NATIXIS INVESTMENT MANAGERS | SOLUTIONS

Q1 2025

Tax Management Update

Mega-caps reverse long-term trend with underperformance

After two consecutive years of strong US equity markets, the S&P 500® experienced weakness in the first quarter of 2025. Mega-caps tended to underperform during the period, reversing a long-term trend where technology and mega-caps have often led the market higher. Value stocks held up much better, although even these names often have flattish performance vs. enjoying significant growth as a group. Asset classes such as non-US stocks and fixed income also held up much better, with increased volatility being driven by a variety of new federal government proposals. From an interest rate perspective, the Fed did not make any changes to the Fed Funds Rate, keeping it in the 4.25%–4.5% range. Economic uncertainty has increased significantly, and although the market expects more Fed rate reductions, the timing and extent of the changes remain to be seen. The Fed has cut rates by 1% since it began reducing rates in September 2024.

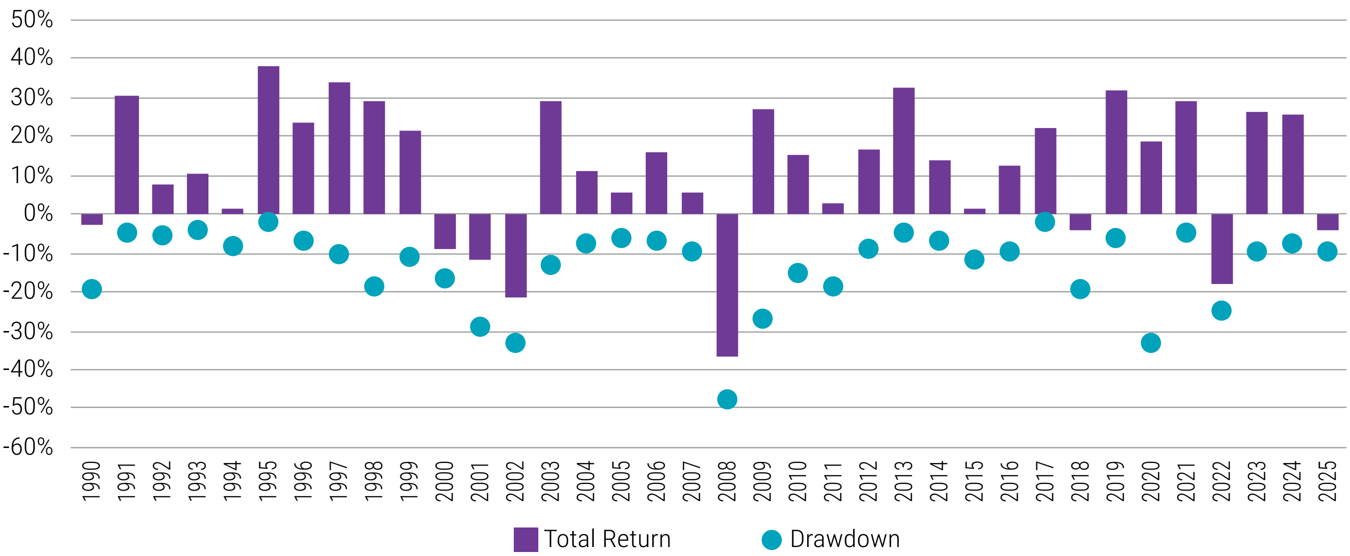
Anticipation grows around tariffs, tax bill

Congress continues to work through the early phases of passing a tax bill. Republicans will take a go-it-alone approach, using the reconciliation process, which allows them to bypass the Senate filibuster and forgo compromise with Democrats. This approach comes with other procedural challenges they will have to navigate. Progress was made in recent weeks when the House and Senate aligned on a one-bill approach to pass immigration, energy and tax priorities, and a debt ceiling increase. Key details are still unclear, and there are divisions in the conference about spending cuts, tax provision extensions, and new tax cuts. The conference hopes to stick to an aggressive timetable and pass a bill by Memorial Day, so expect its priorities, and differences, to become clearer as negotiations ramp up after the Easter and Passover recess. If past is prologue, the Memorial Day deadline may prove an overly ambitious one, but Republicans' plan to include the debt ceiling increase will add some urgency to passing the bill, as the US is forecast to exceed its borrowing limit in August or September.

> "Returns for equity indices were negative for the quarter as stocks reversed a multi-year period of growth, falling significantly in the latter portion of the quarter.

