# Global Bond Fund

## FUND FACTS

**OBJECTIVE**

Seeks high total investment return through a combination of high current income and capital appreciation

| | |
|---|---|
| Share class | I |
| Inception | 5/10/1991 |
| Ticker | LSGBX |
| CUSIP | 543495782 |

## Market Conditions

- The spread of the highly contagious COVID-19 Delta variant in the US and around the globe delayed the prospects for synchronized global growth. Despite rising vaccination rates, the US and Southeast Asia saw mobility and consumer confidence decline and growth slow. In contrast, in economies where the spread of the virus has been contained or where tolerance for infections has risen – such as Europe and non-Asia emerging markets – the pace of activity remained strong. There continued to be a large gap in vaccinations between richer and poorer countries.
- Manufacturing activity remained strong as consumers continued to demand durable goods, which kept purchasing managers' indices (PMIs) in expansionary territory. This higher demand reflects shifts in housing and work arrangements in response to the pandemic and has been fueled in part by consumers tapping into excess savings. However, a divergence developed between the manufacturing and services sectors. The earlier outperformance seen in the US services PMI faded due in large part to the third wave of COVID. China's non-manufacturing PMI continued to slide, reflecting a sluggish services recovery and lukewarm household spending. In contrast, European service sector performance powered ahead as vaccination rates and consumer confidence increased synchronously.
- In the US, a wide variety of inflation measures – Producer Price Index, Consumer Price Index and Personal Consumption Expenditure Price Index (the Fed's preferred inflation barometer) – all increased well above the central bank's target of 2% per annum. Inflation in the Euro area remained more contained, despite rising energy prices. In response to these greater pressures, central banks in advanced economies have started to remove certain aspects of their extraordinary accommodation. Central banks in Norway and South Korea hiked rates while central banks in Australia, New Zealand, Sweden and the UK began to reduce asset purchases. Following its September policy meeting, the Fed moved up its timeline for initiating the tapering of asset purchases to late 2021.

CLASS I PERFORMANCE AS OF SEPTEMBER 30, 2021 (%)

| | CUMULATIVE TOTAL RETURN | | AVERAGE ANNUALIZED RETURN | | | |
|---|---|---|---|---|---|---|
| | 3 MONTH | YTD | 1 YEAR | 3 YEAR | 5 YEAR | 10 YEAR |
| FUND | -1.29 | -4.19 | 0.91 | 5.20 | 2.85 | 2.67 |
| BENCHMARK | -0.88 | -4.06 | -0.91 | 4.24 | 1.99 | 1.86 |

***Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. Investment return and value will vary and you may have a gain or loss when shares are sold. Current performance may be lower or higher than quoted. For most recent month-end performance, visit www.loomissayles.com.***

*Additional share classes may be available for eligible investors. Performance will vary based on the share class. Performance for periods less than one year is cumulative, not annualized. Returns reflect changes in share price and reinvestment of dividends and capital gains, if any. You may not invest directly in an index.*

*Gross expense ratio 0.76% (Class I). Net expense ratio 0.69%. As of the most recent prospectus, the investment advisor has contractually agreed to waive fees and/or reimburse expenses (with certain exceptions) once the expense limitation of the fund has been exceeded. This arrangement is set to expire on 1/31/2022. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.*

*The Class I inception date is 5/10/1991. Class I shares are only available to certain institutional investors only; minimum initial investment of $100,000.*

- China Evergrande Group's liquidity crisis sent shockwaves through global financial markets and put the spotlight on the country's property sector, particularly for sub-investment grade rated firms. Nevertheless, investment grade corporate bond spreads were not acutely impacted and stayed in a fairly tight range during the period aided by positive fund flows that provided a technical tailwind. Meanwhile, supply chain bottlenecks continued to push up the costs of raw materials, equipment and transportation. Wages also started to rise more materially. Nevertheless, in aggregate, corporate profit margins remained healthy, allowing for a strong fundamental foundation.

## Portfolio Review

- The fund underperformed its benchmark, the Bloomberg Global Aggregate Index, primarily due to currency allocation and positioning along the yield curve.

