

Franklin U.S. Treasury Bond ETF

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** There were large swings in financial market sentiment across the second quarter of 2025. During April, fixed income spreads generally widened amid US President Donald Trump's "Liberation Day" tariff announcements due to fears that they could lead to a drop in growth and a new round of inflationary pressures. A subsequent 90-day pause for many of the increased levies helped calm market nerves. The passage of the "One Big Beautiful Bill" spending package after quarter-end further helped reduce fixed income market uncertainties. Over the period, US Treasury (UST) yield changes were mixed. Very short- and intermediate-dated yields witnessed declines, while longer-maturity UST yields increased. Yields declined by 16 basis points (bps) to 3.72% on the two-year UST note and by 15 bps to 3.80% on the five-year UST note. Ten-year UST yields moved two bps higher to 4.23%.
- **Contributors:** Modest underweight to overall duration. Exposure to the five- to 10-year portion of the curve.
- **Detractors:** Overweight to the 20-year area of the UST yield curve.
- **Outlook:** The US Federal Reserve's (Fed's) reaction function is complicated. Fears of increased inflation due to fiscal policy are likely to keep the Fed on hold, in our assessment. We are looking for at most one rate cut for the remainder of the year.

Performance Review

- Yield curve positioning contributed to returns. Throughout the period, the fund had a duration that was slightly lower when compared to the benchmark. An underweight to the two-year area of the curve hurt returns as yields fell along the short end of the curve. This was more than offset by an overweight allocation to five-year duration, which benefited from declining yields. In addition, a modest underweight to 10-year duration helped relative results.

Outlook

- In our view, the Fed is unlikely to cut interest rates soon. Despite recent signs of cooling inflation, Fed officials remain cautious due to ongoing tariff-related uncertainties. Companies are expected to raise prices as pre-tariff inventories diminish, leading to a likely rise in core goods inflation. Furthermore, average US tariff rates remain historically high despite a temporary easing in US-China trade tensions. We therefore expect potentially higher inflation and slower growth. With inflation still above target and risks skewed to the upside, we expect the Fed to maintain its pause. Amid still-resilient retail sales, we believe the Fed is likely to stay on hold until there is clear evidence of labor market deterioration without a simultaneous rise in inflation.
- The "One Big Beautiful Bill" spending package will further increase the US deficit over the next decade. Combined with factors such as uncertain trade policy (which has raised stagflationary concerns) and an expansionary fiscal policy (which implies greater debt issuance), we expect short-term rates to remain elevated due to the pause in Fed rate cuts and longer-term rates to continue to climb higher through the rest of the year.

Fund Characteristics

	Fund
Distribution Frequency	Monthly
Effective Duration	5.75 Years
30-Day SEC Yield (Fund)—With Waiver	4.16%
30-Day SEC Yield (Fund)—Without Waiver	4.16%

Sector Allocation (% of Total)

Sector	Fund
U.S. Treasuries	98.57
Cash & Cash Equivalents	1.43

Average annual total returns and fund expenses (%) - as of June 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	FLGV	NYSE Arca	0.93	3.88	3.88	5.37	1.63	-1.30	—	-1.06	0.09	0.09	6/9/2020
NAV Returns	—	—	0.93	3.98	3.98	5.37	1.65	-1.29	—	-1.07	0.09	0.09	6/9/2020
Benchmark	—	—	0.85	3.79	3.79	5.30	1.53	-1.60	—	-1.37	—	—	—

*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. 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%).

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.

Effective Duration is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates. The higher the duration number, the more sensitive a fixed-income investment will be to interest rate changes. 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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