FRANKLIN TEMPLETON

Q4 2023 | Putnam Retirement Advantage Trusts Q&A

Portfolios rise as lower inflation allows Fed to signal rate cuts

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All Retirement Advantage vintages delivered positive performance in Q4 2023, driven primarily by strength across global equity and fixed income markets.

Our near-term outlook is slightly bullish for equities and slightly bearish for interest-rate sensitive fixed income.

We continue to have conviction in our investment strategies and our ability to adapt the portfolios to changing market conditions.

How were market conditions in the fourth quarter of calendar 2023?

During the three-month period, financial markets were challenged by persistent inflation, tight monetary policy, and conflict in the Middle East. Despite these headwinds, most major asset classes delivered positive returns over the quarter.

Markets experienced weakness in October amid persistent inflation, uncertainty around Federal Reserve tightening, and geopolitical tensions in the Middle East. Surging bond yields and market volatility weighed on sentiment during the month. Positive economic data fueled a bond sell-off as investors considered the Federal Reserve may need to keep rates higher for longer. Stock markets struggled when the yield on the 10-year Treasury note briefly reached 5.0%, a level not seen since 2007. Markets rebounded in November, lifted by easing inflation and improving economic data. This rally extended into December as inflation continued to ease and optimism about future rate cuts grew.

Combatting inflation remained a top priority for the Fed and other key central banks. In early November, the Fed held rates steady, keeping the fed funds rate at 5.25%–5.50%. At its December meeting, the Fed continued its pause on interest-rate hikes but took a more dovish tone, with three potential rate cuts penciled in for 2024.

For the three-month reporting period, U.S. stocks returned 11.69%, as measured by the S&P 500 Index. International stocks rose 10.42%, as measured by the MSCI EAFE Index [ND]. Emerging market stocks, as measured by the MSCI Emerging Markets Index [ND], posted a gain of 7.86%. Global equities, as measured by the MSCI World Index [ND] returned 11.42%.

Over the same period, investment-grade bonds experienced strength, with the Bloomberg US Aggregate Bond Index returning 6.82%. The yield on the 10-year U.S. Treasury note began the quarter at 4.69% and ended the quarter at 3.88%. The yield curve remained inverted over the three months, which in past economic cycles has been an indicator of a future recession. [The yield curve is a graphical representation of the yields/interest rates of bonds with equal credit quality but differing maturity dates.] High-yield bonds returned 6.82%, as measured by the JPMorgan Developed High Yield Index. Global bonds, as measured by the FTSE World Government Bond Index, rose 8.08%.

How did Putnam Retirement Advantage Trusts perform during the three months ended December 31, 2023?

All Retirement Advantage vintages delivered positive absolute returns. Gains for the longer-dated portfolios resulted from their high equity allocations combined with strength across global equity markets. Shorter-dated, fixed-income-oriented strategies also benefited from this rally in equities but finished with smaller positive returns.

Putnam Retirement Advantage Trusts invest in underlying Putnam collective investment trusts to create a diversified target-date portfolio. We use an important tool called a glide path to determine the funds' allocations among asset classes and the underlying funds over time. With the glide path as a reference point, our portfolio managers make tactical decisions based on our analysis of current market risks and opportunities.

What strategies contributed to and detracted from performance?

Asset allocation decisions weighed modestly on benchmark-relative performance for vintages furthest from retirement and were additive to middle-dated vintages and those closest to retirement. We entered the period with a modest underweight position to equity risk and maintained this position. This detracted from performance in November and December as equities experienced strength, but aided performance when stocks experienced weakness in October. With respect to interest-rate risk, the portfolios maintained a neutral position throughout the period.

Overall, our security selection decisions boosted benchmark-relative performance in the middle-dated vintages and those furthest from retirement. However, they were a drag on performance for vintages closest to retirement. Although our fundamental international equity strategy experienced weakness across the vintages, our quantitative U.S. large-cap core, fundamental U.S. large-cap growth, and quantitative international equity strategies showed strength. Vintages furthest from retirement experienced additional gains from our fundamental emerging market equity strategy, while those closest to retirement benefited from our opportunistic fixed income strategy.

What is your near-term outlook for the markets?

Our near-term outlook for equities is slightly bullish. Recent equity market strength has caused our breadth-thrust signal [a technical indicator that measures market momentum] to fire.

Our near-term outlook for interest-rate-sensitive fixed income is slightly bearish. The rapid drop in yields in November and December was excessive, in our opinion. The bond market appears to have fully embraced the soft landing and Fed pivot narrative, pricing in six cuts in 2024, which we feel is overly aggressive.

Our view on commodities is neutral. Many physical markets remain tight, but the potential for recession and tighter financial conditions are risks to the downside. Commodity volatility has also increased significantly.

We continue to have conviction in our investment strategies and our ability to adapt the portfolios to changing market conditions.

