MARKETING COMMUNICATION

PRESS RELEASE

2023 Outlook: Institutional Investors See Recession as Inevitable, But Stagflation as the Bigger Risk, Finds Natixis Investment Managers' Global Survey

- *Majority of institutional investors think inflation will remain high and central bank policy alone can't fix it. Nearly half (49%) think an engineered soft landing is unrealistic*
- *Rising rates make bonds attractive again, but liquidity concerns are brewing.*
- *Institutions disagree on outlook for stocks, are bullish on private equity and private assets more broadly, bearish on traditional real estate, and stronger on environmental, social and governance (ESG) investments, with a big uptick in green bonds.*
- *Emerging market outlook is caught up in geopolitical tug of war between the US and China, currency fluctuations and diminishing investment opportunities are viewed under a sharper ESG investing lens.*

London, 7 December 2022 – Institutional investors* around the world head towards 2023 with a sombre view of the economy and a mixed outlook for markets, with expectations of even higher interest rates, inflation and volatility next year, according to new survey findings published today by Natixis Investment Managers (Natixis IM). The vast majority (85%) believe they are or will be in a recession next year, with 54% believing this necessary to get inflation under control.

Institutions see central bank policy error as one of the biggest threats to the economy. But most (65%) say the risk of recession, a likely outcome of central bank policy, pales against the risk of stagflation, or a period of negative GDP growth with entrenched inflation and spiralling unemployment.

But not all inflation related news is negative: given prospects for central bankers continuing to fight inflation with rate hikes in the new year, seven out of ten institutional investors (72%) believe rising rates will usher in a resurgence in traditional fixed income investments while 56% are bullish on bond markets in 2023.

"Despite strong economic headwinds, institutions are remarkably bullish on most asset classes, and they see opportunistic growth for active managers amid ongoing market disruption," said Andrew Benton, Executive Managing Director & Head of Northern Europe & MENA, Natixis Investment Managers. He added, "After a decade of soaring share prices fuelled by low interest rates, 2023 is the year the market recognizes again that valuations matter and the case for traditional fixed income is more compelling."

2023 Market Outlook: More bullish than bearish, More volatility for sure

While inflation and interest rates are institutional investors' top two portfolio risk concerns, 57% cite war as the biggest global economic threat – a sentiment that's strongest in Europe (68%). Deteriorating relations between the US and China is also viewed as a top threat, a concern cited by 47% of institutions in Asia and 53% in the US after the mid-term elections, up from 25% before the election. Ultimately, 65% of institutional investors globally believe that China's geopolitical ambitions will lead to a bifurcation of the global economy into a two-world order, with China and the US representing the biggest spheres of influence.

Institutions are split on what the outcome of policy on economic performance will be with 53% projecting for a safe landing and 47% projecting a crash landing. 69% agree that valuations still do not reflect fundamentals, but 72% think the markets will finally come to terms with the realization that valuations matter.

60% think large-cap stocks will outperform small caps, and outperformance will most likely come from the Healthcare, Energy and Financial sectors. Institutional investors believe Consumer Discretionary (42%) and Real Estate (47%) sectors are most likely to underperform, as 2023 will see rising rates and declining house prices.

Investors are mostly bullish on private equity (62%) and bonds (56%) and with a split between bulls and bears on stocks and private debt. They are mostly bearish on commercial real estate (82%), with (61%) agreeing that the ongoing prevalence of remote work will result in a sharp depreciation of commercial real estate assets.

With renewed interest in bonds and as central banks phase out their asset purchase programs, liquidity is bubbling up as an issue. The number of institutional investors who cite liquidity as one of the biggest portfolio risks next year has nearly tripled to 36% from 13% a year ago.

Generating returns in 2023: Investors look to ESG and Alternatives

While the macroeconomic outlook isn't expected to shake up wholesale changes to allocation strategy, the survey found that 53% of the world's largest, most sophisticated investors are actively de-risking their portfolios with tactical allocation moves that reveal a shift to quality in fixed income and alternative strategies for higher yields, stable returns and a hedge against downside risks.

In this shift, 62% believe there is alpha to be found in ESG, and 59% are planning to increase ESG investments.

Half of those institutions that own green bonds globally plan to increase their investments, while almost the same number say they will maintain their current allocation. About seven in ten (68%) in Asia currently invested in green bonds say they will increase their allocations. The same holds true for 54% in EMEA. Only 4% plan to reduce their holdings.

