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TEMPLETON

DISTORTION, DIVERGENCE AND DIVERSIFICATION: Global Economic and Market Outlook

Agenda

- The Impact of Uncertainty
- Macro Outlook – Global Economy Health Check
- Risks to the Outlook
- Market Opportunities

The Impact of Uncertainty

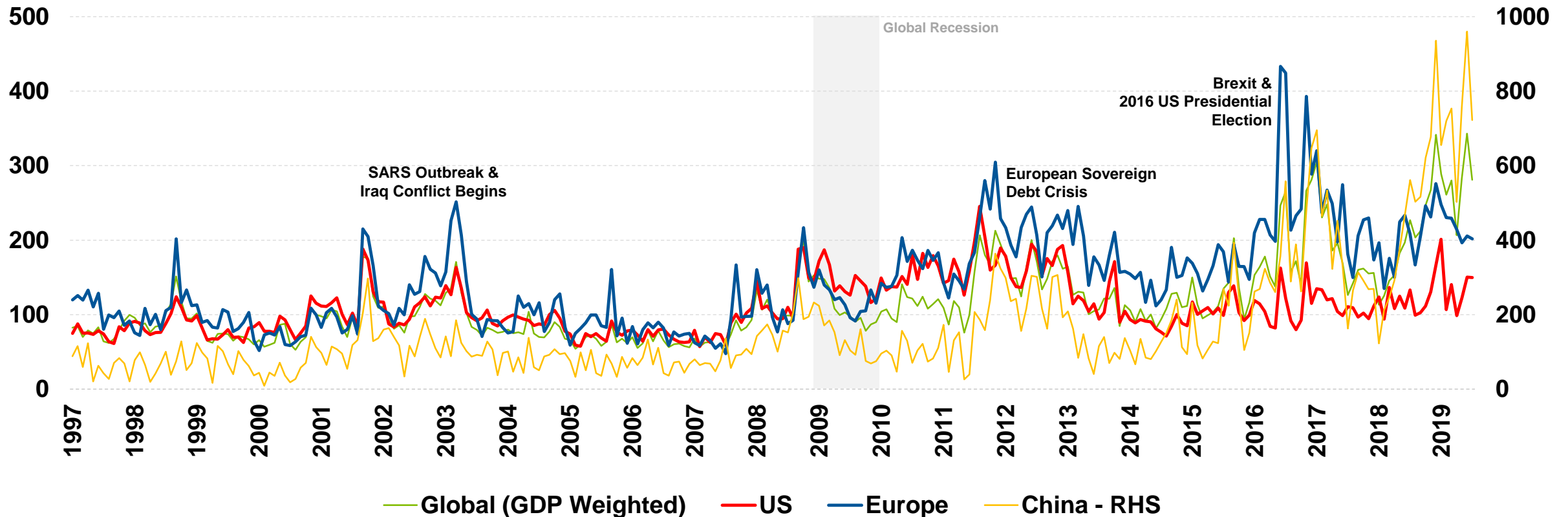


Uncertainty is Rising Worldwide

Economic Policy Uncertainty is Rising Globally, Most Noticeably in Emerging Markets

Economic Policy Uncertainty Index

1Q'1997 – 2Q'2019



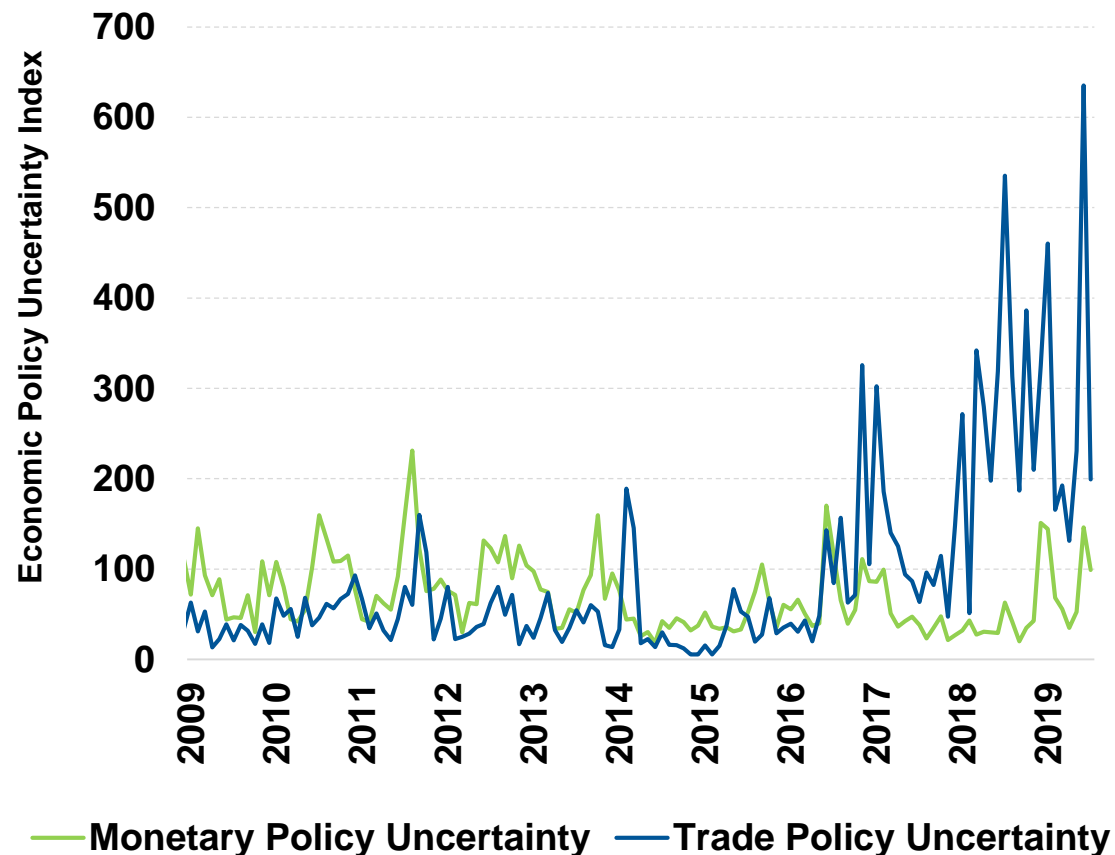
Source: Davis, Steven J., "An Index of Global Economic Policy Uncertainty," *Macroeconomic Review*, October 2016. Data as of July 2019. Global Economic Policy Uncertainty (GEPU) is a GDP-weighted average of national EPU indices from 20 countries: Australia, Brazil, Canada, Chile, China, France, Germany, Greece, India, Ireland, Italy, Japan, Mexico, the Netherlands, Russia, South Korea, Spain, Sweden, the United Kingdom, and the United States. Each national EPU index reflects the relative frequency of own-country newspaper articles that contain a trio of terms pertaining to the economy (E), policy (P) and uncertainty (U). Global recession defined by the International Monetary Fund. Indexes are unmanaged and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future performance.**

Established Ideas are Being Questioned

Economic Uncertainty Leading to Rejection of Trade & Globalization

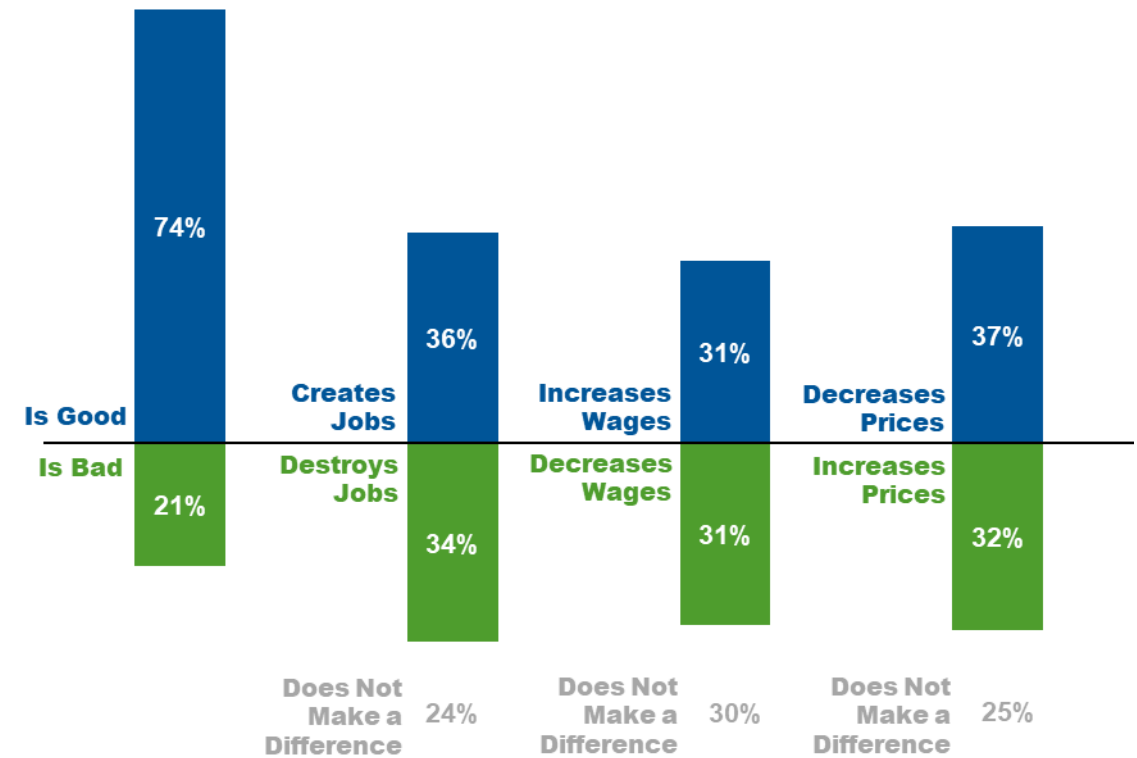
United States Monetary Policy & Trade Policy Uncertainty Index

2009 – 2019



Americans Believe Trade is Good But Doubt Its Benefits

2018 Pew Research Center Global Attitudes Survey

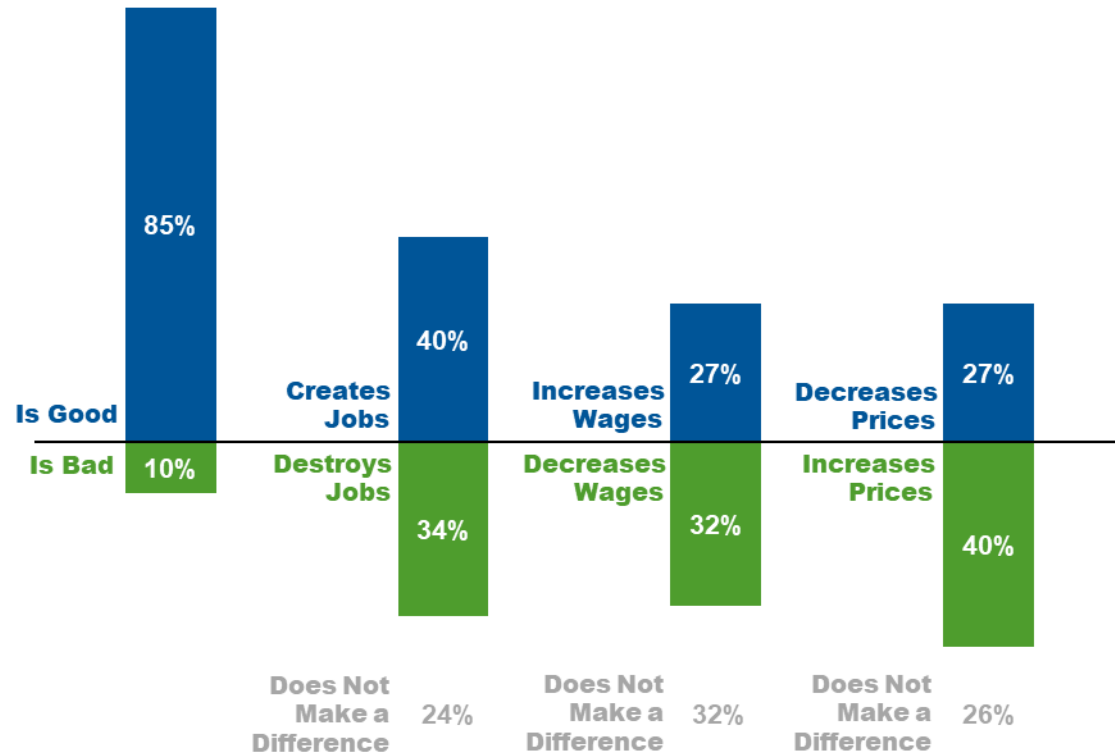


Established Ideas are Being Questioned

Economic Uncertainty Leading to Rejection of Trade & Globalization

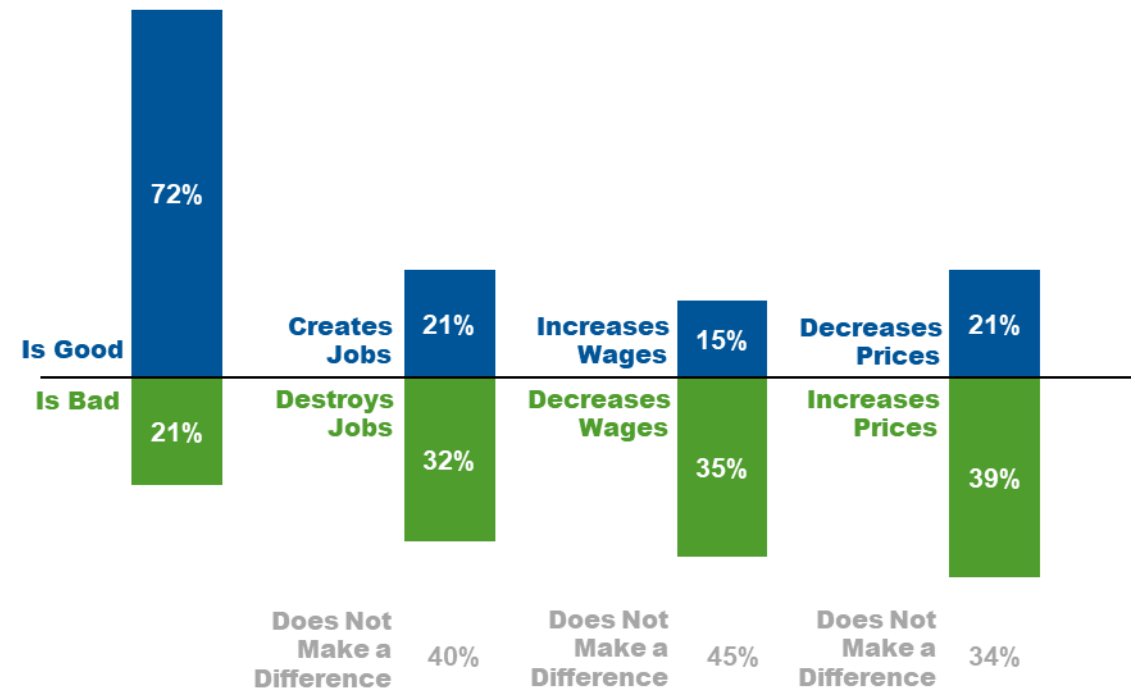
Europeans Doubt Trade Boosts Wages or Decreases Prices

