

Franklin Municipal Ladder 5-20 Year 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. 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 US Federal Reserve Open Market Committee (FOMC) meeting held in March to review economic and financial conditions in the United States, 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:** Overweight to the 20-year segment of the yield curve.
- **Detractors:** Underweight to bonds with three year or less to maturity and an overweight to bonds with five to 15 years to maturity.
- **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

- Yield curve positioning detracted over the quarter. An underweight to bonds with three years or less to maturity held back relative performance as the shorter end of the muni yield curve fared best during the period. In addition, an overweight to bonds with five to 15 years detracted. In contrast, an overweight to the 20-year segment of the yield curve was beneficial.
- The strategy's tilt toward higher-rated securities restrained relative results. The portfolio was overweight bonds rated AAA and AA during a period when lower rated bonds outperformed.
- An overweight to GO bonds curbed returns as revenue bonds fared better during the quarter.

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	-0.80	0.83	-0.80	3.07	0.68	-1.26	—	—	—	—	-0.55	12/31/2019
Pure Gross of Fees	-0.43	1.59	-0.43	4.61	2.19	0.22	—	—	—	—	0.94	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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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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