

## Natixis/Loomis Sayles SMID Strategy



### QUARTERLY PORTFOLIO COMMENTARY

US equity markets continued to move higher in the third quarter with both the S&P 500<sup>®</sup> and Dow Jones Industrial Average ending September at record highs. The Fed embarked on its much-anticipated easing cycle by cutting rates 50 basis points to 4.75%-5.00% at the September FOMC meeting, its first rate cut in four years. With inflation softening and closing in on its long-term target, the Fed's focus has shifted to supporting the labor market as unemployment continued to tick meaningfully higher, albeit from a near-historical low starting point. As Q3 brought more normalized economic data, investors are increasingly expecting a soft landing. Annual US inflation was 2.5% in August, the lowest since February 2021, and unemployment rose to 4.2%. United States GDP rose by an annualized rate of 2.8% in the second quarter of 2024, significantly higher than last quarter's 1.4% increase. The S&P 500<sup>®</sup> Index rose (+5.9%) for the quarter, with broadly positive results. Utilities (+19.1%), real estate (+16.9%), and industrials (+11.4%) were the top performers during the quarter. Energy, (-2.6%), information technology (+1.6%), and communication services (+1.6%) were the top detracting sectors during the quarter. Value substantially outperformed growth over the quarter, with the Russell 1000<sup>®</sup> Value Index (+9.4%) vs. the Russell 1000<sup>®</sup> Growth Index (+3.2%), and the Russell 2000<sup>®</sup> Index (+9.3%) outperformed the Russell 1000<sup>®</sup> Index (+6.1%).

Quarter to date (QTD), the Natixis/Loomis Sayles SMID strategy rose in value but underperformed the Russell 2500<sup>®</sup> gross of fees and net of fees. Security selection drove relative underperformance, as did sector allocation. Securities selected in industrials, energy, communication services, and information technology were the largest detractors, partially offset by positive selections in utilities, healthcare, materials, and consumer staples. From a sector allocation perspective, underweights to real estate and financials, and an overweight to energy detracted from relative returns, while an underweight to information technology contributed to results.

QTD top/bottom contributors to relative performance:

- The top five relative contributors were Vistra Corp, Talen Energy, Tenet Healthcare, Lantheus Holdings, and TransUnion.
- The bottom five relative detractors were Weatherford International, Tidewater Inc., Atkore Inc., Five9 Inc., and Valaris Ltd.

Trades & positioning:

- At the end of the quarter, the largest overweight sector was industrials, while the largest underweight sector was real estate.
- There were nine new purchases and six eliminated positions during the trailing three months ended August 2024. The new purchases were Western Alliance Bancor, PagerDuty Inc., Five9 Inc., Air Lease Corp., SS&C Technologies Inc., AAR Corp., Sensata Technologies, Intapp Inc., and Western Digital Corp. The full sellouts were Solventum Corp., Collegium Pharmaceutical, Leonardo DRS, Champion Homes Inc., Teledyne Technologies, and Kosmos Energy Ltd.

Year to date (YTD), the strategy rose in value and significantly outperformed the benchmark gross and net of fees. Strong outperformance was primarily driven by security selection, while sector allocation was neutral. Securities selected in utilities, healthcare, information technology, and materials were the largest positive contributors to relative return.

Selection in industrials, energy, and communication services detracted from results. From a sector allocation standpoint, an underweight to real estate was a detractor, while an overweight to industrials contributed to results.

YTD top/bottom contributors to relative performance:

- The top five relative contributors were Vistra Corp., Tenet Healthcare Corporation, Super Micro Computer, Inc., Talen Energy, and Lantheus Holdings.
- The bottom five relative detractors were Atkore Inc., Concentrix Corporation, Weatherford International, Liberty Media Corp - Liberty SiriusXM, and Bath & Body Works Inc.

Markets have performed well thus far in 2024, with Q3 being no exception, as expectations of Global Central Bank rate cuts have buoyed risk assets. Traditionally markets have reacted positively in election years, although unemployment and consumer spending remain key concerns for investors. With these uncertainties, ongoing geopolitical tensions and macroeconomic weakness may spur market volatility. The resulting market environment has increasingly proven challenging to navigate. We continue to believe that active fundamental research combined with investment discipline provides an attractive way to navigate market uncertainty.

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#### Definitions

The **S&P 500® Index** is an unmanaged index of US common stocks frequently used as a measure of stock market performance. **Russell 1000® Growth Index** is an unmanaged index consisting of those companies in the Russell 1000® Index with higher-than-average price-to-book ratios and forecasted growth. The **Russell 1000® Value Index** is an unmanaged index consisting of those companies in the Russell 1000® Index with lower-than-average price-to-book ratios and forecasted growth. The **Russell 1000® Index** measures the performance of the 1,000 largest companies in the Russell 3000® Index. The **Russell 2000® Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000® is a subset of the Russell 3000® Index and includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The **Russell 2500™ Index** measures the performance of the 2,500 smallest companies in the Russell 3000® Index. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group. These indexes are referred to for comparative purposes only and are not necessarily intended to parallel the risk or investment approach of the accounts included in the composites or the accounts managed by Natixis Advisors. Indexes are unmanaged and not available for direct investment. You may not invest directly in an index. **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

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