FRANKLIN TEMPLETON

Global Value Outlook
by Franklin Mutual Series

Fundamentals are a lighthouse in the storm: a mid-year global value outlook

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At Franklin Mutual Series, decades of experience tells us that a focus on company fundamentals and a catalyst to unlock value are key to navigating heightened volatility.

Uncertain global trade policy and ongoing geopolitical conflict may create choppy waters for stocks over the back half of 2025. However, as value investors, we see compelling opportunities in places like Europe and Japan as corporate and political changes spur growth internationally, as well as select opportunities within a challenging US market. Focusing on valuation and the catalysts that can close that gap between fundamental and current value, in our experience, can be the lighthouse amid a stormy 2025.

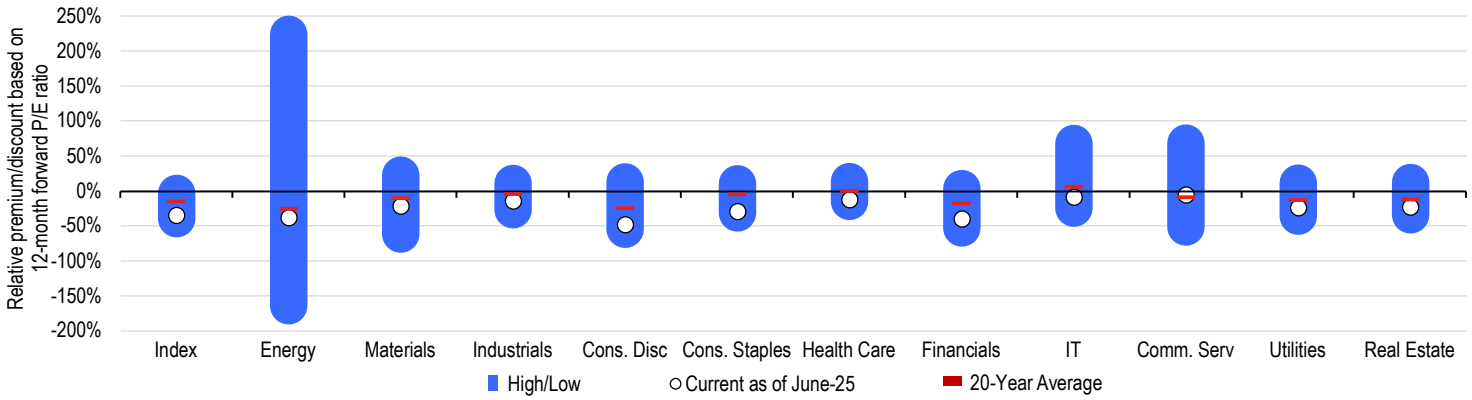
Europe and Japan: parting clouds with a chance of growth

With increased policy uncertainty and historically high stock valuations in the United States, we believe non-US markets may be a sunnier place. Years of anemic growth and lackluster competitive practices have led some European and Japanese businesses to trade at valuations that we think are below their actual worth. Meanwhile, clear structural catalysts, some nudged by the shifting US landscape, could boost international value stocks for several years.

In Europe, efforts to improve the region's competitiveness, declining interest rates, and policy changes in Germany—along with a focus on greater shareholder returns—could work to close the historically wide valuation gap, shown in Exhibit 1.

Exhibit 1: European Equity Valuations Remain Compelling Relative to US Equities Across Many Sectors

NTM Price-Earnings (P/E) Ratio: MSCI Europe Relative to the S&P 500 Index



Sources: FactSet, S&P Dow Indices, MSCI. NTM = next 12 months. As of June 2025. The MSCI Europe Index captures large- and mid-cap representation across developed market countries in Europe. 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**. See www.franklintempletondatasources.com for additional data provider information.

