FRANKLIN TEMPLETON

Franklin High Yield Corporate ETF

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

Key Takeaways

- **Markets:** High-yield (HY) bond yields rose during the third quarter of 2026, alongside historically tight spreads. Investors continued to express concerns over the escalating conflict in the Middle East, rising oil prices and persistent inflation over the quarter. After US Federal Reserve (Fed) Chairman Kevin Warsh's speech in Jackson Hole in August (which was viewed as hawkish), the US Fed raised rates by 25 basis points (bps) at its meeting in September. The 10-year Treasury yield surged by 85 basis points over the period to end the quarter at 5.29%, its highest level since mid-2007. Against this backdrop, HY posted a negative quarterly return (the worst since September 2022), with the B rated cohort underperforming higher-quality (BB) bonds and investment-grade (BBB) corporate credit to end September.
- The US HY default rate (including distressed exchanges) increased marginally during the month, but is still below long-term averages, ending September at 2.68%. Regarding the primary market, monthly new issuance totaled $51.7 billion (bn), continuing the trend of active capital markets. Meanwhile, HY funds reported a monthly outflow worth -$4.7bn, turning year-to-date flows negative.
- **Contributors:** Security selection contributed to fund performance during the quarter, as did industry allocations, ratings-quality tilt and currency exposures.
- **Detractors:** Yield curve positioning detracted from the fund's results.
- **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.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	7.18%
30-Day SEC Yield (Fund)—Without Waiver	7.17%

Performance Review

- **Security Selection:** Contributions were led by security selection in the automotive, media cable, chemicals, energy and media non cable segments of the HY market. Conversely, security selection in wired, finance, metals and mining and consumer products hindered returns.
- **Industry Allocations:** Underweighted exposure to the wired sector and overweighted allocations to energy helped performance during the period. However, underweighted exposure to consumer cyclical services curbed performance during the period.
- **Ratings-Quality Tilt:** The fund's ratings-quality tilt contributed to performance during the quarter, primarily favoring B rated bonds. BB rated bonds weighed on results.

Outlook

- As we progress through 2026, corporate fundamentals remain resilient as technicals in the market have started to soften driven by supply. We expect these trends to persist with bouts of volatility surrounding the implementation of President Trump's policies and increased geopolitical tensions. Additionally, there remains a heightened level of uncertainty surrounding the re-establishment of regular trade flow for oil, gas, and other raw materials through the Strait of Hormuz and the potential implications for broader economic impact.
- From a valuation standpoint, spreads remain rich historically but are appropriate given the low default environment. While the Fed hiked rates by 25 bps in September, leading to a sharp rise in treasury yields, we expect them to remain data dependent in their approach moving forward. We remain focused on industry and company fundamentals, the health of balance sheets, generation and use of free cash flow, the resiliency of credits to slower economic growth and are cautious on deeply distressed names.
- The US HY default rate (including distressed exchanges) increased marginally in September, but remains below long-term averages, ending the month at 2.68%. Technicals have weakened modestly despite strong demand for yield as supply, particularly from data centers, has begun to outpace demand. Yields and sub-par dollar prices remain attractive, while spreads remain at levels that are fair (but not compelling), in our view. Risks to our outlook include higher than expected inflation, policy missteps, a more severe slowdown or recession and/or heightened geopolitical tensions.

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	FLHY	Cboe	-2.03	0.18	0.03	1.78	8.17	3.98	—	5.50	0.40	0.40	5/30/2018
NAV Returns	—	—	-1.82	0.48	0.17	2.00	8.23	4.02	—	5.53	0.40	0.40	5/30/2018
Benchmark	—	—	-1.82	0.59	0.03	1.38	7.93	3.55	—	4.85	—	—	—

*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.* 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

Free cash flow (FCF) is a measure of financial performance calculated as operating cash flow minus capital expenditures.

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.

Source: The index data referenced herein is the property of Intercontinental Exchange ("ICE") and/or its licensors and has been licensed for use by Franklin Templeton. ICE and its licensors accept no liability in connection with this use.

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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