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# Innovation

## A key driver of future returns

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### Innovation is often underestimated

History shows us that transformative innovations have exceeded expectations—with actual results exceeding forecasts by 22–58%. If history repeats itself, today's \$1.8 trillion AI market forecast could be surpassed, just like all the others.



**Personal  
Computers PC**  
Users in 2000



**Internet**  
Internet Users  
In 2000



**Mobile**  
Smartphone  
Shipments in 2013



**Cloud**  
Top Three Cloud  
Provider Revenue in 2020



**AI**  
AI Market Size  
2030 Forecast

Megatrend	Personal Computers PC Users in 2000	Internet Internet Users In 2000	Mobile Smartphone Shipments in 2013	Cloud Top Three Cloud Provider Revenue in 2020	AI AI Market Size 2030 Forecast
Initial Forecast	225 million	152 million	657 million	\$90.2 billion	\$1.8 trillion
Actual	354 million	361 million	1,019 million	\$115.6 billion	?
<b>Underestimation</b>	<b>36%</b>	<b>58%</b>	<b>36%</b>	<b>22%</b>	<b>?</b>

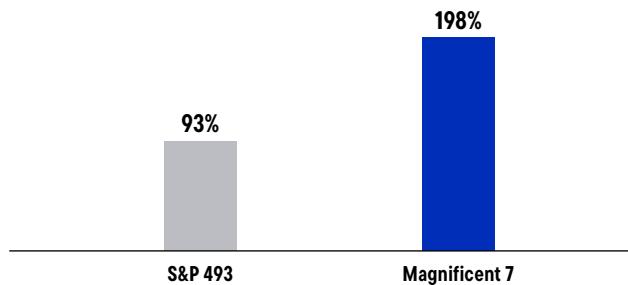
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### Growth stocks have outperformed for a reason

The rise of the Magnificent 7 didn't happen by chance—their earnings, driven in part by the cloud computing innovation wave, have grown at over twice the rate of the broader S&P 500 Index over the past five years.

#### Cumulative Earning Growth<sup>2</sup>

For the 5-year period ended 12/31/25



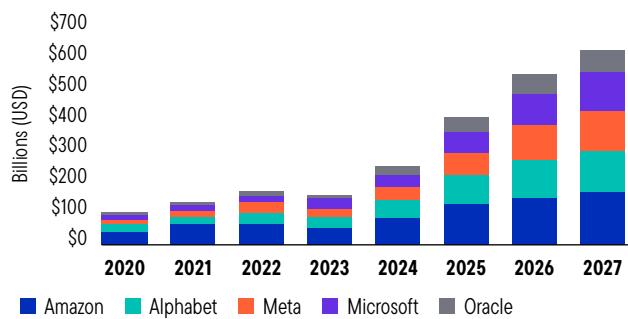
### Fuel for the next wave?

A potential catalyst for the next wave of growth could be a significant increase in AI capital expenditures (capex). Hyperscalers alone are expected to quadruple capex from just over \$100 billion at the start of the decade to more than half a trillion annually starting in 2026.<sup>2</sup>

Other companies may follow suit, particularly as businesses across all industries accelerate their AI adoption.

#### Hyperscaler Capex Accelerating<sup>2</sup>

Capital expenditures in billions (2020–2027)



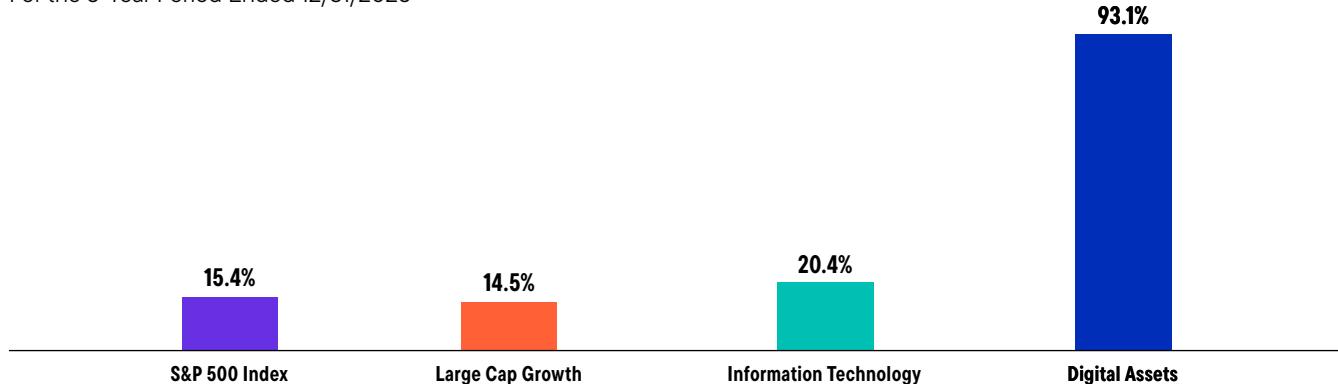
All charts are for illustrative purposes only and do not reflect the performance of any Franklin Templeton affiliated fund. Past performance does not guarantee future results.

## Innovation has delivered—at every level

The past five years have demonstrated that proximity to innovation has helped drive investment returns. Whether its broad market exposure, more direct technology exposure to AI and cloud computing or the explosive growth of cryptocurrency and blockchain technologies, investors have benefited from innovation.

### Compound Annual Growth Rate Based on Market Capitalization<sup>3</sup>

For the 5-Year Period Ended 12/31/2025



The pattern has been consistent: **transformative innovation has delivered transformative returns**—the question is how you want to participate.

#### 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. The investment style may become out of favor, which may have a negative impact on performance. An investment in a concentration of certain securities, regions or industries is subject to increased volatility. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. The **investment style** may become out of favor, which may have a negative impact on performance. To the extent the portfolio invests in a **concentration of certain securities**, regions or industries, it is subject to increased volatility. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks. **Diversification** does not guarantee a profit or protect against a loss. **Active management** does not ensure gains or protect against market declines.

1. Source: Morgan Stanley AI Guidebook, Fourth Edition, 1/31/2024. Next Move Strategy Consulting. Initial forecast dates were February 1996 for PC and internet users. January 2010 for smartphone shipments. March 2017 for cloud revenue and January 2023 for AI market size. *Artificial Intelligence Market Size & Trends* published by Grand View Research, the global AI market reached \$196.63 billion in 2023 and is expected to grow at a CAGR of 36.6% from 2024 to 2030, reaching approximately \$1.8 trillion. There is no assurance that any estimate, forecast or projection will be realized. Past performance is not an indicator or a guarantee of future performance.

2. Sources: S&P Global, FactSet. The “Magnificent 7” refers to the major tech giants: Amazon, Alphabet (Google), Apple, Meta Platforms (Facebook), Microsoft, NVIDIA and Tesla. The S&P 493 represents all companies in the S&P 500, excluding the Magnificent 7. Earnings growth is measured by trailing earnings per share for each group. Capital expenditures are estimated for the years 2025–2027. There is no assurance any estimate, forecast or projection will be realized. Past performance is not an indicator or a guarantee of future performance.

3. Sources: S&P Global, FTSE Russell, Macrobond. The **S&P 500** Index features 500 leading US publicly traded companies, with a primary emphasis on market capitalization. Large cap growth is represented by the **Russell 1000 Growth Index**, which measures the performance of the large-cap growth segments of the US equity universe. Information technology is represented by the **S&P 500 Information Technology Index**, which tracks US tech companies within the broader S&P 500 Index and represents leaders in innovation and growth. Digital assets represent the sum of all cryptocurrencies tracked by Macrobond.