2018 Pew Research Center Global Attitudes Survey



Japanese Skeptical That Trade Creates Jobs, Raises Wages or Lowers Prices

2018 Pew Research Center Global Attitudes Survey

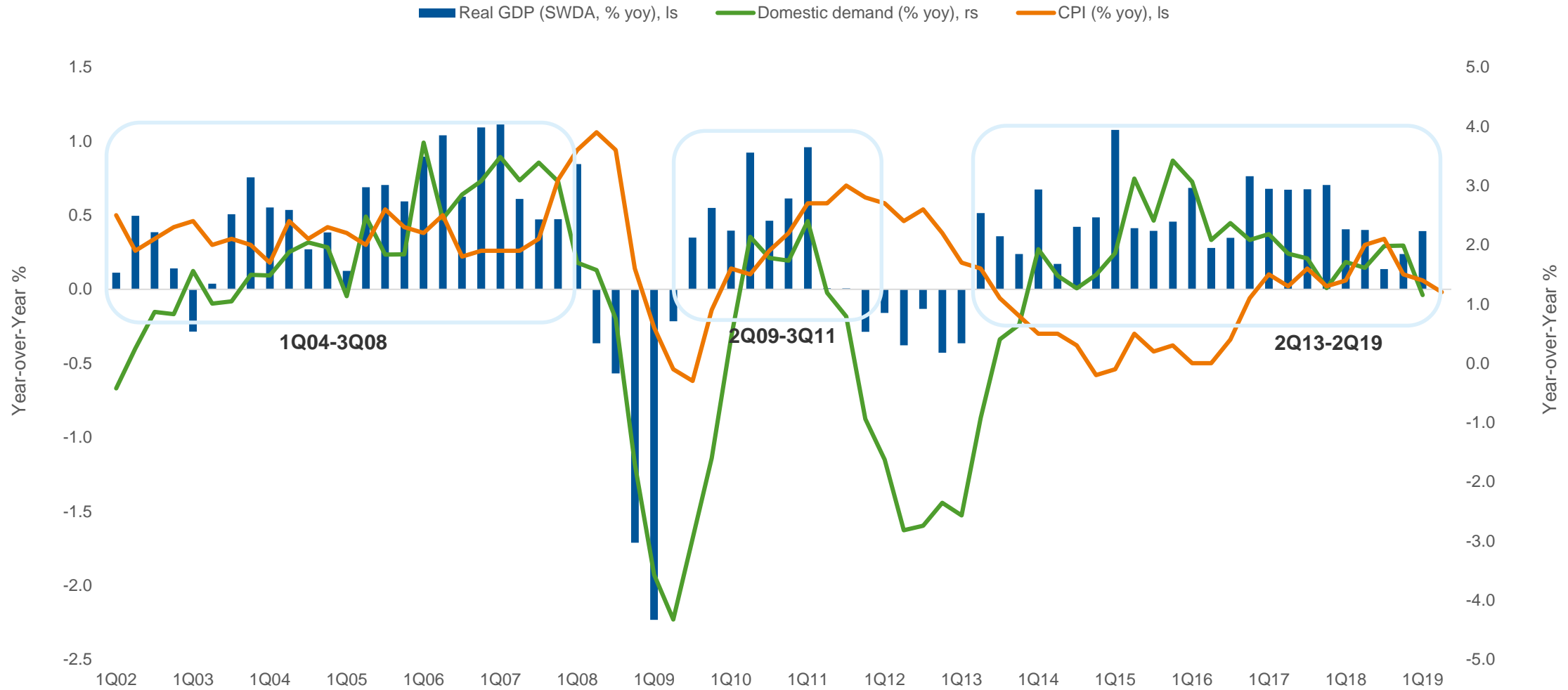


Sources: Pew Research Center, Spring 2018 Global Attitudes Survey.

**Macro Outlook:
Global Economy
Health Check**



Eurozone Growth and Inflation



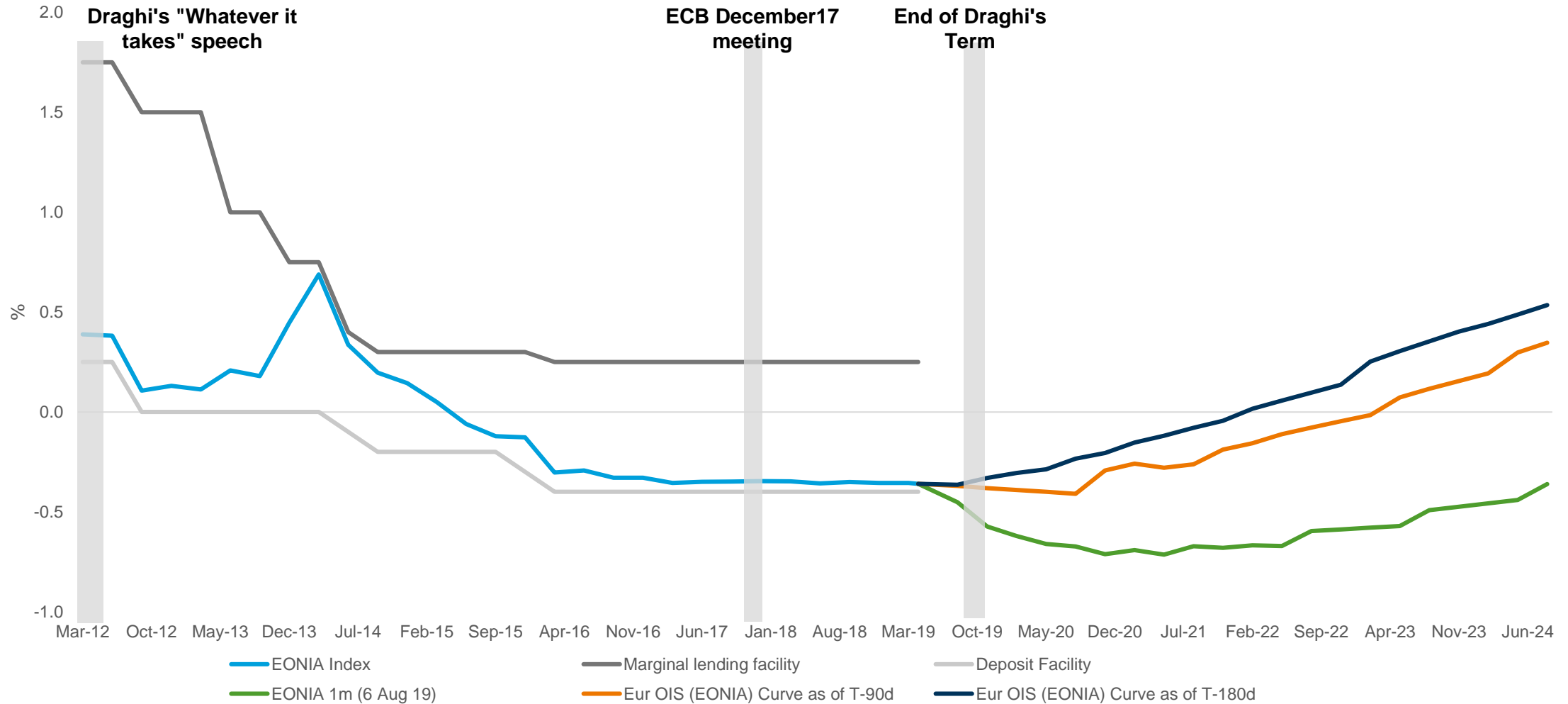
For illustrative and discussion purposes only.

Source: Eurostat. SWDA stands for Seasonal Work Day Adjusted. As at June 30, 2019.

Opinions expressed are the author's at publication date and they are subject to change without prior notice.

CPI stands for "Consumer Price Index". Indexes are unmanaged and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

ECB Is Slowly Removing Accommodation

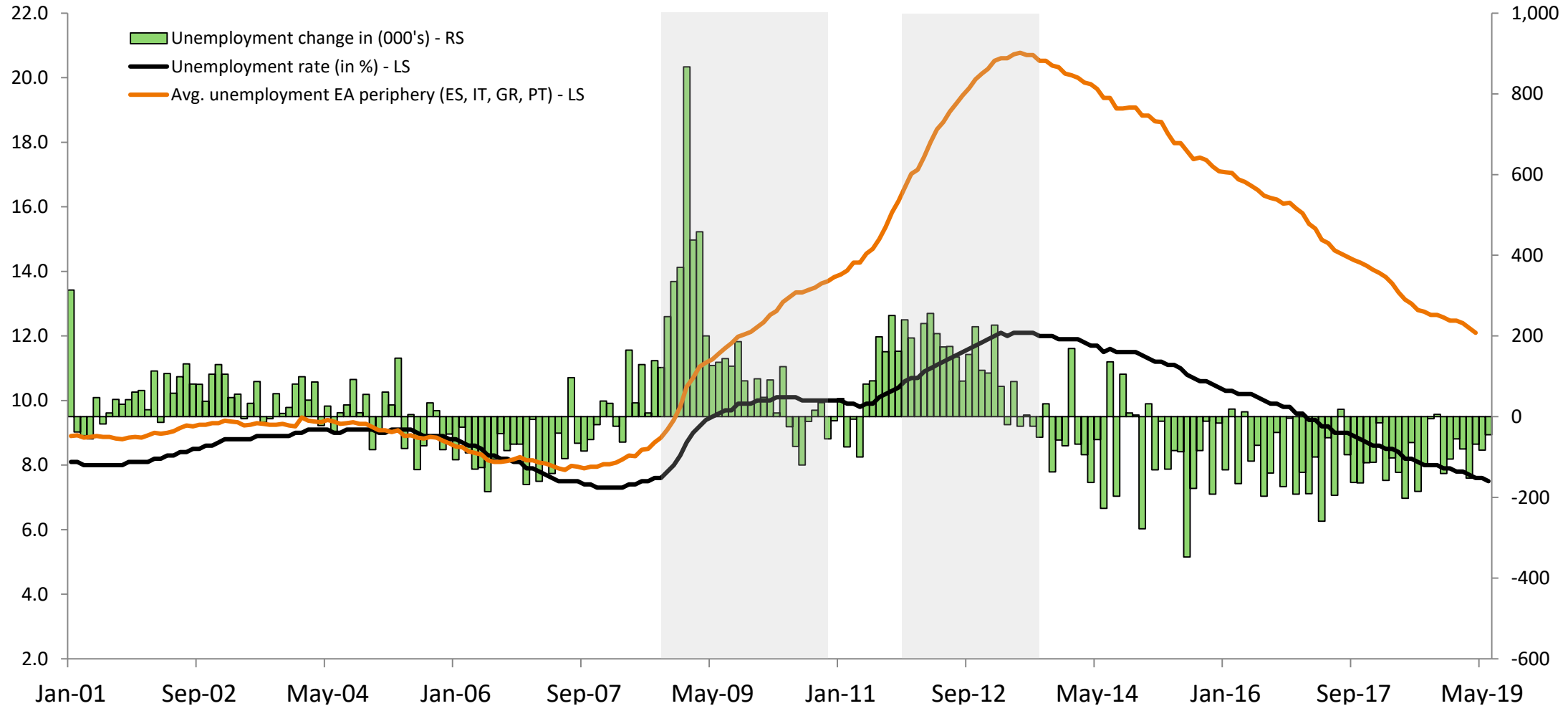


Source: European Central Bank, Bloomberg. OIS stands for Overnight Index Swaps. EONIA is the Euro OverNight Index Average. The Eonia rate is the 1-day interbank interest rate for the Euro zone. As at August 6, 2019.

