Five catalysts for international value stocks in 2026 and beyond

FRANKLIN TEMPLETON

March 2026

1 **Valuations support international equity upside potential**

2 **International earnings growth poised to accelerate**

3 **Stronger European fiscal spending tailwinds emerging**

4 **Japanese structural reforms gaining traction**

5 **Currency dynamics may enhance returns**

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Perspective from
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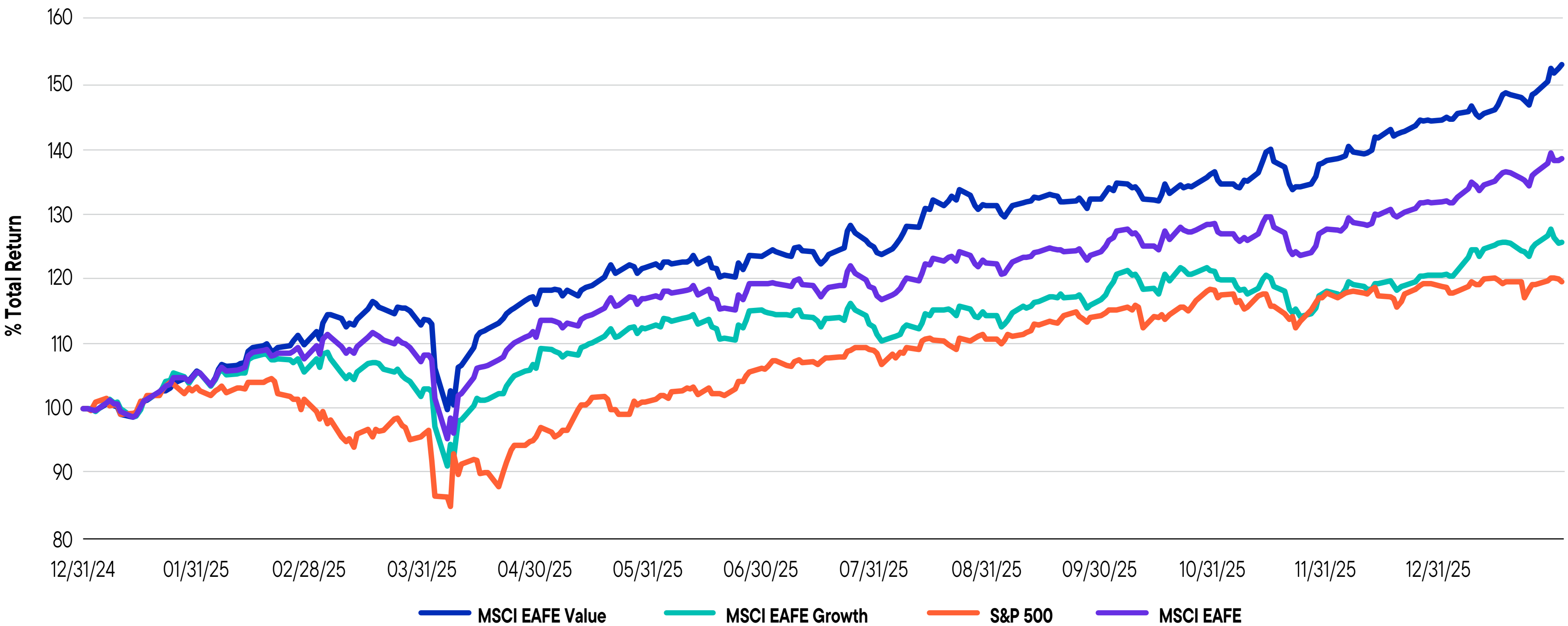
International value has outpaced international growth and US stocks

While the artificial intelligence (AI) trade has commanded the spotlight, international value stocks steadily advanced since 2025, outperforming US stocks. 2025's renewed momentum is not an anomaly, in our view, but rather the early stages of a durable, long-term transformation.

