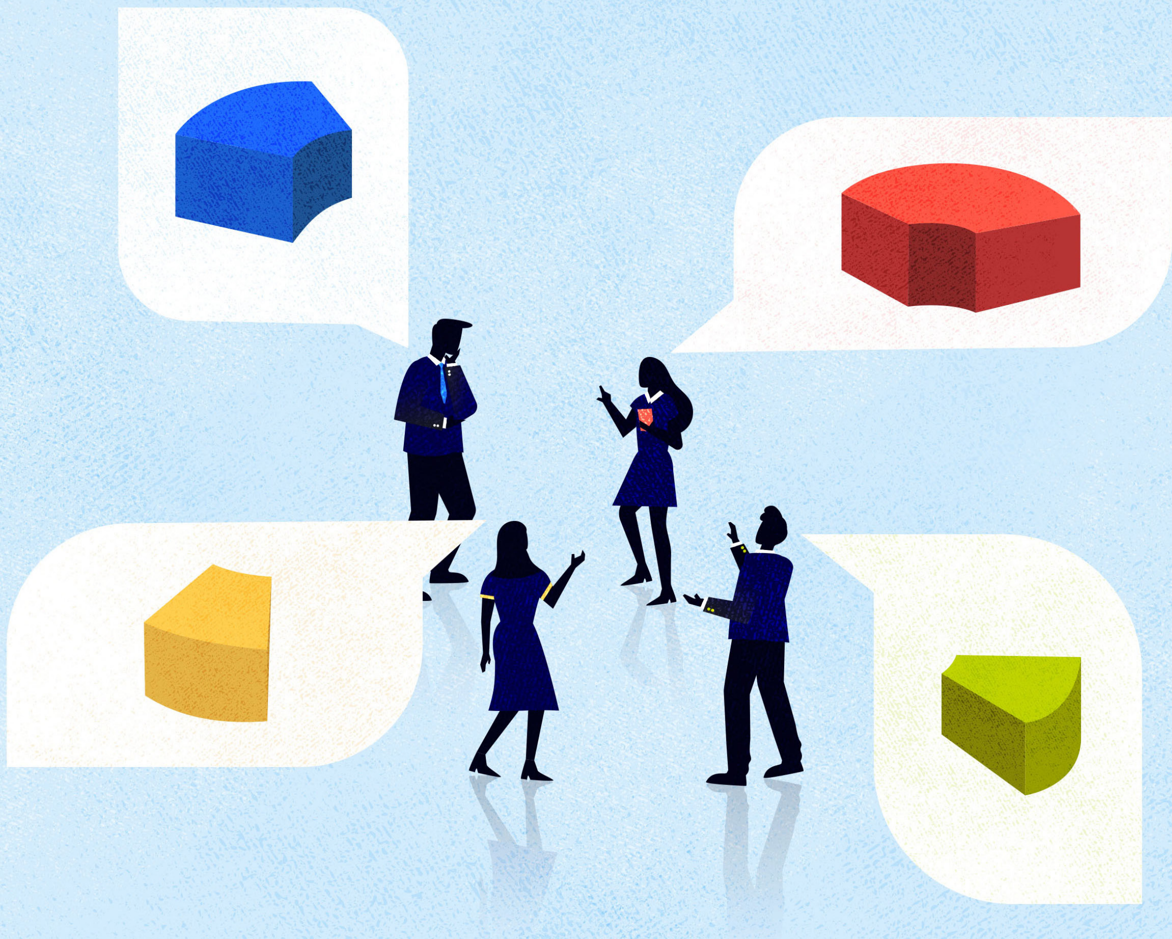
APRIL 2021

Inflation, rotation and opportunities

INVESTMENT INSTITUTE
FRANKLIN TEMPLETON THINKS™

GLOBAL INVESTMENT OUTLOOK



FRANKLIN TEMPLETON

Introduction

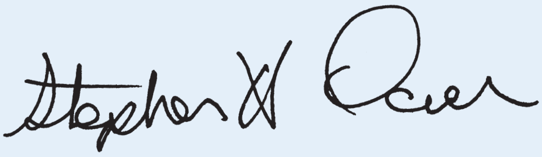
Stephen Dover, CFA
Chief Market Strategist
Franklin Templeton
Investment Institute

Our outlook draws on our wide range of independent investment managers to deliver asset class insights. Each manager approaches the economic environment with a different lens and offers views to help inform your decision making.