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Indexes are unmanaged and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

Unemployment Has Dropped Significantly, Namely in the European Periphery



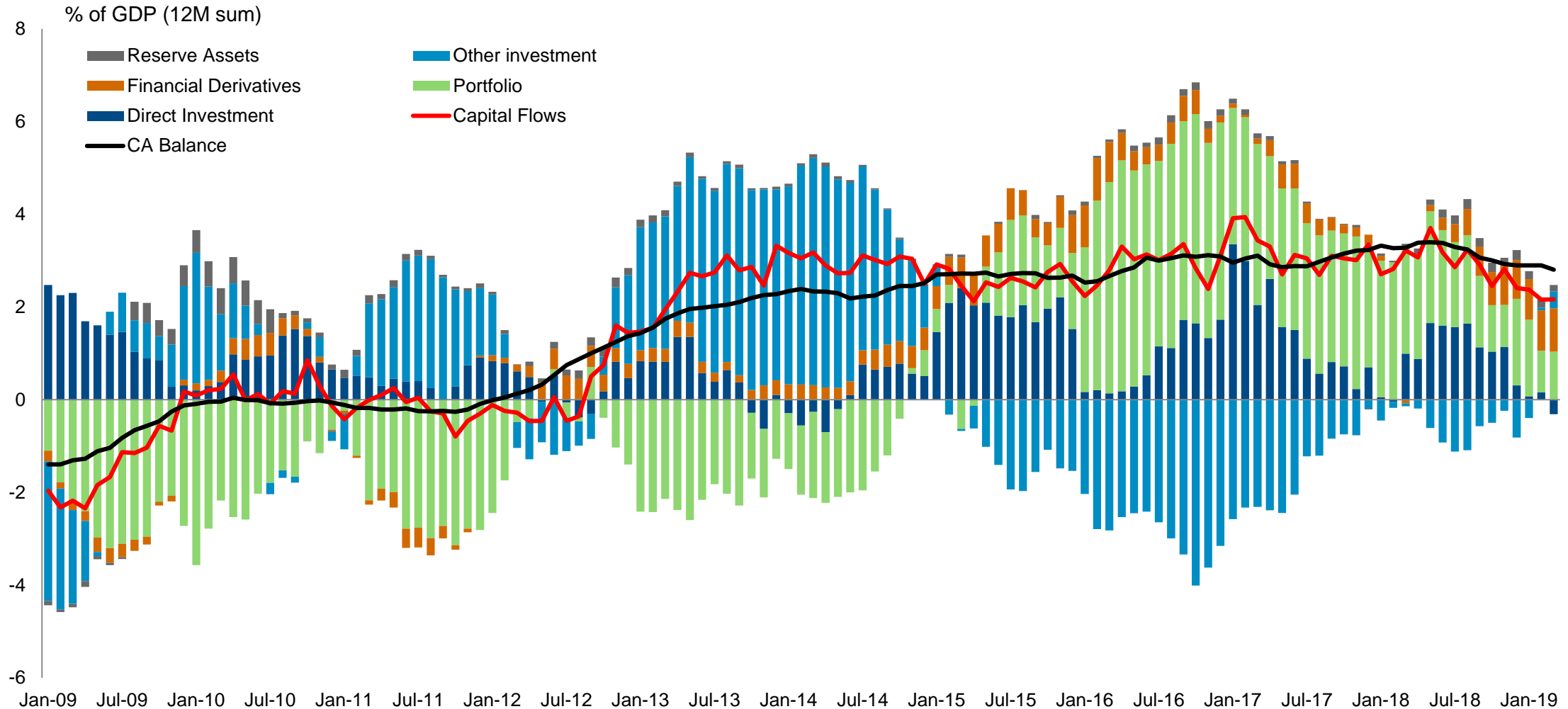
For illustrative and discussion purposes only.

Source: Eurostat, FTI European Fixed Income Research. Data as at end June 2019.

RS = Right scale; LS = Left scale

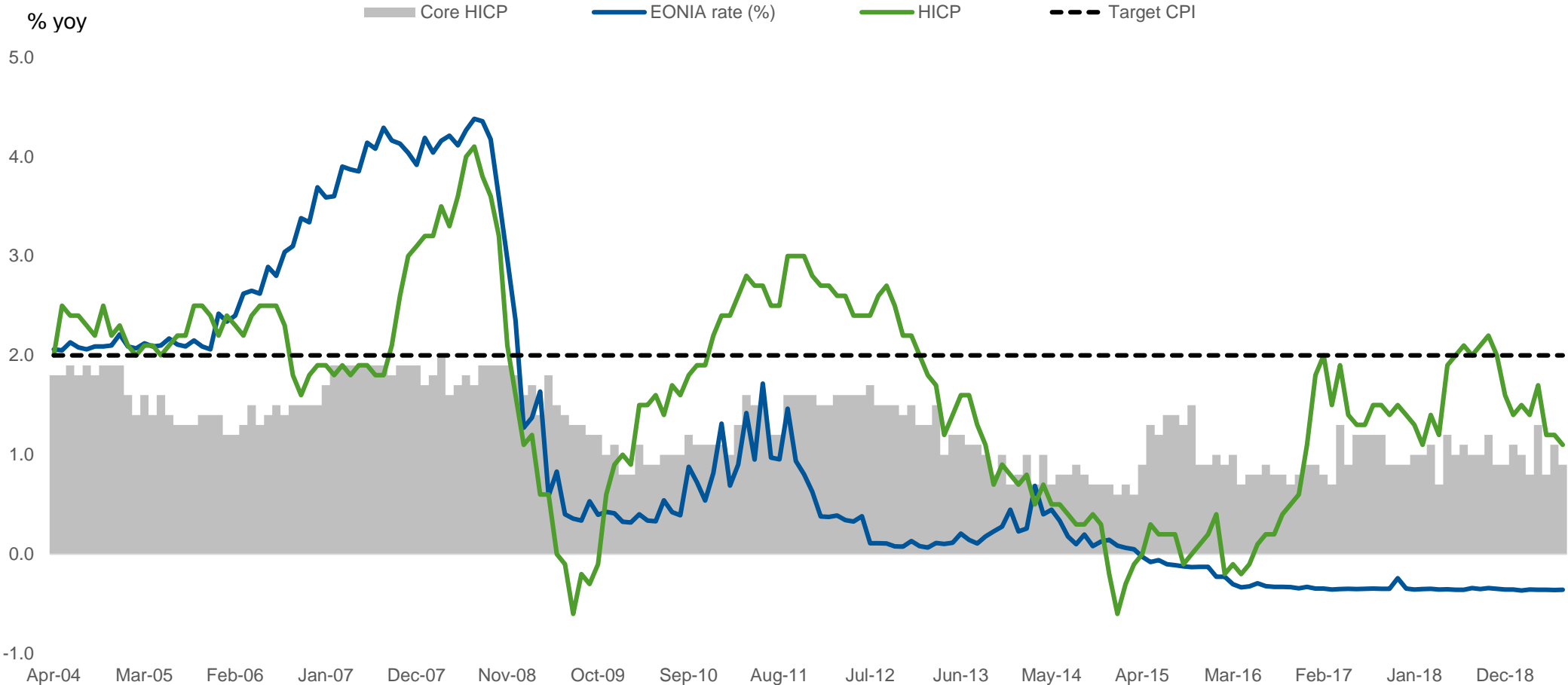
Indexes are unmanaged and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

Current Account Remains Strong and Portfolio Investments Are Positive



Source: ECB, FTI European Fixed Income Research. Data as at end May 2019. **Past performance is not an indicator or a guarantee of future performance.**
For illustrative and discussion purposes only.

HICP Inflation Set to Decelerate Below Target; Core HICP to Remain Subdued until 2020

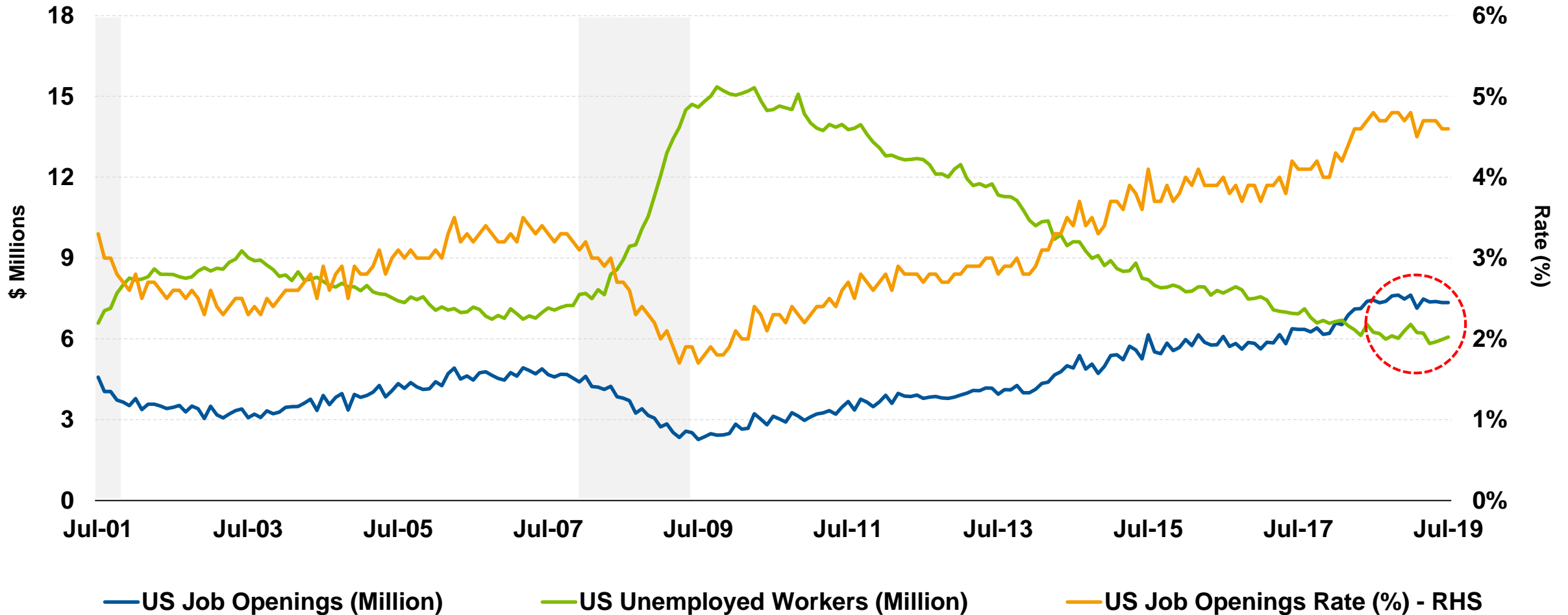


Source: Eurostat, Bloomberg, FTI European Fixed Income Research. Data as at end July 2019.
 HICP stands for "Harmonised Index of Consumer Prices". HICP is an indicator of inflation and price stability for the European Central Bank (ECB).
 Eonia is short for Euro OverNight Index Average. The Eonia rate is the 1-day interbank interest rate for the Euro zone.
For illustrative and discussion purposes only.

We Have Reached Full Employment

US Job Openings Now Exceed the Number of Unemployed Americans

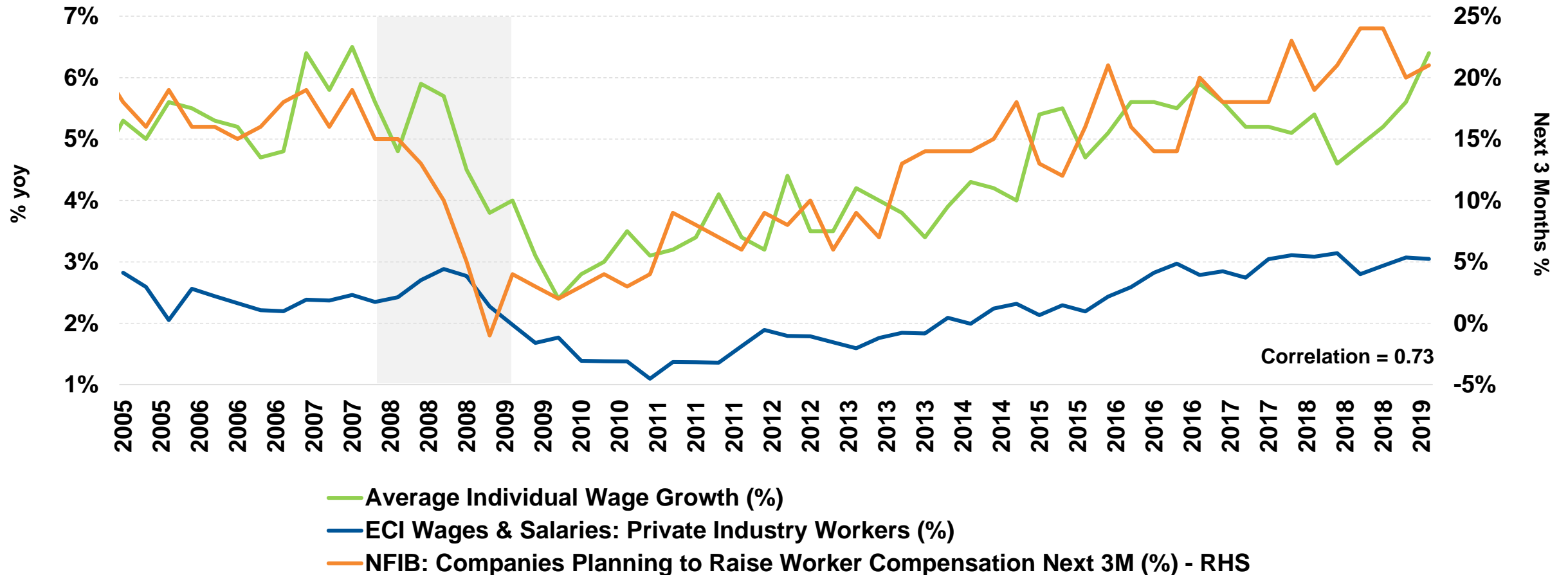
July 2001 – July 2019



Source: NFIB, BLS, FTI Fixed Income Research. Most recent data available.

