

Natixis/Vaughan Nelson Select 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 Select Strategy rose in value and outperformed the Russell 3000® Index gross and net of fees. During the quarter, security selection drove relative outperformance, while sector allocation detracted from results. Securities selected in financials, consumer discretionary, industrials and communication services were the largest contributors, partially offset by underperforming selections in health care and energy. From a sector allocation perspective, overweights to materials and information technology were the largest detractors, while an underweight to communication services contributed to results.

QTD Top/Bottom contributors to relative performance:

- The most significant contributors were: not holding Apple, Saia, Kinsale Capital Group, NVIDIA and Walt Disney.
- The most significant relative detractors were: Snowflake, Zoetis, Kosmos Energy, not holding Meta Platforms, and Wheaton Precious Metals.

Trades & Positioning:

- At the end of the quarter, the largest overweight sector was information technology, while the largest underweight sectors were consumer staples and utilities.
- There were four new buys during the trailing three months ended February 2023: Kinsale Capital Group, ON Semiconductor, Snowflake and Walt Disney. There were eight full sellouts during this period. The most significant were: Wheaton Precious Metals, Verisign, Aon, Verisk and Crown Castle.

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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