MARCH 2024

LAZARD

Global Economic and Market Outlook

RONALD TEMPLE,
CHIEF MARKET STRATEGIST

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Agenda

Economic Backdrop

- **Global growth is likely to be muted in 2024**
- **US disinflation is well underway with core inflation likely to fall below 2.5% during 1H24**
  - The Fed is likely to respond to falling inflation by cutting nominal rates as much as 100bps in 2024 and another 100bps in 2025
- **Eurozone recession risk remains elevated through 1H24, but the 2H24 outlook is brightening**
  - Monetary policy easing should lift activity as 2024 progresses
- **China growth is likely to benefit from numerous government stimulus measures, but structural challenges remain**
  - Real estate challenges have seriously impaired confidence
- **Structurally higher inflation is a risk over the next 5 – 10 years**
  - Reconfiguration of global supply chains + energy transition costs are likely to drive prices higher…
  - … but AI could be deflationary

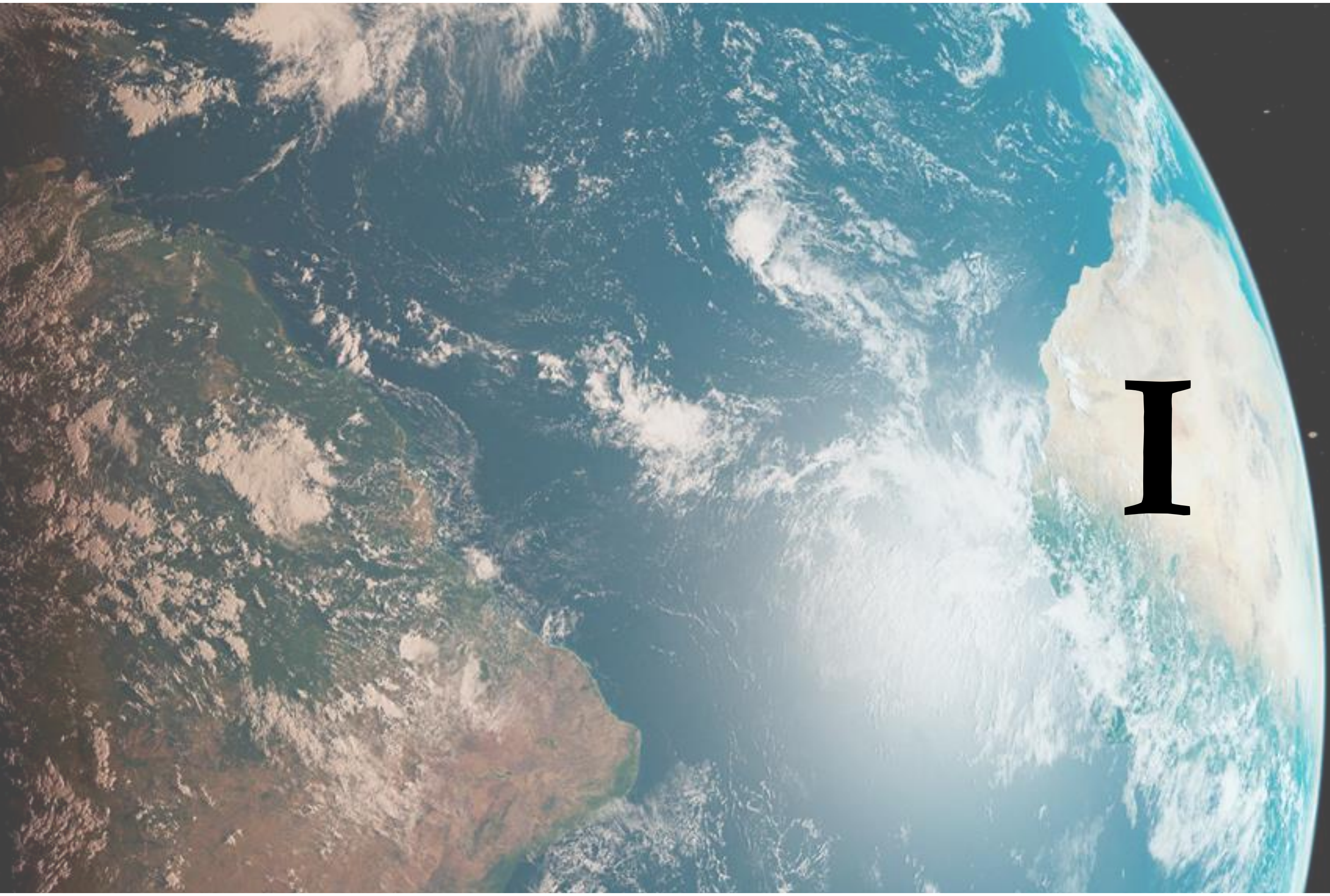
Note: Opinions as of March 2024 and subject to change

Agenda

Market Observations

- **Interest rates:**
  - The Fed, ECB, and BoE are likely to begin cutting rates in 2Q24 with ~100bps of rate reductions by year-end
  - The BoJ has begun exiting Yield Curve Control, but FX considerations could limit its flexibility to raise rates as the Fed and ECB cut
- **Developed market credit appears to be pricing ongoing growth with minimal recession risk**
  - Spreads remain well inside the levels of September 2022 and below those seen on average since 2010
- **Equity markets are priced for ongoing growth and lower discount rates, particularly in the United States**
  - The cap-weighted S&P 500 Index appears expensive, but the broader market still offers attractive opportunities
  - Non-US equity market valuations appear to embed more conservative expectations of future growth and discount rates

