FRANKLIN TEMPLETON

Franklin U.S. Treasury Bond ETF

FLGV | **Commentary | as of September 30, 2026**

Key Takeaways

- **Markets**: Geopolitical developments remained a focus during the quarter, with receding expectations of a settlement nearer to quarter-end resulting in oil prices surging to over $100/barrel, compared to around $72/barrel in early July. This energy price move, combined with an increasingly hawkish central bank outlook, drove market moves, especially nearer the end of the quarter. The US dollar (USD) was modestly stronger over the quarter, with mixed performance against other currencies. Notably, the Japanese yen appreciated against the USD over the period as it benefitted from intervention during the quarter. Following on increasingly hawkish rhetoric, the Federal Reserve (Fed) raised the fed funds rate by 25 basis points (bps) at its September meeting, retaining a hawkish outlook. The benchmark 10-year US Treasury yield rose 82 bps over the quarter to 5.28%, its highest level since mid-2007. Fixed income volatility measures rose during the quarter. Credit spreads rose over the quarter, with the increases more pronounced in the high-yield (HY) sectors. Total returns in corporate bonds were negative over the quarter. Securitized sectors posted a negative excess return compared to duration-matched Treasuries.
- **Contributors**: Overweight allocations to the two- and 30-year portions of the curve.
- **Detractors**: Overweight allocation to the five-year segment and an underweight exposure to the 10-year area of the curve.
- **Outlook**: The September Federal Open Market Committee (FOMC) meeting reinforced our view that the Fed is committed to a higher-for-longer path. Following the September 25-bps hike, we anticipate a second increase by year-end, although we do not expect a return to 2022-style sequential hikes.

Performance Review

- Yield curve positioning had a negative impact on performance, led by an overweight allocation to the five-year segment and an underweight exposure to the 10-year area of the curve. In contrast, overweight allocations to the two- and 30-year portions of the curve partially offset some of the losses.
- Out-of-index holdings of US Treasury Inflation-Protected Securities (TIPS) had a modest positive impact on results for the quarter.

Outlook

- In June, our view was that higher energy prices and supply-chain disruption would erode household purchasing power, lift firms' costs and potentially push the economy into a stagflationary drift. Three months later, the US inflation risk has not disappeared, but the economy has proven more resilient than expected. With inflation still above the Fed's target, the current macro backdrop is best described as a narrow, capital-intensive inflationary expansion, supported by strong underlying private demand, a stable labor market, corporate profitability and asset-rich households. Artificial intelligence (AI) investment remains the clearest source of US growth exceptionalism, but also the main pocket of overheating. Outside AI-linked manufacturing (computers/electronics, aerospace, electrical equipment), most industries remain well below capacity, and the industrial rebound has not produced a comparable hiring response, pointing to a capital- rather than labor-intensive cycle. The consumer is a key fault line. Real income is stagnant, the savings rate sits near cycle lows, and spending is increasingly concentrated in essential services (health care, housing) and asset-price-sensitive financial services rather than broad discretionary demand. Tariff-refund-funded price cuts and strong corporate earnings offer a near-term cushion, but the support will likely fade. Overall, the consumer has continued to slow rather than break, leaving the outlook vulnerable to a softer labor market, equity-market correction or loss of refund-driven support.
- On interest rates, Fed Chair Kevin Warsh's Jackson Hole speech in August materially repaired July's communication problem, while the September FOMC meeting saw Warsh backing his rhetoric with action, as the Fed hiked by 25 bps. Moreover, this was more than a one-off adjustment. The Fed does not expect September's hike to be quickly reversed. The projected policy path is not merely higher in the near-term, it is higher for longer because the Fed sees a stronger economy, tighter labour market and more persistent inflation than it did in June. Our base case is for a second 25 bps increase by year-end. A third increase in 2027 remains a possibility should inflation prove sticky or accelerate. However, we do not see this as a return to 2022-style sequential hikes. With the September hike now in the rearview mirror, further upside to front-end yields depends mainly on whether incoming data validates the additional hike indicated in the Fed dot plot.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	4.79%
30-Day SEC Yield (Fund)—Without Waiver	4.79%

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of September 30, 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	-3.17	-2.84	-2.65	-1.89	3.14	-0.82	—	-0.92	0.09	0.09	6/9/2020
NAV Returns	—	—	-3.07	-2.74	-2.60	-1.88	3.17	-0.82	—	-0.91	0.09	0.09	6/9/2020
Benchmark	—	—	-3.04	-2.72	-2.77	-1.89	3.18	-1.05	—	-1.16	—	—	—

*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%).

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

The **Federal Open Market Committee (FOMC)** is the branch of the Federal Reserve that dictates U.S. monetary policy, specifically targeting the federal funds rate and managing open market operations.

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.

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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.franklintempleton.com. Please read it carefully.

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