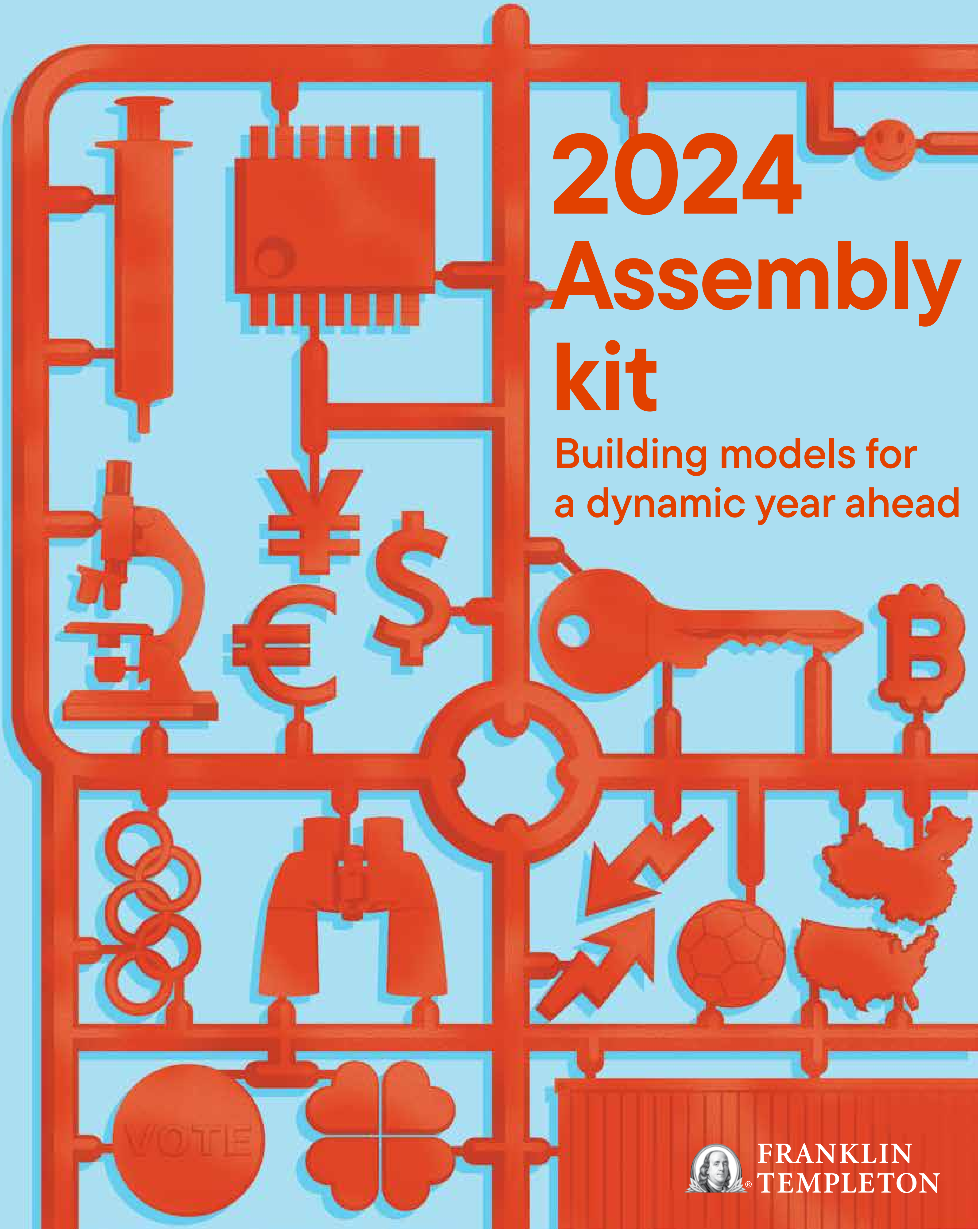
Franklin Templeton

MAGAZINE

Issue 1 – 2024

2024 Assembly kit

Building models for a dynamic year ahead



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This is a marketing communication.

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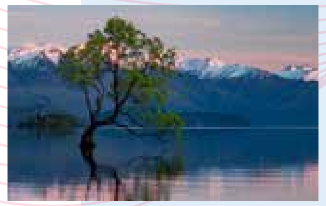

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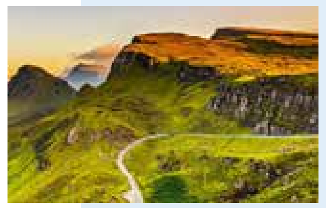

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FT Magazine, issue 1, 2024
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2024 Assembly kit

Welcome to the latest issue of Franklin Templeton's EMEA Magazine, a curated collection of insightful articles and expert perspectives from our investment managers and strategists. In this edition, we proudly present our "2024 assembly kit," a guide designed to help investors seize opportunities amid the ever-evolving landscape of a year poised for political and financial changes.

As we step into the unknowns of 2024, our publication serves as a roadmap, with our investment teams offering valuable insights across various asset classes. In doing so, they provide informed perspectives on the twists and turns anticipated in the financial landscape throughout the year.

In addition, Stephen Dover, Head of the Franklin Templeton Institute, identifies five compelling themes—ranging from the plausible to the unexpected—that could redefine the narrative and performance of markets in the upcoming year. These insights offer an understanding of the dynamics that may shape investment strategies in a time of uncertainty.

Shifting our focus to the political realm, over 50 countries representing more than half of the world's population are set for elections this year. Kim Catechis, Investment Strategist for the Franklin Templeton Institute, provides his views on the potential impacts of these elections for investors, shedding light on how they may reshape the political and economic landscapes in the years to come.

Diving deeper into future trends, our lead article explores innovative disruption—what the portfolio of the future may look like. Examining the interplay between changing investment attitudes across generations, technological advancements, and a dynamic market infrastructure, we offer a glimpse into the evolving landscape of investment strategies.

We hope you will find this issue engaging and informative. Your feedback is invaluable to us, and we invite you to share your thoughts via the link below. Thank you for choosing Franklin Templeton's EMEA Magazine as your source for expert insights and thought-provoking analysis.

