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Investment Outlook

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Solid fundamentals should drive positive credit and equity market performance as we head toward 2025.

One of the most bullish themes in the US economy is a broadening of earnings growth across more sectors. Looking back, it was essentially mega-cap growth companies in the technology and communication sectors that were generating nearly all of the S&P 500's earnings

growth. Recently, earnings growth for large-cap technology has been slowing and formerly lagging sectors have begun to post earnings growth.

We believe this broadening in sources of earnings growth implies that the credit cycle has plenty of room to progress in the expansion phase. Investment grade and high yield corporate credit within US markets look attractive to us because we anticipate limited downgrades and a very mild default rate of just 3.2%. Yields across global credit markets appear attractive, and we expect them to slide lower while central banks pursue their cutting cycles.



Investment Themes:

KEY TAKEAWAYS

PAGE 3 Macro Drivers

Monetary policymakers seem content with inflation data progressing closer to long-run target levels, in our view. While economic growth begins to moderate, their focus will likely be on labor market health.

PAGE 4 Corporate Credit

Investment grade and high yield valuations are not cheap, but we still see opportunity for long-term investors.

PAGE 5 Government Debt & Policy

Most developed and emerging market 10-year yields are at, or close to, one-year lows.

PAGE 6 Currencies

Emerging market currencies could benefit from easing monetary policies in developed markets, in our view. The relatively higher interest rate profile in many emerging markets could also benefit performance.

PAGE 7 Global Equities

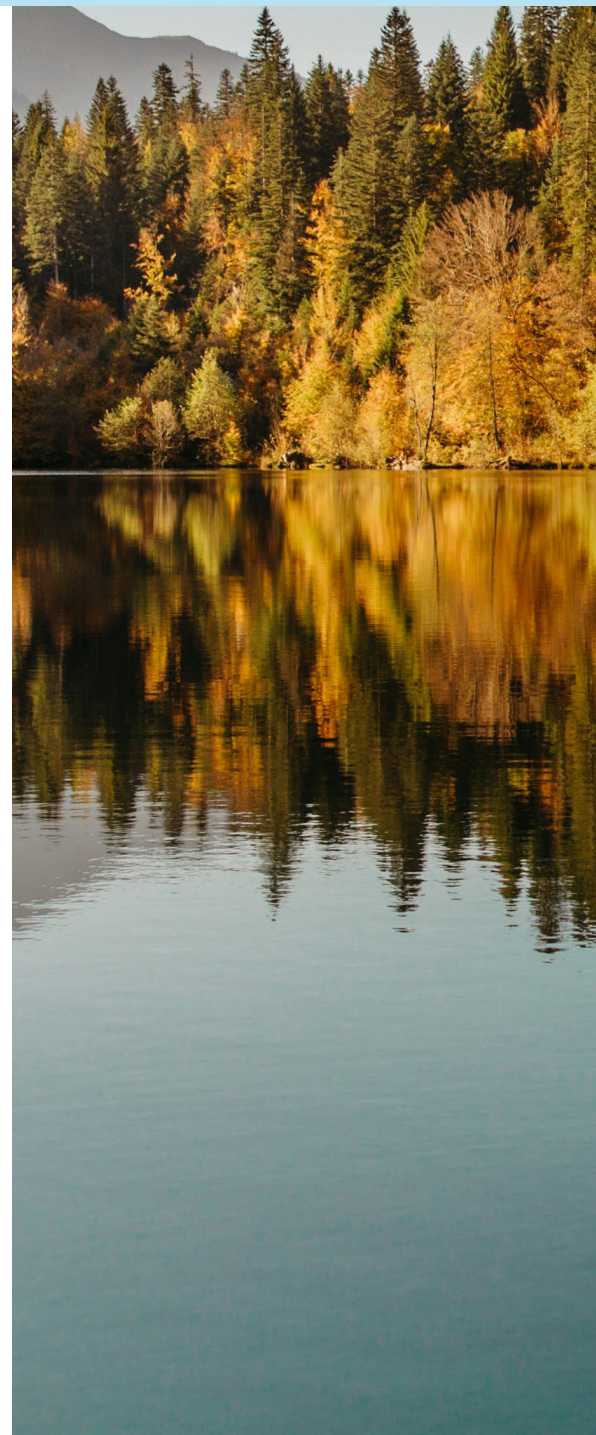
Strong underlying fundamentals, particularly earnings growth, should propel equity markets higher as 2024 ends and 2025 begins, in our view.

PAGE 8 Potential Risks

Investor consensus shifted to a soft landing, which we believe leaves markets vulnerable to rising long-term interest rates or growth-scare-inducing economic data.

PAGE 8 Asset Class Outlook

Based on our overall outlook, US duration appears favorable relative to international duration. Solid risk appetite should support long US and European high-grade credits. Fundamentals put balanced US equity and growth in a good light. Our outlook for easing global rates is one factor that should provide a solid backdrop for emerging market currencies, and local and sovereign bonds.



