

# High Income Fund

## Fund Facts

### OBJECTIVE

Seeks high current income plus the opportunity for capital appreciation to produce a high total return

Share class	Y
Inception	2/29/2008
Ticker	NEHYX
CUSIP	543488803
Benchmark	Bloomberg US Corporate High Yield Index

*Bloomberg US Corporate High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an index.*

## Market Conditions

- After initially moving lower in April, the bond market recovered over the subsequent two months to close the second quarter with a respectable total return. Investor sentiment was muted coming into the quarter, as a series of hotter-than-expected inflation reports in Q1 dampened expectations for the number of interest-rate cuts the US Federal Reserve (Fed) was likely to enact before year-end. Whereas at the start of the year the futures markets were indicating as many as six quarter-point reductions in 2024, by April speculation had mounted that the Fed may in fact need to delay its first cut until 2025. These concerns waned during May and June, however, as inflation pressures showed signs of abating and a series of weaker-than-expected data releases indicated that the economy may be cooling. Although the timing and extent of rate cuts remained in question, these developments helped boost confidence that the Fed would loosen policy in the second half of the year. Bonds recovered in response, allowing the major fixed-income indexes to finish the quarter in positive territory.
- The US Treasury market registered a slight gain in the second quarter, with the contribution from income outweighing the impact of a slight increase in yields. The two-year note moved from 4.59% to 4.71% over the course of the three-month period, while the 10-year climbed from 4.22% to 4.36%. Still, both finished well off of their late April highs of 5.04% and 4.70%, respectively. Treasuries remained in negative territory on a year-to-date basis through the end of June, with positive returns on the short end of the yield curve offsetting weakness in longer-term issues.
- Investment-grade corporate bonds had a slightly negative total return with income proving insufficient to offset a modest downturn in prices. Corporates slightly underperformed Treasuries as yield spreads—which began the period on the very low end of the historical range—inched higher. Lower-rated corporates outpaced their higher-rated counterparts.

### Class Y Performance as of June 30, 2024 (%)

	CUMULATIVE TOTAL RETURN		AVERAGE ANNUALIZED RETURN			
	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
<b>FUND</b>	0.67	1.60	8.58	-1.12	2.08	2.89
<b>BENCHMARK</b>	1.09	2.58	10.44	1.64	3.92	4.31

*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](http://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 1.13% (Class Y). Net expense ratio 0.70%. 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 4/30/2025. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.*

*The Class Y inception date is 2/29/2008. Class Y shares are sold to eligible investors without a sales charge; other Classes are available for purchase.*

*Prior to inception of Class Y shares (2/29/2008), performance is that of Class A shares and reflects the higher net expenses of that share class.*



In terms of maturities, bonds in the one- to three-year range generated the best results. Corporates closed June with a modest loss on a year-to-date basis.

- High yield bonds registered a positive absolute return and outperformed the investment-grade market in the second quarter. The asset class remained well supported by the combination of higher oil prices and investors' continued appetite for risk. Still, there was limited room for yield spreads to experience a further compression given that they entered the quarter deep on the low end of the historical range. High yield remain firmly ahead of investment-grade issues on a year-to-date basis through June 30.
- Securitized credit posted strong positive total returns and outpaced the broader investment-grade market in the second quarter. The tailwinds of lower interest rate volatility, greater clarity on the path of Fed rate moves, and strong investor demand contributed to a tightening of spreads despite elevated levels of new-issue supply. Commercial mortgage-backed securities were particularly strong performers following a significant selloff in 2023 that was brought about by concerns about fundamentals in commercial real estate. Commercial asset-backed securities (ABS) and consumer ABS also delivered strong returns amid broader strength in risk assets. Collateralized loan obligations and non-agency residential mortgage-backed securities (MBS) were also positive, while Agency MBS performance was roughly flat.
- Global developed-market government bonds posted a small loss in the second quarter, with weak price performance exacerbated by weakness in foreign currencies against the US dollar. Emerging-market bonds delivered a gain, led by the Middle East/Africa region, thanks to the combination of their above-average income and investors' continued appetite for risk.

