NATIXIS
INVESTMENT MANAGERS

THE NATIXIS PORTFOLIO PLAYBOOK

Smart strategies for putting cash back to work

The sidelines aren't as safe as clients think.

Market signals are mixed.

Indexes are near all-time highs, but inflation concerns remain. Interest rates are at 20-year highs, but cuts could be on the horizon. Recession fears have eased, but economic growth may be cooling. Today may feel solid, but tomorrow poses many questions.

The riskiest action is no action.

With money markets and CDs paying upwards of 5% in interest, sitting it out in cash may seem like the safest choice to many clients. But have they asked themselves if a 5% return is enough to reach financial goals that take decades of planning? In reality, 5% seems low, especially when our most recent survey shows that investors expect their investments to return an average of more than 15% … above inflation.[1]

Clients need a stronger game plan.

Clearly, it takes more than cash to generate the returns needed to achieve critical, long-term goals. As investment professionals, we know a well-diversified portfolio can help clients face today's tough questions and offer them a comprehensive, long-term strategy. The challenge is getting them to realize that each investment plays a specific role in their portfolio to help them not only reach their goals but also to feel confident about staying the course in all market environments.

1 Natixis Global Survey of Individual Investors conducted by CoreData Research in March and April 2023. Survey included 8,550 investors across 23 countries, 750 of whom were in the US.

Diversification beyond asset classes

Given the challenges posed by today's markets, portfolio diversification has to go beyond the essential mix of stocks, bonds and, yes, cash.

Today's more critical client conversations have to go the extra step to explain why each investment is in their portfolio and define the essential role each holding plays in their strategy.

A strategy to get clients back in the game

Whether you build your own portfolio or prefer the efficiency of an outsourced model, you need to be prepared to answer tough questions from clients about why they need to stay invested in today's dynamic markets.

Offense	Defense	The complete game plan
Objectives Investors need capital appreciation to fund long-term goals. They also need to protect purchasing power by generating returns that outpace inflation. **Equity strategies** • Growth strategies • Small- and mid-caps • Non-US markets **What to look for** Exposures to cyclical growth sectors, like industrials and technology. **Fixed income strategies** • Multi-sector bonds • High yield bonds • Bank loans **What to look for** Focus on credit risk with the goal of generating total return from higher-yielding securities.	**Objectives** Investors also need to preserve assets by minimizing losses and smoothing out volatility. A solid defense can help capture upside opportunities created by market dislocations. **Equity strategies** • Large-cap equities • Options-based strategies • Domestic focus **What to look for** Exposures to secular growth sectors like healthcare, communications services, consumer staples. **Fixed income strategies** • Government bonds and municipals • Core plus • High-quality corporate bonds **What to look for** Focus on quality to minimize the risks of lower-grade bonds.	There are many ways to implement client portfolios. Some financial professionals find that outsourcing the core portfolio or even parts of the portfolio to a third-party manager is more efficient and gives them more time to work directly with clients on other needs. **Objectives** Provide clients with a complete, diversified portfolio solution that seeks to deliver core offensive and defensive strategies for their investments. • Model core portfolios • Tax-managed models **What to look for** Focus on actively managed portfolios designed to meet specific risk/return criteria while allowing managers to have the flexibility to respond to market opportunities.

"Why would I give up a sure 5% from CDs?"

There's no such thing as a free lunch.
Getting 5% returns from short-term savings instruments, like CDs, may feel like a no-risk proposition because they come with a maturity – often 12 months. The big question about CDs is: "What will rates be a year from now when the assets need to be rolled over?" That poses reinvestment risk, which can be significant, especially when rates are likely to go down. This is just one of the many reasons clients need to rethink cash investments.

The expected path of cash is down.
Even as the Fed continues its effort to curtail inflation, rate cuts are likely over the next 12 months. In fact, more than half of institutional investors in the US (55%) project at least two rate cuts in 2024.[2]

