

NATIXIS INVESTMENT MANAGERS SOLUTIONS

Institutional Investment Trends Observed at Midyear 2022

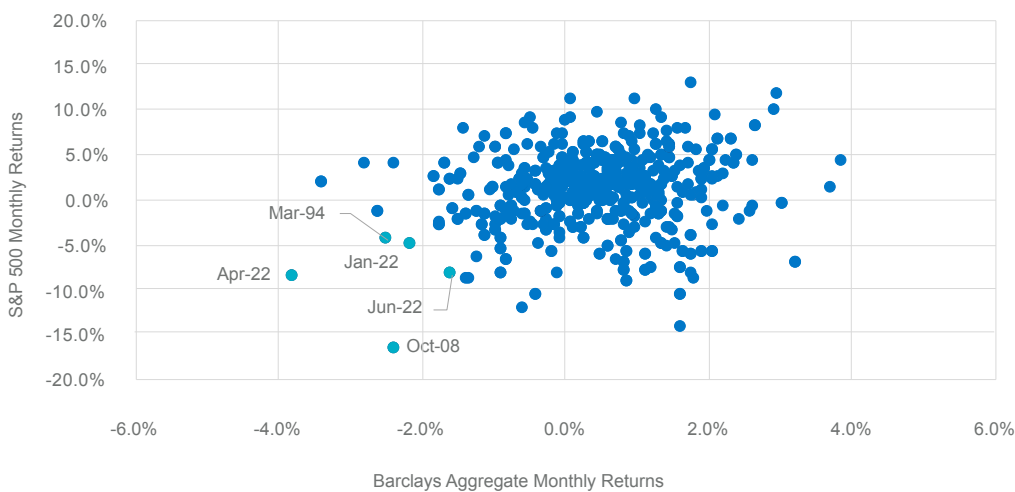
By Mark Cintolo, CFA®, CAIA®, Vice President, Portfolio Consultant

The Natixis Investment Managers Solutions team monitors asset classes, investment products and market action, both in real time and from a historical perspective. At midyear 2022, see which institutional investing trends impacted asset allocation decisions.

#1. (Almost) no place to hide.

Stock/bond correlations spiked in 1H 2022. Three out of the first six months of the year constituted a “diversification failure,” which we define as an S&P 500® return of less than -4%, and a Bloomberg Aggregate return of less than -1.5%, a combination that has occurred in only two other months since 1988. With equity and fixed income both down, alternatives categories were top performers.

S&P 500 vs. Barclays Aggregate (1988 – 2022)



Source: Natixis Investment Managers Solutions, FactSet, eVestment

Continued

BUILDING BETTER PORTFOLIOS

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(Almost) no place to hide, continued

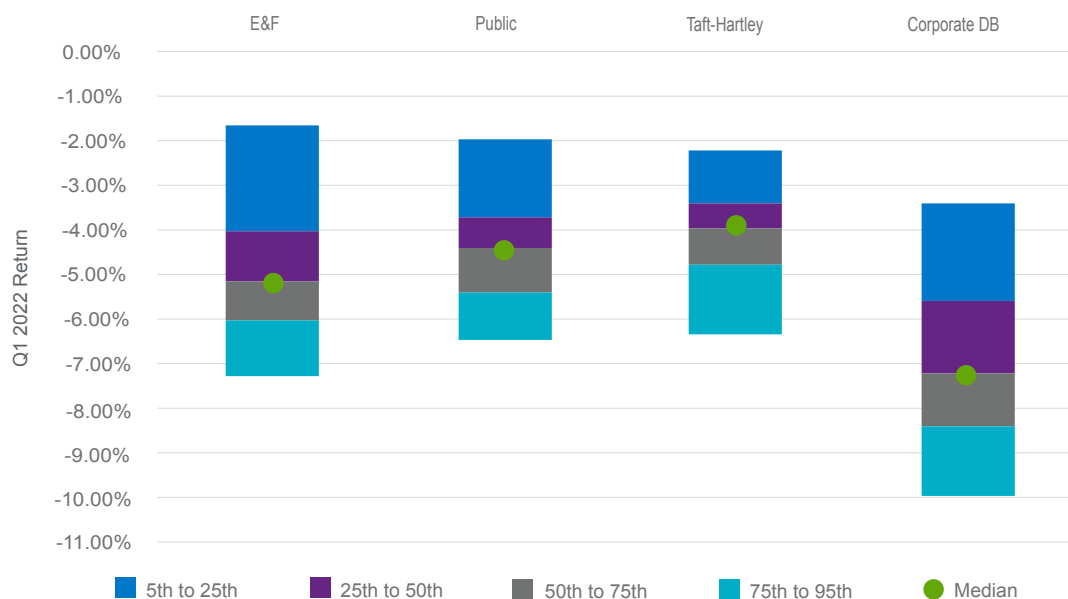
Average Return Q1 2022 by Asset Class				
Equity	Q1 Average Return		Alternatives	Q1 Average Return
US Large Cap	-4.8%		Managed Futures	11.3%
Emerging Market	-5.6%		Liquid Real Asset	4.7%
Global Equity	-6.0%		Merger Arbitrage	0.3%
US Small Cap	-6.9%		Market Neutral	0.2%
World Ex-US	-8.8%		Systematic Macro	-0.2%
			Long/Short Equity	-3.4%
Fixed Income	Q1 Average Return			
Bank Loan	-0.2%			
High Yield	-3.4%			
Multi-Sector	-4.6%			
Municipal	-5.0%			
US Aggregate	-5.7%			
IG Corporate	-6.9%			

