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NEWS RELEASE

2020 Market Outlook: Natixis Survey Finds Institutional Investors Stay Sober as Markets Rally On

- Institutional investors say they are braced for slowing economic growth, rising public debt, low yields, complications around Brexit, and increased volatility.
- Two-thirds say the US presidential election is likely to be a major source of volatility.
- Refocus on diversification and active management – active share of portfolios increases to 71% globally.
- 71% think individual investors have a false sense of security about passive investments and are unaware of potential risks.
- Six in ten institutions are using private assets for diversification and better returns, as many see signs of asset bubbles in traditional stocks and bonds.

BOSTON, Dec. 4, 2019 – Institutional investors are apprehensive about market prospects for 2020, despite record highs in major market indexes around the world, according to a global survey of institutional investors released today by Natixis Investment Managers. Increased volatility is cited as the top portfolio concern, and most see no relief in sight from trade and low yield risks. Yet institutional investors aren't making big changes to their portfolios, and instead, are waiting out the current cycle until they're comfortable enough with market conditions to make any portfolio moves.

Natixis surveyed 500 institutional investors, who collectively manage more than $15 trillion in assets for pensions, insurers, sovereign wealth funds, foundations and endowments around the world. Many respondents foresee well-established market factors on the horizon becoming a reality next year, with tangible negative impact on performance. According to the survey:

- Nearly three-quarters (73%) of institutional investors expect ongoing trade disputes to hurt their investment performance; 67% are anticipating pain from slowing global growth and 59% believe a hard Brexit will hamper performance in 2020.
- 76% believe that persistently low rates have led to asset bubbles; yet, with rates so low for so long, more than half (54%) worry that central banks do not have the tools they need at their disposal to manage through any new market challenges.
- 89% are concerned that the explosion of public debt – a game-stopper for many past economic expansions – will have negative consequences for global financial security.
- Overall, more than half of institutional investors (58%) believe the next global financial crisis will occur within one to three years.

"Institutional investors have been steadily fortifying their portfolios in anticipation of inevitable changes in the market cycle that could make 2020 a bumpy ride for unprepared investors," said David Giunta, CEO for the US at Natixis Investment Managers. "Despite a substantial amount of uncertainty next year,

888 Boylston Street, Suite 800, Boston, MA 02199-8197
im.natixis.com

institutional investors remain focused on their long-term objectives and continue to see actively managed, diversified portfolios as a prudent path to outperformance."

According to the Natixis report, "The waiting game: Ten market trends institutional investors are watching for in 2020," institutional investors identify several factors that will drive their investment strategy in 2020. Key among them are:

Volatility leads portfolio concerns
In the year ahead, institutions rank volatility as their top portfolio risk (53%), with 77% saying they expect greater volatility specifically in the stock market. Many also expect bond (67%) and currency (52%) volatility to rise.

Active management continues to gain favor
Institutional investors will remain focused on active management to guide them through more volatile markets. Nearly three-quarters (74%) of institutional investors say the market environment in 2020 is likely to be favorable for active portfolio management. Accordingly, investors continue to increase their allocations to active strategies while their use of passive strategies continues to decline. Current allocations are split 71% active and 29% passive, up from 64% allocated to active management and 36% to passive when surveyed in 2015.

Portfolio allocations largely unchanged
On average, institutional investors allocate 37% of their portfolios to stocks, 39% to bonds, 18% to alternatives, and 5% to cash. Their projected allocations heading into 2020 remain relatively unchanged. More precise fine tuning occurs within asset sleeves, with notable decreases in exposure to US equities and government debt and increased exposure to emerging market stocks, investment grade corporate debt, real estate/REITs, private debt and infrastructure.

Overall, institutions express no distinct sector preferences for 2020; rather, they have split projections for outperformance and underperformance for most sectors. However, two exceptions are healthcare and information technology. Low rates, slow growth and a range of other factors add up to moderate market performance, according to institutional investors surveyed.

Alternative paths to growth
Natixis found most institutions have turned to the private markets, primarily for diversification (62%) and more attractive returns (61%) than they expect from traditional stocks and bonds. Most institutions now use private equity (79%) and private debt strategies (77%), and two-thirds (68%) see private assets playing a more prominent role in their long-term portfolio strategy, despite associated liquidity risks. Seven in ten (71%) institutional investors feel the return potential of private assets is worth the liquidity tradeoff.

