FRANKLIN TEMPLETON

WHAT OUR MANAGERS THINK...

Q1 2021

Franklin Templeton comprises multiple independent investment teams located around the world. As individual portfolio managers and teams pursue different fund mandates, there will always be different views held on the markets, and we consider that a strength. The insights below represent some of the current views of senior investment leaders at the various specialist investment managers.

...About THE ECONOMY

CLEARBRIDGE INVESTMENTS

2021 could produce the best economic growth in 20 years and may roll into an impressive 2022

- Consumers are flush with savings and pent up demand.
- Corporate balance sheets are flush with cash which may spur capex spending, dividends and share repurchases.
- We see new business formation skyrocketing, which could spur job creation and GDP growth.
- Recent stimulus is a standalone positive, and the Fed's shift in 2020 to an "average inflation target" sets a higher bar for the reduction of stimulus. We believe the Fed will allow the economy to run hotter than they would have in the past.

WESTERN ASSET

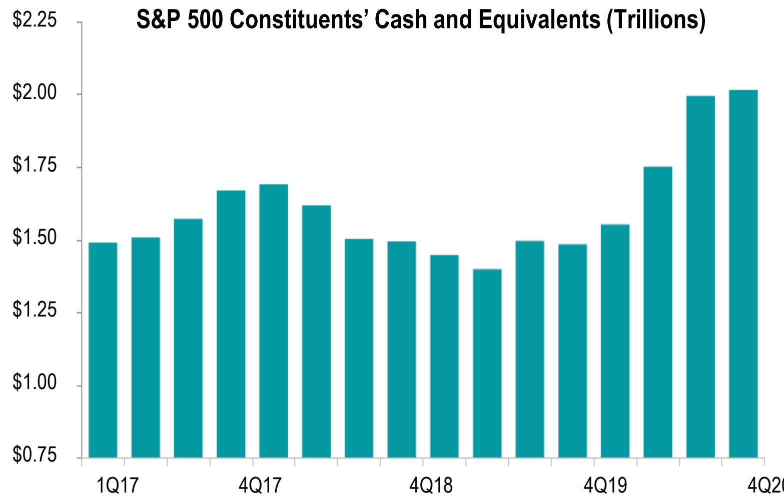
Game-changing vaccines recalibrate a brighter future

- Fiscal and monetary policy should stay supportive.
- The second half could see a burst of economic growth with reopening.
- Global economic slack, debt burdens, labor market scarring, small business devastation and bankruptcies may take years to fully absorb.
- Reignition of inflation is still years away, and interest rates should stay range-bound.
- The dollar should weaken only mildly.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT

Macro take: Post-pandemic boom?

- The pandemic has triggered a major regime shift in US inflation policy.
- After 40 years of guarding against any whiff of inflation, striving for fiscal balance, and keeping monetary and fiscal policy separate, the new regime emphasizes a commitment to inflation through zero-rate monetary policy and an advocacy of increased fiscal stimulus.
- This shift, coupled with many traditional macro indicators point to better global economic growth in 2021.
- The world recovery by the end of this year could be very surprising.



Source: FactSet, 12/31/20.

FRANKLIN TEMPLETON FIXED INCOME

Back to the future

- We are cautiously optimistic about the macroeconomic background and prospects for a rebound in 2021.
- We expect central bank and fiscal authorities will remain extraordinarily accommodative, increased savings and pent-up demand will drive consumer strength, and vaccines will bolster consumer confidence.
- While there has been an impressive V-shaped US economic recovery, 3rd quarter GDP remained 3.5 percentage points below peak levels, and permanent job losses in the labor market are up 2.4 million since February, even as job openings rise.
- We believe the market may be underestimating the eventual inflationary effect of the stimulus and rescue packages. With more potential stimulus to come, a rebound in growth and price dynamics could create potential for yield curves to steepen.

