INVESTMENT OUTLOOK

JULY 2020

THE GLOBAL ECONOMY IS TRANSITIONING FROM THE DOWNTURN PHASE OF THE CREDIT CYCLE INTO CREDIT REPAIR.

Growth is weak but stabilizing and policy accommodation is prevalent on both the monetary and fiscal sides. The breadth and severity of the virus will remain critical factors throughout 2020 and into next year. However, we believe the worst is behind us.

MACRO & MARKET COMMENTARY

MACRO DRIVERS

At the end of June, the economic reopening was broadly underway. Indicators, whether hard data points or surveys, have been signaling that activity has started to resume, albeit from very depressed levels.

- Monetary and fiscal policy coordination has been the most prominent driver of risk-asset performance and we expect this highly supportive backstop to continue.
- We believe developed market policy rates and government bond yields will remain historically low until labor markets recover and normal levels of consumer price inflation return.
- Hypothetical discount rates, which can be used to determine risk-asset relative valuations, will likely remain low and foster somewhat elevated levels in credit and equity relative to historical averages.
- While we anticipate bumps along the road to reopening, we expect economies to make progress toward returning to business albeit at a slow rate. Prior peak levels in GDP may not be reached until 2022.
- A spike in COVID-19 infections, or a true second wave of infections during the fall, would be highly disruptive. However, we believe proper regulations and effective medical treatment will keep any outbreaks under control.
- While far from full throttle, the global economic engine is up and running. We expect further progress in the quarters ahead but acknowledge that risk assets are largely priced for the better days that we see ahead.

CREDIT CYCLE PHASES

The transition to credit repair is well underway but not yet complete.

	DOWNTURN	CREDIT REPAIR	RECOVERY	EXPANSION TO LATE CYCLE
ECONOMIC GROWTH	Weak - Deteriorating	Weak - Stabilizing	Strong - Improving	Solid - Peaking
CREDIT GROWTH	Declining	Low	Accelerating	High
CENTRAL BANK POLICY	Easing	Easy	Starting to Tighten	Tightening - Policy Errors
INFLATION PRESSURE	High-Breaking Lower	Low - Stabilizing	Moderate - Rising	High - Rising
VOLATILITY	Above Average, Rising	Above Average, Falling	Below Average, Stable	Below Average, Rising
RISK APPETITE	Low	Low, Improving	High	High - Irrational
LIQUIDITY	Low	Improving, High	High	Declining
YIELD CURVE	Steepening	Steep	Flattening	Flat - Inverted
FUNDAMENTALS	Profit Contraction	Debt Contraction	Profit Growth > Debt Growth	Debt Growth > Profit Growth
ASSET VALUATIONS	Falling to Below Average	Below Average, Rising	Near Average, Rising	Above Average, Rising
CREDIT VS EQUITY	Credit & Equity Both Down	Credit Preferred	Credit & Equity Both Up	Equity Preferred

Source: Loomis Sayles, as of June 17, 2020. Highlighted cells represent attributes we're currently observing. Navy blue represents attributes typical of downturn, light blue represents attributes typical of credit repair and bright blue respresents attributes stypical of recovery. The table above is shown for illustrative purposes only. Some or all of the information on this chart may be dated, and, therefore, should not be the basis to purchase or sell any securities.

