Lazard Multi-Asset Team

Letter from the Manager

DEC
2018

Changes to the Market Forecast (12 December 2018)

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 six-to-twelve months into the future.

Current Market Forecast (Probabilities)

Deteriorating conditions	Slow, uneven growth	Sustainable, healthy growth	Overheating conditions
10% No change	45% Up 5%	37% Down 3%	8% Down 2%

Bear ← → Base ← → Bull

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 six-to-twelve month basis to potential outcomes ranging from bearish to bullish.

Over the next six-to-twelve months, higher market volatility and nervousness around trade and geopolitics may be offset by less aggressive monetary policy from the Federal Reserve. While the recent trade "ceasefire" established between the US and Chinese administrations at the G20 summit is a positive development, our concern is that reaching a deal may take longer. There is a material probability that the national security and intellectual property issues, which are key elements of the US stance, will take more time. Also, while we had already been expecting a turbulent Brexit, recent developments mean that the probabilities of a base case (i.e., approved agreement) "withdrawal" have declined, while those for a second referendum and a "no deal" scenario have increased.

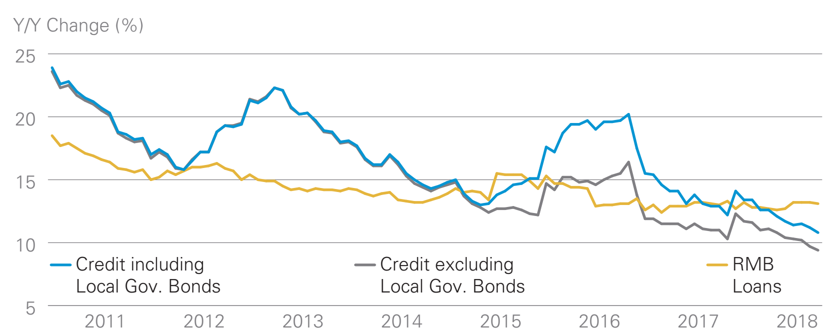
Economy

What stage of the global business cycle are we likely to be in over the next six-to-twleve months?

Depression/ recession	Below trend	Stable growth	Overheating
12% No change	47% Up 7%	35% Down 7%	6% No change

Our forecast reflects increased concern about the state of private sector financing in China, which could curtail domestic growth just as exports are pressured due to US tariffs. We note, however, that China's currency and trade with non-US countries can act as a countermeasure. Economic activity in the United States remains solid. Though, as our forecast window moves toward the end of 2019, the probabilities of a slower growth environment have increased: the impact of the tax policy changes have largely subsided, and year-over-year figures are likely to be penalized by higher base effects.

Credit Growth in China Slowed Significantly, although Growth in Bank Loans Persists



As of October 2018
Credit represents Total Social Financing Outstanding excluding Equity
Credit including Local Gov. Bonds = Total Social Financing Outstanding - Equity - Local Government Special Bonds + Total Local Government Bonds
Source: ChinaBond, Haver Analytics, People's Bank of China

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Valuation

What is the outlook for business costs, profit margins, and returns over the next six-to-twelve months?

Poor	Moderate	Positive	Bright
8% Up 1%	34% Up 5%	45% Down 3%	13% Down 3%

Despite the potential for some investment stimulus in China and firm demand in a late-cycle US economy, energy and metals prices within the commodity complex may struggle to perform. The crude oil price appears to be heading for a lower trading range due to lack of OPEC co-ordination on pricing and ongoing growth in US shale output at lower breakeven production levels.

Liquidity

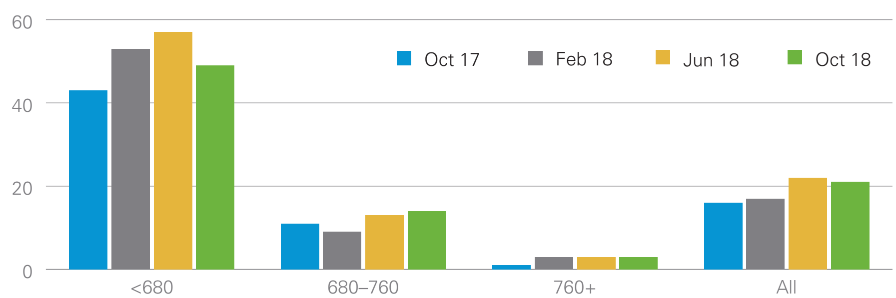
How likely will borrowers be to find lenders and vice versa over the next six-to-twelve months?

Very weak	Weak	Normal	Very strong
5% No change	45% Up 5%	43% Down 5%	7% No change

A modest adjustment to the liquidity forecast reflects that the potential for looser US lending standards may not materialize due to the new political alignment of the House of Representatives. US lenders are behaving responsibly by raising their standards for extending credit, and creating tighter conditions for consumer credit than typically seen in periods of robust growth. Credit availability could therefore already be in decline, while demand may be hurt by weaker consumer sentiment in Europe and emerging markets.

There are Some Signs of Tighter Credit Conditions for US Consumers

Rejection Rates of Credit Applications by Credit Score (%)



As of 31 October 2018
Credit types include mortgage, auto, and credit card
Source: New York Fed, Survey of Consumer Expectations

Sentiment

How supportive will politics and/or public opinion be to capital markets over the next six-to-twelve months?

Not at all	Somewhat	Very	Too much
14% Down 2%	55% Up 5%	24% No Change	7% Down 3%

The geopolitical risk forecast has been adjusted to capture increased probabilities of trade war escalation, a heavy political agenda in Europe, possible further US sanctions against Russia, and a further breakdown of relations between the United States and its allies over Iran.

Current Six-to-Twelve Month Global Market View

Trade rhetoric and European political events look set to cause market volatility in the first half of 2019. The US economy continues to expand and the financials sector remains healthy, so outperformance vis-à-vis the rest of the world may well continue. The decline in energy prices is likely to offset some of the inflationary impact of rising wages and tariffs, and Fed Chair Jerome Powell now believes that interest rates are close to neutral, so the market is starting to expect a pause in the cycle of rate increases. Absent other forces, we might expect the overvalued US dollar to weaken somewhat, but the euro and sterling may not be in a position to outperform. Adding to the uncertainty of Brexit and Italy in Europe, European Parliamentary elections, as well as contests for new heads of the European Central Bank, the European Commission, and the European Council, are on the docket.

Favor

- Defensive, low-volatility equities
- Concentrated equity investments
- High quality credit exposure

Avoid

- Regional/sector equities that are heavily dependent on trade
- Global long-duration bonds

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