Macro Drivers

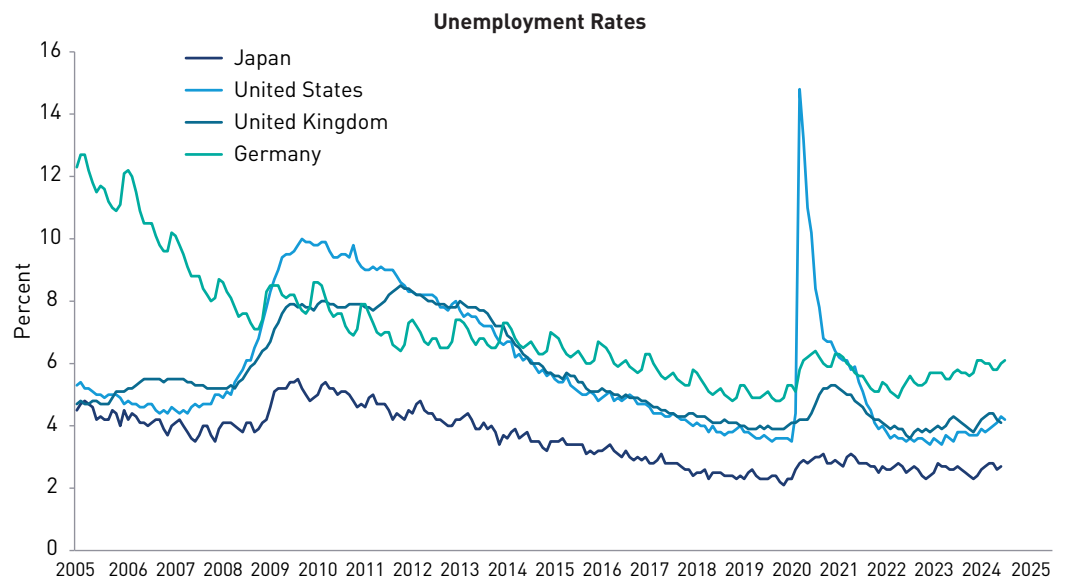
While most major economies will likely avoid recessions over the next 6 to 12 months, a low-volatility regime is not guaranteed. However, despite potential bumps along the way, we believe global credit markets will generate positive excess returns in the next 6 to 12 months.

- The Federal Reserve (Fed) moved away from its restrictive policy stance with a 50-basis-point (bp) rate cut. We expect inflation to continue trending lower toward the 2% target over the next few quarters.
- The US labor market is still strong, but the average payroll gain in each of the past three months has declined. Unemployment ticked up from a very low level. We believe the Fed was correct in cutting rates before labor conditions weakened further.
- With personal consumption expenditures being two-thirds of gross domestic product, healthy consumer spending is essential for continued expansion.
- The Bank of England's Monetary Policy Committee voted to reduce the bank rate to 5%. We expect further reductions to be gradual and limited in size.
- Within the euro area, we see inflationary risks persisting, which informs our expectation of a relatively limited European Central Bank rate-cutting cycle.
- If the Bank of Japan's confidence grows regarding the achievement and sustainability of 2% inflation, we expect increased bank tolerance for higher 10-year yields.

WITH INFLATION ESSENTIALLY UNDER CONTROL, CENTRAL BANKS HAVE SHIFTED THEIR FOCUS TO MONITORING LABOR MARKET HEALTH

We expect unemployment rates for major economies to hover around current levels.

Sources: Bloomberg, National Sources, as of 31 August 2024.



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The chart presented above is for illustrative purposes only.*



Corporate Credit

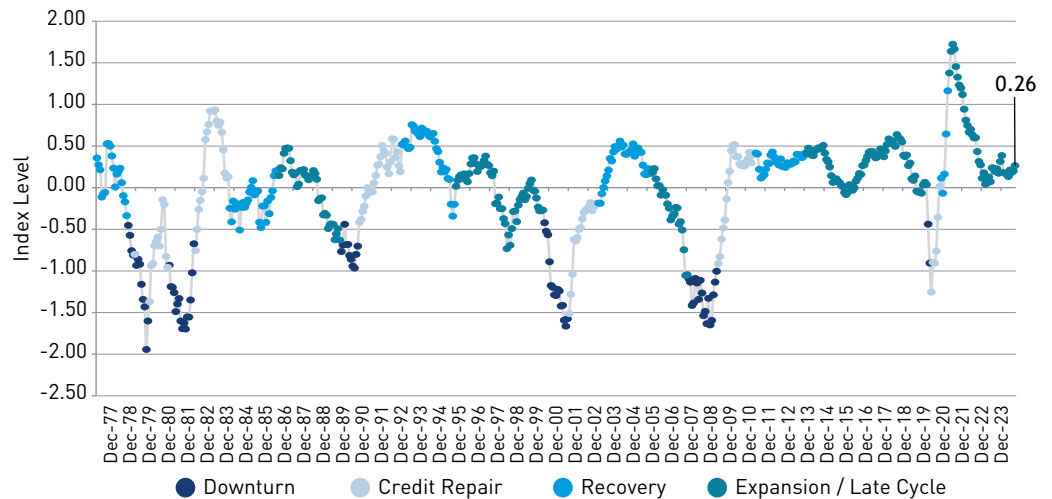
If a soft landing plays out as we expect, credit spreads have room to tighten a bit.

