Franklin Quotential Portfolios

Monthly Review and Strategy

The following commentary is based on Franklin Quotential Balanced Growth Portfolio.[1]

Market Review

The Bank of Canada kept its policy rate at 2.25% in July, as conflict in the Middle East added to inflation uncertainty. The US Federal Reserve (Fed) also held interest rates steady.

War-related cost pressures are still working their way through some consumer prices but are being offset by downward pressure on other prices from continued economic slack. Growth in the Canadian economy is beginning to pick up, but employment remains soft.

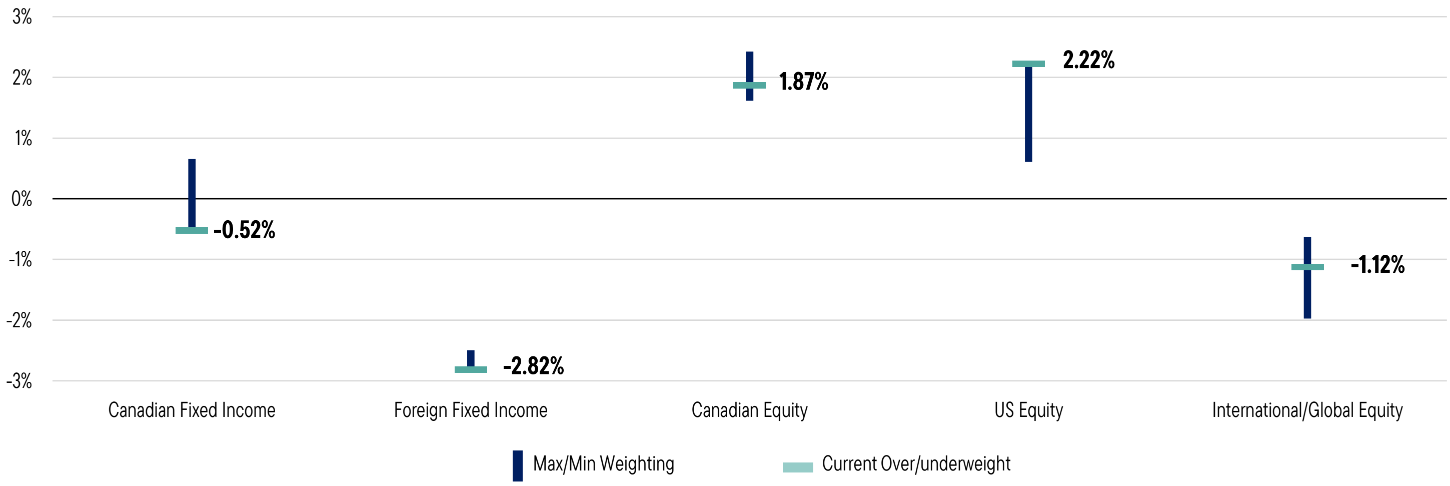
Annual consumer price index (CPI) inflation fell in June to reach 2.8%. Gasoline prices increased at a slower rate, influencing a deceleration in headline inflation, although core inflation (less food and energy) ticked higher to 1.8%.

The Canadian yield curve steepened in July, as yields rose more sharply at the long end of the curve, influenced by inflation concerns. Canadian 10-year government bond yields rose by 28 basis points (bps) over the month to reach 3.66%, while two-year yields were up by 17 bps to 2.92%.

As a result, the FTSE Canada Universe Bond Index returned -1.55%, with the government bond sub-index returning -1.67%. Government bonds slightly underperformed credit as yields rose. Short-duration issues fared best, aided by lower interest-rate sensitivity.

US equities lost ground in July, in local-currency terms. The Canadian dollar strengthened against the greenback, negatively impacting returns for US-dollar-denominated assets.

Tactical Positioning[2]



1. Franklin Quotential Balanced Growth Portfolio's blended benchmark consists of 28% FTSE Canada Universe Bond Index (Canadian fixed income), 12% Bloomberg Multiverse TR Index (100% Hedged into CAD) (foreign fixed income), 15% S&P/TSX Composite Total Return Index (Canadian equity), and 45% MSCI All Country World Index-NR (international/global equity). Net Returns (NR) include income net of tax withholding when dividends are paid. Benchmarks are rebalanced monthly and returns are in Canadian dollars.
2. Includes emerging markets. Reported changes in asset class weightings may be influenced by both buy/sell decisions as well as fluctuations in asset values. The percentage number and solid teal line represent the current under/overweighting. Blue line represents the over/underweighting minimum and maximum over the last 12 months.

Forward-looking Investment Strategy

We remain optimistic about equities into August, as we look through renewed geopolitical tensions and inflation concerns to focus on strong corporate earnings.

In addition, recent equity market volatility has reset valuations for technology names and moderated sentiment and positioning indicators that were trending toward exuberance.

