Some Light at the End of the Tunnel?

In this paper, we aim to objectively analyze the current market picture using a set of indicators. Though not all of them translate into buy signals just yet, they all sharply adjusted over the past weeks, and should prompt investors to consider current valuations levels as opportunities, depending on their natural risk aversion and investment horizon.

Despite an average 40% correction, we stress that equity markets might not have bottomed out yet; they are nonetheless definitely becoming attractive from a long-term perspective, looking at these signals.

1- Investors' positioning

Global investors were forced to liquidate some of their positions on US equities since mid-February; which they massively did (chart 1). However, if the dynamic has reached levels close to 2016's and 2012's (pointing to an hypothetic recovery on the short term), the speculative positions in absolute terms on the S&P500 *haven't reached extreme lows yet*.

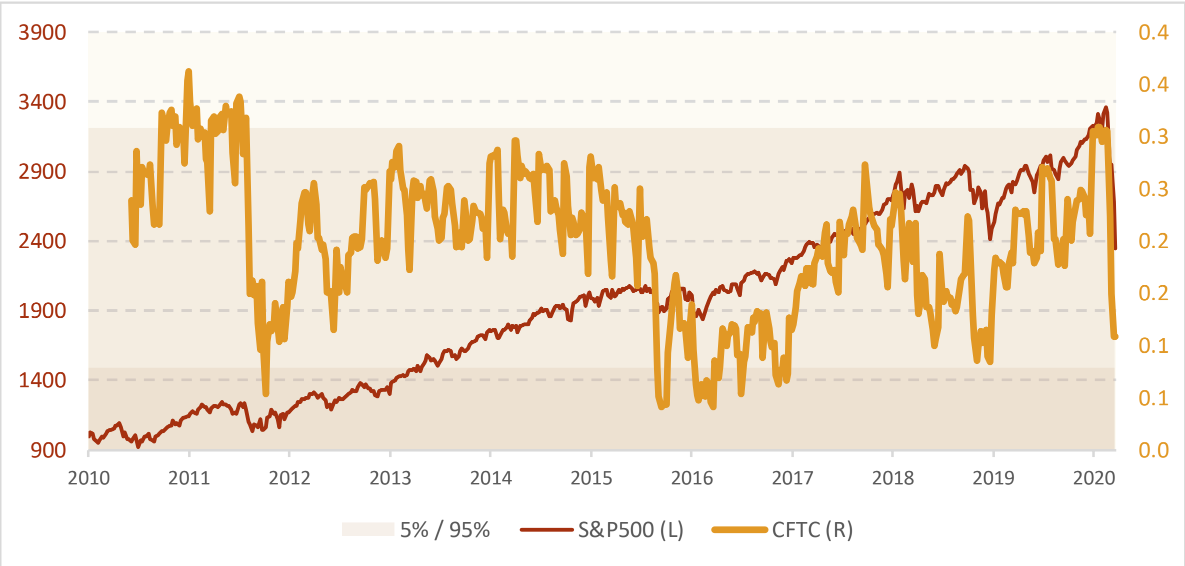

Chart 1: Positioning on US equities – sources: Seeyond, Bloomberg, data as of 20th March 2020

➔ Extrapolating from the above… ***there is still room for additional downside on the medium term.***

2- Covid-19

While the Covid-19 epidemic is gradually spreading to Europe and America, the Asian experience helps us better understand the spread mechanism and features of the virus: once strict containment measures have been adopted, we can observe that new contamination cases tend to level off after 2 to 3 weeks, depending on the country (chart 2).