- Based on their bottom-up fundamental analysis, our credit research team suggests approximately 85% of industries within our proprietary corporate health index are in the expansion phase of the credit cycle.
- The percentage of industries with a positive credit outlook jumped to 38% from 13% in June. Two very large and important sectors of the economy, banking and technology, received outlook upgrades from our analysts.
- Upgraded outlooks are predominantly based on better expectations for margins and free cash flow. Industries with stable outlooks equaled 55% while only 7% of industries carried deteriorating or moderately deteriorating outlooks.
- Our risk premium framework estimates credit losses within investment grade and high yield to be below historical averages in expansion/late cycle regimes. We believe that is one reason why spreads are tight.
- Spreads for high yield credits rated BB and B look very tight relative to history, while CCC-rated credits look more fairly valued.
- Within global credit, we believe the emerging market space has a higher return potential than that of euro or sterling markets.
- Our positive stance on global growth prospects with more rate cuts ahead keeps us overweight credit.

OUR PROPRIETARY CREDIT HEALTH INDEX (CHIN) TRENDED HIGHER IN EXPANSION/LATE-CYCLE TERRITORY FEBRUARY - JULY

Factors lifting the CHIN included bottom-up fundamentals, credit outlook and financial conditions.

Source: Loomis Sayles, as of 31 August 2024.



The Credit Health Index (CHIN) is a macro tool created by Loomis Sayles. The CHIN is currently managed by the Loomis Sayles Applied IQ Team. It is proprietary framework that utilizes a combination of macro, financial market and policy variables to project US corporate health. A higher reading indicates a stronger corporate health whereas a lower reading indicates weaker corporate health.

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. Information obtained from outside sources is believed to be correct, but Loomis Sayles cannot guarantee its accuracy. This information is subject to change at any time without notice. Views and opinions expressed reflect the current opinions of the Applied IQ Team only and views are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

Past performance is no guarantee of future results.



Government Debt & Policy

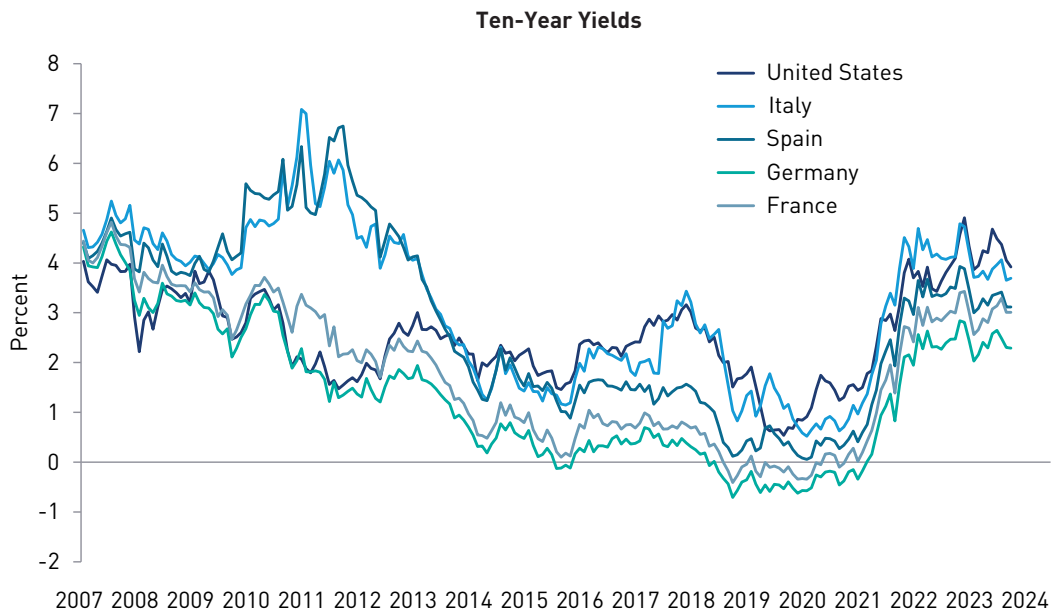
We believe disinflationary trends should remain in place near term, which should keep interest rates in a downward trend.

