Q3 | September 30, 2020

Natixis/Vaughan Nelson Select Strategy

QUARTERLY PORTFOLIO COMMENTARY

US equity markets rose during the quarter, as investors focused on government stimulus, improving employment, and business re-openings. The NASDAQ Composite and S&P 500 Index set new record milestones during the period, while the DJIA remained below its peak in February 2020. United States GDP shrank by an annual rate of 31.4% in the second quarter of 2020. The Federal Reserve continued to implement accommodative monetary policy measures and the US government continued to support the economy through fiscal policy stimulus in a coordinated effort to minimize the long-term negative impacts of the economic slowdown. The US unemployment rate declined to 7.9% in September, which is down from 11.1% in June and below the peak seen during the 2008–2009 Great Recession. The S&P 500® Index rose 8.9% for the quarter, with almost all sectors in positive territory. Consumer discretionary (+15.1%), materials (+13.3%), industrials (+12.5%), information technology (+12.0%), consumer staples (+10.4%) and communication services (+8.9%) were among the strongest performing sectors in the index. Energy (-19.7%) was the only negative performing sector in the index. Real estate (+1.9%), financials (+4.5%), healthcare (+5.9%), and utilities (+6.1%) rose but were among the weakest performers relative to the overall index. Growth and large-cap outpaced value and small-cap on a relative basis. The Russell 1000® Growth Index rose by 13.2% compared to an increase of 5.6% in the Russell 1000® Value Index, and the Russell 1000® Index rose by 9.5% compared to an increase of 4.9% in the Russell 2000® Index.

The Natixis/Vaughan Nelson Select Strategy rose in value and underperformed the Russell 3000® Index gross and net of fees. Security selection was the driver of relative underperformance, while sector allocation contributed to returns. Stock selection in consumer discretionary, communication services, industrials and financials were the most notable detractors from relative performance, while investments in healthcare and materials were additive. An underweight to financials, a lack of exposure to real estate and an overweight to consumer discretionary were the most notable contributors to returns from a sector allocation perspective, partially offset by drag from an overweight to energy and an allocation to cash.

Year-to-date, the portfolio rose in value and outperformed the benchmark gross and net of fees. Stock selection drove the relative outperformance, while sector allocation detracted from results. Investments in materials and industrials performed especially strongly, and selection in healthcare and financials also contributed significantly to return. Stock selection in consumer discretionary, energy, information technology and communication services detracted from results. From a sector allocation perspective, an overweight to energy, an underweight to information technology, an overweight to industrials, an underweight to financials and an allocation to cash detracted from performance. Positive contribution from a lack of exposure to real estate and utilities, an underweight to consumer discretionary, overweights to communication services and healthcare and an underweight to consumer staples partially offset those results.

Coronavirus pandemic concerns along with monetary and fiscal policy stimulus are likely to remain a focus for markets during the next quarter, as investors evaluate economic and global health uncertainties in their growth forecasts. These uncertainties along with the US elections in November and third quarter earnings results may lead to market volatility. Rigorous fundamental research and investment discipline may be the winning recipe in the time to come, as global economic and health uncertainties continue.

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