

# Franklin Intermediate Investment Grade Credit 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 five-year US Treasury (UST) yield fell six basis points (bps) to end the
  quarter at 3,74%.
- Contributors: Lack of exposure to supranational bonds. Underweight AAA rate bonds.
- Detractors: Security selection BBB rated bonds. Security selection in communication-related issues.
- Outlook: Spreads in corporate credit sectors remain stretched. We are still focusing on the short-end of the yield curve which provides current high levels of yield and income while limiting exposure to widening spreads.

#### **Performance Review**

- Sector allocations had a limited impact on performance for the quarter as positive return contributions from a lack of
  exposure to both the supranational and agency bonds sectors was offset by a lack of exposure to sovereign issuer bonds and
  an overweight to consumer cyclical securities which curbed results. Security selection hurt performance for the quarter led
  by selection in the technology, communications and energy sectors. This was partially offset by positive return contributions
  from selection in banking- and insurance-related issues.
- Rating allocations contributed to results led by an underweight to AAA and AA- rated bonds and overweight to BBB+ rated
  issues. This was partially offset by avoidance to the lowest investment-grade rating of BBB-. Security selection in rating
  categories also detracted from returns as selection in BBB and BBB+ rated bonds hurt results. In contrast, selection in A
  rated bonds contributed to performance.
- Yield curve positioning curbed returns for the quarter.

## **Outlook**

- Investment Grade (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 safe 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

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	1.41	3.17	5.04	3.04	4.55	-0.04	1.36	1.75	_	_	2.71	1/31/2009
Pure Gross of Fees	1.79	3.94	6.22	4.58	6.11	1.46	2.63	2.87	_	_	3.81	1/31/2009
Benchmark	1.98	4.11	6.52	4.97	6.70	1.60	2.95	3.12	_	_	4.19	_

<sup>\*</sup>Cumulative total returns

### Benchmark(s)

Benchmark = Bloomberg US Intermediate Credit Index

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### **Glossary**

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

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.

Supranational bonds are debt instruments issued by supranational organizations, which are institutions created by the governments of several countries to promote economic, political, and social cooperation.

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