

Franklin Investment Grade Corporate ETF

Commentary | as of September 30, 2025

Key Takeaways

- **Markets:** US investment-grade (IG) corporate credit market returns were driven by tighter credit spreads as well as lower US Treasury (UST) yields. Risk assets generally performed well in Q3, supporting sentiment in credit despite spreads testing new multidecade tights. IG corporates also benefited from a pull-forward demand ahead of the US Federal Reserve (Fed) lowering rates in late Q3. While uncertainty from tariffs and inflation persists and unemployment concerns have increased, positive sentiment in broader risk assets and the pull-forward demand in IG were enough to bring credit spreads to very tight levels. The benchmark 10-year US Treasury (UST) yield rose eight basis points (bps) to 4.15% and spreads on the Bloomberg US Agg Corporate Bond Index declined five bps to 74.
- **Contributors:** Security selection in capital goods and consumer cyclical and non-cyclicals.
- **Detractors:** Security selection in banking-related issues.
- **Outlook:** We maintain our emphasis on diligent security selection and individual company fundamentals. While we believe IG corporate bonds continue to offer relatively attractive yield, spread levels offer little cushion for further economic, market or geopolitical surprises.

Performance Review

- Sector allocations detracted from performance in Q3 led by an overweight to USTs as corporate bonds outperformed. Other detractive positions included underweights to industrial energy and utility electric, and an overweight to banking.
- Security selection had a neutral impact on returns as gains from selection in capital goods and consumer cyclical and non-cyclicals were offset by negative performance from selection in banking and transportation issuers.
- Yield curve positioning had a neutral effect on overall returns for the period.

Outlook

- In corporate credit markets, UST yield moves and demand technicals are likely to continue to have a material impact on credit spreads and asset class returns moving forward. IG credit spreads are still trading on all-in yield compensation rather than on credit spreads, though more recently corporate fundamentals have been a greater driver of performance with spreads at current levels. Most recently, capital allocation decisions such as mergers and acquisitions (M&A) have started to create dispersion.
- Corporate fundamentals generally remain supportive, with many IG-rated issuers having the flexibility and cushion to deal with changing economic conditions. However, evolving tariff policy and increasing M&A activity will impact sectors differently, creating dispersion. The pharmaceutical and health care sectors continue to see headline risk from new tariff policy, in addition to drug pricing pressure from the US administration. Chemicals continue to see through earnings volatility from demand shocks, while oil prices remain subdued under pressure from OPEC+ and the US administration. Finally, select sectors such as food and beverage are seeing an uptick in M&As and financial engineering.
- Asset class technicals remained resilient. All-in yields near 5.5% in the long end remain attractive in our view and keep the technical demand backdrop intact. Fundamentals remained resilient as well amid broader policy uncertainty, while valuation continues to be squeezed. New issue supply has been robust at roughly \$1.35 trillion issued in 2025 so far, and the fourth quarter is seasonally a lower-volume quarter.

Fund Characteristics

	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	4.45%
30-Day SEC Yield (Fund)—Without Waiver	4.45%

Top Securities (% of Total)

	Fund
Goldman Sachs Group Inc/The,SR UNSECURED, Sr UnsecuredFRN thereafter, 2.64%, 02/24/2028	1.60
Bank of America Corp,SR UNSECURED, Sr UnsecuredFRN thereafter, 5.2020%, 04/25/2029	1.28
AT&T Inc, senior bond, 3.50%, 6/01/41	1.23
JPMorgan Chase & Co,SR UNSECURED, Sr UnsecuredFRN thereafter, 2.963%, 01/25/2033	1.21
Wells Fargo & Co,SR UNSECURED, Sr Unsecured, MTNFRN thereafter, 4.8080%, 07/25/2028	1.18
Morgan Stanley,senior note,1.794% to 2/13/31,FRN thereafter, 2/13/32	1.18
PNC Financial Services Group Inc/The,SR UNSECURED, Sr UnsecuredFRN thereafter, 6.6150%, 10/20/2027	1.15
JPMorgan Chase & Co,SR UNSECURED, Sr UnsecuredFRN thereafter, 6.0870%, 10/23/2029	1.14
Bank of America Corp,SR UNSECURED, Sr UnsecuredFRN thereafter, 4.5710%, 04/27/2033	1.14
T-Mobile USA Inc., senior bond, 2.875%, 2/15/31	1.13

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	FLCO	NYSE Arca	2.50	4.54	6.95	3.57	6.77	-0.01	—	2.23	0.35	0.35	10/3/2016
NAV Returns	—	—	2.51	4.34	6.75	3.52	6.72	-0.05	—	2.23	0.35	0.35	10/3/2016
Benchmark	—	—	2.60	4.47	6.88	3.63	7.07	0.35	—	2.54	—	—	—

*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%). 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 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.

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