

The path to recovery: What's next?

FRANKLIN TEMPLETON THINKS™

GLOBAL INVESTMENT OUTLOOK

APRIL 2020

Focusing on the big picture

China: Coming out of COVID-19

Unprecedented economic shocks likely to reverberate for several quarters

A policy bridge to normalization

Things change fast when we're on COVID time...

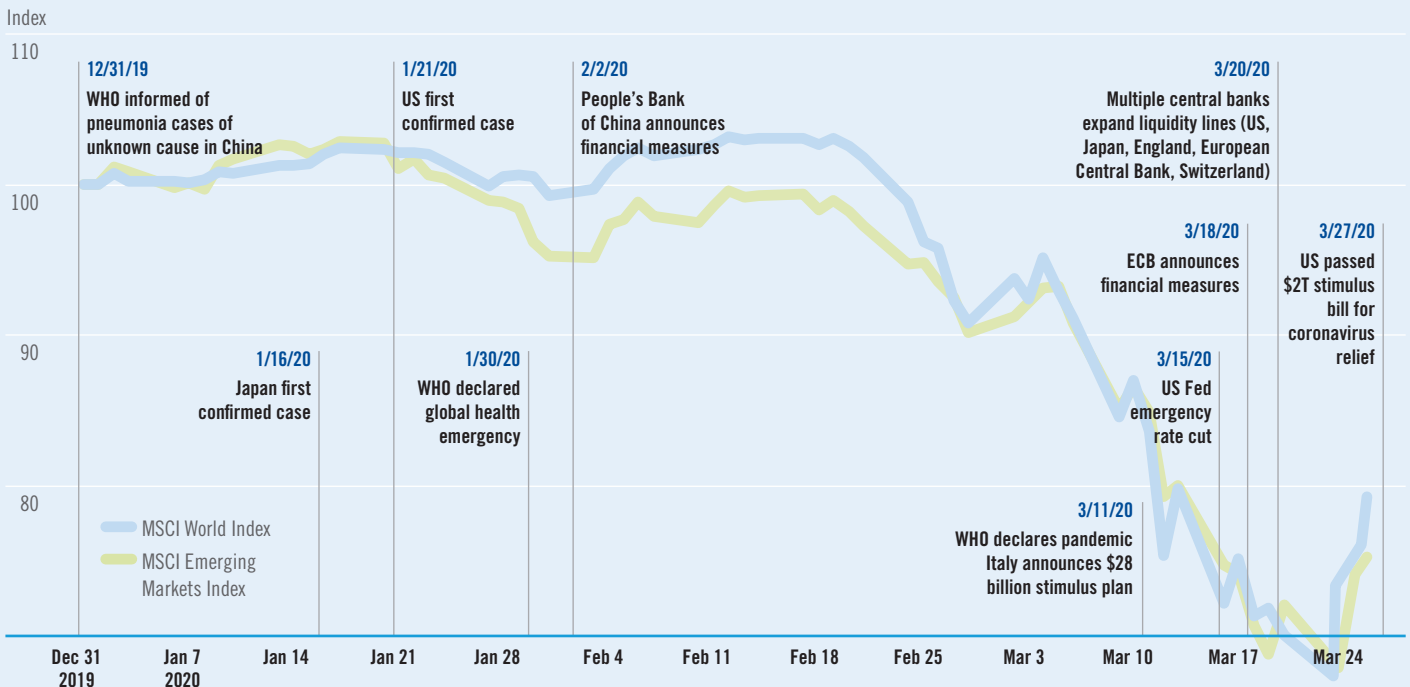


Introduction

Looking at the economic and market outlook for 2020 just a few months ago, there's no doubt times have changed. The spread of the coronavirus dealt a severe, unexpected shock that impacted people—and markets—around the globe. Many investors are wondering how to navigate the supply and demand shocks, and questioning, where do we go from here? While clearly the scope and reach of the coronavirus crisis is unprecedented, our senior investment leaders have plenty of experience navigating periods of uncertainty and volatility. They outline how they see a recovery taking shape once the crisis passes and offer some investment insights.

NOTHING BUT RAPID EVENTS AND MARKET VOLATILITY IN 2020

December 31, 2019–March 27, 2020



Sources: World Health Organization, Bloomberg, Franklin Templeton Capital Market Insights Group, MSCI, Macrobond. Indexes are unmanaged, and one cannot invest directly in an index. **Past performance is not an indicator or guarantee of future performance.** Important data provider notices and terms available at www.franklintempletondatasources.com. For illustrative purposes only and not representative of the performance or portfolio composition of any Franklin Templeton fund.

