INVESTMENT OUTLOOK

OCTOBER 2020

ECONOMIC ACTIVITY REBOUNDED SHARPLY OVER THE THIRD QUARTER, PUSHING THE GLOBAL ECONOMY OUT OF THE DOWNTURN PHASE OF THE CREDIT CYCLE.

We believe the economy is now in credit repair, which is a progressive but still-volatile phase of the cycle. We believe risk assets can deliver positive excess return potential in this environment, especially if monetary and fiscal policy remain supportive.

MACRO & MARKET COMMENTARY

MACRO DRIVERS

Key events related to fiscal policy, social distancing and COVID-19 are likely to dictate how well the US economy can perform. Our outlook is broadly constructive.

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CREDIT

We believe credit spreads have room to tighten marginally in the US and Europe.

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GOVERNMENT DEBT & POLICY

Central banks are living up to their role as the lender of last resort.

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CURRENCIES

The US dollar is likely to be range-bound while the global economy normalizes.

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EQUITIES

US equity outperformance has been a theme for several years. The recent sharp pullback could offer an attractive entry point for long-term investors.

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POTENTIAL RISKS

Key risks include election-related volatility, no fiscal deal in the US and disappointing COVID-19 vaccine news.

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MACRO DRIVERS

We expect a moderation in economic growth over the course of 2021.

- Social distancing measures and the end of lockdowns have allowed for a rapid rebound in economic activity. However, as the winter months approach and schools remain open, we believe a second wave of COVID-19 cases could weigh on economic activity.
- Medical facilities appear better prepared for another surge of COVID-19 cases, which could reduce the likelihood of a return to broad lockdowns.
- We believe an effective vaccine and adequate vaccine distribution are upside catalysts that could end social distancing measures by the spring of 2021. In that scenario, economic growth could potentially roar back stronger than currently expected.
- Extraordinary fiscal measures could help buoy consumer spending and the labor market. In the US, additional fiscal stimulus looks likely to be delayed until the first quarter of 2021.
- The monetary and fiscal policy response to COVID-19 has been a key driver of the rebound we've seen thus far. Additional fiscal stimulus would likely be an upside catalyst for growth and risk asset performance.
- Potential leadership shifts in Washington, DC may generate volatility in risk assets, but we believe the macroeconomic backdrop and continued progress through the credit cycle will be the principal drivers of performance over the long term.

WHAT COULD SHIFT THE CYCLE TOWARD RECOVERY?

- Effective fiscal delivery to fill the cash flow gap from collapsing profits and incomes
- A strong fiscal multiplier that translates government spending into strong demand
- COVID-19 death rate remains at 1/3 of spring 2020 level
- COVID-19 cases remain controlled
- COVID-19 vaccine distribution starts by spring 2021
- Economic capacity at approx. 80%+ by end of 2020
- Majority of schools maintain a hybrid or in-person schedule for duration of academic year

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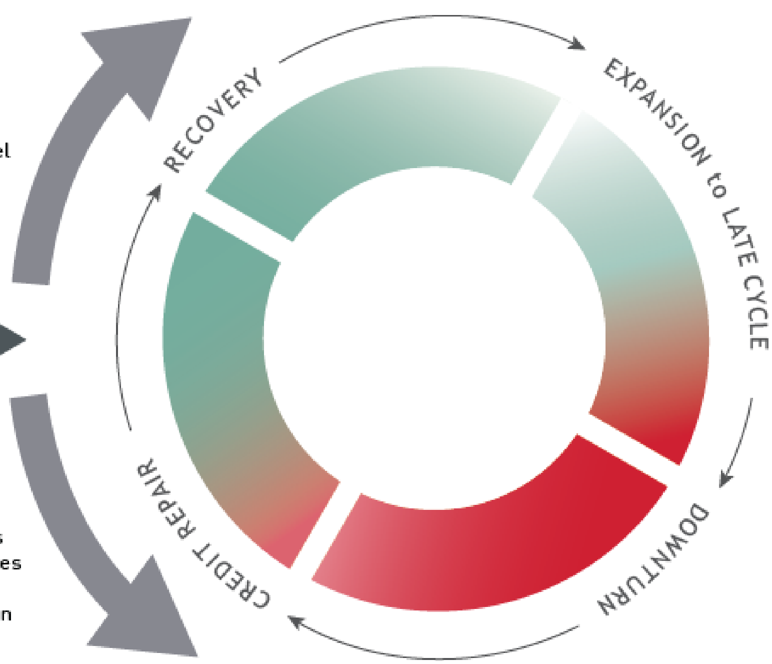


WHAT COULD SHIFT THE CYCLE BACK TO DOWNTURN?