## Contributors

- The fund's overweight to the transportation sector proved beneficial to performance. Transportation services continue to be in high demand as more global products and goods are being sought after by consumers despite supply chain backlogs.
- The banking sector continued to have a positive impact on performance. Elevated mortgage issuances and credit card spending have supported banks particularly in the United States as consumer spending increases.
- Security selection added modestly to relative performance. Select issuer decisions within the consumer non-cyclical and basic industry sectors were top contributors, along with holdings of Treasury inflation-protected securities. High demand for packaged foods and goods remains as consumer spending on groceries and bulk items remained strong.

## Detractors

- The fund's currency allocation was the main detractor from relative performance. Overweight positions to the Brazilian real, South Korean won and Australian dollar were the main detractors, partially offset by underweight allocations to the British pound sterling and euro. Global investors flocked to the safe haven of US Treasurys, strengthening the US dollar this quarter against the majority of developed and emerging market currencies.
- The fund's duration and yield curve positioning detracted from relative performance. In particular, an underweight allocation to the intermediate and long end of the US yield curve detracted from performance. Longer duration positioning in the Brazilian real also detracted as Brazil's central bank hiked rates to battle surging inflation.
- Overweight allocations to the capital goods and basic industry sectors slightly detracted from performance. In particular, exposure to the metals and mining sector dampened results as iron ore prices dropped, reflecting lower demand as China sought to restrict steel production and associated pollution.

## Outlook

• COVID remains a downside risk to our outlook. While vaccination rates are up in many countries and the economic impact of mobility restrictions has lessened, we are not in the clear yet. As the Delta variant has shown – especially in Southeast Asia – COVID variants can still have a measurable and even severe impact on economic activity. Higher vaccination rates, particularly in lower-income countries, should help reduce this risk.

• The trajectory of China's economy is also a material risk to our outlook. Given China's position as the leading contributor to global growth, a slowdown in the Chinese economy could potentially have significant implications on the global economy. Due to the easing bias of policymakers, we do not expect a hard landing, but we don't anticipate significant upside to growth either. Consumption is likely to be the key growth driver in the near term, while retail sales and services are unlikely to return to pre-pandemic levels until the second quarter of 2022.

• Most major developed market government bonds are expensive and we think yields are likely to see some upside pressure as the cyclical upturn gradually progresses, output gaps compress and central banks look to move towards policy normalization. Although investment grade credit spreads look fair to slightly rich, we still like the yield advantage they offer. The fundamental backdrop underpinned by solid corporate profit growth and the technical backdrop are still supportive.

• Our primary US dollar view is for moderate softening as global growth starts to catch up to the US. Healthy investor risk appetites and cyclical improvement abroad are typically consistent with a weaker dollar. Rising twin deficits and higher commodities prices are additional headwinds for the dollar.

• We have a bullish outlook for metals and natural gas prices mainly due to very low inventories amid robust demand. However, we have a more bearish outlook for oil prices due to higher inventories in that market combined with OPEC+ spare capacity. Major oil producers are likely to see increased pressure to boost output with the recent surge in prices to three year highs and policymakers reluctant to allow soaring energy costs to derail the economic recovery.

## About Risk

**Fixed income securities** may carry one or more of the following risks: credit, interest rate (as interest rates rise bond prices usually fall), inflation and liquidity. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **Below investment grade fixed income securities** may be subject to greater risks (including the risk of default) than other fixed income securities. **Foreign securities** may involve heightened risk due to currency fluctuations. Additionally, they may be subject to greater political, economic, environmental, credit and information risks. Foreign securities may be subject to higher volatility than US securities due to varying degrees of regulation and limited liquidity. **Mortgage-related and asset-backed securities** are subject to the risks of the mortgages and assets underlying the securities. Other related risks include prepayment risk, which is the risk that the securities may be prepaid, potentially resulting in the reinvestment of the prepaid amounts into securities with lower yields.

***Bloomberg Global Aggregate Index*** *provides a broad-based measure of the global investment grade fixed income markets. The three major components of this Index are the US Aggregate, the Pan-European Aggregate and the Asian-Pacific Aggregate Indices. The Index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities. Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an index.*

*Outlook as presented in this material reflects subjective judgments and assumptions of the portfolio team and does not necessarily reflect the views of Loomis, Sayles & Company, L.P. There is no assurance that developments will transpire as stated. Opinions expressed will evolve as future events unfold.*

***Before investing, consider the fund's investment objectives, risks, charges, and expenses. Please visit www.loomissayles.com or call 800-633-3330 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.***

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