FULL DISCRETION TEAM

Loomis on Loans

How was the environment for the broadly syndicated loan market in 2025?

The Morningstar LSTA Leveraged Loan index returned 5.90% in 2025 driven by strong interest income, as base rates remained higher than forecasted. Spreads in the market also ended flat year-over-year, tightening into year-end after some widening earlier in the year. Loan prices ended the year on a strong footing with the often quoted "bid above par" percentage ending the year at an 11-month high (58%) after starting the year very strong as well. Demand for loans remained robust given the record issuance in the CLO market (the biggest buyer of loans) and strong demand from other institutional lenders.

Loan new issuance continued to be healthy on the back of strong financial conditions, with the loan market reaching a record $1.5 trillion par outstanding. Importantly, issuance to fund M&A continued to grow from the lows of 2023 and is expected to be even higher in 2026. Strong market conditions also resulted in roughly half of the market repricing lower last year, though this only reduced the average nominal coupon by 20 basis points.

There is an element of bifurcation in the loan market driven, in part, by the lingering effect of higher interest rates today versus 2020 and 2021. This is visible by the historically high amount of debt maturing in the next three years, mainly 2028 loan maturities issued in 2021. We expect the market to continue to work to refinance the 2028 maturity wall. However, we do believe the risk of liability management exercises will remain elevated as not all these maturities are refinanceable. We believe our research-intensive process remains well suited to identify these value traps and mitigate risk in 2026.

What is the team's view of the current macro environment?

We believe we are firmly in late cycle and we see low risk of downturn in 2026. Company fundamentals in the broadly syndicated loan space were stable in 2025 and the outlook remains favorable given modest revenue and earnings growth. Most of corporate America has seen improving metrics, with leverage flat to down and interest coverage remaining strong. We think the broader US economy is still in a healthy place as well, with employment holding in and mid to higher-tier consumer strength buoying economic activity.

MORNINGSTAR LSTA INDEX	2025 RETURN (%)	PRICE	YTD PRICE CHANGE	NOMINAL SPREAD
US Leveraged Loan Index	**5.90**	**97.08**	**-0.70**	**319**
US BB Ratings Loan Index	**6.26**	**99.44**	**-0.68**	**242**
US B Ratings Loan Index	**6.18**	**98.07**	**-0.47**	**341**

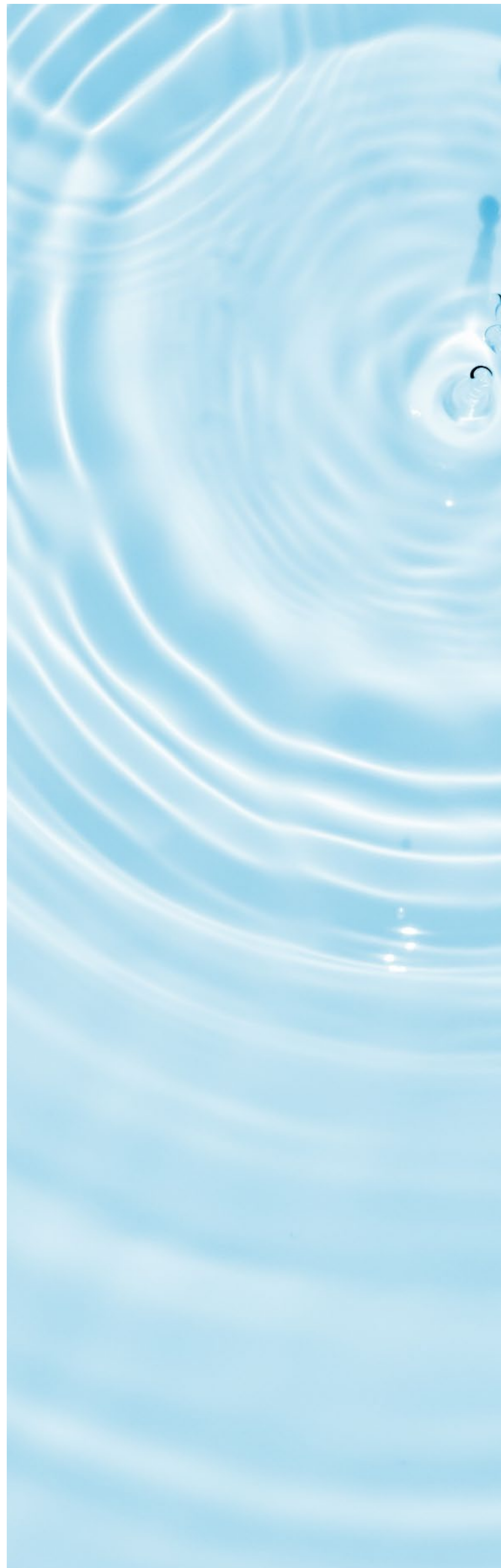
Source: Loomis Sayles and Morningstar LSTA, as of 12/31/2025