A Broad-Based Pickup in Wages is Well Underway FRANKLIN TEMPLETON

July 2006 – July 2019

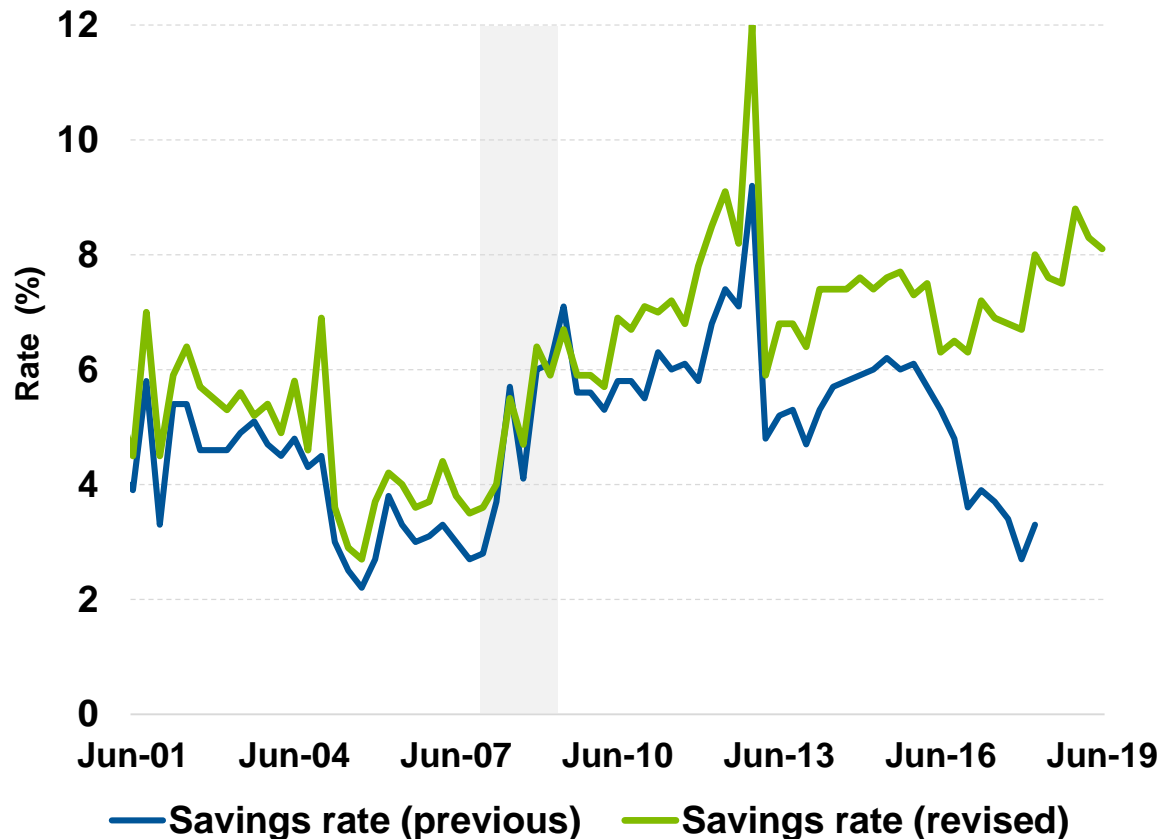


Sources: NFIB, BLS, BEA, FRED Data, Bloomberg, FTI Fixed Income Research. Most recent data available.

The Financial Health of the US Consumer Appears Much Stronger Than Originally Thought

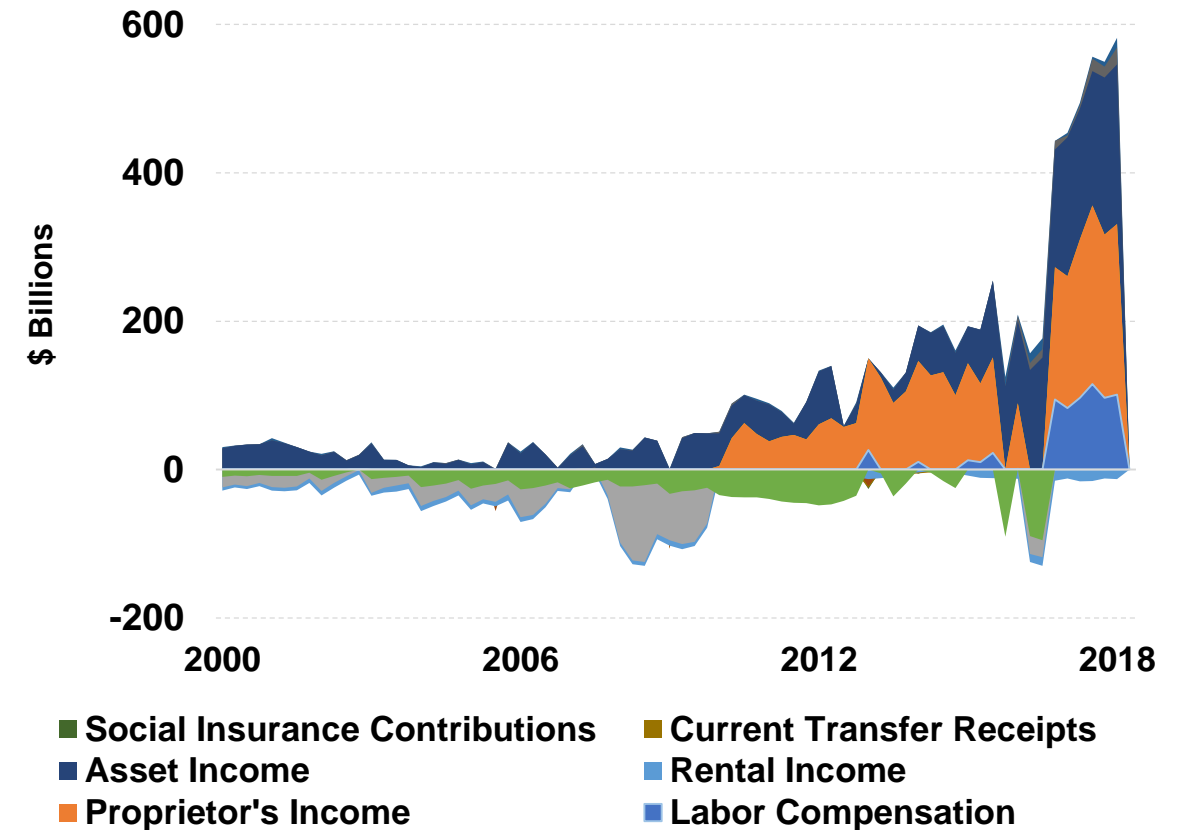
The US Savings Rate was Significantly Revised in 1H18...

June 2001–June 2019



...Driven Largely by the Upward Revision in Personal Income

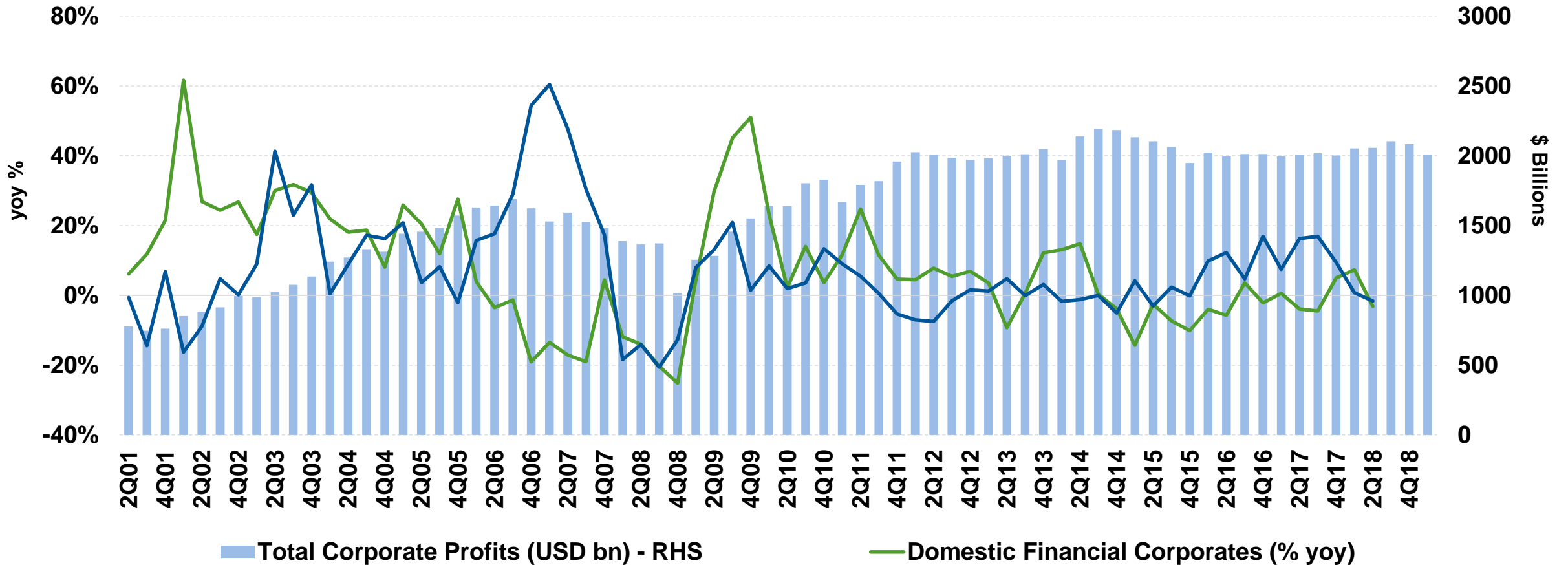
2000–2018



Sources: BEA, BLS, Bloomberg, FTI Fixed Income Research. Calculated June 2019. Most recent data available.

Steady Growth Supports Corporate Profits

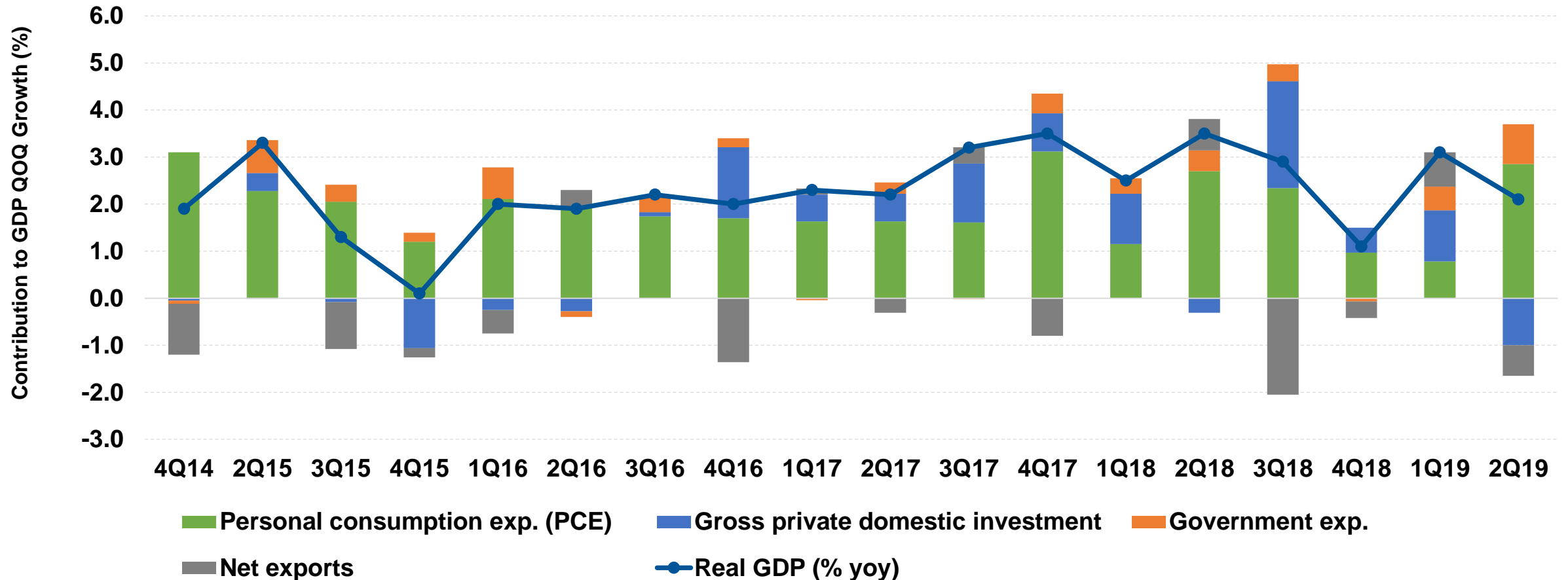
US Corporate Profits 2Q'2001 – 1Q'2019



Sources: US Bureau of Economic Analysis. Most recent data available.