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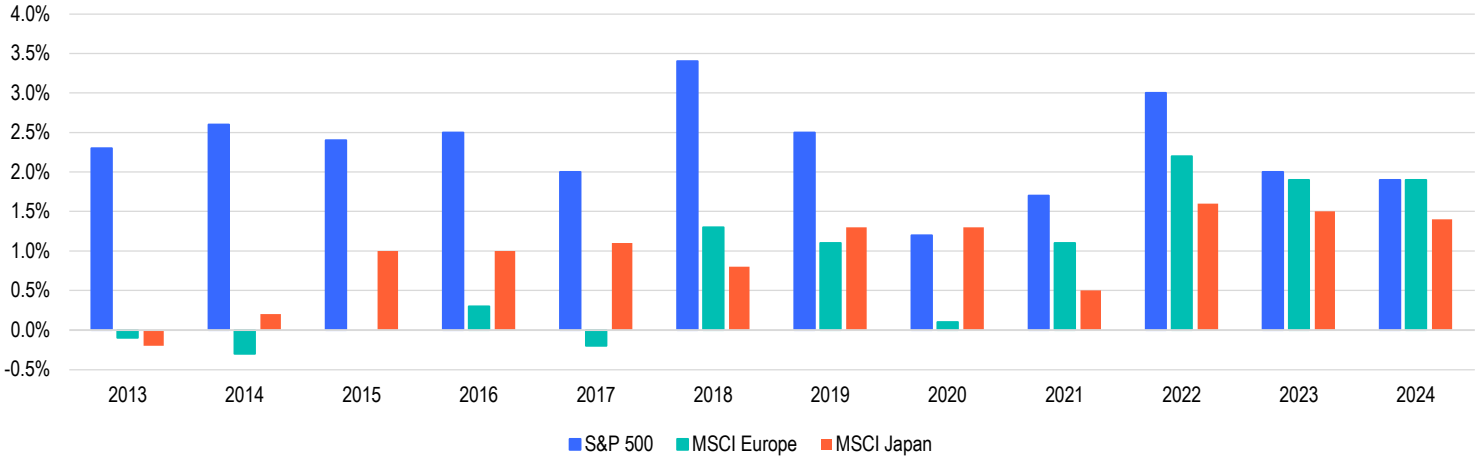
A renewed interest in self-sustained security is supporting the prices of some European companies. Not only does the region need to replenish the stocks of munitions it sent to Ukraine, but it must spend on new military hardware and plan its own nuclear deterrence strategy. At the same time, Germany is realizing the roads and rails to move equipment and people around—as well as key energy, education and digital infrastructure—need major upgrades. As more money is spent on both defense and infrastructure, we believe European industrials should benefit.

The push to improve Japanese corporate governance continues to create a more appealing equity market, in our view. The Tokyo Stock Exchange (TSE) is encouraging companies to improve their returns in a push to make the country more investable. Companies are reducing their cross-shareholdings, which are widely seen as a barrier to market efficiency, transparency, and merger and acquisition activity. Those companies with clear plans to catalyze returns and reduce their cost of capital, and that are willing to buy back stock trading below book value after the unwinding of cross-shareholdings, are particularly appealing to us for greater analysis. We are already starting to see an increase in buybacks in Japan, which are nearing levels seen in Europe and the United States. (See Exhibit 2).

Structural factors in the Japanese market are positives, and as wage growth climbs and inflation returns and economic activity slowly increases, we expect interest in Japanese stocks to increase.

Exhibit 2: Net Buybacks as a Percent of Market Capitalization in Japan Are Rising

2013–2024



Sources: FactSet, S&P and MSCI. The MSCI Europe Index captures large- and mid-cap representation across developed market countries in Europe. The MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese market. 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.** See www.franklintempletondatasources.com for additional data provider information.

