LOOMIS | SAYLES

MUTUAL FUND COMMENTARY

SEPTEMBER 30 2019

Global Bond Fund

FUND FACTS

OBJECTIVE

Seeks high total investment return through a combination of high current income and capital appreciation

Share class	I
Inception	5/10/1991
Ticker	LSGBX
CUSIP	543495782

Market Conditions

- The Organization for Economic Cooperation and Development (OECD) cut its growth forecasts for the US and a number of developing countries in September. Declining business investment and slowing trade flows are the most obvious signs that trade conflicts are hindering global growth. The OECD added that across the Group of 20 leading economies investment spending rose at an annual rate of just 1% in the first half of 2019, compared with 5% for the first half of 2018.
- The Federal Reserve's Open Market Committee lowered the target rate for the fed funds rate by 25 basis points to the 1.75% - 2% range at its meeting on September 18 as we, the Bloomberg consensus and the market expected. Inflation pressures remain mild, corporate profit growth is soft and manufacturing activity is down significantly from its peak in mid-2018.
- The US dollar continued its trend of strengthening as the weak global growth outlook, protracted US-China trade conflict and political turmoil in Europe weighed on other major global currencies. Investors remain uneasy about prospects in Europe given the uncertain Brexit situation, political instability in Italy and rising fears of a recession in Germany. The low prospective returns on government bonds in Europe and Japan, where yields have turned increasingly negative in recent months, has pushed investors to seek the higher available yields in the US.

Portfolio Review

- The fund underperformed its benchmark, the Bloomberg Barclays Global Aggregate, primarily due to currency allocation and yield curve positioning.

CLASS I PERFORMANCE (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
FUND	0.18	6.02	6.27	1.66	1.78	2.79
BENCHMARK	0.71	6.32	7.60	1.59	1.99	2.34

Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. Investment return and value will vary and you may have a gain or loss when shares are sold. Current performance may be lower or higher than quoted. For most recent month-end performance, visit www.loomissayles.com.

Additional share classes may be available for eligible investors. Performance will vary based on the share class. Performance for periods less than one year is cumulative, not annualized. Returns reflect changes in share price and reinvestment of dividends and capital gains, if any. You may not invest directly in an index.

Gross expense ratio 0.77% (Class I). Net expense ratio 0.69%. As of the most recent prospectus, the investment advisor has contractually agreed to waive fees and/or reimburse expenses once the expense cap of the fund has been exceeded. This arrangement is set to expire on 1/31/2020. When an expense cap has not been exceeded, the fund may have similar expense ratios and/or yields.

The Class I inception date is 5/10/1991. Class I shares are only available to certain institutional investors only; minimum initial investment of $100,000.

Contributors

- The fund's overweight to investment grade corporate credit, particularly in the BBB space, contributed positively to relative performance. Corporate credit continues to hold up well as the likelihood of further global central bank easing and the attractiveness of corporate yields versus a plethora of negative and low yielding government bonds are benefiting the asset class.
- Overweight positions in the banking, healthcare and food & beverage sectors contributed positively to relative performance. European banks, particularly in the UK and Italy, have strengthened their balance sheets to satisfactory levels for credit investors.
- Despite the fund's currency allocation having an overall negative effect, an underweight to the euro proved beneficial to relative return. The euro fell over 4% in US dollar terms over the quarter on weak economic data and growing trade tensions with the US.

Detractors

- Currency allocation overall detracted from the fund's performance with overweight positions to the Norwegian krone and Colombian peso representing the main detractors. Both currencies were negatively impacted by falling crude oil prices and US dollar strength.
- The fund's stance with respect to duration (and corresponding interest rate sensitivity) and positioning along the yield curve (which depicts the relationship among bond yields across the maturity spectrum) weighed on relative performance. Local market positioning in the US dollar and euro-pay markets were the largest detractors. The US and European yield curves reached record lows during the period and as a result the portfolio's underweight positioning in those markets hurt relative performance.
- Performance of individual bond choices in the energy sector, in particular among select US independent and oil field services companies, failed to keep pace in the quarter. Global demand growth for oil has tapered in major growth regions such as India and China while the US has seen a flattening in demand.

Outlook

- After bottoming in July, the JP Morgan Global PMI rose slightly in both August and September, but still remains below 50. We are not yet ready to call an end to this global current slowdown, however. Recent strength has been concentrated in Asia. This is helpful, but European manufacturing data continues to be weak and Brexit looms. US manufacturing PMI data moved sharply lower in its most recent release, service PMIs weakened, and export orders fell precipitously. We continue to believe that global trade frictions are slowing the world economy more quickly than monetary policy easing can offset. The weak US PMI release is more important for us than the relatively benign payroll reports; hence after cutting rates in September, we still expect the Federal Reserve to cut policy rates twice more at the end of October and in December.

- Loomis Sayles macro research now believes that the risk of US recession is about 30%. Our base case is for a weak growth muddle-through path of 1.5%-1.75% real GDP growth in 2020. The primary risk seems to be a further weakening in business investment due to trade policy uncertainties and weak growth prospects. Low mortgage rates are benefitting housing, but little other stimulus is evident. The upside risk is a trade deal that improves business sentiment in China and the US.
- In this environment, we are inclined to add duration on Treasury selloffs, and will not wait for the ten year to reach 2.0% to do it. We are not yet ready to significantly add credit risk. The US IG credit spread widened in early October from 115bp to 120bp, largely, we think, due to the effects of a massive September supply calendar. So while corporate issuers are taking advantage of the current low yield environment to issue new bonds, we as investors are selectively buying attractive opportunities, but are not meaningfully ramping up overall credit beta at current levels.

About Risk

Fixed income securities may carry one or more of the following risks: credit, interest rate (as interest rates rise bond prices usually fall), inflation and liquidity. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **Below investment grade fixed income securities** may be subject to greater risks (including the risk of default) than other fixed income securities. **Foreign securities** may involve heightened risk due to currency fluctuations. Additionally, they may be subject to greater political, economic, environmental, credit and information risks. Foreign securities may be subject to higher volatility than US securities due to varying degrees of regulation and limited liquidity. **Mortgage-related and asset-backed securities** are subject to the risks of the mortgages and assets underlying the securities. Other related risks include prepayment risk, which is the risk that the securities may be prepaid, potentially resulting in the reinvestment of the prepaid amounts into securities with lower yields.

[1]A credit cycle is a cyclical pattern that follows credit availability and corporate health

Bloomberg Barclays Global Aggregate Index *provides a broad-based measure of the global investment grade fixed income markets. The three major components of this Index are the US Aggregate, the Pan-European Aggregate and the Asian-Pacific Aggregate Indices. The Index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities. Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an index.*

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