NATIXIS INVESTMENT MANAGERS | SOLUTIONS

US TRENDS | Jan 2025

Portfolio Analysis & Consulting: US Portfolio Trends

Key Themes and Takeaways

Main themes	Takeaways
A strong year driven by US large caps and short duration fixed income	Despite a mixed fourth quarter, portfolios were up 12.2% in 2024. While that outpaced a global 60/40 passive portfolio, it underperformed an all US 60/40 passive portfolio. Models with a US large cap equity bias, lower duration and higher credit exposures drove returns.
Inflation concerns down, but not out	Inflation concerns have decreased since mid-2022, but advisors continue to hedge against inflation with both explicit positions, as well as in their core equity holdings. Fixed income sleeve duration was also scaled back during 2H 2024 as rates rose.
Models with more inflation-hedging equity exposures performed the worst	Using traditional growth and value styles can cloud the picture, which is why we employ our Cyclicality/Inflation framework that drills down to the industry-holdings level to understand equity positioning. With this lens, we see that the best-performing models in 2024 were positioned for inflation coming down, while those looking to hedge inflation underperformed.
Seeking flexibility in core plus, multisector & nontraditional bonds	Within fixed income, advisors have been increasing their exposure to core plus strategies to act as a more flexible ballast, while also seeking yield through more flexible multisector and nontraditional bond strategies.
The composition of alternatives has shifted to higher equity beta	Advisor models continue to save a place in their portfolios for alternative and asset allocation products, but that mix has shifted recently with a focus on high equity beta categories, such as derivative income and options-based products.

Note: Performance data shown represents past performance and is no guarantee of future results.

Source: Natixis Investment Managers Solutions Portfolio Analysis & Consulting. Data as of 12/31/2024.

2024 Rewarded Models Tilted toward US Large Cap Equity and Cash

	2024		Allocation (%)			Equity Characteristics			Fixed Income Characteristics	
	Return (%)	Risk* (%)	Equity	Fixed Income	Cash	US Equity % of Total Equity	SMID Equity % of US Equity	Value % of Total Equity	Average Credit Quality above IG	Duration
Peer Group Average	12.2	7.4	55.2	32.6	2.9	82.0	25.2	53.5	83.2	4.6
1st Quartile	15.1	7.5	57.3	29.6	4.0	87.7	25.8	53.0	81.8	4.1
4th Quartile	9.5	7.4	53.5	35.5	2.5	82.2	26.3	58.3	84.8	4.9

Top-performing portfolios in 2024 had more equity, US equity bias, more cash, less value bias, and had shorter duration and a lower quality bias on the fixed income side.

The Portfolio Analysis & Consulting Moderate Risk Peer Group is based on 180 moderate portfolios submitted to Natixis Portfolio Analysis & Consulting from July 2024 to December 2024.

*Measured as standard deviation over the past 12 months.

Source: Natixis Investment Managers Solutions Portfolio Analysis & Consulting. Data as of 12/31/2024.

Despite Mixed Returns in Q4 2024, the Same Themes Persisted

	Q4 2024		Allocation (%)			Equity Characteristics			Fixed Income Characteristics	
	Return (%)	Risk* (%)	Equity	Fixed Income	Cash	US Equity % of Total Equity	SMID Equity % of US Equity	Value % of Total Equity	Average Credit Quality above IG	Duration
Peer Group Average	-0.6	7.4	55.2	32.6	2.9	82.0	25.2	53.5	83.2	4.6
1st Quartile	0.7	7.2	55.1	31.0	4.3	88.5	22.7	53.6	82.2	3.8
4th Quartile	-1.7	7.5	54.1	34.0	1.6	75.6	26.0	55.7	84.0	5.1

In Q4 2024, top-performing portfolios with more equity, a large cap US bias prevailed despite a meaningful backup in yields that favored cash and shorter duration, along with lower quality bias within fixed income.

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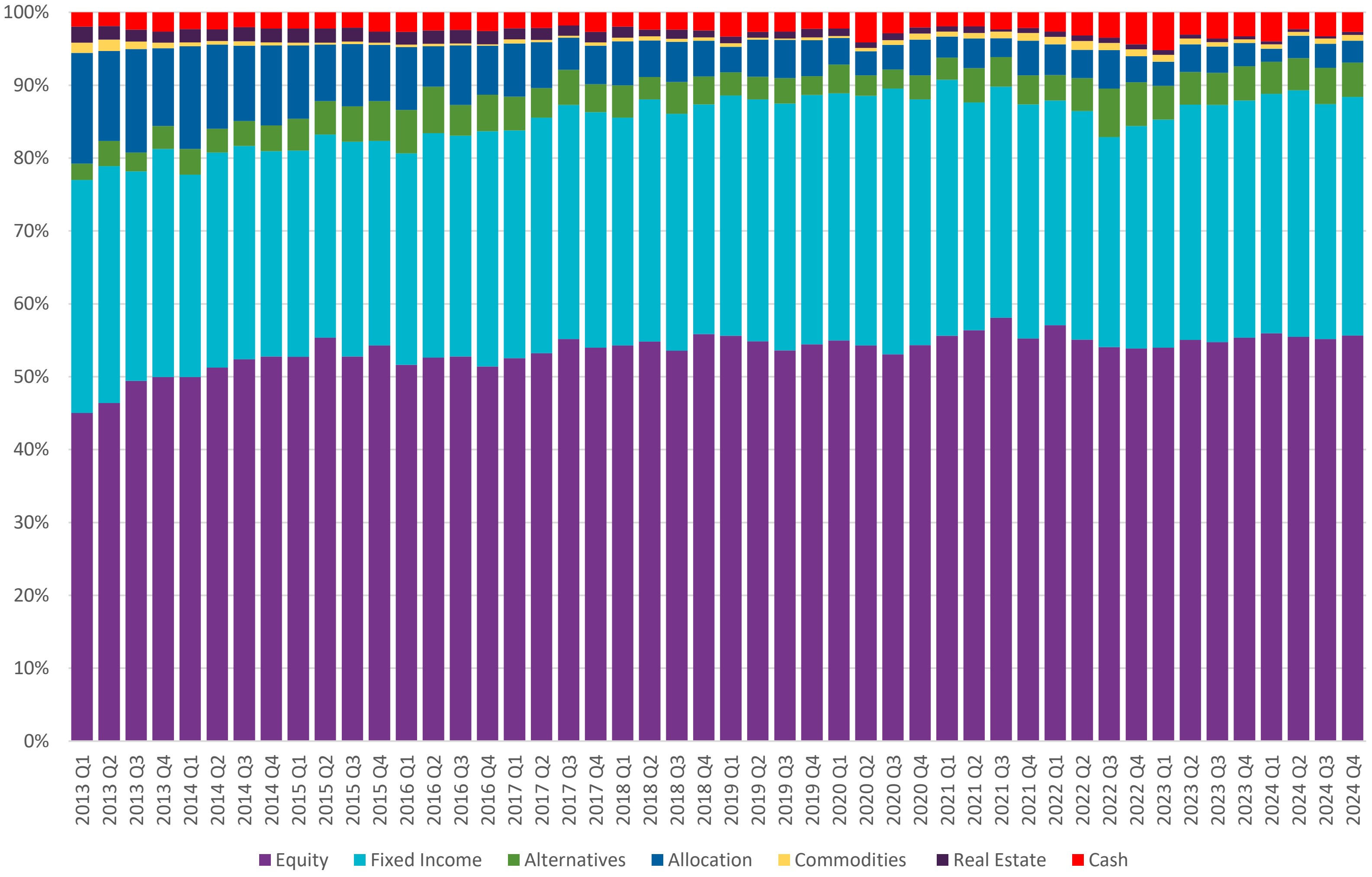
60/40 Models Include Other Assets, Acting as a Drag in Strong Markets



Advisors increased equity, fixed income, commodities and real estate, while decreasing cash, alternatives and allocation during the quarter.

