

Franklin Corporate Ladder 1-10 Year SMA

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** Market sentiment improved across the fourth quarter of 2025 (Q4) due to the resolution of the US federal government shutdown through mid-November, partial resolution of some of the outstanding trade policy concerns and two 25-basis points (bps) rate cuts by the US Federal Reserve (Fed), which was well received by the market. The median Federal Open Market Committee (FOMC) projection currently suggests one more 25 bp rate cut in 2026, though there are outliers within the FOMC and delays in government data has created some uncertainty. Fixed income spread markets performed well as corporate bond spreads remained near multidecade lows by the end of the quarter. The benchmark 10-year US Treasury (UST) note rose by 15 basis points to end the quarter at 4.17%.
- **Detractors:** Security selection in BBB rated bonds, technology, and banking-related issues.
- **Contributors:** Security selection in A rated bonds and in consumer cyclicals-related issues.
- **Outlook:** Spreads in corporate credit sectors remain stretched. We are still focusing on the short-end of the yield curve which has provided high levels of yield and income while limiting exposure to widening spreads.

Performance Review

- Sector allocations curbed performance led by an overweight allocation to the communications segment of the investment-grade (IG) corporate bond market. Security selection in sectors hurt results with selection in technology and banking-related issues hindering performance. This was partially offset by positive return contributions from selection in the consumer cyclical segment.
- Rating allocation detracted from results mainly due to an overweight to AAA rated bonds. Security selection in rating classifications detracted from returns led by selection in BBB and AAA rated bonds. While selection in A rated issues positively contributed to performance.
- Yield curve exposure negatively impacted returns from the quarter, mainly from an overweight exposure to bonds with two years to maturity.

Outlook

- IG corporate bond spreads have moved tighter year-to-date, driven by investor demand for historically attractive yields, as well as diminished market concerns about the potential negative impact of US trade policies. After some volatility earlier in 2025, credit spreads are again well inside longer-term averages and are close to their tightest levels in the past 25 years. Credit fundamentals remain supportive, providing most IG issuers with substantial flexibility to manage through shifting economic and market conditions.
- In our view, IG corporate bonds continue to offer relatively safe yield, spread levels again offer little cushion for further economic, market or geopolitical surprises. Spreads can stay tight and trade in a tight range despite rising re-leveraging risk from mergers and acquisition activity, financial engineering, and outsized capital expenditure. Yields at or around current levels could continue to support demand, but there is some risk that lower yields, due to either aggressive Fed easing or weaker economic data, may begin to negatively impact market technicals.
- This leads us to maintain a neutral stance on IG credit while highlighting potential concerns on current valuation levels.

Average annual total returns (%) - as of December 31, 2025

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	0.84	2.32	5.91	5.91	4.20	0.14	—	—	—	—	0.35	6/30/2020
Pure Gross of Fees	1.21	3.08	7.49	7.49	5.76	1.64	—	—	—	—	1.86	6/30/2020
Benchmark	1.29	3.35	7.95	7.95	6.47	1.60	—	—	—	—	2.02	—

*Cumulative total returns

Benchmark(s)

Benchmark = Bloomberg U.S. Intermediate Corporate Index

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Glossary

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

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

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

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