FUND COMMENTARY

Natixis Global Equity Funds

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CHARTS TO WATCH IN 2018

The eight-year equity bull market continued in impressive fashion in 2017. The MSCI World Index rose 14.6% during the year. Returns were broad-based geographically with the S&P 500 up 13.5%, the MSCI EAFE Index up 16.9% and the MSCI Emerging Markets Index up 28% (all in Canadian dollar, net dividend terms). Markets were driven by robust earnings growth; at time of writing Bloomberg consensus estimates envision 2017 MSCI World earnings per share rising 15.3% in U.S. dollar terms. Key to this earnings growth was clear, broad-based improvement in the global economy. For the first time since the global financial crisis of 2007-08, growth picked up in three major economic cohorts of the U.S., the Eurozone and Japan, and was broadly stable in a fourth, China.

Natixis Global Equity Fund

The Fund made no major changes in the fourth quarter of 2017. The best three performing positions held throughout the year were **Techtronic Industries**, **Square Enix** and **Deere & Co**, which posted total returns of 86%, 81%, and 55% respectively (in Canadian dollar). The Fund's three worst performing positions held through the year were **Comfortdelgro**, **Johnson Controls**, and **KDDI** which posted total returns of -16%, -5%, and -5% respectively (in Canadian dollar).

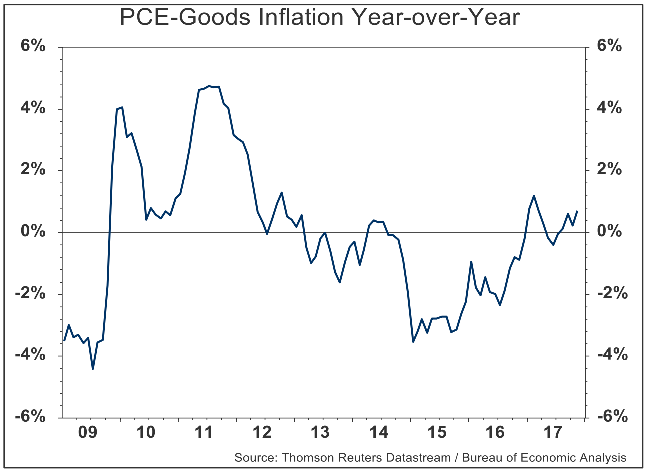
Market Outlook

As we start 2018, here are some of the key investment topics we find interesting and that we'll be keeping an eye on (among others!) throughout the year:

1) **Inflation** is the first of the two main factors that drive interest rates. And given that pretty much every asset in the world – including global equities – is to some degree valued off of the U.S. Treasury yield curve, inflation – which has been tepid for years – deserves to be on investors' radar screens. Chart 1 outlines U.S. inflation expectations five years from now; these have been rising slowly, but from a very low base. Chart 2 illustrates why we suspect these inflation expectations may remain pretty subdued. Prices for goods in the U.S. have struggled to stay above zero for years, and for good fundamental reasons. Excess manufacturing capacity in China, ever leaner global supply chains, online retail and instantaneous price comparison could well continue to limit pricing power for manufacturers and retailers of apparel, electronics, and a host of other consumer goods.