Key viewpoints

- We've disaggregated our base-case scenario into two components. The first is the coronavirus and its immediate fallout. The second is the underlying fundamentals that underpin the economy. Our base-case has now moved to recession, based on readings of fundamental impacts, market reactions and the significant drag on economic activity globally. We believe diversification is really important in this sort of uncertain environment, and we are slowly starting to reposition our portfolios to take advantage of this extreme dislocation, because we think the medium- and longer-term outlook is more positive.
- China appears to have been successful in domestically containing the coronavirus. Overall, cases have declined considerably and economic activity is resuming. The government's focus has now shifted away from containment towards economic normalization, with restrictions gradually being relaxed to improve the ease of doing business, although changed behaviors across the country are myriad and far-reaching.
- The full magnitude of the aggregate demand shock from the coronavirus may still be underappreciated by markets, in our view. Entire countries, regions and continents have come to an economic standstill. Even the most sophisticated economic models are not fully equipped to calculate what it means when people across the world cannot leave their homes; cannot go to work; and cannot go to stores, restaurants, movies, sporting events, vacations or just about anything for months on end. These are unprecedented massive shocks to the global economy that are likely to reverberate for several quarters.
- The big question on everybody's mind right now is how bad the economic downturn will be, and what kind of recovery lies ahead. There's no doubt that activity will suffer a very severe contraction in March and April. The good news, however, is that the monetary and fiscal policy response appears prompt, decisive and well designed. A coordinated combination of fiscal and monetary support can act as a bridge to help individuals and businesses weather the downturn and can set the stage for a robust rebound.

Featured senior investment leaders



Sonal Desai, Ph.D.
Chief Investment Officer
Franklin Templeton
Fixed Income



Stephen H. Dover, CFA
Head of Equities



Michael Hasenstab, Ph.D.
Chief Investment Officer
Templeton Global Macro



Edward D. Perks, CFA
Chief Investment Officer
Franklin Templeton
Multi-Asset Solutions



Manraj Sekhon, CFA
Chief Investment Officer
Franklin Templeton
Emerging Markets Equity

Focusing on the big picture

Ed Perks, CFA

Chief Investment Officer, Franklin Templeton Multi-Asset Solutions

Gene Podkaminer, CFA

Head of Multi-Asset Research Strategies, Franklin Templeton Multi-Asset Solutions

Wylie Tollette

Head of Client Investment Solutions, Franklin Templeton Multi-Asset Solutions

Clearly, we are in the midst of a major global pandemic and are experiencing the impacts and fallout in real time. In times like this, we are reminded of the importance of focusing on the big picture when we talk about the composition of our portfolios. Even in these uncertain times, our team seeks to build well-diversified, “anti-fragile,” portfolios.

For now, we’ve disaggregated our base-case scenario into two components. The first has to do with the coronavirus and its immediate fallout. The second has to do with the underlying fundamentals that underpin the economy.

Let’s start with coronavirus thoughts. Our base-case has now moved to recession (which is in line with the general consensus view) based on new readings we’re getting in terms of fundamental impacts, market reactions, and the significant drag on economic activity globally. As of this writing, the virus continues to spread and could peak towards mid-year. This would lead to a sharp and significant global economic slowdown.

However, in China, as the number of new cases has begun to decelerate and stabilize, there’s been a slight pickup in economic activity. This has been less so in the service sectors, however, as many people aren’t fully out and about yet.

The policy response: Where do we go from here?

From a policy-response perspective, we certainly have seen a number of global central banks take aggressive actions, including the lowering of interest rates to near zero. There’s convergence around what the effective lower bounds are for interest rates and monetary policy. And what we mean by that is that central banks in the United States and in Europe, in particular, started cutting rates from a place that wasn’t very high to begin with, and have come all the way down to their lower bounds. Interest rates in Europe were already near zero before the crisis, so there was even less room to maneuver.

The good news is we’re seeing the application of other tools, like we did in 2008–2009 during the global financial

crisis (GFC), including asset-purchase programs and other liquidity measures.

In terms of where the markets go from here, a lot of folks have been talking about which letters of the alphabet a correction may resemble. In our scenarios, our base case is U-shaped—with a gradual decline and recovery and no clear trough. Our optimistic case is V-shaped—a sharp but brief economic decline with a clearly defined trough. In our bear case, we expect an L-shape scenario with eventual recovery out in the future.

