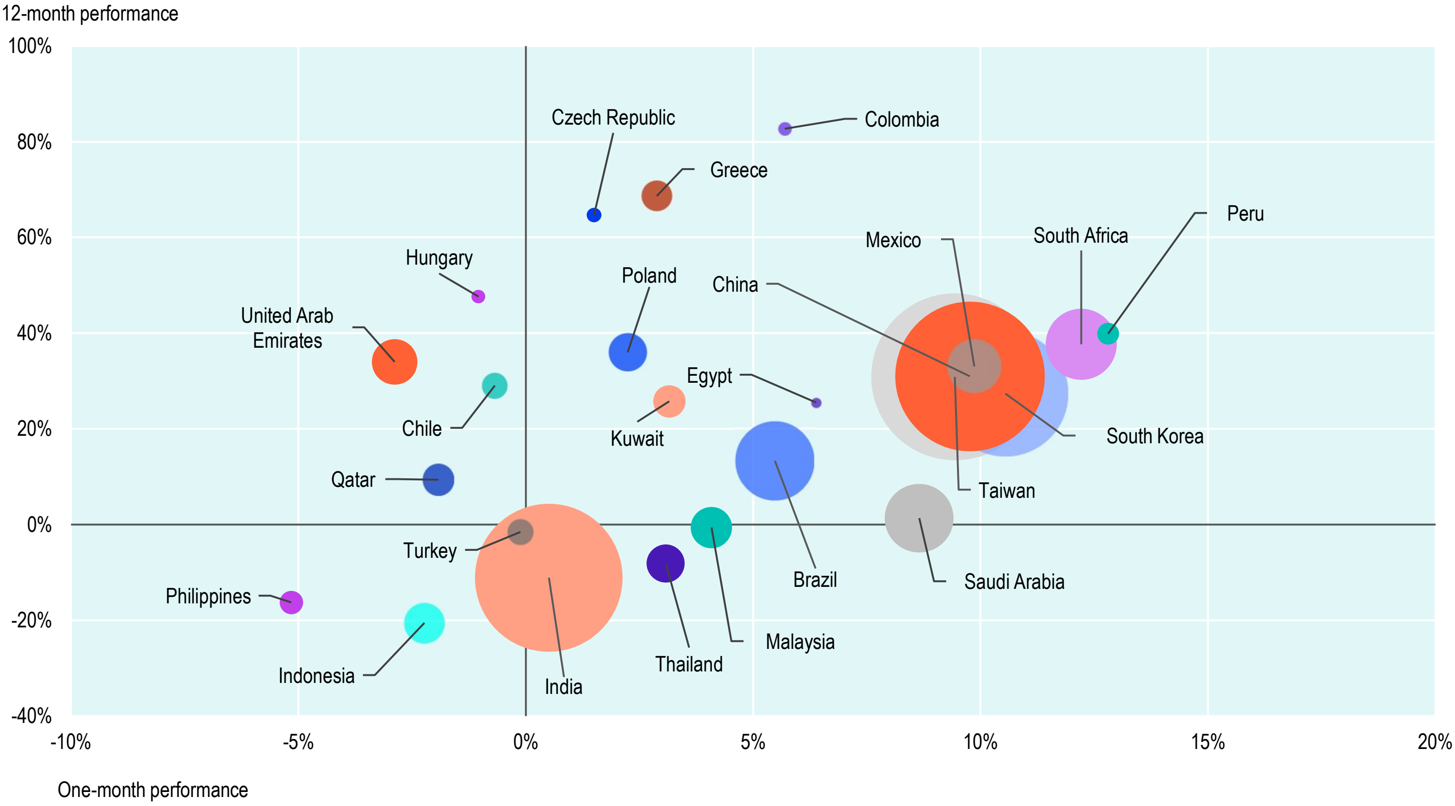
Fear of missing out

Emerging Markets Insights

Exhibit 1: Emerging Market Country Performance

As of September 30, 2025



Sources: FactSet, MSCI. Note: Bubbles' size reflect relative market capitalization, ex China, which is resized to 50% of actual market capitalization. Performance as represented by individual/respective MCSI country 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 or a guarantee of future results.** For illustrative purposes only and not reflective of the performance or portfolio composition of any Franklin Templeton fund. Important data provider notices and terms available at www.franklintempletondatasources.com.

