NATIXIS INVESTMENT MANAGERS | SOLUTIONS

PORTFOLIO ANALYSIS & CONSULTING

Investment Portfolio Trends 2023: Looking in the Mirror

By Kevin McCullough, CFA®

After a 2022 that challenged both stocks and bonds, equity markets experienced a significant recovery in 2023. Natixis Investment Managers Solutions portfolio consultants monitor asset classes, investment products and market action, both in real time and from a historical perspective. In our analysis of 2023 portfolio trends, we note that many of the portfolio shifts aimed at mitigating damage during 2022 are beginning to unwind now that markets seem on calmer footing.

#1 – Risk Drives Return

While the top performing portfolios in 2022 had the most cash and the least equity, this phenomenon reversed during 2023. The best performing portfolios last year were the ones that took the most risk, with the greatest allocations to equity and the smallest allocations to cash.

FIGURE 1 – Returns and Allocations by Quartile in Moderate Model Portfolios

	2022 & 2023 Returns (%)		Allocation (%)			
			Equity		Cash	
	2022	2023	2022	2023	2022	2023
1st Quartile	-5.2	17.0	51.1	60.3	6.7	1.9
2nd Quartile	-10.2	15.8	51.2	57.3	4.2	3.0
3rd Quartile	-12.4	14.8	56.0	52.3	3.1	3.4
4th Quartile	-15.5	13.2	58.8	48.8	2.1	6.0
Overall Average	**-10.8**	**15.2**	**54.3**	**54.7**	**4.0**	**3.6**

Source: Natixis Investment Managers Solutions. The Portfolio Analysis & Consulting Moderate Risk Peer Group is based on 236 moderate portfolios submitted to Portfolio Analysis & Consulting from July to December 2023. Data as of 12/31/23.

BUILDING BETTER PORTFOLIOS

Since 2012, Natixis Investment Managers Solutions has evaluated more than 25,000 model portfolios submitted by financial professionals. Our experienced consultants, many with credentials including CFA®, CAIA, and CFP®, provide detailed analysis and interpretation that can lead to better portfolio construction.

Maintaining an ongoing partnership with our Portfolio Analysis & Consulting team can help you build your practice and deepen relationships with your clients.

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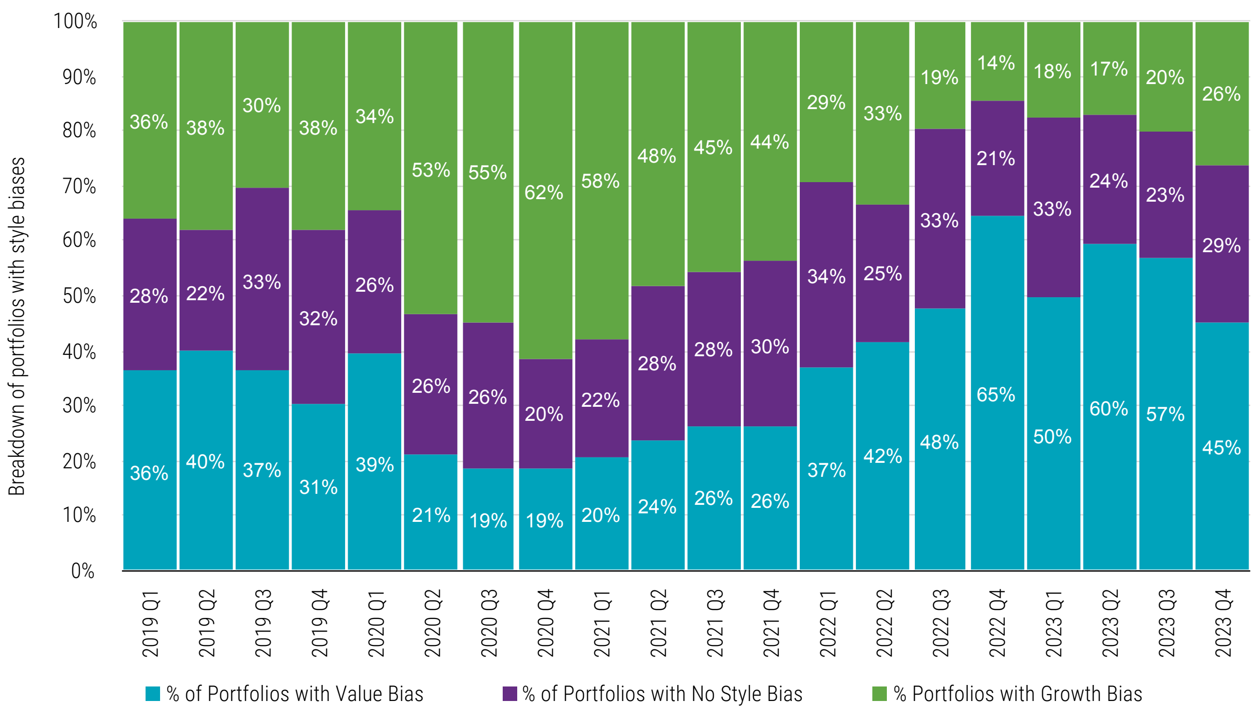
#2 – Shrinking Value Bias

Similarly, value as a style peaked in the first quarter of 2022, with over two-thirds of equity sleeves showing a value bias. That percentage has been declining ever since, and based on our latest data, less than half of the equity sleeves we observe still show that value bias. This is not terribly surprising given performance – 2022 saw broadly negative equity performance but the one sector that bucked that trend was energy, which typically sees more inclusion in value portfolios.