Prognosis: This Economy is Healthy

Real US Gross Domestic Product (GDP) Quarter-Over-Quarter (Annualized) 4Q'2014 – 2Q'2019



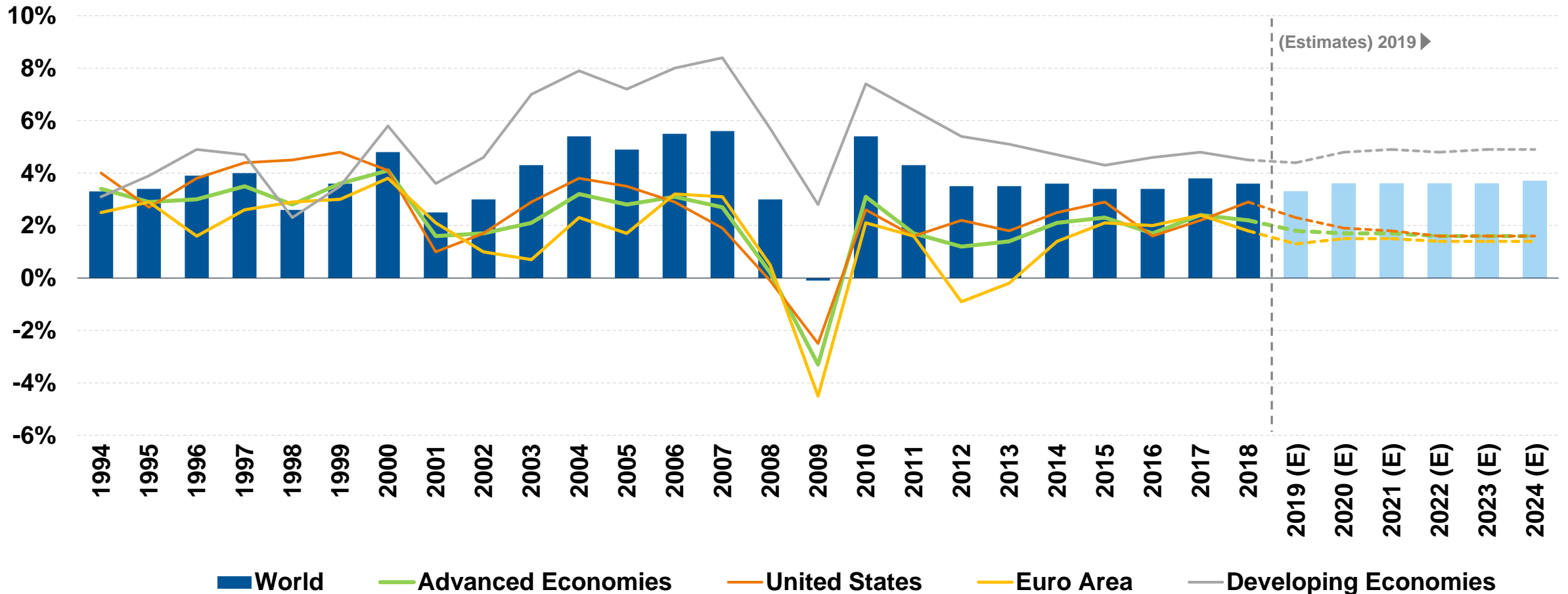
Sources: US Bureau of Economic Analysis. There is no assurance that any projection, estimate or forecast will be realized. Most recent data available.

Global Growth: Nothing to See Here...

Growth Remains Above Potential Despite Deceleration

Real GDP Growth Rate (%) – Annual Percentage Change

1994 – 2024 (Estimated)

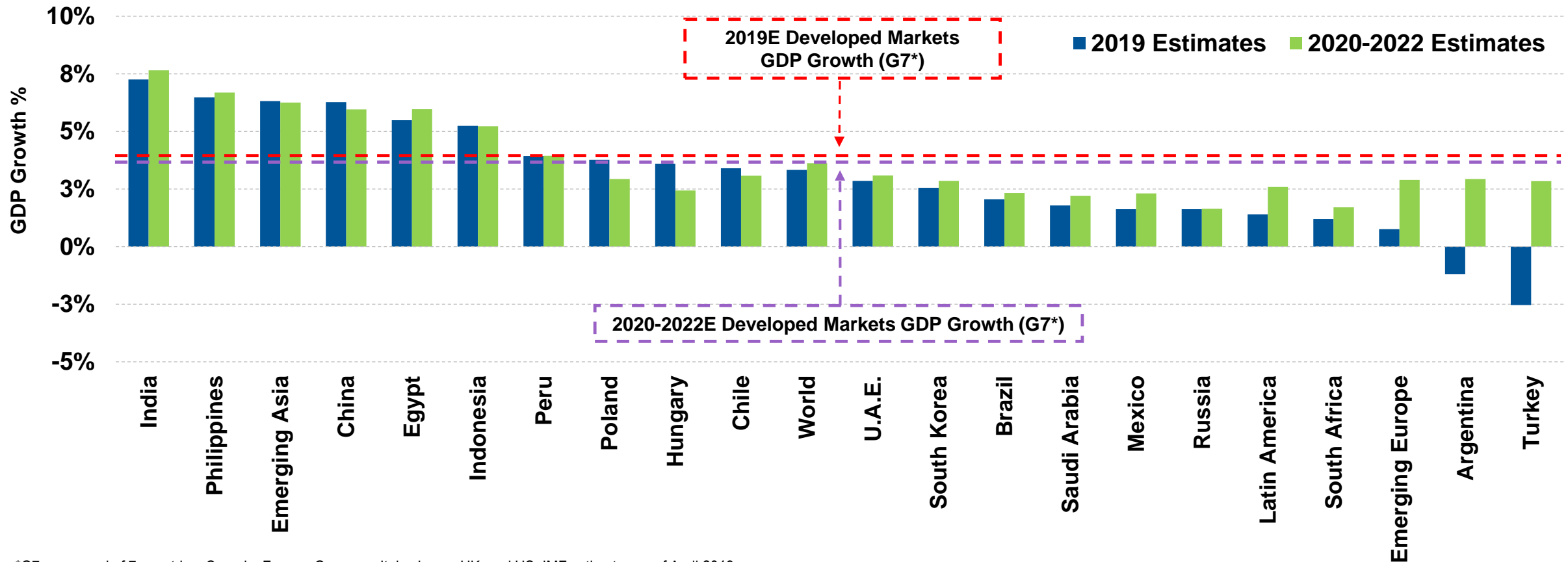


Sources: US Bureau of Economic Analysis. There is no assurance that any projection, estimate or forecast will be realized. Most recent data available.

Emerging Markets Will Continue to Support Global Growth Despite Recent Moderation

GDP Growth Estimates (%)

International Monetary Fund Estimates: 2019 – 2022



*G7 composed of 7 countries: Canada, France, Germany, Italy, Japan, UK, and US. IMF estimates as of April 2019.

Source: Franklin Templeton's Global Research Library, FactSet, International Monetary Fund. **There is no assurance that any projection, estimate or forecast will be realized. Past performance is not an indicator or a guarantee of future performance.**

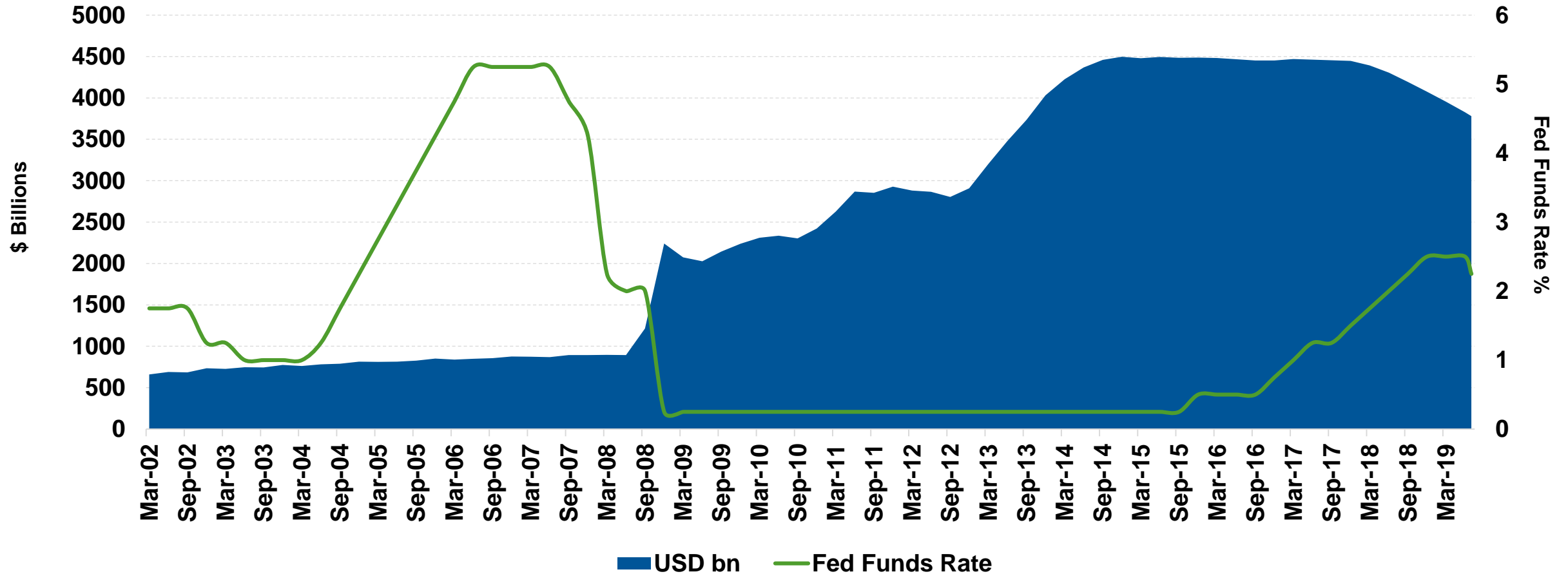
What Are the Risks?

Recession Triggers?

Overly Aggressive Monetary Tightening?

Fed Balance Sheet

March 2002 – July 2019



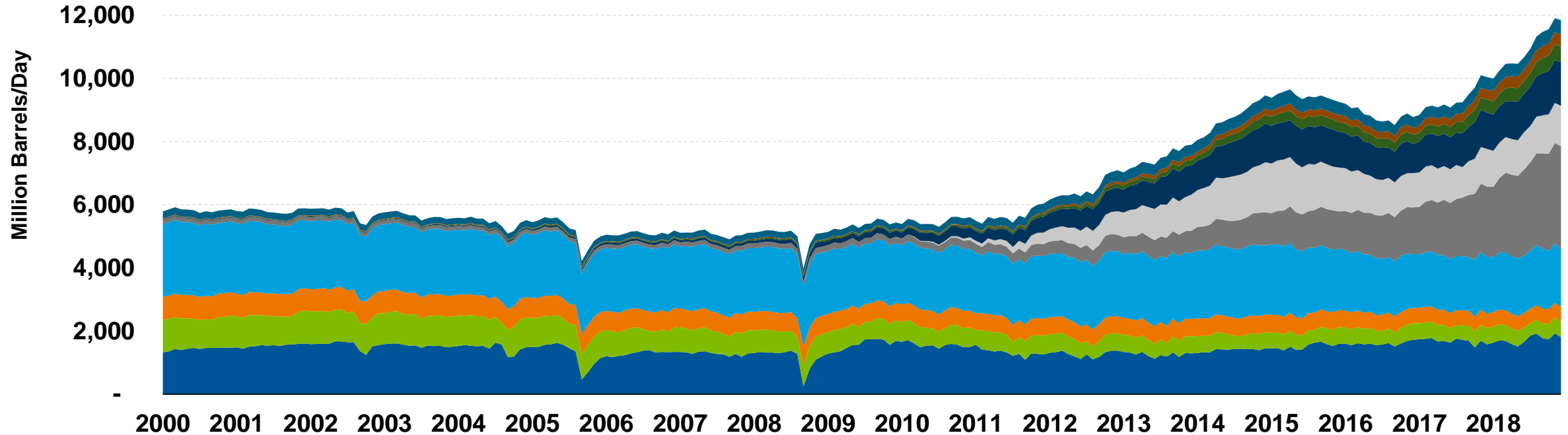
Source: US Bureau of Economic Analysis. Shaded areas indicate US recessions; Cyclical Sectors: sum of Private Residential Investment, Private Nonresidential Fixed Investment and Personal Consumption Expenditures as % of GDP.

Recession Triggers?

Oil Price Shocks?

New Supply

2000 – 2019



- Federal Offshore Gulf of Mexico
- Other conventional
- Bakken Shale (ND & MT)
- Other Shale
- Alaska
- Permian Shale (TX/NM)
- Niobrara-Codell Shale (CO & WY)
- California
- Eagle Ford Shale (TX)
- Oklahoma shale

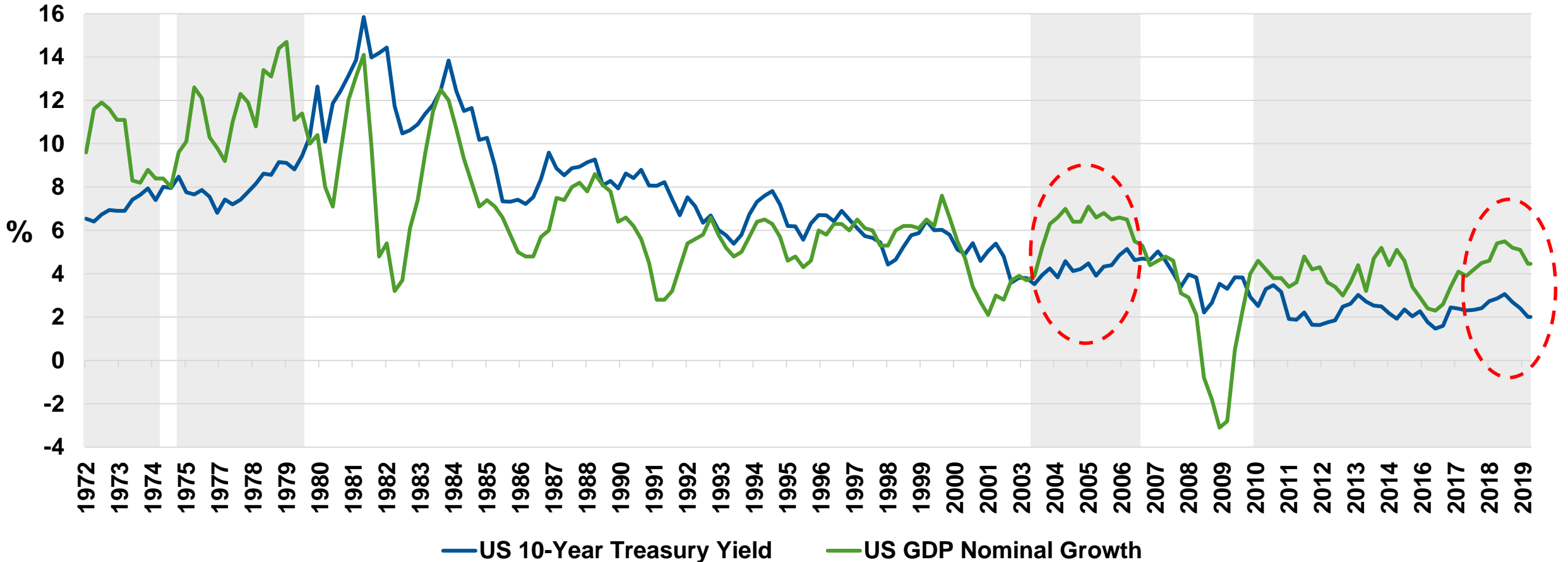
Sources: Calculations by Franklin Templeton Investments with data sourced from EIA. Most recent data available.

