FRANKLIN TEMPLETON | WESTERN ASSET

Western Asset Managed Municipals Portfolios

Commentary | as of June 30, 2026

Key Takeaways

- **Markets:** Market news in the second quarter of 2026 was dominated by the Middle East conflict, with financial markets driven by evolving expectations around a potential resolution. Energy prices and forecasts for central bank policy rates continued to shift throughout the period.
- **Contributors:** Sector positioning contributed to performance.
- **Detractors:** Rates positioning and issue selection detracted from returns.
- **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

- Rates positioning detracted from returns as muni yield curve bull flattened
- Sector allocation was positive to performance as we maintained an underweight to State GO and an overweight to Hospital sector.
- Issue selection was a detractor to performance largely due to issue selection within Transportation and Education sectors.
- An overweight to lower IG rated securities also contributed to returns.

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 June 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	1.98	1.38	1.38	5.30	2.21	-0.34	0.77	2.24	2.68	2.90	3.47	5/31/1994
Pure Gross of Fees	2.35	2.14	2.14	6.88	3.74	1.16	2.29	3.77	4.22	4.44	5.01	5/31/1994
Benchmark	2.50	2.32	2.32	7.03	3.76	1.05	2.15	3.20	3.63	3.91	4.52	–

*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.
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.

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 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 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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