With the remarkable outperformance of the Magnificent 7 and the technology sector in 2023, it makes sense that we are starting to see portfolio positioning follow in terms of incrementally more growth and less value exposure. That said, there does seem to be some skepticism about the rapid recovery in the US large cap growth space and we have not yet seen the overall growth tilt return to its prior highs.

FIGURE 2 – Value/Growth Tilt in Moderate Model Portfolios (1/1/19–12/31/23)



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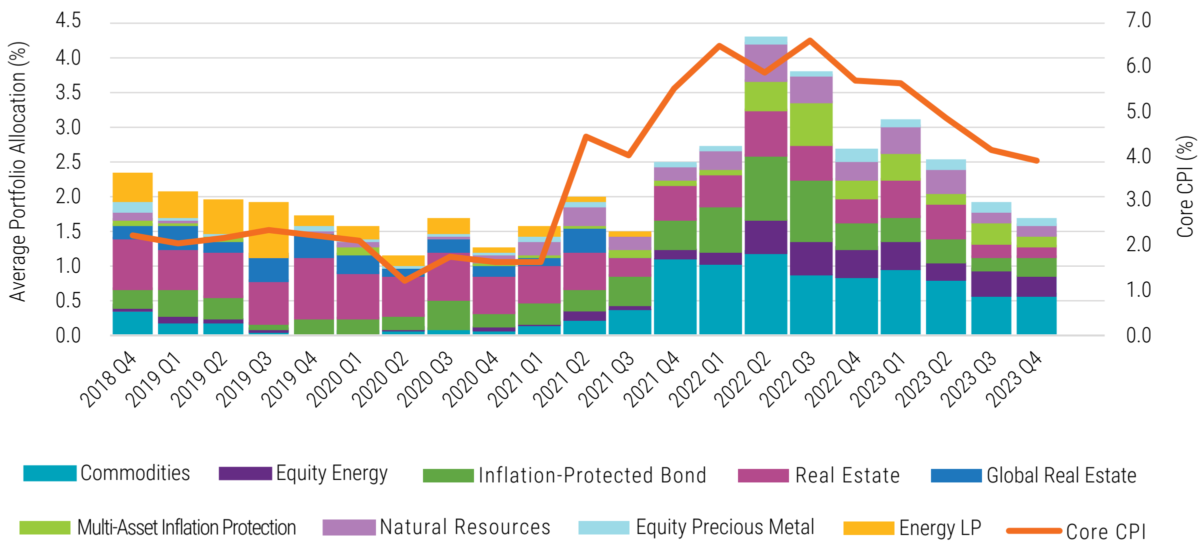
#3 – Inflation Takes a Back Seat

Explicit positions to hedge against rising inflation such as TIPS, real estate and precious metals also peaked during the early quarters of 2022 at about 4.3% of portfolios. This number has declined to just over 2.5% in our latest data, suggesting fears of persistent inflation are waning at the margin as year-over-year CPI increases have declined.

FIGURE 3 – Inflation Hedges Decline Along with Inflation (10/1/18–12/31/23)



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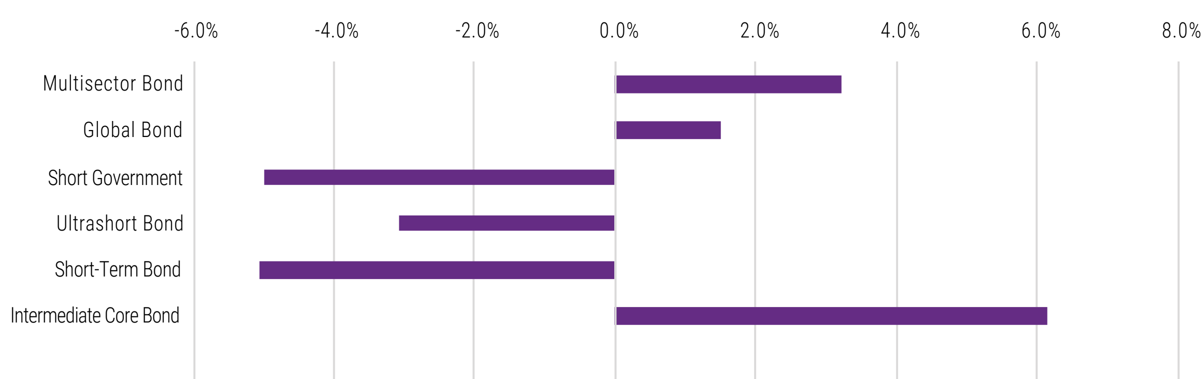
#4 – Locking It In

