

# Western Asset Core 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:** Exposure to investment-grade credit and agency mortgage-backed securities (MBS) were among the largest contributors to performance.
- **Detractors:** There were no notable detractors during the quarter.
- **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

- Rates positioning had minimal impact on performance during the period.
- Positive issue selection within investment-grade credit and an overweight to agency MBS were the largest contributors to performance.
- Structured credit positioning had minimal impact on performance.

## 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	0.84	2.92	6.94	6.94	3.65	-2.50	0.54	1.20	2.25	2.83	4.43	12/31/1988
Pure Gross of Fees	1.21	3.68	8.54	8.54	5.21	-1.03	2.05	2.72	3.79	4.37	5.99	12/31/1988
Benchmark	1.10	3.15	7.30	7.30	4.66	-0.36	2.01	2.42	3.25	3.77	5.31	-

\*Cumulative total returns

## Benchmark(s)

Benchmark =Bloomberg U.S. Aggregate Index

**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.

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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**. Investments in **underlying funds** are subject to the same risks as, and indirectly bear the fees and expenses of, the underlying funds.

## Glossary

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.

An **asset-backed security (ABS)** is a security whose income payments, and hence value, are derived from and collateralized by a specified pool of underlying assets.

In contrast to agency mortgage-backed securities (MBS), **non-agency RMBS (NARMBS)** are created by private entities and do not carry a government guarantee.

The **eurozone**, officially known as the euro area, is a geographic and economic region that consists of all the European Union countries that have fully incorporated the euro as their national currency.

The **Federal Reserve Board ("Fed")** is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

A **collateralized loan obligation (CLO)** is a single security backed by a pool of debt.

**Commercial mortgage-backed securities (CMBS)** are a type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets.

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The **Bloomberg US Aggregate Index** is comprised of investment-grade, U.S. dollar-denominated government, corporate, and mortgage- and asset-backed issues having at least one year to maturity.

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Source: Bloomberg Indices.

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