Asset Category	Q4 2024	Q3 2024	
Equity	55.6	55.1	↑
Fixed Income	32.7	32.2	↑
Alternatives	4.7	5.0	↓
Allocation	3.0	3.3	↓
Commodities	0.8	0.7	↑
Real Estate	0.4	0.3	↑
Cash	2.7	3.3	↓
Total	**100.0**	**100.0**	

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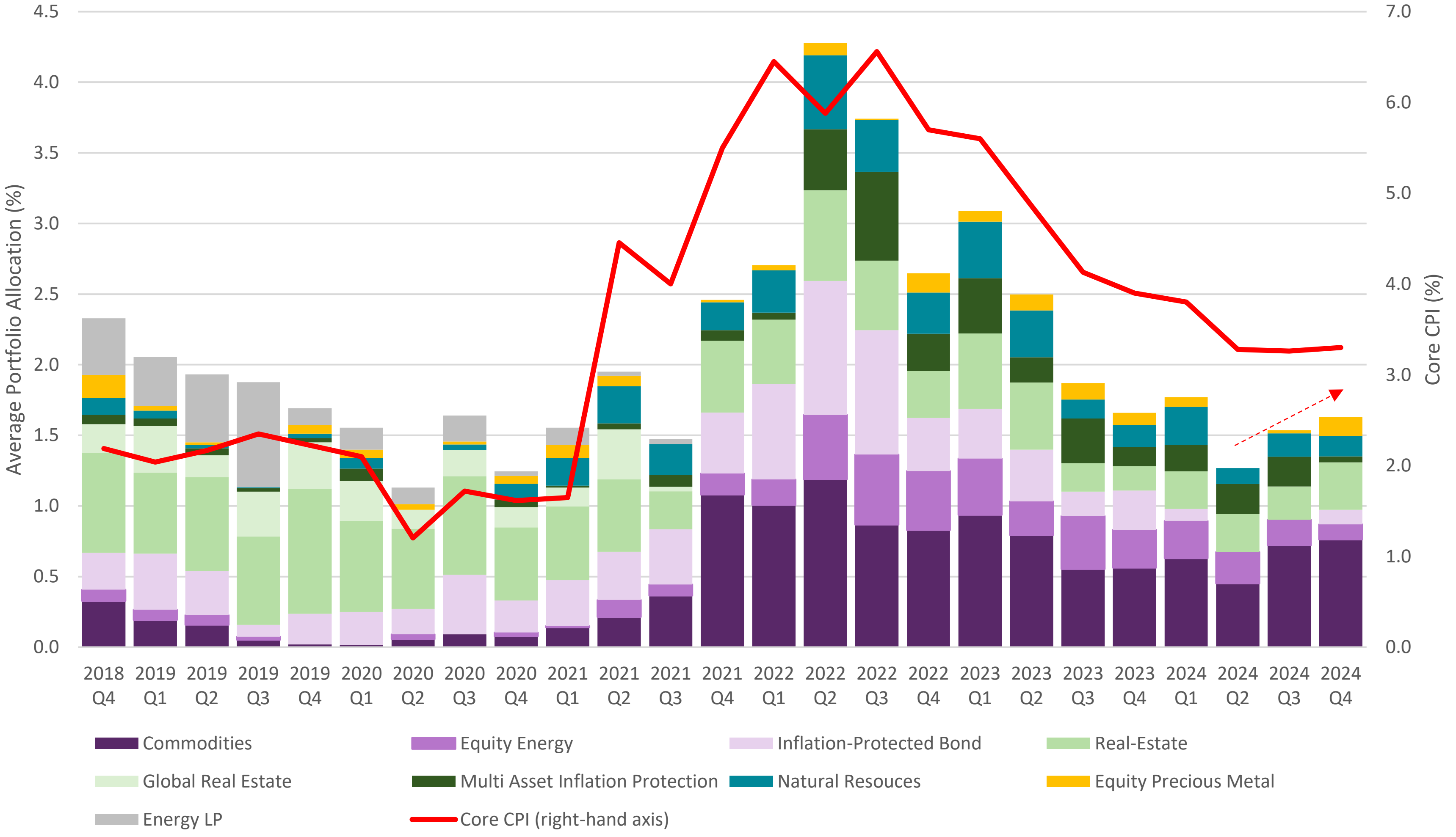
Inflation Fears Down, But Not Out



While explicit inflation-hedging sector products have declined from 2022 peaks, most of 2024 saw an increase in usage.

Commodities is the single largest bucket in the explicit inflation sleeve, at 50% of total.

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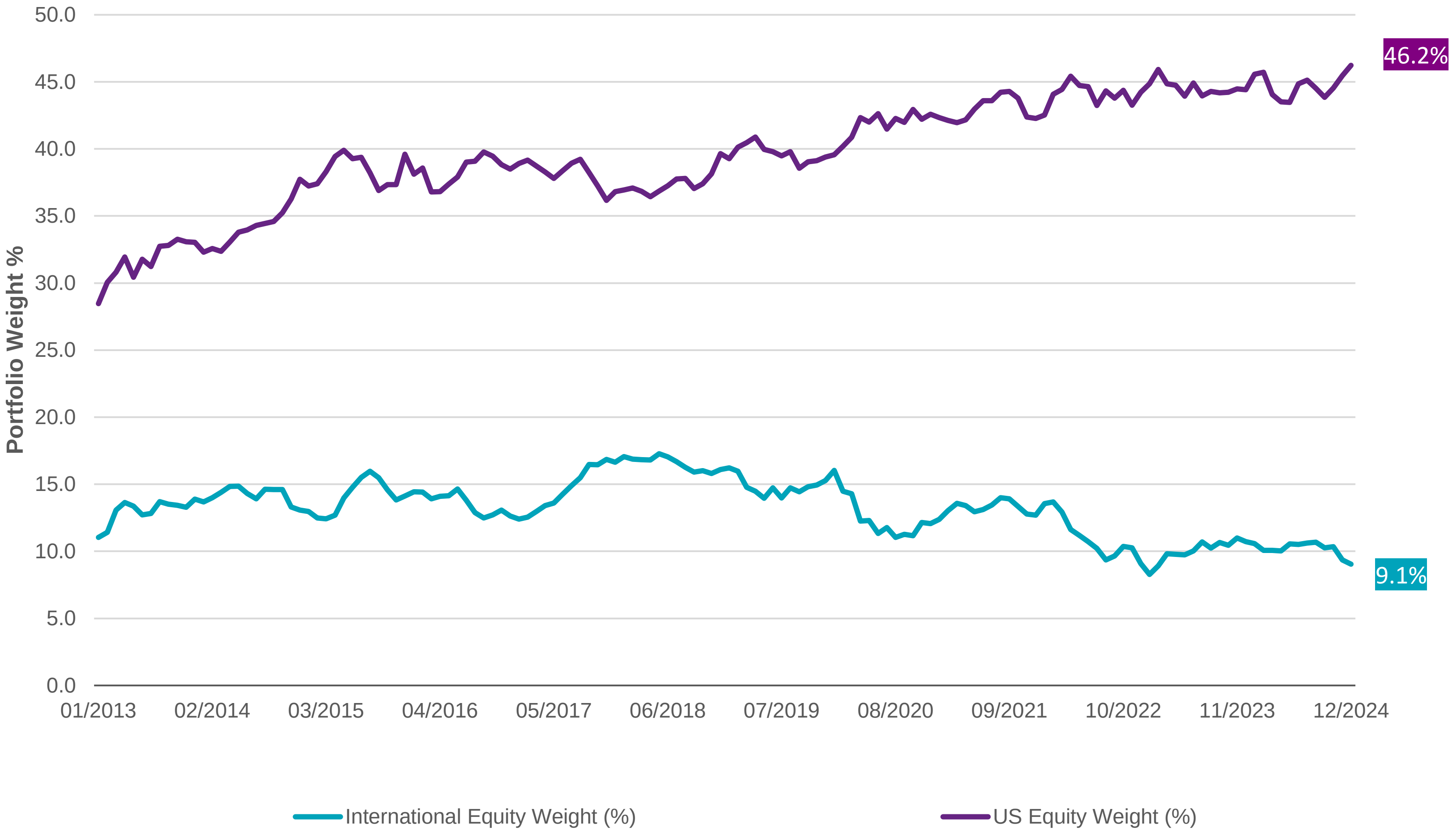
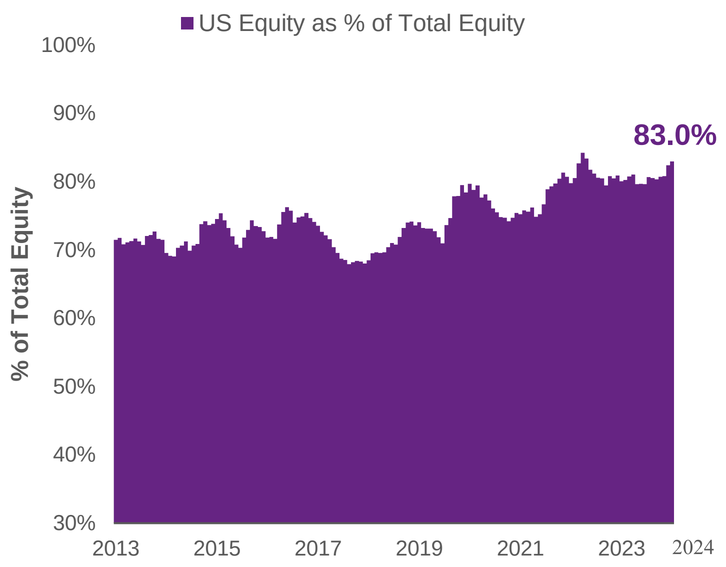
US Equity Overweight Persists as Investors Lean Domestic