As we look forward to the post-COVID-19 pandemic period, we see predictions of above-average economic growth globally, unprecedented fiscal and monetary economic stimulus, and increased likelihood of inflation. We are entering an economic environment never seen before. Broadly, the common themes from our managers are:

- Given the return to growth in global economies, we are more "risk on" generally.
- While the extended low interest-rate environment looks likely to continue, there are risks of inflation and rising interest rates.
- Fixed income should remain vital, in our view, with high yield and bank loan instruments potentially offering lower sensitivity to rising interest rates.
- While equity investments offer an opportunity to add to performance, equity valuations are stretched by historical valuation standards. Our managers think opportunities still exist, particularly in companies on the cutting-edge of change that stand to benefit from the economic expansion and from resilience in emerging markets, especially in Asia.
- We believe there's significant opportunity in emerging markets today, particularly in Asia, but geopolitical risks bear watching.
- Alternative asset investments such as hedge funds and commercial real estate may provide diversification, some protection for volatile interest rates and inflation, and may offer a partial substitute for a portion of fixed income.
- Environmental, social and governance (ESG) awareness is increasingly vital for risk-management and for potentially better expected returns.

Several of our investment professionals discuss the implications across asset classes. They share how they are thinking about their strategies considering continued market uncertainty, whether the extended low interest-rate environment will continue, and where they see potential opportunities.



Fixed income may play as vital a role as ever

4 **Western Asset**
Given today's extended low interest-rate environment, along with elevated levels of uncertainty—not just around COVID-19, but also regarding US-China trade, Brexit and Middle East tensions—fixed income may play as vital a role as ever in investors' portfolios. We expect global central banks to remain extraordinarily accommodative, especially given ongoing subdued inflation pressures, fragile global growth and the persistence of downside risks.

5 **Glenn Voyles, Franklin Templeton Fixed Income**
We believe credit selection will be more important than ever in 2021 given that investor behavior in the current environment has led to some mispricing of risk. Overall, we have a positive view on the high-yield asset class given continued improving fundamentals and valuations that have further room to run.

Equity markets continue to offer opportunities

6 **Aram Green, ClearBridge Investments**
We believe growth investing will be more challenged than in the recent past, when the fastest growing/highest multiple stocks outperformed by a wide margin. These companies now need to deliver on the promises implied in their rich valuations—and many won't achieve that. That's why active management is as crucial as ever.

6 **Matthew Moberg, Franklin Equity Group**
Recently, we've seen some shifts in market leadership toward value-oriented and cyclical names in the wake of the pandemic nearing an end. Even with these shifts, we continue to see opportunities across many high-growth companies and believe the discounted cash flow methodology is the best way to determine a company's intrinsic value.

8 **Manraj Sekhon, Franklin Templeton Emerging Markets Equity**
From the height of the pandemic through the current early stage of recovery, our conviction in the growing structural advantages of emerging markets, led by key Asian economies, has only strengthened as the evidence has accumulated. Emerging markets have remained relatively resilient, having successfully adapted to, or suppressed, the virus.

Alternatives help diversify

9 **Brooks Ritchey, K2 Advisors**
Hedged strategies typically have performed well in both rising and falling interest-rate environments. In particular, these strategies help to diversify one's portfolio in a rising rate environment given the resultant increase in performance dispersion across regions, sectors and asset classes. We believe these strategies are particularly interesting now as a fixed income diversifier given the potential for renewed economic growth and an uptick in inflation.

9 **Tim Wang, Clarion Partners**
Looking forward, we are quite optimistic about real estate's growth prospects in 2021–2022 because of the fast US vaccination rollout, additional fiscal stimulus and robust consumer demand. Real estate is a derivative of economic expansion, and all property sectors are likely to benefit from the pent-up demand and forthcoming jobs boom. Higher interest rates often link to better economic growth, which should lead to stronger demand for commercial space and higher income growth, offsetting the potential negative impact on financing costs.

All investing will eventually be ESG investing

11 **Mary Jane McQuillen, ClearBridge Investments**
Stocks with strong environmental sustainability profiles generally performed well in 2020 as a result of a variety of trends. We consider some of these to be secular trends that should support ESG sustainability-focused investments for the longer term, such as helping fight climate change by lowering carbon emissions or overcoming resource scarcity through use of recycled materials. We believe that all investing will eventually be ESG investing, that one day it will no longer be considered a separate discipline.

