

# Franklin High Yield Corporate ETF

**FLHY**
**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 first quarter of 2026. The reaction in markets evolved over the period, initially seeing a traditional risk-off move in both the US dollar (USD) and US bonds, which then turned into a stagflationary-focused sell-off in core developed bond markets as oil prices surged, (although the USD remained well-supported). The US Federal Reserve (Fed) remained on hold throughout the quarter.
- In terms of high-yield (HY) technical trading conditions, net issuance volume remains ahead of the previous year on a year-to-date basis, although slowed in March. There were significant fund flows out of the HY sector over the quarter.
- **Contributors:** Ratings-quality tilt contributed to performance during the quarter, as did security selection and currency allocations.
- **Detractors:** Yield curve positioning detracted from results, as did industry allocations.
- **Outlook:** We believe that yields and sub-par dollar prices remain attractive, while spreads remain at levels that are fair (but not compelling), in our view.

## Performance Review

- **Quality:** Ratings-quality tilt positively contributed to returns, primarily favoring Caa, Ca and B-rated bonds.
- **Security Selection:** Contributions from security selection in the energy, technology, finance and media non-cable sectors helped performance. However, selection in chemicals and packaging curbed results.
- **Industry Allocations:** Underweighted exposure to the wired sector detracted from relative return, as did overweighted allocations to the finance and media non-cable sectors. However, underweighted allocations to the technology, packaging and consumer cyclical services sectors helped performance during the quarter.

## Outlook

- Absent a sustained bear market in equities or core bonds, we expect spreads to remain within their approximate three-year range of 260–460 basis points. While spreads widened over the quarter due to conflict in the Middle East and other factors, we expect spreads to move toward the middle of their three-year range. However, the fundamental and technical support for high-yield is largely intact. After some volatility, yields ended the quarter close to 7.5%— what we believe to be a very attractive entry point that offers ample carry.
- Defaults have been below 2% for almost two years, while overall quality continues to improve. BB-rated credit represents close to 60% of the overall market, while over one-third of the market consists of secured bonds, the highest proportion on record.
- The headwinds that the strategy faced last year, where the largest issuers and higher- quality credits notably outperformed, have faded. We expect that dynamic to continue, which may be favorable for the strategy. Idiosyncratic risk stemming from exposure to B-rated and below credits has been reduced over time as we have enhanced the overall quality of the portfolio. Our downside protection during March's negative market environment reinforced that we have made the appropriate changes.

## Fund Characteristics

	<b>Fund</b>
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	6.89%
30-Day SEC Yield (Fund)—Without Waiver	6.88%

## 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	FLHY	Cboe	-0.15	1.59	-0.15	8.18	8.76	4.59	—	5.84	0.40	0.40	5/30/2018
NAV Returns	—	—	-0.31	1.51	-0.31	8.05	9.09	4.64	—	5.83	0.40	0.40	5/30/2018
Benchmark	—	—	-0.55	0.79	-0.55	6.90	8.50	4.20	—	5.09	—	—	—

\*Cumulative total returns

## Benchmark(s)

Benchmark = ICE BofA US High Yield Constrained 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 1, 2018, 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. **Distributions** are not guaranteed and are subject to change. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **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. **Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. The manager may consider **environmental, social and governance (ESG) criteria** in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. 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 **ICE BofA US High Yield Constrained Index** measures the performance of USD-denominated, noninvestment grade, fixed rate and taxable corporate bonds.

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