FRANKLIN TEMPLETON

Franklin U.S. Core Bond ETF

FLCB | **Commentary | as of June 30, 2026**

Key Takeaways

- **Markets**: Some of the risk aversion that had characterized financial markets at the end of the previous quarter eased during the second quarter, although geopolitical developments remained a key focus. The Middle East conflict continued to drive sentiment through the quarter, with markets reacting to shifting news around negotiations, before the United States and Iran signed a 14-point Memorandum of Understanding (MOU) in late June. The MOU formalized a ceasefire, established a 60-day negotiation framework and included provisions to restore shipping through the Strait of Hormuz. The US dollar was modestly stronger over the quarter, appreciating against most other currencies. The US Federal Reserve (Fed) kept policy rates unchanged, but its tone became more hawkish overall as internal disagreement over the easing bias increased, minutes suggested rates could remain unchanged for longer, and the June Federal Open Market Committee (FOMC) meeting removed previous easing guidance despite a more dovish press conference from new Fed Chair Kevin Warsh. The benchmark 10-year US Treasury (UST) yield rose by 15 basis points to 4.47% over the quarter. Fixed income volatility measures eased during the quarter as risk aversion retreated somewhat. For similar reasons, credit spreads narrowed over the quarter, with the declines more pronounced in the high-yield sectors. Total returns in corporate bonds were positive over the quarter. Securitized sectors generated a positive excess return versus duration-matched Treasuries.
- **Contributors**: Overweight allocations to investment-grade (IG) corporate bonds, commercial mortgage-backed securities (CMBS), agency mortgage-backed securities (MBS) and asset-backed securities (ABS). Out-of-index exposures to residential mortgage-backed securities (RMBS), collateralized loan obligations (CLOs) and collateralized mortgage obligations (CMOs). Security selection within ABS.
- **Detractors**: Security selection in MBS, IG corporate bonds and CMBS. Lack of exposure to sovereign emerging debt.
- **Outlook**: The June FOMC meeting reinforced our view that the Fed is likely to remain on hold in the near term, although persistent inflation has increased the risk of further tightening. Our base case remains one of continued economic expansion rather than recession, with inflation proving more persistent than previously expected.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	4.55%
30-Day SEC Yield (Fund)—Without Waiver	4.55%

Performance Review

- **Sector allocation was the primary driver of returns**, benefiting from overweight positions in IG corporate bonds, CMBS, MBS and ABS, along with out-of-index exposures to RMBS, CLOs and CMOs. This was partially offset by a lack of exposure to sovereign emerging debt, which detracted from performance.
- **Security selection detracted from results during the quarter**, driven mainly by selection within MBS and IG corporate bonds. However, positive contributions from selection within ABS partially offset some of the losses.

Outlook

- After a soft end to 2025, the US economy regained some momentum in Q1 as tech-driven investment and a rebound in federal spending following last October's government shutdown helped boost growth. However, consumer spending growth softened, with weakness in certain discretionary categories, suggesting that consumers may be turning more selective about their purchases. The labor market remains firm, though hiring gains stay concentrated in a narrow set of sectors, while consumer confidence and housing indicators remain subdued. Latest purchasing managers indexes have turned more stagflationary, as economic expansion is occurring at an increasingly inflationary price while employment expectations remain stagnant.
- On interest rates, the June FOMC reinforced our view that the Fed is likely to remain on hold in the near term, but the balance of risks has shifted modestly toward further tightening. While Chair Warsh's press conference struck a dovish tone, the Committee's updated projections, the removal of easing guidance and rising market rate expectations suggest increasing support for a restrictive stance should inflation remain persistent. With inflation continuing to firm and real policy rates already drifting lower, a year-end or early-2027 rate hike cannot be ruled out. Our base case remains one of continued economic expansion rather than recession, with inflation proving more persistent than previously expected. While geopolitical developments and supply-side risk continue to warrant close monitoring, the greater near-term focus is on whether inflation pressures remain sufficiently strong to prompt additional Fed tightening.
- US IG corporate bond spreads are now tighter since the start of the year. Spreads briefly touched +93 bps in mid-March, which represented the widest level for US IG Corporate spreads since May 2025. The conflict in Iran and related spike in oil and related petrochemicals prices drove the widening, which has since been retraced on hopes of a potential resolution. Despite the scale of disruption the closure of the Strait of Hormuz could have caused; spreads have been remarkably contained. We attribute this to strong technicals that are in large part driven by higher all-in yields. Despite the geopolitical turmoil, year-to-date supply is still trending at a record pace, with over $1 trillion in new issuance. While deals have been well absorbed thus far, hyperscaler- and artificial intelligence-related supply have exceeded 20% of net issuance for the IG market, and these deals are increasingly demanding greater new-issue concessions. 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 moderately constructive outlook on agency MBS over the near and intermediate term, supported by attractive carry, favorable relative value versus investment-grade corporates and stable market technicals. Although the Federal Reserve's balance sheet runoff continues to reduce a source of structural demand, slower prepayments have limited incremental supply, while prepayment risk remains well below long-term averages, supporting stable cash flow profiles across much of the agency MBS market. We continue to find value in out-of-the-money agency interest-only (IO) securities and bonds backed by moderately seasoned, higher-coupon Ginnie Mae collateral, which offer attractive carry and spread premiums while remaining relatively insulated from prepayment risk. Within CMBS, healthy demand for new issuance,

Not FDIC Insured | No Bank Guarantee | May Lose Value

constructive market technicals and attractive relative value versus investment-grade corporates continue to support the sector. While refinancing challenges are expected to persist for weaker assets as more than US$100 billion of CMBS loans mature heading into 2026, we continue to favor extension bonds and select CMBS interest-only (IO) securities for their attractive carry, shorter spread duration and favorable positioning should refinancing activity remain constrained. We expect CMBS spreads to remain broadly range-bound with a modest tightening bias.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of June 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	0.69	0.72	0.72	3.76	4.16	-0.08	—	1.00	0.15	0.15	9/17/2019
NAV Returns	—	—	0.69	0.76	0.76	3.81	4.17	-0.03	—	1.00	0.15	0.15	9/17/2019
Benchmark	—	—	0.67	0.62	0.62	3.79	4.16	0.08	—	1.05	—	—	—

*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.

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).

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.

ETFs and ETPs trade like stocks, fluctuate in market value and may trade at prices above or below the ETFs/ETPs net asset value. Brokerage commissions and ETF expenses will reduce returns. ETF/ETP shares may be bought or sold throughout the day at their market price, not their Net Asset Value (NAV), on the exchange on which they are listed. Shares of ETFs/ETPs are tradable on secondary markets and may trade either at a premium or a discount to their NAV on the secondary market. **Canada:** This content is intended only for Canadian institutional investors that qualify as "permitted clients" as defined in National Instrument 31-103 - Registration Requirements, Exemptions and Ongoing Registrant Obligations. U.S. securities laws generally limit a non-U.S. fund's purchase of a U.S. registered mutual fund or ETF/ETP (a "U.S. Fund") to no more than 3% of the U.S. Fund's voting stock. You should consult your legal counsel prior to investing in a U.S. Fund.

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.

Franklin Distributors, LLC. Member FINRA/SIPC.

© Franklin Templeton. All rights reserved.

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.

FRANKLIN TEMPLETON