US home country bias is back near cycle high at 83%.



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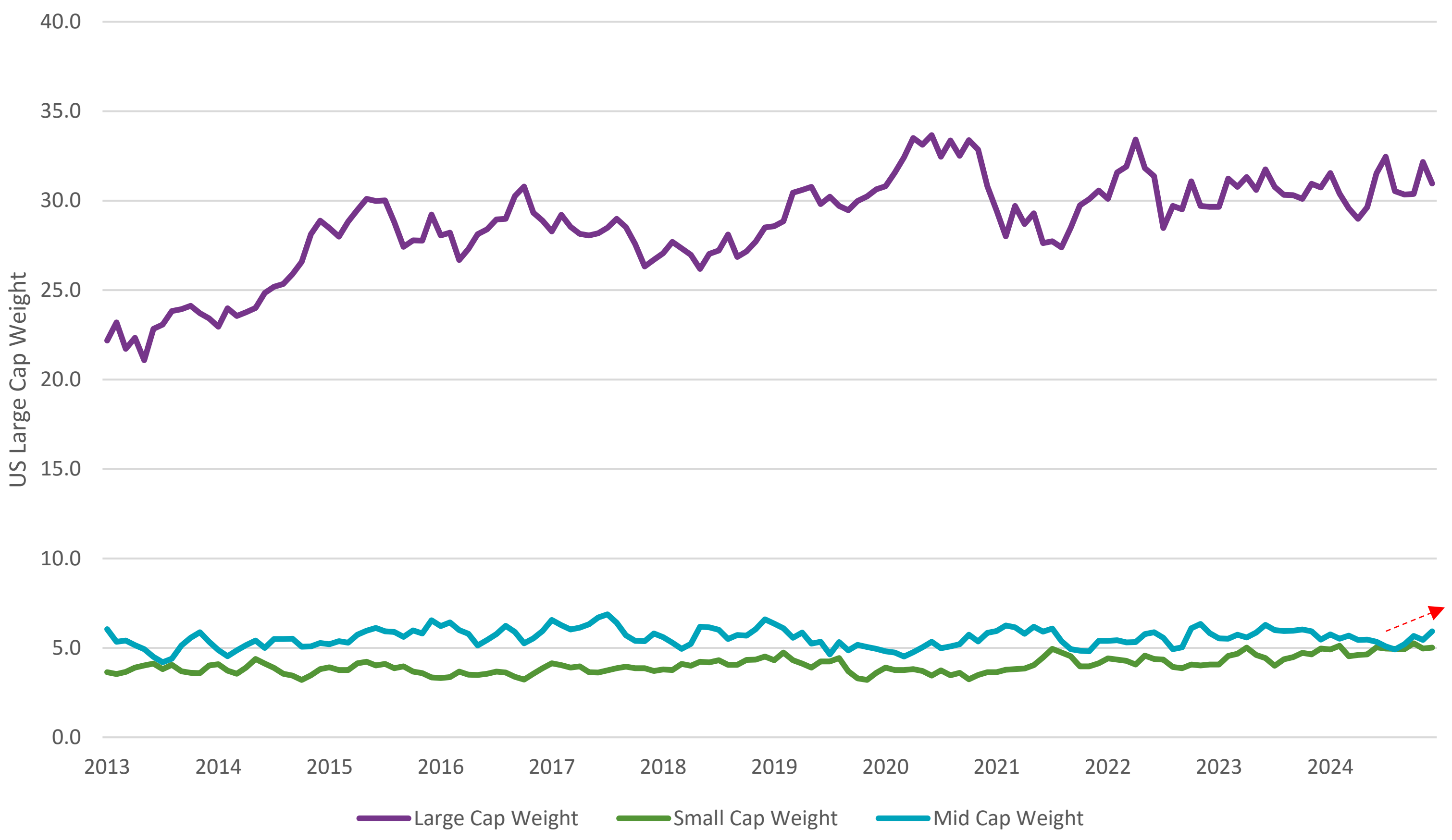
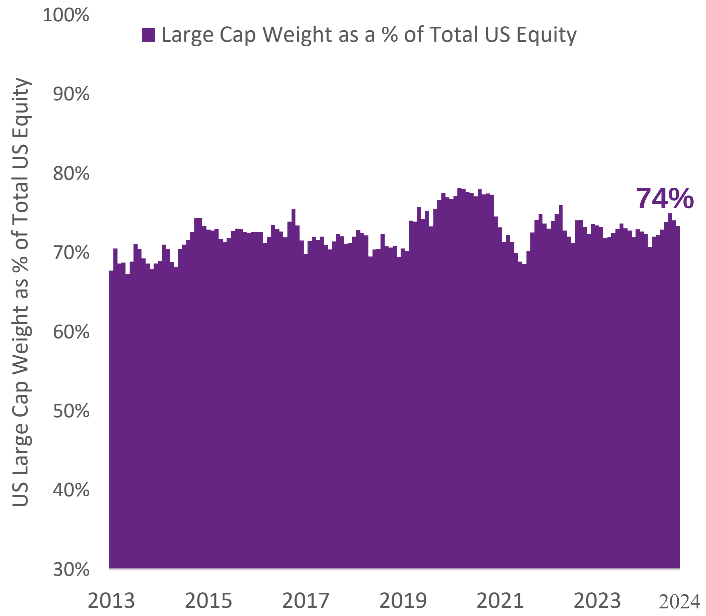
Large Caps Dominate as Advisors Stick with What's Working



US equity allocation continues to favor large caps,* though mid cap saw some marginal pickup recently.