Fixed income may play as vital a role as ever

There is debate within the markets at large—and even within our own investment teams—about whether inflation in the United States will prove to be a short-term spike into 2022 as we emerge from the pandemic or a longer-term secular shift. This debate has big implications for longer-term interest rates. Our fixed income managers generally believe the extended low interest-rate environment we have been in for some time appears likely to continue, and while inflation could occur in the short term, it is not likely to be persistent or rise to levels that would cause stagflation. With this backdrop in mind, they make the case that fixed income should remain a vital part of investor portfolios and have an eye on high yield amid economic tailwinds.

Fixed income offers diversification and ballast

Western Asset

Given today's low interest-rate environment, along with elevated levels of uncertainty—not just around COVID-19, but also regarding US-China trade, Brexit and Middle East tensions—fixed income may play as vital a role as ever in investors' portfolios. Due to its negative correlation to many risk assets, fixed income can provide portfolios with not only diversification, but also ballast.

As a couple of sector examples, we see opportunity in high yield and bank loans. While we don't see great room for capital appreciation (spread tightening) in high-yield credit, we do see an attractive yield advantage versus other fixed income sectors but remain very selective. Historically, high-yield credit has done best when inflation is rising from below-average lows, which is likely to be the case this year. We continue to position for a "reopening trade" and favor certain cyclical industries including airlines, cruise lines and select retail segments complemented by a higher-quality bias in those less-cyclical subsectors providing ballast in our portfolios. Bank loans underperformed high yield meaningfully in 2020, so we view current spreads in that sector as fairly attractive. Also, we view emerging market debt as attractive, as global economies continue to reopen and recover.

As an active bond manager with a focus on long-term fundamental value, Western Asset is always looking at a variety of market pricing factors. We expect global central banks to remain extraordinarily accommodative, especially given ongoing subdued inflation pressures, fragile global growth and persisting downside risks. On a macro level, we expect global economies to reopen and recover from the pandemic. Therefore, any developments that are contrary to our recovery outlook might change our view. As such, the importance of active management in fixed income investing cannot be understated given that a passive manager cannot express duration, curve, sector or security preferences in portfolio construction in the ways an active manager like Western Asset can.

"We expect global central banks to remain extraordinarily accommodative, especially given ongoing subdued inflation pressures, fragile global growth and persisting downside risks. On a macro level, we expect global economies to reopen and recover from the pandemic."

Western Asset

High yield provides opportunity, but credit selection remains critical

Glenn Voyles

Portfolio Manager

Franklin Templeton Fixed Income

Fixed income can play many roles in this extended low interest-rate environment. However, given the macroeconomic backdrop, performance in some areas of fixed income may be lower due to the potential impact of rising rates going forward. High yield can provide a higher level of income with a moderately lower sensitivity to interest rates, which we believe can be an attractive profile in this environment.

Given an improving economic outlook as vaccine distribution accelerates and the large fiscal stimulus package in the United States, we believe that US high-yield corporate bonds stand to benefit. With spreads still wide compared to levels post-global financial crisis, we believe there is room for spread compression to absorb a relatively orderly increase in rates and for return prospects to remain attractive. The US high-yield new-issue market has remained very active, and we have generally found new issue concessions to be an attractive way to pick up yield and spread.

> "While forecasting the fundamental backdrop for the market is still difficult coming out of the pandemic, we believe the picture will continue to improve. We also believe that the default rate has peaked and is likely to decline toward 2% during the second half of 2021, and then remain stable through 2022."
>
> **Glenn Voyles**

We have not been targeting any specific industries or ratings buckets but rather have been seeking out the best individual credit opportunities. We believe credit selection will be more important than ever in 2021 given that investor behavior in the current environment has led to some mispricing of risk.

While forecasting the fundamental backdrop for the market is still difficult coming out of the pandemic, we believe the picture will continue to improve. We also believe that the default rate has peaked and is likely to decline toward 2% during the second half of 2021, and then remain stable through 2022. We are watching the technical picture closely since we are coming off both very strong demand and issuance years in 2020 (2020 was the highest gross issuance year on record).[1] If interest rates do increase materially, we could see a slowdown in refinancing activity and a slowing of demand as well, which may have an impact on valuations.

Overall, we have a positive view on the high-yield asset class given continued improving fundamentals and valuations that have further room to run, but security selection will remain critical.

Equity markets continue to offer opportunities

With global equities trading near record highs, many investors are questioning the potential for continued gains going forward. While reasonable arguments can be made that equity market valuations—particularly in certain sectors—could be defined as overvalued or "frothy" compared to historical levels, generally our managers continue to see opportunities for the equity markets to continue appreciating. In each case, securities must be looked at individually. While technology may be overextended in aggregate, idiosyncratic opportunities within the sector still exist. Our equity managers have an eye on areas of the market that have been transformed by the pandemic, and which can continue to be on the cutting edge of change.

