
Franklin U.S. Opportunities Webinar Takeaways

Valuations and Outlook for U.S. Equities

Signs of a recovery from the COVID-19 disruption are appearing in some countries, including China, which other nations are watching. In this webinar, Franklin Equity Group portfolio manager Grant Bowers took a long view of U.S. equities amid all the uncertainty and volatility. Here are some key takeaways.

From weakness to healing

The U.S. economy is likely to remain impacted by COVID-19 driven weakness for several quarters but should begin to show improvement in the fourth quarter, accelerating into 2021. While it's expected that the U.S. will slip into a recession, Grant Bowers said this severe downturn should be temporary, especially if progress is made on developing a medical treatment for the coronavirus—"a health care crisis needs a health care solution". When that occurs, there could be a fairly rapid "healing of the economy" and a rebound of pent-up consumer demand when pandemic restrictions are loosened. For example, job losses in construction could be restored quickly as projects resume. U.S. equities may not seem broadly cheap to some investors now, but there are "pockets of opportunity" for selective investors who can see through the near-term uncertainty and realize that quality, long-term companies are available at attractive prices.

U.S. equity valuations

U.S. equity valuations were discounting a long-term economic downturn at the market bottom last month, but decisive actions by the Federal Reserve to inject unprecedented liquidity into the economy have changed that perspective. It will take time to see the impact of the monetary and fiscal stimulus, but we believe these actions will be effective to bridge the downturn for many businesses and consumers. Markets going forward will likely be based on the pace of the recovery and the outlook for 2021, not on this quarter's earnings. Uncertainty about the timing of an earnings recovery means it's too early, in our view, to say if the U.S. equity market is cheap or expensive, but we continue to find opportunities across industries.

Drivers during volatility

The downturn is accelerating major themes in digital transformation as businesses and workers adjust to new ways of providing goods and services. The Technology sector has benefitted in this environment, especially stocks related to cloud computing, remote access services, digital payments and online security. Franklin U.S. Opportunities Fund has an overweight position in software stocks that have been standout performers because they support digital transformation. The pandemic also highlighted the powerful combination of Technology and Health Care in areas like gene sequencing and data analytics, which will benefit pharmaceutical and biotech firms in the

future. The Fund recently deployed cash reserves to add Technology and Health Care positions.

Positioned for opportunities in trend acceleration

The impact of the “stay at home” response to the pandemic will likely accelerate the adoption of broader digital transformation themes that we’ve identified. Grant likes the wireless tower space as part of the shift to 5G and the increased focus on data usage and mobility. The Fund holds SBA Communications Corporation, which owns wireless tower infrastructure in the U.S. and internationally. Another holding, ServiceNow, provides software for back-office business processes, which are proving essential for workers at home during the crisis. Microsoft is another holding that is well positioned because of its software systems and a growing business in cloud services. The Fund has a significant exposure to semiconductors through companies such as Nvidia and Analog Devices, which should benefit from investments in data centers after the crisis.

Outlook for U.S. equity market

The recovery of the U.S. equity market will be informed and shaped by factors such as:

- **A COVID-19 health care solution:** The pace and extent of a global recovery will be contingent on scientific progress on a COVID-19 vaccine and/or treatment. Progress on the health care response to the pandemic will have a big impact on the length and severity of the downturn, and an upside influence on the recovery.
- **Asia’s rebound:** The recovery is starting in China, where more people are working and resuming regular consumer spending habits. Franklin Templeton’s research teams in Asia are providing local insights as the recovery evolves. Leveraging this research is helping the Franklin U.S. Opportunities team understand the pace of the recovery and potential areas for investment.

In the meantime, the Franklin U.S. Opportunities team remains focused on identifying opportunities in growth themes such as digital transformation, fintech, cloud computing and health care. These will be major parts of the portfolio going forward.

Franklin Equity Group Product Solutions

Franklin Equity Group is based in Silicon Valley and has a proven track record of identifying strong, innovative companies in rapidly evolving areas such as cloud computing, e-commerce and digital payments and health care. These are long-term themes that the team believed in prior to the crisis and the pandemic has only reinforced their importance going forward.

The team’s expertise is borne out by the stellar performance of [Franklin U.S. Opportunities Fund](#). Even factoring in the downturn, the fund delivered top decile year-to-date returns in the crowded U.S. equity category (see table). The team believes that its focus on owning high-quality companies in these transformative areas has positioned the fund well for the inevitable economic recovery.

Annualized Returns (%) and Rankings

As of March 31, 2020 (Series F, Net of Fees)

	YTD ¹	1 Year ¹	3 Years	5 Years	10 Years	Since Inception ²
Franklin U.S. Opportunities Fund	-5.03	3.17	11.72	8.93	12.63	3.54
U.S Equity Category Average	-15.47	-6.65	4.01	5.64	10.95	3.00
Percentile Rankings³	7th	9th	11th	16th	25th	N/A
Quartile Rankings³	1st	1st	1st	1st	1st	N/A

Sources: Franklin Templeton and Morningstar Research Inc.

1. Cumulative.
2. Fund Inception is November 24, 2000 (repositioned with a new investment team in 2016)
3. Franklin U.S. Opportunities Fund is ranked within the Morningstar U.S. Equity Category Average.

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