

Changes to the Market Forecast (9 December 2021)

In this letter, we discuss recent developments behind the latest changes to our team's market forecast. Our multi-asset portfolios reflect our assessment of the global economy and the investment landscape 6–12 months into the future.

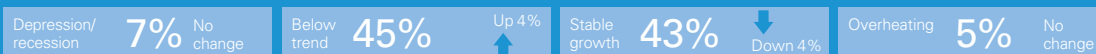
Current Market Forecast (Probabilities)



Our Market Forecast is based on an evaluation of returns and risks across four subject areas: the macro Economy, factors impacting asset Valuation, market Liquidity, and investor Sentiment. Our process assesses the future state of each area and assigns probabilities on a forward-looking 6–12 month basis to potential outcomes ranging from bearish to bullish.

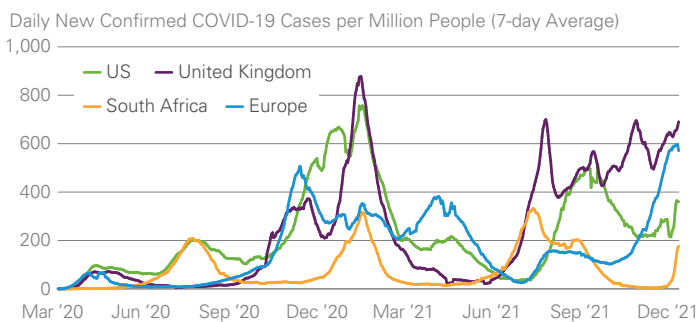
We are again making a mild shift toward less optimism in our 6–12 month forecast, primarily based on two sides of our “pandemic triangle”: the behavior of the virus and monetary policy. The new COVID-19 variant Omicron poses a significant risk to key factors underlying business conditions globally (mobility and congregation). While the efficacy of existing vaccines is not yet fully understood, the risk to less vaccinated populations is likely higher. This could pose renewed challenges to critical supply chains, which have been showing some improvement after struggling through the third quarter. Meanwhile, the US Federal Reserve and other central banks are now more alert to inflation risks and are winding down extraordinary accommodation. Recent market volatility suggests investors are less willing to look through these risks.

Economy *What stage of the global business cycle are we likely to be in over the next 6–12 months?*



The pace of business activity in the United States has improved since a third quarter slowdown, but rising material and labor costs are filtering through to consumers in very visible ways. The European recovery is proceeding more slowly than expected, and the recent surge in COVID-19 cases presents a headwind. Chinese policies could soon begin to address the economy's negative trajectory, although steps may be small at first. Japanese auto production has been hurt by supply chain disruptions, which may be easing somewhat. The new prime minister has introduced a large supplemental budget to support growth.

New Cases Were Surging in Europe Even before Omicron



As of 6 December 2021
Source: Our World in Data

Valuation *What is the outlook for business costs, profit margins, and returns over the next 6–12 months?*



Demand recovery continues to be faster than supply recovery. However, oil-consuming countries are pressuring OPEC+ to maintain production increases. Even though emergency government transfers have wound down, many employers cannot hire enough workers and are raising prices to cover increases in unit labor costs. With expected returns on fixed income instruments so low (and yields negative after inflation), risk assets like equities still have the potential to provide adequate real returns on a risk-adjusted basis.

Liquidity

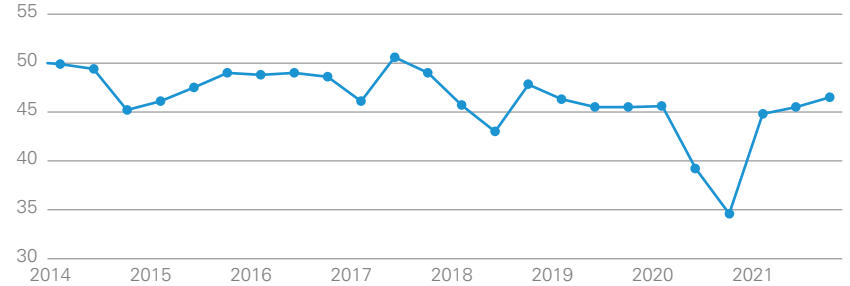
How are credit markets likely to be characterized over the next 6–12 months?



The Fed is reducing monetary stimulus and is now likely to do so more quickly than anticipated. A number of other central banks have either already raised interest rates or are contemplating doing so. Lenders are eager to expand loan balances, but we expect them to become incrementally more selective regarding credit risks as economic growth slows toward trend. Although many borrowers used government transfers to reduce debts or are carrying higher-than-normal cash balances, we expect applications for new borrowing to increase over the next several years.