## Portfolio Review

- The fund underperformed its benchmark, the Bloomberg US Corporate High Yield Index, primarily due to security selection.

## Winners

- Securitized credit was a positive contributor to relative return as this sector fared better than other fixed income asset classes. Outperformance in this space was driven by select holdings in non-agency CMBS and CLOs.
- Emerging market corporate credit was positive during the quarter. Outperformance was derived primarily from our high conviction names in the consumer non-cyclical and basic industry sectors.
- Bank loans were beneficial to returns, led by names in the insurance and consumer-cyclical space.

## Laggards

- Security selection to high yield corporate credit was the main source of underperformance for the quarter, as select names in the communications space hindered performance throughout the quarter.
- The fund had a small exposure to equities, which was negative for the period.

## Outlook

- The Federal Reserve (Fed) appears to believe the US is back on a disinflationary path, adjusting June's Federal Open Market Committee (FOMC) policy statement to note that 'modest' progress had been made towards their 2% inflation objective. Recently, there has been some softening in economic data and supply/demand conditions in the labor market



have continued to come into better balance. Further incoming data is likely needed to determine ongoing progress of the Fed towards their inflation goal, however, the Personal Consumer Expenditures (PCE) reading at the end of the quarter eased and is supportive to the Fed's stance. Coming into the year, the market was pricing in six rate cuts from the Fed in 2024, however, as of the end of Q2, the market had shifted to two. Investors now seem to be grappling with a more shallow and drawn out rate cutting cycle than previously indicated by the Fed. During the quarter, investment grade and high yield spreads were slightly wider on a deceleration in economic data and interest rates moved higher as inflation data still remains stuck above the Fed's target and the probability of a 'no cut' scenario has increased.

- In our view, the credit cycle<sup>1</sup> is firmly in the 'late cycle' stage. Monetary policy still remains in restrictive territory and lending standards have tightened. The economy appears to be losing some momentum, with Q1 real gross domestic product (GDP) reported lower at 1.3% quarter-over-quarter. We have seen a small amount of marginal weakness in the consumer, however, the US labor market continues to underpin consumer spending. Corporate fundamentals still remain stable and are also supportive of economic activity. Looking forward, our base case calls for trend, or slightly below trend, US growth in 2024 consistent with a 'soft landing' scenario and we do not anticipate a recession. On a global basis, we see gradual improvement in European growth, led by improving business activity broadly in periphery economies, but there is upside risk to inflation that forces the European Central Bank to hold after just one cut. China is showing signs of gradual recovery, with business activity picking up, but we are mindful of persistent risks associated with a weak housing market.
- We believe that inflation has peaked and positive real rates should have the effect of slowing growth and continuing to lower inflation over time. The market's expectation for a 'soft landing' implies inflation continues, unabated, back to the 2% Fed target with growth holding up. Further progress on inflation requires lower wage and house price inflation. To accomplish that, the Fed likely needs to maintain high policy rates to slow demand, in our view. Current restrictive policy is leading to some initial signs of a moderating labor market with lower job openings and a lower quit rate, rather than lower payrolls. Our base case calls for 'unstable' inflation, meaning in the short-term inflation could remain sticky while over the long-term we believe it will be a recurring problem based on structural themes, such as deglobalization, decarbonization and the greenification of energy sources, aging demographics, and growing government deficits. We expect the path to 2% inflation to be a bit rocky and expect to see dips as cycles progress, but we also believe we are likely to experience higher lows than have been experienced over the last 15 years. As a result, we have moderated our view of future Fed cuts with the expectation that the cutting process will be more drawn out with less cuts in 2025 and a trough rate expectation of 3.50% to be hit in 2026.
- Corporate fundamentals appear stable and while there has been some recent weakness in broader fundamentals, factors such as leverage and interest coverage ratios continue to remain attractive in a historical context. Corporate profits are ticking back up and the rolling recessions that we have witnessed in technology, housing, profits, and manufacturing have seemingly come to an end. Our Credit Health Index (CHIN) suggests defaults/losses will remain relatively low, while slowly increasing to more normal levels associated with a 'late-cycle' environment. Technicals remain supportive, with investment grade issuance front-loaded in the first half of 2024, as corporations potentially tried to issue debt ahead of a volatile US election period. In addition, specific to the high yield market, fundamentals also look relatively healthy, defaults may have already peaked for this cycle and most signs of distress seem idiosyncratic, in our view. The high yield maturity wall also seems manageable through 2025, not posing a major threat after a wave of refinancing earlier in the year.
- We believe that long-term value has returned to fixed income markets with a combination of discount-to-par (positive convexity) and favorable yields. In our view, bond markets will