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

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



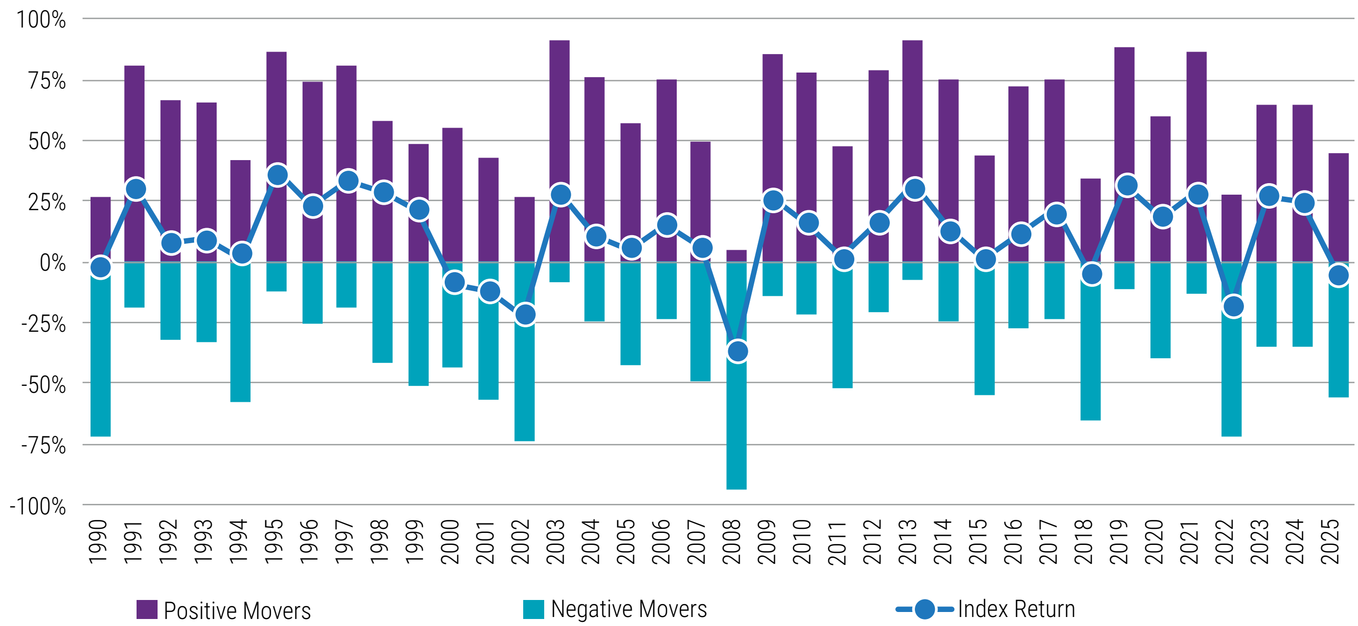
Performance data shown represents past performance and is no guarantee of future results.
Source: FactSet; Natixis Investment Managers Solutions

Although the tax bill remains a key priority for Republicans, perhaps the more significant near-term announcements revolve around wide-reaching tariffs. President Trump announced tariffs that are considerably higher than those during his first presidency, approaching levels not seen since the early 1900s. These tariffs could have specific impacts on certain asset classes and countries. Many analysts expect the administration to use tariffs as a negotiating tool in hopes of securing better trade deals with each unique trade partner. The market has reacted very negatively to the tariffs, but the ultimate impact won't be fully understood for weeks or even months, as the specific amounts and potential renegotiations play out over time.

Winners and losers

The number of stocks in the S&P 500® posting positive YTD returns shrank considerably when compared to 2024, with "only" around 45% of stocks rising in value during the first quarter. Markets experienced a sharp reversal in performance leadership as value stocks tended to dramatically outperform growth, with mega-cap and technology, in particular, weighing on returns. NVIDIA (-19%), Apple (-11%), Tesla (-35%) and Microsoft (-10%) were the four largest detractors from a performance perspective within the S&P 500®, given their combination of poor performance and relatively large weight. Other large names such as Broadcom (-27%), Amazon (-13%) and Alphabet (-18%) were all down meaningfully for the period as well. As noted above, value stocks tended to perform significantly better, with Berkshire Hathaway (+17%), Philip Morris (+33%) and ExxonMobil (+12%) representing the three biggest contributors within the index.

