2024 NATIXIS GLOBAL FUND SELECTOR OUTLOOK SURVEY

Why be normal?

Fund selectors anticipate a 2024 investment landscape that looks anything but normal (new, next, or otherwise).

NATIXIS
INVESTMENT MANAGERS

Higher interest rates, receding inflation, and lower expectations for both economic growth and market returns are the foundation of an unfamiliar landscape that will challenge investors in 2024.

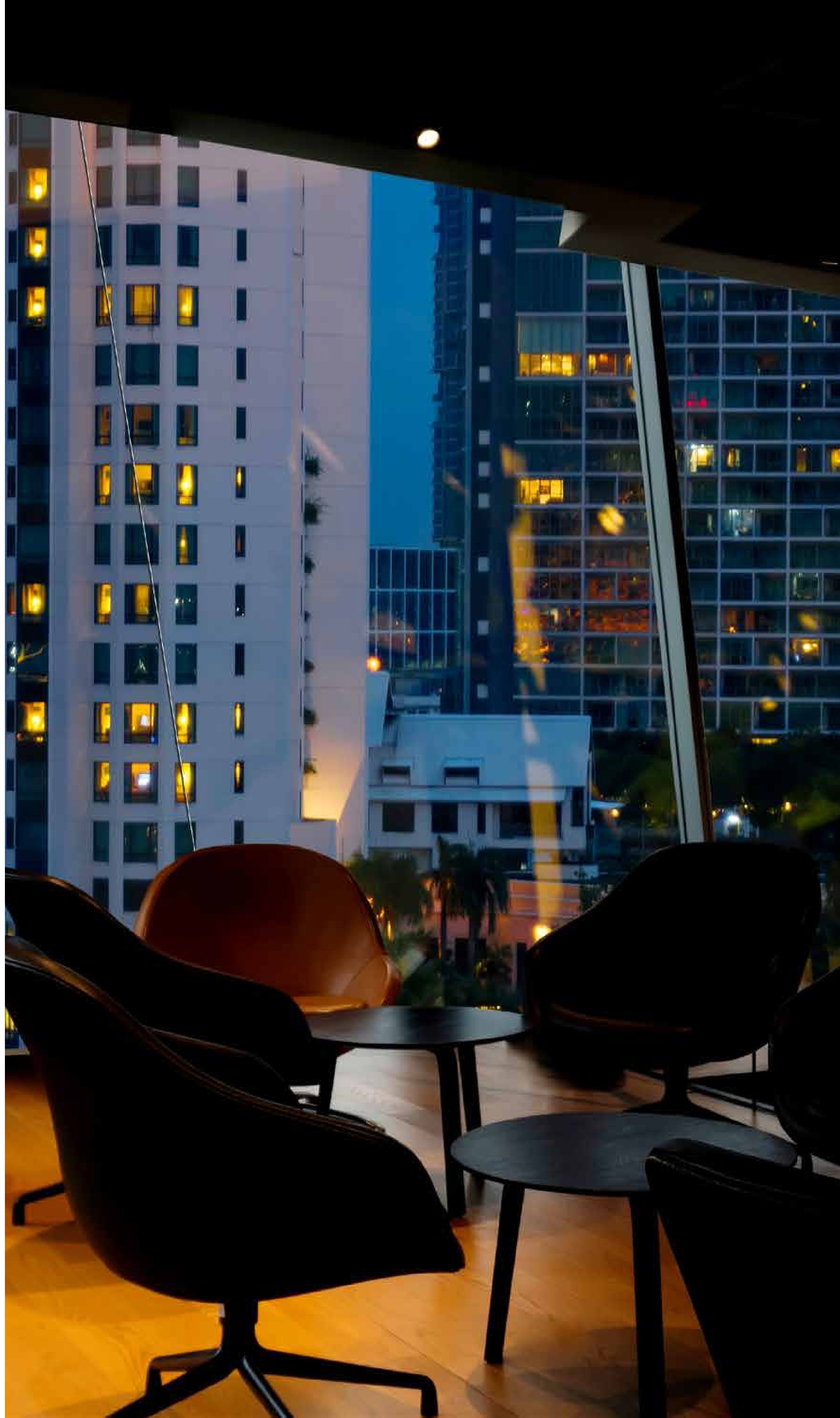
As the uncertainty unfolds, fund selectors at the world's largest wealth management firms are working diligently to minimize the impact it could have, not just on clients' portfolios but also on their behavior.

The emergence of this new investment paradigm may be a departure from what investors have experienced in recent years, but this isn't a sudden transformation. It's the result of a gradual evolution in key economic and market trends that have been playing out since the global pandemic struck. Results from the Natixis 2024 Fund Selector Outlook Survey show just how different – and uncertain – the world looks in 2024.

Prospects for slower growth put recession (52%) at the top of economic threats for fund selectors. But increasing global tensions such as Russia's war on Ukraine, the October Hamas terror attack, and Israel's retaliation in Gaza have war and terrorism (50%) coming in at a close second.

In markets, higher interest rates implemented to contain rampant inflation rates have fund selectors bullish on bonds (66%). But the environment brings new concerns to fixed income portfolios in terms of timing decisions to lengthen duration. In addition to bonds, selectors remain bullish on both private debt (57%) and private equity (55%).

Selectors are less certain on stock market performance in 2024. Concerns about declining consumer spending (34%) leave them split as to whether they are bullish or bearish on equities. Yet when it comes down to it, 56% are optimistic about market prospects for 2024.



It adds up to an environment that could have a big impact on portfolios and one that could put clients on edge. To see them through, fund selectors will need to consider how four key factors will play out in the year ahead:

The economy: Recession may be the top concern and nearly half of those surveyed (49%) think it's inevitable, but not everyone is convinced. In fact, the number who don't see recession in the cards had increased by 20% over last year – a point that demonstrates just how hard it is to get a fix on the direction of the economy.

The markets: Interest rates, volatility, and inflation rank as the top portfolio risks, return assumptions are lower and sentiment on stocks is split. Despite the anticipated headwinds, many still see potential upside as 56% say they are optimistic about markets.

Fund selectors have dropped long-term return assumptions by almost **28%** compared to last year (6.3% vs 8.8%)

The portfolio: Despite the shifting landscape, selectors are not making wholesale changes to investment strategy. Instead, they're making tactical tilts within asset classes to better prepare clients to a new environment favoring bonds.

The products: Selectors note that their firms are adjusting their product offering for clients with an eye toward delivering an investment client experience and enhancing customization by increasing the availability of third-party model portfolios (41%) and separately managed accounts (37%) to their platforms.

Sentiment among the panel of 500 investment professionals in 30 countries shows just how these factors contribute to a more subdued view on what can be accomplished on behalf of clients in 2024. In managing a total of almost $35 trillion, they have dropped long-term return assumptions by almost 28% compared to last year (6.3% vs. 8.8%[1]); it's clear they have a lot on their plates in 2024. it all begins with an unfamiliar economic outlook.

Macro Outlook ’24: Consumers have been the driver of the global economy through the pandemic and into the recovery.

TOP ECONOMIC THREATS FOR 2024

52%	Recession
50%	War/Terrorism
36%	Central bank policy error
35%	Energy prices
34%	Declining consumer spending

Source: Natixis Fund Selector Outlook 2024

Amazon purchases helped keep the economy afloat during lockdown. In the reopening, spending on travel and in-person experiences helped push the market through. Employment soared and consumers kept spending. Inflation soared and spending continued. Even as interest rates climbed to 15-year highs last year, consumers kept spending.

