NATIXIS INVESTMENT MANAGERS

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Recession May Be Looming in Second Half, Say Strategists Surveyed by Natixis Investment Managers

- *Results of the Natixis Center for Investor Insight mid-year survey of 34 experts show that nearly one-quarter (24%) believe recession is inevitable while another 64% see recession as a distinct possibility over the next six months*
- *The survey shows that nine in ten strategists believe central bank policy will be the biggest market driver over the next six months*
- *The strategists see energy prices (76%), food prices (64%), and wage hikes (61%) as the top three drivers of inflation*
- *Almost six in ten (58%) believe value will continue to outperform growth for at least a few more months, while nearly one-quarter (24%) think value will be on top for a few more years*

BOSTON, July 20, 2022 – After six months of navigating rising rates, inflation and geopolitical tensions, recession fears are on the rise for 2022, casting a long shadow over prospects for global economies and markets in the second half of the year. Results of a mid-year survey of 34 market strategists, portfolio managers, research analysts and economists at Natixis Investment Managers and 15 of its affiliated investment managers, as well as Natixis Corporate and Investment Banking, show that nearly a quarter (24%) believe a recession is inevitable in the second half of 2022, while 64% believe it is a distinct possibility. Nine in ten believe central bank policy will be the biggest market driver over the next six months.

“Ten years of over-reliance on easy money led to significant outperformance for growth equities. That’s over for the foreseeable future. The biggest market driver at the end of 2022 will be central banks and bringing down inflation to lower the longer-term cost of capital,” said Katy Kaminski, Chief Research Strategist and Portfolio Manager, AlphaSimplex Group LLC.

Inflation tops market risks

Key market assumptions for low rates, low inflation, and low volatility may have boosted market performance for more than a decade, but since the start of the year that unique confluence of factors has been reset. The catalyst for much of this shift has been inflation.

In fact, seven in ten rank inflation as the biggest market risk for the second half of the year. Even though it has tapered slightly since its high, 36% of respondents go so far as to set the level of risk due to inflation as a 10 out of 10.

Central banks also factor into the picture with 52% citing their policy decisions as a key inflation driver. Another 46% also believe that the supply chain issues that helped drive inflation early in the pandemic will continue to do so through year-end. However, less than one in four believe inflation will remain persistently high.

Recession is a distinct possibility, if not inevitable

Faced with prospects for rising interest rates and tightening monetary policy, strategists place recession as a close second on the list of concerns with 64% ranking it as a top risk.

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Policy makers have many tools at their disposal to address inflation and given the challenge of achieving the right timing for policy implementation, the margin for error is slim.

For many the question remains as to whether these efforts will thwart inflation, trigger a recession that could last two to three quarters, or result in stagflation that lasts for years. With all the possible outcomes, no wonder more than half (55%) of those surveyed also cite a central bank error as a key risk.

"The word recession is casting a long shadow over the markets, but in some ways the only way out of this inflationary environment is for central banks to trigger this recession. Then we'll come out on the other side of the inflationary shock, and the markets could then rebound," said Mabrouk Chetouane, Head of Global Market Strategy, Natixis Investment Managers Solutions.

Geopolitics, war, and oil

Inflation, recession and central bank policy may factor prominently in their views on market risks. Yet strategists also see the potential for world events, like the war in Ukraine, as key risk considerations as 65% of those surveyed place geopolitics as a top risk and as an offshoot, nearly half of those surveyed (47%) see energy prices as a significant risk for markets in H2.

To underscore the connection between politics and energy, oil prices spiked to $120 per barrel in at the outset of the war in March and has since moderated to $106 at the end of Q2.[1] Looking ahead, nearly half of strategists (49%) anticipate West Texas Intermediate crude will end the year somewhere in the range of $100-$125. And while there is still 15% who believe prices will rise past the $125 mark, the larger number (33%) forecast that prices will drop between $85 -$100.

What a difference a year (or two) makes

Of all that strategists forecast for H2, the most telling sign of the times may be how their views on Covid-19 have changed. Where the pandemic had resulted in a worldwide lockdown in 2022 and continued work from home orders in 2021, even with the highly contagious BA variants spreading globally, few (9%) believe a Covid disruption will present a risk in the second half of the year.

