

Full Discretion Team

# Quarterly Credit Update

## Key Takeaways

We believe the US economy will remain in the ‘Expansion to Late Cycle’ phase of the credit cycle, supported by easing Federal Reserve (Fed) monetary policy, fiscal stimulus from the One Big Beautiful Bill Act (OBDDA) and stable corporate fundamentals. We expect growth in the US to remain resilient in 2026 and we are not anticipating a recession at this time, rather, our base case calls for trend-like growth. Our internal risk premium framework, within investment grade (IG) and high yield (HY) corporate credit, suggests defaults/losses will remain in-line with historical averages for this part of the cycle.

Within investment grade, technical conditions shifted to a more neutral stance late in 2025 as expectations for record 2026 issuance grew, driven by deregulation, renewed M&A activity, and increasing AI-related financing needs. While demand exceeded supply in 2025, it remains unclear whether this imbalance will persist, particularly as geopolitical tensions and expanding non-U.S. debt markets provide foreign investors more opportunities to allocate capital closer to home. Investment-grade fundamentals have remained strong, supported by healthy corporate balance sheets and resilient bottom-up indicators. A multiyear upgrade cycle has pushed BBB supply to decade-low levels, with upgrades still outpacing downgrades, though early signs of pressure are emerging. Overall, credit quality have remained solid and supportive.

The high yield market ended 2025 at –year-end record-tight levels, supported by positive technicals throughout the fourth quarter. Although gross supply was healthy, net supply remained muted, while active calls and tenders, solid coupon distributions, and a historically short maturity wall bolstered secondary trading. At the same time, high yield fundamentals strengthened: median issuers saw quarter-over-quarter improvements in earnings and sales, with top-line growth accompanying the rebound. Leverage metrics were flat, and interest coverage improved slightly, reinforcing the overall positive backdrop for the asset class.

## About the Team

The Full Discretion team brings decades of expertise and collaboration to create tailored solutions for their clients.

27

Investment Professionals

23+

Avg. Years of Industry Experience  
(Portfolio Management Team)

\$85.6

Team Assets Under Management  
(Billion USD)

## Team Philosophy

We have a legacy of independent thinking and leaning into the market when others may be pulling away. We take a deep-value, equity-like approach to credit selection across global fixed income markets. Our disciplined process helps gives us confidence in seeking to identify macro trends, formulate a clear view on market sectors, and invest throughout the credit cycle.

For more than 40 years, we have been applying our distinctive style of bond picking to deliver portfolios designed to provide excess yield potential and have low correlations to traditional benchmark-focused fixed income strategies.

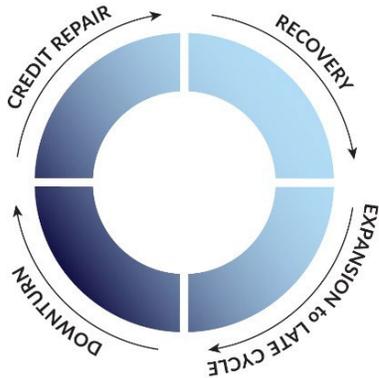
*Source: Loomis Sayles, as of 12/31/2025*

*Average years of expertise reflected at portfolio management level*

## Credit Cycles/Risk Premium

### Credit Cycle Remains in Late Cycle Stage

In our view, the credit cycle have remained firmly in the late cycle stage. This continues to be supported by easing Fed monetary policy, fiscal stimulus from the One Big Beautiful Bill Act and stable corporate fundamentals.

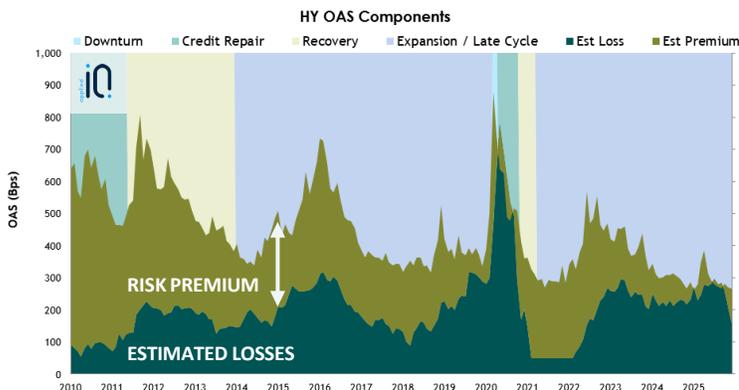


As of 12/31/2025. *Chart shown for illustrative purposes only. This reflects the current opinions of Loomis Sayles Macro Strategies team, and views are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.*

