2022 OUTLOOK:
THREE QUESTIONS FOR LOOMIS SAYLES' SECTOR TEAMS

Every year, Loomis Sayles features outlooks from our sector teams — teams composed of traders, analysts, strategists and portfolio managers immersed in their respective sectors of the market. This year, we're tailoring our outlooks to focus on what's top-of-mind for many investors. We asked each sector team three questions that drill into key themes in their respective sectors.

TABLE OF CONTENTS

2022 MACRO OUTLOOK: VIEWS ON INFLATION, THE FED AND THE EXPANSION

By Craig Burelle, Senior Macro Strategies Research Analyst – **4 JANUARY 2022**

1
Let's start with a topic dominating the conversation these days—inflation. What's your view on the path of inflation this year? How do you expect the Federal Reserve to respond?

In our view, much of the inflation debate hinges on whether inflation will ease once supply chain disruptions subside. Very little about 2021 was "normal," and we believe supply chain disruptions have distorted recent inflation data. With COVID-19 cases surging globally and demand remaining strong, we think supply chain disruptions are likely to linger until the second half of 2022. If these distortions clear up, we expect core PCE[1] inflation to settle into a range between 2.0% and 2.5%.

The December FOMC (Federal Open Market Committee) meeting revealed a hawkish pivot in its policy approach. The Fed appeared more concerned that high inflation is no longer transitory and signaled a more aggressive path for policy rates. As a result, we expect the Fed to respond to higher inflation with four rate hikes in 2022, starting near the end of the first quarter.

Going forward, we'll be watching how inflation trends relative to the Fed's 2022 core PCE inflation outlook, which is currently at 2.7%. We view this as a critical threshold that could determine how aggressively the Fed hikes rates. If inflation does not start trending down toward 2.7% by the second half of 2022, then we believe the Fed could become significantly more hawkish in 2023.

2
Could a Fed tightening cycle put the global expansion at risk?

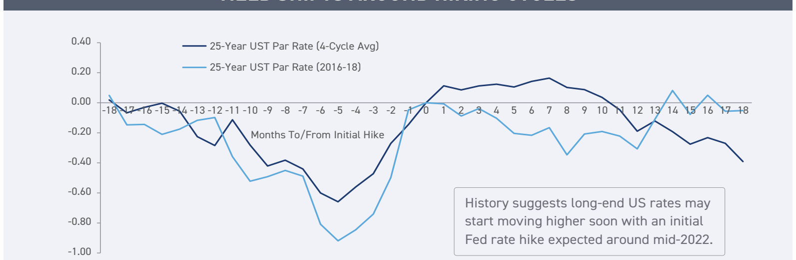
We don't think so. Historically, risk assets have continued to generate positive average total returns as the Fed tightens policy. It's generally the end of policy tightening when returns start to get shaky.

We see several macro drivers that should help fuel the global expansion for months to come:

- Risk appetite remains healthy.
- Wage growth will likely draw participants back into the workforce, improving labor market health.
- Corporate health appears strong, and we believe it will remain meaningfully stronger than it was during the last hiking cycle. Consumer savings and demand are high, which should support corporate profits and keep leverage down.
- We expect most global central banks to remove accommodation slowly, which should help financial conditions from getting too restrictive.

That said, investors may want to fasten their seatbelts. Asset valuations are generally rich and we anticipate market swings as the market reprices Fed expectations.

YIELD SHIFTS AROUND HIKING CYCLES



Source: JP Morgan Data Query, as of 3 January 2022. Rate data normalized to zero at initial hike. Par rate is the rate (or coupon) that would be likely if a bond with a stated maturity were to be issued at a par dollar ($100) price

LOOMIS | SAYLES

3
Which asset classes are positioned to perform well in this environment?

We think bond investors can seek to harvest carry in this environment. In our view, risk assets can still offer opportunity, particularly among US equities, high yield credit and levered loans. However, we believe security selection will be critical for distinguishing quality securities that could help drive potential alpha.

[1] PCE: Personal Consumption Expenditures Price Index, a measure of inflation.

2022 HIGH YIELD CREDIT OUTLOOK: VIEWS ON POLICY, RATINGS AND OPPORTUNITY

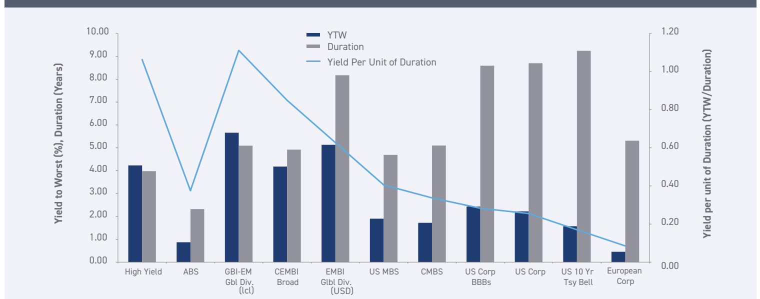
By the Loomis Sayles High Yield Sector Team – **6 JANUARY 2022**

1
Rising rates can be a double-edged sword for high yield credit. On the one hand, the sector's shorter average duration can draw fixed income investors away from longer-duration assets when rates are rising. On the other hand, rising rates often go hand in hand with tighter financial conditions, making it more expensive for companies to borrow. How do you expect the sector to perform if rates begin to rise?

We believe strong credit fundamentals and strong earnings growth will continue to support high yield credit spreads in a rising rate environment. Credit outlook revisions have been positive among Loomis Sayles' credit analysts and street analysts, suggesting that more companies are likely to have their credit ratings upgraded rather than downgraded. We believe this trend of positive credit outlook revisions will continue into 2022, helping to provide a potential tailwind for the high yield market.

When it comes to duration, we think high yield credit currently stands out relative to other US credit offerings because of its relatively attractive yield per unit of duration.