- Elections have been a market-moving factor in 2024. Transitions of power and potential policy reforms will likely remain key considerations for investors, in our view.
- Neither US presidential candidate appears focused on fiscal austerity, which we believe means the US government budget deficit is not likely to improve over the near term.
- Increased government spending can boost economic growth and to some extent employment. However, it can also widen budget deficits with more debt being issued at higher interest rates.
- While tough to time, the market should eventually begin weighing the consequences of the deficit. Until then, we believe the global monetary policy easing cycle should keep interest rates trending lower.
- Developed market long-term yields can potentially slide lower throughout 2025. As the Fed trims the short rate and longer-term yields do not decline as much, the US yield curve will likely steepen.
- We see value in local emerging market fixed income based on relatively higher yields and prospects for US dollar weakness. There is potential for foreign currency appreciation plus interest income.

TEN-YEAR YIELDS CAN SLIDE LOWER, BUT WE DO NOT EXPECT COVID-RECESSION LOWS

After a brief period of positive correlation, we believe government bonds could once again be a good hedge against equity and credit market volatility.

Source: LSEG, National Sources, as of 30 August 2024.



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Currencies

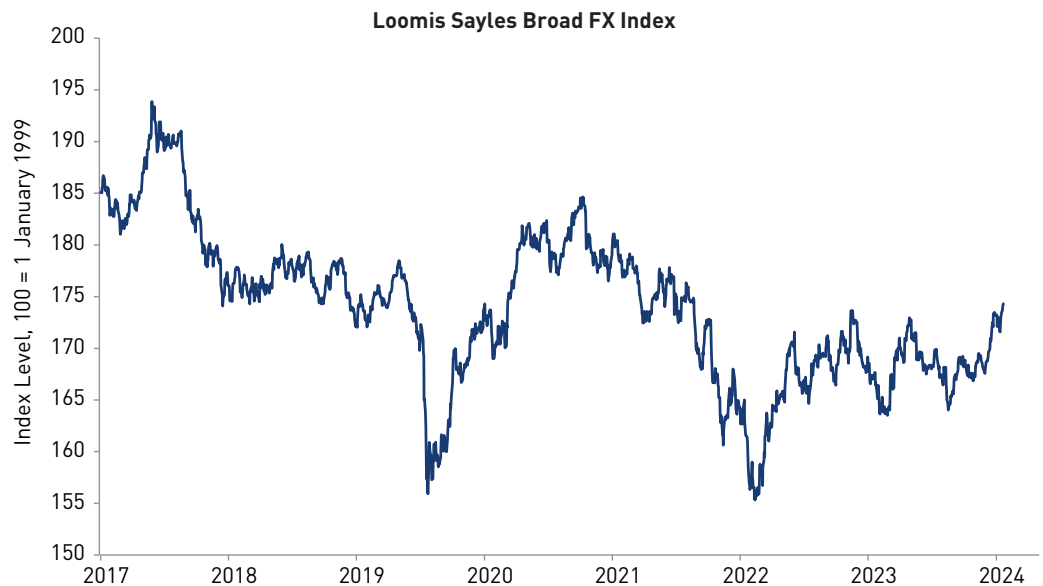
We believe that financial conditions could grow easier within the US, especially if the Fed is able to keep trimming the policy rate as markets head into 2025.

- While short-term interest rates are coming down, the dollar is likely to remain under pressure. Downside risk should be modest since several central banks will also be cutting, in our view.
- Oftentimes, the dollar is perceived as a safe haven. While geopolitical risks exist, most regions of the world are expanding, albeit at varied growth rates.
- Risks associated with US government deficits are rising, and we do not see major changes to the path forward.
- The US economy is still performing quite well relative to developed market peers. We believe domestic investments in credit and equity markets could be particularly attractive for overseas investors, therefore we only see modest dollar downside risk.
- The fed funds rate appears to be declining faster than that of its UK or euro zone counterparts, which could keep the euro and pound range bound.
- We remain cautious on China, but view upside surprise as possible, which would likely benefit emerging market neighbors.
- We believe Latin America and South Africa are attractive regions to add foreign exchange exposure.

RELATIVE TO THE US DOLLAR, OUR EQUALLY-WEIGHTED BROAD FX INDEX OF 23 CURRENCIES HAS BROKEN OUT TO MULTI-YEAR HIGHS

We expect high-carry foreign currencies to outperform the dollar as the Fed cuts interest rates.

Source: Loomis Sayles, as of 20 September 2024.



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Global Equities

Bottom-up consensus estimates for 2025 could prove too optimistic. However, we believe markets could absorb some downward revision given how rosy the starting point appears to be.

