Macroeconomic press release – January 9, 2019

Soft landing and stock-market stabilisation will hinge on easing in political tension

2018 – the year of political de-rating

We witnessed a sharp plunge in equity market valuations worldwide in 2018, but the situation was unusual in that this correction took place without an economic recession, a financial crisis or a bond market crash – rather soaring political risk premiums acted as the catalyst this time. The effects of the growing number of so-called populist leaders worldwide are a cause for concern for investors who wonder if we are in the throes of a major watershed that will overhaul the way wealth is created, or whether the constraints of the real world will end up bringing this new ruling class back down to earth. In our view, the second option seems the most likely, but investors will find the true answers to these questions in the outcome to the US-China trade negotiations and in the final upshot of the Italian crisis and the Brexit predicament. The launch of major trade negotiations between China and the United States since the G20 Buenos Aires summit was encouraging in this respect, although the outcome is far from certain. Similarly, Italian budget adjustments are moving in the right direction, as reflected by the sharp drop in Italian yields in December.

US optimism will be put to the test by the slowdown expected in 2019

Wall Street has already started adjusting as compared to other world financial markets, and against this backdrop, the normalisation of US economic and stock-market optimism will be the other key question for 2019 – can we expect a soft landing or will it all go down in flames? Wall Street has admittedly corrected since October, but is still trading 20% above other world stock-markets in relative terms, while expectations are for a slowdown in the economy and in corporate profits in the US this year. Based on our indicators, this relative expense is not specifically attributable to GAFA, but rather extends to the entire market, raising the question as to whether the correction of this overvaluation for US equities will involve other corrective episodes on Wall Street, or rather a re-rating for emerging, European and Japanese stock-markets. Here again, politics will dictate much of the answer to this question, while the details and timing of trade agreements will decide the extent of the markets' adjustment. Yet we will also need to see a soft landing for the world economy in 2019 for a constructive scenario to emerge.

Arguments supporting a soft landing for the world economy

At this stage, we think that the arguments pointing to a soft landing outweigh those for a crash landing: the sharp drop in oil prices – largely dragged down by abundant supply – along with the Fed's conciliatory tone provide two very effective shock absorbers. Meanwhile, the European economy admittedly slowed considerably in 2018, but is less of a lost cause than many may fear. After bad news in 2018 and barring a no-deal shockwave from Brexit, there is a reasonable chance that GDP growth in the euro zone will stabilise at around 1.5% during the coming year. Wage growth has normalised recently, thereby pointing to gains in household purchasing power spurred on by lower oil prices, while fiscal policy will be moderately expansionary in 2019 in the three largest euro area countries. These various supporting factors will also be heightened by the recent measures announced by the French government. Lastly, the flattering base of comparison on a number of areas will provide a lift in the coming year, with on the one hand WLTP-related disruptions in the auto sector, and on the other hand exchange rates, with the euro now 10% cheaper against the dollar than in 1Q 2018.

Opportunities will emerge for investors if political risks ease

Our main scenario for 2019 is a soft landing for the world economy, which hinges on an easing in political and trade tensions. This should prop up market segments that were hardest hit in 2018 across both Europe and Asia. However, much slower EPS growth in the US combined with continued high relative valuations on Wall Street could trigger volatility during the year ahead, and the sooner US optimism normalises, the sooner the world equity markets can get back to fundamentals.

From a medium-term standpoint, the decline on stock-markets since February 2018 along with sporadic episodes of panic – including liquidity problems on certain markets – have sometimes triggered major opportunities again, such as on some emerging markets, as well as European small- and mid-caps.

Investment conclusion

No asset class came through 2018 unscathed in the end, as investors gradually sold off positions on the riskiest assets in a sort of rolling bear market – firstly emerging equities, then less liquid stocks such as European small- and mid-caps – and more closely concentrated conviction-led strategies were among the first casualties of this flight to liquidity.

As 2019 gets off to a start, Dorval Asset Management maintains a certain degree of caution, but notes that the current extreme pessimism, along with often attractive valuations and an admittedly weakened but far from disastrous macro-economic context provide substantial scope for a recovery. However the markets first and foremost need political catalysts, including an easing in trade strife between the US and China, as well as a handle on the impact of populism in Europe, in which case recessionary scenarios would become less credible and the chances of a soft landing for the world economy would definitely increase.

Against this backdrop, we focus on two transformation themes in our conviction-driven European funds – Industry 4.0 & energy transition on the one hand, and digitalisation of the economy on the other – along with one more cyclical economic theme i.e. stocks poised to benefit from falling commodity prices in industries that both process and use them.

On the international arena, the portfolio management team's primary investment themes therefore involve the risk premium in Italy, the overall risk premium on emerging assets and the recovery in domestic demand in Japan.[1]

As doubts on growth ease, the outcome for current trade talks becomes more clear or the US rate hike cycle comes to an end, we may increase equity exposure in flexible funds.

2019 is therefore definitely set to be a volatile year and will require investors to be even more responsive and flexible to take advantage of the opportunities that are bound to arise, judging by current divergences between fundamentals and valuations across several market segments.

Dorval Asset Management's investment solutions to address the slowdown expected in 2019

Dorval Asset Management offers flexible investment solutions – flexible funds and management mandates – suited to the most risk-averse investors, with the aim of adapting to address the economic and financial outlook.

