# Government Only Managed Account

MARKETING COMMUNICATION

## Quarterly Review

- Bonds produced a modest gain in the second quarter, with income accounting for the bulk of the total return. Expectations that the lingering effects of the conflict in Iran would cause inflation to reaccelerate prompted investors to price in tighter central bank policy. While in the autumn of 2025 the markets were anticipating that the US Federal Reserve (Fed) would enact as many as five quarter-point interest rate cuts over the coming year, by the end of June expectations had shifted toward the possibility of at least one rate hike in the second half of 2026.
- Kevin Warsh replaced Jerome Powell as Fed Chairman in May. While investors speculated that Warsh would have a bias toward lower rates when his name was first floated as a potential Powell replacement in 2025, the new chair's initial comments pointed to a more hawkish tone. Most notably, Warsh indicated a desire to reinstate the Fed's 2% inflation target – a level not reached since before the COVID-19 supply shock in early 2021.
- US Treasurys produced tepid total returns in the quarter, reflecting investors' expectation that the US Federal Reserve may be compelled to begin raising interest rates in the second half of the year to head off rising inflation. The changing outlook for Fed policy led to underperformance for the belly of the yield curve, as the five-year bellwether maturity bucket produced the worst returns across the maturity spectrum.
- Yield curve effects were positive during the quarter. Selection effects were muted while allocation effects detracted marginally..

## Outlook

- The Loomis Sayles macroeconomic framework points to a resilient late-cycle expansion as the base case, supported by healthy corporate profits, strong company balance sheets, and continued investment in areas such as artificial intelligence (AI). Inflation has moderated but remains above the Federal Reserve's (Fed) long term target, which is likely to keep interest rates elevated for longer. While geopolitical developments, particularly in energy markets, remain the key risk; the overall backdrop continues to support fixed income investing. Given the later stage of the economic cycle, we remain selective in our risk-taking and maintain a lower allocation to risk where appropriate, especially in areas sensitive to political, regulatory, or financial uncertainty. Our focus remains on companies that we believe can perform well across a variety of market environments while offering attractive risk-adjusted carry.
- As expected, the Fed held rates steady at its April and June meetings, maintaining the federal funds rate at 3.75%. We believe the Fed is on hold in 2026, which aligns with our "Expansion Resilient" scenario. The expectations for rate cuts are high and have been pushed into 2027, limiting the potential for significantly lower bond yields unless economic conditions weaken substantially. We continue to remain duration-neutral while monitoring opportunities that may arise if longer-term bond yields become more attractive.

# Important Disclosure

***Investing involves risk, including possible loss of principal. Fixed-income securities*** *may be susceptible to general movements in the bond market and are subject to credit and interest rate risks.* ***Credit risk*** *arises from an issuer's ability to make interest and principal payments when due, as well as the prices of bonds declining when an issuer's credit quality is expected to deteriorate.* ***Interest rate risk*** *occurs when interest rates rise causing bond prices to fall. The issuer of a debt security may be able to repay principal prior to the security's maturity, known as* ***prepayment (call) risk,*** *because of an improvement in its credit quality or falling interest rates. In this event, this principal may have to be reinvested in securities with lower interest rates than the original securities, reducing the potential for income.*

***Past performance is no guarantee of future results.***

***There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return. Diversification does not ensure a profit or guarantee against a loss. Commodity, interest and derivative trading involves substantial risk of loss.***

***Market conditions are extremely fluid and change frequently.***

*The Bloomberg US Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US investment grade fixed rate bond market, with index components for government and corporate securities, mortgage passthrough securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.*

*This marketing communication is provided for informational purposes only and should not be construed as investment advice or recommendations for action by investors. Investment decisions should consider the individual circumstances of the particular investor. 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. Investment recommendations may be inconsistent with these opinions. There is no assurance that developments will transpire as forecasted and actual results will be different. Information, including that obtained from outside sources, is believed to be correct, but we cannot guarantee its accuracy. This information is subject to change at any time without notice.*

*Clients should consult their financial professionals regarding unknown financial terms and concepts.*

***Loomis, Sayles & Company is the investment adviser for this separately managed account (SMA); it provides investment advisory services to individual and institutional clients and does not sell securities.***

*Loomis, Sayles & Co., L.P. ("Loomis Sayles") acts as a discretionary investment manager or non-discretionary model provider in a variety of separately managed account or wrap fee programs (each, an "SMA Program") sponsored by a third party investment adviser, broker-dealer or other financial services firm (a "Sponsor"). When acting as a discretionary investment manager, Loomis Sayles is responsible for implementing trades in SMA Program accounts. When acting as a non-discretionary model provider, Loomis Sayles' responsibility is limited to providing non-discretionary investment recommendations (in the form of a model portfolio) to the SMA Program Sponsor or overlay manager, and the Sponsor or overlay manager may utilize such recommendations in connection with its management of its clients' SMA Program accounts. In such "model-based" SMA Programs ("Model-Based Programs"), it is the Sponsor or overlay manager, and not Loomis Sayles, which serves as the investment manager to, and has trade implementation responsibility for, the Model-Based Program accounts, and may customize each client account according to the reasonable restrictions or customization that a client may request.*

*For additional information on this and other Loomis Sayles strategies, please visit our web site at www.loomissayles.com.*

8168960.5.1
LSGO03-0626