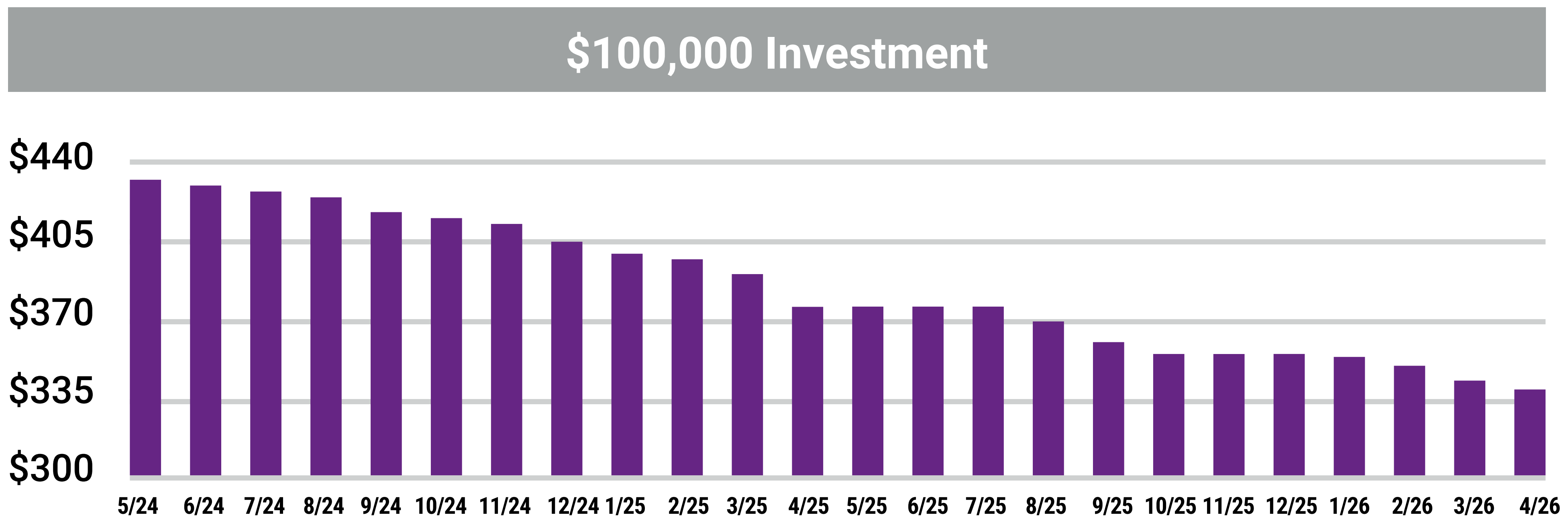
Is 5% enough to meet long-term goals?
Today's 5% interest payment may look attractive to some clients, but with inflation at 3.5%, that 5% return is actually a real return of 1.5%. Clients need to recognize that 1.5% is a lot lower than they expect and not a trajectory for attaining future financial goals.

Stocks may be a better strategy for addressing long-term expectations. Historically, stocks have provided returns that outpace inflation. In fact, the S&P 500® has delivered an average annual return of 13.5% over the past 10 years.[3] That's much closer to investor expectations than any cash investment can deliver.

Consider what they give up to get 5%.
Opportunity cost is another trade-off with cash. Earning 5% may sound great, but it will take 12 months (or more) to earn that return. That means tying up $100,000 for a full year just to make $5,000. And many clients will give back some of those earnings should they make a withdrawal before the 12-month maturity is up. It's important to note that with the right stock selection, stocks have the potential to deliver $5,000 in a matter of days.

It's not just stocks. Bonds look more attractive, too.
Ten-year Treasuries offer an attractive rate of 4.5%[4], but bond yields come with some key differences: Holding that bond until maturity locks in that annualized yield for the next decade – even if rates get cut. Plus, bonds come without penalties for accessing your money. And if interest rates are cut below the rates on your bonds, you may be able to sell them for a higher price than you paid.

How low can cash go?



Source: Bloomberg, Natixis Investment Managers Solutions

Past performance is no guarantee of future results.

Even at 5% today, cash returns are expected to be lower in the next year. Consider what this series of future 1-month Treasury yield expectations reveals about what could happen over the next two years. Today's $432 monthly income could fall to close to $400 by year-end. By the second quarter of 2025, that same monthly income would likely be below the current monthly yield offered by 10-year Treasuries.

2 Global Survey of Institutional Investors conducted by CoreData Research in October and November 2023. Survey included 500 institutional investors in 27 countries.
3 S&P 500® Index returns from January 1, 2013-December 31, 2023.
4 U.S. Department of the Treasury, Daily Treasury Par Yield as of May 10, 2024.

How to get past 5%

Clients need a portfolio strategy to get their investments back on track by balancing their need for returns and risk concerns by stressing quality.

Offensive strategy

Generate returns that outperform cash and outpace inflation.

- Consider growth strategies that focus on industry-leading companies with strong balance sheets and competitive advantages that will help drive future growth.
- Evaluate how small-cap and mid-cap strategies could provide additional growth opportunities.