Next year, 37% of institutional investors plan to increase their allocations to private debt as well as private equity (28%), real estate (29%) and infrastructure (32%). However, the growing popularity of private investments creates new challenges. Eighty-six percent of institutional investors are concerned about too much money chasing too few deals in the year ahead, and three-fourths wonder if public markets are now overvalued.

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Politics are the elephant in the room

Historical market trends during election years may not help predict the outcome and impact of the 2020 US presidential election, but 64% of institutional investors around the world agree that the campaign cycle itself will be a significant source of volatility next year. Investors are fairly split on how the markets would react to a change of administration in the White House and/or Democratic control of both houses of Congress. In the meantime, 54% think the ongoing impeachment process will have a destabilizing effect on the markets.

Beyond the US 2020 elections, 69% of institutional investors believe the geopolitical ramifications of foreign election interference are a growing problem globally. They primarily use two key strategies to manage geopolitical portfolio risks. Nearly half (48%) rely on scenario analysis to project outcomes for a range of events and potential outcomes. Almost the same number (47%) have capital buffers and reserves in place to help them navigate negative market outcomes.

Risk is rising with popularity of passive

As investors have flocked to passive investments in recent years, institutional investors see significant risks ahead for individual investors and markets in general. Most significantly, 54% of institutional investors believe the excessive use of passive index funds suggests the market is ignoring fundamentals. Seven in ten (73%) suspect individual investors will prematurely liquidate investments over recession worries, but 64% worry outsized flows into and out of index funds and other passive investments will contribute even more to volatility. Another concern, according to 74% surveyed, is that individual investors have a false sense of security about passive investments and are unaware of their risks (71%).

“Previous studies have told us that institutions have been increasingly cautious in their outlook, and their portfolio positions reflect those concerns,” said Dave Goodsell, Executive Director of Natixis’ Center for Investor Insight. “The sentiment from institutional investors tells us that the question is not whether risk and volatility will impact markets and volatility, but when.”

The full report is available for download at im.natixis.com/us/research/institutional-investor-survey-2020-outlook.

Methodology

Natixis Investment Managers surveyed 500 institutional investors, including managers of corporate and public pension funds, foundations, endowments, insurance funds and sovereign wealth funds in North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East. Data were gathered in October and November 2019 by the research firm CoreData.

About the Natixis Investment Institute

The Natixis Investment Institute applies Active Thinking® to critical issues shaping the investment landscape. A global effort, the Institute combines expertise in the areas of investor sentiment, macroeconomics, and portfolio construction within Natixis Investment Managers, along with the unique perspectives of our affiliated investment managers and experts outside the greater Natixis organization.

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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 serves financial professionals with more insightful ways to construct portfolios. Powered by the expertise of more than 20 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[1] with more than $1 trillion assets under management[2] (€921.5 billion).

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. Natixis Investment Managers' affiliated investment management firms include AEW; Alliance Entreprendre; AlphaSimplex Group; Darius Capital Partners; DNCA Investments;[3] Dorval Asset Management; Flexstone Partners; Gateway Investment Advisers; H2O Asset Management; 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;[4] Vaughan Nelson Investment Management; Vega Investment Managers;[5] and WCM Investment Management. Investment solutions are also offered through Natixis Advisors and Natixis Investment Managers Solutions.[6] **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.

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[1] 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, 2018.

[2] Net asset value as of September 30, 2019 is $1,004.5 billion. 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.

[3] A brand of DNCA Finance.

[4] Not yet licensed – currently pending authorization process as a portfolio management company with the French *Autorité des marchés financiers* (the "AMF").

[5] A wholly-owned subsidiary of Natixis Wealth Management.

[6] Natixis Investment Managers Solutions teams, based in several locations (Paris, London, Geneva), gather the asset allocation, portfolio construction, multi-asset portfolio management and structuring expertise of Natixis Investment Managers. Only the entity based in Paris has the portfolio management company certification.

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Press Contact:
Maggie McCuen
Natixis Investment Managers
Tel: 617-449-2543
Maggie.McCuen@Natixis.com

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