

Natixis/Vaughan Nelson Mid Cap Strategy



QUARTERLY STRATEGY COMMENTARY

US equity markets continued to move higher in the third quarter with both the S&P 500[®] and Dow Jones Industrial Average ending September at record highs. Most notably, 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[®] 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[®] Value Index (+9.4%) vs. the Russell 1000[®] Growth Index (+3.2%), and the Russell 2000[®] Index (+9.3%) outperformed the Russell 1000[®] Index (+6.1%).

The Natixis/Vaughan Nelson Mid Cap Strategy rose in value but underperformed the Russell Midcap[®] Value Index gross and net of fees. During the quarter, relative underperformance was driven by sector allocation, while security selection contributed modestly. Underweights to utilities and real estate, and an overweight to information technology were the largest detractors, while an underweight to consumer staples and an overweight to industrials contributed to results. Securities selected in utilities and information technology contributed to results while selection in materials and energy detracted.

Quarter-to-date (QTD) top/bottom contributors to relative performance:

- The most significant relative contributors were Vistra Corp., Axon Enterprises, Western Alliance Bancorp, Builders FirstSource, and GE Vernova.
- The most significant relative detractors were Kosmos Energy, Saia Inc., Constellium, Range Resources Corp., and Cencora Inc.

Trades & Positioning:

- At the end of the quarter, the largest overweight sector was industrials, while the largest underweight sector was utilities.
- There were nine new purchases and eight full sellouts during the trailing three months ended August 2024. The new purchases were: Best Buy, Builders FirstSource, Cushman & Wakefield, Onto Innovation Inc., Herc Holdings, Janus International Group, Toll Brothers Inc., XPO Inc., and DR Horton Inc. The full sellouts were: Lululemon Athletica, Raymond James Financial, Floor & Decor Holdings, Diamondback Energy, Otis Worldwide Corporation, Corteva Inc., Saia Inc., and Janus International Group.

Year to date, the strategy rose in value and outperformed the benchmark gross of fees (lagged net of fees). Stock selection drove relative outperformance, while sector allocation modestly detracted. Investments in utilities, industrials, and consumer discretionary were the largest contributors to relative return, offset partially by underperforming names in financials, materials, real estate, and healthcare. From a sector allocation perspective, an underweight to utilities, and overweights to information technology and healthcare were detractors, while underweights to communication services and consumer staples, and an overweight to industrials contributed to relative return.

YTD top/bottom contributors to relative performance:

- The most significant relative contributors were: Vistra Corp., Vertiv, Monolithic Power Systems, Royal Caribbean, and Axon Enterprises.
- The most significant relative detractors were MongoDB, Constellium, Kosmos Energy, ON Semiconductor, and Saia 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 Midcap® Value Index** is an unmanaged index that measures the performance of the mid-cap value segment of the US equity universe. It includes those Russell Midcap® Index companies with lower price-to-book ratios and lower forecasted growth values. 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. You may not invest directly in an index. 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.

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