



# Inflation Protected Securities Fund

## Fund Facts

### OBJECTIVE

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

|             |  |
|-------------|--|
| Share Class | I  |
| Inception   | 5/20/1991  |
| Ticker      | LSGSX  |
| CUSIP       | 543495766  |
| Benchmark   | Bloomberg US Treasury Inflation Protected Securities Index |

*Bloomberg US Treasury Inflation Protected Securities Index covers the most liquid portion of the global investment grade fixed-rate bond market, including government, credit and collateralized securities. The liquidity constraint for all securities in the index is \$300 million. Indexes are unmanaged and do not incur fees. It is not possible to invest directly in an index.*

## Market Conditions

- The bond market produced a strong gain in the fourth quarter, moving its total return for 2023 firmly into positive territory. The final three months of the year brought an easing of the fears that had weighed on the fixed-income market since early 2022, boosting investor sentiment. Inflation continued to experience a meaningful decline, with the headline Consumer Price Index falling back to levels not seen since early 2021. This represented a major shift from the previous quarter, when bonds were under pressure from fears that inflation would remain sticky and the US Federal Reserve (Fed) would be compelled to adopt a “higher for longer” approach with respect to interest rates. With inflation receding, the markets grew comfortable with the idea that the Fed was finished raising rates. In December, Fed Chairman Jerome Powell added fuel to the rally with comments suggesting that rate cuts could begin as early as the first half of 2024. The bond market took another leg higher in response, helping it recover all of the price decline that occurred in the first ten months of the year.
- US Treasury yields plunged, leading to surging prices, in reaction to the improving outlook for inflation and Fed policy. The yield on the 10-year Treasury note, which peaked at 4.98% on October 19, fell to 3.88% by December 31 and finished the year at the same level where it ended 2022. Similarly, the two-year note, which came into 2023 at 4.41% and ultimately reached a high-water mark of 5.19% in October, fell to 4.23% on the final day of the year. The Treasury market was also helped by reduced fears about the government’s ability to continue funding its sizable deficit. The rally was accompanied by a modest decline in the degree to which the yield curve was inverted (in other words, the extent of

## Class I Performance as of December 31, 2023 (%)

|                  | CUMULATIVE TOTAL RETURN |      | AVERAGE ANNUALIZED RETURN |        |        |         |
|------------------|-------------------------|------|---------------------------|--------|--------|---------|
|                  | 3 MONTH                 | YTD  | 1 YEAR                    | 3 YEAR | 5 YEAR | 10 YEAR |
| <b>FUND</b>      | 4.61                    | 3.63 | 3.63                      | -1.60  | 3.36   | 2.26    |
| <b>BENCHMARK</b> | 4.71                    | 3.90 | 3.90                      | -1.00  | 3.15   | 2.42    |

*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 0.49% (Class I). Net expense ratio 0.40%. 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 1/31/2024. When an expense limitation has not been exceeded, the fund may have similar expense ratios and/or yields.*

*The Class I inception date is 5/20/1991. Class I shares are only available to certain institutional investors only; minimum initial investment of \$100,000.*

*The fund revised its investment strategies on 12/15/2004; performance may have been different had the current investment strategies been in place for all periods shown.*



short-term bonds' yield advantage relative to longer-term issues).

- Corporate bonds performed very well in the fourth quarter and outperformed both Treasuries and High yield bonds (on account of Investment Grade's longer duration than HY). In addition to being propelled by the decline in prevailing yields, the category was helped by the improving outlook for economic growth and corporate earnings, as well as the increase in investors' appetite for risk

## Portfolio Review

- The fund outperformed its benchmark, the Bloomberg US Treasury Inflation Protected Securities Index, primarily due out-of-benchmark corporate and Treasury future positions.

## Contributors

- Our out-of-benchmark corporate positions contributed excess return
- Our out-of-benchmark Treasury futures positions contributed excess return

## Detractors

- Our Treasury Inflation Protected Securities security selection slightly weighed on returns over the period

