

Franklin Equity Income Fund

Advisor Class: FEIFX Class A: FISEX

Commentary | as of March 31, 2025

Key Takeaways

- Markets:** US equities experienced heightened volatility during the first quarter of 2025 amid concerns about the possibility of rising tariffs and their impact on economic growth, inflation and the US Federal Reserve's interest-rate path, with some investors fearing a potential recession or stagflation (economic stagnation and high inflation). While quarterly earnings results reported during the period were generally favorable, some were underwhelming. Consumer confidence also moved lower during the quarter. In late January, reports of a China-based company's lower-cost artificial intelligence (AI) model significantly impacted the shares of large-capitalization technology stocks. As a result, US stocks collectively declined in the first quarter, with the S&P 500 Index, Dow Jones Industrial Average and NASDAQ Composite Index ending with losses. Small-cap stocks struggled over the quarter, followed by large- and mid-cap equities. In all three market-cap tiers, value stocks outperformed growth, with large-cap value stocks ending modestly positive.
- Contributors:** The energy and health care sectors were the top contributors to the fund's absolute results. In the energy sector, our investment in the oil, gas and consumable fuels industry proved beneficial, while the pharmaceuticals and the health care providers and services industries benefited the health care sector.
- Detractors:** The financials and industrials sectors were the largest detractors from the fund's absolute performance. Exposure to the capital markets industry was a drag on the financials sector, and the electrical equipment industry had a negative impact on the industrials sector.
- Outlook:** We expect the recent equity market volatility to continue given the uncertainty about tariffs and their potential impact on the global economy. We believe clarity won't be known until trade agreements are settled, and that will take time. As clarity emerges, we are likely to learn more about the new presidential administration's investor-friendly policies, such as deregulation and tax cuts, which should help improve investor sentiment, in our view.

Performance Review

- Energy stocks acted as a defensive play for many investors during the turbulent quarter. In the energy sector, a core position in Chevron was a leading source of positive performance. The oil giant continues to make progress on its Tengiz growth project in Kazakhstan and on the Gulf of America fields under development. In recent years, Chevron's cash flow profile and balance-sheet strength have materially improved.
- The health care sector benefited from a position in Johnson & Johnson. The pharmaceutical giant reported strong fourth-quarter 2024 earnings, which boosted its stock. The company has had fairly consistent results and trades at what we consider a relatively low valuation. We view the business as highly resilient, which is an attractive attribute during times of volatility.
- In contrast, a top individual detractor was Broadcom in the information technology sector. The introduction of China-based startup DeepSeek (not held by the fund) weighed on US chipmakers and other AI-related stocks, including Broadcom. We continue to believe Broadcom is well-positioned within both its semiconductor and software businesses.

Outlook

- We have a positive outlook for corporate earnings and the financial markets overall, given the likelihood of lower regulation and favorable tax policy in the United States and ongoing productivity gains from technology. We expect these factors to support broader market participation across industries. However, the announcement of larger-than-expected US tariffs in early April has tempered our expectations for at least the near term. Economic growth is more uncertain as the impact of tariffs will likely be significant in some industries. Inflation is likely to move higher, and we expect equity valuations to reflect investor uneasiness during the next few months and until progress is made on forming new trade agreements.
- Our focus continues to be on earnings and cash flow outlooks for the high-quality, market-leading companies we hold in the portfolio and those we are considering for investment. We are trying to determine how companies will react with regards to pricing, product sourcing/manufacturing and profit-margin pressures.
- We are looking for opportunities to add to positions in companies whose share prices have been pressured more than our assessment of any deterioration that may occur to a company's competitive position or fundamental performance. While we are being patient, we have seen a few opportunities to add to our positions in companies that we believe should eventually recover and offer excellent capital appreciation opportunities over time.
- We expect the fund to hold up relatively well during this period of higher volatility, based on our analysis of its lower predicted beta and relatively lower risk profile. We believe that the powerful secular themes seen throughout the portfolio, like infrastructure improvement, energy transition and "grid hardening," should continue to be positive areas of investment and that they can provide support for companies during times of economic uncertainty as those themes play out over time.

Morningstar Rating™

Overall Rating as of March 31, 2025



(4-Star) Advisor Class

(4-Star) Class A

As of 03/31/2025 the fund's Class A and Advisor Class shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 1092, 1030 and 808 Large Value funds over the 3-, 5- and 10- year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.