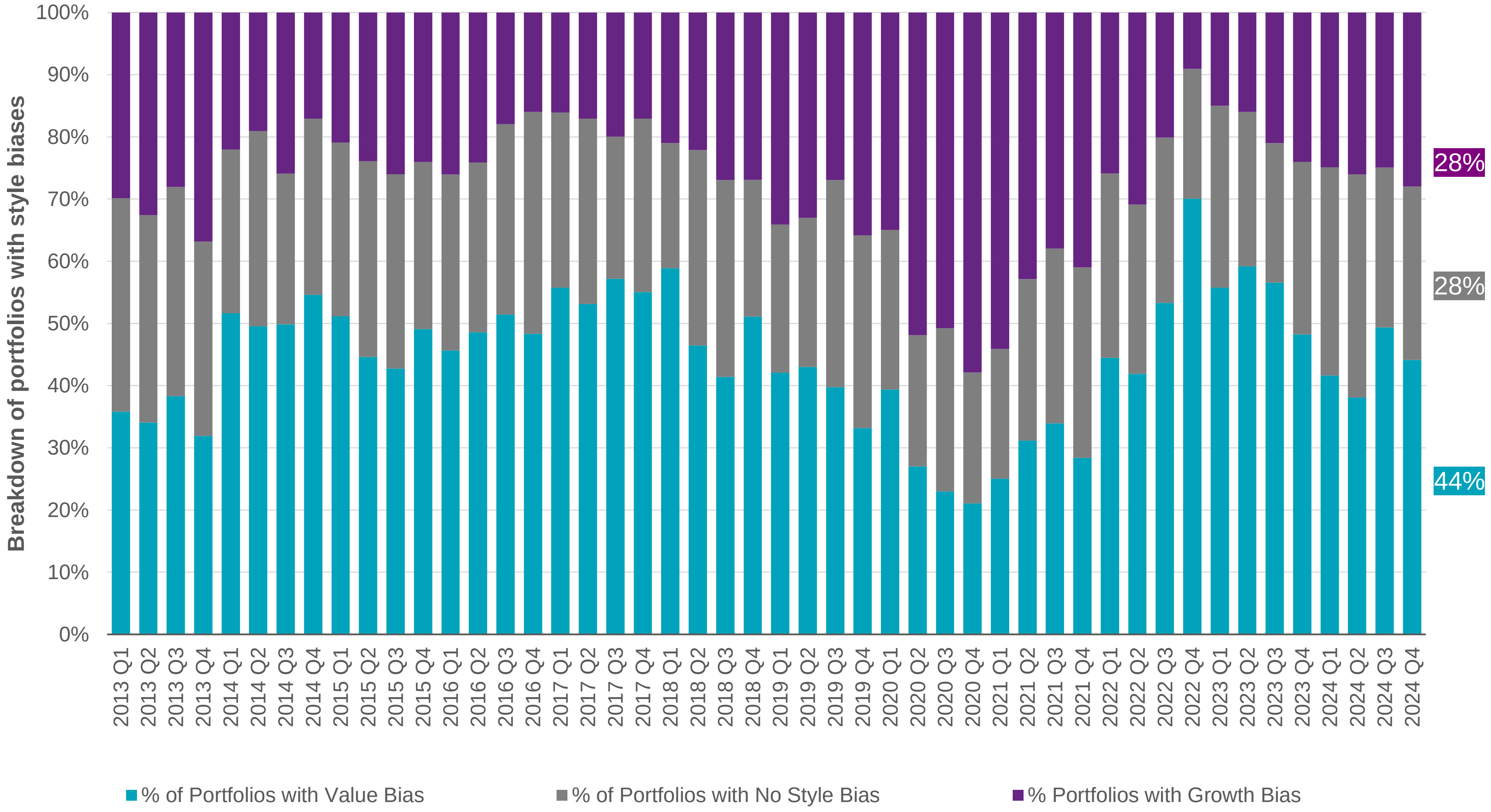


The Portfolio Analysis & Consulting Moderate Risk Peer Group is based on 6,053 moderate portfolios submitted to Natixis Portfolio Analysis & Consulting from January 2013 to December 2024.

* Large Cap includes Sector Equity.

Source: Natixis Investment Managers Solutions Portfolio Analysis & Consulting. Data as of 12/31/2024.

Using a Growth & Value Style Lens Clouds the Picture



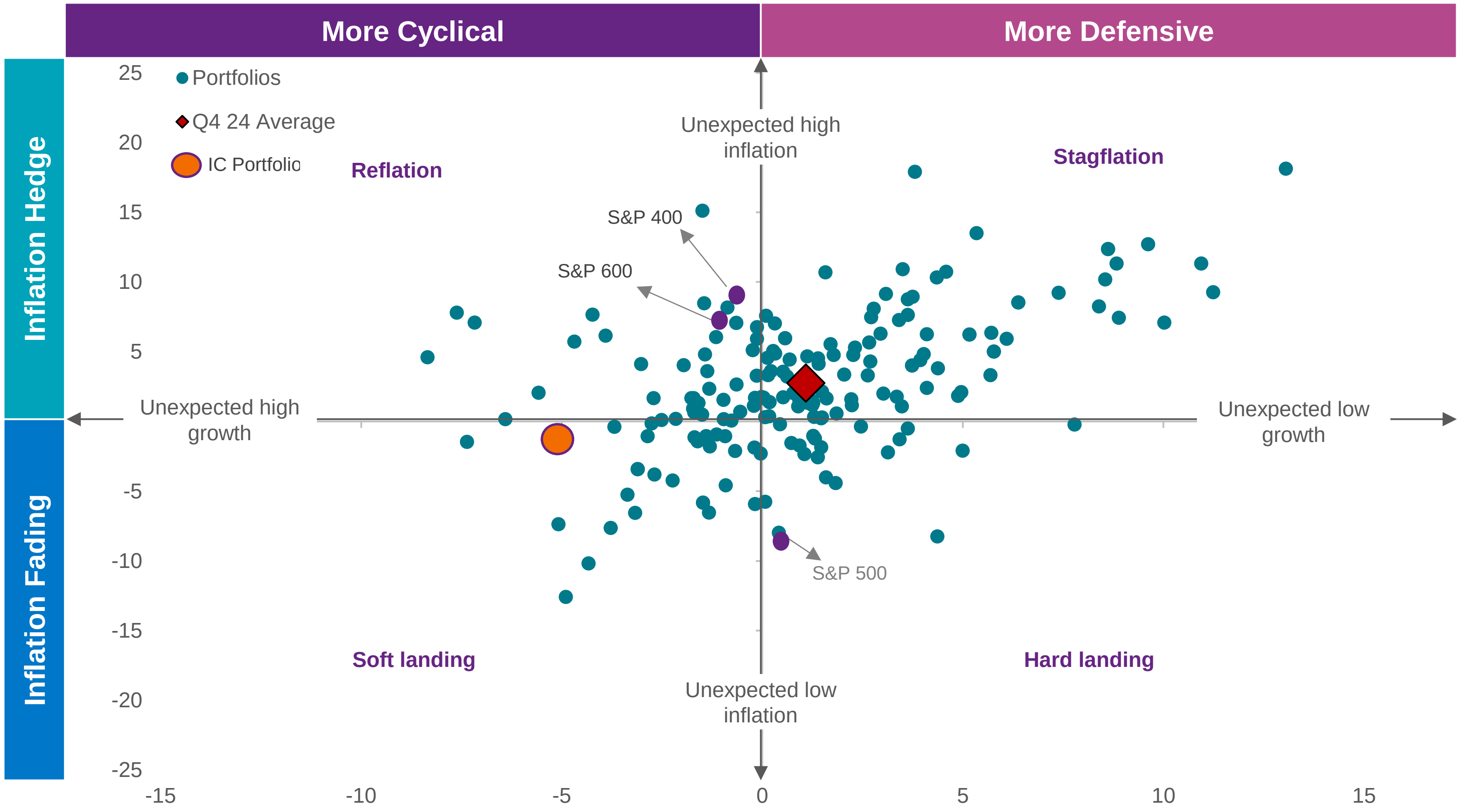
From a style perspective, advisors continued to lean toward value in Q4 2024, although exposure to the growth style has been increasing since 2023.

A more nuanced lens based on how cyclical or defensive the industry exposures tend to be, and whether those industries are more or less of an inflation hedge, reveals the value bias to be more defensive than procyclical, as shown on the next slide.

A portfolio is considered as style neutral if equity style growth – equity style value is between -2% and 2%. A portfolio is considered to have a growth bias when equity style growth – equity style value is larger than 2%. A portfolio is considered to have a value bias when equity style value – equity style growth is larger than 2%. The Portfolio Analysis & Consulting Moderate Risk Peer Group is based on 6,048 moderate portfolios submitted to Natixis Portfolio Analysis & Consulting from Jan 2013 to Dec 2024.

Source: Natixis Investment Managers Solutions Portfolio Analysis & Consulting. Data as of 12/31/2024.

Granular Industry Lens Reveals Defensive & Inflation Positioning



Cyclicality vs. Inflation:

Which types of investments are more likely to outperform during inflation and growth surprises?

Our *cyclicality vs. inflation* framework highlights strategy and portfolio tilts that can provide headwinds or tailwinds in future investment regimes.

