FRANKLIN TEMPLETON

Franklin Intermediate Municipal SMA

Commentary | as of December 31, 2025

Key Takeaways

- **Markets**: In the fourth quarter of 2025 (Q4) new issuance of municipal (muni) bonds increased 14% year-over-year compared to 2024, culminating in a new annual record with tax-exempt issuance surpassing $500 billion. By quarter end, the yield on the benchmark 10-year United States Treasury (UST) note moved two basis points (bps) higher to 4.17%, and the yield on the 30-year UST bond increased by 11 bps to 4.84%. The mid-November resolution of the US federal government shutdown supported sentiment through year-end. The Fed policy also drove overall returns, with three consecutive 25-bps rate cuts which were well received by the market. However, the future path of cuts grew ambiguous as Fed members were split on the need for further adjustments.
- **Contributors**: Underweight duration exposure.
- **Detractors**: Overweight allocation to AAA rated bonds.
- **Outlook**: Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio quality.

Performance Review

- Over the quarter, Franklin Intermediate Municipal SMA Composite **underperformed its benchmark** (gross and net of fees), Bloomberg Managed Money Intermediate Index.
- The strategy's duration, which is shorter than that of the benchmark, aided relative returns for the period due to overweight to muni bonds with two or less years to maturity as muni yields in the longer-maturity portion of the muni yield curve increased.
- An overweight to AAA rated muni bonds, along with an underweight to AA rated munis, detracted from performance during the period as lower-rated issues modestly performed better than their higher-rated peers. Drawing on the expertise of our dedicated municipal research team, we remain focused on issuers that we believe possess strong fiscal underpinnings.

Outlook

- While Q4 muni bond issuance exceeded historical averages, the pace of issuance slowed going into year-end, nonetheless full-year issuance exceeded last year's already elevated levels. Looking ahead to 2026, demand will play a crucial role as supply is projected to reach exceptional highs, primarily driven by infrastructure capital requirements that can no longer depend on previous government stimulus programs alone. This provides a stronger technical backdrop as demand has also increased over the past several months. The muni-bond yield curve remained relatively stable during the quarter.
- Fundamentals remain stable; however, slower economic growth will limit expansion in revenues across many sectors, in particular tax revenues. Rainy day funds remain healthy at the state and local government levels, which bolster fiscal resilience despite ongoing expense growth.
- Municipal bond valuations 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 December 31, 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	1.20	3.14	3.04	3.04	1.61	-0.92	0.65	1.66	2.12	2.53	3.07	3/31/1995
Pure Gross of Fees	1.57	3.91	4.58	4.58	3.13	0.56	1.88	2.76	3.15	3.55	4.08	3/31/1995
Benchmark	1.66	4.53	5.16	5.16	3.47	0.63	2.15	2.98	3.41	3.80	4.29	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg Managed Money Intermediate 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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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. **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

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

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

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The **Bloomberg Managed Money Intermediate Index** measures the performance of the publicly traded municipal bonds that cover the USD-denominated intermediate term tax-exempt bond market, including state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Source: Bloomberg Indices.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

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