Many are beginning to believe that the backbone of economic growth is about to break under the weight of higher prices and higher financing costs. Almost six in ten (59%) of fund selectors predict the job market will cool and unemployment will increase in 2024.

It’s a scenario that could ultimately lead to a decline in consumer spending, something 34% see as a key threat in 2024. Add to it the 60% who forecast a rise in corporate defaults and it’s easy to see why fund selectors rank recession as the top economic threat (52%) in 2024. Many are convinced this scenario is a foregone conclusion in 2024 as almost half of those surveyed (49%) believe it is inevitable.

In terms of how bad it could get, 75% of those expecting recession say it will be painful (65%) or very painful (10%). And in answering the question of when, they are split as to whether the downturn arrives in the first half of the year (44%) or the second half (42%).

But half doesn’t make for a majority. The “recessionistas” have been calling for an economic downturn for two years. But it has yet to materialize. In 2023, when rates were rising, inflation had yet to be tamed, and it was assumed consumers had burned through pandemic savings, 60% of fund selectors thought recession was inevitable. It proved not to be.

As if to signal just how unfamiliar today’s economy feels for many, the number of fund selectors who say they do not anticipate recession more than doubled to 34% in 2024 from last year’s 14%.

Ultimately, projections for recession may actually be a case of preparing for the worst and hoping for the best. Despite the significant number who see a painful recession on the horizon, 62% of those surveyed believe their country’s economy will experience a soft landing, a view that’s hard to square with a painful, or very painful, recession.

49%

of fund selectors believe recession is inevitable in 2024

Geopolitical volatility adds to the uncertainty

While recession tops the list of economic threats, fund selectors rank war and terrorism (50%) a close second. In considering the extent to which geopolitics could impact the global economy, fund selectors find much to worry about at the start of 2024, most notably the tensions in the Middle East that have many on edge.

The October 7 terror attack by Hamas quickly escalated into Israel's retribution in Gaza. Hezbollah's random rocket attacks on northern Israel from Lebanon added to the tensions. Attacks on commercial shipping by the Yemen-based Houthi rebels have threatened trade routes though the Red Sea and increasing barrage of Houthi missile and drone attacks on US Navy ships escalated tensions. Right out of the gates the new year tensions increased with US/British strikes on Houthi targets in Yemen.

Asked if Middle East conflict will affect the economy, 57% of fund selectors believe that the economic impact is contained. But not all respondents are as certain of where the uncertainty will lead, as there are 43% who are concerned that the effects will reverberate through global markets in 2024.

But that conflict is not all that's on their minds. Russia's war on Ukraine has already had an impact on the global economy, inflating both energy prices and food prices across Europe. After nearly 24 months of war in Ukraine, less than one in five (18%) are forecasting a peace dividend in 2024; instead, 82% see no end in sight.

Complicating the picture further are China's growing influence in Africa and the Middle East and its saber rattling over Taiwan.

Central bank policy

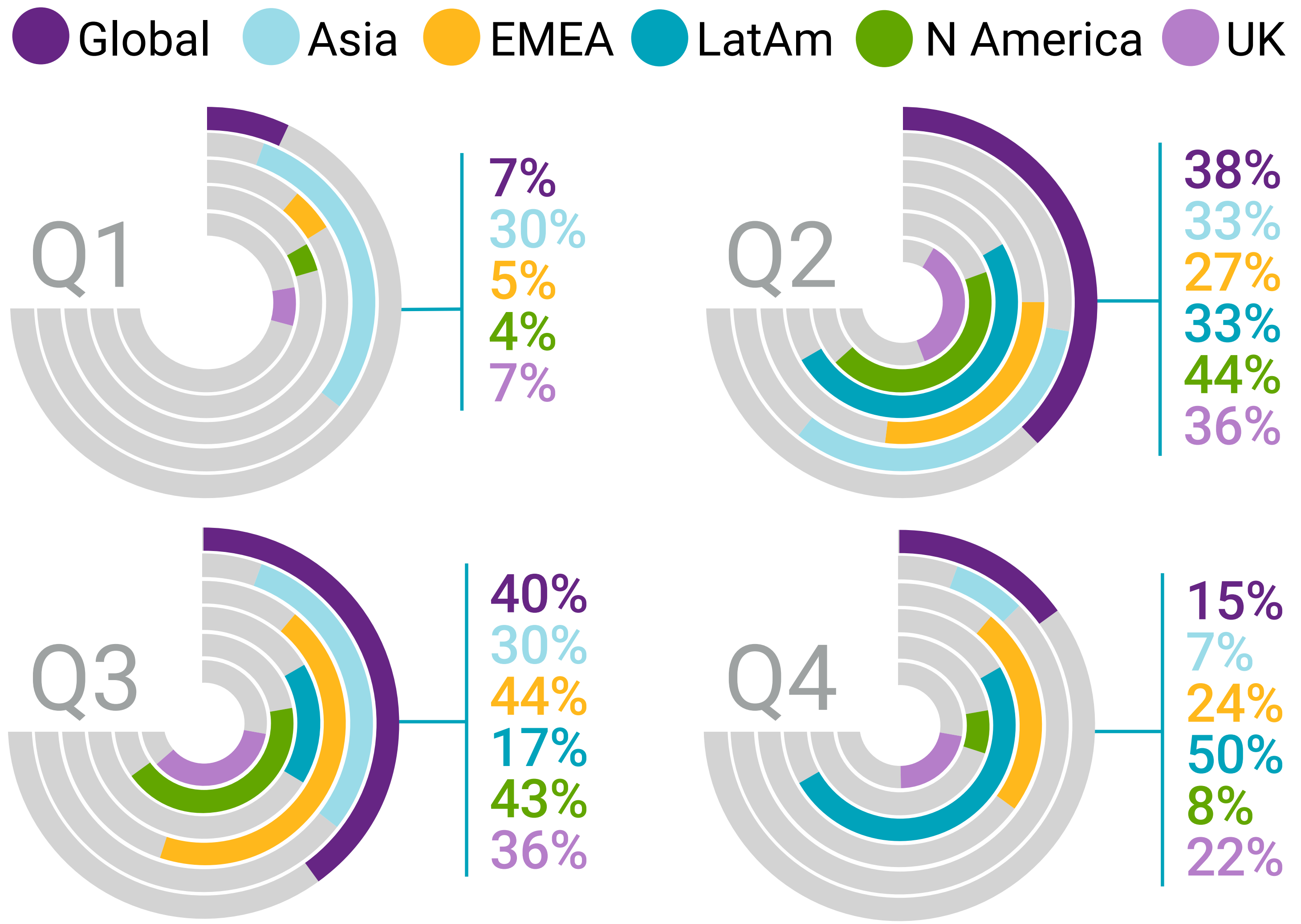
The geopolitical risks are mounting in today's unstable environment, but they can be hard to factor into allocation plans. The next threat on their list is something they can more readily address, as 36% see a central bank policy error as a potential threat.

Central banks have been instrumental in efforts to bring inflation under control. After 20+ months of aggressive rate hikes, it appears that bankers have been successful in navigating the problem and inflation is gradually trending down and toward target in many regions. But for many the key consideration has now become the range and frequency of rate cuts as central banks move to normalize policy.

