SEPTEMBER 2021

An uneasy truce

INVESTMENT SOLUTIONS
FRANKLIN TEMPLETON THINKS™

ALLOCATION VIEWS

FRANKLIN TEMPLETON

In this issue

As investors grow accustomed to continued strong global growth, we observe conflicting forces in markets that highlight an uneasy truce. Corporate earnings have exceeded expectations, and we debate whether this good news is discounted already in equity valuations that remain elevated. Inflation risks are elevated, even as we anticipate policymakers to retain a dovish bias overall. In a period where geopolitics has moved back into the headlines, we believe nimble management will be required.

We explore the broader benefits of adding alternative assets to a balanced portfolio of stocks and bonds and continue to see this as the most likely path toward stable potential returns, in our view.

Major themes driving our views

- **Continued strong global growth**
  Peak growth already has been reached, led by fiscal stimulus from the United States. A period of synchronized global growth is anticipated for the remainder of this year, although it may be largely built into investors' expectations. Regional divergences will be accentuated by access to vaccines and the persistence of policy accommodation.

- **High inflation is largely temporary, but risks remain elevated**
  Global inflation has moved up, pulled higher by demand. Growing supply bottlenecks are boosting headline inflation, but this is likely to be largely transitory. In the longer term, secular disinflationary forces, such as technology and globalization, remain strong.

- **Policy is likely to be adjusted, but its objective will not change**
  Central banks remain accommodative and are focused on inclusive recovery. The transition away from crisis measures and tapering asset purchases will proceed, but liquidity keeps flowing. We see fiscal objectives contributing to a stimulative environment and a dovish bias to policy.

Practical positioning

- **Nimble management still required**
  Stocks have superior return potential, and we believe they should earn their equity risk premium over time. Our equity preference remains more modest than in the past, as markets largely reflect strong economic data. We continue to believe that navigating the challenges presented in the months ahead will require nimble management.

- **Real assets could be the alternative**
  The anticipated return from alternative assets remains modest in comparison to stocks, and it is largely for their risk-reducing characteristics that they justify a place in a longer-term portfolio. We remain attracted to naturally diversifying assets such as Treasury Inflation-Protected Securities (TIPS) that can help to provide protection against rising inflation.

- **Continuing to look for alternatives**
  We continue to find few compelling alternatives to equities when it comes to generating an appealing longer-term return. We believe maintaining a diversified portfolio of risk premia is the most likely path toward stable potential returns. This is especially important in the low-return environment that we continue to foresee.

Major themes driving our views

Geopolitics and growth

The past month has seen geopolitics move back into the headlines as the United States and its allies made a final withdrawal from Afghanistan. Reflecting on the often messy resolution of military conflicts over the ages, the concept of an *uneasy truce* comes to mind—one that holds numerous tensions balanced without grievous spillover. We see a similar situation developing in our views across economic growth, inflation and central bank policy.

In our analysis of the global economy, the battle between bulls and bears in our research meetings, which we discussed in Allocation Views last month, might also be described as experiencing an uneasy truce. Growth is clearly still strong, and above longer-term trend rates, even as it likely has passed its peak. The battle lines are drawn, but it remains unresolved whether this really matters to financial markets.

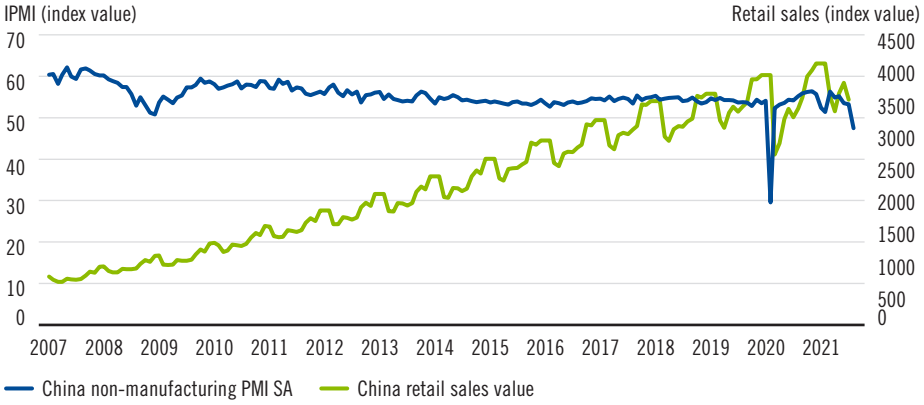
When we analyze the consequences of geopolitical events, as is often the case, it is difficult to make direct or substantive inferences. We all feel drawn to discuss the unfolding events and prone to speculate on how they might impact broader relationships. Will Russia or China be emboldened to test the United States' resolve to support allies in the Asia Pacific region or in Eastern Europe? The direct economic or market impact is often hard to quantify. However, if the political standing of US President Joe Biden has been weakened, and his administration is less able to push through its agenda and spending plans, then the impact on the economy could be larger. At this stage, we don't know, but the uncertainty must have increased somewhat.

Similarly, the continuing progress of our battle against COVID-19, and its growing list of variants of both interest and concern, might also be described as a kind of uneasy truce. The virus continues to infect many more people than we had hoped would be the case earlier in the year, but it is causing serious symptoms in a lot fewer of those who have been vaccinated. The Delta variant remains a real concern, even as the rollout of vaccines proceeds, but it is leading to more nuanced economic impacts. Where vaccination is already well advanced, and reopening established, it appears more of a nuisance than a threat. However, in countries such as China and Australia that are pursuing zero-tolerance policies, the prospect of renewed lock-downs remains ongoing, the hit to confidence is larger and a potential drag on growth in these economies is greater (see Exhibit 1). Indeed, both of these countries remain among our least favored major economies.

