NATIXIS INVESTMENT MANAGERS | SOLUTIONS

Q2 2024

Tax Management Update

Equity markets, for the most part, continued to climb higher in 2024, with large-cap stocks remaining in the lead during the second quarter. The strong performance of large-cap stocks was driven by several factors, including strong corporate earnings and a stabilization in both interest rates and inflation. Speculation around Fed rate cuts and interest rates more generally remains a key variable. The market is still expecting rate cuts later in the year, although the frequency and aggressiveness of rate reductions will likely be less than previously forecast.

The US presidential election will become an increasingly important factor for both markets and potential tax changes. Joe Biden and Donald Trump have begun to deliver some clarity around their priorities for tax policy next year. Earlier this year, President Biden set out his budget request, which detailed his agenda. More recently, former President Trump suggested that he would eliminate taxes for tipped wages. Much of their platform will be their vision and will be related to campaign rhetoric. However, their ability to accomplish campaign promises will be dependent on not only the outcome of their race for the White House but also the balance of power in Congress.

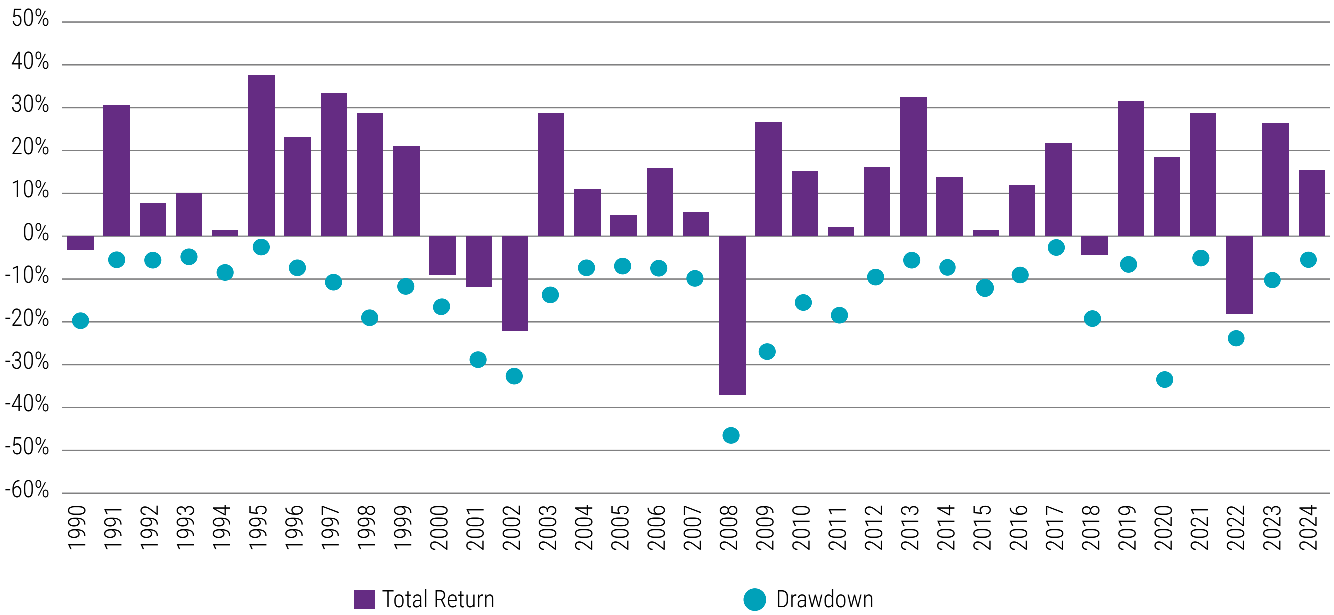
Interestingly, over half of those serving in the House of Representatives next January will not have been members when the Tax Cuts and Jobs Act was negotiated less than a decade ago. This includes at least 50 representatives and senators who are retiring this year alone. The next Congress' many newly elected officials will have less than a year to get up to speed on tax and to negotiate on those provisions due to expire at the end of 2025.

> "Dispersion of returns across individual companies increased during the period, with approximately 41% of S&P 500® companies falling in value since the beginning of the year.

Peter Klos, CFA®
Client Portfolio Manager
Natixis Investment Managers Solutions

Before the election, Congress will be in session for a very limited number of days and not much activity is expected, particularly on major issues such as tax. It is possible the Smith-Wyden bill, which would extend the child tax credit (CTC) and research and development credits for businesses, may get attention in 2024, but it is also dependent on the election outcome.

