NATIXIS INVESTMENT MANAGERS | SOLUTIONS

PORTFOLIO ANALYSIS & CONSULTING

5 Trends in Model Investment Portfolios – Year-End 2022

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Natixis Investment Managers Solutions portfolio consultants monitor asset classes, investment products and market action, both in real time and from a historical perspective. See which trends influenced financial advisors' asset allocation decisions in their moderate models as 2022 drew to a close.

#1 Value stocks and short duration bonds drove top quartile performance

Comparing the asset allocations of 1st and 2nd quartile portfolios would lead you to conclude their return and risk profiles should be similar. In fact, the top quartile portfolios outperformed by 5% with a 3.5% lower drawdown, which we found interesting. Further investigation showed that the top quartile portfolios had a bias towards value stocks and shorter duration bonds, which were both outperformers in 2022.

Asset Allocation by Return Quartile in Moderate Model Portfolios

2022 Returns (%) & Risk (%)			
	Return	Risk	Drawdown
1st Quartile	-5.2	13.2	-12.2
2nd Quartile	-10.2	13.7	-15.7
3rd Quartile	-12.4	14.7	-17.8
4th Quartile	-15.5	15.8	-20.7
Overall Average	-10.8	14.4	-16.6

Average Asset Allocation (%)							
	Equity	Fixed Income	Alts	Allocation	Commodities	Real Estate	Cash
1st Quartile	51.1	27.7	8.1	4.2	1.7	0.3	6.7
2nd Quartile	51.2	29.3	8.1	6.0	0.8	0.4	4.2
3rd Quartile	56.0	30.5	5.0	4.2	0.8	0.5	3.1
4th Quartile	58.8	31.3	3.3	3.3	0.4	0.9	2.1
Overall Average	54.3	29.7	6.1	4.4	1.0	0.5	4.0

Source: Natixis Investment Managers Solutions. The Portfolio Analysis & Consulting Moderate Risk Peer Group is based on 163 moderate portfolios submitted for review from July to December 2022. Data as of 12/31/2022.

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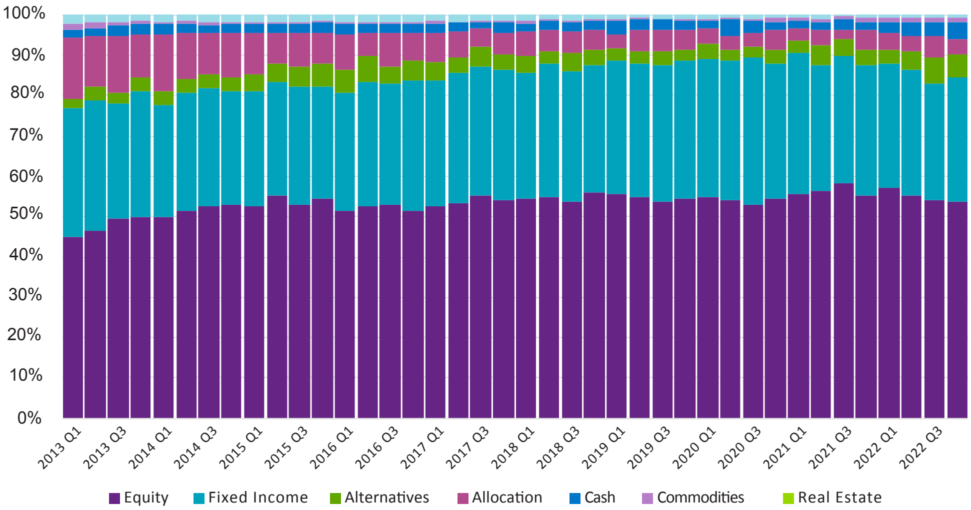
#2 Risk-off posturing resulted in meaningful additions to cash and alternatives

There were very few places to hide in equities and fixed income last year, so advisors increased allocations to cash and alternatives to sidestep volatility. Cash holdings reached a ten-year high of 4.4%, while alternative categories such as Options Trading, Event Driven, and Systematic Trend hit their highest levels since 2016. Nearly 70% of advisors are now using alternatives in their models, up from around 50% in the previous five years.

