FRANKLIN TEMPLETON

Franklin Municipal Enhanced Income SMA

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** From late-February, the war in the Middle East dominated much of the news flow and financial market sentiment. The reaction in markets has evolved, initially seeing a traditional risk-off move in both the US dollar and US bonds, which then turned into a stagflationary-focused sell-off in core developed bond markets as oil prices surged (although the dollar remained well-supported). The US Federal Reserve (Fed) remained on hold throughout the quarter. Fixed income volatility measures rose during the quarter, with much of the increase coming in the wake of the onset of the war in the Middle East. Credit spreads rose over the quarter, with the increase significantly more pronounced in the high-yield sector; total returns in corporate bonds were negative over the quarter. Securitized sectors generated a positive excess return versus duration-matched Treasuries.
- **Contributors:** Selection in bonds rated A- and BBB. Security selection in the consumer non-cyclicals sector.
- **Detractors:** Security selection in A+ rated issues. Selection in the banking and capital goods sectors.
- **Outlook:** US growth has remained surprisingly resilient despite a steady stream of bearish narratives. While rising energy costs tied to escalating Middle East tensions, if sustained, will likely squeeze consumption, the impending fiscal stimulus should offset part of the drag.

Performance Review

- Security selection was a leading contributor to relative results. Selection in consumer non-cyclicals, technology and communications related issues lifted performance, while selection in the banking, capital goods and energy sectors detracted. Sector allocation also was beneficial due, in part, to a lack of exposure to finance company bonds.
- Quality allocation also boosted relative performance led by a lack of exposure to bonds rated BBB- and an overweight to bonds rated AAA. Security selection by rating classifications was also beneficial. The positive relative contributions of selection in bonds rated A-, BBB and BBB+ were partially offset by the weaker relative performance of bonds rated A+ and A.
- Overall duration effect was positive.

Outlook

- 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	-0.66	0.67	-0.66	2.50	1.68	-0.55	0.82	2.22	—	—	2.33	9/30/2006
Pure Gross of Fees	-0.29	1.42	-0.29	4.04	3.20	0.95	2.11	3.39	—	—	3.42	9/30/2006
Benchmark	-0.18	1.38	-0.18	4.29	2.87	0.84	2.16	3.29	—	—	3.41	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg Municipal Bond Index

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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 Templeton 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.

What are the Risks?

All investments involve risks, including possible loss of principal. 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. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. Investments in **underlying funds** are subject to the same risks as, and indirectly bear the fees and expenses of, the underlying funds. **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. Portfolios focused on a **single state** are subject to greater risk of adverse economic and regulatory changes than a geographically diversified portfolio.

Glossary

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.

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The **Bloomberg Municipal Bond Index** is a broad measure of the municipal bond market with maturities of at least one year.

Source: Bloomberg Indices.

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