FULL DISCRETION TEAM

Quarterly Credit Update

Key Takeaways

Our base case calls for the US economy to remain in the late cycle phase, but we are decreasing our growth projections and moderately increasing the potential of a downturn. Losses from defaults and credit losses have remained aligned with what we would expect in a late cycle environment. In our view, risk premiums have become more attractive and, as a result, we believe investors could begin to consider moderately leaning into credit risk for any potential extra carry pick-up.

We believe credit health remains stable as corporate fundamentals, technicals and earnings growth continue to remain positive even as the economy has potentially started to downshift. Investment grade corporate bond issuance started 2025 strong but slowed in April, and high yield corporate bond issuance has been sporadic. For both asset classes, macroeconomic uncertainty is the root of issuance slowdown, in our opinion. Within investment grade, issuance this year seems to be concentrated in front-end maturities. For high yield, issuance has been affected by below trend mergers and acquisitions (M&A) and leveraged buyout (LBO)-related supply.

Thus far in 2025, the volume of fallen angels has outpaced rising stars. With the potential for more issuers to downgrade, it is important to consider the impact this could have to the size of the high yield market, in our view.

About the Team

The Full Discretion team brings decades of expertise and collaboration to create tailored solutions for their clients.

28	Investment Professionals
23+	Avg. Years of Industry Experience (Portfolio Management Team)
$79.1	Team Assets Under Management (Billion USD)

Team Philosophy

We have a legacy of independent thinking and leaning into the market when others may be pulling away. We take a deep-value, equity-like approach to credit selection across global fixed income markets. Our disciplined process helps gives us confidence in seeking to identify macro trends, formulate a clear view on market sectors, and invest throughout the credit cycle.

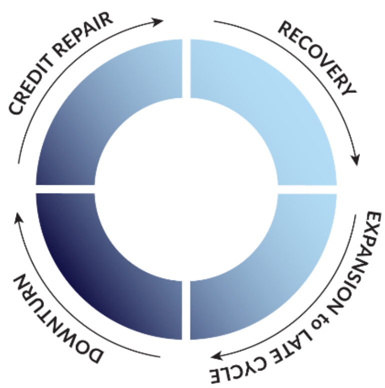
For more than 40 years, we have been applying our distinctive style of bond picking to deliver portfolios designed to provide excess yield potential and have low correlations to traditional benchmark-focused fixed income strategies.

Source: Loomis Sayles, as of 3/31/2025
Average years of expertise reflected at portfolio management level

Credit Cycles/Risk Premium

Credit Cycle Extends in Late Cycle Stage

In our view, the credit cycle remains in the late cycle stage. We moderately adjusted our growth estimates but still believe consumer confidence is stable and corporate fundamentals continue to remain steady.

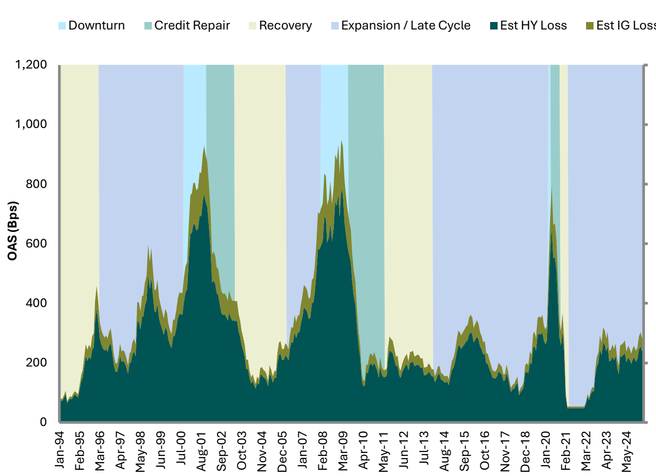


As of 3/31/2025. ***Chart shown for illustrative purposes only.*** *This reflects the current opinions of Loomis Sayles Macro Strategies team, and views are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.*

Credit Losses Remain Near Longer-Term Averages

We believe credit losses are hovering near median levels for this stage of the credit cycle, but we are anticipating this factor to fluctuate for some time. Risk premiums in high yield and investment grade credit improved in the period due to widening spreads and lower expected credit losses.

