FRANKLIN TEMPLETON

Putnam Short Duration Bond Fund

Class Y: PARYX Class A: PARTX | **Commentary | as of March 31, 2026**

Key Takeaways

- **Markets:** The war in the Middle East, which began at the end of February, continued throughout March, dominating market sentiment during the month. Global government bond markets sold off during March, as an initial safe-haven bid in certain markets was overwhelmed by markets subsequently pricing in stagflationary outcomes as oil prices surged by 50% or more over the month. The deterioration in risk sentiment affected credit products across the board. The potential effects of higher oil prices on growth and inflation resulted in renewed uncertainty over the path of monetary policy, and a number of central banks that held policy meetings during March highlighted the resultant increased policy uncertainty. The March US Federal Reserve (Fed) FOMC meeting left rates unchanged, and the statement and press conference emphasized uncertainty related to the Iran war. The Fed indicated that it would look through any initial oil supply shock effect on inflation to focus on core developments, while also noting a likely dragging effect on the economy; ultimately the Committee retained an easing bias.
- **Contributors**: Non-agency RMBS
- **Detractors:** Underweight to investment grade corporate credit
- **Outlook:** US growth has remained surprisingly resilient despite a steady stream of bearish narratives. While rising energy costs tied to escalating Middle East tensions, if sustained, will likely squeeze consumption, the impending fiscal stimulus should offset part of the drag. Meanwhile, the artificial intelligence (AI)-driven capital expenditure cycle remains intact. Our above-consensus forecast of 3.0% for 2026 GDP growth now faces some downside risk. While recession risk is no longer negligible, it remains a tail risk. The more likely outcome is slower growth, not contraction, with the structural expansion still intact. We expect the Fed to remain on hold through the end of Chair Jerome Powell's term and potentially through the year given rising upside risks to inflation. Should inflation broaden beyond energy and become persistent, the Fed could be forced to keep rates higher for longer or even consider renewed tightening.

Performance Review

- During the first quarter of 2026, the Fund's Y share class returned 0.27% on a net of fees basis and underperformed its benchmark, the ICE BofA 1-3 Year US Corporate Index, which returned 0.32%.
- Within short-term rates, the secured overnight financing rate (SOFR) decreased by 19 basis points and ended the period at 3.68%. The short end of the US Treasury (UST) curve remained largely anchored by the Fed in March, though medium- to longer-dated maturities saw more significant increases in yields. The one-month UST bill yield was two basis points (bps) higher, while the three-month UST bill yield rose by one bp. However, 1- to 3-year US Treasuries significantly rose over the period, ending 21-32 basis points higher.
- Within mortgage credit, non-agency RMBS allocations were additive. US homeowner fundamentals remain well positioned against the backdrop of inventory shortages, low unemployment, modest wage growth and steady household formation, which should continue to support home prices.
- An underweight to investment grade corporates relative to the corporate-only benchmark modestly detracted from performance.
- Structural allocations to cash and commercial paper continue to provide liquidity and returns.

Outlook

- **Corporate credit:** Spreads are now 17bps wider since the start of the year and finished March at +89. Spreads briefly touched +93, which represents the widest level for US IG Corporate spreads since May '25. The conflict in Iran and related spike in oil and related petrochemicals has driven the widening. However, given the scale of potential disruption the closure of the Strait of Hormuz could cause, spreads have been remarkably contained. We attribute this to strong technicals that are in large part driven by higher all-in yields. Despite the geopolitical turmoil, YTD supply is still trending at record pace and deals have been well absorbed thus far. Additionally, we continue to see strong demand from liability-management based buyers given the attractive all-in yield backdrop, and consistent inflows are also driving technical strength. We expect AI data center infrastructure supply to increasingly become a technical headwind that will persist over a multi-year period as Alphabet, Amazon, Meta, Microsoft and Oracle expect to spend over $700m in capital expenditures this year, a large portion of which will be funded in the IG credit market. Related, we are seeing certain sectors like technology, insurance and BDCs decouple from the broader market as AI disruption risk weighs on software and private credit. Syndicate desks are broadly calling for roughly $2 Trillion of gross corporate supply in 2026, which would make it a record-breaking year. Corporate balance sheets remain in good shape, affording most investment grade issuers substantial flexibility to manage through shifting economic conditions, which provides further support to the market. While banks' earnings largely showed credit quality to be in good condition, we have seen pockets of stress with subprime auto and student loan delinquencies rising. Finally, we are mindful of the K- shaped economy as greater price elasticity amongst middle- and lower-income consumers continues to be discussed on earnings calls. Going forward, we expect sectors like Aerospace, Defense and Tobacco to be more resilient, while consumer discretionary sectors and chemicals will likely face greater volatility. We continue to be comfortable with the credit risk in sectors like Utilities and Wireless and Technology, but expect elevated supply to weigh on spreads and therefore we will be more tactical in those sectors. While valuations have adjusted modestly, the market is still pricing in a sanguine outlook with minimal room for policy errors, therefore we continue to favor balanced a risk posture with a bias towards non-cyclical sectors.
- **Commercial mortgage credit:** After a record $90B in issuance in 2025, the Sustainability Accounting Standards Board (SASB) is on pace for yet another yearly record in gross issuance and remains the biggest piece of the private label lending pie. However, a prolonged conflict in Iran may pose a risk to the pace of issuance. Investor demand for commercial real

