FULL DISCRETION

Loomis on Loans

What Opportunities Can We Expect in 2025?

With interest rates not expected to come down as sharply as was previously the thought, we believe bank loans are poised to enjoy higher all-in coupons than managers thought might be the case leading into 2025. Also, with credit markets remaining open, we believe this enables companies in the space to borrow for value-added transactions, giving lenders opportunities to continue investing in the best of the asset class. We believe the bank loan asset class thus offers a comparable total return and excess return to unsecured high yield with the added benefit of being senior and secured and while seeking to avoid interest rate risks. CLO issuance and new issue loan scarcity are both uplifting factors to loan performance on a technical basis. Fundamental uplifts in the loan market exist as well – corporate health has been very strong this past year. Higher borrowing costs have been well absorbed due to operating strength and many companies' ability to further improve margins through disciplined cost containment programs. We are expecting to see that continue, leading to limited defaults and default losses that would otherwise be headwinds to total return. Defaults have remained relatively low and have been driven by company specific circumstances in those cases rather than stemming from a sector or a credit risk bias.

While rates haven't come down as quickly as most expected, the Federal Reserve (Fed) is expected to continue to ease and the markets are open. Merger and acquisition activity and new money issuance in the loan market has picked up this year and have been met with enthusiastic order books as demand from investors is at a very high level. We are expecting this dynamic to be even stronger into next year. This creates buying opportunities, especially as most well-performing businesses are seeing their debt offered above par in the secondary markets today.

Morningstar LSTA Index	Q4 2024 Return	2024 Return	Price	YTD Price Change	Nominal Spread
US Leveraged Loan Index	2.27%	8.95%	97.33	1.10	341
US BB Ratings Loan Index	2.21%	8.15%	100.11	0.52	258
US B Ratings Loan Index	2.51%	9.55%	98.53	0.57	371

Source: Pitchbook LCD and Morningstar, as of 12/31/2024

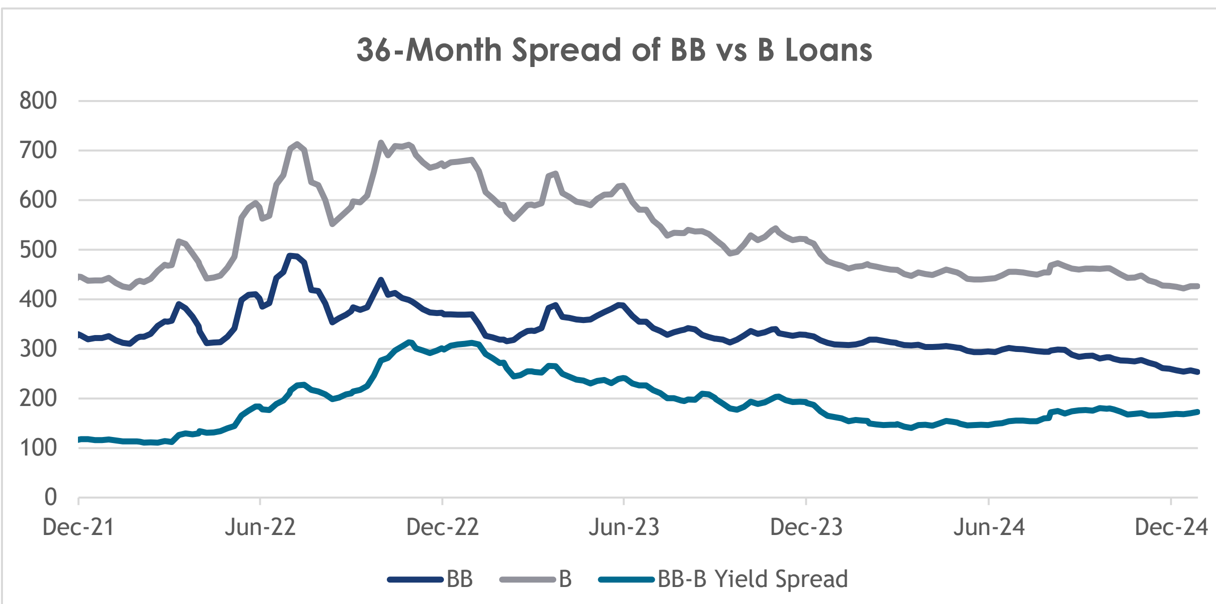
The chart presented above is shown for illustrative purposes only. *Some or all of the information on this chart may be dated, and, therefore, should not be the basis to purchase or sell any securities. The information is not intended to represent any actual portfolio. Information obtained from outside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

Past performance is no guarantee of future results.

Challenges Ahead

The challenges for the upcoming year in a continued risk-on environment where bank loans have remained in high demand will be in obtaining a yield pick-up over that of the Morningstar LSTA US Leveraged Loan Index. Spreads have been tightening this year, which means we are seeing compression between the spreads offered to bank loan investors by higher- and lower-rated names (see chart below). Despite the strong market, in these environments it is even more important to understand the credits to which you are lending, as the compensation for taking more risk is reduced versus previous years. As spreads tighten and the appetite for riskier loans remains firm, focus on the credit story and the risk-adjusted return remains paramount, in our view.

The chart below shows the relationship between 36-month spreads of BB and B loans. The spread differential has come down since late 2022, reflecting the strong risk on market we discussed above and the tightening of the relationship between higher-quality and lower-quality loans. This effect is modestly understated as pictured, as the average B-rated loan yield is somewhat distorted by dispersion between most loans trading around par and a minority still at material discounts. The average yield between BB- and B-rated loans trading around par, most of the index, is tighter than this chart suggests and emphasizes that picking good credits in this environment is paramount.



Source: Pitchbook LCD, as of 12/27/2024

The chart presented above is shown for illustrative purposes only. *Some or all of the information on this 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. 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.*

Past performance is no guarantee of future results.

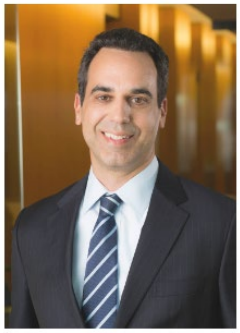
More of the Same?

2025 may be a continuation of the strong 2024 we saw. Signals point to a healthy economy and Loomis Sayles's forecast reflects the same. We believe that if rates remain at current levels, companies at the highest levered segment of the loan market will continue to see heavier interest burdens, but the macro strength will enable them to continue to show strong quarterly operational results as has been the case overall. If that remains true, we believe 2025 could be a year where loan funds earn their strong coupons and move along at par, while the individual loans held can enjoy revenue and margin strength and stability to offset the higher-for-longer interest burden.

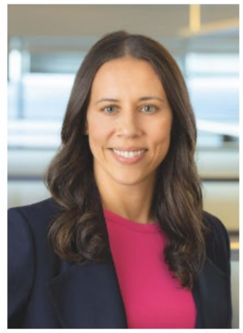
However, if less exuberant markets prevail, then companies carrying the heaviest interest burden, the ones who have benefited from low borrowing costs due to the supply and demand imbalance of 2024, may find themselves in a place where operational strength starts to falter, in our view. Were that to happen, we believe the pressure on those companies' loan prices would be greater than their better capitalized counterparts.

Please see Important Disclosure on following page, an integral part of this document.

Meet the Team



Michael Klawitter, CFA
Portfolio Manager



Heather Young, CFA
Portfolio Manager

Cheryl Stober
Investment Director