YIELD PER UNIT OF DURATION



Source: Loomis, Sayles & Co., Bloomberg, as of 31 October 2021. ***Past performance is no guarantee of future results.***

LOOMIS | SAYLES

2
Some market participants are expecting CCC-rated bonds to outperform this year, due to low defaults and attractive carry. Do you agree with that take?

We don't disagree that CCC-rated corporate bonds have traditionally offered an excess spread that can act as a natural hedge against rising base rates. However, we currently view single-B-rated corporate bonds as a better trade in 2022.

We believe that CCC-rated corporate bonds will struggle as we progress through the expansion phase of the credit cycle, which has historically been a phase when CCCs lag both BB and B-rated bonds. There's also potential defaults to consider. While we expect the low default environment to continue into 2022, we believe defaults reached a cycle low in 2021. We think investors will likely price an additional risk premium into CCC cohort as default rates gently increase.

We like the single-B-rated cohort of the high yield credit markets because we believe it's currently better positioned to absorb the rise in base rates while maintaining strong credit fundamentals and negligible defaults/downgrades.

3
With spreads tight and valuations elevated, it seems like a bond picker's market. Which areas of the market do you think offer the most value?

We believe nearly any market can be a bond picker's market! The high yield credit market has been trading in a tight range and dispersion is currently near all-time lows. But we believe opportunities can continue to arise for discerning investors.

We see potential for continued volatility within COVID-19-affected or reopening industries, which could present opportunities to add potential alpha through careful selection. We currently favor issuers that are focused on improving their balance sheets and aspire to achieve investment grade ratings.

We also think selected communication names look attractive. The communications industry benefited from revenue that was pulled forward during the pandemic, but battles a perceived slowing of growth. We like the industry's defensive nature, which has delivered durable cash flows and typically performs well in the expansion phase of the credit cycle.

2022 BANK LOANS OUTLOOK: VIEWS ON DEMAND, DEFAULTS AND TRANSITIONING TO SOFR

By Cheryl Stober, Investment Director, Banks Loans – **10 JANUARY 2022**

1

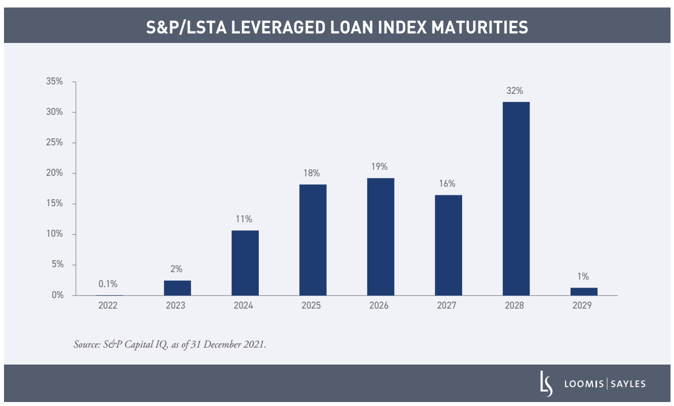
Leveraged loan supply and demand experienced a banner year in 2021. Syndication of M&A-driven loans and CLO issuance shattered records.[1] In the wake of such a remarkable year, investor focus has turned to the broader issue of inflation. How could that impact demand in the loan market?

Looking at our portfolios, we see a lot of companies that permanently reduced costs during the pandemic and are showing pricing power. That combination should help them bolster results against cost inflation in 2022. However, as inflation has increased across the economy, the Federal Reserve is likely to raise rates in order to control it. This could be a benefit to the loan market. Loan coupons float alongside rate increases, which tends to spur new demand for leveraged loans and keeps their prices near par. On the demand side, we believe that CLOs and retail mutual funds will be strong buyers of loans again this year.

2

What is your outlook for defaults in 2022?

The environment for loan credit quality remains very constructive. As always, our credit selection remains focused on long-term risks, not short-term movements. We agree with the market expectation that default rates are likely to be very low over the next year due to both company-specific circumstances (healthy liquidity, cost cutting and revenue retention) and macroeconomic support in the form of fiscal and monetary stimulus. We believe companies in the loan market are well positioned to survive any likely increases in interest rates. With few maturities scheduled in the coming years, defaults are projected to be quite low.



3

How is the loan market handling the transition from London Inter-Bank Offered Rate (LIBOR) to the Secured Overnight Financing Rate (SOFR)?

The market is several years into the transition away from LIBOR, and has hit the major milestone of no new LIBOR-based issuance after 2021. The loan market has seen limited SOFR-based issuance so far. However, based on the average price of loans trading close to par, it appears the market doesn't seem nervous about liquidity or the operational aspects of this change. We expect this transition to continue without disrupting the market, especially given the prevalence of interest rate floors, which are generally above the reference rates in use.

[1] *Source: S&P Capital IQ, as of 31 December 2021*

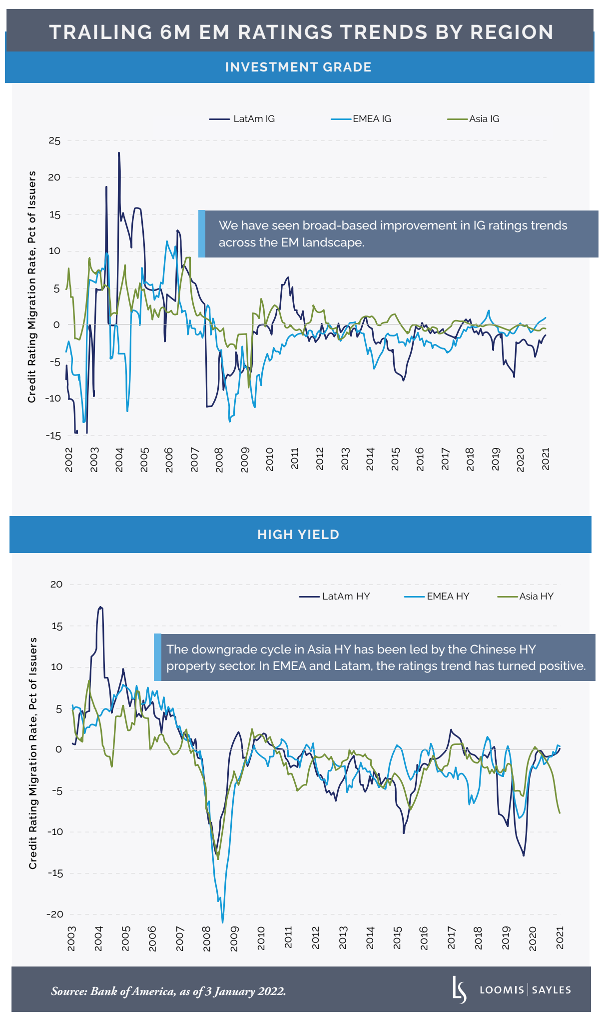
2022 EMERGING MARKETS DEBT OUTLOOK: VIEWS ON FUNDAMENTALS, EM ASIA AND OPPORTUNITIES