Three things we are thinking about today:

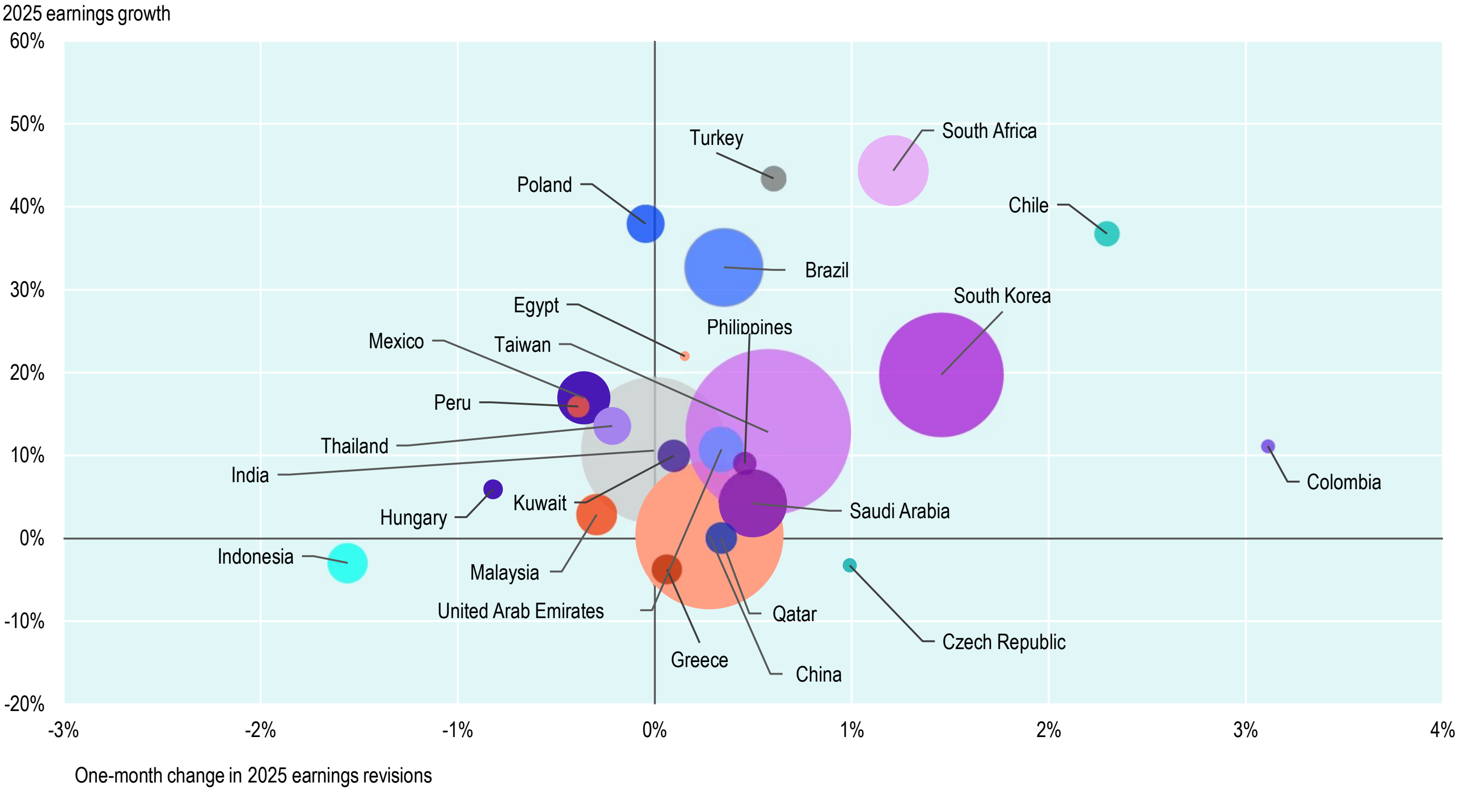
1. **China Golden Week:** China celebrates an extended eight-day golden week from October 1 to October 8, with most offices and factories closed. Historically, golden week is a period for increased travel and consumer spending. A leading Chinese online travel agency recently reported a 45% increase in domestic travel booking compared to the prior year.[1] Regional governments have been rolling out promotions to encourage increased consumer spending on both experiences and goods. In combination with Singles Day in November, there is optimism that Chinese consumer spending may start to recover following a subdued 2024.

