

Franklin U.S. Treasury Bond ETF

FLGV

Commentary | as of December 31, 2025

Key Takeaways

- Markets:** The fourth quarter of 2025 (Q4) saw monthly shifts in market sentiment as uncertainties increased in the first part of the quarter. The US federal government went into a shutdown on October 1 as the US Senate was unable to pass a spending bill. This, among other things, delayed or canceled the publication of key economic data leading to a lack of clarity on the economic condition of the United States. The shutdown was lifted mid-November, and subsequent data showed that economic growth in the United States remained resilient. US trade policy continued to be a source of uncertainty. The US Federal Reserve (Fed) delivered three consecutive 25-basis point cuts in Q4, helping market sentiment to improve in December. Fixed income volatility measures fell toward the end of the quarter, reaching their lowest level since 2021. The US yield curve steepened as shorter-maturity yields fell while longer-dated bond yields rose. The benchmark 10-year UST yield increased two bps to end the quarter at 4.17%.
- Contributors:** Overweight exposure to the 30-year portion of the UST yield curve.
- Detractors:** Overweight shorter end 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 being a key trigger for any "risk-management" cuts. 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.

Performance Review

- Yield curve positioning detracted from returns. An overweight allocation on the shorter end of the yield curve, those with two or less years to maturity, curbed performance over the period. This was modestly offset by positive returns from exposure to the 30-year and five-year portions of the UST curve.
- Out-of-index holding of US Treasury Inflation-Protected Securities (TIPS) detracted from results for the quarter.

Outlook

- Progress on disinflation has stalled since April. Tariffs have pushed core goods prices higher, while core services excluding housing ("supercore") have reaccelerated above 3%. In 2026, we think inflation risks should be balanced, with the potential for upside surprises. Strong growth in the first half of the year and a more stable labor market can keep supercore sticky. On goods, much of the tariff effect is still ahead. Although the trade weighted applied tariff rate is roughly 16%, effective, tariffs paid were under 11% as of July, explaining the muted goods price pass through. We expect effective rates to rise in the coming months. While applied and effective tariff rates could fall if the Supreme Court rules against the administration on tariffs applied under the International Emergency Economic Powers Act (IEEPA), we think the White House will reimpose similar tariffs via Sections 122 and 301. That said, a partial recreation of IEEPA could limit upside risks to goods prices. Overall, gradual rent moderation combined with persistent services inflation should keep core personal consumption expenditures well above the Fed's 2% target through 2026.
- On interest rates, although the Fed has signaled one more cut for 2026, we continue to believe that the Fed will remain on pause at least through Fed Chair Jerome Powell's term ending in May 2026, and potentially through 2026 (as long as growth remains resilient and the expansion continues in line with our expectations). That said, the Fed's reaction function does lean dovish, and any signs of labor market weakness could force additional "risk-management" cuts under Powell or his successor. If our growth and inflation views are right and the Fed cuts fewer times than priced, we believe UST yields should drift higher from here. However, somewhat favorable demand-supply technicals (slower issuance of long-term USTs and the return of price-insensitive investors) could potentially limit how high yields might go in 2026.

Fund Characteristics

Fund	Frequency
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	3.89%
30-Day SEC Yield (Fund)—Without Waiver	3.89%

Average annual total returns and fund expenses (%) - as of December 31, 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	0.79	2.26	6.22	6.22	3.65	-0.79	—	-0.56	0.09	0.09	6/9/2020
NAV Returns	—	—	0.74	2.31	6.38	6.38	3.66	-0.75	—	-0.56	0.09	0.09	6/9/2020
Benchmark	—	—	0.90	2.43	6.32	6.32	3.62	-0.99	—	-0.82	—	—	—

*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 franklintonappleton.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%).

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

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.

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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.franklintonappleton.com. Please read it carefully.