US large-cap companies: stormy with a chance of periodic opportunity

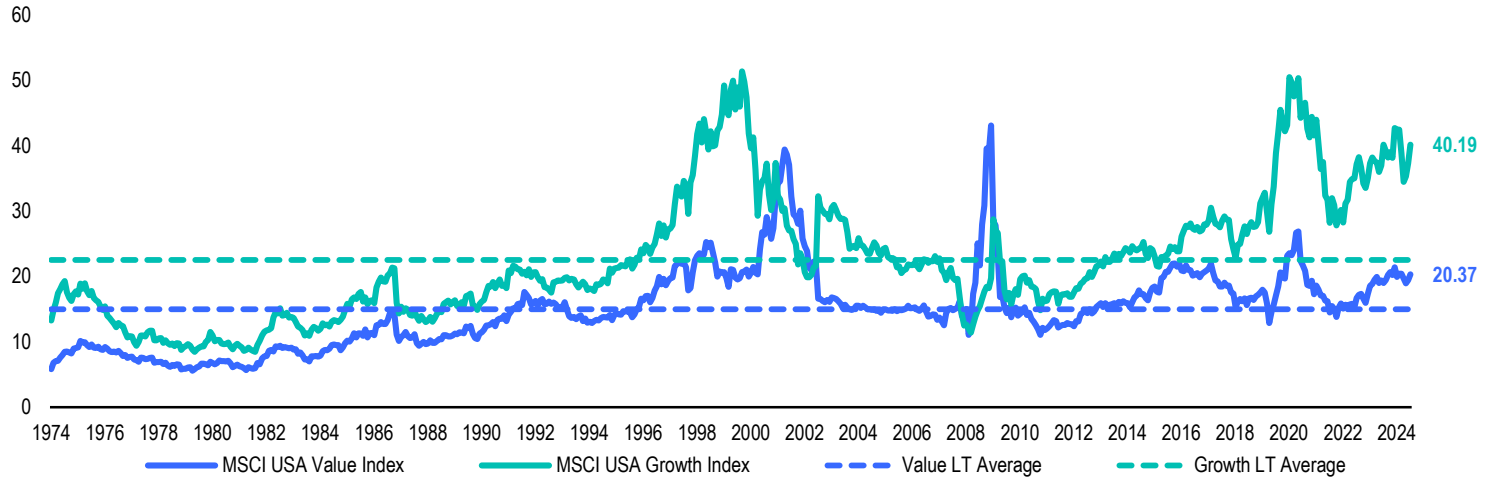
While there have always been periods of US market volatility, we think the consistent rule of law and policy predictability that have long dominated the US economic and business environment may be fraying. The United States' financial reputation also has been called into question, given mounting interest expenses and waning demand for American bonds. Inflation lingers and trade policies are in flux. The interest-rate environment is presenting its own challenges, as the rise in long-term bond yields may knock down growthy stock valuations, while making it difficult for the most heavily indebted companies to pay back loans.

US large-cap companies are generally well equipped to deal with these economic challenges, but heightened uncertainty could limit corporate and consumer spending. Historically predictable costs and readily available sourcing from established supply chains have been disrupted by policy changes, as have government funded projects. All this makes it difficult for companies to plan and budget. Resilient employment trends are supporting consumer spending for now, but the looming impact of tariffs may cause an economic pullback.

We believe attention to fundamentals will be vital to navigating the US environment. Valuations of many US large-cap companies are already lofty, as shown in Exhibit 3 on the next page. A possible unwinding of 2024's narrow market leadership could create select opportunities where we see a mismatch between sentiment and long-term earnings potential. Undervalued, lower-leverage companies may also be more resilient in the face of higher rates, and defensive companies could look more appealing.

Exhibit 3: US Companies are Expensive when Compared to Historical Averages

MSCI USA Growth and Value Indexes: Price-to-Earnings (TTM) since December 31, 1974



Sources: FactSet, MSCI. The MSCI World Value Index captures large- and mid-cap securities exhibiting overall value style characteristics across 23 developed market countries. The MSCI USA Growth Index captures large- and mid-cap securities exhibiting overall growth style characteristics in the United States. TTM = trailing 12 months. 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.** See www.franklintempletondatasources.com for additional data provider information.

