FRANKLIN TEMPLETON

Putnam Ultra Short Duration Income Fund

Class Y: PSDYX Class A: PSDTX | **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:** Investment grade corporate credit; ABS; Non-agency RMBS
- **Detractors:** N/A
- **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.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Class Y)—With Waiver	3.99%
30-Day SEC Yield (Class Y)—Without Waiver	3.96%

Performance Review

- During the first quarter of 2026, the Fund's Y share class returned 0.73% on a net of fees basis and underperformed its benchmark, the ICE BofA US Treasury Bill Index, which returned 0.86%.
- 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.
- The Fund outperformed its benchmark in January and February, however underperformance in March due to market volatility led to overall underperformance in Q1.
- Yield curve exposures detracted from performance particularly in March, as interest rates were volatile amidst heightened geopolitical tensions.
- Investment grade corporate credit allocations contributed to performance overall, despite detractions in the latter half of the quarter from widening spreads.
- Exposures in securitized sectors, particularly ABS autos and non-agency residential mortgage-backed securities, augmented performance.

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 Investment Grade (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 a 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 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 Commercial Mortgage-Backed Securities (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 we believe 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-Quality Management, prime jumbo, and HELOC subsectors.

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	74676P698	PSDYX	0.73	0.73	4.40	5.40	3.69	2.70	2.07	0.73	0.73	4.40	5.40	3.69	2.70	2.07	0.37	0.32	—	—	10/17/2011
Class A	74676P755	PSDTX	0.70	0.70	4.30	5.30	3.59	2.60	1.97	0.70	0.70	4.30	5.30	3.59	2.60	1.97	0.47	0.42	—	—	10/17/2011
Benchmark	—	—	0.86	0.86	4.10	4.79	3.35	2.28	—	0.86	0.86	4.10	4.79	3.35	2.28	—	—	—	—	—	—

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%).

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

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 **Sustainability Accounting Standards Board (SASB)** is a framework that guides companies in disclosing financially material sustainability information to investors, focusing on ESG issues that impact financial performance.

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).

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.

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

Source: The index data referenced herein is the property of Intercontinental Exchange ("ICE") and/or its licensors and has been licensed for use by Franklin Templeton. ICE and its licensors accept no liability in connection with this use.

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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