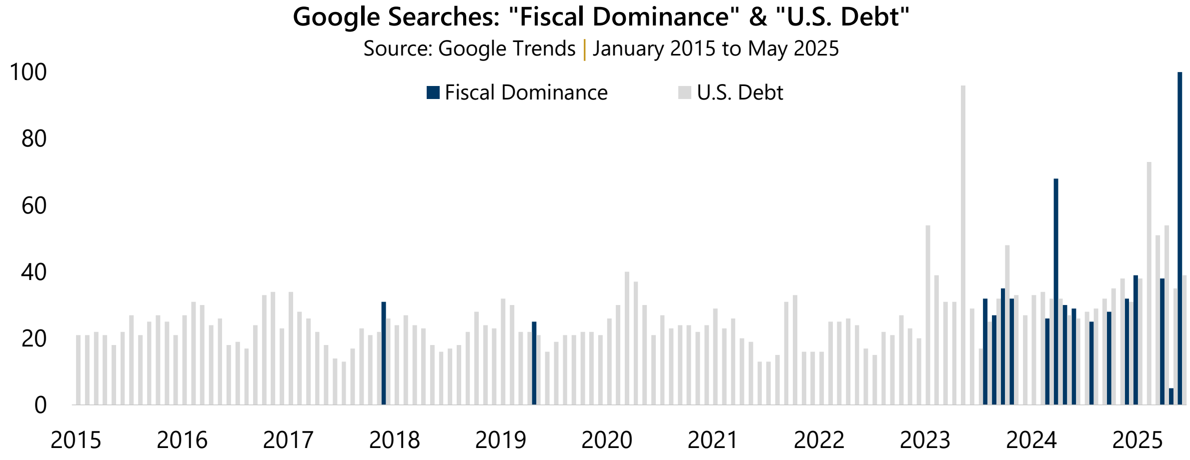
Credit Check

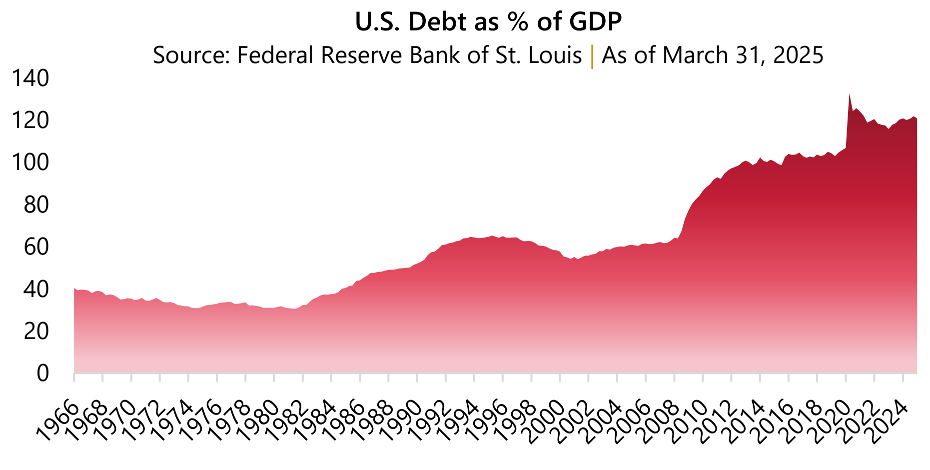
The topic of fiscal dominance - when fiscal deficits are so large that they render the U.S. Federal Reserve (the Fed) monetary policy ineffective - has generated much interest lately. On May 16th, Moody's downgraded the credit rating of the United States from Aaa to Aa1 (and changed its outlook to stable from negative). While the tariff tantrum could have been blamed, the change in rating was due to concerns about the existing growing mountain of debt from the U.S. Federal Government, which has been driven by persistently high fiscal spending and budget deficits.



The concerns are also growing beyond the fringes of public discourse. In February 2025, as discussed in "When the Bills Are Due," Fed Chairman Powell acknowledged the Fed's limited capacity for managing long-term rates, mentioning the central bank has "some influence" but mostly no control over longer-term rates. More recently, when discussing the spiraling national debt with Bloomberg, L.P., JPMorgan Chase CEO Jamie Dimon ominously warned:

"You are going to see a crack in the bond market, OK?"

