

# Franklin Long Maturity Municipal SMA

Commentary | as of March 31, 2026

## Key Takeaways

- **Markets:** In the first quarter of 2026, new issuance of municipal (muni) bonds exceeded the average seen in the past few years (Source: Barclays). The war in the Middle East which began at the end of February, continued throughout March, dominating market sentiment during the month. By quarter-end, the yield on the benchmark 10-year US Treasury (UST) note moved 15 basis points (bps) higher to 4.32%, and the yield on the 30-year UST bond increased by seven bps to 4.91%. The March US Federal Reserve (Fed) Federal Open Market Committee meeting left rates unchanged, and the statement and press conference emphasized uncertainty related to the Iran war. The Fed indicated that it would look through any initial oil supply shock effect on inflation to focus on core developments, while also noting a likely dragging effect on the economy; ultimately the Committee retained an easing bias.
- **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 Long Maturity Municipal SMA Composite (net of fees) fared worse than its benchmark, the Bloomberg Municipal Bond Index.
- The strategy's duration, which is shorter than that of the benchmark, aided relative returns for the period due to an overweight allocation to muni bonds with two or less years to maturity, as well as an overweight to bonds with three to five years to maturity. Yields on the shorter end of the yield curve performed better over the period.
- 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 fared 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

- The robust demand witnessed at the start of 2026 has begun to soften amid rising market uncertainty, while supply has persisted at a record-setting pace. Looking ahead to 2026, demand will play a crucial role as supply is projected to reach historical highs, primarily driven by infrastructure capital requirements that can no longer depend on previous government stimulus programs alone. The muni-bond yield curve shifted higher during the quarter.
- Fundamentals remain stable but slower economic growth will constrain revenue expansion across many sectors, particularly with respect to tax revenues. Rainy-day funds remain healthy at the state and local government levels, which should bolster fiscal resilience despite ongoing expense growth.
- Following the market pullback in March, municipal bond valuations have strengthened and 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 March 31, 2026

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	-0.55	0.86	-0.55	2.98	1.03	-1.08	—	—	—	—	-0.66	12/31/2019
Pure Gross of Fees	-0.18	1.61	-0.18	4.52	2.54	0.40	—	—	—	—	0.83	12/31/2019
Benchmark	-0.18	1.38	-0.18	4.29	2.87	0.84	—	—	—	—	1.44	—

\*Cumulative total returns

## Benchmark(s)

Benchmark = Bloomberg Municipal Bond Index

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## What are the Risks?

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## 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.

A **general obligation bond (GO)** is a municipal bond backed by the credit and taxing power of the issuing jurisdiction rather than the revenue from a given project.

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The **Bloomberg Municipal Bond Index** is a broad measure of the municipal bond market with maturities of at least one year.

Source: Bloomberg Indices.

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