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INVESTMENT MANAGERS

NEWS RELEASE

Investors Grow Comfortably Numb to Market Volatility, Haven't Reset Risk and Return Expectations, Finds Natixis Investment Managers Survey

- *Investors are still expecting double-digit investment returns – more than two times higher than what advisors think is realistic.*
- *Half of investors think bonds will outperform stocks this year, but only 3% understand how rising rates affect bond investments. 68% want professional advice on bond investing.*
- *60% of millennials trust artificial intelligence for investment decision-making. They trust their financial advisor most, even more than themselves, and are more likely than any other age group to say they need professional advice.*

BOSTON, June 21, 2023 – Americans remain blithely bullish on the markets and have high investment return expectations almost as if 2022 never happened, finds the 2023 Natixis Investment Managers Survey of Individual Investors, published today. While 86% of respondents say last year was a wake-up call, reminding them that the stock market can go down, investors still expect average annual returns of 15.6% above inflation over the long term, or around 20% given the current inflation rate. However, the findings suggest that shifting economic and market drivers could trigger investors' worst fears and shed light on critical gaps in their investment knowledge particularly about rates, risk, and the pros and cons of passive investing.

"Fear and flawed assumptions are a combustible combination that can lead to irrational behavior and costly mistakes," said Dave Goodsell, Head of the Natixis Center for Investor Insights. "In the decade between 2012 and 2021, even the least experienced investors looked smart in a market that delivered high returns with low risk and relatively little effort. The economic landscape has gone from low inflation, low rates, and low dispersion to higher inflation, rising rates, and higher dispersions.The market promises slower growth and greater risk, but investors have not meaningfully adjusted their return assumptions or reassessed where real risks lie."

Key findings include:

- **Americans' biggest financial fear is not keeping up with rising costs, a threat the Federal Reserve is still working to get under control:** 70% of respondents say their biggest financial fear is higher everyday costs, and 65% say their top investment concern is the impact of inflation on their savings and investments. While 80% recognize the need to save more money, and 52% see the need to invest more to make up for what inflation is eating away, just 28% are saving more. In fact, 57% say they are saving less because of higher everyday expenses, and 61% say inflation has significantly hurt their ability to save for retirement.
- **Investors are worried about interest rates, but most don't know why**: Rising interest rates – arguably one of the biggest shifts in the investment landscape in 15 years – is one of the top investment concerns for nearly one in three investors (29%). Rate hikes led 37% of investors to add bonds to their portfolios this year, and 39% plan to invest more next year. Yet while 56% of

investors claim to understand what happens to bonds when rates rise, when asked, only 3% of respondents correctly answered that present bond values typically go down while future income potential goes up. In fact, the largest number of investors (37%) simply answered, "I don't know."

- **Gut check needed on risk and volatility:** Just 9% of investors define risk as failing to meet their financial goals. U.S. financial advisors are three times more likely to define risk for their clients this way.[1] Investors are more inclined to view risk without that all-important context, and instead see it primarily as: exposure to market volatility (29%), loss of assets (23%); or underperforming market benchmarks (18%). Nearly four in ten (39%) say volatility has been so high that they just don't worry about it anymore. The exception is millennials, 54% of whom say volatility keeps them up at night, compared to 15% of older investors. Millennials also are most likely to say they are taking on more risk than they know they should to get better returns (67%).

- **Confirmation bias for passive investments:** 59% of respondents wrongly assume that index funds are inherently less risky than other investments; 66% believe index funds will help minimize losses; and 58% look at the broad exposure these funds provide and assume index funds give them access to the best opportunities in the market, not realizing the extent of their exposure to the worst, potentially most rate-sensitive opportunities in the market at the same time.

"A decade of low rates with little volatility helped fuel the longest bull market in history, a period of highly correlated returns that was ideal for passively managed index funds," added Goodsell. "The basic value proposition of index funds – to deliver returns comparable to broad market indices, like the S&P 500 Index, for a lower fee than actively managed funds – has since morphed into a logic-defying belief that index funds have superpowers that simply don't exist."

Past performance is no guarantee of future results; More investors seek professional help

The survey findings suggest that after more than a decade of outsized returns, U.S. investors have been conditioned to expect high returns, despite the harrowing experience of 2022. Their long-term return expectations remain high – 123% higher than what U.S. financial advisors think is realistic – however that gap narrowed somewhat over the past two years. A little over half (52%) of investors say they are comfortable taking investment risks to get ahead, down from 60% in 2021.

Investors do seem to recognize that they need help. The survey found:

- 64% of investors say that trying to navigate inflation has highlighted the importance of having professional financial advice.

- The three top advisory services they are most interested in are retirement income/planning (53%), overall financial planning (42%), and sustainable investments (35%). Nearly one in three (29%) do not understand how taxes affect their investments.

[1] Natixis Investment Managers 2020 Global Survey of Financial Professionals (US cut).

- 68% specifically want more information from their advisor about bond investments. While 58% think it's more fun to invest in stocks than bonds, 46% have greater confidence in the performance of bonds than in stocks over the next year. They may not understand bonds, but they do have critical questions for their advisors, including: What are the tax implications of bond investments (43%); Are some bonds riskier than others (41%), How long do I need to hold onto a bond? (39%).

- Non-advised millennials are nearly twice as likely as both non-advised baby boomers and Gen Xers to say they need professional advice. (64% of millennials vs. 26% of boomers and 34% of Gen X).

- Despite millennials' characteristic self-confidence, when it comes to making investment decisions, they are more likely to trust their financial advisor (95%) than themselves (91%) in the current environment.

- Among respondents overall, the greatest trust exists between individuals and their financial advisor (89% equally), then financial advisors in general (71%), followed by family (70%) and close friends (59%). Trust drops sharply the less personal the advice source becomes. Just 15% overall and 44% of millennials trust social media when it comes to investment decision-making. Just 28% of investors overall trust algorithms, or artificial intelligence, though 60% of millennials do.

A copy of the global report on the Natixis Investment Managers 2023 Survey of Individual Investors can be viewed and downloaded at: https://www.im.natixis.com/us/research/2023-individual-investor-survey

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All investing involves risk, including the risk of loss. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

Methodology
Natixis IM surveyed 750 U.S. investors, fairly evenly across wealth levels, including mass market ($100K-$300K), Mass affluent ($300-$500K), Emerging high net worth ($500-$1 million), and high net worth (more than $1 million) in net household investable assets, excluding the value of their primary household residence). The survey was conducted by CoreData Research in 2023. The US cut of findings presented here is part of a larger global survey of 8,550 individual investors in 21 countries/territories across Asia, Europe, Latin America, and North America.

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 managers[1] with more than $1.2 trillion assets under management[2] (€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'Epargne retail networks. Natixis Investment Managers' affiliated investment management firms include AEW; 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; 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.

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[1] Cerulli Quantitative Update: Global Markets 2022 ranked Natixis Investment Managers as the 18th largest asset manager in the world based on assets under management as of December 31, 2021.
[2] Assets under management ("AUM") of current affiliated entities measured as of March 31, 2023 are $1,208.2 billion (€1,111.9 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.

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