We’re strongly leaning toward U-shaped, but likely with some significant ups and downs during the recovery phase. The delay in rebound is because the demand shock should likely lead to business and household stress that, in turn, leads to higher unemployment and defaults. This creates “stickier” downward pressure on aggregate demand in the recovery phase. On the positive side, our base case is that we experience the worst of the virus (in terms of peak growth rates, improved antiviral medicines, seasonal tailwinds, etc.) before the second quarter of 2020 is over. We could see a U with a lazy right vertical, which would likely be bumpy. What’s been interesting to watch, and it’s quite typical of markets, is they tend to move on sentiment in the short term but respond to fundamentals over the medium and longer term.

“ Even in these uncertain times, our team seeks to build well diversified, ‘anti-fragile,’ portfolios.”

Notably, equity market valuations were extended going into this crisis—some were saying “priced for perfection,” and you tend to see very sharp reactions, either up or down, to any major sentiment change when valuations are extended.

Disentangling emotions

Looking at the big picture, it's clear we've experienced heightened market volatility. We view this coronavirus crisis

as a shock to growth, which can be observed on both the demand side and the supply side. What we've been saying is that diversification is really important in this sort of uncertain environment.

We are slowly starting to reposition our portfolios to take advantage of this extreme dislocation, because we think the medium- and longer-term outlook is more positive. Short term, of course, we anticipate another few months of volatility as the coronavirus crisis plays out.

We try to disentangle the emotional from what's going on with fundamental economic drivers of returns. And in doing so, we really want to focus on that macroeconomic backdrop. That's how we want to position our portfolios. Look past the emotional impact, look toward where we think there are long-term opportunities. Seek diversification, even into asset classes that have been out of favor for a while.

China: Coming out of COVID-19

Manraj Sekhon, CFA

Chief Investment Officer, Franklin Templeton Emerging Markets Equity

China appears to have been successful in domestically containing the coronavirus, with overall cases having declined considerably and economic activity resuming even in Hubei, the province at the center of the outbreak.

China paid a very high price near term to contain the virus, which is now shifting to a new phase with most new cases from overseas. What seemed initially to be harsh, draconian measures now appear vindicated and needed elsewhere around the world. The government's focus has now shifted away from containment towards economic normalization, with restrictions gradually being relaxed to improve the ease of doing business, although changed behaviors across the country are myriad and far-reaching.

Economic data: Poised to rebound?

Short-term Chinese economic data is the worst seen in modern times. For the January to February period, year-on-year

retail sales data were -20%, exports -17%, fixed asset investment -25% and industrial production -13%. While many global investors may not currently focus on this data given global volatility, it is nonetheless indicative of what is to come elsewhere.

Despite the dire economic data so far this year, we expect recovery to begin in the second quarter, and overall gross domestic product (GDP) growth below 5% for 2020. The Chinese government has already abandoned its target to double GDP from 2010 levels (which would need ~6% growth this year) to prioritize employment.

A welcome boost is the decline in oil prices, which benefits China as a net importer (~60% of oil is imported), providing a direct stimulus to consumers, most businesses and the central government. Oil prices below US\$40/barrel (bbl) provide a government windfall, and with prices of US\$20–\$30/bbl, we would anticipate US\$20billion–US\$40billion of extra revenue.

Policy stimulus

The focus of China's leadership is now on employment rather than GDP. Economic data are likely to remain weak for some time and so we expect more policy announcements as the government saves its ammunition.

Monetary policy has already been loosened through cuts to reserve requirement ratios, supporting liquidity and financial markets. The People's Bank of China has set up a low interest rate, special refinancing fund to support impacted industries, while commercial banks have also lowered interest rates for affected companies. Furthermore, the Ministry of Finance is providing interest subsidies for small and medium enterprises (SMEs), as well as support for local governments in their control efforts.

In our view, SMEs will likely need greater assistance given their aggregate role as the primary employers in China, especially in the service sector.

“China has been relatively resilient, reflecting both some look-through of current challenges as well as government support. Amongst major economies, China could ultimately be one of the least affected by COVID-19.”

We expect policies directed at payrolls to support employment, including tax cuts, fee cuts and further credit support.

