

# Government Only Managed Account

MARKETING COMMUNICATION

## Quarterly Review

- The bond market delivered a solid total return with low volatility in the fourth quarter, closing out a generally positive year for the asset class. Fixed-income assets remained supported by a backdrop of slow but positive economic growth, an annualized inflation rate that largely held below 3%, and accommodative US Federal Reserve (Fed) policy. The Fed enacted two-quarter point interest rate cuts and announced the end of its multi-year effort to reduce the size of its balance sheet. Additionally, investors appeared to anticipate that the Fed was likely to continue easing in 2026. These developments, in combination, fueled positive returns across all major segments of the market.
- US Treasurys registered positive returns in the quarter, adding to their gain for the full calendar year. Government debt benefited from the environment of low inflation, accommodative US Federal Reserve policy, and expectations for further interest rate cuts in 2026. Yields on Treasury issues with maturities of five years and below declined, while longer-term yields rose. The yield curve steepened over the course of the quarter as a result. Two-year Treasurys were the quarter's top performing market segment in terms of total return, while 30-year bonds posted a small loss.
- Over the quarter we maintained an underweight to US Agency, which weighed on performance.

## Outlook

- Our base case is that the macro environment has shifted into an “Expansion Resilient” scenario (where growth is likely to persist with a boost from fiscal programs, partially offset by tariff policy effects), with a constructive growth outlook for 2026 driven by strong corporate health and earnings, expected rate cuts, and supportive fiscal policy. The labor market looks to be cooling with supply softening and demand is showing early signs of weakening, but we do not anticipate a major wave of layoffs as long as profitability remains solid. Inflation has been more moderate than expected; while goods prices may see some temporary upward pressure from tariffs, we expected disinflation to resume once these effects pass through. The main risks to this would be stimulus via AI investment, and start-of-year price increases, both of which could be inflationary. Despite a generally strong backdrop, we have trimmed risk where appropriate, especially in areas sensitive to political, regulatory, or financial uncertainty. Our focus remains on companies that we believe can withstand a downturn while offering attractive risk-adjusted carry.
- As expected, in December the Fed cut the federal funds rate by 25 bps, lowering it from 4.00% to 3.75%, reflecting concerns about a softening labor market and slower economic momentum. We believe that the Fed will continue along a data-dependent path, balancing labor-market health, corporate conditions, and inflation dynamics. Under our “Expansion Resilient” scenario, we expect two additional cuts in 2026, June and July. Although labor and earnings data remains stable, uncertainty persists around U.S. debt demand, Fed leadership changes & independence, and tariff-driven inflation. We remain duration-neutral, and could grow constructive on longer yields should the yield curve continue to steepen.



## Important Disclosure

**Investing involves risk, including possible loss of principal.** Fixed-income securities may be susceptible to general movements in the bond market and are subject to credit and interest rate risks. Credit risk arises from an issuer's ability to make interest and principal payments when due, as well as the prices of bonds declining when an issuer's credit quality is expected to deteriorate. Interest rate risk occurs when interest rates rise causing bond prices to fall. The issuer of a debt security may be able to repay principal prior to the security's maturity, known as **prepayment (call) risk**, because of an improvement in its credit quality or falling interest rates. In this event, this principal may have to be reinvested in securities with lower interest rates than the original securities, reducing the potential for income.

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

**There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return. Diversification does not ensure a profit or guarantee against a loss. Commodity, interest and derivative trading involves substantial risk of loss.**

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

The Bloomberg US Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US investment grade fixed rate bond market, with index components for government and corporate securities, mortgage passthrough securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.

This marketing communication is provided for informational purposes only and should not be construed as investment advice or recommendations for action by investors. Investment decisions should consider the individual circumstances of the particular investor. Any opinions or forecasts contained herein, reflect the subjective judgments and assumptions of the authors only, and do not necessarily reflect the views of Loomis, Sayles & Company, L.P. Investment recommendations may be inconsistent with these opinions. There is no assurance that developments will transpire as forecasted and actual results will be different. 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.

Clients should consult their financial professionals regarding unknown financial terms and concepts.

**Loomis, Sayles & Company is the investment adviser for this separately managed account (SMA); it provides investment advisory services to individual and institutional clients and does not sell securities.**

Loomis, Sayles & Co., L.P. ("Loomis Sayles") acts as a discretionary investment manager or non-discretionary model provider in a variety of separately managed account or wrap fee programs (each, an "SMA Program") sponsored by a third party investment adviser, broker-dealer or other financial services firm (a "Sponsor"). When acting as a discretionary investment manager, Loomis Sayles is responsible for implementing trades in SMA Program accounts. When acting as a non-discretionary model provider, Loomis Sayles' responsibility is limited to providing non-discretionary investment recommendations (in the form of a model portfolio) to the SMA Program Sponsor or overlay manager, and the Sponsor or overlay manager may utilize such recommendations in connection with its management of its clients' SMA Program accounts. In such "model-based" SMA Programs ("Model-Based Programs"), it is the Sponsor or overlay manager, and not Loomis Sayles, which serves as the investment manager to, and has trade implementation responsibility for, the Model-Based Program accounts, and may customize each client account according to the reasonable restrictions or customization that a client may request.

For additional information on this and other Loomis Sayles strategies, please visit our web site at [www.loomissayles.com](http://www.loomissayles.com).