

# Natixis/Vaughan Nelson Value Opportunity Strategy

## QUARTERLY STRATEGY COMMENTARY

US equity markets continued to rise during the quarter, with the S&P 500<sup>®</sup> Index, DJIA, and NASDAQ composites all setting new record milestones during the period. Mostly positive third quarter earnings results (based on companies within the S&P 500<sup>®</sup> Index), positive expectations on a potential China-US trade deal, and the Federal Reserve's accommodative monetary policy lifted equities higher during the quarter, despite rising geopolitical risks (trade policy tensions, global growth concerns, and Brexit negotiations) and fiscal policy uncertainty. Mixed economic and survey data (weak US consumer confidence in December, rising US new home sales and better than forecasted US home starts, and positive GDP growth) along with trade policy concerns drove the Federal Reserve to cut interest rates in October but hold rates steady in December. United States GDP grew at an annual rate of 2.1% in the third quarter of 2019, slightly up from 2.0% in the second quarter. US employment continues to show strength and stability with the November unemployment rate of 3.5%, maintaining a level of 4.0% or less for 21 consecutive months. The S&P 500<sup>®</sup> Index rose 9.1% during the quarter, with information technology (+14.4%), healthcare (+14.4%), financials (+10.5%), and communication services (+9.0%) among the best performing sectors. During the quarter, real estate (-0.5%) was the only negatively performing sector in the index. Growth and small-cap outpaced value and large-cap on a relative basis. The Russell 1000<sup>®</sup> Growth Index rose by 10.6% compared to an increase of 7.4% in the Russell 1000<sup>®</sup> Value Index, and the Russell 2000<sup>®</sup> Index rose by 9.9% compared to an increase of 9.0% in the Russell 1000<sup>®</sup> Index.

The Natixis/Vaughan Nelson Value Opportunity Strategy rose in value and outperformed the Russell Midcap<sup>®</sup> Value Index gross of fees (lagged net of fees). Relative out performance was driven by sector allocation, with security selection detracting from results. An underweight to real estate and an overweight to information technology were additive to relative return, offset partially by an overweight to utilities, an underweight to industrials and an allocation to cash. Stocks selected in information technology, consumer discretionary, utilities, consumer staples and real estate weighed on performance, offset by names in financials, industrials, healthcare and energy.

Year-to-date, the portfolio rose in value and outperformed the benchmark gross and net of fees. Relative outperformance was driven by security selection, with sector allocation also contributing to performance. Names in materials performed especially well, with securities in information technology, industrials and communication services also adding to relative return. Selection in financials, consumer staples, energy and real estate detracted from results. An overweight to information technology and underweights to energy and consumer staples were additive to return, while an underweight to industrials and an allocation to cash had a negative effect on return.

US trade policy and interest rate expectations continue to be at the forefront of investors' focus during the next quarter, as investors evaluate growth expectations. From a global perspective, trade policy tensions (US-China trade talks and Brexit negotiations), global monetary policy, and other geopolitical risks continue to take the spotlight as investors monitor global economic growth. These uncertainties along with US elections in November and fourth quarter earnings results may lead to market volatility. Rigorous fundamental research and investment discipline may be the winning recipe, as global growth and geopolitical uncertainties continue to buffet the market.

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## Definitions

**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. The views and opinions expressed may change based on market and other conditions. This material is provided for informational purposes only and should not be construed as investment advice. There can be no assurance that developments will transpire as forecasted. Actual results may vary.

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 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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