November 2025

Perspective from Templeton Global Investments

Global Equity Pulse

In focus: Navigating past the tariff risks

Global equities appear to have successfully weathered US tariff impacts, with the third-quarter results season offering more evidence that earnings expectations have recovered to the level prevailing before US President Donald Trump's "Liberation Day" tariff announcement in April. In our view, contributing factors such as production and cost restructuring—as well as pricing power—are helping companies manage the tariff headwinds better than initially thought.

Amid a potentially improving market environment that also benefits from the tailwinds of monetary easing and a weak US dollar, we remain confident in our high-conviction holdings across sectors such as information technology and industrials. Mispricing opportunities in sectors such as health care and consumer staples are also on our radar. As always, our core principles of bottom-up stock selection and valuation discipline will anchor these investment considerations.

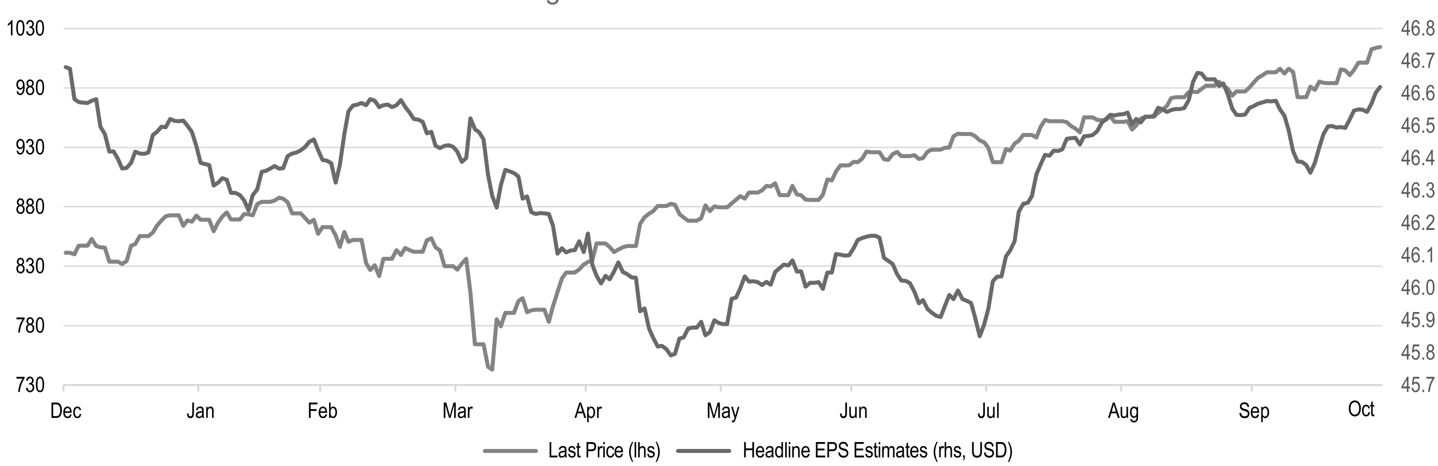
Earnings expectations have recovered

Global equities experienced a major selloff and a rip-roaring recovery in the seven months since Trump shocked the world with his tariff announcements in early April. Throughout this period, the impact of US tariffs on company earnings and margins has been a persistent overhang.

We note the S&P 500 on average witnesses three pullbacks of over 5% a year.[1] As of end-October 2025, we have witnessed only one such pullback in April, which reached into correction territory. Statistically speaking, we could have two more pullbacks—it remains to be seen if the market volatility in recent days will lead to one. As we focus on the long term, such market fluctuations, while uncomfortable, do not divert us from our balanced and disciplined investment approach.

