NATIXIS
INVESTMENT MANAGERS

PRESS RELEASE

Brexit, trade wars and geopolitical tensions set to cause muted H2, say market strategists across the Natixis Organization and affiliated managers

- Results from the first Natixis Midyear Strategist Survey suggest that outcomes for 2019 will be more muted as markets grapple with a number of downside scenarios and little in the way of upside surprises
- A messy Brexit outcome is the most likely downside risk, while a rebound in growth driven by new central bank policy ranks as the most likely upside
- More bullish outlook for US Sovereign bonds, emerging market equities, global REITs and emerging market bonds due to accommodative central bank policy
- More bearish outlook for cryptocurrencies, UK stocks, US high yield and bank loans

London, 13 August 2019 – Global investors should be poised to grapple with lacklustre performance over the next six to twelve months, despite a generally positive first half of 2019, according to the Natixis Midyear Strategist Survey, published by the Natixis Investment Institute.

The report explores the findings from 17 CEOs, market strategists and economists from across the Natixis organization and its affiliated managers about what investors might expect in the 2nd half of the year. The survey marks the first time this group has been polled together.

Downside risks weigh heavily on market expectations

The survey was completed in July, just before the latest flare-up in the trade negotiations between the US and China. However, despite 2 years of counter-punching between the two global superpowers, often impacting global markets as it did at the beginning of last week, spill-over effects from the trade war ranked only second to a messy Brexit as the biggest downside risks to the global economy. However, respondents were much less concerned with the possibility of recession, citing "a US and/or global recession" as the least likely downside scenario. Ascertains

Downside Risk[1]

Risk Event	Probability Score[1]
Messy Brexit outcome	3.6
US/China trade war and spillover effects	3.4
Escalation of military/geopolitical conflict (Iran, North Korea, Syria, etc.)	2.9
Disruptive regulation or anti-trust measures in the technology sector	2.9
US budget woes: government shutdown or debt ceiling breach	2.8
Major cyberattack	2.7
US and/or global recession	2.5

[1] Calculated average of the likelihood on a 1-5 scale with 1 being least likely and 5 being most likely. Natixis Investment Managers Midyear survey conducted by CoreData Research, June 25-July 9, 2019.

Few strategists expect positive outcome to Brexit

The survey respondents have a general lack of enthusiasm for upside potential. Notably, few anticipate any positive Brexit scenarios and, while some hold hope that new central bank accommodations could drive a rebound in growth, just as many believe it is unlikely to work. More significantly, those surveyed did not foresee accelerating global growth or equity earnings in the next six to twelve months.

"The survey results clearly show that, in aggregate, our respondents don't see a lot of positive market catalysts on the horizon – nor do they see a recessionary worst-case scenario as very likely in the near term. It's a kind of a 'muddle through' outlook," commented Esty Dwek, Head of Global Market Strategy, Dynamic Solutions at Natixis Investment Managers.

She continues: *"After a dismal end to 2018, equities and bonds rallied in the first half of 2019. Performance to date has been driven largely by the hopes of new rounds of central bank easing but, as what the market hoped for comes closer to reality, market strategists across the Natixis family find little to get excited about. Perhaps the best news is that despite projections for lacklustre performance, they are not calling for a dramatic retreat from the impressive gains. After the stinging losses in Q4 2018, maybe 'meh' is something to be excited about after all."*

Upside Risk[2]

Upside Catalyst	Probability Score[1]
New central bank accommodation drives growth rebound	3.1
No Brexit: withdrawal of Article 50 or 2nd referendum	2.5
Significant trade agreement or breakthrough between the US & China	2.4
Global earnings accelerate and exceed expectations	2.3

[2] Calculated average of the likelihood on a 1-5 scale with 1 being least likely and 5 being most likely. Natixis Investment Managers Midyear survey conducted by CoreData Research, June 25-July 9, 2019.

Asset class outlook

With a strong expectation of Fed rate cuts on the horizon, Natixis strategists are most bullish on US Sovereign bonds, followed by emerging market equities, global REITs and emerging market bonds of all types (hard currency, local currency, and corporate). The common thread running through these bullish forecasts is accommodative central bank policy and ample global liquidity. In turn, respondents are most bearish on cryptocurrencies, UK stocks, US high yield and bank loans.

Weighted Net Bullish–Bearish Score3

	Asset Class	Bull – Bear Score
Bullish	US High Quality/Sovereign Bonds	15
	EM Stocks Equity	13
	EM Hard Currency	11
	Global REITs	10
	EM Local Currency	8
	EM Corporate Bonds	6
Relatively Neutral	Non-US Developed Equity	5
	US Investment Grade Credit	5
	Euro Investment Grade Credit	5
	Eurozone Large Cap Equity	2
	US Large Cap Equity	2
	US Small/Mid Cap Equity	-5
	Eurozone High Yield Credit	-5
	Eurozone Small/Mid Cap Equity	-5
	Eurozone High Quality/Sovereign Bonds	-5
Bearish	Bank Loans	-7
	US High Yield Credit	-11
	UK Equity	-15
	Cryptocurrency	-19

[3] Weighted sum of bullish responses (>5) minus bearish responses (<5) for each asset class based on a 1-10 scale (1 = most bearish, 10 = most bullish) with 5 being neutral. Natixis Investment Managers Midyear survey conducted by CoreData Research, June 25-July 9, 2019.

