

# Franklin Income Fund

Advisor Class: FRIAX Class A: FKIQX

Commentary | as of March 31, 2026

## Key Takeaways

- **Markets:** US equities endured a difficult first quarter of 2026 as investors reassessed the durability of the artificial intelligence (AI) trade and as geopolitical risk intensified. Technology-focused shares came under pressure as rising AI-related capital expenditure spurred a rotation away from mega-capitalization growth stocks and toward value stocks. March brought further strain as the Middle East conflict disrupted energy markets, lifting oil prices and adding to inflation risk.
- **Contributors:** Allocations to both the fixed income and equity sides of the portfolio contributed to the fund's absolute returns, while selection among fixed income holdings assisted relative results.
- **Detractors:** Stock selection detracted from relative equity performance.
- **Outlook:** We remain vigilant amid ongoing uncertainties, selectively deploying capital during periods of market dislocation to enhance income and long-term total return potential. Having reduced fixed income exposure earlier in the year in favor of equity opportunities, we are now selectively increasing bond allocations as higher yields and wider spreads improve their relative attractiveness to us.

## Performance Review

- Franklin Income Fund (Advisor Class shares without sales charges) **outperformed its benchmark**, the Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg High Yield Very Liquid Index + 25% Bloomberg US Aggregate Index, for the quarter ended March 31, 2026.
- Over the course of the quarter, the fund **decreased its fixed income allocation and increased its equity exposure**.
- Fixed income allocations to **the energy, health care and communication services sectors had a positive effect** on absolute fund performance. Meanwhile, **financials, consumer discretionary and industrials securities hindered results** during the period.
- On an individual issuer basis, **Venture Global Partners II, Community Health Systems and Tronox Holdings were leading contributors** within the fund's fixed income positioning. In contrast, **Ardagh detracted** from returns.
- In terms of equities, the fund **benefited from positions within the energy, utilities and materials sectors**. This performance was **partially offset by information technology (IT), financials and consumer discretionary stocks**, which detracted from absolute returns.
- **Exxon Mobil, Chevron, and Air Products and Chemicals added value** within the fund's equity holdings. However, **Microsoft, International Business Machines and Accenture detracted from returns** during the period.

## Outlook

- **Economy:** The economic growth outlook continues to be a major area of focus for the fund. The US economy remains resilient, but ongoing uncertainty in monetary and fiscal policy, as well as trade and geopolitical risks, is weighing on investor sentiment. Moreover, while the labor market has incrementally cooled, unemployment levels are still low on a historical basis. We continue to monitor financial conditions as a leading indicator of future economic performance and US Federal Reserve policy.
- **Equities:** The start of 2026 has seen elevated equity market dispersion after an extended period of very narrow market leadership, which we feel favors active management. Recently, we have found select opportunities within the financials and IT sectors. Ultimately, given current valuations, we remain selective in engaging with equities and continue to focus on broad diversification across sectors while maintaining flexibility to capitalize on potential dislocations.
- **Treasuries/Government-Backed Bonds:** Government securities continue to provide an attractive investment opportunity, in our view, as yields remain elevated based on recent history. We believe they continue to offer good diversification potential and can serve as a ballast to help hedge portfolios during market volatility.
- **Investment-Grade Corporate Bonds:** Absolute yield levels remain attractive for an income-generating strategy, but credit spreads remain near cycle lows, despite some recent widening. With credit spreads at current levels, we believe future returns may be driven by interest-rate moves and carry rather than further spread compression.
- **High-Yield Corporate Bonds:** Although we think the high-yield market offers attractive yields, we remain balanced and selective due to the potential for higher refinancing costs impacting companies' fundamentals. We maintain a vigilant approach to security selection within our high-yield portfolio, with our preference for companies that have a greater degree of flexibility to address upcoming maturities.

## Fund Characteristics

	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	3.38%
30-Day SEC Yield (Advisor Class)—Without Waiver	3.38%

## Asset Allocation (% of Total)

Asset Class	Fund
Fixed Income	48.88
Equity	25.94
Convertibles/Equity-Linked Notes	23.84
Cash & Cash Equivalents	1.34

## Top Holdings (% of Total)

Issuer	Fund
UNITED STATES TREASURY BOND	8.13
CHS/COMMUNITY HEALTH SYSTEMS INC	3.30
FREDDIE MAC POOL	2.56
EXXON MOBIL CORP	2.49
CHEVRON CORP	1.97
PROCTER & GAMBLE CO/THE	1.97
GOVT NATL MORTG ASSN	1.91
SOUTHERN CO/THE	1.69
HOME DEPOT INC/THE	1.64
VENTURE GLOBAL LNG INC	1.56

## Sector Allocation (Equity as a % of Total)

Sector	Fund
Information Technology	10.04
Energy	8.04
Health Care	5.65
Consumer Discretionary	4.69
Utilities	4.59
Financials	4.49
Consumer Staples	4.42
Materials	3.30
Industrials	3.08
Communication Services	1.48

## Sector Allocation (Fixed Income as a % of Total)

Sector	Fund
High Yield Corporates	19.93
Investment Grade Corporates	12.75
U.S. Treasuries	9.90
Mortgage-Backed Securities	5.29
Floating-Rate Loans	1.00

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

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	353496847	FRIAX	3.03	3.03	12.82	9.45	6.97	7.81	9.89	3.03	3.03	12.82	9.45	6.97	7.81	9.89	0.47	0.46	—	—	8/31/1948
Class A	353496490	FKIQX	2.95	2.95	12.47	9.14	6.66	7.58	9.78	-0.91	-0.91	8.25	7.76	5.85	7.17	9.73	0.72	0.71	3.75	—	8/31/1948
Benchmark	—	—	2.79	2.79	9.65	9.33	5.64	7.11	—	2.79	2.79	9.65	9.33	5.64	7.11	—	—	—	—	—	

## Benchmark(s)

Benchmark = Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg High Yield Very Liquid Index + 25% Bloomberg US Aggregate 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](http://franklintempleton.com).

The fund began offering Advisor Class shares on 12/31/1996 and the fund began offering A Class shares on 9/10/2018. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 12/31/1996, a restated figure is used based on the fund's Class A1 performance; for A Class periods prior to 9/10/2018, a restated figure is used based on the fund's Class A1 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.

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. Equity securities are subject to price fluctuation and possible loss of principal. 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. To the extent the portfolio invests in a concentration of certain securities, regions or industries, it is subject to increased volatility. 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

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

## 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 **Benchmark**: 50% USA High Div Yield + 25% High Yield Very Liquid + 25% US Agg Index is composed of the Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg High Yield Very Liquid Index + 25% Bloomberg US Aggregate Index. The MSCI USA High Dividend Yield Index is designed to reflect the performance of mid- and large-cap equities (excluding REITs) with higher dividend income, which is sustainable and persistent, than average dividend yields of securities in the MSCI USA Index. The Bloomberg US High Yield Very Liquid Index (VLI) is a component of the US Corporate High Yield Index designed to track a more liquid component of the U.S. dollar-denominated, high-yield, fixed-rate corporate bond market. The Bloomberg US Aggregate Bond Index is comprised of investment-grade, U.S. dollar-denominated government, corporate, and mortgage- and asset-backed issues having at least one year to maturity.

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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.

Holdings are provided for informational purposes only and should not be construed as a recommendation to purchase or sell any security.

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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](http://www.franklintempleton.com). Please read it carefully.**