FRANKLIN TEMPLETON | WESTERN ASSET

Western Asset Managed Municipals 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:** Sector allocation, issue selection.
- **Detractors:** Rates positioning.
- **Outlook:** Geopolitical tensions remain a defining feature of the outlook, with the Middle East conflict introducing ongoing uncertainty and contributing to oil price volatility as supply routes face occasional disruption. Even with these pressures, the global economic backdrop is gradually improving as fiscal support, easier financial conditions and moderating inflation help strengthen the 2026 outlook.

Performance Review

- Sector allocation was positive mainly due to an overweight to industrial revenue.
- Issue selection was positive largely due to selection within the local government obligation (GO) bond and hospital sectors.
- Rates positioning slightly detracted from performance as the municipal yield curve bear-flattened.

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

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Average annual total returns (%) - as of September 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	-6.41	-4.56	-5.11	-3.97	1.43	-1.49	0.17	1.48	2.23	2.49	3.23	5/31/1994
Pure Gross of Fees	-6.05	-3.84	-4.04	-2.53	2.95	-0.01	1.67	3.00	3.76	4.03	4.77	5/31/1994
Benchmark	-6.35	-4.01	-4.18	-2.68	2.89	-0.21	1.51	2.49	3.12	3.52	4.27	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg Municipal Bond 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.
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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. **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. Portfolios focused on a **single state** are subject to greater risk of adverse economic and regulatory changes than a geographically diversified portfolio. Investments in **underlying funds** are subject to the same risks as, and indirectly bear the fees and expenses of, the underlying funds. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default.

Glossary

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

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The **Bloomberg Municipal Bond Index** is a broad measure of the municipal bond market with maturities of at least one year.

Source: Bloomberg Indices.

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