Market Review

Global Market Strategy at Natixis Investment Managers Solutions February, 2023

Macroeconomic developments

Resilient economic data in February continued to suggest that a recession may not be imminent and, thus, hopes for a proximate pause in interest rate increases may still be premature. The soft-landing narrative has now been replaced by “the postponed soft landing” one. The Federal Reserve (Fed), the European Central Bank (ECB) and the Bank of England (BOE) were all in line with expectations and raised rates in the month. Overall, policymakers stuck to their scripts that inflation remains too elevated and that their job is not yet done.

US headline inflation accelerated on a monthly basis in January and climbed 0.5% MoM after a 0.1% increase in December. Core inflation advanced remained steady compared to the previous month and climbed 0.4% MoM, with shelter costs contributing the most to the increase. Moreover, January’s non-farm payrolls report came in much stronger than expected, coming in at 517,000 new jobs, doubling the consensus estimate[1]. The Fed raised its key rate by 25bp to 4.75%, slowing the pace of the hikes from the previous one, but this meeting minutes pointed at a general consensus that rates may need to rise further than initially thought.

Eurozone headline inflation again fell on a YoY basis in January, to 8.5%, as energy prices continued to fall, but the monthly decline lost strength and was cut in half. Additionally, core inflation ticked up 0.1 percentage points to 5.3%, with services accounting for most of the increase. Consumer confidence rebounded from its very low levels, and the preliminary composite PMI for February rose to 52.3, up from 50.3, reflecting the strongest expansion in business activity since May 2021. The ECB raised its key rates by 50bp, taking the main refinancing rate to 3.0%, and President Lagarde explicitly expressed the intention to increase rates by another 50bps in March.

UK headline consumer inflation, while still very elevated at 10.1% YoY, showed encouraging signs at the core level. The core figure declined to 5.8% YoY from 6.3% but, even more important, it fell 0.9% MoM versus the 0.6% monthly increase the month before[2]. Overall, the UK economy has been holding up much better than everyone had expected, with unemployment rate stable at 3.7%, a significant improvement in the composite PMI and an increase in consumer confidence. The BOE raised rates by 50bp, taking the base rate to 4.0%, but the tone of the policy statement was rather dovish as it asserted that inflation had reached an inflection point.

Japan headline inflation increased to 4.3% YoY in January, the highest level in the last 40 years, and advanced 0.5% MoM versus a 0.2% monthly increase in December. Core inflation at 1.9% YoY is also approaching multidecade high levels. To cope with this situation, both the Japanese government and BOJ are encouraging companies to raise wages at the annual wage negotiation period in March. Moreover, Kazuo Ueda, the nominee to be the new BOJ Governor, surprised markets after a testimony to the Diet in which he seemed to favour the loose monetary policies of the previous administration.

Lastly, while China’s reopening has so far proven to be uneven with foreign travel remaining depressed, hard data is also raising the prospects for a better-than-expected recovery. The official manufacturing PMI increased to 52.6 in February from January’s 50.1, marking the highest reading since April 2021. Similarly, the official services PMI edged higher to 56.3 from 54.4. Noteworthy was that China’s top 100 developers new home sales rose by 14.9% YoY following a 19-month slump, marking the first yearly growth since July 2021.

Market reaction

Following the strong start of the year witnessed in January, both global equity and global fixed income markets posted negative performance in February. The MSCI World lost 2.4% as resilient economic data made investors reassess their expectations for terminal interest rates as well as the pace of rate cuts. On a similar manner, the MSCI Emerging Markets also suffered, losing 6.5%, from stronger-than expected macroeconomic data as well as from a re-escalation in US-China tensions and the strengthening of the US dollar. Among the major regions, the IBEX35 and the

[1] Statistical issues should explain this huge number of job creations

[2] Such volatility in price data leads to remain cautious regarding these early signals

Sources: Bloomberg & NIM Solutions

FTSE MIB led the way, increasing 4.0% and 3.3%, respectively. The STOXX600 increased 1.9% in local terms and the TOPIX increased 0.9% in local terms, while the S&P500 the and the Hang Seng both lagged, declining 2.5% and 9.4%, respectively.

Despite the generalized increase in yields, global growth stocks again outperformed value stocks, however, they both still posted negative returns for the month, declining 1.9% and 2.9%, respectively. On a global sectoral basis, information technology (+0.0%), industrials (-0.7%) and financials (-1.9%) were monthly top performers while real estate (-5.6%), materials (-5.4%) and energy (-4.6%) the monthly worst performers.

Global yields moved higher on the back of the resilient economic data that was released throughout the month. Markets' anticipation for a slower pace of tightening from central banks was challenged and investors had to reassess terminal rates as well as the pace of subsequent rate cuts. The US 10-year yields rose 38bp to 3.92%, with the 2-year rising 58bp to 4.82%. The German 10-year yield increased 33bp to 2.65%, OATs 33 bp to 3.12%, BTPs 28bp to 4.48% and JGBs stayed at 0.5% (the top of the range of the yield curve control policy).

