INVESTMENT OUTLOOK

JANUARY 2021

WE BELIEVE KEY INGREDIENTS ARE CURRENTLY IN PLACE FOR GLOBAL FINANCIAL MARKETS TO CONTINUE DISCOUNTING THE RECOVERY PHASE OF THE CREDIT CYCLE.

COVID-19 vaccine distribution is underway, the US will deliver additional fiscal support, and monetary policy is likely to remain highly accommodative for several years to foster economic growth and broad labor market improvement. Credit risk premiums compressed materially across markets in the fourth quarter, but we still see opportunity for marginal spread tightening and positive excess return potential. We believe relatively higher-yielding asset classes are among the most likely to benefit from ongoing progress through the credit cycle.

MACRO & MARKET COMMENTARY

MACRO DRIVERS

Key monetary and fiscal policies are likely to remain in place while COVID-19 vaccines are distributed globally. Social distancing measures may begin to lift by mid-2021.

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CREDIT

We see limited potential for spread tightening in US and European markets, but believe investors can still earn carry.

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GOVERNMENT DEBT & POLICY

Global developed market yield curves should remain anchored at the front end but longer-term yields could drift higher as the recovery takes hold.

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CURRENCIES

Foreign currencies can potentially outperform the US dollar as the global economy recovers. CEEMEA,[i] Latin America and emerging Asia are currently attractive regions to add foreign exchange (FX) exposure.

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EQUITIES

Equity performance is likely to be more balanced in 2021 as we expect a rising tide to lift equity indices across global regions and sectors.

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POTENTIAL RISKS

Key risks include election-related volatility, no fiscal deal in the US and disappointing COVID-19 vaccine news.

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[i] *Central and Eastern Europe, the Middle East and Africa.*

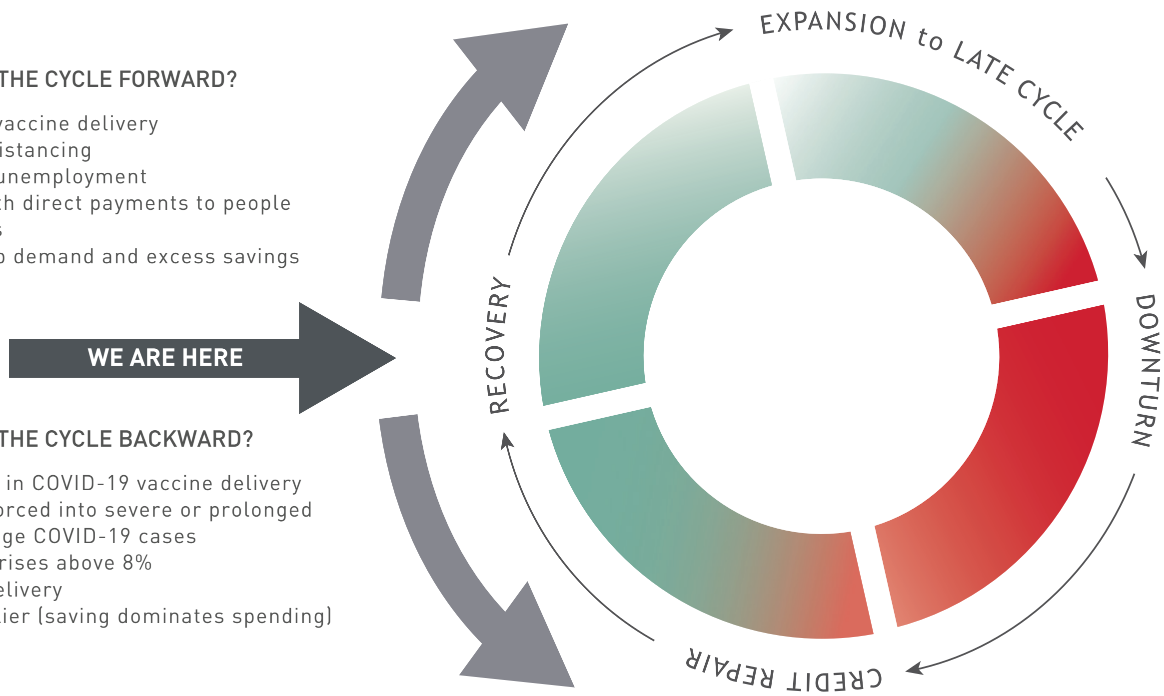
MACRO DRIVERS

Critical macro drivers are in place to support the global economic rebound.

