

Perspective from Templeton Global Equity Group

Global Equity Pulse

In focus: Navigating the post-“Liberation Day” uncertainties

Amid persistent US tariff uncertainty and potential earnings growth slowdown, Templeton Global Equity Group (TGEG) aims to stay selectively invested with a prudent approach that focuses on geographical diversification and sectors less vulnerable to tariffs.

Harnessing the opportunities in the European and Japanese markets is part of our priority in the current climate. In stock selection terms, we prefer companies with stronger domestic revenue exposure and lower vulnerability to cross-border supply chain disruptions, among other ideas. As always, valuation discipline and bottom-up fundamental research will continue to anchor our decision-making process.

We are staying invested in the United States, but diversification matters

Following US President Donald Trump's “Liberation Day” tariff announcement on April 2, global equities experienced a level of market volatility unseen since the COVID-19 pandemic. We reiterate our view that the US trade policy outlook remains highly unpredictable. The risk of aggressive US tariffs and the resulting economic challenges should not be disregarded at this point, despite the occasional softening of Trump's stance. Reflecting the same concerns, the International Monetary Fund recently cut its 2025 global economic growth forecast from 3.3% to 2.8%.¹ Corporate earnings are still expected to grow in 2025, and the current consensus estimates put US earnings growth in 2025 at 10% and Europe at 4.2%.² However, earnings growth forecasts have also seen negative revisions of 3.1% for the MSCI USA Index and 2.5% for the MSCI Eurozone Index.³

As a bottom-up, long-term investor, TGEG is cautious but not pessimistic. The current environment presents both challenges and opportunities. We believe the key to navigating these choppy waters is strict valuation discipline, in-depth fundamental research and diligent risk/reward adjustments. That is particularly the case for the US market, where elevated valuations and potentially rising recessionary risk call for a selective approach.

Exhibit 1: IBES Consensus EPS Forecasts

	2025	2026
The United States	10.0	14.2
Europe	4.2	11.6
Japan	9.9	7.9
Global	9.0	13.0

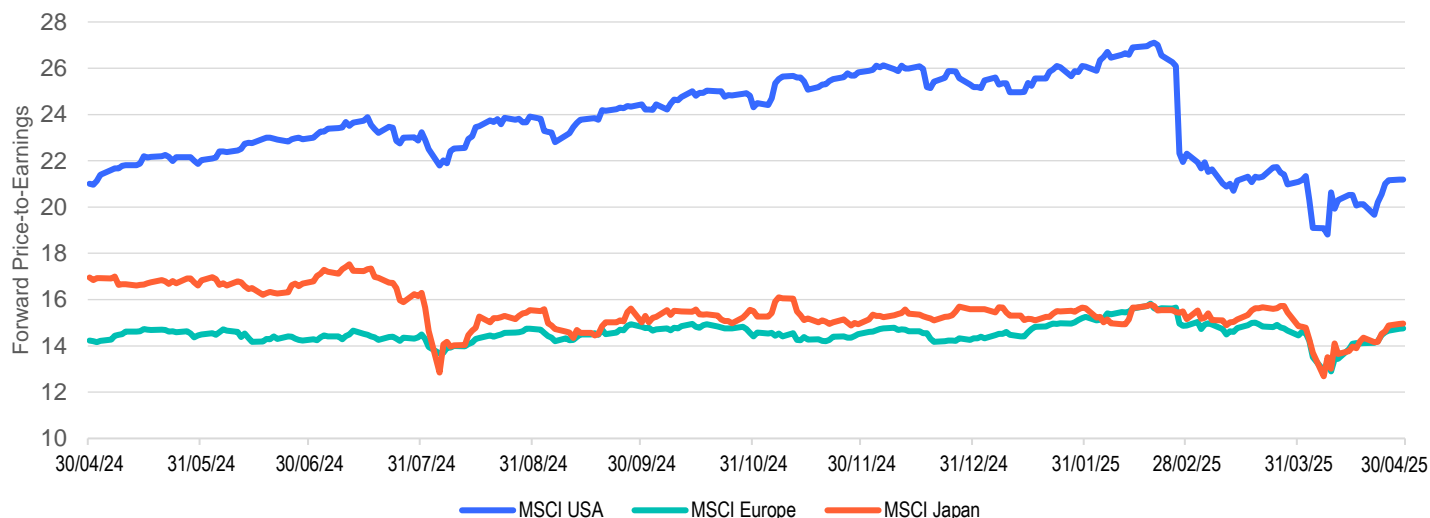
Japan refers to the period from March in the year stated. Sources: IBES, MSCI, Datastream. As of COB April 23, 2025.

