

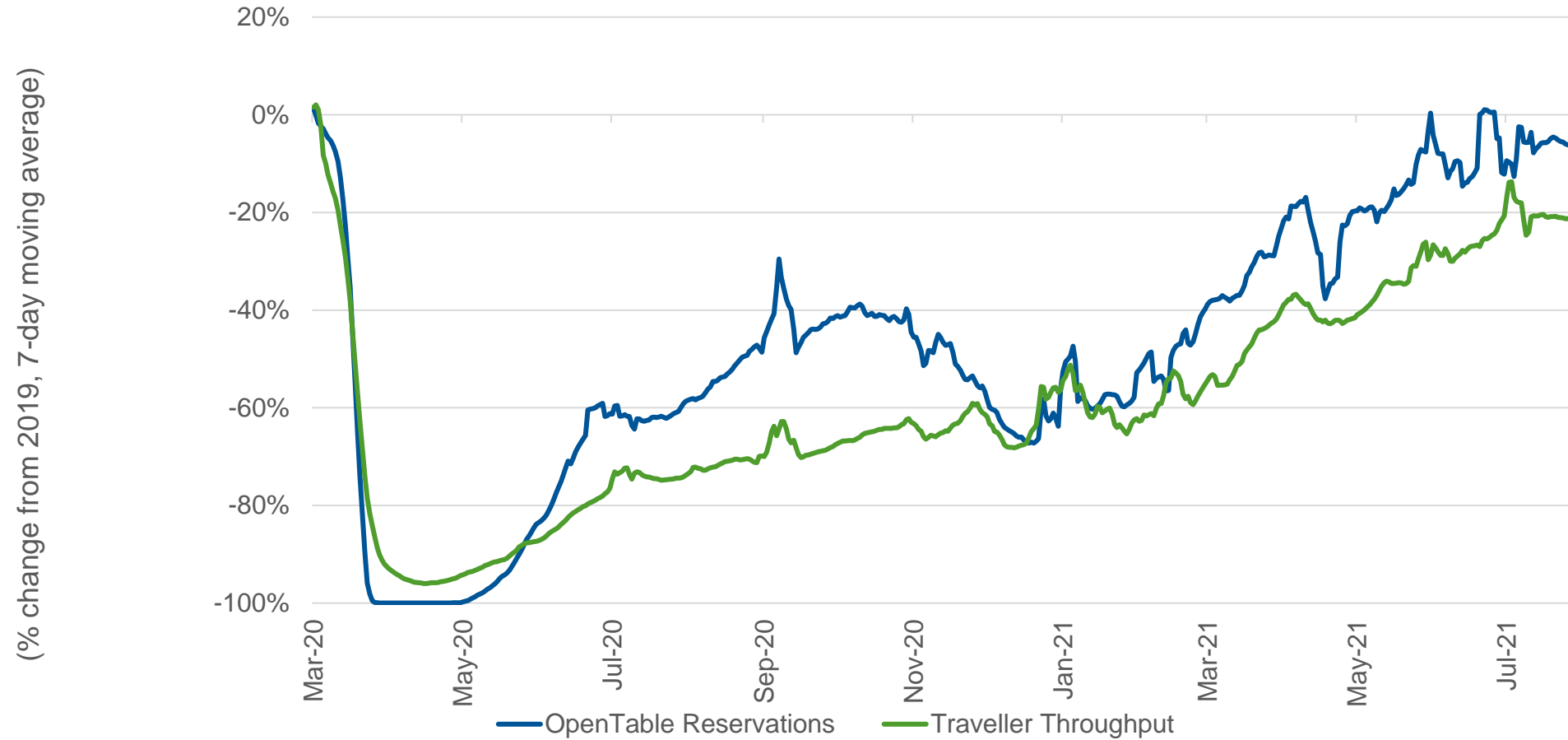


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# US Equities: 2022 Outlook Growth and Innovation