Advisors De-risked Their Portfolios, Favoring Cash and Alternatives



Asset Category	Q4 2021	Q4 2022	
Equity	55.3%	53.8%	↓
Fixed Income	32.1%	30.5%	↓
Alternatives	4.0%	6.0%	↑
Cash	2.2%	4.4%	↑
Allocation	4.8%	3.6%	↓
Commodities	1.1%	1.0%	–
Real Estate	0.7%	0.7%	–
Total	100%	100%	

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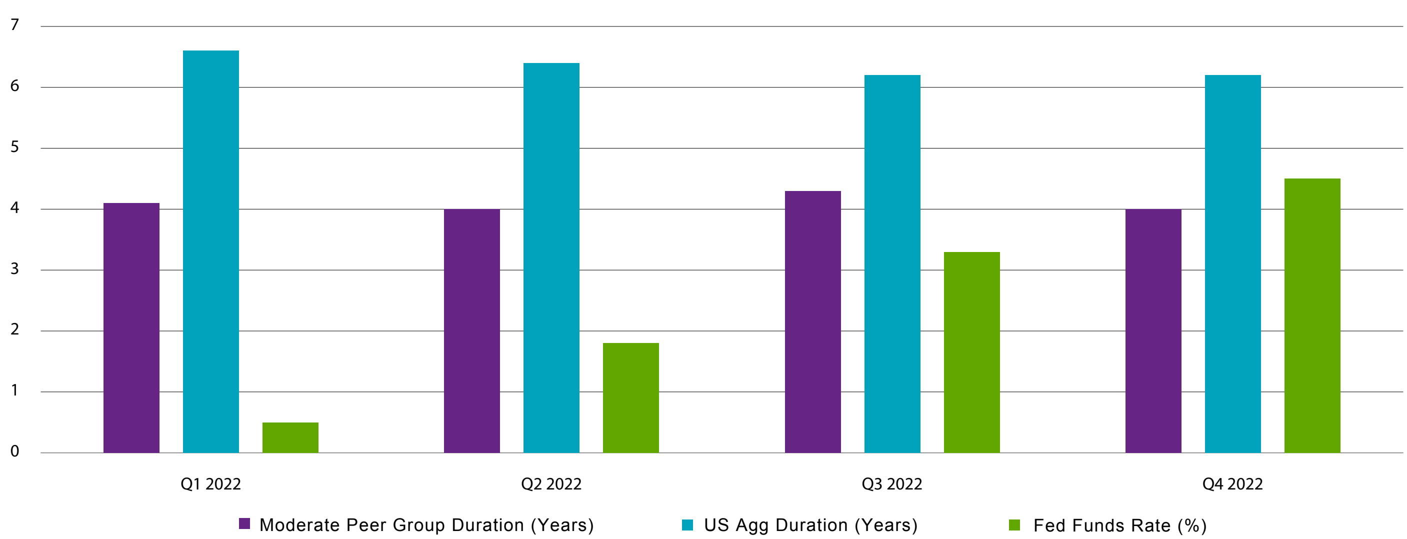
#3 Duration stabilization may be a mirage

As advisors positioned their portfolios defensively for Fed rate hikes, fixed income duration ended 2022 at 4.0 years, well below the 6.2 years of the Bloomberg US Aggregate Bond Index. Since our duration calculation excludes cash and money market funds (+2.2% increase), duration would have been lower if advisors had kept that money in ultrashort bonds instead of opting for the NAV stability of cash and money markets.

Despite Rising Rates, Average Duration Remained Stable



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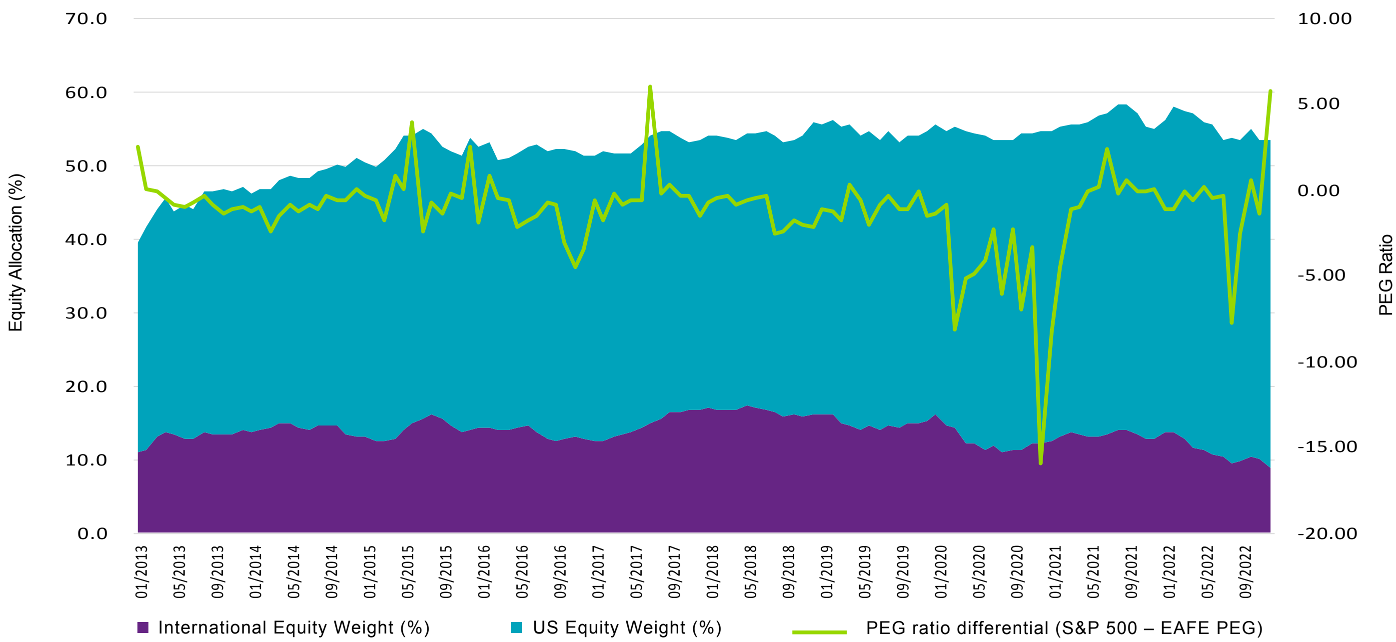
#4 International stocks remained unloved, despite their outperformance