Defensive strategy

Diversify equity exposures and look for additional opportunities to mitigate the risks.

- Core-plus fixed income strategies may help address income concerns with actively managed investments in high-quality securities that have some duration exposure, while offering yields closer to cash.
- Options-based strategies can offer other potential benefits including insulation from market volatility and a source of additional income potential.

The complete game plan

Model portfolios can help ensure a strategy is aligned with a client's risk tolerance and objectives.

- Investment selection is critical, and the model portfolio manager should try to diversify not just by asset class, but also by investment thinking to ensure the portfolio benefits from a broad view.
- Active management matters as model portfolio managers can help enhance overall performance with tactical tilts that take full advantage of market opportunities.

"Why invest in stocks when markets are near all-time highs?"

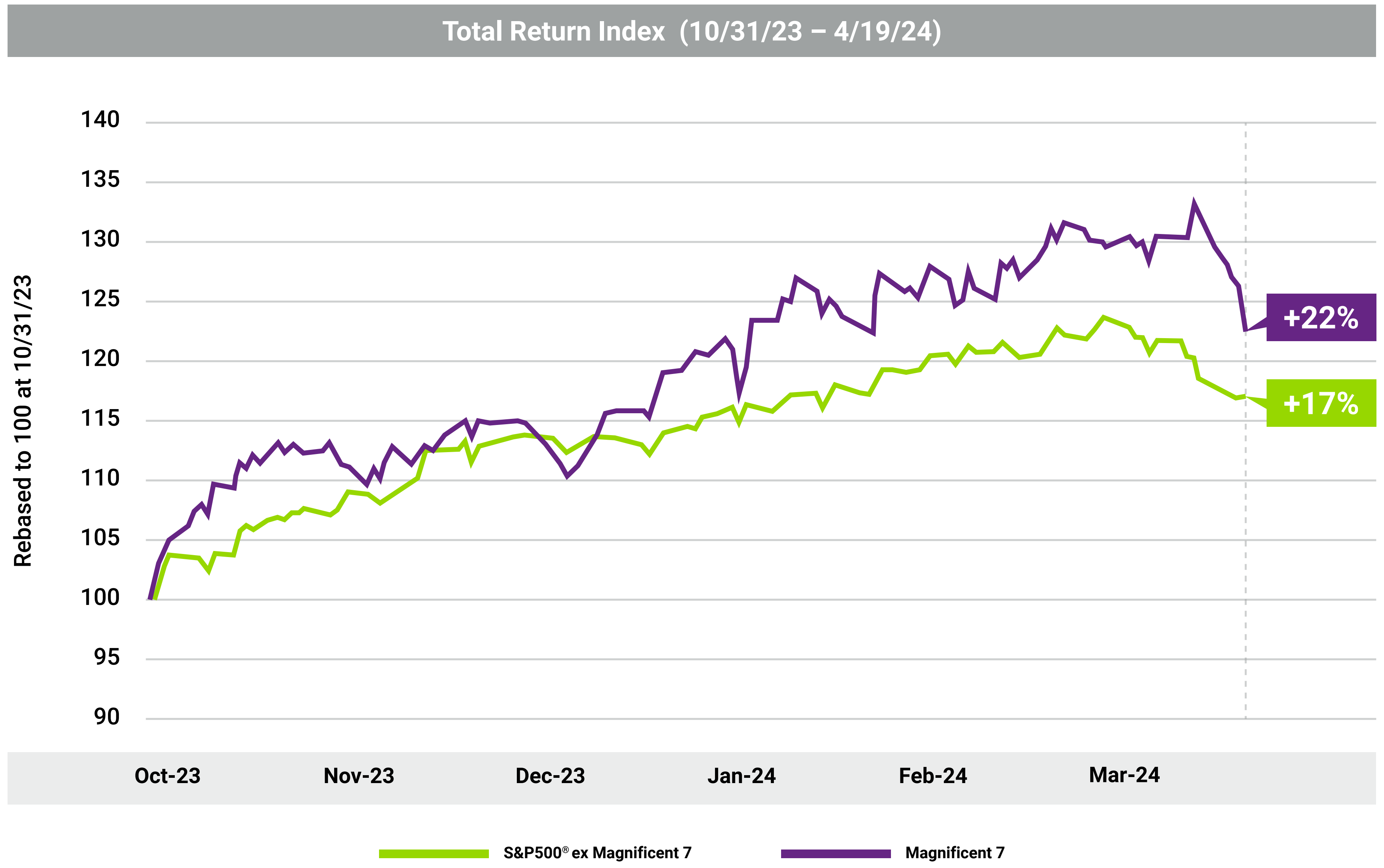
Markets are growing for a reason.
With the S&P 500® at or near an all-time high, some clients worry about investing "at the peak." But that thinking implies that anyone knows when, or even if, the market has peaked. Current economic factors may continue to favor stocks. Inflation could be nearing the Fed target and rate hikes appear to have topped out. The labor market remains strong and real wages are increasing. Recession fears have not been realized and companies need to catch up to resilient demand.

