

Natixis/Vaughan Nelson Select Strategy



QUARTERLY STRATEGY COMMENTARY

US equity markets posted strong results during the quarter. Investors were rewarded with improving inflation data resulting in the Federal Reserve skipping a rate hike during their June meeting. The annual US inflation rate was down marginally in June, but remained stubbornly high, at 4.0%, compared with the Fed's 2% target. To tame inflation, the Fed signaled that a Q3 rate hike might be necessary. US economic growth moderated, with GDP increasing at an annual rate of 2.0% in the first quarter of 2023, down from 2.6% in the fourth quarter of 2022. US unemployment ticked up slightly to 3.6% in June, but employment resilience and the resolution of the debt ceiling uncertainty spurred markets higher. Financials rebounded in the wake of the March banking crisis, albeit not at the exuberant pace of many artificial intelligence and semiconductor related equities that led US equity markets during the quarter. Geopolitical uncertainties, including the Russia-Ukraine conflict, continued to weigh on investor sentiment, but strong employment data and economic resilience helped bolster investor optimism and ease fears of a hard landing. The S&P 500® Index rose 8.7% for the quarter with significant dispersion between sectors. Information technology (+17.2%), consumer discretionary (+14.6%), communication services (+13.1%) and industrials (+6.5%) were the most notable positive performing sectors in the index. Utilities (-2.5%) and energy (-0.9%) were the only negative performing sectors in the index. Growth and large cap outpaced value and small cap on a relative basis. The Russell 1000® Value Index rose by +4.1% compared to an increase of +12.8% in the Russell 1000® Growth Index, and the Russell 1000® Index rose by +8.6% compared to an increase of +5.2% in the Russell 2000® Index.

The Natixis/Vaughan Nelson Select Strategy rose in value but underperformed the Russell 3000® Index gross and net of fees. During the quarter, sector allocation drove relative underperformance and security selection was also negative. Overweights to consumer staples and materials, an allocation to cash, an underweight to consumer discretionary and an overweight to utilities were the largest detractors over the quarter. This was partially offset by additive underweights to energy and health care. Securities selected in consumer staples, energy and information technology detracted from results, while selections in consumer discretionary, financials and industrials outperformed.

QTD Top/Bottom contributors to relative performance:

- The most significant contributors were: Sherwin-Williams, Entegris, NVIDIA, Amazon.com, and Saia.
- The most significant relative detractors were: Dollar General, Wheaton Precious Metals, Kosmos Energy, not holding Apple, and NextEra Energy.

Trades & Positioning:

- At the end of the quarter, the largest overweight sectors were materials and consumer staples, while the largest underweight sector was consumer discretionary.
- Verisk Analytics was the only new buy during the trailing three months ended May 2023. There were two full sellouts during this period: Jack Henry & Associates and Luminar Technologies.

Year-to-date, the strategy rose in value and outperformed the benchmark gross of fees (lagged net of fees). Stock selection drove relative outperformance. Investments in consumer discretionary, financials, information technology, industrials, and materials contributed to relative return, offset partially by underperforming names in consumer staples, communication services and utilities. Sector allocation weighed down relative performance and partially offset strong security selection. The largest detractors were an overweight to consumer staples, an underweight to consumer discretionary, an allocation to cash, and overweights to materials and utilities. The largest contributors were underweights to energy, financials, health care, and industrials.

YTD Top/Bottom contributors to relative performance:

- The most significant relative contributors were Salesforce, NVIDIA, Saia, Entegris and Amazon.com.

- The most significant relative detractors were Dollar General, not owning Apple, NextEra Energy, Danaher, and an underweight to Meta.

Monetary policy and the trajectory of the economy remain top of mind for investors. Inflation, growth expectations, the lengthy Russia-Ukraine war, and recessionary risks continue to remain key uncertainties for investors, as economists evaluate expectations of economic growth and recessionary risks in their forecasts. While volatility has subsided, uncertainties persist, and investors should remain mindful of the breadth of scenarios facing them. Active fundamental research, combined with investment discipline, may be the best approach in the months to come.



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