2. **India tariffs:** US President Trump recently announced 100% tariffs on pharmaceutical imports from companies that do not have a US manufacturing presence or plans to start manufacturing in the United States. As the United States is the world's largest drug market, there were initial concerns over the impact on India given one-third of its pharmaceuticals are exports exported to the United States.[2] However, the risk to exports was seemingly reduced when the Trump administration clarified generic drugs are exempt. A majority of India's pharmaceutical exports to the United States are generic.

3. **Year-end rally:** Historically, September has been one of the weakest months for global equities, with a return of -1.0% for the past 10 years.[3] However, 2025 bucked the trend. The MSCI All Country World Index rose 3.7%, and emerging markets were leaders, with a return of 7.2%.[4] The key question for investors is whether this optimism will continue in the fourth quarter. "Fear of missing out" remains a theme, so we think there is scope for further fund inflows to support equity markets. Emerging and international equities appear poised for further gains if the US dollar remains weak, given the valuation discount with the United States.

Exhibit 2: Earnings Per Share (EPS) and Earnings Revisions

As of September 30, 2025



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Outlook

Unlike most equity markets, Brazilian equities shrugged off threats of higher tariffs from the United States. Our Latin America (LatAm) equity portfolio manager summed up his views: In terms of expectations, he feels that Brazil is at an inflection point. Brazil's projected 2025 inflation rate is finally moving downward, bringing forward expectations for interest-rate cuts to December 2025 or the start of 2026. This coincides with some positive takeaways the team's Brazil-based analysts gleaned from their company meetings and conferences.

Energy: Sales at higher prices

One of our research analysts attended a conference in Sao Paulo, where the utilities sector was discussed in detail. The main topics were curtailment and energy prices.

Companies expect energy curtailment to stay high for the medium term. Although there could be a small reduction after three years, curtailment seems here to stay, and companies are now factoring this into their investments. From our conversations with companies in the sector, we estimate that this stands at 10% for wind projects and around 15% to 20% for solar. This marginal increase in energy cost has led to an increase in energy prices.

Our analyst highlighted an energy-generation company as a potential investment opportunity, noting that the company has a lot of uncontracted energy. This means that this energy can be sold at higher prices in the future, which gives us a positive message.

Logistics: Next-best alternatives

A meeting with a logistics company revealed that price hikes are not in its plan due to the availability of options in the market. The company said it will focus on gaining efficiency instead to reduce the pressure to increase prices. We are already seeing early shoots of this strategy's success—in the second quarter of 2025 alone, earnings before interest, taxes, depreciation and amortization (EBITDA) improved 6% from a year ago. Continued controlled overall cost dynamics was seen as the main driver. Efficiency gains from 2023 to 2025 so far have been touted to the equivalent of the capacity of a full port terminal.

In short, the company is working to optimize capacity utilization with reasonable prices. Methods include the simultaneous handling of different types of crops, increasing the number of car trains, and expanding the usage of semi-autonomous train operations.

We believe that a bottom-up approach is key to unearth companies set to benefit from these driving forces. As fundamental, high-conviction investors in structurally competitive and well-placed businesses, we also believe our on-the-ground presence and experience helps us uncover investment opportunities that can translate into a well-diversified portfolio with low directional bias.

