FRANKLIN TEMPLETON

Franklin Corporate Ladder 1-10 Year SMA

Commentary | as of September 30, 2026

Key Takeaways

- **Markets**: Geopolitical developments remained a focus during the quarter, with receding expectations of a settlement nearer to quarter-end resulting in oil prices surging to over US$100/barrel, compared to around US$72/barrel in early July. This energy price move, combined with an increasingly hawkish central bank outlook, drove market moves especially nearer the end of the quarter. The US dollar (USD) was modestly stronger over the quarter, with mixed performance against other currencies. Notably, the Japanese yen appreciated against the USD over the period as it benefited from intervention during the quarter. Following on increasingly hawkish rhetoric, the Federal Reserve (Fed) raised the fed funds rate by 25 basis points (bps) at its September meeting, retaining a hawkish outlook. The benchmark 10-year UST yield rose 82 bps over the quarter to 5.28%, its highest level since mid-2007. Fixed income volatility measures rose during the quarter. Credit spreads rose over the quarter, with the increases more pronounced in the high-yield sectors. Total returns in corporate bonds were negative over the quarter. Securitized sectors posted a negative excess return compared to duration-matched Treasuries.
- **Contributors:** A short relative duration and underweight to bonds with 10 years to maturity.
- **Detractors**: Security selection was a leading detractor from relative results.
- **Outlook**: We maintain a balanced risk posture on investment-grade (IG) corporate bonds, as healthy fundamentals and robust demand are increasingly offset by sanguine valuations, heightened volatility and a growing multi-year supply headwind from artificial intelligence (AI)-related financing. We favor non-cyclical sectors and a more tactical approach amid rising sector dispersion.

Performance Review

- Security selection was a leading detractor from relative results. Selection in technology, banking and consumer non-cyclicals weighed on performance. Selection in the insurance segment was beneficial. Sector allocation detracted over the period. An overweight to the communications sector and lack of exposure to finance company bonds held back relative results. There were no significant sector allocation contributors.
- Security selection by rating classifications also detracted from relative results led by selection in bonds rated BBB and A+. There were no significant quality selection contributors. Quality allocation also hindered relative performance. The portfolio had no exposure to bonds rated BBB- during a period when lower rated bonds fared better. There were no significant quality allocation contributors.
- Overall yield curve positioning contributed to returns as the portfolio was underweight duration in a rising rate environment. An underweight to bonds with 10 years to maturity also added modestly, while an underweight to bonds with two years to maturity detracted.

Outlook

- IG corporate bond spreads are modestly wider year-to-date, masking notable volatility as the Iran conflict and the related spike in oil and petrochemical prices drove an initial widening that has since been partially retraced. Spreads have remained range-bound despite no clear path to full resolution, while rising Treasury volatility and total return declines have added pressure more recently. Demand remains robust, supported by attractive all-in yields, liability-management buyers, consistent retail inflows and increased foreign buying, while healthy balance sheets continue to give most IG issuers substantial flexibility to navigate shifting economic conditions.
- In our view, IG corporate bonds remain well supported, although the market is still pricing in a sanguine outlook with minimal room for policy errors. Record issuance has been well absorbed so far, but hyperscaler and AI-related deals are increasingly demanding larger new issue concessions, and we expect data center infrastructure financing to become a persistent multi-year technical headwind. At the same time, AI disruption risk and a K-shaped economy are driving greater sector dispersion, with technology, insurance and BDCs decoupling from the broader market and pockets of consumer stress emerging. We expect aerospace, defense and tobacco to prove more resilient, while consumer discretionary and chemicals face greater volatility, and we are incrementally cautious on wireless amid rising competition and elevated capex.
- As a result, we maintain a balanced risk posture with a bias toward non-cyclical sectors, taking a more tactical approach in utilities and technology as elevated supply weighs on spreads.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of September 30, 2026-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	-2.58	-2.18	-2.60	-1.78	3.22	-0.09	—	—	—	—	-0.11	6/30/2020
Pure Gross of Fees	-2.22	-1.44	-1.50	-0.30	4.76	1.41	—	—	—	—	1.39	6/30/2020
Benchmark	-2.31	-1.35	-1.57	-0.30	5.44	1.37	—	—	—	—	1.52	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg U.S. Intermediate Corporate Index

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

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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" (1.5% is the maximum anticipated wrap fee for fixed income 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. To the extent the portfolio invests in a **concentration of certain securities, regions or industries**, it is subject to increased volatility. **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. **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. **Active management** does not ensure gains or protect against market declines. The portfolio is **non-diversified** and may invest in a relatively small number of issuers, which may negatively impact the performance and result in greater fluctuation in value. 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.

Glossary

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

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The **Bloomberg U.S. Intermediate Corporate Index** measures the the performance of investment grade, fixed-rate, US dollar-denominated taxable corporate securities with maturities of 1-10 years. Source: Bloomberg Indices.

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