Note: Opinions as of March 2024 and subject to change

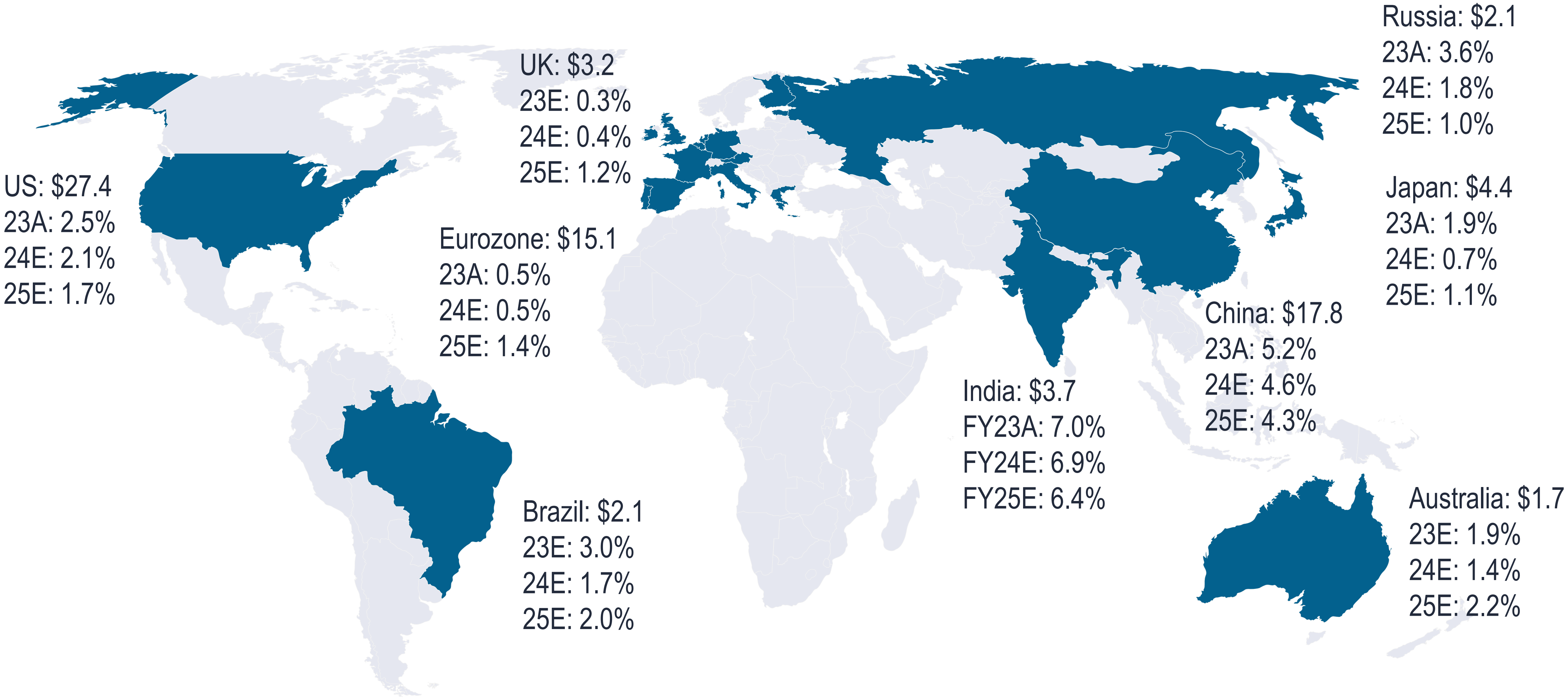


I

Global Economic Overview

Global Growth Expectations Are Muted through 2024

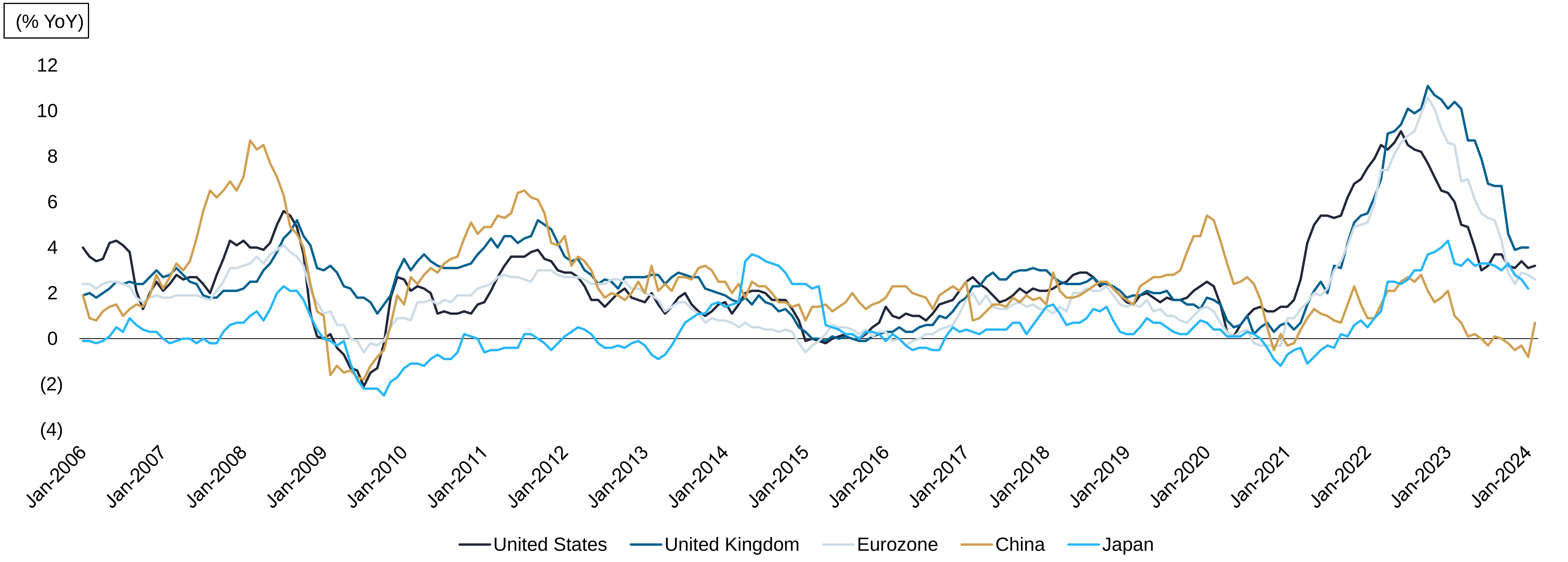
2022 GDP in $ Trillion and Expected Real Growth



Data is in current price USD trillion
Source: Bloomberg, IMF
Note: GDP as of 31 December 2023 for China, Eurozone, and United States; GDP for all others as of 31 December 2022; India FY ends 31 March
GDP growth forecasts as of 8 March 2024

Headline Inflation Has Peaked Across Developed Economies

Inflation



Source: Bank of Japan, Bureau of Labor Statistics, EuroStat, China National Bureau of Statistics, Haver Analytics.
Note: As of February 2024 for China, Eurozone, and United States. As of January 2024 for Japan and United Kingdom.

Energy Prices Are Now Detracting from Inflation on the Margin

Energy Inflation

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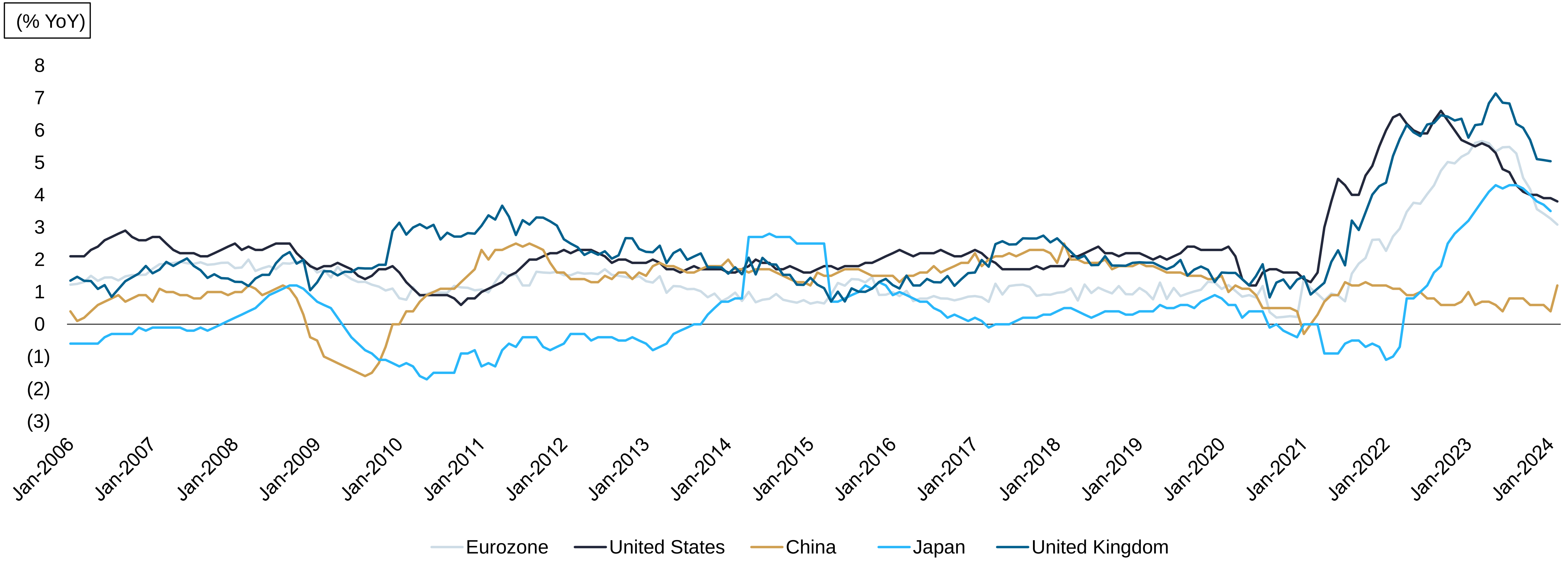
Source: Bureau of Labor Statistics, EuroStat, Haver Analytics.
Note: As of February 2024 for Eurozone and United States. As of January 2024 for United Kingdom.

Core Inflation Has Also Peaked

Core Inflation (ex-Food and Energy)



Source: Bank of Japan, Bureau of Labor Statistics, EuroStat, China National Bureau of Statistics, Haver Analytics.
Note: As of February 2024 for China, Eurozone, and United States. As of January 2024 for Japan and United Kingdom.

II United States

United States Overview

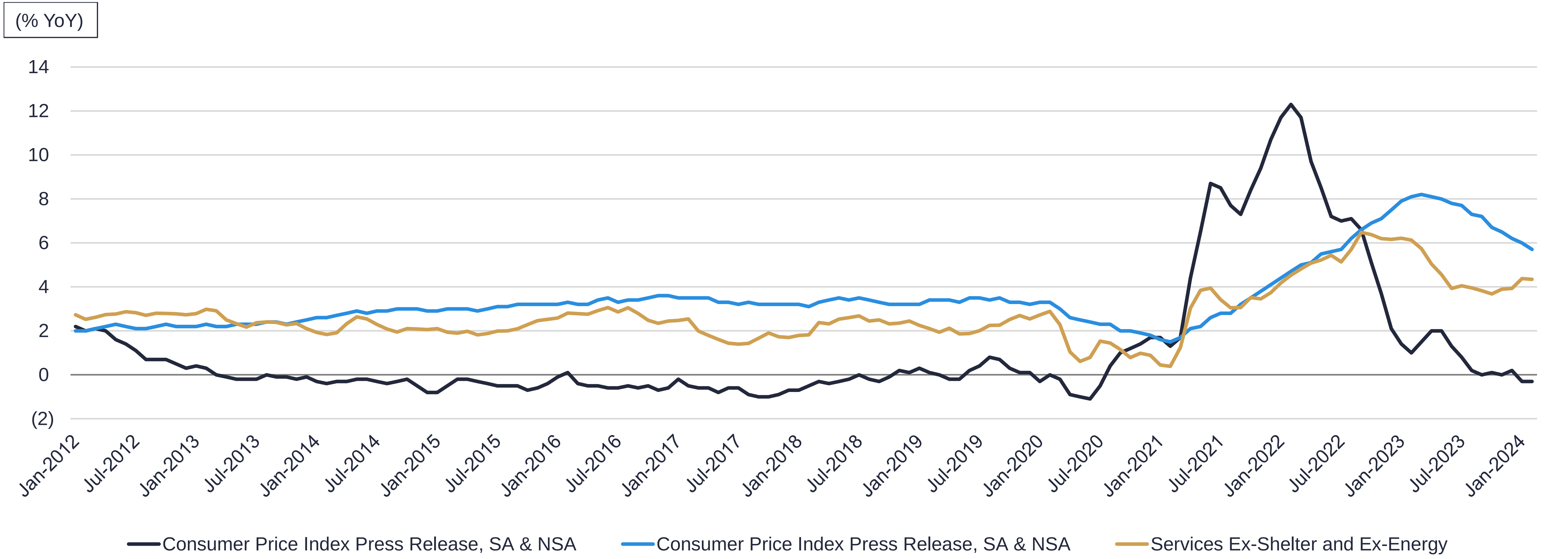
Economic Backdrop

- **Despite 525bps of tightening and $1.4 trillion of QT, the US economy has proven more resilient than expected**
- **Disinflation has progressed more rapidly than expected**
  - Core PCE inflation was below 2% in 2H23
  - Core CPI is likely to fall below 2.5% (run-rate basis) by mid-2024 allowing the FOMC to begin lowering rates in 2Q24
- **In theory, the labor market should be the key driver of inflation for services ex-shelter**
  - Unemployment remains near a 54-year low, but signs of softening are becoming more evident
  - The number of unfilled jobs per unemployed worker has declined from 2.0 to 1.4 in the last 15 months
- **The Federal Reserve has clearly signaled that rates have peaked, and policy easing is likely to begin in 2024**
  - The Fed's Summary of Economic Projections suggests a range of 50 – 100bps of rate reductions in 2024

Note: Opinions as of March 2024 and subject to change

Persistent, but Slowing, Services Inflation Is Evident in the Consumer Price Index