Waiting to buy the dip could cost you.
Markets generally experience a 10% correction every year, but nobody knows when it will come. Clients who wait for stocks to decline before they buy could miss out on significant growth opportunities. Although the market may be setting record highs, looking at the history of some of the largest stock market indexes such as the S&P 500® shows that record days are often followed by more record days.

There's more upside potential for equities.
Defensive investors may be missing a key point: Many of the factors that made them step back two years ago have reversed course. In the long term, equity markets have historically increased 70% of the time, and de-creased only 30%.[5]

Growth is coming from more than 7 stocks.
The Magnificent 7[6] did have an outsized impact on market returns in 2023, but 118 other stocks in the S&P 500® also outperformed. It takes experience to pick the winners from the losers. That's why active management is essential in times like these.

S&P 500® ex Magnificent 7 vs Magnificent 7



Past performance is no guarantee of future results.

Markets like this highlight the concentration risk within the S&P 500®. As seen in 2023, the market was up overall, but many of those returns were driven by outsized returns from just 7 stocks. Overall, about 128 stocks outperformed. It underscores why active investments outperformed passive investments. Active strategies are more selective and concentrate on what research suggests will outperform, rather than trying to buy the whole market.

[5]Bloomberg – Analysis of US stock market returns using 1-year total returns from 1972-2023.
[6]The Magnificent 7 include the stocks of Apple, Microsoft, Amazon, Alphabet (Google), Facebook, Netflix, and Tesla.

How to address peak market concerns

Make market participation more selective with a portfolio strategy with active strategies invested in high-conviction ideas.

Offensive strategy

Be selective. Concentrate on the quality of individual securities rather than looking for broad market or sector plays.

- Actively managed equity strategies offer the opportunity to outperform by providing a more diversified source of returns. Growth strategies fit the bill here as do small- and mid-cap strategies.
- Active management is equally important for fixed income. Look for managers who are discerning and evaluate the quality of every issuer, not just coupon rates and duration, and strive to balance yield and total return potential with risk. Investment grade, high yield bonds, bank loans, and mortgage-backed securities may all fit this role.

Defensive strategy

Active management matters. Look for strategies where managers are selective, focusing on quality. Extend duration to mitigate potential drawdowns and create cashflow for new opportunities.

- US large-cap strategies may sound like a counter intuitive strategy for defense, but strong balance sheets and strong earnings make them a solid choice for protection from other, more volatile asset classes.
- Duration is a critical consideration, especially given the asymmetrical downside risk on interest rates.

The complete game plan

Model portfolios provide an integrated solution for actively managing risks and opportunities in client portfolios.

- Look for active managers with the flexibility to make tactical shifts in response to new opportunities and new risks presented by the market.
- Look for tax-aware strategies that can help mitigate the impact of capital gains in a way that helps clients keep more of what they earn.

"Isn't it another tech bubble–just like 2000?"