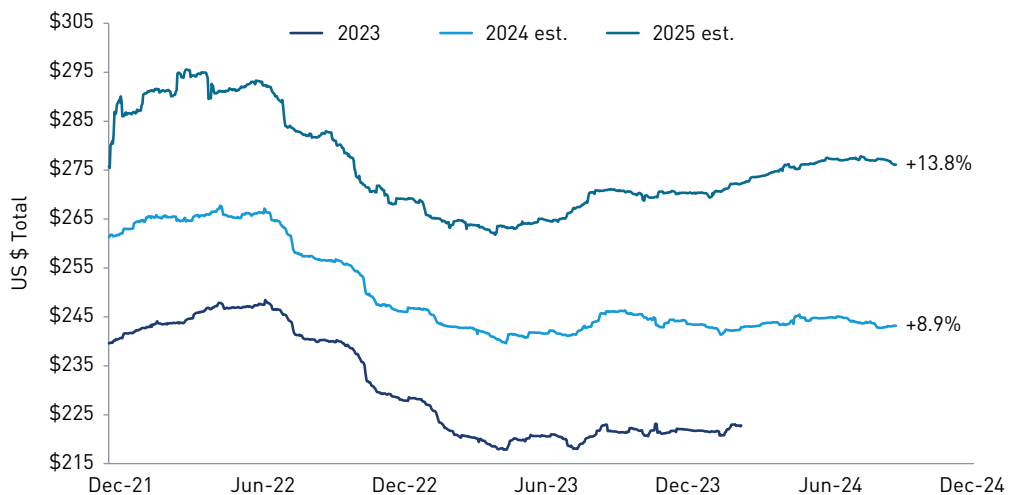
- Several markets are near 52-week or all-time highs. We believe most markets could see high-single-digit 2025 total returns as long as recession is avoided.
- Despite elevated valuations, we would not be surprised to see price-to-earnings multiples grow to lofty levels.
- Earnings growth should accelerate within industrials, healthcare, materials, consumer staples and energy in 2025, in our view, while remaining firm for information technology and communication services.
- As fundamentals improve, we expect the equity market rally will broaden.
- Global equities may not outperform the US, but we believe could likely still do well. According to Bloomberg consensus, earnings-per-share growth for the MSCI All Country World Index excluding the United States indicates a nearly 10% growth rate for 2025.
- MSCI emerging markets could be a top region with approximately 16% year-over-year growth expected, while Europe and Japan could see mid-single-digit growth.

**EARNINGS EXPECTATIONS
REMAIN STABLE
DESPITE UNCERTAINTY
SURROUNDING MONETARY
AND FISCAL POLICY IN 2025**

Even realized earnings somewhat near current estimates would be favorable.

Source: Bloomberg, as of 22 September 2024.

S&P 500 Index Earnings per Share by Calendar Year



Used with permission from Bloomberg.

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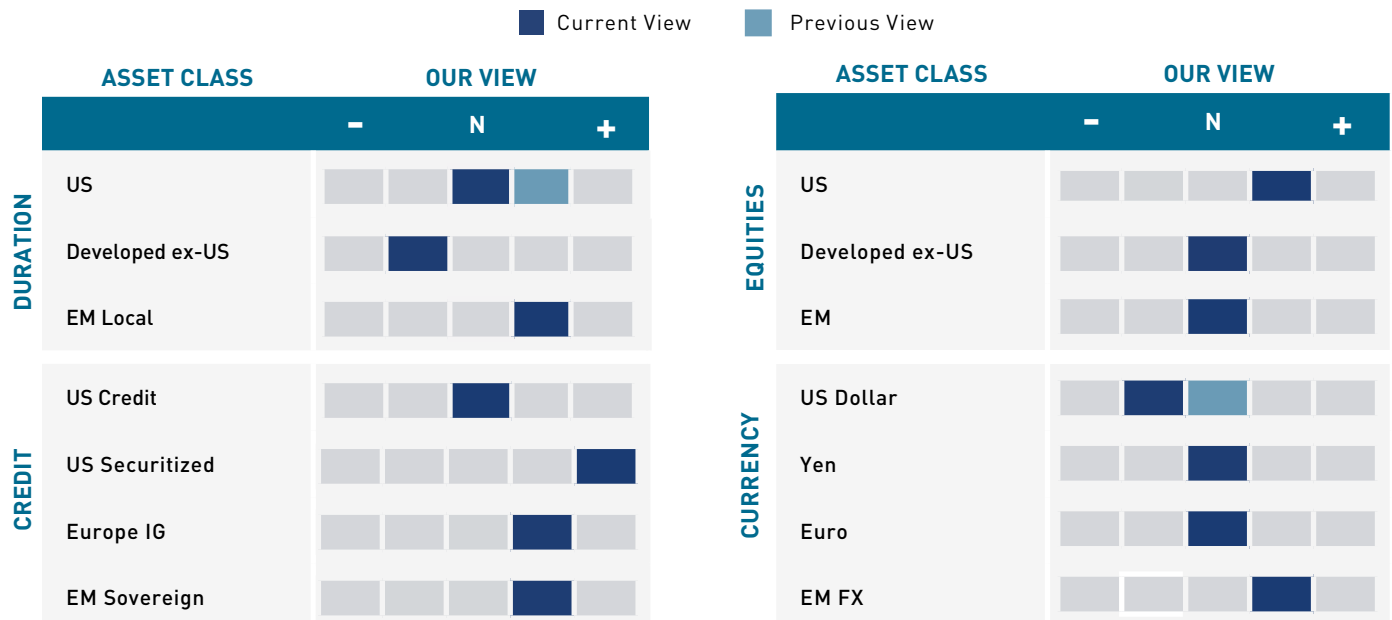
Potential Risks

Payroll growth has been moderating to levels consistent with a soft landing. At some point, we believe, labor market weakness would have to abate for such a scenario.