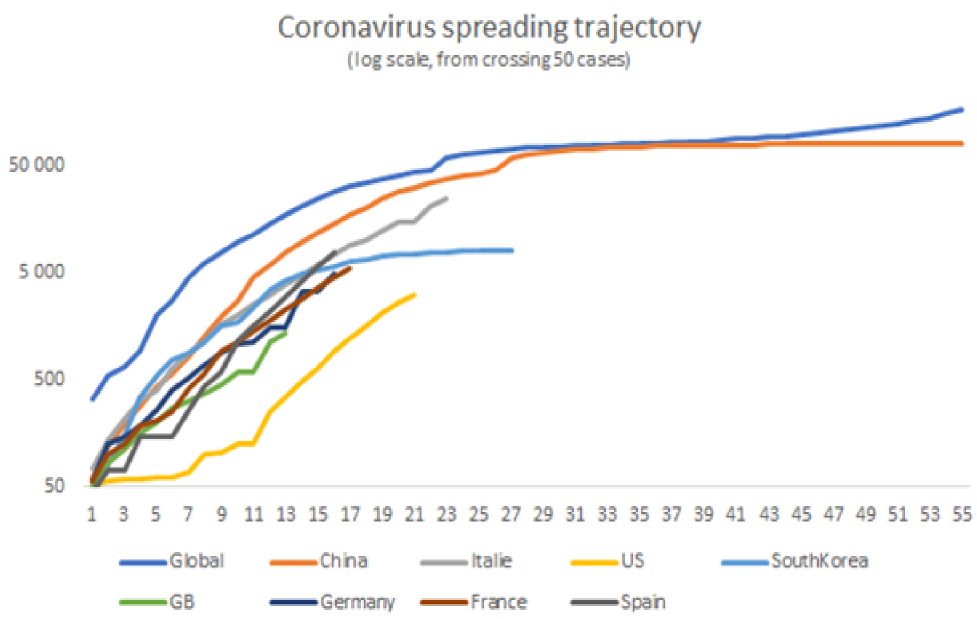

Chart 2: Covid-19 confirmed cases (left) – sources: Seeyond, Bloomberg, data as of 17th March 2020

On a positive note, a peak could be reached in Italy by the end of March and in the first half of April in France and Spain. Conversely, projections are difficult in Germany, in the United Kingdom and in the United States where health policies are little (or not) framed. In these countries (major contributors to global growth), reaching the peak in new confirmed cases could be delayed.

➔ The panic induced by the surprise explosion of new cases outside Asia is behind us; ***uncertainties around the virus spread should remain elevated though, barring any sustainable market recovery on the very short run.***

3- Valuations : Cyclically and Inflationary adjusted PE ratios

US equity markets declined by more than 30% on average (from peak to trough) over the past three weeks. The adjustment has been incredibly quick and violent.

Given that Covid-19 is seasonal (and should dissipate with rising temperatures), we however expect the current global recession to be short-lived, even if severe. In this context, the 2001's recession could be used as a benchmark. Macroeconomically, it is important to note that todays' major economies don't suffer from sharp imbalances as in they did back in 2001 or 2007.

The S&P500 Shiller PE ratio is now on the 2001's level, which is a noticeable adjustment (chart 3):

