FRANKLIN TEMPLETON

Putnam Core Bond Fund

United States - Retail

Class Y
December 31, 2024

Product Commentary

Performance Review

- The fourth quarter of 2024 (Q4) saw mixed absolute returns across fixed income spread sectors. A stronger-than-expected US economy and sticky US inflation prints led to a hawkish pivot from the US Federal Reserve (Fed), which lowered rates twice during the quarter but signaled only two rate cuts were likely during 2025. Meanwhile, Donald Trump's presidential election victory in the United States was seen as positive for domestic economic growth but created significant uncertainty elsewhere, as investors worried about the implications of increased US protectionism on global trade. Over the period, US Treasury (UST) yields moved higher across much of the curve. Yields rose by 60 basis points (bps) to 4.24% on the two-year UST note and by 82 bps to 4.38% on the five-year UST note. By the end of the quarter, the yield on the benchmark 10-year UST note moved 79 bps higher to 4.57%.
- During Q4, the portfolio posted a negative total return but outperformed its benchmark (the Bloomberg U.S. Aggregate Index). Corporate credit strategies continued to benefit relative returns. Investment-grade corporate spreads, represented by the Bloomberg US Corporate Index, ended the period 10 bps tighter. Exposure to collateralized loan obligations also contributed slightly to relative returns.
- Mortgage credit exposure was also a contributor to relative returns, particularly commercial mortgage-backed securities (CMBS) as the outlook for commercial real estate (CRE) has improved, fundamentals have stabilized, and supply and demand technicals remain positive.
- Lastly, exposure to agency mortgage-backed securities (MBS) was additive to relative returns during the quarter.

Outlook & Strategy

- Within investment-grade corporate credit, corporate credit spreads have widened slightly but remain historically tight. Supportive fundamentals and technicals, along with looser monetary policy and strong payroll data, suggest a high probability of a soft landing for the US economy. Consumer spending patterns continue to favor non-discretionary goods, while discretionary goods have exhibited greater price elasticity and trade-down impacts. We are angling portfolios away from credits with material tariff risk, and as we move into 2025, mergers and acquisitions are expected to rise under a likely more accommodative Republican administration. Overall, a balanced risk posture is recommended as spreads are in the top 5% of observations over the last 20 years.
- Within commercial mortgage credit (CMBS), the CRE market faces headwinds such as high interest rates, tighter credit conditions, and uncertainty in the office sector. However, there are positive signs like better-than-expected payoff and refinancing rates, potential for higher growth, and possible bank deregulation. Interest rates will significantly impact CRE performance, with higher growth potentially leading to higher rents and tighter cap rate spreads. The office sector is under pressure due to return-to-office trends and low demand for outdated properties. Loan modifications and extensions may help with near-term maturities, but delinquencies and liquidations are expected to rise for weaker loans. Despite these challenges, strong CRE sectors and properties may receive support from investor capital, preventing further price declines. Some conduit mezzanine tranches offer relative value compared to corporate credit, and there are still attractive opportunities for security selection with thorough loan-level analysis.
- Within residential mortgage credit (RMBS), US homeowner balance sheets remain well-positioned, supported by locked-in home price appreciation, lower household leverage, strong underwriting standards, and a healthy labor market. A lack of inventory and steady household formation should keep the housing supply and demand mismatch supportive of home prices. We expect home prices to rise modestly over the next year, but regional variances are likely to persist. We maintain a neutral view of the sector overall given rich valuations and our modest expectations for home price growth but find value in certain subsectors. Given the flat credit curve, we favor opportunities near the top of the capital stack, such as recent issue non-qualified mortgage and credit risk transfer bonds.
- Within agency MBS, prepayment speeds are expected to remain low in 2025, with any increase likely in higher coupons that are in-the-money (ITM). Mortgage rates have risen since recent lows, keeping most borrowers out-of-the-money. Involuntary prepayments are not expected to rise significantly due to strong mortgage credit fundamentals and healthy macroeconomic conditions. Money managers are heavily invested in the agency MBS sector, with further demand dependent on inflows. US banks are buying agency MBS and collateralized mortgage obligations, and demand may increase with a steeper yield curve, growing deposits, and favorable regulatory changes. Long-term value is seen in agency mortgages, with a preference for lower- and higher-end coupons, and "out-of-the-money" agency interest-only bonds, which offer attractive carry and lower volatility. Bonds backed by ITM collateral could see significant upside if prepayment speeds slow or stabilize.

Fund Details

Inception Date	12/23/2008
Benchmark	Bloomberg U.S. Aggregate Index, Putnam Core Bond Linked Benchmark

Fund Description

The fund seeks high current income consistent with what the portfolio managers believe to be prudent risk, by investing in mortgage-backed securities, corporate bonds, and other government obligations.

Performance Data

Average Annual Total Returns[1] (%)

	1 Mth	3 Mths	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date
Class Y - With Sales Charges[a]	-1.62	-2.88	2.21	2.19	0.74	1.96	2.44	12/23/2008
Class Y - Without Sales Charges[a]	-1.62	-2.88	2.21	2.19	0.74	1.96	2.44	12/23/2008
Bloomberg U.S. Aggregate Index	-1.64	-3.06	1.25	-2.41	-0.33	1.35	2.60	-
Putnam Core Bond Linked Benchmark	-1.64	-3.06	1.25	2.78	1.82	1.46	0.97	-

Performance data quoted represents past performance, which does not guarantee future results. *Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns with sales charge reflect a deduction of the stated maximum sales charge. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please call Franklin Templeton at (800) DIAL BEN/(800) 342-5236 or visit www.franklintempleton.com.*

An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Share Class Details

			Sales Charges		Expenses		30-Day SEC Yields[2]	
	CUSIP	Ticker	Max	CDSC	Gross	Net	Without Waiver	With Waiver
Class Y	746764323	PYTRX	–	–	0.39%	0.39%	4.72%	4.72%

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. Source: Bloomberg Indices.

The **Putnam Core Bond Linked Benchmark** represents the performance of the ICE BofA U.S. Treasury Bill Index through February 27, 2023, and the performance of the Bloomberg U.S. Aggregate Bond Index thereafter.

Investment Team

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Years Experience 22

Andrew C Benson
Years with Firm 16
Years Experience 16

Michael V Salm
Years with Firm 27
Years Experience 35

Patrick A. Klein, Ph.D.
Years with Firm 19
Years Experience 19

Tina Chou
Years with Firm 20
Years Experience 22

1. Periods shorter than one year are shown as cumulative total returns.
2. The fund's 30-Day SEC Yield is calculated using the net income (interest and dividends) per share earned over a trailing 30-day period (annualized), divided by the fund's share price at the end of that period. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

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. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **Asset-backed, mortgage-backed or mortgage-related securities** are subject to prepayment and extension risks. **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**. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. **Active management** does not ensure gains or protect against market declines. The manager may consider **environmental, social and governance (ESG) criteria** in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. These and other risks are discussed in the fund's prospectus.

Important Information

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. 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 fund's portfolio selection process. Holdings are subject to change. Putnam funds are not exchangeable for other funds distributed by Franklin Distributors, LLC.

Effective 2/28/23, the fund's name changed from Putnam Fixed Income Absolute Return Fund and was repositioned to a core bond strategy.

Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, or summary prospectus, if available, at www.franklintempleton.com. Please read it carefully.

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a. The total annual operating expenses are as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns.

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