

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



QUARTERLY PORTFOLIO COMMENTARY

Q1 | March 31, 2024

Fixed income markets declined in the first quarter, as investor optimism about rate cuts turned out to be premature. Inflation data remained higher than the Fed's target rate and economic data remains stronger than anticipated. Rises in rates drove the decline in fixed income during the period, and less rate-sensitive sectors of the fixed income market outperformed. Annual US inflation rose to 3.5% in March from 3.4% in December. Unemployment remained fairly steady, moving to 3.8% in March, up slightly from 3.7% in December. United States GDP rose by an annual rate of 3.4% in the fourth quarter of 2023, decreasing from 4.9% in the third quarter of 2023 but still stronger than anticipated, given the pace of interest rate rise.

As yields rose during the quarter, the US Treasury yield curve shape remained consistent with the 10-year rate rising 25 basis points versus the 30-year rising 26 basis points during the quarter. The Bloomberg U.S. Aggregate Index fell by -0.8% during the quarter, dragged down by longer-term bonds and Agency MBS. The 10+-year group fell by -2.4%, compared to an increase of +0.4% in the 1-to 3-year group. Investment grade credit fell by -0.41% compared to -0.96% for US Treasuries. Overall, securitized assets fell by -0.9% with US MBS down -1.0% and ABS increasing +0.7%. During the quarter, AAA-rated credit (+0.0%) was the best performer, with BBB credit (-0.2%) performing second best, while credits in the middle performed significantly worse.

The Natixis/Loomis Sayles Core Total Return strategy fell in value and outperformed the Bloomberg US Aggregate Bond Index gross of fees (lagged net of fees). Both security selection and sector allocation were positive during the quarter. Names held in high yield credit and ABS/RMBSA were the largest contributors, offset partially by investments in investment grade credit. From a sector allocation perspective, an underweight to US Treasury and an overweight to CMBS were the most notable contributors. Exposure to High Yield Credit detracted from returns.

Markets have soared to new highs with better than expected economic growth and investor sentiment. Inflation, monetary policy, and the trajectory of the US economy are watchpoints for investors. While economic data and investor sentiment have been strong, uncertainties linger. Geopolitical and macroeconomic weakness may continue to drive market volatility and dispersion. The resulting market environment has increasingly proven challenging to navigate. We continue to believe that active fundamental research, combined with investment discipline, provides an attractive way to navigate market uncertainty.

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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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