### Credit Losses Drop, Still in Line with Late Cycle Historical Norms

Our estimated credit losses fell over the quarter, and our investment grade and high yield corporate credit models suggest defaults/losses will continue to remain in line with historical averages for this part of the cycle. Corporate fundamentals and profitability appear stable.

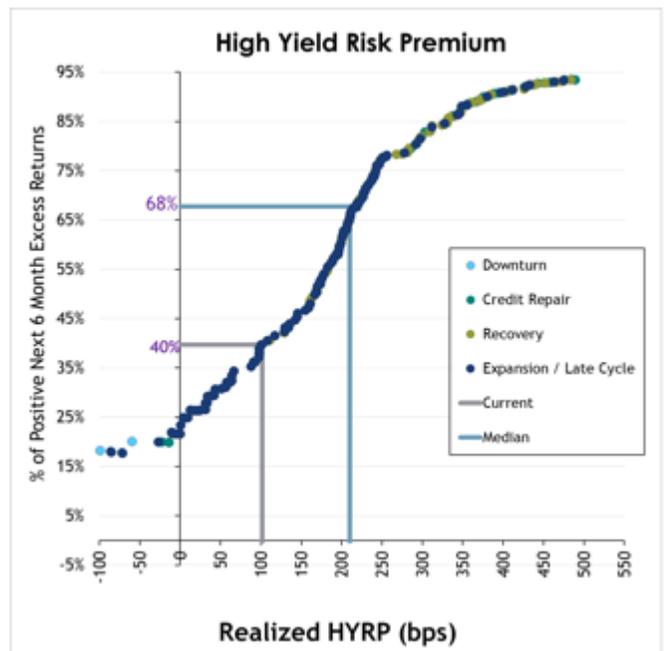
### Estimated High Yield Risk Premium Components Over Time



### HY and IG Risk Premiums Rise Over the Period

Our internal investment-grade and high-yield risk premiums improved over the quarter, driven by higher CHIN and lower predicted credit losses

### Median High Yield Risk Premium & Probability of Positive Excess Return



Source: Loomis Sayles, Bloomberg and Moody's, as of 12/31/2025. OAS is based on the Bloomberg US Corporate High Yield Index.

*The charts presented are shown for illustrative purposes only. Some, or all, of the information on these charts 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 managed by Loomis Sayles. This analysis is based on historical data and does not predict future results. Therefore, the use of this type of information to make investment decisions has inherent limitations. Markets may behave very differently than history suggests, it is not possible for any methodology to accurately identify and interpret all relevant market events.*

*Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal. Please see the Risk Premium Disclosure Statement for additional important information.*

*Past performance is no guarantee of future results.*

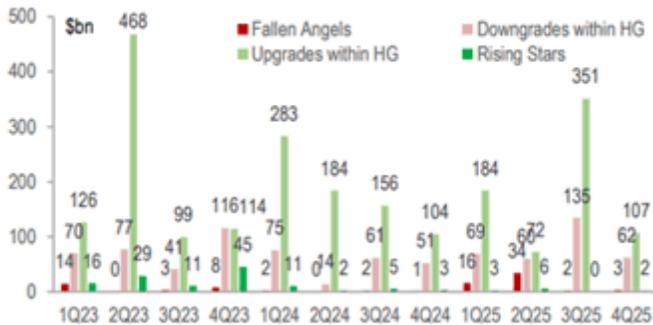
## IG Outlook

### Solid Fundamentals Support an Extension of the Cycle

High grade fundamentals have remained positive, underpinned by strong corporate balance sheets that continue to support credit performance. Bottom-up indicators reinforce this strength, with companies generally well positioned to manage ongoing trade and economic uncertainty. The multi year upgrade trend has pushed BBB supply to its lowest level in a decade. Upgrades still outpace downgrades, though early signs of downgrade activity are beginning to emerge. Overall credit quality have remained robust and supportive of performance heading into year end.