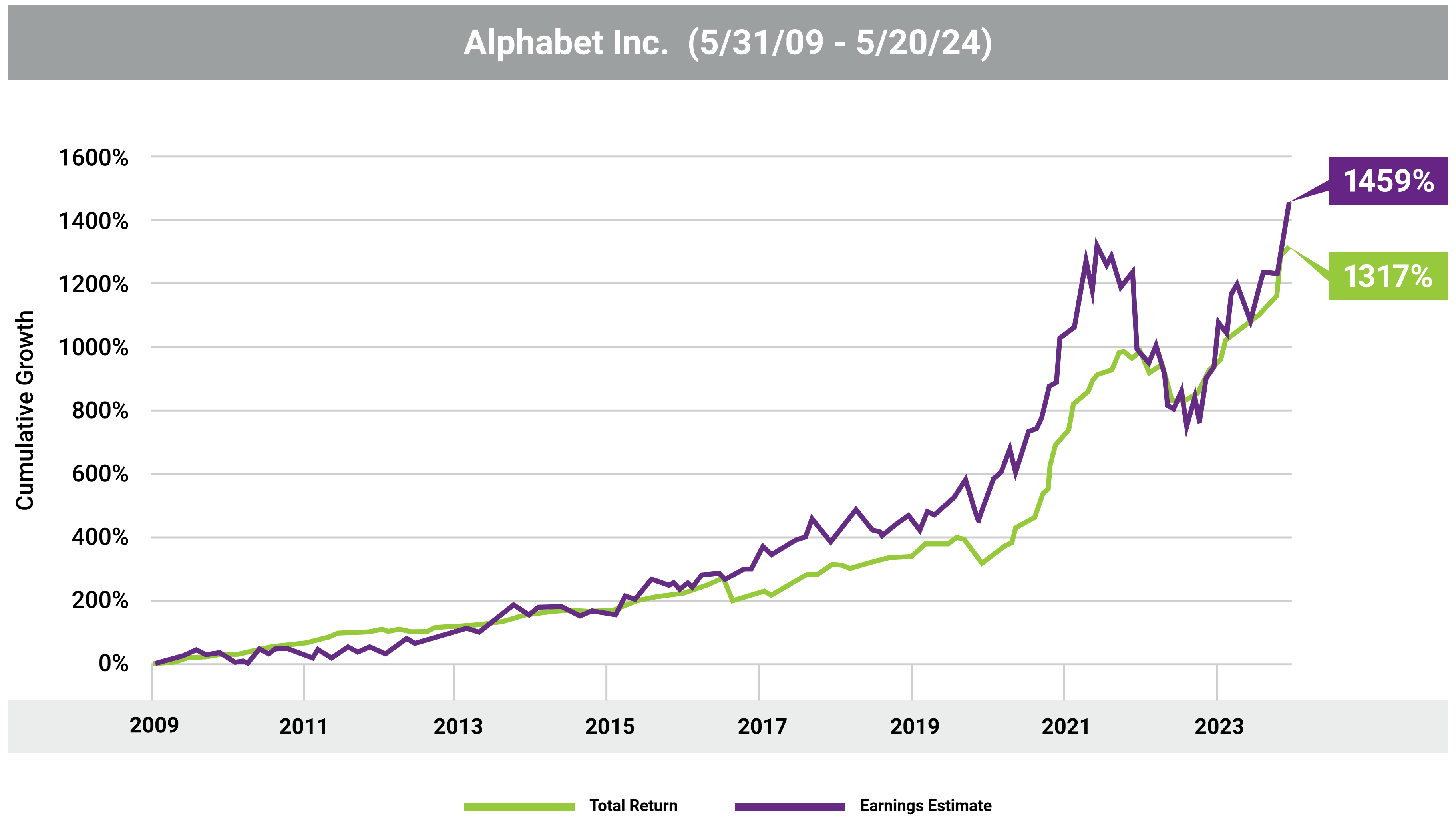
That was then. This is now.
Tech stocks have played a big role in recent market gains. Many investors think that the run up on Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla adds up to another tech bubble. But unlike the bubble from nearly a quarter century ago, today's performance is driven by earnings. Not hype.

Equities still have room to run.
We are already witnessing how AI will make a revolutionary change to the global economy. Market highs driven by the Magnificent 7 may give pessimists reason to worry, but one look at the balance sheet shows why market growth is sustainable. Tech is pervasive across the economy and tech companies are selling to Walmart and Target, not just other tech companies.

Growth is driven by earnings.
All indicators show that we are in a positive earnings cycle and demographics suggest prolonged growth. Millennials, aged 28-43, are entering their prime earnings years. They're starting families, buying homes, and saving in 401(k) plans. Millennials are exercising the kind of economic clout that propels the economy and drives markets.

Valuations are just a perception of worth.
Some may think the market is overvalued, but a valuation is just the market's opinion of what a stock is worth. One investor may think a stock is expensive, while another may not. A valuation is merely the aggregation of those opinions. It all comes down to investors' risk appetites.

Earnings drive total returns



Past performance is no guarantee of future results.

Alphabet's long-term performance offers a powerful example for investors who worry that total returns for the tech sector may be stretched. The growth in earnings estimates, relative to the stock's total return, shows that despite some short-term dislocations, earnings drive returns over the long term. Alphabet's earnings history certainly justifies the outsized total returns earned by investors during that holding period.

How to overcome bubble worries

Take bubble worries out of the equation with a strategy that looks beyond the tech sector for growth opportunities.