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Fit for the future: Tailoring investing for different generations

Read full article

Generational attitudes toward investing are evolving, influenced by diverse experiences. For those disillusioned with traditional investment models, neo-brokers provide a contemporary, inclusive and digital alternative. As our financial infrastructure also goes digital, new asset creation avenues emerge. We explore these changing dynamics and their potential to shape tomorrow's portfolios, reflecting personal values and interests.

Generational differences in needs and attitudes to investing

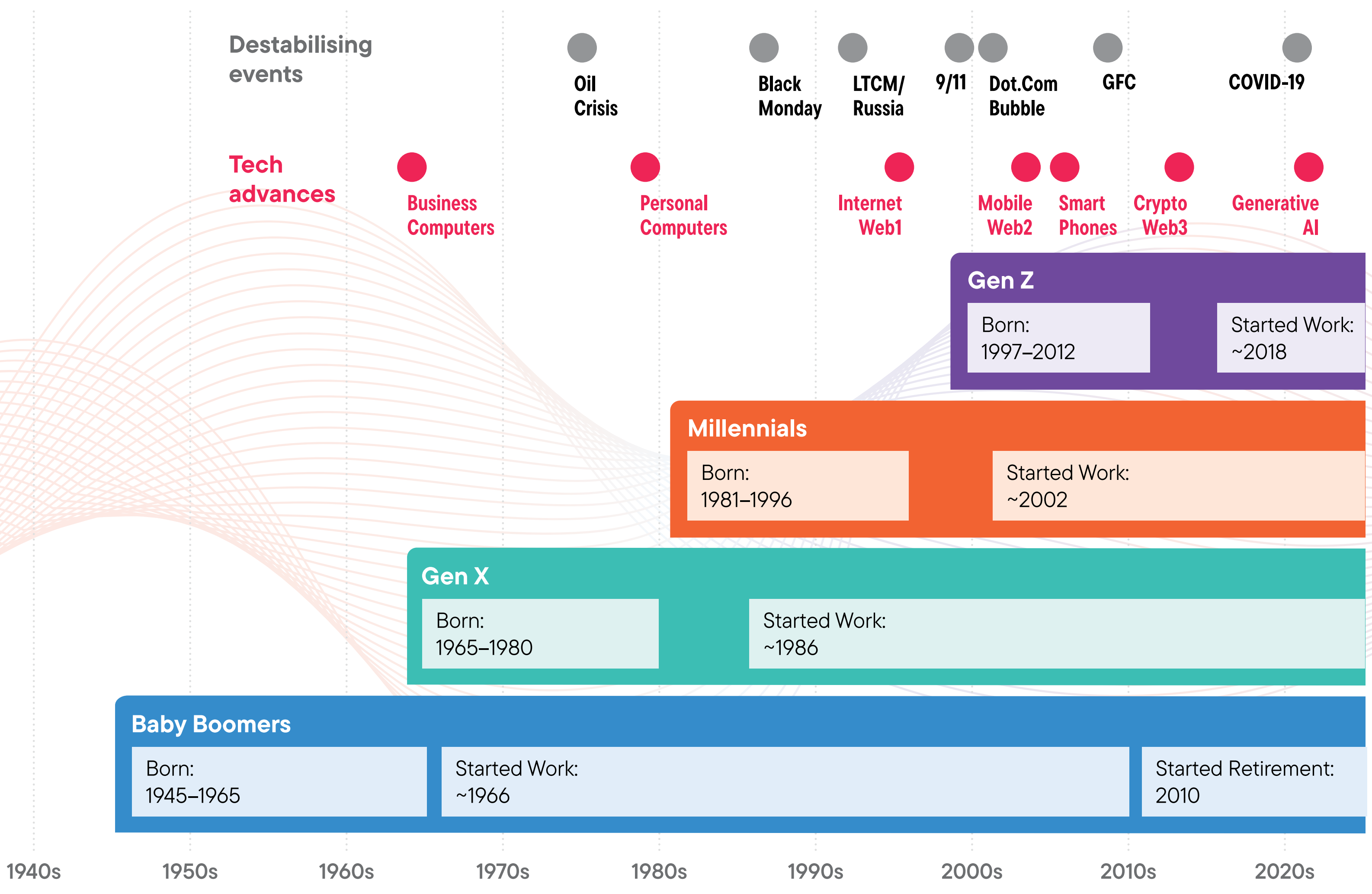
Baby boomers who entered the workplace in the late 1960s have been able to successfully accumulate retirement savings thanks to their careers spanning a period of unprecedented stability. As a result, they are retiring as the wealthiest generation in history. In the US, for example, baby boomers own $156 trillion of assets despite making up only 21% of the population.

The traditional model of wealth accumulation through stable employment and benign markets that worked for baby boomers has not worked as well for subsequent generations (Gen X, Millennial, Gen Z). As shown in the chart below, they have experienced, directly or indirectly, a succession of destabilising global events from the outset of their working life. These formative experiences have shaped both their attitudes to investing and institutions. They have also impacted their ability to accumulate assets.

On a variety of measures, Gen X is the first generation to be worse off than their parents.[1] Millennials graduated with record levels of student debt and entered a job market decimated by the global financial crisis. And while baby boomers spent an average of 8.25 years in a job, Gen X, Millennials and Gen Z spent 5.17, 2.75 and 2.25 years respectively, making it difficult to accumulate retirement savings.[2]

At the same time a 2022 Bank of America Private Bank study found that 75% of respondents between 21 and 42 do not believe it is possible to achieve above-average returns by investing in stocks and bonds (compared with only 32% of respondents over the age of 43).[3] Their immediate financial needs leave less money to save. And how they decide what to do with those savings is different again. For example, a Motley Fool study found that 91% of Gen Z and 75% of Millennials get their investment information primarily from social media.[4]

Life-shaping events by generation



Source: Franklin Templeton Industry Advisory Services. For illustrative purposes only.

Schematic representation of the portfolio of the future

Completion portfolio of equities, bonds and traditional alternatives that return a diversifying set of **alpha and beta and illiquidity premiums***

Personally relevant stocks, tokenized collectibles and assets that return a mix of **income, asset appreciation, special discounts, benefits, access and utility**

With consumer technology reshaping service expectations in all areas of life, and dissatisfaction with traditional models of investing, neo-brokers are presenting these younger investors with a more inclusive, engaging and modern alternative.

