Quarterly Credit Update

Full Discretion Team Views – 1st Quarter 2024

KEY TAKEAWAYS

- Interest rates moved higher in the first quarter of 2024 based on expectations that the Federal Reserve's (Fed's) cutting cycle would be pushed out further (the 10-year US Treasury yield climbed 0.74% to end at 4.62%). From a credit cycle positioning standpoint, we believe we are still in the 'late cycle' stage. Defaults and credit losses have moved up but have stayed around levels we consider average for this stage of the cycle. Risk premiums have become more compressed as spreads have tightened, though they remain moderately attractive, in our view. Our base case calls for a resilient economy and trend US growth in 2024. We believe inflation will remain unstable and above the Fed's target as a result of certain structural drivers that have the potential to keep a floor under inflation and make it bit more volatile going forward. We have also moderated our view of future Fed cuts, anticipating fewer in 2025 and a trough rate of 3.75% to be achieved in 2026.
- Market technicals have remained solid and credit fundamentals appear resilient. Strong new issuance in the investment grade (IG) and high yield (HY) markets have allowed creditors to focus on debt reduction and reinvestment back into businesses. We are witnessing a continued improvement in ratings migrations, particularly within investment grade credit, which is also helping the fundamental backdrop. We expect this theme to continue throughout 2024 given the strength of the consumer and the economy.
- Within investment grade corporates, the intermediate part of the curve currently offers the most value versus longer-dated maturities, in our opinion. Given current spread levels, we believe performance this year will be driven primarily by carry.

CREDIT CYCLES/RISK PREMIUM

Credit Markets Appear Unchanged in 'Late Cycle'

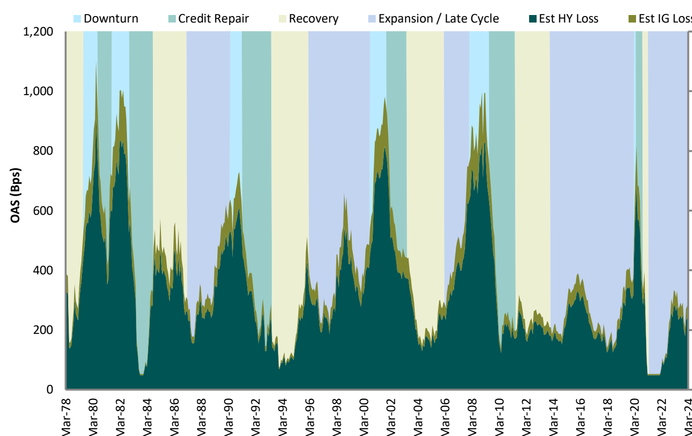
Our base case remains that credit markets will stay in the 'late cycle.' Growth continues to be resilient and we believe may extend this stage of the credit cycle. Corporate fundamentals have been supportive of economic activity.

As of 3/31/2024. ***Chart shown for illustrative purposes only.*** *This reflects the current opinions of Loomis Sayles Macro Strategies team, and views are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.*

Defaults Still Trending Toward Longer-Term Averages

We believe losses should remain low but will continue trending towards 'late cycle' averages. Given the uniqueness of this cycle in terms of speed and Fed activity, we expect losses will be lower than originally forecasted.

Estimated IG and HY Losses †



Source: Bloomberg and Loomis Sayles, as of 12/31/2023. This chart is provided for informational use only and should not be considered investment advice. Markets may behave very differently than history suggests, it is not possible for any methodology to accurately identify and interpret all relevant market events. ***For more information on the credit cycle periods shown, please see the Additional Notes at the end of this material. Past performance is no guarantee of future results.***

† Please see Risk Premium Disclosure at the end of this document, an integral part of this material.