CHART 1

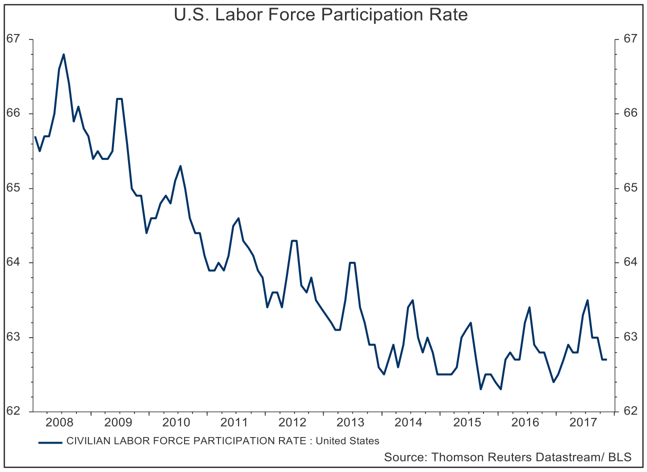
CHART 2



2) **Growth** is the second main factor that drives interest rates. Chart 3 shows that 2017 will be the first time in four years that global growth won't decelerate on a year-on-year basis. It will come in around 3.6%, and would represent an improvement of 40bps on the 2016 result. Both IMF and Bloomberg-compiled consensus expect a further acceleration in global growth in 2018. One potential source of upside surprise could come from fundamental improvement in the U.S. job market. While U.S. unemployment is low, so is the participation rate in the labour force (Chart 4). If the U.S. can make a dent in the nearly 6 million unfilled jobs, and get more of its citizens back into the labour pool, America's economic expansion may continue to confound the sceptics. The U.S. economy is the largest in the world, and approximately 70% of it is driven by consumer activity, so further strength in the U.S. job market would have positive implications beyond U.S. borders.

CHART 3

CHART 4



3) **China** is the second largest economy in the world and how it manages, or doesn't manage, its massive debt expansion will impact global equities in 2018 and beyond. Chart 5 shows the pronounced uptick in China's debt over the last several years, but China is looking for sustained consumer spending, particularly from its tertiary and other small cities and agricultural areas, to maintain GDP consistent with the recent run-rate of 6.5% – 7.0%. Chart 6 shows China's rising consumer confidence, which – assuming its credit markets stay benign – augers well for 2018.

CHART 5

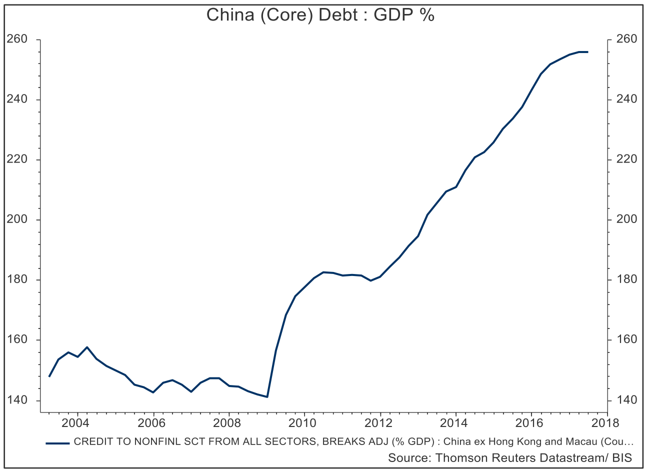


CHART 6

4) **Europe** continued to show signs of emerging from years of economic stagnation. Bloomberg consensus for Eurozone 2017 GDP growth is 2.3%; low, but a big improvement on the four-year period from 2011-2014 where Europe struggled to post any sort of positive growth. Chart 7 shows Eurozone unemployment has consistently fallen for four years, but potential for further improvement certainly remains. Similar to the issue of the U.S. labour participation rate, any further improvement in European unemployment is a meaningful source of potential upside to investor sentiment and markets. Many investors are obsessively focused on whether the European Central Bank will slow its asset purchases (Chart 8). We expect Europe's experience with reducing quantitative easing will ultimately be similar to what America has witnessed over the past couple of years: modestly higher medium and long-term interest rates shouldn't hurt the equity markets, so long as economic growth continues to trend in the right direction.

CHART 7

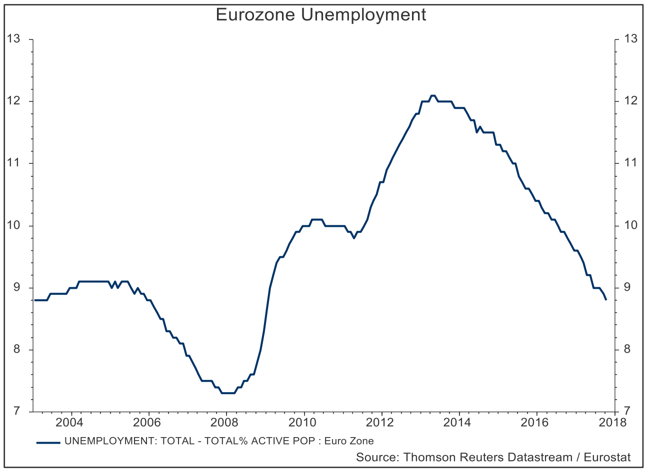
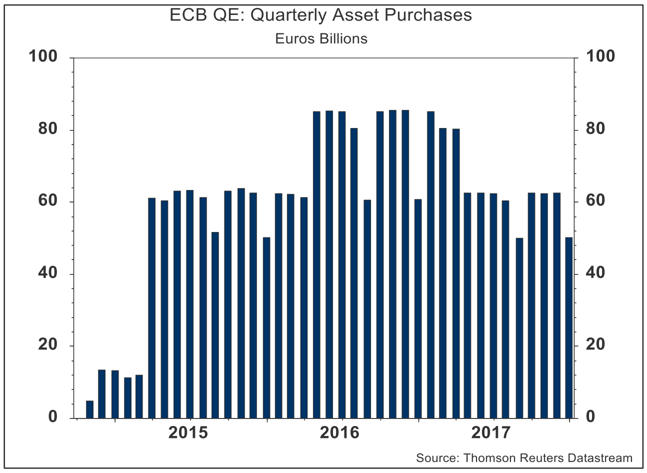