We also expect infrastructure-investment to rise this year, across sectors both “old” (roads, rail, etc.) and “new” (5G, technology-related). More provincial government policy support is also likely to come, targeted at specific local needs.

In the property market, long-term reform remains intact while near-term flexibility is needed. Land sales are critical to local government income, construction supports job growth, and buoyant property prices boost consumption. Property developers may need financing support (or changed regulations) as they are currently largely restricted to shadow banking funding sources.

The Chinese government has more policy tools available, and substantially more dry powder—for example, a lower fiscal deficit of 2.9% at the central government level, and higher interest rates provide more room to cut. Thus far, China’s leaders are employing a patient, data-led and targeted approach.

Business optimism

China has been relatively resilient, reflecting both some look-through of current challenges as well as government support. Amongst major

economies, China could ultimately be one of the least affected by COVID-19. We are focusing most on companies impacted primarily by domestic demand, as we believe the rebound will be sharper versus those more dependent on foreign earnings, such as exporters.

Following containment, in February the focus shifted to getting people back to work, subject to quarantine restrictions. March has seen the ramping up of utilization, with various alternative high-frequency data sources suggesting production levels have recovered to above 80%. In April, we expect further normalization of production.

The first quarter was dominated by supply chain issues within China, but we believe the second quarter will see challenges on the external demand side, driven by halting activity in the West. Relatively few companies have revised 2020 guidance, with most waiting for first-quarter data. We can expect downgrades likely in April and beyond. Most companies have adjusted to the COVID-19-driven environment, but some will see further downside from demand destruction in developed markets. Revenues, net profits and market expectations will all likely need to be revised downwards.

While near-term relocation of capacity back to China is possible as other countries in Asia enter lockdowns, we think this will likely be offset by a longer-term

shift of global supply chains back to the West and elsewhere. We are likely to see greater localization globally with the impact yet to be felt.

The Chinese economy, however, is now primarily driven by domestic demand, and we are positive on internally orientated companies. Many consumer stocks can look through short-term weakness—demand in many areas has been delayed, not destroyed. We likewise expect financials and cement companies to see a negative first quarter with general recovery later in the year, though state owned banks may be required to engage in “national service” to support the economy at the expense of earnings. Most hurt will be those businesses dependent on external demand or travel/leisure.

We have also seen remarkable examples of company resilience and adaptability. Millions of students across the country had their extracurricular tuition shifted online within days. Medical equipment suppliers not only rapidly manufactured ventilators and intensive care unit equipment in response to the domestic crisis, but they are now at the forefront of supplying afflicted countries abroad—such as Italy. Internet and cloud computing businesses have seen massive user and data growth, without the limitations posed by the antiquated internet infrastructure in many Western countries.

Portfolio implications

- First in first out: the virus has been contained in China. Greater economic risks now come from demand destruction in the West and related liquidity and corporate stress.
- We expect a sharp rebound in domestic activity over the second half of the year, driven by pent up demand and government

stimulus, with risk to this outlook primarily driven by activity in developed markets.

- Growth outlook: we expect China to perform better relative to other markets. The massive monetary and fiscal packages unveiled globally may yet, however, counter the economic impact of the rapid spread of the virus in developed markets. It remains uncertain whether this translates into the V-shaped recovery we expect to see in China.
- China's recent equity market outperformance has resulted in an increased weighting in the MSCI Emerging Markets Index from ~35% to ~41% since year-end.¹ Investors will need to recognize this growing importance.

- Longer-term questions we are now focused on include:
 - The degree and duration of demand destruction in the West. In the short term, we are likely to see a deflationary shock. It is critical that the financial system does not come under excess strain.
 - The impact on supply chains of key technology, health care and industrial products and the degree to which end customers are willing to pay more for greater security of supply.
 - Companies that could benefit from any permanent behavioral changes as technology is likely to be more strongly embraced; for

example, increased e-commerce and cloud computing. There are also opportunities within e-learning, online health care, as well as businesses that facilitate working from home.

Across our portfolios, we are positioned in long-term themes, including consumption upgrade, digitalization, health care and technology. In the short term, COVID-19 is accelerating the adoption of products or behaviors that some of these long-term themes, benefit from; accordingly, our portfolio changes have thus far been limited.

Unprecedented economic shocks likely to reverberate for several quarters

Michael Hasenstab, Ph.D.