Recession Triggers?

Bursting of Financial Bubble?

US 10-Year Treasury Yield and Nominal GDP Growth

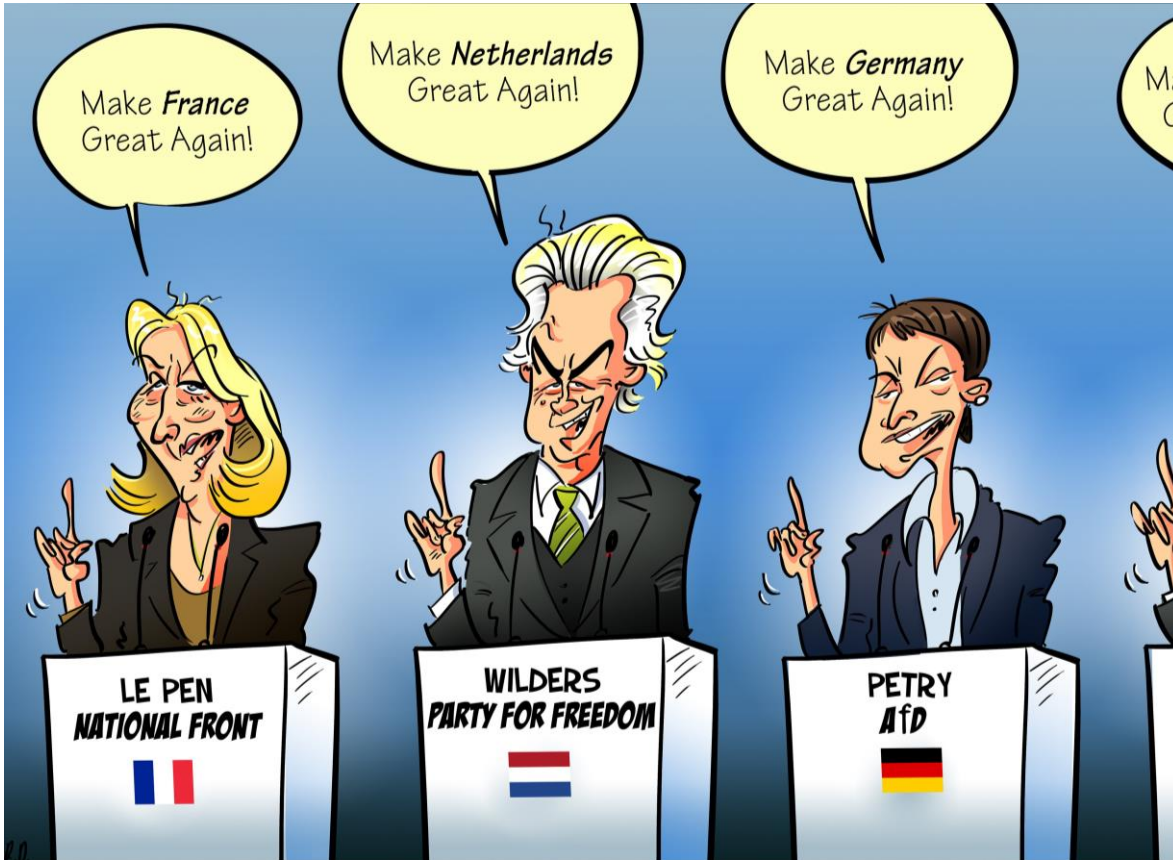
March 1972 – July 2019



Sources: Sources: US Department of Labor, Bureau of Economic Analysis, Bloomberg, as of July 31, 2019. Nominal GDP Growth is shown in year-on-year terms. Shaded areas represent time periods during which 10-Year Treasury yields were below nominal GDP growth.

Risks to Outlook

Populism in Europe

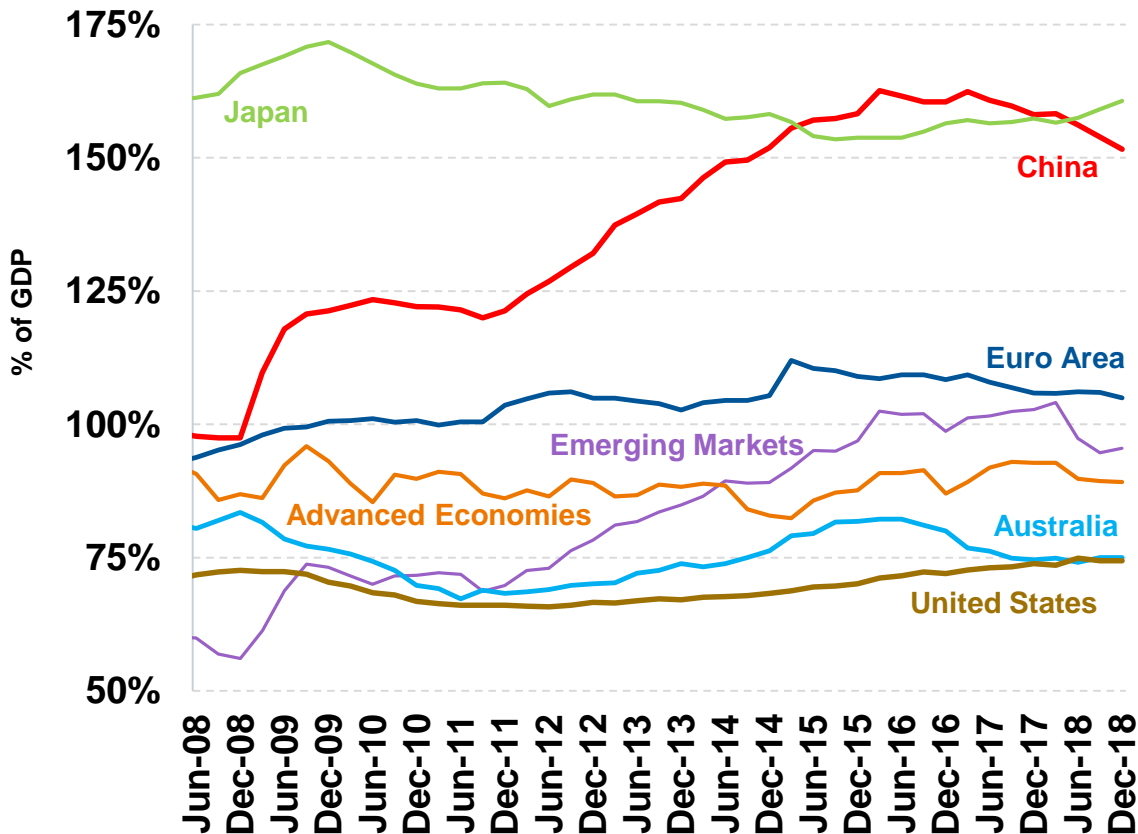


...Let's Not Even Discuss Italy

Risks to Outlook

China: Considerable Increase of Corporate Debt & Social Unrest

Credit to Non-Financial Corporates (% of GDP) Q2'2008 – Q4'2019



Hong Kong Protests August 2019



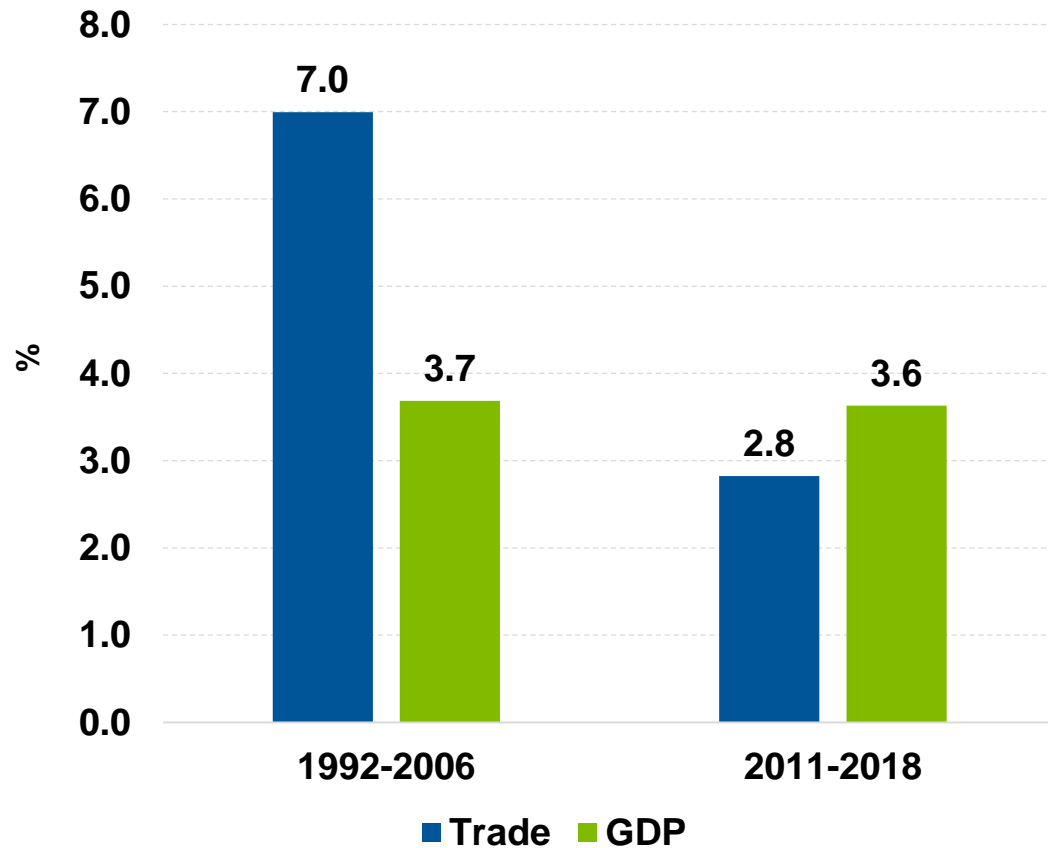
Sources: Bank for International Settlements, as of 23 May 2019; Reuters/Tyrone Slu, June 21, 2019.

Risks to Outlook

Trade Wars

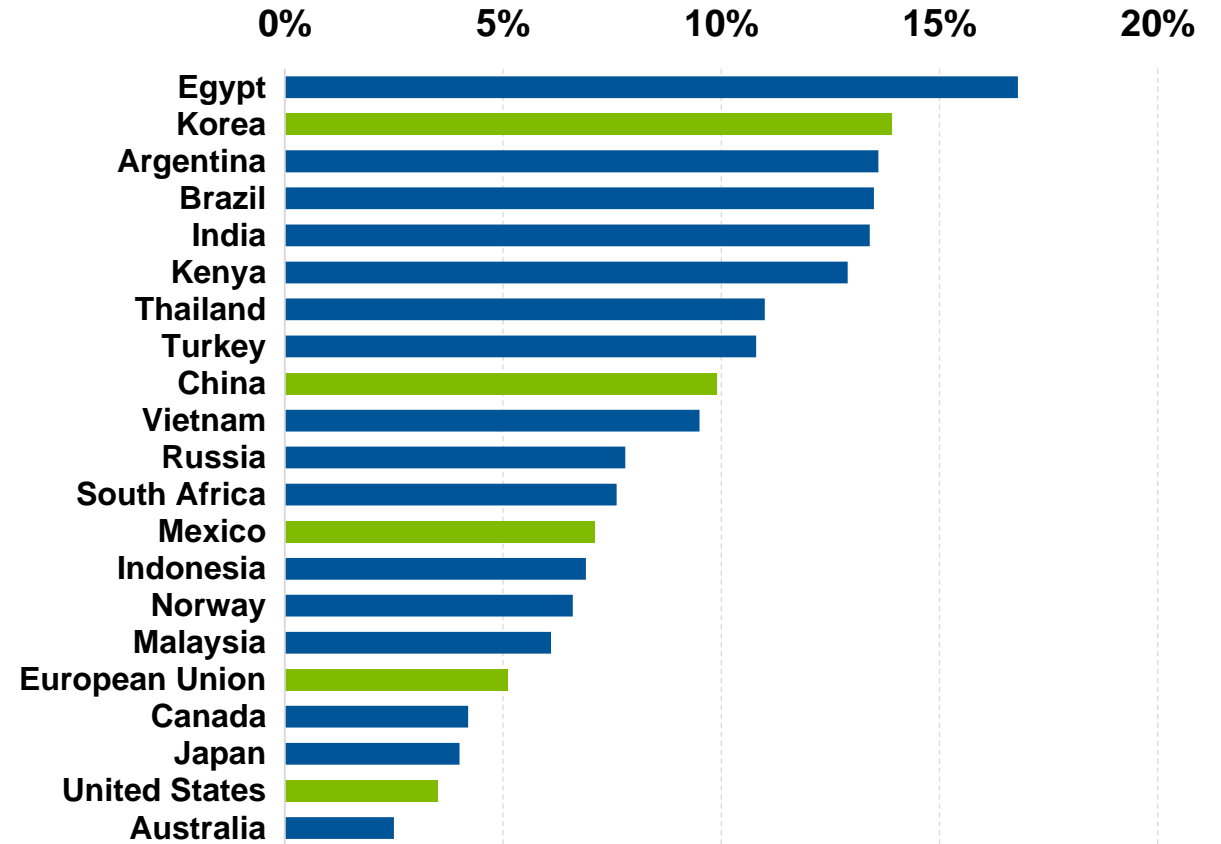
Global Trade Growth vs. Global GDP¹

1992-2006 and 2011-2018



Average Tariff Rate²

As of 2018



1. Sources: CPB Netherlands Bureau for Economic Policy Analysis and International Monetary Fund (IMF). Most recent data available.

