NEWS RELEASE

Markets are currently too optimistic, as geopolitics, slowing consumer spending and potential for an inflation surprise weigh on minds, say Strategists surveyed by Natixis Investment Managers

- **US markets to offer investors best return potential but US election to present biggest risk**
- **While most believe the risk of a global recession is behind us, two thirds (67%) think markets are too optimistic.**
- **Strategists believe portfolios diversified with alternatives will likely outperform the traditional 60/40 mix.**
- **80% of respondents believe AI will help uncover new opportunities otherwise undetectable in business practices.**

BOSTON, July 30, 2024 – With inflation easing, and fears of a global recession behind us, the first half of 2024 (H1) experienced a positive start to the year. But even so, nearly 7 in 10 (67%) strategists across Natixis Investment Managers and its affiliates believe markets may be too optimistic as they head into an uncertain second half of 2024 (H2).

The insights of 30 market strategists, portfolio managers, research analysts and economists at Natixis Investment Managers and 11 of its affiliated investment managers, as well as Natixis Corporate and Investment Banking from June 2024 show that all eyes are on the United States in H2 as the presidential elections draw closer.

Investors remain cautious despite a strong start to the year
Although 73% of the strategists surveyed believe there is no (10%) or a low (63%) risk of a global recession, uncertainty remains. 74% of respondents see the US presidential election as a medium (37%) or high (37%) risk to investors in H2, as 77% say elections matter for markets. 60% think the US election will more likely weigh on the market than support it, however, 3 in 10 (30%) think the election is more noise than a signal for markets. Inflation, which has returned as an issue in an election year for the first time in decades, is among strategists' top fears. And, relatedly, some 47% worry about 'politization' of the Fed as it makes rate cut decisions.

While inflation has continued to ease in H1, the strategists still see it as a potential risk for investors, with just 7% thinking the Federal Reserve will reach its target by year end and 4 in 10 (40%) worrying that surprise inflation could put a stop to the market rally. 77% are concerned about rates remaining higher for longer. 70% are expecting two rate cuts from the European Central Bank (ECB) in the second half of the year, 67% expect two cuts from the Bank of England (BOE), while only 37% expect the same in the US.

Geopolitics
Political challenges continue to play on strategists' minds, with 80% of respondents worrying geopolitics will be a headwind in H2 with the Ukraine war, the Gaza-Israel conflict and US-China relations ongoing. In fact, 47% think geopolitical conflict could potentially end the current market rally.

Government debt is also weighing on the minds of strategists. 70% say government deficits matter when they evaluate markets. While 53% think that while debt levels are sustainable now, they pose a long-term threat to the economy. Thirty-seven percent believe debt levels are already unsustainable.

Searching for alpha against a backdrop of uncertainty
Two thirds (67%) of survey respondents project the US stock market will offer investors the best return potential in H2, while just 10% see top growth coming from the UK and only 3% say from Europe. Two thirds (67%) think growth will outperform value, and over 7 in 10 (73%) think large caps will outperform small caps.

While they believe returns will be less concentrated, 60% think the information technology sector will be top performing in the US in H2. However, just 10% think tech will provide the best returns in Europe. There, the financials sector (20%) is expected to perform well, followed by healthcare (17%).

In fixed income, higher rates have given a resurgence to bonds. Strategists are split in where they think the best return potential may be when looking at the US market, but all their top picks indicate a preference for credit quality as the same number (23%) call for core short government bonds, core long government bonds, and investment grade corporates to deliver the best returns in H2. In Europe, 27% see developed market investment grade corporates as having the best return potential.

Fewer see the risk-reward trade off working in favour of bonds with more exposure to credit risk, as only 13% think high yield bonds or hard currency emerging market debt will offer the best returns.

What investors need to know about cash, rates and bonds

Higher rates have led many retail investors to turn to the perceived “sure thing” presented by short-term cash instruments that are offering the highest rates seen since the turn of the century. But Natixis strategists are quick to remind individual investors that there is no free lunch when it comes to investing.

When asked for the top risks presented by cash that investors may be missing, 53% of those surveyed said there are more attractive returns to be found elsewhere – the proof is in first-half returns of 15.3% for S&P 500®, 18.6% for the NASDAQ, 13.3% for the FTSE All-World Index, and 18.28% for the Nikkei.

There’s no stopping artificial intelligence – whether we like it or not
Generative AI has been a catalyst for tech growth since the late 2022. Strategists predict that AI will have a significant impact on markets over the next two to five years, with 73% suggesting it will alter traditional market patterns and 77% believing it will accelerate day trading. 97% still think AI needs to realise its full potential, while understanding that it comes with risks – 93% believe ever-expanding AI capabilities will increase the potential for fraud and scams over the coming year.