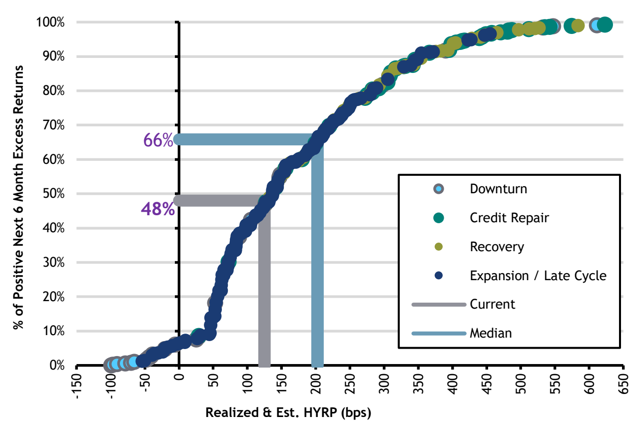
Estimated IG and HY Losses†



Risk Premiums Appear Attractive, Although Improvement May Be Needed

High yield and investment grade risk premiums rose during the period. We believe a continued uptick in high yields spreads could help drive risk premiums back to more attractive levels. Investment grade risk premiums still offer value, in our view, given loss expectations and spread levels. However, we believe investment grade risk premiums need to increase further, given the elevated uncertainty being priced in the market.

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



Source: Loomis Sayles and Bloomberg, as of 4/30/2025. ***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.***

Source: Loomis Sayles and Bloomberg, as of 4/30/2025. 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.

Fundamentals/Technicals

Fundamentals Stable as Spreads Have Rallied Post "Liberation Day"

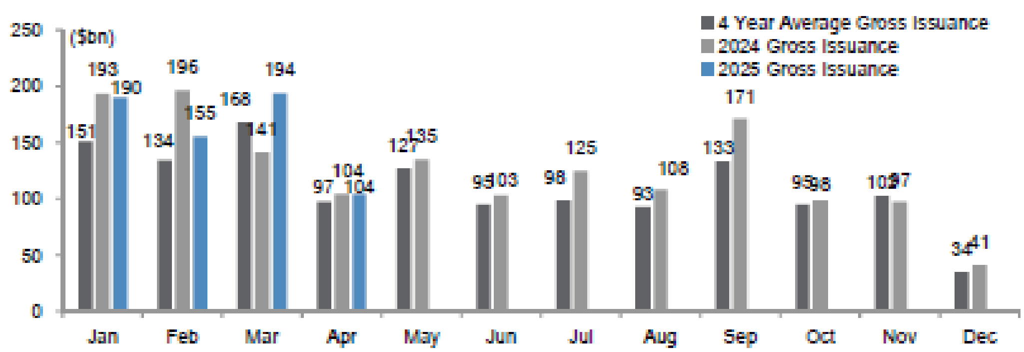
Credit fundamentals are still strong from both a net leverage and interest coverage standpoint and continue to remain below their long-term medians. High yield has broadly rallied since the April 2nd "Liberation Day" selloff, with yields and spreads back at/near their pre-selloff levels.

Although credit spreads are back to pre-selloff levels, they are still not as tight as we saw at the end of 2024. We believe it may be prudent to keep an eye on the names with upward ratings potential as this continues to be a theme in investment grade.

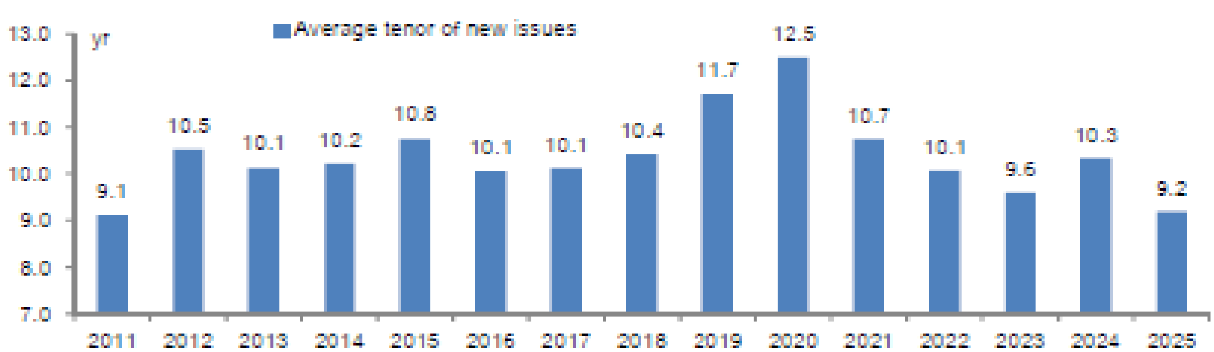
Investment Grade Bond Issuance Started Strong, Maturities Concentrated in the Front End

Following a strong first quarter, investment grade issuance slowed pace in early April as hesitation surrounding the April 2nd "Liberation Day" created a cautious environment. We saw stability return in the back half of the month and issuers seized the opportunity to come to market. April supply ended in line with the four-year average. Within supply, average maturity of investment grade issuance year-to-date is 9.2 years, the lowest average tenor since 2011. Issuance has been concentrated to the front end as issuers are hesitant to lock in at these high rates for the long term. We expect this trend in maturities to continue if rates remain high.