- Ineffective fiscal delivery
- Weak fiscal multiplier (saving dominates spending)
- Extended social distancing hampers economic activity
- COVID-19 resurges, forcing another wave of lockdowns
- Little progress on COVID-19 drug treatments or vaccines
- Economic capacity only about 60% by end of 2020
- Majority of schools shift to remote learning for duration of academic year

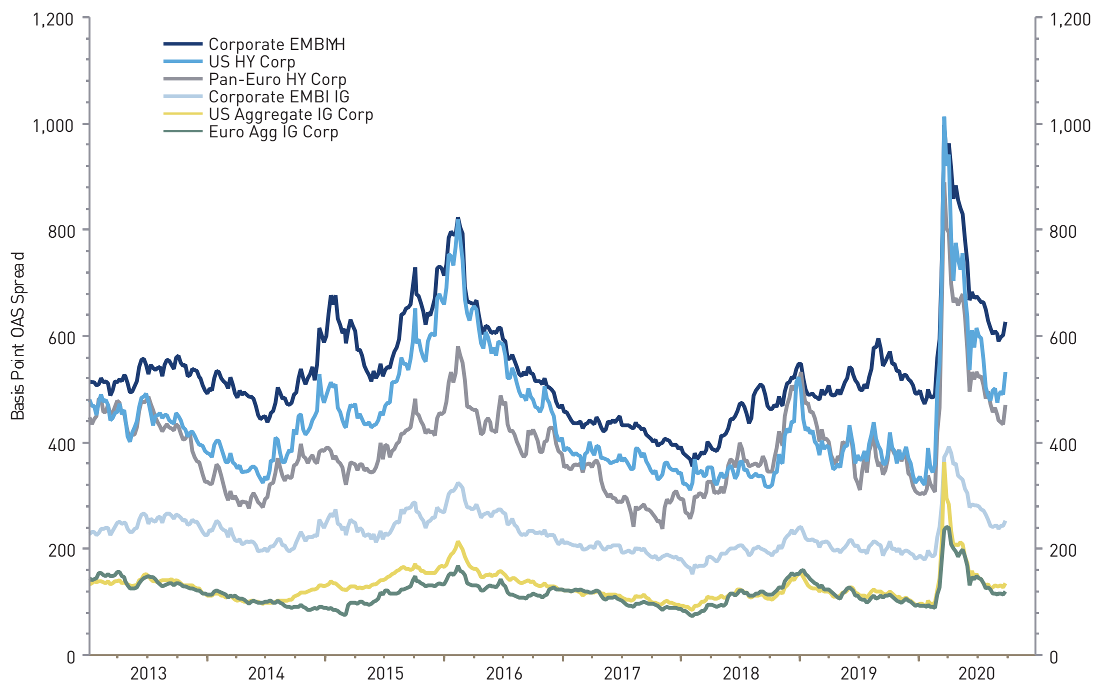
Views as of September 30, 2020. The chart presented above is shown for illustrative purposes only. Some or all of the information on this chart may be dated, and, therefore, should not be the basis to purchase or sell any securities. The information is not intended to represent any actual portfolio. Views and opinions are subject to change at any time.

CREDIT

Spreads tightened ahead of fundamental improvement, but we believe revenue and earnings growth are on the horizon.