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Franklin Equity Group

# U.S. Consumer Strength Supporting Markets



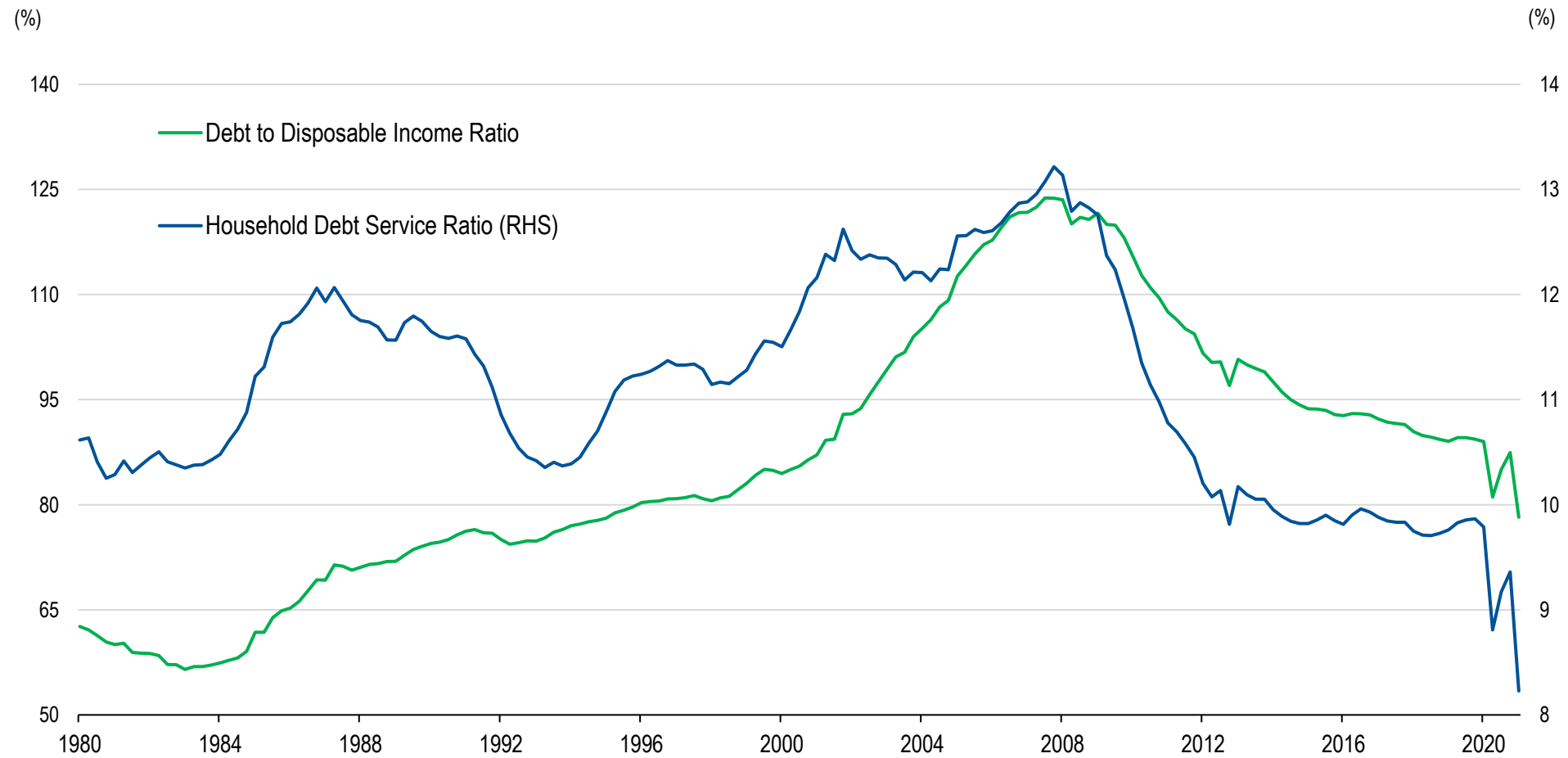
Sources: OpenTable, Transportation Security Administration (TSA), data as at 31 July 2021.

# Healthier Consumer Balance Sheet after COVID-19 Relief



Households had paid down burdensome debt using stimulus funds, hence improving their credit quality.

