LOOMIS | SAYLES

TEAM INSIGHTS
Q2 2025

## FULL DISCRETION TEAM

# Loomis on Loans

## Where are the Opportunities in Broadly Syndicated Loans?

The markets overall started the year on an optimistic footing given strong fundamentals, what most thought would be an accommodative fiscal position, as well as a loosening monetary environment. Pricing peaked mid-February but that bright outlook was somewhat upset by the initial aggressiveness of the Trump administration's trade policies. Since then, loan prices have begun to recover as more extreme policies have begun to be eased (at least verbally). While most prices have returned to around par, we are now seeing more opportunities to take advantage of price dispersion in the markets, as well as prices that are fairly offered, making swap opportunities available.

In general, fundamentals still look healthy in the broadly syndicated loan space. Most of corporate America has metrics improving, with leverage flat to down and defaults running at below average levels. We think the economy is still in a healthy place as well, with employment looking firm and consumer strength buoying economic activity. We do expect gross domestic product (GDP) to slow into year-end as the Trump administration's policies are creating an uncertain environment and putting a damper on corporate investment plans, but we do not think it will be enough of a headwind to put the economy into a recession. We believe, however, that slower GDP growth will keep the Federal Reserve (Fed) on hold as they wait and see how the new import taxes flow through to consumer prices.

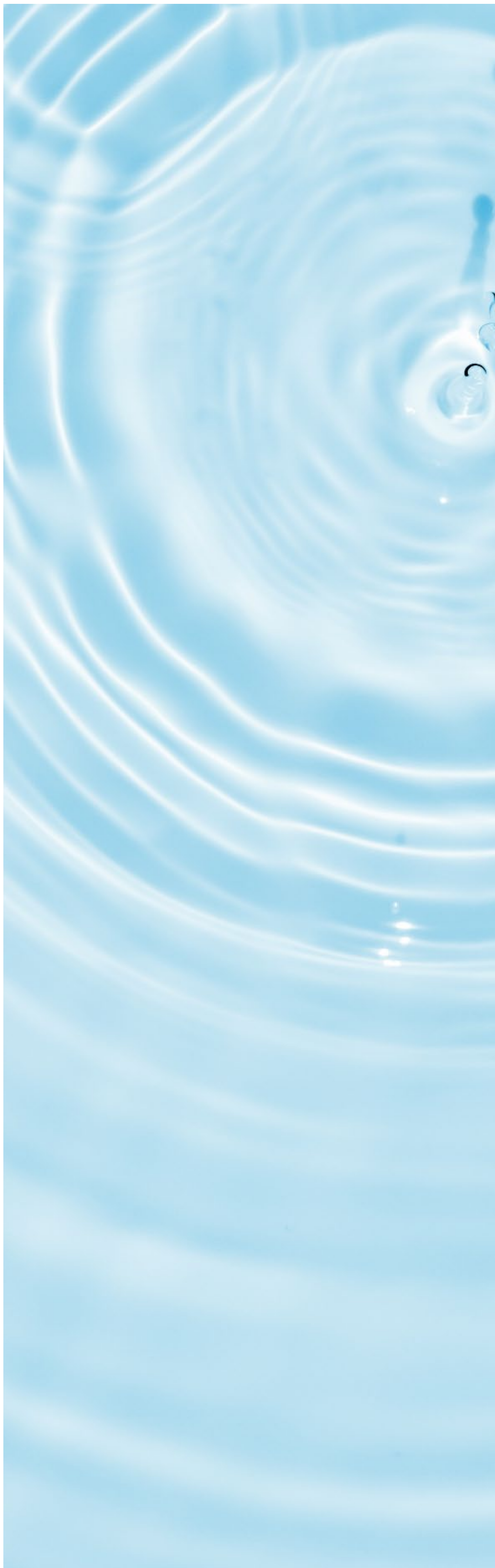
For loans, we see the backdrop of stable fundamentals and steady short-term rates as a constructive investment environment, particularly compared to asset classes that are exposed to interest rate risk, and especially at the longer end of the yield curve. We expect interest rate volatility to persist given the current budget deficit and the expectation that it will not come down with the new tax bill.

## What are the Challenges?

We are in a continued risk-on environment where bank loans remain in high demand, so obtaining a yield pick-up over the index is a challenge. Spreads remain tight, which means we are seeing compression between the spreads offered to bank loan investors by higher- and lower-rated names. Despite the strong market, in this environment it is even more important to understand the credits to which you are lending, as the compensation for taking more risk is reduced compared to previous years. As spreads tighten and the appetite for riskier loans remains firm, focus on the credit story and the risk-adjusted return remain paramount.

| MORNINGSTAR LSTA INDEX | Q2 2025 RETURN (%) | YTD RETURN (%) | PRICE | YTD PRICE CHANGE | NOMINAL SPREAD |
|---|---|---|---|---|---|
| **US Leveraged Loan Index** | **2.32** | **2.81** | **97.34** | **-0.44** | **330.54** |
| **US BB Ratings Loan Index** | **2.13** | **3.08** | **99.64** | **-0.48** | **253.28** |
| **US B Ratings Loan Index** | **2.46** | **2.82** | **97.87** | **-0.67** | **354.45** |

*Source: Loomis Sayles and Morningstar LSTA, as of 6/30/2025*



The second challenge loans face today is the generic economic headline risk that can move markets in one direction or the other on a daily basis. We note, however, that post-"Liberation Day" prices in the loan market have rebounded nicely and recent headline splashes have only served to move the loan market 0.125-0.250 points on average when the headline was not company-specific.

