NATIXIS
INVESTMENT MANAGERS

Perspectives

By **Esty Dwek,** Head of Global Market Strategy, Natixis Investment Managers Solutions JULY 2020

IN SHORT

- Markets appear to have entered a consolidation phase as hurdles continue to pop in front of their V-shaped recovery expectations
- We remain cautious as it still early to add too much risk, even though we believe that downside risks are more limited
- Bond markets should remain well behaved thanks to central banks actions

Not yet out of the woods

Looking at recent economic data releases, it appears that the worst of the crisis is now behind us. Indeed, activity re-started in May and has been picking up since with the gradual reopening of economies. However, while encouraging, the recovery will be staggered and slow, and it will take a long time to get back to pre-crisis levels. The initial bounce from lockdowns is strong, but data remains below early 2020 levels and we still need confirmation that it will not taper off after the initial 'post-confinement excitement'. Moreover, according to consensus estimates, GDP across most major economies might not reach 2019 levels until 2022 at the earliest. Nonetheless, markets have latched on to the "less-bad-than-expected" data to continue to march forward, although we do appear to have entered a consolidation phase.

First, while the reopening has so far been managed with the virus mostly under control in Asia and Europe, a number of US states are seeing a rise in cases, leading to fears of a second wave and a second confinement. We continue to believe that these spikes are area specific and that hospitalisations will remain manageable for healthcare systems. We also believe that renewed lockdowns are unlikely at this stage. Nonetheless, headline risk remains and could lead to market turbulence. Moreover, as we move towards Q2 data and earnings releases, disappointment risk continues as markets are pricing in a V-shaped recovery, which is unlikely to materialise seamlessly. Finally, a lot of good news is already priced in, suggesting it might take even better news for the next meaningful leg up. As such, we choose to remain prudent and do not believe it is time to become overly aggressive in our allocations, even if we believe that high cash levels, a bearish consensus, and of course massive fiscal and monetary stimulus suggest the downside has become more limited.

While volatility could rise again in equity markets, we expect fixed income to remain well-behaved, thanks to virtually boundless central bank support. Credit spreads have continued to recover, and while they could also stabilise before resuming their tightening path, we still see potential for compression on a medium-term basis. We maintain a preference for investment grade (IG) credit over high yield (HY) where risks persist, though selective opportunities exist. On a selective basis as well, we see opportunities in emerging market debt, particularly in the less volatile corporate space that also benefits from a bias towards Asia rather than Latin American, where significant COVID challenges remain. We expect sovereign yields to remain within a broad range and believe that central banks will succeed in keeping yields contained for some time to support governments' stimulus efforts.

We believe that gold should remain supported by abundant liquidity and very low interest rates for a long time, which make the shiny metal's lack of yield a lesser hurdle. We also continue to look at less liquid alternative strategies to diversify our longer-term perspectives.

Asset class details

Equities

Equity markets have continued to advance on better economic data releases and expectations for a V-shaped recovery but now appear to have entered a consolidation phase, as concerns that this idyllic scenario may not unfold as expected, as second wave fears, second quarter earnings and trade tensions weigh on sentiment.

Nonetheless, we believe that the downside has become more limited given how many investors missed the rebound, how many remain bearish and how much cash has been sitting on the sidelines. Coupled with abundant stimulus measures and liquidity, corrections are likely to be bought. That said, we remain prudent and believe it is too early to add a lot of risk to portfolios.

We believe that European assets can continue to play catch up with the US in the short term and maintain some exposure to European financials that should benefit from confinement easing and further integrations thanks to the Recovery Fund proposal. We remain underweight on emerging markets given a number of significant concerns surrounding the COVID crisis in many large economies, and have a preference for emerging Asia region.

While we believe the next few months could be complicated, we maintain our more constructive medium-term view and look to gradually build longer-term positions.

Fixed Income

Bond markets remain well behaved thanks to central bank actions, keeping sovereign yields within a broad range. We expect this trend to continue and yields to remain stable, but we maintain a slight underweight position to sovereigns, as we prefer credit. We believe that peripheral spreads can continue to tighten as Europe comes together from this crisis and as the prospect of European Commission issuance should provide an additional boost.

We are overweight US and European investment grade credit but remain more cautious on high yield as the extent of the damage from the crisis is still unknown and default risk remains. In addition, central banks are likely to favour protecting IG over HY, acting as a stronger backstop for the former.

Spreads have already recovered a large part of the March widening, and could consolidate for some time, but we believe they will continue to compress over the medium term.

