



From the US Market Desk

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Macro

- Our real gross domestic product (GDP) forecast for 2026 is 2.5% (based on our [Global Investment Management Survey](#)) versus the Federal Reserve's (Fed's) forecast of 2.3% and Wall Street consensus of around 2%. The main drivers of our GDP forecast are the continued big tech capital expenditures, a resilient consumer, higher tax refunds, as well as the possibility of future rate cuts. The duration of the Middle East conflict is the primary risk to our forecast. Higher oil prices are a tax on the consumer, and the negative impacts of higher oil/gas prices will likely broaden over time. But we think the US economy is in a strong position to weather this storm.
- We expect the Fed to cut interest rates twice in 2026 and core Personal Consumption Expenditures (PCE) to remain stable in the 2.5%-3.0% range. Fed fund futures are telling us we are wrong on the rate cut call at the moment, although the market has now swung back to a very slight chance of one rate cut later this year. The last tick for core PCE data came in at 3.0% versus expectations of 2.9%. Higher oil prices will bleed through to core PCE if oil prices stay elevated. The U-3 rate is 4.4%, just off the recent high print in November of 4.5%. 4.5% was the highest level going back to October of 2021.
- Should it persist, and drive oil prices higher for longer, the conflict in the Middle East could put the Fed in a box with respect to its dual mandate. Fed Chair Powell has now stated, on multiple occasions, that the "playbook" is to look through any oil price-related situation. Taking Mr. Powell at his word, it seems unlikely the Fed will raise rates anytime soon. Similarly, we know that the two-year Treasury note yield historically leads the Fed, and the two-year note yield is 3.80%, as of this writing. Right now, the bond market is saying the Fed will do nothing.
- Inflation expectations have moved up in the near term. One-year breakeven rates are now 5.07% and have effectively been tracking oil prices higher. Two-year breakeven rates are 3.21%, while five-year breakeven rates are 2.59%. These numbers represent bond market pricing of annualized inflation out one, two, and five years. Short-term concerns for sure, but longer-term expectations are still anchored.
- On the currency front, we are expecting the US dollar to be essentially flat for the year despite the recent volatility. The US Dollar Index (DXY) is trading at \$99.60 and is at the high side of its 12-month range, defined as \$96-\$100.

Equities

- We are constructive on US equities and have established a target range of 7000-7400 for the S&P 500, driven by 8%-13% year-over-year earnings per share growth (based on our [Global Investment Management Survey](#)). We don't expect this geopolitical event to impact our outlook unless oil trades north of \$100 and stays there for months. Expect high levels of volatility to persist until the Strait of Hormuz is open.

Equities (continued)

- Multiples are compressing. Coming into the year, the price-earnings (P/E) ratio on the S&P 500 was 22.5 on 2026 earnings. As of the close on March 26, 2026, the P/E multiple on this year's earnings for the S&P 500 stood at 20.42, and the multiple on 2027 earnings at 17.70. More reasonable. History has shown us that equities have bounced back after crisis periods. So, when prices are coming down, for longer-term investors, the risk in owning them tends to abate, too. This is especially important to remember during periods of high volatility when emotions can take over. That's why we continue to emphasize: Discipline over emotion.
- What is more interesting is this: As stock prices have fallen, earnings estimates have been rising across the board. With the exception of the Russell 2000 Growth Index, estimates have risen in every other US equity index, relative to the start of the year. This is also true outside the United States. With the exception of Europe, estimates are up for emerging markets and Japan. As for year-to-date (YTD) performance through March 26 outside of the United States, the MSCI Latin America Index was up 11.90%, the MSCI Emerging Markets Index was up 3.50%, and the MSCI Japan Index was up 4.55%. The MSCI Europe Index was down 3.06%, and the MSCI India Index was the laggard, down 13.45%. All of the international return data is in US-dollar terms.
- Right now, this tape feels like death by a thousand paper cuts. The markets are glued to the situation in the Middle East, and we expect to be in this pattern until an off-ramp comes into view. The broadening theme we have been advocating since January of 2025 continues. Consider this: Through the April 1 close, the Russell 2000 Value Index was up 5.66% YTD, the S&P Midcap Growth Index was up 5.14%, the S&P Midcap 400 was up 3.38%, the Russell 1000 Value Index was up 2.62%, the S&P Midcap 400 Value Index was up 1.52%, the Russell 2000 Index was up 1.57%, and the Equal Weight S&P was up 0.80% (meaning, the "average stock" is up). That's the good news. On the downside, the "Magnificent Seven" gang is down 10.84%, Russell 1000 Growth Index was down 8.98%, the S&P 500 was down 3.66%, the Russell 1000 Index was down 3.51%, and the Russell 2000 Growth Index was down 2.14%. Manageable, I think, if you are diversified, but could be painful if you are not. This dispersion is great for active stock pickers, however.
- Outside of the United States, the MSCI Latin America was up 17.37% as of April 1, the MSCI Emerging Markets (EM) Index was up 4.19%, MSCI Japan was up 7.13%, MSCI Europe was up 0.645, and India's market is the laggard, down 16.26%. (Returns in US dollars).
- Supported by forward earnings growth, we remain bullish on US small-cap stocks as well as emerging market equities. Take a listen to Putnam Emerging Market Equity Portfolio Manager Brian Friewald on our latest [Talking Markets podcast](#). When Brian talks, I listen. My approach: Use weakness to increase exposure.
- Let's talk about how to deal with volatility. As I see it, it's time for discipline over emotion. A plan is needed. Here is my plan, if there is cash to put to work: If the VIX Index closes above 30, using weekly data, then dollar cost averaging into equities looks like a good strategy. This signal triggered at the close on Friday March 27.
- Since 1990, when the VIX has closed at 30 or higher on a weekly basis, forward returns for the S&P 500 have been positive. The three-month median forward return was 6.85% with an 80.28% hit rate. The six-month median, forward return was 15.15% with a hit rate of 80.28%. The one-year median, forward return was 23.46% with a hit rate of 88.57%. Discipline over emotion.
- Similarly, if things get out of hand and the VIX index closes above 50 on a weekly basis, then that's my signal that's it is time to get more aggressive. This is the second step: I would not be dollar cost averaging; I would be looking to buy quality stocks. (That includes the Mag Seven). Since 1990, median forward returns, one-year out, were 24.06% with a 100% hit rate. Discipline over emotion. Markets bottom on bad news, after all. Remember April 2025?
- The "Rule of 16" can be a handy tool. The Rule of 16 gives you an idea of what type of daily price movement you can expect in the S&P 500. The calculation is $(\text{VIX Index level}/16) = \text{expected daily price movement in percent}$. So, a VIX Index reading of 32 = 2% expected daily movement in the S&P 500 $(32/16)$.
- Bottom line as I see it: A diversified equity playbook that includes large-, mid- and small-cap exposure in the United States with a balance of growth and value makes sense right now. The same can be said for ex-US equity exposure, including EM and developed international markets helps reduce concentration. As noted, I use the VIX index parameters above for further action.

