

Franklin U.S. Government Securities Fund

Advisor Class: FUSAX Class A: FKFSX

Commentary | as of March 31, 2026

Key Takeaways

- Markets:** The war in the Middle East, which began in late February when the United States and Israel struck Iran, dominated much of the news flow and financial market sentiment over the remainder of the quarter. The reaction in markets has evolved, initially seeing a traditional risk-off move in both the US dollar and US bonds, which then turned into a stagflationary-focused sell-off in core developed bond markets as oil prices surged (although the dollar remained well-supported). The US Federal Reserve remained on hold throughout the quarter. The March FOMC meeting statement and press conference emphasized uncertainty related to the Iran war, indicating that the Fed 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. The benchmark 10-year UST yield increased 15 bps to end the quarter at 4.32% (after having fallen to 3.94% in the immediate reaction to the start of the conflict). Fixed income volatility measures rose during the quarter, with much of the increase coming in the wake of the onset of the war in the Middle East. Credit spreads rose over the quarter, with the increase significantly more pronounced in the high-yield sector; total returns in corporate bonds were negative over the quarter. Securitized sectors generated a positive excess return versus duration-matched Treasuries.
- Contributors:** Security selection in GNMA II [2.0%, 2.5%], [3.5%, 4.0%] coupons
- Detractors:** Security selection in GNMA II [4.5%, 5.0%] coupons.
- Outlook:** We expect the Fed to remain on pause through Powell's term in May 2026 as long as growth stays resilient, even though unchanged 2026 dot plot medians suggest a low bar for renewed easing.

Performance Review

- Security selection in GNMA II [2.0%, 2.5%], [3.5%, 4.0%] coupons helped returns. Relative allocation to GNMA II [2.0%, 2.5%] and [4.5%, 5.0%] coupons also lifted returns.
- Security selection in GNMA II [4.5%, 5.0%] coupons curbed results.

Outlook

- Over the first quarter, agency mortgage-backed securities (MBS) posted a positive total return and outperformed similar-duration USTs. GNMA was the best relative performer in terms of excess returns, followed by conventional MBS, as represented by Fannie Mae.
- Within GNMA MBS, GNMA II fared better than GNMA I. Across the GNMA coupon stack, the GNMA I 3.5% and GNMA II 3.5% coupons were the best performers, while GNMA II 5.0% and 4.5% coupons were the worst performers in terms of excess returns.
- At period-end, we remained heavily weighted to GNMA II securities (comprised of multiple-issuer pools), with over 86.8% of assets in the sector, versus GNMA I securities (comprised of single-issuer pools). The fund's largest absolute allocation remains in GNMA II 2.5% through 3.5% coupons and 5.5% and greater coupons.
- At current mortgage rates in excess of 6%, less than 9% of the universe has an incentive to refinance their loans. Prepayments at an index level, which are currently at an 8.4% constant prepayment rate (CPR), have increased this year but remain near historic lows.
- We view Agency MBS as neutral with reason for optimism. In the near term, we remain cautiously constructive, supported by the GSE backstop through early summer.
- We are keeping an eye on potential risks, including a lack of bank participation or a reduction in overweight positions by money managers.

Fund Characteristics

| Fund Characteristics | Fund |
|---|---------|
| Distribution Frequency | Monthly |
| 30-Day SEC Yield (Advisor Class)—With Waiver | 3.02% |
| 30-Day SEC Yield (Advisor Class)—Without Waiver | 3.02% |

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 | 353496821 | FUSAX | 0.70 | 0.70 | 5.06 | 3.48 | 0.16 | 0.99 | 5.44 | 0.70 | 0.70 | 5.06 | 3.48 | 0.16 | 0.99 | 5.44 | 0.62 | 0.61 | — | — | 5/31/1970 |
| Class A | 353496482 | FKFSX | 0.45 | 0.45 | 4.61 | 3.16 | -0.13 | 0.76 | 5.33 | -3.32 | -3.32 | 0.69 | 1.86 | -0.89 | 0.37 | 5.25 | 0.87 | 0.86 | 3.75 | — | 5/31/1970 |
| Benchmark | — | — | 0.05 | 0.05 | 3.98 | 3.64 | 1.00 | 1.53 | — | 0.05 | 0.05 | 3.98 | 3.64 | 1.00 | 1.53 | — | — | — | — | — | |

Benchmark(s)

Benchmark = Bloomberg US Government - Intermediate 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 01/31/2027 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. **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. These and other risks are discussed in the fund's prospectus.

Glossary

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

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

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 **Bloomberg U.S. Government Intermediate Index** is the intermediate component of the Bloomberg U.S. Government Index, which includes public obligations of the U.S. Treasury with at least one year to final maturity and publicly issued debt of U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government.

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

Source: Bloomberg Indices.

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.