- US high-grade credit spreads are likely to remain tight while critical supports like market technicals, demand for yield, monetary easing and a steadily improving domestic economy remain in place.
- Lower-credit-quality fixed income performance tends to be highly correlated with economic activity. We expect US high yield to perform well as the credit cycle progresses toward recovery in the quarters ahead.
- Leverage has been on the rise, assisted by record low rates, tremendous liquidity and demand for yield. However, as earnings growth returns, we think underlying fundamentals can improve organically.
- US-dollar-denominated emerging market (EM) credit should continue to see positive momentum as the global economy improves. The US dollar appears likely to weaken modestly, which would help relieve funding pressure in strained areas of the sector.
- Domestic housing market strength should continue to support RMBS fundamentals. In consumer ABS, fiscal stimulus and unemployment benefits could help contain weakness. In CMBS, the future of commercial real estate and current fundamentals represent challenging hurdles, but signs of a bottom may be emerging.
- We believe realized default rates within the US levered loan sector may be much lower than what the market was pricing in late March. We expect loan prices to move higher going forward.

GLOBAL CREDIT SPREADS



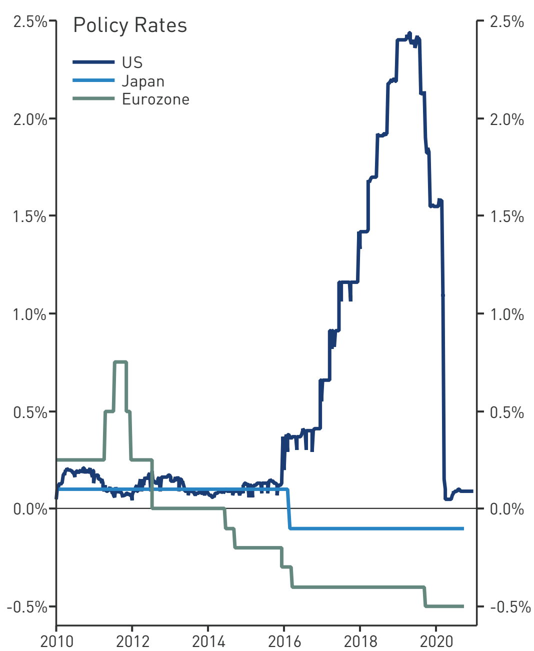
Source: Bloomberg Barclays, J.P. Morgan, data as of 9/28/2020. Information, including that obtained from outside sources, is believed to be correct, but Loomis Sayles cannot guarantee its accuracy.

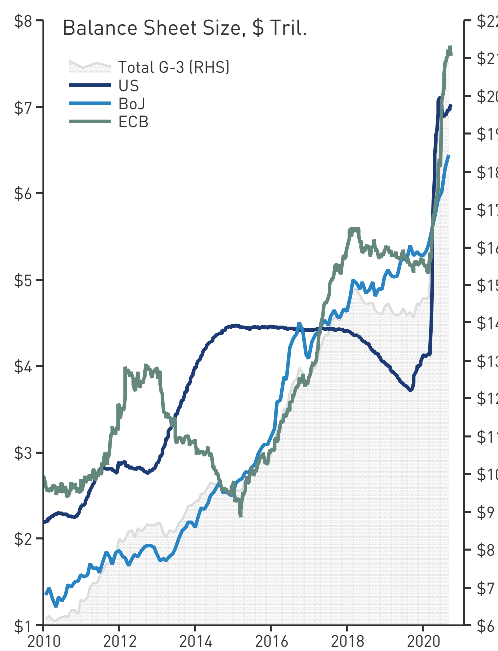
GOVERNMENT DEBT & POLICY

Record-low interest rates support the argument for deficit spending, especially in a time of crisis.

- Federal Reserve Chair Jerome Powell and other members of the Fed board made clear that policy rates will remain at the zero lower bound for a period of years. However, the Fed has said little to specify how it would react to inflation under the new monetary policy framework.
- Nevertheless, market participants seem satisfied with the Fed's dovish approach to policy and focus on restoring the labor market to pre-pandemic levels. Specific details on quantitative easing (QE), forward guidance and inflation are likely on the horizon.
- Developed market yields appear likely to stay in tight ranges with a modest upward drift over the next year.
- Government borrowing rates have been so low that monetary policymakers in the US and Europe are openly calling for fiscal policy support. In our view, funding stimulus initiatives at low rates is logical, especially when the Fed and the European Central Bank (ECB) are buying the bonds through QE.
- Financial conditions and fiscal policy responses to COVID-19 vary widely across EM. This will likely result in a rougher road through credit repair for EM in aggregate.
- We believe security selection is critical across asset classes, but especially in EM. In the rates sector, we think Mexico, Brazil and South Africa currently look attractive.