The rise of neo-brokers: A digital alternative

Neo-brokers are linking investing to the user's online social identity and making investing a social activity. For example, eToro, a pioneering neo-broker offers clients the ability to mirror and 'follow' other investors' portfolios. Meanwhile, those investors whose portfolios are providing the template for their followers earn rewards.

In addition, neo-brokers offer low friction onboarding, personalised news feeds, tools and education, access to influencer content, connection to a community of like-minded peers, no wealth-based exclusion and fractional exposure to private assets. They also offer combined access to digital alternatives such as peer-to-peer (P2P) lending, crowdfunding, collectibles and crypto, with low-cost thematic ETFs and passive funds providing a new portfolio template.

The intuitive appeal of digital alternatives, such as the ability to invest small amounts in a wine fund curated by a leading sommelier, owning a fraction of the streaming rights of a favourite music artist, or being able to invest in an area where they have personal expertise and experience, e.g., collectible sneakers, is strong and clear. This contrasts with the low emotional engagement with a traditional portfolio.

The same Bank of America Private Bank study cited earlier found that Millennial, Gen Z and Gen Alpha are allocating three times more to digital frontier assets than investors over 43 (16% versus 5%) and 47% of investors under 43 in the survey owned cryptocurrencies.

The alternative digital frontier assets currently being offered by neo-brokers could become much more prolific as the industry's infrastructure moves onto digital rails. This affords new possibilities for asset creation and investors' portfolios.

Transformation of the financial infrastructure

Governments, regulators, and the private sector around the world are making progress to harness blockchain and associated technologies to overhaul the industry's payment and markets infrastructure in pursuit of very large cost savings. This is driving us towards a future where both traditional and new digital assets are 'on chain.' The implications of this tokenization of assets are as profound as they are varied.

On-chain assets are essentially software with their characteristics becoming programmable and flexible. This opens the door to creating and embedding physical world rights and privileges in assets that combine financial yield with other forms of utility or personal relevance. Moreover, the ability to specify, modify and transfer rights and the additional ability to embed smart contracts – automatically executing code which is triggered by specified changes in the outside world, e.g., a price or time being reached, a sale of the asset – in tokens opens a world of customizability not currently feasible or even possible.

Additionally, the token wrapper can enable the ownership of intangible assets or assets that today are currently not able to be owned (and therefore bought, sold and valued), such as individual song rights, in-game items, fractional shares of an indivisible illiquid asset. And by embedding physical world rights in tokens the line blurs between the virtual and the physical worlds. For example, last year Nike announced a new Air Force 1 collection of limited-edition sneakers designed by Japanese artist Takashi Murakami. The only way to access the collection was to buy a token that gave the holder the right to 'forge' a physical sneaker of that design. Once the 'forging' began, collectors could sell the token if the sneaker had not yet been forged and allow the new buyer to access the sneaker. Alternatively, they could sell the sneaker itself on the secondary market if they had already received it.[5]

But beyond the potential to create new assets and create currently impractical levels of customizability, there is an equally significant implication of the move towards the tokenization of assets. A digital asset is held in a digital wallet, not an account. All assets could be controlled from one wallet rather than from myriad separate and unconnected accounts.

A vision of the portfolio of the future

As we increasingly move to a digitised world, new possibilities open up for the creation or assets and the personalization of portfolios. The portfolio of the future may contain a much higher proportion (numerically if not in value terms) of assets with personal relevance to the individual. This could be due to closer alignment with their values, interests, beliefs, and identity, or providing forms of utility in their daily life such as relevant discounts, rewards, preferential access and privileges.

Instead of the portfolio being exclusively focused on maximizing a sum of money on a future retirement date, and as such being peripheral to an individual's day-to-day life, there exists the potential for it to become central to daily living. The wallet would be the interface with the world, in a similar way to the way a mobile phone has become for many.

The portfolio may move from being relevant only to a future life beyond retirement to being central and relevant to an individual's present-day life in a very personal way. It becomes a vehicle for more than just achieving future financial accumulation goals and may be actively structured to yield additional forms of benefit though the use of digital alternatives. We call this 'better living through investing.'

For the traditional investment industry, this vision presents both an opportunity and a challenge. Investment managers are well placed to offer traditional assets but may also need to extend their expertise to new forms and types of digital asset, both managing, sourcing, and creating them. In this world, wealth managers will need to harness technology to create and maintain an understanding not just of an individual's financial situation but also their interests, values, and preferences, with profile construction preceding portfolio construction. And both will need to work closely together if they are to meet the needs of baby boomers entering their decumulation phase and of post-boomer generations with their diverse needs and preferences, and deliver balanced, individually relevant portfolios fit for each person's future.

1. Source: "The Forgotten Generation: Gen X and the Great Resignation." Resource1. 2 December 2021.
2. Source: Kurt, Daniel. "How the Financial Crisis Affected Millennials." Investopedia. 22 November 2022.
3. Source: "Bank of America Private Bank Study Finds Younger Investors Turning to Alternatives, Sustainability and Digital Assets to Create Wealth." Bank of America. 11 October 2022.
4. Source: Caporal, Jack. "Gen Z and Millennial Investors: Ranking the Most Used, Trusted Investing Tools." The Motley Fool. 3 August 2021.
5. Source: Servantes, Ian. "Takashi Murakami's First Nike Collab Comes via an Assist by RTFKT." Sole Savy. 11 April 2023.

*Alpha: the alpha of an investment is its excess return relative to the return of a benchmark index. Beta: a measure of the volatility of a security or portfolio compared to the market as a whole. Illiquidity premium: an additional compensation that investors require to invest in assets that cannot be easily converted to cash.

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Article collection from *The Economist*

The Economist

Article collection

In a rapidly evolving global landscape, staying informed and making informed decisions are paramount. That's why we have partnered with *The Economist*, renowned for its insightful reporting and in-depth analysis, to provide you with valuable perspectives on a wide range of topics, including macroeconomic trends, market developments, industry insights, and geopolitical dynamics.

We invite you to explore the diverse collection of articles selected by the Franklin Templeton Institute.