Market review: Third quarter 2025

EM equities rose in the third quarter of 2025. The US Federal Reserve resumed its easing cycle in September after a long pause, and signaled two more rate reductions this year. This dovishness raised investor sentiment globally, fostering hopes for better economic growth. For the quarter, the MSCI EM Index returned 10.95% while the MSCI World Index rose 7.36%.[5]

Equities in the emerging Asia region rose, with most country benchmarks advancing. A technology rally unfolded in China as technology companies reported artificial intelligence (AI) product rollouts, fostering confidence in AI corporate expenditures. Chinese semiconductor firms benefited from the government's intent to strengthen its domestic semiconductor industry. Equity markets in South Korea and Taiwan benefited from AI-related sentiment, with the former maintaining its upward momentum with South Korea's confirmation not to lower its capital gains tax threshold for equities.

Indian equities were an anomaly as they declined for the period. Information technology stocks suffered from a large fee hike in H1-B, or non-immigrant visas in the United States, which would complicate Indian information technology companies' operations in the United States. The government's overhaul of the goods and services tax structure, however, caused a broad-based rally and helped to overcome some weakness.

Equities in the emerging Europe, Middle East and Africa region rose despite tensions in the region. On a regional level, geopolitics was factored in, with the continuation of unease in Gaza, Israel and Iran raising the region's political risk premium. A weaker oil backdrop also capped gains. However, the lowering of interest rates in the United States helped the region to advance as a whole. Saudi Arabian stocks rallied on plans to relax the kingdom's foreign ownership rules.

Equities in the emerging LatAm region gained. Brazil's central bank opted to keep interest rates unchanged, but it did not rule out the resumption of a hiking cycle if appropriate. The benchmark interest rate now hovers at a near two-decade high of 15%. Conversely, Mexico's central bank reduced interest rates for the 10th straight meeting to 7.5%.

Franklin Templeton Emerging Markets Equity

Local knowledge, global reach

In a sea of overlooked and under-researched companies, there's no substitute for local market knowledge. Our on-the-ground investment team of 72 portfolio managers and analysts across nearly 14 countries distinguishes Franklin Templeton Emerging Markets Equity from the crowd. Investors benefit from our networks of local business contacts, access to in-person company visits and real time response to local market events.

Our global reach through Franklin Templeton Investments provides access to sophisticated risk management and trading resources. Portfolio management collaborates closely with the Investment Risk Management Group, which provides detailed risk analytics to complement the team's assessment of risk exposures.

- **72 portfolio managers and research analysts**
- **18 years on average of industry experience**
- **9 years on average with Franklin Templeton**

Endnotes

1. Source: Trip.com.
2. Source: "Market share of leading 10 national pharmaceutical markets worldwide in 2024." Statistia.com
3. Source: Source: Bloomberg; MSCI All Country World Index. Gross returns. 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.**
4. Source: MSCI; MSCI AC World Index and MSCI EM Index. 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.**
5. Ibid.

Index Definitions

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1. The **MSCI All Country World Index** is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global developed and emerging markets.
2. The **MSCI Brazil Index** is designed to measure the performance of the large- and mid-cap segments of the Brazilian market.
3. The **MSCI China Index** captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g., ADRs).
4. The **MSCI EM Asia ex Japan Index** captures large- and mid-cap representation across two of three developed markets (DM) countries (excluding Japan) and eight emerging markets (EM) countries.
5. The **MSCI EM Latin America Index** captures large- and mid-cap representation across five emerging markets (EM) countries in Latin America.
6. The **MSCI EM EMEA Index** captures large- and mid-cap representation across 11 emerging markets (EM) countries in Europe, the Middle East and Africa (EMEA).
7. The **MSCI EM Index** is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global emerging markets.
8. The **MSCI India Index** is designed to measure the performance of the large- and mid-cap segments of the Indian market.
9. The **MSCI Mexico Index** is designed to measure the performance of the large- and mid-cap segments of the Mexican market.
10. The **MSCI South Korea Index** is designed to measure the performance of the large- and mid-cap segments of the South Korean market.
11. The **MSCI Turkey Index** is designed to measure the performance of the large- and mid-cap segments of the Turkish market.
12. The **MSCI World Index** captures large- and mid-cap representation across 23 developed market countries.

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.

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**. 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.

The government's participation in the economy is still high and, therefore, investments in **China** will be subject to larger regulatory risk levels compared to many other countries.

