

# Franklin Municipal Green Bond SMA

Commentary | as of March 31, 2026

## Key Takeaways

- **Markets:** In the first quarter of 2026, new issuance of municipal (muni) bonds exceeded the average seen in the past few years (Source: Barclays). The war in the Middle East which began at the end of February, continued throughout March, dominating market sentiment during the month. By quarter-end, the yield on the benchmark 10-year US Treasury (UST) note moved 15 basis points (bps) higher to 4.32%, and the yield on the 30-year UST bond increased by seven bps to 4.91%. The US Federal Reserve Open Market Committee (FOMC) meeting held in March to review economic and financial conditions in the United States, left rates unchanged, and the statement and press conference emphasized uncertainty related to the Iran war. The Fed indicated that it would look through any initial oil supply shock effect on inflation to focus on core developments, while also noting a likely dragging effect on the economy; ultimately the Committee retained an easing bias.
- **Contributors:** Exposure to bonds below one years or less to maturity.
- **Detractors:** Overweight overall duration. Overweight higher-quality 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

- The strategy's modestly longer duration held back relative returns as yields increased in the long end of the curve.
- A tilt toward higher-rated securities curbed returns as lower-rated issues fared better during the period.
- An overweight to bonds with one year or less to maturity was beneficial for performance as yields at the shorter end of the muni yield curve performed better over the period.

## 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.
- The robust demand witnessed at the start of 2026 has begun to soften amid rising market uncertainty, while supply has persisted at a record-setting pace. Looking ahead to 2026, demand will play a crucial role as supply is projected to reach historical highs, primarily driven by infrastructure capital requirements that can no longer depend on previous government stimulus programs alone. The muni-bond yield curve shifted higher during the quarter.
- Fundamentals remain stable but slower economic growth will constrain revenue expansion across many sectors, particularly with respect to tax revenues. Rainy-day funds remain healthy at the state and local government levels, which should bolster fiscal resilience despite ongoing expense growth.
- Following the market pullback in March, municipal bond valuations have strengthened and 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 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	-0.30	0.74	-0.30	2.56	0.76	-1.18	—	—	—	—	0.75	10/31/2018
Pure Gross of Fees	0.08	1.49	0.08	4.10	2.27	0.31	—	—	—	—	2.10	10/31/2018
Benchmark	-0.27	1.14	-0.27	4.49	2.88	1.17	—	—	—	—	2.52	—

\*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.

Source: Bloomberg Indices.

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