FIGURE 1: Annual total return and max drawdown for the S&P 500® by calendar year



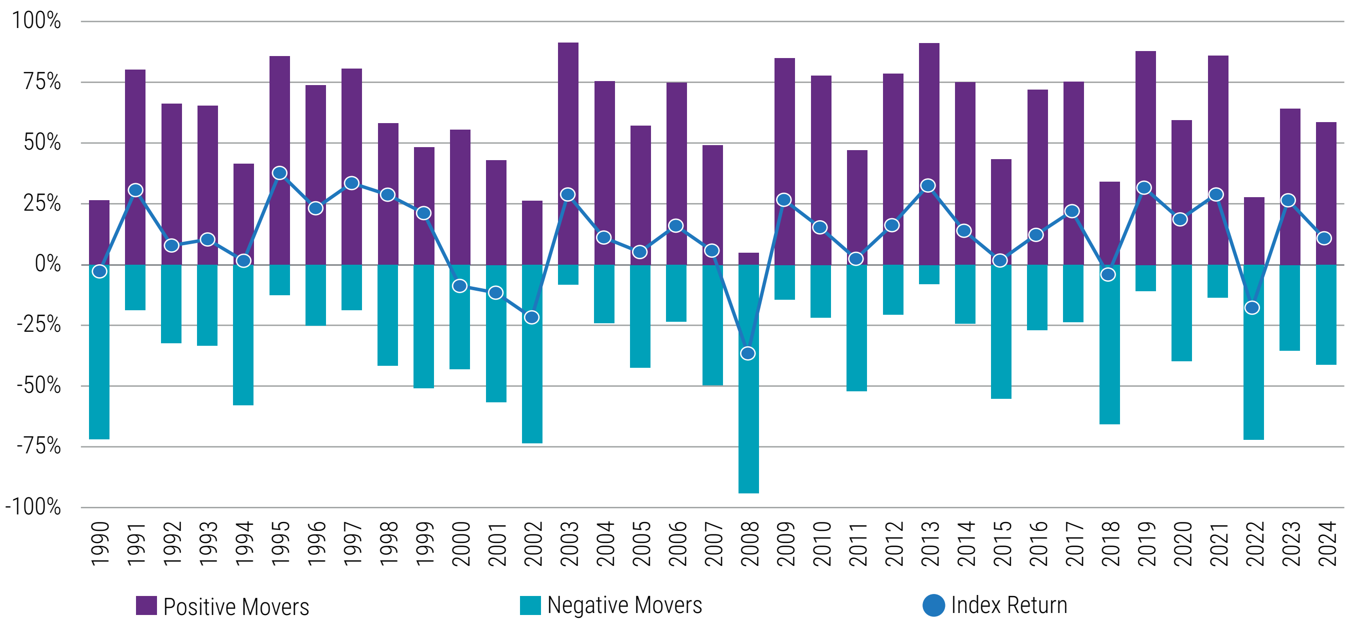
Source: FactSet, Natixis Investment Managers Solutions

Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results.

Dispersion in stock returns increased

The number of stocks in the S&P 500® posting positive returns came down somewhat during Q2, ending the first half of 2024 at approximately 59%. Dispersion has definitely picked up, though, as a relatively small number of mega-cap stocks are once again driving overall index performance. During the past couple of decades in years when the market was up 10%-15%, the number of stocks with positive returns has tended to be around 75%. After a somewhat more broad-based boost in returns during Q1, in Q2 we saw a narrower increase in a smaller number of names. NVIDIA remains the strongest mega-cap performer, closing the first half up just under 150%. A number of other mega-cap stocks, including Microsoft (+19%), Amazon (+27%) and Meta (+42%), have also outpaced the broader market. Apple is the only notable laggard amount the mega-cap names, but that stock was still up almost 10% in the first half of 2024.