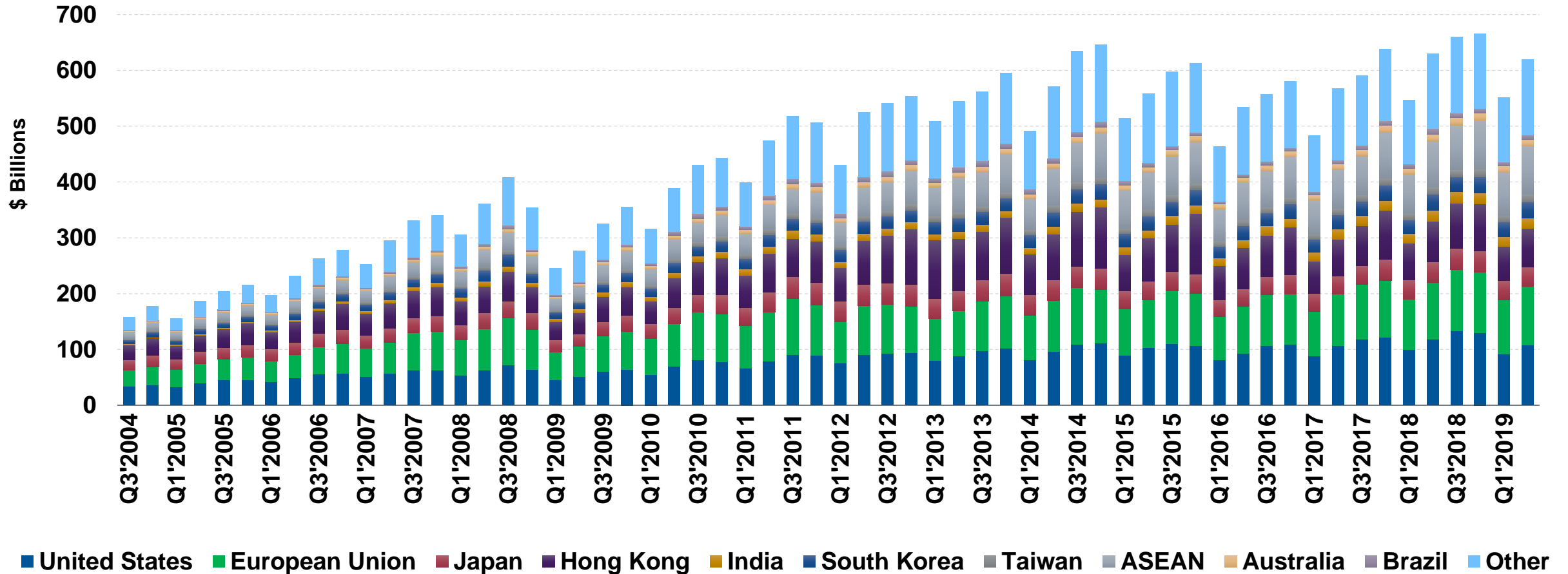
2. Source: World Trade Organization. Simple average tariff, most favored nation applied. Note—Countries highlighted in green are those that the US had the most contentious discussions with. Most recent data available.

Risks to Outlook

China Offsetting Lower US Exports With Stronger Exports Elsewhere

Total China Exports by Region

Q3'2004 – Q2'2019



Source: National Bureau of Statistics of China, August 2019.

A white L-shaped graphic element consisting of a vertical bar on the left and a horizontal bar on the top, forming a corner bracket that frames the text.

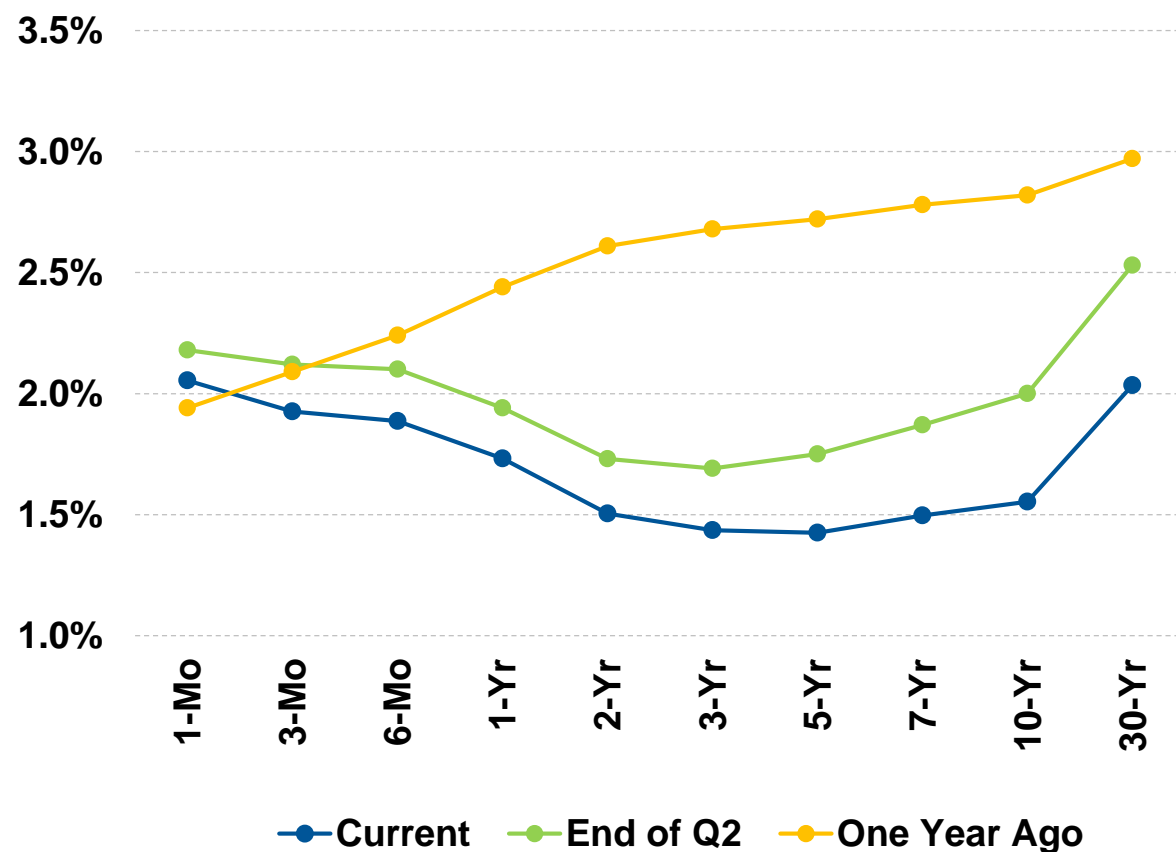
Market Views

Yield Curve Being Distorted by QE

Markets Are Over-Stating the Probabilities for Near-Term Contraction

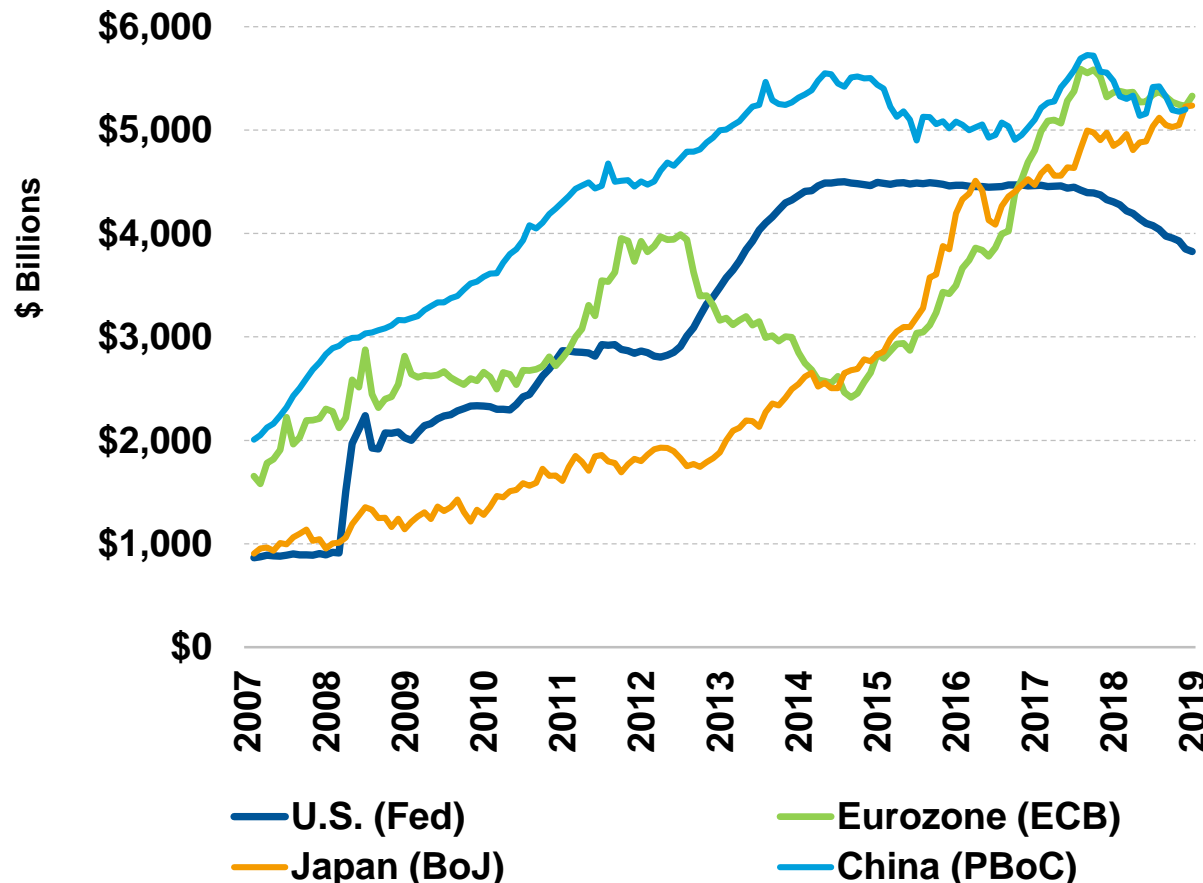
Yield Curve (United States)

As of August 20, 2019



Global Central Banks – Total Assets (\$ Bil)

2008 – May 2019



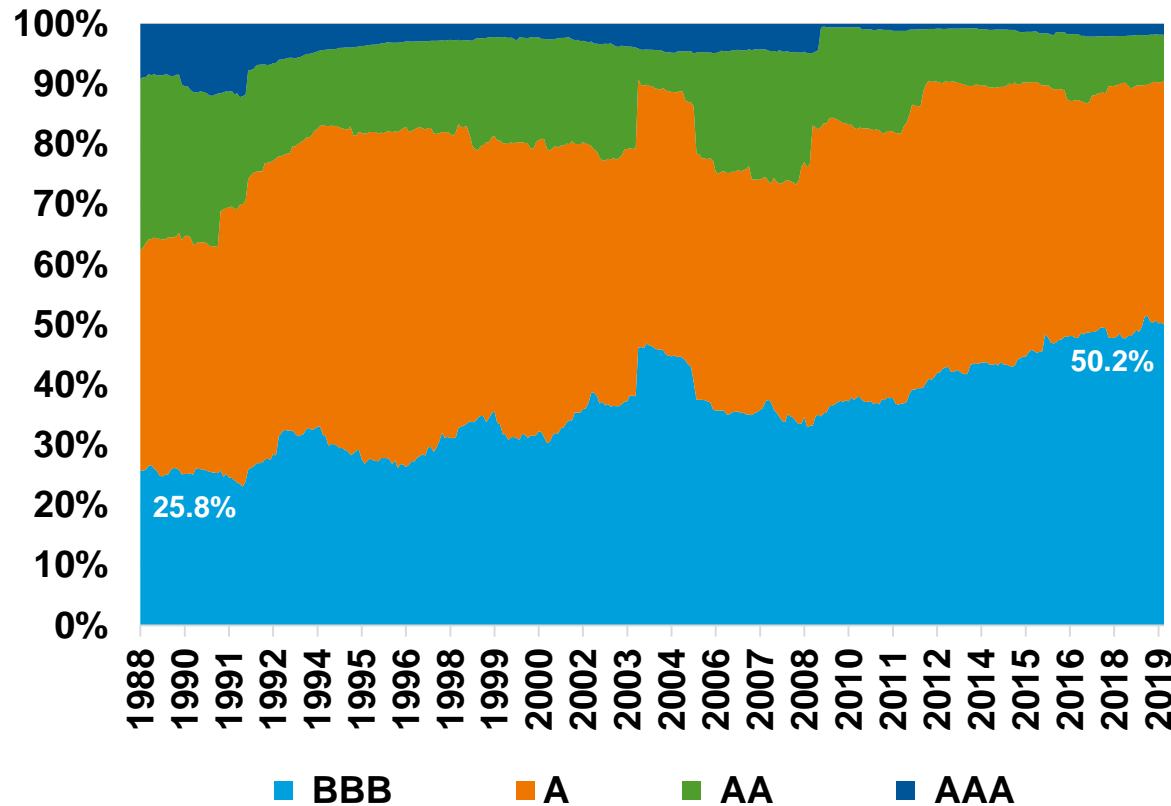
1. Sources: Board of Governors of the Federal Reserve System (US) , S&P Dow Jones Indices LLC. As of 7/31/19.