Source: Natixis Investment Managers Solutions, FactSet, eVestment

#2. so, what's the plan?

By plan type, Taft-Hartley portfolios had the highest median return for Q1 2022 at -4%, while the lowest returning cohort was corporate defined benefit plans at -7.3%. With equity and fixed income returns down similarly in magnitude, portfolios with higher allocations to alternatives enjoyed relative outperformance.

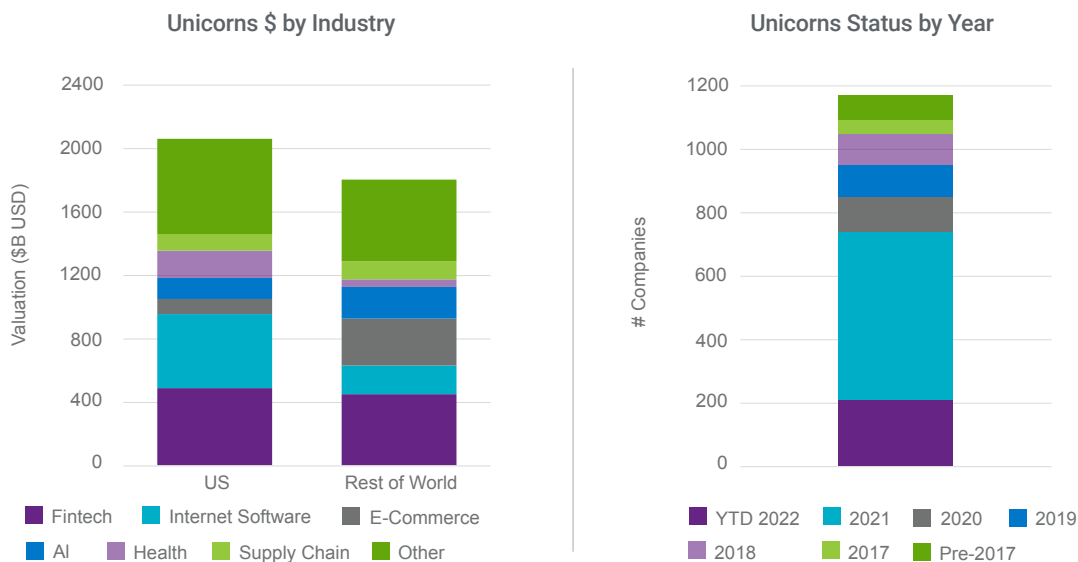
Q1 2022 Performance by Percentile



Source: InvMetrics

#3. Unicorns multiplying

There are now over 1,100 global privately held startup companies valued at \$1 billion or higher, commonly (and now somewhat ironically) referred to as “unicorns.” The total cohort, represented by industries like fintech, internet software e-commerce, and artificial intelligence, comprises \$3.9 trillion in aggregate valuation. In stark contrast to the recent environment for public equity valuations, more than 200 of these companies achieved unicorn status over the past six months.