While the Moderate Peer Group Portfolio leans toward Stagflation, our Investment Committee Portfolio is positioned with more of a pro-cyclical bias. This is due to our view that a positive economic backdrop will reward cyclical industries as market breadth begins to widen out beyond large cap growth.

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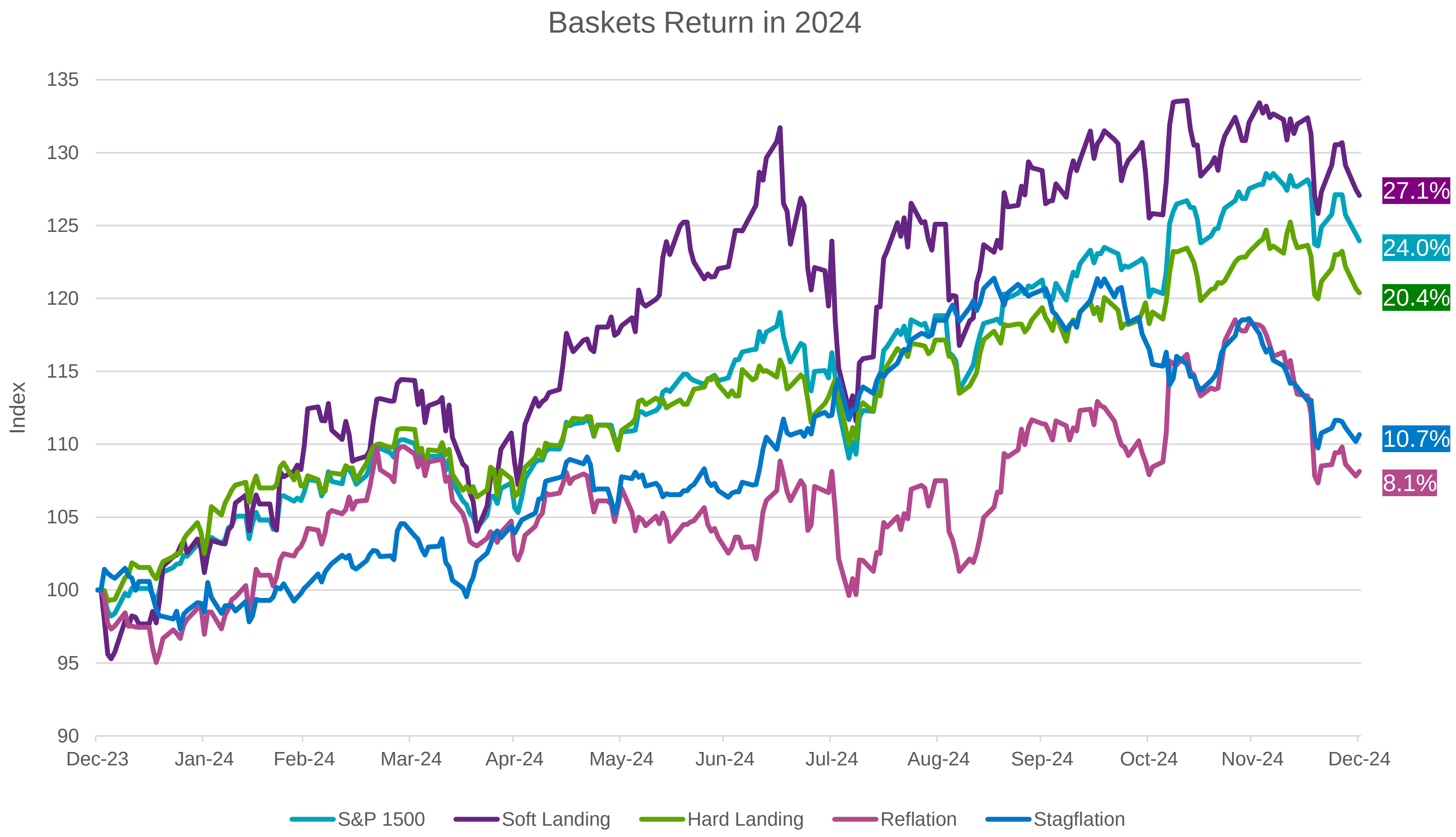
Inflation Hedging Exposures Lagged Inflation Fading in 2024

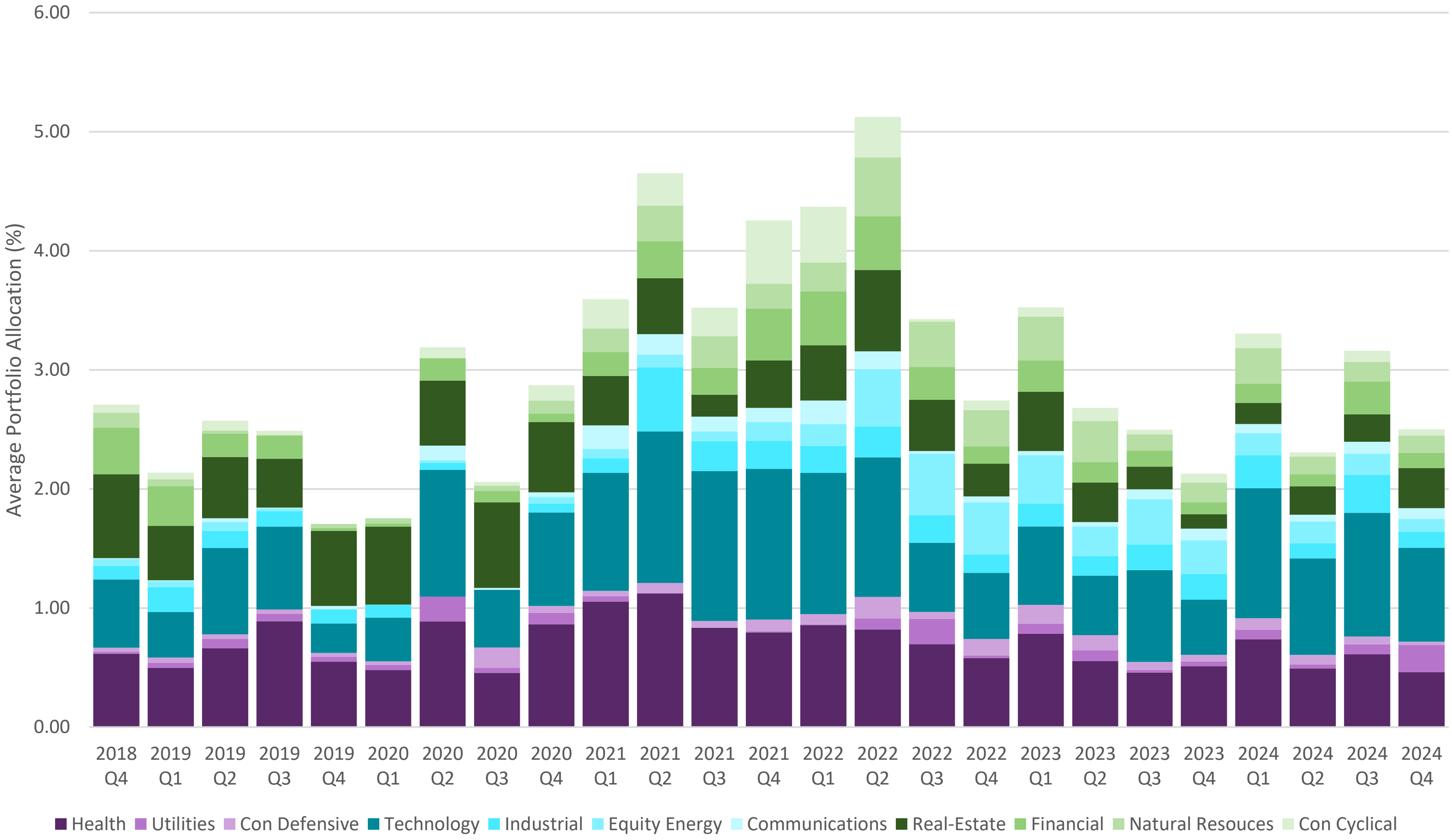


In 2024, Soft Landing basket led with 27.1% total return, while Reflation basket ended with 8.1% total return.