CHART 8



5) Finally, **Earnings** must continue to show leverage to economic growth for this equity bull market to continue. Chart 9 shows how Bloomberg consensus expects MSCI World Earnings Per Share to rise just over 15% in fiscal 2017, and a further 26% in fiscal 2018. Forward earnings estimates are notoriously over-optimistic. In this case, higher commodity prices and lower U.S. corporate taxes underpin much of that pretty dramatic 2018 earnings growth expectation. The extent to which those expectations hold as the year progresses (Chart 10) will likely have a strong influence on how this year's equity market ultimately pans out. As Chart 10 shows, analysts' expectations

have been rising over the past 12 months, which is somewhat unusual, and quite positive.

CHART 9

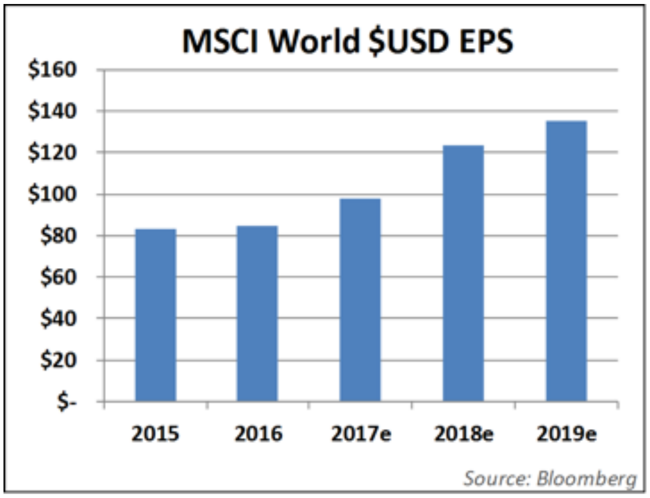
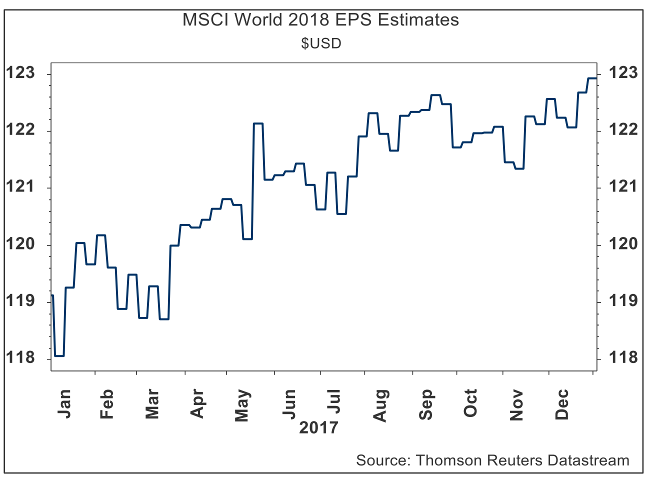


CHART 10



Ultimately, the stock market will produce all sorts of surprises, both bad and good. It is precisely because of the propensity to surprise that stocks are one of the best performing of all major liquid asset classes. Stocks provide compounding exposure to the economy's economic growth and, over time, investors are handsomely compensated for assuming the risk of those bad surprises! The challenge for investors, as always, is to have a plan, monitor and adjust that plan as needed, and to stay calm when the unexpected bad news inevitably hits.

Most importantly, on behalf of the sub-advisor, I'd like to thank you for your continued interest in and support of the Fund, and wish all the best to you and your loved ones in 2018!

▶ For more information about **Natixis Global Equity Funds,** please contact your financial advisor.

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