The pace of vaccine rollout remains slower in emerging market economies (see Exhibit 2) and the developing

CHINA CONTINUES TO SEE GROWTH DECELERATION

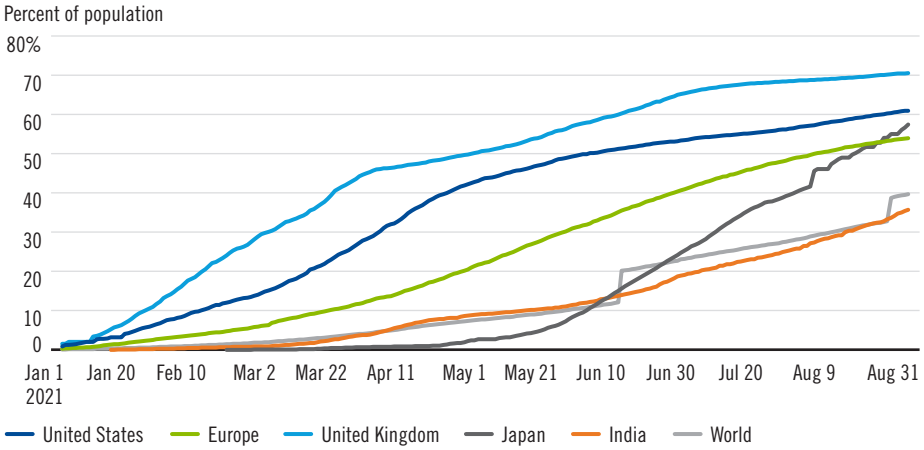
Exhibit 1: China retail sales value and non-manufacturing Purchasing Managers' Index (PMI)
As of August 31, 2021



Sources: Bloomberg, Macrobond. Important data provider notices and terms at www.franklintempletonresources.com

GROWTH EXPECTATIONS ACCELERATE AS COVID-19 VACCINATIONS RAMP UP

Exhibit 2: Percent of population that have received one dose of COVID-19 vaccine
As of August 31, 2021



Sources: Our World in Data, Macrobond.

world more broadly, posing an ongoing challenge for the global community and a headwind for investment in these areas. We describe our fight against the virus as an uneasy truce in the sense that the final battle has not yet been won, and the conflict could flare up significantly with a new more troubling variant. This keeps the pressure on world leaders to support a more equitable rollout of vaccines, or risk perpetuating the crisis. But for now, COVID-19 is not the all-consuming focus of attention in our analysis that it was earlier in the pandemic.

Globally, we anticipate continued strong growth, supported by ongoing government spending and longer-term fiscal policies that aim to drive capital investment in green technologies. We see consumers that still appear to have pent-up demand for many of the services, such as travel and leisure activities, that were not available during pandemic lockdowns. But we remain uncertain about the transition to slower growth from high levels of activity in the goods producing side of the economy and the pace at which jobs can be created in the services sector. The uncertainty over the Delta variant adds to this more cautious stance. However, this does not weaken our confidence in an ongoing expansion that is broad and globally synchronized and is reflected in our leading theme that sees **"Continued Strong Global Growth."**

Possibility that things go wrong—most notably for inflation

During the last few years, we have viewed changes in the level of demand as the main driver of inflation. As a result, we were not surprised that the faster-than-anticipated rebound in activity earlier this year, helped lift prices higher. This has been compounded by supply chain disruptions, as well as notable base effects, where comparison is made against depressed prices in the depths of the pandemic lockdown last year. As a result, headline inflation in many economies has moved sharply higher, exceeding market expectations and our own.

Although we are likely now close to the peak of this move, it remains an area where the battle between inflation optimists and pessimists is also a form of uneasy truce. Only the passage of time will confirm if supply bottlenecks continue to boost prices for a little bit longer, or a lot longer. Although we have a degree of confidence that these effects are most likely transitory, in our view, it is the area where our economic outlook is most uncertain. We will be monitoring developments closely! Similarly, it remains premature to call an end to globalized production as the profit motive remains strong, in our opinion. These are features of the global economy and will be felt broadly, including in emerging markets.

For most of this year, we have described the inflation outlook as "unlikely to become problematic." We acknowledged that inflation was rising, but that we were reasonably relaxed that it would not cause policymakers to panic and change course on monetary policy precipitously. This has proven to be the case thus far, as broad measures of inflation expectations remain at levels consistent with the main global central banks' longer-term policy goals. We continue to hold that view, even as the healing of the economy makes it likely that emergency policy tools will be put aside (as we have discussed in previous issues of Allocation Views) and an eventual tightening of policy moves closer, as we discuss below.

When we look at the interplay between elevated prices and consumer confidence, we are seeing signs of the normal supply/demand response kicking in. Shortages that lead to higher prices, for a time, impact consumer decisions and dampen future demand. In an environment where wage gains don't overcompensate for higher prices, we anticipate that inflation will ease and return toward longer-term expectations. This is the central assumption behind our reformatted theme that shows **"High Inflation Is Largely Temporary, but Risks Remain Elevated"** to reflect the ongoing uncertainty in our most important theme at this time.

