

Q4 2024

Tax Management Update



Mega-caps continued to lead markets higher

Equity markets increased substantially in 2024, with large-cap stocks continuing to outperform during the fourth quarter. Mega-caps once again led the way, with technology stocks in particular finishing the year in significantly positive territory. From an interest rate perspective, the Fed continues to cut interest rates but is doing so in a very measured way. In December, the Fed lowered the Fed Funds Rate to 4.25%–4.5%. The Fed has now cut rates by 1% since it began reducing rates in September 2024. Markets are expecting additional cuts in the coming months, although the ultimate reduction might not be as significant as originally expected.

Trump tax policy agenda on fast track

Markets had a swift reaction to the 2024 election results, which saw Republicans sweep the House, Senate, and the White House. Given the party's full control of DC, incoming President Trump will be looking to quickly enact his tax-policy agenda. Trump has spoken to a number of potential changes, including extending the expiring individual and estate tax cuts from the 2017 Tax Cuts and Jobs Act; adjusting the State and Local Tax (SALT) cap; eliminating taxes on Social Security benefits and tipped and overtime wages; lowering the corporate tax rate from 21% to 20% for all companies and to 15% for companies that make products in the US. Trump has suggested that curtailing certain spending and imposing a universal tariff of 10% to 20%, as well as a 60% tariff on imports from China, would help pay for these cuts.

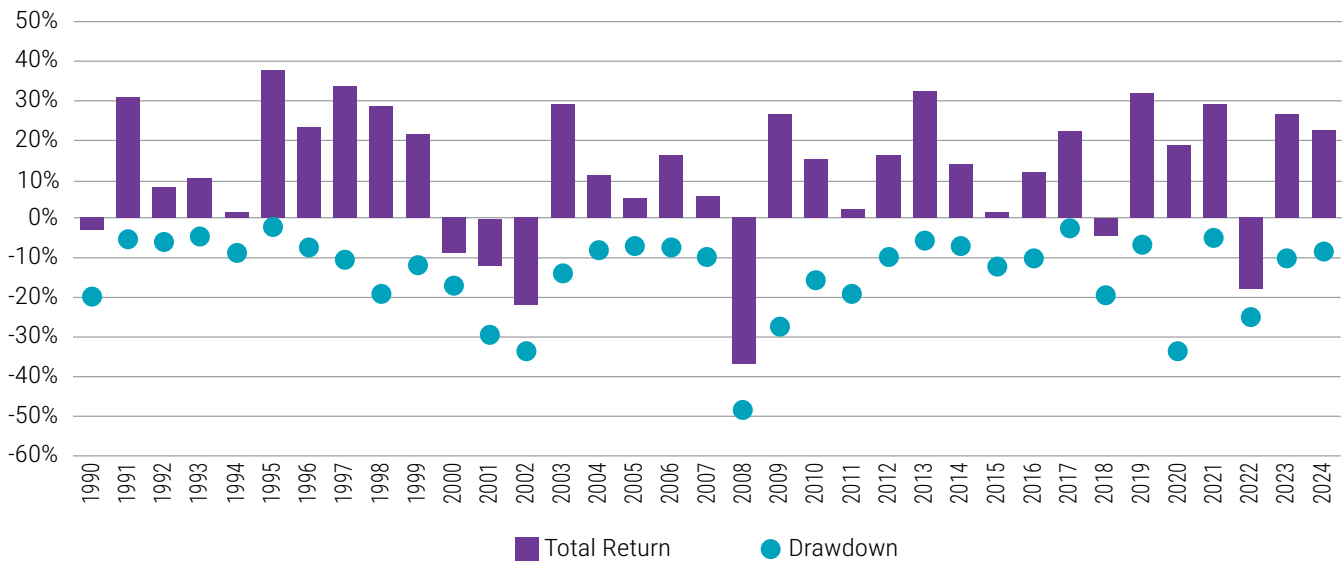
“Generally speaking, equity and fixed income portfolios saw an uptick in loss harvesting opportunities in Q4, despite the fact that most portfolios were in nicely positive territory for the full year.”



Peter Klos, CFA®
Client Portfolio Manager
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The main question now is whether Republicans will unite on all of these changes or on a select grouping of them, and how long it may take to reach an agreement. Republicans hold a very slim majority in the House, which would allow for the loss of only one or two votes to pass tax legislation. Some Republicans believe passing one big bill that includes tax priorities along with immigration and energy policies would be the easiest route to secure their agenda, while others propose separating tax policy from the other priorities. It is not yet clear which path they will take, but with little margin for error, it may take time to get everyone in the caucus to agree.