When it comes down to it, 75% of fund selectors say the timing of rate cuts is critical to ensuring inflation is not reignited. More than half (54%) of those surveyed forecast rate cuts in 2024 including 71% in Asia, 62% in the UK, and 61% in the US. However, the picture is different in EMEA where only 40% see cuts on the horizon this year.

Among 54% of those surveyed who anticipate rate cuts this year, almost three-quarters (74%) of those surveyed forecast either two (53%) or three (21%). Most think any cuts will most likely come in either Q2 (38%) or Q3 (40%).

WHEN THEY EXPECT RATE CUTS



Source: Natixis Fund Selector Outlook 2024

Energy prices

Even as our survey was in field in November, fund selectors were likely growing aware of rising energy prices and 35% saw higher oil and gas prices as another economic threat to consider in 2024. Energy price concerns go hand in hand with their geopolitical concerns as two key petroleum-producing regions, Russia and the Middle East, are at the center of war and terrorist activity entering 2024.

But the energy threat is not felt universally. Sentiment varies greatly from region to region. Those most likely to see the threat, Europe (45%) and the UK (44%), are much closer to the conflict and are more dependent on oil imports. Those in North America (23%), where there is a greater degree of energy independence, are less likely to raise concerns.

Similarly, projections on how higher costs will be felt at the pumps and in gas and electric bills vary by region as well. While six in ten (61%) globally believe consumers will feel the pain of higher energy costs, fund selectors in Asia (74%) and EMEA (66%) were most likely to project pain.

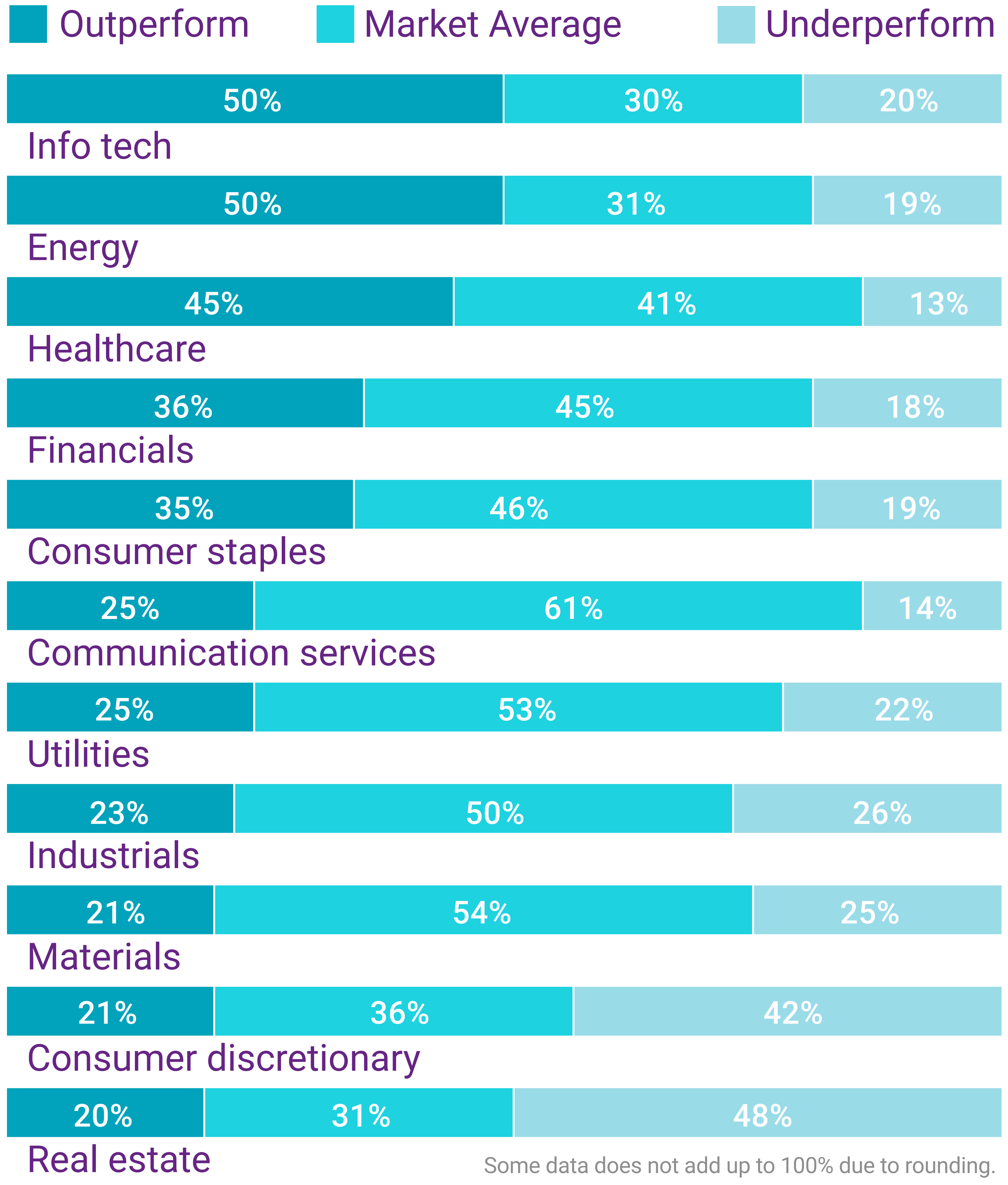
Tech still attractive as recession drives most sector calls

The economic threats that concern fund selectors are directly reflected in their sector calls for 2024 with one significant exception: tech. Concerns for high energy prices have selectors looking for the sector to outperform the market average in 2024. Calls for defensive sectors such as health and consumer staples reflect recession concerns, while calls for financials reflect a higher interest rate environment.

On the other end of the spectrum, higher rates and lower economic expectations have 48% concerned that real estate will underperform. Meanwhile, recession fears have many concerned that consumers will be forced to tighten their belts and 42% expect the consumer discretionary sector will underperform as they cut back on Amazon purchases, travel, and gadgets.

Even as uncertainty prevails in their macro and market outlook, fund selectors are feeling more certain about information technology. The tech sector – and more specifically the sector's seven largest companies – has been a top driver of market returns throughout the pandemic and subsequent recovery. But the 2024 outlook is likely driven by new developments in artificial intelligence that came to light in 2023.

SECTOR CALLS FOR 2024



Some data does not add up to 100% due to rounding.
Source: Natixis Fund Selector Outlook 2024

Spotlight:
The good and bad of AI?

Overwhelmingly, fund selectors see much to be excited about in AI. In fact, two-thirds believe AI will supercharge growth for the tech sector. Most think the boom will be sustainable, as only 34% think AI is a bubble.

In terms of investment impact, 47% of fund selectors overall and 66% in Asia believe that AI is a bigger opportunity than the Internet. Another 67% go so far as to equate the rapid development of AI as the new space race.

Beyond simply investing in tech companies with AI exposure, fund selectors see direct advantages to applying the technology within their own process. Almost three-quarters (73%) believe AI will help them unlock opportunities that were not clearly visible before, while another 64% think the technology will help them uncover hidden risks.

Adoption rates are strong among fund selectors, and more than half (51%) have begun using AI to aid in their analysis. They must be satisfied with the results, as almost the same number (50%) think the use of AI is such a critical tool that they caution those who do not embed it in their process that they will be lost.