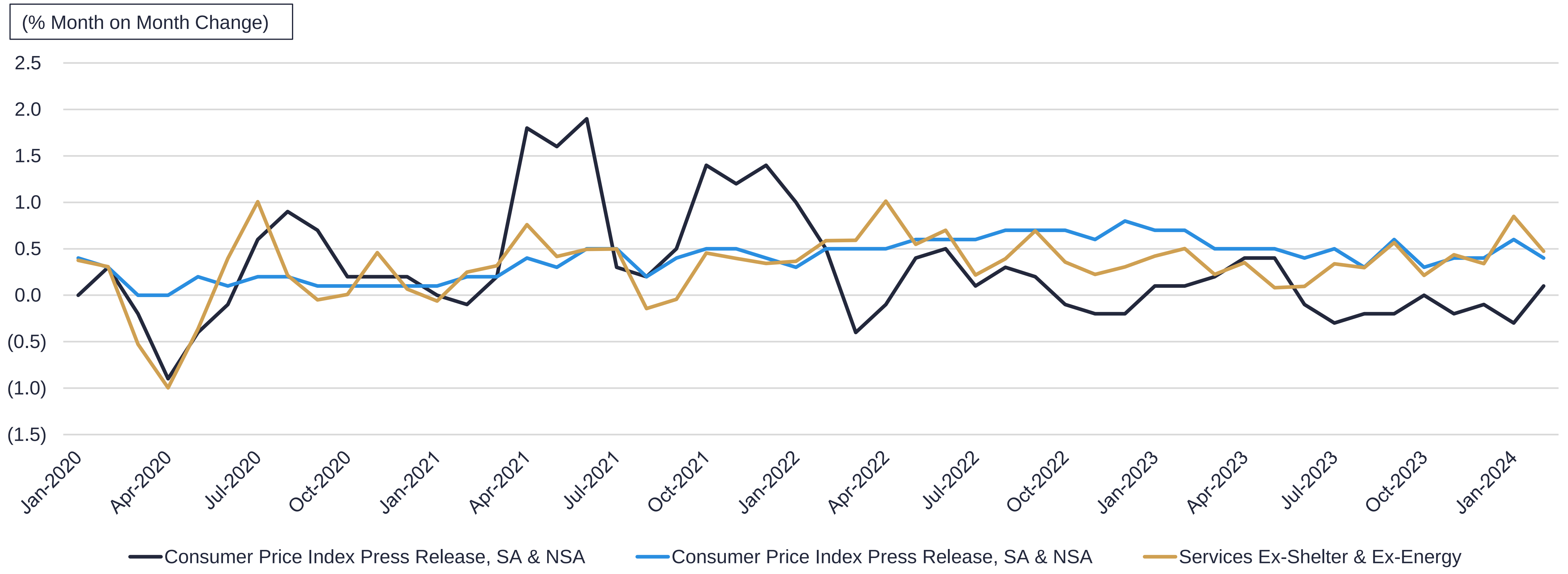
US Consumer Price Inflation for Key Categories



Source: Bureau of Labor Statistics, Haver Analytics
Note: As of February 2024
Core goods comprise ~24% of core CPI, shelter comprises ~45%, and other services ex-shelter and ex-energy services comprise ~31%.

Despite January and February Upside Surprises, More Disinflation Is Likely in 2024

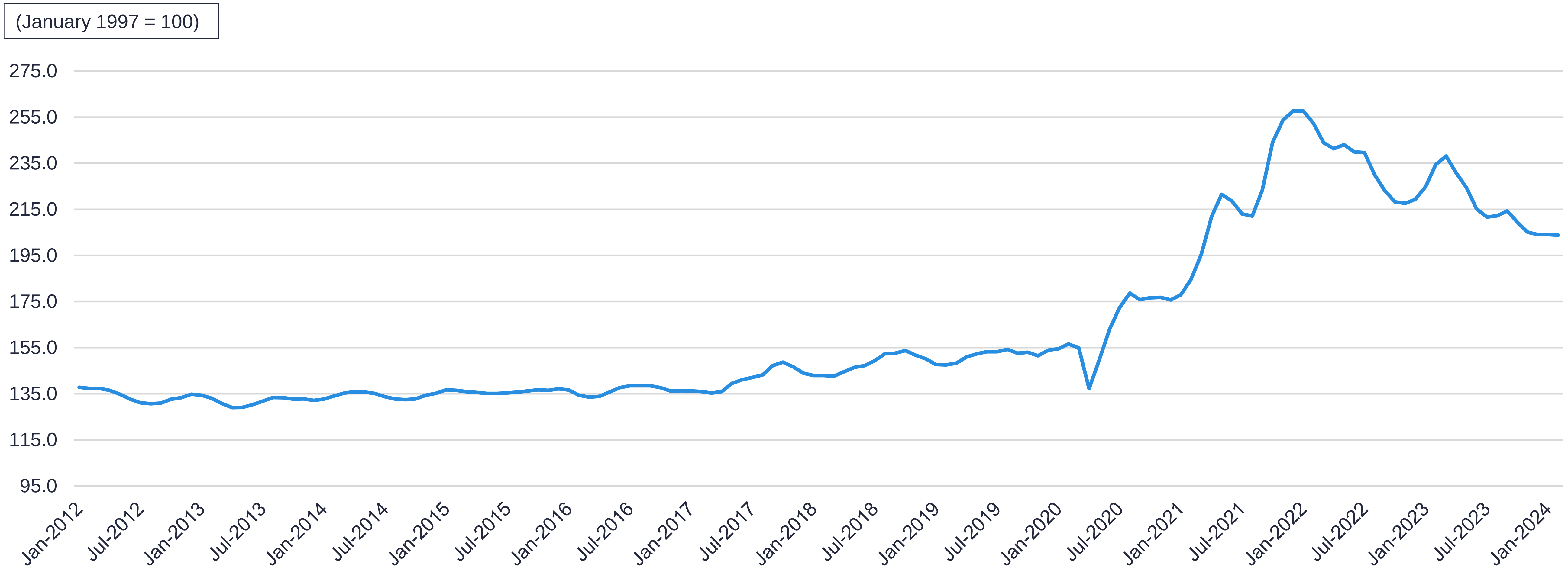
US Consumer Price Inflation for Key Categories



Source: Bureau of Labor Statistics, Haver Analytics
Note: As of February 2024
Core goods comprise ~24% of core CPI, shelter comprises ~45%, and other services ex-shelter and ex-energy services comprise ~31%.

Falling Used Car Prices Are Likely to Continue Reducing US Core Inflation

Manheim Used Car Index



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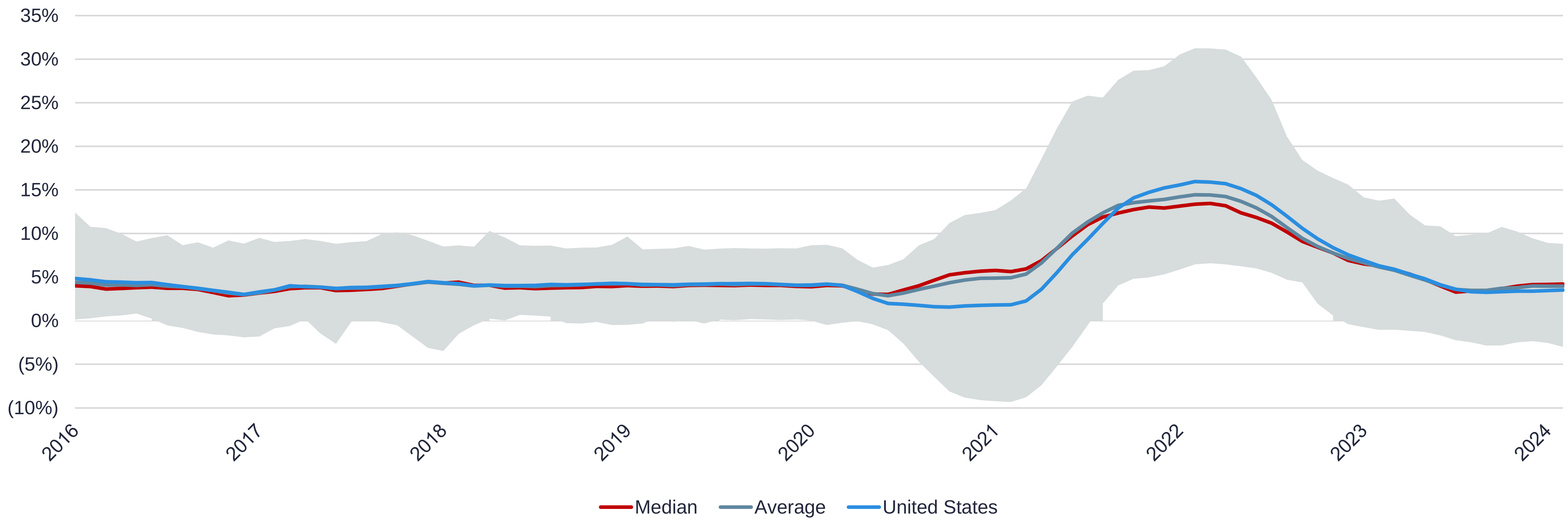
Source: Manheim, Haver Analytics
Note: As of February 2024

US Rent Inflation Peaked at 16% before Falling to <4%

US Rental Price Changes – Range, Median and US Index

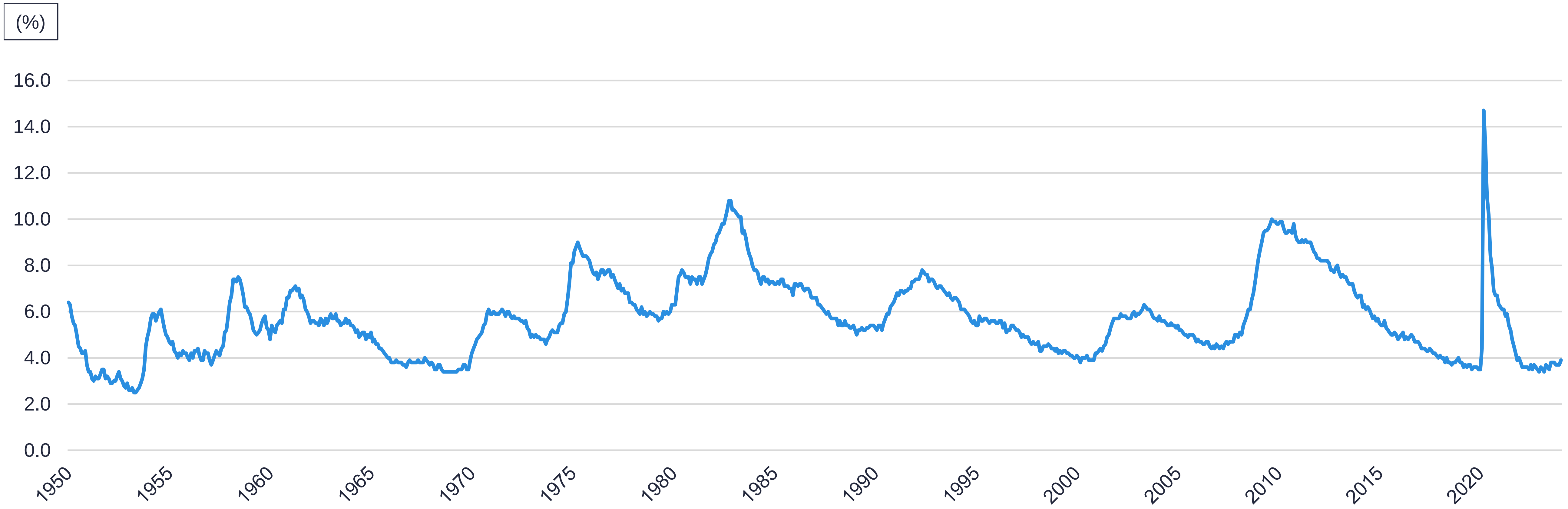


Source: Zillow.com Observed Rent Index. The Index covers approximately 100 major cities in the United States beginning in 2015. Shaded gray area shows range from lowest rent inflation to highest among top 100 cities in the index.