Policy continues to be refined

One of the more surprising market developments in the last few months has been the persistent decline in real yields—the level of government bond yields after anticipated inflation has been stripped out. In part, this fall in real yields is simply a reflection of demand for assets that protect against future inflation. This move has been seen across a broad range of developed markets.

Part of the change in direction for yields, following the reflation trade earlier in the year, is likely due to the developments in China that we highlighted above. In response to the moderating pace of growth, perhaps compounded by an earlier purposeful slowing in the growth of credit by the Peoples Bank of China (PBoC) in an attempt to rein in certain parts of the market, we have seen a sharp reversal of policy. The PBoC lowered commercial bank reserve requirements, which injected liquidity into the banking system and may have contributed to the drop in bond yields in China and elsewhere. We anticipate that further policy easing may occur, and in part offset tighter regulations that we have recently seen on internet platform companies, among others. This is a good example of the dynamic policy environment that we expected to see this year, though it does run

counter to the tightening we might have anticipated as global economic reopening progressed.

Another part of the explanation for real yields moving lower might relate to central banks' recently adopted policy frameworks and inflation targeting regimes. The European Central Bank (ECB) and the US Federal Reserve (Fed) have continued to develop narratives around their new policy frameworks. The Fed appears to be moving closer to beginning to taper its asset purchase program, despite emphasizing an intent to be more tolerant of somewhat higher inflation in the near term. On the face of it, these new frameworks make the central banks less likely to undermine the recovery by tightening monetary policy before the benefits of stronger growth have been accrued. The bond market is expressing some doubt over how long they can maintain this patient approach, even as central bankers remain watchful for signs of more persistent inflation pressures or a move higher in medium-term expectations.

Despite these evolving policy regimes and persistent inflation uncertainty, our final theme remains intact. As policymakers see the recovery become fully established, they will adjust the parameters of their stimulus programs. Governments will phase out job support measures when the need passes, as economies reopen and employment increases. Central banks will taper their quantitative easing programs and slow the pace of bond purchases. It would risk a policy error on the part of at least some central banks if they did not do so, but they will retain an accommodative monetary policy stance overall. On balance, we remain optimistic that ample stimulus will continue to be provided and that a dovish bias to policy persists, even as our final theme notes that **"Policy Is Likely to be Adjusted, but its Objective Will Not Change."**

Practical positioning

Nimble management still required

Our economic analysis continues to anticipate strong global activity, even as we pass through the peak period for the expansion and transition to slower growth. The probability of a recession over the foreseeable horizon is about as low as it typically gets. Corporate earnings in the most recent reporting season exceeded lofty market expectations for an unprecedentedly large portion of the universe of companies. But at the center of our more polarized investment debate is a discussion of whether this good news is discounted already. An uneasy truce is reflected in the fact that equity valuations remain elevated.

GLOBAL EQUITY VALUATIONS ARE NOT CHEAP, BUT ARE ATTRACTIVE, IN OUR OPINION, RELATIVE TO BONDS IN THE LONGER TERM

Exhibit 3: Global equity risk premium
As of August 31, 2021

Sources: Absolute Strategy Research, Macrobond. Important data provider notices and terms at www.franklintempletonresources.com

Looking further ahead, we see stronger medium-term return potential for stocks than bonds and believe that they should continue to earn their equity risk premium over time (see Exhibit 3). While we favor risk assets generally and maintain a notable asset allocation tilt toward stocks over bonds, our equity preference remains more modest than in the recent past. This reflects the observation that markets may already largely reflect the strong economic data but do not yet fully discount the risk that policy is being normalized.

One of the key considerations we face in managing multi-asset portfolios is the extent to which we focus on our preferred assets, such as stocks, today. We always believe it is important to maintain some balance. Maintaining a diversified portfolio of risk premia is

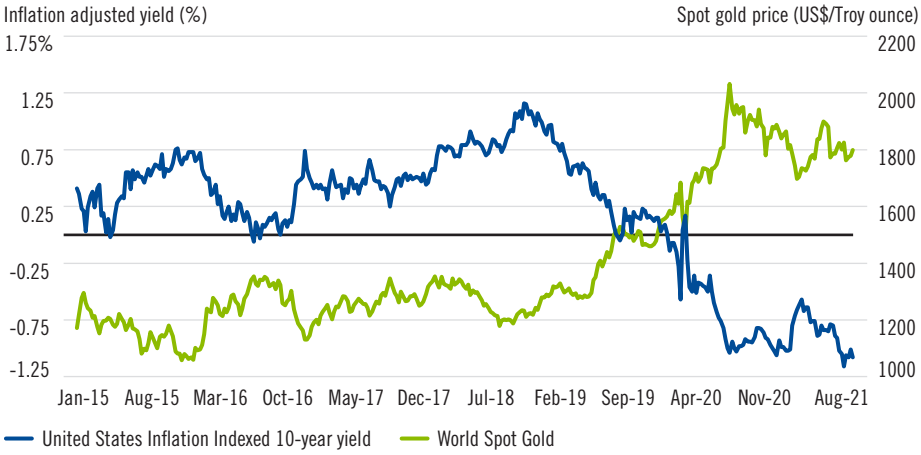
the most likely path toward stable potential returns, in our view. This is especially important in a low-return-potential environment that our long-term expectations continue to indicate is the most likely path in the years ahead. We also believe active management of this asset mix can enhance potential return and manage the level of total portfolio risk that is taken. We recognize that our longer-term outlook may not be reached along a smooth path and that nimble management is still required.