The US market is a key component to many TGEG portfolios, and we aim to stay invested. However, we will carefully manage our exposure to companies that may be vulnerable to retaliatory tariffs. These may include US companies heavily reliant on China for both production and revenue. They will likely bear the brunt as China counters US tariffs with aggressive levies on US products. Discretionary items already facing fierce competition from local brands, such as smartphones, sports apparels or automobiles, will likely suffer. We are more positive on service-oriented US companies that can sustain domestic or overseas growth on lower supply chain risks. On this front, our search for the next “winners” in the artificial intelligence (AI) field continues, particularly among software companies that remain under or reasonably priced relative to the technology big-capitalization names that had led the AI rally in 2024.

Meanwhile, we will further explore the United Kingdom and the eurozone for portfolio diversification, seeking to take advantage of valuation gaps versus the US market. European equities have largely outperformed so far this year, but the MSCI Europe Index still maintains a significant discount to the MSCI USA Index, based on their one-year forward price-earnings ratios (see Exhibit 2 on next page). We maintain our view that earnings expectations have been largely reset in Europe and the market faces limited resistance to a cyclical rebound, even as US tariff risks loom. Domestic drivers should provide additional support, as regional governments potentially accelerate fiscal policy reforms and boost defense spending. We believe these trends could catalyze opportunities across a range of industries, including industrials and infrastructure construction, as well as aerospace and defense, which is one of our high-conviction themes at this point.

In Asia, the Japanese market is also trading at a discount versus its developed market peers, while a potential for structural return on equity (ROE) improvement beckons. This is another market with compelling diversification opportunities, and we like companies that can benefit from corporate governance reforms, as well as the growth tailwinds from economic and monetary policy normalization in Japan. However, we are focusing more on domestic-facing companies with less exposure to foreign-currency revenue.

Exhibit 2: US Valuations Remain Elevated vs. Europe and Japan



On a one-year rolling relative basis. Source: Bloomberg. As of 30 April 2025. The MSCI Europe Index captures large and mid-cap representation across 15 developed markets countries in Europe. The MSCI Japan Index is designed to measure the performance of the large and mid-cap segments of the Japanese market. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator of future results.**

Sector considerations and bottom-up discipline

Regardless of the geography, our selective approach necessitates a more cautious view on consumer discretionary companies, especially providers of durables such as automobiles, electronics and luxury goods. With economic uncertainties mounting and tariffs pushing up prices, these products may be vulnerable to weak consumer sentiment and reduced demand. Similarly, companies in the materials and energy sectors may be pressured by macro concerns and weaker demand if recessionary or stagflationary fears persist. We still see bottom-up opportunities to add or hold some of these companies that we believe are mispriced relative to their fundamentals, but these investments will be carried out carefully, if at all.

In contrast, sectors and companies with stronger domestic revenue exposure or defensive growth qualities look more compelling. For instance, we think the utilities sector should stay relatively resilient against the current headwinds, as it typically generates revenue on sticky local demand and stable prices. Among the defensives, health care remains an area of interest for TGE, but we will be careful with how we allocate our capital along the value chain. Pharmaceuticals may face increased policy headwinds in the United States going forward as the Trump administration potentially dials up the pressure on the industry to shift production back to domestic shores. Health care services companies instead look more attractive to us, particularly those with a strong domestic profile. For instance, one of our preferred health care companies is a US health insurance leader that is well positioned for the structural growth in the managed care market; strong policy tailwinds—with the US government recently raising its 2026 reimbursement rate for Medicare Advantage health plans—adds to the investment case.

Ultimately, thorough assessment of valuations relative to bottom-up fundamentals underpins these geographic and sector considerations. While Trump 2.0 has proven challenging for investors, we are confident in our ability to understand the intrinsic worth of a company and capture it at favorable prices. We believe this disciplined approach should continue to guide us to the kind of resilient companies that can sustain value generation as economic and policy conditions evolve.