The most pronounced theme within this framework in 2024 was that industries benefiting from inflation coming down, Soft Landing and Hard Landing, performed much better than industries that tend to do well when inflation surprises to the upside, Stagflation and Reflation.

Source: Natixis Investment Managers Solutions Portfolio Analysis & Consulting. Data as of 12/31/2024.

Advisors Express Views with Sector Products Mix



Allocations to sector equity strategies are small and balanced across cyclical, sensitive and defensive groups, though tech persists as a leading sector.

S&P 500® Sector	**Q4 2024 Return**
Consumer Disc	14.3%
Comm Services	8.9%
Financials	7.1%
Info Tech	4.8%
Industrials	-2.3%
Energy	-2.4%
Consumer Staples	-3.3%
Utilities	-5.5%
Real Estate	-7.9%
Healthcare	-10.3%
Materials	-12.4%

*.Refers to explicit sector equity funds in client models.

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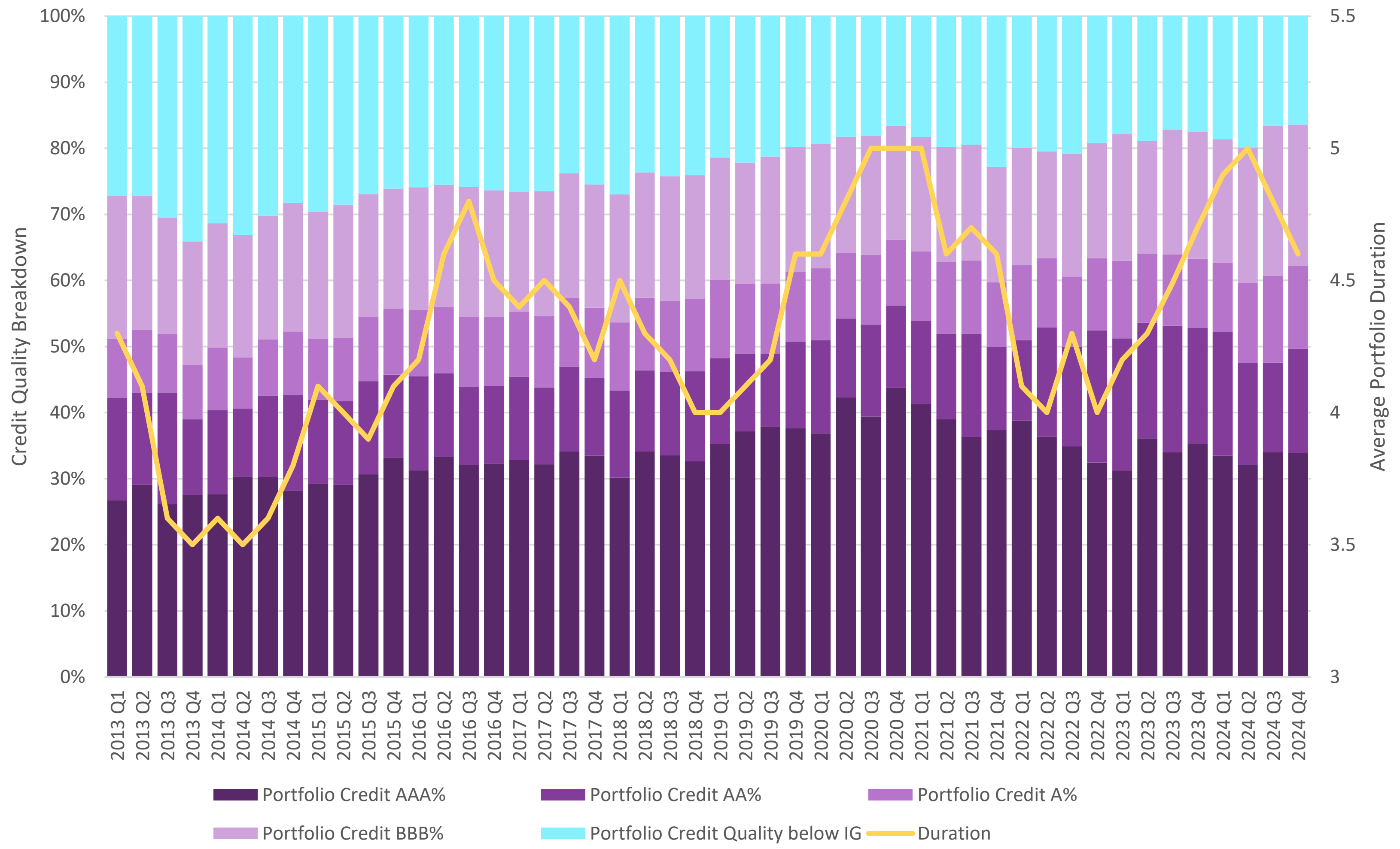
Duration Retreated. Models Favored High Quality.



Average portfolio duration retreated since mid 2024, from a recent high of 5.0 years to 4.6 years. This is consistent with advisor concerns regarding inflation and higher interest rates.

Overall credit quality was among the highest in our data history. Given how tight credit spreads are, as well as the absolute level of interest rates, it makes sense that advisors are leaning away from lower credit quality and toward more investment grade credit exposure.

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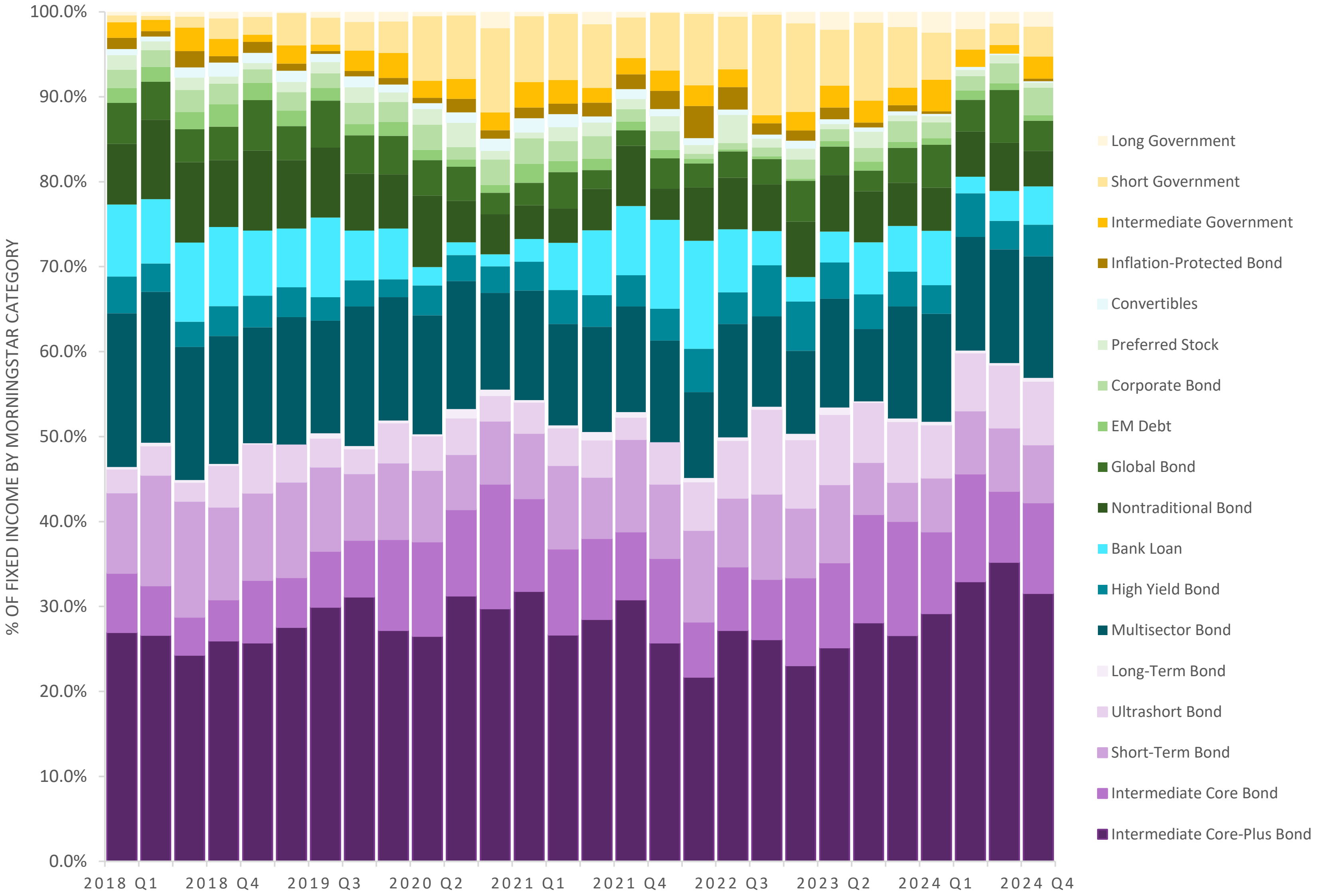
Seeking Flexibility in Core Plus, Multisector & Nontraditional Bonds



Advisors have sought out greater flexibility with an increase in core plus, multisector and nontraditional bond exposure over the past few years.

