Government/Credit Managed Account

MARKETING COMMUNICATION

Quarterly Review

- Bonds produced a modest gain in the second quarter, with income accounting for the bulk of the total return. Expectations that the lingering effects of the conflict in Iran would cause inflation to reaccelerate prompted investors to price in tighter central bank policy. While in the autumn of 2025 the markets were anticipating that the US Federal Reserve (Fed) would enact as many as five quarter-point interest rate cuts over the coming year, by the end of June expectations had shifted toward the possibility of at least one rate hike in the second half of 2026. Kevin Warsh replaced Jerome Powell as Fed Chairman in May. While investors speculated that Warsh would have a bias toward lower rates when his name was first floated as a potential Powell replacement in 2025, the new chair's initial comments pointed to a more hawkish tone. Most notably, Warsh indicated a desire to reinstate the Fed's 2% inflation target – a level not reached since before the COVID-19 supply shock in early 2021.
- The strategy underperformed the benchmark, the Bloomberg U.S. Government/Credit Index, during the quarter
- The strategy remained overweight corporate bonds on a market value basis. Allocation effect was positive but issue selection was negative and overshadowed the positive allocation effect.
- Duration and yield curve marginally contributed to performance. Duration continued to be managed in line with the benchmark.

Outlook

- Fixed income markets delivered positive total returns for the second quarter as rates reversed from the mid-May peak, despite a backdrop of a strong US economy and record quarterly equity market returns. US corporate earnings continued to impress (driven in large part by continued robust AI spend) and jobs growth exceeded expectations. Under this stronger economic backdrop, a sharp drop in Middle East tensions helped moderate rates and fueled risk markets. By end of quarter, global oil prices had fallen back to pre-war levels, as the US and Iran implemented a 60-day cease-fire. Credit spreads also narrowed and remain near historic tights, with demand for new issues remaining robust. As anticipated, the Federal Reserve (Fed) stayed on hold in Kevin Warsh's first meeting as new Fed Chair, but with a more hawkish press conference post FOMC (Federal Open Market Committee) and Statement of Economic Projections. The lack of forward guidance was also in focus, fulfilling one of Warsh's pre-nomination promises. Treasury yields initially rose across the board immediately following the Fed statement, before moderating in the following weeks as markets digested the Fed's new more hawkish stance. Fed Fund Futures markets are currently pricing in around 35 bps of rate hikes by year-end, a reversal of what was priced just three months prior, when investors had anticipated as many as one or more cuts by year-end 2026.

- Corporate fundamentals remain at a healthy level by historical standards, buoyed by the boom in AI-related capex. However, corporations may eventually seek to pass through higher input prices or shed labor to preserve margins. Consumer demand in aggregate has remained resilient, despite higher inflation, supported by stable job markets and wealth effects. The “K”-shaped economy continues to be the narrative, with higher income earners maintaining strong spending, but lower income earners feeling the pinch from higher food, energy and housing/rental costs.

- We continue to believe that we are in the late expansion phase of the credit cycle, and anticipate an eventual return to more trend-like growth and importantly, moderating inflation, as the effects of tariffs and disruptions to the supply of oil dissipate. Aggregate demand could continue to be resilient with recession risks remaining low, but remain a concern, especially in light of current risk market valuations. Key risks include a stock market correction and diminished wealth effect, a resumption in the conflict in Iran, continued tight oil supplies through summer and the fall, an increase to the fiscal burden, and potentially overly reactive monetary policy.

- While the strategy’s corporate bond exposure remains overweight on a market value basis, corporate risk relative to benchmark is currently underweight largely due to a higher quality bias and shorter maturities than the benchmark. We believe this allows the strategy room to increase risk if valuations improve and transaction costs are low.

- For our strategies that utilize agency mortgages, the exposure to the asset class is currently underweight but within range of neutral.

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 U.S. Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. 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.

8169030.5.1
LSGC03-0626