...About US EQUITIES

FRANKLIN EQUITY

Digital transformation is just getting started

- In a low-growth, low interest rate world, we believe investors will continue to look to equity markets for attractive investment opportunities relative to other asset classes.
- Trends that have driven equity markets higher since the start of the pandemic, such as digital transformation (DT) and innovation in the technology, health care and consumer sectors, are likely to continue.
- We believe DT will have a long-term positive impact on the broader market and that it will only accelerate from here. Companies that have embraced DT and continue to use it as a key enabler of their businesses should deliver greater performance over the long run, in our view.
- While short-term investors may rotate out of technology and into other sectors positioned to benefit on the return to some semblance of normalcy as vaccines are deployed, we believe that the secular eventually beats the cyclical and that it would be short-sighted for long-term investors to exit the tech space.

CLEARBRIDGE INVESTMENTS

A better year for dividend stocks

- We believe cyclical and value-oriented sectors should continue to outperform growth while small cap companies should continue to outperform large caps in anticipation of a rebound in profits.
- In an environment where interest rates should remain historically low and after a difficult relative year in 2020, we expect a better year for dividend stocks, which offer more attractive yields relative to fixed income and the potential for growing payouts.
- While technology valuations have expanded, growth has expanded as well and the major trends reliant on software and services remain in place. The pandemic accelerated those trends and we expect technology stocks will continue to grow faster than the overall market and should remain a healthy component of diversified portfolios.

...About FIXED INCOME

FRANKLIN TEMPLETON FIXED INCOME

No single asset class is an unequivocal buy

- The most interesting opportunities in fixed income assets provide more attractive yield pickup without taking on too much duration.
- The biggest opportunities lie in active credit selection to pick the sectors and names with the soundest fundamentals.
- While many risk assets have already priced in the recovery, we anticipate they will outperform government assets given strong demand in the face of an extended low rate environment.
- Selectivity by country, by sector, by asset class, and within asset classes by industry and individual issues, is required.

WESTERN ASSET

Inflation is likely to remain subdued

- We believe central bank policy rates will be very low for very long.
- The market embrace of the speed and optimism in renewed inflation may be misplaced. Interest rates seem likely to be largely range bound.
- Reopening spread products should outperform Treasury and sovereign bonds, in our opinion.
- Investment grade bonds appear fully priced. Whenever rates back up, however, foreign buyers have come in so they don't appear to be overpriced.
- The bank loan sector is attractive relative to high yield bonds after meaningfully underperforming last year.
- Emerging market debt is an opportunity, though volatile. Prices are distressed and the valuation gap is likely to close going forward. The local currency bonds may benefit from a mildly weakening US dollar.

...About ALTERNATIVES

K2 ADVISORS

Active alpha expected to trump slowing beta momentum

- Macro—emerging markets: Positive tailwinds of rebounding growth and policy support. Increased dispersion at the region, country and asset class levels.
- International long-short equity opportunities as dispersion arises from uncertainty. Lower valuations offer downside support.
- Long/short credit managers are increasingly focused on event-driven situations given low yields and tight spreads.
- Insurance-linked securities—Higher than average insured losses due to COVID-19 and natural catastrophe activity is lifting reinsurance pricing. The market offers attractive ILS spreads in the lower-risk period prior to the next hurricane season.

...About REAL ESTATE

CLARION PARTNERS

2021 likely to mark a new real estate market cycle

- We expect demand to continue to recover across most markets and property sectors.
- Rising occupancy and higher effective rents should drive higher net operating income, supporting higher dividend and property appreciation.
- While a dramatic rise in inflation is not likely, the risk of moderate inflation over the medium term has increased. "Income with growth" can be an important part of portfolio allocation in such an environment.