Even with rates on the rise, a decade long quest for yield may still be hounding investment teams as six in ten (61%) say their organization are turning to alternative investments as a yield replacement. The largest number (44%) plan to increase allocations to infrastructure in 2023, 43% plan to increase allocations to private equity and 36% to private debt investments.

Alternatives allocations are also a tactic to mitigate risk as two-thirds of institutions say a portfolio composed of 60% equities, 20% fixed income and 20% alternatives is likely to outperform traditional 60/40 portfolios.

Portfolio moves: Tactical repositioning in a market calling for active management

60% report that their active investments have outperformed their benchmark over the past 12 months and recognise the limitations of passive investments in times of volatility. Given the outlook on 2023 74% believe markets will favor active managers in 2023.

Investors will likely look for private assets to provide relief on the equity side of the portfolios as about half (48%) believe private markets will provide a safe haven in a recession. Confidence in the asset class's ability to fulfil this role has been rising steadily since Natixis IM's 2021 outlook when only 35% agreed, and 2022, when 45% thought the same.

Within equities, institutional investors are most likely to increase allocations to US stocks (41%) followed by Asia-Pacific (33%) and emerging markets (33%) stocks.

In emerging markets, they see the best growth opportunities in Asia ex-China. Two-thirds (66%) agree that emerging markets are overly dependent on China, and 74% think China's geopolitical ambitions have reduced its investment appeal.

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A full copy of the report on the 2022 Natixis Investment Managers Institutional Investor Market Outlook can be found here: https://www.im.natixis.com/intl/research/institutional-investor-survey-2023-outlook.

Methodology

* Natixis IM surveyed 500 institutional investors in 29 countries throughout North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East who collectively manage $20.1 trillion assets for public and private pensions, insurers, foundations, endowments and sovereign wealth funds around the world. The survey was conducted by CoreData Research in October and November 2022.

About the Natixis Center for Investor Insight

The Natixis Center for Investor Insight is a global research initiative focused on the critical issues shaping today's investment landscape. The Center examines sentiment and behavior, market outlooks and trends, and risk perceptions of institutional investors, financial professionals and individuals around the world. Our goal is to fuel a more substantive discussion of issues with a 360° view of markets and insightful analysis of investment trends.

About Natixis Investment Managers

Natixis Investment Managers' multi-affiliate approach connects clients to the independent thinking and focused expertise of more than 20 active managers. Ranked among the world's largest asset managers[1] with more than $1.1 trillion assets under management[2] (€1.1 trillion), Natixis Investment Managers delivers a diverse range of solutions across asset classes, styles, and vehicles, including innovative environmental, social, and governance (ESG) strategies and products dedicated to advancing sustainable finance. The firm partners with clients in order to understand their unique needs and provide insights and investment solutions tailored to their long-term goals.

Headquartered in Paris and Boston, Natixis Investment Managers is part of the Global Financial Services division of Groupe BPCE, the second-largest banking group in France through the Banque Populaire and Caisse d'Epargne retail networks. Natixis Investment Managers' affiliated investment management firms include AEW; AlphaSimplex Group; DNCA Investments;[3] Dorval Asset Management; Flexstone Partners; Gateway Investment Advisers; Harris Associates; Investors Mutual Limited; Loomis, Sayles & Company; Mirova; MV Credit; Naxicap Partners; Ossiam; Ostrum Asset Management; Seeyond; Seventure Partners; Thematics Asset Management; Vauban Infrastructure Partners; Vaughan Nelson Investment Management; and WCM Investment Management. Additionally, investment solutions are offered through Natixis Investment Managers Solutions and Natixis Advisors, LLC. **Not all offerings are 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, LLC, a limited purpose broker-dealer and the distributor of various U.S. registered investment companies for which advisory services are provided by affiliated firms of Natixis Investment Managers, Natixis Investment Managers S.A. (Luxembourg), Natixis Investment Managers International (France), and their affiliated distribution and service entities in Europe and Asia.

[1] Cerulli Quantitative Update: Global Markets 2022 ranked Natixis Investment Managers as the 18th largest asset manager in the world based on assets under management as of December 31, 2021.

[2] Assets under management ("AUM") of current affiliated entities measured as of June 30, 2022 are $1,156.7 billion (€1,106.7 billion). 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.

[3] A brand of DNCA Finance.