Fixed income

- We expected the US 10-year Treasury bond yield to trade in a range of 4.0% and 4.25% this year. The market is slightly through the high end of our range, with yields now at 4.32%. I would consider adding duration risk north of 4.50%. The two-year note yield just also came in during the past week, with the last trade at 3.80%. The US Treasury yield curve has flattened recently, with the 2-year/10-year spread at 51 basis points (bps). We expect more bull steepening in 2026 but are on the wrong side of that call at the moment.

Fixed income (continued)

- We expected short duration fixed income mandates and corporate credit to outperform cash again this year. Considering our views on US 10-year yields, we do not expect duration to be a significant driver of total return this year. Rather, all-in yield capture seems to be the play, although recent spread widening might create an opportunity for additional total return.
- Credit spreads have made big moves in the last few weeks. Investment-grade spreads (1–3-year OAS) are 61 bps over Treasuries. High-yield spreads (as proxied by the Bloomberg US Corporate HY OAS Index), are 317 bps over. Corporate fundamentals appear healthy, although there is stress in the system now.
- Historically, when IG credit spreads have traded 200 bps over Treasuries, forward returns for the Bloomberg US Aggregate Index have been positive. According to Rick Polsinello, Franklin Templeton Institute Senior Market Strategist-Fixed Income, the US Aggregate Index has had median forward returns out three months of 1.92%, out six months of 4.19%, out nine months of 4.75%, and out 12 months of 3.97%. Not there yet obviously, but worth examining for potential buying opportunities.
- Similarly, when HY credit spreads have traded 600 over Treasuries, forward returns are positive out three months with a median return of 12.82%, out six months at 22.35%, out nine months at 26.75%, and out 12 months at 29.98%. Again, the market is not there yet but we are watching for signs it's time to act.
- We are bullish municipal bonds and find taxable equivalent yields to be attractive, along with robust fundamentals. Importantly, the increased supply in the marketplace seems to have run its course for now and muni bonds have been performing well since last August. We think this should continue.

Sentiment

- The percentage of bullish investors in the AAIL survey actually moved up two ticks this week to 34%. The percentage of bearish investors in the AAIL survey ticked up 1 turn to 51%. Neither of these readings are at extremes, but sentiment is growing more cautious. I want to see % bulls under 25% and % bears over 55% to consider taking action. Remember, this is considered a contrary indicator.

I will continue to analyze the markets and will offer insights again next week.

Source of data (except where noted) is Bloomberg and Franklin Templeton Institute, as of April 2, 2026. Important data provider notices and terms available at www.franklintempletondatasources.com.

The Franklin Templeton Institute Global Investment Management Survey is a biannual outlook survey designed to give a view across our investment teams. The Franklin Templeton Institute identifies the median across the survey answers and develops the outlook. The survey received responses from around 200 portfolio managers, directors of research and chief investment officers, representing participation across equity, private equity, fixed income, private debt, real estate, digital assets, hedge funds and secondary private markets. Each of our investment teams is independent and has its own views.