By the Emerging Markets Debt Sector Team – **13 JANUARY 2022**

1
What's your view of EM debt fundamentals? How do you think the sector will weather a Federal Reserve tightening cycle?

In the case of EM sovereign debt, we expect a theme of performance dispersion in 2022. Elevated commodity prices should provide support for a variety of exporters across the Middle East, Africa and Latin America. While aggregate EM debt levels remain elevated relative to history, the 2021 global growth recovery supported declines and we expect debt to stabilize near these lower levels in 2022. We believe debt vulnerabilities do exist in a handful of high yielding sovereigns, however these special situations have been well televised to the market. Importantly, the space could benefit from a strong supportive technical backdrop—some market participants expect declining gross issuance to lead to more than a five-year low in net supply. Limited net new supply, and growth resilience underpinned by export demand, should provide a constructive backdrop for select EM countries.

In the case of EM corporate debt, following a rise in leverage after the initial global shutdown in March 2020, corporates rapidly recovered in 2021. Corporate de-leveraging efforts were led by issuers in commodity linked sectors—metals and mining, oil and gas, chemicals, and pulp and paper. The positive de-leveraging trend extended to less volatile segments of the market, including technology, media and telecommunications and consumer. As we have seen in the developed markets, consumption has been recovering across the emerging markets and we expect to see further normalization into 2022. The balance sheet improvement has largely translated into a stabilization in credit rating trends, a positive signal given the wave of downgrades experienced in 2020. From a default perspective, within the EM corporate high yield (HY) space, expectations are for a slightly elevated level of 3.9%.[1] However, it is important to note that this level is mainly driven by the Chinese HY property space, which has been experiencing a structural shift. Outside of China HY, EM corporate HY default rates should remain benign. In our view, EM corporate credits are well positioned ahead of the upcoming Fed hiking cycle. The fundamental prospects remain firm with commodity prices elevated. Improvements in domestic and external demand should help support earnings in 2022.



Source: Bank of America, as of 3 January 2022.

2

In 2022, how might expectations for slower growth in China impact economies in EM Asia?

We forecast China will likely grow about 5% in 2022. The expected growth deceleration is a byproduct of policy action to reshape the economy. While it will likely cause pockets of pain in selected markets, we believe growth improvements across a variety of emerging Asian economies should drive solid performance within the corporate space. Broadly speaking, we expect growth to be supported by India, Indonesia, Malaysia, the Philippines, Vietnam and Bangladesh. Asia's growth, excluding China, should be around 6% in 2022. The rebalancing of growth within Asia could create interesting opportunities beyond the China opportunity set. We are looking for corporates that benefit from stronger export demand and improving consumption as the global growth recovery continues. We are also keen on issuers in the technology and telecommunications sectors that stand to benefit from the broader theme of digitalization. We believe investments in renewables and green energy also warrant attention.

3

Which areas of the EM debt market look the most attractive to you? Are there any areas you're watching?

We see attractive opportunities in the EM corporate HY segment. Into the close of 2021, a variety of factors—geopolitical tensions, political noise, policy shifts—pushed spreads wider across a swath of countries. Selected corporate credits in Turkey, Russia, Ukraine, China, Brazil, Chile and Colombia were repriced. We believe this repricing of risk has led to attractive valuations and we see catalysts for spread compression within discrete opportunities. However, we believe security selection will be key. Looking beyond idiosyncratic country factors, we expect the overarching theme of economic normalization to persist. We also see strong opportunities in the sustainable and social bond space. ESG-labeled EM corporate bond issuance experienced a record-breaking year in 2021, with over $78 billion priced. This issuance represents a three-fold increase versus 2020.[2] As we engage with issuers, and as corporations work to integrate sustainability KPIs (key performance indicators) related to these bonds, we see attractive opportunities across a variety of sectors within this growing segment of the market.

[1] Source: J.P. Morgan, as of 31 December. 2021.
[2] Source Bloomberg, as of 31 December 2021.

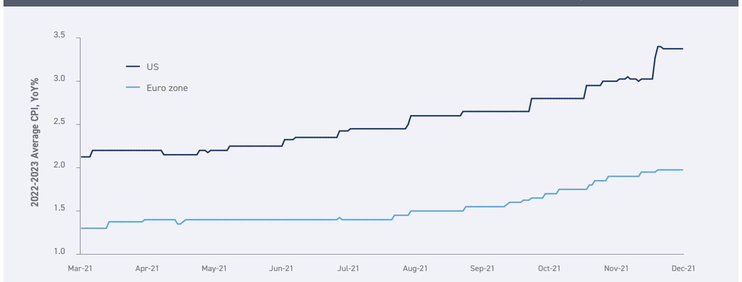
2022 GLOBAL CREDIT OUTLOOK: VIEWS ON GROWTH, THE ECB AND ESG INVESTING

By the Loomis Sayles Global Credit Sector Team – **18 JANUARY 2022**

1
How could global growth dynamics affect global fixed income markets in 2022?

The global recovery has been somewhat disjointed and asynchronous, and we expect this pattern to continue into 2022. We believe the primary drivers of the asynchronous global recovery will likely remain similar to last year's: COVID-19, inflation (see chart), supply chain disruptions and China growth fears. However, the removal of stimulus by global central banks could introduce a new dynamic this year. Inflation has surprised to the upside in most places, albeit to varying degrees. As we progress through 2022, we should get more evidence of how persistent inflation is likely to be. This would impact both long-term inflation expectations and central bank reaction functions, in our view. We think the market's interpretation and subsequent pricing of these factors is likely to lead to volatility across global credit, rates and foreign exchange.