It is these basic elements of our multi-asset approach that necessitate our search for alternatives to the long-term attractions of stocks.

GOLD PRICES REMAIN ELEVATED AS REAL YIELDS FALL IN THE UNITED STATES

Exhibit 4: Spot gold price against 10-year US TIPS yield

As of August 31, 2021



Sources: London Bullion Market Association, Macrobond. Important data provider notices and terms at www.franklintempletonresources.com

Real assets could be the alternative

Oil prices and other industrial commodities have rebounded strongly, reflecting a better balance between supply and demand. The sharp global recovery has created a more supportive environment for broad commodities. While we see the possibility of a continued move higher in prices and reflect this in a modestly higher conviction in commodities, we do not anticipate especially high returns. However, as we look for alternatives to both stocks and bonds, exposures to assets that offer natural diversification and protection against unanticipated further gains in inflation are at the top of our wish list.

Specific commodities may offer alternative diversification benefits. Precious metals such as gold may not follow the same trend as industrial metals or broad commodities. At times of financial market or geopolitical stress, they can offer perceived safe-haven benefits and are viewed as a hedge against the debasement of fiat currencies. Our analysis of the drivers of precious metals shows that they would tend to fare better if the US dollar were to depreciate. Also, as an asset that generates no income, they compete better in a falling interest-rate environment. The past year has seen conflicting signals across these factors with mixed consequences for the price of gold. However, with a return to extremely negative territory for the real yield available from Treasury Inflation-Protected Securities (TIPS), this could be seen as a supportive driver (see Exhibit 4). We continue to find the specific attractions of gold contributing to our modestly constructive view of commodities more broadly.

Energy has been one of the most important factors driving consumer prices over the last 50 years. Despite its relatively modest weight in the overall Consumer Price Index (CPI), oil has accounted for a large part of the volatility in headline CPI inflation. The fact that energy is considerably more volatile than most other components of CPI is not new or surprising. Indeed, this is why central bankers and market watchers tend to look at underlying "core" inflation.

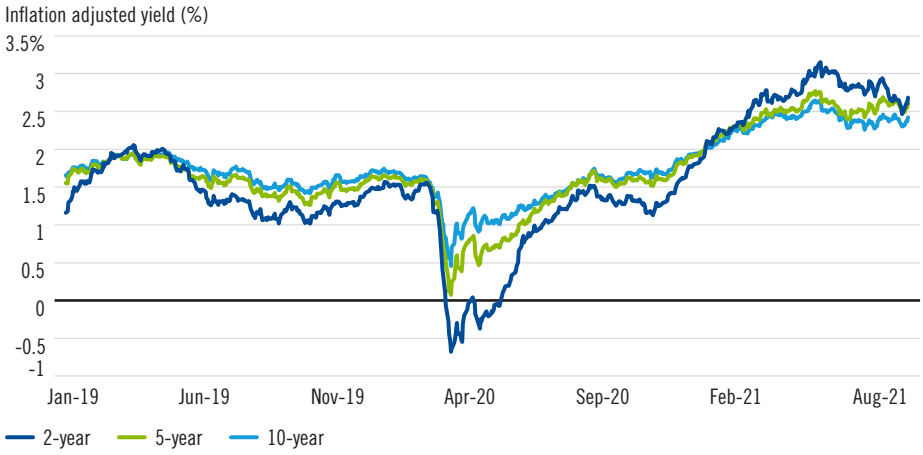
We have an interest in core inflation from a macroeconomic perspective, but it is headline inflation that has a direct impact on the return from certain real assets. Inflation-linked bonds' capital value and income stream rise in direct proportion to the increase in the headline CPI (or other price index that certain countries' bonds follow), delivering explicit inflation protection. Today, oil prices continue to support the headline rate of inflation but are only a part of the reflation narrative that we have discussed in Allocation Views this year. The longer-term impact is dependent on business investment and productivity, demographics and government borrowing, and changes to consumer behavior. For now, longer-term inflation expectations remain relatively subdued.

However, market-based expectations for inflation, derived from the yields of nominal and real return bonds, have continued to swing sharply this year. So-called breakeven inflation rates, where the prospective returns on nominal and real-return bonds are equal, rose sharply in the early months of the year, though they have moderated significantly more recently. However, we believe that these moves in part reflect the risk premium for future inflation uncertainty, along with the relative liquidity premium that ebbs and flows with market sentiment.

INFLATION EXPECTATIONS HAVE ACCELERATED, BUT EXPECTED TO MODERATE

Exhibit 5: United States: Breakeven inflation rates

As of August 31, 2021



Sources: US Federal Reserve, Macrobond. Important data provider notices and terms at www.franklintempletonresources.com

The level of anticipated inflation remains somewhat elevated over the next few years but drops off when we look out five years and beyond (see Exhibit 5). This is broadly consistent with the Fed achieving its average inflation targeting objective. Equally, when we look at similar expected inflation measures in Europe and Japan, we see a more muted picture still. Markets are not yet discounting a period of sustained global inflation that is in danger of becoming problematic.

Some further modest increase in this market-based measure of long-term inflation rates may occur, but to see it move appreciably higher would require consumer expectations to become less well anchored. Such an event—where broad measures of inflation expectations exceed the average levels now being targeted by the Fed—would likely be a catalyst for a regime change in monetary policy. The world's leading central banks are not anticipating such an event in the foreseeable future, and we assign it a low probability. But it would likely result in weaker stock markets and much higher bond yields.

