NATIXIS INVESTMENT MANAGERS | SOLUTIONS

Q2 2025

Tax management update

After a massive dip, US equities trend higher

Investors experienced a true roller-coaster ride in the second quarter of 2025. Wide-ranging tariff announcements in early April led to significant volatility and a sharp drop in equity markets. This volatility persisted for the early/mid portion of April until the Trump administration placed a 90-day pause on the implementation of the tariffs. This decision drove a massive equity market rebound, with the S&P 500® rising more than 9% on the day of the announcement (April 9). Equity markets continued to trend higher in Q2 when it became increasingly clear that some of the massive tariff increases may not play out. As such, some of the potential worst-case scenarios from an overall economic activity perspective were removed, and markets reacted accordingly. Equity markets ended the quarter higher both from a quarterly and year-to-date perspective. This rebound was especially significant for growth stocks, but value and non-US equities were also positively impacted. Returns – and overall volatility – were quite impressive for the more volatile equity names.

Fixed income markets tended to move moderately higher for the quarter as well. From an interest rate perspective, the Fed did not make any changes to the federal funds rate, keeping it at 4.25% to 4.5%. Economic uncertainty has increased somewhat significantly, and although the market expects more Fed rate reductions, the timing and extent of the changes remain to be seen. The Fed has cut rates by 1% since it began reducing rates in September 2024.

"Q2 2025 represented a classic example of how a proactive, year-round harvesting process can add value for clients."

Peter Klos, CFA®
Client Portfolio Manager
Natixis Investment Managers Solutions

Highlights of the One Big Beautiful Bill Act

Although tariffs drove the majority of the volatility in late Q1 and early Q2, the headlines shifted toward congressional negotiations and the ultimate passage (start of Q3 2025) of President Trump's One Big Beautiful Bill (OBBB) Act. This piece of legislation was designed to extend and make permanent a number of elements in the Tax Cuts and Jobs Act of 2017.

Included in the law are changes to taxes, federal spending, funding for administration priorities and a $5 trillion debt ceiling increase. For many, the law will mean that they won't face scheduled tax increases on January 1, 2026, while others will receive additional tax relief – including on some tipped and overtime wages, through enhanced state and local income-tax exemptions, and higher standard deductions for some seniors. My colleague Kari Grant, a government relations specialist in Washington, DC, put together an extensive update on the details. Here are some of the highlights:

- **Individual tax brackets will remain the same, preventing a tax rise scheduled for January.** Tax brackets in 2026 will be 10%, 12%, 22%, 24%, 32%, 35%, and 37% rather than the scheduled 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%.
- **The higher standard deduction will remain in place and further enhanced.** The 2017 tax bill significantly increased the standard deduction, which was scheduled to sunset in January 2026. This bill extends this enhancement, preventing it from being cut roughly in half. It also adds $750 for individuals, $1,500 for joint filers and $1,125 for heads of household starting in 2025. This puts the standard deduction for 2025 at $15,750 for an individual, $23,625 for heads of household and $31,500 for joint filers. These are permanent changes.
- **Some overtime and tipped workers will receive a tax break.** Tipped and overtime workers will be able to deduct some wages from federal income tax. Tipped wages up to $25,000 can be deducted, but the provision is income limited to $150,000 per individual and $300,000 per joint filer. For overtime wages, the deduction is capped at $12,500 per individual or $25,000 per couple, with the same income limits. The policy is temporary and will be in effect from 2025–2028.
- **Some seniors will receive an added deduction.** Those over age 65 filing with a standard deduction will receive an additional $6,000 deduction, per filer. The deduction begins to phase out at $75,000 for individuals and $150,000 for joint filers. This provision is also in place temporarily through 2028.
- **State and Local Income Tax (SALT) cap deduction to rise.** The $10,000 cap on the SALT deduction, which was put in place in 2017, has now been increased to $40,000 (increasing 1% per year) for individuals and joint filers but is phased out on earnings over $500,000. This is another temporary provision starting in 2025 and ending in 2030 when it will revert to $10,000.
- **The estate and lifetime gift tax exemption will increase.** The cap will rise to $15 million for individuals or $30 million for joint filers. The increase continues permanently, adjusted for inflation annually.
- **Auto loan interest will be tax deductible up to $10,000 on some new car purchases.** The loan interest deduction is a temporary provision that will be in place from 2025–2028 on cars with final assembly in the US.
- **Electric vehicle (EV) and clean energy home improvement credits will end this year.** The EV credit for purchases of new or used vehicles will expire on auto purchases made after September 30, 2025. Home energy improvement projects must be completed by December 31, 2025, to be eligible for credits.
- **A capped benefit on itemized deductions is introduced for the top tax bracket.** Beginning in 2026, the benefit of itemized deductions is capped at 35% for those in the 37% bracket, and capped at 32% for the expanded deduction for state and local taxes for those individuals.
- **Maintains the Qualified Business Income Pass-Through Deduction at 20%.** This was due to expire at the end of the year and has been made permanent.