Instead, when considering the tariff situation, we keep in mind that the global earnings outlook has largely recovered to pre-Liberation Day levels. While earnings per share (EPS) projections for the global benchmark MSCI AC World Index (MSCI ACWI) weakened significantly in April and May amid intensifying tariff fears, the bearish sentiment quickly found a bottom before recovering tangibly in August (see Exhibit 1). Growing optimism about earnings has in turn supported market performance, with the MSCI ACWI rebounding some 22% since the end of March 2025.[2]

Exhibit 1: MSCI ACWI Performance and Earnings Estimate



Source: Bloomberg. As of October 30, 2025. The MSCI ACWI captures large and mid-cap representation across 23 developed market (DM) and 24 emerging market (EM) countries. 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.** See franklintempletondatasources.com for additional data provider information.

The upward earnings revisions have been particularly strong in the US market, based on the third-quarter results so far. While the information technology sector is understandably leading the way, driven by artificial intelligence (AI)-related growth, the utilities, financials and materials sectors have also been reporting double-digit earnings growth. Overall, nine out of 11 US sectors have reported higher earnings today compared to September, due to positive EPS surprises.[3]

Managing tariff impact

In our view, these robust corporate earnings suggest companies have largely been successful in navigating their way through tariff headwinds. Factors to consider include the following.

- **Supply chain and cost restructuring:** We think companies may have fared better than initially expected on this front. We have seen evidence of that in the third-quarter update of, for instance, a premium European automaker. The company is in the midst of right-sizing and localizing its production in the United States and China, respectively, to side-step tariffs incurred by both sides. Moving its European production to lower-cost countries on the continent and headcount reduction are other initiatives that may help mitigate tariff risks and protect margins.
- **Pricing power:** We have recently learned that a US technology and smartphone giant has guided for a higher-than-expected gross margin even as it absorbs over US$1 billion of tariff headwinds. In addition to its initiatives to restructure production lines, we think this is also achieved through the company's significant pricing power, which allows it to pass the tariff cost through to its vendors and customers.
- **US-dollar weakness:** Concerns surrounding the fiscal sustainability of Trump's policies and, in the second half of the year, expectations of interest-rate cuts have pressured the US dollar in 2025. The US Dollar Index has declined around 8% in the year to date.[4] A weaker greenback is generally accretive to the earnings of ex-US companies or US companies with a global footprint.

We fully expect US tariffs to stay in the news, periodically affecting investor sentiment and throwing up market volatility. However, with the US-China trade tensions easing meaningfully in recent days, we are cautiously hopeful that companies globally are putting the worst of US tariff shocks behind them, notwithstanding the unpredictable outcome of the upcoming US Supreme Court hearing on the legality of Trump's tariffs.

Further interest-rate cuts from the US Federal Reserve (Fed), the potential follow-up easing at other central banks and fiscal stimulus policies expected across several major economies should also bode well for corporate performance going forward.

Diversified allocations

While market conditions could be turning more favorable compared to the first half of 2025, we believe a balanced and disciplined investment approach remains pertinent. For much of the past half year, we have strengthened our portfolio resilience versus tariff uncertainties by focusing on value, quality and growth stocks that we believe can sustainably deliver returns across the entire market cycle, irrespective of external headwinds. In execution, this entails staying the course with our high-conviction themes and ideas, while paying attention to opportunities to diversify portfolios at attractive prices.

Over the January-October period, Templeton Global Investments' main global equity strategies have drawn performance contributions from core technology holdings, including AI and internet majors; exposure to industrials names in the European aerospace and defense industry has also been beneficial. We stay positive on these allocations, which we believe offer highly resilient proxies to secular growth and fiscal policy tailwinds that are largely independent from tariff and trade disruptions.

Importantly, we expect to maintain significant exposure to AI hyperscalers and critical enablers in the semiconductor value chain. In their third-quarter announcements, these companies continued to stand out with very bullish growth signals. For instance, a semiconductor foundry giant has guided for at least a mid-40-percent level compound annual growth rate for AI-driven demand through to 2029, noting that the US chip restrictions on China are not a major risk. Another software and cloud services conglomerate reported a 51% year-on-year backlog increase to a record high, affirming our confidence in its best-in-class growth outlook.