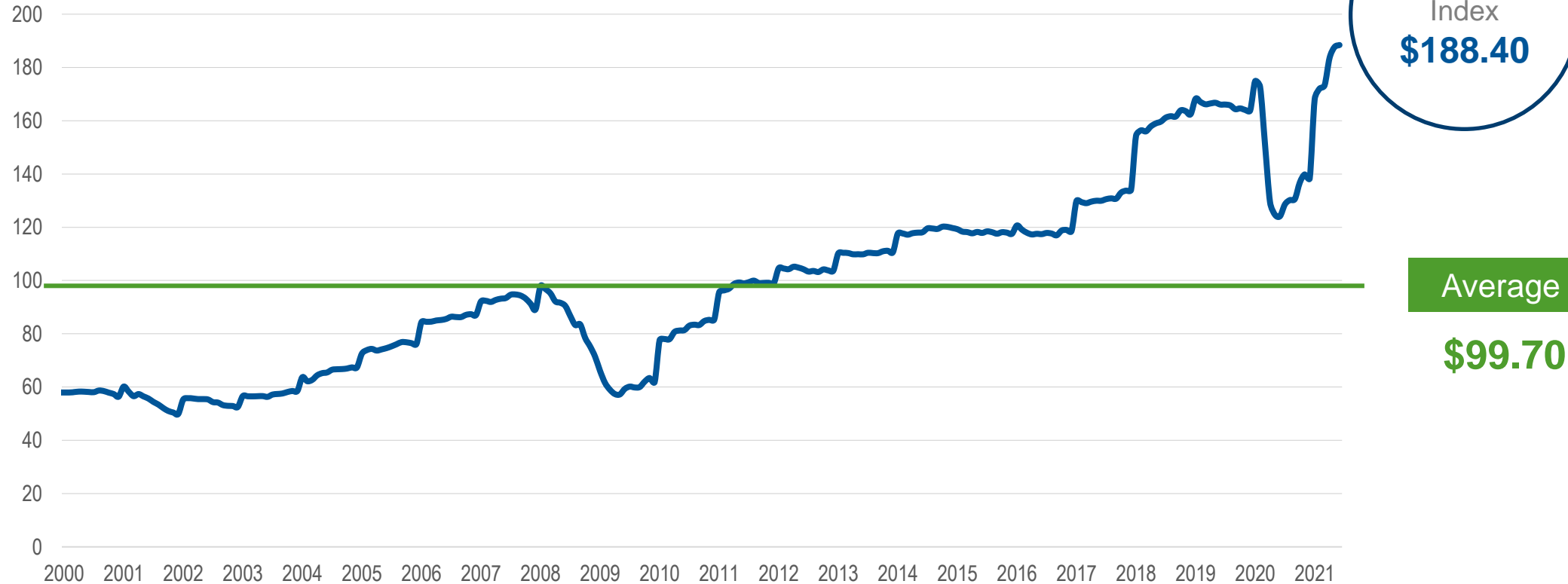
### Debt to Disposable Income Ratio and Household Debt Service Ratio



Source: Bloomberg, Federal Reserve, Data as of 24 August 2021.

# U.S. Companies Are Highly Profitable

**Forward Earnings-Per-Share S&P 500 Index**  
20-Year Period ended 30 June 2021

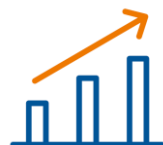


Source: Bloomberg, June 2021. Indexes are unmanaged, and one cannot invest directly in an index.



V-shaped recovery moderating in the U.S.  
– More pause than pullback

- Vaccine progress unlocking pent up demand – Consumer spending accelerating
- Unemployment improving, Corporate earnings recovering
- GDP Growth outlook remains above long-term trend into 2022



Valuations, delta variant

## Valuations

- Moving closer to fair value: Mid-cycle characteristics
  - Focus on Quality and Sustainability in earnings
  - Balanced against interest rate and inflation backdrop
- Global vaccine rollout or variants will drive volatility and may delay return to normalcy

Source: Franklin Templeton. These statements reflect the analysis and opinions of the speaker as of June 2021, and may differ from the opinions of other portfolio managers, investment teams or platforms at Franklin Templeton. Because market and economic conditions are subject to rapid change, the analysis and opinions provided may change without notice. The statements do not provide a complete analysis of every material fact regarding any country, market, industry or security. An assessment of a particular country, market, security, investment or strategy is not intended as an investment recommendation nor does it constitute investment advice. Statements of fact are from sources considered reliable, but no representation or warranty is made as to their completeness or accuracy.

# Key Questions / Risks

**Pace and shape of the recovery** – Post recovery sustainability

**Inflation and Interest Rates** – Pressures will persist into 2022

**Fiscal and monetary support** – Extraordinary stimulus plans, but monetary support moderating

**Credit markets** - Liquidity, downgrades, cash flows

**China** – Tensions persist, but trade will continue

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# U.S. Markets Offer Exposure to Long-term Secular Growth Trends

## Existing Innovation Themes Accelerating



- Digital transformation
- Fintech/payments
- Health care
- Cloud computing
- Mobility—5G

## New Investment Themes Emerge



- **Consumer Preferences** - Introduced to new options for buying, selling and living.
  - e-Commerce/shopping, online education, in-home exercise, entertainment, travel, virtual medicine,
- **Health Care**—biotech, pharma, genomics, med-tech
- **Industrials**—re-shoring the supply chain in the U.S.
- **De-Urbanization** – Millennial generation shifting to suburbs and household formation.

