Loomis Sayles Global Strategic Alpha Fund

FUND COMMENTARY

GLOBAL FIXED-INCOME DELIVERS MIXED RESULTS IN THE FOURTH QUARTER

MARKET CONDITIONS

After generating strong returns through the first nine months of the year, the world bond markets delivered mixed results in the fourth quarter. The US Federal Reserve (Fed), which cut interest rates three times in the middle part of the year, made it clear that it was likely to keep rates on hold until there was evidence of either rising inflation or a pronounced slowdown in growth. With the Fed's "mid-cycle adjustment" seemingly complete, bond-market returns cooled in comparison to the year's first three quarters. Nevertheless, the credit-sensitive areas of the market continued to gain ground amid signs of a stronger economic outlook, positive news on the trade front, and investors' robust appetite for risk. Trade negotiations between China and the US seem to have taken on a less tenuous tone and by the end of the year the market was gaining confidence; suggesting a lower probability of escalation and a profits recession, and a higher probability of a "phase one" agreement being reached (signed on January 15, 2020).

Securitized assets (such as mortgage backed securities, asset backed securities, and commercial mortgage backed securities) closed the quarter with modest gains as a group, but they lagged the higher-risk, higher-yielding segments of the market.

Mirroring a trend that was in place throughout the year, investment grade corporate issues posted gains and outpaced US Treasurys. The category's relative performance benefited from the positive trajectory of corporate earnings and investors' ongoing preference for higher-yielding fixed-income assets.

High yield bonds also registered a positive return for the quarter. In addition to gaining support from the broader strength in risk assets, high yield was boosted by hopes that the recent improvement in economic growth indicated that the credit cycle could last longer than investors had been expecting at mid-year. Further, the category tends to be less dependent on rate movements than investment-grade issues – a favorable attribute at a time of rising yields on longer-term government debt.

PORTFOLIO REVIEW

	3-MONTH RETURN (GROSS)
Loomis Sayles Global Strategic Alpha Fund	0.77%
BofA ML US Dollar LIBOR 3-mth Constant Maturity (Hedged-CAD)	0.44%

The largest positive contribution to performance during the period could be attributed to our allocation to investment grade corporate bonds, the search for yield in all facets of the capital structure and the Fed remaining generally accommodative throughout the period, being unencumbered by the absence of inflation and providing a major tailwind to risk assets. Within the portfolio, the consumer, banking, and technology names contributed in particular.

Emerging market exposure also bolstered return as the consumer non-cyclical sector, especially from Brazil, contributed the most to returns. Jair Bolsonaro has now been president of Brazil for 1 year and his presence could help bolster opportunities for long-term growth. Throughout the year, Emerging Markets struggled to keep pace with the US-China trade war and rising universal concern about global growth. However, in mid-December, China and the US reached a phase one trade deal, which provided a solid final push for 2019 as the deal will be signed in mid-January.

Our global rates tools, primarily through the usage of corporate bonds and TIPS, contributed positively to performance. An exposure to South African corporate bonds (specifically REP SOUTH AFRICA 2044 ZAR 8.75 01/31/2044) and Argentinian TIPS were the main additive to returns during the quarter as newly inaugurated Argentinian president Fernandez looks to continue the positive momentum he gained during the election, unseating former president Macri who lost favor among voters amid a deep recession and inflation. Macri was blamed for the deteriorating economic situation and many are waiting to see if the new president will be quick to enact change or if we should expect more stagnation in his first few months in office. South African corporate bonds were also additive to returns as well as US interest rate futures.

Currency positioning weighed on performance mainly due to a short forward position in the Singapore dollar. The US dollar strengthened against most currencies. Currency markets remained focused on the pace of global growth, as the global manufacturing slowdown has handcuffed global growth, despite showing some signs of bottoming out.

Our allocation to equities hurt performance during the period, despite equity markets exhibiting strength and ending the year at historical highs. Much of the negative performance within our allocation to equities can be attributed to a declining period in individual communications securities.

MARKET OUTLOOK

We expect to exit the manufacturing slowdown without an economy-wide recession; however, downside risks remain present in the near term. This view hinges on the idea that the Fed will remain supportive and continue accommodative monetary policy.

We project the Fed to remain on hold for the next twelve months. Chair Powell has indicated that a rate cut is unlikely in the near term, barring any significant, unexpected increase in inflation acceleration.

We maintain our cautious outlook on risk sentiment. The Fed looks more likely to continue to provide stimulus by maintaining accommodative monetary policy. China's economic recovery is faltering and risk related to the US/China trade war remains present despite being tempered somewhat by an increased likelihood of a phase one agreement. Markets will remain focused on Chinese stimulus as a potential catalyst for global growth. So far, however, policy makers have been reluctant to utilize all options available to them; instead favoring an incremental approach that emphasizes leverage stabilization.

The US dollar has been choppy and range bound. We expect a continuation of these themes, which should be supportive for risk assets in general. We saw some dollar weakening during October, but haven't seen much of a breakout in either direction since. The perception of softening risks related to US/China trade talks has caused the dollar's recent bid as a safe-haven to largely evaporate. Volatility shocks and weakening risk appetite are factors that could prove constructive for the dollar.

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The Loomis Sayles Global Strategic Alpha Fund is generally available to investors who meet certain eligibility requirements as described in the Fund's offering memorandum and who meet the requirements under certain exemptions from the prospectus requirement.

The Loomis Sayles Global Strategic Alpha Fund seeks to provide an absolute return in excess of the three-month London Interbank Offered Rate ("LIBOR") in U.S. dollars plus 2 to 4% with an expected risk volatility goal of approximately 4-6% over market cycles (typically 3-5 years). Positive returns are not guaranteed over this or any time period. Capital is at risk and investors may receive back less than the original investment upon redemption.

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