While sentiment on the investment opportunity is positive, fund selectors still express reservations about the potential downside in the rapid development and adoption of artificial intelligence. In fact, 42% of those surveyed think the risks presented by AI are actually greater than the opportunity and 41% go so far as to say AI is an existential threat to civilization as we know it.

Source: Natixis Fund Selector Outlook 2024

Market Outlook ’24: Recession, war, policy mistakes, and energy prices loom as potential economic headwinds in 2024, and fund selectors think the uncertainty will add up to increased volatility.

TOP PORTFOLIO RISKS FOR 2024

60%	Interest rates
53%	Market volatility
51%	Inflation
35%	Valuations
25%	Liquidity

Source: Natixis Fund Selector Outlook 2024

Overall, 65% believe stocks will be more volatile. But just how volatile is unclear. When asked to compare it to 2022’s challenges, just 25% think 2024 will be worse.

On the fixed income side, higher rates and clear central bank communication on rate cut plans have selectors split on whether bond volatility will increase (36%) or remain at current levels (36%). Additionally, selectors are also more likely to say currency volatility remains at current levels (47%) than that it increases (34%). Meanwhile, they are split as to whether the US dollar weakens (55%) or strengthens.

Where the bulls roam

Higher rates make nearly two-thirds (66%) bullish on bond markets in 2024. But while the global number is impressive, it should be noted that bonds look best to those in EMEA (70%), the UK (66%), and the US (65%). In Asia, where inflation concerns and interest rate policies are less in line with the West, fund selectors are more reserved in their outlook on bonds and just over half (53%) say they are bullish on the asset class.

While sentiment is not as strongly positive as the outlook on bonds, selectors remain bullish on both private debt (57%) and private equity (55%). But they are less certain on stock market performance in 2024.

Enthusiasm for stocks is more muted about the threat of declining consumer spending (34%), leaving them split as to whether they are bullish (49%) or bearish (51%) on equities. The lone exception to the view is North America, where selectors are slightly (55%) more bullish on stocks.

WHERE SELECTORS ARE MOST BULLISH ON BONDS

Source: Natixis Fund Selector Outlook 2024

Interest rates top portfolio risk concerns, inflation still a concern

After more than 15 years at historical lows, interest rates have consistently ranked among portfolio risks. In 2024, interest rates (60%) rank as the top portfolio risk, but this time it's for a different reason as selectors will have to determine how high is high enough to lengthen the duration of portfolios.

Timing is of such importance to selectors that rates take precedence over market volatility (53%), which ranks as their number-two risk concern. And even as central banks have reined inflation in closer to target levels, it still ranks among their top portfolio risks (51%).

Why inflation risk still lingers

While inflation is easing and 46% of fund selectors believe it will decline in 2024, many fund selectors don't think the job is done yet. Few (22%) think inflation will hit the 2% targets set by central banks any time in 2024. In fact, 37% believe inflation will remain elevated and 54% expect this is the new normal. Another 17% predict that inflation will rise in the year ahead.

More than half (54%) are resigned to the fact that that higher inflation is the new normal, a sentiment most strongly felt by those in the UK (62%) and EMEA (61%). Add to it concerns about slowing growth and 60% say that stagflation is a greater risk than recession, but the level of concern varies greatly.

In Asia 79% think the risk of stagflation is greater than recession, while 66% are worried in EMEA. Concerns are not as strong among those in the UK (58%), North America (55%), and Latin America (50%). No matter where they are, fund selectors are most worried about Europe where 60% believe the eurozone is on a collision course with stagflation.

Valuations pose another risk

Selectors are also concerned about the risks presented by high valuations (35%). In fact, more than two-thirds (69%) of fund selectors globally are concerned that valuations still do not reflect company fundamentals. Given prospects for a more volatile market, more than three-quarters (77%) of those surveyed predict that markets will recognize that valuations matter in 2024.

INFLATION (CORE CPI) IS NEARING TARGETS IN MANY REGIONS

	CPI as of12/31/23	Target
US	3.4%	2%
UK	4.0%	2%
Eurozone	2.9%	2%
Japan	2.8%	2%

Source: Bloomberg[2]

In focus:

What does a slowing China mean for emerging markets?

A stagnant global growth and recession fears weigh on the minds of fund selectors as they consider prospects for emerging markets in 2024. But now the forecast is not all negative. Few (36%) think emerging markets will outperform developed markets this year, but they remain relatively positive on the investment opportunity. In fact, eight in ten plan to add to (35%) or maintain (46%) their EM allocations.

In terms of what's shaping their views on emerging markets, almost half (49%) of fund selectors say their outlook on global growth is their key concern, but there are many other factors under consideration.

Another 36% are also considering how US dollar strength could impact emerging market investment. Some may be looking at emerging markets as a value play, especially since 35% think cheaper asset valuations are a key consideration for emerging market investing. Only 31% say inflation factors into their outlook for EM.

In terms of where they see the best opportunities, 48% rank Asia ex-China as their top EM prospect. Outside of Asia, selectors say Eastern Europe and Latin America (36% each) will present the best opportunities in 2024, followed far behind by Africa (17%). China (15%) comes in at the bottom of their list of favorites for the year ahead.

WHERE IS THE BEST EMERGING MARKET OPPORTUNITY IN 2024?

48%	Asia ex-China
36%	Latin America
36%	Eastern Europe
17%	Africa
15%	China

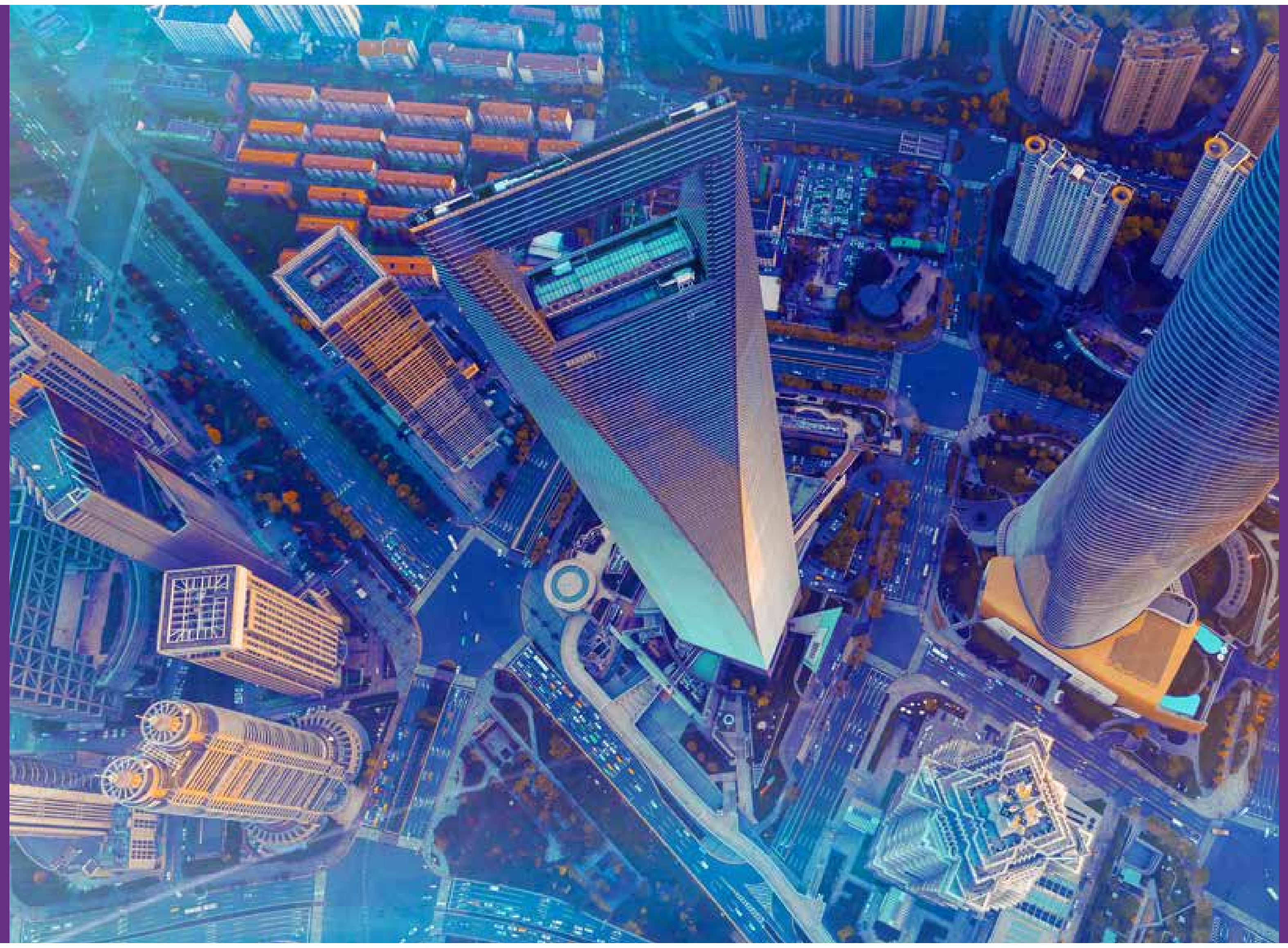
Source: Natixis Fund Selector Outlook 2024