G3 CENTRAL BANK BALANCE SHEETS





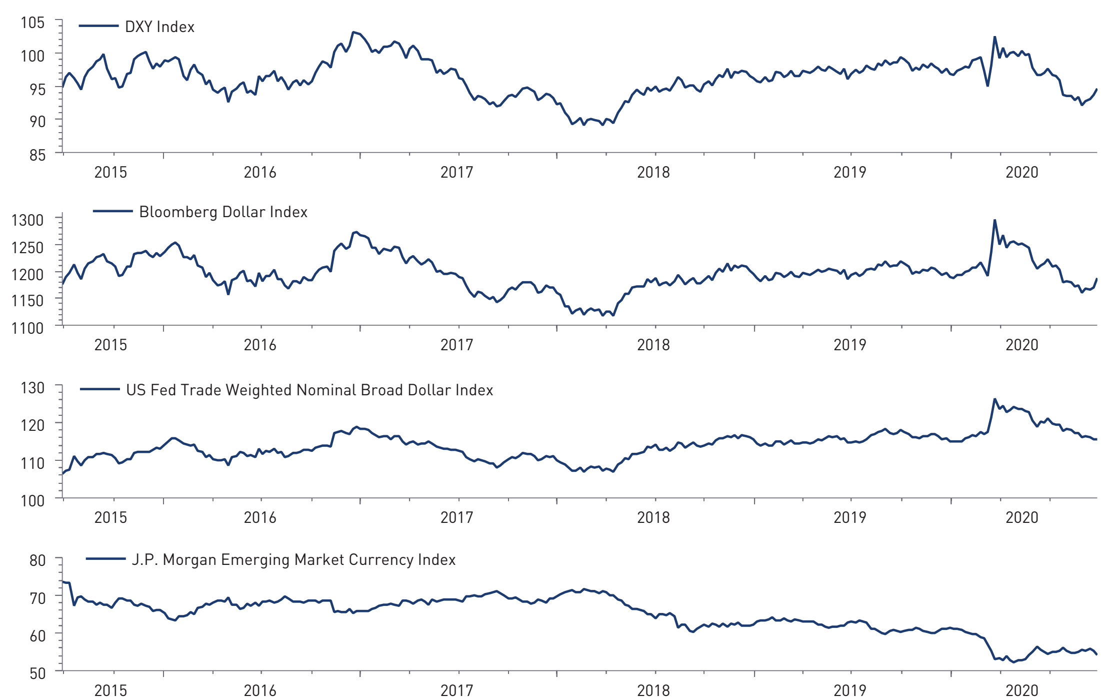
Source: Refinitiv Datastream, data as of 9/29/2020. Information, including that obtained from outside sources, is believed to be correct, but Loomis Sayles cannot guarantee its accuracy.

CURRENCIES

Modest dollar weakness is a key pillar supporting our progressive macroeconomic outlook.

- Traditionally, it takes a major disruption in global financial conditions (excluding the US) to spark a multi-year US dollar rally. That is not a condition we are observing now.
- As investor risk appetite improved in recent months, the US dollar indices fell roughly 10% from pandemic highs. We currently see limited downside in the broad dollar near term.
- If the global economy shows signs of normalizing in the latter half of 2021, we believe the dollar will likely begin to trend weaker relative to developed and EM currencies.
- The US dollar's reserve currency status appears essentially unchallenged and it remains a relative "safe haven" when risk assets sell off or correct.
- Strength in the euro/dollar exchange rate looks limited from the $1.20 level. The exchange rate briefly traded above $1.20 on an intraday basis in early September, prompting ECB officials to suggest the euro does matter for monetary policy. A strong euro can lower demand for the region's exports.
- In the developed market space, we believe Sweden and Norway look fairly attractive relative to the dollar. Within EM, Mexico, Brazil and Colombia currently look attractive, especially with carry.