US Consumer Credit Applications Hit 2019 Levels

Credit Application Rate (%), Last 12 Months



As of 31 October 2021

Source: Federal Reserve Bank of New York

Sentiment

How supportive will politics and/or public opinion be to capital markets over the next 6–12 months?



Increased uncertainty about the nature of fiscal and monetary policy support, as well as renewed concerns about COVID-19 challenges and potential future variants, is likely to limit excessive enthusiasm for risk assets over the near term. While COVID-19's spread was already worsening in Europe and the United States, Omicron's emergence has further exposed the problems of vaccine hesitancy and the need to deliver more doses to many low-income countries. The passage of the US bipartisan infrastructure bill is a policy positive, offset by delays in wrangling over the larger social infrastructure package.

Current 6–12 Month Global Market View

Many recent concerns about economic conditions can be tied to the pandemic. Overconsumption of goods and services at home contributed to tight supply chains, increasing vulnerability to periodic COVID-19 related constraints on production. While reopening has led to a surge in demand for services linked to mobility and congregation, employees in these sectors have not returned as rapidly, possibly due to infection fears, new caregiving responsibilities, and pandemic-induced early retirement. At the heart of many forecasts has been the question: How quickly will things “normalize”?

Omicron has highlighted just how much uncertainty remains. Even before it emerged, however, new waves of infections in Europe and the United States and periodic shutdowns in “zero COVID-19” economies like China demonstrated yet again that the virus and its impacts are likely to be with us for a long time—the sentiment behind Fed Chair Jerome Powell's testimony that monetary policy needs to “adapt.” Many of his peers would agree: After more than a year-and-a-half, it is getting harder to preach patience. We feel it is appropriate to take some risk off the table, reduce allocations to assets more sensitive to the future pace of the recovery, and rotate into more insulated regions.

Favor

- Equities of quality companies in insulated regions
- Higher yielding credit
- Growth-insensitive commodities

Avoid

- Developed markets sovereign debt
- Pockets of equity overvaluation
- Emerging markets

This content represents the views of the author(s), and its conclusions may vary from those held elsewhere within Lazard Asset Management. Lazard is committed to giving our investment professionals the autonomy to develop their own investment views, which are informed by a robust exchange of ideas throughout the firm.

Important Information

Published on 10 December 2021

All probabilities reflect rounding

Certain information contained herein constitutes "forward-looking statements" which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "target," "intent," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events may differ materially from those reflected or contemplated in such forward-looking statements.

Mention of these securities should not be considered a recommendation or solicitation to purchase or sell the securities. It should not be assumed that any investment in these securities was, or will prove to be, profitable, or that the investment decisions we make in the future will be profitable or equal to the investment performance of securities referenced herein. There is no assurance that any securities referenced herein are currently held in the portfolio or that securities sold have not been repurchased. The securities mentioned may not represent the entire portfolio.

This document reflects the views of Lazard Asset Management LLC or its affiliates ("Lazard") based upon information believed to be reliable as of the publication date. There is no guarantee that any forecast or opinion will be realized. This document is provided by Lazard Asset Management LLC or its affiliates ("Lazard") for informational purposes only. Nothing herein constitutes investment advice or a recommendation relating to any security, commodity, derivative, investment management service or investment product. Investments in securities, derivatives and commodities involve risk, will fluctuate in price, and may result in losses. Certain assets held in Lazard's investment portfolios, in particular alternative investment portfolios, can involve high degrees of risk and volatility when compared to other assets. Similarly, certain assets held in Lazard's investment portfolios may trade in less liquid or efficient markets, which can affect investment performance. Past performance does not guarantee future results. The views expressed herein are subject to change, and may differ from the views of other Lazard investment professionals.

This document is intended only for persons residing in jurisdictions where its distribution or availability is consistent with local laws and Lazard's local regulatory authorizations. Please visit www.lazardassetmanagement.com/globaldisclosure for the specific Lazard entities that have issued this document and the scope of their authorized activities.

A strategy's ability to achieve its investment objective depends in part on Lazard's skill in determining a strategy's allocation between the investment strategies. Lazard's evaluations and assumptions underlying its allocation decisions may differ from actual market conditions.

Past performance is not a reliable indicator of future results. Forecasted or estimated results do not represent a promise or guarantee of future results and are subject to change.