Note: As of February 2024
This index captures asking rents (not agreed rents) for new leases only (not including renewals).

US Unemployment Remains Near Multi-Decade Lows

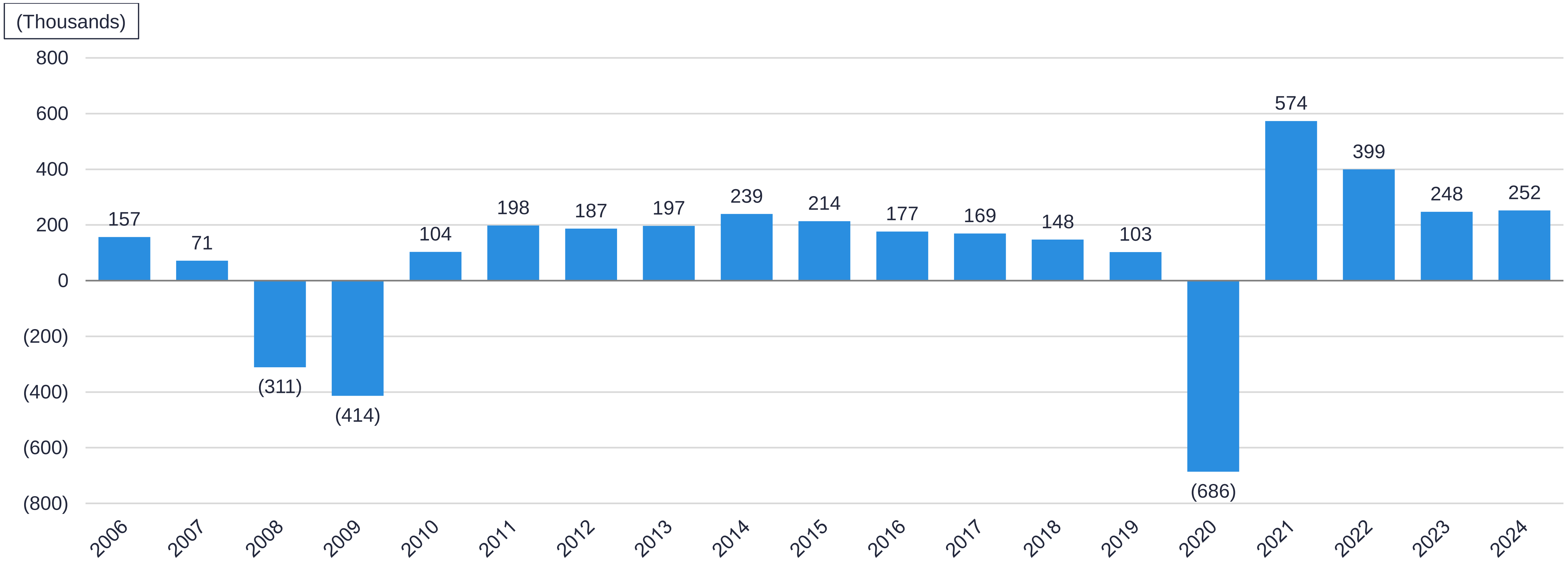
US Unemployment



Source: Bureau of Labor Statistics, Bloomberg
Note: As of February 2024

US Job Creation Continues to Exceed Working-Age Population Growth

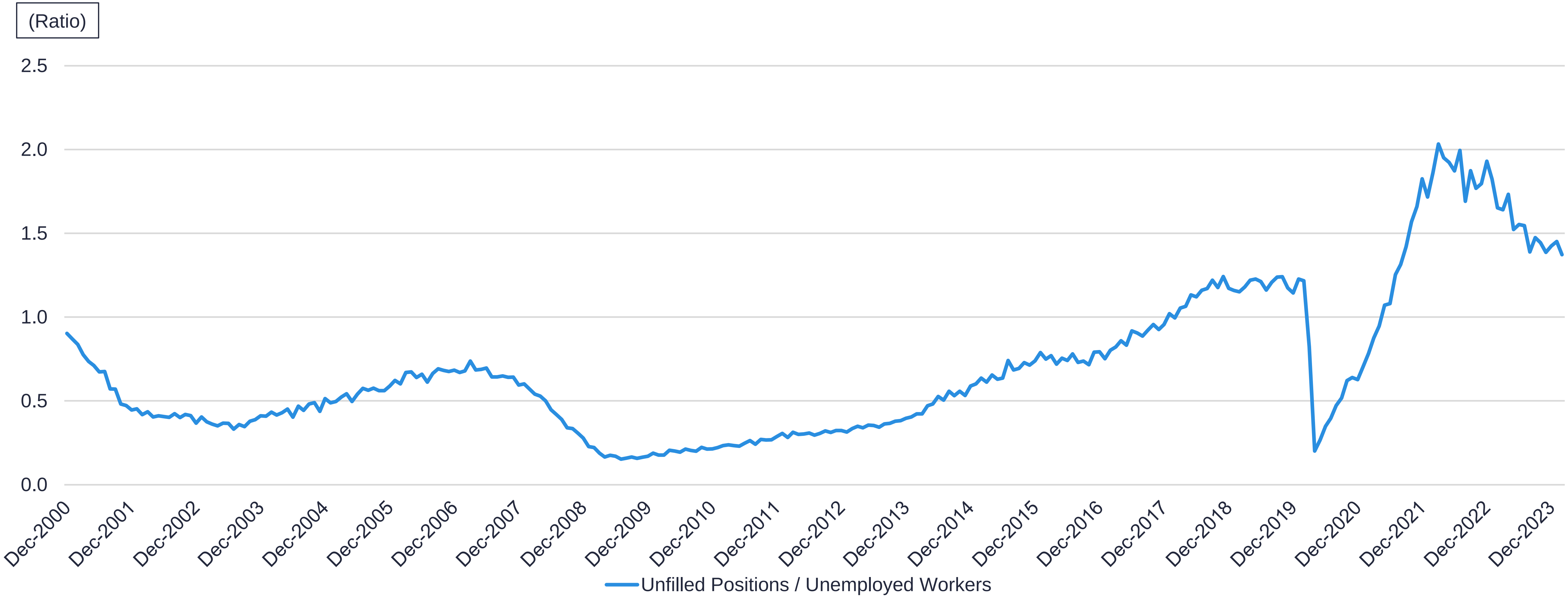
Average Monthly Change in Private Nonfarm Payrolls



Source: Bureau of Labor Statistics, Haver Analytics
Note: As of February 2024

Labor Market Tightness Is Easing with 1.4 Unfilled Jobs/Unemployed Worker

US Unfilled Jobs per Unemployed Person



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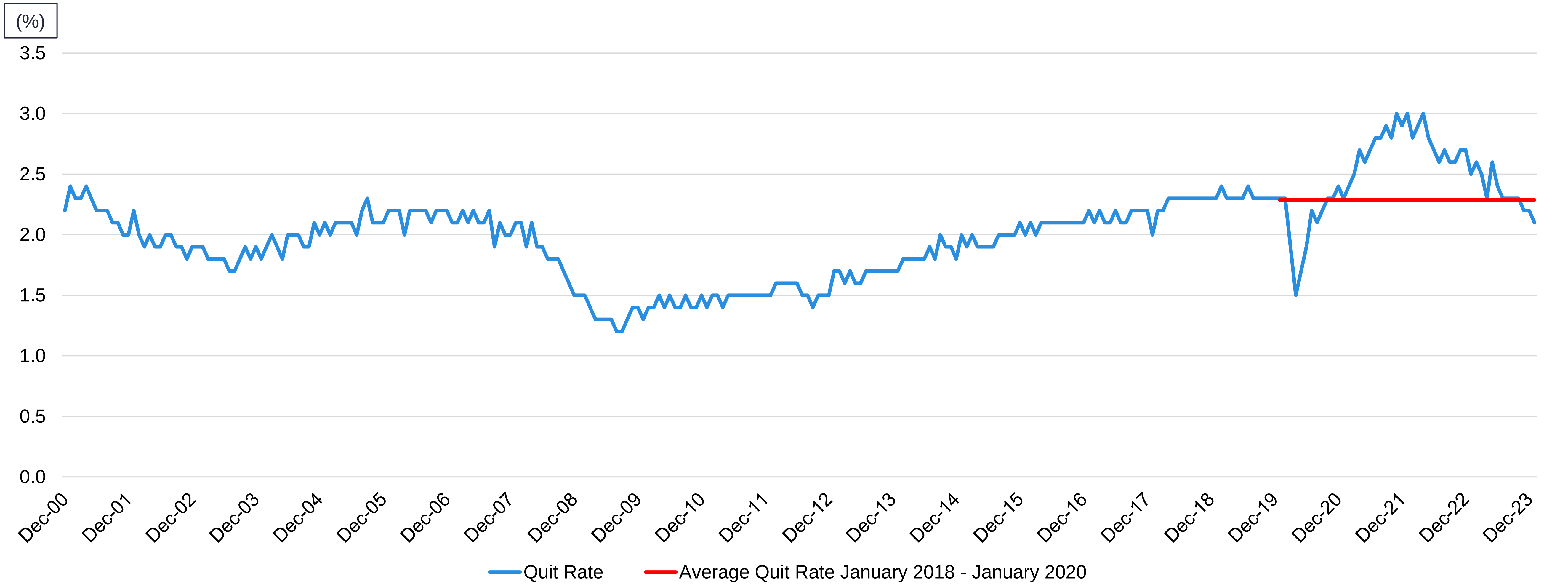
Source: Bureau of Labor Statistics, Haver Analytics
Note: As of January 2024 for unfilled positions. As of February 2024 for unemployed workers.