What other priorities does the OBBB Act include?

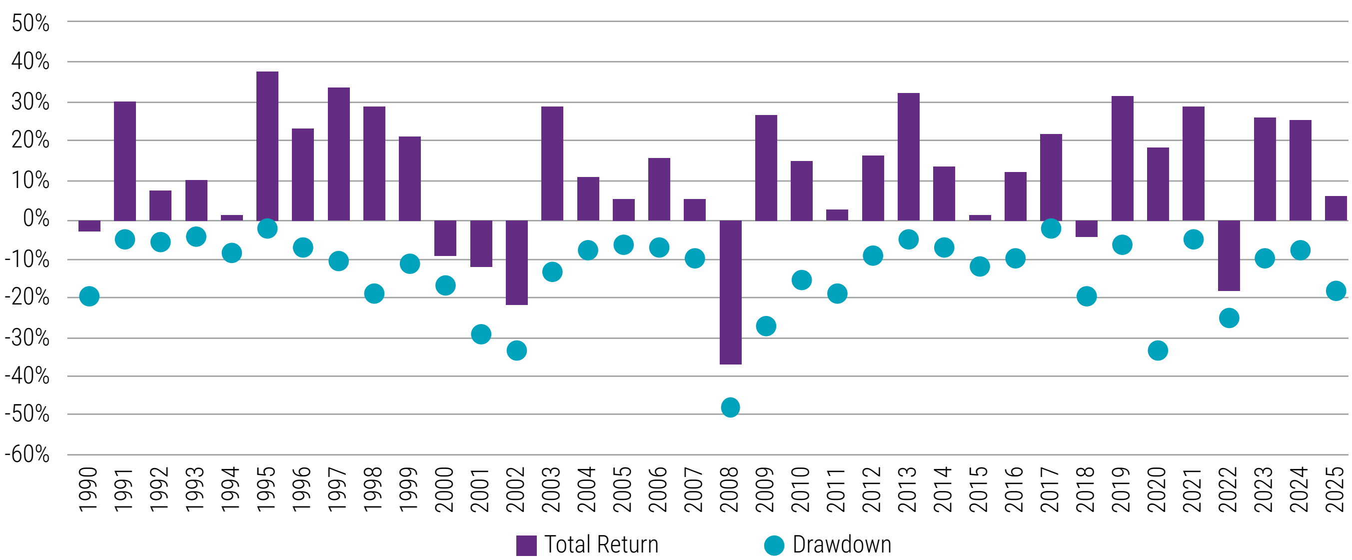
- **Federal spending cuts, including nearly $1 trillion in cuts to Medicaid.** Cuts will also be made to spending on the Supplemental Nutritional Assistance Program (SNAP) and by phasing out clean energy tax credits. The Medicaid cuts will be achieved by instituting work requirements for adults under age 65, with some exceptions, and through federal spending cuts, particularly for states that have expanded Medicaid through the Affordable Care Act. SNAP cuts will be achieved by additional work requirements, increasing the age range up to 65 rather than the current 55 and by requiring some states to partially fund the program, which is currently fully federally funded. Clean energy credits for solar and wind will also be phased out over time.