FIGURE 2: Winners, losers, and total return for the S&P 500® by calendar year



Source: FactSet, Natixis Investment Managers Solutions

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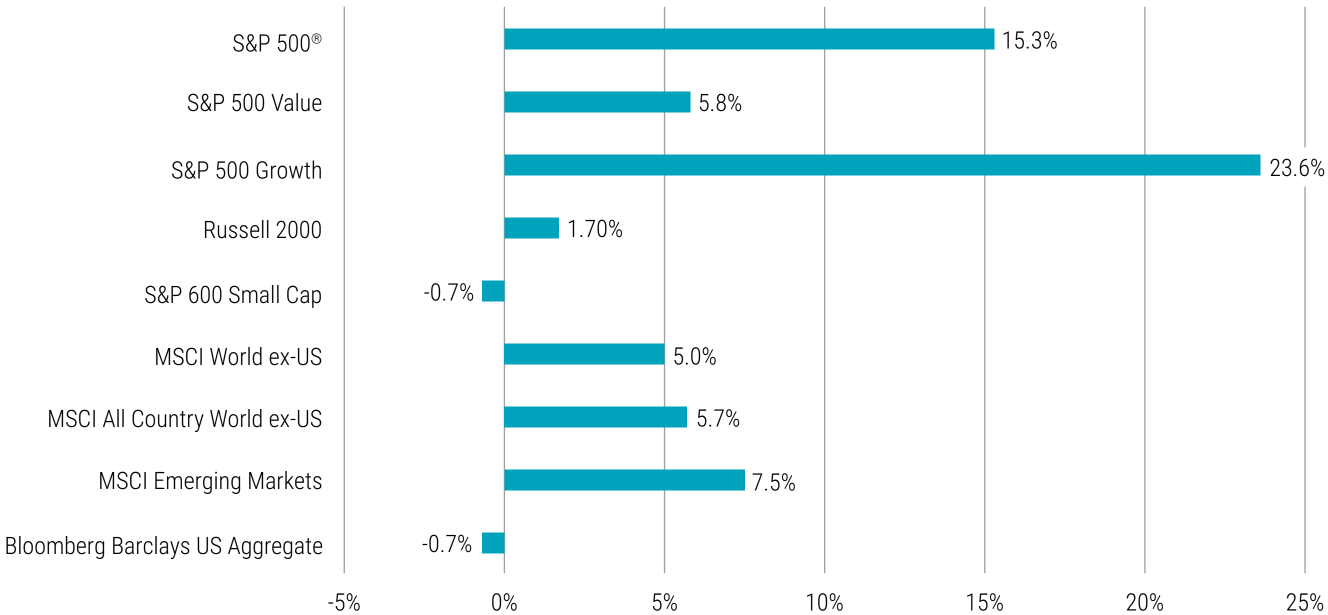
Returns for equity indices were somewhat mixed for the period, as the mix between growth/value and large-cap/small-cap became quite pronounced. Broad-based large-caps as represented by the S&P 500® increased by approximately 4.3% for the quarter, with growth (S&P 500 Growth up 9.6%) dramatically outperforming value (S&P 500 Value down 2.1%). Small-caps fell in value during the period, with the S&P 600 dropping approximately 3.1%. International stocks tended to lag US stocks, with the MSCI EAFE Index falling 0.3%. Emerging markets were an area of strong performance, with the MSCI Emerging Markets Index rising approximately 5.3%. Fixed income markets were fairly flat during the period, as rate cut expectations were pushed out during the quarter. The Bloomberg US Aggregate Bond Index rose around 0.1%, while other lower quality bonds such as high yield tended to outperform. (BofA US High Yield rose 1.1%.)

FIGURE 3: 2024 year-to-date returns for select indices (as of 6/30/2024)



Source: FactSet
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Loss harvesting opportunities in Q2

Q2 2024 presented some opportunities from a loss harvesting perspective. Although the broad-based S&P 500® continues to increase in value, there were bigger differences in performance between growth and value. Dispersion of returns across individual companies increased during the period, with approximately 41% of S&P 500® companies falling in value since the beginning of the year. This is especially interesting given the reality that the overall index is up over 15% so far this year. This company-specific dispersion (when accessed via a separately managed account) will still provide some opportunities for harvesting, as clients oftentimes have at least some exposure to underperforming names.

Harvesting opportunities will vary quite a bit based on client-specific events (when the client invested, cash flows, etc.) along with manager changes. However, generally speaking, equity and fixed income portfolios tended to see a modest uptick in harvesting opportunities during Q2.

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S&P 500 Value: The index measures the performance of the large-capitalization value sector in the US equity market. It is a subset of the S&P 500 Index and consists of those stocks in the S&P 500 Index exhibiting the strongest value characteristics.

S&P 500 Growth: The index measures the performance of the large-capitalization growth sector in the US equity market. It is a subset of the S&P 500 Index and consists of those stocks in the S&P 500 Index exhibiting the strongest growth characteristics.

Russell 2000®: The Russell 2000 Index is an unmanaged index that measures the performance of the small-cap segment of the US equity universe.

S&P 600 Small Cap: The S&P Small Cap 600 covers approximately 3% of the domestic equities market. Measuring the small-cap segment of the market that is typically renowned for poor trading liquidity and financial instability, the index is designed to be an efficient portfolio of companies that meet specific inclusion criteria to ensure that they are investable and financially viable.

MSCI World ex US: The MSCI World ex US Index (Net) is an unmanaged index that is designed to measure the equity market performance of developed markets, excluding the United States.

MSCI All Country World ex US: The MSCI All Country World ex US Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed (excluding the USA) and emerging markets. The index is shown with minimum dividend reinvested after deduction of withholding tax.

MSCI Emerging Markets: The MSCI Emerging Markets Index is an unmanaged index that is designed to measure the equity market performance of emerging markets.

Bloomberg Barclays U.S. Aggregate: The Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index that covers the US-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.

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