Beyond markets, strategists are now thinking about its long-term impact on their own business practices. 80% think AI will help uncover new opportunities that are otherwise undetectable, and 70% think it will help detect unknown risks.

Alternative investments to diversify portfolios
Given the complex picture for the second half of the year, alternative investments are expected to play a diversification role in portfolios. Six in ten (60%) strategists surveyed think a portfolio made up of 60% equities, 20% fixed income and 20% alternatives will outperform the traditional 60/40 portfolio in H2.

Preferences for those strategies that offer higher levels of diversification and risk protections are slightly higher than those with the potential to boost returns. Precious metals and absolute return strategies (17% in the US, 20% in Europe, for both) indicate that strategists see the potential for these traditional risk mitigators to deliver both in terms of downside protection and, in the case of precious metals, a continued hedge on inflation.

A slightly smaller number of strategists see the potential for private debt (13% in the US, 13% Europe) and private equity (17% in the US, 10% in Europe) to deliver returns for investors in H2.

The future of sustainable investing
100% of Natixis strategists agree that politics will continue to divide opinion on sustainable investments. However, in the next two to five years, half of those surveyed think the fate of sustainable investing will be determined by investors as consumer demand will outweigh political pressure.

With sustainable investing at the centre of strong political sentiment, 57% believe that regulations related to these investments will get stronger, but they are not expected to be consistent globally as only 10% think the EU and the US will align on regulatory requirements, definitions, and reporting frameworks. However, two thirds (67%) believe that ESG scores for data providers will converge, meaning fewer players in the next five years.

60% of strategists expect impact investing to continue to expand and 50% believe asset managers will need to have a net-zero commitment in order to win business in Europe and Asia, though only 2 in 10 (20%) think sustainable investing will be adopted as a standard integrated into all portfolio strategies within the next five years.

Mabrouk Chetouane, Head of Global Market Strategy, Natixis IM, comments, "We have seen a strong start to the year with robust stock market performances, easing inflation and a resurgence of the bond market. Tech growth has continued to bolster US stock markets, with the S&P and NASDAQ seeing returns of 15.3% and 18.6% respectively, with the strategists having no doubt that US markets will continue to lead the way in the second half of the year. However, investors should be cautiously optimistic as they continue to face an array of headwinds in the second half of the year, led by politics, geopolitical tensions, potentially higher for longer rates, slower consumer spending, and elevated levels of government debt.

"In order to mitigate risks, investors should look to diversify portfolios across bonds, equities, and alternative investments to prevent over exposure to a single asset class. The broader risks have put more of a focus on quality when it comes to fixed income, with strategists favouring government and investment grade corporates over riskier high-yield and emerging market securities. From here, all eyes will be on the US as we wait to find out the outcome of the presidential race, which may have wide knock-on effects to policy, markets, and geopolitics."

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The full survey report can be found here: https://www.im.natixis.com/en-us/insights/investor-sentiment/2024/strategist-outlook

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All investing involves risk, including the risk of loss. Investment risk exists with equity, fixed-income, and *alternative investments. There is no assurance that any investment will meet its performance objectives or that losses will be avoided.*

Diversification does not guarantee a profit or protect against a loss.

Day trading can be extremely risky and is generally not appropriate for someone of limited resources or trading experience, or for those with low risk tolerance.

***Alternative investments** involve unique risks that may be different than those associated with traditional investments, including illiquidity and the potential for amplified losses or gains. Investors should fully understand the risks associated with any investment prior to investing.*

***Credit Quality** reflects the quality or rating of a fixed income investment, such as a bond. Ratings are given by credit rating agencies such as Moody's, Standard & Poor's, or Fitch. Ratings are subject to change and are not a guarantee safety or stability.*

***Sustainable investing** focuses on investments in companies that relate to certain sustainable development themes and demonstrate adherence to environmental, social and governance (ESG) practices; therefore the universe of investments may be limited and investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria. This could have a negative impact on an investor's overall performance depending on whether such investments are in or out of favor.*

About the Natixis Strategist Outlook

The 2024 Natixis Strategist Outlook is based on responses from 30 experts including 25 representatives from 11 affiliated asset managers, 4 representatives from Natixis Investment Managers Solutions, and 1 representative from Natixis Corporate & Investment Banking.

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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 behaviour, 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 15 active managers. Ranked among the world's largest asset managers[1] with more than $1.3 trillion assets under management[2] (€1.2 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; 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; 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 US 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 2023 ranked Natixis Investment Managers as the 17th largest asset manager in the world based on assets under management as of December 31, 2022.
2 Assets under management ("AUM") of current affiliated entities measured as of March 31, 2024, are $1,321.9 billion (€1,224.9 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.

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