

Franklin Equity Income SMA

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** US stocks advanced during the second quarter of 2025. After rebounding from April's lows, equity markets continued to rally through June despite bouts of volatility. The S&P 500 Index and Nasdaq Composite Index closed the period with solid gains after hitting new record highs at the end of June, while the Dow Jones Industrial Average hovered near its all-time high. Temporary delays in tariff hikes, reduced fears of a recession, growing expectations of interest-rate cuts later in the year and easing geopolitical tensions helped drive US stocks higher. Large-capitalization equities gained the most, followed by mid- and small-cap stocks, and growth stocks outperformed value by a wide margin in all three market-cap tiers.
- **Contributors:** The strategy outperformed the Russell 1000 Value Index. In absolute terms, the financials, information technology (IT) and industrials sectors were meaningful contributors. In the financials sector, the capital markets and banks industries offered solid returns. The semiconductors and semiconductor equipment industry helped the IT sector most. The industrials sector saw much of its positive performance in the electrical equipment industry.
- **Detractors:** In absolute terms, the health care and energy sectors hurt performance most. The health care sector declined due to weakness in the health care providers and services industry. In the energy sector, oversupply pressures, along with investor concerns about the potential for trade wars and inflation, weighed on energy markets.
- **Outlook:** As equity markets have recovered from April lows, we are now more mindful of valuation risks that may lie ahead. Our focus today is on understanding the earnings impact from tariffs and how companies are likely to react with regards to pricing, product sourcing/manufacturing and profit-margin pressures that have occurred.

Performance Review

- JPMorgan Chase was a leading contributor to financials sector performance. The recovery in equity markets led to better-than-expected revenues in the first quarter of 2025 for the financial services giant. Its revenues were helped by higher asset management and investment banking fees and strong trading results.
- In the IT sector, shares of software developer and chipmaker Broadcom moved higher following its release of strong fiscal second-quarter 2025 financial results. Demand for artificial intelligence-related semiconductors remains quite strong, and we believe the company's outlook through its fiscal year 2025 and into its fiscal year 2026 continues to look promising.
- In the health care sector, shares of UnitedHealth Group declined in the face of several negative headlines about the health insurer. Among them were the resignation of the company's chief executive officer, the company's decision to withdraw its 2025 outlook and the ongoing investigation by the US Department of Justice into its billing practices. We reduced our exposure significantly over the period.

Outlook

- We have a positive outlook for corporate earnings and the financial markets overall. The recent passing of significant legislation in Congress should support economic growth, and the prospects for infrastructure spending, lower regulation and ongoing productivity gains from technology should also be supportive. While the news about US tariffs on key trade partners in April was more impactful than we anticipated, we believe trade agreements are likely to be reached with key partners, which can allow for a more positive macroeconomic environment to reemerge. We believe this can support broader market participation across industries while allowing key IT companies to continue to do well.
- We expect the strategy to hold up relatively well during this period of higher volatility given its lower predicted beta and risk profile. We believe that the powerful secular themes seen throughout the strategy, like infrastructure improvement, energy transition and grid hardening, should continue to be positive areas of investment as they can provide support for companies during times of economic uncertainty as those themes play out over time.

Top Equity Issuers (% of Total)

| Holding | Portfolio |
|-------------------------|-----------|
| JPMORGAN CHASE & CO | 4.74 |
| MORGAN STANLEY | 3.55 |
| BANK OF AMERICA CORP | 3.15 |
| CHEVRON CORP | 3.09 |
| EATON CORP PLC | 2.67 |
| CHARLES SCHWAB CORP/THE | 2.58 |
| PROCTER & GAMBLE CO/THE | 2.52 |
| JOHNSON & JOHNSON | 2.33 |
| DUKE ENERGY CORP | 2.32 |
| WALMART INC | 2.30 |

Sector Allocation (% of Total)

| Sector | Portfolio |
|-------------------------|-----------|
| Financials | 22.67 |
| Industrials | 15.57 |
| Health Care | 10.26 |
| Information Technology | 9.88 |
| Consumer Staples | 9.85 |
| Energy | 7.66 |
| Utilities | 5.95 |
| Other | 12.41 |
| Cash & Other Net Assets | 5.73 |

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 | 5.34 | 4.88 | 4.88 | 11.63 | 11.63 | 11.73 | — | — | — | — | 14.80 | 3/31/2020 |
| Pure Gross of Fees | 6.11 | 6.43 | 6.43 | 14.95 | 14.95 | 15.05 | — | — | — | — | 18.21 | 3/31/2020 |
| Benchmark | 3.79 | 6.00 | 6.00 | 13.70 | 12.76 | 13.93 | — | — | — | — | 16.14 | — |

*Cumulative total returns

Benchmark(s)

Benchmark =Russell 1000 Value Index

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Glossary

Dow Jones Industrial Average (DJIA) is an unmanaged index composed of 30 blue-chip stocks, each with annual sales exceeding \$7 billion. The DJIA is price-weighted, reflects large-cap companies representative of U.S. industry, and historically has moved in tandem with other major market indexes such as the S&P 500. Source: © S&P Dow Jones Indices LLC.
Nasdaq Composite Index is a market-capitalization-weighted index that is designed to represent the performance of NASDAQ securities and includes over 3,000 stocks. Source: Nasdaq OMX.
The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved.

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