BLOOMBERG CONSENSUS HEADLINE INFLATION FORECASTS, 2022 - 2023



Source: Bloomberg, as of 31 December 2021.

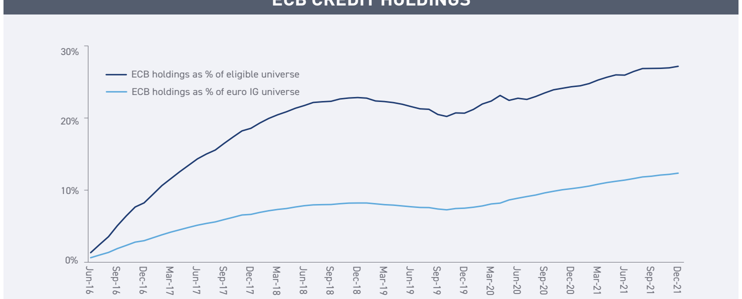
LOOMIS | SAYLES

We would view higher volatility across global credit markets as a positive. Credit quality is fundamentally sound and default expectations are quite low. However, we believe that reducing credit exposure could provide investors with dry powder to deploy if and when credit spreads offer more attractive valuations. Presently, we think pockets of opportunity still exist in credit. We believe potential rising stars in the energy and healthcare sectors could offer decent upside, as well as specific global issuers in sectors that are likely to benefit from economic reopening, such as airlines/airports, toll roads, and lodging.

2
The European Central Bank (ECB) has announced that the Pandemic Emergency Purchase Programme (PEPP) will likely end in March 2022. Is this a concern for euro corporate bonds?

In our view, the ECB has likely reached peak accommodation with regard to euro corporates. The central bank now owns more than €350 billion of corporates, amounting to about 10% of the euro investment grade (IG) corporate bond universe and a much higher share of the eligible securities.[1] Both the PEPP and Asset Purchase Programme (APP) have undoubtedly been positive for spreads, as the bond purchases have amounted to approximately half of the market's net supply over the past year or more. While the potential impact on spreads once PEPP is withdrawn in March remains uncertain, the ECB has stated that it intends to increase both government and corporate bond purchases under the APP for the next couple of quarters and longer if need be. As a result, we do not expect central bank support to wane until there is clear evidence that the economy is on sure footing.

ECB CREDIT HOLDINGS



Source: Bank of America Merrill Lynch, as of 31 December 2021.

LOOMIS | SAYLES

3

Are there any emerging trends or market shifts that you'll be watching?

In our view, one of the most prevalent emerging trends, primarily across Europe and the UK, is the market's focus on ESG investing and the significant growth of primary market ESG-labeled issuance. In 2018, ESG-labeled new issuance represented about 5% of total euro IG corporate supply. This number reached almost 25% during 2021, and the UK was not far behind. The United States has some catching up to do, with ESG-labeled issuance only amounting to about 7% of corporate supply in 2021.

We are keeping a close eye on the premium at which ESG-labeled bonds trade versus non-ESG-labeled bonds, as well as the performance dispersion. Currently, ESG-labeled bonds trade at a premium ranging from 5% to 20%; however, the jury remains out on whether securities and/or issuers with favorable ESG credentials will generate excess alpha over the longer term. We believe that over time, valuations will reflect ESG issues, particularly climate change. At present, outside of ESG-related shock events, there does not appear to be a strong correlation between ESG risks/opportunities and bond pricing, but we expect that to evolve over time.

At their core, we believe ESG risks are fundamental to an issuer's credit quality. If a company fails to recognize and remediate these risk factors, we would anticipate financial deterioration over time. Additionally, the market focus on ESG issues should not be ignored. In our view, as ESG factors gain increasing influence over investor demand, market valuations will adjust to this new norm and force weaker ESG credits to pay a premium to issue in a market with lower demand for their bonds.

[1] *Bank of America Merrill Lynch, as of 31 December 2021.*

2022 MUNICIPAL BOND OUTLOOK: VIEWS ON RATES, FUNDAMENTALS AND INFRASTRUCTURE

By the Loomis Sayles Municipal Sector Team – **20 JANUARY 2022**

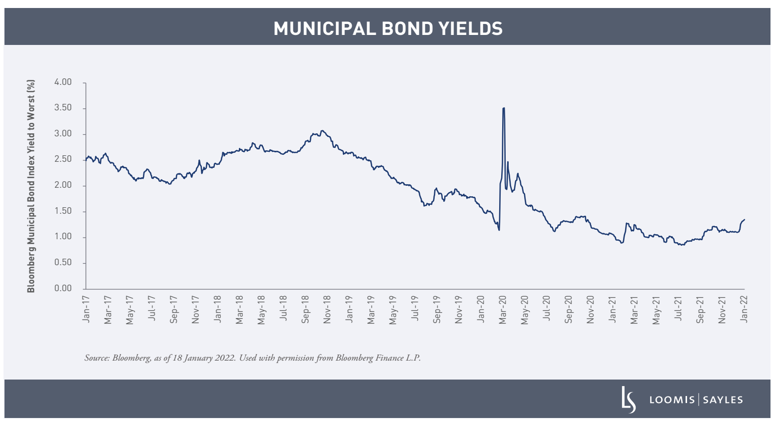
1

How do you expect the municipal bond market to respond if US rates continue to move higher? Are you concerned about fund outflows?

