

# Franklin Ultra Short Bond ETF

**FLUD**
**Commentary | as of March 31, 2026**

## Key Takeaways

- **Markets:** The war in the Middle East, which began in late February, dominated much of the news flow and financial market sentiment over the remainder of the quarter. The reaction in markets has evolved, initially seeing a traditional risk-off move in both the US dollar and US bonds, which then turned into a stagflationary-focused selloff in core developed bond markets as oil prices surged (although the dollar remained well-supported). The US Federal Reserve (Fed) remained on hold throughout the quarter. The March Federal Open Market Committee (FOMC) meeting statement and press conference emphasized uncertainty related to the Iran war, indicating that the Fed would look through any initial oil supply shock effect on inflation to focus on core developments, while also noting a likely dragging effect on the economy; ultimately the Committee retained an easing bias. US Treasury (UST) yields moved higher across the curve over the three-month period, resulting in a broader upward shift in the interest rate environment.
- **Contributors:** Exposure to the investment-grade (IG) banking sector, the largest sector allocation, was the top contributor.
- **Detractors:** Yield curve positioning.
- **Outlook:** Fixed income volatility measures rose during the quarter, with much of the increase coming in the wake of the onset of the war in the Middle East. The path of monetary policy by the Fed, geopolitical tensions and spread volatility continue to cause concern.

## Fund Characteristics

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	4.28%
30-Day SEC Yield (Fund)—Without Waiver	4.28%

## Performance Review

- Over the course of the quarter, our exposure to IG corporate bonds generated positive returns for the portfolio. Holdings of bonds from the banking sector and companies within consumer-cyclical industries added returns and income in Q4.
- Our yield curve exposures to the two- and five-year segments of the curve detracted from returns during the period.

## Outlook

- US growth has remained surprisingly resilient despite a steady stream of bearish narratives. While rising energy costs tied to escalating Middle East tensions, if sustained, will likely squeeze consumption, the impending fiscal stimulus should offset part of the drag. Meanwhile, the AI-driven capital expenditure (capex) cycle remains intact. Our above-consensus forecast of 3.0% for 2026 US gross domestic product (GDP) growth now faces some downside risk. While recession risk is no longer negligible, it remains a tail risk. The more likely outcome is slower growth, not contraction, with the structural expansion still intact. We expect the Fed to remain on hold through the end of Chair Jerome Powell's term and potentially throughout the year given rising upside risks to inflation. Should inflation broaden beyond energy and become persistent, the Fed could be forced to keep rates higher for longer or even consider renewed tightening.
- While the 2026 FOMC dot plot distribution has narrowed and some participants have shifted their projections higher, the maintenance of unchanged medians suggests a relatively low bar for renewed easing. We feel that as long as growth remains resilient and the expansion continues in line with our expectations, the Fed will remain on pause at least through the end of Powell's term in May 2026, despite their signals of a potential cut. That said, any signs of labor market weakness or evidence that the supply-driven oil price shock is spilling over into core inflation or inflation expectations could force a policy reaction under Powell or his successor. If our views on growth and inflation prove correct and the Fed cuts fewer times than currently priced, we believe US Treasury yields should drift higher, though somewhat favorable demand-supply technicals may limit the extent of this move.
- IG corporate spreads recently widened to May 2025 highs amid geopolitical and energy risks, though strong demand and inflows have contained the impact. While corporate fundamentals remain supportive, record 2026 issuance driven by AI infrastructure spending presents a persistent technical headwind. While valuations have adjusted modestly, the market continues to price in a sanguine outlook with minimal room for error, favoring a balanced risk posture with a bias toward non-cyclical sectors.

## 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	FLUD	NYSE Arca	0.69	1.74	0.69	4.50	5.41	3.49	—	3.21	0.15	0.15	7/14/2020
NAV Returns	—	—	0.73	1.91	0.73	4.59	5.46	3.49	—	3.21	0.15	0.15	7/14/2020
Benchmark	—	—	0.85	1.83	0.85	4.00	4.74	3.34	—	2.93	—	—	—

\*Cumulative total returns

## Benchmark(s)

Benchmark = ICE BofA US 3-Month Treasury Bill 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 July 16, 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.** 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. **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. **The fund should not be considered an alternative to money market funds or certificates of deposit (CDs).** To the extent the portfolio invests in a **concentration of certain securities, regions or industries**, it is subject to increased volatility. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. 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

**Capital Expenditure (capex)** are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

**Gross domestic product (GDP)** is the market value of all final goods and services produced within a country in a given period of time.

**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 **ICE BofA U.S. 3-Month Treasury Bill Index** is an unmanaged index that comprises a single U.S. Treasury issue with approximately three months to final maturity, purchased at the beginning of each month and held for one full month.

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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.**