New feature: Dorval Global Convictions Patrimoine

Dorval Global Convictions Patrimoine, which ranks "category 3" on our risk/return scale (SRRI 3)[2], caters to the most risk-averse investors and is positioned as the fund that will do most to preserve capital within the broader *Convictions* range. With a maximum of 30% international equities in the portfolio and fixed-income exposure that ranges from 0% to 100%, the fund aims to address the maturity of the current cycle.

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[1] Depending on the anticipations of the management team. The analysis and opinions contained in this document are those of the referenced author. They are issued at the date indicated, are susceptible to change and cannot be interpreted as possessing a particular contractual value.

[2] Indicator of risk and return: 1 corresponds to low risk but not zero risk, 7 corresponds to the highest risk. With a lower risk comes a potentially lower return; conversely the higher the potential return, the higher the risk will be.

Dorval Global Convictions Patrimoine is the latest addition to our international flexible investment range, launched in June 2018. The fund has a resolutely capital preservation slant and aims to lock in sources of world growth by building theme-based equity and fixed-income baskets, while curbing the risk involved in financial market investments. We steer the fund's risk management policy using an active hedging approach.

The fund is resolutely flexible, with equity exposure within a range of 5% to 25% since set-up: current exposure stands at 5% as it focuses on core themes selected by our international team i.e. convergence for Southern Europe, recovery in the Japanese economy, and reduction in the risk premium on emerging markets. At this stage, portfolio managers Sophie Chauvellier, Gustavo Horenstein and François-Xavier Chauchat hedge the fund via short positions on the S&P 500 and Russell 2000 and long positions on US rates (without currency risk).

Dorval Asset Management's *Convictions* range stands out by its emphasis on preserving as well as growing capital, with flexible funds managed according to investment theme choices. As part of this approach, the portfolio management team seeks to identify the most promising companies wherever they are based and across all sectors. This fund range focuses on capital preservation and growth, but as with any investment, the funds managed by Dorval Asset Management present a risk of capital loss and the return of invested capital is not guaranteed.

A range of flexible mandates: Flex 25, Flex 50, Flex 75 and Flex 100

Dorval Asset Management offers a range of flexible mandates for investors who seek to delegate strategic and tactical management of their financial assets during the current volatile market phase: Flex 25, Flex 50, Flex 75 and Flex 100 are available for investments of at least €250,000.
This flexible mandate range is designed to support retail clients, corporates and associations and enables them to delegate asset allocation management (manage diversified risk allocation), selection of investment products (direct investment in securities, funds, etc.) and risk steering (degree of volatility and liquidity of investments) to experienced sector professionals.

Our Wealth Management team maintains a certain degree of caution in its flexible mandates as 2019 gets off to a start, while also noting that there is a very lofty risk premium on some asset classes, already pricing in a lot of bad news: excessive pessimism often paves the way for some attractive opportunities.
Setting aside emerging equities, which should outperform developed markets in relative terms, certain slants can be applied on a tactical basis in the broader risky asset group, such as dividend-based, low-volatility strategies or discounted stocks.
Hedging strategies could also be rolled out at the same time to tackle hazy visibility.

As with any investment, the mandate managed by Dorval Asset Management present a risk of loss of capital and the return of invested capital is not guaranteed.

About Dorval Asset Management

Dorval Asset Management: Flexibility with conviction

Dorval Asset Management is a management company recognised in the areas of flexible wealth management strategies and stock-picking in European equities. These strategies aim to safely navigate stock market cycles and to perform in the long term. Approved by the French Financial Markets Authority (AMF) since 1993, 50.1% of its capital is held by Ostrum Asset Management and 49.9% by its employees. Dorval Asset Management implements conviction-based wealth management, characterised by active management removed from indices. With the conviction that a flexible approach is needed to provide high-quality management for its clients in the current market environment, the management team offers flexible wealth management, reflecting its corporate DNA. Dorval Asset Management offers a range of seven complementary funds: a European equities range made up of Dorval Manageurs, Dorval Manageurs Europe, Dorval Manageurs Euro and Dorval Manageurs Small Cap Euro, and a flexible range made up of Dorval Convictions, Dorval Convictions PEA, Dorval Global Convictions, Dorval Global Convictions Patrimoine, and Dorval Emerging Market Convictions. Thanks to its partnership Dorval Asset Management's products and services are marketed by Natixis Investment Managers international distribution platform and the BPCE Group's French banking networks. Dorval Asset Management had 2.1 billion in assets under management at 31 December 2018.

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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 27 specialized investment managers globally, we apply Active Thinking^{SM} to deliver proactive solutions that help clients pursue better outcomes in all markets. Natixis ranks among the world's largest asset management firms[1] with more than \$1 trillion assets under management[2] (€861 billion AUM). 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. For additional information, please visit the company's website at im.natixis.com | LinkedIn: linkedin.com/company/natixis-investment-managers. Natixis Investment Managers includes all of the investment management and distribution entities affiliated with Natixis Distribution, L.P. and Natixis Investment Managers S.A. Natixis Distribution, L.P. is a limited purpose broker-dealer and the distributor of various registered investment companies for which advisory services are provided by affiliates of Natixis Investment Managers. Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258).
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[1] Cerulli Quantitative Update: Global Markets 2017 ranked Natixis Investment Managers (formerly Natixis Global Asset Management) as the 15th largest asset manager in the world based on assets under management as of December 31, 2016.

[2] Net asset value as at September 30 2018, Assets under management ("AUM"), as reported, may include notional assets, assets serviced, gross assets and other types of non-regulatory AUM.

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