Fewer Americans Are Quitting Their Jobs, Suggesting Less Demand for Workers

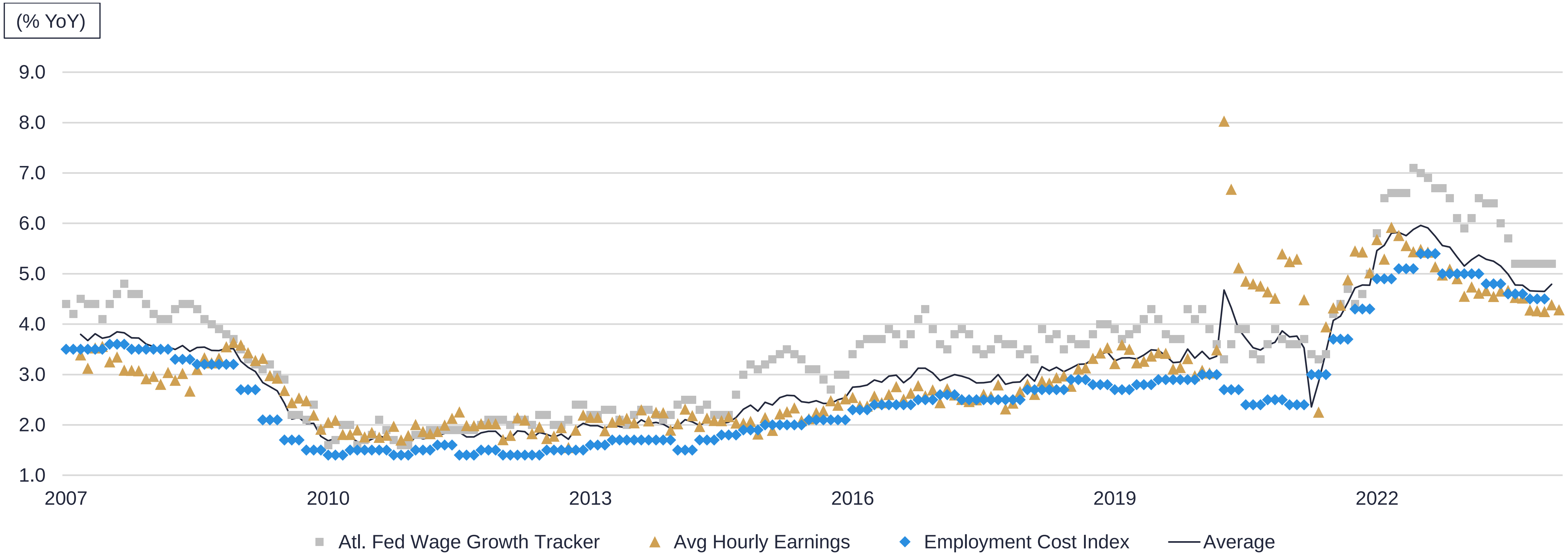
Quits Rate Private and Total, and Average Quits from January 2018 – January 2020



Source: Bureau of Labor Statistics, Haver Analytics
Note: As of January 2024

Wage Growth Appears to Be Decelerating in the US

Average of Three Common Wage Growth Series[1]



Source: US Bureau of Labor Statistics, Haver Analytics

Note: As of December 2023 for Employment Cost Index, January 2024 for Atlanta Fed Wage Tracker, and February 2024 for Average Hourly Earnings

1 The Employment Cost Index is for Wages & Salaries of Civilian Workers (ex-Incentive Paid Occupations for average wage chart).

III Eurozone

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Eurozone Overview

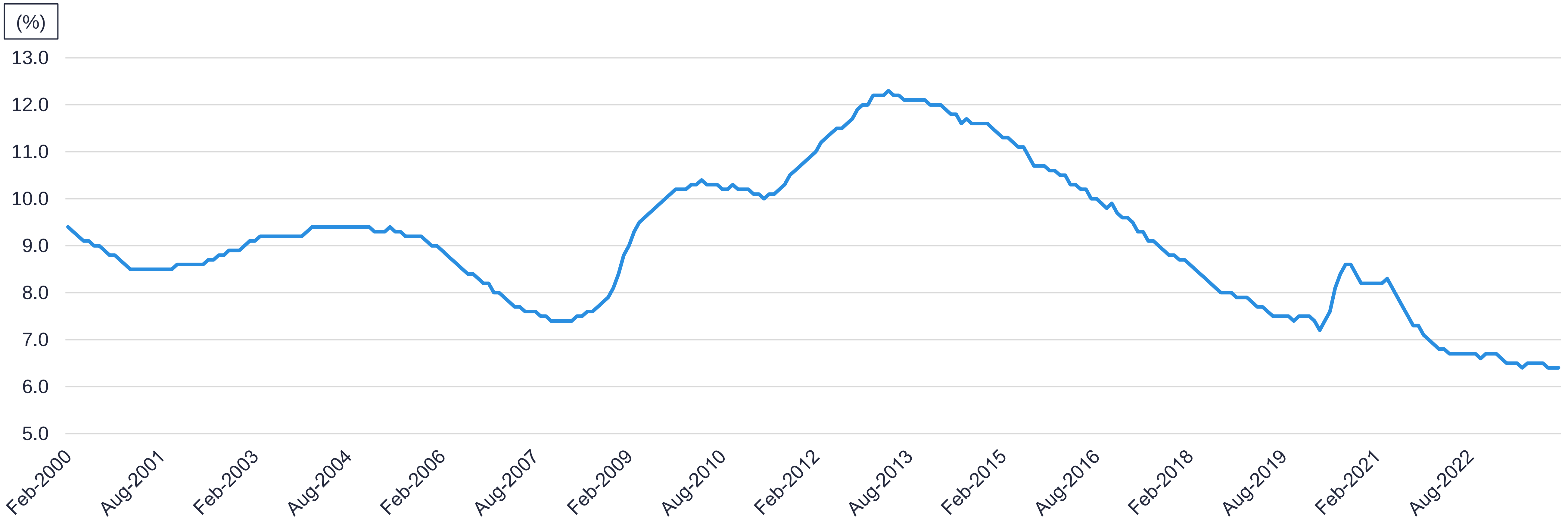
Economic Backdrop

- **Eurozone labor markets are tight**
  - Unemployment is at the lowest level since the euro was created, and job openings are elevated
- **Despite rising real wages, consumer confidence remains weak**
  - An extended period of low real per capital GDP growth and negative demographic trends might explain consumer negativity
- **The Ukraine-related energy price spike and weaker demand from China hit Eurozone industry hard**
  - Energy prices have returned to pre-invasion levels, and manufacturing PMI data appear to be improving
- **Given more floating rate debt exposure in Europe, ECB policy decisions have a more immediate effect than Fed actions**

Note: Opinions as of March 2024 and subject to change

Eurozone Unemployment Is at a Record Low

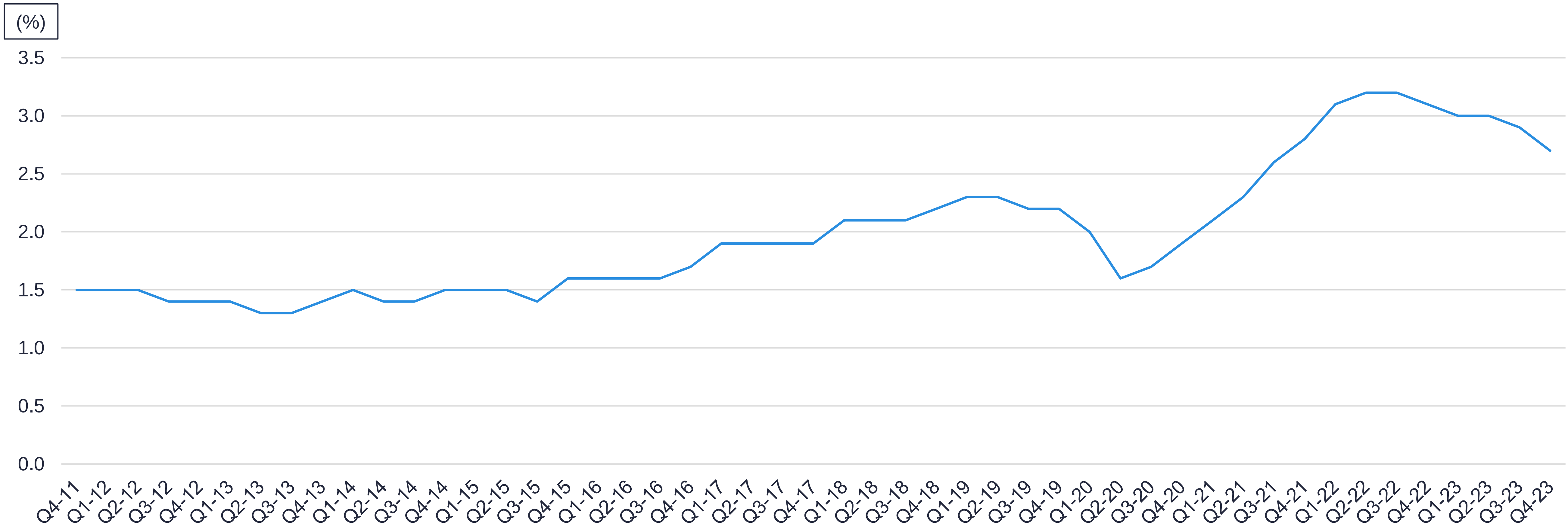
Eurozone Unemployment Rate



Source: Eurostat, Haver
Note: As of January 2024

Job Vacancies Are Near Record Highs

Job Vacancy Rate



Source: Eurostat, Haver
Note: As of Q4 2023
1 The job vacancy rate is defined as a paid post for which an employer is taking active steps to find an employee and is seeking to fill it within a specified period. The rate is the number of job vacancies divided by the number of occupied posts plus the number of job vacancies

