FRANKLIN TEMPLETON

Timely investment positioning (TIP)

Views reflect a 6-12 month time horizon for dynamic positioning

July 31, 2025

Franklin Templeton Investment Solutions translates a wide variety of investor goals into portfolios powered by Franklin Templeton's best thinking around the globe. We calibrate firmwide views with original analysis from our dedicated teams, which include both fundamental and quantitative research professionals.

Our dynamic view (legend)

Bearish — Bullish

To review this information in an accessible format please go to: https://www.franklintempleton.com/investments/options/model-portfolios/insights-and-advisor-resources

Asset Class	**Equities**	We prefer equities over bonds. Positive news on tariffs, growth and earnings has strengthened equity momentum, extending the recent rally. This has created a "goldilocks" environment, fueling investor sentiment. We remain cognizant of risks, including tariff-induced inflation, potential monetary policy mistakes, and heightened valuations.
Asset Class	**Fixed Income**	Unsustainable fiscal policy and higher term premiums could drive long-dated US Treasury yields higher, making them less defensive in the current regime. Inflation remains subdued in most developed economies, but there are early indications that tariffs are beginning to disrupt this trend. An attempt to remove Federal Reserve (Fed) Chair Powell before his term expires presents a tail-risk concern.
Asset Class	**Cash**	Despite the defensive features of cash and attractive yields, we believe reinvestment risk is high, given rates are projected to decline over the next 12 months.
Equities	**United States**	Earnings season is underway. So far, we have observed an 83% hit rate on outperformance versus merely hitting earnings estimates. Leading economic indicators are also healthy. Price momentum seems to favor the region, but we are keeping an eye on inflation, as well as flows, as retail investors have largely driven the recent rally.
Equities	**International Developed**	**Europe ex UK:** Though a 15% tariff agreement was made on most goods, aluminum and steel tariffs are stuck at 50%, until a potential new deal is made. Manufacturing will likely face pressure going forward. We are seeing a weakening domestic macro backdrop reflected already in forward EPS revisions. However, there is more room for the European Central Bank (ECB) to ease policy, and projected fiscal stimulus and NATO spending is significant. We remain neutral. **Japan**: Trailing earnings are slowing and forward earnings estimates have dropped. Leading economic indicators are also negative and falling. Inflation and monetary policy are more pressing concerns in Japan than many other markets. Meanwhile, given that a trade deal has been announced, there is little room for a "relief rally," in our opinion.
Equities	**Emerging Markets**	**Emerging markets ex China**: Forward earnings growth expectations are generally stronger than developed markets. The region remains relatively under-owned, and market breadth and momentum are strong, in our view. Any US growth slowdown is a significant risk to this region, but EM central banks have room to stimulate their economies, if necessary, amid subdued inflation. **China**: We believe the market lacks a clear catalyst moving forward. Manufacturing and industrial production did well in the first half of 2025 on tariff front-running. China is on track to hit its 5% growth target this year largely based on this first-half strength. However, this may mean that policymakers have less incentive to carry out meaningful stimulus this summer. Earnings revisions have had a significant downward shift. We are cautious.
Fixed Income	**US Treasuries**	In the near term, the US Treasury is front-loading issuance (supplying short-term instruments), which could lead to greater rollover risk for deficit financing. Market expectations for a Fed rate cut in September have dropped, but we note that two Fed governors dissented in favor of cutting rates, the first time since 1993. Ultimately, we currently prefer the less interest-rate-sensitive portion of the US Treasury curve.
Fixed Income	**US Investment Grade**	The sector has benefited from resilient corporate fundamentals, but cautious guidance is a concern. Spreads remain narrow, making the risk/return profile less attractive. We maintain our neutral view.
Fixed Income	**US High Yield**	Leading indicators of growth are supportive, as is equity market breadth, but greater credit stress, higher interest rates and leverage are headwinds. Spreads appear tight, but positive momentum keeps us neutral for now.
Fixed Income	**International Developed**	The ECB appears relatively dovish in its approach, as euro area inflation falls toward target. However, resilient growth may make further stimulus less likely. Further trade negotiations with the United States could be challenging. Downside risks to growth should weigh on yields, in our opinion.
Fixed Income	**Emerging Markets**	Emerging market (EM) debt should benefit from easier monetary policy if US tariffs drag down growth. However, hard currency EM debt spreads are tight and appear to be underpricing recession risks and trade-induced volatility.

Arrows, if included, denote a month-over-month change in a given view.

Asset class insights (continued)

Please visit our website to read additional insights from Franklin Templeton Investment Solutions.

US equity and fixed income factors

Equities	Small / Large	**Market Cap**	Small-cap earnings are more sensitive to cyclical macro factors than large-cap stocks. Trailing earnings momentum is weaker for small-cap stocks, while revisions to small-cap forward earnings are also more negative. Small-cap valuation compression reflects relative earnings underperformance.
Equities	Value / Growth	**Style**	Earnings expectations have spiked for growth companies and sentiment is high. Broadly speaking, fundamentals may be stronger for growth than value. However, unless growth companies report blowout results, stocks could be punished.
Fixed Income	Short / Long	**Duration**	The yield curve could steepen again during the next few months, as tax reductions could lead to larger fiscal deficits. While the Treasury's plan to supplying short-term issuance (see previous page) could limit demand for longer-dated securities (and weigh on yields), there are risks that could hamper this plan.

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Periodic* insights on alternative asset classes

Alternatives	**Private Equity**	Private equity (PE) activity and exits continue to improve, although uncertainty has interrupted the anticipated surge in dealmaking. A large backlog of potential exits remains, with holding periods remaining elevated and distributions remaining subdued. Secondaries continue to be an important source of liquidity and opportunity in the current environment.
Alternatives	**Private Credit**	Tight spreads and a near-term excess of capital available to finance new PE deals lead to a cautious outlook. We continue to watch trends related to borrower health. Opportunities persist in real estate credit and other overlooked sub-sectors.
Alternatives	**Real Assets**	***Private Real Estate***: Concerns over tariffs have injected renewed uncertainty in the near-term. Transaction volume remains muted by historical standards and it may take a couple quarters for sentiment to be reflected in property values. The longer-term outlook remains positive to us on new construction supply constraints. ***Commodities***: Tariff announcements and geopolitical events have been key drivers of commodity markets recently and may continue in the coming months. Breadth remains supportive, even as the geopolitical risk premium partially unwound in June 2025. Several industrial indicators currently raise doubts about sustained commodity demand, although many global growth indicators more broadly have shown signs of stabilization. A weaker US dollar and positive roll yields are generally supportive of commodities.
Alternatives	**Hedge Strategies**	We are neutral long/short equity, with a preference for international long/short. We are neutral event-driven strategies, but our outlook is improving, due to a pickup in M&A activity, lower antitrust risks, and a busy calendar of secondary special situations. The environment for macro investing remains attractive, in our view. We continue to favor discretionary managers who can be nimble to announcements, while systematic strategies may benefit once themes are more established. Regarding commodity managers, while exogenous factors can be challenging, they often create dislocations and attractive entry points for both relative value and directional strategies.

* Commentary as of June 2025.

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