Putnam U.S. Small Cap Value Equity SMA

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** US equities declined in a quarter marked by turbulence and uncertainty related to the Iran conflict.
- **Contributors**: Stock selection in information technology, materials, and utilities
- **Detractors:** Stock selection in industrials, health care, and financials
- **Outlook:** The economy appears to be weathering the shock of the Iran conflict relatively well overall, and should it be resolved soon, the economy and markets could see an accelerating recovery.

Performance Review

- For the quarter, the strategy delivered a positive absolute return (both net of fees and gross) but underperformed its benchmark. Both sector allocation and stock selection were detractors from performance.
- Stock selection in information technology, materials, and utilities contributed to performance, as did underweight exposure to health care, real estate, and materials.
- Stock selection in industrials, health care, and financials detracted from performance, as did underweight exposure to energy and overweight exposure to consumer discretionary and financials.
- Individual contributors included Ichor Holdings, Permian Resources, and Matador Resources. Individual detractors included Holley, Ibex Holdings, and Coastal Financial.

Outlook

- The focus early in the quarter on mundane concerns such as the strength of the consumer, the labor market, and GDP was overtaken by worries about the Iranian conflict and what it will mean for the supply and pricing of many important commodities.
- Widespread expectations for additional Federal Reserve rate cutting this year have been upended, as world economies contend with a potentially significant inflationary supply shock from the closure of the Strait of Hormuz. Average expectations for 2-3 rate cuts through the end of the year have now shrunk to 0-1 anticipated cuts, or effectively flat rates.
- With market conditions changing almost daily based on news and speculation from the Middle East, we have increased our holdings count to spread risk, adding stocks that we believe will see mid-to-longer term benefits from the supply upheaval.
- The economy appears to be weathering this shock relatively well overall, and should the conflict be resolved within the second quarter, we believe the economy and markets could see an accelerating recovery.
- The continuation of the fighting remains the largest risk to the market, and a prolonged closure of the Strait could ultimately cause the US economy to stall, even while the US is less economically exposed than many other countries.
- Our expectation is that the war will resolve soon and the bull case will prevail, though it is hard to have complete confidence in this outcome.

Top Equity Issuers (% of Total)

Holding	Portfolio
Permian Resources	1.71
Magnolia Oil & Gas	1.51
Antero Resources	1.51
Nicolet Bankshares	1.49
Core Natural Resources	1.46
Cohu	1.42
Lifestance Health Group	1.42
Matador Resources	1.42
Ichor Holdings	1.40
Five Star Bancorp	1.37

Not FDIC Insured | No Bank Guarantee | May Lose Value

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

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Inception Date
Gross of Fees	1.31	2.84	1.31	15.74	13.47	7.65	10.49	10.16	3/31/1993
Net of Fees	0.56	1.33	0.56	12.39	10.19	4.52	7.29	6.96	3/31/1993
Benchmark	4.96	8.37	4.96	28.09	13.80	5.79	9.61	9.65	—

*Cumulative total returns

Benchmark(s)

Benchmark =Russell 2000 Value Index

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.
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The **Russell 2000 Value Index** measures the performance of the small-cap value segment of the U.S. equity universe.

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Source: FTSE.

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