

Franklin U.S. Core Bond ETF

Commentary | as of September 30, 2025

Key Takeaways

- Markets:. Market sentiment improved across the third quarter of 2025 (Q3) due to a partial resolution of some of the
 outstanding trade policy concerns and a rate cut of 25 basis points (bps) by the US Federal Reserve (Fed), which were
 both well received by the market. The Fed signaled that more cuts were likely to come by the end of this year. This
 bolstered markets, which viewed that the cut was addressing some of the weakening economic measures, such as the
 status of the US labor market. As per Bloomberg, fixed income spread markets performed well as corporate bond
 spreads reached multidecade lows by the end of the quarter. Other fixed income sectors, such as agency mortgagebacked securities (MBS), also posted positive returns.
- Contributors: Overweight investment-grade (IG) corporate bonds and agency MBS.
- Detractors:. Security selection in commercial MBS (CMBS) and IG corporate bonds.
- Outlook: There still remains a high level of uncertainty within fixed income markets. The path of rate cuts by the Fed, tariff policies and full valuations on many fixed income sectors make us cautious on taking wholesale risk, but we are finding pockets of opportunity in select portions of the fixed income market.

Performance Review

- Sector allocations contributed to returns led by overweight exposure to IG corporate bonds and MBS. This was only partially
 offset by negative performance from our underweight to sovereign emerging-market debt.
- Security selection detracted from results as selection in IG corporate bonds and CMBS hurt returns. In contrast, selection in agency MBS helped performance for the quarter.
- Yield curve positioning had a neutral impact on performance.

Outlook

- The Fed has been struggling to balance its dual mandate—maximum employment and price stability—as stagflation (rising
 inflation with slowing growth) becomes a real possibility. The Fed has chosen to prioritize employment over inflation,
 consistent with its historical tendency to intervene when growth slows.
- US trade policy remains a wild card, adding to uncertainty in the market. Even if tariffs don't cause a permanent lift in
 inflation, strong consumer spending and supportive fiscal policy mean the current economic environment is not likely to
 return to a disinflation level. In our view, tariffs are expected to cause a moderate, one-off burst of inflation, about 1.0-1.5
 percentage points.
- There is high uncertainty about future policy, even between members of the FOMC, as reflected in the large distribution seen in the Fed's SEP scattered projections for the path of fed funds. The FOMC was nearly evenly split between those seeing two or more additional cuts by the end of this year (necessary to defend economic growth and the US job market) and those projecting just one cut (members that may have concerns over lingering inflation and tariff worries). In our view, this level of uncertainty has the potential to spur volatility in the US Treasury market.
- While we believe investment-grade (IG) corporate bonds continue to offer relatively safe yield, spread levels again offer little
 cushion for further economic, market or geopolitical surprises. In our view, spreads will likely remain in a trading range but are
 more likely to widen than tighten. Yields at or around current levels could continue to support demand, but there is some risk
 that lower yields, due to either aggressive Fed easing or weaker economic data, may begin to negatively impact market
 technicals. This leads us to maintain a neutral stance on IG credit while highlighting potential concerns on current valuation
 levels
- In MBS, we have seen spreads tighten along with a sharp decline in realized volatility. MBS spread metrics are tight to their
 long-term average and fair relative to other high-quality fixed income sectors. Technical conditions in the market remain
 strong as year-to-date issuance has lagged expectations, partially due to higher mortgage rates and lower housing
 affordability. At current valuations, we have a neutral stance on the MBS sector. This is predicated on tighter spreads,
 prepayment risk in the higher coupon securities and a neutral fundamental outlook, offset by a favorable technical outlook,
 expectations of increased bank demand and low net supply in the market.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	4.20%
30-Day SEC Yield (Fund)—Without Waiver	4.20%

Average annual total returns and fund expenses (%) - as of September 30, 2025

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	2.01	3.18	5.92	2.84	4.99	-0.48	_	0.84	0.15	0.15	9/17/2019
NAV Returns	_	_	2.01	3.23	6.03	2.84	4.98	-0.48	_	0.83	0.15	0.15	9/17/2019
Benchmark	_	_	2.03	3.26	6.13	2.88	4.93	-0.45	_	0.89	_	_	_

^{*}Cumulative total returns

Benchmark(s)

Benchmark = Bloomberg US 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%).

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.