On balance, we are exploring sectors where we may find good companies that we believe are under- or reasonably valued relative to their earnings power, cash flows and structural drivers, while potentially benefiting from the easing of tariff or policy disruptions.

Health care is one of our favored sectors on this front. The defensive sector has underperformed the global benchmark so far this year (see Exhibit 2) amid US health care policy uncertainties and a rotation to higher-growth themes. The dislocation has allowed us to invest in pharmaceutical, tools and services companies that show evidence of earnings inflection, based on our research. Long-term growth driven by demographic and lifestyle trends provides another layer of defensive growth buffer to our portfolios, helping to balance their cyclical exposures.

Exhibit 2: Health Care Sector Performance Lagging YTD

	One-year Gross Returns (USD, %)
MSCI ACWI	-7.04
MSCI ACWI Health Care	17.80

Source: MSCI. As of September 30, 2025. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future results.** See www.franklintempletondatasources.com for additional data provider information.

In the consumer-related sectors, our research team has recently examined consumer staples. The sector is currently trading at a discount to the MSCI ACWI, which is a rare occurrence last seen during the global financial crisis. Historically, staples' performance also has correlated with US Treasury yields, and the potential downtrend triggered by this year's Fed rate cuts may bode well for the sector going forward.

In considering these and other opportunities, bottom-up fundamentals research will continue to inform our selection decisions. Identifying companies that can reliably manage cost, protect margins and deliver earnings growth remains the key to unlock sustained returns, even as we navigate past the worst of tariff risks.

Investment outlook

While ambitious valuations and stretched technical market conditions call for continued diversification, the broader backdrop for US equities remains highly constructive, in our view. We are confident of the earnings outlook for our US holdings. Sectorially, we believe health care stock valuations look compelling relative to their earnings growth. In Asia Pacific (APAC), US trade deals with China and South Korea have further reduced the regional tariff overhang, but a prudent approach is necessary amid elevated valuations. We maintain our conviction on technology stocks but are expanding our search beyond the immediate AI beneficiaries. European equities are emerging from a period of underperformance with a more balanced and constructive backdrop. Valuations remain appealing while earnings resilience has improved. Opportunities we are looking at include luxury goods, banks, aerospace and defense companies.

North America

We believe that while ambitious valuations and stretched technical market conditions call for continued diversification, the broader backdrop for US equities remains highly constructive. US growth has slowed but remains positive, in line with our base-case view. We are keeping an eye on any further deterioration in growth or signs of a possible recession.

The Fed and other major central banks have cut rates in response to declining inflation, slowing growth and softening labor markets. The Fed's focus has shifted from inflation to labor market risks, especially after recent payroll revisions and signs of employment weakness.

At the sector level, health care has underperformed over the last three years as COVID-era tailwinds turned into headwinds and US policy uncertainty rose. We believe enough bad news is now reflected in valuations. In the United States, health care's relative underperformance has exceeded other periods of policy uncertainty, suggesting that even "less bad" news could be a positive catalyst. Compared with other "stable" sectors, US health care trades at a discount to consumer staples and utilities despite faster earnings growth.

Overall, we remain constructive on the earnings outlook for our US holdings. Near- and long-term earnings growth is supported by what we consider to be durable trends—such as AI adoption, accelerating growth in software and internet, and bank deregulation—alongside strong pricing power, favorable mix shifts and cyclical rebounds in select end markets.

APAC

A major relief to regional tariff woes came in recent days as the United States struck deals with China, South Korea and Malaysia to lower the levies on their exports to the US market. We will watch for further execution details, but the US-China deal is a welcomed de-escalation of the tensions between the two superpowers. For South Korea, a lower US duty on its automobile and auto-part exports, among other adjustments, is also good news for investors.

