FRANKLIN TEMPLETON

Franklin Corporate Ladder 1-5 Year SMA

Commentary | as of March 31, 2026

Key Takeaways

- **Markets**: From late-February, the war in the Middle East dominated much of the news flow and financial market sentiment. The reaction in markets has evolved, initially seeing a traditional risk-off move in both the US dollar and US bonds, which then turned into a stagflationary-focused sell-off in core developed bond markets as oil prices surged (although the dollar remained well-supported). The US Federal Reserve (Fed) remained on hold throughout the quarter. Fixed income volatility measures rose during the quarter, with much of the increase coming in the wake of the onset of the war in the Middle East. Credit spreads rose over the quarter, with the increase significantly more pronounced in the high-yield sector; total returns in corporate bonds were negative over the quarter. Securitized sectors generated a positive excess return versus duration-matched Treasuries.
- **Contributors**: Shorter duration than the benchmark. Selection in bonds rated A- and selection in the insurance sector.
- **Detractors**: Underweight to bonds with five years to maturity.
- **Outlook**: US growth has remained surprisingly resilient despite a steady stream of bearish narratives. While rising energy costs tied to escalating Middle East tensions, if sustained, will likely squeeze consumption, the impending fiscal stimulus should offset part of the drag.

Performance Review

- Security selection by sector lifted relative performance over the period led by selection in the insurance, consumer non-cyclical and banking sectors. Sector allocation also contributed due to a lack of exposure to financial company bonds. There were no significant sector selection or allocation detractors.
- Quality selection was beneficial, led by selection in A-, BBB+, and A rated bonds. In contrast, selection in A- rated bonds detracted from performance. Rating allocations also contributed to relative results due to a lack of exposure to finance company bonds. There were no significant rating selection or allocation detractors.
- Overall duration effect was positive over the quarter, although a slight underweight in the five-year segment of the curve detracted from performance.

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 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	-0.05	0.68	-0.05	2.75	3.19	0.73	—	—	—	—	0.53	6/30/2020
Pure Gross of Fees	0.33	1.43	0.33	4.29	4.73	2.24	—	—	—	—	2.04	6/30/2020
Benchmark	0.09	1.35	0.09	4.85	5.43	2.40	—	—	—	—	2.34	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg U.S. Corporate 1-5 Year Index

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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" (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.
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Glossary

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

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

Stagflation is a seemingly contradictory condition described by slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

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