In fixed income, we continue to observe the average duration exposure extending, now creeping up to 4.7 years. Short Government, Ultrashort Bond and Short-Term Bond were the three fixed income Morningstar categories that saw the greatest outflows as portfolio duration lengthened. There appears to be less fear of holding intermediate-term duration now that the market believes most of the Fed's inflation fight is behind us.

FIGURE 4 – Outflows in Shorter-Term Fixed Income Categories – Weighting Changes



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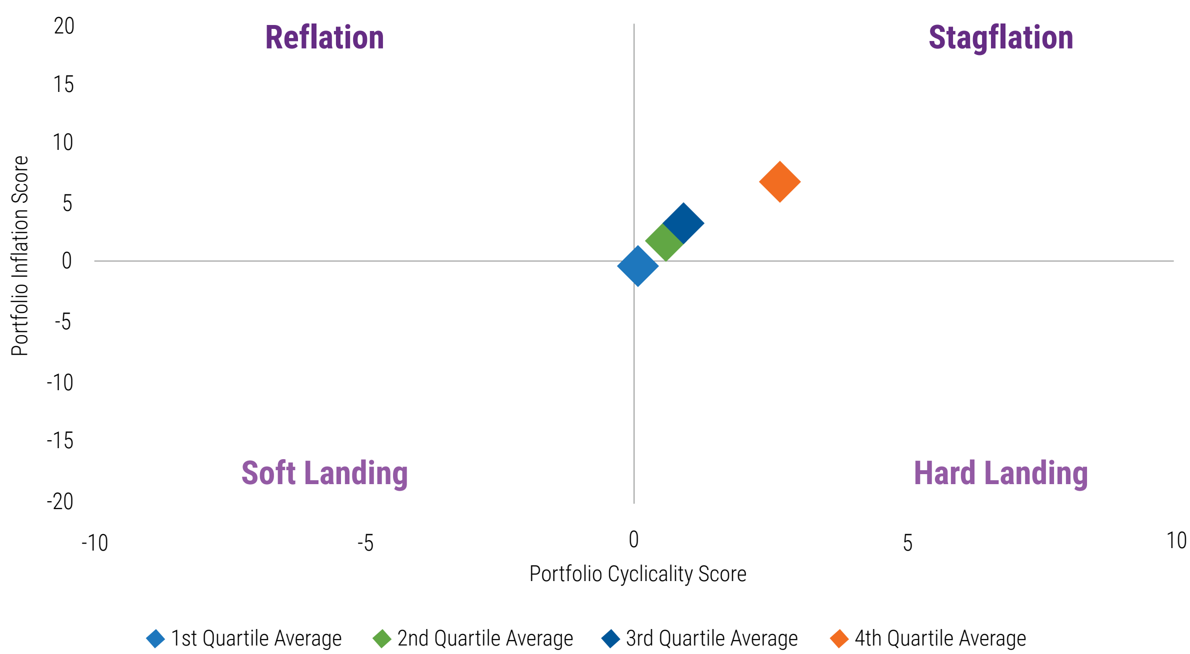
#5 – Sticking the Landing

We saw a great deal of divergence in performance of portfolios where equity exposures were positioned differently according to our "Cyclicality versus Inflation" framework. The portfolios most positioned for "soft landing" saw the greatest returns while portfolios most positioned for "stagflation" lagged behind.

FIGURE 5 – Soft Landing Positioning Paid Off



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Natixis Investment Managers Solutions provides design, development and execution of portfolio strategies tailored to specific investment objectives and unique portfolio constraints. Portfolio Analysis & Consulting offers objective, risk-based analysis, insight and research that supports better portfolio construction and asset allocation.

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Natixis Investment Managers Solutions collects portfolio data and aggregates that data in accordance with the peer group portfolio category that is assigned to an individual portfolio by the Investment Professionals. At such time that a Professional requests a report, the Professional will categorize the portfolios as a portfolio belonging to one of the following categories: Aggressive, Moderately Aggressive, Moderate, Moderately Conservative, or Conservative. The categorization of individual portfolios is not determined by Natixis Investment Managers Solutions, as its role is solely as an aggregator of the pre-risk attributes of the Moderate Peer Group and will change over time due to movements in the capital markets. Portfolio allocations provided to Natixis Investment Managers Solutions are static in nature and subsequent changes in a Professional's portfolio allocations may not be reflected in the current Moderate Peer Group data.

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