

Franklin Income Fund

Advisor Class: FRIAX Class A: FKIQX

Commentary | as of March 31, 2025

Key Takeaways

- **Markets:** US stocks experienced heightened volatility during 2025's first quarter amid concerns about US President Donald Trump's tariff policies and their impact on economic growth, inflation and the US Federal Reserve's (Fed's) interest-rate path, with some investors fearing a potential recession or stagflation (i.e., economic stagnation and high inflation). Despite reaching record highs early in the quarter, major US indexes declined by period-end.
- **Contributors:** Allocations to both the fixed income and equity sides of the portfolio contributed to the fund's absolute returns.
- **Detractors:** Selection, in addition to an overweight fixed income allocation and underweight equity positioning, detracted from relative fund returns.
- **Outlook:** We increased equity positioning during the quarter by adding to select areas of weakness in equity markets. Moreover, we have reduced exposure to investment-grade corporate bonds and added to agency mortgage-backed securities.

Performance Review

- Franklin Income Fund **underperformed 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, 2025.
- Over the course of the quarter, the fund **decreased its allocation to fixed income** and **increased its equity exposure**.
- Fixed income allocations to **US Treasuries (USTs), securitized products and financials had a positive effect** on absolute fund performance. However, the **materials sector detracted from returns** during the period.
- On an individual issuer basis, **USTs, Federal Home Loan Mortgage and Claritev were the top performers** within the fund's fixed income holdings. In contrast, **Community Health Systems, Ardagh Holdings and Mauser Packaging Solutions hindered returns**.
- In terms of equities, the fund **benefited from positions within the energy, health care and consumer staples sectors**. However, the **information technology, financials, and communication services sectors detracted** from absolute returns.
- **Exxon Mobil, Chevron and Johnson & Johnson added value** within the fund's equity holdings. However, **Target, Microchip Technology and Alphabet detracted from returns** during the period.

Outlook

- **Economy:** The economic growth outlook has been a major area of focus for the fund, as central banks around the world eased monetary policy to finish out 2024 and look to take cues from both inflation and employment data, as well as incoming policy impacts, to determine the path forward. The US economy remains resilient, largely driven by strong consumer spending on both goods and services, and while the labor market has incrementally cooled, unemployment levels are still low on a historical basis. We continue to monitor financial conditions and trade-related risks as leading indicators of future economic performance and Fed policy.
- **Equities:** Following two years of narrow market breadth, 2025 began with underperformance from some of the leading performers over the last couple of years. This has led to increased market volatility and reduced index level valuations from their recent highs. While we remain selective in engaging with equities, the current market pullback has presented opportunities for increased engagement.
- **Treasuries/Government-Backed Bonds:** The intermediate part of the yield curve has remained volatile as the outlook for deficit spending, as well as longer-term economic growth and inflation expectations, has had an impact on the belly of the yield curve. 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:** While absolute yield levels are still attractive for an income-generating strategy, credit spreads have contracted materially over the past year, which has decreased the attractiveness of investment-grade corporate bonds, in our assessment.
- **High-Yield Corporate Bonds:** While the high-yield market offers attractive yields, we remain balanced and selective due to the potential for higher refinancing costs impacting companies' fundamentals.

Fund Characteristics

	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	3.90%
30-Day SEC Yield (Advisor Class)—Without Waiver	3.89%

Asset Allocation (% of Total)

Asset Class	Fund
Fixed Income	50.99
Equity	26.88
Convertibles/Equity-Linked Notes	20.85
Cash & Cash Equivalents	1.27

Top Holdings (% of Total)

Issuer	Fund
UNITED STATES TREASURY NOTE/BOND	718
FREDDIE MAC POOL	3.48
EXXON MOBIL CORP	2.48
BOEING CO/THE	2.45
CHS/COMMUNITY HEALTH SYSTEMS INC	2.45
TENET HEALTHCARE CORP	2.04
JOHNSON & JOHNSON	1.80
CHEVRON CORP	1.69
HOME DEPOT INC/THE	1.51
PROCTER & GAMBLE CO/THE	1.51

Sector Allocation (Equity as a % of Total)

Sector	Fund
Information Technology	7.91
Health Care	7.75
Energy	6.58
Consumer Staples	5.00
Industrials	4.51
Utilities	4.09
Financials	4.05
Consumer Discretionary	3.14
Materials	2.98
Other	1.72

Sector Allocation (Fixed as a % of Total)

Sector	Fund
High Yield Corporates	20.11
Investment Grade Corporates	16.20
U.S. Treasuries	8.50
Mortgage-Backed Securities	5.37
Floating-Rate Loans	0.71
U.S. Agency	0.10

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	353496847	FRIAX	2.31	2.31	7.71	3.92	10.63	5.83	9.85	2.31	2.31	7.71	3.92	10.63	5.83	9.85	0.47	0.46	—	—	8/31/1948
Class A	353496490	FKIQX	2.67	2.67	7.43	3.65	10.27	5.57	9.75	-1.18	-1.18	3.40	2.33	9.43	5.17	9.69	0.72	0.71	3.75	—	8/31/1948
Benchmark	—	—	3.18	3.18	7.09	4.78	8.35	6.49	—	3.18	3.18	7.09	4.78	8.35	6.49	—	—	—	—	—	—

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. 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. 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 01/31/2026 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. Low-rated, high-yield bonds are subject to greater price volatility, illiquidity and possibility of default. **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. **Changes in the credit rating** of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. **Equity securities** are subject to price fluctuation and possible loss of principal. **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

Stagnation is a prolonged period of little or no growth in an economy.
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 **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. Source: MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI. Bloomberg Indices.

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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.

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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.