In return-seeking buckets, advisors have leaned on multisector, bank loans and high yield during Q4 2024.

For the role of safety, advisors have sought out flexible core plus exposures along with short-term government bond now that yields are more attractive.

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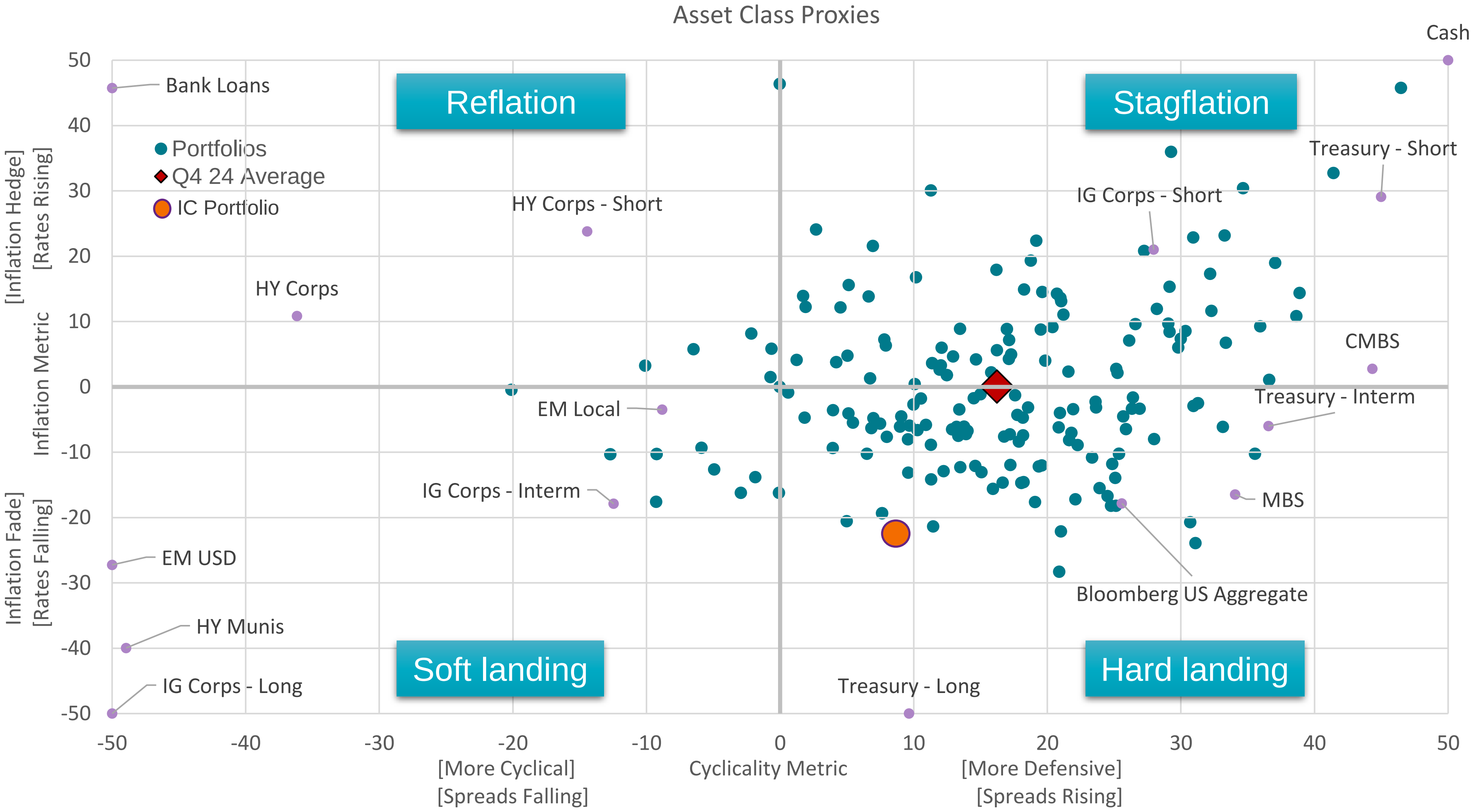
Cyclicality vs. Inflation: Fixed Income



Within our Cyclicality/Inflation Framework for Fixed Income, the shorter-than-benchmark duration translates to a positioning that leans more toward inflation hedging than the Bloomberg US Aggregate Index and our IC fixed income positioning.