Morningstar Rating™

Overall Rating as of March 31, 2026

★★★★★ **(5-Star)** Class Y

★★★★ **(4-Star)** Class A

As of 03/31/2026 the fund's Class Y shares received a 5 star and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 525, 496 and 379 Short-Term Bond 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. The number of funds in the category for the Overall Rating are listed under the 3-year period.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Class Y)—With Waiver	3.95%
30-Day SEC Yield (Class Y)—Without Waiver	3.95%

estate remains a key technical and has been resilient in the face of labor market softness, sticky inflation and tariffs impacts. Meanwhile, new supply is constrained given the low rate of new construction which helps temper downside risks. The strong demand for CMBS has led to some deterioration in underwriting standards, particularly in conduit deals, both in terms of metrics (debt service coverage ratios, loan to values, debt yields, etc.) and in the inclusion of a growing percentage of weaker tier assets. As such, the percentage of new issue conduit deals with strong collateral quality is dropping. We continue to believe generic spreads do not currently reflect risks, namely higher rates and the potential for further labor market deterioration. Specific opportunities remain attractive in extension bonds given their shorter spread duration, natural liquidity from payoffs, and lower beta to macro and IG corporate credit spreads. Furthermore, CMBS Interest Only bonds can mitigate refinancing difficulties/inabilities.

- **Residential mortgage credit:** Despite subdued home price growth in recent years and a modest decline in mortgage rates from their 2023 peak, housing affordability remains stretched. While financing conditions have improved, elevated home prices relative to income continue to weigh on buyer sentiment and transaction activity. We expect muted home price growth over the next year with risks skewed to the downside and high regional variance. 2026 is expected to be the strongest gross RMBS issuance year since the GFC, at approximately $230bn. US homeowner fundamentals remain well positioned against the backdrop of inventory shortages, low unemployment, modest wage growth and steady household formation which should continue to support home prices. Also, homeowners have accumulated significant equity, which should help contain delinquencies. Overall, we maintain a neutral view of the sector given rich valuations and our expectations for modest home price growth, but we continue to find value in certain subsectors. Our preference continues to be for short or seasoned collateral, as they are more insulated against unemployment or macro shocks. We continue to prefer short carry profiles with limited extension risk, such as senior AAA-rated bonds across the non-Qualified Mortgage (QM), prime jumbo, and HELOC subsectors.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of March 31, 2026

			Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception
Class	CUSIP	Ticker	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	Date
Class Y	746764380	PARYX	0.27	0.27	4.52	5.50	2.82	3.18	2.34	0.27	0.27	4.52	5.50	2.82	3.18	2.34	0.38	0.38	—	—	12/23/2008
Class A	746764448	PARTX	0.21	0.21	4.16	5.20	2.56	2.92	2.08	-2.05	-2.05	1.82	4.41	2.09	2.68	1.95	0.63	0.63	2.25	—	12/23/2008
Benchmark 1	—	—	0.32	0.32	4.51	5.29	2.55	2.70	—	0.32	0.32	4.51	5.29	2.55	2.70	—	—	—	—	—	—
Benchmark 2	—	—	0.32	0.32	4.51	5.29	2.55	2.55	—	0.32	0.32	4.51	5.29	2.55	2.55	—	—	—	—	—	—

Benchmark(s)

Benchmark 1=ICE BofA 1-3 Year US Corporate Index

Benchmark 2=Putnam Short Duration Bond Linked Benchmark

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 total annual operating expenses are as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns.

What are the Risks?

All investments involve risks, including possible loss of principal. Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **Asset-backed, mortgage-backed or mortgage-related securities** are subject to prepayment and extension risks. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. **Active management** does not ensure gains or protect against market declines. 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

A **basis point (bp, or bps**) is one one-hundredth of one percent (1/100% or 0.01%).

Capital Expenditure (capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

Investment grade is a rating that indicates that a municipal or corporate bond has a relatively low risk of default. BBB is medium credit quality rating.

A **Qualified Mortgage (QM)** is a type of home loan that meets strict standards set by the Consumer Financial Protection Bureau (CFPB) to ensure borrowers can repay their loans safely.

SASB stands for the Sustainability Accounting Standards Board, a nonprofit organization that develops industry-specific standards for disclosing financially material sustainability information to investors and other financial stakeholders.

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).

Important Information

Before June 1, 2018, the fund was managed with a materially different investment strategy and may have achieved materially different performance results.

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 **Putnam Short Duration Bond Linked Benchmark** represents the performance of the ICE BofA U.S. Treasury Bill Index through May 31, 2018, and the performance of the ICE BofA 1-3 Year U.S. Corporate Index thereafter. The **ICE BofA 1-3 Year U.S. Corporate Index** is an unmanaged index of U.S. investment-grade corporate debt with a remaining term to maturity of less than 3 years.

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

The **30-day SEC yield** is calculated using the net income (interest and dividends) per share earned over a trailing 30-day period (annualized), divided by the fund's share price at the end of that period. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

Morningstar Rating™: Source: Morningstar®, 03/31/2026. 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 Y shares received a Morningstar Rating of 4, 4 and 5 and fund's Class A shares received a Morningstar Rating of 3, 4 and 4 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Class Y and Class A shares only. Other share classes may have different Morningstar ratings. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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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.

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