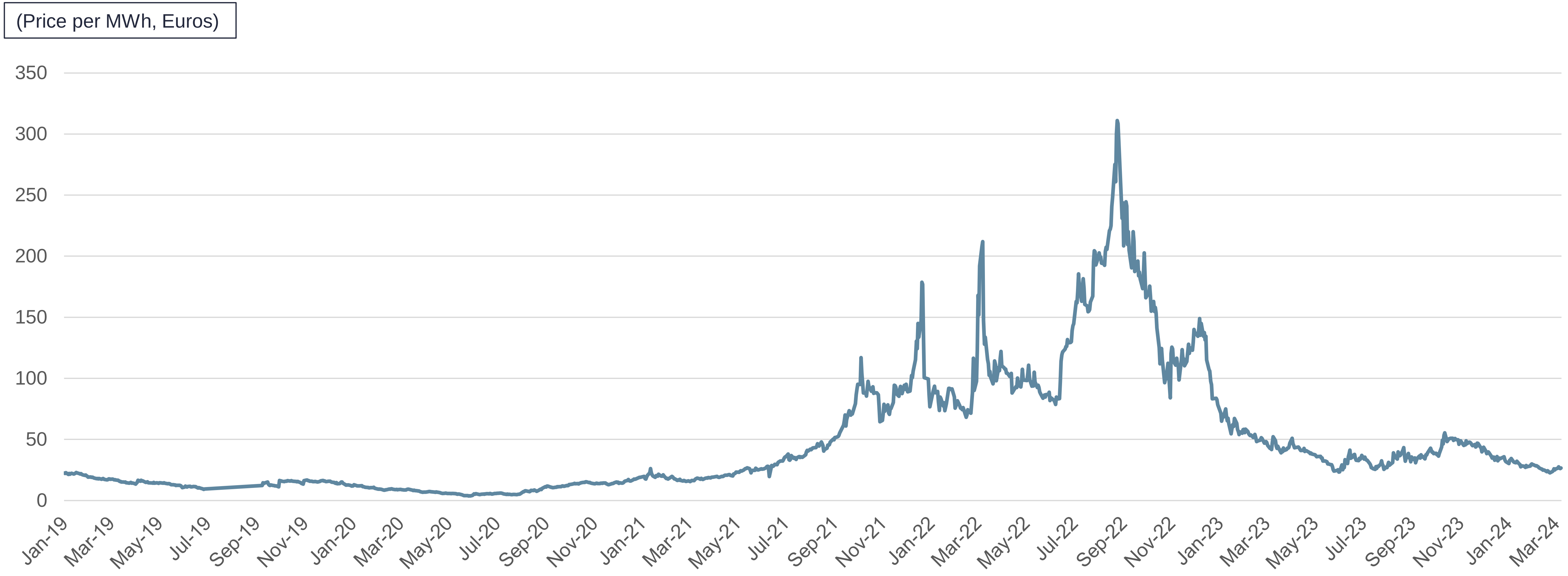
European Consumer Confidence Is Likely to Improve in 2024

European Commission Consumer Confidence Indicator - Eurozone

Source: Bloomberg, European Commission
Note: As of February 2024

Sharply Higher Energy Prices Reduced European Industrial Competitiveness

Netherlands TTF Natural Gas One Month Futures

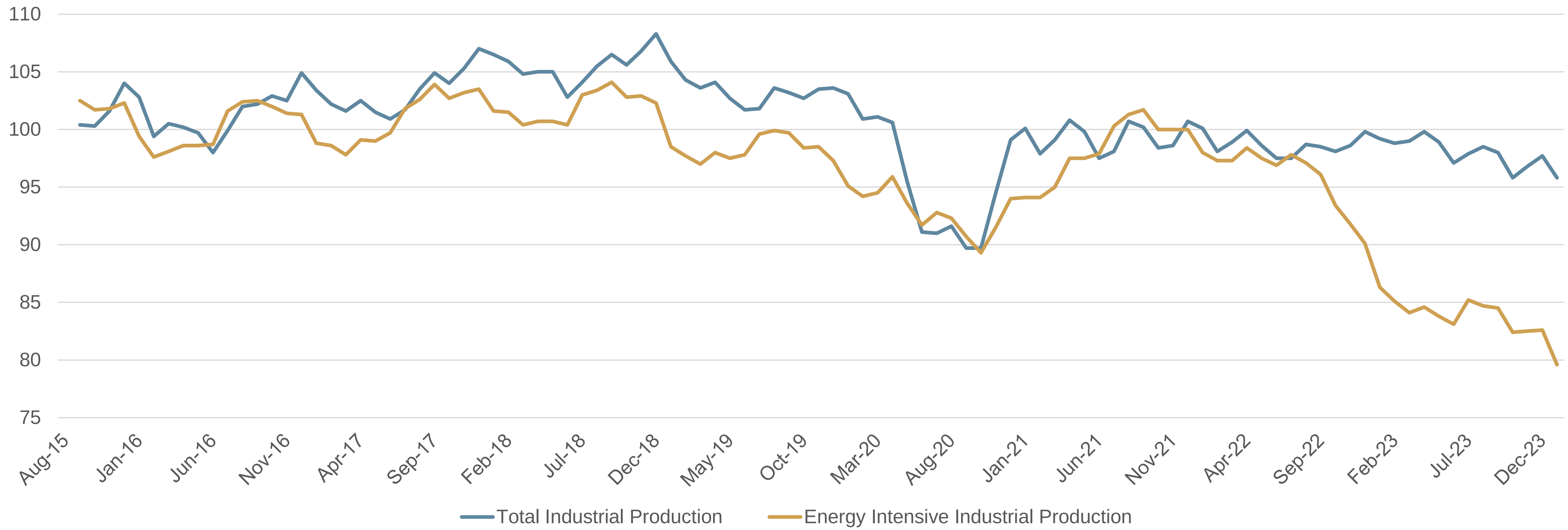


Source: Bloomberg
Note: As of 8 March 2024

Energy Intensive Industrial Production in Germany Is 20% Below Late 2021 Levels

German Production Energy Intensive Industries and Overall

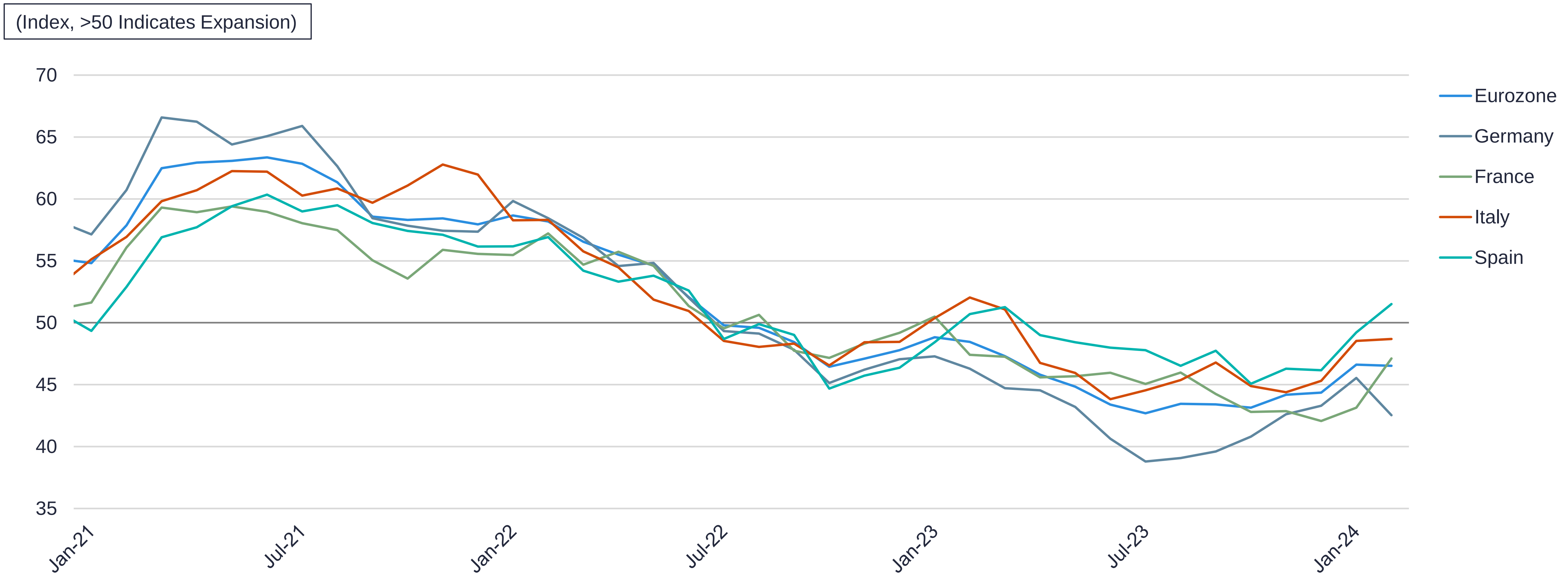
(January 2015 = 100)



Source: Germany Federal Statistical Office, Haver Analytics
Note: As of December 2023