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



Source: FactSet, Natixis Investment Managers Solutions

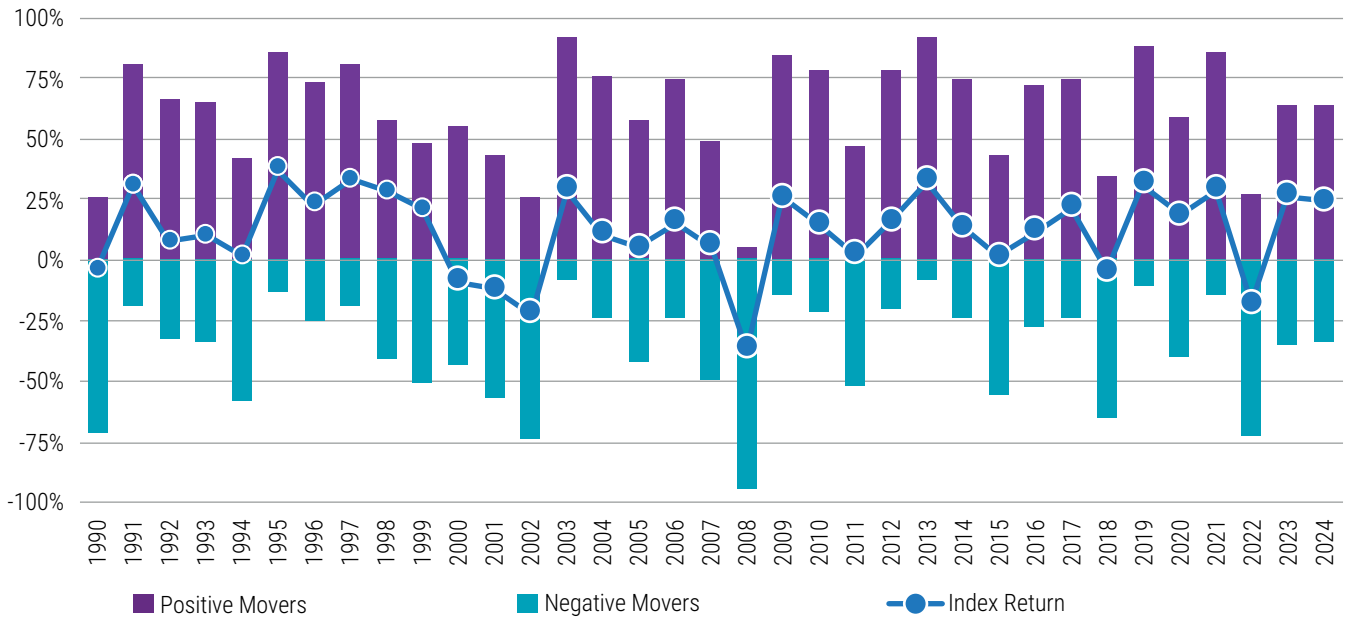
Performance data shown represents past performance and is no guarantee of future results.

Winners and losers

The number of stocks in the S&P 500® posting positive year-to-date (YTD) returns shifted somewhat during Q4, with approximately 65% of the individual names rising in value over the course of 2024. This number is down somewhat since 9/30, as volatility picked up in the run-up and aftermath of the election. This 65% level lines up very closely with what we saw in 2023, as the majority of names rose in value. Although a good-sized portion of individual stocks rose in value, there are areas of weakness as the market continues to be dominated by technology.

In terms of individual names, NVIDIA remains the standout performer among the mega-cap stocks, rising approximately 171% YTD. Most of the largest stocks in the index were up nicely for the year, although there were definitely standouts. Apple (+30%), Amazon (+44%), Meta (+66%) and Broadcom (+110%) all nicely outperformed the broader market return. Some relative laggards included Microsoft (up “only” 13%), Intel (-60%), Boeing (-32%), and Adobe (-25%).

