PRESS RELEASE

NATIXIS

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Natixis Asset Management's outlook and investment strategies: where to get value in 2016?

Natixis Asset Management foresees growth picking up in the euro zone, aided by an ever-accommodating ECB, even if global growth should remain moderate again this year. The decisions by the Fed and its monetary tightening policy will however set the pace in 2016. Natixis Asset Management's experts give an overview of their outlook and investment strategies for 2016:

- **Philippe Waechter, Chief Economist;**
- **Ibrahima Kobar, Co-CIO and Head of Fixed Income;**
- **Yves Maillot, Head of European Equities;**
- **Franck Nicolas, Head of Investment & Clients Solutions.**

Continually low inflation and moderate global growth

Inflation will stay low in 2016 in developed countries and especially in the euro zone. The upturn is not expected before 2018 or even 2020 and this despite the ECB's efforts. *"The reason for this is twofold. The drop in oil prices continues to negatively impact inflation. The central banks are also having a hard time alone in propelling internal growth that would trigger a wage increase,"* explained Philippe Waechter, Chief Economist at Natixis Asset Management. This overly low inflation drags down growth, represented in terms of consumption, at a period where households are more in debt than they were in 2007. Moreover, the sluggish global trade has not propelled growth onto a higher trajectory. Growth in the euro zone is expected to reach 1.5% in 2015 after four consecutive years of flat lining. It should increase in 2016 as the business cycle will be more synchronised among the euro zone countries, spurring corporate investment.

ECB - FED: The central banks' unprecedented divergence

In December 2015, the Fed made the first hike of a quarter of a percentage point in the federal funds rate. This has led to an unprecedented situation where the main central banks have diverged from their North American counterpart. "*While the Fed has initiated monetary tightening measures, which should be quite gradual and moderate, the ECB will keep its very accommodating stance in 2016. It will extend its QE programme to dispel any uncertainties among economic players,*" commented Philippe Waechter. The divergent monetary policies will confirm that the euro is retreating against the dollar. "*Benefiting from the ECB's proactive policy, coupled with low oil prices, the euro zone will be in the best position to synchronise the business cycle in 2016: this is where we can expect growth to pick up*," added Philippe Waechter.

Long-term rates still hinge on the Fed's decisions

In 2015, forecasted hikes in the federal funds rates did not impact the long term rates. Despite some volatility, they were overall stable during the year thanks to purchases made by foreign investors. *"This impact may be felt in 2016, but it will all depend on the Fed's stance,"* stated Ibrahima Kobar, Co-CIO and Head of Fixed Income at Natixis Asset

Management. An assessment will need to be made on the extent the Fed will tighten its balance sheet, which could more or less impact the yield.

High selectivity and an appetite for calculated risks on fixed income
With the overall weakening of risk-free rates, a portion of the curve is even generating negative rates in Europe. Investors seeking higher returns will therefore need to be very selective. This is especially the case for sovereign debt. *"We need to know how to take calculated risks and conduct an in-depth assessment of each country,"* stated Ibrahima Kobar. *"For example, we need to factor in the strong correlation between German and US debt. In neighbouring countries, Italian debt and Spanish debt should improve under the ECB programme, but Italy has the advantage of better liquidity."* There's an alternative in finding higher returns in fixed income: knowing how to take calculated risks in the loan market. *"Asset Backed Securities (ABS) have a major advantage as they expose the investor to variable rates,"* explained Ibrahima Kobar. *"For investors with a greater risk appetite, high yield bonds and other types of subordinated debt such as contingent convertibles (CoCo) or leverage loans offer higher potential returns."* added Ibrahima Kobar.

European equities: a promising year for stock pickers
2016 could be another favourable year for stock pickers. *"We are focusing on investment themes and sectors that are reaping the advantages of low interest rates. These include companies with solid balance sheets that payout dividends to their shareholders, securities that could be contributed in M&A deals, defensive stocks of companies generating large positive cash flows (telecoms, pharmaceuticals, real estate), and sectors positively impacted by the collapse of raw materials. For example, the automotive industry is benefiting directly by paying less for steel and plastic as well as indirectly as lower interest rates on loans and cheaper oil prices boost consumer purchasing power,"* stated Yves Maillot, Head of European Equities at Natixis Asset Management. Mid-caps have also been performing quite well recently. The CAC Mid & Small Index has clearly outperformed the CAC 40 over one to three years. Mid-caps still have a lot of untapped potential. *"US statistics from 1950-2014 show that mid-caps have outperformed large caps by an average of 2.9% per year. Currently these mid-caps do not offer any premium even though their growth rate is higher*," pointed out Yves Maillot.

Asset allocation: top choices are European equities and US bonds with long term interest rates
Building the portfolio should remain selective in 2016 as the two main asset classes, equities and bonds, are priced rather high. *"Our asset allocation is based more on relative choices than directional ones,"* explained Franck Nicolas, Head of Investment & Clients Solutions at Natixis Asset Management. *"In terms of fixed income, we are focusing on US bonds and on the long end of the yield curve, which is less sensitive to the upcoming monetary tightening measures and more profitable than its European counterpart. For equities, we are selecting European stocks over US ones. We are also taking calculated risks on some Japanese stocks. We are still shying away from emerging markets, which have not been able to jump start growth despite a deep discount in stocks after under-performing for several years in a row."* concluded Franck Nicolas.

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About Natixis Asset Management

Natixis Asset Management ranks among the leading European asset managers[1] with €328.6 billion in assets under management and 649 employees[2]. Natixis Asset Management offers its clients tailored, innovative and efficient solutions organised into six investment divisions:
Fixed income, European equities, Investment and client solutions, Structured products and volatility developed by Seeyond, Global emerging developed by Emerise, and Responsible Investing developed by Mirova.

1 Source: IPE Top 400 Asset Managers 2015 ranked Natixis Asset Management as the 46th largest asset manager based on global assets under management, and by the country of the main headquarters and/or main European domicile, as of 31 December 2014.
2 Source: Natixis Asset Management - Natixis Asset Management Asia Limited as of 30 September 2015.
Reference to a ranking does not indicate the future performance of the fund manager.
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About Natixis

Natixis is the international corporate, investment, insurance and financial services arm of Groupe BPCE, the 2nd-largest banking group in France with 36 million clients spread over two retail banking networks, Banque Populaire and Caisse d'Epargne.
With more than 16,000 employees, Natixis has a number of areas of expertise that are organized into three main business lines: Corporate & Investment Banking, Investment Solutions & Insurance, and Specialized Financial Services.
A global player, Natixis has its own client base of companies, financial institutions and institutional investors as well as the client base of individuals, professionals and small and medium-size businesses of Groupe BPCE's banking networks.
Figures as at 30 September 2015