

Quarterly Credit Update

Full Discretion Team Views - 3rd Quarter 2023

KEY TAKEAWAYS

- Broadly speaking, fixed income sectors struggled in 3Q23 amidst a continued move upward in interest rates. High yield corporate credit fared better than most given the asset class is generally less sensitive to interest rate movements. Our credit cycle positioning remains firmly in 'late cycle'. Although defaults and credit losses have ticked up, these still remain around levels that we consider average for this stage of the cycle. Risk premiums continue to screen attractive and are suggestive of potential for positive returns. We believe inflation will remain 'sticky' and above the Fed's 2% target as a result of certain structural drivers, though it has continued to decrease since the start of 2023 as the Fed remains engaged in its effort to bring inflation down to longer-term targets.
- We believe recessionary fears are waning as data is suggesting the economy may be more resilient to higher interest rates than previously anticipated. Despite the fiscal tightening brought on by the Fed, we have seen neither a meaningful increase in leverage nor decrease in corporate profitability. We have been watching these metrics closely as they continue to play an important role in our security selection process.
- In our opinion, the average life of the high yield market has been decreasing over time as a result of the structural decline in rates post-Global Financial Crisis. The Covid-era low interest rate environment led to an increase in high yield issuance. However, we have experienced lower issuance levels in 2022 and 2023 as creditors are more reluctant to bring longer-term debt in the face of rising interest rates and lock in higher coupons. As such, we are once again seeing the weighted average life of the high yield market move lower. This lack of issuance has substantially increased near-term maturities, particularly in the next 2-3 years.

CREDIT CYCLES/RISK PREMIUM

Credit Cycle Continues to be in 'Late-Cycle'

We believe the credit cycle remains in the 'late cycle' stage as corporate profits are holding up better than previously expected coming into 2023 and the overall health of the US economy continues to remain resilient to the effects of higher rates.

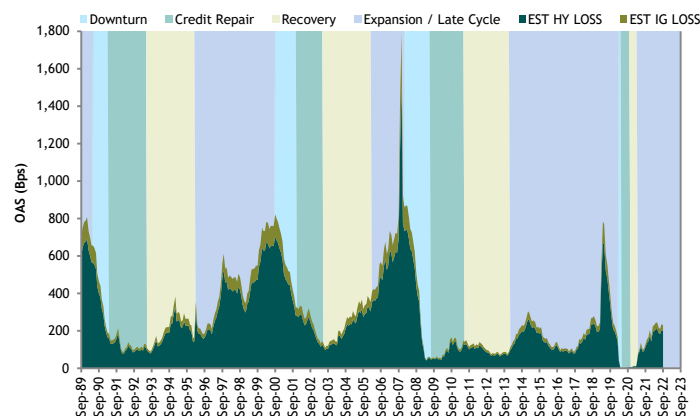


As of 9/30/2023. Chart shown for illustrative purposes only. This reflects the current opinions of Loomis Sayles Macro Strategies team, and views are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

Seeing a Modest Rise in Defaults Moving Towards Longer-Term Averages

Financial conditions are tighter today versus 12 months ago, which has led to a marginal rise in losses towards longer-term averages. We continue to believe losses will trend towards 'late cycle' averages over the coming 6-12 months and corporate fundamentals should remain solid.

Estimated IG and HY Losses †



Source: Bloomberg and Loomis Sayles, as of 9/30/2023. 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.



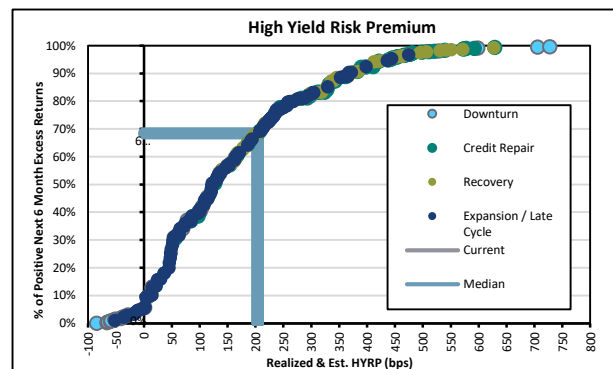
CREDIT CYCLES/RISK PREMIUM (cont.)

High Yield Risk Premiums Still Appear Attractive

Risk premiums continue to appear attractive and we still see the potential for positive excess return potential over the next six months. Given our 'late cycle' positioning, we believe there is room for risk premiums to compress. We anticipate that even a modest spread widening could make premiums incrementally more attractive.