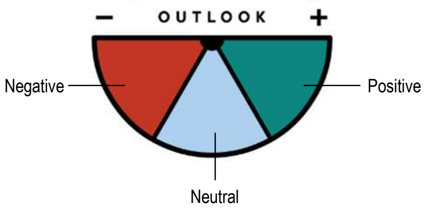
There are special risks associated with investments in **China, Hong Kong and Taiwan**, including less liquidity, expropriation, confiscatory taxation, international trade tensions, nationalization, and exchange control regulations and rapid inflation, all of which can negatively impact the fund. **Investments in Taiwan** could be adversely affected by its political and economic relationship with China.

Regional outlook

Three-month period ending December 31, 2025

Market	Conviction	Investment Thesis
Latin America		
Brazil		Economic growth should slow down in the second half of the year. Interest rates should start falling by December 2025 or early 2026. Valuations are deeply discounted. The government's low popularity is increasing chances of a positive economic policy shift. Markets should start to price in some probability of change by early 2026.
Mexico		Mexico's 2025 outlook balances opportunity and risk. Strong private sector ties and improved energy policies, bolstered by the 2024 energy law, support long-term growth. The judicial reform introduces uncertainty but is manageable, in our view. First quarter 2025 gross domestic product (GDP) grew at 0.2%, according to the national statistics agency, INEGI, with private consumption as a key driver. Fiscal challenges, including the state-owned petroleum corporation's strain, and a 7.1% GDP deficit projection pose risks. Inflation is currently near 4%, with convergence to 3% likely, in our view, by the third-quarter of 2026. The USMCA (United States-Mexico-Canada Agreement) review will likely shape the landscape. Plan México's execution and the 2025 budget are critical for infrastructure and growth.
Peru		Peru's economic outlook for 2025 appears positive, in our view, with upward revisions to GDP growth forecasts and expectations of a new growth cycle, particularly in the banking sector. Domestic demand and investment, including significant mining and non-mining project pipelines, are expected to drive activity. Inflation is projected to remain within the central bank's target range, allowing for monetary policy easing. Key developments include the government's initiatives to boost investment through streamlining regulations and promoting large project portfolios. The signing of the Huancayo-Huancavelica Railway concession is a notable infrastructure development. However, challenges persist, particularly regarding fiscal sustainability, where the deficit is projected above targets and additional measures are needed, and political instability and security crises impacting industries like mining. Risks to the outlook include potential negative political surprises, global trade conflicts, external demand, and challenges in fiscal consolidation. Addressing the security crisis, including tackling illegal mining, is a critical focus.
Emerging Europe		
Czech Republic		Sentiment strengthened meaningfully in August, with the Economic Sentiment Indicator (ESI) rebounding in expansion territory. The improvement was driven by strong gains in services and manufacturing, offsetting softer retail and consumer confidence. Services reached its highest level in over a year, pointing to robust activity, while households turned more cautious on inflation and jobs. Overall, the rebound suggests momentum may re-accelerate into the second half of 2025, though the softer consumer backdrop tempers the outlook.
Hungary		Sentiment edged up modestly in August but remains far below neutral, underscoring the economy's weak footing. Confidence improved across consumers, construction, manufacturing and retail, yet services slipped back. Overall, incremental gains hints at a fragile stabilization, but the persistence of negative readings across all sectors confirms that Hungary continues to lag the group.
Poland		Sentiment remained broadly stable; the key positive being consumer confidence, which turned positive in August, while services sentiment edged higher. However, manufacturing and construction remain negative, underlining some weakness on the industrial side. The data paint a picture of resilience, but with limited acceleration ahead.

Understanding the Pendulum Graphic



The graphic reflects the views of Templeton Emerging Markets Equity regarding each region are updated on a quarterly basis. All viewpoints reflect solely the views and opinions of Franklin Templeton Emerging Markets Equity. Not representative of an actual account or portfolio. These views reflect those of the analyst research team; those of the portfolio managers may differ.