How to put boosters under India's economy

Read the full article from *The Economist*

The mystery of Britain's dirt-cheap stockmarket

Read the full article from *The Economist*

Europe, a laggard in AI, seizes the lead in its regulation

Read the full article from *The Economist*

India is seeing a massive aviation boom

Read the full article from *The Economist*

Welcome to the age of the hermit consumer

Read the full article from *The Economist*

Britain needs more houses

Read the full article from *The Economist*

Franklin Templeton in numbers

As of 30 November 2023

70+
Cities with offices worldwide

1,300+
Investment professionals worldwide

9,000+
Employees worldwide

$1.5 trillion[1]
Assets under management

150+
Countries with investors

30+
Countries with offices

Learn more

about our Investment Teams on our webpage

1. AUM is in USD as of 30 November 2023 and has been restated to include AUM from Putnam Investments at the same date. Franklin Templeton acquired Putnam Investments on 2 January 2024.

2. On 2 January 2024, Franklin Templeton closed its acquisition of Putnam Investments and launched a strategic partnership with Power Corporation of Canada and Great-West Lifeco.

Our investment brands

Capabilities

Franklin Templeton (1947)
Global, independent asset manager that delivers expertise across all major asset classes, styles and geographies.

Western Asset (1971)
Is known for team management and proprietary research, supported by robust risk management and a long-term fundamental value approach.

ClearBridge Investments (2005)
A global equity manager committed to delivering differentiated long-term results through authentic active management.

Brandywine Global (1986)
Looks beyond short-term, conventional thinking to rigorously pursue long-term value across differentiated solutions.

Clarion Partners (1982)
US real estate investment manager with a broad range of real estate strategies across the risk/return spectrum for global investors.

Lexington Partners (1994)
Manager of secondary private equity and co-investment funds. Capabilities include buyouts, growth capital, and venture capital.

Benefit Street Partners (2008) / Alcentra (2002)
Institutional strategies including private/opportunistic debt, liquid loans, high yield, special situations, and commercial real estate debt.

Putnam Investments (1937)
Delivering stock-driven alpha across equity styles.[2]

Martin Currie (1881)
Builds global, stock-driven portfolios based on fundamental research, aiming to deliver optimum investment outcomes and superior client relationships.

K2 Advisors (1994)
Hedge fund investor with a risk-based philosophy that seeks to generate returns independent of economic conditions.

Royce Investment Partners (1972)
A pioneer in small-cap investing and has focused on this distinctive asset class for more than 45 years.

Specialisation within and across asset classes, styles, and geographies

Fixed income
Bank loans
Credit
Emerging markets
Government
Green / Social
Multi-sector
Securitised
Sukuk

Equity
Emerging / Frontier
Global
Preferred / Convertibles
Sector
Shariah
Single country
Thematic
US

Alternatives
Alternative credit
Digital assets
Hedged strategies
Private equity
Real estate
Secondaries
Venture capital

Multi asset
Balanced
Income
Model portfolios
Shariah
Target date
Target risk
Target volatility

Five surprises for 2024

by Stephen Dover
Chief Investment Strategist
Head of Franklin Templeton Institute

What does 2024 and beyond herald? In what follows, Head of Franklin Templeton Institute Stephen Dover identifies five themes worth watching in the year ahead. The aim is to provoke thought by suggesting possible—occasionally even improbable—outcomes that could shift the narrative and performance of markets in 2024.

1.

Secular stagnation returns

As 2023 drew to a close, investors rejoiced over the prospects of a "soft landing" for the economy, characterized by the return to low inflation without much risk of a recession.

But can the good times last? In our view, a key surprise for 2024 could be the return of "secular stagnation," an outcome of stall-speed growth and low inflation, accompanied by the return to very low nominal interest rates, which characterized US and global growth from 2010–2020. Whispers of "Japanification" of the world economy could turn into shouting matches.

Here's why:

The lagged effects of synchronous global monetary policy tightening, fading fiscal stimulus and the absence of decisive steps to boost growth in China could easily conspire to produce soft global demand in 2024. Recessions may end in Europe, but any recoveries will likely be weak. The US economy may skirt a formal negative gross domestic product (GDP) recession—or it may not, but growth is likely to slow.

Meanwhile, inflation will continue to fall, increasingly due to lower oil prices, softer rental rates and, outside the United States, currency appreciation against a fading US dollar.

Soggy growth and the return to central-bank desired rates of inflation could mean that interest-rate cuts are on the way. Next year, benchmark 10-year US Treasury yields may plunge to 3.0%, and short-term interest rates could end the year more than 1.5 percentage points below prevailing levels.

Here's the concern. Weak growth might not be temporary. If households remain in deleveraging mode, as they have been for more than a decade, business investment spending remains tepid, as it has been, and governments begin to rein in large budget deficits, fantasies of soft landings could become nightmares of global demand deficiency. In macroeconomics terms, 2024 could then look like a year of back to the future—the return of secular stagnation.

2.

Innovation moves to the next frontier: Space

Innovation is the hallmark of our times—so, what is so "innovative" about highlighting innovation as a theme for 2024?

Yet we know it must be true. Advances in artificial intelligence (AI), alternative energy and biochemistry—to name but a few—are, if anything, accelerating.

Space is the next frontier. Zero gravity offers an excellent environment for chemical engineering and other forms of innovative manufacturing, particularly for the manufacture of chemical compounds used in new drugs. It is also a superior environment for producing silicon chips (i.e., with far fewer flaws). Boosted by commercial space launches (e.g., SpaceX), space manufacturing is poised to take off in 2024. It may even become the next fad in growth investing.

Our economies and our lives will continue to be changed by innovation, but not always for the better.

On the positive front, biomedical innovation should continue to save and enhance lives. Continuing a trend since the early 1990s, rates of death from cancer in the United States are declining across almost all cohorts by gender and race.[1]

AI holds out the promise of turning routine, dull and repetitive human tasks into those performed by machines. If so, that's a wonderful workplace improvement, provided that those displaced can find more meaningful, productive and higher-paying work elsewhere. One does not have to be a Luddite to worry, however, that the transition for many will be difficult.

Saving the planet requires humankind to slow the emissions of greenhouse gases into the atmosphere and, eventually, to increase carbon capture. Scientific progress, through government support in the form of grants, is underway. Tax incentives and subsidies are hastening the transition. Those developments should continue, perhaps even at an accelerated pace, in 2024.

3.

Productivity lags

Perhaps there is no greater mystery in economics today than the disconnect between innovation and productivity. To paraphrase the late Nobel prize-winning economist, Robert Solow, innovation is seen everywhere but in productivity statistics.