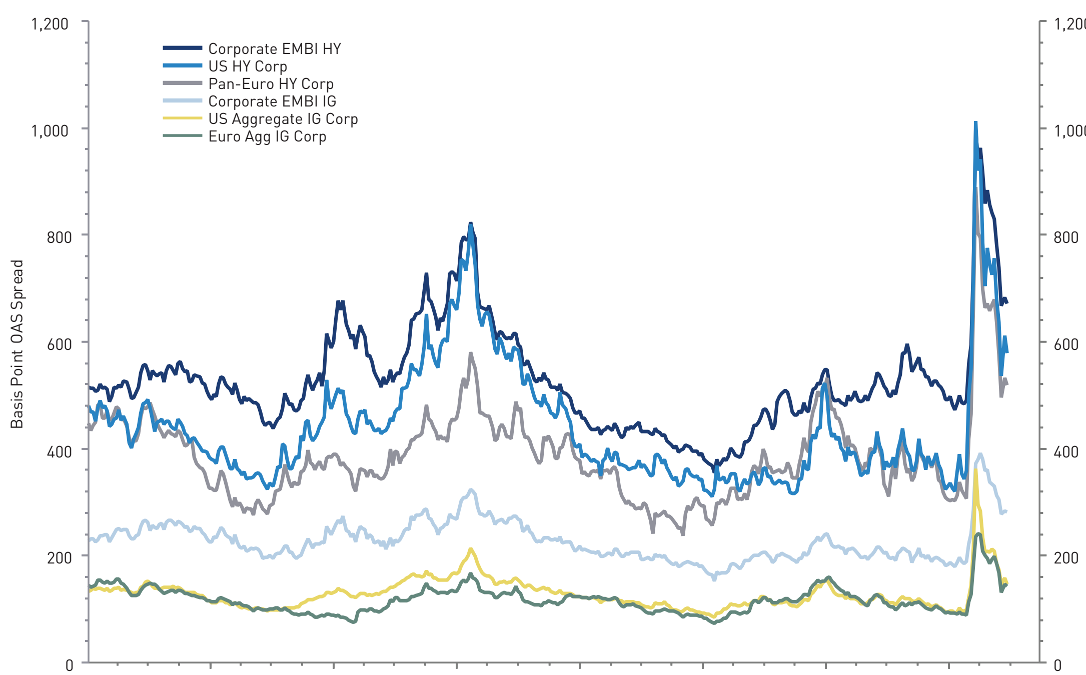
CREDIT MARKETS

As measured in US dollars, BBB-rated debt at risk of downgrade has more than doubled in 2020 to an estimated $665 billion.

- Leverage has increased substantially given record-setting new issuance. Rightly or wrongly, investors expect companies will reduce debt once the economy improves and cash flows pick up.
- Europe and UK spreads did not compress as sharply as those of the US since the risk-on phase began in late March.
- We believe high yield spreads are likely to compress by around 40 basis points. Consensus expectations imply a default rate of 10%-13% in 2020, but we believe that estimate may be too high.
- There will likely be demand for high yield products, potentially including bank loans, in an environment where government bond yields remain low and volatility eventually subsides.
- US securitized spreads lagged the corporate rally because Federal Reserve (Fed) support has been relatively less beneficial for the sector. Therefore, securitized spreads currently look attractive relative to corporates.
- In our view, securitized excess return potential looks decent and the sector can offer carry with potentially low volatility.
- Emerging market (EM) corporates entered the COVID crisis with strong fundamentals which should help mitigate defaults and allow for a quicker recovery. The spread between EM and US corporates has remained somewhat elevated, leaving further room for compression.

GLOBAL CREDIT SPREADS

Global credit spreads responded significantly to policies enacted to support market liquidity and economic activity amid lockdown orders and rising unemployment.



Source: Bloomberg Barclays, J.P. Morgan, data as of 6/29/2020.

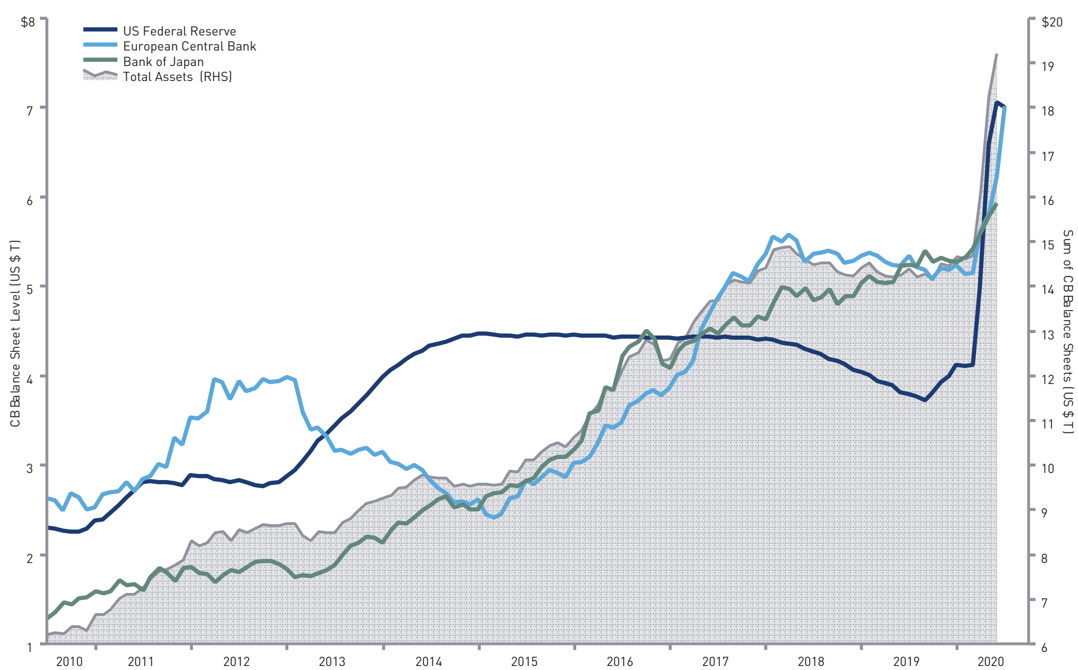
GOVERNMENT DEBT & POLICY

In many cases, fiscal transfer payments are successfully bridging cash flow gaps for individuals and small businesses as the economy reopens in phases.

