

# Franklin U.S. Government Securities Fund

Advisor Class: FUSAX Class A: FKFSX

Commentary | as of March 31, 2025

## Key Takeaways

- **Markets:** There was a significant swing in market sentiment across the first quarter of 2025. Very short-dated bonds witnessed modest declines, while intermediate-maturity US Treasury (UST) yields had larger decreases.
- **Contributors:** Allocation to Ginnie Mae (GN) II coupons.
- **Detractors:** Security selection in GN II coupons; exposure to GN I coupons.
- **Outlook:** Although we expect lower US growth this year with upside risks to inflation, we uphold our view that a significant growth slowdown should not be taken for granted just yet.

## Fund Characteristics

	Fund
Distribution Frequency	Monthly
Effective Duration	5.84 Years
30-Day SEC Yield (Advisor Class)—With Waiver	3.09%
30-Day SEC Yield (Advisor Class)—Without Waiver	3.08%

## Performance Review

- The fund's overweight allocation to GN II 3.5% coupons and underweight allocation to GN II 5.0%, 5.5% and 7.0% coupons contributed to relative performance.
- Security selection in GN II 3.0% through 4.0% coupons detracted from performance, as did security selection in GN I 5.0% coupons.
- The fund's underweight allocation to GN II 2.0% coupons and overweight to 6.5% coupons hindered results. Its overweight allocation to GN I 5.5% and 6.0% coupons also detracted from returns.

## Outlook

- Over the quarter, agency mortgage-backed securities (MBS) posted a positive total return and underperformed similar-duration USTs. Ginnie Mae (GNMA) MBS was the best relative performer with -5 basis points (bps) of excess return, followed by conventional MBS, as represented by Fannie Mae (FNMA) MBS with -8 bps of excess return. Across the GNMA coupon stack, GN II 5.5% and 6.0% coupons were the best performers with positive excess returns, while 4.0% and 4.5% coupons lagged.
- At period-end, we remained heavily weighted to GNMA II securities (comprised of multiple-issuer pools), with over 86% of the portfolio allocated in the sector, versus GNMA I securities (comprised of single-issuer pools). The fund's largest absolute allocation remains in GN II 2.5% through 3.5% coupons.
- For the MBS sector, prepayment speeds for the universe remain low, and we do not expect a material increase in 2025. Demand from US banks could increase as the yield curve steepens, deposits grow and the regulatory environment potentially becomes more favorable for banks. US Federal Reserve (Fed) rate cuts and a weaker dollar could draw demand from overseas investors due to improved hedging costs.
- We maintain our view that tariff-induced inflation should be transitory in nature. The growth impact on export-reliant foreign countries will be much more significant than for the United States, in our view. Although we expect lower US growth this year with upside risks to inflation, we uphold our view that a significant growth slowdown should not be taken for granted just yet. Hard data show the US economy is still in good shape, with a solid pace of economic activity and the labor market in a "low hiring, low firing" equilibrium with a still low unemployment rate. We believe the macroeconomic outlook will be heavily influenced by the administration's entire economic policy package, including not just tariffs and immigration, but also deregulation and tax cuts (which are expected to follow). Assuming concrete progress on the latter two, they should help lift growth and contain inflation. Overall, we remain optimistic that pro-growth policy measures are still in the cards. We acknowledge, however, that the longer the uncertainty with a lack of progress on deregulation and tax reform, the higher the downside risk to the economy. Against this backdrop, we think the overall balance of risks should limit the Fed to at most one rate cut this year. With the caveat on the aforementioned uncertainty on global growth, risks to UST yields appear to the upside, in our view.

Average annual total returns and fund expenses (%)

Class	CUSIP	Ticker	Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception Date
			3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Gross	Net	Initial Charge	CDSC	
Advisor Class	353496821	FUSAX	2.71	2.71	4.44	0.34	-0.86	0.62	5.45	2.71	2.71	4.44	0.34	-0.86	0.62	5.45	0.61	0.60	—	—	5/31/1970
Class A	353496482	FKFSX	2.66	2.66	4.20	0.09	-1.08	0.41	5.34	-1.19	-1.19	0.29	-1.18	-1.83	0.03	5.27	0.86	0.85	3.75	—	5/31/1970
Benchmark	—	—	2.48	2.48	5.35	1.79	-0.03	1.36	—	2.48	2.48	5.35	1.79	-0.03	1.36	—	—	—	—	—	—

Benchmark(s)

Benchmark =Bloomberg US Government - Intermediate Index

**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. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. 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 visit franklintempleton.com. The fund began offering Advisor Class shares on 12/31/1996 and the fund began offering A Class shares on 9/10/2018. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 12/31/1996, a restated figure is used based on the fund's Class A1 performance; for A Class periods prior to 9/10/2018, a restated figure is used based on the fund's Class A1 performance. The performance was adjusted to take into account differences in class-specific operating expenses and maximum sales charges. (b) For periods after share class offering, performance for the specific share class is used, reflecting the expenses and maximum sales charges applicable to that class. Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 01/31/2026 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

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. **Asset-backed, mortgage-backed or mortgage-related securities** are subject to prepayment and extension risks. **Changes in the credit rating** of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. These and other risks are discussed in the fund's prospectus.

Glossary

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).  
The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

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.  
The **Bloomberg U.S. Government Intermediate Index** is the intermediate component of the Bloomberg U.S. Government Index, which includes public obligations of the U.S. Treasury with at least one year to final maturity and publicly issued debt of U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government. Source: Bloomberg Indices.

Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com). All data is subject to change.  
**Effective Duration** is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates. The higher the duration number, the more sensitive a fixed-income investment will be to interest rate changes. The **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.  
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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](http://www.franklintempleton.com). Please read it carefully.