Templeton Global Bond Fund

Series A
Series F
September 30, 2021

Fund Commentary

Performance Review

- The US dollar (USD) broadly strengthened against most developed market and emerging market currencies during the third quarter of 2021, with some exceptions. Broad USD strength was most pronounced in September as the US Federal Reserve (Fed) shifted in a hawkish direction, signalling that tapering of its asset purchases would likely begin in the fourth quarter of 2021 and be completed around mid-2022. Waves of risk aversion also resurfaced in several asset classes during the last month of the quarter on varying concerns, including defaults in China's real estate sector, surging energy costs and fuel supply constraints in Europe, and political deadlock in the US over the debt ceiling. The yield on the 10-year US Treasury note finished the quarter two basis points higher at 1.49%.
- For the quarter, the fund's Series F shares returned -0.54%, and its benchmark, the JP Morgan Global Government Bond Index, returned 1.20%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Currencies	Duration	Credit
HELPED	—	Argentina	—
	—	India	—
	—	—	—
HURT	South Korean Won	Brazil	—
	Brazilian Real	—	—
	Argentine Peso	—	—

- The USD broadly strengthened during the third quarter, with some exceptions. The Canadian dollar (the fund's base currency) depreciated against the USD during the period. Currency positions in Latin America (the Brazilian real, Argentine peso and Chilean peso) and Asia ex Japan (the South Korean won) detracted from absolute fund performance, as did positions in northern European currencies. We are focusing on value opportunities in specific currencies, particularly in countries with strong trade dynamics, current account surpluses, better fiscal management and stronger growth potential, notably in Asia.
- Sovereign bond yields rose across much of the world in August and September after generally declining in July. On the whole, sovereign bond yields in most developed markets finished the quarter relatively flat to moderately higher, while emerging markets saw much greater variation, ranging from significantly higher upward adjustments in many countries to lower yields in a select few. Select duration exposures in Asia ex Japan (India) contributed to absolute fund performance, while duration exposures in Latin America had mixed results (Argentina contributed, while Brazil detracted). We continue to focus on higher-yielding local-currency bonds in specific emerging markets that have resilient economies, healthy or improving fiscal conditions and strong trade dynamics.
- From an overall positioning standpoint, we continue to maintain low portfolio duration. We are significantly underweight developed market duration, and we hold no duration exposure in the euro area. Instead, we continue to emphasise select local-currency sovereign bonds outside of the major developed markets, in countries that we view as having resilient fundamentals and attractive risk-adjusted yields. We are holding various unhedged local-currency sovereign bonds, notably in South Korea, Indonesia, India, Ghana, Brazil and Colombia. We are also focusing on value opportunities in specific currencies, notably in Asia. We are holding long exposures in the Chinese yuan, South Korean won, Japanese yen, Indonesian rupiah, Indian rupee, Singapore dollar, New Zealand dollar and Chilean peso against the USD. In credit markets, we see pockets of value in select sovereign credit exposures that have undervalued growth drivers and attractive risk-adjusted spreads. On the whole, we remain constructive in specific currencies and local-currency bond markets, notably in areas of Asia, as we largely expect the global recovery to continue through the remainder of 2021 into 2022.

