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

QUARTERLY PORTFOLIO COMMENTARY

US fixed income markets fell during the quarter, as investors digested a hawkish Federal Reserve, higher inflation, and news of the Russia-Ukraine war. Strong US GDP and employment data along with coronavirus vaccine distribution and global economic reopening were insufficient to calm investors' concerns, as the Federal Reserve increased interest rates by 0.25% in March and fueled expectations of a greater number of interest rate hikes to combat high inflation. A modest inversion of the yield curve – the 5-year US Treasury rate rose to 2.42% compared to the 10-year US Treasury rate of 2.32%, as of the end of the quarter – further increased investor concerns. The annual US inflation rate grew to 8.5% in March 2022, compared to 1.7% in February 2021. United States GDP rose by an annual rate of 6.9% in the fourth quarter of 2021, up from 2.3% in the third quarter of 2021. The US unemployment rate declined to 3.6% in March 2022, down from 3.9% in December 2021.

Fixed income markets experienced a flattening of the US Treasury yield curve with the 10-year rising 81 basis points and the 30-year rising 55 basis points during the quarter. The Bloomberg U.S. Aggregate Index fell by -5.9% during the quarter, weighed down by investment grade credit and longer-term bonds. Investment grade credit (-7.7%) underperformed the overall index on an absolute and relative basis while US Treasuries (-5.6%) fell and modestly outperformed the overall index on a relative basis. The 10+ year group fell -11.0%, compared to a decrease of -2.5% in the 1–3 year group. Securitized assets fell -5.0% (ABS down -2.9% and US MBS down -5.0%) but outperformed the overall index on a relative basis. Higher quality credit tended to outperform, with AAA down -5.3% compared to a -7.9% return for BBB.

The Natixis/Loomis Sayles Core Total Return strategy fell in value but outperformed the Bloomberg US Aggregate Bond Index gross of fees (lagged net of fees). Relative outperformance was driven by yield curve positioning and security selection, while sector allocation modestly detracted from results. Over the quarter, yield curve positioning in investment grade credit and ABS/RMBS were the largest contributors, partially offset by negative positioning in US Treasury. Security selection in investment grade credit was the largest contributor, partially offset by selection in agency MBS. Negative sector allocation was driven by an underweight to US Treasury and an overweight to agency MBS, partially offset by an overweight to ABS/RMBS.

Higher inflation, rising rates, monetary and fiscal policy, the Russia-Ukraine war, and coronavirus pandemic concerns remain in focus for markets during the next quarter, as investors evaluate the uncertainties of economic growth, global health, and supply disruptions in their growth forecasts. These uncertainties along with first quarter earnings results may lead to market volatility. Active 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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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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