Global growth looks strong, led by the United States and Japan, while the outlook for the euro area has also improved, despite energy-related inflation concerns.

As a result, the overarching macro picture looks broadly neutral to us, despite the dampening effect that further interest-rate rises could have. This alone isn't enough to fuel our optimistic view of equities, but, crucially, it does nothing to counter the persuasive "risk-on" argument of very strong corporate fundamentals.

Market expectations for earnings growth over the next 12 months remain in double digits, at more than 20% for global and US equities and 35% for EMs.

Revisions to earnings expectations have stopped accelerating, but remain positive, while earnings breadth has improved materially, notably in the United States. This suggests the heavy reliance on technology stocks to drive earnings higher has diminished slightly.

We are generally less optimistic about markets with lower exposure to AI and technology, particularly those with a sensitivity to energy and commodity prices. Energy price volatility looms large in the minds of governments and central banks in regions with heavy dependence on commodity markets.

US Treasury yields have risen sharply since the start of July amid renewed inflation pressures and heightened geopolitical conflict.

As a result, US Treasuries have become more attractive, compelling us to trim our underweight allocation. However, we continue to see international duration as relatively attractive, mainly because a weaker macroeconomic outlook outside the United States raises the likelihood that market expectations for interest-rate rises are too aggressive.

Trades

We maintained a preference for equities during July, holding overweight positions in EM and US equities and retaining an underweight position in international equities.

Within fixed income, we maintained a preference for Canadian bonds.

Results of Positioning

Cross-asset positioning between equity and fixed income contributed to relative performance, as our overweight to equities and underweight to bonds proved positive.

Regional equity allocation detracted, held back by an overweight allocation to EMs and an underweight to international equities.

A reversal of the AI trade in July affected underlying EM funds and US growth stocks, which detracted from relative performance.

In contrast, US value stocks contributed, as did core Canadian holdings. Franklin Canadian Core Equity Fund benefitted from selection among energy and materials names.

Fixed income selection proved positive for relative results, notably short-duration Canadian bonds and underlying global funds with exposure to high-yield credit.

Performance vs. Morningstar Peers[3]

As of July 31, 2026

1st Quartile	2nd Quartile	3rd Quartile	4th Quartile

Fund Name (Series F)	3 M	YTD	1 Y	3 Y*	5 Y*	10 Y*	Since Inception*	Inception
Franklin Quotential Diversified Income Portfolio	**1.99**	**3.57**	**7.84**	**7.75**	**3.09**	**3.59**	**4.65**	**26-Jun-08**
Percentile Rank	56	69	57	60	63	57		
Franklin Quotential Balanced Income Portfolio	**2.99**	**5.55**	**11.09**	**10.07**	**4.95**	**5.21**	**5.70**	**19-Aug-02**
Percentile Rank	12	13	10	14	17	9		
Global Fixed Income Balanced Category	2.15	4.11	8.17	8.21	3.58	3.88	4.40	
Category Size	879	875	862	798	726	445		
Franklin Quotential Balanced Growth Portfolio	**4.31**	**8.20**	**15.56**	**13.19**	**7.41**	**7.09**	**6.61**	**19-Aug-02**
Percentile Rank	22	20	18	20	24	25		
Global Neutral Balanced Category	3.57	6.86	12.35	11.27	6.09	6.15	5.51	
Category Size	1,623	1,608	1,582	1,455	1,286	795		
Franklin Quotential Growth Portfolio	**5.66**	**10.92**	**20.22**	**16.41**	**9.95**	**9.01**	**7.08**	**19-Aug-02**
Percentile Rank	19	20	20	16	17	18		
Global Equity Balanced Category	4.66	9.00	16.01	13.71	7.78	7.62	6.21	
Category Size	1,136	1,131	1,105	1,031	896	606		
Franklin Quotential Diversified Equity Portfolio	**7.40**	**13.46**	**22.86**	**18.57**	**11.33**	**10.78**	**8.35**	**9-Jun-03**
Percentile Rank	29	23	27	28	30	36		
Global Equity Category	6.15	10.67	17.50	15.97	9.27	10.10	7.74	
Category Size	1,923	1,895	1,846	1,641	1,389	832		

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Regional equity/bond returns are based on the following indices: S&P/TSX Composite, S&P 500, MSCI Emerging Markets, MSCI AC World ex. USA, Credit Suisse High Yield, Barclays Multiverse–Hedged and FTSE Canada Universe. All Portfolio commentary herein is based on Franklin Quotential Balanced Growth Portfolio, used as a proxy for the entire Program. Over/underweights and portfolio outperformance are based on Franklin Quotential Balanced Growth Portfolio's blended benchmark, For full custom benchmark history, please refer to our website.

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Franklin Templeton Canada
(800) 897-7280
franklintempleton.ca