



Guiding Clients in an Increasingly Turbulent World

Natixis execs discuss client pain points that financial advisors must address and offer suggestions on how to reframe conversations.

By Paula L. Green

China's economy, the shifting global supply chain and climate risk are just some of the issues financial advisors will be eyeing this year as they guide their clients – and their investments – through an increasingly turbulent world.

In a wide-ranging discussion held a day before International Women's Day in New York City earlier this month, four top female executives at Natixis Investment Managers and its affiliates laid out some of the concerns and pain points that financial advisors will be tracking in 2024.

As one of the biggest agents of global growth with enormous influence on the world economy, China's economic outlook is being closely watched by asset managers. The impact of China's slowdown on the United States will be tempered by such factors as expanding U.S. trade with Mexico, said Pramilla Agrawal, portfolio manager and director of custom income strategies at Loomis Sayles & Company.

In 2023, Mexico nudged China aside as the United States' largest trading partner, according to data released by the U.S. Department of Commerce in early February. Agrawal expects blocs of trading partners will emerge to counter the trading gap left as the Asian giant turns inward and focuses on internal issues.

Beatriz Pina Smith, executive vice president and chief financial officer of Natixis Investment Managers in Boston, said financial advisors operating in today's market are finding clients with much higher levels of sophistication than five years ago and the clients are giving them more inputs.

At the same time geopolitical risks, such as the situations in Ukraine and the Middle East, are some of the biggest risks financial advisors and their investors are facing in 2024, said Agrawal.

Noting that all yields on fixed-income instruments are "spectacular" right now and company earnings are up, Agrawal said the Federal Reserve Board does run the risk of cutting interest rates too soon before inflation declines sufficiently.

Climate Risk

Turning to ESG (environmental, social and governance) investing, Zineb Bennani, chief executive officer of Mirova U.S., said the management company is using its 22-member research team to develop new opportunities to meet the growth in ESG investing as large, mainstream investors search for new products.

For example, the team is pinpointing which companies are developing solutions to counter the changing climate's impact on biodiversity. A company with a new methodology to save water, for example, might lower the risks facing Earth's shrinking biological diversity.

"We are looking at sustainable investing as a way to address long-term trends in climate risk," said Bennani. She added that Mirova is steering clear of any political debates over the value of ESG investing as it zeroes in on long-term solutions.

Active vs. Passive Management

Turning to the merits of active or passive management, Rana Wright, president of the Oakmark Funds and chief legal and administrative officer of Harris Associates, said her company remains convinced in the value of active management. "Our portfolio managers have conviction and know the companies ... and their managers. They spend time with them," she said during the presentation.

Harris looks for value in a company, rather than just its price, and for well-run management teams that are trying to grow along with the company. They place value on a company's long-term outlook and avoid concentrating on one-time events.

Passive investing, on the other hand, can mean "hugging the S&P and following a bunch of indexes," Wright added. Bennani said active managers can frequently find better returns during times of financial market distress, noting that companies with the highest debt can carry the highest risk.

The Clients

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Dave Goodsell, executive director of the Natixis Center for Investor Insight, told Rethinking65 after the session that clients in their 50s are likely to be facing a fundamental shift in how they look at money and investing. With retirement getting closer, financial advisors' conversation with these clients may need to move from building wealth to preserving what they've accumulated and generating an income off their assets.

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To help clients succeed in this new stage of life, he said advisors can provide strategies on retirement income, Social Security, long-term-care insurance and a whole range of new planning considerations that come later in life.

Goodsell said a surprising point, gleaned in a survey the center carried out last year, shows that investors in the boomer generation are maintaining very high expectations of their investment returns. On average, they say they expect returns of 11.9% above inflation over the long-term. At the same time, they define risk as exposure to volatility.

Since pursuing double-digit returns could leave them open to higher levels of volatility, Goodsell said it is important for financial advisors to reframe the discussion about the level of risk older investors are comfortable taking at this stage in life.

Founded in 2010, the Natixis Center for Investment Insight is a global research initiative focused on the critical issues shaping today's investment landscape.

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