- COVID-19 vaccine distribution, monetary accommodation and supportive fiscal policy represent a trifecta of macro drivers that comprise our positive 2021 outlook.
- We believe it will take several quarters for COVID-19 vaccines to reach a majority of the global population. During that period, monetary policy is likely to remain accommodative in the US, euro zone and Japan.
- Another round of fiscal stimulus payments for US consumers should help boost consumption in the first quarter of 2021, when we expect growth to moderate.
- We believe China's economy could reach pre-COVID levels of output in early-to-mid 2021 followed by the US in the third quarter. The euro zone and Japan may not eclipse prior peak output levels before the first quarter of 2022.
- We expect a surge in corporate earnings to coincide with an anticipated bounce in economic activity over the next 12 to 18 months. Better earnings should lead to organic improvement in corporate leverage metrics, which spiked during the downturn as corporate bond issuance jumped.

WHAT COULD SHIFT THE CYCLE FORWARD?

- Smooth COVID-19 vaccine delivery
- The end of social distancing
- Continued drop in unemployment
- Fiscal spending with direct payments to people
- Big surge in profits
- Unleashing pent-up demand and excess savings



WHAT COULD SHIFT THE CYCLE BACKWARD?

- Delays or setbacks in COVID-19 vaccine delivery
- Major economies forced into severe or prolonged lockdowns to manage COVID-19 cases
- US unemployment rises above 8%
- Ineffective fiscal delivery
- Weak fiscal multiplier (saving dominates spending)

Views as of December 31, 2020. The chart presented above is shown for illustrative purposes only. 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. Views and opinions are subject to change at any time.

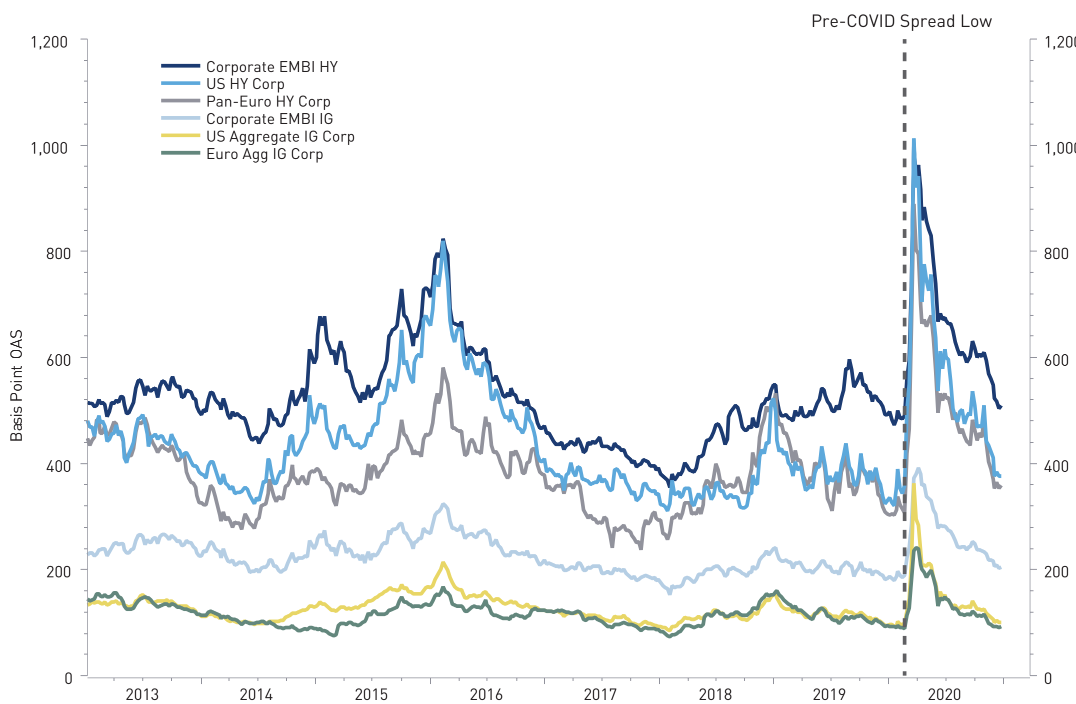
CREDIT

Global credit spreads may not tighten much from current levels.