- Data consistent with a soft landing has been reported, but we wonder where the bottom is, and when the economic momentum will begin to level off or turn higher.
- Does corporate health indicate the cycle can advance in expansion? By most indicators, balance sheets appear to be healthy. However, earnings estimates for 2025 could be too high, particularly if an economic slowdown arrives.
- Real 2024 GDP is on pace to conclude above trend, near 2.75%. That is unlikely to be repeated in 2025, even with rate cuts. A softer growth backdrop could pressure corporate revenues and margins.
- Our top concern is a potential growth scare. Our estimated probability of that is approximately 30%, which we believe is meaningful. Such a scenario would weaken our expectations for modestly tighter credit spreads and rising equities.
- An escalation in ongoing global military conflicts would shake sentiment.
- In our view, we see risk in being underallocated to equity or high-yielding asset classes.

Asset Class Outlook

Based on our overall outlook, US duration appears favorable relative to international duration. Solid risk appetite should support long US and European high-grade credits. Fundamentals put balanced US equity and growth in a good light. Our outlook for easing global rates is one factor that should provide a solid backdrop for emerging market currencies, and local and sovereign bonds.





Third Quarter Review

INDEX RETURNS BY SECTOR

as of 30 September 2024

INDEX				
US BROAD MARKET	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US AGGREGATE BOND	1.34	5.20	5.26	11.57
BBG US GOVERNMENT/CREDIT	1.40	5.10	5.15	11.31

Despite a short-lived scare in the beginning of August, risk assets performed well through the third quarter of 2024. With the Federal Reserve's (Fed's) new cutting cycle now a reality with September's interest rate cuts, US Treasuries performed well and riskier bonds followed suit.

US GOVERNMENTS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US TREASURYS	1.20	4.74	4.84	9.72
3-MONTH T-BILLS	0.44	1.38	2.73	5.51
2-YEAR TREASURY	0.77	2.86	3.74	6.58
5-YEAR TREASURY	1.01	4.43	4.81	8.68
10-YEAR TREASURY	1.43	5.80	5.41	10.77
30-YEAR TREASURY	1.93	8.12	5.71	14.46
BBG US TIPS	1.50	4.12	4.94	9.79
BBG US AGENCY	0.95	3.40	4.19	8.11

Yields across the curve fell, with the 1-year yield falling the most (115 basis points). This led to positive returns across the maturity spectrum, with the longer end outperforming given the duration effects.

US MUNICIPALS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US MUNICIPALS	0.99	2.71	2.69	10.37

The municipal bond market underperformed the Treasury market. Credit fundamentals continued to turn neutral.

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

All returns in US dollars, unless noted.

Past performance is no guarantee of future results.

US SECURITIZED	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG MBS	1.19	5.53	5.60	12.32
BBG ABS	0.98	3.35	4.36	8.73
BBG CMBS	1.30	4.65	5.36	11.83

The US securitized market also provided positive returns, but was a mixed bag relative to Treasuries. Mortgage-backed securities were the outperformers, owing to their longer duration. CMBS and ABS in particular lagged given their shorter maturities.



**INDEX RETURNS
BY SECTOR**

as of 30 September 2024

INDEX		1 MONTH	3 MONTH	6 MONTH	1 YEAR
CORPORATES					
BBG US INVESTMENT GRADE		1.77	5.84	5.74	14.28
	AAA	2.00	6.93	5.49	13.89
	AA	1.75	6.06	5.38	12.99
	A	1.81	5.86	5.70	13.75
	BBB	1.73	5.76	5.84	14.98
BBG EUROPEAN INVESTMENT GRADE -LOCAL CURRENCY RETURNS		1.23	3.27	3.35	9.56
	AAA	1.41	3.49	2.97	9.29
	AA	1.28	3.17	3.03	8.17
	A	1.22	3.17	3.12	9.13
	BBB	1.23	3.37	3.59	10.14
BBG STERLING INVESTMENT GRADE -LOCAL CURRENCY RETURNS		0.34	2.39	1.93	10.74
	AAA	0.11	2.20	0.43	9.27
	AA	0.17	2.40	1.76	9.36
	A	0.15	2.41	1.85	10.13
	BBB	0.54	2.37	2.06	11.55

US investment grade corporate debt provided sizeable returns, but this was mostly due to the rally in US Treasury rates. Investment grade (IG) spreads spiked in early August of this year. US payroll data and a rate change by the Bank of Japan independently unnerved the market at the same time. However, markets calmed quickly and credit spreads rallied to below where they began the quarter. US corporates outperformed their counterparts overseas.