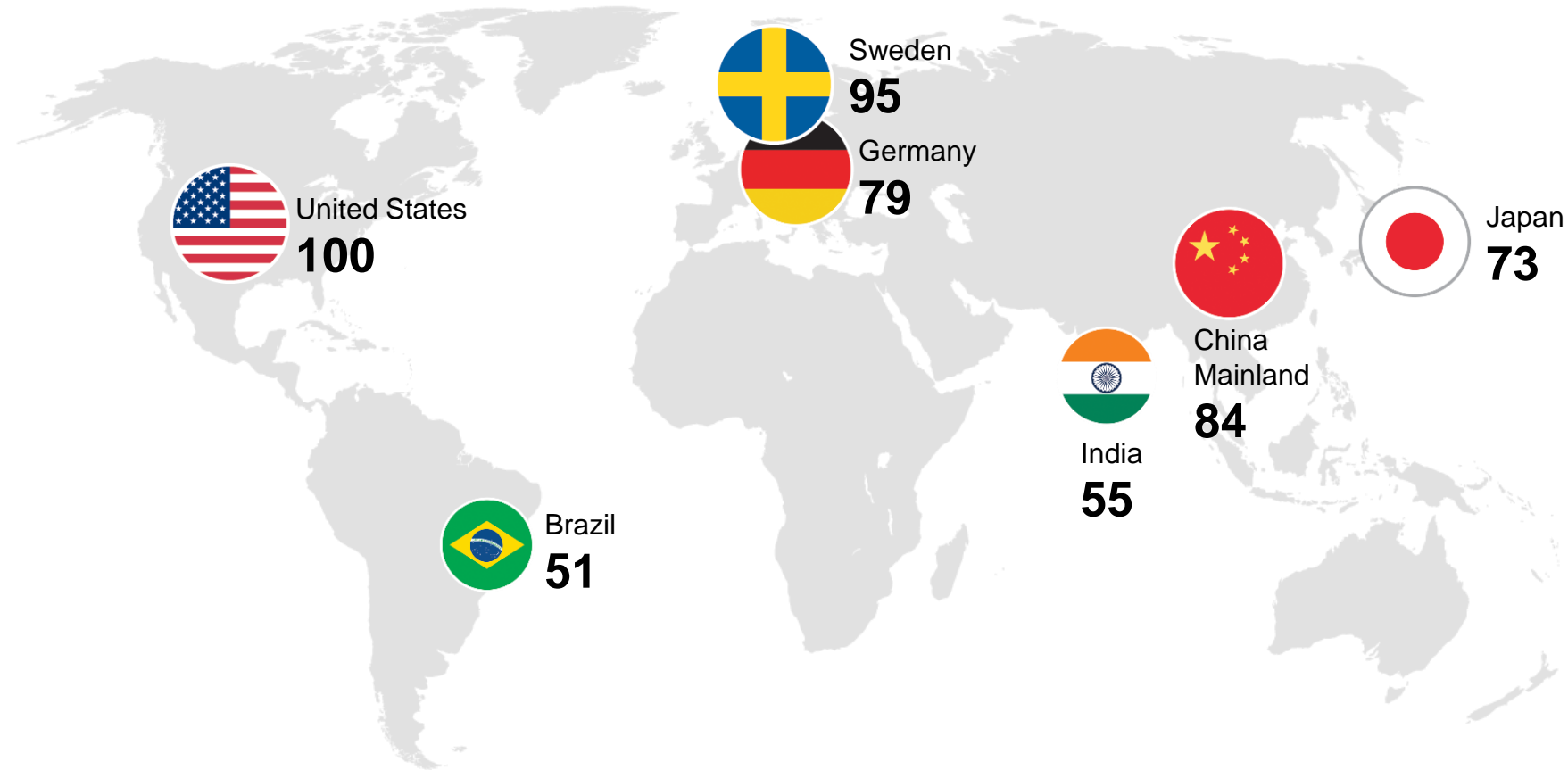
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# US is Home to Leaders in Digital Transformation

Knowledge and Technology Enable Firms' Readiness

## World Digital Competitiveness Ranking by Country

– As of 2021



Source: International Institute for Management Development, Statista. To evaluate an economy, World Digital Competitiveness Ranking 2021 examines three factors: knowledge, which measures the know-how necessary to discover, understand and build new technologies; technology, which evaluates the overall context that enables the development of digital technologies; and future readiness, which assesses the level of preparedness to exploit digital transformations.