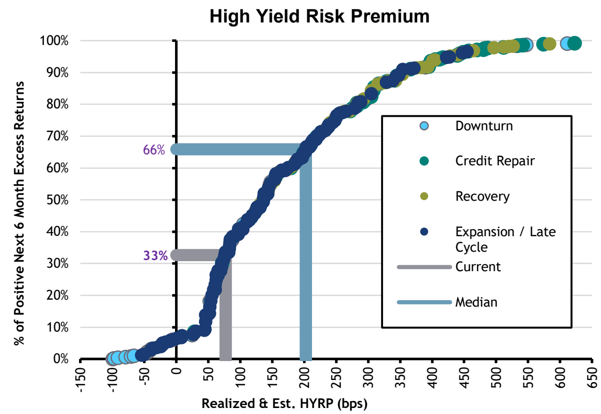
CREDIT CYCLES/RISK PREMIUM (cont.)

High Yield Risk Premiums Look to be Squeezed

Risk premiums have compressed as spreads continued to move tighter on the back of two quarters of strong credit performance (HY spreads were at 402 bps at the start of 4Q23 versus 299 bps to end 1Q24). At current risk premium levels, we believe the potential for positive returns still exists but has trended lower.

Charts are illustrative for presentation purposes only as a sampling of risk management tool output. Some or all of this information on these charts may be dated, and, therefore, should not be used as a basis to purchase or sell any securities. The information is not intended to represent any actual portfolio managed by Loomis Sayles. The analysis shown is based on historical data and does not predict future results. Markets may behave very differently than history suggests, it is not possible for any methodology to accurately identify and interpret all relevant market events. Therefore, the use of this type of information to make investment decisions has inherent limitations. There is no guarantee that future experience will be similar. The analysis reflected in this presentation is limited to certain periods. We make no representation that the experience of any other periods is comparable. ***Past performance is no guarantee of future results.***

HY Risk Premium & Probability of Positive Excess Return Potential Over Next 6 Months †



Source: Loomis Sayles, as of 3/31/2024.

