and multiples to re-rate, restoring health care’s role as a defensive growth compounder within global portfolios.

The next wave of AI-driven growth: From enablers to integrators

Following a strong rally, the recent market selloff has pressured many AI-related names, underscoring that innovation-led growth rarely moves in a straight line. While sentiment has cooled, the long-term trend remains intact—AI continues to expand across industries, reshaping how businesses operate and create value.

The first phase of AI adoption rewarded the builders of core infrastructure: semiconductors, hyperscalers, and cloud providers. The next phase is shifting toward the integrators—companies embedding AI into products, services, and decision-making to boost productivity and open new profit pools.

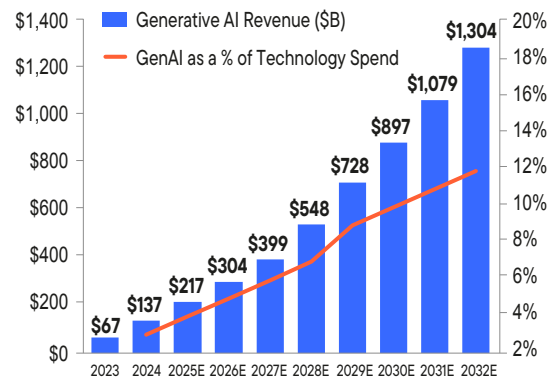
Our positioning reflects this evolution. We see the main supply-chain bottlenecks in production capacity and advanced manufacturing equipment. Over time, as large language models become available across all major clouds, value is likely to accrue to those with the most efficient and scalable infrastructure rather than those reliant on exclusive partnerships or narrow training workloads.

From financial analytics and logistics automation to personalized health care, this diffusion of AI is driving a new generation of growth opportunities. Near-term volatility may test conviction, but it also creates openings to reinforce exposure to the long-term beneficiaries of AI's broadening impact.

Exhibit 3: Strong demand for Generative AI drives investments in AI-related infrastructure

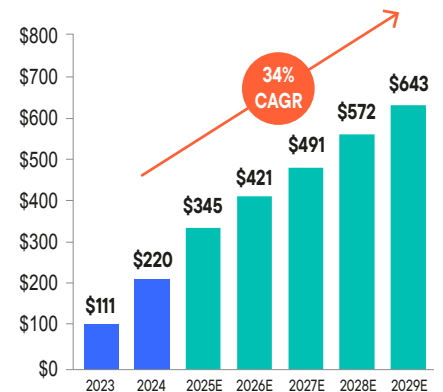
“Looking toward 2026, markets seem to be transitioning from a narrow, liquidity-driven regime to one shaped by fundamentals, innovation, and active management.”

Gen AI Revenue (US\$Bn) and Relative Technology Spend (%) (2023 – Projected 2032)



Source: Bloomberg Intelligence, IDC, Visible Alpha. As of September 30, 2025. There is no assurance that any estimate, forecast or projection will be realized.

Cloud Service Providers Capital Expenditures (US\$Bn) (2023 – Projected 2029)



Source: 650 Group. As of September 30, 2025. There is no assurance that any estimate, forecast or projection will be realized.

Discipline, quality, and long-term vision

Looking toward 2026, markets seem to be transitioning from a narrow, liquidity-driven regime to one shaped by fundamentals, innovation, and active management. For growth investors, this could be a welcome rebalancing. We believe the coming years will reward investors who can distinguish durable innovation from cyclical enthusiasm. Our team continues to invest on behalf of our clients with patience, discipline, and diligence—qualities that have defined our process for over two decades.

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.

Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks.

Investment strategies which incorporate the identification of **thematic investment opportunities**, and their performance, may be negatively impacted if the investment manager does not correctly identify such opportunities or if the theme develops in an unexpected manner. Focusing investments in the **health care and biotechnology sectors** carries much greater risks of adverse developments and price movements in such industries than a strategy that invests in a wider variety of industries.

Any **companies and/or case studies** referenced herein are used solely for illustrative purposes; any investment may or may not be currently held by any portfolio advised by Franklin Templeton. The information provided is not a recommendation or individual investment advice for any particular security, strategy, or investment product and is not an indication of the trading intent of any Franklin Templeton managed portfolio.

IMPORTANT LEGAL INFORMATION

This material is intended to be of general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. It does not constitute legal or tax advice. This material may not be reproduced, distributed or published without prior written permission from Franklin Templeton.