The municipal bond market has historically outperformed relative to Treasurys during periods of rising interest rates. We expect that to happen again, but there are two factors in today's environment that could mute that historical advantage, and both are related to the 2017 Tax Cuts and Jobs Act (TCJA) legislation.

- **Valuations**: Municipal valuations, as measured by yield ratios, are currently richer than their long-term historical valuation ranges compared to Treasurys. The TCJA prohibited tax-exempt advance refunding, which resulted in a permanent downdraft in tax-exempt issuance. Since then, the tax-exempt market has operated under supply-constrained conditions, and investors have pushed valuations higher. Rich valuations might not provide as much cushion to absorb the impact of further rate market moves if yields continue to move higher.
- **Refunding**: The municipal market is typically highly sensitive to supply. Refunding supply tends to increase when interest rates decline and decrease when rates rise. Historically, this has helped dampen relative municipal market volatility in bull and bear market scenarios. However, refunding supply is now transmitted solely through taxable municipal issuance, so the expected dampening effect would not impact the tax-exempt market.

With the Federal Reserve on track to begin raising rates in 2022, we would expect demand from fund investors to be more volatile. However, we believe greater volatility can result in increased opportunities for active investment strategies. Greater two-way market flow could present opportunities for portfolio rebalancing, and managing unrealized gain/loss positions. It could also provide more liquidity for forced sellers than would otherwise be the case.



2

What are your expectations for municipal bond supply in 2022? Could the new federal infrastructure program inject some new issuance into the market this year?

In our view, issuance should expand this year, but perhaps not as robustly as we had anticipated early in 2021. Federal infrastructure legislation failed to include provisions for direct-subsidy taxable municipals or a restoration of tax-exempt advance refunding. Nevertheless, we believe the $1.1 trillion Investment in Infrastructure and Jobs Act (IIJA) should result in companion issuance from state and local governments for capital projects that complement direct federal investment. In addition, the IIJA covers funding for basic infrastructure needs, which should provide state and local governments with greater flexibility to invest in other infrastructure needs. At the margin, we expect the IIJA will generally have a positive impact on supply, but it may take some time for projects and issuance to get underway. However, if rates move higher or faster than anticipated, taxable issuance could decline.

3

As we enter the third year of the pandemic, what's your view on municipal credit fundamentals? Are there any areas that stand out as particularly attractive?

We think state and local governments are in a stronger position than they were a year ago. Cash reserves on balance sheets have been bolstered by $650 billion of direct fiscal relief and significantly stronger-than-anticipated tax revenues. Strong performance in the capital markets has reduced longer-term underfunded liabilities. There are pockets of vulnerability in the market, but we view the credit fundamentals of most major sectors as either stable or improving modestly.

Healthcare is one area that has been experiencing pressure—from the negative revenue impact of reduced elective procedures during the pandemic, and from increasing staffing expense pressures in a very tight labor market. We believe it is particularly important to look for issuers with strong liquidity positions as the healthcare industry manages its way through the evolution of both the economy and the virus.

2022 INVESTMENT GRADE CREDIT OUTLOOK: VIEWS ON RISK APPETITE, RISING STARS AND TRENDS

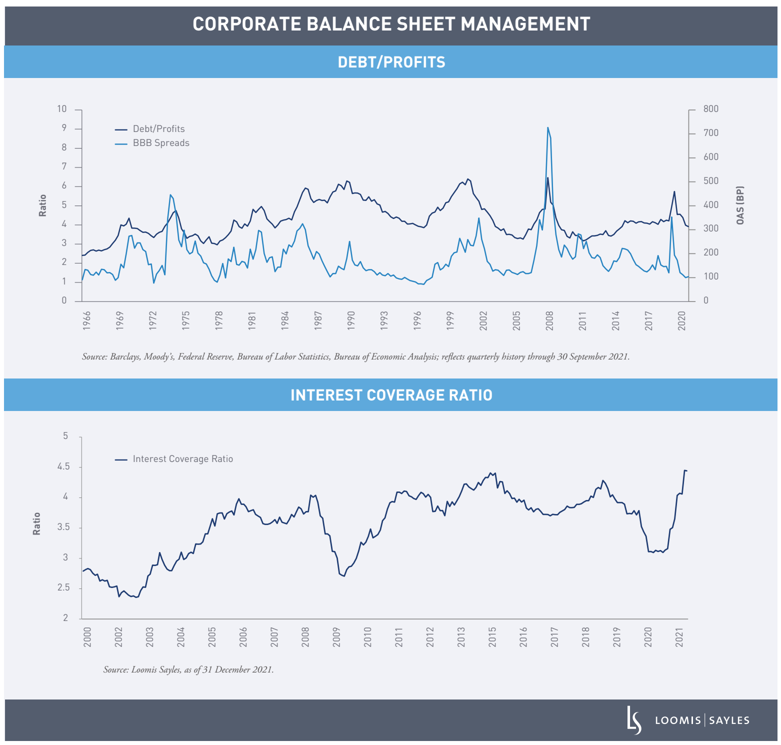
By the Loomis Sayles Investment Grade Sector Team – **25 JANUARY 2022**

1
With market volatility on the rise, how concerned are you about the potential for spreads to widen significantly and dent risk appetite?

We may see some more market indigestion if the Treasury market continues to reprice Federal Reserve rate hike expectations, but we believe the environment is still positive for investment grade (IG) credit. Before the pandemic, the corporate sector was exhibiting late-cycle behavior. Corporate health was the weakening link then, and we believe we are a long way away from that today. The majority of industries appear to be in the expansion phase of the credit cycle, which we believe should support risk appetite.