- Coordination with the Fed was a welcome development and signaled that policy makers were willing to do what was necessary to mitigate economic damage from COVID-19.
- While it may be slower to develop, we believe additional fiscal policy support is on the way. The Fed will also continue purchasing a wide range of securities and expand its balance sheet further, albeit at a slower rate than earlier in the crisis.
- We believe negative policy rates in the US are highly unlikely because they disrupt the financial sector and have not proven to be effective in Europe or Japan.
- Long-term developed market yields are all facing the same set of primary drivers—limited inflation, ultra-low monetary policy rates, demand for relative safe-haven assets and periodic risk aversion.
- We expect the short end of developed market yield curves to remain anchored along with near-zero policy rates. We may see very modest upward movement at the long end of the curve.
- Unless economic conditions decline substantially from here, we expect capital to shift toward riskier assets, such as credit and equities. Investors will likely seek excess returns over global Treasurys.
- While not without risk, emerging market government bonds, which offer relatively higher yields, represent another attractive opportunity for investors.

G3 CENTRAL BANK BALANCE SHEETS

Total assets on central bank balance sheets have escalated after moderating for a brief period.



Source: US Federal Reserve, European Central Bank, Bank of Japan, data as of 6/29/2020.

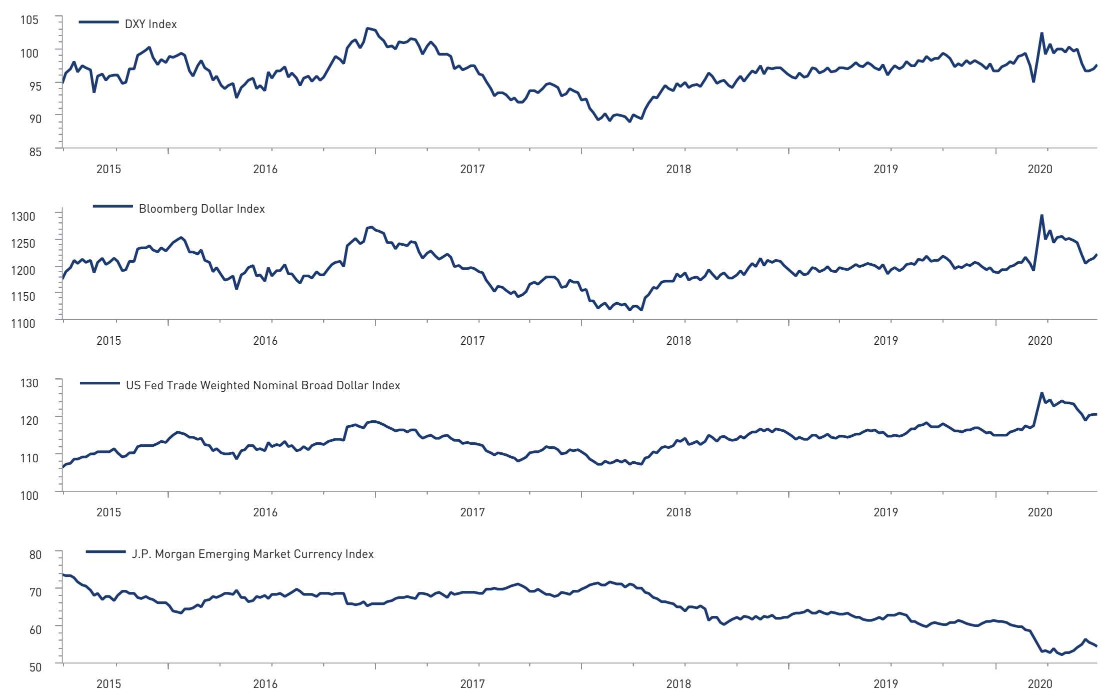
CURRENCIES

Investors are starting to look through weak economic data and are warming up to higher-beta assets, such as emerging market currencies.