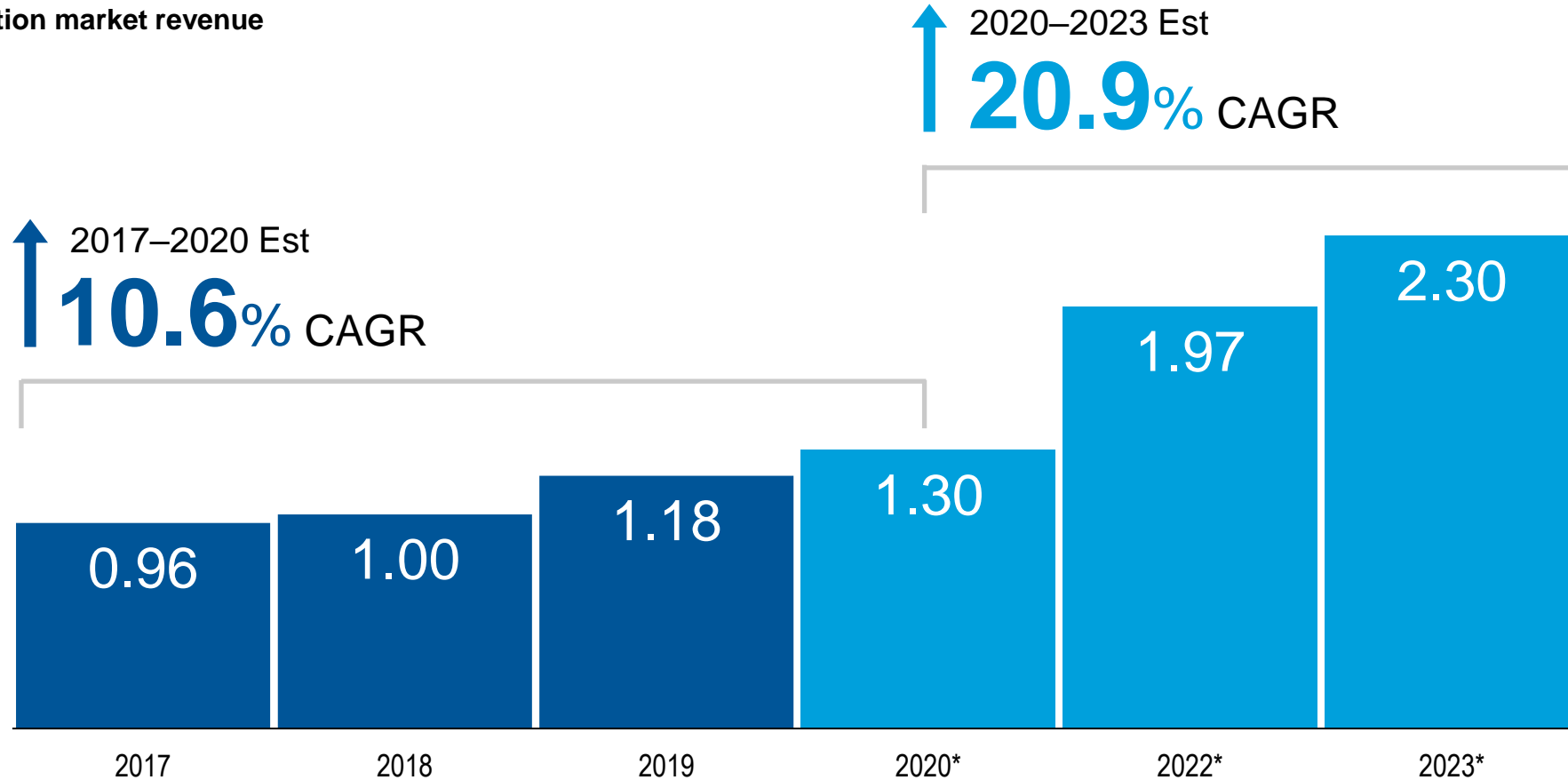


# Digital Transformation Forecasted to Spur Company Growth

Analytics, Artificial Intelligence to Propel Advances



Digital transformation market revenue  
(USD trillions)  
2017–2023



Source: IDC, Statista published August 2020 based on survey period from 2017-2019. Digital transformation (DX), broadly defined, is the integration of digital technologies in all areas of a business, improving current and creating new operation processes, as well as deliver more value to customers. It represents a cultural shift to more agile and more intelligent ways of doing business, powered by technologies such as advanced analytics and artificial intelligence (AI). Compound annual growth rate (CAGR) is the rate of return required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investment's lifespan. There is no assurance that any forecast, estimate or projection will be realized.

# Financial Services Transformation



## Fintech, Digital Payments, Ecommerce

### WHY?

- Global financial services market \$20+ trillion<sup>1</sup>
- Fintech Future: data driven, personal, real time, social
- Innovation disrupting traditional banking - mobile banking, digital payments/wallets, social lending and Blockchain
- Digital payments/currency – Consumer and enterprise payment networks
- **Top Fund Beneficiaries:**
  - **Visa/Mastercard, Amazon, Paypal, MarketAccess, Bill.com**



References to particular securities are only for the limited purpose of illustrating general market or economic conditions and are not recommendations to buy or sell a security or an indication of any portfolio holdings.

1. Source: U.S. Census Bureau. Based on U.S. sales, year-over-year, as of 31 December 2018. Most recent data available

# Cloud Computing Services



## Cloud Computing Services

Storing and accessing data and applications over the Internet instead of on local compute resources

### WHY?

- Top priority for many companies
  - Global, scalable, flexible, cost efficient
- Growth forecast<sup>1</sup>: **Increase 3.7x by 2021**
- Cloud services spending estimated to be a \$1 trillion opportunity<sup>2</sup>.
- **Top Fund Beneficiaries:**
  - **Amazon, Google, Microsoft**
  - **Salesforce.com, ServiceNow, DocuSign, Twilio**



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1. Source: Cisco Global Cloud Index: Forecast and Methodology 2015-2020 whitepaper.

