

# Franklin Corporate Ladder 1-3 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:** Selection in the insurance sector. Selection in BBB bonds.
- **Detractors:** Selection in the communications sector.
- **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 and banking sectors. This was partially offset by the weaker performance of selection in the communications sector. Sector allocations also contributed to relative performance due, in part, to lack of exposure to financial company bonds. There were no significant sector allocation detractors.
- Quality selection was beneficial, led by selection in BBB and AA rated bonds. Allocations by rating also boosted relative performance. A lack of exposure to BBB- bonds was beneficial. There were no significant quality selection or allocation detractors.
- Yield curve positioning lifted returns for the quarter due, in part, to an underweight position in bonds with 2 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 oversized 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	0.20	0.90	0.20	2.72	3.20	—	—	—	—	—	3.29	12/31/2022
Pure Gross of Fees	0.58	1.65	0.58	4.26	4.75	—	—	—	—	—	4.84	12/31/2022
Benchmark	0.31	1.53	0.31	4.51	5.22	—	—	—	—	—	5.21	—

\*Cumulative total returns

## Benchmark(s)

Benchmark = Bloomberg US Corporate 1-3 Year Index

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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).

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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