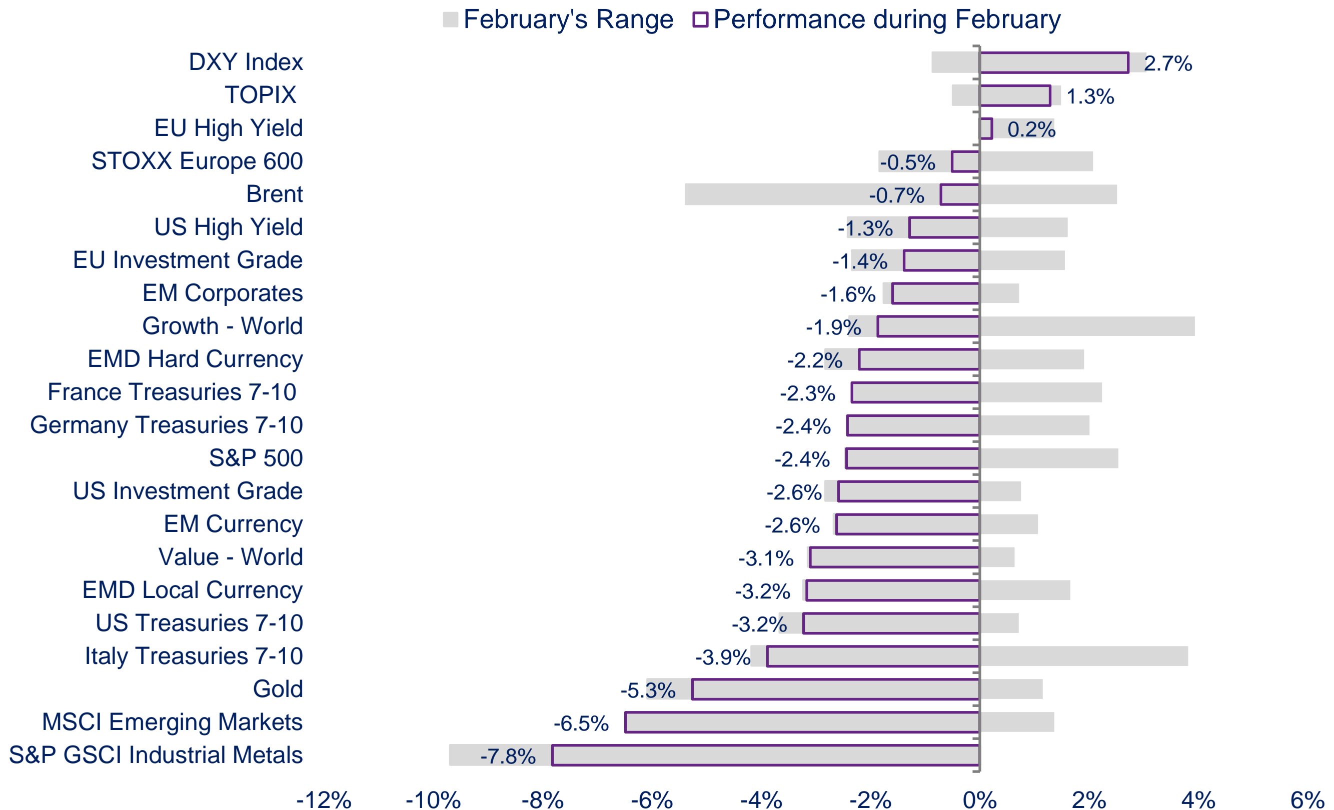
Noteworthy was the sharp repricing in UK gilts, especially 2-year ones, that took place in the last sessions of the month. The 10-year gilt increased 49bp to 3.83% while 2-year lost increased just 22bp to 3.69%, after giving up 35bp in the last days. Also noteworthy again was the narrowing in the BTP-Bund spread, which tightened 5bp to 183bp.

While riskier bonds performed poorly in February, they managed to outperform government bonds. The best performers were within the high yield space, where the EU and US returned 0.2% and -1.3%, respectively. EU investment grade and EM corporate followed, returning, -1.4% and -1.6%, respectively.

The US dollar rebounded and appreciated against most G-10 peers, gaining 2.6% against the Euro, 2.4% against the Pound, 2.8% against the Franc, 4.7% against the Yen, 2.7% against the Yuan and 3.2% against the Real.

