

Franklin U.S. Government Ladder 1-5 Year SMA

Commentary | as of September 30, 2025

Key Takeaways

- Markets: Market sentiment improved across the third quarter of 2025 (Q3) due to a partial resolution of some of the outstanding trade policy concerns and a rate cut of 25 basis points (bps) by the US Federal Reserve (Fed), which were both well received by the market. The Fed signaled that more cuts were likely to come by the end of this year. This bolstered markets, which viewed that the cut was addressing some of the weakening economic measures, such as the status of the US labor market. Over the period, US Treasury (UST) yields moved lower with the yield curve steepening. The one-month UST bill fell 11 bps, and three-month UST bill yields declined 36 bps. Yields moved lower by 11 bps to 3.61% on the two-year UST note and by six bps to 3.74% on the five-year UST note.
- **Detractors**: Underweight overall duration.
- Outlook: The path of the fed funds rate is uncertain. The US job market has shown signs of stress with low job creation; however, inflation remains well above the Fed's target. We are projecting one to two cuts in the remainder of the year. In our view, the Fed will have much room to continue to cut in an aggressive fashion in 2026 due to stubborn inflation impacted by tariff increases. In our view, intermediate- and long-maturity UST yields will likely move higher over the course of the fourth quarter.

Performance Review

 Yield curve positioning hurt results as an underweight to duration exposure to the five- and 10-year portions of the curve as UST yields fell.

Outlook

- The Fed has been struggling to balance its dual mandate—maximum employment and price stability—as stagflation (rising
 inflation with slowing growth) becomes a real possibility. The Fed has chosen to prioritize employment over inflation,
 consistent with its historical tendency to intervene when growth slows.
- The labor market remains within the Fed's target (unemployment at 4.3%), but inflation is still at 3% and showing little signs
 that it is returning to the central bank's 2.0% target. With hiring rates low and unemployment drifting up, the Fed now sees
 employment risks as more pressing than inflation risks, prompting the first rate cut this year and signaling more cuts ahead.
- US trade policy remains a wild card, adding to uncertainty in the market. Even if tariffs don't cause a permanent lift in
 inflation, strong consumer spending and supportive fiscal policy mean the current economic environment is not likely to
 return to a disinflation level. In our view, tariffs are expected to cause a moderate, one-off burst of inflation, about 1.0-1.5
 percentage points. The overall impact should be limited due to the small share of imports in the US economy, but there's
 uncertainty about supply chain effects and the risk of prolonged inflation. In our view, it would be very difficult for the Fed to
 pivot back in the direction of holding the fed funds rate, or potentially increasing it, given the Fed's movement toward easing
 financial conditions, even if inflation moves sustainably higher.
- There is high uncertainty about future policy, even between members of the FOMC, as reflected in the large distribution seen in the Fed's SEP scattered projections for the path of fed funds. The FOMC was nearly evenly split between those seeing two or more additional cuts by the end of this year (necessary to defend economic growth and the US job market) and those projecting just one cut (members that may have concerns over lingering inflation and tariff worries). In our view, this level of uncertainty has the potential to spur volatility in the US Treasury market.

Average annual total returns (%) - as of September 30, 2025-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	0.77	1.72	3.29	2.38	2.85	-0.10	_	_	_	_	-0.14	6/30/2020
Pure Gross of Fees	1.14	2.48	4.44	3.91	4.39	1.40	_	_	_	_	1.36	6/30/2020
Benchmark	1.14	2.54	4.64	3.77	4.42	1.05	_	_	_	_	1.03	_

^{*}Cumulative total returns

Benchmark(s)

Benchmark = Bloomberg 1-5 Year Treasury 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" (1.5% is the maximum anticipated wrap fee for fixed income 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.

For fee schedules, contact your financial professional, or if you enter into an agreement directly with Franklin Templéton Private Portfolio Group, LLC ("FTPPG"), refer to FTPPG's Form ADV Part 2A disclosure document. Management and performance of individual accounts may vary for reasons that include the existence of different implementation practices and model requirements in different investment programs.

Franklin Templeton claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

To obtain specific information on available products and services or a GIPS Report, contact your Franklin Templeton separately managed account sales team at (800) DIAL BEN/342-5236.

What are the Risks?

All investments involve risks, including possible loss of principal. To the extent the portfolio invests in a concentration of certain securities, regions or industries, it is subject to increased volatility. Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. Liquidity risk exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. Active management does not ensure gains or protect against market declines. The portfolio is non-diversified and may invest in a relatively small number of issuers, which may negatively impact the performance and result in greater fluctuation in value. The manager may consider environmental, social and governance (ESG) criteria in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated.

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.

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.

Important Information

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or portfolio. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the portfolio's selection process. Holdings are subject to change.

These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these materials be preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Professional or contact your sponsor firm.

Franklin Templeton (FT) is not undertaking to provide impartial advice. Nothing herein is intended to provide fiduciary advice. FT has a financial interest.

The Bloomberg 1-5 Year Treasury Index measures the performance of public obligations of the U.S. Treasury with maturities of 1-5 years. Source: Bloomberg Indices.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

Separately Managed Accounts (SMAs) are investment services provided by Franklin Templeton Private Portfolio Group, LLC (FTPPG), a federally registered investment advisor. Client portfolios are managed based on investment instructions or advice provided by affiliated subadvisors of Franklin Templeton. Management is implemented by FTPPG, the designated subadvisor or, in the case of certain programs, the program sponsor or its designee.

© Franklin Templeton. All rights reserved.