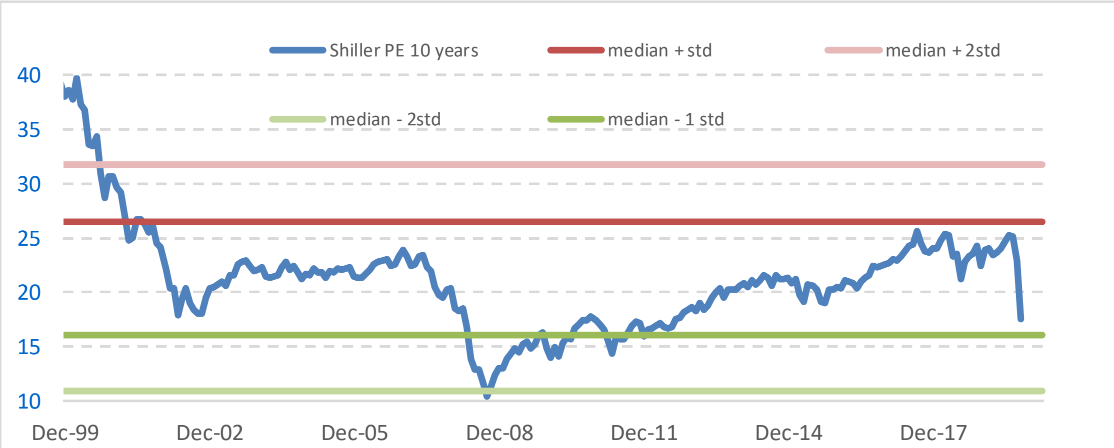

Chart 3: US Equities S&P500 – PE ratios cycle & inflation adjusted – sources: Seeyond, Bloomberg, data using the lows reached on 18th March 2020.

➔ If this valuation indicator does not give convincing buy-or-sell signals on a day to day management, ***it is particularly useful in times of panic to assess entry points on risky assets*** and we will closely monitor it over the coming weeks.

4- Equity Markets & Volatility

Considering the health crisis (time-limited) and the global underlying recession (sharp but short-lived), ***the current volatility spike is clearly driven by irrational behavior and panic***, as opposed to rational economic motivations from past market shocks (Chart 4). ***We deem it temporary, and expect an upcoming downturn in both implied and realized volatility.***

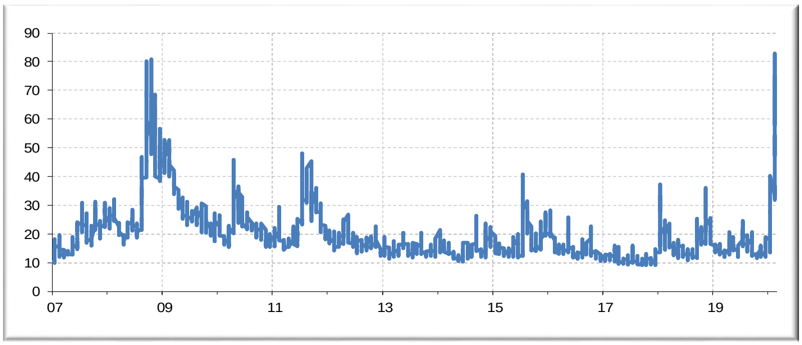

Chart 4: Implied volatility - source: Bloomberg, Seeyond, data as of 16th March 2020

US equities have sharply adjusted and erased the excesses of January and February 2020; *yet they still remain overvalued with regards to the risk environment* that we assessed early 2020 for the year ahead (chart 5) - not accounting for the health crisis spreading to Europe and America thereafter.