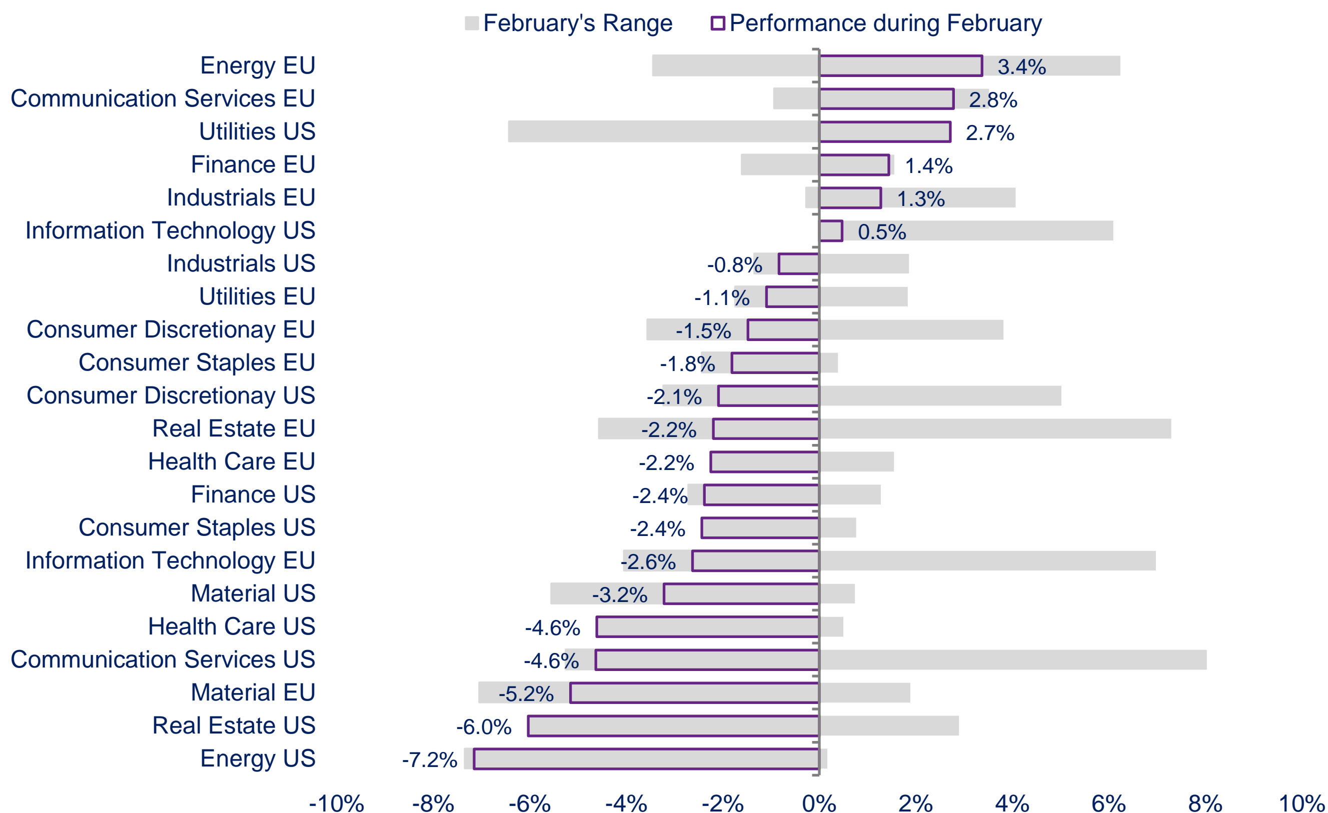
Cross Asset Performance in February – USD

Past performance information presented is not indicative of future performance



Source: Bloomberg & NIM Solutions

(Second chart in the next page)



Source: Bloomberg & NIM Solutions

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.
To obtain a summary of investor rights in the official language of your jurisdiction, please consult the legal documentation section of the website (im.natixis.com/intl/intl-fund-documents).
In the E.U.: Provided by Natixis Investment Managers International or one of its branch offices listed below. Natixis Investment Managers International is 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. Italy: Natixis Investment Managers International Succursale Italiana, Registered office: Via San Clemente 1, 20122 Milan, Italy. Netherlands: Natixis Investment Managers International, Nederlands (Registration number 000050438298). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. Spain: Natixis Investment Managers International S.A., Sucursal en España, Serrano n°90, 6th Floor, 28006 Madrid, Spain. Sweden: Natixis Investment Managers International, Nordics Filial (Registration number 516412-8372- Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. Or,
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. Germany: Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Senckenberganlage 21, 60325 Frankfurt am Main. Belgium: Natixis Investment Managers S.A., Belgian Branch, Gare Maritime, Rue Picard 7, Bte 100, 1000 Bruxelles, Belgium.
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: Unit L10-02, Level 10, ICD Brookfield Place, 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 investment management business, investment advisory and agency business and Type II Financial Instruments Business as a Financial Instruments Business Operator.
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 2020 FSC SICE No. 025, Tel. +886 2 8789 2788.
In Singapore: Provided by Natixis Investment Managers Singapore Limited (company registration no. 199801044D) to distributors and qualified investors for information purpose only.
In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to professional investors for information purpose 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 Colombia: Provided by Natixis Investment Managers International 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 Latin America: Provided by Natixis Investment Managers International.
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 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.
In Brazil: Provided to a specific identified investment professional for information purposes only by Natixis Investment Managers International. This communication cannot be distributed other than to the identified addressee. Further, this communication should not be construed as a public offer of any securities or any related financial instruments. Natixis Investment Managers International is 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.
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. The analyses and opinions expressed by external third parties are independent and does not necessarily reflect those of Natixis Investment Managers. 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.
Natixis Investment Managers may decide to terminate its marketing arrangements for this product in accordance with the relevant legislation.