Across asset classes, the survey found that:

- **Equities**: Natixis strategists predict little in the way of equity returns in the US and Eurozone over the next six to twelve months. But that's not to say the consensus calls for dramatic losses either. Overall, the outlook on equities is balanced and no strategists forecast a bear market (-20%) or even a market correction (-10%) in this time frame.
- **Fixed Income**: Central banks continue to be the focus as Natixis strategists anticipate more dovish policy from both the U.S. Federal Reserve and the European Central Bank (ECB). On average, the strategists predict the Fed will ease rates back by 50 basis points by year end. In Europe, respondents see further easing from the ECB and anticipate a 5–10 bps reduction in the overnight deposit rate. Consensus is not as strong on ECB cuts, as almost half (8 out of 17) forecast no change to the overnight deposit rate. This may indicate that rather than reducing rates the ECB may first try other levers such as offering additional forward guidance, restarting large-scale asset purchases (QE), or tiering the deposit rate.
- **Currencies:** The trend toward more dovish interest rate policy from the Fed and ECB is pronounced in strategist sentiment on currency. Overall expectations for volatility run strongest here with 10 of 17 forecasting increased currency volatility and no one anticipating any declines.
- **Commodities:** On average, strategists see gold falling slightly by 1–3%, but the respondents were very evenly split. Meanwhile, respondents see Brent crude falling by around 5% in the same period.

- **Volatility:** Natixis strategist projections for volatility go hand-in-hand with their equity outlook, anticipating a slight increase in volatility with the VIX rising 2.1 points from its mid-year level of 15.1. This average projection to 17.2 represents a modest but meaningful increase in volatility overall. Across broad assets, and in contrast to recent market readings, the respondents saw currency volatility picking up the most, followed by equity volatility, with bond/interest rate volatility likely to move the least.

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Survey Respondents:

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- François-Xavier Chauchat, Chief Economist and member of the Investment Committee, Dorval Asset Management
- Esty Dwek, Head of Global Market Strategy, Dynamic Solutions, Natixis Investment Managers
- James Grabovac, CFA®, Investment Strategist, Municipal Fixed Income team, Loomis Sayles
- Jack Janasiewicz, CFA®, Senior Vice President and Portfolio Strategist, Natixis Investment Managers
- Brian P. Kennedy, Portfolio Manager, Full Discretion team, Loomis Sayles
- Mathieu Klein, Chief Investment Officer and co-founder, Darius Capital Partners
- Ibrahima Kobar, Deputy Chief Executive Officer, Global CIO, Ostrum Asset Management
- David Lafferty, CFA®, Senior Vice President and Chief Market Strategist, Natixis Investment Managers
- Joseph Lavorgna, Chief Economist, CIB Americas, Natixis
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- Philippe Waechter, Chief Economist, Ostrum Asset Management
- Chris D. Wallis, CFA®, CPA®, CEO, CIO, Senior Portfolio Manager, Vaughan Nelson Investment Management

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About Natixis Investment Managers

Natixis Investment Managers serves financial professionals with more insightful ways to construct portfolios. Powered by the expertise of 24 specialized investment managers globally, we apply Active Thinking® to deliver proactive solutions that help clients pursue better outcomes in all markets. Natixis Investment Managers ranks among the world's largest asset management firms[4] with $1,022.9 billion / €898.2 billion AUM.[5] Headquartered in Paris and Boston, Natixis Investment Managers is a subsidiary of Natixis. Listed on the Paris Stock Exchange, Natixis is a subsidiary of BPCE, the second-largest banking group in France. Investment solutions are also offered through Natixis Advisors and Dynamic Solutions. **Not all offerings available in all jurisdictions.** For additional information, please visit Natixis Investment Managers' website at im.natixis.com | LinkedIn: linkedin.com/company/natixis-investment-managers. Natixis Investment Managers' distribution and service groups include Natixis Distribution, L.P., a limited purpose broker-dealer and the distributor of various registered investment companies for which advisory services are provided by affiliated firms of Natixis Investment Managers, and Natixis Investment Managers S.A. (Luxembourg) and its affiliated distribution entities in Europe and Asia.

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[4] Cerulli Quantitative Update: Global Markets 2019 ranked Natixis Investment Managers as the 17th largest asset manager in the world based on assets under management as of December 31, 2019.

[5] Net asset value as of June 30, 2019. Assets under management ("AUM"), as reported, may include notional assets, assets serviced, gross assets, assets of minority-owned affiliated entities and other types of non-regulatory AUM managed or serviced by firms affiliated with Natixis Investment Managers.