FRANKLIN TEMPLETON | WESTERN ASSET

Western Asset Diversified Income Fund Inc.

WDI | **Commentary | as of September 30, 2026**

Key Takeaways

- **Markets:** During the third quarter, global markets remained heavily influenced by developments in the Middle East, as repeated military escalations and disruptions to global energy supplies drove renewed inflation concerns and a significant repricing of the interest-rate outlook. As a result, risk assets generally underperformed, aside from AI-related winners.
- **Contributors:** High-yield credit, bank loans and structured products
- **Detractors:** Duration and yield-curve positioning
- **Outlook:** Global fixed-income markets are navigating heightened uncertainty driven by geopolitical tensions in the Middle East, rapid technological change and increased scrutiny of private credit markets. Energy-related supply disruptions have lifted near-term inflation and triggered a sharp reset in market expectations for central bank policy, with investors pricing rate hikes rather than the cuts anticipated earlier in the year.

Fund Characteristics	Fund
Distribution Frequency	Monthly

Performance Review

- High-yield and bank loan positioning contributed to performance due to positive issue selection, despite wider spreads.
- Structured product positioning contributed to performance due to positive issue selection, despite generally wider spreads.
- Emerging market debt positioning contributed to performance due to positive issue selection, despite wider spreads.
- Duration and yield-curve positioning detracted from performance as yields rose and the yield curve bear-flattened.

Outlook

- While near-term inflation pressures are evident, longer-term inflation expectations remain well anchored, and we believe the magnitude of the recent rate repricing may be somewhat overdone.
- Global growth is expected to moderate, with the US remaining relatively more resilient than other regions due to energy independence, fiscal support and strong underlying fundamentals.
- Despite tight valuations across spread sectors, credit fundamentals remain supportive.
- We favor selectively adding short-end duration and taking advantage of high-quality opportunities in corporate new issuance, AI-related financing activity and select areas of securitized credit, including commercial mortgage-backed securities and collateralized loan obligations.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of September 30, 2026

Product	Ticker	Listed Exchange	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Inception Date
Market Price Return	WDI	NYSE - XNYS	-9.69	-5.90	-6.43	-8.39	8.96	1.80	—	1.17	6/25/2021
NAV Returns	—	—	-2.49	1.11	-0.05	0.86	8.67	2.89	—	2.91	6/25/2021
Benchmark	—	—	-1.82	0.60	0.10	1.41	8.03	3.60	—	3.64	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg U.S. Corporate High Yield - 2% Issuer Cap Index

Performance shown represents past performance and is no guarantee of future results. *Current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so shares, when sold, may be worth more or less than the original cost. Returns based on Market Price or NAV, and assume the reinvestment of all distributions at the Dividend Reinvestment Plan Price or NAV, respectively. All returns include the deduction of management fees, operating expenses and all other fund expenses, and do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares. When applicable, performance would have been lower if fees had not been waived in various periods. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expense or sales charges. Returns for periods of less than one year are not annualized. Please visit franklintempleton.com for the most recent month-end performance.*

The difference between total assets and net assets, if any, is due primarily to the fund's use of borrowings and other liabilities; netassets do not include borrowings. The fund may employ leverage in the form of loans, preferred stock, reverse repurchase agreementsand/or other instruments. When the fund engages in transactions that have a leveraging effect on the fund's portfolio, the value of thefund will be more volatile and all other risks will tend to be compounded.

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. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **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. **Leverage** increases the volatility of investment returns and subjects investments to magnified losses and a decline in value. **Diversification** does not assure against market loss.

Glossary

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.

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

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.

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The **Bloomberg U.S. Corporate High Yield - 2% Issuer Cap Index** measures the performance of U.S. dollar-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. The Index limits the maximum exposure to any one issuer to 2%.

Source: Bloomberg Indices.

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

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