Investment outlook

Investor sentiment toward the Trump presidency has turned increasingly skeptical due to its unpredictable nature, a trend that is likely to continue weighing on US equities in the coming quarters. While the US market may still perform well, its major outperformance over the rest of the world could be over. We see mispricing opportunities to revisit some technology stocks following corrections but remain cautious on US businesses reliant on cross-border trade and complex global supply chains. In Asia, various forecasters anticipate economic and earnings growth to slow, but our bottom-up approach should help us identify resilient companies for portfolio enhancement. That entails maintaining our “Domestic China–Global China” positioning in markets in mainland China and Hong Kong, given the tariff overhang. We are more optimistic about Europe’s economic outlook and growth drivers. Sectors such as industrials and materials may benefit from the potential cyclical recovery. Small and mid-cap companies continue to look attractive against this backdrop.

North America

The investment environment has changed dramatically over the past few months. Developments since the start of the year lead us to believe that it is reasonably likely that the extraordinary outperformance of US stocks versus the rest of the world since the global financial crisis could be over. This does not mean US stocks won’t perform well going forward, but it suggests that other regions’ equity markets may begin to match or even exceed US stock returns.

Investor sentiment toward the Trump presidency has turned increasingly skeptical due to its unpredictable nature, a trend that is likely to continue weighing on US equities in the coming quarters. This will likely provide opportunities at the stock level, which we will look to take advantage of. For instance, the year-to-date technology stock correction may yield attractive entry points to revisit some IT sector ideas that were previously too expensive for our valuation criteria. We prefer to avoid businesses reliant on cross-border trade, particularly in a deeper recession scenario. Risk seems highest in the consumer discretionary (apparel, autos, electronic goods) and industrials (complex global supply chains) sectors. We also remain cautious on the Magnificent Seven⁴ as “easy retaliation targets” with high percentages of ex-US sales. Lastly, materials could suffer due to recessionary demand destruction. Utilities, with high domestic revenue and minimal recession impact, could fare better.

We believe the rest of 2025 will likely present a challenging but opportunity-rich environment. Policy uncertainty seems unlikely to slow down, as potential retaliation and negotiations continue. In the United States as elsewhere, we remain focused on companies that can continue to deliver earnings growth in a volatile environment even when investment decisions are being postponed or delayed. The core of our investment process relies on performing thorough fundamental stock research, taking a long-term view, and focusing strongly on valuation. We believe this approach should hold us in good stead as we navigate the continued equity market volatility.

Asia

Asian equities saw some recovery in the second half of April, indicating market hopes around potential softening of Trump’s tariff threats and US-China trade tensions. Amid the ebb and flow of market narratives and sentiment, we maintain our view that the policy and economic outlook remains highly unpredictable. An economic slowdown is still widely expected, with the International Monetary Fund projecting growth in emerging and developing Asia to moderate to 4.5% in 2025 from 5.3% in 2024; China’s 2025 growth may also weaken to 4%, down from 5% in 2024.⁵ In tandem, consensus earnings forecasts are being downgraded. The MSCI AC Asia Pacific ex-Japan Index may see earnings growth of 10% in 2025, versus 21% in 2024, while earnings growth in Japan may slow from 4% to 2%.⁶

Attention to how companies are priced relative to their fundamentals is highly critical in this opaque market environment. We continue to approach Asian equity investing with bottom-up stock selection and valuation discipline. This should consistently lead us to companies that are undervalued relative to their earnings power, balance sheet strength, shareholder returns, and structural growth drivers, among other criteria, allowing us to enhance portfolio resilience against the market headwinds. As mentioned, in Japan, this entails staying invested in domestic-facing companies that are less exposed to foreign revenue and currency risks. We are more selective with foreign income earners, focusing only on beneficiaries of structurally growing end-markets, such as aerospace, defense and semiconductors.

Our allocations in mainland China and Hong Kong will continue to aim for a “Domestic China–Global China” positioning. We think this balanced approach continues to make sense, as it should gear us toward domestic companies that have “self-help” growth characteristics and less reliance on external policy environment, without missing out on companies with greater international presence that may have become mispriced due to tariff-induced market dislocations.

The same prudence applies as we explore the rest of Asia Pacific for diversification opportunities. From South Korea, Taiwan, Southeast Asia, Australia to India, our bottom-up research has uncovered a range of ideas that may add quality, growth and income exposure to TGEF portfolios at favorable prices. Some of these markets have seen their forward price-earnings valuations fall to near or even below their 20-year ranges. If market volatility persists, we stand ready to invest in individual companies that are oversold relative to their intrinsic worth.