Glossary of terms

The AAIL (American Association of Individual Investors) Sentiment Survey: This survey offers insight into the opinions of individual investors by asking them their thoughts on where the market is heading in the next six months.

Breakeven rates: The difference between yields of Treasury bonds and TIPS for issues of the same tenor/maturity, calculated by subtracting TIPS yields from Treasuries; a measure of inflation.

Capital expenditure (capex): Funds that companies spend to acquire, upgrade or maintain physical assets, such as buildings, technology or equipment, with the purpose of maintaining or growing future operations.

Duration: A measure of how much a bond's price changes relative to changes in interest rates.

Federal funds (FF) rate: The interest rate that depository institutions such as banks charge other institutions for holding overnight reserves.

Magnificent Seven: Refers to shares of Apple, Microsoft, Amazon, Alphabet, Meta Platforms, Nvidia, and Tesla,

Hit rate: The percentage of positive positions or returns over a specific period.

Option-adjusted spread (OAS): Measures the spread between a bond's interest rate and the risk-free rate, while adjusting for any embedded options like callables or mortgage-backed securities.

Personal Consumption Expenditures (PCE) and core PCE: Measures the price changes in goods and services purchased by US households; core PCE excludes food and energy prices. Both are measures of inflation.

Tape: A reference to broad market performance, based on the ticker tape that transmitted stock prices during the 19th and 20th centuries.

Taxable-equivalent yield: The yield of a municipal bond investment calculated to reflect the benefits of income tax exemption and to be comparable to the yield of a taxable bond.

U-3 unemployment rate: The official measure used by the US Bureau of Labor Statistics (BLS) to report the percentage of the labor force that is unemployed and actively seeking work.

Yield spreads/tights: Spreads are the difference between yields on differing debt instruments of varying maturities, credit ratings, issuers or risk levels. "Tight" in reference to spreads indicates small differences in yields.

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 of future results.

Bloomberg US Aggregate Bond Index: The Barclays U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage and asset-backed issues, rated investment grade or higher, and having at least one year to maturity. Please note an investor cannot invest directly in an index.

Bloomberg US Corporate High Yield Index: Tracks the performance of the USD-denominated, high yield, fixed-rate corporate bond market.

MSCI Emerging Markets Index: A free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global emerging markets.

MSCI Europe Index: A free float-adjusted, market capitalization index that is designed to measure developed market equity performance in Europe: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

MSCI India Index: This index is designed to measure the performance of the large- and mid-cap segments of the Indian market. With 64 constituents, the index covers approximately 85% of the Indian equity universe.

MSCI Latin America Index: This index captures large and mid-cap representation across 5 Emerging Markets (EM) countries in Latin America.

Russell 1000® Index: A market capitalization-weighted that measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents the majority of total US market capitalization.

Russell 1000® Growth Index: A market capitalization-weighted index that measures the performance of Russell 1000® Index companies with relatively higher price-to-book ratios and higher forecasted growth rates.

Russell 1000® Value Index: A market capitalization-weighted index that measures the performance of Russell 1000® Index companies with relatively lower price-to-book ratios and lower forecasted growth rates.

Russell 2000® Index: A market capitalization-weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

Russell 2000® Growth Index: A market capitalization-weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index with relatively higher price-to-book ratios and higher forecasted growth rates.

Russell 2000® Value Index: A market capitalization-weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index with relatively lower price-to-book ratios and lower forecasted growth rates.

S&P 500® Index (SPX): A market capitalization-weighted index of 500 stocks, a measure of broad US equity market performance.

S&P 500 Equal Weight Index (EWI): The equal-weight version of the S&P 500 Index. The index includes the same constituents as the capitalization weighted S&P 500, but each company is allocated a fixed weight, or 0.2% of the index total, at each quarterly rebalance.

S&P MidCap 400® Index: A market capitalization-weighted index of 400 stocks of mid-size companies, distinct from the large-cap S&P 500.

The S&P MidCap® 400 Growth Index: An unmanaged, float-adjusted market capitalization-weighted index comprised of stocks from the S&P MidCap 400 that are classified as growth stocks based on three factors: sales growth, the ratio of earnings change to price, and momentum.

The S&P MidCap® 400 Value Index: An unmanaged, float-adjusted market capitalization-weighted index comprised of stocks from the S&P MidCap 400 that are classified as value stocks based on three factors: the ratios of book value, earnings and sales to price.

US Dollar Index: A basket of six foreign currencies (euro, Japanese yen, UK pound sterling, Canadian dollar, Swedish krona, and Swiss franc) used to track the relative strength of the US dollar, with a higher index value representing US dollar strength.

The Chicago Board Options Exchange (CBOE) Volatility Index (VIX): A measure of market expectations of near-term volatility as conveyed by S&P 500 stock index option prices.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

The **allocation of assets** among different strategies, asset classes and investments may not prove beneficial or produce desired results.

Diversification does not guarantee a profit or protect against a loss.

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

Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default.

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**.

The **investment style** may become out of favor, which may have a negative impact on performance.

Large-capitalization companies may fall out of favor with investors based on market and economic conditions.

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

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