

# Franklin U.S. Treasury Bond ETF

FLGV

Commentary | as of March 31, 2026

## Key Takeaways

- Markets:** The war in the Middle East, which began in late February when the United States and Israel struck Iran, dominated much of the news flow and financial market sentiment over the remainder of the quarter. The reaction in markets has evolved, initially seeing a traditional risk-off move in both the US dollar and US bonds, which then turned into a stagflationary-focused selloff in core developed bond markets as oil prices surged (although the dollar remained well-supported). The US Federal Reserve remained on hold throughout the quarter. The March Federal Open Market Committee (FOMC) meeting statement and press conference emphasized uncertainty related to the Iran war, indicating that the Fed would look through any initial oil supply shock effect on inflation to focus on core developments, while also noting a likely dragging effect on the economy; ultimately the Committee retained an easing bias. Fixed income volatility measures rose during the quarter, with much of the increase coming in the wake of the onset of the war in the Middle East. The benchmark 10-year UST yield increased 15 basis points to end the quarter at 4.32%.
- Contributors:** Underweight allocation to the two-year and 30-year portions of the yield curve. Overweight exposure to the 20-year segment of the yield curve.
- Detractors:** Overweight exposure to the five-year portion of the yield curve.
- Outlook:** We project balanced inflation risks with potential upside surprises in 2026, with core personal consumption expenditures remaining above the Fed's 2% target. Although the Fed signaled one cut for 2026, we anticipate a pause through Fed Chair Jerome Powell's term ending in May 2026, with 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 the Fed cuts fewer times than priced, we believe UST yields will drift higher. However, demand-supply technicals may limit how high yields climb in 2026.

## Fund Characteristics

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	4.08%
30-Day SEC Yield (Fund)—Without Waiver	4.07%

## Performance Review

- Yield curve performance contributed to returns. An underweight allocation to bonds with two and 30 years to maturity and an overweight exposure to the 20-year segment of the US Treasury yield curve supported results. In contrast, an overweight to bonds with five years to maturity curbed results.
- Out-of-index holdings of US Treasury Inflation-Protected Securities (TIPS) contributed to results for the quarter.

## 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. We expect Federal Reserve (Fed) to remain on hold through the end of Chair Jerome Powell's term and potentially throughout the year given rising upside risks to inflation. Should inflation broaden beyond energy and become persistent, the Fed could be forced to keep rates higher for longer or even consider renewed tightening.
- While the 2026 FOMC 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 U.S. Treasury yields should drift higher, though somewhat favorable demand-supply technicals may limit the extent of this move.

## 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	FLGV	NYSE Arca	0.19	0.98	0.19	3.41	2.67	0.05	—	-0.51	0.09	0.09	6/9/2020
NAV Returns	—	—	0.14	0.88	0.14	3.41	2.65	0.08	—	-0.52	0.09	0.09	6/9/2020
Benchmark	—	—	-0.04	0.86	-0.04	3.25	2.59	-0.14	—	-0.79	—	—	—

\*Cumulative total returns

## Benchmark(s)

Benchmark = Bloomberg US Treasury 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](http://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 June 11, 2020, 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. **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. 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.

**Personal consumption expenditures**, or PCE, is a measure of price changes in consumer goods and services.

**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. Treasury Index** measures the performance of U.S. Treasury bills.

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](http://www.franklintempleton.com). Please read it carefully.**