How could one approach the loan market in 2026?

Our investment process lends itself to constantly reassessing value through our risk premium framework. Our Credit Health Index (CHIN) within corporate credit suggests defaults/losses will be in line with historical averages for this part of the cycle. When comparing loans to high yield bonds from a spread basis, we view that tradeoff as favoring the bank loan market given historically tight risk premiums in high yield. Said another way, we prefer loans to high yield bonds for the spread pick-up combined with the limited potential of dollar price appreciation in high yield.

Within loans, we continue to lean into cheap for rating opportunities. We believe our credit underwriting process provides us an edge in identifying value in the market. Our equity like approach to credit research is anchored by first identifying the enterprise value of each borrower and then using that perspective as a foundation for our view of credit risk. We are constantly emphasizing the opportunities that provide the best value for the credit risk. At this phase of the market, our goal is to maintain a modest yield advantage while also identifying value traps as we seek to avoid those potential losses.

We believe M&A driven volume will likely be a major theme in 2026 as stable fundamentals and lower borrowing costs are a tailwind. With the software, healthcare providers and leisure industries representing each over 5% of the loan market, we expect to see continued growth in those areas.



Meet the Team

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Investment Director

CHERYL STOBER
Investment Director

KRISTEN DOYLE
Associate Investment Director

About the Team

The Full Discretion team brings decades of expertise and collaboration to create tailored solutions for their clients.

27	Investment Professionals
23+	Years of Industry Experience (Portfolio Management Team)
$85.6	Team Assets Under Management (Billion USD)

Team Philosophy

We have a legacy of independent thinking and leaning into the market when others may be pulling away. We take a deep-value, equity-like approach to credit selection across global fixed income markets. Our disciplined process helps gives us confidence in seeking to identify macro trends, formulate a clear view on market sectors, and invest throughout the credit cycle.

For more than 40 years, we have been applying our distinctive style of bond picking to deliver portfolios designed to provide excess yield potential and have low correlations to traditional benchmark-focused fixed income strategies.

Source: Loomis Sayles, as of 12/31/2025
Average years of expertise reflected at portfolio management level

Important Disclosure

This marketing communication is provided for informational purposes only and should not be construed as investment advice. It is meant to offer a snapshot of select market developments and is not a complete summary of all market activities. Investment decisions should consider the individual circumstances of the particular investor. Any opinions or forecasts contained herein reflect subjective judgments and assumptions of the author and do not necessarily reflect the views of Loomis, Sayles & Company, L. P. Investment recommendations may be inconsistent with these opinions. There can be no assurance that developments will transpire as forecasted. Data and analysis does not represent the actual or expected future performance of any investment strategy, account or individual positions. Accuracy of data is not guaranteed but represents our best judgment and can be derived from a variety of sources. Opinions are subject to change at any time without notice.

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Commodity, interest and derivative trading involves substantial risk of loss.
Diversification does not ensure a profit or guarantee against a loss.
Market conditions are extremely fluid and change frequently.
Any investment that has the possibility for profits also has the possibility of losses, including loss of principal.
There is no guarantee that any investment objective will be realized, or that the strategy will be able to generate any positive or excess returns.

Past performance is no guarantee of future results.

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