Franklin Intermediate Fixed Income 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. Fixed income spread markets performed well as corporate bond spreads reached multidecade lows by the end of the quarter. The benchmark 10-year US Treasury (UST) yield fell eight basis points (bps) to end the quarter at 4.15%.
- **Contributors:** Security selection in consumer non-cylcals and overweight allocations to the communication and insurance sectors.
- **Detractors:** Lack of exposure to BBB- rated bonds and security selection in the insurance, communication and banking sectors.
- **Outlook:** Despite tight spreads we feel that yields on investment-grade (IG) corporate bonds remain attractive on the shorter-end of the yield curve.

Performance Review

- Sector allocations contributed to performance led by an overweight to the communication and insurance sectors and an underweight to UST bonds. In contrast, a lack of exposure to consumer cyclical companies and non-US sovereign issued bonds hurt returns. Security selection within sectors curbed results primarily due to selection in insurance, communication and banking names. This was partially offset by positive return contributions from our selection in the consumer non-cyclical sector.
- Rating allocation was another contributor to returns with overweight allocations to BBB and A- rated bonds and underweight exposure to AA+ rated bonds helping performance. Lack of exposure to BBB- rated bonds and security selection in BBB, BBB+ and AA rated bonds hindered results for the quarter.
- Yield curve detracted from returns due to an underweight to the two-year area of the yield curve..

Outlook

- IG corporate bond spreads have moved tighter year-to-date, driven by investor demand for historically attractive yields, as well as diminished market concerns about the potential negative impact of US trade policies. After some volatility earlier in 2025, credit spreads are again well inside longer-term averages and are close to their tightest levels in the past 25 years. Credit fundamentals remain supportive, providing most IG issuers with substantial flexibility to manage through shifting economic and market conditions.
- In our view, IG corporate bonds continue to offer relatively consistent yield, spread levels again offer little cushion for further economic, market or geopolitical surprises. Spreads will likely remain in a trading range but are more likely to widen than tighten. Yields at or around current levels could continue to support demand, but there is some risk that lower yields, due to either aggressive Fed easing or weaker economic data, may begin to negatively impact market technicals.
- This leads us to maintain a neutral stance on IG credit while highlighting potential concerns on current valuation levels.

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	1.64	3.01	5.15	3.01	3.72	-0.37	0.88	1.10	2.16	2.64	3.19	3/31/1994
Pure Gross of Fees	2.01	3.77	6.32	4.55	5.27	1.13	2.24	2.36	3.39	3.84	4.33	3/31/1994
Benchmark	1.51	3.20	5.70	4.01	5.18	0.81	2.10	2.20	3.13	3.73	4.27	—

*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).
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 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.

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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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