US small-cap companies: small-craft advisory due to intense waves

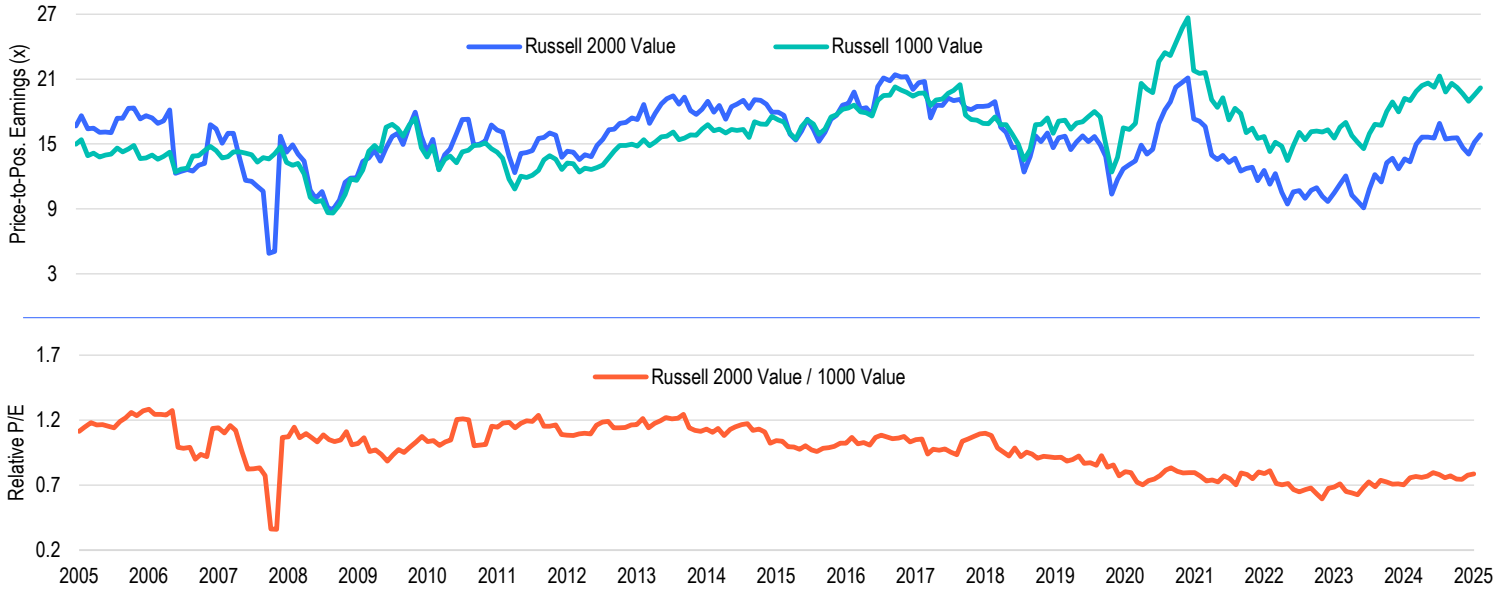
When compared to their large-cap counterparts, US small-cap companies face their own stormy weather. Often punished during periods of extreme uncertainty, lack of clarity on tariffs, recession concerns and higher interest rates have beaten up these more economically sensitive companies.

However, nearer-term volatility could translate to long-term opportunity in what we see as a more attractively priced segment of the US market. Based on our research, the asset class is generally undervalued on both a relative and absolute basis. As shown in Exhibits 4 and 5, small-cap company valuations are lower than their large-cap counterparts and offer ample opportunity for earnings growth in the coming year.

Exhibit 4: Russell 2000 Value Remains Inexpensive on an Absolute or Relative Basis