- Near-record low interest rates, sizable liquidity and strong demand for yield should help keep credit market volatility at bay.
- US, Europe and Sterling investment grade spreads are likely to remain in a fairly tight range near pre-COVID lows given the stimulative policy mix and anticipated fundamental improvement.
- Lower-credit-quality fixed income performance tends to be highly correlated with economic activity. We believe US high yield spreads have room to tighten a bit more as the credit cycle likely progresses through the recovery phase in 2021.
- US-dollar-denominated emerging market (EM) corporate credit looks relatively attractive because spreads have only retraced 75% of the COVID-induced spike. The sector should see positive momentum as long as the global economy, and Asian economies in particular, continue to improve.
- The US dollar appears likely to weaken during the recovery phase, which could relieve a certain degree of funding pressure in strained areas of the EM dollar-pay sector.
- US housing market strength should continue to support RMBS fundamentals. In consumer ABS, fiscal stimulus could help contain any weakness. In CMBS, the future of commercial real estate and current fundamentals represent challenging hurdles, but signs of a bottom may be emerging.
- We believe realized default rates within the US levered loan sector may be notably lower than what the market was pricing last spring. We expect loan prices to move higher going forward.

GLOBAL CREDIT SPREADS

Source: Bloomberg Barclays, J.P. Morgan, data as of 12/30/2020. Information, including that obtained from outside sources, is believed to be correct, but Loomis Sayles cannot guarantee its accuracy. This material cannot be copied, reproduced or redistributed without authorization.



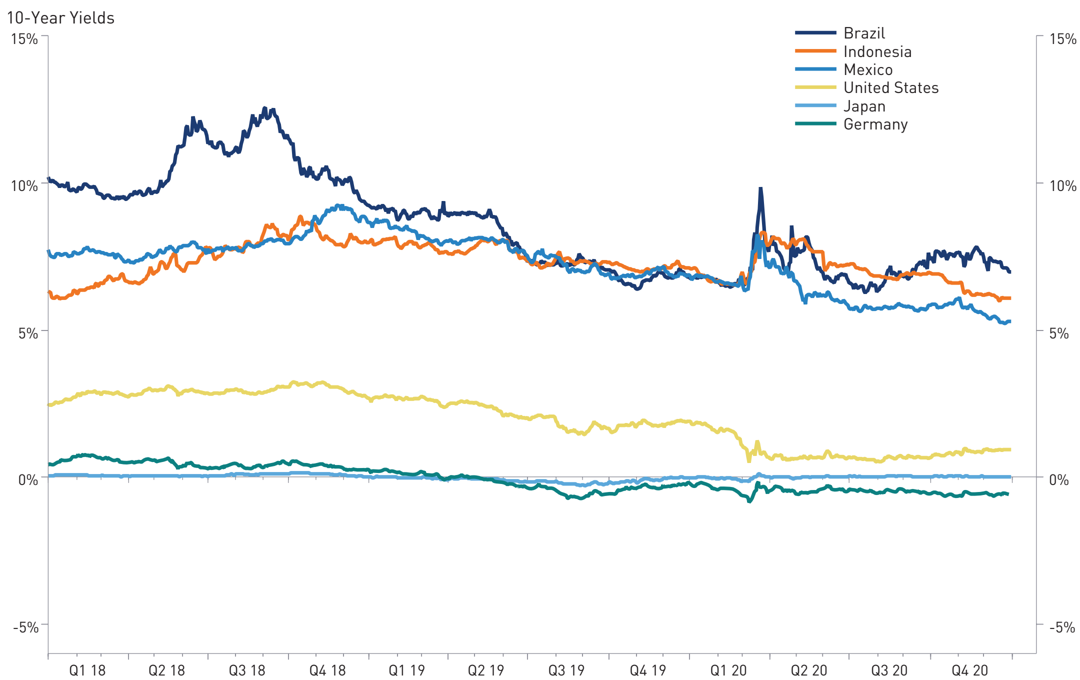
GOVERNMENT DEBT & POLICY

Developed market bond yields may not have much upside potential, even in recovery.

- Federal Reserve Chair Jerome Powell and other members of the Fed board have signaled that they expect policy rates to remain at the zero lower bound for a period of years, with some conditions attached.
- Government borrowing rates have been so low that monetary policymakers in the US and Europe are openly calling for fiscal policy support. In our view, funding stimulus initiatives at low rates is logical, especially when the Fed and the European Central Bank (ECB) are buying bonds through quantitative easing.
- Similar to the US Treasury market, other developed market yields seem likely to stay in tight ranges with a modest upward drift over the next year.
- A strong year-over-year rebound in global growth is widely expected for calendar year 2021. However, growth rates are likely to slip in 2022 once easy comparisons roll off.
- As economies normalize, we anticipate an environment similar to pre-pandemic conditions (i.e., moderate growth and limited inflation pressure). Under those circumstances, bond yield upside potential seems limited.
- We see potential opportunities with relatively higher yields in emerging markets, but security selection is critical. In the unhedged rate sector, we think Brazil, Indonesia and Mexico currently look attractive.