Our views are anchored by bottom-up fundamentals, which look favorable for IG credit. Loomis Sayles credit research analysts have stable or improving outlooks for all but the electrics industry. Corporate health and earnings remain very positive. Margins and free cash flow have improved. Leverage has returned to pre-pandemic levels, or a hair better. Supply chain issues have been persistent, but consumers appear willing to spend more amid very strong pent-up demand.

We will be closely monitoring companies' financial policies. Management teams have started behaving more aggressively with respect to shareholder returns, which will likely limit rating upside in certain industries.



2
Some market participants have speculated that more than $200 billion of high yield debt could be upgraded to the investment grade market this year (these issuers are known as rising stars). Do you agree with this view? What impact could it have on the market?

Loomis Sayles has a proprietary credit rating upgrade/downgrade model, which we update quarterly. In December, our model projected $284 billion in potential rising star volume in 2022, which is slightly higher than JP Morgan's most recent $277 billion estimate for fiscal year ending 2023.[1] We believe rising stars will add a significant amount of supply back to the IG market, particularly in the BBB space. We think there will be a number of interesting opportunities as bonds move from high yield sellers to IG investors.

3
What are some key risks you're watching? Is there anything you're worried about?

We witnessed a notable increase in financial issuance in 2021, with banks, insurance and business development companies (BDCs) representing larger issuers. This drove the overall duration of the IG market lower. Insurance, BDCs and real estate investment trusts tend to be less liquid sectors. Thus, if this trend continues, we may see some periods of illiquidity, which we believe could be a negative technical factor, especially when volatility rises.

We also saw a large increase of ESG-related supply in 2021. Last year was the heaviest year of ESG-related issuance in history. Issuers have been capturing a discount from issuing a green bond, which we believe gives issuers an incentive to market their bonds as green or sustainable. We expect this trend to continue across all sectors.

Finally, foreign investors have been important source of demand for IG corporates. We will be monitoring whether this demand holds up during periods of rising rate volatility.

[1] *Source: JP Morgan, 8 December 2021.*

2022 EM EQUITY OUTLOOK: VIEWS ON FED HIKES, CHINA AND RUSSIAN TENSIONS

By Ashish Chugh, Portfolio Manager, Global Emerging Market Equities – **28 JANUARY 2022**

1
With US rates expected to rise later this year, are you worried about the prospects for emerging market (EM) equities?

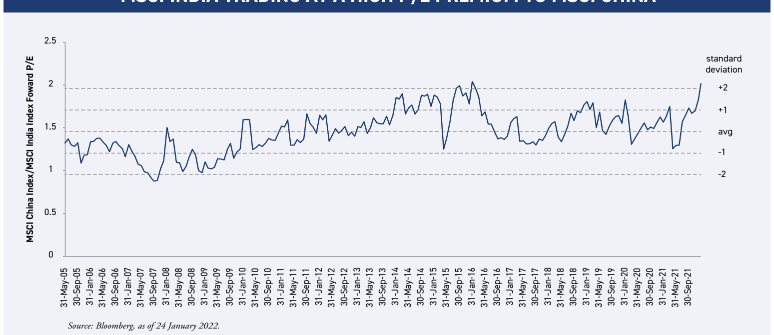
In our view, some investors have a misperception that higher US rates are bad for EM equities. If the Federal Reserve begins a hiking cycle, we would not anticipate much negative fallout for EM economies. In fact, we believe EM macro fundamentals are currently quite healthy and external vulnerabilities appear low. While inflation has picked up sharply in EMEA[1] and Latin America, it has forced central banks in these regions to start hiking rates well ahead of the Fed. China, on the other hand, has experienced subdued inflation and is currently easing monetary policy, with more pro-growth fiscal and monetary policies likely to come in 2022. We believe the Chinese economy could start to see sequentially rising growth from 4Q 2021 to 4Q 2022. The renminbi has been strong due to high current account surpluses, which should give the People's Bank of China more room to ease. Furthermore, US dollar-denominated debt woes in China's property sector has not spread contagion to other sectors. Outside the property sector, China has little exposure to unhedged US-dollar debt. India and Indonesia have improved their balance of payments and the World Bank has projected that these economies will be among the fastest growing in 2022. In addition, some EM countries, such as Korea and Taiwan, are typically more sensitive to global growth than rates.

We have a positive view of the ASEAN[2] region, which was severely hit during the last US tightening cycle. Many of these economies may be on the cusp of a positive credit cycle due to structural space for leverage that could help drive GDP growth. Vaccination rates have increased significantly over the past few months, and 50% to 75% of the populations in many of these countries are now fully vaccinated. Inflation in ASEAN has been much lower than in the US and Europe due to excess capacity and a net benefit from supply chain disruptions. Global semiconductor shortages have benefited chipmakers in Korea, Taiwan and Malaysia. In our view, the US-China tech war should continue to drive chip manufacturing and assembly out of China and into ASEAN. We believe rising prices of commodities like coal, palm oil and natural gas will continue to benefit Indonesia and Malaysia, while commodity importers like India and the Philippines should withstand higher prices due to high foreign exchange reserves and strong external accounts. Valuations in many ASEAN equity markets appear inexpensive as we expect earnings to grow from a very low pandemic base. Many ASEAN currencies also appear cheap. In our view, inexpensive valuations, cheap currencies and low foreign debt and equity positioning (unlike the last US tightening cycle) should support ASEAN equity markets in 2022. Our biggest concern is a Fed policy mistake, particularly if the Fed becomes too aggressive in an environment when growth in the US might be slowing.

2
China's growth slowed significantly last year as companies grappled with a regulatory crackdown. Do you see any potential opportunity among Chinese equities despite the headwinds?

