

Paris, November 23rd, 2022

2024 OUTLOOK

Multiple risks, multiple opportunities

After a favourable year for the financial markets in 2023 despite a troubled international context, 2024 should see a change of era, according to the experts at Ostrum AM, an affiliate of Natixis Investment Managers. Investors will have to adapt to a new market environment now in the hands of lenders, with interest rates permanently above 2%.

2024 should be a year rich in investment opportunities, served by active management of risks that are a priori contained but growing: duration risks, default risks for governments and companies alike, and volatility risks, not to mention the growing risks associated with climate change.

Against this demanding backdrop, Axel Botte, Head of Market Strategy, Alexandre Caminade, Head of Core Fixed Income and Liquid Alternatives, Philippe Berthelot, Head of Crédit and Money Markets, Frédéric Leguay, Head of Equity Insurance, and Emmanuel Bourdeix, CIO for Quantitative investment management, present Ostrum AM's outlook for the economy and markets and outline the key investment strategies to generate performance in 2024.

Markets: A three-speed global economy & risks relating to public finances

According to **Axel Botte, Head of Market Strategy**, the global economic situation will remain uneven: in the United States, activity has proved resilient thanks to solid consumption and expansionary fiscal policy, which have offset the Fed's monetary tightening. Job creation is slowing, but the labour market situation remains favourable. US growth will be close to 2% in 2024.

At the same time, the Eurozone economy is stagnating, with consumption lacking despite disinflation. The gradual slowdown in inflation is set to continue into 2024. Interest rate rises are significantly slowing credit demand and growth in the Eurozone. The fall in the household savings rate should, however, allow a return to its potential by the end of next year. On an annual average, the Eurozone should post growth of 0.5% next year, with inflation gradually returning to 2.5% by the end of the year.

As for Chinese growth, it remains weighed down by US sanctions, which are reducing foreign investment and technology transfers, the property situation and the need to restructure local government debts. There are, however, signs of an improvement in household consumption, which will attenuate the scale of the structural slowdown in the Middle Kingdom.

Weak growth in Europe and unbridled recourse to fiscal stimulus in the United States raise the question of the sustainability of public debt. The sovereign ratings of France and Italy will come under pressure as deficit limits are reintroduced in 2024. Against this backdrop, despite the expected easing of key ECB and Fed rates by 50 bp in the second half of 2024, **the amortisation of quantitative easing programmes will continue to weigh on the markets, particularly in Europe.**

Fixed income: Towards a record year for sovereign issuance

The fixed-income markets had a volatile year in 2023. For 2024, the markets will have to deal with an unprecedented rise in net bond issuance. Not only does the US Treasury have to finance a federal deficit of around \$1,800 billion while extending its debt, it also has to convince private investors to take over from the Fed. **For Alexandre Caminade, Head of Core Fixed Income and Liquid Alternatives**, the increase in borrowing combined with the Fed's easing of rates will probably result in **a steepening of the yield curve** and lower yields.

The increase in net sovereign issuance is smaller in the Eurozone, at around an additional USD 45 billion. After the Public Sector Purchase Programme (PSPP) in 2023, the question of the non-reinvestment of the Pandemic Emergency Purchase Programme (PEPP) could be raised. In this case, governments' net borrowing requirement would increase by a further €18 billion. Despite the weight of these flows, 10-year yields should not exceed 5% on the T-note and 3% on the Bund. Inflation expectations appear to be anchored by ongoing disinflation and the past effect of monetary tightening.

In terms of sovereign spreads, Italy appears to be the most fragile market, but budgetary difficulties are affecting other countries, including France. Recourse to household savings has protected Italian construction in 2023, but the acceleration of quantitative tightening would be detrimental to Italian debt. **As for swap spreads, the reduction in uncertainty over rates will lead to a beneficial fall in volatility, which should result in a tightening.**

Credit: 2023, annus mirabilis. 2024, bis repetita.

According to **Philippe Berthelot, Head of Credit and Money Markets**, 2024 should follow 2023 as a satisfactory year in terms of performance for bond assets, including credit. Ostrum AM has adopted a central scenario of a slowdown, and therefore a 'soft landing', with GDP growth of 0.5% next year (admittedly low, but still in positive territory) combined with a steady fall in inflation in the Eurozone.

On the credit market, **Investment Grade (IG) and High Yield (HY) credit bonds are enjoying their highest yields for over 10 years**, supported by a slightly higher level of controlled leverage and a contained default rate of 3.5%, below its 20-year historical average.

There are plenty of opportunities to find value in 2024. Credit is continuing to build on the momentum of 2023, and remains interesting and lucrative (over 4.3% for euro-denominated IG credit and over 7.5% for euro-denominated High Yield credit). To manage risk effectively, **investors need to be well diversified in terms of the number of sectors and ultra-selective in terms of the number of issuers**, given the proliferation of "credit mines". In the banking sector, Ostrum AM's forecasts of a limited cut in key ECB interest rates (50 bp in the second half of 2024) and a reduction in swap spreads argue once again for **an overweight in the sector**, including the T2 or even AT1 subordinated segment, which has confirmed its attractiveness with the great success of recent issues on the primary market. Even if the credit curve is flat, investors should consider **repositioning themselves in longer-dated segments** in order to take advantage of these expected falls. Investors interested in corporate credit will prefer **the high-beta segment** with corporate hybrids, most of which have benefited from calls from issuers (i.e. very little materialisation of extension risk) and HY in general.

For Ostrum AM, 2024 should mark a third consecutive year of **outperformance for HY**, despite the greater presence of distressed issuers, which should be avoided with the help of a powerful team of credit analysts.