#### High Grade Upgrades and Downgrades

Figure 1: Upgrades outpaced downgrades again in 4Q25, albeit at a slower pace than in 3Q25



Source: J.P. Morgan and Bloomberg Finance L.P.

Source: J.P. Morgan, as of 12/31/2025

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### Technical Factors Turn More Neutral as Record Supply Expected in 2026

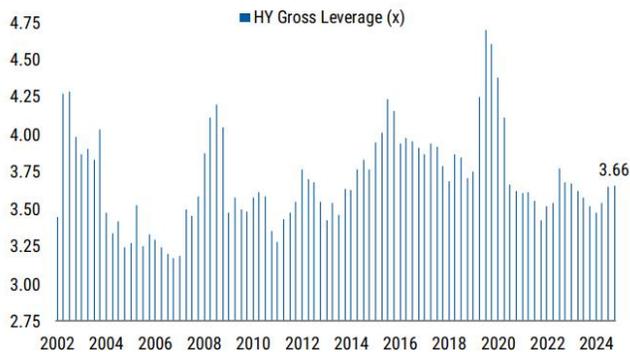
Technical conditions shifted to a more neutral stance in the fourth quarter of 2025. Expectations call for record issuance ahead as deregulation fuels a renewed M&A pipeline and AI-related funding needs continue to grow. While demand outpaced supply in 2025, it remains uncertain whether this imbalance will repeat in 2026. Geopolitical tensions and the expansion of alternative debt markets globally have given foreign investors greater ability to allocate capital closer to home—particularly in Europe and Japan—introducing potential headwinds for U.S. investment-grade demand.

## HY Outlook

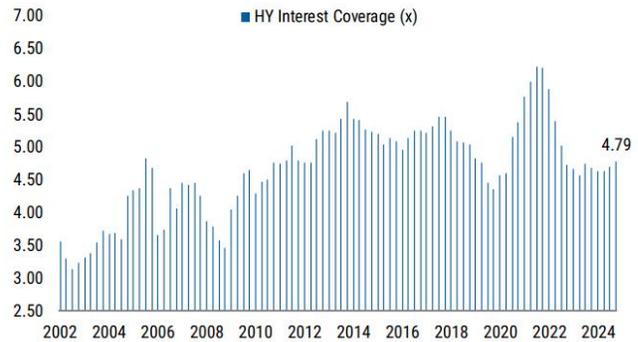
### High Yield Fundamentals Strengthen as Earnings, Sales, and Coverage Metrics Improve

High yield fundamentals were strong/positive for the quarter. Earnings and sales growth both improved (quarter over quarter) for the median high yield issuer. The rebound was accompanied by improvements in top-line sales. Both gross and net leverage remained flat, while interest coverage rose slightly.

#### Historical HY Gross Leverage and Interest Coverage



Source: Morgan Stanley Research, Bloomberg, S&P Capital IQ



Source: Morgan Stanley Research, Bloomberg, S&P Capital IQ

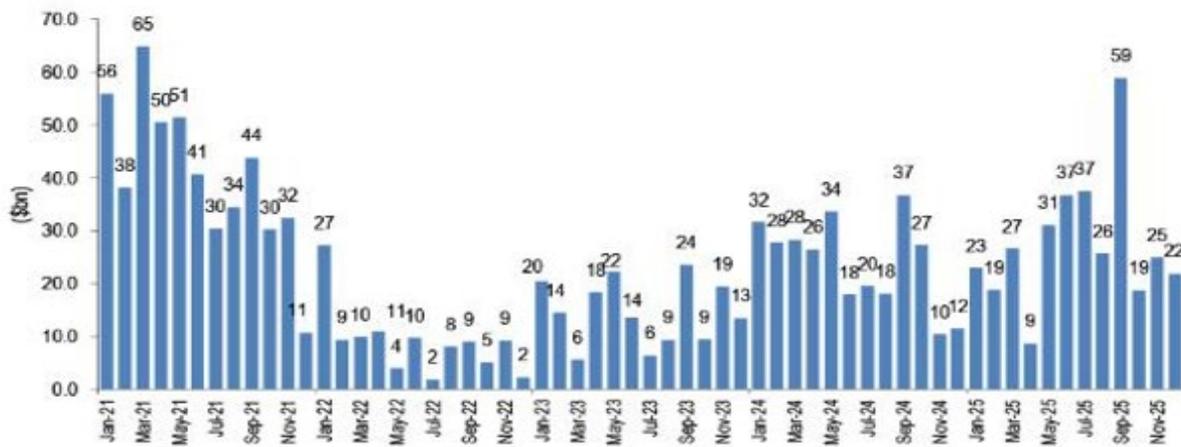
Source: J.P.Morgan, as of 12/31/2025

The chart presented above is shown for illustrative purposes only.