CORPORATES		1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US HIGH YIELD		1.62	5.28	6.44	15.74
	BB	1.06	4.25	5.63	14.69
	B	1.18	4.53	5.61	14.55
	CCC	4.29	10.20	10.18	20.32
BBG PAN-EURO HIGH YIELD -LOCAL CURRENCY RETURNS		1.05	3.65	5.09	13.02
	BB	0.76	3.17	4.32	11.93
	B	1.38	4.08	5.96	15.29
	CCC	1.62	6.24	8.65	11.33

The trajectory of spreads in the high yield space was very similar to that of IG. Spreads spiked in early August of this year, but ultimately ended the quarter lower than where they started. Investors appeared to be in a risk-on mode through the quarter. US high yield bonds also outperformed European high yield bonds.

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

All returns in US dollars, unless noted.

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**INDEX RETURNS
BY SECTOR**
as of 30 September 2024

INDEX					
BANK LOANS	1 MONTH	3 MONTH	6 MONTH	1 YEAR	
S&P/LSTA LEVERAGED LOAN	0.71	2.04	3.98	9.59	
BB	0.48	1.90	3.74	8.68	
B	0.70	2.20	4.31	10.24	
CCC	2.15	2.07	3.34	11.06	

Bank loans have a lower duration profile than high yield bonds, given that they generally have floating coupons rather than fixed ones. As a result, even with positive results they were the laggards in a quarter where duration outperformed on falling rates.

DEVELOPED COUNTRIES	1 MONTH	3 MONTH	6 MONTH	1 YEAR	
CITIGROUP WGBI -LOCAL CURRENCY RETURNS	0.97	3.72	3.08	7.91	
CITIGROUP NON-USD WGBI	0.81	2.99	1.75	6.61	
UNITED STATES	1.19	4.72	4.91	9.70	
CANADA	1.60	4.37	5.23	11.18	
JAPAN	0.33	1.83	-1.99	-1.68	
AUSTRALIA	0.29	3.33	2.05	7.86	
UNITED KINGDOM	0.02	2.48	1.23	8.30	
EUROPEAN GBI	1.31	4.01	2.60	9.28	
FRANCE	0.77	3.51	1.11	6.95	
GERMANY	1.23	3.29	2.50	7.58	
IRELAND	1.59	4.71	3.43	10.13	
ITALY	2.03	5.25	3.86	12.56	
SPAIN	1.37	4.07	3.33	10.41	

Every country within the Citigroup World Government Bond Index (WGBI) performed positively this quarter. A marginal move to "soft landing" pricing was not just contained to the USD. Despite localized turmoil, even Japan was still able to post positive returns.

EMERGING MARKET BONDS	1 MONTH	3 MONTH	6 MONTH	1 YEAR	
JP MORGAN EMBIG -SOVEREIGN/QUASI-SOVEREIGN, USD	1.79	6.07	6.53	18.02	
JP MORGAN CEMBI BROAD DIVERSIFIED -CORPORATES, USD	1.23	4.48	6.04	14.49	
JP MORGAN GBI-EM GLOBAL DIVERSIFIED -GOVERNMENTS, LOCAL CURRENCY	1.35	4.11	5.02	10.80	

Emerging market (EM) bonds, no matter their currency nor whether they were corporate or government, continued to perform well. Once again, duration was the primary driver of returns, as corporate EM bonds (CEMBI) generally have lower duration and underperformed compared to government bonds (EMBIG).

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

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INDEX RETURNS
BY SECTOR

as of 30 September 2024

INDEX				
CURRENCY MARKETS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
DOLLAR BLOC				
CANADIAN DOLLAR	-0.24	1.14	0.11	0.38
AUSTRALIAN DOLLAR	2.19	3.64	6.01	7.43
NEW ZEALAND DOLLAR	1.60	4.22	6.17	5.85
WESTERN EUROPE				
EURO	0.79	3.94	3.20	5.32
NORWEGIAN KRONE	0.61	1.24	2.63	1.40
SWEDISH KRONA	1.13	4.30	4.90	7.40
SWISS FRANC	0.47	6.29	6.60	8.24
BRITISH POUND	1.89	5.77	5.96	9.64
EMERGING EUROPE & AFRICA				
CZECH KORUNA	0.06	3.17	3.31	2.03
HUNGARIAN FORINT	-0.30	3.40	2.31	3.29
POLISH ZLOTY	0.74	4.60	3.42	13.68
RUSSIAN RUBLE	-2.73	-7.78	-0.58	4.89
SOUTH AFRICAN RAND	3.18	5.35	9.34	9.58
TURKISH NEW LIRA	-0.36	-4.20	-5.33	-19.81
ASIA				
JAPANESE YEN	1.77	12.01	5.37	4.00
CHINESE RENMINBI	1.03	3.54	2.90	3.98
INDONESIAN RUPIAH	2.08	8.16	4.72	2.08
MALAYSIAN RINGGIT	4.78	14.41	14.59	13.87
PHILIPPINE PESO	0.17	4.58	0.32	0.98
SINGAPORE DOLLAR	1.69	5.53	5.00	6.32
SOUTH KOREAN WON	1.76	4.70	2.48	2.64
LATIN AMERICA				
ARGENTINE PESO	-1.81	-5.91	-11.46	-63.87
BRAZILIAN REAL	2.88	2.65	-7.99	-7.62
CHILEAN PESO	1.33	4.62	8.98	-0.80
COLOMBIAN PESO	-0.70	-1.28	-8.43	-3.30
MEXICAN PESO	0.19	-6.97	-15.91	-11.52
PERUVIAN NEW SOL	1.23	3.74	0.37	2.18

