

# Franklin Templeton Strategic Real Return Portfolios

Commentary | as of September 30, 2025

### **Key Takeaways**

- Markets: Global equity markets advanced through the third quarter of 2025 as tariff anxieties gradually eased, central banks became more accommodative and technology leadership persisted. July's tone improved on clearer trade signals and resilient US earnings; August added gains despite episodic volatility around new tariff measures and September capped the quarter with a Federal Reserve rate cut that steadied rate-sensitive assets and lifted risk appetite. Credit markets broadly witnessed positive absolute returns over the period, as spreads tightened. Lower-rated credits generally outperformed their higher-rated counterparts. The global commodities complex appreciated mildly and unevenly in the third quarter as economic risks remained tilted to the downside, with near-term global growth vulnerable to ongoing inflation and trade fragmentation.
- Contributors: The portfolio's global equity allocation was the leading contributor.
- Detractors: The portfolio's position in Treasury Inflation-Protected Securities (TIPS) detracted.
- Outlook: We adopt a positive view of risk assets ahead of the final quarter of 2025, as we weigh extended equity
  valuations against a generally positive macro environment, strong corporate fundamentals and monetary policy easing.

#### **Performance Review**

- Asset allocation was the primary driver of performance over the period.
- From an absolute perspective, the portfolio's positions all posted positive returns. Global equities delivered the highest return, and TIPS produced the lowest.
- On a relative basis, the portfolio's global equity allocation was the leading contributor. The tactical sleeve, commodities and REITs also were additive. In contrast, TIPS detracted.

#### **Outlook**

- The strength of the recent equity rally has brought warnings about irrational exuberance, especially where retail investors are
  concerned. However, we prefer to take a more measured approach, examining the underlying macro and corporate
  environment for signs of weakness.
- Our analysis finds a broadly positive setup for risk assets, where improving business activity and solid economic growth has
  provided the platform for strengthening global earnings-per-share (EPS) growth forecasts. From a policy standpoint, US labor
  market weakness provided the US Federal Reserve (Fed) with a reason to cut interest rates in September, which should
  further bolster equity market momentum.
- Fair value analysis does suggest to us that equities are expensive, with most good news priced in, but we place greater
  emphasis on fundamentals. In addition, measures of sentiment remain surprisingly neutral, while positioning also looks
  restrained—notably among discretionary investors—suggesting the rally has room to run. This strengthens our conviction in a
  responsibly bullish approach to risk as we move into the final guarter of 2025.
- From a cross-asset perspective, we have balanced this stance by strengthening our pessimism toward fixed income. We
  believe market expectations for Fed easing are too lofty given resilient growth and persistent inflation pressures, while fiscal
  instability should put further upward pressure on long-term yields. As a result, we prefer the lower interest-rate sensitivity of
  cash. We also improved our view on commodities, noting that gold may act as a useful inflation hedge.

#### Average annual total returns (%) - as of September 30, 2025-PRELIMINARY

| Composite          | 3-Mo* | 6-Mo* | YTD* | 1-Yr | 3-Yr | 5-Yr | 10-Yr | 15-Yr | 20-Yr | 25-Yr | Inception | Inception Date |
|--------------------|-------|-------|------|------|------|------|-------|-------|-------|-------|-----------|----------------|
| Net of Fees        | 3.15  | 4.91  | 6.58 | 4.00 | 6.28 | 5.08 | 3.16  | 1.64  | _     | _     | 1.81      | 2/28/2010      |
| Pure Gross of Fees | 3.91  | 6.46  | 8.95 | 7.11 | 9.45 | 8.22 | 6.25  | 4.69  | _     | _     | 4.86      | 2/28/2010      |
| Benchmark          | 2.10  | 2.59  | 6.87 | 3.79 | 4.88 | 1.42 | 3.01  | 2.85  | _     | _     | 3.16      | _              |

<sup>\*</sup>Cumulative total returns

#### Benchmark(s)

Benchmark = Bloomberg U.S. Treasury: U.S. TIPS

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).

Past performance is not a guarantee of future results. An investment in this strategy can lose value. Please visit www.franklintempleton.com for the latest performance figures. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Fees: Periods less than one year are not annualized. Performance results are for the composite which includes all actual, fully discretionary accounts with substantially similar investment policies and objectives managed to the composite's investment strategy. Composite returns are stated in U.S. dollars and assume reinvestment of any dividends, interest income, capital gains, or other earnings. The composite may include account(s) that are gross of fees and pure gross of fees. "Pure" gross-of-fee returns do not reflect the deduction of any expenses, including transaction costs. A traditional (or "true") gross-of-fee return reflects performance after the reduction of transaction costs but before the reduction of the investment advisory fee. The gross-of-fee return may include a blend of "true" gross-of-fee returns for non-wrap accounts and "pure" gross-of-fee returns for wrap accounts. Net-of-fee returns is reduced by a model "wrap fee" (3.0% is the maximum anticipated wrap fee for equity and balanced portfolios) which includes trading expenses as well as investment management, administrative and custodial fees. The model wrap fee used represents the highest anticipated wrap fee applicable to the strategy. Actual fees and account minimums may vary.

For fee schedules, contact your financial professional, or if you enter into an agreement directly with Franklin Templeton Private Portfolio Group, LLC ("FTPPG"), refer to FTPPG's Form ADV Part 2A disclosure document. Management and performance of individual accounts may vary for reasons that include the existence of different implementation practices and model requirements in different investment programs.

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Equity securities are subject to price fluctuation and possible loss of principal. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. 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. Low-rated, high-yield bonds are subject to greater price volatility, illiquidity and possibility of default. 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. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. Short selling is a speculative strategy. Unlike the possible loss on a security that is purchased, there is no limit on the amount of loss on an appreciating security that is sold short. Real estate investment trusts (REITs) are closely linked to the performance of the real estate markets. REITs are subject to prepayment and extension risks. The managers' environmental social and governance (ESG) strategies may limit the types and number of investments available and, as a result, may forgo favorable market opportunities or underperform strategies that are not subject to such criteria. There is no guarantee that the strategy's ESG directives

# **Glossary**

The **\$&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © **\$&P** Dow Jones Indices LLC. All rights reserved. **Treasury Inflation-Protected Securities (TIPS)** are a type of Treasury bond that is indexed to an inflationary gauge to protect investors from a decline in the purchasing power of their money. **Earnings per share (EPS)** is the amount of a company's profit allocated to each share of its common stock.

## **Important Information**

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The **Bloomberg U.S. TIPS Index** is an unmanaged index that measures the performance of intermediate (one to ten year) U.S. Treasury inflation-protected securities. Source: Bloomberg Indices.

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