Chief Investment Officer, Templeton Global Macro

It goes without saying that the entire world is currently facing extraordinary circumstances, not only in financial markets but in our daily lives. Our primary thoughts are for the well-being of our families, friends, clients and colleagues around the world. Unfortunately, the risks to our collective and individual well-being do not end at the health crisis alone—we are enduring unprecedented economic and financial market shocks that may prove more extreme than the GFC in 2008, and more disruptive than any previous shock in the post-war era.

Adding to the complexity of the moment is the precarious state of the world that existed before the COVID-19 pandemic. Escalating geopolitical risks, trade tensions, political polarizations, unrestrained deficit spending in the developed world, perpetually low rates in the major economies and over-levered credit sectors created an environment that was highly vulnerable to an economic or financial market shock. We had been concerned about those risks for several quarters and accordingly re-positioned our strategies in 2019 by adding perceived safe-haven

investments and adjusting the risk sizing of various emerging market exposures. While we were not explicitly anticipating the COVID-19 crisis or the recent collapse in oil prices, we were concerned that these types of unknown triggers could push a fragile system over the brink.

Tragically, we are now across that line, with an abrupt, massive disruption in global economic activity. The full magnitude of the aggregate demand shock may still be underappreciated by markets, in our view, even with the

substantial selloffs to date and the unprecedented policy interventions. In the past, US GDP figures have occasionally been disrupted by events like a week-long snowstorm in the northeast. The COVID-19 crisis is hundreds of magnitudes more disruptive, as entire countries, regions and continents come to an economic standstill. Even the most sophisticated economic models are not fully equipped to calculate what it means when people across the world cannot leave their homes; cannot go to work; and cannot go to stores, restaurants, movies, sporting events, vacations or just about anything for months on end. These are unprecedented massive shocks to the economy that are likely to reverberate for several quarters.

Fiscal and monetary responses have been equally unprecedented, but are unlikely to be sufficient, in our assessment. Interest rates in many countries have reached the zero bound, while central bank balance sheets have exploded. The marginal impact of monetary easing has been greatly diminished by a decade of ongoing accommodation. On the fiscal side, the goal of the US stimulus package is not to encourage consumption, but to act as an economic stopgap for social distancing policies. The fiscal multiplier will be small, with limited impact on the economy. Additionally, massive layoffs are likely to alter consumer behavior, as spending is curtailed in favor of safety and savings. History indicates that it takes years for employment to return to pre-crisis levels—it took more than six years after the 2008 GFC.

Efforts to provide social assistance during a crisis are certainly important; however, they are unlikely to be enough to cover the demand side.

“ There is no historical comparison for the magnitude of aggregate demand that is currently being destroyed, nor the magnitude of job losses in such a compressed timescale.”

There is no historical comparison for the magnitude of aggregate demand that is currently being destroyed, nor the magnitude of job losses in such a compressed timescale.

From an investment standpoint, we think it is too early to pursue additional risk as the world is still in the early stages of the economic repercussions. We're currently focusing on specific perceived safe-haven investments, while emphasizing a select set of higher-yielding emerging markets that have relatively resilient domestic economies. We're aiming to derive alpha from different sources than the low-to-negative yielding developed fixed income markets, which have limited upside potential left as yields grind to historic lows. Our aim is to position our strategies to be uncorrelated to vulnerable asset classes while delivering high income and defending capital. We are also emphasizing elevated levels of cash and short-term US Treasuries to be able to quickly pursue opportunities as they arise. We employed a similar playbook during the GFC, as we built a defensive stance heading into the peak of the crisis and then shifted to an opportunistic pursuit of price distortions in the early phases of the eventual recovery.

Some areas of the markets appear to be expecting a V-shaped recovery, as we had after the 2008 GFC—that's possible, but not probable in our view.

We are expecting an eventual U-shaped recovery, with some ongoing uncertainties over just how wide that U will be. There are still unknowns over how long the pandemic will last, how prolific it will be and how long lockdown orders will be needed. There are also uncertainties over what society will look like when we get to other side, given elevated unemployment, significant economic hardship and unprecedented fiscal intervention. Widening economic inequality in the US was already a source of social strife at low unemployment levels (3.5%) before the crisis—a sharply deteriorating economy will only exacerbate the issue. It remains to be seen whether people will be brought together by adversity, or further polarized. All of these concerns will shape financial markets in the post-COVID-19 era.

A policy bridge to normalization

Sonal Desai, Ph.D.