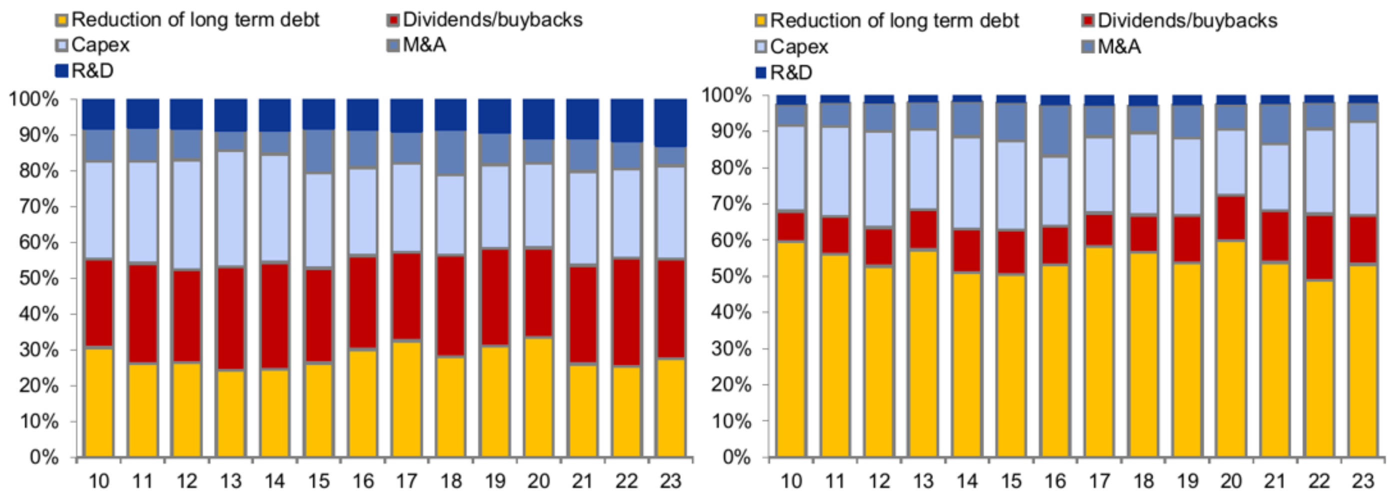
FUNDAMENTALS/TECHNICALS

New Issuance Proceeds Appear to be Used For Debt Reduction and Reinvestment

Given higher rates, the use of proceeds from issuance has become more creditor friendly with fewer buybacks and dividends. Additionally, we are seeing an increase in proceeds being utilized for long-term debt reduction or investment back into businesses. Though we have seen elevated new issuance in both the high yield and investment grade markets, this renewed focus on bondholder friendly activities created a positive technical backdrop. For reference, according to Citi, new issuance in the investment grade corporate credit market is up 36% on a year-over year basis at approximately $549B as of April 5th.

Management Teams' Renewed Focus on Bondholder Friendly Spending

Aggregate spending as a percentage of total spending by category in IG (left panel) and HY (right panel)



Source: Factset, Bloomberg, and Goldman Sachs Global Investment Research, as of 12/31/2023.
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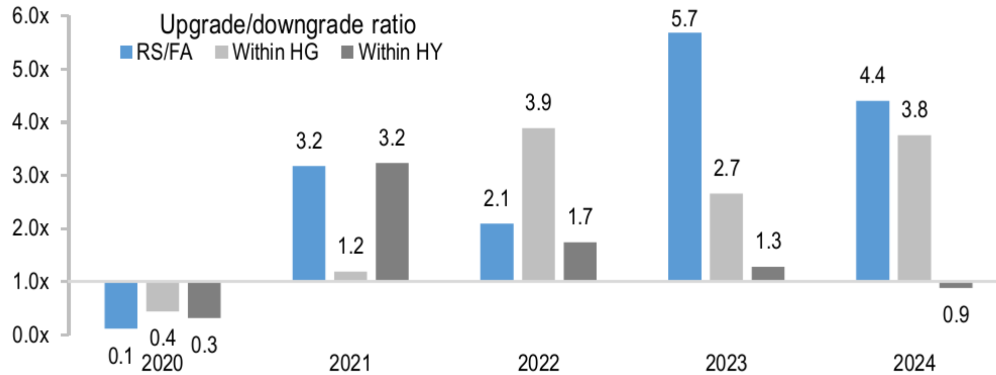
FUNDAMENTALS/TECHNICALS (cont.)

Investment Grade Ratings Migrations Still Showing Improvement

Ratings momentum continues to improve within investment grade credit as a whole, and also as issuers migrate from high yield back up to investment grade ratings (rising stars). We believe the theme of ratings improvement will persist this year given issuers are utilizing proceeds, creating a more solid foundation for fundamentals.

Ratings Momentum Has Been Strong in High Grade, Has Turned Negative in High Yield in 1Q24



Source: J.P. Morgan, as of 3/31/2024.
RS is rising stars and FA is fallen angels. 2024 is YTD as of 3/31/2024. Ratios are calculated on the basis of dollar par amount.
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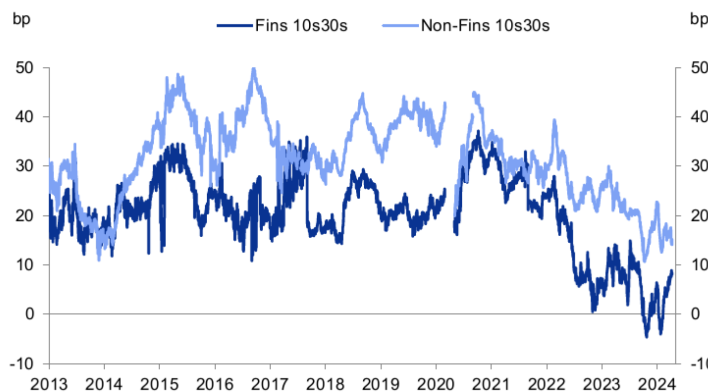
SECURITY SELECTION