Putnam Retirement Advantage Trusts

Annualized total return performance as of 12/31/23

Class X	Inception	Last quarter	1 year	3 years	5 years	10 years	Life of fund
Putnam RA Maturity: X	1/3/08	7.67%	10.48%	1.24%	5.66%	4.85%	4.96%
Custom RA Maturity Benchmark		7.76	11.60	0.85	5.25	4.56	4.81
Putnam RA 2025: X	1/3/08	8.00	11.45	1.32	5.68	5.20	5.19
Custom RA 2025 Benchmark		7.91	11.78	1.05	5.93	5.34	5.20
Putnam RA 2030: X	1/3/08	8.87	14.78	3.44	7.90	6.50	5.99
Custom RA 2030 Benchmark		8.63	14.23	2.82	8.26	6.68	6.10
Putnam RA 2035: X	1/3/08	9.90	18.21	4.90	9.48	7.42	6.62
Custom RA 2035 Benchmark		9.53	17.17	4.11	9.71	7.54	6.67
Putnam RA 2040: X	1/3/08	10.42	20.08	5.67	10.46	7.98	6.94
Custom RA 2040 Benchmark		10.02	18.84	4.85	10.63	8.09	6.98
Putnam RA 2045: X	1/3/08	10.91	21.39	6.14	11.01	8.31	7.16
Custom RA 2045 Benchmark		10.38	19.98	5.29	11.21	8.45	7.21
Putnam RA 2050: X	1/3/08	11.23	22.63	6.53	11.46	8.62	7.42
Custom RA 2050 Benchmark		10.70	20.86	5.68	11.74	8.79	7.48
Putnam RA 2055: X	12/22/10	11.53	23.89	6.97	11.92	8.90	10.01
Custom RA 2055 Benchmark		10.94	21.69	6.11	12.27	9.11	10.06
Putnam RA 2060: X	2/10/16	11.82	25.03	7.34	12.27	—	11.79
Custom RA 2060 Benchmark		11.15	22.41	6.46	12.65	—	12.40
Putnam RA 2065:X	1/5/21	11.86	25.40	—	—	—	7.87
Custom RA 2065 Benchmark		11.25	22.70	—	—	—	6.87
S&P 500 Index		11.69	26.29	10.00	15.69	12.03	9.93
Bloomberg US Aggregate Bond Index		6.82	5.53	–3.31	1.10	1.81	2.80

Source: Bloomberg Index Services Limited.

Returns for periods of less than one year are not annualized.

Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes. Performance data reflect the impact of a 0.35% management fee. In certain cases, your plan's management fee may be higher and your return lower. For the most recent month-end performance, call your plan's toll-free number.

The Bloomberg US Aggregate Bond Index is an unmanaged index of U.S. investment-grade fixed income securities. The JPMorgan Developed High Yield Index is an unmanaged index of high-yield fixed income securities issued in developed countries. The MSCI EAFE Index (ND) is an unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia. The MSCI Emerging Markets Index (ND) is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The MSCI World Index (ND) is an unmanaged index of equity securities from developed countries. The FTSE® World Government Bond Index (WGBI) measures the performance of fixed-rate, local-currency, investment-grade sovereign bonds. FTSE Russell is the source and owner of the trademarks, service marks, and copyrights related to the FTSE Indexes. FTSE® is a trademark of FTSE Russell. The S&P 500® Index is an unmanaged index of common stock performance. You cannot invest directly in an index.

For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio managers as of December 31, 2023, are subject to change with market conditions, and are not meant as investment advice.

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Consider these risks before investing: If the quantitative models or data that are used in managing an underlying fund prove to be incorrect or incomplete, investment decisions made in reliance on the models or data may not produce the desired results and the fund may realize losses.

Our allocation of assets among permitted asset categories may hurt performance. The value of investments in the underlying funds' portfolios may fall or fail to rise over extended periods of time for a variety of reasons, including general economic, political, or financial market conditions; investor sentiment and market perceptions; government actions; geopolitical events or changes; and factors related to a specific issuer, asset class, geography, industry, or sector. These and other factors may lead to increased volatility and reduced liquidity in the underlying funds' portfolio holdings.

Growth stocks may be more susceptible to earnings disappointments, and value stocks may fail to rebound. Investments in small and/or midsize companies increase the risk of greater price fluctuations. Bond investments are subject to interest-rate risk (the risk of bond prices falling if interest rates rise) and credit risk (the risk of an issuer defaulting on interest or principal payments). Default risk is generally higher for non-qualified mortgages. Interest-rate risk is generally greater for longer-term bonds, and credit risk is generally greater for below-investment-grade bonds. Lower-rated bonds may offer higher yields in return for more risk. Funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk, which means that they may increase in value less than other bonds when interest rates decline and decline in value more than other bonds when interest rates rise. The underlying funds may have to invest the proceeds from prepaid investments, including mortgage- and asset-backed investments, in other investments with less attractive terms and yields. International investing involves currency, economic, and political risks. Emerging market securities carry illiquidity and volatility risks. REITs are subject to the risk of economic downturns that have an adverse impact on real estate markets. Convertible securities' prices may be adversely affected by underlying common stock price changes. While convertible securities tend to provide higher yields than common stocks, the higher yield may not protect against the risk of loss or mitigate any loss associated with a convertible security's price decline. Convertible securities are subject to credit risk. Risks associated with derivatives include increased investment exposure (which may be considered leverage) and, in the case of over-the-counter instruments, the potential inability to terminate or sell derivatives positions and the potential failure of the other party to the instrument to meet its obligations. There is no guarantee that the funds will provide adequate income at and through an investor's retirement.

Our investment techniques, analyses, and judgments may not produce the outcome we intend. The investments we select for the underlying funds may not perform as well as other securities that we do not select for the underlying funds. We, or the fund's other service providers, may experience disruptions or operating errors that could have a negative effect on the underlying funds. You can lose money by investing in the funds.

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