

Natixis/Vaughan Nelson Select Strategy



QUARTERLY STRATEGY COMMENTARY

US Equity markets fell in the first quarter, with the S&P 500[®] and Dow Jones Industrial Average shedding -4.3% and -0.9%, respectively. Notably, the tech-heavy Nasdaq Composite entered correction territory, falling -10.3% in the quarter as markets continue to digest the tariff-driven volatility. The Fed held rates steady, maintaining the 4.25%–4.50% range at both the January and March Federal Open Market Committee (FOMC) meetings. Although inflation expectations rose, annual US inflation continued to moderate, with a reading of 2.8% in February, while the unemployment rate came in at 4.2% in March. United States Gross Domestic Product (GDP) rose by an annualized rate of 2.4% in the fourth quarter of 2024, down slightly from 2.8% in the third quarter. The Atlanta Fed's GDPNow model estimates a 2.8% contraction in first quarter GDP, based on data available through the end of March. Within the S&P 500[®], energy (+9.9%), healthcare (+6.4%), and consumer staples (+5.0) were the top contributing sectors, while consumer discretionary (-13.9%), information technology (-12.7%), and communication services (-6.3%) were the largest detractors. During the quarter, value (Russell 1000 Value, +2.1%) sharply outperformed growth (Russell 1000 Growth, -10.0%) and large-cap stocks (Russell 1000 Index, -4.5%) held up better than small-cap stocks (Russell 2000, -9.5%).

The Natixis/Vaughan Nelson Select Strategy fell in value and underperformed the S&P 500[®] Index gross and net of fees. During the quarter, sector allocation drove relative underperformance, and security selection was modestly negative. An overweight to consumer discretionary, an underweight to consumer staples, and a lack of exposure to utilities detracted from results, while an overweight to energy and an underweight to information technology were additive. Securities selected in industrials, healthcare, and communication services were the largest detractors, partially offset by outperforming selections in consumer discretionary and financials.

Quarter-to-date top/bottom contributors to relative performance:

- The most significant contributors were O'Reilly Automotive, Intercontinental Exchange, Not owning Tesla, Not owning Apple, and Not owning Broadcom.
- The most significant relative detractors were ServiceNow, Saia, Taiwan Semiconductor, Alphabet, and Kosmos Energy.

Trades and positioning:

- At the end of the quarter, the largest overweight sector was communication services, while the largest underweight sector was information technology.
- There were three new buys and four full sell-outs during the trailing three months ended February 2025. The new buys were Mondelez Intl, Exxon Mobil, and United Therapeutics Corp. The full sell-outs were Corteva Inc., Comfort Systems, Danaher Corp., and ON Semiconductor.

Global markets faced increased volatility in the first quarter, as tariff-driven economic and geopolitical concerns have risen to the forefront. Resulting recession risks, unemployment uncertainty, weakening consumer sentiment, and sticky inflation may spur further volatility. The resulting market environment has increasingly proven challenging to navigate. We continue to believe that active fundamental research combined with investment discipline provides an attractive way to navigate market uncertainty.

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