## Outlook

- US inflation — while still above the Federal Reserve (Fed)'s 2% target — continued to decline from its mid-2022 peak and provided the Fed with enough flexibility in December 2023 to signal the tightening cycle is over. Fed Chair Jerome Powell sent a clear message to investors that he did not want to restrict the economy longer than necessary and stated that interest rate cuts would occur over the next year of 2024. This fueled a bond market rally in the 2nd half of the 4th quarter, which saw the 10-year US Treasury yield fall to 3.88% at year-end after peaking at 4.99% on October 19, 2023. Optimism for Fed cuts and the potential for a soft landing also drove a rally in risk assets. We saw tighter investment grade and high yield spreads, coupled with declining interest rates, helped to boost fixed income returns, which resulted in positive calendar year returns in most fixed income sectors.
- In our view, the credit cycle is firmly in the 'late cycle' stage. Monetary policy is in restrictive territory and lending standards have tightened. Up to this point, the US labor market has been resilient and underpinned consumer spending, while corporate fundamentals have remained stable and also have been supportive of economic activity. Looking forward, we believe that economic growth is decelerating. Our base case calls for below trend US growth in 2024, however, we do not anticipate a technical recession of back-to-back quarters with negative gross domestic product (GDP). We expect economic European growth to remain stagnant while economic growth in China is showing signs of bottoming, but continues to remain sluggish.
- 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 Fed appears to be satisfied with the progress it has made against inflation and now sees labor market/economic softening as an equal risk to inflation, thus the pivot. We believe the market may be too aggressive in pricing in rate cuts for 2024, as we believe it will take longer for core inflation to hit the



Fed's target and that Fed easing may ultimately come in some combination of rate cuts and a slowing of balance sheet normalization. Our view is that inflation will be 'unstable' over the long-term as secular trends, such as deglobalization, decarbonization and the greenification of energy sources, aging demographics, and growing government deficits, have the potential to keep a floor under inflation but also has the potential to make it more volatile going forward. We expect to see dips in inflation as cycles progress but believe we're likely to experience higher lows than what we've experienced over the last 15 years. From an interest rate risk perspective, we believe the 10-year US Treasury range is currently 3.50% - 4.50% and have structured our portfolios for a steeper yield curve, likely driven by a fall in short-term rates as inflation moderates combined with secular trends that could potentially keep a floor under long-term yields.

- Corporate fundamentals appear stable and while there has been some recent weakness in broader fundamentals, factors such as leverage and interest coverage ratios remain strong in a historical context, and specific to the high yield market, the maturity wall seems manageable in our opinion through 2025. 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. Throughout 2023, we have been monitoring the pace of corporate earnings growth as an indicator of future economic activity. Positive earnings growth in 3rd quarter 2023 confirmed our view that earnings would likely trough by the end of 2023. The earnings recession experienced over the first half of 2023 was not deep enough to drive the credit cycle into downturn and improving earnings growth should alleviate some pressure for companies to aggressively cut costs through job cuts, in our opinion. Under this scenario, the economic downside is likely a mild or shallow recession, as we believe unemployment will remain low and a healthy consumer combined with stable corporate fundamentals should serve to minimize the potential for a hard landing by providing a floor to economic activity.
- We believe that value has returned to fixed income markets and a combination of discount-to-par (positive convexity), favorable yields and an increase in issuer performance dispersion is helping to create opportunities in the bond markets. 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 are mindful of the risks going forward, such as tighter financial conditions and their impact on the financial system, slower Chinese economic growth, geopolitical risk, the broader economic impact of a further decline in the commercial real estate market, and the upcoming US Presidential election. We view that much of the turmoil leaves us with a wide range of potential outcomes for growth, inflation and central bank policy response. Based on the uncertain backdrop, we feel it is prudent to maintain a balanced risk profile between interest rate and spread risk. While our average position in liquid reserves was reduced in 2023, we continue to maintain liquidity as we patiently wait for opportunities to potentially develop. If volatility increases and we see what we view as more attractive yields and spreads, we would consider redeploying reserves.



## 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. **Below investment grade fixed income securities** may be subject to greater risks (including the risk of default) than other fixed income securities. **Inflation protected securities** move with the rate of inflation and carry the risk that in deflationary conditions (when inflation is negative) the value of the bond may decrease. **Derivatives** involve risk of loss and may entail additional risks. Because derivatives depend on the performance of an underlying asset, they can be highly volatile and are subject to market and credit risks. **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. **Currency** exchange rates between the US dollar and foreign currencies may cause the value of the fund's investments to decline. **Commodity-related** investments, including derivatives, may be affected by a number of factors including commodity prices, world events, import controls and economic conditions, and therefore may involve substantial risk of loss.

## 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.*

*This marketing communication is provided for informational purposes only and should not be construed as investment advice. Investment decisions should consider the individual circumstances of the particular investor. Investment recommendations may be inconsistent with these opinions. Information, including that obtained from outside sources, is believed to be correct, but we cannot guarantee its accuracy. This information is subject to change at any time without notice.*

***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 800-633-3330 for a prospectus and a summary prospectus containing this and other information. Read it carefully.***

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