FRANKLIN TEMPLETON

Franklin Investment Grade Corporate ETF

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

Key Takeaways

- **Markets**: As per Barclays, US investment-grade (IG) corporate credit markets generated negative total returns in the third quarter (Q3) of 2026, driven by a large move higher in US Treasury yields and to a lesser extent wider credit spreads, which were partially offset by coupon income. Credit spreads ended the quarter six basis points (bps) wider, while 10-year Treasury yields increased by 82 bps and 30-year Treasury yields by 68 bps. Credit generally underperformed other risk assets such as equities in Q3 as rates volatility and ongoing concerns around debt funded artificial intelligence (AI) capital expenditure (capex) and merger and acquisitions (M&A) weighed on the asset class.
- **Contributors**: Selection within the energy, banking and capital goods sectors
- **Detractors**: Security selection within the technology and consumer cyclical sectors. Sector allocation led by an underweight to energy and basic industry, along with an overweight to the banking sector.
- **Outlook**: We maintain a balanced risk posture on investment-grade (IG) corporate bonds, as healthy fundamentals and robust demand are increasingly offset by sanguine valuations, heightened volatility and a growing multi-year supply headwind from artificial intelligence (AI)-related financing.

Performance Review

- Security selection detracted from relative performance overall, primarily due to selection in the technology and consumer cyclical sectors. Selection within the energy, banking and capital goods sectors offset some of these losses.
- Sector allocation led by an underweight to energy and basic industry sectors, along with an overweight to the banking sector, held back performance.
- Yield curve positioning also detracted modestly from relative results.

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 will likely fade.
- Fed Chair Kevin Warsh's Jackson Hole speech in August materially repaired July's communication problem, while the September Federal Open Market Committee saw Warsh backing his rhetoric with action, as the Fed hiked by 25 basis points (bp). 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-bp 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 validate the additional hike indicated in the Fed dot plot.

Fund Characteristics

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	5.49%
30-Day SEC Yield (Fund)—Without Waiver	5.49%

Top Securities (% of Total)

Holding	Fund
United States Treasury Note/Bond, Unsecured, 4.125%, 6/30/31	1.54
Bank of America Corp,SR UNSECURED, Sr UnsecuredFRN thereafter, 5.2020%, 04/25/2029	1.40
Wells Fargo & Co,SR UNSECURED, Sr Unsecured, MTNFRN thereafter, 4.8080%, 07/25/2028	1.37
Morgan Stanley,senior note,1.794% to 2/13/31,FRN thereafter, 2/13/32	1.36
JPMorgan Chase & Co,SR UNSECURED, Sr UnsecuredFRN thereafter, 6.0870%, 10/23/2029	1.24
Citigroup Inc., senior bond, 3.668% to 7/23/27, FRN thereafter, 7/24/28	1.21
Bank of America Corp,SR UNSECURED, Sr UnsecuredFRN thereafter, 4.5710%, 04/27/2033	1.19
JPMorgan Chase & Co,SR UNSECURED, Sr UnsecuredFRN thereafter, 2.963%, 01/25/2033	1.16
Morgan Stanley,SR UNSECURED, Sr UnsecuredFRN thereafter, 5.25%, 04/21/2034	1.12
Burlington Northern Santa Fe LLC, SR UNSECURED, Sr Unsecured, 5.75%, 5/01/40	1.09

Not FDIC Insured | No Bank Guarantee | May Lose Value

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	FLCO	NYSE Arca	-4.16	-2.91	-3.30	-2.78	4.71	-0.80	—	1.72	0.35	0.35	10/3/2016
NAV Returns	—	—	-4.06	-2.72	-3.15	-2.55	4.71	-0.83	—	1.74	0.35	0.35	10/3/2016
Benchmark	—	—	-3.94	-2.59	-3.11	-2.30	4.98	-0.46	—	2.05	—	—	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg US Corporate - Investment Grade 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 October 5, 2016, 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. **Distributions** are not guaranteed and are subject to change. **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. **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. 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%).

Capital Expenditure (capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

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.

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.

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 U.S. Corporate Investment Grade Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

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.

Holdings are provided for informational purposes only and should not be construed as a recommendation to purchase or sell any security.

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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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