FRANKLIN TEMPLETON

Franklin Low Duration Total Return Fund

Advisor Class: FLDZX Class A: FLDAX | **Commentary | as of September 30, 2026**

Key Takeaways

- **Markets**: Geopolitical developments remained a focus during the quarter, with receding expectations of a settlement nearer to quarter-end resulting in oil prices surging to over US$100/barrel, compared to around US$72/barrel in early July. This energy price move, combined with an increasingly hawkish central bank outlook, drove market moves especially nearer the end of the quarter. The US dollar (USD) was modestly stronger over the quarter, with mixed performance against other currencies. Notably, the Japanese yen appreciated against the USD over the period as it benefited from intervention during the quarter. Following on increasingly hawkish rhetoric, the Federal Reserve (Fed) raised the fed funds rate by 25 basis points (bps) at its September meeting, retaining a hawkish outlook. The benchmark 10-year UST yield rose 82 bps over the quarter to 5.28%, its highest level since mid-2007. Fixed income volatility measures rose during the quarter. Credit spreads rose over the quarter, with the increases more pronounced in the high-yield (HY) sectors. Total returns in corporate bonds were negative over the quarter. Securitized sectors posted a negative excess return compared to duration-matched Treasuries. The two-year UST yield increased 71 bps to end the quarter at 4.89%.
- **Contributors**: Out-of-index exposures to residential mortgage-backed securities (RMBS), collateralized loan obligations (CLOs) and senior-secured floating-rate bank loans.
- **Detractors**: Overweight allocation to the five-year segment of the yield curve. Out-of-index allocations to collateralized mortgage obligations (CMOs) and HY corporate bonds. Security selection within commercial mortgage-backed securities (CMBS), senior-secured floating-rate bank loans and investment-grade (IG) corporate bonds.
- **Outlook**: The September Federal Open Market Committee (FOMC) meeting reinforced our view that the Fed is committed to a higher-for-longer path. Following the September 25-bps hike, we anticipate a second increase by year-end, although we do not expect a return to 2022-style sequential hikes. We continue to see attractive income and carry across IG and HY corporate bonds supported by resilient fundamentals and strong demand for yield, though record supply, particularly from hyperscalers and AI-related infrastructure, and softening technicals warrant a more tactical approach. We maintain a neutral outlook on securitized credit with a modestly constructive bias toward Agency MBS following recent spread widening, while remaining cautious on CMBS and non-agency RMBS given refinancing, valuation and extension risks. Disciplined security selection remains key as we favor high-quality, shorter-spread-duration opportunities.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	4.50%
30-Day SEC Yield (Advisor Class)—Without Waiver	4.22%

Performance Review

- **The portfolio posted negative total returns and fared worse** than its benchmark over the period.
- **Sector allocation was a strong driver of overall performance** during the quarter, led by out-of-index exposures to RMBS, CLOs and senior-secured floating-rate bank loans. However, out-of-index allocations to CMOs and HY corporate bonds detracted from performance.
- **Security selection detracted from results** during the quarter, led by negative selection within CMBS, senior-secured floating-rate bank loans and IG corporate bonds. There were no material contributors within security selection.
- **Yield curve positioning detracted from performance**, mainly due to an overweight allocation to the five-year segment of the yield curve.

Outlook

- In June, our view was that higher energy prices and supply-chain disruption would erode household purchasing power, lift firms' costs and potentially push the economy into a stagflationary drift. Three months later, the US inflation risk has not disappeared, but the economy has proven more resilient than expected. With inflation still above the Fed's target, the current macro backdrop is best described as a narrow, capital-intensive inflationary expansion, supported by strong underlying private demand, a stable labor market, corporate profitability and asset-rich households. AI investment remains the clearest source of US growth exceptionalism, but also the main pocket of overheating. Outside AI-linked manufacturing, most industries remain well below capacity, and the industrial rebound has not produced a comparable hiring response, pointing to a capital- rather than labor-intensive cycle. The consumer is a key fault line. Real income is stagnant, the savings rate sits near cycle lows and spending is increasingly concentrated in essential services and asset-price-sensitive financial services rather than broad discretionary demand. Tariff-refund-funded price cuts and strong corporate earnings offer a near-term cushion, but the support will likely fade. Overall, the consumer has continued to slow rather than break, leaving the outlook vulnerable to a softer labor market, equity-market correction or loss of refund-driven support.
- On interest rates, Fed Chair Kevin Warsh's Jackson Hole speech in August materially repaired July's communication problem, while the September FOMC meeting saw Warsh backing his rhetoric with action, as the Fed hiked by 25 bps. Moreover, this was more than a one-off adjustment. The Fed does not expect September's hike to be quickly reversed. The projected policy path is not merely higher in the near-term, it is higher for longer because the Fed sees a stronger economy, tighter labor market and more persistent inflation than it did in June. Our base case is for a second 25 bps increase by year-end. A third increase in 2027 remains a possibility should inflation prove sticky or accelerate. However, we do not see this as a return to 2022-style sequential hikes. With the September hike now in the rearview mirror, further upside to front-end yields depends mainly on whether incoming data validates the additional hike indicated in the Fed dot plot.
- IG and HY corporate bonds continue to offer attractive income and carry, in our view, supported by resilient corporate fundamentals, although market technicals are beginning to soften. In IG, spreads finished September at +80 bps and have remained range-bound despite volatility from the Iran conflict and oil price spike, with strong demand from liability-management buyers, retail inflows and foreign buying, supported by attractive all-in yields, offsetting record supply.

