

# Franklin High Yield Municipal SMA

Commentary | as of March 31, 2026

## Key Takeaways

- **Markets:** In the first quarter of 2026, new issuance of municipal (muni) bonds exceeded the average seen in the past few years. The war in the Middle East which began at the end of February continued throughout March, dominating market sentiment during the month. By quarter-end, the yield on the benchmark 10-year US Treasury (UST) note moved 15 basis points (bps) higher to 4.32%, and the yield on the 30-year UST bond increased by seven bps to 4.91%. The US Federal Reserve Open Market Committee (FOMC) meeting held in March to review economic and financial conditions in the United States, left rates unchanged, and the statement and press conference emphasized uncertainty related to the Iran war. The Fed indicated that it 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.
- **Contributors:** Overweight allocations to bonds with three to five years to maturity and underweight to bonds with five to 15 years to maturity.
- **Detractors:** Underweight exposure to bonds with three years or less to maturity and overweight to bonds with 30 or more years to maturity.
- **Outlook:** Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio quality.

## Performance Review

- Over the quarter, Franklin High Yield SMA Composite outperformed its benchmark (net of fees), Bloomberg Municipal Bond Index.
- Overweight allocations to bonds with three to five years to maturity and underweight to bonds with five to 15 years to maturity lifted performance as yields on the shorter end of the yield curve outperformed yields on the longer end of the curve. Conversely, an underweight exposure to bonds with three years or less to maturity and an overweight to bonds with 30 or more years to maturity detracted from relative results.
- An overweight allocation to bonds with no external credit rating contributed to performance, as did overweight positions in BBB and A rated bonds, as lower-rated issues fared better than higher rated ones over the period. Drawing on the expertise of our dedicated municipal research team we remain focused on issuers that we believe possess strong fiscal underpinnings.

## Outlook

- The robust demand witnessed at the start of 2026 has begun to soften amid rising market uncertainty, while supply has persisted at a record-setting pace. Looking ahead to 2026, demand will play a crucial role as supply is projected to reach historical highs, primarily driven by infrastructure capital requirements that can no longer depend on previous government stimulus programs alone. The muni-bond yield curve shifted higher during the quarter.
- Fundamentals remain stable but slower economic growth will constrain revenue expansion across many sectors, particularly with respect to tax revenues. Rainy-day funds remain healthy at the state and local government levels, which should bolster fiscal resilience despite ongoing expense growth.
- Following the market pullback in March, municipal bond valuations have strengthened and continue to appear attractive, particularly on a tax-adjusted basis. Yields remain above five-year averages, allowing investors to lock in compelling income. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio quality.

## Average annual total returns (%) - as of March 31, 2026

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Net of Fees	-0.24	1.21	-0.24	3.16	3.18	—	—	—	—	—	5.16	10/31/2022
Pure Gross of Fees	0.14	1.96	0.14	4.70	4.72	—	—	—	—	—	6.73	10/31/2022
Benchmark	-0.18	1.38	-0.18	4.29	2.87	—	—	—	—	—	4.82	—

\*Cumulative total returns

## Benchmark(s)

Benchmark = Bloomberg Municipal Bond Index

**The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).**

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## What are the Risks?

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## Glossary

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

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

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The **Bloomberg Municipal Bond Index** is a broad measure of the municipal bond market with maturities of at least one year.

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Source: Bloomberg Indices.

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