FRANKLIN TEMPLETON

# Franklin U.S. Government Ladder 5-20 Year SMA

Commentary | as of June 30, 2025

## Key Takeaways

- **Markets:** There were large swings in financial market sentiment across the second quarter of 2025. During April, fixed income spreads generally widened amid US President Donald Trump's "Liberation Day" tariff announcements due to fears that they could lead to a drop in growth and a new round of inflationary pressures. A subsequent 90-day pause for many of the increased levies helped calm market nerves. The passage of the "One Big Beautiful Bill" spending package after quarter-end further helped reduce fixed income market uncertainties. Over the period, US Treasury (UST) yield changes were mixed. Very short- and intermediate-dated yields witnessed declines, while longer-maturity UST yields increased. Yields declined by 15 basis points (bps) to 3.80% on the five-year UST note. Ten-year UST yields moved two bps higher to 4.23%, while 30-year yields rose 20 bps to 4.78%.
- **Contributors:** Underweight exposure to the 20-year portion of the UST yield curve. Out-of-index exposure to US government agency bonds.
- **Detractors:** Exposure to the 10-year portion of the UST yield curve.
- **Outlook:** The US Federal Reserve's (Fed's) reaction function is complicated. Fears of increased inflation due to fiscal policy are likely to keep the Fed on hold, in our assessment. We are looking for at most one rate cut for the remainder of the year.

## Performance Review

- Yield curve positioning was as strong contributor to the strategy's returns, led by an underweight to the 20-year portion of the curve as yields rose on the longer end. In contrast, exposure to 10-year duration detracted from performance. Our out-of-index holdings of US government agency bonds supported relative results.

## Outlook

- In our view, the Fed is unlikely to cut interest rates soon. Despite recent signs of cooling inflation, Fed officials remain cautious due to ongoing tariff-related uncertainties. Companies are expected to raise prices as pre-tariff inventories diminish, leading to a likely rise in core goods inflation. Furthermore, average US tariff rates remain historically high despite a temporary easing in US-China trade tensions. We therefore expect potentially higher inflation and slower growth. With inflation still above target and risks skewed to the upside, we expect the Fed to maintain its pause. Amid still-resilient retail sales, we believe the Fed is likely to stay on hold until there is clear evidence of labor market deterioration without a simultaneous rise in inflation.
- The "One Big Beautiful Bill" spending package will further increase the US deficit over the next decade. Combined with factors such as uncertain trade policy (which has raised stagflationary concerns) and an expansionary fiscal policy (which implies greater debt issuance), we expect short-term rates to remain elevated due to the pause in Fed rate cuts and longer-term rates to continue to climb higher through the rest of the year.

## 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 | -0.05 | 3.73 | 3.73 | 2.96 | -0.98 | -4.45 | — | — | — | — | -4.45 | 6/30/2020 |
| Pure Gross of Fees | 0.33 | 4.51 | 4.51 | 4.50 | 0.51 | -3.01 | — | — | — | — | -3.01 | 6/30/2020 |
| Benchmark | -0.15 | 4.23 | 4.23 | 4.30 | -0.50 | -4.91 | — | — | — | — | -4.91 | — |

*Cumulative total returns

## Benchmark(s)

Benchmark =Custom 33% Bloomberg 5-10 Year Treasury Index + 67% Bloomberg 10-20 Year Treasury Index

**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

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

**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 5-10 Year Treasury Index** measures the performance of public obligations of the U.S. Treasury with maturities of 5-10 years. The **Bloomberg 10-20 Year Treasury Index** measures the performance of public obligations of the U.S. Treasury with maturities of 10-20 years. Source: Bloomberg Indices.

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