- Jamie Dimon



A review of the data highlights his concerns. Mr. Dimon, nearing 70, has witnessed much more fiscally responsible times. In fact, it was not until the debt crisis in 2012 that the debt-to-Gross Domestic Product (GDP) ratio reached 100%. This followed the first downgrade of U.S. debt by a major ratings company, Standard & Poor's, which cited that recent budget controls fell "short of what is needed to stabilize the government's fiscal situation...."

In 2025, a return to 100% debt-to-GDP could be considered positive compared to the last five years. The debt as a percentage of GDP has been above 100% since the third quarter of 2015, and since the pandemic response in Q1 2020, the ratio has not been below 115%. At the end of March 2025, U.S. debt-to-GDP was over 120%.

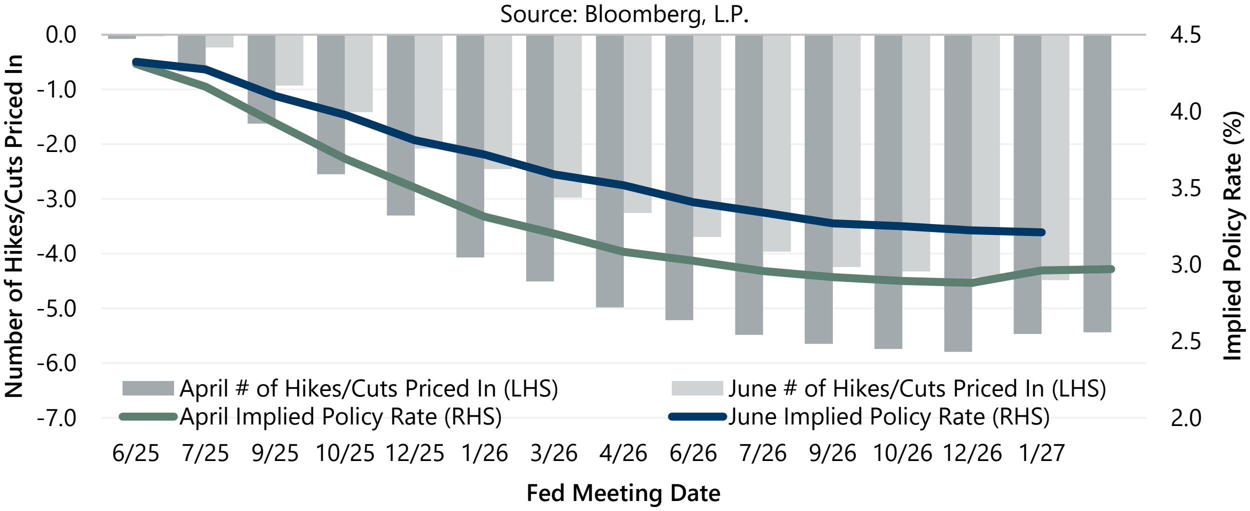
Fiscal Focus

As the debt and deficit dominate, the Fed's ability to fight inflation might be impaired. Deficit spending is a form of economic stimulus that could add to inflation, and while longer-term inflation expectations have come down, longer-term yields have not – much to the chagrin of fixed income investors. 10-year inflation expectations, as measured by 10-year inflation swaps, peaked in April 2022 at 3.14%. At that time, the 10-year Treasury yielded 2.94%. At the end of May 2025, 10-year inflation expectations were lower at 2.49% while the 10-year Treasury was yielding 4.40% – for a spread of 191 basis points (bps). The average spread between the two since July 2004 is 52bps.

Since the end of April, the Fed Fund Futures market has shifted expectations of interest rate cuts further out in time. Additionally, the projected low in short-term interest rates (post implied Fed rate cuts) is now approximately 50bps higher as of June 10.

Fed Fund Futures Expectations – April vs. June

Source: Bloomberg, L.P.



Is this all due to concerns about the fiscal situation? Given recent headlines, it is quite possibly so:

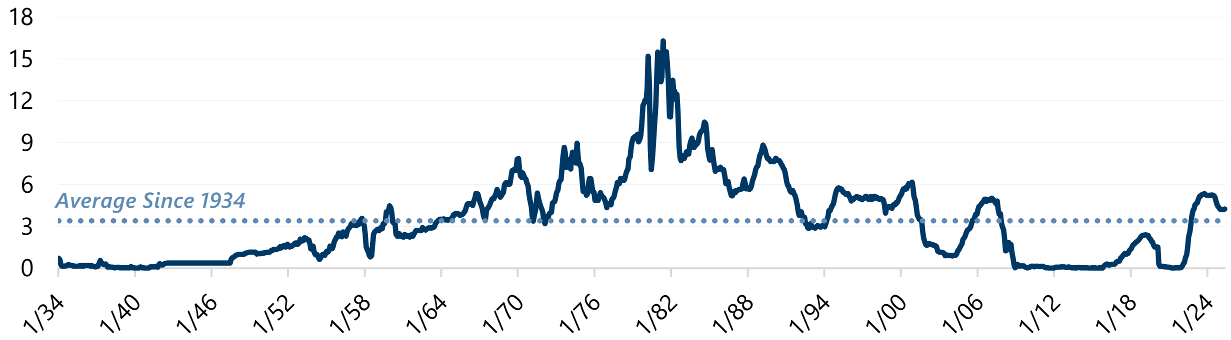
"Long-Bond Revolt Pressures 60/40 Comeback in Chaotic Market"
"Buyers' Strike Rocks US Long Bond as DoubleLine, Pimco Stay Away"
"'Most Unloved Bonds' Turn Routine US Auction Into Crucial Test"

– Bloomberg, L.P.

Rates Matter

In a nutshell, all this reinforces a point made many times within Gateway's *Perspective* – the near-zero, low-rate environment that investors became accustomed to post–Great Financial Crisis is not likely to return anytime soon. Rather, rates may likely settle into somewhat of a range around current, more average levels. As of June 10, the implied Fed Funds Rate is 3.21% for January 2027 and in line with the average 90-day Treasury Bill (T-Bill) yield since 1934 of 3.41%.

Near-Zero Rates Were Exceptional
Jan. 1934 to May 2025 | Source: Federal Reserve Bank of St. Louis



A backdrop of normalized interest rates is a supportive tailwind for Gateway's options-based funds. Higher short-term rates enhance premiums collected when selling (writing) index call options while simultaneously lowering the cost of protective index put options.

The added pressure on interest rates also highlights the diversification benefits of options-based funds, such as those offered by Gateway. Upward pressure on longer-term rates dampens the effectiveness of fixed income allocations as a form of portfolio diversification; however, higher rates are beneficial to option pricing. This allows options-based strategies to reduce risk, enhance cash flow, and offer a diversified return stream.

Consider data since 1988 that shows stocks and bonds (as measured by the S&P 500® Index and the Bloomberg® U.S. Aggregate Bond Index) are positively correlated when viewed over a rolling 36-month time frame. Data suggests the prospect for a return to more average levels of interest rates could continue contributing to positive stock/bond correlation. Short-term rates averaged 4.01% when a rolling 36-month correlation was positive compared to 1.54% when correlation was negative.

Get Balanced with Gateway

While fixed income continues to play an important role in many portfolios, investors should also consider a ballast amidst an environment where positive stock/bond correlation persists. Investors looking to enhance diversification may benefit from options-based funds, which are poised to benefit from away-from-zero or rising interest rates as well as periods of heightened volatility.

Option writing premiums can be an effective source of income and/or provide a lower risk return potential. Compared to levels prior to 2022, cash flow from writing a one-month at-the-money index call option has increased significantly and provides strong return potential during market advances and attractive downside protection during market declines. Funds employing these approaches, such as those managed by Gateway since 1977, may be well positioned in the current environment to provide investors with the potential to generate attractive risk-adjusted returns over the long-term.

Important Information

Past performance does not guarantee future results. Periods greater than one-year are annualized. Sources: Federal Reserve Bank of St. Louis, Bloomberg, L.P.and Morningstar Direct℠.

For more information and access to additional insights from Gateway Investment Advisers, LLC, please visit www.gia.com/insights.

The **S&P 500® Index** is a widely recognized measure of U.S. stock market performance. It is an unmanaged index of 500 common stocks chosen for market size, liquidity, and industry group representation, among other factors. It also measures the performance of the large cap segment of the US equities market.

The **Bloomberg U.S. Aggregate Bond Index** is a broad-based index that covers the U.S.-dollar-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, government-related, corporate, mortgage-backed securities, asset-backed securities, and collateralized mortgage-backed securities sectors.

Before investing, consider the fund's investment objectives, risks, charges, and expenses. Visit im.natixis.com or call 800-225-5478 for a prospectus or a summary prospectus containing this and other information. Read it carefully.

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Diversification does not guarantee a profit or protect against a loss.

Options may be used for hedging purposes, but also entail risks related to liquidity, market conditions and credit that may increase volatility. The value of the strategy's positions in options may fluctuate in response to changes in the value of the underlying asset. Selling call options may limit returns in a rising market.

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