Digital transformation will continue to drive growth stocks

Aram Green

Portfolio Manager and Managing Director

ClearBridge Investments

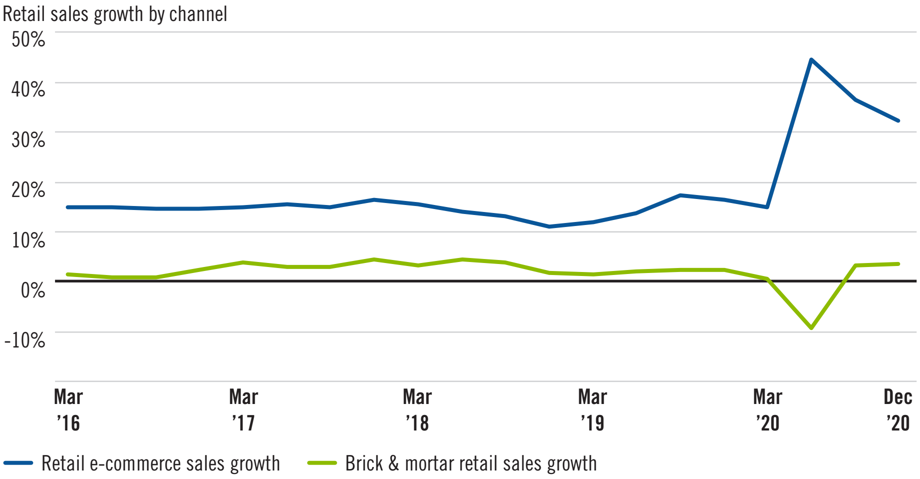
While the reopening of the global economy will lead to more normalized business and consumer trends and a broadening of companies that participate, we believe innovative businesses should continue to outperform over the medium to long term. COVID-19 uncovered the susceptibility of businesses that have failed to innovate and embrace digitalization. Meanwhile, the majority of the beneficiaries of work-from-home and e-commerce trends were already digitally savvy and continue to disrupt their target markets by enhancing the products and services they deliver—e-signature and telemedicine providers, for example. Other innovative areas of technology have been held back by delays in implementation and adoption due to COVID-19 that are no longer an issue. This gives us confidence in a number of software names that support digital transformation, technology enablers of electric vehicles and solar energy, and online dating platforms that have filled the void resulting from a lack of social interaction.

Innovative growth companies have delivered strong performance over the last year, yet much of that occurred over short periods of rapid multiple expansion and many have been trading at their lowest multiples in nine months. Where valuations have been stretched is in younger growth names in more speculative areas. We believe growth investing will be more challenged than in the recent past when the fastest growing/highest multiple stocks outperformed by a wide margin. These companies now need to deliver on the promises implied in their rich valuations—and many won't achieve that. That's why we believe active management is as crucial as ever.

ACCELERATION IN E-COMMERCE SHOULD HAVE STAYING POWER

Exhibit 1: Retail sales growth by channel

March 2016–December 2020



Source: US Census Bureau, data as of February 28, 2021.

Secular tailwinds prevail across market cycles

Matthew Moberg

Portfolio Manager

Franklin Equity Group

Over the long term, we believe innovation drives wealth creation in the economy and that investing in innovation offers a high probability of outperforming the market over a full cycle—approximately three to five years. However, in practice, our time horizons for investment are often much longer. Even after the strong performance of the past year, we continue to think we are experiencing a very rich backdrop to invest in innovation as many discrete advancements are becoming economically viable in the economy today.

In the short term, markets can move based on a countless number of fears, concerns, quantitative buying or selling, or many other factors. Recently, we've seen some shifts in market leadership toward value-oriented and cyclical names in the wake of the pandemic nearing an end. Even with these shifts, we continue to see opportunities across many high-growth companies and believe the discounted cash flow methodology is the best way to determine a company's intrinsic value. It differs from standard multiples, which do not incorporate growth. For example, a high price-to-earnings ratio (P/E) doesn't mean a company is expensive, nor does a low P/E ratio mean a company is cheap.

We find that market participants often underestimate the duration of growth that innovative companies can generate; rather than seeing profits competed away in short order, many of them grow and generate excess profits for very long periods of time. Their pace of growth may also be underestimated over both short- and longer-term periods. Within discounted cash flow (DCF) models, these assumptions of duration and pace are key variables which, independently and combined, can have a profound effect on an assessment of a company's value. Our differentiated research approach seeks to foster the discovery of unrecognized value even in stocks which might otherwise appear expensive. We believe the cyclically oriented market shift we see today is a natural result of investing over a cycle. And we assert that innovators will be rewarded as they find new products, new methods and new advancements that will solve some of our biggest problems and make our lives better.