2. Source: IDC., 31 December 2018.

# Stock Example – Amazon.com

## Our process & perspective saw value

### We saw enormous potential in:

- **Cloud Computing (AWS)**

Launched in 2006 and now a \$54B business, growing more than 30% with +30% EBITDA margins, in a +\$3 trillion with a significant lead over peers. When AWS started, many industry incumbents did not appreciate the disruptive potential of cloud computing.

- **Amazon Prime**

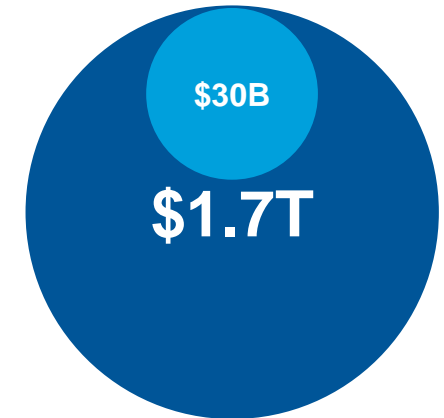
Launched in 2005, Prime is now at the center of Amazon's efforts to build enduring customer loyalty and a valuable, recurring revenue stream.

- **Grocery**

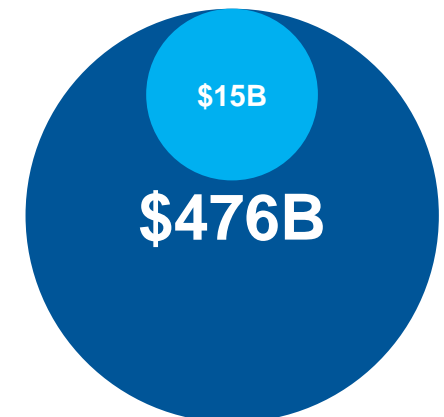
Grocery has been a long-term bet for Amazon, which has recently started to pay off in much bigger ways with Covid-19.



### Market Cap: 2007 vs 2021



### Revenue: 2007 vs 2021



Source: Bloomberg, Franklin Equity Group, as of 25 August 2021

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# Stock Example – ServiceNow

## Our process and perspective saw value

### We saw potential in:

- **IT Help Desk**

We believed that ServiceNow would continue to take market share in the established, but relatively small IT Help Desk software market.

- **Team**

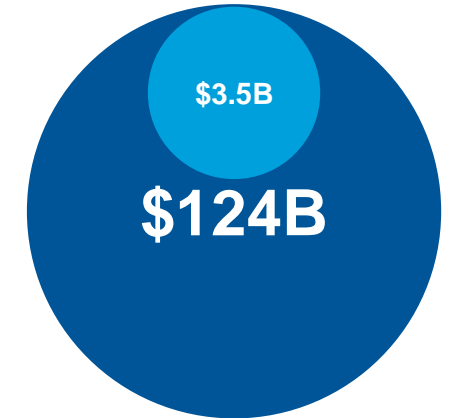
We had followed the success of ServiceNow founders from their time at Peregrine Systems and management from their time at Data Domain.

- **Market Expansion**

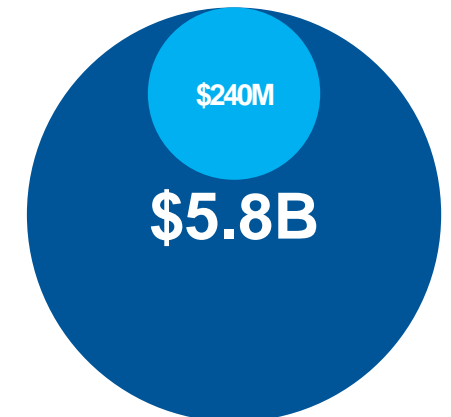
We started to understand the potential for ServiceNow to become a horizontal, digital workflow platform that was relevant to many additional IT processes and a growing number of processes in Human Resources, Finance, Marketing, Legal and Facilities departments of the world's largest enterprises.



### Market Cap: 2012 vs 2021



### Revenue: 2007 vs 2021



Source: Bloomberg, Franklin Equity Group, as of 25 August 2021

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# Health Care Innovation



A data-driven approach to meet the changing needs of an aging global population.

## WHY?

- Aging population globally will drive demand for medicines, medical devices and improved treatments.
- Personalized and Precision medicine—Data driven
- Innovation lead solutions: Gene Therapy, CART-T, and Robotic Surgery
- **Key Beneficiaries:**
  - **Edwards Life Science, Intuitive Surgical, and UnitedHealth, Biotech**

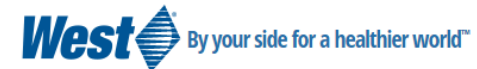


For illustrative and discussion purposes only.

Source: United Nations Population Fund. There is no assurance that any projection, estimate or forecast will be realized.