International and US Total Return Indexed to 100

December 31, 2024 to January 31, 2026



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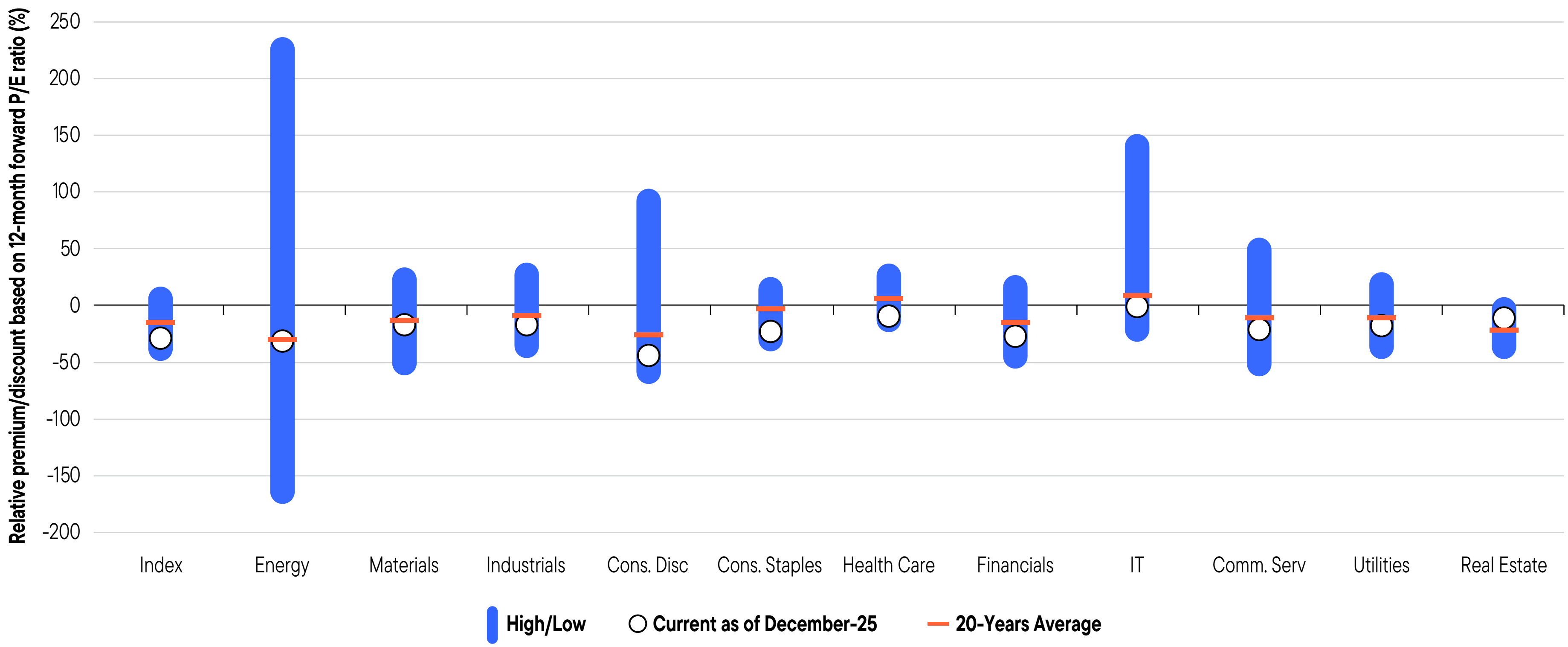
1. Fundamentals set the stage

Valuations for international equities remain historically attractive relative to US stocks across sectors, even after 2025 gains. But it's not just about being "cheap." At current prices, we see room for substantial re-rating, with policy shifts and structural reforms acting as catalysts for corporate earnings growth.

International Equities Trade at a Discount Across Most Sectors

NTM Price/Earnings Ratio: MSCI EAFE Relative to the S&P 500

As of December 31, 2025



NTM=next 12 months.