likely be supported with strong demand as investors sit on record levels of cash that will be seeking yield as the Fed potentially cuts rates on the front end. We see long-term fair value in the 10-year US Treasury at 4.50% and believe the current range is 3.75% (soft landing scenario) to 5.00% (no cut scenario). We believe the belly of the curve presents the best risk/return trade-off. In a declining rate environment – based on lower inflation and Fed cuts – the belly offers investors the ability to capture most of the upside return of the long-end without the potential volatility. The US deficit and Treasury supply continues to be a topic of heavy discussion and will likely have a significant influence over long-end Treasury yields. Regardless of the US presidential winner, we believe the fiscal deficit is structural in nature and neither party will risk taking a hawkish stance on fiscal responsibility. This will likely lead to continued growth in the deficit and more Treasury issuance, which we believe could lead to increased volatility and a floor under long-term Treasury yields.

- We are mindful of the risks going forward, such as tighter financial conditions, geopolitical risk, further decline in the commercial real estate market, and the upcoming US and global presidential elections. Although risks exist, spreads have moved to the tightest levels of this cycle. We are not surprised by how buoyant credit markets are these days – fundamentals are stable with the potential for losses to remain benign, and buyers are showing up with an almost insatiable demand. Our view is that investors can feel comfortable going for the extra spread pick up available in the credit markets. We feel 2024 will likely be an environment where returns are driven by carry and it will be prudent to maintain a balanced risk profile between interest rate and spread risk. Spreads will likely live in a range that is typical of a non-stressed market, which for high yield corporates tends to be in the +300 to +450 bps range, and we are being patient and selective in deploying capital. Protectionism and isolationist policies could elevate volatility going forward and make for buying opportunities in credit, interest rates, and currencies, for which we would consider redeploying additional reserves faster. We believe the best approach is to maintain a yield advantage in our portfolios rather than waiting on the sidelines for a ‘risk-off’ environment that may never materialize.



## About Risk

**Below investment grade fixed income securities** may be subject to greater risks (including the risk of default) than other fixed income securities. **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. **Foreign and emerging market securities** may be subject to greater political, economic, environmental, credit, currency and information risks. Foreign securities may be subject to higher volatility than US securities due to varying degrees of regulation and limited liquidity. These risks are magnified in emerging markets.

*<sup>1</sup>A credit cycle is a cyclical pattern that follows credit availability and corporate health.*

## Important Disclosure

*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.*

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***Market conditions are extremely fluid and change frequently.***

***Diversification does not ensure a profit or guarantee against a loss.***

***Commodity, interest and derivative trading involves substantial risk of loss.***

***Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.***

***There is no guarantee that the investment objective will be realized or that the Fund will generate positive or excess return.***

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

***Before investing, consider the fund's investment objectives, risks, charges, and expenses. Please visit [www.loomissayles.com](http://www.loomissayles.com) or call 800-225-5478 for a prospectus and a summary prospectus, if available, containing this and other information. Read it carefully.***

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