

Paris, December 6, 2017

According to Natixis Asset Management: “adaptability and flexibility will be the watchwords on the markets in 2018”

Corporates and households seem to have regained their confidence in the future in 2017 against a flattering macroeconomic backdrop. However, Natixis Asset Management’s experts caution against excessive optimism, as 2018 will not be entirely devoid of events that could throw a spanner in these well-oiled works. Meanwhile, the financial markets will have to deal with a phase of central bank monetary policy normalization. So adaptability and flexibility will be the watchwords in 2018 if investors are to derive the full advantages from investment opportunities.

A tricky year for central banks

According to Philippe Waechter, Chief Economist at Natixis Asset Management, the macroeconomic situation has recovered a more normal framework and pace for growth. *“Business leaders in developed and emerging markets now have a positive outlook on their environment and this stance is set to lead to more jobs and investment. Households are confident and the risk of deflation has been averted”* he notes. Meanwhile further support is provided by more relaxed fiscal policies. *“However, one question remains: how will these expectations of very strong economic performances fit with ongoing monetary accommodation?”* wonders Philippe Waechter. Central banks must take on board this optimistic view of the economy while maintaining an accommodative slant.

Philippe Waechter believes that three other risks should be closely monitored. Firstly, Brexit will not only hit the British economy, but also some business sectors in Europe, such as aviation, banking and automotive. Secondly, the review of US banking regulation is worrying for the future stability of the financial system. Thirdly, negotiations on NAFTA are a source of concern as changes to the agreement would be bad news for the three member countries and could trigger the renegotiation of other free trade agreements and threaten world momentum. *“2018 may be the cycle peak but it will certainly be a turning point, and in Europe it must be the starting point for a new age. Leaders in the euro area must take the opportunity of a sturdy economic backdrop and a decline in populism to take their economic policy and reform of institutions a step further”* concludes Philippe Waechter.

The fixed income markets favor the bold!

Ibrahima Kobar, deputy Chief Executive Officer and Co-Chief Investment Officer at Natixis Asset Management, believes that bond funds will offer attractive opportunities in 2018. *“We are embarking on a positive period for bonds, with a virtually “virtuous” circle as monetary policies are well defined and the interest rate trend ahead is clear”*.

Political risks seen at the start of 2017 are now far off, and while external shocks cannot be ruled out, the markets now know how to price them in. Lastly, the macroeconomic context is buoyant and distortion in bond valuations is poised to ease as a result of a reduction in the ECB’s asset purchase program.

2018 is set to be a good vintage for bond investors, with issues largely oversubscribed due to the shortage of securities. *“In a context of ongoing broadly negative real rates, it is still key to look for yield and so investors must be daring”* he notes.

Ibrahima Kobar points out sovereign debt in peripheral markets in Europe, but especially in emerging countries, which have managed to fight off inflation and get back on the path to growth, so they should harbor attractive opportunities unless there is a shock on US rates and the dollar. High Yield credit can also provide returns despite narrow spreads, but requires a highly selective approach. Convertible bonds will also enable investors to lock in yield in a positive context on the equity markets. *“Lastly, it will be vital to skilfully manage duration, the historical aspect of performance, via products that combine short- and long-term securities in order to adapt to all circumstances”* concludes Ibrahima Kobar.

Momentum and flexibility on the equity markets

According to Yves Maillot, Head of European equities at Natixis Asset Management, the macroeconomic environment is almost perfect for equities. However, the normalization of monetary policy, fluctuations in exchange rates or a likely return to volatility could cast a shadow. *“Momentum will be the leitmotiv on the European equity markets in 2018 more than ever, but a stock-picking approach must remain flexible”* explains Yves Maillot. *“We also have a focus on M&A as the pace is poised to pick up, particularly in the food & beverages sector, healthcare & pharmaceuticals, telecoms and technology”*. Small and mid caps should also continue to perform well. Lastly, emerging markets will harbor attractive opportunities as they benefit from strong growth, prospects for an improvement in earnings and attractive valuations, with a 25% discount to developed markets. Emerging Asian markets are the most attractive in our view. *“But just as in developed countries, flexibility will be needed in light of persistent risks: the 2017 winning trio may not last (weaker dollar, rising commodities prices and improvement in earnings growth), while risks on Latin America still remain”* concludes Yves Maillot.

Asset allocation: taking a contrarian approach to generate yield

The current market context is favorable for risky assets, but remains fragile. Investors have massive exposure, so the slightest disruption or even just profit-taking for technical reasons could send them into a sell-off one after the other like lemmings and push the markets into a downward spiral. *“We must be careful not to see this coming year as linear and the challenge will be to build up a portfolio with attractive yield while remaining flexible and adaptable to react quickly to any changes”* explains Franck Nicolas, Head of Investment & Client Solutions at Natixis Asset Management. Against this backdrop, the company has a preference for European equities, which gain from more accommodative monetary policy and boast more attractive valuations, although the political risk premium is set to persist. Natixis Asset Management also prefers debt with strong spreads, particularly High Yield which carries an attractive premium in the absence of interest rate risk. *“Another key theme will be emergings, which are buoyed by high commodities prices. We will steer clear of Latin America, but focus on emerging Asia and Eastern Europe. The priority on these markets will be hard currency debt, while emerging currencies remain risky”* notes Franck Nicolas. Lastly, gold has admittedly lost its appeal but will remain a safe haven in the event of volatility on the equity markets.

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About Natixis Asset Management

Natixis Asset Management ranks among the leading European asset managers¹ with more than €345 billion in assets under management for institutional clients, distribution agents and individual investors². Natixis Asset Management offers its clients a full range of active fixed income, equity and multi-asset class investment solutions to address their various needs. Natixis Asset Management has a strong international presence with investment management and research teams across Europe, Asia³ and the United States⁴.

Natixis Asset Management's offer is distributed through the Natixis Investment Managers global distribution platform and Groupe BPCE's retail networks, the second-largest banking group in France⁵.

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¹ Source: IPE Top 400 Asset Managers 2017 ranked Natixis Asset Management as the 51st largest asset manager based on global assets under management, and by the country of the main headquarters and/or main European domicile, as at 31 December 2016.

² Source: Natixis Asset Management – 09/30/2017.

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⁵ Source: BPCE S.A. – 08/31/2017.

About de Natixis

Natixis is the international corporate and investment banking, asset management, insurance and financial services arm of Groupe BPCE, the 2nd-largest banking group in France with 31.2 million clients spread over two retail banking networks, Banque Populaire and Caisse d'Épargne.

With more than 17,000 employees, Natixis has a number of areas of expertise that are organized into four main business lines: Asset & Wealth Management, Corporate & Investment Banking, 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.

Listed on the Paris stock exchange, it has a solid financial base with a CET1 capital under Basel 3(1) of €12.9 billion, a Basel 3 CET1 Ratio (1) of 11.5% and quality long-term ratings (Standard & Poor's: A / Moody's: A2 / Fitch Ratings: A).

(1) Based on CRR-CRD4 rules as reported on June 26, 2013, including the Danish compromise - without phase-in except for DTAs on tax-loss carryforwards following ECB regulation 2016/445.

Figures as at September 30, 2017

Press contacts:

Sonia Dilouya - Natixis

Tel: +33 1 58 32 01 03

Mail: sonia.dilouya@natixis.com

Fanny Galène – Natixis Asset Management

Tel: +33 1 78 40 84 54

Mail: fanny.galene@am.natixis.com

www.natixis.com