High Grade Monthly Supply



Average Tenor of New Issues



Source: J.P. Morgan and Dealogic, as of 4/30/2025

The charts presented to the above are shown for illustrative purposes only*. Some or all of the information on these chart may be dated, and, therefore, should not be the basis to purchase or sell any securities. The information is not intended to represent any actual portfolio managed by Loomis Sayles. Information obtained from outside sources is believed to be correct, but Loomis Sayles cannot guarantee its accuracy. This material cannot be copied, reproduced or redistributed without authorization.*

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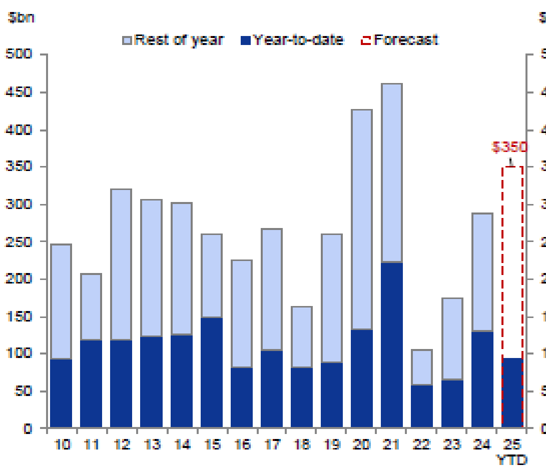
High Yield Issuance Cools in 2025 Amid M&A and LBO Slowdown

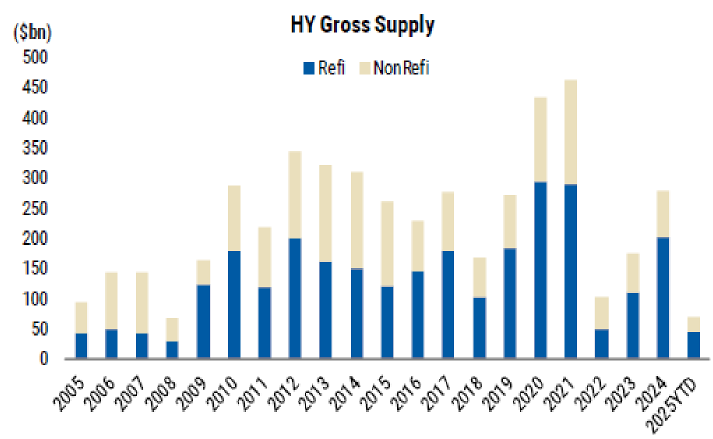
High yield corporate bond issuance has slowed in 2025 with primary issuance in April at the lowest month on record since July 2022. This is largely due to a relative slowdown in deal activity (M&A and LBO-related supply), driven by heightened uncertainty surrounding trade tensions and recession fears. Year-to-date, M&A volumes have remained below the trend seen in recent years.

USD High Yield Issuance



Source: Dealogic and Goldman Sachs Global Investment Research, as of 4/30/2025

High Yield Gross Supply



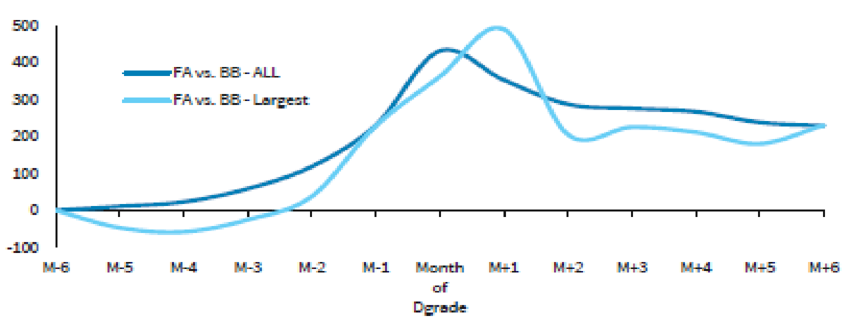
Source: Intercontinental Exchange Inc. (ICE), Pitchbook LCD and Morgan Stanley Research, as of 4/25/2025

Security Selection

Fallen Angels Outpace Rising Stars in 2025 with Larger Names Driving Market Impact

Year-to-date through April 2025, fallen angel volumes have reached around $22B, exceeding rising stars at $14B for the first time in years. In our opinion, the size of potential fallen angel issuers is crucial to consider because of their substantial impact on the high yield market. Historically, larger fallen angels have experienced wider spreads immediately after downgrades as they can be more difficult for the market to initially digest. However, these larger-sized fallen angels tend to outperform those of average size in the months following their downgrade as investors absorb them.