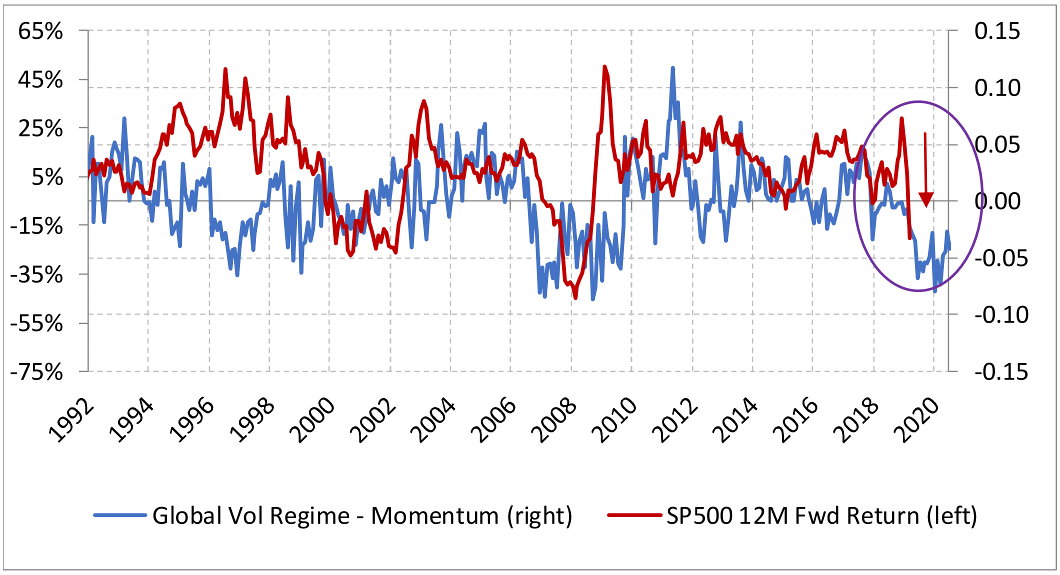

Chart 5: US Equities Performance over the next 12 months & Expected Volatility Regime (proprietary models) – sources: Seeyond, Bloomberg, data as of end of December 2019 to forecast Volatility Regime over the next 12 months and using the lows of 18th March 2020 for US equities

➔ ***An additional 10% drop from the lowest points*** (corresponding to a level of 2100 on the S&P500) ***is higly possible and would offer entry points more aligned with current risks dynamics.***

5- Liquidity

The New York Fed recently stunned the market and fired its heaviest bazooka since the Lehman bankruptcy, by announcing up to $3 trillion repos (if fully allotted) by the end of March: $1 trillion in 3-months repos over two days, and an additional $500billion in 1-month repos on a weekly basis.

Beyond that, the Fed announced a series of emergency measures: a rate cut by 100bps to zero; a new QE5 based on $500 billion of Treasuries and $200billion of MBS; and a coordinated action plan with the ECB, the BoE, the BoJ, the BoC and the SNB to enhance liquidity provisions via standing US Dollar liquidity swap line arrangements (chart 5).

Main world central banks have proven to quickly become aware of the seriousness of the situation and were very reactive, contrary to 2008.

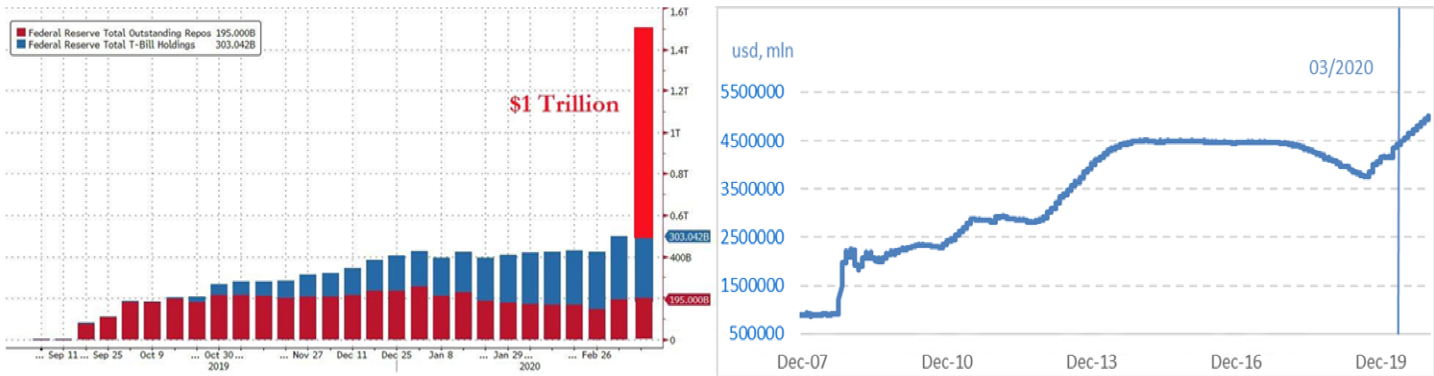

Chart 5: NYC Fed repo operations as of 12th March 2020 (left) & Fed balance with forecast as of end of 2020 (right) – sources: Seeyond, Bloomberg, Zero Hedge

➔ ***This new wave of liquidity should prevent a liquidity crisis on the short run and will contribute to a sharp recovery of risky assets once the volatility spike ends.*** It will probably not stop the corrective movement on its own, as health-related risk is still predominant.
It should definitely help avoiding though, on the one hand, **a systemic liquidity crisis** and, on the other hand, **an undermining confidence of investors in US interest rates**, which is very positive in itself.