We see select opportunities in emerging market debt, particularly in hard currency corporates that are typically less volatile and have less exposure to Latin America. However, given difficult situations in many countries, selectivity is key. We believe emerging market currencies should benefit from the dollar weakening, but find the space too volatile given poor economic backdrops.

Currencies

The US dollar appears to be stabilising after its recent slide, but could continue to slide as the dollar liquidity squeeze we saw in March eases and risk appetite strengthens. Nonetheless, we expect it to maintain some underlying support. Sterling could see more volatility as the crisis has not been handle well and fears of a hard Brexit may come back since little progress has been made on trade negotiations with the European Union. Emerging market currencies should benefit from a weaker USD, but idiosyncratic risks remain and volatility should be expected.

Commodities

Oil prices have recovered from their lows, but are likely to remain capped given ongoing oversupply and a slow pick-up in demand. Over the medium term, prices should rebound further as supply and production balance out, but we still expect supply to remain ample. Gold should continue to see underlying demand as a safe haven, given inflation expectations and central bank QE programs.

Alternatives

We continue to see a place for alternatives in portfolios, as we look for de-correlating and diversifying strategies to complement traditional asset classes, particularly with liquid alternatives. We believe that real assets can also help provide income in a lower for longer world.

Current views

Asset Classes	Negative	Neutral	Positive
Equities		●	
Fixed Income		●	
Equities			
US		●	
Europe		○	●
Japan	○		●
Asia ex Japan		●	
Emerging Markets	●		
Asia			●
Latam	●		
Europe	●		
Fixed Income			
Sovereign US			●
Sovereign EUR		●	
IG US			●
IG EUR			●
HY US	●		
HY EUR	●		
EM Hard Ccy	○	●	
EM Local Ccy	●		
Commodities			
Oil		●	
Gold			●
Base Metals		●	

● Current month ○ Previous month (no dot means no change)

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.

In the E.U. (outside of the UK and France): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. Italy: Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via San Clemente 1, 20122 Milan, Italy. Germany: Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. Netherlands: Natixis Investment Managers, Nederlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. Sweden: Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. Spain: Natixis Investment Managers, Sucursal en España. Serrano n°90, 6th Floor, 28006, Madrid, Spain. Belgium: Natixis Investment Managers S.A., Belgian Branch, Louizalaan 120 Avenue Louise, 1000 Brussel/Bruxelles, Belgium.

In France: Provided by Natixis Investment Managers International – a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris.

In Switzerland: Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich.

In the British Isles: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: **in the United Kingdom**: this material is intended to be communicated to and/or directed at investment professionals and professional investors only; **in Ireland**: this material is intended to be communicated to and/or directed at professional investors only; **in Guernsey**: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; **in Jersey:** this material is intended to be communicated to and/or directed at professional investors only; **in the Isle of Man:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008.

In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office: Office 23, Level 15, The Gate Building, East Wing, DIFC, PO Box 506752, Dubai, United Arab Emirates.

In Japan: Provided by Natixis Investment Managers Japan Co., Ltd., Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No. 425. Content of Business: The Company conducts discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 1-4-5, Roppongi, Minato-ku, Tokyo.

In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2018 FSC SICE No. 024, Tel. +886 2 8789 2788.

In Singapore: Provided by Natixis Investment Managers Singapore (name registration no. 53102724D) to distributors and institutional investors for informational purposes only. Natixis Investment Managers Singapore is a division of Ostrum Asset Management Asia Limited (company registration no. 199801044D). Registered address of Natixis Investment Managers Singapore: 5 Shenton Way, #22-05 UIC Building, Singapore 068808.

In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only.

In Australia: Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only.

In New Zealand: This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand.

In Latin America: Provided by Natixis Investment Managers S.A. **In Uruguay:** Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. **In Colombia:** Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors.

In Mexico Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional de Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third-party investment services to its clients complies with the relevant national law.

The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. Past performance information presented is not indicative of future performance.

Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part.

All amounts shown are expressed in USD unless otherwise indicated.

NATIXIS INVESTMENT MANAGERS
RCS Paris 453 952 681 - Capital : €178 251 690
43, Avenue Pierre Mendès-France, 75013 Paris
www.im.natixis.com

NATIXIS INVESTMENT MANAGERS INTERNATIONAL
Limited company with a share capital of 51 371 060.28 euros
Trade register n° 329 450 738 Paris Authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009.
Registered office: 43, avenue Pierre Mendès-France - 75013 Paris
www.im.natixis.com