US DOLLAR INDEX LEVELS



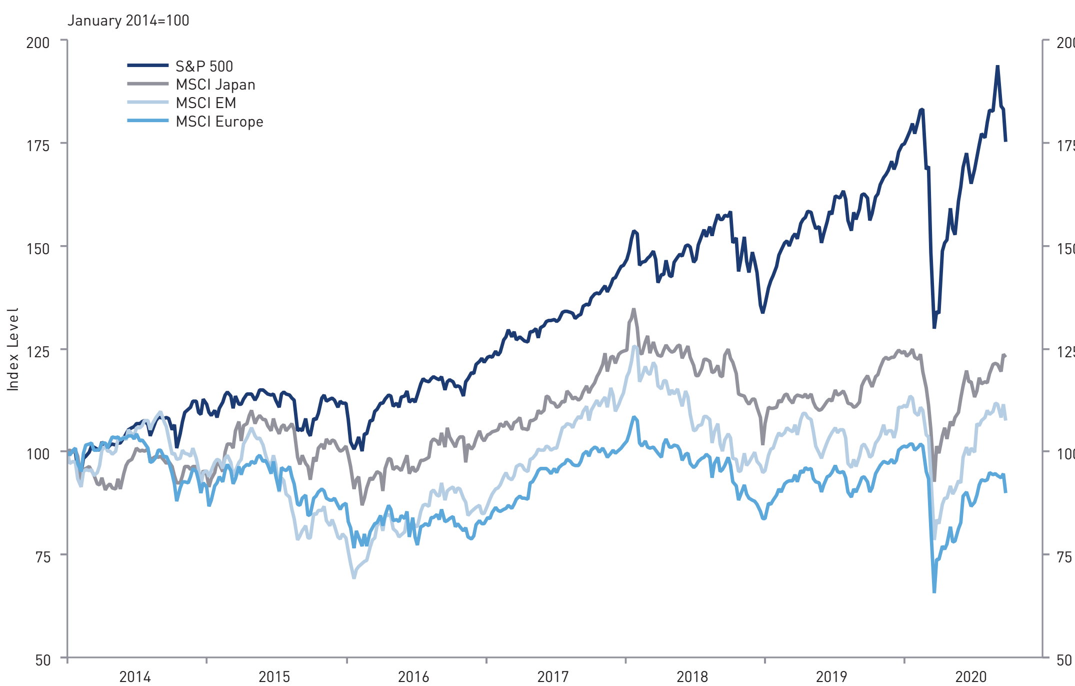
Source: Bloomberg, Federal Reserve, J.P. Morgan, data as of 9/28/2020. Information, including that obtained from outside sources, is believed to be correct, but Loomis Sayles cannot guarantee its accuracy.

EQUITIES

S&P 500 sector composition could continue to drive its relative outperformance.

- Global equity valuations are likely to remain above historic averages given the tilt of monetary policymakers and ultra-low interest rates across developed economies.
- Equity valuations have been at historically high levels, reflecting an eventual return to normalized economic growth, strong fiscal stimulus, sizable central bank balance sheet expansion, and optimism about COVID-19 vaccine or treatment breakthroughs.
- Investors seem to be looking toward a potential global corporate earnings recovery in 2021, when companies are expected to deliver sharp year-over-year growth.
- Forward return prospects look positive for global equities overall. However, US large-cap indices look positioned for continued outperformance given their strong tilt toward high-growth technology companies with strong fundamentals.
- The financial and energy sectors face challenges in this environment of low interest rates, flattish yield curves and flat oil prices. Europe and Japan indices may be weighed down by fairly large exposures to financials and limited exposure to high-growth technology stocks.
- Within the global equity space, we prefer EM over Europe and Japan given index exposure to technology, a strong economic rebound in Asia and potential for dollar weakness.