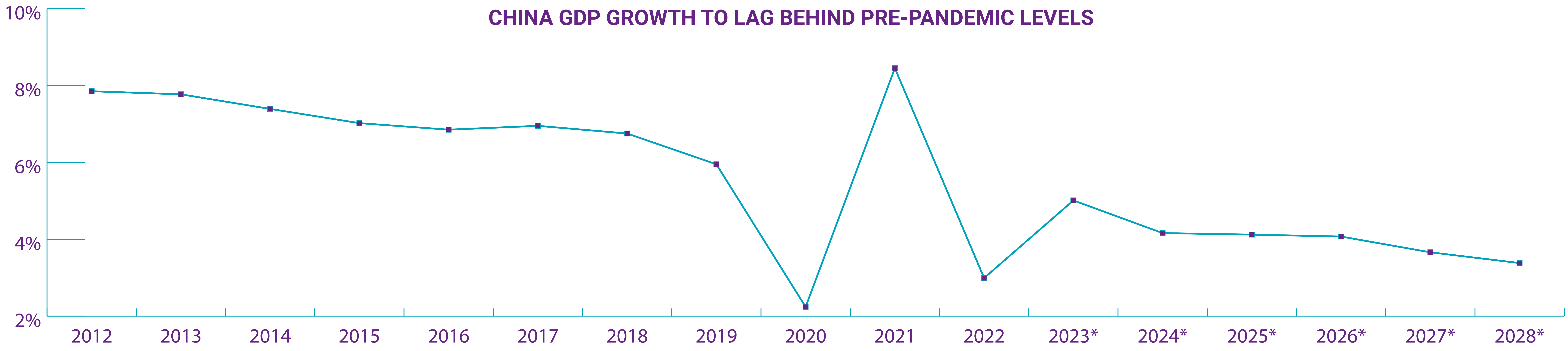
In focus:

China's malaise continues

After witnessing the positive impact that the China growth engine had on emerging markets and the global economy over the past decade, fund selectors are hard pressed to find a reason to believe China will return to pre-pandemic form. Despite a second half surge in 2023 that brought growth in at 4.5%, it still doesn't measure up to its pre-pandemic growth run and 64% believe China's economic malaise will continue in 2024.

It appears most have this factored into their outlook, as only about one in five (21%) overall see China's woes as an economic threat. Closer to home, though, 42% of those in Asia see it as a threat, ranking it just behind their top concern – war and terrorism (55%).





*Forecast Source: Statista[3]

Portfolio Outlook ’24: Fund selectors will respond to an uncertain macro and market outlook with a measured approach to portfolio construction.

While concerns are running high, few anticipate wholesale changes to their allocation strategy. Instead, selectors will look to reposition bonds by emphasizing duration and quality, in stocks they will stay close to home with larger companies, and they find a dual for alternatives seeking enhanced return potential with some allocations and reducing risk with others.

Given their concerns about recession and tempered views on investment returns in 2024, it should be no surprise that fund selectors will be relying on active management to identify the opportunities that may be few and far between in this new landscape.

Split decision on stocks

Bull and bear sentiment is split almost equally among fund selectors, and they are almost similarly split on where they will fund equity returns in 2024, as 50% believe US markets will outperform and the same number think international will outperform.

Allocation plans demonstrate a clear local bias: Those in North America are more likely to add to (35%) or maintain (45%) their holdings. Those in EMEA plan to add to (43%) or maintain (32%) European equity positions. And those in Asia plan to increase (26%) or maintain (53%) exposures in APAC equities. The exceptions to the home bias are selectors in EMEA, where 30% will add to their positions, and the UK, where 38% will add exposure.

In keeping with their recession concerns, selectors are looking for large cap stocks to outperform (62%). Only 38% see small caps outperforming in 2024. Bull or bear, 65% of fund selectors believe stocks will be more volatile in 2024. The real question may be just how much of an uptick they forecast, as most believe dispersions (47%) and correlations (47%) will remain the same.

The same may be enough, however. After almost six in ten (58%) report the active investments on their platforms outperformed passive in 2023, 63% believe actively managed investments will outperform passive again in 2024.

EQUITY ALLOCATIONS	Increase	Maintain	Decrease
US Equities	↑ 36%	– 42%	↓ 23%
European Equities	↑ 34%	– 43%	↓ 23%
Asia Pac Equities	↑ 28%	– 45%	↓ 27%
LatAm Equities	↑ 20%	– 53%	↓ 28%
Emerging Market Equities	↑ 35%	– 46%	↓ 19%

Source: Natixis Fund Selector Outlook 2024

In focus:
A new regime merits a second look at active investments

Fund selectors have been working to establish the right balance between active and passive investments on their firms' platforms for much of the past decade. They currently report allocating 64% of assets to active investments and 36% to passive, which is about a 7% increase to passive over the past three years.

While they indicate that they may allocate even more to passive over the next three years, those plans may not hold as the market factors that elevated passive investing no longer hold up.

Ten years of artificially low interest rates, relatively no inflation, and outstanding market gains allowed passive to shine as the rising tide lifted all boats. That scenario changed dramatically in 2023 and nearly six in ten (58%) report that the active investments on their platforms outperformed their passive offering in 2023.

With rates looking to remain higher for longer, 68% of fund selectors say markets now favor active managers. And given an uncertain outlook, 75% believe active investments will be essential to finding alpha in 2024.

Should recession fears be realized, not only do 61% of fund selectors think it will show the inadequacies of passive investments, but 53% also think investors who rely solely on passive are likely to learn some hard lessons.