> "Other consumer shifts over the past year are likely to be more permanent. In the early days of COVID-19, 27% of global consumers started shopping online for the first time and our best guess is many of those customers had a positive experience. This contributed to increased investment in related industries like logistics, online payments and web services..."
>
> **Matthew Moberg**

It's clear to us that the impact of COVID-19 will leave an indelible mark on consumer behavior. Over the next year, live entertainment and travel should start to come back—maybe not to pre-pandemic levels initially, but the inflection point is coming, and the direction is positive. Other consumer shifts over the past year are likely to be more permanent. In the early days of COVID-19, 27% of global consumers started shopping online for the first time[2] and our best guess is many of those customers had a positive experience. This contributed to increased investment in related industries like logistics, online payments and web services as companies adapted their business models to the new environment.

The genomics space continues to be a key area of innovation advancement. Genomics and gene sequencing were major contributors to finding therapies and vaccines for this virus. Now, we have not only fast-tracked therapies, but we have also built distribution and manufacturing capabilities that could make genomic advancements easier to implement in the economy in the future. All investments we have noted here are foundational; while demand certainly accelerated, we believe both adoption and the addressable market size can continue to grow over time.

Perhaps a half a century ago, when we started investing in innovation, most of the change happened in California's Silicon Valley, primarily in the semiconductor and aerospace and defense industries of the economy. Even just 25 years ago, a portfolio invested in innovation was likely to primarily be a collection of companies based out of Silicon Valley. As we look at the landscape today, innovation has clearly gone global, and we see centers of excellence across the world. Tremendous advancements are coming out of China, Japan, Taiwan, Israel, Western Europe and Latin America, and each are developing differentiated expertise. Our research team aims to take advantage of the emerging innovation we see.

Looking ahead, it's difficult to see how these trends in innovation will slow down. However, impacts driven by individual country regulation or delays in new advancements due to technical requirements are possible. These are areas where we believe active investing and a generalist view can add value to the investing process.

The pandemic had a disparate impact on economies—with some being more prepared than others to tackle the challenges faced. Some investors may be surprised to find emerging markets—particularly in Asia—have been quite resilient. China was the only major economy to see positive growth in 2020, as COVID-19 caused others to fall into recessions. In 2019, China's economy represented roughly 66% of the US economy, but before the end of the decade, the Chinese economy could very well surpass the United States as the world's largest. China's bond market is the second largest in the world, just behind the United States. China, and Asia in general, are markets we think investors should not ignore.

Emerging markets continue to grow

Manraj Sekhon, CFA
Chief Investment Officer

Franklin Templeton
Emerging Markets Equity

A year has passed since the correction of March 2020 when markets first appreciated the implications of a global pandemic. The last 12 months have seen more disruption than entire decades in ordinary times. Emerging markets, led by Asia, have remained relatively resilient, having successfully adapted to or suppressed the virus. By contrast, a return to economic normality in the West is dependent almost wholly on vaccines. While we are seeing rapid progress with vaccinations in the United States and United Kingdom, Europe remains far behind amid continued lockdowns and economic stagnation.

China, too big to ignore

From the height of the pandemic through to the current early stage of recovery, our conviction in the growing structural advantages of emerging markets, led by key Asian economies, has only strengthened as the evidence has accumulated. Exemplifying this post-COVID-19, China is now on track to become the world's largest economy before the end of the decade. We believe this trend (which the COVID-19-led divide in performance over the last year reinforced) will continue to have positive allocations to emerging markets, led by China, for years to come.

It is striking that while China was the only major economy to show reasonable growth during 2020, and with an ongoing strong recovery, policymakers have set a more cautious growth target for 2021 of 6% against International Monetary Fund forecasts of 8%.[3]
In addition, for the first time, no longer-term average growth target was set by the government. This was paired with greater emphasis on environmental and social reforms and new clean technologies—a "greening" of the economy. These measures signal the government's broader push to a more sustainable and higher quality of growth for the long term.

We believe we've passed the nadir in China–US relations, though tensions will remain elevated. After years of aggressive trade policy, the US trade deficit continues to reach all-time highs. Rather than a futile focus on trade, we believe the United States would benefit more from domestic reforms, infrastructure investment and advancing digitalization in its economy.