The Fed began cutting interest rates and reduced the US's favorable interest rate differential and the US dollar weakened. Effectively, every country with negative returns this quarter had some outsized idiosyncratic cause for why they did not participate in the FX rally.

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

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GLOBAL EQUITY
MARKETS

as of 30 September 2024

INDEX TOTAL RETURNS (%)					
	INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
	S&P 500®	5.89	36.19	11.88	15.91
	MSCI ALL COUNTRY WORLD	6.72	32.21	8.58	12.67
	MSCI EUROPE	6.63	25.89	7.31	9.51
	MSCI JAPAN	5.88	21.88	3.04	7.51
	MSCI EMERGING MARKETS	8.88	26.42	0.82	6.13

Equity markets continued to perform well, as risk appetites remains elevated. EM bonds were actually the leader. However, all equity indices across the globe posted very favorable returns for the quarter.

US EQUITY
MARKETS

as of 30 September 2024

INDEX TOTAL RETURNS (%)					
	INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
	RUSSELL 1000®	6.08	35.52	10.80	15.58
	GROWTH	3.19	42.00	11.99	19.66
	VALUE	9.43	27.64	9.00	10.65
	RUSSELL MIDCAP®	9.21	29.20	5.74	11.25
	GROWTH	6.54	29.21	2.31	11.43
	VALUE	10.08	28.89	7.37	10.29
	RUSSELL 2000®	9.27	26.65	1.84	9.35
	GROWTH	8.41	27.54	-0.35	8.78
	VALUE	10.15	25.77	3.76	9.25

For the first quarter in quite some time, small cap stocks were able to outperform big cap stocks. This shows renewed market breadth, after an exceptional run by the "Magnificent Seven" US mega-cap tech stocks. However, all corners of the market, big vs small cap, growth vs value, performed quite well in the third quarter.

Data Source: FactSet. All returns quoted in US dollars. Performance for one and multi-year periods is annualized. Sorted by index quarterly returns. Due to rounding, sector totals may not equal 100%.

Past performance is no guarantee of future results.



S&P 500 SECTORS
as of 30 September 2024

SECTOR PERFORMANCE ATTRIBUTION (%)					
	INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
	UTILITIES	19.37	41.82	11.68	7.99
	REAL ESTATE	17.17	35.83	3.72	6.19
	INDUSTRIALS	11.55	35.91	13.40	13.74
	FINANCIALS	10.66	39.01	9.36	12.90
	MATERIALS	9.71	25.20	9.10	12.95
	CONSUMER STAPLES	8.96	25.32	10.24	9.96
	CONSUMER DISCRETIONARY	7.80	28.06	4.88	12.12
	HEALTHCARE	6.07	21.67	8.36	13.37
	COMMUNICATION SERVICES	1.68	42.93	6.43	14.59
	INFORMATION TECHNOLOGY	1.61	52.68	20.32	27.02
	ENERGY	-2.32	0.84	24.14	13.90

Energy was the lone sector with negative returns. The price of oil continued to fall this quarter as faith in the Chinese economy wavered. All other sectors performed well, though there was still considerable dispersion of sector returns (Utilities outperformed).

Data Source: FactSet. All returns quoted in US dollars. Performance for one and multi-year periods is annualized. Sorted by index quarterly returns. Due to rounding, sector totals may not equal 100%.

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Disclosure

All data and views are as of 30 September 2024, unless otherwise noted.

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Bloomberg US Treasury Index includes public obligations of the US Treasury with at least one year until final maturity, excluding certain special issues such as state and local government series bonds -SLGs, US Treasury TIPS and STRIPS.



Bloomberg US Treasury Inflation Protected Securities Index consists of inflation-protection securities issued by the US Treasury that have at least one year to maturity and at least \$250 million par amount outstanding.

Bloomberg US Agency Index includes agency securities that are publicly issued by US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government -such as USAID securities.

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