- **Tax credits for businesses expanding manufacturing and research in the US.** Allows taxpayers to immediately deduct domestic research or experimental expenditures paid or incurred. Provides full expensing for new manufacturing, production, and refining facilities. These are permanent provisions.
- **Increased defense spending.** The law provides over $150 billion in military spending, including $29 billion for shipbuilding and maritime capabilities, $25 billion for the Golden Dome missile defense project, and $25 billion for munitions.
- **Increased immigration enforcement.** The law provides $150 billion for immigration enforcement, including a $31 billion appropriation for Immigration and Customs Enforcement and $45 billion for Customs and Border Protection to build a border wall. It also adds $45 billion for detention and $13 billion in grants to pay state and local governments for immigration enforcement efforts.
- **Education and Healthcare Savings Account (HSA) changes.** Trump Accounts have been introduced allowing up to $5,000 per year in after-tax contributions by a taxable entity until a child turns 18, at which time half the funds can be used for education, to buy a home, or to start a business – withdrawals for those purposes will be subject to long-term capital gains tax rates rather than ordinary income. Children born between 2025 and 2028 are eligible for the accounts and for $1,000 in federal seed money for the accounts. Also included in the law are expanded uses for 529 funds and HSAs. The law also allows for additional high-deductible plan participants to contribute to HSAs.

What about the impact on the deficit?

- **Ultimately, the impact on the deficit, and relatedly the debt, over the next decade will take time to understand.** The difference between the Congressional Budget Office and the White House's estimates reflects different underlying assumptions. As the 10-year window unfolds, the extent of these assumptions will become clearer, and there will almost certainly be unanticipated exogenous shocks that could change the outlook for the deficit.

FIGURE 1: Annual total return and max drawdown for the S&P 500® by calendar year

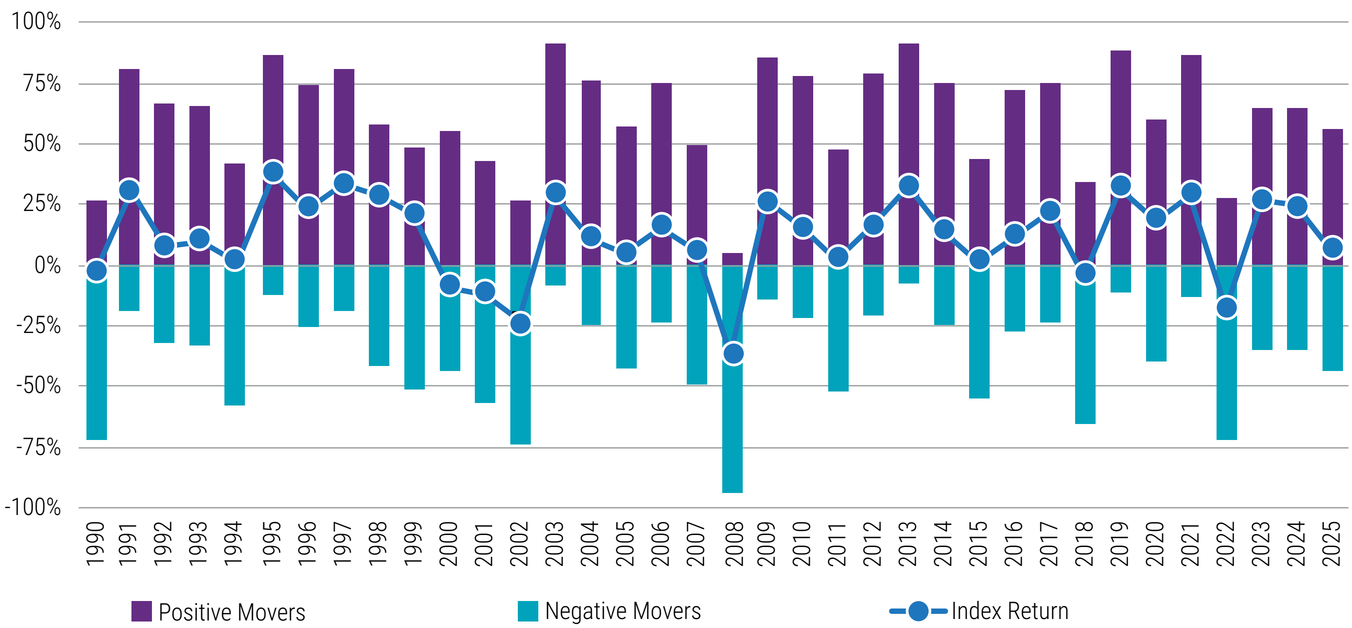


Performance data shown represents past performance and is no guarantee of future results.
Source: FactSet; Natixis Investment Managers Solutions