We believe inflation expectations are now relatively fully valued. However, we remain attracted to naturally diversifying assets such as TIPS that can help to provide protection against rising inflation. In our base case, they are perhaps modestly cheap. However, it is the combination of equity, bond and inflation "shocks" that could provide the environment where holding TIPS might notably enhance return potential and lower portfolio volatility.

Other alternative assets might show uncorrelated return potential as well. Real estate is widely viewed as providing some protection against a general rise in inflation. However, the coronavirus recession impacted demand for offices and retail space, and the return to normal working arrangements has been slowed by the Delta variant. Despite this, the strength of global growth that we are now experiencing has materially reduced the risks for this asset class. The benefits that real estate affords through inflation protection are balanced by the risk of a significant rise in bond yields. This could put pressure on property valuations through the currently relatively subdued yield. While directly held property might weather this storm, we maintain a neutral stance on this asset class, in large part due to the structural headwinds for offices and shops because of shifting trends in how modern society behaves.

Is cash an alternative?

We continue to find few compelling alternatives to equities when it comes to generating an appealing longer-term return. Bonds of various flavors might enhance portfolio-level risk-adjusted return to an extent but are not sufficiently compelling to drive us toward a higher conviction allocation at this time.

In the near term, we continue to be attracted to the defensive features of cash holdings, despite their drag on portfolio yield. Short-dated US Treasury bill yields, and cash instruments globally in the developed world, reflect depressed policy rates and the continued high levels of liquidity. Cash does, however, have attractions as a means of diversification from low-yielding government bonds and as a complement to the attraction of higher-risk assets such as equities.

Allocation settings—September 2021

Pendulum settings reflect cross-asset class views

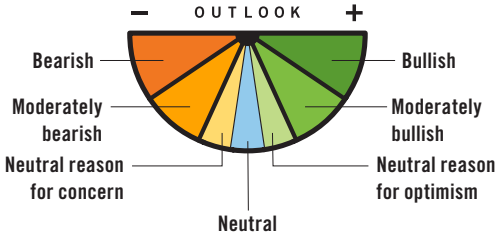
RISK TIER

Asset class	Conviction	Our viewpoint
Risk off/on		Continued strong global growth remains in place, but the peak has likely already been reached. Even as the impact from COVID-19 continues to be felt, our expectation is for fiscal stimulus to continue to support economic activity, potentially prompting a period of synchronized global expansion. This should outweigh residual concerns over inflationary pressures and regional divergences in the near-term recovery. Focusing on the medium-term growth outlook, we maintain a more optimistic stance toward riskier assets.

HIGH LEVEL ALLOCATION TIER

Equities		In broad terms, global equities require sustained earnings growth to offset an anticipated normalization of valuations. COVID-19 vaccine rollouts are leading to strong economic activity globally, though this may be largely built into investors' expectations. The Delta variant remains a cause for concern, but longer-term prospects remain supportive. We retain a moderately bullish stance toward global equities over bonds.
Bonds		Ongoing global expansion and long-term valuations that remain expensive contrast with continued easy monetary policy. Corporate bond spreads remain compressed but reflect a presumption of central bank support for this market, if needed. As the economic backdrop looks somewhat clearer in the medium term, we retain a moderately bearish view of bonds at the asset allocation level, reflecting valuation concerns.
Alternatives		We believe inflation expectations may continue to rise from still-moderate levels, even as currently high inflation is unlikely to persist longer term. We see attractions in naturally diversifying assets such as TIPS. We maintain a neutral view overall, reflecting the balance between cyclical reasons for optimism and alternative risk premia investments we continue to view less favorably.
Cash		The defensive features of cash broadly balance its drag on portfolio yield. Short-term US Treasury bill yields reflect depressed policy rates and the continued high levels of liquidity. Cash has attractions as a means of diversification from low-yielding government bonds and as a complement to the attraction of higher-risk asset markets.

Understanding the pendulum graphic



Arrows represent any change since the last quarter end.