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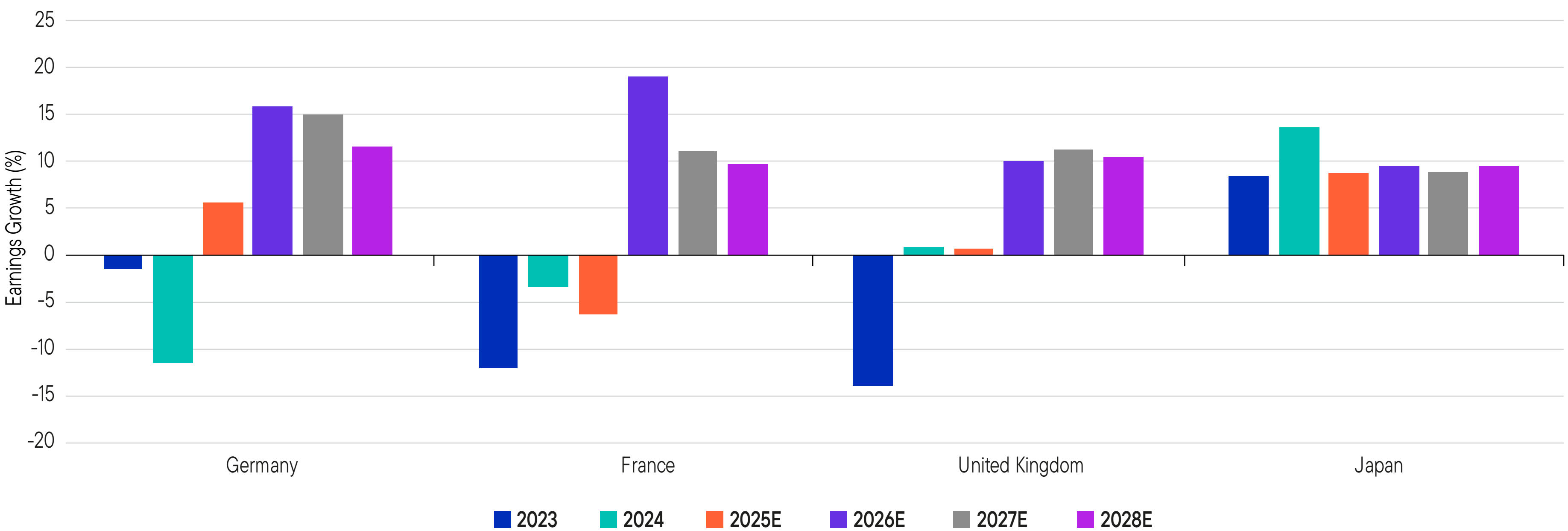
2. Earnings growth should accelerate for international value companies

International stocks are often associated with sectors like financials, industrials, materials, and energy—industries that tend to see earnings and revenue accelerate as economic activity strengthens. Rising capital investment and government and corporate reforms across key markets point toward a broad-based pickup in earnings growth. Furthermore, we expect trade uncertainty to abate as companies and countries adapt, through negotiations or supply-chain realignment, to reduce their exposure to US tariffs risks, providing more fuel to propel earnings growth in the coming year.

Stronger Earnings Outlook Across International Developed Markets

MSCI Indexes: Earnings Growth

From 2023-2028E



As of December 31, 2025.