## Leading companies in this space

Issuer	Description	Main Products
Intuitive Surgical	Develops, manufactures, and markets robotic products designed to improve clinical outcomes of patients through minimally invasive surgery	Maker of the da Vinci surgical system
AstraZeneca	One of the world's leading pharmaceutical companies with healthcare sales of \$27.97 billion.	Portfolio of products for major disease areas including cancer, cardiovascular, gastrointestinal, infection, neuroscience, respiratory and inflammation
West Pharma	Designer and manufacturer of injectable pharmaceutical packaging and delivery systems.	Drug packaging, containment and delivery products with services, solutions and support.



Source: Franklin Templeton, as of 31 July 2021.

Information is historical and may not reflect current or future portfolio characteristics. All portfolio holdings are subject to change.

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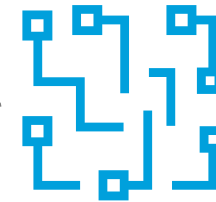
# The Intelligent Industrial Revolution

## Industry 4.0—Disruption Beyond Technology

**Personal Computer Internet**  
Wintel, Yahoo!  
1 billion computer users



**Mobile Cloud**  
iPhone, Amazon AWS  
3 billion mobile users



**Artificial Intelligence & Internet-of-Things**  
Deep learning, GPU  
Hundreds of billions of devices

1995



CONSUMER

2005



LIFE SCIENCES



TRANSPORTATION

2015



OIL & GAS,  
CHEMICAL



MINING &  
CEMENT

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Source: Nvidia, Rockwell Automation. <https://blogs.nvidia.com/blog/2016/10/24/intelligent-industrial-revolution/>



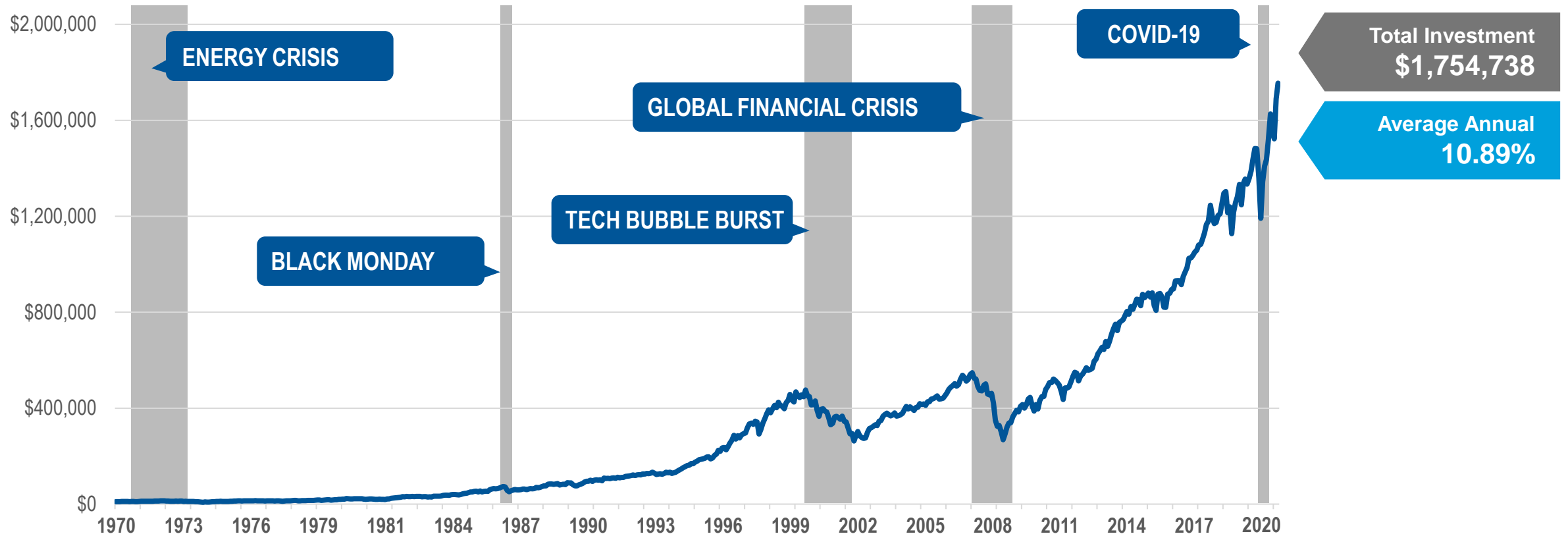
# Key Takeaways

- We continue to view the US equity market as an attractive place to invest. While company valuations are near the higher end of the historical range, fundamentals appear to be supportive.
- We expect the general recovery direction to continue even though the pace may not be linear as inflation and interest rate increases have become a concern.
- We believe high-quality businesses that have sustainable earnings and cash flow, competitive positioning and pricing power should do well in 2022. Focus on quality and growth.

