Natixis Tactical Allocation Portfolios Quarterly Commentary — 03/31/2025

First Quarter 2025 Review

After a mixed fourth quarter for both equities and fixed income, domestic equities took a hit as market volatility continued due to growing uncertainty around policy and tariff announcements. Initial US market reaction up to Trump's inauguration was strong, reaching new all-time highs in mid-February, but fizzled out after a slew of executive orders commenced and tariff rumors began to ring out. Further worries about these inflationary policies drove Treasurys higher, which led to domestic equities wiping out their entire post-election gains in March. Retreats from US allocations within equity moved into international plays, where both equity and fixed income exposures outperformed. Even with the retreat in US equities and a hot print on January CPI data, guidance from the US Federal Reserve around rates remained unchanged for the quarter, staying in their planned "hawkish" approach. Heading into the second quarter, this will be a focal point as probabilities for more cuts moved further out of favor, given mixed economic numbers and a decline in consumer confidence in the first quarter. A firmer-than-expected stance by Trump on tariffs could also see these recent trends continue, along with the potential to prolong inflationary impacts.

- The S&P 500® Index was down in the first quarter, returning -4.27%. Small-cap stocks (as measured by the Russell 2000 Index) were negative, down -9.48%.
- Internationally, the MSCI EAFE Index and MSCI Emerging Markets Index returned 6.86% and 2.93%, respectively.
- Interest rates fell during the quarter, with the 10-Year US Treasury yield moving -36 basis points, from 4.59% to 4.23%.
- The Bloomberg US Aggregate Bond Index finished in positive territory, up 2.78% for the quarter, while the Bloomberg US Corporate Investment Grade Index returned 2.31%.
- Return-seeking fixed income was slightly positive with the Bloomberg US Corporate High Yield Index returning 1.00% for the quarter.
- Global fixed income was positive as the Bloomberg Global Aggregate Bond Index increased 2.64% for the quarter.
- In liquid alternatives, the Wilshire Liquid Alternatives Index was up 0.76% for the quarter.

Performance Review

- For the first quarter of 2025, the All Equity through Conservative portfolios underperformed their benchmarks.
- Style selection and asset allocation selection were leading detractors from relative performance.
- Asset allocation was negative for the month, driven by an overweight to US equity and underweight to international-developed equity.
- Style selection was the leading detractor from excess returns, driven primarily by picks within US equity, namely US growth exposures.
- Manager selection was slightly negative, driven by strategic exposures to US large-cap growth.

Natixis Tactical Allocation Portfolios

Trade Review

- The Conservative through All Equity models performed four sets of trades during the quarter.
    - On February 6, the models liquidated their Transportation holdings along with their Europe and Emerging Markets Asia equity allocations. They also reduced their overall equity exposure, shifting to a slight overweight position relative to the benchmark in equity.
    - On February 25, the models performed their strategic rebalance, moving all ETFs and mutual funds closer in line with their annual targets. The models also moved to an underweight equity position.
    - On March 4, the models liquidated their Latin America equity exposure, while also moving further underweight equity.
    - On March 24, the models took on a tactical position in high-beta US equity, while also decreasing their underweight to equity.

Current Positioning

- The models are underweight total equity, relative to the benchmark, while keeping an overweight to domestic large-cap equity. Domestic small-/mid-cap equity is neutral to the benchmark, while international developed and emerging markets equity is underweight.
- In fixed income, the models are underweight US investment-grade fixed income and overweight emerging markets USD debt. Within the US investment-grade fixed income sleeve, there is an overweight to US Treasurys.
- The models are slightly overweight duration at the portfolio level, with tactical exposure concentrated in intermediate- and long-maturity US Treasurys.
- While growth is slowly moderating, it is doing so from a high level while consumption is showing signs of retreating. Employment remained stabilized through the quarter, yielding slightly positive trends in forecasts for the remainder of the year.
- Inflation data was mixed as a hot print in January put a small damper on a disinflationary trend in Q4 2024. Further tariff implementations from the Trump administration run the risk of prolonging an inflationary cycle.
- The models are positioned for global bearish trends that are forming around tariffs and the potential for a domestic inflationary environment to continue. Opportunities could continue to present themselves if negative sentiments become oversold or priced in.
- With high yield and investment-grade corporate spreads near cycle tights, the models are positioned in US Treasurys to capture relative value and maintain high quality.

Additional information

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