Outlook & Strategy

- We expect macroeconomic conditions in much of the world to continue to improve through the remainder of 2021 into 2022. However, economic recoveries are likely to remain uneven as countries are at different stages of handling the pandemic. Several emerging markets continue to lag the rest of the world in distributing vaccines, while others, like Chile, are close to the levels of developed markets. Some countries have begun to transition towards a post-COVID order, providing third dose booster shots, developing non-vaccine treatments and/or pivoting towards a policy stance of "living with COVID" to move beyond the damaging cycles of lockdowns and reopenings. On the whole, we remain optimistic for the ongoing global recovery, particularly for a number of emerging markets that stand to benefit from strong trade dynamics.
- While conditions appear broadly supportive of strategic rotations into risk assets, it remains crucial to be highly selective at the sovereign level given significant variations in economic conditions and policy responses. Risks to the global recovery include potential setbacks in vaccinations, particularly in emerging markets, as well as COVID-19 variants that have the potential to extend the duration and damage of the pandemic in certain regions.
- Structural risks associated with massive fiscal spending and excessive monetary accommodation also remain a medium- to longer-term concern in several countries. Debt levels have risen significantly in just about every country. Additionally, financial market overreliance on extraordinary monetary accommodation creates the preconditions for a potential financial market shock when policy begins to normalise. While our base case sees measured monetary tightening from the Fed and other major central banks that should avoid a repeat of the 2013 taper tantrum, we do anticipate scattered episodes of volatility as the world transitions from the massive fiscal stimulus and monetary accommodation of the last 18 months. Exiting the pandemic is unlikely to be a completely smooth transition.

- We expect inflation figures to remain elevated in 2021 in many countries, driven by a combination of factors that include cyclical upswings associated with resurgent economic activity, supply bottlenecks in certain sectors and base effects off of the pandemic shocks in 2020. These factors should be largely transitory, in our view, with inflation levels eventually moderating to secular trends in 2022, given elevated unemployment and automation factors that continue to dampen wage pressures. Additionally, a handful of sector components are having outsized impacts on the US inflation prints. As these component effects normalise, we would expect the headline figures to come down.
- However, excessive monetary accommodation, massive fiscal stimulus in the US and resurgent growth present inflationary risks that bear monitoring. Additionally, upward adjustments to housing rents to narrow the historically wide gap with surging house prices, as well as labour market mismatches from massive job losses and all-time highs in job openings, have the potential to create additional price pressures. The true test will be whether any of these factors become persistent enough to feed into longer-term inflation expectations, which would create self-sustaining price pressures. We currently see conditions for inflation expectations to moderate as near-term spikes in the inflation figures eventually wane, but we also continue to monitor the risks that would cause inflation expectations to become unanchored.
- Many central banks have begun considering when and at what pace to begin normalising policy. Specific emerging markets with inflation concerns have already begun raising rates, such as Brazil, Mexico, Chile, Peru, Russia and Hungary, while other countries are looking towards normalising policy to keep ahead of the curve, given strengthening economic conditions. A number of countries have indicated that rate hikes and/or asset-buying programme adjustments are likely to occur during the remainder of 2021. We expect a growing divergence on the monetary policy front as certain developed market central banks trend towards policy normalisation ahead of others, such as Norway, South Korea and New Zealand, while certain emerging market central banks are compelled to tighten policy to contend with rising inflationary pressures. Certain emerging markets have been able to stay ahead of the rate cycle, maintaining already high rates or hiking rates ahead of others, putting them in a stronger position to handle the upcoming global tightening cycle.

Fund Details

Inception Date	07/15/1988
Benchmark Name	JP Morgan Global Government Bond Index

Fund Description

The Fund seeks to achieve high current income with capital appreciation by investing primarily in fixed income securities and preferred shares issued around the world. The Fund may not invest more than 25% of the total value of the invested assets (excluding cash) in a particular industry.

Performance Data

Performance (%) as of 09/30/2021

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception	Inception Date
Series A	-1.83	-0.68	-6.50	-6.95	-2.86	-2.04	0.63	4.20	07/15/1988
Series F	-1.79	-0.54	-6.11	-6.43	-2.32	-1.49	1.25	3.94	06/18/2001
JP Morgan Global Government Bond Index	-1.86	1.20	-6.20	-8.51	3.12	0.57	3.16	5.65	-

Indicated rates of return include changes in unit or share value and reinvestment of all distributions and dividends and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Please refer to the prospectus for further details. **For details on the respective series inception dates, please consult the Fund Facts or simplified prospectus for the fund.** Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. **Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.**

Investment Team

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Years Experience 26

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

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