75%

of fund selectors believe active investments will be essential to finding alpha in 2024.

Source: Natixis Fund Selector Outlook 2024

Bonds know when to say when

In keeping with an outlook that anticipates rate cuts, 62% project long duration bond portfolios to outperform short duration in 2024. But knowing when to lengthen duration may be the least familiar decision facing fund selectors in 2024.

Some have already acted on their assumptions. Almost one-quarter globally (24%) and 37% of those in Asia say they have already extended duration. Those who haven't already gone long are waiting for rates in the 5.01% to 5.5% range (35%) before they recommend longer durations.

Another 22% want to see rates above 5.5%. Fund selectors are confident in their calls, as only 17% see duration as a portfolio risk in 2024.

Some may be waiting to make their move in time with rate cuts, as 53% believe rates will remain elevated throughout 2024. In the meantime, 61% say they are using short-term ETFs to counter duration risk.

While higher rates have made fund selectors bullish on bonds, they are being selective in their allocation plans. Government debt will take on a key role in the pursuit of income, as 82% say they will either add to (44%) or maintain (38%) their holdings. Despite concerns about corporate defaults and recession, fund selectors are still willing to take on credit risk to boost total return, as 87% will add to (45%) or maintain (43%) allocations.

Similarly, 76% will either add to (33%) or maintain (42%) allocations to high-yield corporates.

Green bonds continue to hold appeal for selectors in almost all regions. Overall, 84% say they will maintain (50%) or increase (34%) their allocations. Convictions on green bonds run strongest in the UK where 47% will increase allocations. North America is the one exception and only 25% of selectors see additions to green bond allocations, while 43% will maintain current positions.

FIXED INCOME ALLOCATIONS	Increase	Maintain	Decrease
Government Debt	↑44%	–38%	↓18%
Securitized Debt	↑29%	–51%	↓20%
Investment Grade	↑45%	–43%	↓13%
High Yield Corporate	↑33%	–42%	↓24%
Emerging Market Debt	↑22%	–54%	↓24%
Green Bonds	↑34%	–50%	↓16%

Source: Natixis Fund Selector Outlook 2024

WHEN SELECTORS WILL LENGTHEN DURATION

	Global	Asia	EMEA	Latin Amer	N. Amer	UK
Doing it already*	24%	37%	16%	15%	27%	26%
4.5–5.0%	17%	24%	18%	50%	14%	11%
5.1–5.5%	35%	16%	39%	35%	32%	44%
Higher than 5.5%	22%	5%	25%		27%	15%
Does not apply	3%	18%	2%			4%

*Already recommending lengthening duration
Source: Natixis Fund Selector Outlook 2024

Alternative allocations

After relying on alternatives to generate income while interest rates were suppressed and equity markets were soaring, fund selectors are seeing a broader role for these non-correlated asset classes as they face a less familiar environment – even as 55% say risk-free returns are leading them to pull back on alternative allocations.

ALTERNATIVES ALLOCATIONS	Increase	Maintain	Decrease
Real estate/REITs	↑ 32%	– 54%	↓ 15%
Absolute return	↑ 26%	– 57%	↓ 17%
Private equity	↑ 39%	– 49%	↓ 12%
Private debt	↑ 38%	– 47%	↓ 15%
Commodities	↑ 29%	– 53%	↓ 17%
Gold/Precious metals	↑ 33%	– 54%	↓ 14%
Infrastructure	↑ 39%	– 52%	↓ 9%
Hedge funds	↑ 24%	– 59%	↓ 18%
Cryptocurrencies	↑ 14%	– 57%	↓ 29%
Options-based strategies	↑ 25%	– 64%	↓ 11%
Managed futures	↑ 22%	– 66%	↓ 12%

Source: Natixis Fund Selector Outlook 2024

A new rationale for private assets emerges

Private assets continue to be the headline on allocation plans for alternative investments in 2024, as fund selectors remain bullish on both private equity (55%) and private debt (57%). Of the 79% who invest in private equity, 88% plan to maintain (49%) or add to (39%) their holdings.

Meanwhile, of the 74% of selectors who say their firm invests in private debt, 85% plan to maintain (47%) or add to (38%) holdings. Most notably, 46% in Asia and 43% in the UK will increase allocations. Similarly, the 74% who invest in infrastructure are as committed to their allocations in 2024 with 52% planning to maintain investments and 39% saying they will increase their holdings.

While each offers the promise of predictable long-term return streams, selectors may be finding even more reasons to invest. Overall, almost two-thirds (66%) of those surveyed believe there is a significant delta between the returns of private and public markets. Another 41% believe that private assets will provide a safe haven in the event of a recession.

As those responsible for evaluating investments for wealth management platforms, fund selectors find a third reason to invest as 51% say clients want them. Six in ten report it's becoming easer to meet that demand as more retail-friendly vehicles are helping them to enhance diversification on behalf of clients.

Real estate and REITs are another asset class where 86% of selectors plan to maintain (54%) or increase (32%) allocations in 2024. Despite the 48% who expect the sector to underperform this year, many are finding resiliency. Overall, 66% may be bearish on residential real estate, but they may see signs of hope including new home sales stabilizing, housing costs that are beginning to cool, and the rate cuts many anticipate in the year ahead.

Recession fears are further reflected in other calls on alternative allocations. Gold/precious metals stands out as an indicator of concern, as 87% say they will maintain (54%) or add to (33%) their holdings. Similarly, 83% of selectors worldwide say they will maintain (57%) or add (26%) allocations to absolute return strategies.

While selectors are ready to work from a wide palette of alternatives, they are clear that cryptocurrencies are not part of the equation, as 73% are bearish on the asset. Of the 42% who offer crypto to clients, only 14% say they will increase allocations in 2024.

Product Outlook '24: Fund selectors are unique in the realm of institutional investors.

They're clearly responsible for evaluating the macro and market impact on allocation decisions and selecting managers who will fit into their plans. But they must also evaluate client needs, pricing concerns, and industry developments to determine an optimal product mix to serve a diverse range of clients.

Most notable in product plans for 2024 is the 83% of fund selectors who say they will add to (44%) or maintain (38%) the active investments offered on their firms' platform. Given the market outlook for greater volatility, and the fact that dispersions have been running at a greater level than seen in the past decade, 75% say active will be essential to finding alpha in 2024.

Beyond beefing up active strategies, selectors will focus on two other product structures to manage client investments, and ultimately manage client relationships in what they see as an uncertain and potentially volatile world: model portfolios and active ETFs.

