

## Product Commentary

### Performance Review

- Risk assets broadly faltered in the first three months of 2025 as investors shifted their focus from potentially business friendly initiatives toward trade policy and the possibility of stagflation (i.e., economic stagnation and high inflation). Soft economic data, including forward-looking indicators such as consumer sentiment surveys, dipped considerably. In the first quarter, investment-grade (IG) index spread levels moved 14 basis points wider as investors reacted to increased uncertainty and the impact that trade policy scheduled to be announced in early April may have on corporate and consumer behavior. While spreads moved wider to begin 2025, levels at quarter-end remained well within historical ranges and through levels in the last growth and recession scare during 2022. The 10-year US Treasury (UST) note's yield fell to 4.21% after starting the quarter at 4.57%.

### QUARTERLY KEY PERFORMANCE DRIVERS

	Security Selection	Allocation	Quality
HELPED	—	Lack of Exposure to Supranational Bonds	Underweight AAA Rated Bonds
	—	Overweight Communications	Lack of Exposure to AA- Rated Bonds
	—	Lack of Exposure to Non-US Sovereign Bonds	—
HURT	Insurance	Lack of Exposure to Finance Companies	Underweight BBB- Rated Bonds
	Communications	Overweight Consumer Non-Cyclicals	Overweight A Rated Bonds
	Consumer Non-Cyclicals	Lack of Exposure to Real Estate Investment Trusts (REITS)	Security Selection in BBB+, BBB, and A-Rated Bonds

- In corporate credit markets, volatility in UST yields and market technical forces are likely to continue having a material impact on asset class returns moving forward. Corporate fundamentals, which have been less of a performance driver than demand technicals, could have a greater impact on performance if consumers pull back on spending or if corporations delay or postpone investment, given the broader macroeconomic overhang.
- Corporate fundamentals remain broadly supportive, with many IG-rated issuers having flexibility and cushion to deal with changing economic conditions. However, uncertainty surrounding policy and tariffs will impact sectors differently. The auto sector, for example, is poised to realize direct impacts from tariff policy that cloud the fundamental picture for companies in that space moving forward, and the sector has seen notable volatility in bond prices. Energy and chemicals will likely see earnings volatility from demand shocks.
- However, asset class technicals have turned cloudier—while current levels of all-in yields are attractive, in our view, hesitation from overseas buyers amid destabilization in the United States dampens the technical demand backdrop. Estimates for new-issue supply for the rest of 2025 stand at US\$1 trillion, with US\$550 billion priced so far, which remains a sizable amount. Forward issuance may have to come with concessions, given the uncertain macro environment.

### Outlook & Strategy

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### Product Details<sup>1</sup>

Inception Date	01/31/2009
Benchmark	Bloomberg US Intermediate Credit Index

1. A composite is an aggregation of one or more portfolios into a single group that represents a particular investment objective or strategy. The composite return is the asset-weighted average of the performance results of all the fully discretionary portfolios in the composite. The composite return information provided herein includes the returns of Franklin Templeton, high-net-worth individual and institutional client portfolios and with respect to any periods prior to the inception of Franklin Templeton, reflects the performance of any such other portfolios.

## Performance Data

## Average Annual Total Returns (USD %)

	3 Mths	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (01/31/2009)
Franklin Intermediate Investment Grade Credit SMA - Pure GROSS	2.19	2.19	5.43	2.69	1.87	2.17	3.69
Franklin Intermediate Investment Grade Credit SMA - NET	1.82	1.82	3.88	1.18	0.36	0.94	2.60
Bloomberg US Intermediate Credit Index	2.32	2.32	6.21	2.90	2.34	2.50	4.07

## Calendar Year Returns (USD %)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Franklin Intermediate Investment Grade Credit SMA - Pure GROSS	3.32	6.25	-7.46	-1.32	7.43	8.67	-0.11	3.27	1.82	0.62
Franklin Intermediate Investment Grade Credit SMA - NET	1.80	4.69	-8.84	-2.78	5.85	7.67	-1.06	2.34	0.92	-0.15
Bloomberg US Intermediate Credit Index	4.01	6.94	-9.10	-1.03	7.08	9.52	0.01	3.67	3.68	0.90

**The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward). Please visit [www.franklintempleton.com](http://www.franklintempleton.com) for the latest performance figures. Past performance is not a guarantee of future results. An investment in this strategy can lose value.**

Performance data represents past performance, which does not guarantee future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate with market conditions, and you may have a gain or loss when you sell your shares. 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.

## Investment Team

**Jacob K. Chu, CFA**  
Years with Firm 24  
Years Experience 28

**Thomas Runkel, CFA**  
Years with Firm 38  
Years Experience 42

**Marc Kremer, CFA**  
Years with Firm 21  
Years Experience 37

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The benchmark for this composite is the Bloomberg Intermediate U.S. Credit Index, which is a market-value weighted fixed income index comprised of U.S. dollar denominated, investment grade, publicly issued fixed income securities of both corporate and non-corporate issuers with a maturity between one and ten years and a minimum amount outstanding of \$250 million.

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