Average Fallen Angel Performance vs. Bloomberg US Corporate High Yield BB-B Index, Pre/Post-Downgrade



Source: Bloomberg and Barclays Research, as of 10/25/2024

The charts presented above are shown for illustrative purposes only. *Some or all of the information on these chart may be dated, and, therefore, should not be the basis to purchase or sell any securities. The information is not intended to represent any actual portfolio managed by Loomis Sayles. Information obtained from outside sources is believed to be correct, but Loomis Sayles cannot guarantee its accuracy. This material cannot be copied, reproduced or redistributed without authorization. Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.*

Past performance is no guarantee of future results.

Meet the Team

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Portfolio Manager, Bank Loans Strategist

HEATHER YOUNG, CFA
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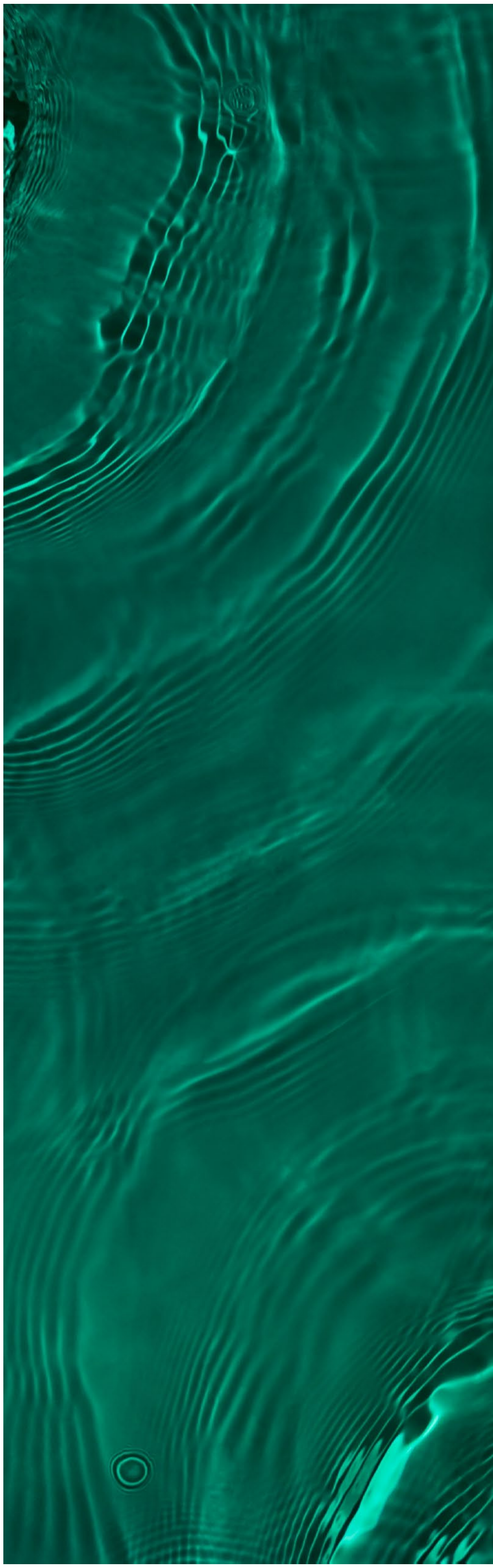
CHERYL STOBER
Investment Director

KRISTEN DOYLE
Associate Investment Director



Important Disclosures

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 - 3/31/2025 (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 3/31/2025

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.

RISK PREMIUM DISCLOSURE

This material is provided for informational purposes only and it should not be construed as an investment advice. Investment decisions should consider the individual circumstances of the particular investor. Any opinions or forecasts contained herein reflect subjective judgments and assumptions of the author and do not necessarily reflect the views of Loomis, Sayles & Company, L. P. Investment recommendations may be inconsistent with these opinions. There can be no assurance that developments will transpire as forecasted. Proposed solutions and related analysis does not represent the actual or expected future performance of any Loomis products. We do not intend to imply that we managed actual portfolios with these characteristics during the periods shown or that we could construct actual portfolios with these characteristics and return experience. Accuracy of data is not guaranteed but represents our best judgment and can be derived from a variety of sources. Opinions are subject to change at any time without notice.

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 3/31/2025

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.

Market conditions are extremely fluid and change frequently.

Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

Past market experience is no guarantee of future results.

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