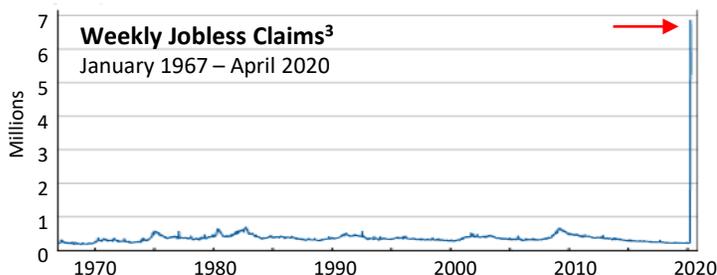


...About CORONAVIRUS & THE ECONOMY

A Virus Attacks Our Economic Health

- The full magnitude of the aggregate demand shock from the coronavirus may still be underappreciated by markets. They are likely to reverberate for several quarters.
- On the positive side, monetary and fiscal policy responses have been prompt, decisive and well designed.
- A coordinated combination of fiscal and monetary support can act as a bridge to help individuals and businesses and set the stage for a rebound.
- While the United States uses unemployment insurance to support workers, many European countries have paid companies to retain workers. As a result, US unemployment will likely rise faster than Europe, but also likely drop faster as the US economy recovers.
- Around 75% of US employees live paycheck to paycheck.¹ According to the US Bureau of Labor Statistics, only 29% of Americans can work from home, including only one in 20 service workers.²



- As economic pain spreads from workers to property owners, mortgage lenders and other groups, we expect some negative news about just how severe the “missed payments” phenomenon is.
- We face a difficult trade-off between health uncertainty and economic uncertainty. The longer we are shut down, the more we understand about the virus, what share of the population has been infected and the true mortality rate, the more progress we can make on vaccines and therapies, and the more we can build up capacity in the hospitals.
- But in a longer shutdown more people will lose their jobs and more businesses will close, with a greater loss of human and physical capital.
- The longer we extend this shutdown, the greater the risk of a severe and protracted downturn with massive adverse consequences.

...About FIXED INCOME

Active Management May Pay Dividends

- We maintain a more cautious view of bonds at the asset allocation level, reflecting valuation concerns.
- Some fixed income markets have been very impacted by liquidity and market stress, with substantial spread widening that does not reflect a commensurate deterioration in fundamental credit quality.
- It’s been a good time to look for specific names with attractive fundamentals, especially among the better names in both the investment-grade (IG) and, eventually, the high-yield universe.
- There are some IG names that were trading at 10 basis point (bps) spreads in February that recently traded at close to 300 bps over.
- The unwinding of leverage in the municipal bond market is also exposing some attractive fundamental value, and we expect to see the same in the mortgage space.
- Muni funds focused on income and quality have been served particularly well in this period.

...About US EQUITIES

We Will Recover

- GDP growth and employment could start to show some improvement as we enter the fourth quarter of 2020. While it’s clear that the US will likely fall into recession, we see this severe downturn as temporary.
- The pace and extent of recovery will be very linked to scientific progress on cures, vaccines and/or treatments.
- Our biggest concern is how COVID-19 disruptions will impact the US consumer, the force behind the decade-long economic expansion.
- It appears clear that the market is discriminating based on fundamentals—high leverage, interest rate sensitivity, oil price exposure or significant revenue disruption.
- Volatility created opportunities to initiate or add to positions in what we consider to be high-quality, long-term growth companies that are well-positioned for the future.
- We believe best-in-class companies levered to multi-year growth trends and disruptive innovation themes can weather the current volatility and generate solid risk-adjusted returns over the long term.
- Technology and health care are two areas that we believe will continue to see ongoing secular growth.
- In the consumer space, we believe opportunities exist in highly regarded, competitively positioned companies.

...About GLOBAL EQUITIES

An Ounce of Prevention...

- In our view, the cycle was long past its sell-by date long before nature intervened with the virus. We believe we’re in the early stages of a significant economic downturn—a global recession.
- The only good news is we think we’re prepared for what’s coming.
- Our longer term view on corporate change in Japan is that it will unlock latent value. Many companies have exceptionally strong balance sheets.
- Japanese companies don’t have the same credit issues facing many companies in the US and Europe. Its corporate sector is awash in cash. The resilience of the corporate sector in Japan is very attractive in the meantime. We also expect the Japanese yen to be relatively defensive.

...About EMERGING MARKETS

This Too Shall Pass

- The sudden collapse in consumer activity has negatively impacted consumer-facing names, such as sportswear brands, auto manufacturers and casino operators. The oil price plunge has weighed on related stocks.
- Banking stocks have been weak amid slowing credit and loan growth. Banks are generally well-capitalized, and we believe when this crisis passes, banking stocks should remain well positioned to resume growth.
- We currently favor companies that are both exposed to areas of structural growth and have scope to gain a higher market share through competitive advantages—whether that’s through cash-flow generation, existing market share or technological leadership.
- Online entertainment, gaming and messaging platforms have seen greater use. And we’ve seen select opportunities in insurance.

Franklin Templeton Investments 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 above represent the current views of senior investment leaders and are subject to change.

Key Themes

THEME

RATIONALE

INNOVATION IS ECONOMICALLY PERVASIVE

We live at a time of accelerating economic change due to accelerating innovation. We have new tools enabling our ability to fight a pandemic that we have never had in our history. And, we have often observed that it's a poor investment to invest against human ingenuity. We believe that we will come out of this period stronger and better prepared for a changing future. We invest in innovation. We are optimists.



VOLATILITY MAY BE A FRIEND TO ACTIVE MANAGEMENT

As volatility gyrates markets and appears unlikely to revisit previous levels of quiescence any time soon, the benefit of beta may be trumped by the addition of alpha. Prudent stock pickers with focused portfolios may fare better than broad index- following portfolios.



GO BACK TO BASICS

Quality stocks are favored over the long term. Nothing says quality like stocks with long dividend growth histories.



SOURCE INCOME COMMENSURATE WITH RISK

As sovereign yields approach zero and below in much of the developed world, investors need to look more carefully at sources of income and the risks they entail. Investment grade entails a wide variety of securities, which warrant close scrutiny.

The highest rated municipal bonds (AAA) far out yield US Treasuries across the yield curve, and short-term municipal yields ended the month higher than long-term Treasury yields in many cases. The yield pick-up provided by munis becomes more compelling for those investors in high tax states.

Flexible mandates may also be able to capitalize on the opportunities that volatility presents.

Lower volatility strategies in fixed income may help investors in managing overall portfolio fluctuations without going to cash.



CONSIDER LESS TRADITIONAL DIVERSIFICATION

With sovereign bonds yielding little, investors may need to look further and harder to diversify equity risk. Alternative risk strategies may start to make more sense for some investors, within a diversified portfolio.



1. Source: *Getting Paid in America*, American Payroll Association, 9/10/2019. Survey received responses from 28,923 employees who said they would experience financial difficulty if their paychecks were delayed for a week.

2. Source: Bureau of Labor Statistics, US Department of Labor, *The Economics Daily*, 9/30/19. 29% of wage and salary workers could work at home in their primary job in 2017-2018.

3. Source: US Department of Labor.

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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. 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. These and other risk considerations are discussed in each fund's prospectus.

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