PRESS RELEASE

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2021 OUTLOOK – recovery from the crisis takes shape as market visibility brightens

Experts at Ostrum Asset Management – an affiliate of Natixis Investment Managers – expect the clouds to lift and risk to potentially ease in 2021 after 2020 was dominated by the Covid-19 crisis. However, challenges still remain, with growth set to vary considerably from one region to another as countries and zones have responded very differently to the crisis. Interest rates look set to edge up slightly, although remain low, and here at Ostrum AM we have reviewed our asset allocation to draw on the equity rally that kicked off at the end of 2020.

According to Philippe Waechter, Chief Economist at Ostrum AM, the more uneven showings from the various economies are down to the diverse range of individual economic policies rolled out in response to the health crisis. Similarly, unequal performances between goods and services sectors are set to have long-lasting effects on both output and the use of services, and these lingering consequences will firmly emphasize the role played by fiscal policy, as the crisis forces a rethink of economies' growth potential. The effects of Covid-19 vaccines should drive economies to revisit 2019 levels in 2021, but we will need to wait until 2022 or 2023 to set GDP back on a par with 2020's potential performances in a non-crisis scenario. The UK may take even longer to get back on its feet if a Brexit trade deal is not reached.

Contrasting growth momentum between China, the United States and the euro area. China is enjoying a solid situation and growth will be driven by the country's import substitution strategy in 2021, albeit with the presence of financial risk. Moderation will follow as the country gets back on track to its 5% pre-crisis growth, with 2021 GDP poised to outstrip 2019 figures.

Meanwhile the situation in the United States is more challenging as the pandemic is taking a severe upsurge in the country. Growth will be pedestrian, and maybe even negative in the first quarter, making a stimulus program absolutely crucial. GDP will not revisit 2019 figures at end-2021, although growth should likely pick up the pace at the end of the year if the stimulus package is approved. Growth in 2022 will be very largely driven by carry-over from end-2021, but will be close to potential i.e. slightly short of 2.5% (growth carry-over is the starting point at the beginning of 2022 carried over from the end of 2021: it may be positive if GDP at end-2021 is above the GDP average across the full year 2021).

On this side of the Atlantic, various stimulus packages in the euro area will help the economy catch up its lag in 2021, as the European recovery plan will be waved through, even if Poland and Hungary veto. We can expect a return to growth potential in 2022 at around 1.5%, and vaccines will help drive this trend.

There is now a lesser risk that inflation will speed up over the months ahead. Sectors that have been hardest hit will get back to normal, inflation will be higher, but given the time required to build up supply in these sectors, we should not expect a sharp surge in prices. However, inflation will probably be firmer in the medium term to cushion adjustments as the production system gets re-established.

Striking a new balance for economic policy. Fiscal policy will be the driving force for macroeconomic trends, while monetary policy will merely support this development. Interest rates will therefore remain low for a very long time across all maturities, while central banks will not write off public debt.

The extent of public debt raises a number of questions, particularly in Europe and the United States, at a time when growth is sluggish and fiscal policies look set to accommodate for a long time to come. How can states tackle a fresh dent to economic activity when national debts are already soaring and central banks' balance sheets are severely bloated by public debt, and what leeway can be carved out for short-term economic policy? Cancelling public debt is clearly a bad idea for a variety of reasons – credibility, euro area integration and sustainability, as ideas on public debt and fiscal policy often clash – but this lofty debt figure must be kept in mind while calls for public action increase. Inflation could be an option...

Bond yields still depressed, but risk profile has altered

Extremely low interest rates are the first key theme for the markets, and this trend is set to continue, albeit with a likely uptrend driven by the economic recovery. According to Stéphane Déo, Global Head of Strategy at Ostrum AM, a growing divergence is developing between observed rates and their potential figures if they actually followed economic fundamentals. This can be attributed to very high debt on the one hand, and intervention from the central banks on the other.
The second major theme is easing risk for investors, where central bank action has once again played a crucial role. Sovereign yields reacted in a much more measured way than over the past decade – and credit followed the same path – with two main outcomes i.e. clearer visibility for states and hence greater scope to roll out fiscal stimulus packages, as well as an entirely different risk profile for investors.
Inflation risk is the third main theme, and the markets have entirely failed to price in this factor.

Looking for value in 2021

Growth projections for the next two years have been upgraded on the back of the much hoped-for success of vaccination campaigns, offering significantly clearer visibility on the economic cycle. With this outlook in mind, Ibrahima Kobar, Chief Investment Officer at Ostrum AM, expects a solid recovery in 2021, shored up by hefty monetary and fiscal policy support.

Investors should continue to seek out yield and this will affect the markets in 2021. Yield on the 10Y Bund and the 10Y UST should gradually pick up and move towards -30bps and +1.30% respectively at the end of 2021, while the yield curve should also steepen, which would prompt us to cut back our allocation on sovereign securities. In a lower risk environment, we also think that peripheral spreads will continue to narrow.

Similarly, the equity markets should be further fueled by the upturn in growth: with earnings picking up again, indices look set to put in showings of around 10% over the year.

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 leader[1], 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, and investment services via its innovative technological platform.

Ostrum Asset Management is a well-established responsible investment advocate[2] and manages €430 billion[3] in assets for large institutional clients – insurers, pension funds, health insurers, corporations – as well as €590 billion[3] in assets under administration for professional investors worldwide across all asset classes.

Ostrum Asset Management is an affiliate of Natixis Investment Managers.

1. IPE Top 500 Asset Managers 2020 ranked Ostrum AM as the 77th largest asset manager, as at 12/31/2019. 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 2020. Administered assets include Ostrum AM's assets. The services provided for a given client may concern certain services only.

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About Natixis Investment Managers

Natixis Investment Managers serves financial professionals with more insightful ways to construct portfolios. Powered by the expertise of more than 20 specialized investment managers globally, we apply Active Thinking® to deliver proactive solutions that help clients pursue better outcomes in all markets. Natixis Investment Managers ranks among the world's largest asset management firms[1] with nearly $1.1 trillion assets under management[2] (€910.0 billion).

Headquartered in Paris and Boston, Natixis Investment Managers is a subsidiary of Natixis. Listed on the Paris Stock Exchange, Natixis is a subsidiary of BPCE, the second-largest banking group in France. Not all offerings available in all jurisdictions. Natixis Investment Managers' distribution and service groups include Natixis Distribution, L.P., 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.

1 Cerulli Quantitative Update: Global Markets 2020 ranked Natixis Investment Managers as the 17th largest asset manager in the world based on assets under management as of December 31, 2019.

2 Assets under management ("AUM") as of September 30, 2020 is $1,067.3 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.

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