

Franklin Investment Grade Corporate ETF

FLCO
Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** As per Barclays, US investment-grade (IG) corporate credit markets generated total returns of approximately -0.54% in the first quarter of 2026, driven by wider credit spreads as well as higher US Treasury (UST) yields, partially offset by coupon income. Credit spreads ended the quarter 11 basis points (bps) wider, while 10-year USTs increased by 15 bps and 30-year USTs by seven bps. Excess returns from credit spreads were -0.04%, and the US IG corporate index ended the quarter with an increase of 89 bps. Risk assets, including equities, generally provided negative total returns in the period, affecting sentiment in credit in addition to heightened war and geopolitical risks as well as supply concerns from Artificial Intelligence (AI) and mergers and acquisitions (M&A).
- **Contributors:** Security selection in the banking, consumer non-cyclical and capital goods sectors.
- **Detractors:** Asset allocation due to an underweight to energy and an overweight to banking.
- **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

- Security selection was a leading contributor to performance in Q1 due to security selection in investment grade (IG) corporate bonds in the banking, consumer non-cyclical and capital goods sectors. Selection in IG corporates in the consumer cyclicals sector detracted over the period.
- Sector allocations restrained relative performance due to an underweight to IG bonds in the energy sector and an overweight to IG bonds in the institutional banking sector. In contrast, a lack of exposure to IG bonds issued by brokerage and asset management companies lifted relative performance.
- Yield curve positioning had a beneficial effect on overall returns for the period due, in part, to an underweight allocation to bonds with five years to maturity.

Outlook

- US growth has remained surprisingly resilient despite a steady stream of bearish narratives. While rising energy costs tied to escalating Middle East tensions, if sustained, will likely squeeze consumption, the impending fiscal stimulus should offset part of the drag. Meanwhile, the artificial intelligence (AI)-driven capital expenditure (capex) cycle remains intact. Our above-consensus forecast of 3.0% for 2026 US gross domestic product (GDP) growth now faces some downside risk. While recession risk is no longer negligible, it remains a tail risk. The more likely outcome is slower growth, not contraction, with the structural expansion still intact.
- While the 2026 Federal Open Market Committee dot plot distribution has narrowed and some participants have shifted their projections higher, the maintenance of unchanged medians suggests a relatively low bar for renewed easing. We feel that as long as growth remains resilient and the expansion continues in line with our expectations, the Fed will remain on pause at least through the end of Powell's term in May 2026, despite their signals of a potential cut. That said, any signs of labor market weakness or evidence that the supply-driven oil price shock is spilling over into core inflation or inflation expectations could force a policy reaction under Powell or his successor. If our views on growth and inflation prove correct and the Fed cuts fewer times than currently priced, we believe US Treasury yields should drift higher, though somewhat favorable demand-supply technicals may limit the extent of this move.

Fund Characteristics

	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	4.74%
30-Day SEC Yield (Fund)—Without Waiver	4.74%

Top Securities (% of Total)

Holding	Fund
Goldman Sachs Group Inc/The,SR UNSECURED, Sr UnsecuredFRN thereafter, 2.64%, 02/24/2028	1.65
Bank of America Corp,SR UNSECURED, Sr UnsecuredFRN thereafter, 5.2020%, 04/25/2029	1.26
Wells Fargo & Co,SR UNSECURED, Sr Unsecured, MTNFRN thereafter, 4.8080%, 07/25/2028	1.24
AT&T Inc, senior bond, 3.50%, 6/01/41	1.20
PNC Financial Services Group Inc/The,SR UNSECURED, Sr UnsecuredFRN thereafter, 5.2220%, 01/29/2031	1.17
Morgan Stanley,senior note,1.794% to 2/13/31,FRN thereafter, 2/13/32	1.17
JPMorgan Chase & Co,SR UNSECURED, Sr UnsecuredFRN thereafter, 6.0870%, 10/23/2029	1.15
AerCap Ireland Capital DAC / AerCap Global Aviation TrCOMPANY GUARNT, Sr Unsecured3%, 10/29/2028	1.14
Bank of America Corp,SR UNSECURED, Sr UnsecuredFRN thereafter, 4.5710%, 04/27/2033	1.12
Citibank NA, SR UNSECURED, Sr Unsecured, ., 4.914%, 5/29/30	1.10

Average annual total returns and fund expenses (%) - as of March 31, 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	-0.40	0.13	-0.40	4.68	4.45	0.41	—	2.13	0.35	0.35	10/3/2016
NAV Returns	—	—	-0.44	0.18	-0.44	4.53	4.50	0.43	—	2.13	0.35	0.35	10/3/2016
Benchmark	—	—	-0.54	0.30	-0.54	4.78	4.70	0.76	—	2.44	—	—	—

*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.

Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.

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.

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.