The adaptability of emerging markets

The concept of a world-leading EM company has evolved from an aspiration to a reality over the last decade—a trend reinforced during the pandemic. Taiwan, South Korea, China and India offer examples of innovative, adaptable companies capitalizing on secular tailwinds.

Taiwanese and South Korean semiconductor firms dominate the global industry with their strong manufacturing capabilities, especially in cutting-edge semiconductor chips. Moreover, their clout has generated the cash for them to ramp up investments and widen their competitive advantages amid booming demand for chips from high-performance computing, bitcoin, auto and other businesses. By comparison, Western semiconductor firms have struggled to keep up, whether in innovation or capital expenditure.

South Korean companies have also spearheaded the development of electric vehicle batteries, which have achieved greater penetration worldwide on the back of policy support and technology advancements. In China, biotechnology firms are developing innovative treatments for cancer and other major diseases and have won the confidence of global pharmaceutical groups in licensing these new drugs. India's internet space, which has been under-represented in stock markets, also offers huge potential, in our view.

Alternatives help diversify

In this low interest-rate environment, alternatives such as hedge funds and commercial real estate offer opportunities to include investments that act differently than equity and fixed income. They may also perform well in an inflationary or rising rate environment.

Hedged strategies less sensitive to interest rates

Brooks Ritchey

Co-Head of Investment Research and Management

K2 Advisors

Hedged strategies typically have performed well in both rising and falling interest-rate environments. In particular, these strategies help to diversify one's portfolio in a rising rate environment given the resultant increase in performance dispersion across regions, sectors and asset classes. Hedge funds have the opportunity to go long the potential beneficiaries of higher financing costs and short those areas hurt by them. We believe these strategies are particularly interesting now as a fixed income diversifier given the potential for renewed economic growth and an uptick in inflation.

While hedged strategies are designed to generate low volatility returns over the medium and long term, they also help to limit losses during various market shocks. For example, during the first-quarter 2020 COVID-19-related equity declines, the low equity sensitivity characteristics of a multi-strategy hedge fund portfolio helped a balanced portfolio of stocks and bonds to preserve capital.

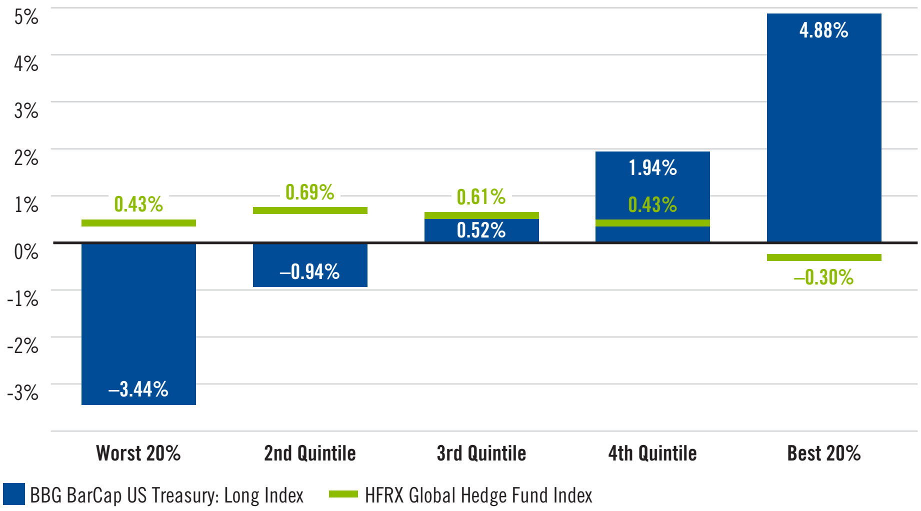
With the availability of vaccines and improvements in the treatment of the virus, global economies are gearing to reopen. Many economists (and strategists) are discussing how a reopening may impact the equity and bond markets going forward. A large risk is the potential for a resurgence in consumer and industrial demand to push global inflation trends higher, and subsequent central bank responses. Any growth spurt and move higher in inflationary pressures should cause global interest rates to rise and bond prices to consolidate lower.

For now, this recovery scenario seems most likely. That said, if the virus was to mutate and the case count was to reaccelerate, markets may lower their concerns regarding growth-led inflation and the risk of higher interest rates.

HISTORICALLY, HEDGE FUNDS HAVE BEEN A COMPLEMENTARY PERFORMANCE DIVERSIFIER TO BONDS

Exhibit 2: Average monthly performance of hedge funds during different BarCap US Treasury Long Bond Index performance quintiles

January 1, 1998–February 28, 2021



Source: Bloomberg. Indexes are unmanaged, and one cannot invest directly in an index. They do not include fees, expenses or sales charges. **Past performance is not an indicator or guarantee of future performance.** Diversification does not guarantee profit nor protect against the risk of loss.

