FRANKLIN TEMPLETON

# Franklin U.S. Core Bond ETF

**FLCB** | **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. 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. By the end of the period, the benchmark 10-year US Treasury yield rose 82 bps to 5.28%, its highest level since mid-2007.
- **Contributors**: Out-of-index allocations to residential mortgage-backed securities (RMBS) and collateralized loan obligations (CLOs). Overweight exposure to commercial mortgage-backed securities (CMBS). Yield curve positioning.
- **Detractors**: Out-of-index allocation to agency collateralized mortgage obligations (CMOs) and overweight exposures to agency mortgage-backed securities (MBS) and investment-grade (IG) corporate bonds. Security selection within taxable municipal bonds, CMBS and asset-backed securities (ABS).
- **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 hike, we anticipate a second increase by year-end, although we do not expect a return to 2022-style sequential hikes.

| Fund Characteristics | Fund |
|---|---|
| Distribution Frequency | Monthly |
| 30-Day SEC Yield (Fund)—With Waiver | 4.96% |
| 30-Day SEC Yield (Fund)—Without Waiver | 4.95% |

## Performance Review

- **Overall, sector allocation contributed to performance**, primarily driven by out-of-index allocations to RMBS and CLOs. Overweight exposure to CMBS also lifted returns. Out-of-index allocation to CMOs and overweight exposures to MBS and IG corporate bonds detracted from returns.
- **Security selection detracted from performance**, mainly due to selection within taxable municipal bonds, CMBS and ABS. There were no material contributors to performance within security selection.
- **Yield curve positioning supported performance** during the quarter.

## 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 could 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.
- US IG corporate bond spreads are modestly wider since the start of the year, finishing the quarter at +80 bps. This masks notable volatility, with spreads moving between a wide of +93 bps and a tight of +71 bps year-to-date. The conflict in Iran and related spikes in oil and petrochemical prices drove the initial widening, which has since been partially retraced, and spreads remain range-bound despite no clear path to full resolution. More recently, rising Treasury volatility and resulting total return declines have added pressure. Year-to-date supply is still trending at a record pace, with over US$1.6 trillion of new issuance. While deals have been well absorbed thus far, hyperscaler- and AI-related supply have exceeded 20% of net issuance for the IG market, and these deals are increasingly demanding greater new-issue concessions, with hyperscalers widening by 23 bps year-to-date while the broader index has remained roughly flat. While valuations have adjusted modestly, the market is still pricing in a sanguine outlook with minimal room for policy errors, and therefore we continue to favor a balanced risk posture with a bias toward non-cyclical sectors.
- 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



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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. As a result, we favor senior profiles with limited extension risk and shorter spread duration. We are cautious on down-in-stack (lower-rated, subordinated tranches that absorb losses first), on-the-run (most recently issued) credit risk transfer (CRT) bonds, given the flat credit curve. We see attractive opportunities in senior non-performing loan (NPL), re-performing loan (RPL) and residential transition loan (RTL) securities for investors seeking higher returns.



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## Average annual total returns and fund expenses (%) - as of September 30, 2026

| Product | Ticker | Listed Exchange | 3-Mo* | 6-Mo* | YTD* | 1-Yr | 3-Yr | 5-Yr | 10-Yr | Inception | Gross Expenses | Net Expenses | Inception Date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Market Price Return | FLCB | NYSE Arca | -3.48 | -2.81 | -2.79 | -1.83 | 4.11 | -0.72 | — | 0.46 | 0.15 | 0.15 | 9/17/2019 |
| NAV Returns | — | — | -3.52 | -2.86 | -2.79 | -1.83 | 4.08 | -0.74 | — | 0.45 | 0.15 | 0.15 | 9/17/2019 |
| Benchmark | — | — | -3.51 | -2.87 | -2.91 | -1.84 | 4.06 | -0.64 | — | 0.50 | — | — | — |

*Cumulative total returns

## 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. 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. For current month-end performance, please visit franklintempleton.com.* Net Asset Value (NAV) returns are based on the NAV of the ETF; Market Price returns are based upon the official closing price of the ETF's shares. Returns are average annualized total returns, except for those periods of less than one year, which are cumulative. Market Price returns are calculated using the closing price as of 4 p.m. Eastern time on each trading day (when NAV is normally determined for most funds), and do not represent the returns you would receive if you traded shares at other times. Performance for the ETF and its benchmark index are as of the ETF's last trading day before the end of the period.Since shares of the Fund did not trade in the secondary market until after the Fund's inception, for the period from inception to the first day of secondary trading September 19, 2019, the NAV of the Fund is used as a proxy for the Market Price to calculate market returns.
The total annual operating expenses are as of the fund's prospectus available at the time of publication. 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. **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. 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.

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.

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.

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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.

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.

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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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