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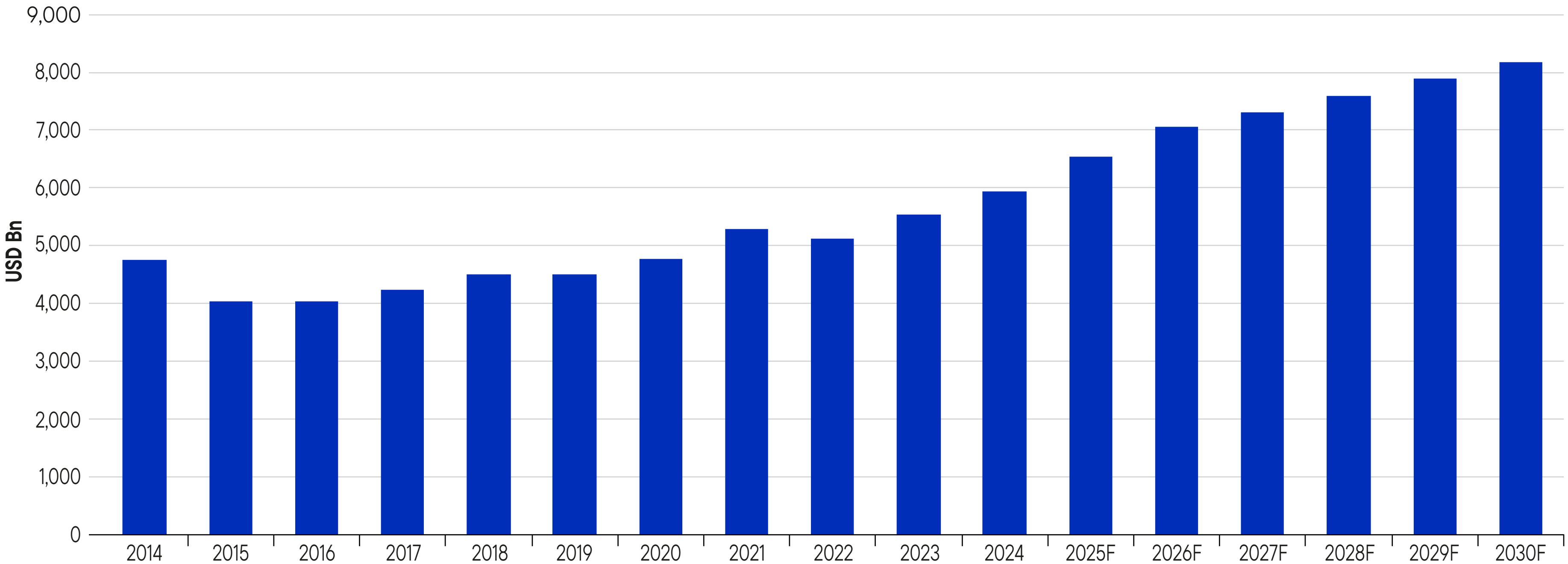
3. Fiscal tailwinds in Europe

After years of fiscal restraint, efforts to strengthen Europe's economic resilience and competitiveness are driving increased investment in infrastructure, technology modernization, and stronger defense capabilities. We believe these forces will continue to support select European companies positioned to benefit in an era of reinvestment.

More Spending Should Spur the European Economy

Europe's Government Expenditure

2014-2030F



Source: Barclays, European Defence: Definitely Maybe, September 8, 2025. **There is no assurance that any estimate, forecast or projection will be realized.**