Commercial real estate may be an inflation hedge

Tim Wang, Ph.D.

Head of Investment Research

Clarion Partners

Real estate values held up better than expected during the pandemic, thanks to massive government intervention, better overall real estate fundamentals, and several outperforming sectors such as industrial, life sciences and rental housing. Looking forward in the

> "Looking forward in the United States, we are quite optimistic about real estate's growth prospects in 2021–2022 because of the fast vaccination rollout, additional fiscal stimulus and robust consumer demand. Real estate is a derivative of economic expansion, and all property sectors are likely to benefit from the pent-up demand and coming jobs boom."
>
> **Tim Wang**

United States, we are quite optimistic about real estate's growth prospects in 2021–2022 because of the fast vaccination rollout, additional fiscal stimulus and robust consumer demand. Real estate is a derivative of economic expansion, and all property sectors are likely to benefit from the pent-up demand and coming jobs boom.

The risks to our outlook include possible new coronavirus variants and potential moderate inflation over the medium term. Inflation expectations have risen lately, and 10-year Treasury yields surpassed 1.6% in recent weeks, leading to financial market volatility.

Given a reflationary environment, income with growth should be an important part of portfolio allocation strategy. Historically, real estate as an asset class has shown to be able to hedge, at least partially, against inflation and rising interest rates largely because landlords generally can raise rents under improved economic conditions. Higher interest rates often link to better economic growth, which should lead to stronger demand for commercial space and higher income growth, offsetting the potential negative impact on financing costs.

All investing will eventually be ESG investing

Environmental, social and governance (ESG) factors are becoming increasingly important to investors, and the COVID-19 pandemic has been shining an even greater spotlight on them across the globe. While Europe is ahead of the United States in this area, new infrastructure and green energy initiatives are likely to accelerate the environmental component in the United States. We think all three aspects are critical, and that ESG is important to consider from both investment returns and risk perspectives.

In ESG investing, active experience matters

Mary Jane McQuillen
Portfolio Manager
ClearBridge Investments

ClearBridge has long believed that all investing will eventually be ESG investing, that one day it will no longer be considered a separate discipline. Our experience has shown that integrating material and relevant ESG factors into fundamental research and investment decision-making has consistently added value to our investment process and supports our views as long-term shareowners.

Not surprisingly, as a result of the exponential growth of new investment strategies focused on ESG, there is corresponding growth in the risk of confusion and dilution of process. For many investment managers, the bulk of ESG analysis is outsourced—although no active manager would think of outsourcing the bulk of investment research. There is often a disconnect between ESG integration claims and practice.

For those struggling to make sense of ESG investment offerings, we recommend looking at the experience of the portfolio managers in managing assets with ESG factors, the history of the firm's ESG investing, the ESG infrastructure, the investment process and track records over multiple business cycles.

Stocks with strong sustainability profiles generally performed well in 2020 due to a variety of trends. We consider some of these to be secular trends that should support sustainability-focused investments for the longer term, such as helping fight climate change by lowering carbon emissions or overcoming resource scarcity through use of recycled materials. Another advancing trend—catalyzed by necessity due to COVID-19—was the effort of the health care industry to use its capabilities and financial resources to improve the welfare of society. The swiftness of development and the efficacy of the two initial COVID-19 vaccines reflect how biopharmaceutical companies' drive to innovate treatments and cures has made meaningful advances possible not only for rare and genetic diseases, but also for infectious diseases and potentially cancer.

The sustainability winners over the next market cycle could include: discretionary names improving the sustainability of food sourcing and packaging; financials, which are prioritizing diversity and inclusion; and, industrials companies enabling energy efficiency and electric vehicles.

