

# Franklin Municipal Green Bond SMA

Commentary | as of December 31, 2025

## Key Takeaways

- **Markets:** In the fourth quarter of 2025 (Q4) new issuance of municipal (muni) bonds increased 14% year-over-year compared to 2024, culminating in a new annual record with tax-exempt issuance surpassing \$500 billion. By quarter end, the yield on the benchmark 10-year UST note moved two basis points (bps) higher to 4.17%, and the yield on the 30-year UST bond increased by 11 bps to 4.84%. The mid-November resolution of the US federal government shutdown supported sentiment through year-end. The Fed policy also drove overall returns, with three consecutive 25-bps rate cuts which were well received by the market. However, the future path of cuts grew ambiguous as Fed members were split on the need for further adjustments.
- **Contributors:** Overweight overall duration. Underweight allocation to bonds below five years to maturity.
- **Detractors:** Overweight higher-rated muni bonds.
- **Outlook:** Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio quality.

## Performance Review

- A modestly long duration position contributed to results for the quarter as muni bond yields fell in the long-end of the curve.
- A tilt toward higher-rated securities curbed returns as they tended to perform below their lower-quality counterparts during the period.
- Our underweight to bonds with five or less years to maturity supported relative performance for the quarter as muni bond yields increased in this section of the curve.

## Outlook

- This strategy invests primarily in muni bonds that promote environmental sustainability, or “green bonds.” In order to determine a green bond’s authenticity, the investment manager completes due diligence on each bond to be purchased to determine whether it meets the green bond definition. For example, the strategy invests in water and sewer projects that reduce the runoff of wastewater back into the environment and housing projects that have been designated as energy efficient.
- While Q4 muni bond issuance exceeded historical averages, the pace of issuance slowed going into year-end, nonetheless full-year issuance exceeded last year’s already elevated levels. Looking ahead to 2026, demand will play a crucial role as supply is projected to reach exceptional highs, primarily driven by infrastructure capital requirements that can no longer depend on previous government stimulus programs alone. This provides a stronger technical backdrop as demand has also increased over the past several months. The muni-bond yield curve remained relatively stable during the quarter.
- Fundamentals remain stable; however, slower economic growth will limit expansion in revenues across many sectors, in particular tax revenues. Rainy day funds remain healthy at the state and local government levels, which bolster fiscal resilience despite ongoing expense growth.
- Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. Yields remain above five-year averages, allowing investors to lock in compelling income. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio quality.

## Average annual total returns (%) - as of December 31, 2025

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	1.04	2.83	2.45	2.45	1.59	-1.49	—	—	—	—	0.82	10/31/2018
Pure Gross of Fees	1.41	3.59	3.99	3.99	3.12	-0.01	—	—	—	—	2.17	10/31/2018
Benchmark	1.41	4.04	5.18	5.18	3.75	1.16	—	—	—	—	2.65	—

\*Cumulative total returns

## Benchmark(s)

Benchmark =Bloomberg Municipal 1-15 Year Index

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## Glossary

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

**Duration** is a measure of the sensitivity of a bond's price to changes in interest rates.

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

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The **Bloomberg Municipal 1-15 Year Bond Index** is a market value weighted index of investment-grade fixed-rate municipal bonds with maturities of 1-15 years.

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Source: Bloomberg Indices.

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