FRANKLIN TEMPLETON

Franklin Municipal Ladder 1-7 Year SMA

Commentary | as of June 30, 2026

Key Takeaways

- **Markets:** In the second quarter of 2026, new issuance of municipal (muni) bonds continued at a pace of more than 8% ahead of last year. By quarter-end, the yield on the benchmark 10-year (UST) had risen by 15 basis points (bps) to 4.47%, and the yield on the 30-year UST bond stood four bps higher at 4.95%. The June Federal Open Market Committee (FOMC) meeting was the first held under new Federal Reserve Chair Kevin Warsh. The FOMC left the policy rate unchanged at 3.50%-3.75%, but the meeting delivered a notable split: the dot plot and Summary of Economic Projections turned more hawkish and the statement removed the prior easing guidance, while Chair Warsh's press conference leaned dovish.
- **Contributors:** Overweight to bonds with maturities of seven to 10 years. Positions in local securities.
- **Detractors:** Underweight to bonds with zero to three years to maturity. Overweight to bonds with five to seven years to maturity.
- **Outlook:** Municipal bond valuations continue to appear attractive relative to other fixed income sectors, particularly for tax-sensitive investors seeking durable income in a normalized rate environment. 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

- The portfolio's yield curve positioning detracted over the period. An overweight allocation to bonds with five to seven to 10 years to maturity held back relative results as other sections of the curve saw yields fall further. An underweight to munis with zero to three years to maturity also detracted. In contrast, an overweight to bonds with seven to 10 years to maturity was beneficial.
- The strategy's tilt toward higher-rated securities hindered results as lower-rated bonds fared better over the period.
- The portfolio's positions in general obligation (GO) bonds held back performance as revenue bonds fared better during the period. In contrast, allocations to local munis lifted performance.

Outlook

- As we reach the midpoint of 2026, investor demand for municipal bonds has remained stronger than expected, keeping pace with elevated supply. Issuance continues to run more than 8% ahead of last year, and expectations remain intact for a record-setting year. The market absorbed elevated supply in June, while we expect July to be more favorable given positive reinvestment flows and issuance dynamics. During June, municipal bonds outperformed Treasuries across the yield curve, with yields declining at all maturities.
- Economic fundamentals remain broadly stable, with healthy tax bases supported by steady employment and solid capital market returns. Rainy-day funds remain robust at both the state and local levels, while budget season has brought increased attention to fiscal policy decisions across several key cities and states.
- Absolute yields and valuations remain attractive relative to other fixed income sectors, in our view. Although valuations are modestly less compelling than at the start of 2026, we continue to view them as a relative strength for municipal bonds. In this environment, active management and disciplined security selection remain essential to identifying relative value and preserving portfolio quality.

Average annual total returns (%) - as of June 30, 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	0.45	-0.04	-0.04	1.54	1.35	-0.41	—	—	—	—	-0.21	12/31/2019
Pure Gross of Fees	0.82	0.70	0.70	3.06	2.87	1.09	—	—	—	—	1.29	12/31/2019
Benchmark	0.92	1.23	1.23	3.45	3.38	1.50	—	—	—	—	1.68	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg Municipal 1-5 Year Blend

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).

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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.

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.

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 U.S. 1-5 Year Blend Municipal Bond Index** is an unmanaged index of investment grade tax-exempt municipal bonds with maturities of 1-5.999 years. Source: Bloomberg Indices.

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