Top Holdings (% of Total)

Issuer	Fund
JPMORGAN CHASE & CO	4.27
CHEVRON CORP	3.76
MORGAN STANLEY	2.92
PROCTER & GAMBLE CO/THE	2.91
BANK OF AMERICA CORP	2.90
UNITEDHEALTH GROUP INC	2.90
JOHNSON & JOHNSON	2.88
CHARLES SCHWAB CORP/THE	2.54
DUKE ENERGY CORP	2.52
EATON CORP PLC	2.25

Sector Allocation (% of Total)

Sector	Fund
Financials	21.30
Health Care	14.86
Industrials	13.57
Consumer Staples	10.09
Energy	9.46
Information Technology	8.83
Utilities	6.74
Real Estate	4.52
Other	7.50
Cash & Cash Equivalents	3.12

Average annual total returns and fund expenses (%)

Class	CUSIP	Ticker	Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception Date
			3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Gross	Net	Initial Charge	CDSC	
Advisor Class	353612633	FEIFX	0.45	0.45	9.71	7.28	15.84	9.62	9.07	0.45	0.45	9.71	7.28	15.84	9.62	9.07	0.59	0.58	—	—	3/15/1988
Class A	353612401	FISEX	0.42	0.42	9.42	7.01	15.55	9.35	8.95	-5.10	-5.10	3.40	5.02	14.26	8.73	8.78	0.84	0.83	5.50	—	3/15/1988
Benchmark 1	—	—	2.14	2.14	7.18	6.64	16.15	8.79	—	2.14	2.14	7.18	6.64	16.15	8.79	—	—	—	—	—	
Benchmark 2	—	—	-4.27	-4.27	8.25	9.06	18.59	12.50	—	-4.27	-4.27	8.25	9.06	18.59	12.50	—	—	—	—	—	

Benchmark(s)

Benchmark 1= Russell 1000 Value Index

Benchmark 2=S&P 500 Index

Performance data quoted represents past performance, which does not guarantee future results. Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns with sales charge reflect a deduction of the stated maximum sales charge. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please visit franklintempleton.com.

The fund began offering Advisor Class shares on 5/15/2008. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 5/15/2008, a restated figure is used based on the fund's Class A performance. The performance was adjusted to take into account differences in class-specific operating expenses and maximum sales charges. (b) For periods after share class offering, performance for the specific share class is used, reflecting the expenses and maximum sales charges applicable to that class.

Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 02/28/2026 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

What are the Risks?

All investments involve risks, including possible loss of principal. **Equity securities** are subject to price fluctuation and possible loss of principal. **Distributions** are not guaranteed and are subject to change. Investments in **equity-linked notes** often have risks similar to their underlying securities, which could include management risk, market risk and, as applicable, foreign securities and currency risks. **Convertible securities** are subject to the risks of stocks when the underlying stock price is high relative to the conversion price and debt securities when the underlying stock price is low relative to the conversion price. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. The manager may consider **environmental, social and governance (ESG) criteria** in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. These and other risks are discussed in the fund's prospectus.

Glossary

Dow Jones Industrial Average (DJIA) is an unmanaged index composed of 30 blue-chip stocks, each with annual sales exceeding \$7 billion. The DJIA is price-weighted, reflects large-cap companies representative of U.S. industry, and historically has moved in tandem with other major market indexes such as the S&P 500. Source: © S&P Dow Jones Indices LLC.

Nasdaq Composite Index is a market-capitalization-weighted index that is designed to represent the performance of NASDAQ securities and includes over 3,000 stocks. Source: Nasdaq OMX.

Stagflation is a seemingly contradictory condition described by slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

Stagnation is a prolonged period of little or no growth in an economy.

Important Information

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. Source: FTSE. The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

Morningstar Rating™. Source: Morningstar®, 03/31/2025. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges and loads, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. The fund's Class A shares received a Morningstar Rating of 3, 3 and 4 and fund's Advisor Class shares received a Morningstar Rating of 3, 3 and 4 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Class A and Advisor Class shares only. Other share classes may have different Morningstar ratings.

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Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, or summary prospectus, if available, at www.franklintempleton.com. Please read it carefully.