FRANKLIN TEMPLETON

Franklin New York Tax-Free Income Fund

Advisor Class: FNYAX Class A: FNYQX | **Commentary | as of September 30, 2026**

Key Takeaways

- **Markets:** In the third quarter of 2026, new issuance of municipal (muni) bonds continued at a record pace, with issuance 8% higher than the third quarter of 2025 and year-to-date volume running 6% ahead of last year (Source: Bloomberg). By quarter-end, the yield on the benchmark 10-year US Treasury (UST) note had risen by 82 basis points (bps) to 5.28% - its highest level since mid-2007 - while the yield on the 30-year UST bond was 68 bps higher at 5.63%. The September Federal Open Market Committee (FOMC) meeting raised the US Federal Reserve (Fed) funds target range by 25 bps to 3.75%–4.00%. Given that the hike was almost fully priced into the bond market, the genuinely new information was that the FOMC leans toward another increase, thus shifting the rates debate from a one-hike risk to how high a new tightening cycle might ultimately go.
- **Contributors**: Security selection in AA rated bonds, underweight allocation to muni bonds with two to five years to maturity and overweight allocation to muni bonds with no external credit rating.
- **Detractors**: Overweight allocation to muni bonds with 20 or more years to maturity, security selection in BBB rated bonds and underweight allocation to AAA rated bonds.
- **Outlook**: Municipal bond valuations are compelling relative to other fixed income sectors, in our view, giving investors an opportunity to harvest tax losses, rebalance duration and improve portfolio income without materially extending duration or relaxing credit standards. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio credit quality.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	4.30%
30-Day SEC Yield (Advisor Class)—Without Waiver	4.28%
Taxable Equivalent Yield (Advisor Class)—With Waiver	9.68%
Taxable Equivalent Yield (Advisor Class)—Without Waiver	8.86%

Performance Review

- Over the quarter, Franklin New York Tax-Free Income Fund fared worse than its benchmark, the Linked Bloomberg Muni Bond New York Exempt/Muni Bond Index.
- The fund's yield curve positioning detracted from relative performance during the third quarter, primarily driven by our overweight to muni bonds with 20 or more years to maturity. However, this was partially offset by our underweight to muni bonds with two to five years to maturity, which limited some of the losses.
- Rating allocations benefited relative returns for the period, led by our overweight to bonds with no external credit rating and BBB rated bonds. Conversely, our underweight to AAA rated bonds partially mitigated some of those gains. Security selection benefited relative results, particularly due to selection in AA and AAA rated securities. Meanwhile selection in BBB rated securities hindered results.

Outlook

- September's record supply and accelerating tax-loss selling tested market technicals, and the market struggled to absorb them. Munis trailed both Treasuries and corporates as yields rose across the curve and fund flows softened. Shorter-duration bonds held up better, as duration risk drove most of the losses. With supply likely to remain heavy, technicals will continue to be an important test of investor appetite, though recent repricing may help attract buyers.
- Economic and credit fundamentals remain broadly supportive. Census estimates released in September showed second-quarter 2026 state and local tax collections at record levels, reflecting resilient labor markets and healthy tax bases, and stronger revenues should help issuers absorb rising costs. However, conditions vary materially across regions and credits, and credit outcomes are becoming more divergent. Tension between monetary and fiscal policy is also emerging as a key issue to watch, and we see scope for further yield curve steepening.
- In our view, the selloff has made absolute yields and relative valuations more compelling. Municipal yields now offer a substantial premium over comparable Treasuries at intermediate and longer maturities on a taxable-equivalent basis, with the long end offering the best relative value. Higher starting yields give investors an opportunity to harvest tax losses, rebalance duration and improve portfolio income without materially extending duration or relaxing credit standards. We favor capturing income and prioritizing credit quality over depending on a view of lower rates or tighter spreads. In this environment, active management and disciplined security selection remain essential to identifying relative value and preserving portfolio credit quality.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of September 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
Advisor Class	354130403	FNYAX	-7.13	-4.35	-2.79	2.78	-0.84	0.88	5.29	-7.13	-4.35	-2.79	2.78	-0.84	0.88	5.29	0.55	0.55	—	—	9/13/1982
Class A	354130809	FNYQX	-7.20	-4.54	-3.14	2.50	-1.11	0.65	5.19	-10.68	-8.12	-6.77	1.20	-1.86	0.27	5.09	0.80	0.80	3.75	—	9/13/1982
Benchmark	—	—	-6.72	-4.24	-2.77	2.84	-0.25	1.36	—	-6.72	-4.24	-2.77	2.84	-0.25	1.36	—	—	—	—	—	—

Benchmark(s)

Benchmark =Linked Bloomberg New York Muni Bond/Muni Bond 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 10/1/2001. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 10/1/2001, 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. Net expenses are capped under a contractual agreement, which cannot be terminated prior to 06/30/2027 without Board consent. 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. Portfolios focused on a **single state** are subject to greater risk of adverse economic and regulatory changes in that state than a geographically diversified fund. **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. An investor may be subject to the federal **Alternative Minimum Tax**, and state and local taxes may apply. These and other risks are discussed in the fund's prospectus.

Glossary

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

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

The **Federal Open Market Committee (FOMC)** is the branch of the Federal Reserve that dictates U.S. monetary policy, specifically targeting the federal funds rate and managing open market operations.

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 fund's benchmark is the **Bloomberg New York Municipal Bond Index**. The **Linked Bloomberg New York Muni Bond/Muni Bond Index** reflects performance of the Bloomberg Municipal Bond Index from the fund's inception through 7/31/1993 and the Bloomberg New York Municipal Bond Index thereafter. The **Bloomberg New York Municipal Bond Index** is a market value weighted index of New York investment-grade fixed-rate municipal bonds with maturities of one year or more.

Source: Bloomberg Indices.

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.

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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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