# Keep a Long-Term perspective

## S&P 500 Index (Cumulative Growth of a \$10,000 Investment)

December 31, 1970 – December 31, 2020



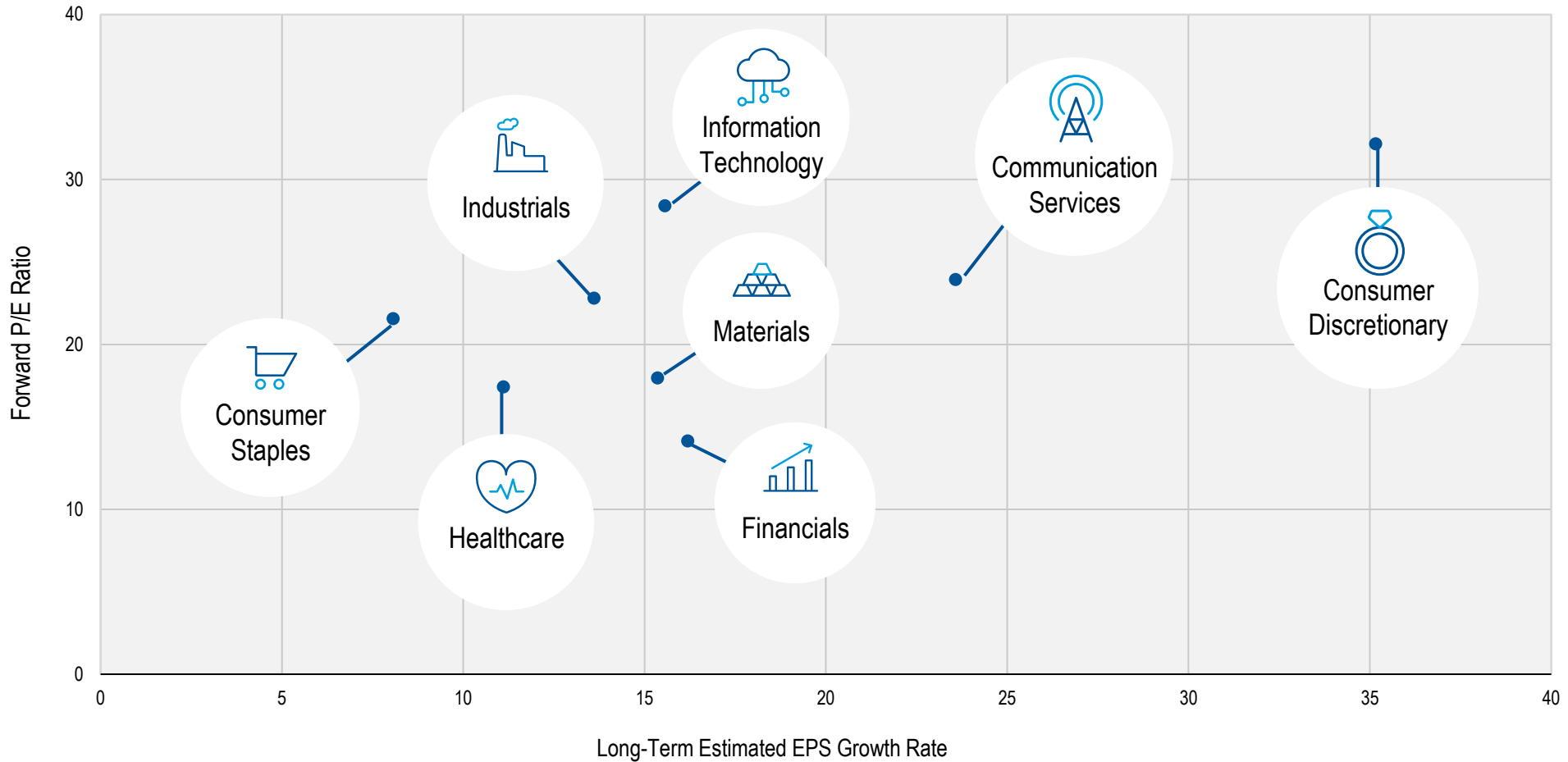
This chart is for illustrative purposes only and does not reflect the performance of any Franklin Templeton fund. **Past performance does not guarantee future results.**

Source: © Morningstar 2021. Franklin Templeton Capital Market Insights Group. Indexes are unmanaged and one cannot invest directly in an index. Index returns do not reflect any fees, expenses or sales charges.

# Multi-Year Growth Trends Remain Intact Across Sectors

Supported by Corporate Fundamentals

### S&P 500 Sectors: Forward P/E vs Long-term (3-5 Yrs) Estimated EPS Growth Rate



Source: S&P Dow Jones Indices, Factset, Data as of 30 June 2021.



**Q&A**

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