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INVESTMENT MANAGERS

PRESS RELEASE

Institutional investors see geopolitical bad actors as the number one economic risk in 2024, ahead of high rates and inflation, Finds Natixis Investment Managers

- *The number of investors who think recession will be avoided has increased significantly since last year, from 15% to 37%. But we aren't yet in the clear as half (51%) of financial institutions still believe a recession is inevitable.*
- *Projections for 2024 show that institutional investors are bullish on just three asset classes; bonds, private equity and private debt*
- *75% of investors believe AI will unlock investment opportunities, while others worry advancements could cause geopolitical and economic turmoil*

LONDON, December 6, 2023 – As 2024 approaches, institutional investors[1] have plenty to worry about, from central bank rates, slowing consumer spending, and whether returns will meet expectations. However, according to new survey findings published today by Natixis Investment Managers (Natixis IM), institutional investors see geopolitical bad actors as the biggest economic threat.

Natixis IM surveyed 500 institutional investors who collectively manage $23.2 trillion globally in assets for public and private pensions, insurers, foundations, endowments, and sovereign wealth funds around the world.

Alongside worries about the economic threat posed by geopolitical bad actors (49%), the survey found that institutional investors are also concerned about slowing consumer spending (48%), with 51% believing recession will be inevitable in 2024. Despite this, very few (8%) think their portfolios are recession proof. It is not all gloom and doom however, with the number of those who do not anticipate a recession next year more than doubling from 15% in 2022[1] to 37% in 2023.

Equally, institutions remain split on inflation outlook heading into 2024, with 40% believing inflation will remain at elevated levels, while 40% see further reductions on the cards. Concerns around interest rate policy persist, with a central bank policy error (42%) ranking number-three on their list of concerns. 60% of financial institutions agree that higher inflation is the new normal and around the same percentage (61%) also expect rates to remain higher for longer.

Darren Pilbeam, Executive Managing Director & Head of UK Sales, Natixis IM, said, "Institutional investors have had a lot on their plate this year and sentiment shows that 2024 continues to be filled with uncertainties, as higher for longer rates and inflation remain top portfolio risks for investors. However, while there are plenty of macro questions to consider, many of these are being anticipated and accounted for in investment plans. It is the unforeseen events spurred by political bad actors that are causing the biggest concerns. To navigate the multitude of headwinds investors are backing their active allocations, resulting in few lowering

[1] Natixis Investment Managers, Global Survey of Institutional Investors conducted by CoreData Research in October and November 2022. Survey included 500 institutional investors in 30 countries throughout North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East.

their assumed rate of return for 2024, and long-term return expectations remain solidly at 8% on average."

Bulls may be hiding in plain sight

The uncertainty of the economic picture factors heavily in institutional investors' market outlooks for 2024. Almost six in ten (59%) are projecting higher levels of volatility for equity markets, while 39% see a similar uptick in volatility for bonds, with concern that slowing growth coupled with higher rates will lead to an increase in corporate defaults (76%).

Overall, market projections for 2024 show institutional investors are bullish on just three asset classes: the bond market (69%), private debt (64%) and private equity (60%). While views on the stock market are split between bulls (46%) and bears (54%), institutional investors mostly agree that technology (52%) and large caps will continue to outperform (61%).

AI: Productivity boon or existential threat?

All of this also comes at the end of a year marked by technological disruption, as artificial intelligence came to the fore. Institutional investors are finding both good and bad in technology's rapid progression. Over two thirds (66%) worry that AI could create geopolitical turmoil but 75% believe AI will unlock investment opportunities that were otherwise undetectable. When asked which Sci-Fi film best captured their view on AI, half of all investors compared it to the film Moneyball, believing that AI is nothing more than a tool analysing data to find hidden opportunity.

The AI Screen Test:

- **Moneyball:** AI is just a new tool for analysing data to find hidden opportunity (50%)
- **War Games:** An AI hack will result in geopolitical, economic, or social turmoil (35%)
- **Wall-E:** AI will become empathetic and care enough to save humanity (10%)
- **The Terminator:** AI will seek to destroy humanity (6%)

On the whole, financial institutions see the AI boom as an investment opportunity, with half of those surveyed believing it will be bigger than the internet was, and only 34% worried about an AI bubble. However, 38% still worry that AI could be an existential threat to civilisation as we know it.

Private Assets in high demand mean fewer deals to be made

Private assets continue be a top alternative allocation choice for institutional investors, as two-thirds (66%) say there is still a significant delta between private and public assets. However, after a long run of private investments, 59% of institutional investors say that the popularity of private assets is making it hard to find deals. With this in mind, teams are building more safeguards into their strategy and 72% say they have stepped up their due diligence to respond to concerns around deal quality.

In addition to this, regulation is influencing views on private assets. More than half of those surveyed (53%) globally say over-regulation of private markets is making them less attractive. However, based on their plans for 2024, it appears this is about easing up future allocations rather than dialling back on what they already own.

Active allocations locked in

Institutional allocations to actively managed investments appear to be locked in for the long-term. Currently two thirds of institutional assets are allocated to active strategies, showing no change from 2022. Looking ahead, there is little variance to the plan as institutions project they will have 66% invested in active over the next three years.

The strategy worked well in 2023, with 66% of institutional investors reporting that the active investments in their portfolios outperformed their passive investments. What's more, almost six in ten (59%) believe that the popularity of passive investments increases systematic risk.

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

Ends

Methodology

Natixis Investment Managers Global Survey of Institutional Investors conducted by CoreData Research in October and November 2023. Survey participants included 500 institutional investors in 27 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 $1.2 trillion assets under management[2] (€1.1 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 Associates; 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] Cerulli Quantitative Update: Global Markets 2023 ranked Natixis Investment Managers as the 17th largest asset manager in the world based on assets under management as of December 31, 2022.

[2] Assets under management ("AUM") of current affiliated entities measured as of June 30, 2023 are $1,230.1 billion (€1,127.5 billion). AUM, as reported, may include notional assets, assets serviced, gross assets, assets of minority-owned affiliated entities and other types of non-regulatory AUM managed or serviced by firms affiliated with Natixis Investment Managers.

[3] A brand of DNCA Finance.