HOW SELECTORS WILL MANAGE THE PRODUCT MIX

		Global	REGIONAL				
			Asia	EMEA	Latin Amer	N. Amer	UK
Direct indexing	Decrease	14%	10%	12%	26%	16%	13%
	Maintain	60%	67%	67%	53%	56%	59%
	Increase	25%	23%	21%	21%	29%	28%
Semi-transparent ETFs	Decrease	16%	8%	28%	16%	11%	16%
	Maintain	61%	50%	47%	53%	73%	62%
	Increase	23%	42%	26%	32%	17%	22%
Thematic strategies	Decrease	11%	18%	9%	26%	7%	13%
	Maintain	54%	59%	47%	43%	62%	47%
	Increase	36%	24%	44%	32%	31%	40%
SMA	Decrease	11%	7%	13%	6%	12%	9%
	Maintain	52%	55%	52%	47%	53%	51%
	Increase	37%	38%	35%	47%	35%	40%
Annuities	Decrease	13%	7%	13%	6%	12%	9%
	Maintain	59%	71%	58%	28%	60%	65%
	Increase	28%	25%	34%	39%	21%	29%
Index funds	Decrease	14%	22%	14%	15%	15%	5%
	Maintain	43%	41%	40%	45%	45%	46%
	Increase	43%	38%	46%	40%	40%	49%
Active funds	Decrease	17%	11%	23%	15%	19%	13%
	Maintain	38%	43%	40%	30%	40%	28%
	Increase	44%	46%	37%	55%	45%	55%
Hedge funds	Decrease	19%	17%	23%	15%	19%	13%
	Maintain	49%	59%	52%	20%	48%	49%
	Increase	33%	24%	26%	65%	33%	38%
Funds of funds	Decrease	22%	14%	30%	25%	20%	11%
	Maintain	54%	76%	46%	35%	56%	60%
	Increase	25%	10%	24%	40%	24%	30%
Private equity	Decrease	16%	17%	19%	5%	17%	12%
	Maintain	37%	28%	36%	20%	39%	44%
	Increase	47%	56%	45%	75%	44%	44%
Private credit	Decrease	19%	19%	20%	37%	19%	13%
	Maintain	40%	44%	37%	37%	39%	44%
	Increase	41%	36%	43%	26%	42%	44%

Source: Natixis Fund Selector Outlook 2024

Model portfolios a more consistent experience in the face of uncertainty

Model portfolios are front and center in product plans for 2024. Overall, 85% of selectors say their firms have some form of model offering available to clients. While most rely on proprietary models developed by in-house investment teams (65%), a growing number are bringing on third-party model managers (26%). The mix could change significantly as over four in ten selectors (41%) say their firm plans to expand their third-party model offering in 2024.

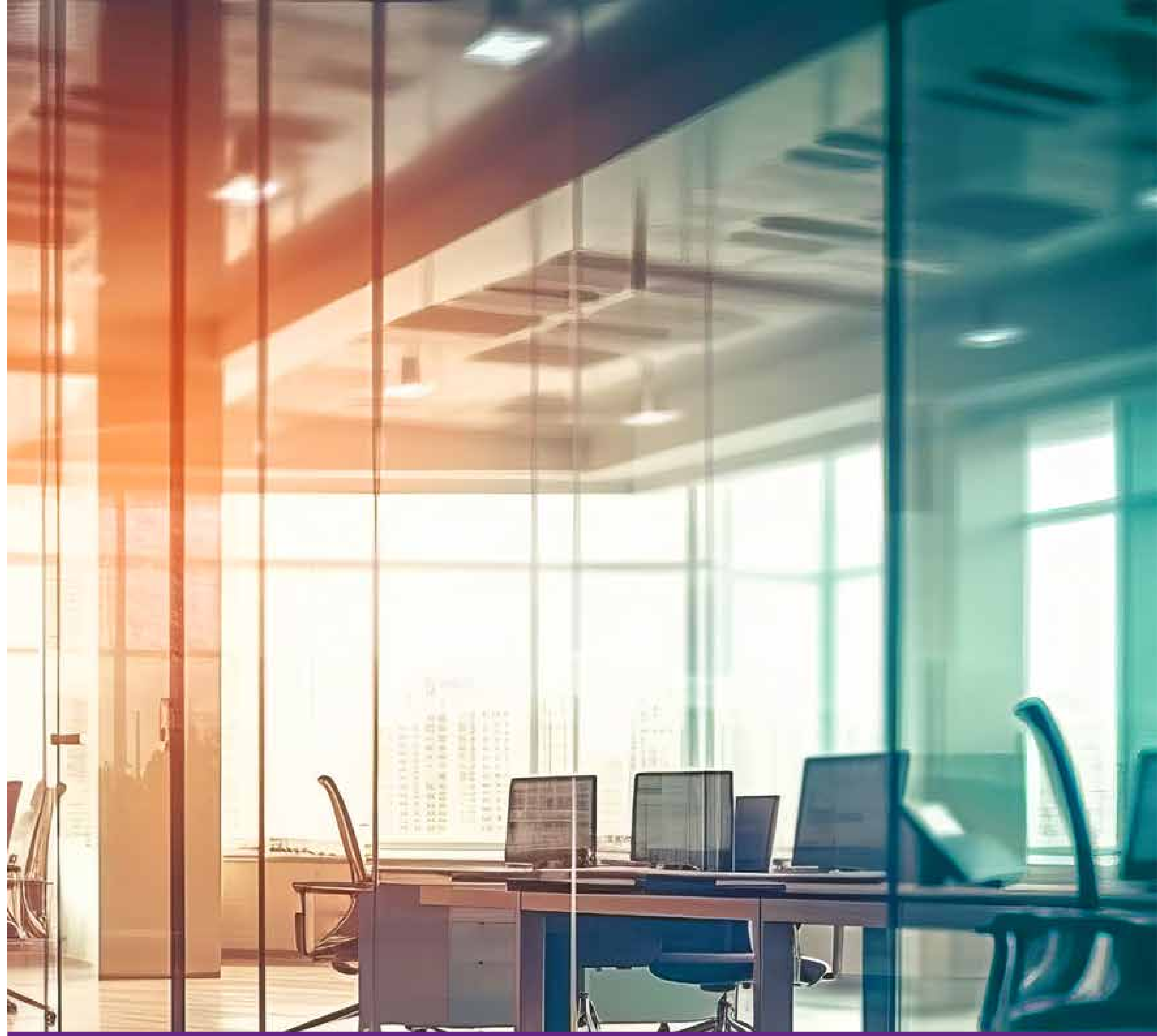
In large part, this move to expand is likely the result of demand, as 52% say their firm plans to move more clients into models. The timing couldn't be better, as selectors think models may help firms address a more turbulent market: First, 66% of selectors believe that model portfolios offer an added layer of due diligence for clients; and second, two-thirds believe models help keep clients invested in volatile times.

Overall, 81% believe that model portfolios give clients a more consistent experience. Models are likely to be essential investments for clients in 2024. Given the macro and market challenges many see on the horizon, two-thirds (68%) of fund selectors say a key benefit of models is that they give investors greater confidence in uncertain times.

From a business standpoint, selectors also say model programs offer their firms key benefits as well: 73% say models help firms manage their risk exposures and 82% say models provide a more streamlined approach. And at a time when firms are asking advisors to provide a more comprehensive planning relationship, 63% say models help advisors to deepen their client relationships.

Given the expanded role models are likely to play in product plans, it's not surprising that 51% say their firm is finding a greater need for specialty models. As a result, firm expansion plans are likely to look beyond core portfolios for growth. Selectors say their firm is most likely to add three kinds of models: High-net-worth models (40%) that provide customization, tax-efficiency and a higher level of services sit atop the list alongside thematic models (40%) and ESG models (40%).

When it comes down to evaluating third-party managers for their model platforms, fund selectors make active risk management (46%) their top concern. In terms of model management, tactical allocation (42%) comes in as another critical consideration. After that they count competitive fees and the ability to deliver firm-level customization as equally important (36%). They are also concerned that models can provide access to a diverse range of fund managers (33%).



