

# Franklin International Growth Equity ADR SMA

Commentary | as of September 30, 2025

# **Key Takeaways**

- Markets: International equities collectively moved higher over the third quarter of 2025, though lagging the gains seen in other regions. Despite some volatility during the quarter, particularly following US economic data releases, investors welcomed easing trade tensions and optimism surrounding artificial intelligence (AI) advancements.
- Contributors: Stock selection in the health care sector bolstered returns relative to the MSCI EAFE Index-NR.
- Detractors: Stock selection in the materials and industrials sectors held back relative returns.
- Outlook: We believe we are entering a more constructive economic and market environment, with potential inflection
  points including a more favorable interest-rate environment and improved market breadth.

## **Performance Review**

- In the materials sector, Sika, a Swiss specialty chemicals company, held back relative performance due to challenging market
  conditions and project delays. The company struggled with US tariff uncertainties and subdued Chinese demand, which
  pushed back its projected growth targets. Despite positive signals in Europe, weakness in the US market—with new
  construction activity constrained by macroeconomic uncertainty and higher interest rates—as well as currency movements
  provided additional headwinds.
- Among industrials, Denmark-based global transport and logistics company DSV detracted from relative performance. The
  company's road and logistics divisions faced weaker-than-expected results, while the contribution to earnings from its recent
  Schenker acquisition also fell short. The results were largely driven by the adjustment of global trade flows following the
  implementation of US tariffs as well as persistent weak economic conditions in Europe, though lately these have shown signs
  of bottoming.
- In contrast, Dutch biotechnology company argenx contributed to performance after the sales of its autoimmune drug Vyvgart came in well ahead of consensus expectations, with the drug's strong momentum in the treatment of certain autoimmune disorders, stabilizing net pricing and rising international adoption all boosting investor confidence. The company's operating margin and earnings also exceeded forecasts, and its sustained profitability along with a healthy cash balance reinforced positive sentiment about its long-term growth outlook.

### **Outlook**

- We believe we are entering a more constructive economic and market environment, as headwinds that have affected our strategy look set to diminish. These potential inflection points include a more favorable interest-rate environment and improved market breadth—with mid- and small-cap equities now trading at meaningful discounts to large caps, an easing of monetary policy and normalization of financing conditions could see these valuations narrow.
- Looking ahead, US trade policy seems likely to drive further volatility in coming months, as new country and industry tariffs
  come into effect. Our view here is unchanged, in that we expect events to remain fluid and uncertain until the back and forth
  between trading partners becomes more settled. The extent of tariff-related concerns about slowing economic growth or
  recession, higher inflation and supply chain disruptions remains highly uncertain. However, we are mindful that economic
  data is backward-looking and while inventory management has afforded many companies the capacity to mitigate tariff
  impacts, that flexibility will likely be only temporary. Elsewhere, the US government shutdown and political turmoil in France,
  both of which have the potential to increase market volatility, are situations we continue to monitor closely.

#### Benchmark(s)

Benchmark = MSCI EAFE Index-NR