

Natixis/Vaughan Nelson Mid Cap Strategy



QUARTERLY STRATEGY COMMENTARY

US equity markets moved higher in the first quarter, as the Fed continued their holding pattern on overnight interest rates. Inflation continued to moderate, although it remains a key watchpoint along with a backdrop of greater geopolitical unease heading into a fall US election. The US economy has exhibited resilience with robust unemployment levels and strong GDP growth. Investors have piled into risk assets as potential Fed rate cuts combined with more stable economic data suggest a soft landing scenario. Annual US inflation was 3.5% in March, up slightly from February. Unemployment moderated at 3.8% in March, maintaining historically robust levels. United States GDP rose by an annualized rate of 3.4% in the fourth quarter of 2023. The S&P 500® Index rose (+10.6%) for the quarter, with broadly positive results. Communication Services (+15.8%), Energy (+13.7%), Information Technology (+12.7%), Financials (+12.5%), and Industrials (+11.0%) were the top performers during the quarter. Real Estate (-0.6%) was the only negative returning sector during the quarter. Growth and large cap outperformed value and small cap during the quarter, although value rallied late in the period. The Russell 1000® Growth Index (+11.4%) outperformed the Russell 1000® Value Index (+9.0%), and the Russell 1000® Index (+10.3%) outperformed the Russell 2000® Index (+5.2%).

The Natixis/Vaughan Nelson Mid Cap Strategy rose in value and outperformed the Russell Midcap® Value Index gross and net of fees. During the quarter, relative outperformance was primarily driven by security selection, though sector allocation was also positive. Securities selected in utilities, industrials, health care, energy, materials and communication services were the largest contributors. Selections in financial, information technology and real estate detracted from results. From a sector selection perspective, underweights to communication services and real estate and an overweight to industrials were the largest contributors. An overweight to information technology detracted from relative returns.

QTD Top/Bottom contributors to relative performance:

- The most significant relative contributors were: Vistra, Vertiv, Diamondback Energy, Saia and TechnipFMC.
- The most significant relative detractors were: MongoDB, Extra Space Storage, ON Semiconductor, not holding Constellation Energy and Sketchers USA.

Trades & Positioning:

- At the end of the quarter, the largest overweight sectors were communication services, energy and information technology, while the largest underweight sectors were utilities and real estate.
- There were three new purchases and eleven full sellouts during the trailing three months ended February 2024. The new buys were: Doordash, Equifax and TFI International. The most significant sells were: MAXIMUS, Rithm Capital, Axalta Coating Systems, The Bank of N.T. Butterfield and Son, and Estee Lauder.

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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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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