Perspectives

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

IN SHORT

- There are still many unanswered questions, the main one being how long until the virus is 'under control' and therefore how long until we can ease containment measures?
- Policymakers will do everything they can to avoid a worst case scenario
- While we maintain a constructive medium-term view for now, we remain cautious on risk assets until we see a peak in cases.

Into the unknown

While we are in the throes of an unprecedented health crisis, leading to an unprecedented standstill in economic activity and rarely seen market reactions, a number of questions continue to weigh on investors: How long will it take to get the virus 'under control'? How deep and how long will the recession be? Will massive monetary and fiscal stimulus measures be enough to avoid the worst case scenario? What will the recovery look like? What is priced in today?

Most of these questions do not have answers yet, and will not have answers for some time. Indeed, while we have some indication from China, Japan and South Korea on containing the outbreak, different countries are at different stages of contagion, with different containment measures, suggesting it will not be a uniform answer. However, estimates vary between a few weeks to a few months. For now, we hope that containment measures can be broadly eased across most developed countries by end of June.

This suggests a very deep fall in economic activity from March to May/June, with possible double-digit drops in growth for Q2. Nonetheless, if we can 'flatten the curve' enough to ease stringent containment measures before the summer, we could see only a short recession rather than a protracted one. This will mostly depend on policymakers' ability to avoid waves of bankruptcies, downgrades and especially defaults. Indeed, the current health crisis is leading to an economic crisis, but it can still turn into a full-blown financial crisis, which would then make a long recession inevitable. We remain hopeful that policymakers will do whatever they can to avoid such a scenario. Indeed, they took a page from the 2008 playbook, and enhanced all of the measures, but ring-fencing defaults will likely prove challenging. And while we believe the drop will be short-lived, we do not expect to receive an "all clear" announcement, but rather an easing in containment measures and a slow and gradual ramp up in activity – no V-shaped rebound.

A very negative scenario is already priced in by markets, but we remain cautious for now as we believe that a peak in cases is likely needed for a sustainable recovery, given the above lingering questions. As such, we are underweight equities, with a preference for more defensive regions such as Emerging Asia and Switzerland. Valuations have come down sharply, but given the ongoing contagion across developed markets, downside risks remain.

We have also reduced our allocation to credit, closing our HY positions entirely given default concerns. We have brought our sovereign allocation closer to neutral in both the US and Europe in an effort to add some duration to portfolios. In Europe, we believe that peripheral spreads will tighten thanks to European Central Bank support. In the US, the Fed will buy most of the Treasury's new issues in an effort to keep yields contained and liquidity abundant. We maintain some exposure to gold even though the bulk of the move may already be done.

Given our expectation for a sharp, but short, drop in activity, we maintain a more constructive medium-term outlook for risk assets. And these are more attractive entry points for the longer term. However, until cases start to peak across most developed market regions, we remain cautious.

Asset class details

Equities

Following an unprecedented collapse in global equities – mainly in terms of the speed of the drop – we believe that equity markets will remain fragile until we see a peak in cases across most developed markets. As such, we remain cautious despite large stimulus announcements and maintain a slight underweight allocation.

We believe that countries that show more defensive characteristics or that were 'first in, first out' of the virus outbreak should show signs of resilience. As such, we have a small preference for Switzerland and Emerging Asia, and slight underweights to Europe and the US, for now. We believe that sectors most impacted by the outbreak and ensuing containment measures will remain at risk, including travel, entertainment, and of course energy.

Valuations have come down sharply since the outbreak, suggesting much more attractive entry points for the longer term, but it may still be too early to add a lot risk to portfolios. Nonetheless, with hope that containment measures can be eased before the summer, we maintain a constructive medium-term outlook.

Fixed Income

Yields have stabilised after a few wild days and a sharp drop due to global growth concerns. Liquidity and funding markets also showed signs of stress, leading the Federal Reserve to announce virtually unlimited measures to fight the crisis. As a result, yields have stabilised at low levels, and should remain contained for the time being. A similar move occurred in Europe, with peripheral sovereign spreads widening sharply until large-scale European Central Bank intervention calmed markets with over EUR1 trillion in asset purchases planned for this year.

As such, we have added more duration back to portfolios, with a more neutral allocation to government bonds in Europe and the US. We have reduced our allocation to credit by cutting our HY exposure for the time being. Indeed, default risk has risen significantly, especially in the US given the drop in oil prices, and central banks are more focused on protecting the IG segment. We believe that spreads can remain wide for some time, though we may have already seen the bulk of the move.

Yields are currently pricing in a very negative growth scenario, but even once the outlook improves, we believe that yields will remain lower for longer.

Currencies

The USD dollar remains the currency of choice, spiking during the worst of the market sell-off. While it has retreated from recent highs, we believe it will remain underpinned given ongoing uncertainty and growth fears. The euro and sterling continue to face headwinds, though the interest rate differential with the dollar has shrunk again following the Fed's rate cuts to zero. Emerging market currencies can offer selective opportunities, but with higher volatility and idiosyncratic risks.

Commodities

Following the oil price war between Saudi Arabia and Russia and the ensuing drop in both WTI and Brent, oil prices have stabilised. They are likely to stay low for some time given both a demand and supply shock. We later expect a recovery, though medium-term term supply is expected to remain ample, which should cap prices.

Gold should continue to see underlying demand as a safe haven, though the bulk of the move may already have occurred.

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 low yielding 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.

Please read the prospectus and Key Investor Information carefully before investing, available, if registered in your jurisdiction, from Natixis Investment Managers' offices (im.natixis.com) and the following Paying Agents/Representatives: France: CACEIS Bank France, 1-3, Place Valhubert, 75013 Paris. Germany: Rheinland-Pfalz Bank, Große Bleiche 54-56, D-55098 Mainz. Italy: State Street Bank SpA, Via Ferrante Aporti, 10, 20125, Milano. Switzerland: RBC Investor Services Bank S.A., Esch-sur-Alzette, Zurich Branch, Bleicherweg 7, CH-8027 Zurich.

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 504-D, 5th Floor, South Tower, Emirates Financial Towers, PO Box 118257, DIFC, Dubai, United Arab Emirates.

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, #2205 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 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. 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 to operate within Mexico as an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores). Any use of the expression or reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of the investment management subsidiaries of Natixis Investment Managers, which are also not authorized by or registered with the CNBV or any other Mexican authority to operate within Mexico as investment managers.

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.

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