NATIXIS INVESTMENT MANAGERS | SOLUTIONS

Q2 2026

Tax trends and tactics Q2 2026: Tax-aware investing

Taxes take center stage

This May, more than 300 investment professionals gathered in Seattle for the inaugural Basis Northwest conference, the first of its kind dedicated entirely to tax-aware investing. We attended and wanted to share some highlights.

First, there is a growing wave of innovative products in the tax-aware investing space, which advisors are increasingly adopting for tax-sensitive and high-net-worth (HNW) clients. These solutions target a range of objectives, including:

- Generating after-tax alpha
- Harvesting losses
- Deferring capital gains
- Diversifying concentrated positions
- Leveraging balance sheets
- Optimizing asset location

Sampling of tax-aware strategies and solutions

Direct indexing	Tax-aware long/short	Exchange funds	351 conversions	Variable prepaid forwards
Box spread loans	Qualified opportunity zone funds	Private placement life insurance	Fixed-income tax loss harvest and after-tax optimization	Rotational, nondistribution exchange-traded funds (ETFs)

Source: IRS; Natixis Investment Managers Solutions

Clients need an "after-tax architect" to design and implement a tax-focused portfolio.

Gregory V. Kanarian, CFA®
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While asset managers continue to educate advisors on these strategies and their tax benefits, advisors are focused on evaluating the risk, complexity, and how they can work together to improve after-tax outcomes.

Every client has a different tax-sensitive starting point – whether it's a concentrated or low-basis position, mutual funds with embedded gains, business interests, or illiquid assets. Advisors need to combine these tax-aware solutions to improve outcomes for each client's specific tax situation. As one presenter put it: "Clients need an 'after-tax architect' to design and implement a tax-focused portfolio."

Execution remains a key hurdle. It's not just about having access to the solution; advisors need to understand the tax implications, explain them confidently, and manage operational complexities. One advisor we spoke with said there's often a gap between the optimal spreadsheet solution that he'd like to implement and what his clients are willing to move forward with, citing hesitation to add complexity to their financial lives.

A consistent theme over the two days was that the elimination of taxes is rarely achievable, so tax deferral becomes the primary goal. Most tax-aware strategies focus on:

- Realizing capital losses to offset current and future capital gains
- Deferring capital gains into the future
- Diversifying tax efficiently

Tax-aware long/short strategy gains momentum

One strategy that hits all three objectives and received significant attention at the conference is tax-aware long/short. Brent Sullivan, editor of *Tax Alpha Insider,* estimates assets in these strategies have grown from $35 billion to over $150 billion in the past year.

Tax-aware long/short managers seek to generate alpha through superior security selection in both long and short positions. These strategies employ leverage (e.g., 130/30 or 200/100), which can accelerate tax loss harvesting relative to traditional long-only portfolios. For example, a 200/100 structure might be able to harvest 40% in losses in year one compared to mid-teen losses in year one for long-only direct indexing.

One presentation highlighted how alpha generation can expand tax loss harvesting opportunities. When longs appreciate and shorts decline, the portfolio drifts from its target leverage level. To maintain that target, the portfolio manager has to rebalance by adding leverage and establishing new positions. These new positions create fresh cost-basis and ongoing tax loss harvesting opportunities.

Example of adding new positions to rebalance to 130/30 target

	Starting portfolio	Alpha	Resulting portfolio	Rebalance trade	Ending portfolio
Long	+$130.00	+5%	+$136.50	+$3.90	+$140.40
Short	-$30.00	+5%	-$28.50	-$3.90	-$32.40
Net asset value (NAV)	$100.00		$108.00		$108.00
Long/Short as a % of NAV	**130/30**		**126/26**		**130/30**

Source: Liberman, Joseph and Sosner, Nathan and Maia de Freitas, Pedro Paulo, The Tax Benefits of Pre-Tax Alpha (March 17, 2026).

After-tax alpha moves into focus

The 2026 Natixis Global Survey of Financial Advisors highlights growing demand for customized portfolios and improved after-tax outcomes.

Key findings include:

- 67% of advisors view after-tax alpha as the primary benefit of direct indexing
- 51% say direct indexing improves their ability to serve HNW clients

As HNW clients grow more sensitive to market volatility, inflation, and geopolitical uncertainty, they're keen to hold more cash. This creates a tension between the need to stay invested in equities and the challenge of managing client behavior during periods of uncertainty.

We find that direct indexing helps clients stay invested during volatile markets when their natural urge is to sell. The transparency of a separately managed account allows investors to see proactive tax loss harvesting trades, satisfying their need to react when account values decline. Those trades turn unrealized losses into valuable tax write-offs. That's a stark difference from mutual funds and ETFs, where they witness price declines but without the benefit of loss harvesting.