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



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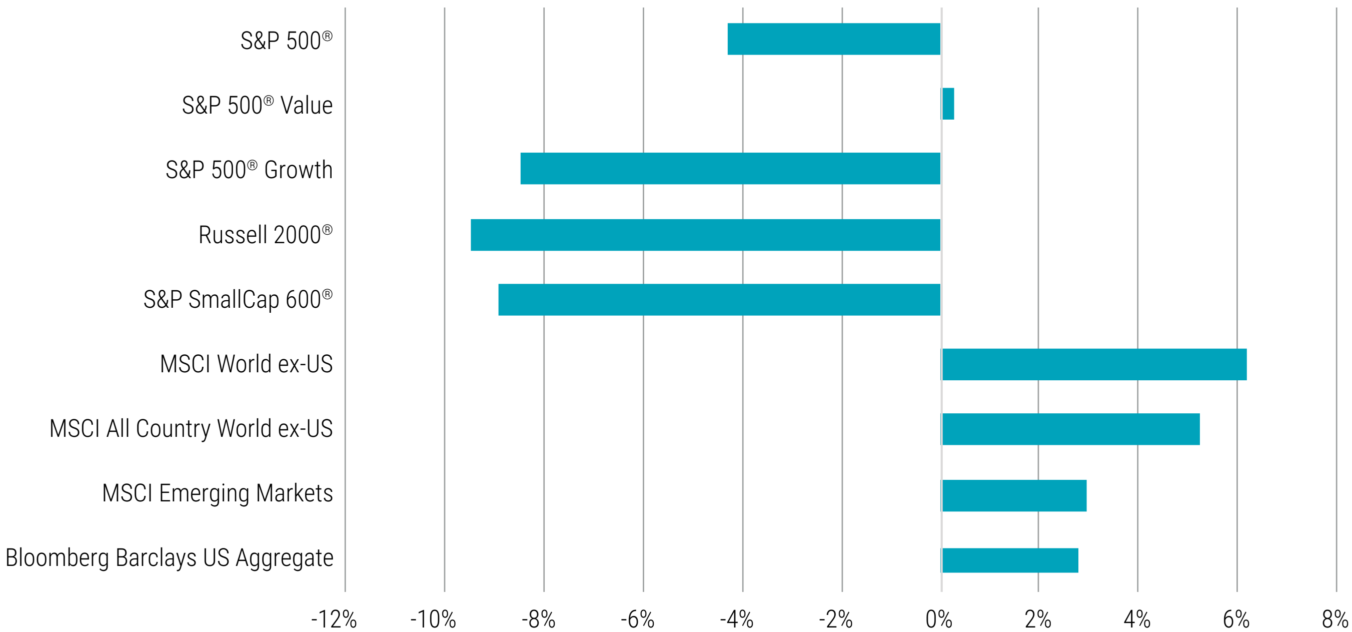
Source: FactSet; Natixis Investment Managers Solutions

Equity indices experience negative returns

Returns for equity indices were negative for the quarter, as stocks reversed a multi-year period of growth, falling significantly in the latter portion of the quarter. Broad-based large-caps as represented by the S&P 500® declined by approximately 4.3% for the quarter, with growth (S&P 500® Growth down 8.5%) underperforming value (S&P 500® Value up 0.3%) dramatically. Small-caps lagged large-caps during the quarter, with the S&P 600® dropping by approximately 8.9%. International stocks outperformed US stocks by good-sized margins, with the MSCI EAFE Index increasing by approximately 6.9%. Emerging markets were also up in value, with the MSCI Emerging Markets Index increasing by around 2.9%.

Fixed income markets provided very strong diversification when compared to US stocks, with the Barclays Aggregate Bond Index rising by 2.8% for the quarter. High yield tended to lag investment grade during the quarter, with the ICE BofA US High Yield Index rising 0.9%.

FIGURE 3: Year-to-date returns for select indices



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Source: FactSet

Improved tax loss harvesting opportunities in Q1

Q1 2025 presented some improved opportunities from a loss harvesting perspective. Markets tended to become considerably more volatile in the latter portion of the quarter, with a good-sized number of mega-cap technology stocks dropping by over 10%. Longer-term investors in these stocks likely still have good-sized gains, but new investors likely had opportunity to harvest losses to offset gains in other parts of their portfolios. Non-US markets were generally stronger, but there were still pockets of weakness at the country or individual stock level as tariff-related volatility led to broader dispersion across individual names. Bond markets (especially higher-quality investment grade) also rose during the period, leading to fewer opportunities in that space compared to what we've seen over the past number of years. A proactive harvesting process that looks for opportunities throughout the year may be able to take advantage of some losses, especially for new investors within the US large-cap space. This harvesting opportunity will vary quite a bit based on client-specific events (when the client invested, cash flows, etc.) along with manager changes.

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S&P 500® Index: The Standard and Poor's 500, or simply the S&P 500®, is a stock market index tracking the stock performance of 500 leading companies listed on stock exchanges in the United States.

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 SmallCap 600®: The S&P SmallCap 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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