Several factors may account for why innovation does not necessarily lead to increased productivity.

First, much innovation in recent decades has been consumption-oriented, rather than production-oriented. Video streaming, smart phones and virtual reality are all examples of innovations that make it easier to entertain us. But they don't boost output per hour worked.

Second, history suggests that some of the most productivity-enhancing innovations are those that vastly enhance communication and transportation speed, comfort and quality. The telegraph and telephones, autos and highways, computers and the internet, shortened distance and time, enabling humans to interact more closely and to build more efficient supply chains. Few of today's innovations—from blockchain to AI—offer such networking gains.

Third, truly big innovations—the cotton gin, electricity, the internal combustion engine or the assembly line—massively transformed how we produce and distribute goods and services. Today it is difficult to identify innovations making comparable transformations anytime soon. AI has that potential, but right now its level of cognition, as judged by autonomous driving, fails to even reach high-school levels (i.e., the age at which humans learn to drive).

Finally, for all the advances in medicine, none as yet rival past innovations that most boosted life expectancy and the health of workers—the introduction of antibiotics, indoor plumbing or refrigerated food.

All too often, we live in animated wonder, dazzled by modernity. Until, that is, we reflect on what has truly mattered in the past. Productivity is probably more mundane than our fascination with modern innovation suggests.

4.

Voter disenchantment prevails

Although not an obvious economic issue, elections are another theme we are paying attention to. About 40 countries comprising over half the world's population will go to the polls in 2024, and the fiscal implications could be significant. While the adage that politics is local remains true, the common denominator for global households is disenchantment with the establishment.

Superficially, that seems odd, given that the global economy continues to grow, and inflation almost everywhere is coming down.

Yet frustration runs deeper. In economic terms, voters discount the recent past because of lifetime memories of disappointment. Living standards for many have stagnated. That is important because happiness is as much relative as it is absolute. When many Americans, Europeans, Asians or Latin Americans ask themselves, am I doing better than my parents or grandparents, or have I achieved as much as was expected of me or I expected of myself, their answer is apt to be "no."

As data from the Pew Research Center point out, over the past 50 years, the share of GDP garnered by middle-income Americans has fallen from 62% to 43%. The corresponding share for the poorest Americans has fallen from 10% to 9%. Meanwhile, the share going to upper-income Americans has risen from 29% to 48%.[2] That is the stuff of broad-based disenchantment.

Moreover, unfulfilled expectations are only part of the story. Breakneck innovation, above all in AI, is deeply unsettling to many. Workers fear for their jobs and, perhaps for their identities, as the 2023 writers' and actors' strikes so aptly demonstrated. Failed wars and the outbreak of new conflicts are also part of the prevailing American narrative. Gone are stories about the Greatest Generation of the 1940s and 1950s, along with its "anything is possible" spirit.

Those thinking that the end of the pandemic, the slaying of inflation and the avoidance of recession will lead to electoral victories for normality, orthodox policies and greater harmony in the electorate could be sorely disappointed with the outcomes in 2024.

5.

Low-quality credit cracks

What goes up, must come down. In finance, as in physics, the laws of gravity have not been repealed.

In the 15 years since the global financial crisis (GFC), low interest rates and the easing of financial conditions have allowed an explosion of debt financing globally. In an environment of low interest rates, it has been a reasonable capital allocation decision for companies to take advantage of this low-cost source of funding.

But the ground is shifting. Low interest rates spurred borrowing demand at the lowest end of the credit-quality spectrum and the search for yield drew in investors, giving many creditors the wherewithal to expand. Since 2022, however, interest rates have risen rapidly in combination with a more challenging economic landscape.

So far, credit markets have held up, at least if we overlook the failures of US regional banks and Credit Suisse in the spring of 2023. But to say that the worst is over seems complacent to us. The maturity of borrowing was lengthened after the GFC. That extends lags between rising interest rates and credit stress, but it does not eliminate them. At some point, credits need to be renewed, and new borrowings financed, both at higher rates of interest.

It is almost impossible to know when or where cracks will emerge, but it seems reasonable to expect some to surface over the next 12 months. That's because in addition to higher borrowing costs, many firms will also face weaker demand for their goods and services as the economy slows next year.

Most lenders counter that their portfolios of loans are well diversified. That may be true when viewed through the prism of size, sectors or geography. But economic downturns and higher interest rates create common, not idiosyncratic, shocks. They hurt small and large alike, travel coast-to-coast and around the world, and impact many sectors.

The coming year is therefore likely to herald a wake-up call. Default risk will likely be on the rise. While divisions between high- and low-quality debt might well be contained, we believe a watchful eye on any spillover effects across the corporate credit landscape is warranted in 2024.

1. Source: "Cancer Trends Progress Report: Mortality," National Cancer Institute. August 2023.
2. Source: Horowitz, Juliana Menasce, Igielnik, Ruth and Kochhart, Rakesh. "Trends in income and wealth inequality," Pew Research Center. January 9, 2020.

Read online

Through screen to reality:
Timeless films that predicted today's tech innovation

Colleagues from Franklin Templeton delve into films that both entertained audiences and foreshadowed the future of technology and science fiction.

Christy Tan
Investment Strategist, Franklin Templeton Institute

Avatar

Having an alternative identity/avatar in another "world" reflective of the metaverse of present day. It also has strong environmental themes, emphasizing the importance of preserving natural habitats and respecting the interconnectedness of life. It mirrors concerns about deforestation, habitat destruction, and the exploitation of natural resources.

Contagion

This movie depicts a global pandemic caused by a novel virus, highlighting the rapid spread of the disease, the struggle to find a vaccine, and the societal impact of the outbreak. Its portrayal of the pandemic, public health responses, and the spread of misinformation closely parallels many aspects of the COVID-19 crisis.

Jason Xavier
Head of EMEA ETF Capital Markets, Franklin Templeton

Minority Report

I always recall the scene from Steven Spielberg's *Minority Report* where Tom Cruise walks through a shopping mall viewing adverts that mention him by name. Scanning his eyes to confirm he's an American Express card holder. While we're not yet at the eyeball scanning level, personalized targeted advertising has certainly changed the media, tech and advertising landscape.