ALLOCATION TIER

Asset class	Conviction	Our viewpoint
Equity regions Pendulum settings relative to equity asset class broadly		
United States		US growth has led that of other developed markets, fueled by fiscal stimulus. The prospects for this market are more balanced as reliance on a substantial technology exposure to sustain the market opportunity has faded. The stock market's attention will likely focus on the strength of the consumer, elevated valuations and the extent to which ongoing fiscal stimulus programs are balanced by corporate tax hikes. We hold a moderately constructive view of this market.
Canada		Growth in Canada is set to benefit from faster vaccine rollout and economic proximity to the United States. Eventual interest-rate increases may support Canadian banks. Similar valuation attractions in energy producers provide support to the market despite environmental, social and governance (ESG) concerns. Valuation attractions have led us to maintain a modestly more constructive view of this market.
Europe ex UK		Europe is rebounding, with COVID-19 lockdowns lifted and vaccination efforts reaping benefits. The ECB continues to support bank lending, and exposure to the financials sector is no longer a drag on the equity market. We tempered our cautious view, as lower return on equity is expected to converge on global peers, and we maintain a broadly neutral view of this region.
United Kingdom		UK economic prospects remain uncertain as a foggy post-Brexit trade adjustment plays against first-mover vaccination advantage. The market appears historically cheap and may benefit from ongoing economic recovery. On balance, we retain a neutral view on this market, reflecting some caution over the persistent uncertainties.
Japan		Japan appears well placed to benefit from a cyclical economic rebound despite ongoing COVID-19 and related political concerns. Although earnings per share have been weakening relative to peers, equity valuations, particularly on a price-to-book-value basis, remain attractive relative to other markets, in our view. We maintain a more constructive view on this market.
Pacific ex Japan		With banks and related financial companies representing heavier weights in the region, concerns about bank dividends persist. The region remains vulnerable due to tensions in relations with China more broadly, and especially for Australia at this time. Despite valuations we regard as supportive, we retain a more cautious stance on these markets.
Emerging ex China		Stronger long-term growth is being offset by emerging markets' idiosyncratic risks and continued vulnerabilities to the Delta variant of COVID-19. Local inflation pressures may see central banks continue to increase interest rates. We believe prospects for currency appreciation and the longer-term structural attractions of emerging markets are insufficient to offset these other factors, and we hold a notably less constructive view of these markets.
China		China's economy recovered more quickly from the impact of COVID-19, but differentials against the rest of the world peaked in the first quarter, prompting a pivot toward easier monetary policy. Trade disputes remain unresolved in the longer term and are a symptom of broader tensions as heightened geopolitical tensions persist. Regulatory risks have grown to dominate market sentiment, and we maintain a more definitively cautious view of this market.
Fixed income sectors Pendulum settings relative to fixed income asset class broadly		
US Treasuries		Uncertainty about the Fed's flexible inflation targeting regime has prompted a period of greater volatility in US Treasuries. Despite strong US growth and elevated current inflation, the Fed is still likely to hold interest rates close to zero for an extended period, even as it moves to taper its ongoing asset purchases. Fiscal stimulus will likely maintain upward pressure on yields. Still modest valuations see us hold a modestly cautious view.
Eurozone Government Bonds		Valuations appear full in the eurozone, where real yields remain the lowest among government bonds, reflecting structural factors. The ECB is expected to maintain stimulative policies, and the Next Generation EU recovery fund remains a support for peripheral markets. We moved to a more neutral stance on this region as growth convergence saw yields lag US equivalents, and we have maintained this posture.

ALLOCATION TIER

Asset class	Conviction	Our viewpoint
Fixed income sectors *continued* UK Government Bonds		Economic rebound on reopening and vaccine leadership is fading, and Gilts have rallied with global yields more recently. Inflation risks persist and have moved the Bank of England to moderate its asset purchase program, and toward tightening, but rate hikes remain some way off. We held a more neutral stance in recent months following a period of relative weakness but have returned to a somewhat more cautious stance in line with other developed markets.
Canada Government Bonds		Canada has moved into a period of vaccine leadership, and expectations for rate hikes from the Bank of Canada have moved ahead of those for the Fed. Canadian bond yields may fully match those in the United States and risk a period of catch-up. We remain somewhat cautious overall, in line with other developed markets.
Japan Government Bonds		The Bank of Japan has refined its monetary policy stance, which targets low 10-year government bond yields, but policy remains supportive. We believe low sensitivity to global yields is likely to continue, making this market somewhat more attractive in the case of a stronger global economic recovery. We maintain a relatively more constructive view, but an overall neutral position.
Investment Grade		The investment-grade sector has benefited from the presumption of policy support, if needed. Ample corporate liquidity and fiscal-fueled growth make high debt levels more sustainable. Investor confidence has led to elevated valuations that do not offer significant protection against rising Treasury yields, or the prospect of higher corporate taxes, in our analysis. As such, we retain a more defensive stance.
High Yield		Strong growth supports the fundamental attractions of lower-rated fixed income sectors such as high-yield bonds and loans. Ample liquidity has led to elevated valuations, even as credit quality has deteriorated for some of the recent new issuance. However, we maintain a somewhat more constructive view on this market.
Emerging Market Debt		Emerging market fundamentals have been improving in recent months as foreign demand offsets relative domestic weakness. We regard emerging market local-currency bond valuations as supportive and more attractive than hard-currency bonds, despite slightly higher yield spreads. We maintain a moderately constructive view on these markets but continue to think selective positioning is important.
Alternative assets Pendulum settings relative to alternatives asset class broadly		
Inflation-Linked Bonds		The level of inflation discounted in inflation-linked securities remains moderate. We believe that these expectations may rise somewhat, even as overall inflation is likely to remain moderate over the medium term. We retain a more constructive view of assets that benefit directly from rising prices, such as inflation-linked bonds.
Commodities		A sharp global economic recovery has created a more supportive environment for broad commodities. We believe fiscal stimulus measures and liquidity support should continue to boost growth and demand. The term structure in commodity futures prices supports return potential, which balances subdued underlying inflation pressures, and leads us to retain a more constructive overall view.
Private Real Estate		Strong economic growth supports demand for real estate, and the gradual normalization of work and activities has materially reduced risk for this asset class. The benefits that real assets afford through inflation protection are balanced by the risk of higher interest rates. We retain a neutral view of this asset class, in large part due to the structural headwinds for offices and shops because of shifting trends in how modern society behaves.
Risk Premia		In an environment of strong growth and ample liquidity, we see muted return prospects across asset classes and in market-neutral or naturally diversifying assets. We hold a somewhat cautious view of risk premia, reflecting concerns over the reversal of established trends and despite valuations becoming more attractive.

Franklin Templeton Thinks: Allocation Views

Our research process monitors a consistent set of objective indicators and screens them to identify signals that help our analysts to make better recommendations. By doing this we aim to filter out the daily noise to reveal the underlying trend.