- We see the dollar as a pro-cyclical currency that tends to weaken as the global economy accelerates. The transition to credit repair, which is taking place now, is consistent with a modestly weaker dollar.
- Fluctuations in short-term interest rate differentials can impact currencies, but we do not expect much volatility in short rates. Therefore, that driver looks potentially less impactful moving forward.
- Nominal US Treasury yields still have an advantage relative to developed market peers, but that positive spread has been compressing since late 2018 and more rapidly since the onset of the COVID pandemic.
- Global growth differentials likely favor the dollar and should prevent the currency from weakening materially. We believe the US is well positioned for a return to solid rates of economic growth relatively faster than other countries.
- Valuation is not the most reliable timing tool. However our fair-value models suggest the dollar is roughly 10% overvalued relative to the euro. Latin American currencies screen the cheapest, followed by emerging Europe and lastly Asia.

US DOLLAR INDEX LEVELS

The broad dollar may begin to weaken as the global economy transitions through the credit repair phase of the cycle.



Source: Bloomberg, Federal Reserve, J.P. Morgan, data as of 6/29/2020.

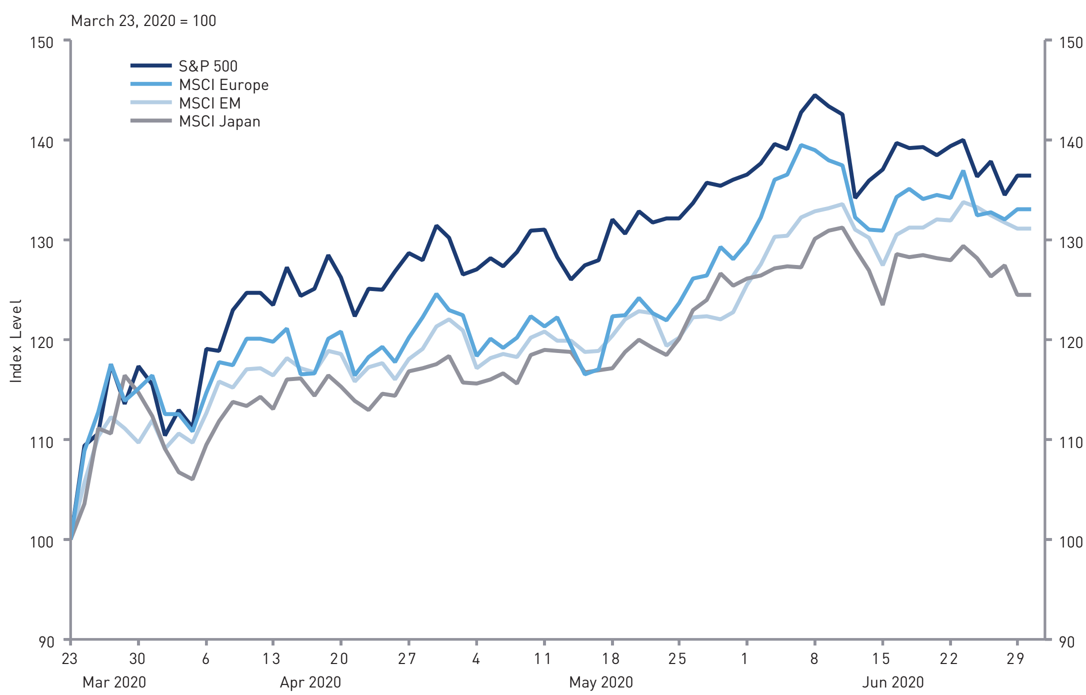
GLOBAL EQUITIES

Investors are keenly focused on the economic recovery and the potential for corporate profit revitalization next year and beyond, rather than clinging to the poor results being reported lately.

- As the economy reopens, we believe company management teams will begin to offer some guidance on future earnings after most offered little insight on first-quarter conference calls.
- Accommodative fiscal and monetary policy support have contributed to above-average valuations. These levels may remain elevated as investors anticipate a return to more normalized economic activity.
- Second-quarter earnings should mark the trough globally and we are anticipating some sequential improvement quarter after quarter heading into 2021.
- With outstanding second-quarter performance behind us, we expect modest total returns across global equity markets in the quarters ahead.
- Some patience may be required as levels of implied volatility are still above average. However investors with a time horizon of one year or longer should consider allocating to equities.
- Low interest rates and inflation, along with a return to moderate levels of economic growth, are likely to spark a continuation in the performance patterns we had seen pre-crisis.
- Indices skewed toward secular growth remain most likely to lead the charge.

GLOBAL EQUITY PERFORMANCE SINCE THE MARCH LOW

Global equity markets rocketed higher throughout the second quarter, focused on powerful policy responses and economies reopening.



