

Franklin Templeton Strategic Real Return Portfolios

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** Global equity markets were mixed in the first quarter of 2026 as leadership rotated sharply over the course of the period. Non-US markets began the year strongly, helped by a weaker US dollar, improving sentiment toward Europe, continued enthusiasm for semiconductor and artificial intelligence (AI) supply chains in parts of Asia and renewed investor interest in lower-valued markets. By contrast, the United States lagged as the market broadened away from the prior concentration in mega-cap growth stocks. The quarter became more challenging in March. The escalation of the Iran conflict drove a sharp rise in oil and gas prices, reigniting inflation concerns and reducing confidence that central banks would be able to ease policy quickly. The US Federal Reserve (Fed) kept rates unchanged in January and March, while the European Central Bank (ECB) noted that its updated 2026 inflation projections had moved higher because of the Middle East energy shock. Investors also had to navigate uneven manufacturing data, lingering trade-policy uncertainty and a more defensive risk backdrop at quarter-end.
- **Contributors:** The portfolio's alternative asset allocation was a leading contributor.
- **Detractors:** The portfolio's equity sleeve restrained relative returns.
- **Outlook:** Our positive view of equities continues to be informed by resilient global growth and strong corporate fundamentals. However, geopolitical tensions caused by conflict in the Middle East have increased economic uncertainty.

Performance Review

- In the first quarter of 2026, Franklin Templeton Strategic Real Return Portfolio (net of fees) outperformed its benchmark, the Bloomberg US Treasury: US TIPS Index.
- Alternative assets were the primary driver of absolute and relative performance over the period. All alternative strategies delivered positive absolute returns.
- The equity sleeve delivered a negative absolute return over the quarter and detracted from relative performance.

Outlook

- Forecasting geopolitics is difficult and always requires a degree of humility, particularly in scenarios as fluid and fast-moving as the current Middle East conflict. We believe the most responsible decision as asset allocators is to curtail the tracking error in our portfolios and reduce equity risk, as we await greater clarity.
- Disruption of energy supplies is the main reason for tension in financial markets, and Iran retains the ability to impede energy production and transit regardless of US military dominance. If this continues, a prolonged surge in energy prices could raise inflation expectations, erode private sector confidence and slow economic growth.
- Against this backdrop, we will be monitoring important energy, military, and diplomacy signposts to determine whether the conflict is de-escalating, before adding conviction.
- Absent any adverse effects from the military conflict in Iran, leading global economic indicators remain relatively healthy, amid expanding activity levels across manufacturing and services.

Average annual total returns (%) - as of March 31, 2026

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	4.18	4.40	4.18	9.53	5.86	3.85	3.63	1.17	—	—	2.03	2/28/2010
Pure Gross of Fees	4.94	5.95	4.94	12.79	9.02	6.96	6.73	4.20	—	—	5.09	2/28/2010
Benchmark	0.26	0.40	0.26	3.00	3.18	1.48	2.66	2.78	—	—	3.09	—

*Cumulative total returns

Benchmark(s)

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

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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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All investments involve risks, including possible loss of principal. These models include funds which engage in a variety of investment strategies involving certain risks. The model's risks are directly related to the risks of the underlying funds and may include, but is not limited to, the risks as described below. Model allocation strategies are not designed to maximize return or predict the highest performing fund or group of funds within each class in the model. There are expenses associated with the underlying funds in addition to any fees charged by the sponsor firm.

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 illiquidity, credit and interest rate risks, and risks associated with small- and mid-cap investments. **Asset-backed, mortgage-backed or mortgage-related securities** 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 will be successful or will result in better performance.

Diversification does not guarantee a profit or protect against a loss. The **allocation** of assets among different strategies, asset classes and investments may not prove beneficial or produce the desired results.

Glossary

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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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