...About GLOBAL EQUITIES

MARTIN CURRIE

European valuations relatively attractive

- Key central banks are signaling rates will remain on hold at historically low levels. The shift in approach to inflation targeting potentially supports equities, but underlying deflationary pressures from technological advances, disruptive trends and pandemic-induced low wage pressure, remain at play.
- The improving macroeconomic picture points to strong double-digit corporate earnings growth estimates for the MSCI World Index, and significantly higher for the narrower MSCI Europe (ex-UK) Index.
- Equities in Europe appear more attractive than in the US, based on valuation.
- We believe that given such an unusual period in terms of earnings collapse and rebound in 2020/21 respectively, cyclically adjusted valuation multiples are more relevant than stand-alone PE ratios, which look demanding versus historic levels.
- Equity valuations generally remain attractive to us in terms of the earnings yield they offer compared to bond yields. This is likely to remain the main argument for an ongoing rerating of equity markets, given the strong signaling by the main central banks that rates will remain low for extended periods of time.
- Overall, we believe it will be a year based on lower tail risks and increased optimism.

FRANKLIN TEMPLETON EQUITY

Lingering uncertainty, regional opportunity

- The economic effects of COVID-19 will remain the main story in 2021.
- Regionally, we continue to see opportunities in China and other Asian emerging markets. We expect them to rebound more strongly from 2020's economic weakness than many developed markets.
- Japan holds promise. We believe Japanese companies have done a better job of improving their balance sheets than investors have given them credit for, which creates fundamental opportunities.
- In Europe, we are seeing a leadership change out of the UK, given its large exposure to energy and financials, and towards Switzerland, with its large emphasis on health care and pharmaceuticals. We expect this trend toward defensive growth areas to continue in 2021.

...About EMERGING MARKETS

FRANKLIN TEMPLETON EMERGING MARKETS EQUITY

An exceptional investment window

- The resilience of key markets in East Asia during the crisis, paired with their ability to capitalize on secular shifts to the new economy, should drive continued strength next year.
- Laggards, including India and Brazil, could well benefit from a uniquely accommodative environment of negative real rates (and an undervalued currency in Brazil), paired with ongoing reform efforts and excess capacity in the economy, boosting growth.
- This broadening of economic recovery should continue to drive improved earnings visibility into 2021 and amounts to a compelling opportunity across emerging markets as a whole—both from a near-term tactical perspective as well as structurally.
- For so many different markets across this landscape to concurrently offer compelling investment potential, individually and in aggregate, presents an exceptional investment window, in our assessment.

