

# Franklin Corporate Ladder 1-3 Year SMA

Commentary | as of September 30, 2025

## **Key Takeaways**

- Markets: Market sentiment improved across the third quarter of 2025 (Q3) due to a partial resolution of some of the outstanding trade policy concerns and a rate cut of 25 basis points (bps) by the US Federal Reserve (Fed), which were both well received by the market. The Fed signaled that more cuts were likely to come by the end of this year. This bolstered markets, which viewed that the cut was addressing some of the weakening economic measures, such as the status of the US labor market. Fixed income spread markets performed well as corporate bond spreads reached multidecade lows by the end of the quarter. The two-year US Treasury (UST) yield fell 11 basis points (bps) to end the quarter at 3.61%.
- Contributors: Underweight exposure to the technology sector.
- Detractors: Security selection in BBB+ rated bonds and banking-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 detracted from performance. Security selection in sectors hurt returns led by selection in the banking and consumer non-cyclical segments of the investment-grade (IG) corporate bond market.
- Rating allocations curbed results primarily due to a lack of exposure to BBB- rated bonds. Security selection detracted from returns led by selection in BBB+, A- and A+ rated bonds.
- Yield curve positioning contributed to performance for the guarter.

### **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 will likely remain in a trading range but are more likely to widen than
  tighten. 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 September 30, 2025-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	0.96	1.81	2.91	3.14	_	_	_	_	_	_	3.56	12/31/2022
Pure Gross of Fees	1.33	2.57	4.06	4.68	_	_	_	_	_	_	5.11	12/31/2022
Benchmark	1.43	2.94	4.60	4.80	_	_	_	_	_	_	5.60	_

<sup>\*</sup>Cumulative total returns

### Benchmark(s)

Benchmark = Bloomberg US Corporate 1-3 Year Index

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

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### **Glossary**

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

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. Corporate 1-3 Year Index** measures the performance of the U.S. dollar-denominated, investment-grade, fixed-rate, taxable one- to three-year maturity corporate (industrial, financial institutions, utility) bond market. Source: Bloomberg Indices.

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