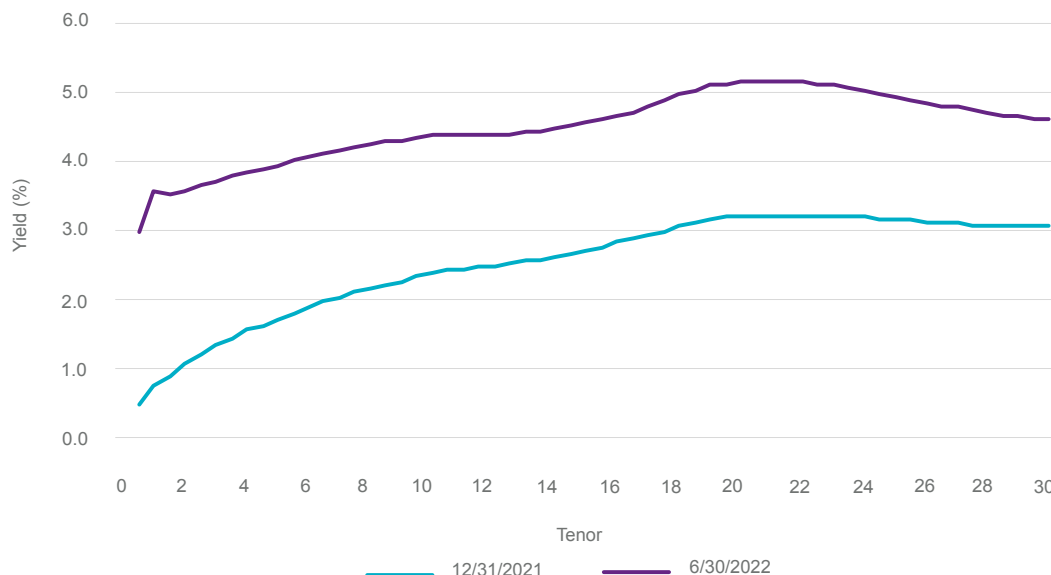


Source: Natixis Investment Managers Solutions, CB Insights; <https://www.cbinsights.com/research-unicorn-companies>

#4. Higher rates led to funded status gains

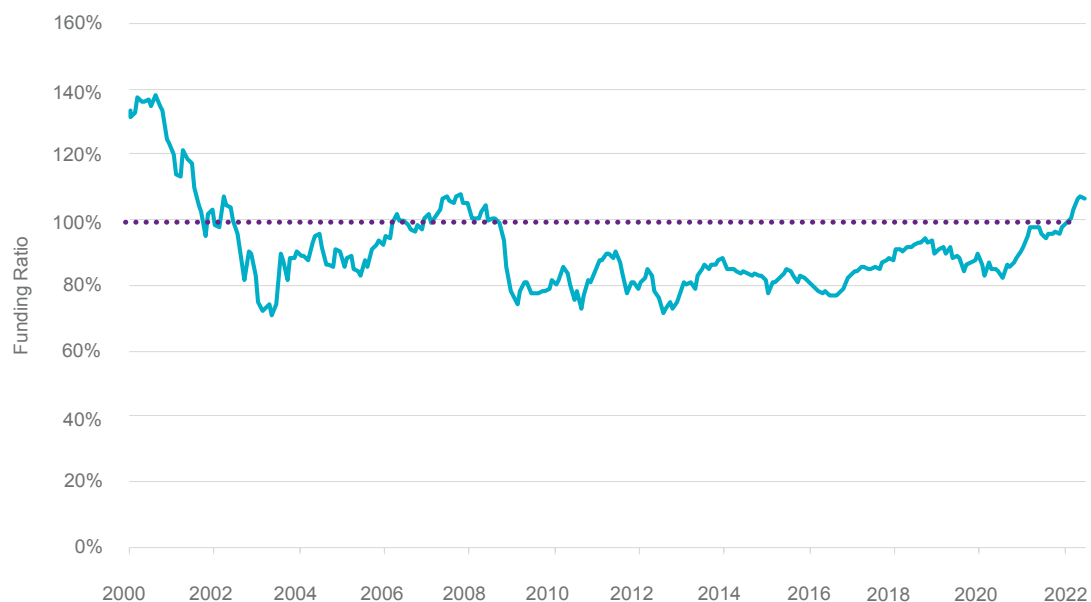
The spike in corporate bond yields saw discount rates for corporate pension clients increase from 2.96% (at 12/31/21) to 4.67% (at 6/30/22), a 26.5% decrease in liability values. The funded status of the 100 largest US corporate defined benefit plans rose to 106.4%, a level not seen since October 2007. US corporations took advantage of the environment, with \$5.4 billion in Q1 2022 pension risk transfer sales representing the highest first quarter ever recorded.¹

Citigroup Above Median Yield Curve



Source: FTSE

Milliman 100 Pension Funding Index (12/31/99 – 6/30/22)



Source: Bloomberg

#5. Modest fee reductions across many asset classes

Institutional investors continue to see slight fee reductions across active US and non-US large cap categories, while small cap and fixed income results are more mixed.

Average Stated Fee (First Dollar)							
US Equity	2020	2022	Change	US Fixed Income	2020	2022	Change
Large Growth	0.69%	0.65%	-0.04%	US Aggregate	0.31%	0.31%	0.00%
Large Value	0.66%	0.60%	-0.06%	IG Corporate	0.30%	0.32%	0.02%
Small Growth	0.91%	0.90%	-0.01%	Municipal	0.32%	0.31%	-0.01%
Small Value	0.92%	0.93%	0.01%	High Yield	0.52%	0.51%	-0.01%
				Bank Loan	0.51%	0.50%	-0.01%
				Multi-Sector	0.48%	0.45%	-0.03%
Non-US Equity	2020	2022	Change				
World Ex-US Large Growth	0.69%	0.65%	-0.04%				
World Ex-US Large Value	0.66%	0.60%	-0.06%				
World Ex-US Small Growth	0.91%	0.90%	-0.01%				
World Ex-US Small Value	0.92%	0.93%	0.01%				

Source: eVestment



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¹ Pensions & Investments

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