FRANKLIN TEMPLETON

Franklin Intermediate Fixed Income SMA

Commentary | as of September 30, 2026

Key Takeaways

- **Markets:** Geopolitical developments remained a focus during the quarter, with receding expectations of a settlement nearer to quarter-end resulting in oil prices surging to over US$100/barrel, compared to around US$72/barrel in early July. This energy price move, combined with an increasingly hawkish central bank outlook, drove market moves especially nearer the end of the quarter. The US dollar (USD) was modestly stronger over the quarter, with mixed performance against other currencies. Notably, the Japanese yen appreciated against the USD over the period as it benefited from intervention during the quarter. Following on increasingly hawkish rhetoric, the Federal Reserve (Fed) raised the fed funds rate by 25 basis points (bps) at its September meeting, retaining a hawkish outlook. The benchmark 10-year US Treasury yield rose 82 bps over the quarter to 5.28%, its highest level since mid-2007. Fixed income volatility measures rose during the quarter. Credit spreads rose over the quarter, with the increases more pronounced in the high-yield sectors. Total returns in corporate bonds were negative over the quarter. Securitized sectors posted a negative excess return compared to duration-matched Treasuries.
- **Contributors:** Security selection within the communications sector and BBB+ rated bonds.
- **Detractors:** Security selection within technology, banking and consumer non-cyclical names. Overweight exposure to communications names. Underweight allocation to BBB- rated issues. Security selection within BBB, A- and A rated bonds. Underweight exposure to the two- and 10-year segments of the curve, along with an overweight to the five-year portion of the curve.
- **Outlook:** We maintain a balanced risk posture on investment-grade (IG) corporate bonds, as healthy fundamentals and robust demand are increasingly offset by sanguine valuations, heightened volatility and a growing multi-year supply headwind from artificial intelligence (AI)-related financing. We favor non-cyclical sectors and a more tactical approach amid rising sector dispersion.

Performance Review

- Security selection within sectors detracted from results, primarily due to selection in technology, banking and consumer non-cyclical names. This was partially offset by positive return contributions from selection in the communications sector. Sector allocation detracted from performance, led by overweight exposure to communications names. There were no material contributors within sector allocation.
- Ratings positioning also detracted from returns. Underweight allocation to BBB- rated issues was the main detractor, while there were no material contributors to performance from allocation. Security selection within BBB, A- and A rated bonds further detracted from results. However, selection within BBB+ partially offset some of these losses.
- Overall yield curve positioning contributed to returns as the portfolio was underweight duration in a rising rate environment, despite a negative effect from an underweight exposure to the two- and 10-year segments of the curve, along with an overweight to the five-year portion of the curve.

Outlook

- IG corporate bond spreads are modestly wider year-to-date, masking notable volatility as the Iran conflict and the related spike in oil and petrochemical prices drove an initial widening that has since been partially retraced. Spreads have remained range-bound despite no clear path to a full resolution, while rising Treasury volatility and total return declines have added pressure more recently. Demand remains robust, supported by attractive all-in yields, liability-management buyers, consistent retail inflows and increased foreign buying, while healthy balance sheets continue to give most IG issuers substantial flexibility to navigate shifting economic conditions.
- In our view, IG corporate bonds remain well supported, although the market is still pricing in a sanguine outlook with minimal room for policy errors. Record issuance has been well absorbed so far, but hyperscaler and AI-related deals are increasingly demanding larger new-issue concessions, and we expect data centre infrastructure financing to become a persistent multiyear technical headwind. At the same time, AI disruption risk and a K-shaped economy are driving greater sector dispersion, with technology, insurance and BDCs decoupling from the broader market and pockets of consumer stress emerging. We expect aerospace, defence and tobacco to prove more resilient, while consumer discretionary and chemicals face greater volatility, and we are incrementally cautious on wireless amid rising competition and elevated capex.
- As a result, we maintain a balanced risk posture with a bias toward non-cyclical sectors, taking a more tactical approach in utilities and technology as elevated supply weighs on spreads.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of September 30, 2026-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	-2.11	-2.01	-2.28	-1.63	2.66	-0.38	0.41	0.81	1.92	2.12	3.02	3/31/1994
Pure Gross of Fees	-1.74	-1.28	-1.18	-0.15	4.19	1.12	1.80	2.10	3.17	3.34	4.18	3/31/1994
Benchmark	-1.88	-1.46	-1.49	-0.31	4.31	0.83	1.71	1.96	2.93	3.21	4.13	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg Intermediate U.S. Government/Credit Index

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).

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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. 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%).

Investment grade is a rating that indicates that a municipal or corporate bond has a relatively low risk of default. BBB is medium credit quality rating.

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

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The **Bloomberg Intermediate Government/Credit Index** is an unmanaged index that measures the performance of intermediate (one to ten years) government and corporate fixed-rate debt issues.

Source: Bloomberg Indices.

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