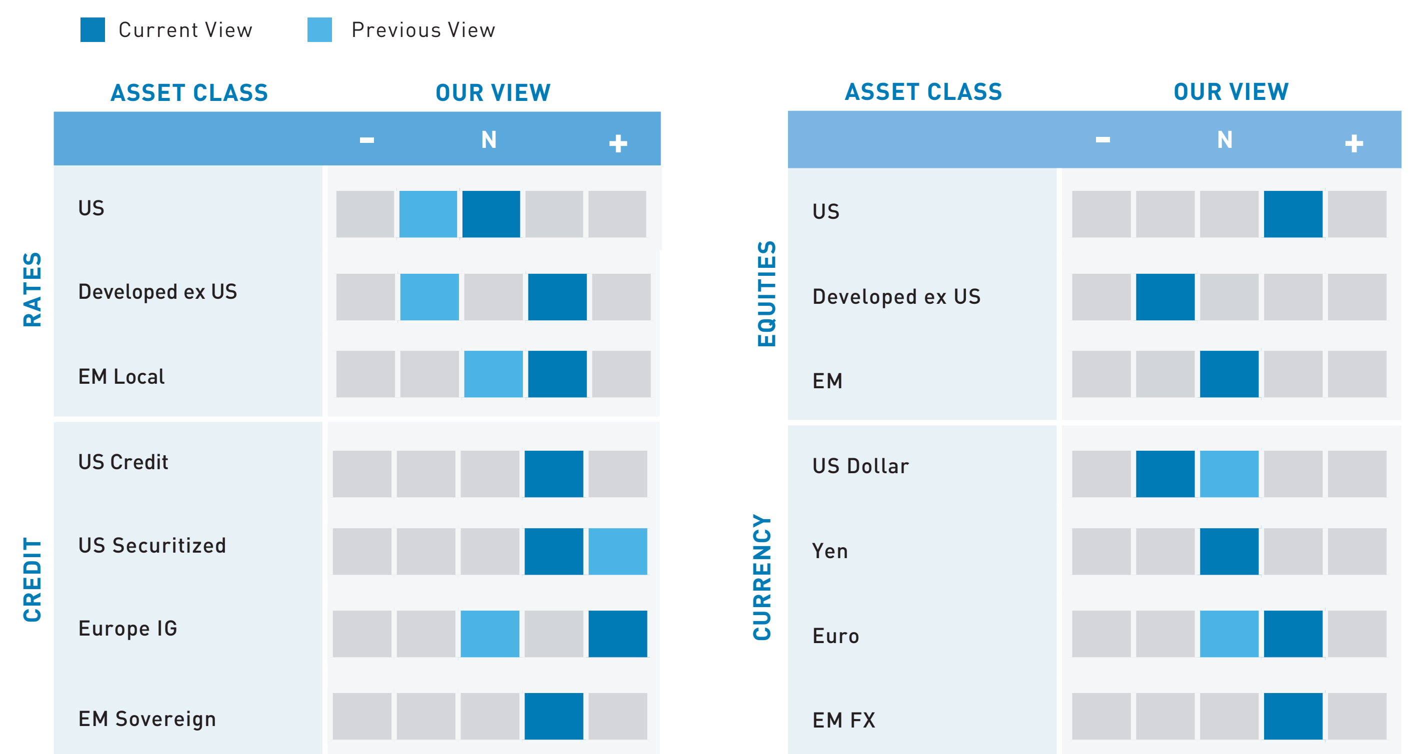
Source: Datastream, data as of 6/29/2020.

POTENTIAL RISKS

One of the largest risks we currently face is a severe and prolonged downturn.

- The most glaring risk the global economy faces is a second wave of COVID-19 cases that leads to a surge in hospitalizations and fatalities.
- A resurgence would lead to a consumption drawdown once again as consumers recoil and voluntarily shelter in place regardless of their government's recommended course of action.
- As schools begin to open, we will be monitoring case growth very closely for signs of spread, which we presently believe is under control in most regions of the world.
- Risk assets are priced for steady economic progress and reopenings. Therefore, any disturbance to these expectations could lead to increased volatility and lower valuations.
- In addition to COVID risk, investors are also shifting their attention to the 2020 US presidential election, where odds of a Democratic sweep have been on the rise.
- Many associate a Democratic sweep with the passing of legislation that would surely lead to higher corporate tax rates. Rising corporate taxes would pressure profit margins and, as a result, many risk assets would take a hit.
- A key silver lining is the fiscal and monetary policy response that has already been put in place. We expect accommodation to continue for some time as the global economy works through the COVID crisis.

ASSET CLASS OUTLOOK



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