Investment Grade Credit Offers Value and Appears Attractive, In Our View

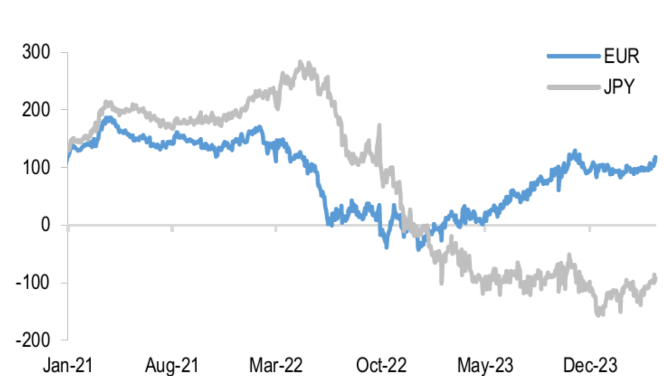
We have seen continued compression within the investment grade sector. In our opinion, there is limited value remaining in the 30-year part of the curve. Our preference remains within the intermediate credit sector (between 3-year and 10-year maturities) given the attractive carry and roll down characteristics relative to the 30-year. Additionally, US investment grade credit continues to look attractive to European investors given the value of the hedged yield pickup.

Spread Differential Between 10 and 30-Year Issuer-Match USD Investment Grade Bonds



Source: iBoxx and Goldman Sachs Global Investment Research, as of 3/31/2024.

10-Year USD Investment Grade Corporates FX Hedged Yield Pickup



Source: J.P. Morgan and Bloomberg, as of 3/31/2024.

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ADDITIONAL NOTES

CREDIT CYCLE REGIME PERIODS

EXPANSION/LATE CYCLE:
4/1/1997- 8/31/2000; 3/1/2006-12/31/2007; 1/1/2014- 2/28/2020; 4/1/2021 - 3/31/2024 (PRESENT)
DOWNTURN:
9/1/2000 - 11/30/2001; 1/1/2008 - 6/30/2009; 3/1/2020 - 4/30/2020
CREDIT REPAIR:
12/1/2001 - 5/30/2003; 7/1/2009 - 5/31/2011; 5/1/2020-10/31/2020
RECOVERY:
6/1/2003 - 2/28/2006; 6/1/2011-12/31/2013; 11/1/2020 - 3/31/2021

As of 3/31/2024

Regime periods are determined by Loomis Sayles Macro Strategies team based on a variety of subjective and objective factors, including past economic and asset performance metrics. Views and opinions expressed reflect the current opinions of the team, and are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

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While the analysis provided may be shared with one or more investment team, it is not the only input into the investment process for any strategy and therefore should not be viewed as a primary source of investment decisions, which are a function of many variables.

The analysis is based on historical data and does not predict future results. Markets may behave very differently than history suggests, it is not possible for any methodology to accurately identify and interpret all relevant market events. Therefore, the use of this type of information to make investment decisions has inherent limitations. There is no guarantee that future experience will be similar. The analysis reflected in this presentation is limited to certain periods. We make no representation that the experience of any other periods is comparable.

Unless otherwise specified, all analysis covers the period from 6/30/1996 to 3/31/2024.

ADDITIONAL IMPORTANT DISCLOSURE

Principal Investment Risks: *Investments in bonds can lose their value. When interest rates rise, bond prices usually fall and vice versa. High yield securities are subject to a high degree of market and credit risk, including risk of default. In addition, the secondary market for these securities may lack liquidity which, in turn, may adversely affect the value of these securities and that of the portfolio. Foreign investments involve special risks including greater economic, political and currency fluctuation risks, which may be even greater in emerging markets. Currency exchange rates between the US dollar and foreign currencies may cause the value of the investments to decline. Commodity-related investments, including derivatives, may be affected by a number of factors including commodity prices, world events, import controls and economic conditions and therefore may involve substantial risk of loss. Equity securities are volatile and can decline significantly in response to broad market and economic conditions.*

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Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.

This is not an offer of, or a solicitation of an offer for, any investment strategy or product. ***Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.***

Market conditions are extremely fluid and change frequently.

Past market experience is no guarantee of future results.