International stocks, both developed and emerging, represent just 17% of the typical equity sleeve in advisors' model portfolios – less than half of the neutral benchmark weight of 40% for the ACWI ex-US index. While international stocks have underperformed for a sustained period, 2022 proved to be a turning point. International outperformance was aided by dollar weakness, no escalation in the Ukraine conflict, avoiding an energy crisis, and a meaningfully lower allocation to technology stocks.

International Equity Allocations at All-Time Lows



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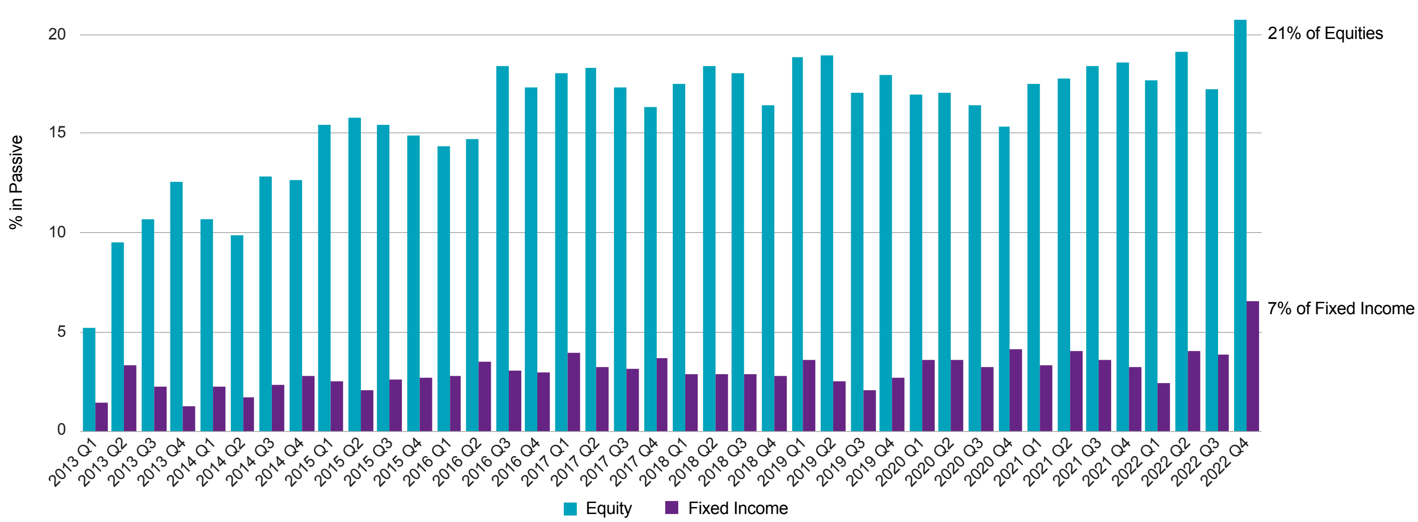
#5 Tax loss harvesting led to a spike in passive allocations

Last year provided plenty of opportunities to harvest losses in both equities and fixed income. Banking losses for tax purposes allowed investors to reduce their tax liability in 2022 and carry forward losses indefinitely in taxable accounts. Industry data showed active mutual funds with $941 billion in outflows while passive ETFs took in $549 billion. We suspect many of those active funds were swapped into passive beta strategies for the 30-day wash sale period and anticipate active allocations to increase in 2023.

Passive Allocations Reached All-Time Highs



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