We believe that in 2022, the Chinese equity market has the potential to stage a comeback. The deep, broad-based selloff in 2021 has resulted in low valuations (especially relative to other EM and developed markets) and inflation has been subdued. Government authorities have expressed a desire to boost economic growth and have seemingly pulled back on the regulatory crackdown. Given the ongoing slowdown, we believe that Beijing will inject additional monetary stimulus and accelerate infrastructure investment. Furthermore, last year, many global and EM investors sold Chinese equities and bought Indian equities. Indian equities were up 24.8% in 2021, compared to a 22.8% drop in Chinese equities.[3] We believe these investors might rotate back into Chinese equities now that Indian equity valuations are beginning to look stretched, inflation has started to rise and the prospects of interest rate hikes in India have increased. We see potential opportunity in high- or transitioning-quality Chinese technology companies in structural growth industries that are aligned, and have benefited from, government policy.

MSCI INDIA TRADING AT A HIGH P/E PREMIUM TO MSCI CHINA



Source: Bloomberg, as of 24 January 2022.

LOOMIS | SAYLES

3

How concerned are you about the impact of Russia/Ukraine tensions on Russian equities?

The situation between Russia and the Ukraine is extremely complex and we believe there is increased risk of further sanctions against Russia. In particular, Moscow's desire to prevent Ukraine's potential NATO[4] membership directly contravenes the organization's "open-door policy," stipulated under Article 10 of its founding treaty. The US government appears interested in a diplomatic resolution to the growing crisis in Ukraine, but we believe there is no practical merit in debating a solution that violates the core principles of NATO. Given the US' strong interest in protecting a free and democratic Ukraine, as well as Europe's strategic dependence on Russia, we expect negotiations to continue. However, we anticipate the uncertainty and risk of escalation will weigh on markets in the interim. Russia has made significant progress in the last decade internalizing key industries and resources. Should the situation deteriorate, we believe the threat of sanctions is higher for specific Russian individuals, companies and sovereign debt rather than the broad Russian equity markets.

[1] *Europe, Middle East and Africa*
[2] *Association of Southeast Asian Nations*
[3] *Source: Bloomberg, as of 31 December 2021.*
[4] *North Atlantic Treaty Organization*

2022 SECURITIZED CREDIT OUTLOOK: VIEWS ON THE CONSUMER, COMMERCIAL REAL ESTATE AND OPPORTUNITY

By the Loomis Sayles Mortgage and Structured Finance Sector Team – **1 FEBRUARY 2022**

1

What's your view of securitized credit in 2022? Do you expect any impact from rising rates?

Overall, we have a positive view of securitized credit in 2022. We believe fundamentals and valuations are favorable in most areas of the securitized credit universe. Despite a broad rally in many sectors during 2021, certain areas of securitized credit have lagged and present potentially attractive entry points for investors.

We believe three characteristics of structured credit make it attractive in a rising rate environment.

- **Duration:** The sector's duration, which tends to be around the three- to four-years, should benefit securitized assets relative to corporates, which typically have much longer duration. Securitized assets also currently enjoy a carry advantage relative to similarly rated corporates.
- **Cash flows:** Securitized assets tend to generate significant cash flows (through amortization) that can be reinvested at higher rates.
- **Inflation protection:** Most securitized credit sectors are either a) invested in real assets, such as real estate, that have a long history as inflation hedges, or b) backed by consumers, who are supported by wage inflation. So whether inflation and higher rates are temporary or here to stay, the combination of these factors can make structured credit attractive in uncertain markets.

In terms of risks, we acknowledge that uncertainty and heightened volatility could persist in the near term as monetary and fiscal support wanes and as the global economy grapples with COVID-19 variants. Higher inflation and, ultimately, higher interest rates could put additional strain on the consumer if wage growth does not keep pace. We believe careful subsector allocation and security selection will remain of key importance in navigating the market in 2022.

2

How do you expect the consumer sector to fare this year? Are you concerned about the impact of higher borrowing costs?

We believe consumer asset-backed security (ABS) fundamentals will remain stable in 2022 as the economy transitions from a stimulus-driven recovery to a self-sustaining expansion with the potential for higher growth, inflation and interest rates. However, we expect the recovery to remain "K-shaped." Higher-income consumers have largely benefited over the past two years from growing asset values, increased savings and wages. This has allowed them to ride out inflation and higher interest rates more easily than others. Wage growth has likewise benefited lower-income consumers, but to a lesser extent. The loss of government stimulus and higher food and shelter prices will put more pressure on lower-income consumers' finances than their higher-earning counterparts. Though rising borrowing costs is an issue for this group of lower-income borrowers, we have observed fewer changes to their debt servicing behavior in such an environment. We believe this is likely due to preexisting high APRs[1] based on their lower-quality credit profiles.

In recent months, we have observed signs of softness in the subprime space—specifically a rise in early delinquencies. Much of this was expected as borrowers return to "normal" subprime behavior. After nearly two years of deleveraging and very low delinquencies and defaults, consumers have started to borrow more, and we expect losses will begin to increase toward historical levels. As a result, we have observed cautious lending behavior among consumer lenders. The borrowers we're watching most closely are those in the "near prime" space, as they tend to be the most rate-sensitive. These borrowers have improved their credit profile, yet tend to live on a tight budget; any additional pressure, such as higher borrowing costs, could result in reduced ability to service debt.

3

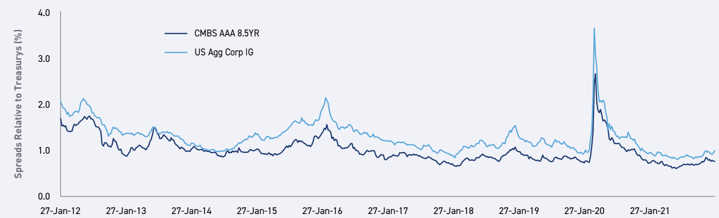
The commercial real estate (CRE) sector is one of the last remaining sectors of the economy to fully recover from the pandemic lows of 2020. Do you see commercial mortgage-backed securities (CMBS) as an area of potential opportunity?