Trump accounts rollout

Since last quarter's Tax trends and tactics, more details have emerged on the Trump accounts, new tax-advantaged investment accounts for children under 18, which went live on July 4.

To open a Trump account, you'll need to:

- Complete IRS Form 4547 with the parent's and child's information
- Opt-in for the $1,000 Pilot Program Contribution, if eligible
- Download the Trump Accounts app on the App Store or Google Play
- Wait for account activation e-mail

The Treasury has selected Bank of New York Mellon to manage the initial accounts. BNY has partnered with Robinhood, which will serve as broker and initial trustee. After the account is opened, a trustee-to-trustee rollover to a private custodian like Fidelity, Schwab, and Vanguard will be possible.

2027 HSA contribution limits rise

In late May, the IRS announced that health savings account (HSA) contribution limits will increase to $4,500 for individuals and $9,000 for families who are covered by high-deductible health plans in 2027. This represents a slight increase over 2026 limits and the $1,000 catch-up contribution remains the same.

Health savings account contributions limits by year

	2026	2027
Individual coverage	$4,400	$4,500
Family coverage	$8,750	$9,000
Catch-up contribution (>55)	$1,000	$1,000

Source: Natixis Investment Managers Solutions

HSAs offer a triple tax advantage: Contributions are tax deductible, earnings growth is tax-deferred, and withdrawals are tax-free if used for qualified medical expenses.

Power users pay for current medical expenses out of pocket instead of using the debit card sent to them by the HSA administrator. That allows their investment account to grow. As long as they have a receipt showing they paid for the medical expenses out of pocket, they can request a tax-free reimbursement any time – months, years, or decades in the future, allowing the principal to compound handsomely.

Consider these best practices when using an HSA:

- Make maximum contributions, they are tax-deductible
- Invest in a risk-appropriate equity index fund, and let the market do the heavy lifting
- Destroy the HSA debit card to eliminate the temptation to spend account funds prematurely
- Keep some cash set aside to pay for out-of-pocket medical expenses

Winners and losers: S&P 500® performance through May

Through May, the S&P 500® returned 11.3%, led by information technology, communication services, and energy sectors. Financials and healthcare were the only two sectors down for the year.

Approximately 200 stocks in the index had negative returns through May, and nearly 160 fell by 5% or more – levels typically considered attractive for tax loss harvesting.

Among the biggest movers: Sandisk led gainers, rising 614%, followed by Micron Technology (+240%) and Seagate (+220%).Boston Scientific, CoStar, Intuit, and EPAM Systems have all lost approximately half their value as software companies struggle from the competitive threat of artificial intelligence.

Tax loss harvesting opportunities exist in all market environments. Even in strong markets, dispersion across stocks creates meaningful opportunities.

S&P 500® performance by sector (1/1/2026–5/31/2026)

YTD through May 2026	Average weight %	Total return %	Contribution to return %	Stocks up %	Stocks down %
Information technology	34.2	23.8	8.0	70	30
Financials	12.5	-5.3	-0.7	38	62
Communication services	10.6	9.3	1.0	32	64
Consumer discretionary	10.0	4.1	0.4	45	53
Healthcare	9.2	-3.0	-0.3	45	55
Industrials	8.8	12.0	1.1	64	36
Consumer staples	5.0	7.5	0.4	68	32
Energy	3.4	26.1	0.8	95	5
Utilities	2.3	4.8	0.1	84	16
Materials	2.0	11.9	0.2	69	31
Real estate	1.9	10.6	0.2	84	16
S&P 500®	**100.0**	**11.3**	**11.3**	**64**	**36**

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

S&P 500® returns and maximum drawdown

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

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To learn more about direct indexing separate account strategies, please contact your financial professional.

Visit: im.natixis.com

Call: 800-862-4863

NATIXIS INVESTMENT MANAGERS SOLUTIONS – DIRECT INDEXING

Natixis Investment Managers Solutions provides design, development, and execution of portfolio strategies tailored to specific investment objectives and unique portfolio constraints. Our direct indexing strategies can be customized to maximize after-tax return, align with personal values, or pursue specific investment objectives.

The S&P 500® Index is a widely recognized measure of US 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.

Indexes are not investments, do not incur fees and expenses, and are not professionally managed. It is not possible to invest directly in an index.

Tax liability is the total amount of tax debt owed by an individual, corporation or other entity to a taxing authority.

Tax loss harvesting is a strategy for selling securities that have lost value to offset taxes on capital gains.

Tax alpha considers how an investment performed relative to its benchmark on a pretax and after-tax basis.

Capital gain is a rise in the value of a capital asset (investment or real estate) that gives it a higher value than the purchase price.

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