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INVESTMENT MANAGERS

PRESS RELEASE

Despite a positive outlook, institutional investors still see valuations and interest rates as top portfolio risks in 2025, finds Natixis Investment Managers

- *Economic downturn fears have faded, with the number of institutions anticipating a recession declining from 51% in 2024 to just 30% in 2025*
- *Two thirds (67%) of institutional investors believe that equity valuations do not currently reflect the fundamentals of the company*
- *78% believe rate cuts will improve deal flow in private markets in 2025*
- *Over six in ten say that Asia Ex-China will be the best Emerging Market opportunity for 2025*

LONDON, December 4, 2024 – The macroeconomic picture at the end of 2024 looks positive, inflation is on the decline, and interest rates are coming down. Yet despite this, valuations (47%), and interest rates (43%) are still the top portfolio concerns for institutional investors* in 2025, according to new survey findings published today by Natixis Investment Managers (Natixis IM).

Natixis IM surveyed 500 institutional investors who collectively manage $28.3T globally in assets for public and private pensions, insurers, foundations, endowments, and sovereign wealth funds around the world.

After a two-year bull market in which much of the gains have been concentrated in tech stocks, institutional investors name valuations their number one market risk (47%), with two thirds (67%) of institutional investors believing that equity valuations do not currently reflect the fundamentals. Yet, institutions are optimistic with three quarters (75%) believing that 2025 will be the year that markets realise that valuations matter, even though (72%) say the sustainability of the current market rally will be determined by central bank policy.

Recession fears fade

Sentiment has improved drastically over this year, with the number of institutions who think recession is inevitable falling from 51% in 2024 to just 30%. Nearly two thirds (57%) of institutions don't anticipate a recession at all in 2025 and less than one in five (18%) think recession will kill the current rally. When it comes down to it, the vast majority (64%) of those surveyed are calling for a soft landing in their home region and only 20% are worried about no landing. Fewer still project a hard landing (10%), and or worry about stagflation (6%).

Equally, institutions are more positive on inflation, with more than three-quarters saying inflation will decline (38%) or remain at current levels (38%) in 2025. Overall, two-thirds (68%) are confident that inflation will hit target levels in the year ahead, and just under one-third (32%) remain worried that the global economy could experience inflation spikes in 2025.

Economic threats

Despite this optimism, institutional investors still see a wide range of economic threats for the year ahead, with their biggest concerns being US/China relations (34%) and expansion of current wars (32%).

While their market outlook may be optimistic, institutional investors are realistic, despite the relatively smooth ride in key asset classes during 2024, many institutions project an uptick for volatility for stocks (62%), bonds (42%), and currencies (49%) in 2025.

Elsewhere, while sentiment on cryptocurrency has more than doubled (38% compared to 17% in 2024), given the speculative nature of crypto investing and the accompanying volatility, 72% say cryptocurrency is not appropriate for most investors and another 65% believe crypto is not a legitimate investment options for institutions.

However, portfolio plans show a high level of confidence, with the number of institutions who say they are actively de-risking their portfolios dropping to 48% from 56% in 2024. What's more, four out of ten go so far as to say they are actively taking on more risk in 2025.

Andrew Benton, Executive Managing Director & Head of Northern Europe & MEACA, Natixis IM, said, *"Institutional investors are approaching 2025 with a greater sense of optimism. While they see an array of risks on the horizon, they appear confident in theirs and the market's ability to withstand geopolitical pressures and for potential macroeconomic shifts to come out on top. Few are making any shifts to long-term strategy, but they recognize they can enhance their chances with tactical allocation shifts. However, long-term success will still very much be determined by how well they read today's macroeconomic and market factors."*

Private market boom?
Institutions are planning to continue to increase investments in alternatives in 2025 as six in ten (61%) anticipate that a 60:20:20 portfolio diversified with alternative investments will outperform the traditional 60:40 stock and bond mix. In terms of where they'll invest that 20% allocation, institutions are clear that they want to add more private assets to portfolios.

Of all their choices, nearly three quarters (73%) of institutional investors are most bullish on private equity in 2025, a notable increase over the 60% who felt the same a year ago. That is likely to change over the course of the next year as nearly eight in ten (78%) believe rate cuts will improve deal flow in private markets and nearly three quarters (73%) believe more private debt will be issued in 2025 to meet growing borrower demand.

In terms of how they are approaching private investments, more than half (54%) say they have increased allocations to private markets. Overall, 65% say they are looking at new areas of interest – such as AI related opportunities.

Emerging markets conscious de-coupling with China
Emerging markets have been hindered recently due to the deteriorating Chinese economy, in fact nearly eight in ten (79%) believe that a lower growth environment will be the new normal in China. Six in ten (60%) believe that economic malaise in China will hold back growth in emerging markets.

However, emerging market investments are looking more positive for the year ahead with over half (53%) of institutions saying that they are poised to take off in 2025. For this to happen, three quarters (75%) say that there will need to be easing monetary policy in the developed world to help accelerate growth.

Nearly three quarters (74%) think a conscious de-coupling with China will result in an opportunity for other emerging markets to climb the global ladder. Over six in ten (62%) say that Asia Ex-China will be the best Emerging Market opportunity for 2025, equally (63%) say that India will surpass China as the top emerging market for investment.

Markets will favour Active management

Nearly three quarters (70%) of institutional investors say that the markets will favour active management in 2025, and nearly seven in ten (67%) said that their actively managed investments outperformed their benchmarks in the last 12 months.

Given the changing interest rate and credit environment, institutions will likely benefit from active investing. Overall, seven in ten (70%) say that active management is essential to fixed income investing.

A full copy of the report on the Natixis Investment Managers' Institutional Investor Outlook for 2025 can be found here: https://www.im.natixis.com/en-intl/insights/investor-sentiment/2024/institutional-outlook

Ends

Methodology

Natixis Investment Managers Global Survey of Institutional Investors conducted by CoreData Research in October and November 2024. Survey participants included 500 institutional investors in 28 countries throughout North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East.

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 15 active managers. Ranked among the world's largest asset managers[1] with more than $1.4 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; DNCA Investments;[3] Dorval Asset Management; Flexstone Partners; Gateway Investment Advisers; Harris | Oakmark; Investors Mutual Limited; Loomis, Sayles & Company; Mirova; MV Credit; Naxicap Partners; Ossiam; Ostrum Asset Management; 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.

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[1] Survey respondents ranked by Investment & Pensions Europe/Top 500 Asset Managers 2024 ranked Natixis Investment Managers as the 19th largest asset manager in the world based on assets under management as of December 31, 2023.
[2] Assets under management (AUM) of current affiliated entities measured as of September 30, 2024, are $1,427.2 billion (€1,279.0 billion). AUM, as reported, may include notional assets, assets serviced, gross assets, assets of minority-owned affiliated entities and other types of nonregulatory AUM managed or serviced by firms affiliated with Natixis Investment Managers.
[3] A brand of DNCA Finance.

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