FRANKLIN TEMPLETON

Putnam Ultra Short Duration Income Fund

Class Y: PSDYX Class A: PSDTX | **Commentary | as of June 30, 2026**

Key Takeaways

- **Markets:** Some of the risk aversion that had characterized financial markets at the end of the previous quarter eased during the second quarter, although geopolitical developments remained a key focus. The Middle East conflict continued to drive sentiment through the quarter, with markets reacting to shifting news around negotiations, before the United States and Iran signed a 14-point Memorandum of Understanding (MOU) in late June. The MOU formalized a ceasefire, established a 60-day negotiation framework and included provisions to restore shipping through the Strait of Hormuz. The US dollar was modestly stronger over the quarter, appreciating against most other currencies. The Federal Reserve (Fed) kept policy rates unchanged, but its tone became more hawkish overall as internal disagreement over the easing bias increased, minutes suggested rates could remain unchanged for longer, and the June meeting removed previous easing guidance despite a more dovish press conference from new Fed Chair Kevin Warsh. The benchmark 10-year UST yield rose by 15 basis points to 4.47% over the quarter. Fixed income volatility measures eased during the quarter as risk aversion retreated somewhat. For similar reasons, credit spreads narrowed over the quarter, with the declines more pronounced in the high-yield sectors. Total returns in corporate bonds were positive over the quarter. Securitized sectors generated a positive excess return versus duration-matched Treasuries.
- **Contributors:** Investment grade corporate credit; ABS; Non-agency RMBS
- **Detractors:** N/A
- **Outlook:** On interest rates, the June FOMC reinforced our view that the Fed is likely to remain on hold in the near term, but the balance of risks has shifted modestly toward further tightening. With inflation continuing to firm and real policy rates already drifting lower, a year-end or early-2027 rate hike cannot be ruled out. Our base case remains one of continued economic expansion rather than recession, with inflation proving more persistent than previously expected. While geopolitical developments and supply-side risk continue to warrant close monitoring, the greater near-term focus is on whether inflation pressures remain sufficiently strong to prompt additional Fed tightening.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Class Y)—With Waiver	4.02%
30-Day SEC Yield (Class Y)—Without Waiver	3.98%

Performance Review

- During the second quarter of 2026, the Fund's Y share class returned 1.04% on a net of fees basis and outperformed its benchmark, the ICE BofA US Treasury Bill Index, which returned 0.90%.
- Within short-term rates, the secured overnight financing rate (SOFR) rose 3 basis points and ended the period at 3.68%. Short-term Treasury yields, as measured by 1- to 3-year US Treasuries, moved approximately 30 basis points higher over the quarter amid inflation concerns before partially retracing on easing geopolitical tensions and risk-off sentiment.
- Investment grade corporate credit allocations were the primary contributor to relative returns, as spreads tightened over the quarter and credit markets remained resilient due to strong technicals, healthy corporate balance sheets, and positive banks' earnings.
- On the other hand, yield curve exposures detracted from performance as short-term Treasury yields (1- to 3-year US Treasuries) rose meaningfully. Treasury yields were broadly volatile over the quarter due to inflation concerns and geopolitical tensions.
- Securitized exposures within ABS and non-agency RMBS slightly boosted returns as well. RMBS market technicals remain constructive, supported by consistent investor demand for high-quality bonds and attractive relative value versus other spread sectors.

Outlook

- **Corporate credit:** Spreads are now 4bps tighter since the start of the year and finished June at +74. Spreads briefly touched +93 in mid-March, 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 drove the widening, which has since been retraced on hopes of a potential resolution. Despite the scale of disruption the closure of the Strait of Hormuz could have caused; 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 with over $1T of new issuance year-to-date. While deals have been well absorbed thus far, Hyperscaler and AI related supply have exceeded 20% of net issuance for the IG market, and these deals are increasingly demanding greater new issue concessions. On the demand side, we continue to see strong demand from liability-management based buyers given the attractive all in yield backdrop, consistent retail driven inflows and an uptick in foreign buying. 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, MSFT and ORCL expect to spend over $800B in Capex 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. Banks' earnings largely showed credit quality to be in good condition with benign levels of delinquencies and loan loss provisioning, but we have seen pockets of stress within subprime auto and student loans. 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, and therefore we continue to favor a balanced risk posture with a bias towards non-cyclical sectors.

