

# Franklin Core Plus Bond Fund

Advisor Class: FKSAX Class A: FRSTX

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 selloff in core developed bond markets as oil prices surged (although the dollar remained well-supported). The US Federal Reserve (Fed) remained on hold throughout the quarter. The March Federal Open Market Committee (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. 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. The benchmark 10-year US Treasury yield increased by 15 basis points to end the quarter at 4.32%.
- Contributors:** Security selection in investment-grade (IG) and high-yield (HY) corporate bonds, agency mortgage-backed securities (MBS) and senior-secured floating-rate bank loans. Out-of-index allocations to residential mortgage-backed securities (RMBS) and collateralized loan obligations (CLOs). Overweight exposures to mortgage-backed securities (MBS) and commercial mortgage-backed securities (CMBS).
- Detractors:** Overweight positions in IG corporate bonds, senior-secured floating-rate bank loans and sovereign emerging market (EM) debt. Out-of-index allocation to HY corporate bonds.
- Outlook:** Looking ahead into 2026, we have a favorable view towards the US economy, which remains resilient despite rising external pressures. Impending fiscal stimulus and an intact AI-driven capital expenditure cycle could offset consumption drags. While our 3.0% gross domestic product (GDP) growth forecast faces downside risks, structural expansion continues, making slower growth more likely than a recession. Meanwhile, we expect the Federal Reserve to hold rates steady to combat any persistent inflation risks.

## Performance Review

- Security selection was a strong driver of overall performance** for the quarter, led by selection in IG and HY corporate bonds. Performance was further supported by selection in MBS, senior-secured floating-rate bank loans and sovereign EM debt.
- Sector allocations detracted from performance** during the period as spreads moved wider across most sectors, leading to a negative impact on returns. Results were hindered by overweight positions in IG corporate bonds, senior-secured floating-rate bank loans and sovereign EM debt, as well as an out-of-index allocation to HY corporate bonds. In contrast, out-of-index allocation to residential MBS and CLOs and overweight exposures to MBS and CMBS contributed positively to returns.
- Yield curve positioning helped returns** primarily due to an underweight exposure to the 20-year and above area of the yield curve.

## Outlook

- US growth has remained surprisingly resilient despite a steady stream of bearish narratives. While rising energy costs tied to escalating Middle East tensions, if sustained, will likely squeeze consumption, the impending fiscal stimulus should offset part of the drag. Meanwhile, the artificial intelligence (AI)-driven capital expenditure (capex) cycle remains intact. Our above-consensus forecast of 3.0% for 2026 US GDP growth now faces some downside risk. While recession risk is no longer negligible, it remains a tail risk. The more likely outcome is slower growth, not contraction, with the structural expansion still intact. We expect Federal Reserve (Fed) to remain on hold through the end of Chair Jerome Powell's term and potentially throughout the year given rising upside risks to inflation. Should inflation broaden beyond energy and become persistent, the Fed could be forced to keep rates higher for longer or even consider renewed tightening.
- While the 2026 FOMC dot plot distribution has narrowed and some participants have shifted their projections higher, the maintenance of unchanged medians suggests a relatively low bar for renewed easing. We feel that as long as growth remains resilient and the expansion continues in line with our expectations, the Fed will remain on pause at least through the end of Powell's term in May 2026, despite their signals of a potential cut. That said, any signs of labor market weakness or evidence that the supply-driven oil price shock is spilling over into core inflation or inflation expectations could force a policy reaction under Powell or his successor. If our views on growth and inflation prove correct and the Fed cuts fewer times than currently priced, we believe US Treasury yields should drift higher, though somewhat favorable demand-supply technicals may limit the extent of this move.
- While IG corporate bond spreads widened recently due to geopolitical tensions and rising energy prices, reaching their widest levels since May 2025, spreads remain broadly contained as investor demand for attractive all-in yields and consistent inflows continue to provide strong technical support. Corporate fundamentals generally remain supportive, with most IG-rated issuers maintaining the balance sheet flexibility to manage through shifting economic conditions. Nevertheless, macroeconomic crosscurrents and technological disruptions are creating notable dispersion across the market. Looking ahead, new-issue supply is projected to reach record-breaking levels in 2026, acting as a multiyear technical headwind driven heavily by AI-related infrastructure and capital expenditures. We remain focused on industry and company fundamentals, the health of balance sheets, generation and use of free cash flow and the resiliency of credits to slower economic growth, while we are cautious on deeply distressed names. The US HY default rate (including distressed

## Morningstar Rating™

Overall Rating as of March 31, 2026

★★★★★ (5-Star) Advisor Class

★★★★ (4-Star) Class A

As of 03/31/2026 the fund's Advisor Class shares received a 5 star and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 496, 455 and 355 Intermediate Core-Plus Bond funds over the 3-, 5- and 10- year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics. The number of funds in the category for the Overall Rating are listed under the 3-year period.

