Franklin Corporate Ladder 1-5 Year SMA

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** There were large swings in financial market sentiment across the second quarter of 2025. In early April, US President Donald Trump announced significant increases in US tariff rates as part of his "Liberation Day." Spreads across fixed income sectors widened amid fears that they could lead to a drop in growth and a new round of inflationary pressures, which could damage the US economy. Subsequently, a temporary pause (in many cases 90 days) in increased levies helped calm some of the market nerves. The passage of the "One Big Beautiful Bill" spending package after quarter-end further helped reduce the uncertainties that had been a strong headwind to fixed income markets. For the quarter, positive absolute and excess returns were widespread across fixed income sectors, in particular corporate credit.
- **Contributors:** Security selection in communications.
- **Detractors:** Security selection in banking, insurance and consumer non-cyclicals. Security selection in A+ and A rated bonds.
- **Outlook:** Spreads in corporate credit sectors remain stretched. We are focusing on the shorter end of the yield curve, which can enable potentially high levels of yield and income, and limiting exposure to widening spreads.

Portfolio Characteristics

Portfolio Characteristics	Portfolio
Effective Duration	1.82 Years

Sector Allocation (% of Total)

Sector	Portfolio
Investment Grade Corporate	97.62
Cash & Cash Equivalents	2.38

Performance Review

- Within sectors, allocations detracted from the strategy's results, led by an overweight to the communications sector. Security selection also curbed returns, with negative performance from selection in banking, insurance and consumer non-cyclical issues.
- Rating allocations hindered returns, with a lack of exposure to BBB- rated bonds and an overweight to AAA rated bonds hurting results. Security selection within rating classifications detracted from performance, led by selection in A+ and A- rated bonds.
- Yield curve positioning hurt results.

Outlook

- US investment-grade (IG) credit markets generated positive absolute total returns for the second quarter of 2025, generally driven by tighter credit spreads, despite a turbulent start to the quarter following "Liberation Day." While spreads saw volatility to begin 2025, levels are currently closer to the tights, and well through levels seen in the last growth and recession scare during 2022.
- Risk assets more broadly faltered in the first month of the quarter but rallied significantly as investors shifted their focus to potential revisions to trade policy and improved macro conditions.
- In corporate credit markets, volatility in US Treasury yields and market technical forces is likely to continue to have a material impact on credit spreads and asset class returns moving forward, with IG credit spreads increasingly trading more on all-in yield compensation than on credit spreads.
- Corporate fundamentals do remain broadly supportive, with many IG-rated issuers having flexibility and cushion to deal with changing economic conditions. However, uncertainty surrounding policy and tariffs is likely to impact sectors differently. The autos sector, for example, is poised to realize direct impacts from tariff policy that cloud the fundamental picture moving forward for companies in that space and has seen great volatility in bond prices. Cyclical sectors, such as energy and chemicals, are likely to see earnings volatility from demand shocks. Select non-cyclical sectors, such as health care and pharmaceuticals, are likely to see volatility from changing tariff policy.

Average annual total returns (%) - as of June 30, 2025-PRELIMINARY

Product	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	1.04	2.40	2.40	4.74	2.76	0.27	—	—	—	—	0.27	6/30/2020
Pure Gross of Fees	1.42	3.16	3.16	6.31	4.30	1.78	—	—	—	—	1.78	6/30/2020
Benchmark	1.80	3.80	3.80	7.26	4.97	2.09	—	—	—	—	2.09	—

*Cumulative total returns

Benchmark(s)

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

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Glossary

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

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Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

Effective Duration is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates. The higher the duration number, the more sensitive a fixed-income investment will be to interest rate changes.

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