Overall, the trade deals should further reduce the tariff overhang for APAC equities. We also keep in mind the currency tailwinds arising from the US dollar weakness. Historically, periods of US-dollar weakness have coincided with outperformance in the Europe, Australasia and the Far East (EAFE) regions on a three-year rolling basis. However, the potentially improving macro conditions should not distract our attention to valuations and bottom-up stock selection. With all of the key APAC markets in our portfolios outperforming on a strong year-to-date rally, regional valuations are at a level that requires careful assessment of stock valuations relative to their fundamentals. Prudence in stockpicking and risk/reward adjustments will remain key to the management of our APAC exposure.

With that in mind, we will exercise caution in expanding our APAC technology exposure, despite our high conviction. APAC is home to a range of critical enablers in the global digital and AI value chain. Robust third-quarter sector earnings and forecasts tabled so far have spurred the recent performance of the Taiwanese and South Korean markets—and further affirm our confidence. However, elevated sector valuations will test our ability to seek thematic exposure at lower price points. We maintain core exposure to semiconductors and cloud server producers, among others, but are also exploring alternative ideas with more compelling price points. For instance, we are looking at power solutions providers as another way to invest in the AI theme. Beyond AI, electronics, devices and component producers that have lagged the broader technology stock rally also bear watching.

Europe

European equities are emerging from a period of underperformance with a more balanced and constructive backdrop. Valuations remain appealing to us relative to both history and global peers, while earnings resilience has improved as input costs stabilize and order books in key industries recover. Many of the structural headwinds that previously weighed on sentiment, including fragmented fiscal responses and political uncertainty, have moderated.

Within this environment, the luxury goods sector continues to stand out as an area of potential opportunity. After several challenging quarters, organic growth trends are showing signs of improvement and expectations have reset to more sustainable levels. Europe's leadership in this industry, and the ability of its leading companies to preserve pricing power even in a slower trade environment, provide a solid foundation for renewed investor attention. Alongside luxury, financials and capital goods have been notable contributors to performance of European equities. Banks continue to benefit from higher real interest rates and disciplined capital return policies, while aerospace and defense have gained support from targeted fiscal spending and rising demand visibility. These developments have broadened the opportunity set and reinforced the appeal of companies with demonstrable balance-sheet strength and operational leverage.

From a style perspective, the value factor has regained momentum in Europe, with higher real rates and resilient performance in financials lending support. At the same time, traditional growth and quality exposures have faced pressure as several long-term outperformers consolidate. The growing overlap between value and momentum has created a more complex market landscape, one that rewards selectivity and fundamental research rather than a purely factor-driven approach.

Beyond shorter-term dynamics, structural themes such as technological investment, electrification and industrial modernization continue to support key areas of the market. Firms linked to the semiconductor value chain and advanced capital goods industries are benefiting from these enduring developments. Combined with fiscal initiatives and a more coordinated policy environment, these trends contribute to a more balanced and diversified outlook for European equities over the coming year. At the regional level, France and the United Kingdom continue to house global leaders trading at attractive valuations, while select Central and Eastern European businesses are emerging as innovative disruptors within established industries.

Market review: October 2025

Global equities advanced further in October, with the MSCI ACWI benchmark generating positive US dollar returns on the back of strong gains in the information technology, utilities and health care sectors. In contrast, communication services, materials and real estate lagged, reflecting a shift toward higher-quality growth and defensives.

A second Fed interest-rate cut this year buoyed market performance, US-China trade tensions eased late in the month, and macro momentum in Europe firmed. Oil rallied on fresh sanctions against Russian producers, supporting energy shares and broader cyclicals. With the US government shutdown limiting the data flow during parts of the month, markets leaned on policy signals and earnings, which were generally supportive entering the month-end.

Endnotes

1. Source: LPL Financial. Based on S&P 500 performance since 1980. 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.
2. Source: Bloomberg. As of October 30, 2025.
3. Based on S&P 500. Source: FactSet. As of October 31, 2025.
4. Source: Intercontinental Exchange. As of October 31, 2025. The US-dollar Index measures the value of the US dollar against a basket of six foreign currencies. 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.**

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All investments involve risks, including possible loss of principal.

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

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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.

Large-capitalization stocks may fall out of favor with investors based on market and economic conditions.

Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks.

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