2. Sources: Bank for International Settlements, retrieved from FRED, Federal Reserve Bank of St. Louis. Most recent data available.

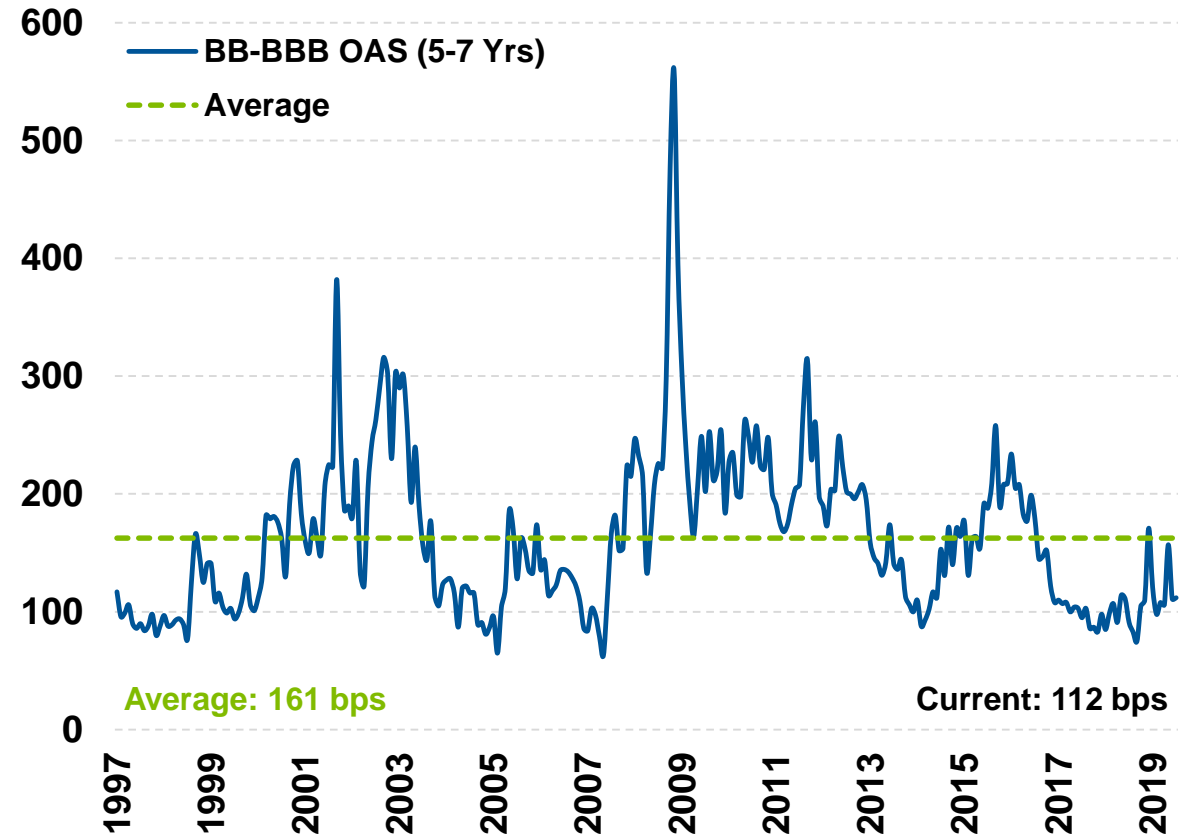
IG Credit Fears on BBBs Should be Nuanced

Select Areas of the Market Still Offer Relative Value

Bloomberg Barclays IG Corporate Index –
Credit Quality Deterioration of Investment Grade
Credit: September 1998 – July 2019



Excess Spreads of BBs over BBBs (5-7 Year)
January 1997 – July 2019

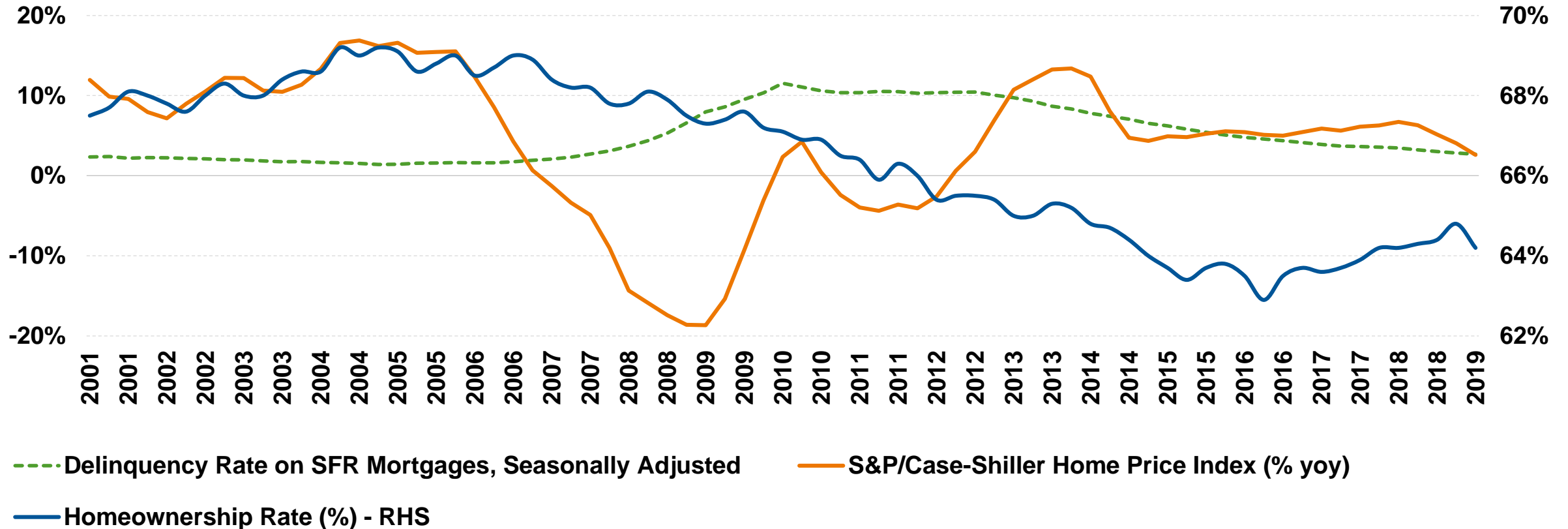


Sources: Calculations by Franklin Templeton Investments with data sourced from Bloomberg and JP Morgan. As of July 2019.

Healthy Housing Fundamentals

US Housing Market Trends

Homeownership Rate, Delinquency Rate on Single Family Residential Mortgages, and S&P/Case-Shiller Home Price Index: Q1'2001 – Q2'2019

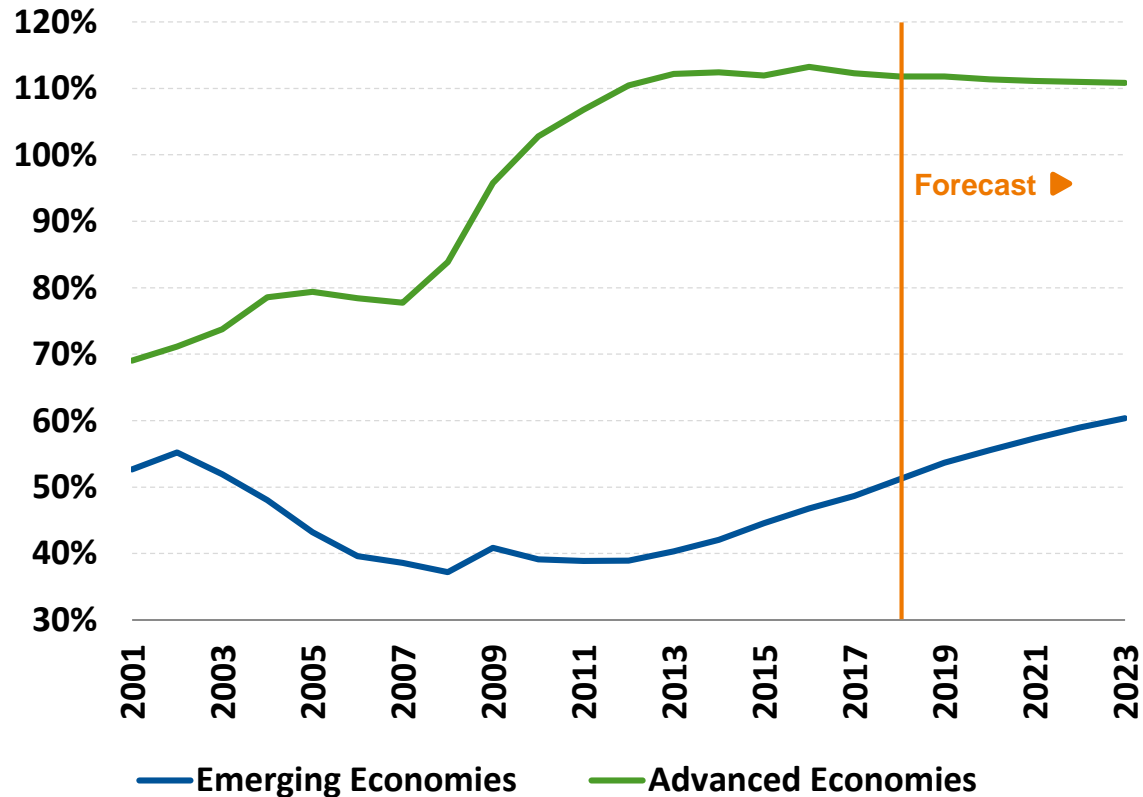


Sources: Board of Governors of the Federal Reserve System, Standard & Poor's, US Census Bureau. As of June 2019.

Snapshot of the Global Fixed Income Universe

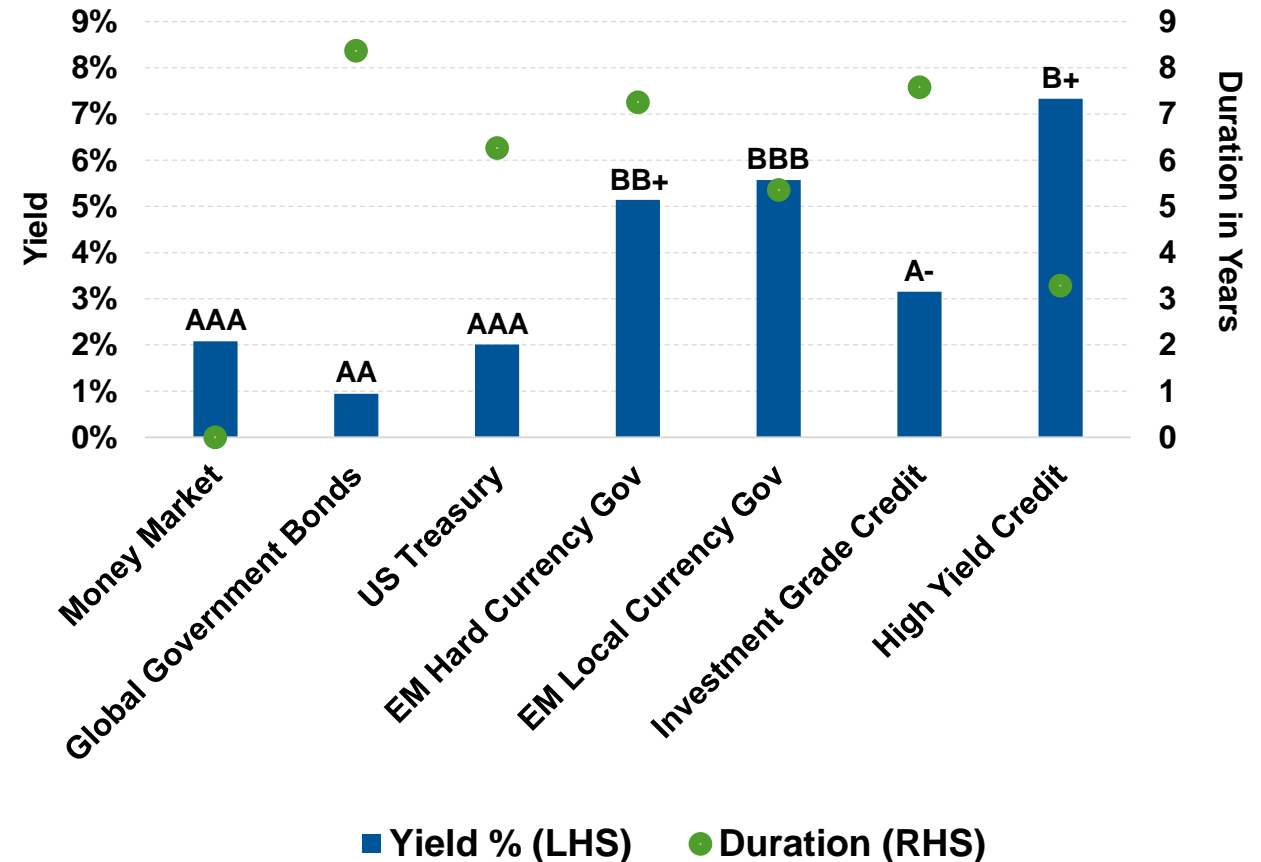
Debt (General Government Gross) to GDP Ratio¹

2001 – 2023E



Nominal Yields, Duration & Avg Rating

As of July 31, 2019



1. Excluding European Union. Weighted Average based on PPP (Purchasing Power Parity) GDP Weights; as of May 28, 2019.

Source: Calculations by Franklin Templeton Investments with data sourced from International Monetary Fund. There is no assurance that any projection, estimate or forecast will be realized. Bloomberg, JPM Research as of April 30, 2019.

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