LOCAL CURRENCY GOVERNMENT BOND YIELDS

Source: Refinitiv Datastream, data as of 12/28/2020. Information, including that obtained from outside sources, is believed to be correct, but Loomis Sayles cannot guarantee its accuracy. This material cannot be copied, reproduced or redistributed without authorization.



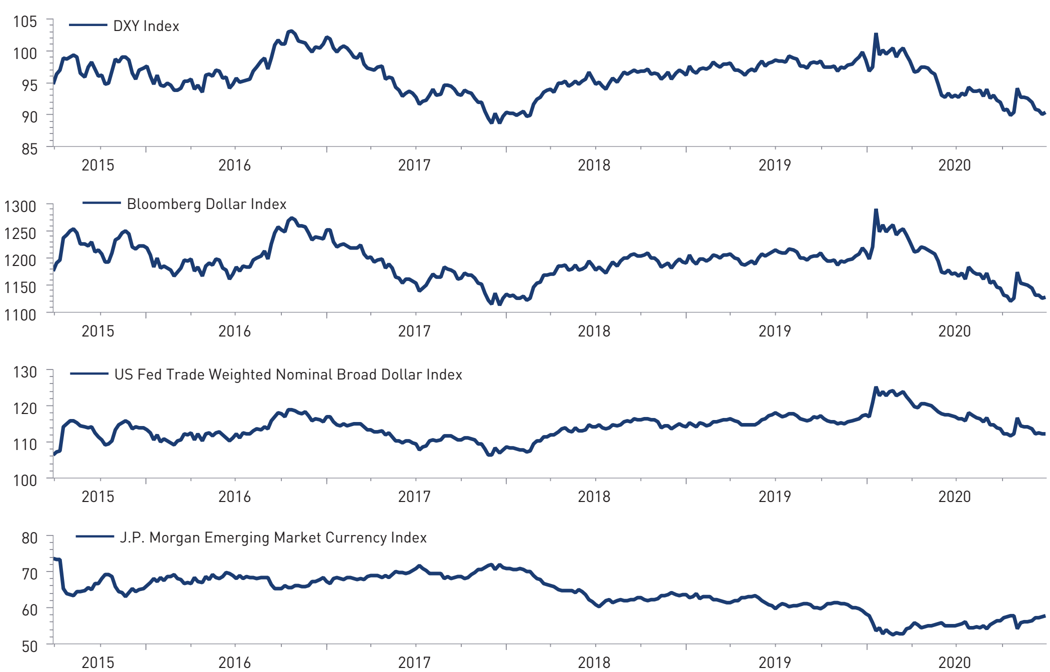
CURRENCIES

We expect modest dollar weakness ahead.

- Strong risk appetite and a weakening dollar are historically consistent with cyclical improvement in the global economy. We expect the risk-on trade to continue as the recovery firms, which tends to favor non-dollar exposure.
- The broad dollar is likely to continue slowly trending weaker and we believe some of the most attractive FX opportunities are currently in emerging markets.
- An economic recovery, especially in China, is generally a favorable condition for Asian currencies. Within the region, we favor cyclical and high-yielding currencies that would likely benefit from yield-seeking foreign inflows.
- We have a constructive view on higher-beta Latin American currencies. We believe cheap relative valuation and high exposure to the global cyclical recovery will be key catalysts for these currencies.
- Further strength in the euro/dollar exchange rate could be limited. A strong euro can lower demand for the region's exports, which is not a condition favored by euro zone policy makers.
- We do not anticipate a multi-year dollar bear market. The dollar is likely to remain a relatively "safe haven" if riskier assets sell off or correct.

US DOLLAR INDEX LEVELS

Source: Bloomberg, Federal Reserve, J.P. Morgan, data as of 12/28/2020. Information, including that obtained from outside sources, is believed to be correct, but Loomis Sayles cannot guarantee its accuracy. This material cannot be copied, reproduced or redistributed without authorization.



EQUITIES

Positive macro drivers and earnings growth should propel equity markets higher in 2021.

- Global equity valuations are likely to remain above historic averages given the tilt of monetary policymakers and ultra-low interest rates across developed economies.
- Optimism surrounding COVID-19 vaccine effectiveness and distribution are additional factors supporting equity markets and we see fundamental improvement ahead in 2021.
- The global recovery should boost cyclically-tied equities that have a high correlation to economic growth. We expect a broad, more balanced rally across global equities. Europe, Japan and emerging market equities should participate along with the US.
- The growth-versus-value trade, which has favored growth in recent years, may even out in the early half of 2021.
- The developed market financial sector, which has a large weighting in Europe and Japan indices, still faces long-term challenges in this environment of low interest rates and flattish yield curves.
- Within the global equity space, we currently prefer EM versus Europe and Japan given the strong economic rebound in Asia and potential for dollar weakness.