Winners and losers

The number of stocks in the S&P 500® posting positive YTD returns improved during the quarter, as markets rebounded significantly over the course of the period. Although the overall S&P 500® rose 6.2% for the quarter, a little over half of the stocks, 57%, were up in value. After experiencing a difficult start to the year, growth stocks have rebounded significantly, and many of the Magnificent 7–type names have reestablished leadership. NVIDIA (+46%), Microsoft (+33%), Broadcom (+65%) and Meta (+28%) were the four largest contributors from a performance perspective within the S&P 500®, given their combination of strong performance and relatively large weight. Other top 10 index names, such as Apple (-8%) and Berkshire Hathaway (-9%), were notable detractors, along with UnitedHealth (-40%), which had a significant stock-specific impact.

FIGURE 2: Winners, losers and total return for the S&P 500® by calendar year



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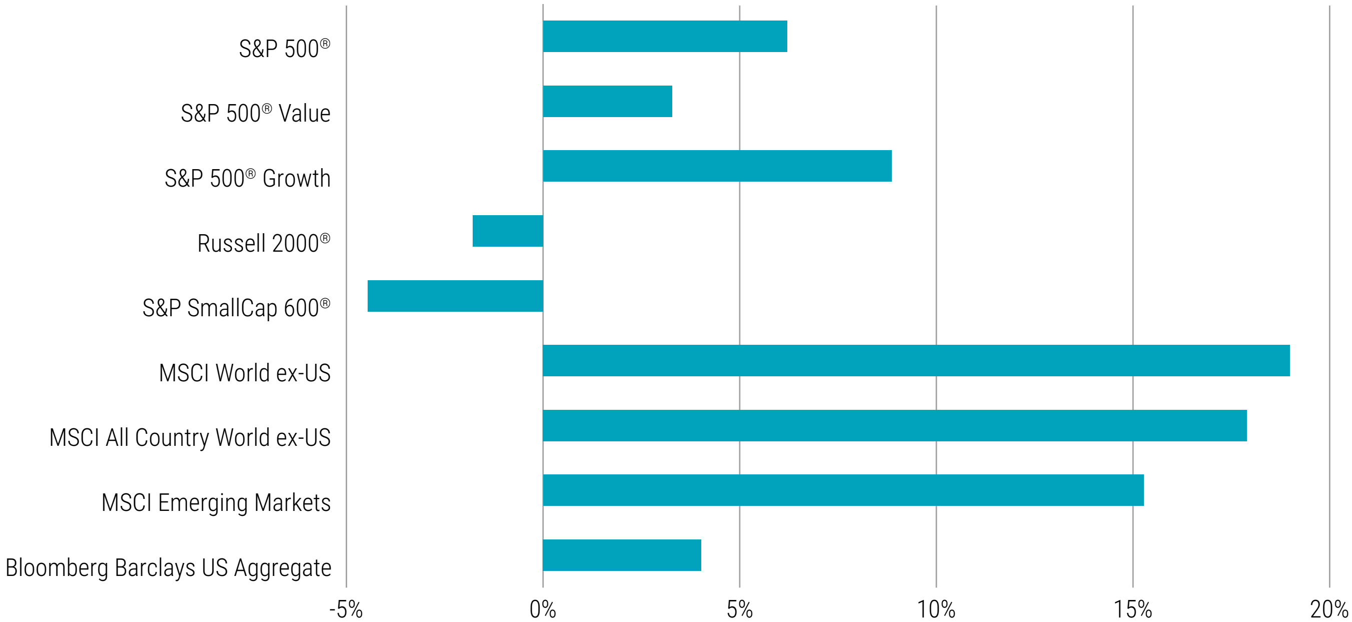
Source: FactSet; Natixis Investment Managers Solutions