The views expressed are those of the investment manager and the comments, opinions and analyses are rendered as at publication date and may change without notice. The underlying assumptions and these views are subject to change based on market and other conditions and may differ from other portfolio managers or of the firm as a whole. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market. There is no assurance that any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets will be realized. The value of investments and the income from them can go down as well as up and you may not get back the full amount that you invested. **Past performance is not necessarily indicative nor a guarantee of future performance. All investments involve risks, including possible loss of principal.**

Any research and analysis contained in this material has been procured by Franklin Templeton for its own purposes and may be acted upon in that connection and, as such, is provided to you incidentally. Data from third-party sources may have been used in the preparation of this material and Franklin Templeton ("FT") has not independently verified, validated or audited such data. Although information has been obtained from sources that Franklin Templeton believes to be reliable, no guarantee can be given as to its accuracy and such information may be incomplete or condensed and may be subject to change at any time without notice. The mention of any individual securities should neither constitute nor be construed as a recommendation to purchase, hold or sell any securities, and the information provided regarding such individual securities (if any) is not a sufficient basis upon which to make an investment decision. FT accepts no liability whatsoever for any loss arising from use of this information and reliance upon the comments, opinions and analyses in the material is at the sole discretion of the user.

Franklin Templeton has environmental, social and governance (ESG) capabilities; however, not all strategies or products for a strategy consider "ESG" as part of their investment process.

Products, services and information may not be available in all jurisdictions and are offered outside the U.S. by other FT affiliates and/or their distributors as local laws and regulation permits. Please consult your own financial professional or Franklin Templeton institutional contact for further information on availability of products and services in your jurisdiction.

Brazil: Issued by Franklin Templeton Investimentos (Brasil) Ltda., authorized to render investment management services by CVM per Declaratory Act n. 6.534, issued on October 1, 2001. **Canada:** Issued by Franklin Templeton Investments Corp., 200 King Street West, Suite 1400 Toronto, ON, M5H3T4, Fax: (416) 364-1163, (800) 387-0830, www.franklintempleton.ca. **Offshore Americas:** In the US, this publication is made available by Franklin Templeton, One Franklin Parkway, San Mateo, California 94403-1906. Tel: (800) 239-3894 (USA Toll-Free), (877) 389-0076 (Canada Toll-Free), and Fax: (727) 299-8736. US: Franklin Templeton, One Franklin Parkway, San Mateo, California 94403-1906, (800) DIAL BEN/342-5236, franklintempleton.com. Investments are not FDIC insured; may lose value; and are not bank guaranteed.

Issued in Europe by: Franklin Templeton International Services S.à r.l. – Supervised by the Commission de Surveillance du Secteur Financier – 8A, rue Albert Borschette, L-1246 Luxembourg. Tel: +352-46 66 67-1, Fax: +352 34 2080 9861. **Poland:** Issued by Templeton Asset Management (Poland) TFI S.A.; Rondo ONZ 1; 00-124 Warsaw. **Saudi Arabia:** Franklin Templeton Financial Company, Unit 209, Rubeen Plaza, Northern Ring Rd, Hittin District 13512, Riyadh, Saudi Arabia. Regulated by CMA. License no. 23265-22. Tel: +966-112542570. All investments entail risks including loss of principal investment amount. **South Africa:** Issued by Franklin Templeton Investments SA (PTY) Ltd, which is an authorized Financial Services Provider. Tel: +27 (21) 831 7400, Fax: +27 10 344 0686. **Switzerland:** Issued by Franklin Templeton Switzerland Ltd, Talstrasse 41, CH-8002 Zurich. **United Arab Emirates:** Issued by Franklin Templeton Investments (ME) Limited, authorized and regulated by the Dubai Financial Services Authority. **Dubai office:** Franklin Templeton, The Gate, East Wing, Level 2, Dubai International Financial Centre, P.O. Box 506613, Dubai, U.A.E. Tel: +9714-4284100, Fax: +9714-4284140. **UK:** Issued by Franklin Templeton Investment Management Limited (FTIML), registered office: Cannon Place, 78 Cannon Street, London EC4N 6HL. Tel: +44 (0)20 7073 8500. Authorized and regulated in the United Kingdom by the Financial Conduct Authority.

Australia: Issued by Franklin Templeton Australia Limited (ABN 76 004 835 849) (Australian Financial Services License Holder No. 240827), Level 47, 120 Collins Street, Melbourne, Victoria 3000. **Hong Kong:** Issued by Franklin Templeton Investments (Asia) Limited, 62/F, Two IFC, 8 Finance Street, Central, Hong Kong. **Japan:** Issued by Franklin Templeton Investments Japan Limited. **Korea:** Issued by Franklin Templeton Investment Advisors Korea Co., Ltd., 3rd fl., CCMM Building, 101 Yeouigongwon-ro, Yeongdeungpo-gu, Seoul, Korea 07241. **Malaysia:** Issued by Franklin Templeton Asset Management (Malaysia) Sdn. Bhd. & Franklin Templeton GSC Asset Management Sdn. Bhd. This document has not been reviewed by Securities Commission Malaysia. **Singapore:** Issued by Templeton Asset Management Ltd. Registration No. (UEN) 199205211E, 7 Temasek Boulevard, #26-03 Suntec Tower One, 038987, Singapore.

Please visit www.franklinresources.com to be directed to your local Franklin Templeton website.