Our macroeconomic research group aims to challenge the consensus forecasts for growth and inflation by digging deeper into the data. Just as important, we aim not to be swayed unduly by topics that are dominating current market debate.

Editorial review

Ed Perks, CFA
Chief Investment Officer
Franklin Templeton Investment Solutions

Gene Podkaminer, CFA
Head of Research
Chair of Investment Strategy & Research Committee
Franklin Templeton Investment Solutions

Stephanie Chan, CFA
Senior Research Analyst

Michael Dayan, CFA
Lead Portfolio Analyst

Mike Greenberg, CFA, CAIA
Portfolio Manager

Dominik Hoffmann
Research Analyst

Matthias Hoppe
Portfolio Manager

Richard Hsu, CFA
Portfolio Manager, Research Analyst

Michael Kerwin, CFA
Senior Research Analyst

Laurence Linklater
Senior Research Analyst

Hao Li, CFA
Senior Research Analyst

Melissa Mayorga
Senior Research Analyst

Chris Ratkovsky, CFA
Senior Research Analyst

Miles Sampson, CFA
Senior Research Analyst

Chandra Seethamraju, Ph.D.
Head of Quantitative Strategies

Kent Shepherd, CFA, CIC
Senior Client Portfolio Manager

Kim Strand, CFA
Head of Fundamental Research and ESG Integration

Ian Westley
Research Associate

Participation in this committee may change periodically and without notice.

Notes

Notes

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. The positioning of a specific portfolio may differ from the information presented herein due to various factors, including, but not limited to, allocations from the core portfolio and specific investment objectives, guidelines, strategy and restrictions of a portfolio. There is no assurance any forecast, projection or estimate will be realized. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Bond prices generally move in the opposite direction of interest rates. Thus, as the prices of bonds in an investment portfolio adjust to a rise in interest rates, the value of the portfolio may decline. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in emerging markets, of which frontier markets are a subset, 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. Because these frameworks are typically even less developed in frontier markets, as well as various factors including the increased potential for extreme price volatility, illiquidity, trade barriers and exchange controls, the risks associated with emerging markets are magnified in frontier markets. Derivatives, including currency management strategies, involve costs and can create economic leverage in a portfolio which may result in significant volatility and cause the portfolio to participate in losses (as well as enable gains) on an amount that exceeds the portfolio's initial investment. A strategy may not achieve the anticipated benefits, and may realize losses, when a counterparty fails to perform as promised. Currency rates may fluctuate significantly over short periods of time and can reduce returns. Investing in the natural resources sector involves special risks, including increased susceptibility to adverse economic and regulatory developments affecting the sector—prices of such securities can be volatile, particularly over the short term. 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.

IMPORTANT LEGAL INFORMATION

This material is intended to be of general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. It does not constitute legal or tax advice. This material may not be reproduced, distributed or published without prior written permission from Franklin Templeton.

The views expressed are those of the investment manager and the comments, opinions and analyses are rendered as of the publication date and may change without notice. The underlying assumptions and these views are subject to change based on market and other conditions and may differ from other portfolio managers or of the firm as a whole. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market. There is no assurance that any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets will be realized. The value of investments and the income from them can go down as well as up and you may not get back the full amount that you invested. Past performance is not necessarily indicative nor a guarantee of future performance. **All investments involve risks, including possible loss of principal.**

Any research and analysis contained in this material has been procured by Franklin Templeton for its own purposes and may be acted upon in that connection and, as such, is provided to you incidentally. Data from third party sources may have been used in the preparation of this material and Franklin Templeton ("FT") has not independently verified, validated or audited such data. Although information has been obtained from sources that Franklin Templeton believes to be reliable, no guarantee can be given as to its accuracy and such information may be incomplete or condensed and may be subject to change at any time without notice. The mention of any individual securities should neither constitute nor be construed as a recommendation to purchase, hold or sell any securities, and the information provided regarding such individual securities (if any) is not a sufficient basis upon which to make an investment decision. FT accepts no liability whatsoever for any loss arising from use of this information and reliance upon the comments, opinions and analyses in the material is at the sole discretion of the user.

Products, services and information may not be available in all jurisdictions and are offered outside the U.S. by other FT affiliates and/or their distributors as local laws and regulation permits. Please consult your own financial professional or Franklin Templeton institutional contact for further information on availability of products and services in your jurisdiction.

Issued in the U.S. by Franklin Distributors, LLC, One Franklin Parkway, San Mateo, California 94403-1906, (800) DIAL BEN/342-5236, franklintempleton.com - Franklin Distributors, LLC, member FINRA/SIPC, is the principal distributor of Franklin Templeton U.S. registered products, which are not FDIC insured; may lose value; and are not bank guaranteed and are available only in jurisdictions where an offer or solicitation of such products is permitted under applicable laws and regulation.