Shane Hurst
Portfolio Manager, ClearBridge Investments

Star Trek

Star Trek is a movie that ignited innovation! From its origins on 1960s television to a global multimedia phenomenon, *Star Trek* has left an indelible mark. The futuristic inventions portrayed in the film, such as flip phones, universal language translators, 'holodecks,' and tricorders, have become a reality in today's world. It is amazing to see that futuristic cinematic vision can indeed spark real-life innovations!

Jonathan Curtis
Director of Portfolio Management, Franklin Equity Group

Oppenheimer

The recent movie release of *Oppenheimer* is super timely as we consider not only the long-term potential uses and benefits of Artificial Intelligence (AI), but also their implications and risks. Some of the scientists working on AI today are appropriately concerned about the risks that the technology poses. JR Oppenheimer reminds me a bit of these AI scientists struggling to get comfortable with the risks and opportunities that AI presents.

Matt Moberg
Portfolio Manager, Franklin Equity Group

The Martian

One movie that comes to my mind is *The Martian*, starring Matt Damon. He plays an astronaut stranded on Mars who uses science and his wits to survive until help arrives. In the movie, he creates water from burning hydrogen, creates his own fertilizer, and communicates using an old 1997 Rover. It is an excellent allegory for the progress we are making today in multiple disciplines of science, and certainly how we will solve the problems of 2024 and beyond.

*Franklin Templeton is not affiliated with the makers of the movies and accepts no responsibility for the contents. This is not a recommendation to watch, buy or stream one of these movies.

Read more from Franklin Templeton Institute

2024 elections

What do this year's global elections mean for investors?

by Kim Catechis
Investment Strategist
Franklin Templeton Institute

International investors understand that domestic politics drives policy direction in any country. Elections are viewed as sometimes risky periods, as we wait to see which political leader voters chose and assess the implications of their stated policy objectives. In practice, even extreme-sounding politicians can often prove to be pragmatic once in office, as they come to recognise the limitations of their mandate, so the extent and quality of the victory are important. In any case, even narrow elections have consequences, although the impact on investors is sometimes not immediately obvious.

More than 50 countries are expected to hold national elections in 2024. That number includes presidential and legislative elections, but also local government elections that are national in nature and will impact domestic politics, potentially facilitating or obstructing the government in the pursuit of their objectives.

Political risk is global in 2024

Some of these elections can be categorized as 'free and fair,' meaning that citizens can stand for election and campaign fairly, allowing the voters to choose their preferred candidate on an even playing field. In authoritarian countries, like Russia and Venezuela, citizens can vote, but the contest is neither free nor fair, with opposition leaders in jail and campaigning, freedom of speech and association all severely restricted. Finally, we have a third classification, hybrid democracies, which are functioning democracies with weaknesses in their electoral systems and their governance.

2024 Elections	Total	Global Share
Number of Countries	50+	26%
Population	3.5 billion	44%
Gross Domestic Product	USD 45.6T	46%

Notes: Population and Gross Domestic Product (GDP) data as of 2022. Figures exclude elections for the European Parliament.
Sources: World Bank, Department of Household Registration of Taiwan, IMF, Macrobond. Analysis by Franklin Templeton.

The predictability of election outcomes

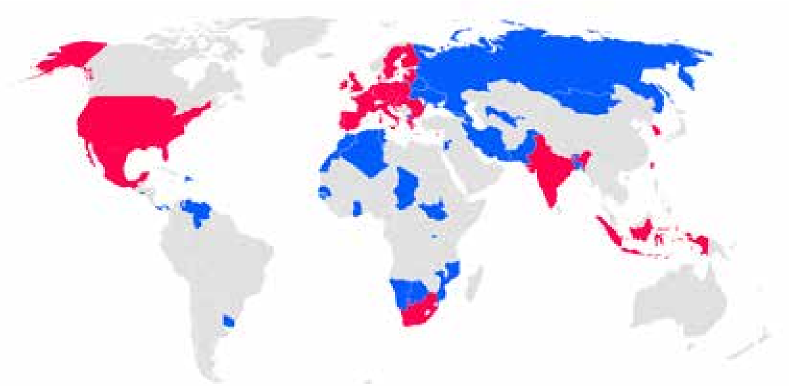
Some election outcomes are predictable because they are held in authoritarian countries, while others are predictable because one of the contenders has an exceptionally big lead over a weak, fragmented opposition.

However, investors will be focused on the elections held in the countries that are most relevant to their investment portfolios, and those countries where a binary election outcome has the potential to generate investment profits or losses, depending on the capital markets' assessment of a country's future economic prospects.

In the map on the next page, we have highlighted in red the territories where our clients have the most interest in for investment reasons. India will hold the biggest election in terms of number of voters and it will be the longest lasting, over months, while Indonesia will hold the largest election held on a single day. As the world's largest economy, the US presidential election in November is clearly very important because of the impact the next president could have globally as well.

In **Taiwan**, the recent elections resulted in a Democratic Progressive Party (DPP) president, but a legislature dominated by the opposition Kuomintang (KMT) and Taiwan People's Party (TPP) parties. With no party gaining a majority, President William Lai will have to negotiate with the opposition parties to execute on policy. The two high-profile policies he campaigned on are the phasing out of nuclear power (with a determined drive to boost solar and wind power) and the lengthening of military service from four months to a full year for young Taiwanese. Investors have already driven up the valuations of wind-power-related companies on the Taiwan Stock Exchange and will anticipate a continued campaign for Taiwan to open access to more export markets around the world.

Which are the most relevant elections for international investors?



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Investment implications from other elections

Indonesia: On February 14, approximately 205 million voters[1] will select the next president and the representatives in the legislature (in Indonesia, serving members of the armed forces and police are not allowed to vote). The polls indicate ex-General Prabowo Subianto is in the lead with a 20-point gap, but may not reach the 50% threshold, triggering a second round against either Anies Baswedan (ex-governor of Jakarta) or Ganjar Pranowo (ex-governor of Central Java). It is difficult to predict the winner, as over 60%[2] of eligible voters are under 40 years of age, meaning that climate change, education, corruption and jobs are key issues. For investors, it seems likely that Indonesia will be able to continue to balance relationships with China and the United States, whilst being well placed to build a key position in the new architecture of global supply chains, based around its critical mineral resources. The key variation looks to be the degree of protectionism around the natural resources sector, depending on the winning candidate.