1- Equity Factor analysis

The analysis of equity factors' dynamics (Momentum, Low Volatility, Value) since the beginning of the crisis reveals that after several days of erratic market behavior (capitulation with no risk factor/sector discrimination), the very last trading sessions have been more constructive. Looking at the US market (chart 6) for example:

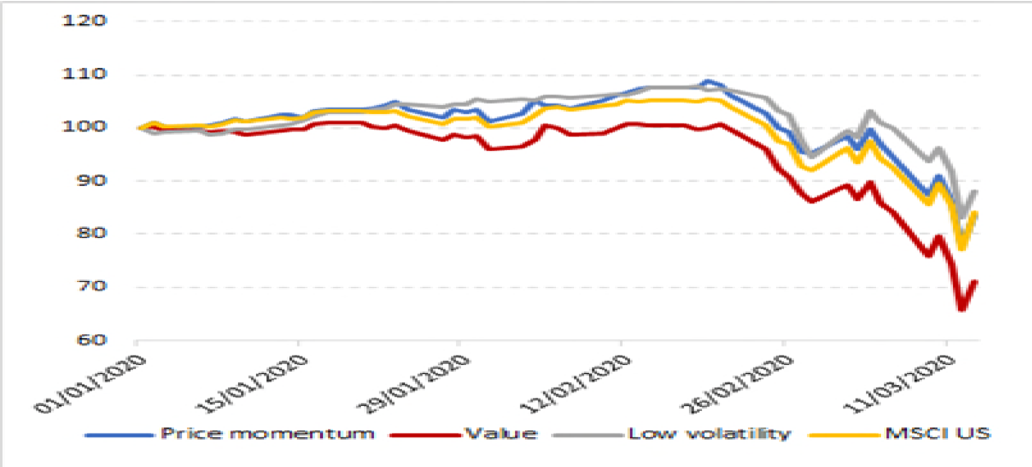

Chart 6: Equity factors performance analysis ytd in the US (left) – source: Seeyond, Bloomberg, Factset, data as of 13th March 2020

➔ After a period of sharp outperformance, ***both Low volatility and Momentum factors are now converging towards the index: this signals the willingness of investors to gradually take up risk in their portfolios.***

Conclusion

➔ Investors should not be mistaken: the current crisis is a health-related one, not a financial one. ***The Fed together with the main central banks have already taken steps to avoid a major systemic risk, paving the way for a substantial market rebound once the Covid-19 crisis comes to an end.***

➔ The spread of the Covid-19 in America over the coming weeks could drive volatility higher and equities lower, but ***equity markets have already significantly corrected and are gradually becoming attractive on a long-term perspective.***

➔ An additional 10% drop from current levels is highly possible; nonetheless ***liquidity will have a significant multiplier effect once fears of a systemic shock wears off***, even in a gradual "U" shape (instead of "V" shape) macroeconomic recovery.

Written by Stéphanie Bigou, Global Macro Portfolio Manager at Seeyond, 20th March 2020, with contributions from Pierre Savarzeix, Simon Aninat & Juan Sebastian Caicedo, Portfolio Managers at Seeyond, and Stéphane Alloiteau, Quantitative Research Engineer at Seeyond.

This article has been provided for information purposes only to professional clients as defined in the MiFID Directive. It must not be used for retail investors. The provision of this material or reference to specific sectors or markets in his article does not constitute investment advice or a recommendation or an offer to buy or sell any security. Investors should consider the investment objectives, risks, and expenses of any investment carefully before investing. Views expressed in this article as of the date indicated are subject to change and there can be no assurance that developments will transpire as may be forecasted in this article.