Europe

Ongoing volatility is keeping investors focused on short-term challenges and US policy implications. Meanwhile, stubbornly high interest rates and falling energy prices remained significant in recent months. Most notably, the US presidential election has reversed policy tailwinds as the US administration has taken an aggressive approach to international trade, having knock-on effects worldwide.

We are optimistic about recent European stimulus efforts that appear to have positive implications across a range of sectors. We continue to believe that a strong case exists for improved regional economic growth which should translate into opportunities for European equities more broadly. Although weaker growth has cast a long shadow over European equity performance relative to US peers in recent years, we are now seeing a reversal in these trends as leading economic indicators for Europe improve and appear to be declining for the United States. This would suggest to us that this is not a short-term bump but a real medium-term opportunity. We see a variety of companies that can benefit from this investment, with domestically focused businesses particularly well positioned to benefit over time.

As fiscal policies potentially turn accommodative and growth recovery firms up in Europe, what investors traditionally think of as “old economy” industries stand to fare better, in our view. These may include suppliers of raw materials, engineering and construction businesses, staffing companies, or industrials that provide equipment and power, among others. Many of these sectors or companies feed into the rising expectations for defense spending as well. At the same time, we continue to see opportunities among the small and mid-cap companies in Europe. These companies have largely struggled since the peak of 2021. Many of them are high-quality proxies to the structural growth themes unfolding in Europe now, and we are keen to selectively add them to our portfolios where valuations prove compelling in our assessment.

Market review: April 2025

Global financial markets gained but experienced significant volatility in April. As measured by MSCI indexes in US-dollar terms, developed market equities underperformed emerging market equities. In terms of investment style, global growth stocks substantially outperformed global value stocks.

Investor anxiety about the impact of US trade policy weighed on stocks, bonds and currencies. The month started with US President Donald Trump's announcement of “reciprocal” tariffs that were more sweeping and severe than many had expected, driving stocks substantially lower. However, stocks recouped most of their losses after Trump announced a 90-day pause on the implementation of such tariffs on imported goods from most countries and removed tariffs on certain electronic products. US-China trade tensions eased somewhat after the US administration adopted a softer tone, further supporting stocks. On the economic front, early reports for April indicated that tariff concerns weighed on manufacturing activity across many regions, while services activity continued to grow in several regions.

Endnotes

1. Source: IMF World Economic Outlook. As of April 2025. There is no assurance that any estimate, forecast or projection will be realized.
2. Source: IBES. As of April 23, 2025. There is no assurance that any estimate, forecast or projection will be realized.
3. Sources: IBES, J.P.Morgan Global Markets Strategy. April 28, 2025. There is no assurance that any estimate, forecast or projection will be realized. The MSCI USA Index is designed to measure the performance of the large and mid-cap segments of the US market. The MSCI Eurozone Index captures large-cap representation across the 10 developed markets countries in the EMU. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator of future results.**
4. The Magnificent Seven stocks are Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla.
5. Source: “World Economic Outlook”, IMF. As of April 2025. There is no assurance that any estimate, forecast or projection will be realized.
6. Source: FactSet, IBES, Goldman Sachs Global Investment Research. As of May 3, 2025. The MSCI AC Asia Pacific ex Japan Index captures large and mid-cap representation across 4 of 5 developed markets countries (excluding Japan) and 9 emerging markets countries in the Asia Pacific region. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator of future results.**

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

Equity securities are subject to price fluctuation and possible loss of principal. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. There can be no assurance that multi-factor stock selection process will enhance performance. Exposure to such investment factors may detract from performance in some market environments, perhaps for extended periods.

Active management does not ensure gains or protect against market declines.

International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. Investments in companies in a specific country or region may experience greater volatility than those that are more broadly diversified geographically. The government's participation in the economy is still high and, therefore, **investments in China** will be subject to larger regulatory risk levels compared to many other countries. There are special risks associated with investments in **China, Hong Kong and Taiwan**, including less liquidity, expropriation, confiscatory taxation, international trade tensions, nationalization, and exchange control regulations and rapid inflation, all of which can negatively impact the fund. Investments in Taiwan could be adversely affected by its political and economic relationship with China.

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.

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