India: Around 945 million[3] registered voters in India will have the opportunity to elect their representatives in the Lok Sabah. The latest polls suggest that Prime Minster Narendra Modi's personal popularity will sweep him back into power at the next elections, although his party may have a diminished majority in parliament. The opposition has formed a 26-party coalition under the acronym INDIA, but it lacks a unifying leader to rival Modi. This third term of a Bharatiya Janata Party (BJP)-led government is expected to continue pushing the 'Make in India' agenda, while investment in infrastructure is a necessity. India will likely continue to block Chinese investment in electric vehicles, preferring to subsidise domestic production. The 2024 budget will show increasing tax revenues, and investors anticipate a reduction in interest rates post elections. There may be some progress with the implementation of new labour laws, which could attract foreign direct investment. International investors have high expectations; post-election policy execution is key.

European Union: In June, around 450 million citizens[4] of the 27 member states of the European Union (EU) will hold elections for the European Parliament. Historically it has been dominated by centre parties—the European Peoples' Party (EPP) and the Socialists and Democrats (S&D). This time, the polls suggest a more 'right-wing' looking EU. Some might think that this is a problem, but the reality is that it depends very much on the composition of the 'right wing.' The moderate *European Conservatives and Reformists* (ECR) are very anti-Russia and immigration and reject a federal EU, but do work with centre parties. The newer and rising *Identity and Democracy* (I&D) grouping (including Italy's Lega, France's National Rally and Germany's AfD) is more sympathetic to Russia and sceptical on Brussels and is less likely to be constructive in policymaking. In any case, investors should expect a closer alignment with the United States on China, with potentially more restrictions to inward investment, continued momentum for the 'Green Transition' and a greater focus on border control and defence, leading to closer alignment with NATO.

United Kingdom: Although the government has until January 2025 to call elections, most observers expect elections in November or December 2024. The polls suggest that after 13 years, the Conservative party is trailing by around 20 points, suggesting that a change is coming. A Labour government would probably lead to more productive relations with the EU, although there is no suggestion of a move to reverse Brexit. For investors, the conundrum remains to gauge the United Kingdom's undoubted attractions, including low valuations, with a productivity challenge at a time of stretched government finances and a tough economic outlook.

United States: It is hard to overstate the global importance of the presidential elections. The two-party system produces binary outcomes, but experience demonstrates that majorities in Congress and the Senate are key to any president's ability to execute on their agenda. From available information, investors can expect policies to boost American manufacturing and reshoring to the (United States-Mexico-Canada Agreement (USMCA)), continued obstacles to trade with China and a reluctance to commit to direct intervention in foreign wars. It seems that a Republican president may force closer cooperation between the United Kingdom and the EU and a move by Asian countries to hedge their position with regard to China.

The risks include artificial intelligence and election disinformation

Perhaps ominously, this record year of elections around the world is also the first time that generative artificial intelligence (AI) tools such as Chat GPT and Midjourney became widely available—as well as the technology for 'deepfakes,' where high-profile people can be digitally cloned for use in realistic videos. The implications for election campaigns are extremely concerning, as these new technologies could multiply and intensify attempts at spreading misinformation to influence electoral outcomes.

The threat of weaponized misinformation and already-prevalent geopolitical tensions suggests that it might be prudent to stay informed and knowledgeable on the issues, the dynamics of each election and the potential implications for policy direction. We at Franklin Templeton Institute can help.

1. Source: The Lowy Institute. 1 March 2023.
2. Source: Carnegie Endowment for International Peace, Comment. 5 October 2023.
3. Source: *Economic Times*. 2 February 2023.
4. Source: European Union – Key Facts and Figures.

Global Investment Outlook

Flexibility, resilience and opportunity

FRANKLIN TEMPLETON | Institute

Our investment teams share where they see investment opportunities across asset classes in our latest Global Investment Outlook. Is an economic slowdown expected in 2024? Diverse views are presented on interest rates and inflation, investment opportunities, risks, and potential surprises.

Stephen Dover, CFA
Chief Investment Strategist and Head of Franklin Templeton Institute

Navigating the year ahead through multiple lenses

In this publication, Franklin Templeton Institute and our independent investment teams provide a diversity of thinking. This diversity is reflected in wide-ranging views on macro topics such as the growth, inflation and interest-rate outlook, as well as where they believe the best investment opportunities can be found in 2024. Given this, we have summarized the key themes from Franklin Templeton Institute and our independent investment teams to help better understand how they compare to one another. Because we believe an investor's portfolio should be distributed across the broad range of asset classes and regions in a way that optimizes the balance of risk and reward across various economic outcomes, we hope this provides context as to where our independent managers might fit into a broad allocation.

Our investment teams share their perspectives on the outlook for 2024 through their responses to the following questions:

1. Do you expect a soft or hard landing in the major economies?
2. How will the path of interest rates and inflation develop in the major economies?
3. What catalyst could drive a significant shift in your asset-class focus?
4. Where do you see the best investment opportunities?
5. What are the main areas of risk?
6. What could be a major surprise to markets in 2024?

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

Allocation Views **Macro Perspectives**

Follow our Head of Franklin Templeton Institute and Chief Investment Strategist

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2024 Outlooks

We've got our eye on the new year!

New year, new outlooks: discover what our investment teams are looking toward in 2024 covering fixed income, equities, multi-asset, alternatives, ETFs and digital assets.

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Fixed income outlooks

In fixed income, we think yields are attractive and a tilt to quality is favored at this stage of the economic cycle as interest rates are near peak levels and inflation and economic growth are softening.

Time to invest in European fixed income?

Franklin Templeton Fixed Income's Head of European Fixed Income, David Zahn, sees opportunity in locking-in currently attractive yields with longer-duration assets...

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Franklin Templeton Fixed Income

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Templeton Global Macro®

Global fixed income perspective

Brandywine Global believes a recession is not needed for normalization to occur, providing the Fed reacts to lower inflation with timely interest-rate cuts.

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Stephen Dover, Head of Franklin Templeton Institute, recently sat down with Franklin Templeton Fixed Income Portfolio Manager...

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The US economy now appears to be headed toward a period of inflation close to the Fed's target and growth close to trend growth, according to Western Asset.

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Western Asset

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Brandywine Global: The investment outlook comes down to only a few remaining crucial variables to return to something more normal. Our experts share their views on how these key factors may impact...