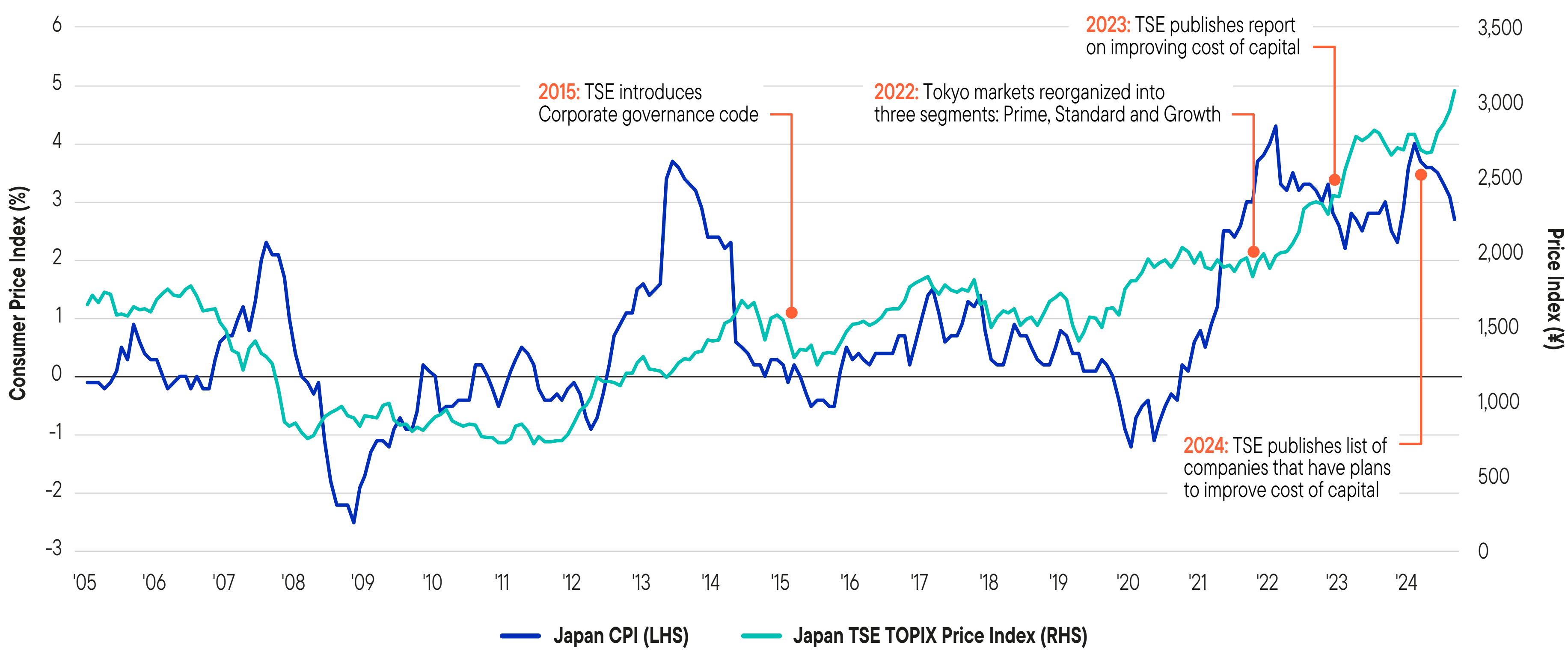
4. Transformation in Japan

Japan's long-planned structural reforms are bearing fruit. And despite political shifts, new Prime Minister Sanae Takaichi's policies are geared toward supporting growth. Coupled with efforts already pushed forward by the Tokyo Stock Exchange, the country seems committed to attracting investors. We think this persistence will help to unlock value in long overlooked Japanese stocks.

The TSE's Efforts Combined with Sustained Inflation Should Support Japanese Equity Prices

Japan Consumer Price Index vs. Japanese Equity Prices (Japan TSE TOPIX Price - Local)

January 31, 2006 to December 31, 2025



Sources: FactSet. Ministry of Internal Affairs and Communications Japan, Tokyo Stock Exchange. Data reflects the most recent Consumer Price Index information. The Tokyo Stock Price Index (TOPIX) is a comprehensive, free-float adjusted market capitalization-weighted index tracking nearly all domestic common stocks on the Tokyo Stock Exchange (TSE) Prime 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 guarantee of future results.**