Not FDIC Insured | No Bank Guarantee | May Lose Value

- **Commercial mortgage credit:** CMBS remains supported by healthy new issue demand, constructive market technicals, and continued investor preference for high-quality securitized credit. Relative value versus investment-grade corporates remains attractive, supporting ongoing institutional demand. Primary issuance continues to be led by the SASB market, as strong sponsorship and high-quality collateral have enabled borrowers to access capital despite financing costs remaining above long-term averages. Conduit issuance has also remained steady, although investor focus on underwriting discipline continues to intensify. Commercial real estate fundamentals remain highly differentiated across property types. Industrial, multifamily, and essential retail continue to demonstrate resilient operating performance, while office assets remain the primary source of credit stress and refinancing uncertainty. The sector continues to face a meaningful maturity wall heading into 2026, with more than $100 billion of fixed and floating rate CMBS loans scheduled to mature. Although refinancing challenges are expected to persist for weaker assets, extensions, modifications, and additional sponsor equity are likely to remain the primary tools for addressing upcoming maturities. We continue to favor extension bonds and select CMBS interest-only (IO) securities, which offer attractive carry, shorter spread duration, and lower sensitivity to broader credit market volatility. These structures also provide favorable positioning in scenarios where refinancing activity remains constrained, or loan resolutions are extended. Looking ahead, we expect CMBS spreads to remain broadly range-bound with a modest tightening bias, supported by stable market technicals and improving capital markets access for higher-quality assets.
- **Residential mortgage credit:** Housing affordability continues to constrain existing home sales and mortgage origination activity, as elevated home prices and mortgage rates remain challenging for prospective buyers despite some stabilization in financing costs. Affordability is likely to remain a key determinant of housing market activity in the near term. While affordability remains stretched, homeowner credit fundamentals continue to be supported by a resilient labor market, healthy household balance sheets, and limited housing inventory. We expect home price appreciation to remain modest over the coming year, with performance varying meaningfully across regions. Markets experiencing stronger population growth and constrained housing supply are likely to outperform areas facing affordability pressures or increasing new supply. RMBS market technicals remain constructive, supported by consistent investor demand for high-quality bonds and attractive relative value versus other spread sectors. Secondary market liquidity has remained healthy, while primary issuance has generally been well absorbed. We continue to favor seasoned, high-quality collateral with shorter carry profiles, particularly senior AAA-rated bonds across the non-QM, prime jumbo, and HELOC sectors. These segments continue to offer attractive carry while providing greater resilience to labor market softening, extension risk, and broader macroeconomic uncertainty.

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Average annual total returns and fund expenses (%) - as of June 30, 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	74676P698	PSDYX	1.04	1.78	4.24	5.27	3.87	2.77	2.11	1.04	1.78	4.24	5.27	3.87	2.77	2.11	0.37	0.32	—	—	10/17/2011
Class A	74676P755	PSDTX	1.01	1.73	4.14	5.17	3.78	2.67	2.00	1.01	1.73	4.14	5.17	3.78	2.67	2.00	0.47	0.42	—	—	10/17/2011
Benchmark	—	—	0.90	1.76	3.94	4.71	3.54	2.36	—	0.90	1.76	3.94	4.71	3.54	2.36	—	—	—	—	—	—

Benchmark(s)

Benchmark =ICE BofA U.S. Treasury Bill 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.*
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 11/30/2026 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. 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. **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

An **ABS, or asset-backed security**, is a financial instrument whose value and income are derived from a pool of underlying assets, such as loans or receivables, which are securitized and sold to investors.

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

Commercial mortgage-backed securities (CMBS) are a type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets.

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

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.

Residential mortgage-backed securities (RMBS) are a type of mortgage-backed debt obligation created from residential debt, such as mortgages, home-equity loans and subprime mortgages.

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

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 **ICE BofA U.S. Treasury Bill Index** is an unmanaged index that tracks the performance of U.S. dollar-denominated U.S. Treasury bills publicly issued in the U.S. domestic market.

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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.

Putnam funds are not exchangeable for other funds distributed by Franklin Distributors, LLC.

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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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