

## Natixis/Vaughan Nelson Mid Cap Strategy



### QUARTERLY STRATEGY COMMENTARY

US equity markets soared 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. The S&P 500<sup>®</sup> Index rose +11.7% for the quarter, with broadly positive results. Real Estate (+18.8%), Information Technology (+17.2%), Financials (+14.0%) and Industrials (+12.4%) were the top performers during the quarter. Energy (-6.9%) was the only negative returner during the quarter, though Consumer Staples (+5.5%) and Health Care (+6.4%) failed to keep up with an exuberant market. Growth and small-cap were the top performers during the quarter. The Russell 1000<sup>®</sup> Growth Index (+14.5%) outperformed the Russell 1000<sup>®</sup> Value Index (+9.5%), and the Russell 2000<sup>®</sup> Index (+14.0%) outperformed the Russell 1000<sup>®</sup> Index (+12.0%).

The Natixis/Vaughan Nelson Mid Cap Strategy rose in value and outperformed the Russell Midcap<sup>®</sup> Value Index gross and net of fees. During the quarter, relative outperformance was driven by security selection, while sector allocation was negative. Securities selected in health care, information technology, consumer discretionary, financials and materials were the largest contributors. They were partially offset by underperforming selections in energy. From a sector selection perspective, an overweight to health care, an allocation to cash, and an underweight to real estate were the largest detractors. An underweight to utilities contributed to returns.

#### QTD Top/Bottom contributors to relative performance:

- The most significant relative contributors were Monolithic Power Systems, Extra Space Storage, Comerica, Floor & Decor and Western Alliance Bancorp.
- The most significant relative detractors were Range Resources, Diamondback Energy, ON Semiconductor, Coinbase Global and TechnipFMC.

#### Trades & Positioning:

- At the end of the quarter, the largest overweight sector was information technology, while the largest underweight sector was utilities.
- There were fourteen new purchases and fifteen full sellouts during the trailing three months ended November 2023. The most significant buys were Extra Space Storage, MongoDB, Vertiv Holdings, Floor & Decor Holdings and Comerica. The most significant sells were FactSet Research Systems, SS&C Technologies, Church & Dwight, Pioneer Natural Resources and Ameren.

Year-to-date, the strategy rose in value and outperformed the benchmark gross and net of fees. Stock selection drove relative outperformance, while sector allocation was modestly negative. Investments in health care, materials, financials, consumer discretionary, information technology, consumer staples and utilities were the largest contributors to relative return, offset partially by names held in industrials and communication services. From a sector allocation perspective, an underweight to consumer discretionary, an overweight to health care, an overweight to utilities and an allocation to cash were the largest detractors, but were largely offset by an overweight to industrials, an underweight to real estate and an underweight to energy which contributed to results.

#### YTD Top/Bottom contributors to relative performance:

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- The most significant relative contributors were Vistra, Republic Services, Cencora, Extra Space Storage and Comerica.
- The most significant relative detractors were First Republic Bank, Nasdaq, Allstate, Nexstar Media Group and WillScot Mobile Mini.

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.

**Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results.** The commentary reflects the opinions of the commentators as of the date indicated. This commentary is a service provided to customers of Natixis Advisors, LLC (Natixis Advisors) for informational purposes. We believe the information contained in this commentary is reliable, but do not guarantee its accuracy. This economic overview is provided for informational purposes only and is not meant as investment advice. Reference to specific securities or industries should not be considered recommendations or advice for individual investors. The reader should not assume that an investment in these

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securities was or will be profitable. A complete list of all past recommendations made within the immediately preceding 12-month period is available upon request. There is no assurance that any predictions or projections will occur. This material is dated as indicated, and opinions and viewpoints may change as economic conditions change.

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#### Definitions

The **S&P 500® Index** is an unmanaged index of US common stocks frequently used as a measure of stock market performance. **Russell 1000® Growth Index** is an unmanaged index consisting of those companies in the Russell 1000® Index with higher than average price-to-book ratios and forecasted growth. The **Russell 1000® Value Index** is an unmanaged index consisting of those companies in the Russell 1000® Index with lower than average price-to-book ratios and forecasted growth. The **Russell 1000® Index** measures the performance of the 1,000 largest companies in the Russell 3000® Index. The **Russell 2000® Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000® is a subset of the Russell 3000® Index and includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The **Russell 2500™ Index** measures the performance of the 2,500 smallest companies in the Russell 3000® Index. **Russell Midcap® Value Index** is an unmanaged index that measures the performance of the mid-cap value segment of the US equity universe. It includes those Russell Midcap® Index companies with lower price-to-book ratios and lower forecasted growth values. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group. You may not invest directly in an index. These 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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