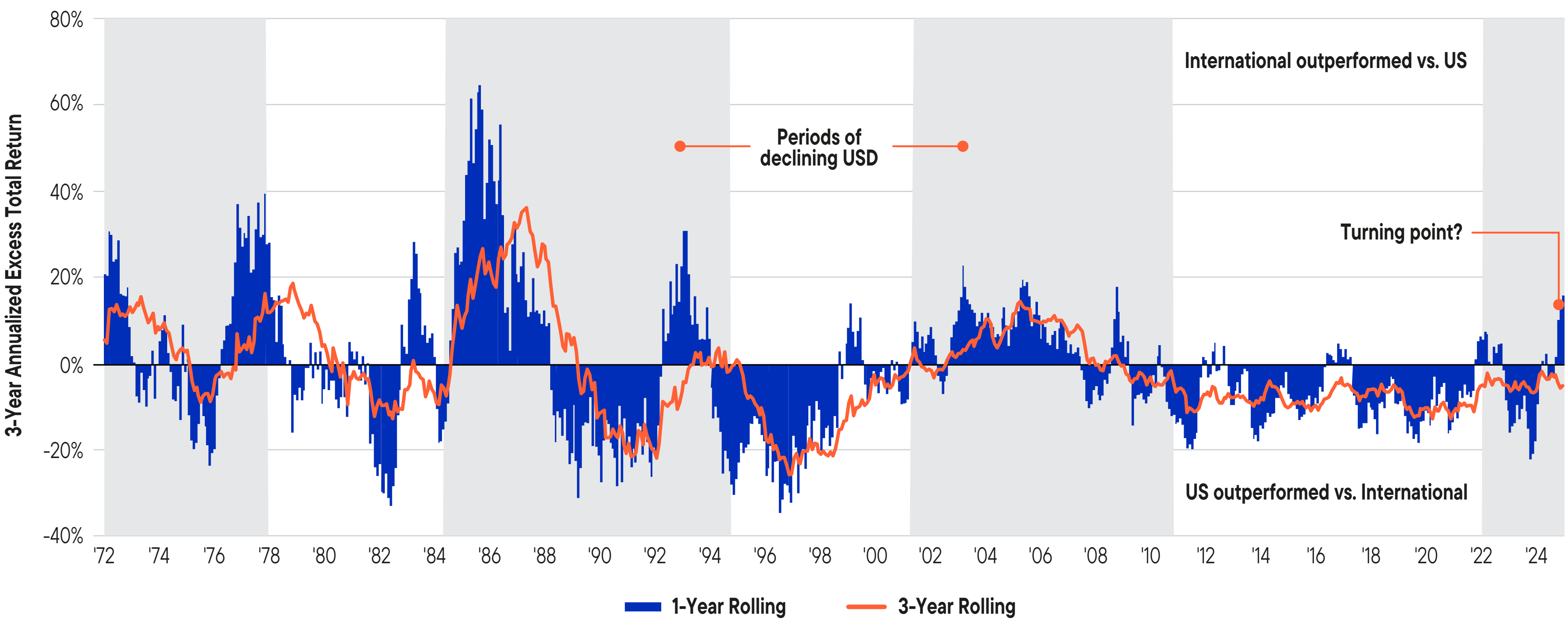
5. Currency dynamics could offer a boost

If the US dollar (USD) continues to soften, international companies could see an added boost to returns. A weaker dollar enhances the value of foreign earnings for US-based investors and often coincides with stronger global economic activity—both supportive of international equity performance.

Improved International Stock Performance Can Coincide with US Dollar Weakness

MSCI EAFE vs. MSCI USA: One-Year and Three-Year Rolling Excess Returns

As of December 31, 2025



Source: FactSet, MSCI. Returns in base currency. Gray shaded areas indicated periods of weakening USD. The MSCI EAFE Index captures large and mid cap securities across Developed Markets countries around the world, excluding the US and Canada. The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market. **Past performance is not an indicator or a guarantee of future results.** Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges.

Long-term transformation taking shape

We believe the conditions for international equity performance are grounded in tangible, transformative forces:

- **Solid fundamentals**
- **Improving corporate earnings**
- **Rising fiscal support in Europe**
- **Ongoing structural reform in Japan**
- **Weakening US dollar**

While risks remain, we see a multi-year environment in which international markets could continue to narrow the performance gap relative to the United States.

WHAT ARE THE RISKS?

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. 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.

Large-capitalization companies may fall out of favor with investors based on market and economic conditions

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.

Dividends may fluctuate and are not guaranteed, and a company may reduce or eliminate its dividend at any time.

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