Equity indices experienced volatility

Returns for equity indices were highly volatile during the quarter, tending to fall materially in the early part of the quarter and then recovering for the remainder of the quarter. Broad-based large-caps, as represented by the S&P 500®, rose by approximately 10.9% for the quarter, with growth (S&P 500® Growth up 18.9%) outperforming value (S&P 500® Value up 3.0%) meaningfully. This marked a significant reversal from Q1, where value tended to outperform growth. Small-caps lagged large-caps during the quarter, with the S&P 600® rising 4.9%. International stocks mildly outperformed US stocks, with the MSCI EAFE Index increasing by approximately 11.8%. Emerging markets were also up in value, with the MSCI Emerging Markets Index climbing by around 12.0%. Fixed income markets were up modestly during the quarter, with the Barclays Aggregate Bond Index rising by 1.2%. High yield tended to outperform investment grade during the quarter, with the ICE BofA US High Yield Index rising 3.6%.

FIGURE 3: Year-to-date returns for select indices



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

Proactive tax loss harvesting continues to add value

Q2 2025 represented a classic example of how a proactive, year-round tax loss harvesting process can add value for clients. Markets tended to fall somewhat significantly in the early part of the quarter but rebounded by the end of the period. There were some stock-specific or industrywide impacts, but much of the turbulence was driven by tariff-related volatility. Longer-term investors in US stocks might still have good-sized gains, but new investors likely had opportunity to harvest losses to offset gains in other parts of their portfolios. Non-US markets have held up better in 2025 due to stock and currency reasons, but there were still pockets of weakness at the country or individual stock level as tariff-related volatility led to broader dispersion across individual names. Bond markets (especially higher-quality investment grade) rose during the period, leading to fewer opportunities in that space compared to what we've seen over the past number of years. A proactive and systematic tax loss harvesting process that looks for opportunities through the year was likely able to take advantage of some harvesting opportunities, especially for new investors within the US large-, mid- and small-cap universes. This harvesting opportunity will vary based on client-specific events (when the client invested, cash flows, etc.) along with manager changes.

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S&P 500® Index: The Standard and Poor's 500, or simply the S&P 500®, is a stock market index tracking the stock performance of 500 leading companies listed on stock exchanges in the United States.

S&P 500® Value: The index measures the performance of the large-capitalization value sector in the US equity market. It is a subset of the S&P 500® Index and consists of those stocks in the S&P 500® Index exhibiting the strongest value characteristics.

S&P 500® Growth: The index measures the performance of the large-capitalization growth sector in the US equity market. It is a subset of the S&P 500® Index and consists of those stocks in the S&P 500® Index exhibiting the strongest growth characteristics.

Russell 2000®: The Russell 2000® Index is an unmanaged index that measures the performance of the small-cap segment of the US equity universe.

S&P SmallCap 600®: The S&P SmallCap 600® covers approximately 3% of the domestic equities market. Measuring the small-cap segment of the market that is typically renowned for poor trading liquidity and financial instability, the index is designed to be an efficient portfolio of companies that meet specific inclusion criteria to ensure that they are investable and financially viable.

MSCI World ex-US: The MSCI World ex-US Index (Net) is an unmanaged index that is designed to measure the equity market performance of developed markets, excluding the United States.

MSCI All Country World ex-US: The MSCI All Country World ex-US Index is a free float-adjusted market-capitalization index that is designed to measure equity market performance in the global developed (excluding the USA) and emerging markets. The index is shown with minimum dividend reinvested after deduction of withholding tax.

MSCI Emerging Markets: The MSCI Emerging Markets Index is an unmanaged index that is designed to measure the equity market performance of emerging markets.

Bloomberg Barclays U.S. Aggregate: The Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index that covers the US dollar–denominated, investment grade, fixed rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury; government-related, corporate, mortgage-backed securities; asset-backed securities; and collateralized mortgage-backed securities sectors.

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A tax liability is the total amount of tax debt owed by an individual, corporation or other entity to a taxing authority.

Tax loss harvesting is a strategy for selling securities that have lost value in order to offset taxes on capital gains.

Capital gain is a rise in the value of a capital asset (investment or real estate) that gives it a higher worth than the purchase price.

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