Chief Investment Officer, Franklin Templeton Fixed Income

The big question on everybody's mind right now is how bad the economic downturn will be, and what kind of recovery lies ahead. There's no doubt that activity will suffer a very severe contraction in March and April, due to the effective shutdown of large parts of the economy. The good news, however, is that the monetary and fiscal policy response has been prompt, decisive and well designed.

The Federal Reserve (Fed) has launched open-ended quantitative easing (QE), extending its purchases to corporate bonds and exchange-traded funds (ETFs), and has unveiled a new set of facilities to support credit to businesses and households. The fiscal stimulus bill approved this week in the United States includes cash transfers to affected individuals, extended unemployment benefits, support to small businesses and corporates, as well as to hospitals and health care centers.

This coordinated combination of fiscal and monetary support can act as a bridge to help individuals and businesses weather the downturn and can set the stage for a robust rebound. I would note that calling this package a bailout does it a disservice—the stress that individuals and businesses now face is caused by a major unexpected exogenous shock, not by any imprudent behavior on their part. No viable business strategy could have protected businesses from its impact. Much now depends on how long the current shutdown remains in place, however. Should the current restrictions remain in place

for several months or more, the damage in terms of job losses and bankruptcies will take longer to mend. But if in the coming weeks we can move towards a relaxation of the current measures to bring the economy back to normal, then in my view a V-shaped recovery remains the most likely scenario. As of now, I think concerns about a U- or L-shaped scenario, with the latter representing a depression, are more the tail risk than the baseline.

It's important to note here that other countries are also launching decisive policy stimulus. The European Central Bank (ECB), after initial apparent ambivalence, has made clear its determination to support the eurozone's economy and guarantee its financial stability. Germany has jettisoned its long-standing commitment to a balanced budget. And a majority of eurozone governments have already agreed in their support for a common Eurobond issuance to fund the response to the crisis—another unprecedented step. There has been much hand-wringing about the Group of Seven's (G7's)² inability to craft a coordinated global response. But the common nature of the shock now de facto ensures a simultaneous response which will have the same effect. Meanwhile, Asia, a crucial engine of global economic growth, appears to be on the mend, and this should help the global recovery, including by gradually restoring the functionality of global supply chains.

I will mention another factor which I believe is important in assessing the prospects for the post-crisis recovery.

The lesson from previous crises is that deep recessions can cause lasting damage in terms of lost output, but that the damage is substantially lessened when the recession is not accompanied by a banking crisis. When the coronavirus hit, the US economy was strong, unemployment at record lows, and the financial sector in solid shape. With the prompt and targeted support provided by the Fed, a banking crisis seems highly unlikely, and this should reduce the damage and facilitate the recovery.

As the recovery sets in, it will untap important investment opportunities. 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. So, it's a good time to start looking for specific names with attractive fundamentals, especially among the better names in both the investment-grade (IG) and eventually the high-yield universe. In the IG space, there are some names that were trading at 10 basis point (bps) spreads in February that have recently traded at close 300 bps over; clearly the current market dislocation throws out opportunities. The unwinding of leverage in the municipal bond market is also exposing some attractive fundamental value, and I expect we will see the same in the mortgage space. I would note that our muni group's traditional focus on income and quality has served it particularly well in this period.

Things change fast when we're on COVID time...

Stephen Dover, CFA
Head of Equities

We are all globally on “COVID time” now as we have never seen as swift a change in our society, culture and economy as that caused by the coronavirus. Given we don't know the length or severity of this pandemic, it is difficult to predict the investment opportunities and threats that lie ahead for investors.

It is remarkable that in the course of a few weeks, we have gone from an all-time high in stocks in the United States (February 19)—supported by relatively strong and improving economic data and a record low unemployment rate—to a global economic freeze as the global economy is mandated to almost stop. The equity markets globally corrected by more than 35%, and then sharply rebounded.

Economic discussions seem to center on whether we're headed for a depression or whether the shape of the recovery will be a V, U or L. I do not agree with comparisons to the Great Depression given the stark difference in the fiscal and monetary policy responses. During the Great Depression, policymakers tightened monetary policy, misdirected fiscal aid, raised trade barriers and increased the regulatory burden on banks and industry. Policymakers have learned from that mistake; the current global response has been the opposite. We, as investors, are focused on the containment and cure of the virus, the governments' fiscal and monetary responses and the impact on the companies we invest in.