Russell Indexes: Price-to-Positive Earnings

May 31, 2025 to May 31, 2025

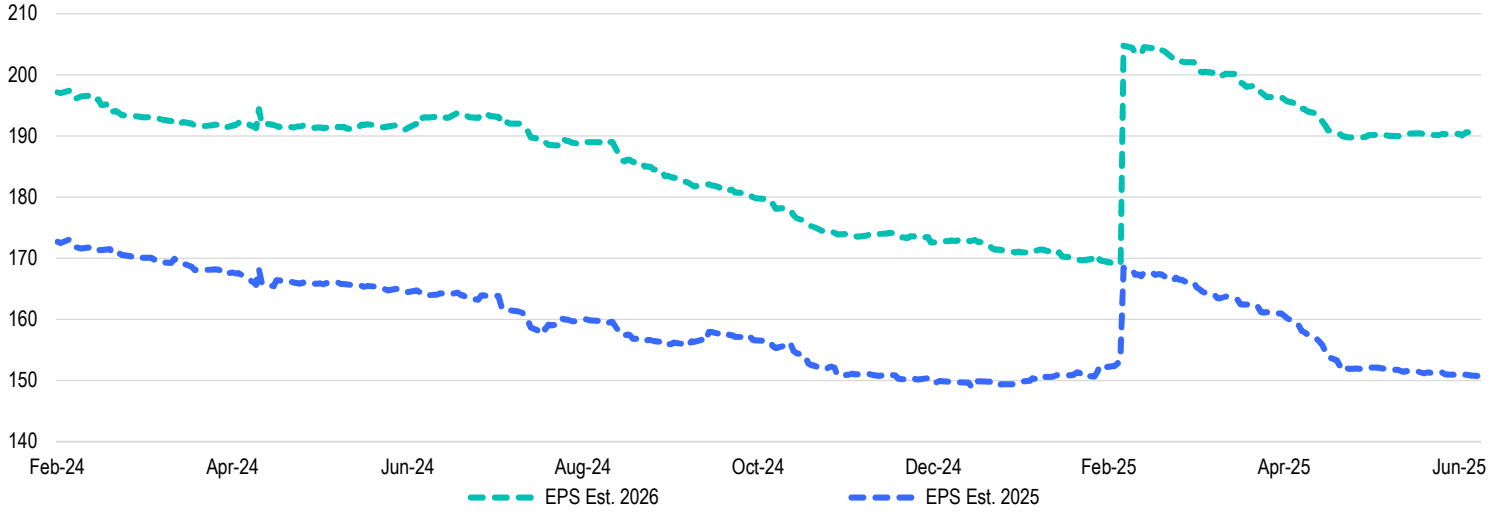


Sources: Bloomberg, Russell. The Russell 1000® Value Index measures the performance of the large-cap value segment of the US equity universe. The Russell 2000® Value Index measures the performance of small-cap value stocks in the US equity market, focusing on companies with lower price-to-book ratios and slower growth rates. 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.** See www.franklintempletondatasources.com for additional data provider information.

Exhibit 5: Small-Cap Value Profitable Companies Offer Earnings per Share (EPS) Growth of 25% from 2025 into 2026

Russell 2000 Value Index: Positive EPS

February 29, 2024 to May 31, 2025



Sources: Bloomberg, Russell Indices. 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.** See www.franklintempletondatasources.com for additional data provider information

Small-cap valuations could improve, in our view, if policy changes bring a more supportive interest-rate environment, clarity around tariff policy and easing inflationary pressures. Irrespective of the shifting tides, high-quality companies with low levels of debt and in more defensive areas look appealing to us.

Valuations and fundamentals: lighthouses in the storm

We believe valuations and company fundamentals can be a beacon for investors. Despite the more challenging policy environment, we see individual opportunities in the United States, while European and Japanese transformations may signal new ways to find and unlock value.

Identifying companies with catalysts to close the gap between current and fundamental value can be crucial for investors in a potentially stormy second half of the year.

For more information about our global lineup of value solutions, visit www.mutualseries.com.

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All investments involve risks, including possible loss of principal.

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

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. There can be no assurance that multi-factor stock selection process will enhance performance. Exposure to such investment factors may detract from performance in some market environments, perhaps for extended periods.

Active management does not ensure gains or protect against market declines.

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**. Investments in companies in a specific country or region may experience greater volatility than those that are more broadly diversified geographically.

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

Investments in companies engaged in mergers, reorganizations or liquidations also involve special risks as pending deals may not be completed on time or on favorable terms. Low-rated, high-yield bonds are subject to greater price volatility, illiquidity and possibility of default.

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