“Take care of the client, and the business will take care of itself.” Charles B. Johnson

January 30, 2024

Dear Investor,

Hope you have had a great start to 2024. The first month is flying by and many of us might be re-evaluating the new year resolutions we set just a few weeks ago. The journey of self-improvement is a road filled with twists, turns, and the occasional detour. It's natural for resolutions to face some roadblocks, and I want to assure you that it's okay. Just like we navigate the market volatility, stay resilient in life and your investments.

Navigating 2024 through multiple lenses:

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.

The Macro Outlook:

The Franklin Templeton Institute view	We expect the global economy will slow in 2024 but avoid a recession, with inflation moderating. This will prompt the Federal Reserve (and other central banks) to cut interest rates over the next year.
Franklin Templeton Fixed Income	We do not feel the US economy will fall into a technical recession over the course of 2024 and 2025; however, even in a ‘soft landing’ scenario, there will be some pain as the economy slows.
Templeton Global Macro	While risks to growth remain and global growth is more pedestrian than sparkling, the actual outcomes over the past year have been somewhat better than projections made this time last year and have certainly defied the worst-case predictions of global recession.
Franklin Equity Group	We see recession risks moderating in the United States and a period of stabilization in economic indicators as inflation cools and the Fed likely nears the end of the tightening cycle.
Franklin Income Investors	The US economy is expected to experience a slowdown, though perhaps not at the level that market participants expected
Templeton Global Investments	Both the United States and China are likely to avoid a recession in 2024. In our view, policymakers have considerable monetary policy flexibility to stimulate growth.

Equity Market Catalysts:

The Franklin Templeton Institute view	Resilient economic growth has made equity analysts more upbeat, with consensus expectations for earnings growth in the low double digits for 2024. We think corporate earnings are not likely to grow at such an aggressive rate given the expected slowdown in the broad economy.
Franklin Equity Group	We believe 2024 may present an inflection point in revenue and earnings growth for many companies.
Templeton Global Investments	US interest rate cuts and a weaker US dollar as well as signs of slowing growth in the United States are catalysts we believe will be positive for global ex-US and emerging market equities.

Fixed Income Market Catalysts:

The Franklin Templeton Institute view	With slower growth and earnings disappointments, credit spreads are likely to widen. Bond yields, which fell rapidly in the fourth quarter of 2023, will likely fall further. High interest rates have buoyed the US dollar, which we think is poised to depreciate.
Franklin Templeton Fixed Income	We do not see a lot of opportunity for significant capital appreciation next year. Returns will be driven by the substantial income provided by holding fixed income assets, as yields remain attractive across many sectors.
Templeton Global Macro	In our view, both cyclical factors (particularly the end of the US rising rate cycle) and structural factors (the US's twin current account and budget deficits) will result in US dollar weakness. We expect select emerging markets as well as Japan to benefit from this.
Franklin Income Investors	Within fixed income, there is strong potential for attractive total returns as monetary policy shifts from restrictive to either neutral or one of accommodation if the economy were to experience sluggish growth or recessionary conditions.

India Market Outlook:

As India celebrates its Republic Day this month, 2024 promises to be a busy year for the country. We have an action-packed election season, sporting extravaganzas, and multiple space missions to infinity and beyond. India is entering a period of self-sustaining expansion as prior reforms create a virtuous cycle of growth. This could drive nominal gross domestic product (GDP) growth as high as 10% annually in the coming decade. We have identified three primary drivers of growth which are linked to our investment themes of rising demand for financial services, infrastructure investment, consumerism, and the green transition in India:

- Broad-based infrastructure and manufacturing investment have joined consumption as growth drivers. Services exports are widening and deepening to include global capability centers focused on accounting, marketing, and human resources.
- A sustained switch from unorganized to organized economic activities is taking place, as prior reforms bring more labor into the organized economy and reduce the attractions of cash-based transactions.
- There is more political and economic stability with low inflation and a sustained reduction in the current account and fiscal deficit. The government has recognized its role in kickstarting a new industrialization process to leverage opportunities from "Make in India," the diversification of global supply chains and the green transition.
- On the fixed income front, the RBI is likely to keep policy rates steady with some probability of shallow rate cut moves in the 2nd half of 2024. We do expect, however, that the RBI would drop the "withdrawal of accommodation" stance somewhere in the next few policy meetings and move to a "Neutral" stance. Considering the above, we believe that the short end of the curve continues to offer a better risk reward to the investors.

Hope you find these insights useful.

Shared values and objectives, Client focus, Collaboration and Continuous Improvement - These principles form the foundation upon which successful partnerships are built and have been embraced by Franklin Templeton for over 75 years globally and 27 years in India. Over that time span, our firm has grown to become a powerful partner with investors and distribution partners as we live our mission to help people around the world achieve their most important financial milestones. It is our endeavour to make this partnership only stronger in 2024. Wish you a happy and successful year ahead.

As always, you can directly write to me at avisatwalekar@franklintempleton.com with any feedback and questions. I value your questions, and feedback and look forward to the opportunity of continuing to meet your investment needs.

Sincerely,

Avinash Satwalekar
President, Franklin Templeton Asset Management (India) Pvt. Ltd.