Offensive strategy

Focus on strategies that emphasize companies benefiting from technological advancement, rather than solely focusing on technology companies.

- Generative AI promises to be a growth engine for the next decade. Companies across all industries are investing in projects with the potential to boost earnings and grow market share. Not every company will be a winner.
- Large-cap growth companies have been among the most successful early adopters. Look for strategies that factor in the impact alongside more traditional measures, such as earnings growth.

Defensive strategy

Look for ways to diversify client portfolios as the spread in the earnings of the Magnificent 7, and other companies, narrows.

- Some stocks may be undervalued even as many companies close the gap with the Magnificent 7. Value strategies can provide much-needed diversification from portfolios that are overexposed to growth.
- Look for active managers with clear strategies for entering and exiting positions for investing in undervalued companies.

The complete game plan

Consider an integrated solution that can help take the guess work out of market rotations.

- Active management is essential to navigating market shifts. Consider model managers with the flexibility to address market shifts and tactical tilts within portfolios.

Support for your strategy

Natixis Investment Managers helps you keep clients on track with their long-term goals. With more than 15 specialist investment managers, we give you access to a diverse range of investment capabilities. We also help you pressure test your plans with in-depth portfolio analysis.

Equities

We connect you to a wide range of actively managed equity strategies run by some of the industry's most respected investment managers. Our high-conviction strategies help clients:

- **Focus on growth**
- **Shop for value**
- **Minimize equity volatility**
- **Diversify globally**
- **Invest sustainably**

See our equity strategies.

Fixed Income

Natixis helps you pursue value and yield opportunities with actively managed strategies from a deep bench of fixed income managers that help investors:

- **Mitigate portfolio risk**
- **Minimize interest rate impact**
- **Pursue income and total return**
- **Generate tax-advantaged income**

See our fixed income strategies.

Model Portfolios

Our model portfolios combine the diverse capabilities of our investment managers with two decades of experience running multi-asset portfolios. Our offering includes:

- **Core**
- **Tactical**
- **Tax Efficient**
- **Alternative completion**

See our model portfolios.

Portfolio analysis and consulting

We provide objective, risk-based analysis and insight to support asset allocation and portfolio construction plans. Since 2012, we've evaluated more than 25,000 advisor portfolios with services including:

- **Comprehensive portfolio evaluations**
- **Asset allocation strategies**
- **Research and analysis of key investment trends**

See our consulting services.

THE NATIXIS PORTFOLIO PLAYBOOK

To learn more

Contact your Natixis representative
or call **800-862-4863.**

Important Disclosures

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All investing involves risk, including the risk of loss. Investment risk exists with equity, fixed income, and alternative investments. There is no assurance that any investment will meet its performance objectives or that losses will be avoided. Investors should fully understand the risks associated with any investment prior to investing.

Fixed income securities may carry one or more of the following risks: credit, interest rate (as interest rates rise bond prices usually fall), inflation and liquidity.

Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential liquidity of the investment in a falling market.

Economic forecasts set forth may not develop as predicted, and there can be no guarantee that strategies promoted will be successful.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Past performance is no guarantee of future results.

Indexes are not investments, do not incur fees and expenses and are not professionally managed. It is not possible to invest directly in an index.

Unlike passive investments, there are no indexes that an active investment attempts to track or replicate. Thus, the ability of an active investment to achieve its objectives will depend on the effectiveness of the investment manager.

Definitions

S&P 500® Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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High yield bond spread, also known as a credit spread, is the difference in the yield on high yield bonds and a benchmark bond measure, such as investment grade or Treasury bonds. High yield bonds offer higher yields due to default risk.

Liquidity refers to the ease with which an asset, or security, can be converted into ready cash without affecting its market price.

Interest rate risk is a major risk to all bondholders. As rates rise, existing bonds that offer a lower rate of return decline in value because newly issued bonds that pay higher rates are more attractive to investors.

Duration risk measures a bond's price sensitivity to interest rate changes. Bond funds and individual bonds with a longer duration (a measure of the expected life of a security) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations.

Plus sectors refer to additional fixed income sectors some strategies invest in such as high yield bonds, emerging market bonds, floating rate bank loans, and non-US dollar bonds, to seek greater diversification or yield potential.

The yield spread is the difference in the expected rate of return between two investments.

Natixis Advisors, LLC provides advisory services through its division Natixis Investment Managers Solutions. Advisory services are generally provided with the assistance of model portfolio providers, some of which are affiliates of Natixis Investment Managers, LLC.

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