



Municipal Bonds: A Bright Spot in Today's Uncertain Markets

2015 proved to be a good year for municipal bonds. Not only did they generally outperform most other bond categories, but also the general US stock market.¹ What's more—munis tended to have less volatility than what we've seen in other parts of the market. Although there can be no guarantee of future outperformance, here are the key reasons why we believe munis will likely be a bright spot in an unpredictable 2016.

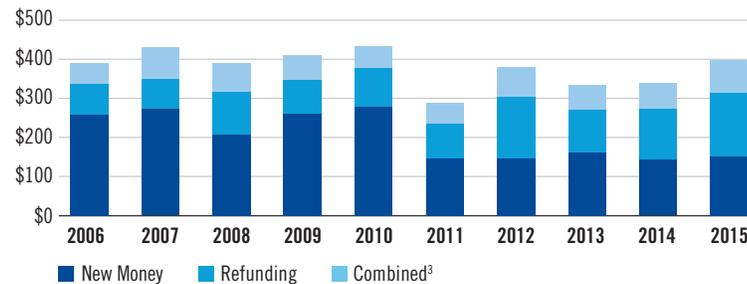
Four Reasons Why Municipal Bonds Make Sense Now

1 Low Supply

Recent new muni supply has been constrained, as shown by the dark blue bars on the right. And supply is forecasted to remain low through at least 2016.⁴

U.S. Municipal Bond Issuance²

2006–2015 (in Billions)



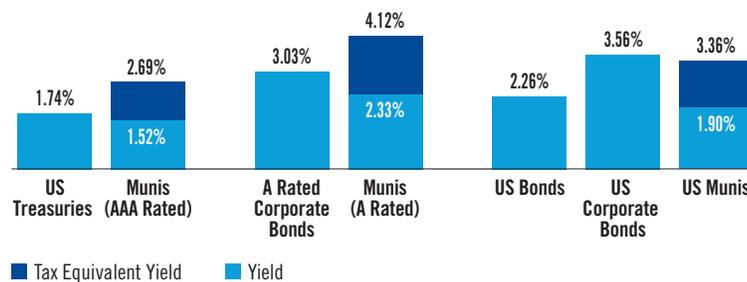
Low supply should help buoy muni prices

2 Higher Yields

Municipal bonds provided a higher tax-equivalent yield than most other types of bonds, as of February 29, 2016. Given current tax rates, the tax-free benefit of munis makes them very attractive.

Muni Yields Have Remained Strong^{5,10}

Yield-to-Worst as of February 29, 2016



Munis have provided more income than most other bonds

3 Low Correlation

Like other bonds, munis have had a low correlation to stocks, and in some cases negative. But munis may also offer an additional benefit—they've had a lower correlation to other types of bonds, as well.

Muni Correlations With Various Asset Classes⁵

5-Year Period ending February 29, 2016



Munis may add an additional layer of diversification

The charts above are for illustrative purposes only. They do not represent the past or future performance of any Franklin Templeton fund. For current performance of any Franklin Templeton fund, please call us at (800) DIAL BEN/342-5236. The results depicted do not reflect the fees or charges an investor would incur with an investment in a municipal bond fund. If such costs were included, the performance shown would have been lower. Past performance does not guarantee future results. Treasuries, if held to maturity, offer a fixed rate of return and fixed principal value; interest payments and principal are guaranteed.

4 Lower Default Rates

Aside from the few cases of potential defaults focused on by the media, munis have historically had a very low default rate compared to other fixed-income investments.

Average Cumulative 10-Year Default Rates⁶ 1970–2014

		Investment-Grade	Speculative-Grade	All Rated
Municipal Bonds		0.08%	7.52%	0.14%
US Corporate Bonds		2.81%	32.41%	11.58%

Munis' historically lower default rate may mean less risk than other types of bonds

Invest with a Tax-Free Leader

Experience

Franklin has managed tax-free income funds since 1977. Today, we're one of the largest municipal bond fund managers in the nation,⁷ and have more than \$72 billion in municipal bond assets under management.⁸

Strength

Our large tax-free investment management team—32 municipal bond investment professionals with an average of 20 years of financial industry experience⁸—has the experience to identify opportunities and risk indications others might miss. We believe this is critical given the vast size of the municipal bond market, with more than 116,000 municipal issuers and nearly one million separate bond issues outstanding.⁹

Opportunity

To help meet your investment needs, we offer over 30 tax-free funds, including national and state-specific, investment grade and high-yield, and long-, intermediate- and limited-term funds. Franklin tax-free income funds seek to provide monthly income exempt from regular federal and, depending on the fund and the investor's state of residency, state and local income taxes.¹⁰

What Are the Risks? All investments involve risks, including possible loss of principal. Municipal bonds are affected by interest rate movements. Municipal bond prices, and thus, a tax-free income fund's share price, generally move in the opposite direction of interest rates. As the prices of the municipal bonds in a fund portfolio adjust to a rise in interest rates, the fund's share price may decline. 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. For more detailed information about risk, please review a current Franklin tax-free income fund prospectus.

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.

1. Source: 2016 Morningstar. US stocks are represented by the S&P 500 Index. US Munis are represented by the Barclays Municipal Bond Index. Indexes are unmanaged and one cannot invest directly in an index. See www.franklintempletondatasources.com for additional data provider information.

2. Source: Bond Buyer. Refunding is a refinancing of existing "refunded" bonds with new "refunding" bonds.

3. Combination issuance indicates that a deal contains a combination of both new and refunding issuance.

4. Source: JP Morgan.

5. Source: 2016 Morningstar (BofA Merrill Lynch Current US Treasury (10-Y) Index, Barclays Municipal Bond (AAA) Index, Barclays US Aggregate Corporate (A) Index, Barclays Municipal Bond (A) Index, Barclays US Aggregate Index, BofA Merrill Lynch US Corporate Index, Barclays Municipal Bond Index, S&P 500 Index, Bloomberg Commodity Index.). Indexes are unmanaged and one cannot invest directly in an index. See www.franklintempletondatasources.com for additional data provider information. The yield to worst (YTW) is the lowest potential yield that can be received on a bond without the issuer actually defaulting. The tax-equivalent return is used by investors to compare taxable and tax-exempt securities after accounting for federal taxes (excluding AMT). For this comparison, we used the maximum tax rate of 39.6%, plus the 3.8% tax from the Affordable Care Act.

6. Source: Moody's Corporation. Most recent annual data available. A speculative-grade bond has a rating of lower than Baa, an investment-grade bond has a rating of Baa or higher.

7. Source: Strategic Insight, ICI as of 12/31/15. Based on long-term municipal bond fund assets.

8. As of 12/31/15. Municipal bond assets under management figure includes U.S. retail municipal bond fund assets and separately managed accounts.

9. Source: Bloomberg as of 12/31/15. Most recent data available.

10. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.



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