

Franklin Equity Income SMA

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** US equities endured a difficult first quarter of 2026 as investors reassessed the durability of the AI trade and geopolitical risk intensified. Technology-focused shares came under pressure as rising AI-related capital expenditure spurred a rotation away from mega-capitalization growth toward value stocks. At its two meetings during the quarter, the US Federal Reserve left its benchmark interest rate on hold. March brought further strain as the Middle East conflict disrupted energy markets, lifting oil prices and adding to inflation risk. The Nasdaq Composite Index underperformed the S&P 500 Index, while the Dow Jones Industrial Average proved more resilient. By investment style, value investing surpassed growth across market-cap tiers, with small- and mid-cap stocks performing better than their large-cap counterparts.
- **Contributors:** The strategy (pure gross of fees and net of fees) delivered a positive return that trailed the Russell 1000 Value Index. On an absolute basis, the energy sector was a leading driver of positive performance, benefiting from the effects of surging oil prices. The utilities sector was also a strong contributor as investors rotated into defensive stocks amid market volatility. In general, utilities have been supported by accelerating electricity demand, particularly from artificial intelligence-driven data centers. The industrials sector also produced solid gains on the back of strong defense spending and commercial aerospace demand.
- **Detractors:** The financials sector saw the biggest decline in the quarter as banks and asset managers were pressured by fears of potential future losses from exposure to alternative assets and rising interest rates resulting from a spike in oil prices and geopolitical tensions. The consumer discretionary and health care sectors further pressured performance.
- **Outlook:** We continue to believe that overall macroeconomic conditions could support broad market participation across sectors in 2026—similar to last year. While technology companies have driven most of the equity market gains in the past few years, we believe there are opportunities within industrials, health care, financials and utilities in 2026.

Performance Review

- In the energy sector, higher oil prices contributed, in part, to gains for Chevron and Suncor Energy. Both companies also reported solid fourth-quarter 2025 financial results and record production.
- Despite negative returns in the health care sector, a position in Johnson & Johnson performed well and contributed to returns. The pharmaceutical giant's stock rose as investors responded to strong fourth-quarter 2025 financial results and upbeat guidance. Shares were also supported by the momentum of key oncology and immunology drugs in its pipeline.
- In contrast, alternative-asset managers broadly sold off during the period amid concerns around private-credit risk, valuation compression and earnings durability, which pressured shares of Ares Management and Apollo Global Management in the financials sector.

Outlook

- We have a positive view of the outlook for corporate earnings and the equity market overall given the likelihood of lower regulation aiding several industries, favorable tax policy and ongoing productivity gains from technology. Inflation is within reasonable levels, in our view, and we believe interest rates are likely to move moderately lower by year-end 2026 despite higher energy prices. The war in Iran has complicated that view, but we believe an end is likely sooner rather than later and the economy can begin to get back on a stronger path.
- While valuations have come down for many companies, our focus is evaluating the impact of macro events on financial results in the coming quarters as well as on understanding the durability and attractiveness of end markets and company positioning. Overall, we are confident that our companies can navigate uncertainty, but there will likely be a few negative surprises given business disruption and changes in costs.
- Equity-linked notes (ELNs) continue to be a helpful tool for performance, risk management and income. Given our focus on investing in quality companies and our use of lower-beta ELNs and convertible securities, we believe the portfolio can navigate periods of higher volatility.
- We continue to look for opportunities where we believe realized earnings can be either more resilient or able to grow faster than consensus and where long-term market leadership is underappreciated. Today's environment presents some uncertainty; however, we believe themes around IT productivity, broad infrastructure, and asset management could prove to be particularly attractive and durable.

Top Equity Issuers (% of Total)

Holding	Portfolio
JPMORGAN CHASE & CO	4.21
MORGAN STANLEY	3.16
JOHNSON & JOHNSON	3.07
BANK OF AMERICA CORP	2.91
CHEVRON CORP	2.80
ALPHABET INC	2.62
AMAZON.COM INC	2.31
CISCO SYSTEMS INC	2.07
PROCTER & GAMBLE CO/THE	2.06
CHARLES SCHWAB CORP/THE	1.95

Average annual total returns (%) - as of March 31, 2026-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	0.71	2.92	0.71	15.81	12.59	8.54	—	—	—	—	14.64	3/31/2020
Pure Gross of Fees	1.45	4.45	1.45	19.24	15.94	11.78	—	—	—	—	18.04	3/31/2020
Benchmark	2.10	5.99	2.10	15.87	14.31	9.43	—	—	—	—	16.10	—

*Cumulative total returns

Benchmark(s)

Benchmark = Russell 1000 Value Index

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

Past performance is not a guarantee of future results. An investment in this strategy can lose value. Please visit www.franklintempleton.com for the latest performance figures. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

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" (3.0% is the maximum anticipated wrap fee for equity and balanced 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.

Convertible securities are bonds or preferred stocks that can be converted into a preset number of shares of common stocks after a predetermined date.

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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The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe.

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Source: FTSE.

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