General Observations

Investors are experiencing uncertainty more than risk in their portfolios: The markets have shown record daily up and down volatility. At the same time, different asset classes price movements (except Treasuries) and certainly equity prices have been highly correlated. This is because the markets are dealing with uncertainty: the unknown length and severity of the virus and its economic impact. Normally, professional investors focus on risk, navigating the likelihood of known outcomes with measurable probability. This uncertainty we are experiencing is different in the inability to assess the length and magnitude of the current pandemic. As we are better able to assess the length, health consequences and costs of the virus, the volatility in the markets is likely to abate.

Company earnings forecasting in the fog of war: Many companies are hesitant to predict their earnings over the next couple of quarters. Earnings for many companies will be significantly lower over at least the next couple of quarters. However, the valuation of companies should be based on their longer-term earnings outlook, the strength of the balance sheet and the quality of their cash flows.

Cash is king for companies and investors: The pandemic of fear is hitting our capital markets very hard as assets are sold indiscriminately to raise cash. This is an unprecedented dash for cash as individuals and businesses anticipate that they will need cash to survive the freefall in their incomes and cash flow. Investors have used the more liquid equity markets as a primary source for quick cash. Money market fund assets are at all-time highs.

Companies are strengthening their balance sheets: The results may be that companies will need to have stronger balance sheets going forward and investors, especially individuals, will need to have larger “rainy day accounts.”

Stock buybacks will slow: Companies, especially in the United States, have taken advantage of low interest rates and tax advantages to buy back their own stock. Buying back stock increases a company's earnings-per-share (EPS), because there are fewer shares. Stock buybacks have been a big driver of flows into the equity markets, averaging about 40% of the flow into the US equity market in 2019. Because of buybacks, the number of shares in the United States is at an all-time low. Over the past 20 years, companies in the S&P 500 Index have spent also an amount

“ We, as investors, are focused on the containment and cure of the virus, the governments' fiscal and monetary responses and the impact on the companies we invest in.”

equivalent to their net total earnings on dividends and buybacks. Stock buybacks are less prevalent outside of America—I anticipate a large slowdown in stock buybacks for the next couple of years—there may also be a slowdown in dividend growth. The new US fiscal stimulus package limits companies that receive support from buying back stock for two years. So far, at least 15 companies have independently announced buyback suspensions. The slowdown in stock buybacks will likely reduce the EPS growth rate for the next few years.

Fiscal deficits as far as the eye can see: In one day, the US Congress passed a spending bill doubling federal spending—and there is likely more to come. The same is true for many other countries. The coronavirus has served as a catalyst for Modern Monetary Theory (MMT)-style policies that are not

concerned about the size of fiscal deficits. The problem is that once these “temporary” policies are introduced they are likely to become permanent. When the economy starts to recover, there is likely to be increases in taxes, including taxes on capital gains. Investors should take into consideration the current low tax rates and likely higher rates in their portfolio decisions.

The case for equities now: In a world where central banks lower government bond yields to at or, in some cases, below zero, and governments are adding massive fiscal spending, equities should outperform dramatically in relative terms. The dividend yield on equities is at record highs compared to US Treasuries, attracting those searching for yield. I also expect some support to equities as institutions and retail investors, especially in balanced funds,

rebalance their portfolios. The indiscriminate nature of the equity selloff in March has left pockets of relative value for investors.

The case for Global Equity Investing: Chinese equities have outperformed this year as well as Asian equities in general. The recent rise in the US dollar has also made foreign stocks relatively less expensive. Global technology companies should see their competitive market positioned further, strengthened by the current shutdown, as the entire world learns to both work and live remotely. This includes the Chinese internet sector.

I don't want to overlook the very real human health and economic impacts of the ongoing crisis. I wish you and your family good health during this difficult time.

Endnotes

1. 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.**
2. The Group of Seven (G7) is an international intergovernmental economic organization made up of seven advanced economies: Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. Bond prices generally move in the opposite direction of interest rates. Thus, as the prices of bonds adjust to a rise in interest rates, the share price may decline. Investments in foreign securities involve special risks including currency fluctuations, economic instability and political developments. Investments in emerging market countries 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. Such investments could experience significant price volatility in any given year. High yields reflect the higher credit risk associated with these lower-rated securities and, in some cases, the lower market prices for these instruments. Interest rate movements may affect the share price and yield. Treasuries, if held to maturity, offer a fixed rate of return and fixed principal value; their interest payments and principal are guaranteed. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions.

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