Australia: Issued by Franklin Templeton Investments Australia Limited (ABN 87 006 972 247) (Australian Financial Services License Holder No. 225328), Level 19, 101 Collins Street, Melbourne, Victoria, 3000. **Austria/Germany:** Issued by Franklin Templeton International Services S.à r.l., Niederlassung Deutschland, Frankfurt, Mainzer Landstr. 16, 60325 Frankfurt/Main. Tel: 08 00/0 73 80 01 (Germany), 08 00/29 59 11 (Austria), Fax: +49(0)69/2 72 23-120, info@franklintempleton.de, info@franklintempleton.at. **Canada:** Issued by Franklin Templeton Investments Corp., 200 King Street West, Suite 1500 Toronto, ON, M5H3T4, Fax: (416) 364-1163, (800) 387-0830, www.franklintempleton.ca. **Netherlands:** Franklin Templeton International Services S.à r.l., Dutch Branch, World Trade Center Amsterdam, H-Toren, 5e verdieping, Zuidplein 36, 1077 XV Amsterdam, Netherlands. Tel: +31 (0) 20 575 2890. **United Arab Emirates:** Issued by Franklin Templeton Investments (ME) Limited, authorized and regulated by the Dubai Financial Services Authority. **Dubai office:** Franklin Templeton, The Gate, East Wing, Level 2, Dubai International Financial Centre, P.O. Box 506613, Dubai, U.A.E. Tel: +9714-4284100 Fax: +9714-4284140. **France:** Issued by Franklin Templeton International Services S.à r.l., French branch, 55 avenue Hoche, 75008 Paris France. **Hong Kong:** Issued by Franklin Templeton Investments (Asia) Limited, 17/F, Chater House, 8 Connaught Road Central, Hong Kong. **Italy:** Issued by Franklin Templeton International Services S.à r.l.—Italian Branch, Corso Italia, 1 – Milan, 20122, Italy. **Japan:** Issued by Franklin Templeton Investments Japan Limited. **Korea:** Issued by Franklin Templeton Investment Trust Management Co., Ltd., 3rd fl., CCMM Building, 12 Youido-Dong, Youngdungpo-Gu, Seoul, Korea 150-968. **Luxembourg/Benelux:** Issued by Franklin Templeton International Services S.à r.l.—Supervised by the Commission de Surveillance du Secteur Financier - 8A, rue Albert Borschette, L-1246 Luxembourg. Tel: +352-46 66 67-1 Fax: +352-46 66 76. **Malaysia:** Issued by Franklin Templeton Asset Management (Malaysia) Sdn. Bhd. & Franklin Templeton GSC Asset Management Sdn. Bhd. This document has not been reviewed by Securities Commission Malaysia. **Poland:** Issued by Templeton Asset Management (Poland) TFI S.A.; Rondo ONZ 1; 00-124. Warsaw. **Romania:** Franklin Templeton International Services S.à r.l. Luxembourg, Bucharest Branch, at 78-80 Buzesti Str, Premium Point, 8th Floor, Bucharest 1, 011017, Romania. Registered with Romania Financial Supervisory Authority under no. PJM07.1AFIASMDLUX0037/10 March 2016 and authorized and regulated in Luxembourg by Commission de Surveillance du Secteur Financier. Tel: + 40 21 200 9600. **Singapore:** Issued by Templeton Asset Management Ltd. Registration No. (UEN) 199205211E and Legg Mason Asset Management Singapore Pte. Limited, Registration Number (UEN) 200007942R. Legg Mason Asset Management Singapore Pte. Limited is an indirect wholly owned subsidiary of Franklin Resources, Inc. 7 Temasek Boulevard, #38-03 Suntec Tower One, 038987, Singapore. **Spain:** Issued by Franklin Templeton International Services S.à r.l.—Spanish Branch, Professional of the Financial Sector under the Supervision of CNMV, José Ortega y Gasset 29, Madrid, Spain. Tel: +34 91 426 3600, Fax: +34 91 577 1857. **South Africa:** Issued by Franklin Templeton Investments SA (PTY) Ltd, which is an authorised Financial Services Provider. Tel: +27 (21) 831 7400 Fax: +27 (21) 831 7422. **Switzerland:** Issued by Franklin Templeton Switzerland Ltd, Stockerstrasse 38, CH-8002 Zurich. **UK:** Issued by Franklin Templeton Investment Management Limited (FTIML), registered office: Cannon Place, 78 Cannon Street, London EC4N 6HL. Tel: +44 (0)20 7073 8500. Authorized and regulated in the United Kingdom by the Financial Conduct Authority. **Nordic regions:** Issued by Franklin Templeton International Services S.à r.l. Swedish Branch, filial, Nybrokajen 5, SE-111 48, Stockholm, Sweden. Tel: +46 (0)8 545 012 30, nordicinfo@franklintempleton.com, authorised in Luxembourg by the Commission de Surveillance du Secteur Financier to conduct certain financial activities in Denmark, Sweden, Norway, Iceland and Finland. Franklin Templeton International Services S.à r.l., Swedish Branch, filial conducts activities under supervision of Finansinspektionen in Sweden. **Offshore Americas:** In the U.S., this publication is made available only to financial intermediaries by Franklin Distributors, LLC, member FINRA/SIPC, 100 Fountain Parkway, St. Petersburg, Florida 33716. Tel: (800) 239-3894 (USA Toll-Free), (877) 389-0076 (Canada Toll-Free), and Fax: (727) 299-8736. Investments are not FDIC insured; may lose value; and are not bank guaranteed. Distribution outside the U.S. may be made by Franklin Templeton International Services, S.à r.l. (FTIS) or other sub-distributors, intermediaries, dealers or professional investors that have been engaged by FTIS to distribute shares of Franklin Templeton funds in certain jurisdictions. This is not an offer to sell or a solicitation of an offer to purchase securities in any jurisdiction where it would be illegal to do so.

Please visit www.franklinresources.com to be directed to your local Franklin Templeton website.

CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.

FRANKLIN TEMPLETON