Eurozone Manufacturing PMIs Remain Low, but Have Improved

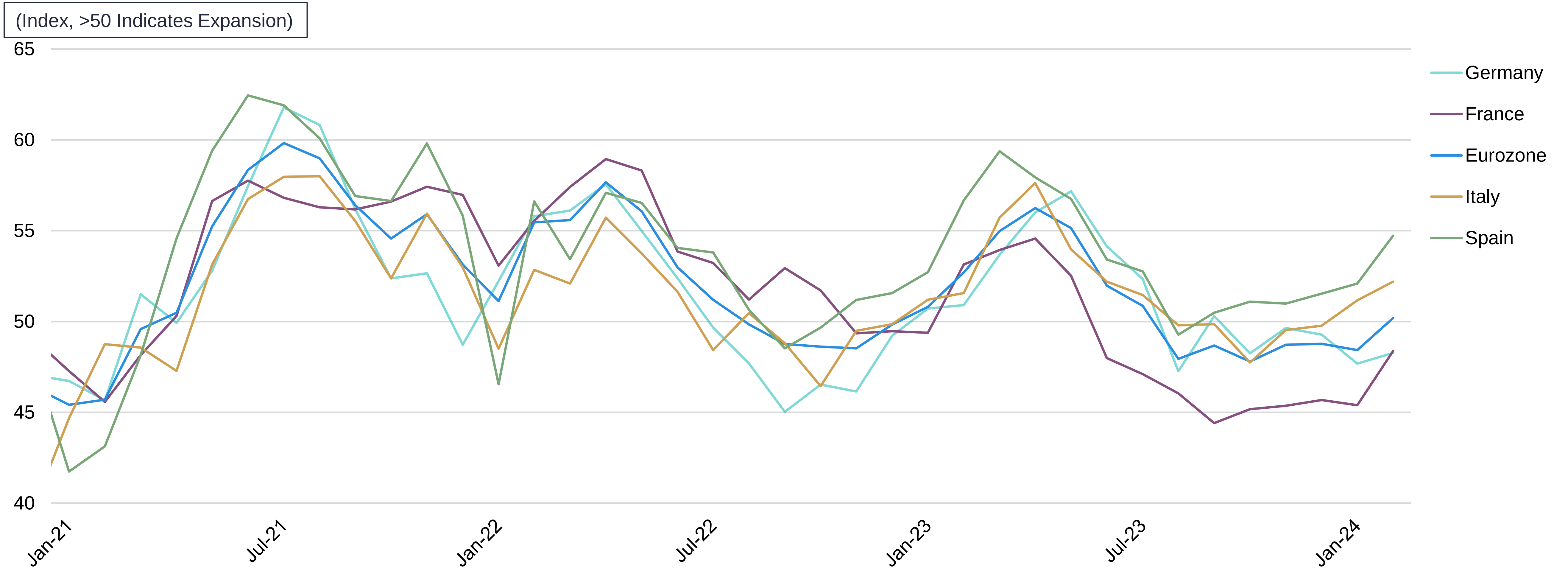
IHS Markit Eurozone Composite Purchasing Managers' Indices (Manufacturing)



Source: *IHS Markit, Haver Analytics*
Note: As of February 2024

Eurozone Service PMIs Have Begun to Improve

IHS Markit Eurozone Composite Purchasing Managers' Indices (Services)



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Source: IHS Markit, Haver Analytics
Note: As of February 2024

IV China

China Overview

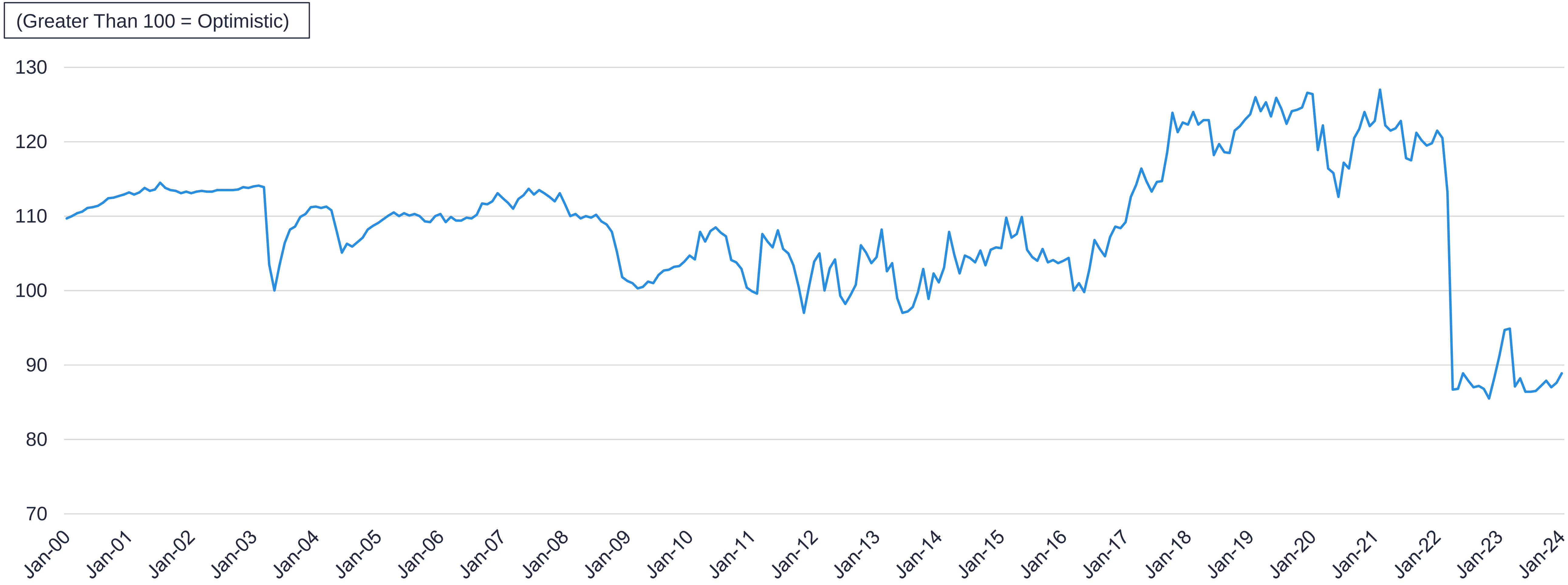
Economic Backdrop

- **Falling home prices, developer defaults, and regulatory uncertainty have hit Chinese confidence**
  - Home prices have fallen materially in the secondary market while new home price declines have been obscured
- **China's ability to accelerate growth through credit is constrained by elevated debt levels**
  - The nonfinancial corporate sector remains heavily indebted relative to other countries
- **Authorities have announced monetary and fiscal stimulus measures to boost growth and support housing**
  - The measures will benefit the economy, but appear inadequate relative to the scale of economic challenges
- **China's potential GDP growth rate is decelerating**
  - Potential growth is a function of working age population (shrinking) and productivity growth (decelerating)

Note: Opinions as of March 2024 and subject to change

Chinese Consumer Confidence Remains Near Record Low Levels

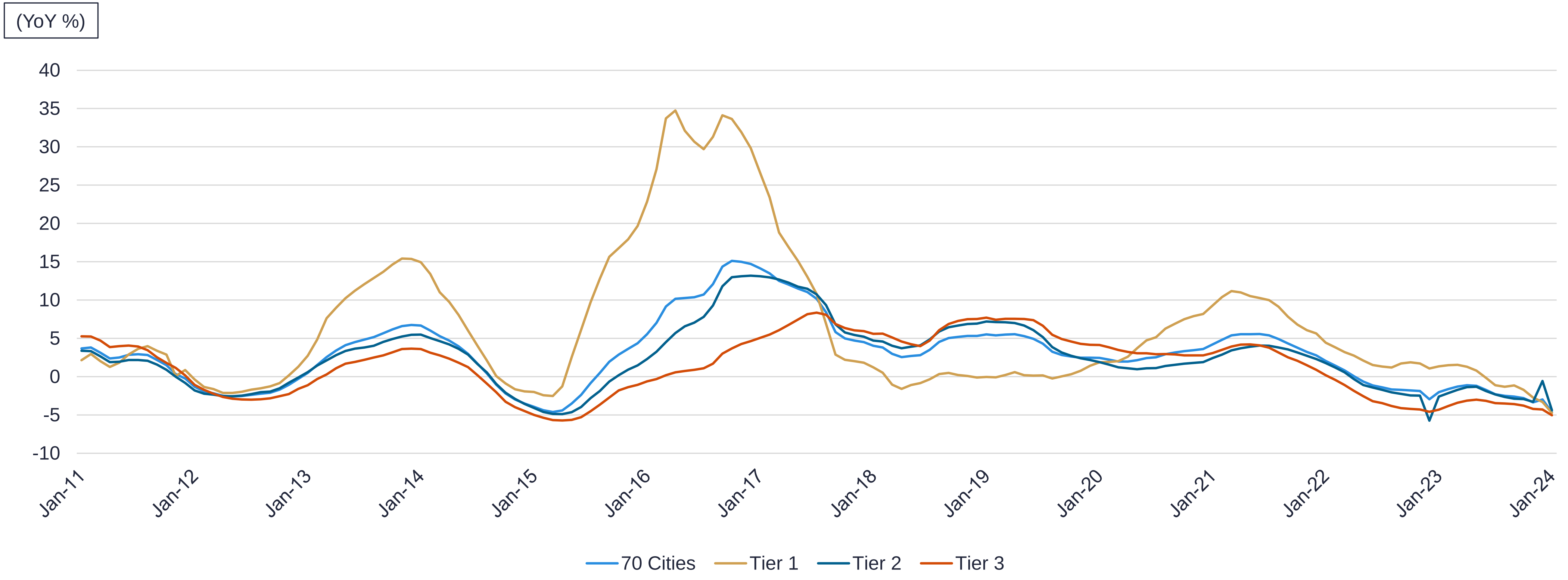
Survey of Chinese Consumer Confidence



Source: Chinese National Bureau of Statistics, Bloomberg
Note: As of January 2024