Value continues to shine

One of the key trends to emerge out of pandemic-driven disruptions has been the outperformance of value stocks. Low rates and low volatility had provided a rising tide in which virtually all stocks excelled over the past decade. As a result, it was harder to find underpriced stocks.

Now, with rates on the rise and volatility back in earnest, value strategies have outperformed growth. Almost six in ten (58%) believe the run will be extended for at least a few more months, while one-quarter (24%) think value will be on top for a few more years. Less than one in five (19%) think the value trend has already run its course.

"The opportunity set is shifting rapidly. The new environment is creating idiosyncratic opportunities that are more attractive investments than the broader indices. These opportunities can be found across multiple sectors," said Chris Wallis, CEO, CIO, and Senior Portfolio Manager, Vaughan Nelson Investment Management.

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[1] Source: "Crude OIL" *Crude Oil - 2022 Data - 1983-2021 Historical - 2023 Forecast - Price - Quote - Chart*, Trading Economics, https://tradingeconomics.com/commodity/crude-oil.

Bond markets

One of the biggest changes to the investment landscape over the first six months of 2022 has been the slow and steady increase in interest rates, with bond yields following in step. After closing out 2021 at 1.512, a series of rate hikes - including a surprise 75 basis point hike in June – put yields at 2.975 on June 30, 2022.

Underscoring just how closely they will be watching central bank policies in the second half, 73% of those surveyed believe there will be more increases: 36% believe US Treasuries will finish the year somewhere between 3% and 3.5%. The same number anticipate even more hikes and forecast rates reaching above 3.5% by year's end.

"This year, the global bond markets suffered unprecedented losses, and few people would have ever thought of bonds as unprotected money. But there are signs that we've passed the high of inflationary pressures, and now is the time to find the opportunities out there, for instance in financials, energy and industrials," said Adam Abbas, Portfolio Manager and Co-Head of Fixed Income, Harris Associates.

What it all means

As strategists view this new fixed-income landscape there is no clear consensus on what it means for investors. Rate hikes may continue to depress bond values according to 27%, creating attractive opportunities for those who know where and how to look. Those taking the cue from the 27% who say it's time to start buying bonds again may want to consider the advice of the 24% who say that at times like this credit quality will matter more than duration.

The end of an era

Strategists see a world that has changed dramatically in the past six months. After a decade in which the easy money provided by quantitative easing, low rates, and low inflation propelled markets to positive gains in seven out of ten years, the world is moving on. This next normal is marked with greater volatility and greater uncertainty. The big question for most investors may well be how long will it last?

The full survey report can be found here: https://www.im.natixis.com/us/markets/the-end-of-easy-money.

About the Natixis Strategist Outlook

The Natixis Center for Investor Insight Strategist Outlook is based on responses from 34 experts including 27 representatives from 15 of Natixis IM's affiliated asset managers, 3 representatives from Natixis Investment Managers and 4 representatives from Natixis Corporate & Investment Banking.

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- Benito Berber, Chief Economist for Latin America, Natixis Corporate & Investment Banking
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- Lynne Royer, Vice President, Portfolio Manager, Co-Head of Disciplined Alpha Team, Loomis Sayles
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- Rafael Calvo, Managing Partner, Head of Senior Debt and Co-Head of Origination, MV Credit
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- Axel Botte, Global Strategist, Ostrum Asset Management
- Stéphane Déo, Head of Markets Strategy, Ostrum Asset Management
- Ibrahima Kobar, Chief Investment Officer, Ostrum Asset Management
- Frank Trividic, Deputy Chief Investment Officer, Seeyond
- Nicolas Just, CFA®, Deputy CIO and CEO, Seeyond
- Mounir Corm, Deputy Chief Executive Officer and Founding Partner, Vauban Infrastructure Partners
- Chris D. Wallis, CFA®, CPA, CEO, CIO, Senior Portfolio Manager, Vaughan Nelson Investment Management

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 \$1.3 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; 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 2021 ranked Natixis Investment Managers as the 15th largest asset manager in the world based on assets under management as of December 31, 2020.
[2] Assets under management ("AUM") of current affiliated entities measured as of March 31, 2022 are $1,320.6 billion (€1,187.6 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.
[4] Operated in the U.S. through Mirova U.S., LLC (Mirova US). Mirova US had $9.1B / €8.2B / £6.9B assets as of March 31, 2022.

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