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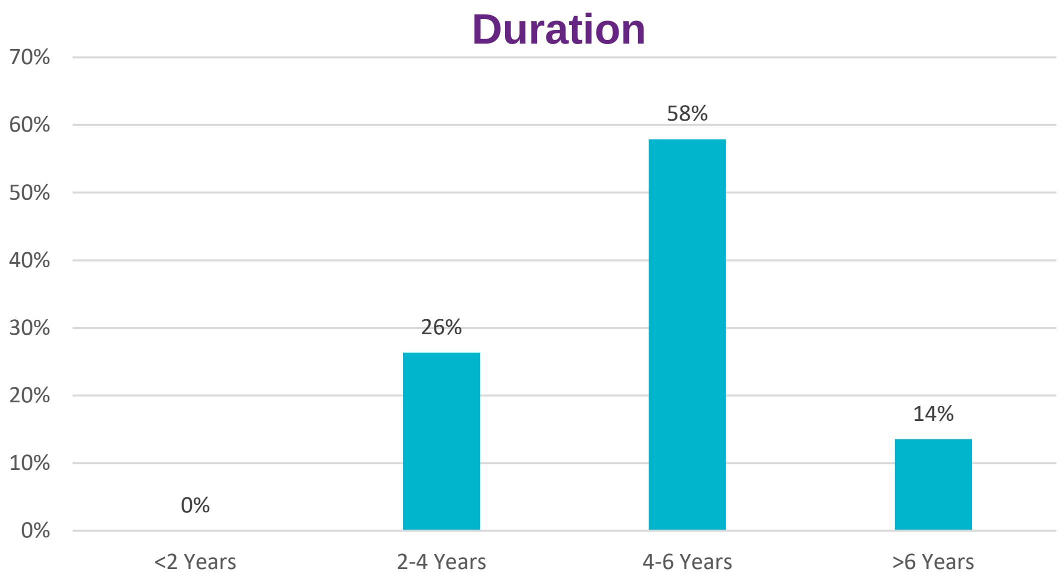
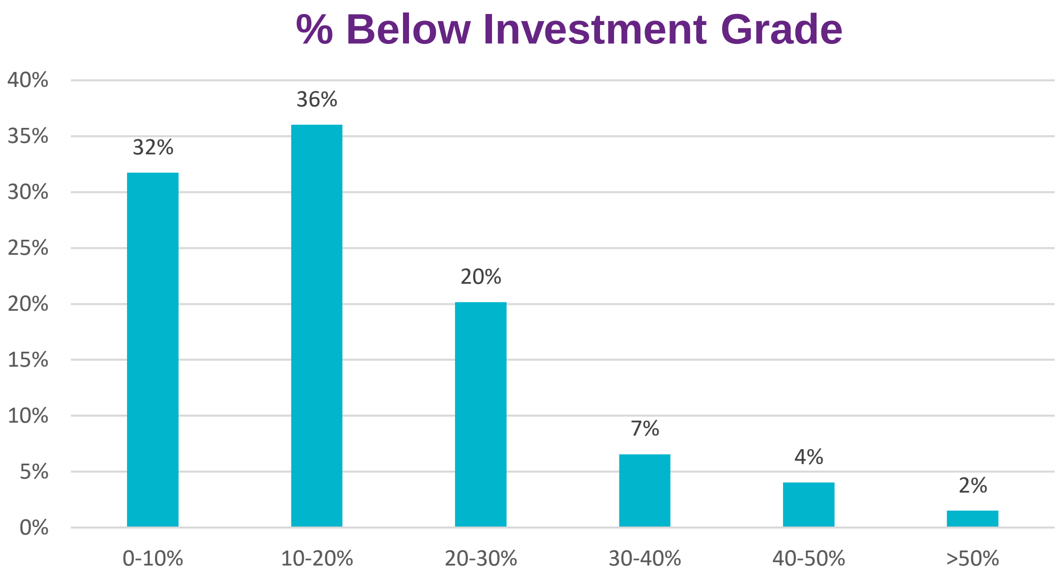
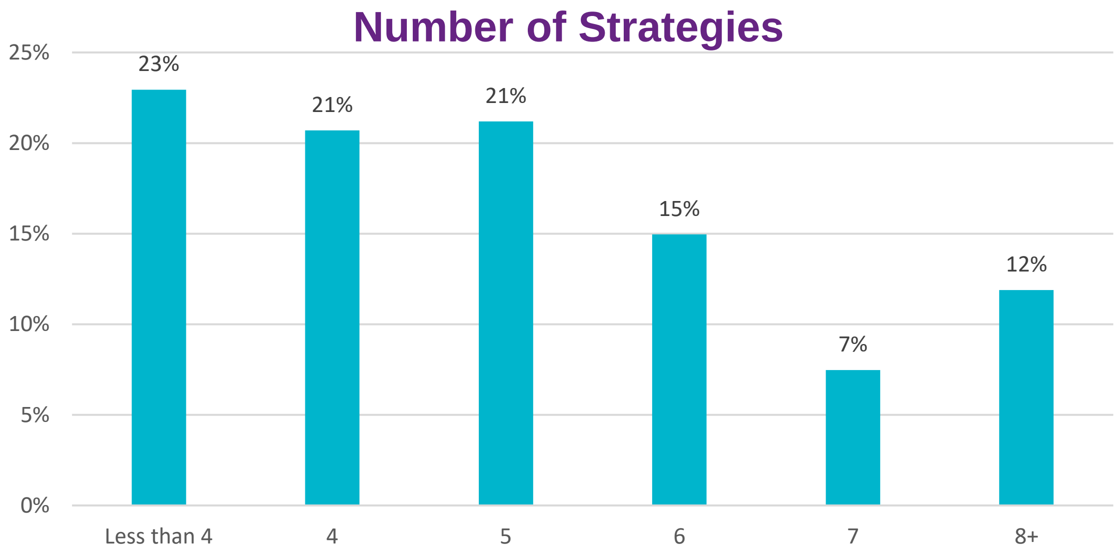
86% of Models Kept Duration Short, but 1/3rd have >20% in HY







Our fixed income portfolio attribute data shows considerable dispersion around the average duration, high yield allocation, and number of strategies.

The Portfolio Analysis & Consulting Moderate Risk Peer Group is based on 401 moderate portfolios submitted to Portfolio Analysis & Consulting from January 2024 to December 2024. Source: Natixis Portfolio Analysis & Consulting.

Data as of 12/31/2024.

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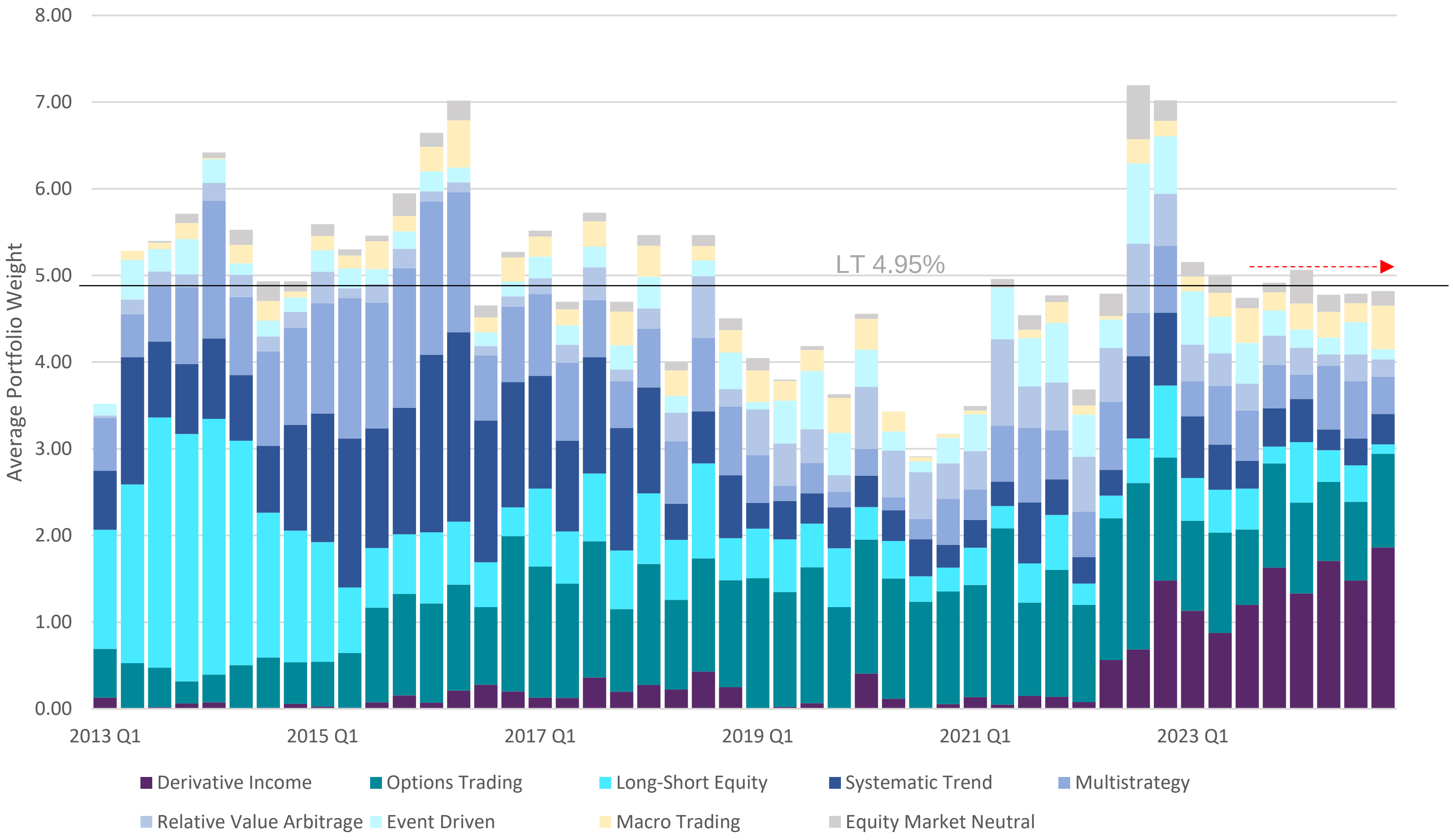
The Composition of Alternatives Has Shifted to Higher Equity Beta



Alternatives exposure has hovered near the long-term average of 5%.

Derivative income remained the most common area of focus in the alternatives sleeve, followed by options trading.

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* Includes Derivative Income and Long-Short Equity, both are classified as Nontraditional Equity.

Source: Natixis Investment Managers Solutions Portfolio Analysis & Consulting. Data as of 12/31/2024.