WHERE FIRMS WILL ADD SPECIALTY MODELS

1	40%	High net worth
	40%	Thematic
	40%	ESG-focused models
2	32%	Tax-managed
	32%	Alternative sleeves
3	28%	Income

Source: Natixis Fund Selector Outlook 2024

Active ETFs

While fund selectors think markets will favor active managers in 2024 and see active strategies as essential to generating alpha, clients are often concerned more about investment fees. Getting the right balance in the product has been a challenge in recent years, particularly as the performance of passive investments has been a function of central bank policy as 50% of selectors believe.

But new, actively managed ETFs have shown promise of addressing price concerns and the need to generate returns. Active ETFs differ from traditional ETFs in that instead of replicating an index in its holdings, there is a management team behind the portfolio selecting securities based on a specified underlying investment strategy.

While relatively new in the past five years, these products have been gaining momentum. In fact, 84% of firms worldwide say they will maintain (61%) or increase (23%) their offering of semi-transparent ETFs in 2024. Semi-transparent ETFs are one of a few product structures in the active ETF family and are designed to allow managers to pursue alpha without exposing their actual holdings.

Fund selectors see cost efficiency (61%) as the prime benefit of active ETFs, but they are finding other advantages to the structure as well. More than four in ten (44%) say the structure makes it easier to access actively managed investments, while 42% see it as a convenient way of accessing innovative investment strategies. Tax-efficiency is another advantage for 34% of selectors, as is intraday trading for 33%.

WHAT ARE THE BENEFITS OF ACTIVE ETFs?

44%	The structure makes it easier to access actively managed investments
42%	Convenient way of accessing innovative investment strategies
34%	Tax-efficiency
33%	Intraday trading

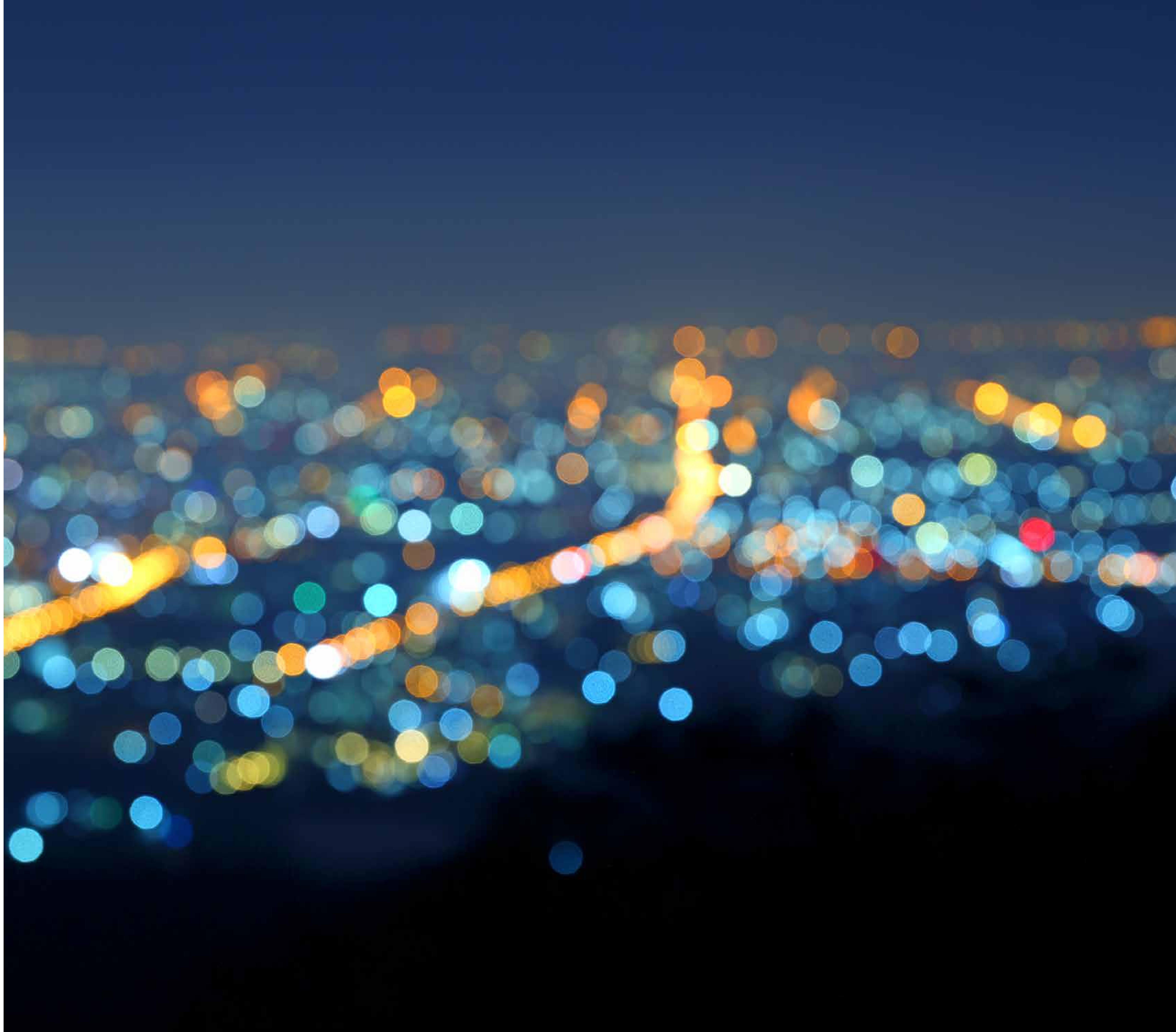
Source: Natixis Fund Selector Outlook 2024

What is normal?

Fund selectors see an unfamiliar investment landscape in 2024. The post-pandemic inflation shock is receding. Interest rates that were near historic lows just three years ago are now near 15-year highs. A global economy that survived – and in many cases thrived in – a global pandemic is now facing rising recession risks. China, which had been an engine for growth for the better part of a decade, has stalled. The war in Ukraine has no end in sight. And conflict in the Middle East seems to grow more tense daily. The upshot is more uncertainty and many anticipate markets will be volatile.

Fund selectors have anticipated many of the changes and have planned accordingly. Allocation plans show they are poised to take advantage of higher rates by lengthening duration. In equities, they are counting on large caps to carry them through what could be a turbulent year. Market expectations are muted compared to recent years, but they are turning to private assets to help enhance returns.

In addition to investment strategy, they must prepare a product strategy that will not only fit client needs but help support them through volatile times. Many think model portfolios will help deliver that support with a more consistent investment experience. And most telling in the end are the 75% who look at this environment and say active management will be essential for generating alpha in 2024.



About the survey

Natixis Investment Managers, Global Survey of Fund Selectors conducted by CoreData Research in November and December 2023. Survey included 500 respondents in 26 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.

Meet the team:

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Program Manager

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Jessie Cross
AVP, Content

1. Natixis Investment Managers, Global Survey of Fund Selectors conducted by CoreData Research in November and December 2022. Survey included 441 respondents in 28 countries throughout North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East.

2. Bloomberg

3. IMF, & National Bureau of Statistics of China. (October 10, 2023). Growth rate of real gross domestic product (GDP) in China from 2012 to 2022 with forecasts until 2028 [Graph]. In Statista. Retrieved November 27, 2023, from https://www.statista.com/statistics/263616/ gross-domestic-product-gdp-growth-rate-in-china/

Unless otherwise stated, data is derived from Natixis Investment Managers, Global Survey of Fund Selectors conducted by CoreData Research in November and December 2023.

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