

Western Asset Active Bond Intermediate Portfolios

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** Fixed-income market volatility persisted in the fourth quarter of 2025 as investors and policymakers navigated mixed economic signals. The longest US government shutdown, which restricted data availability, ended in November after 43 days. The US Treasury (UST) yield curve steepened, with short and intermediate UST yields finishing the quarter lower, while long-term yields increased. Equities performed well, with the S&P 500 Index reaching new highs, while credit spreads were mixed.
- **Contributors:** Duration positioning was beneficial for performance.
- **Detractors:** Yield-curve positioning was a slight detractor to performance.
- **Outlook:** Western Asset's outlook remains constructive, though we recognize that growth momentum is tempered by uncertainty in areas such as geopolitics and fiscal sustainability. U.S. financial conditions are largely supportive, which, alongside proposed fiscal loosening and solid household balance sheets, points toward a positive foundation for growth in 2026. Headwinds remain, including doubts over the state of the U.S. labor market, core inflation lingering above target and the potential lagged impact of tariffs.

Performance Review

- The portfolios slightly underperformed the benchmark.
- Tactical duration positioning contributed to performance.
- Yield-curve positioning had a small negative impact on returns.
- Sector positioning was a small positive due to an overweight in investment-grade credit.
- Security selection did not have a meaningful impact on returns.

Outlook

- Western Asset's outlook remains constructive, though we recognize that growth momentum is tempered by uncertainty in areas such as inflation, central bank policy, geopolitics and fiscal sustainability.
- Having cut rates at three successive meetings since September, the Federal Reserve may now moderate its pace of easing and await further signals from the post-shutdown data releases. Fiscal vulnerabilities and persistent inflation may see the yield curve steepen further.
- We continue to focus on disciplined, fundamental, relative value investing, seeking pockets of opportunity in fixed income while remaining mindful of technical and macroeconomic risks.

Average annual total returns (%) - as of December 31, 2025-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	0.72	1.63	5.02	5.02	3.29	-0.48	0.78	0.93	1.81	2.15	2.69	12/31/1993
Pure Gross of Fees	1.09	2.38	6.59	6.59	4.83	1.01	2.30	2.45	3.34	3.68	4.22	12/31/1993
Benchmark	1.20	2.72	6.97	6.97	5.06	0.96	2.29	2.38	3.16	3.62	4.18	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg Intermediate U.S. Government/Credit Index

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

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.

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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.

The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved.

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

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The **Bloomberg Intermediate Government/Credit Index** is an unmanaged index that measures the performance of intermediate (one to ten years) government and corporate fixed-rate debt issues.

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Source: Bloomberg Indices.

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