## Fund Characteristics

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	4.60%
30-Day SEC Yield (Advisor Class)—Without Waiver	4.47%

exchanges) increased marginally in March but remains below long-term averages, ending the month at 2.07%. While valuations have adjusted modestly, the market continues to price in a sanguine outlook with minimal room for error, favoring a balanced risk posture with a bias toward non-cyclical sectors.

- We have a neutral outlook on agency mortgage-backed securities over the medium-term with a neutral fundamental and favorable technical outlook for the sector. Although historically high money manager overweight is a potential hurdle for spread tightening, we anticipate increased demand from banks if the yield curve normalizes or regulatory uncertainty dissipates. Overall, we maintain a neutral view of the RMBS sector given rich valuations and our expectations for modest home price growth, but we continue to find value in certain subsectors. Given the flat credit curve, we favor opportunities near the top of the capital stack, such as recent issues of non-qualified mortgage and credit risk transfer bonds. Low unemployment, modest wage growth and steady household formation should continue to support home prices and help contain delinquencies. Lack of inventory and lower affordability has hit home sales hard, and this trend is likely to continue into 2026. We continue to believe generic spreads do not currently reflect risks, namely higher rates and the potential for further labor market deterioration. Furthermore, underwriting standards are loosening, which suggests future refinancing may prove difficult without a lower interest rate environment. We see the CMBS credit curve as being too flat but see CMBS as offering good opportunities for security selection when utilizing detailed loan-level analysis, particularly when considering relative value to other sectors. As such, we remain constructive on the current positioning.

## 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	354713737	FKSAX	0.02	0.02	4.90	5.33	2.21	3.19	5.83	0.02	0.02	4.90	5.33	2.21	3.19	5.83	0.60	0.47	—	—	5/24/1994
Class A	354713505	FRSTX	-0.04	-0.04	4.77	5.07	1.96	2.94	5.61	-3.82	-3.82	0.87	3.74	1.17	2.55	5.48	0.85	0.72	3.75	—	5/24/1994
Benchmark	—	—	-0.05	-0.05	4.35	3.63	0.31	1.70	—	-0.05	-0.05	4.35	3.63	0.31	1.70	—	—	—	—	—	

## Benchmark(s)

Benchmark = Bloomberg U.S. 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 8/12/1999. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 8/12/1999, 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 08/31/2026 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

**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. **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. **Floating-rate loans and debt securities** are typically rated below investment grade and are subject to greater risk of default, which could result in loss of principal. **Asset-backed, mortgage-backed or mortgage-related securities** are subject to prepayment and extension risks. **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%).

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

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.

A **Credit Risk Transfer (CRT)** is a channel for government-sponsored enterprises (GSEs) like Fannie Mae and Freddie Mac to transfer credit risk to private investors and away from taxpayers.

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

**Free cash flow (FCF)** is a measure of financial performance calculated as operating cash flow minus capital expenditures.

**Gross domestic product (GDP)** is the market value of all final goods and services produced within a country in a given period of time.

**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

**Effective December 11, 2024, the Franklin Strategic Income Fund changed its name to the Franklin Core Plus Bond Fund and modified its principal investment strategies. Such a change can impact performance.**

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 US Aggregate 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.

Important data provider notices and terms available at [www.franklintempletondatasources.com](http://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.

**Morningstar Rating™:** Source: Morningstar®, 03/31/2026. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges and loads, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year

overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. The fund's Advisor Class shares received a Morningstar Rating of 5, 5 and 5 and fund's Class A shares received a Morningstar Rating of 4, 5 and 4 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Advisor Class and Class A shares only. Other share classes may have different Morningstar ratings. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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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.***