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



Source: FactSet, Natixis Investment Managers Solutions

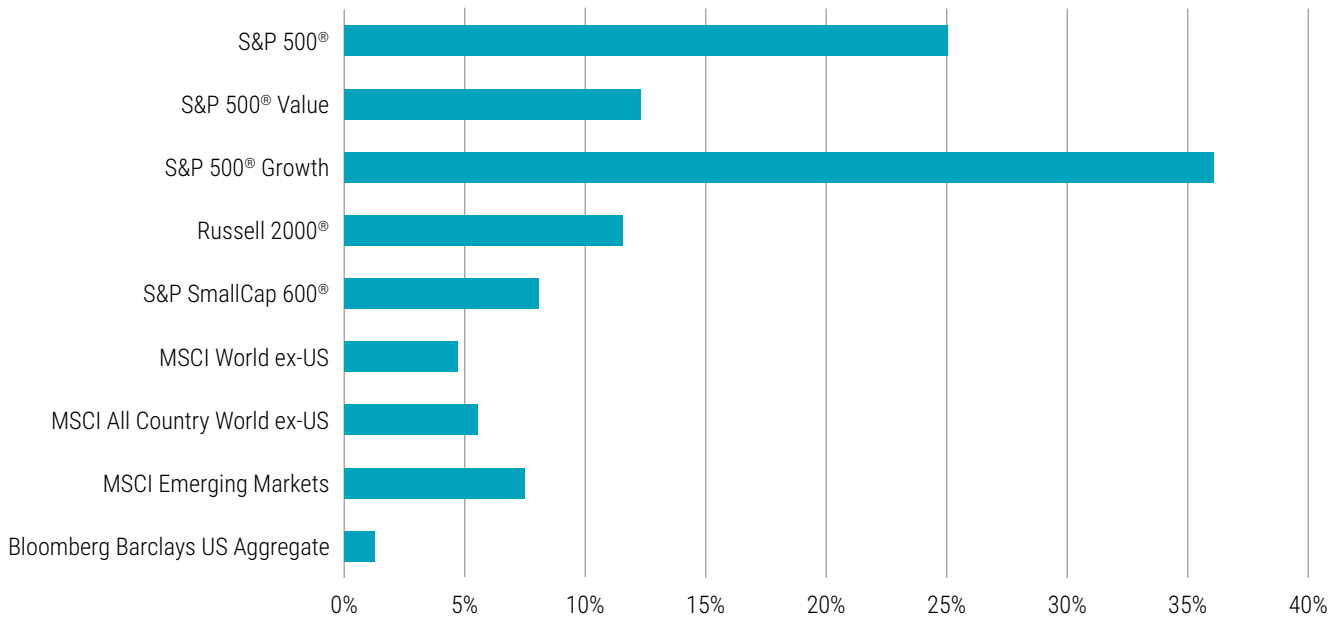
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US large-cap growth dominated markets

Returns for equity indices were positive for the quarter, although there were notable differences when looking across capitalization sizes and value/growth. Broad-based large-caps, as represented by the S&P 500®, increased by approximately 2.4% for the quarter, with growth (S&P 500® Growth up 6.2%) outperforming value (S&P 500® Value down 2.7%). For the full year, growth is dramatically outperforming value, with the S&P 500® Growth Index rising 36.1% compared with a 12.3% increase in the S&P 500® Value Index. Small-caps fell modestly during the quarter, with the S&P 600® dropping by approximately 0.6%. Small-caps remained in positive territory for the full year (+8.7%), although clearly behind large- and mega-cap stocks. International stocks were down quite significantly during the quarter, with the MSCI EAFE Index falling approximately 8.1%. Emerging markets were also down, with the MSCI Emerging Markets Index dropping by over 8.0%.

Fixed income markets also faltered during the quarter, with the Bloomberg US Aggregate Bond Index dropping 3.1%. The broad bond market was in positive territory for the full year (1.3%) but clearly lagged equities over short- and longer-term time periods. High yield tended to outperform investment grade during the quarter, with the ICE BofA US High Yield Index rising 0.2%. For the full year, the high yield space was up nicely, returning approximately 8.2%.

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



Source: FactSet

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Improved tax loss harvesting opportunities in Q4

Q4 2024 presented some improved opportunities from a loss harvesting perspective. Although the broad-based S&P 500® continued to increase in value, there was a significant uptick in dispersion across individual large-cap stocks. While mega-cap technology stocks tended to rise, value stocks and smaller-cap stocks tended to have weaker performance. Non-US markets also tended to fall in value, therefore harvesting within international strategies tended to pick up. Bond markets also fell during the period, leading to potential smaller-sized opportunities within fixed income in Q4.

A proactive harvesting process that looks for opportunities through the year can take advantage of these pockets of weakness, even though the general trend of equity markets remains positive. This harvesting opportunity will vary quite a bit based on client-specific events (when the client invested, cash flows, etc.), along with manager changes. Generally speaking, equity and fixed income portfolios tended to see an uptick in loss harvesting opportunities in Q4, despite the fact that most portfolios were in nicely positive territory for the full year.

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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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