Key Themes

THEME	RATIONALE	CONSIDERATIONS[1]
THE FOURTH INDUSTRIAL REVOLUTION	Innovation is everywhere. The world is waking to the Fourth Industrial Revolution, a time of massive change inspired by disruptive innovation and pushed forward by a global pandemic. The accelerated adoption of technological solutions is just the beginning. Drivers of value creation exist across all industries from health care to consumer retail and manufacturing. While traditional valuations may appear high for growth leaders relative to companies not participating in such disruption, over the long run, they may be more likely to be deserving of such valuations as they look forward while others are standing in place.	➢ ClearBridge Large Cap Growth Fund[2] & SMA ➢ ClearBridge Select Fund[2] ➢ Franklin DynaTech Fund & SMA ➢ Franklin Focused Growth Fund
A RETURN TO NORMAL	As vaccines get distributed more broadly, and businesses can begin to return to normal, a sustainable economic recovery appears to be at hand, with participation broadening and deepening. Cyclicals and value-oriented stocks may find that they are back in favor, as their valuations relative to high-flying growth companies are not likely to remain as widely separated. Continued fiscal stimulus is likely to help. Small caps may especially be the beneficiaries of economic recovery strength.	➢ BrandywineGLOBAL—Dynamic Large Cap Value Equity Fund[2] ➢ ClearBridge Large Cap Value Fund[2] & SMA ➢ Franklin Equity Income Fund ➢ Franklin Small Cap Value Fund ➢ Royce Special Equity Fund[3]
BARGAINS BEYOND BORDERS	On a relative value basis, global equities are significantly less expensive than US equities on traditional measures such as trailing and forward looking price/earnings. While higher multiples in the US may be deserved given what has been a higher growth rate, the magnitude of the divergence may be unwarranted, especially as the world anticipates regaining its post-pandemic economic footing. Certain emerging markets may offer particular values while showcasing compelling economic growth.	➢ ClearBridge International Growth Fund[2] & ADR SMA ➢ Franklin International Growth Fund ➢ Martin Currie Emerging Markets Fund[2] ➢ Templeton Developing Markets Trust
THE SEARCH FOR YIELD FROM: • TRADITIONAL BONDS	Traditional investment grade and broadly diversified bond funds offer income and a counterbalance to equities, while historically offering yields superior to government bond funds. Now more than ever, with central banks keeping interest rates low and developed market government bonds offering paltry yields, these may be solid alternatives.	➢ Western Asset Core Bond Fund[2] & SMA ➢ Western Asset Core Bond Plus Fund[2] & SMA ➢ Franklin Liberty U.S. Core Bond ETF (FLCB)
• MUNICIPALS	Municipal bonds may also offer a high-quality alternative to government bonds. Given the pandemic's impact on local and state governments, however, and the still uncertain relief from the federal government to help cover costs associated with the pandemic, active evaluation of municipal issues may be necessary to separate strong investments from strained investments.	➢ Franklin Tax-Free Income Funds & SMAs (National and State-Specific Portfolios)
• BEYOND CASH	Lower volatility strategies in fixed income may help investors in managing overall portfolio fluctuations without going to cash.	➢ Franklin Liberty Short Duration U.S. Government ETF (FTSD)
• ABROAD	Global bond funds may have the ability to seek higher-yielding bonds that still carry investment grade credit quality. Expanding the opportunity set to consider bonds outside the US may also be beneficial, as a potentially weakening US dollar and currency benefits are just one of multiple performance levers.	➢ BrandywineGLOBAL—Global Opportunities Bond Fund (& USD Hedged)[2] ➢ Templeton Global Bond Fund
• DIVERSIFIED INCOME SOURCES	Diversified, multi-sourced income funds can flexibly search out the best opportunities—even within a single company's capital structure—for the best yield/risk scenarios as conditions warrant. Real estate traditionally has generated an income stream with returns that are not correlated with bonds or stocks.	➢ Franklin Income Fund ➢ Franklin Managed Income Fund ➢ Clarion Partners Real Estate Income Fund[2] ➢ ClearBridge Global Infrastructure Income Fund[2]

1. Not all products/strategies are approved at all firms, please check your home office for availability.
2. Legg Mason Investor Services, LLC, member FINRA, SIPC.
3. Royce Fund Distributors, LLC.

Our Managers

Franklin Templeton Investment Solutions	Franklin Templeton Emerging Markets	Western Asset
Royce Investment Partners	ClearBridge Investments	Martin Currie
Franklin Templeton Fixed Income	Franklin Mutual Series	Brandywine Global
Templeton Global Equity	Franklin Equity Group	K2 Advisors
Benefit Street Partners	Templeton Global Macro	Clarion Partners

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All investments involve risks, including the possible loss of principal. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in emerging markets involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. Non-diversified funds that concentrate in the biotechnology sector involve risks such as patent considerations, product liability, government regulations, and regulatory approval. Smaller, mid-sized and relatively new or unseasoned companies can be particularly sensitive to changing economic conditions, and their prospects for growth are less certain than those of larger, more established companies. Investments in fast-growing industries like the technology sector could result in increased price fluctuation especially over the short term, due to the rapid pace of product change and development and changes in government regulation. Non-diversified funds concentrate in a single sector, which may entail higher risk. Alternative strategies may include risks in effectively allocating to subadvisors and currency, merger arbitrage and liquidity risks. Bond prices generally move in the opposite direction of interest rates. As the prices of bonds in a fund adjust to a rise in interest rates, the fund's share price may decline. Risks typically associated with real estate include, but are not limited to local, state, national or international economic conditions; including market disruptions caused by regional concerns, political upheaval, sovereign debt crises and other factors. Asset-backed, mortgage-backed or mortgage-related securities are subject to prepayment and extension risks.

ETFs trade like stocks, fluctuate in market value and may trade at prices above or below the ETF's net asset value. Brokerage commissions and ETF expenses will reduce returns. These and other risk considerations are discussed in each fund's prospectus.

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