Equities: Defensive stocks take priority in Europe and worldwide, and watch out for the return of volatility

After their recent 6% rise, Europe's equity markets will post a double-digit performance in 2023 and offer little potential for growth in 2024.

For Frédéric Leguay, Head of Equity Insurance, global GDP growth will continue to slow in 2024, particularly in nominal terms, and the likely reversal of restrictive monetary policies will have little impact. Earnings, already down slightly in 2023, will remain under pressure due to lower sales growth and the unfavourable influence of the cycle on margin levels. Ostrum AM's teams anticipate a 5% contraction in the earnings base in Europe, representing a downward revision of around 10 percentage points compared with investor expectations. Valuations in Europe have been hit by the rise in real interest rates and may rise again as rates ease in the second half of 2024. European markets should bottom out in the second quarter as the earnings review process draws to a close. Volatility is likely to rise again during this period.

At the start of the year, Ostrum AM's experts will be favouring reasonable cyclicality to avoid suffering too much from the current slowdown. Sectors offering good visibility (healthcare, telecoms, consumer staples, IT services) should perform better. From the second quarter onwards, they will consider a return to growth sectors and certain stocks that are more sensitive to the cycle. As in 2023, the teams do not believe that themes will play a crucial role in market performance.

On the international equity markets, the rise observed in 2023 and until last summer is essentially explained by the expansion of valuation multiples in the most speculative sectors. The historical peak in sector concentration is comparable to those that preceded the bursting of the TMT (Technology - Media - Telecommunications) bubble and the Great Financial Crisis (2008). The result is an anticipated growth gap between the most volatile and least volatile sectors that is four times greater than the historical average.

In a slowing economy, Emmanuel Bourdeix, CIO for Quantitative investment management, believes that these historic differences in valuation and implied growth in favour of a single sub-segment of the market will require careful management of relative risks within the stock market in 2024, while offering investors opportunities that could come from a very significant catch-up in the value style, but also and above all in defensive sectors. The latter could also better absorb a possible rise in volatility during the year.

In a now polarised world, where inflation, monetary policies and sovereign ratings have yet to stabilise, the experts at Ostrum AM believe that opportunities are emerging, in particular:

- **RATES:** the potential for a fall in rates, outperformance on the short end of the curve and further normalisation of swap spreads for rates;
- **CREDIT:** yields on Investment Grade and High Yield credit in Europe and the United States at their highest for 10 years, and attractive yields on the short-term segment;
- **EQUITIES:** In Europe, profits are expected to fall in the first half of the year, providing an opportunity to return to the European equity market. Internationally, extreme valuation differentials are expected to normalise.

Any investment involves risk, including the risk of loss of capital. Performance figures quoted relate to past years. Past performance is not a reliable indicator of future performance.

The analyses and opinions mentioned in this document represent the point of view of the referenced authors. They are issued on the date indicated, are subject to change and should not be construed as having any contractual value.

This document is produced for information purposes only and should not be construed as an investment recommendation.

Any investment may involve financial risk and should be carefully considered in light of your financial needs and objectives.

Ostrum Asset Management shall not be held responsible for any decision taken or not taken on the basis of any information contained in this document, nor for any use that may be made of it by a third party.

About Ostrum Asset Management

Ostrum Asset Management draws on its investment expertise to enhance the impact of its clients' commitments as they act together to support European citizens' life plans, health and retirement.

A European institutional investment management leader¹, Ostrum Asset Management supports its clients in their liability-driven investments, offering both asset management solutions on the back of its long-standing fixed-income and insurance-related management expertise (equity and fixed income), and investment services via its innovative technological platform.

Ostrum Asset Management is a well-established responsible investment advocate² and manages €382 billion³ in assets for large institutional clients – insurers, pension funds, health insurers, corporations – as well as €500 billion³ in assets under administration for professional investors worldwide across all asset classes. Ostrum Asset Management is an affiliate of Natixis Investment Managers.

Asset management company regulated by AMF under n° GP-18000014 – Limited company with a share of 50 938 997 €. Trade register 525 192 753 RCS Paris – VAT : FR 93 525 192 753. Registered office: 43, avenue Pierre Mendès-France – 75013 Paris – www.ostrum.com

1. IPE Top 500 Asset Managers (Investment & Pensions Europe) 2022 ranked Ostrum AM as the 9th largest asset manager, as at 12/31/2022. Any reference to a ranking, a rating or an award provides no guarantee for future performance.
2. Ostrum AM was one of the first French asset manager signatories to the PRI in 2008. More details; www.unpri.org
3. Source: Ostrum Asset Management, consolidated data at end-September 2023. Administered assets include Ostrum AM's assets. The services provided for a given client may concern certain services only.

www.ostrum.com



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 managers¹ with more than \$1.2 trillion assets under management² (€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'Épargne retail networks. Natixis Investment Managers' affiliated investment management firms include AEW; AlphaSimplex Group; 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; Seeyond; 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.

Natixis Investment Managers' distribution and service groups include Natixis Distribution, LLC, a limited purpose broker-dealer and the distributor of various U.S. registered investment companies for which advisory services are provided by affiliated firms of Natixis Investment Managers, Natixis Investment Managers S.A. (Luxembourg), Natixis Investment Managers International (France), and their affiliated distribution and service entities in Europe and Asia.

NATIXIS INVESTMENT MANAGERS INTERNATIONAL

Limited company. Authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009. Registered office: 43, avenue Pierre Mendès-France - 75013 Paris

1. Cerulli Quantitative Update: Global Markets 2022 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.

Contacts Presse

SHAN

Alexandre Daudin – alexandre.daudin@shan.fr – Tél : +33 (0) 1 44 50 51 76

Marion Duchêne – marion.duchene@shan.fr – Tél : +33 (0) 1 42 86 82 43