### High Yield Closes 2025 at Record Tight Levels Amid Technical Strength

For the fourth quarter of 2025, the high yield market was technicals driven. Gross supply remained healthy throughout the quarter; however, net supply was rather muted. A healthy number of calls/tenders, solid index-level coupon distributions, and a historically short maturity wall were also supportive of secondary trading and were positive for high yield technicals. Overall, the index closed the year at its tightest year-end level on record.

#### Monthly High Yield New Issue Volume



Source: Morgan Stanley Research, as of 12/31/2025.

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## Meet the Team

**MATT EAGAN, CFA**

Head of Full Discretion, Portfolio Manager

**BRIAN KENNEDY**

Portfolio Manager

**PETER SHEEHAN**

Portfolio Manager, Credit Strategist

**ERIC WILLIAMS**

Portfolio Manager

**BRYAN HAZELTON, CFA**

Portfolio Manager, Associate Portfolio Manager, Investment Grade Corporate Strategist

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Portfolio Manager, Associate Portfolio Manager, High Yield Corporate Strategist

**SCOTT DARCI, CFA**

Portfolio Manager, Associate Portfolio Manager, Convertibles & Equity Strategist

**DAVID ZIELINSKI, CFA**

Investment Director

**CHERYL STOBER**

Investment Director

**KRISTEN DOYLE**

Associate Investment Director

## Important Disclosures

### CREDIT CYCLE REGIME PERIODS

#### **EXPANSION/LATE CYCLE:**

4/1/1997- 8/31/2000; 3/1/2006-12/31/2007; 1/1/2014- 2/28/2020;  
4/1/2021 - 12/31/2025 (PRESENT)

#### **DOWNTURN:**

9/1/2000 - 11/30/2001; 1/1/2008 - 6/30/2009; 3/1/2020 -  
4/30/2020

#### **CREDIT REPAIR:**

12/1/2001 - 5/30/2003; 7/1/2009 - 5/31/2011; 5/1/2020-  
10/31/2020

#### **RECOVERY:**

6/1/2003 - 2/28/2006; 6/1/2011-12/31/2013; 11/1/2020 -  
3/31/2021

As of 12/31/2025

Regime periods are determined by Loomis Sayles Macro Strategies team based on a variety of subjective and objective factors, including past economic and asset performance metrics. Views and opinions expressed reflect the current opinions of the team, and are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

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The analysis is based on historical data and does not predict future results. Markets may behave very differently than history suggests, it is not possible for any methodology to accurately identify and interpret all relevant market events. Therefore, the use of this type of information to make investment decisions has inherent limitations. There is no guarantee that future experience will be similar. The analysis reflected in this presentation is limited to certain periods. We make no representation that the experience of any other periods is comparable.

Unless otherwise specified, all analysis covers the period from 6/30/1996 to 12/31/2025

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### ADDITIONAL IMPORTANT DISCLOSURE

**Principal Investment Risks:** Investments in bonds can lose their value. When interest rates rise, bond prices usually fall and vice versa. High yield securities are subject to a high degree of market and credit risk, including risk of default. In addition, the secondary market for these securities may lack liquidity which, in turn, may adversely affect the value of these securities and that of the portfolio. Foreign investments involve special risks including greater economic, political and currency fluctuation risks, which may be even greater in emerging markets. Currency exchange rates between the US dollar and foreign currencies may cause the value of the 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. Equity securities are volatile and can decline significantly in response to broad market and economic conditions.

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Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.

This is not an offer of, or a solicitation of an offer for, any investment strategy or product.

Market conditions are extremely fluid and change frequently.

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

**Past market experience is no guarantee of future results.**