Looking ahead, we are positive on the long-term return potential for ESG portfolios. There are numerous studies

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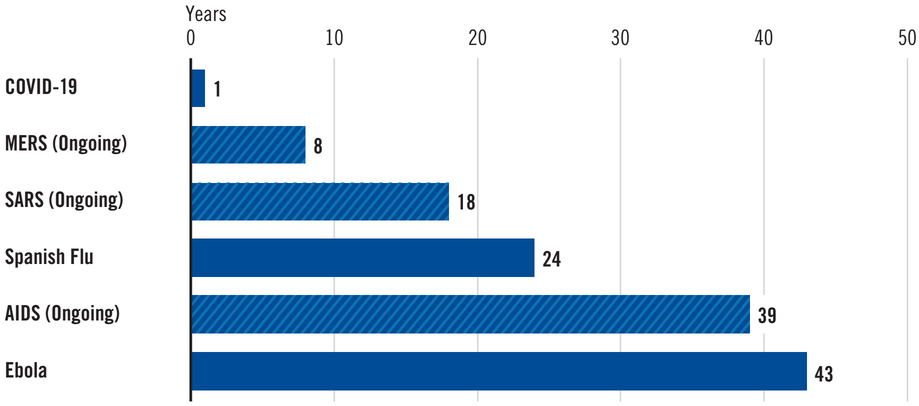
>
> **Mary Jane McQuillen**

documenting the long-term performance benefits of investing consistent with ESG principles. Depending on your time frame, there will be fluctuations in the market that may affect ESG-focused portfolios with less exposure to fossil fuels, for example, as oil prices change. We maintain a long-term view of market opportunities and returns but are watching how higher interest rates will play out across economic sectors and how variants of COVID-19 may delay full reopening in some parts of the globe.

COVID-19 VACCINE DEVELOPMENT IS A REMARKABLE ACHIEVEMENT

Exhibit 3: Years to vaccine for major pandemics and epidemics



Source: ClearBridge Investments. (Ebola: 1976–2019; AIDS: 1981–present; Spanish flu: 1918–1942; SARS: 2002–present; MERS: 2012–present).

Endnotes

1. Source: JP Morgan.
2. Source: AGC Partners, March 2021.
3. Source: IMF World Economic Outlook, January 2021. There is no assurance any estimate, forecast or projection will be realized.

About Global Investment Outlook

Global Investment Outlook allows the Franklin Templeton Investment Institute strategists to highlight manager's views on markets across the firm. The mission of the Investment Institute is to deliver research-driven insights, expert views and industry-leading events for clients and investors globally through the diverse expertise of our autonomous investment groups, select academic partners and our unique global footprint.

Two related Franklin Templeton Thinks publications of note are Allocation Views, produced by Franklin Templeton Investment Solutions, which offers you our best thinking on multi-asset portfolio construction; and, Macro Perspectives, produced by the Investment Institute, featuring economist from across the firm dissecting key macroeconomic themes driving markets.

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Franklin Templeton Fixed Income

Tim Wang, Ph.D.
Head of Investment Research
Clarion Partners

Western Asset Management

Notes

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. The value of investments can go down as well as up, and investors may not get back the full amount invested. 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. China may be subject to considerable degrees of economic, political and social instability. Investments in securities of Chinese issuers involve risks that are specific to China, including certain legal, regulatory, political and economic risks. 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. 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. Investments in fast-growing industries like the technology sector (which historically has been volatile) 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 of companies emphasizing scientific or technological advancement or regulatory approval for new drugs and medical instruments. Biotechnology companies often are small and/or relatively new. Smaller companies can be particularly sensitive to changes in economic conditions and have less certain growth prospects than larger, more established companies and can be volatile, especially over the short term. Impact investing and/or Environmental, Social and Governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values-based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating. Investment in the commercial real estate sector, including in multifamily, involves special risks, such as declines in the value of real estate and increased susceptibility to adverse economic or regulatory developments affecting the sector. Investments in infrastructure-related securities involve special risks, such as high interest costs, high leverage and increased susceptibility to adverse economic or regulatory developments affecting the sector. Actively managed strategies could experience losses if the investment manager's judgement about markets, interest rates or the attractiveness, relative values, liquidity or potential appreciation of particular investments made for a portfolio, proves to be incorrect. There can be no guarantee that an investment manager's investment techniques or decisions will produce the desired results. Investments in alternative investment strategies and hedge funds (collectively, "alternative investments") are complex and speculative investments, entail significant risk and should not be considered a complete investment program. Financial derivative instruments are often used in alternative investment strategies and involve costs and can create economic leverage in the fund's portfolio which may result in significant volatility and cause the fund to participate in losses (as well as gains) in an amount that significantly exceeds the fund's initial investment. Depending on the product invested in, an investment in alternative Investments may provide for only limited liquidity and is suitable only for persons who can afford to lose the entire amount of their investment. There can be no assurance that the investment strategies employed by K2 or the managers of the investment entities selected by K2 will be successful. The identification of attractive investment opportunities is difficult and involves a significant degree of uncertainty. Returns generated from alternative investments may not adequately compensate investors for the business and financial risks assumed. 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