About Seeyond

Seeyond, an affiliate of Natixis Investment Managers, specializes in active quantitative portfolio management. By adding active oversight to disciplined quantitative investment processes, Seeyond offers strategies that seek to optimally reward risk in three core areas of expertise: equity strategies, multi-asset strategies, volatility & overlay strategies. These strategies leverage Seeyond's proprietary quantitative research.

Seeyond, a team of 21 recognized professionals with 18 years of industry experience on average, manages around EUR 9 billion of assets[1]. Seeyond's solutions are marketed by the global Natixis Investment Managers' distribution platform, one of the largest asset managers in the world[2], and via the retail networks of Groupe BPCE, the second largest banking group in France[3].

> For further details: www.seeyond-am.com

1 Source: Seeyond, as of 31/12/2018

2 Cerulli Quantitative Update: Global Markets 2018 ranked Natixis Investment Managers (formerly Natixis Global Asset Management) as the 16th largest asset manager in the world based on assets under management as of 31/12/2017.

3 Source : BPCE S.A. – 31/12/2018

Natixis Investment Managers International

Registered Office: 43 Avenue Pierre Mendes France – 75013 Paris – France
Tél. +33 1 58 19 09 70/ +33 1 58 19 09 80
Limited Liability Company, Share Capital €51 371 060,28
Regulated by AMF under n°GP 90-009
RCS Number 329 450 738 Paris

Seeyond

Registered Office: 43 Avenue Pierre Mendes France – 75013 Paris – France
Tel. +33 1 58 19 09 80
A public limited company with capital of € 4 963 183
Regulated by AMF under n° GP 17000034
Company Trade Registration (RCS) Number 525 192 720 Paris

SEEYOND

Additional notes

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.

In the E.U. (outside of the UK and France): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. Italy: Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via San Clemente 1, 20122 Milan, Italy. Germany: Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. Netherlands: Natixis Investment Managers, Nederlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. Sweden: Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. Spain: Natixis Investment Managers, Sucursal en España. Serrano n°90, 6th Floor, 28006, Madrid, Spain. Belgium: Natixis Investment Managers S.A., Belgian Branch, Louizalaan 120 Avenue Louise, 1000 Brussel/Bruxelles, Belgium.
In France: Provided by Natixis Investment Managers International – a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris.
In Switzerland: Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich.
In the British Isles: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: in the United Kingdom: this material is intended to be communicated to and/or directed at investment professionals and professional investors only; in Ireland: this material is intended to be communicated to and/or directed at professional investors only; in Guernsey: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; in Jersey: this material is intended to be communicated to and/or directed at professional investors only; in the Isle of Man: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008.
In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office: Office 23, Level 15, The Gate Building, East Wing, DIFC, PO Box 506752, Dubai, United Arab Emirates.
In Japan: Provided by Natixis Investment Managers Japan Co., Ltd., Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No. 425. Content of Business: The Company conducts discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 1-4-5, Roppongi, Minato-ku, Tokyo.
In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2018 FSC SICE No. 024, Tel. +886 2 8789 2788.
In Singapore: Provided by Natixis Investment Managers Singapore (name registration no. 53102724D) to distributors and institutional investors for informational purposes only. Natixis Investment Managers Singapore is a division of Ostrum Asset Management Asia Limited (company registration no. 199801044D). Registered address of Natixis Investment Managers Singapore: 5 Shenton Way, #22-05 UIC Building, Singapore 068808.
In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only.

In Australia: Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only .

In New Zealand: This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand.

In Latin America: Provided by Natixis Investment Managers S.A.

In Uruguay: Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627.

In Colombia: Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors.

In Mexico: Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional de Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to “Investment Managers” is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law.

The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. Past performance information presented is not indicative of future performance.

Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part.

All amounts shown are expressed in USD unless otherwise indicated.