FRANKLIN TEMPLETON | WESTERN ASSET

Western Asset Active Bond Gov/Corp Portfolios

Commentary | as of September 30, 2026

Key Takeaways

- **Markets:** During the third quarter, global markets remained heavily influenced by developments in the Middle East, as repeated military escalations and disruptions to global energy supplies drove renewed inflation concerns and a significant repricing of the interest-rate outlook. As a result, risk assets generally underperformed, aside from AI-related winners.
- **Contributors:** Security selection was positive for performance.
- **Detractors:** Duration and sector positioning had a negative impact on performance.
- **Outlook:** Greater uncertainty from geopolitical risks, technological change and increased scrutiny of private credit is impacting fixed-income markets, resulting in higher inflation and renewed expectations for central bank rate hikes. Although inflation is elevated in the short term, longer-term inflation expectations remain stable and the US is likely to outperform other regions thanks to its energy independence, fiscal support and strong fundamentals.

Performance Review

- Portfolios underperformed the benchmark.
- Duration was a detractor as we were net long versus the benchmark over the quarter.
- Yield-curve positioning had no impact on performance.
- Sector positioning was a slight detractor as we had a mild overweight versus the benchmark over the quarter.
- Security selection was additive to performance as we were underweight the larger underperformers, technology and communications.

Outlook

- Global fixed-income markets are navigating heightened uncertainty driven by geopolitical tensions in the Middle East, rapid technological change and increased scrutiny of private credit markets. Energy-related supply disruptions have lifted near-term inflation and triggered a sharp reset in market expectations for central bank policy, with investors pricing rate hikes rather than the cuts anticipated earlier in the year.
- While near-term inflation pressures are evident, longer-term inflation expectations remain well anchored, and we believe the magnitude of the recent rate repricing may be somewhat overdone.
- Global growth is expected to moderate, with the US remaining relatively more resilient than other regions due to energy independence, fiscal support and strong underlying fundamentals.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of September 30, 2026-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	-3.74	-3.46	-3.86	-3.48	2.30	-2.27	-0.30	0.50	1.73	2.04	2.88	12/31/1993
Pure Gross of Fees	-3.38	-2.73	-2.77	-2.03	3.84	-0.80	1.20	2.00	3.26	3.57	4.42	12/31/1993
Benchmark	-3.32	-2.65	-2.85	-1.98	3.86	-0.78	1.21	1.88	3.02	3.41	4.24	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg U.S. Government/Credit

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.
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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. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**.

Glossary

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

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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.

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The **Bloomberg U.S. Government/Credit Bond Index** includes the Bloomberg Government Bond Index and the Bloomberg Credit Bond index. The Government Indexincludes all public U.S. Treasury obligations and the debt of U.S. government agencies and quasi-federal corporations. The Credit Index includes corporates (industrial, utility and finance, including both U.S. and non-U.S. corporations) and non-corporates (sovereign, supranational, foreign agencies and foreign local governments). Source: Bloomberg Indices.

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