GLOBAL EQUITY RELATIVE PERFORMANCE SINCE THE MARCH LOW

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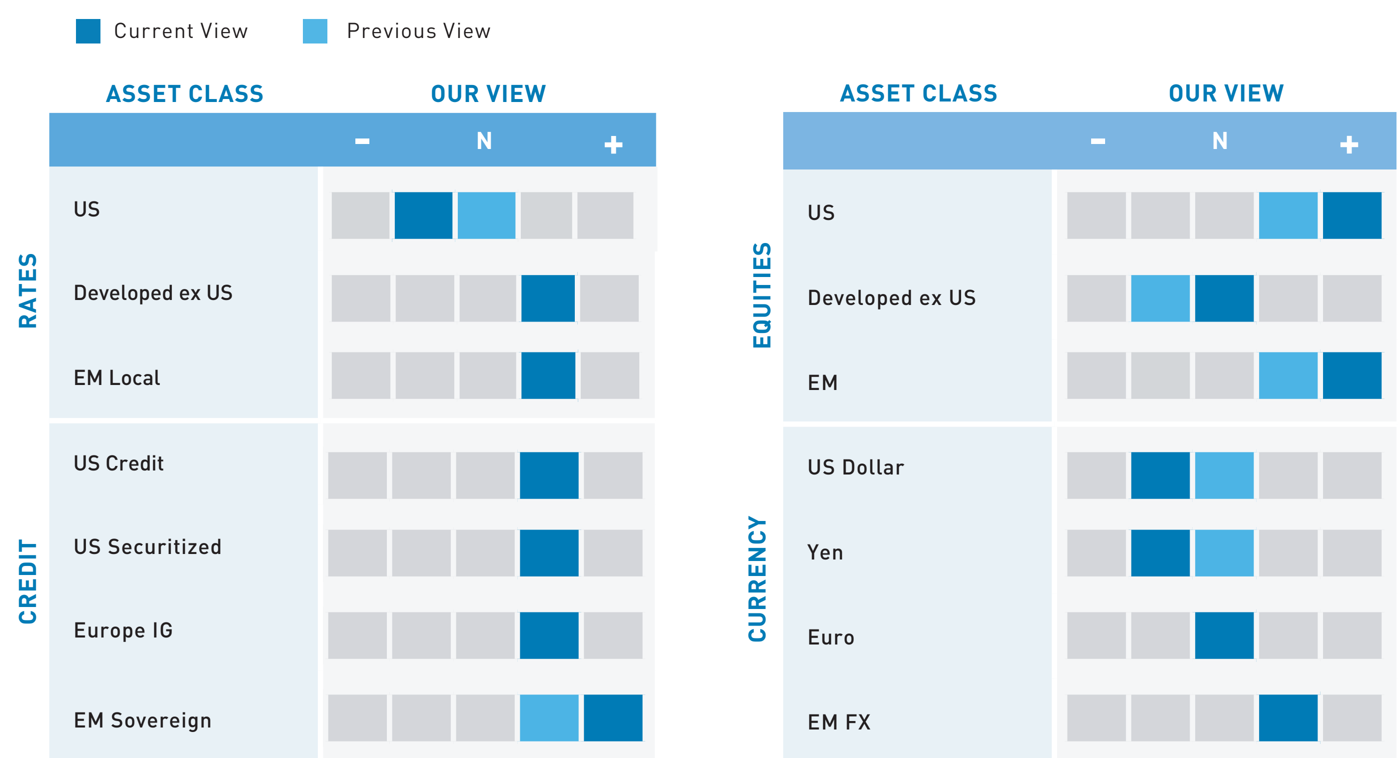
POTENTIAL RISKS

Positive developments need to stay on track.

- If the spread of COVID-19 begins to pressure medical facility capacity, some regions could return to lockdown conditions, which would likely limit economic progress and risk appetite.
- We believe continued optimism regarding vaccine efficacy and distribution is necessary for risk appetite to remain robust. Bottlenecks along the distribution and delivery chain would not be well received.
- The fiscal response, particularly in the US, has been largely effective in bridging cash flow gaps for the unemployed and small businesses. If support is removed too soon, domestic consumption would likely take a hit, which could prolong or even interrupt the recovery.
- We will be monitoring rhetoric about corporate taxes as the new US administration takes office. In our view, raising corporate taxes during a recovery would be detrimental to the recovery's progress.
- A hawkish shift in G-3 central bank strategy could rattle markets, but we believe that risk is unlikely to develop in 2021.

ASSET CLASS OUTLOOK



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Disclosure

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