GLOBAL EQUITY RELATIVE PERFORMANCE



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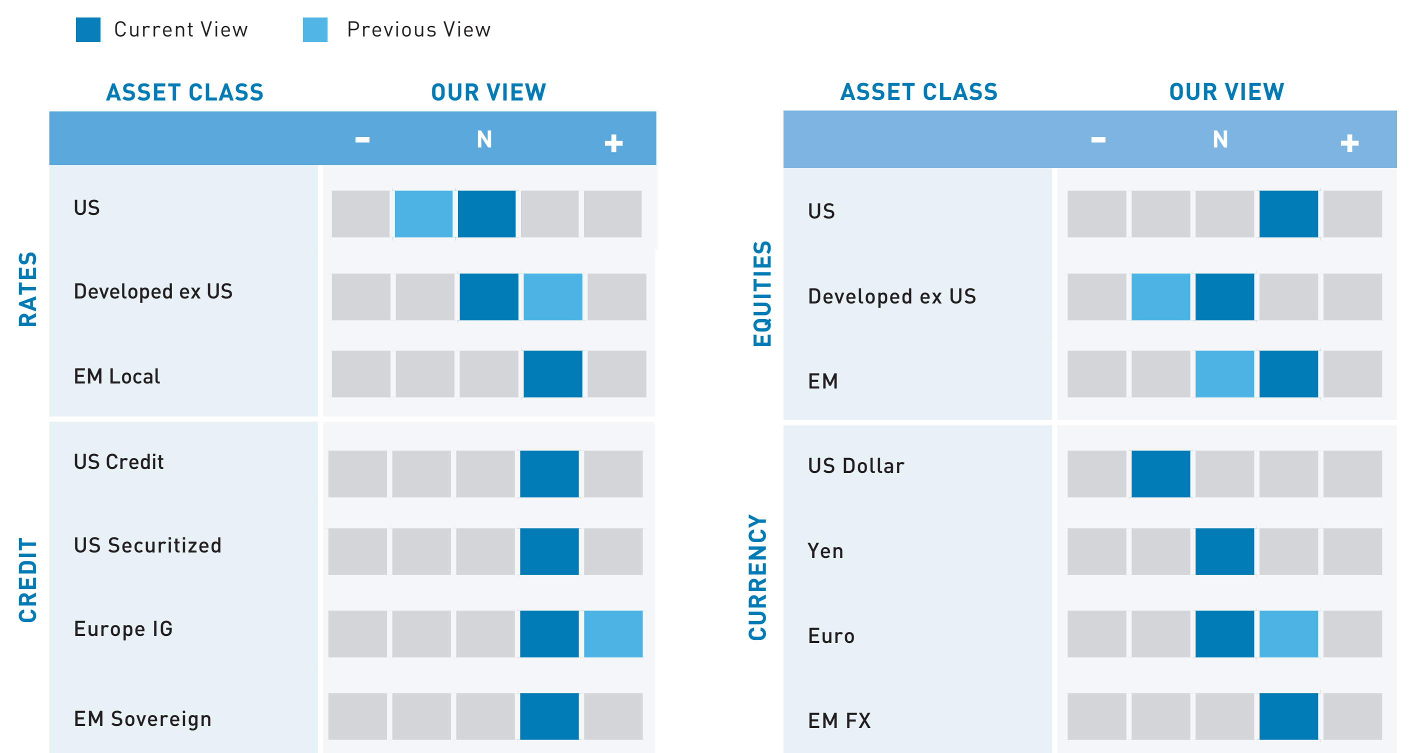
POTENTIAL RISKS

There is little shortage of macro concern, but risks seem tilted in favor of the bulls.

- As traditional cold and flu season arrives, the number of positive COVID-19 cases is likely to spike. If the spread begins to pressure medical facility capacity, we could face a return to lockdown, which would likely halt economic progress and risk appetite.
- Risk markets appear to have priced in a level of optimism about the likelihood of an effective vaccine getting developed and distributed. If clinical trials for vaccines begin to trip up, we could see investor and consumer confidence take a hit.
- The end of social distancing would be an important milestone that would allow a number of recreational activities to resume. Consumers have pent-up demand for travel and leisure activity that could boost GDP if social distancing ends.
- Fiscal stimulus has been a key factor in the transition from downturn to credit repair. We may face renewed economic headwinds if policymakers cannot strike another deal this year or next.
- Executive branch leadership changes in Washington, DC and new legislation often create market volatility. However, over the long run, prevailing macroeconomic conditions tend to be among the most important drivers of risk asset performance.

ASSET CLASS OUTLOOK



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