During 2021, private CRE staged a dramatic recovery. The Green Street All-Property Index increased 24% in 2021 to a level that is now 14% higher than it was before the pandemic began.[2] Although COVID-19 variants may delay a strong rebound in asset fundamentals, we remain optimistic about the sector's outlook for 2022. Property valuation increases during 2021 likely reflect the market's expectations for cash flow growth and credit repair in 2022.

From a bond valuation perspective, CMBS spreads are currently at historically tight levels, but we believe they offer attractive carry relative to comparably rated corporate sectors. In addition, we see pockets of distressed retail and lodging properties that still provide discount pricing for seasoned subordinate bonds. Some of those bonds will cure, making this an interesting market for security selection in CMBS in our view.

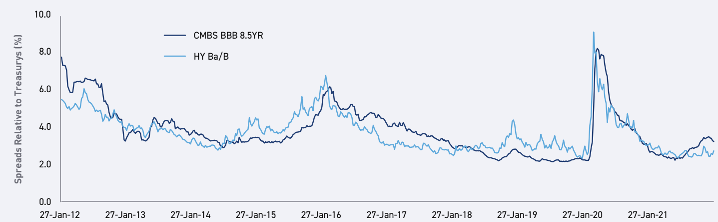
CMBS SPREADS REMAIN TIGHT & OFFER CARRY

CMBS LCF AAA VS. US AGGREGATE CORPORATES, 10-YEAR HISTORICAL COMPARISON



Source: Bloomberg, as of 21 January 2022.

CMBS BBB VS. US HIGH YIELD BB/B CORPORATES, 10-YEAR HISTORICAL COMPARISON



Source: Bloomberg, as of 21 January 2022.

LOOMIS | SAYLES

[1] Annual percentage rate (APR) refers to the yearly interest generated by a sum that's charged to borrowers or paid to investors.
[2] Source: Green Street, 7 January 2022.

Disclosure

This material is provided for informational purposes only and should not be construed as investment advice. Any opinions or forecasts contained herein reflect the subjective judgments and assumptions of the authors only and do not necessarily reflect the views of Loomis, Sayles & Company, L.P. This information is subject to change at any time without notice.

Investment recommendations may be inconsistent with these opinions. There is no assurance that developments will transpire as forecasted and actual results will be different. Data and analysis does not represent the actual or expected future performance of any investment strategy, account or individual positions. Accuracy of data is not guaranteed but represents our best judgment and can be derived from a variety of sources. Information, including that obtained from outside sources, is believed to be correct, but Loomis Sayles cannot guarantee its accuracy.

Any investment that has the possibility for profits also has the possibility of losses.

Past market experience is no guarantee of future results.

Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.

Market conditions are extremely fluid and change frequently.

Commodity, interest and derivative trading involves substantial risk of loss.

Information obtained from outside sources is believed to be correct, but Loomis Sayles cannot guarantee its accuracy. This material cannot be copied, reproduced or redistributed without authorization.

Loomis Sayles does not provide tax advice. Please consult with your financial advisor or tax professional.

MALR028564

Additional Notes

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.

To obtain a summary of investor rights in the official language of your jurisdiction, please consult the legal documentation section of the website (im.natixis.com/intl/intl-fund-documents)

In the E.U.: Provided by Natixis Investment Managers International or one of its branch offices listed below. Natixis Investment Managers International is a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris. Italy: Natixis Investment Managers International Succursale Italiana, Registered office: Via San Clemente 1, 20122 Milan, Italy. Netherlands: Natixis Investment Managers International, Nederlands (Registration number 000050438298). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. Sweden: Natixis Investment Managers International, Nordics Filial (Registration number 516412-8372- Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. Or,

Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. Germany: Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Senckenberganlage 21, 60325 Frankfurt am Main. Belgium: Natixis Investment Managers S.A., Belgian Branch, Gare Maritime, Rue Picard 7, Bte 100, 1000 Bruxelles, Belgium. Spain: Natixis Investment Managers, Sucursal en España, Serrano n°90, 6th Floor, 28006 Madrid, Spain.

In Switzerland: Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich.

In the British Isles: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: **in the United Kingdom:** this material is intended to be communicated to and/or directed at investment professionals and professional investors only; in Ireland: this material is intended to be communicated to and/or directed at professional investors only; **in Guernsey:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; **in Jersey:** this material is intended to be communicated to and/or directed at professional investors only; **in the Isle of Man:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008.

In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office: Unit L10-02, Level 10 ,ICD Brookfield Place, DIFC, PO Box 506752, Dubai, United Arab Emirates

In Japan: Provided by Natixis Investment Managers Japan Co., Ltd. Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No.425. Content of Business: The Company conducts investment management business, investment advisory and agency business and Type II Financial Instruments Business as a Financial Instruments Business Operator.

In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2020 FSC SICE No. 025, Tel. +886 2 8789 2788.

In Singapore: Provided by Natixis Investment Managers Singapore Limited (company registration no. 199801044D) to distributors and qualified investors for information purpose only.

In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to professional investors for information purpose only.

In Australia: Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only .

In New Zealand: This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand.

In Colombia: Provided by Natixis Investment Managers International Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors.

In Latin America: Provided by Natixis Investment Managers International.

In Uruguay: Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627.

In Mexico: Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional de Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority.

In Brazil: Provided to a specific identified investment professional for information purposes only by Natixis Investment Managers International. This communication cannot be distributed other than to the identified addressee. Further, this communication should not be construed as a public offer of any securities or any related financial instruments. Natixis Investment Managers International is a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law.

The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. The analyses and opinions expressed by external third parties are independent and does not necessarily reflect those of Natixis Investment Managers. Past performance information presented is not indicative of future performance.

Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part.

All amounts shown are expressed in USD unless otherwise indicated.

Natixis Investment Managers may decide to terminate its marketing arrangements for this fund in accordance with the relevant legislation

NATIXIS
INVESTMENT MANAGERS