Third, as noted above, we expect GDP to slow into year-end, which may slow the pace of corporate investment and have an impact on companies' operations. We do not expect such a severe headwind here to imply a downturn in profitability on a major scale, but the pace of growth as enjoyed over the last several quarters at the company level may slow.

## Increased Volatility is Creating Potential Opportunities

As our outlook has become slightly more cautious into year-end, we will continue to assess opportunities as they occur through repricings and add-ons at discounts. We believe diligent credit analysis is necessary when choosing companies that generate fair returns for the risks presented without reaching too far down the risk profile of the market.

If rates remain at current levels, companies at the highest levered segment of the loan market will continue to see heavier interest burdens, in our view. However, absent an economic downturn (which we are not predicting), they will continue to show stable quarterly operational results as has been the case. If that remains true, we believe 2025 could be a year where loan funds generally earn their coupons and move along at par.

However, if less exuberant markets prevail, then companies carrying the heaviest interest burden, the ones who have benefited from low borrowing costs due to the supply and demand imbalance of 2024, may find themselves in a place where operational strength starts to falter, in our view. Were that to happen, the pressure on those companies' loan prices would be greater than their better-capitalized counterparts. Our approach to a thoughtful yield advantaged portfolio - with downside risk mitigation from choosing strong credits with properly levered balance sheets and appropriate coupons for the risk - should mute the downside pressure versus a strategy of reaching for yield at any cost.

# Meet the Team

MATT EAGAN, CFA
Head of Full Discretion, Portfolio Manager

MICHAEL KLAWITTER, CFA
Portfolio Manager, Bank Loans Strategist

HEATHER YOUNG, CFA
Portfolio Manager, Bank Loans Strategist

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Portfolio Manager, Credit Strategist

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Portfolio Manager

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Associate Portfolio Manager, High Yield Corporate Strategist

DAVID ZIELINSKI, CFA
Investment Director

CHERYL STOBER
Investment Director

KRISTEN DOYLE
Associate Investment Director

# About the Team

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

| | |
|---|---|
| 27 | Investment Professionals |
| 23+ | Years of Industry Experience (Portfolio Management Team) |
| $80.3 | 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.

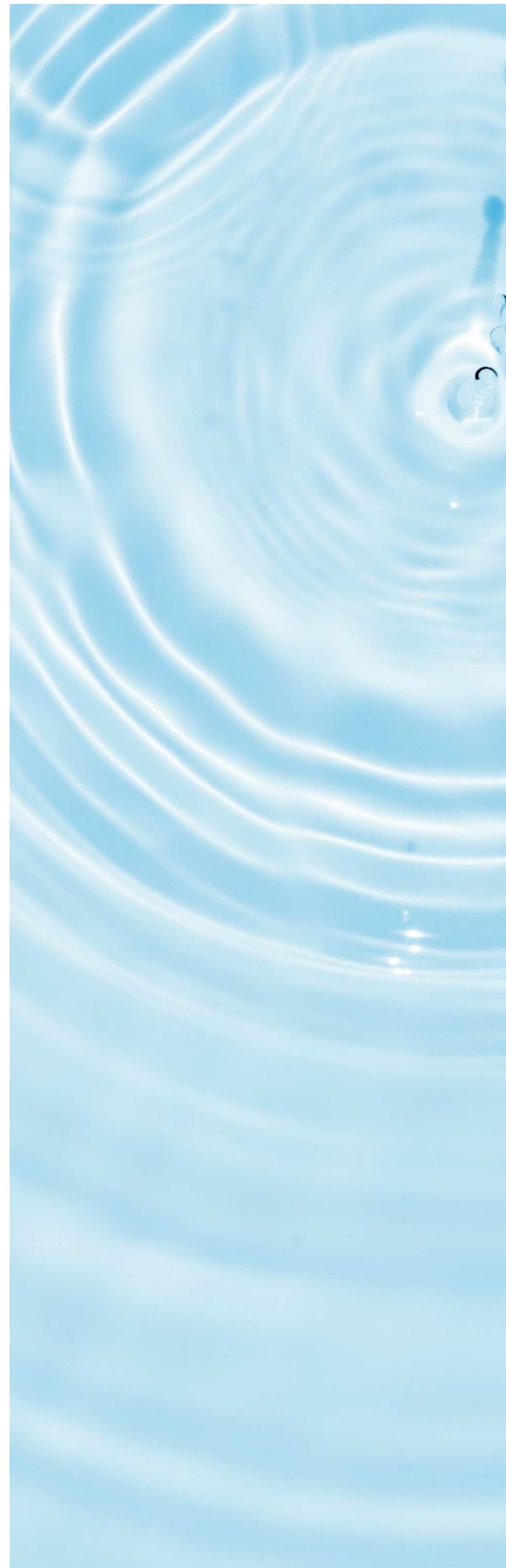
*Source: Loomis Sayles, as of 6/30/2025*
*Average years of expertise reflected at portfolio management level*

# Important Disclosure:

*This marketing communication is provided for informational purposes only and should not be construed as investment advice. It is meant to offer a snapshot of select market developments and is not a complete summary of all market activities. 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. Data and analysis does not represent the actual or expected future performance of any investment strategy, account or individual positions. 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.*

*Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.*
*Commodity, interest and derivative trading involves substantial risk of loss.*
*Diversification does not ensure a profit or guarantee against a loss.*
*Market conditions are extremely fluid and change frequently.*
***Any investment that has the possibility for profits also has the possibility of losses, including loss of principal. There is no guarantee that any investment objective will be realized, or that the strategy will be able to generate any positive or excess returns.***

***Past performance is no guarantee of future results.***



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