SOLUTIONS

NATIXIS INVESTMENT MANAGERS

Natixis/Loomis Sayles Core Total Return Strategy (with Funds)

LOOMIS | SAYLES

QUARTERLY PORTFOLIO COMMENTARY

Q4 | December 31, 2023

Fixed income markets performed positively in the fourth quarter, as the Fed confirmed a pause in rate rises, inflation continued to moderate, and the US economy hit its longest streak of unemployment below 4% since the Vietnam war. As a potential soft landing came into focus, investor optimism buoyed risk assets across equity and fixed income. Annual US inflation declined to 3.1% in November from 3.7% in August. Unemployment remained steady at 3.7% in December, up slightly from September levels. United States GDP rose by an annual rate of 4.9% in the third quarter of 2023, up significantly from 2.1% in the second quarter of 2023.

Fixed income markets experienced a very slight steepening of the US Treasury yield curve, with the 10-year rate falling 69 basis points versus the 30-year falling 67 basis points during the quarter. The Bloomberg US Aggregate Index rose by +6.8% during the quarter, lifted up by longer-term bonds and investment grade credit. The 10+ year group rose by +11.9%, compared to an increase of +2.7% in the 1–3 year group. Investment grade credit rose by +8.5%, compared to +5.7% for US Treasuries. Overall, securitized assets rose by +7.3%, with US MBS up +7.5% and ABS increasing +3.5%. Lower quality credit tended to outperform; BBB rose +8.8%, compared to a +4.7% return for AAA.

The Natixis/Loomis Sayles Core Total Return strategy rose in value and outperformed the Bloomberg US Aggregate Bond Index gross of fees (lagged net of fees). Sector allocation drove relative performance with an underweight to US Treasury as the most notable contributor. Exposure to high yield credit and an overweight to investment grade credit were also positive contributors to relative performance, while an overweight to ABS/RMBS detracted from relative return. Security selection weighed down on relative performance. Names held in investment grade credit, Agency MBS, and CMBS detracted from relative return, offset partially by investments in ABS/RMBS and US Treasury.

Year to date, the strategy rose in value and outperformed the benchmark gross of fees (lagged net of fees). Relative outperformance was primarily driven by sector allocation. An underweight to US Treasuries, an overweight to investment grade credit, and exposure to high yield credit were the most notable contributors to relative performance. Overweights to ABS/RMBS and CMBS along with having no exposure to taxable municipal bonds were modest detractors. Security selection also added to relative performance. Investments in ABS/RMBS and Agency MBS contributed to relative return, offset partially by names held in investment grade credit and CMBS.

Investors remain focused on monetary policy and the trajectory of economic growth. While economic data and investor sentiment have improved significantly, recessionary risks remain. Geopolitical and macroeconomic risks may continue to drive market volatility and dispersion as multiple active wars, election years, and other potential conflicts play out over 2024. We continue to believe that active fundamental research combined with investment discipline provides an attractive way to navigate an uncertain and reactionary market environment.

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Bloomberg US Aggregate Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS. Bloomberg US Aggregate Bond Index rolls up into other Bloomberg flagship indices, such as the multi-currency Global Aggregate Index and the US Universal Index, which includes high yield and emerging markets debt. Bloomberg US Aggregate Bond Index was created in 1986, with index history backfilled to January 1, 1976. Indexes are referred to for comparative purposes only and are not necessarily intended to parallel the risk or investment approach of the accounts included in the composites or the accounts managed by Natixis Advisors. Indexes are unmanaged and not available for direct investment.

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