*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 †



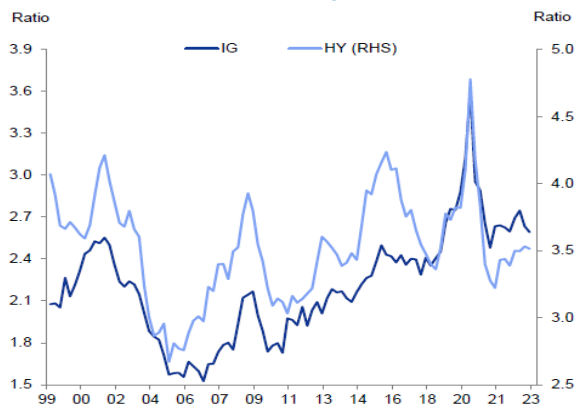
Source: Loomis Sayles, as of 9/30/2023

FUNDAMENTALS/TECHNICALS

Fundamentals Have Appeared to Remain Strong

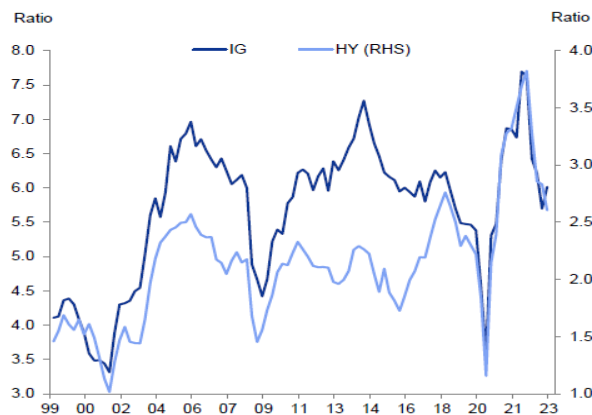
Fundamentals continue to be resilient despite the fiscal tightening delivered by the Fed, although we are starting to see interest coverage ratios deteriorate given the large move in US interest rates.

Net debt to EBITDA ratios for the Median US IG and HY-rated Non-Financial Corporations



Source: Bloomberg, FactSet, Goldman Sachs Global Investment Research, as of 9/30/2023

Interest Coverage Ratios for the Median US IG-rated and HY-Rated Non-Financial Corporations



Source: Bloomberg, FactSet, Goldman Sachs Global Investment Research, as of 9/30/2023

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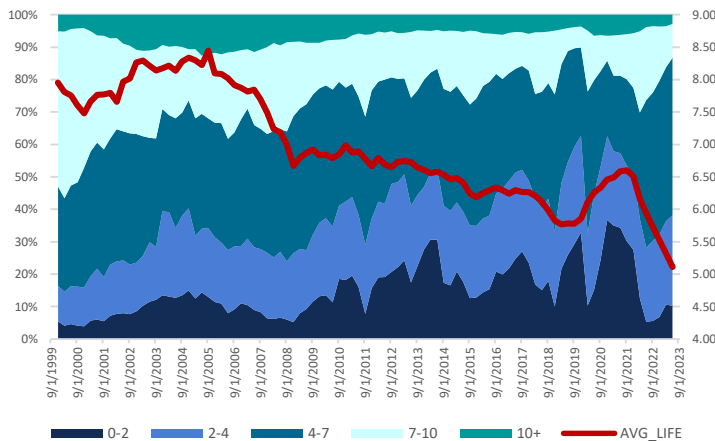


FUNDAMENTALS/TECHNICALS (cont.)

Average Life of High Yield Market Seem to be at All Time Lows

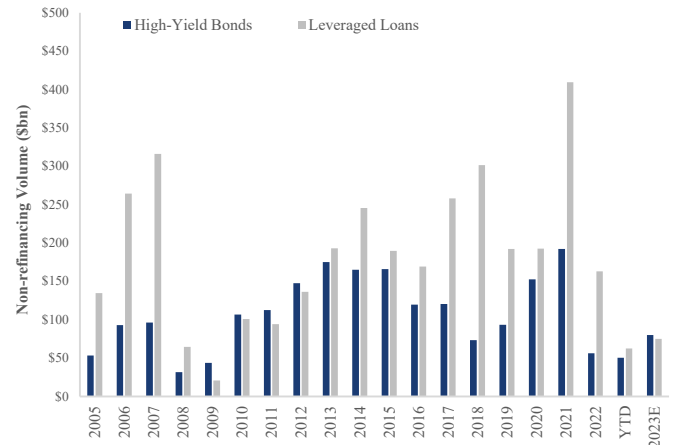
Corporate issuers have been reluctant to term out debt given the rapid repricing of the US Treasury market and the fear of locking in unattractive coupons. In our opinion, 2023 is appearing to be a below-average year for net new issuance, which is helping to provide a tailwind for secondary spreads.

High Yield Index Average Life, by Maturity



Source: Loomis Sayles and Bloomberg, as of 9/30/2023

Net New Issuance of Overall Leveraged Credit Market



Source: JPMorgan, as of 9/30/2023

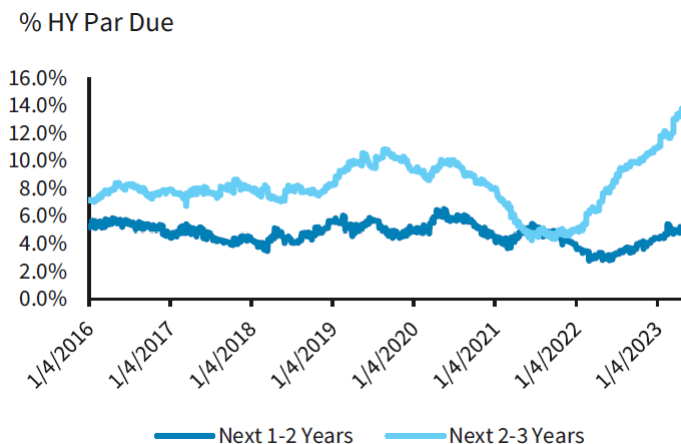
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SECURITY SELECTION

Increased Near-Term Maturities May Warrant Close Attention

Losses due to defaults typically occur as the result of an issuer's inability to refinance its capital structure; therefore we are closely monitoring maturity schedules. US corporate issuers are delaying refinancing near term and lower coupon debt, which is pulling the maturity wall closer than normal. We believe this should not impact the higher quality segment of the high yield market. However, we are increasingly concerned about higher levered credits with near terms maturities and limited free cash flow.

Maturity Bucket Trends



Source: Barclays Research, as of 6/30/2023

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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 - 9/30/2023 (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 9/30/2023

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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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 9/30/2023

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.