FRANKLIN TEMPLETON

# Franklin Municipal Ladder 1-3 Year SMA

Commentary | as of September 30, 2025

## Key Takeaways

- **Markets:** In the third quarter of 2025 (Q3), new issuance of municipal (muni) bonds exceeded the average seen in the past few years, driven by a 34% year-over-year surge in July issuance. By quarter end, the yield on the benchmark 10-year US Treasury (UST) note fell by eight basis points (bps) to 4.15%, while the 30-year UST yield decreased by four bps to 4.73%.  US markets rose on clearer tariff policies, economic resilience, and a more dovish Fed, which cut rates by 25 bps to 4.00%-4.25% in September.
- **Contributors:** Overweight muni bonds with less than a year to maturity. Overweight revenue-related muni bonds.
- **Detractors:** Overweight higher-quality muni 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

- Rating allocations detracted from returns as the strategy's tilt toward higher-rated bonds hurt results as these securities tended to perform worse than their lower-rated counterparts during the period.
- The strategy's overweight allocation to bonds with less than a year to maturity versus the benchmark's universe helped returns as muni bond yields fell over the quarter.
- An overweight to revenue-related issues contributed to returns as these securities generally outperformed general obligation bonds.

## Outlook

- Muni bond issuance exceeded historical averages in Q3 as issuers, who had been reluctant to issue new bonds under the looming threat to their tax-exempt status, came to market. Positive fund flows into the asset class were not able to keep up with the supply. The muni bond yield curve continues to steepen, with longer-maturity bond valuations cheapening somewhat.
- Fundamentals remain broadly stable, however, as the economy slows and inflationary pressures ease, tax revenue growth at the state and local level is expected to moderate, placing greater importance on credit selectivity going forward.
- Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. Yields are near multi-year highs, 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 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 | 0.61 | 1.10 | 1.61 | 1.19 | — | — | — | — | — | — | 1.26 | 12/31/2022 |
| Pure Gross of Fees | 0.99 | 1.85 | 2.75 | 2.71 | — | — | — | — | — | — | 2.78 | 12/31/2022 |
| Benchmark | 1.18 | 2.08 | 3.14 | 3.08 | — | — | — | — | — | — | 3.28 | — |

*Cumulative total returns

## Benchmark(s)

Benchmark =Bloomberg Municipal 1-3 Year Index

**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.

**Franklin Templeton claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.**
**To obtain specific information on available products and services or a GIPS Report, contact your Franklin Templeton separately managed account sales team at (800) DIAL BEN/342-5236.**

## 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%).

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.

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

## Important Information

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or portfolio. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the portfolio's selection process. Holdings are subject to change.

**These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these materials be preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Professional or contact your sponsor firm.**

Franklin Templeton (FT) is not undertaking to provide impartial advice. Nothing herein is intended to provide fiduciary advice. FT has a financial interest.

The **Bloomberg Municipal 1-3 Year Index** is an unmanaged index that tracks USD-denominated long-term, tax-exempt bond market with maturities of 1-3 years, 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.

Separately Managed Accounts (SMAs) are investment services provided by Franklin Templeton Private Portfolio Group, LLC (FTPPG), a federally registered investment advisor. Client portfolios are managed based on investment instructions or advice provided by affiliated subadvisors of Franklin Templeton. Management is implemented by FTPPG, the designated subadvisor or, in the case of certain programs, the program sponsor or its designee.





FRANKLIN TEMPLETON