

Franklin U.S. Treasury Bond ETF

Commentary | as of September 30, 2025

Key Takeaways

- Markets: Market sentiment improved across the third quarter of 2025 (Q3) due to a partial resolution of some of the outstanding trade policy concerns and a rate cut of 25 basis points (bps) by the US Federal Reserve (Fed), which were both well received by the market. The Fed signaled that more cuts were likely to come by the end of this year. This bolstered markets, which viewed that the cut was addressing some of the weakening economic measures, such as the status of the US labor market. Over the period, US Treasury (UST) yields moved lower with the yield curve steepening. The one-month UST bill fell 11 bps, and three-month UST bill yields declined 36 bps. Yields moved lower by 11 bps to 3.61% on the two-year UST note and by six bps to 3.74% on the five-year UST note. By the end of the quarter, the yield on the benchmark 10-year UST note moved eight bps lower to 4.15%, and the yield on the 30-year UST bond decreased by four bps to 4.73%.
- Contributors: Overweight exposure to the 30-year portion of the UST yield curve.
- Detractors: Overweight shorter end of the yield curve.
- Outlook: The path of the fed funds rate is uncertain. The US job market has shown signs of stress with low job creation; however, inflation remains well above the Fed's target. We are projecting one to two cuts in the remainder of the year. In our view, the Fed will have much room to continue to cut in an aggressive fashion in 2026 due to stubborn inflation impacted by tariff increases. In our view, intermediate- and long-maturity UST yields will move higher over the course of the fourth quarter.

Performance Review

- Yield curve positioning contributed to returns. An overweight allocation on the longer-end of the yield curve, those with 10 or
 more years to maturity, helped performance over the period. This was offset by negative returns from exposure to the sixmonth portion of the UST curve.
- Out-of-index holding of US Treasury Inflation-Protected Securities (TIPS) helped results for the guarter.

Outlook

- The Fed has been struggling to balance its dual mandate—maximum employment and price stability—as stagflation (rising
 inflation with slowing growth) becomes a real possibility. The Fed has chosen to prioritize employment over inflation,
 consistent with its historical tendency to intervene when growth slows.
- The labor market remains within the Fed's target (unemployment at 4.3%), but inflation is still at 3% and showing little signs that it is returning to the central bank's 2.0% target. With hiring rates low and unemployment drifting up, the Fed now sees employment risks as more pressing than inflation risks, prompting the first rate cut this year and signaling more cuts ahead.
- US trade policy remains a wild card, adding to uncertainty in the market. Even if tariffs don't cause a permanent lift in
 inflation, strong consumer spending and supportive fiscal policy mean the current economic environment is not likely to
 return to a disinflation level. In our view, tariffs are expected to cause a moderate, one-off burst of inflation, about 1.0-1.5
 percentage points. The overall impact should be limited due to the small share of imports in the US economy, but there's
 uncertainty about supply chain effects and the risk of prolonged inflation. In our view, it would be very difficult for the Fed to
 pivot back in the direction of holding the fed funds rate, or potentially increasing it, given the Fed's movement toward easing
 financial conditions, even if inflation moves sustainably higher.
- There is high uncertainty about future policy, even between members of the FOMC, as reflected in the large distribution seen in the Fed's SEP scattered projections for the path of fed funds. The FOMC was nearly evenly split between those seeing two or more additional cuts by the end of this year (necessary to defend economic growth and the US job market) and those projecting just one cut (members that may have concerns over lingering inflation and tariff worries). In our view, this level of uncertainty has the potential to spur volatility in the US Treasury market.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	3.85%
30-Day SEC Yield (Fund)—Without Waiver	3.85%

Average annual total returns and fund expenses (%) - as of September 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	1.46	2.41	5.39	2.11	3.52	-1.07	_	-0.74	0.09	0.09	6/9/2020
NAV Returns	_	_	1.56	2.50	5.60	2.11	3.54	-1.03	_	-0.73	0.09	0.09	6/9/2020
Benchmark	_	_	1.51	2.37	5.36	2.06	3.56	-1.34	_	-1.02	_	_	_

^{*}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.

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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.

