NATIXIS INVESTMENT MANAGERS

SOLUTIONS

Natixis/Loomis Sayles Intermediate Duration Fixed Income Strategy

LOOMIS | SAYLES®

QUARTERLY PORTFOLIO COMMENTARY

Q4 | December 31, 2023

Fixed income markets performed positively in the fourth quarter, as the Fed confirmed a pause in rate rises, inflation continued to moderate, and the US economy hit its longest streak of unemployment below 4% since the Vietnam war. As a potential soft landing came into focus, investor optimism buoyed risk assets across equity and fixed income. Annual US inflation declined to 3.1% in November from 3.7% in August. Unemployment remained steady at 3.7% in December, up slightly from September levels. United States GDP rose by an annual rate of 4.9% in the third quarter of 2023, up significantly from 2.1% in the second quarter of 2023.

Fixed income markets experienced a very slight steepening of the US Treasury yield curve, with the 10-year rate falling 69 basis points versus the 30-year falling 67 basis points during the quarter. The Bloomberg US Aggregate Index rose by +6.8% during the quarter, lifted up by longer-term bonds and investment grade credit. The 10+ year group rose by +11.9%, compared to an increase of +2.7% in the 1–3 year group. Investment grade credit rose by +8.5%, compared to +5.7% for US Treasuries. Overall, securitized assets rose by +7.3%, with US MBS up +7.5% and ABS increasing +3.5%. Lower quality credit tended to outperform; BBB rose +8.8%, compared to a +4.7% return for AAA.

The Natixis/Loomis Intermediate Duration Fixed Income Strategy rose in value and slightly underperformed the Bloomberg Intermediate US Government Credit Index gross and net of fees. Relative underperformance was driven by security selection, while sector allocation was positive. Securities held in investment grade credit were the largest detractors. An overweight to investment grade credit was the most significant contributor.

Year to date, the strategy rose in value and slightly underperformed the benchmark gross and net of fees. Relative underperformance was driven by negative security selection that was almost entirely offset by positive sector allocation. Investments selected in investment grade credit were the largest detractor during the year. From a sector allocation perspective, an overweight to investment grade credit and an underweight to US Treasuries were the most notable contributors to relative performance.

Investors remain focused on monetary policy and the trajectory of economic growth. While economic data and investor sentiment has improved significantly, recessionary risks remain. Geopolitical and macroeconomic risks may continue to drive market volatility and dispersion as multiple active wars, election years, and other potential conflicts play out over 2024. We continue to believe that active fundamental research combined with investment discipline provides an attractive way to navigate an uncertain and reactionary market environment.

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Definitions

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