Regional outlook

Three-month period ending December 31, 2025

Market	Conviction	Investment Thesis
Middle East		
Kuwait		A strong fiscal position with issuance of the debt law give the country additional flexibility, in our view. However, the lack of current spending reform (wages and subsidies) leaves the sustainability of the longer term in question. Valuations have picked up somewhat as investors start to price in a more positive political backdrop. The passing of a mortgage law could be a short-term positive for the market.
Qatar		Production expansion of liquefied natural gas seems likely to be the central theme starting in 2026, but until then growth is likely to be muted. Qatar offers solid macro stability due to its high sovereign reserves and a low oil budget-breakeven oil price of US$45/barrel. We believe the economy requires diversification beyond the energy sector over a longer-term period.
Saudi Arabia		The outlook is promising but remains anchored to the Public Investment Fund (PIF)/private sector spending ratio and system liquidity. Foreign exchange reserves and PIF assets lend comfort.
UAE		High surpluses set the stage for the government to push its growth agenda. In the medium term, an increase in Abu Dhabi's oil production capacity and Dubai's increasing population and tourism bode well for the country's growth trajectory. The privatization/initial public offering program in Dubai and Abu Dhabi is helping to increase capital market depth. Decarbonization-related projects (nuclear, solar, green hydrogen) and the evident need to expand public infrastructure are likely to help drive medium term growth.
Emerging Asia		
China		China's policymakers have taken stronger actions to address key issues of the economy. With an improving earnings outlook, attractive valuations and light investor positioning, the risk-reward balance is asymmetric on the upside, in our view.
India		We believe that the Nifty Index could move up in line with earnings growth over the next 12 months. Mid- and small-cap stocks could see some further correction. Long-term themes such as under penetration, formalization, domestic manufacturing and stable government remain intact, in our view.
Indonesia		We reiterate our positive view on the Indonesian equity market, driven by resilience against external volatilities, improving domestic demand, and policy reforms in 2025. Indonesia has been one of the most resilient ASEAN economies amid the 2018-2019 trade war. Weakness amidst the strong US dollar and tightened liquidity could provide an attractive entry point, in our view.
South Korea		With the change of leadership in June 2025, South Korea's outlook is expected to gradually improve in the next 12 months, although there are risks with policy execution by the new government.

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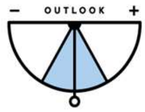
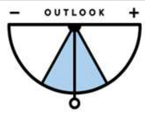
Regional outlook

Three-month period ending December 31, 2025

Emerging Asia

Market	Conviction	Investment Thesis
Taiwan		Cross-strait geopolitical risk always exists and is well-known already. We keep the status-quo assumption unchanged, despite the recent relationship deterioration between China and Taiwan, and between the US and Taiwan. There are concerns that fragile global economic conditions could lead to weak consumption, resulting in the slow recovery of end-demand of most technology products, with artificial intelligence (AI)-related products being the exception. The corporate operating environment has been improving but mainly building on expectations of a low base and an AI-induced boom. However, the sharp appreciation in the Taiwanese dollar would cap revenue growth and weigh on profit margins. The Taiwan equity market had a resilient performance in 2023, 2024 and 2025 but current valuations are stretched. We are cautious on our outlook.
Thailand		We stay underweight on Thai equities. In our view, flows might drive a near-term rally, but the momentum still lacks strong fundamental drivers to extend much further.

Africa

Market	Conviction	Investment Thesis
Egypt		The United Arab Emirates, International Monetary Fund and other multilateral/bilateral entities have supported the near-term rally, but coming out of a debt cycle will take time. US dollar funding requirements are still quite high, estimated at about US$10 billion per year for the next two years. The army is relinquishing some control back to the private sector (for example initial public offering activity and reforms to bolster private sector capital expenditure), which can help restore investor confidence.
Kenya		Valuations are cheap, and the outlook is starting to improve for foreign exchange and external debt with its Eurobond maturity now resolved. Kenya seems to be moving through the inflection.
Nigeria		The risk of further currency weakness is reduced, in our view. However, a weak macro environment creates a weak environment for stocks, though some positive policy on subsidy and foreign exchange is encouraging to us.
South Africa		Long-term recovery is still dependent on the ability of government to execute and commit to other reforms.

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