Not FDIC Insured | No Bank Guarantee | May Lose Value

However, issuance trending toward roughly $2 trillion in 2026, particularly from hyperscalers and artificial intelligence-related infrastructure spending, is creating pockets of pressure and warrants a more tactical approach in supply-heavy sectors. In HY, fundamentals also remain resilient and the default rate remains below long-term averages at 2.68%, although supply from data centers has begun to outpace demand and spreads, while appropriate given the low default environment, are fair but not compelling, in our view. While policy uncertainty, geopolitical tensions, including uncertainty around the Strait of Hormuz and the potential for slower economic growth could drive bouts of volatility, we continue to favor a balanced risk posture, with a bias toward resilient, non-cyclical sectors, while remaining cautious on deeply distressed names and in areas facing elevated supply, weaker consumer fundamentals or greater macroeconomic sensitivity.

- We maintain a neutral outlook on securitized credit, with selectivity the common theme across sectors. In Agency MBS, we have a modestly constructive near-term bias following recent spread widening, as valuations have improved relative to investment-grade corporates and the sector continues to offer compelling carry and high-quality liquidity; we favor 30-year conventionals over 15-year and Ginnie Mae pass-throughs, with selective exposure across seasoned lower coupons and higher coupons, and while agency floaters offer attractive spread income, we are more cautious on longer-average-life floaters given uncertainty around front-end rates. In CMBS, our outlook has shifted to neutral with reasons for concern, as elevated rates raise refinancing risk for commercial real estate borrowers and generic spreads do not fully compensate for it, in our view, so we prefer shorter-spread-duration, loan-specific opportunities, including extension bonds and select seasoned idiosyncratic deals. In non-agency RMBS, housing and borrower fundamentals remain healthy, but tighter valuations, elevated issuance, higher mortgage rates and greater extension and convexity risk have reduced the appeal of broad exposure, leading us to favor senior profiles with limited extension risk and shorter spread duration, to be cautious on down-in-stack, on-the-run CRT given the flat credit curve and to see attractive opportunities in senior NPL, RPL and RTL securities for investors seeking higher returns.

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	353612617	FLDZX	-0.54	0.51	1.64	4.59	2.35	2.39	2.80	-0.54	0.51	1.64	4.59	2.35	2.39	2.80	0.70	0.45	—	—	11/17/2004
Class A	353612690	FLDAX	-0.61	0.33	1.40	4.36	2.13	2.15	2.58	-2.89	-1.95	-0.91	3.58	1.67	1.91	2.48	0.95	0.70	2.25	—	11/17/2004
Benchmark	—	—	-0.18	0.59	1.75	4.33	2.07	1.98	—	-0.18	0.59	1.75	4.33	2.07	1.98	—	—	—	—	—	—

Benchmark(s)

Benchmark =Bloomberg US Government & Credit (1-3 Year) 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 5/15/2008. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 5/15/2008, a restated figure is used based on the fund's Class A 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 02/28/2027 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

During periods of rising inflation, fund yields can vary significantly from month-to-month and may not be repeated.

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. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **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. Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. 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

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

A **collateralized loan obligation (CLO)** is a single security backed by a pool of debt.

Commercial mortgage-backed securities (CMBS) are a type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets.

Convexity is a measure of the curvature, or the degree of the curve, in the relationship between bond prices and bond yields.

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.

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.

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 **Bloomberg U.S. Government/Credit Index**: 1-3 Year Component includes investment-grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related (sovereign, agency, local authority and supranational) and corporate securities with at least one year up to, but not including, three years to final maturity.

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.

Franklin Distributors, LLC. Member FINRA/SIPC.

© Franklin Templeton. All rights reserved.

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.

FRANKLIN TEMPLETON