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Brandywine Global

> "Sustainable investing will be a dominant trend in the coming years."

David Zahn, CFA, FRM
Head of European Fixed Income, Franklin Templeton Fixed Income

Equity outlooks

Within equities, we believe opportunities are increasing. A peaking US dollar and shifting geopolitics could drive more regionalized trade patterns and reshoring may create tailwinds for particular countries and companies.

> "Our confidence in above-market growth for the technology sector is bolstered by our assessment of strong demand for generative AI applications in 2024."

Jonathan Curtis
Portfolio Manager,
Director of Portfolio Management,
Franklin Equity Group

US equity outlook: Market breadth to dictate bullishness

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Royce Investment Partners: Co-CIO Francis Gannon looks at the prospects for active management in US small caps in 2024 and the investment opportunities available.

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The information technology sector had an eventful 2023. Franklin Equity Group believes 2024 may be another year of strong performance.

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Climate change outlook

Three catalysts that will be important for climate change investments in 2024, according to Templeton Global Equity Group.

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> "Strong fundamentals and favorable valuation backdrop will likely define 2024."

Nick Langley
Portfolio Manager
ClearBridge Investments

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Franklin Templeton Investment Solutions

"...we believe that global inflation will continue to moderate from current levels, but its pace and end point remain uncertain."

Wylie Tollette, CFA
Chief Investment Officer,
Franklin Templeton Investment Solutions

Stabilization might be enough

In this Allocation Views, our Franklin Templeton Investment Solutions team see recession risks moderating in some developed economies, led by the United States, but still anticipate a period of below-trend...

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Time to shake it off

Franklin Income Investors believes investors should embrace the attractive income and total return opportunities that exist today in both fixed income and equity markets, as we enter 2024.

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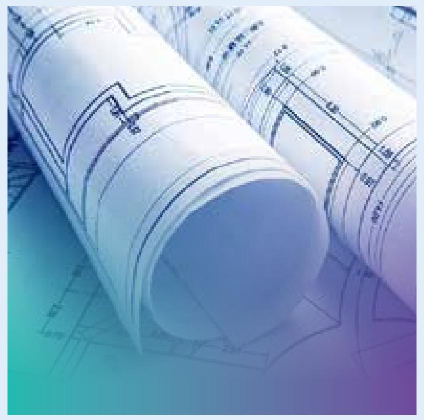

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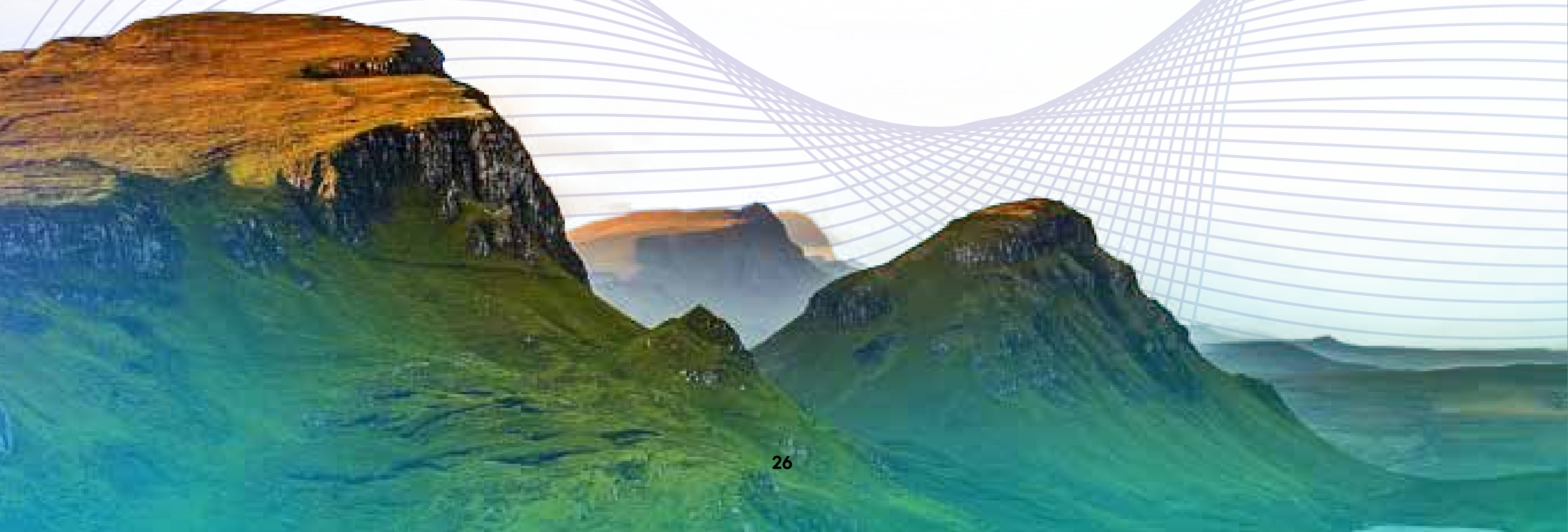
K2 Advisors

> "Inflation has fallen considerably from its 2022 peak and if the current trend is sustained, central banks may be persuaded to pivot from 2024."

Bruno Berretta
Head of Research, European Markets
Clarion Partners



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Translating the power of AI into action

Will it rain today in my city—or on my portfolio?

Since the 1970s, artificial intelligence (AI) has assisted investors with trading strategies and meteorologists with weather forecasts. For the most part, however, AI was behind the scenes with many of us unaware that it was even being used.

That's all starting to change though, as generative AI, which can generate text, images, or other types of content, embeds itself into various aspects of daily life. As a result, generative AI is set to disrupt and transform industries, such as media, entertainment, and education. For example, it can create realistic and personalised digital content, such as movies, games and books, catered to consumers' diverse tastes and preferences.

At Franklin Templeton, we are excited about AI's potential and not just its ability to support our investment decisions and processes. We also see the opportunity it brings to enhance our service to clients and reach out to global audiences. As a first step, therefore, we are pioneering its use through AI-generated video translations into multiple languages.

Watch English-speaking Jonathan Curtis, Portfolio Manager, Franklin Technology Strategy, deliver his latest technology update in various languages.

Discover the investment potential of new technology

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