China Property Prices Remain Weak, Dampening Confidence

70-City Price Index of Existing Residential Buildings



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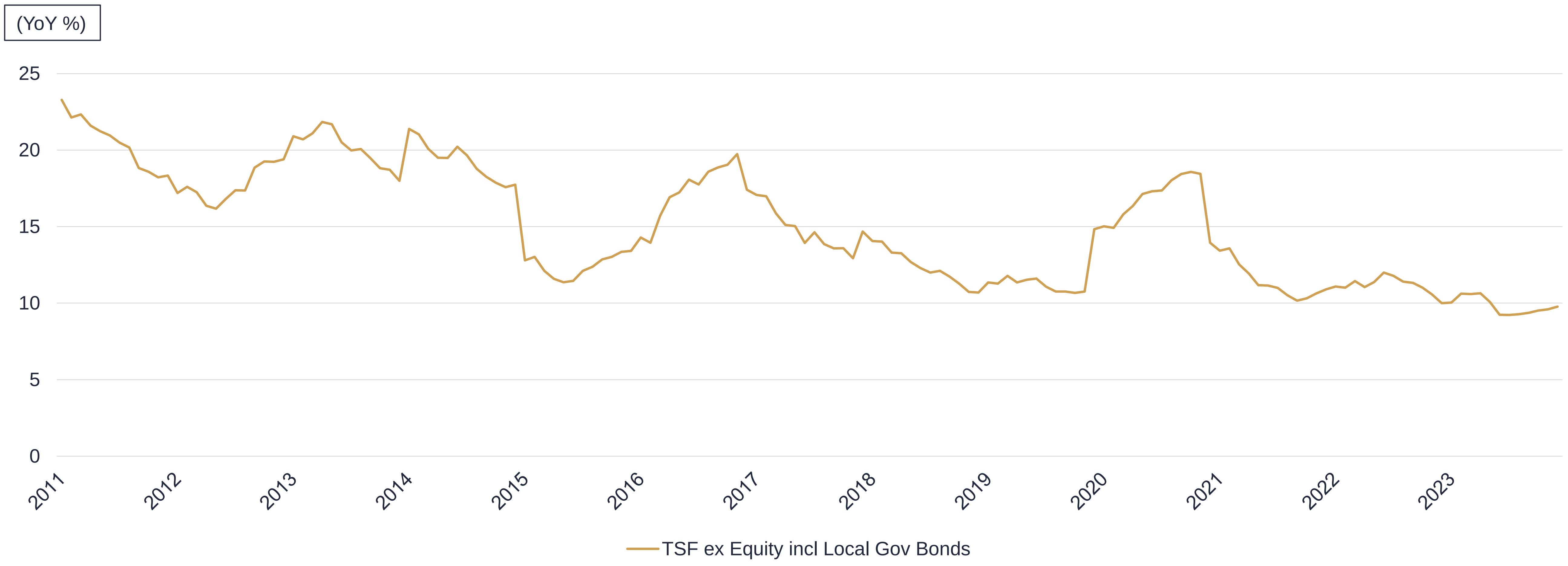
Source: Chinese National Bureau of Statistics, Haver Analytics
Note: As of January 2024

Credit Growth Remains Muted Despite Economic Sluggishness

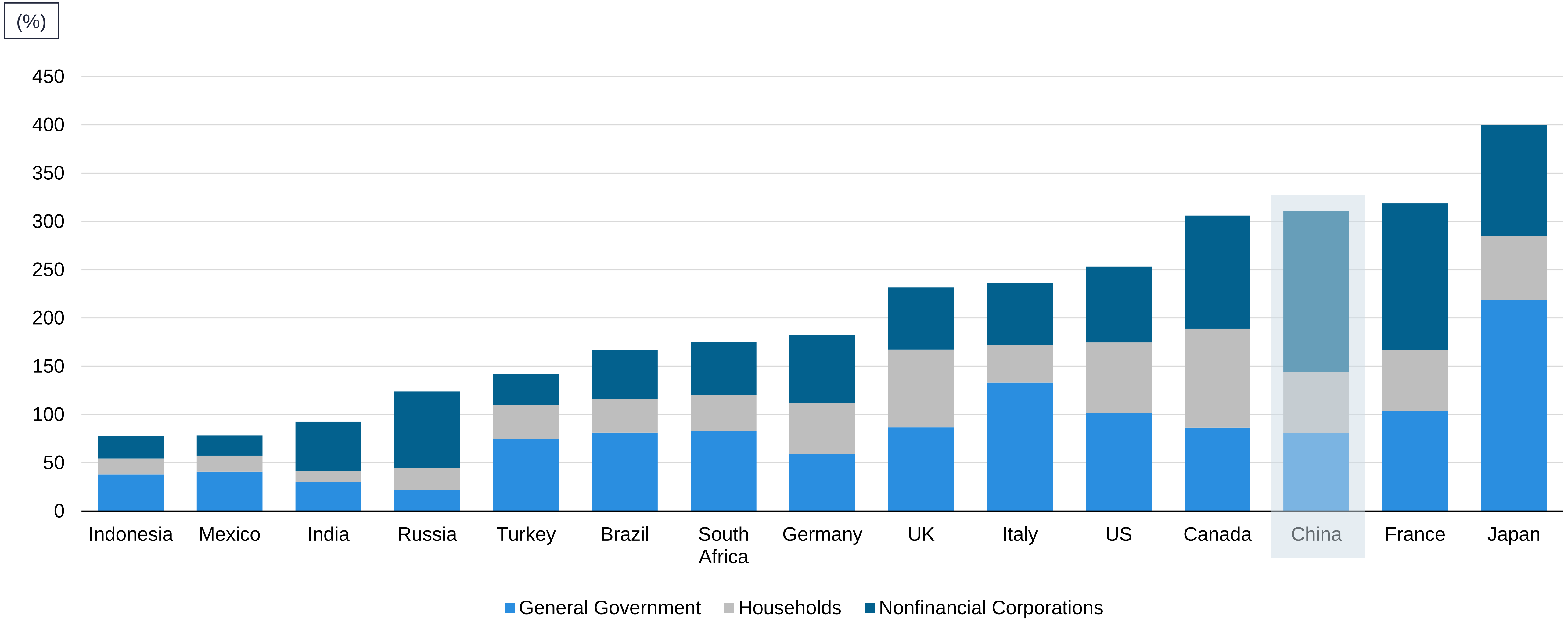
Total Social Financing Outstanding



Source: People's Bank of China, Haver Analytics
Note: As of December 2023

China Is One of the Most Leveraged Large Economies

Nonfinancial Debt as % of GDP

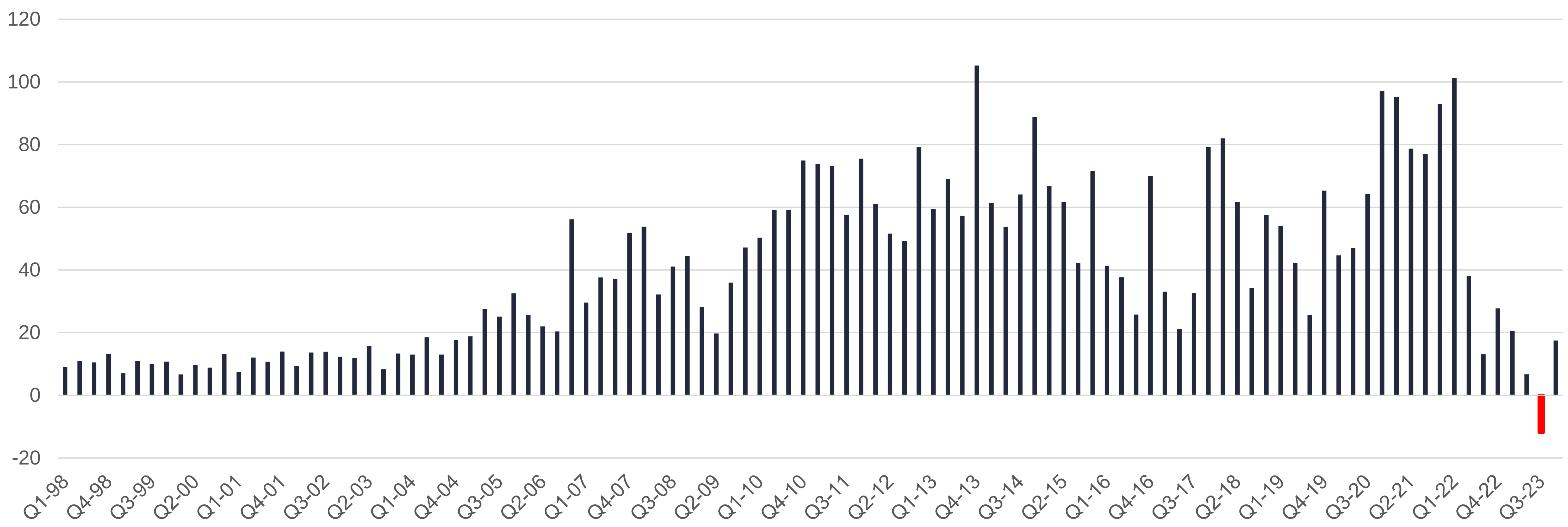


Source: BIS, Haver Analytics
Note: As of Q3 2023

Chinese Foreign Direct Investment Has Fallen Sharply

Flow of Foreign Direct Investment

(USD Bn)



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Source: Chinese State Administration of Foreign Exchange, Haver Analytics
Note: As of December 2023

Chinese Authorities Have Announced Numerous Stimulative Measures

More impactful ↑ Less impactful

Stimulus	Details
Mid-year Fiscal Deficit Adjustment	$137bn central government bond issuance to local government rebuilding in disaster hit areas and improve urban drainage and flood prevention
Rate Cuts	• The 5-year Loan Prime Rate (LPR) was reduced by 25 bps with significant benefits for mortgages borrowers • The PBOC's medium term lending facility of one year was cut by 15 bps in August, to 2.5%, the largest since 2020, and the second cut in 2023
PBOC Bank Reserve Requirement Ratio Cut	Cut Reserve Requirement Ratio (RRR) twice (-25 bps in March and -25 bps in September) leaving weighted RRR at 7.4% and freeing ~$69bn for lending
Housing markets and local banks	• Banks have cut rates on up to $5.3tn of existing mortgages in Tier 1 and 2 cities • Tier 1 cities lowering mortgage requirements and purchase curbs to increase home sales • Relaxation of home purchase restrictions and down payment reductions in Tier 1 cities
Financial markets	• Increasing support of the Yuan, as PBOC issued verbal warning about trading levels and committed in July to keep Yuan stable around 7.3 RMB/USD • Lowered stamp duty on stock trades in August, to bolster equities market. Securities regulator slowing IPOs and encouraging buy-backs
Consumption Support	Consumption support package, including rural e-commerce expansion, cheaper home renovation services, tax exemptions on EV purchases, and more

V

Structural Drivers of Inflation

Structural Drivers of Inflation

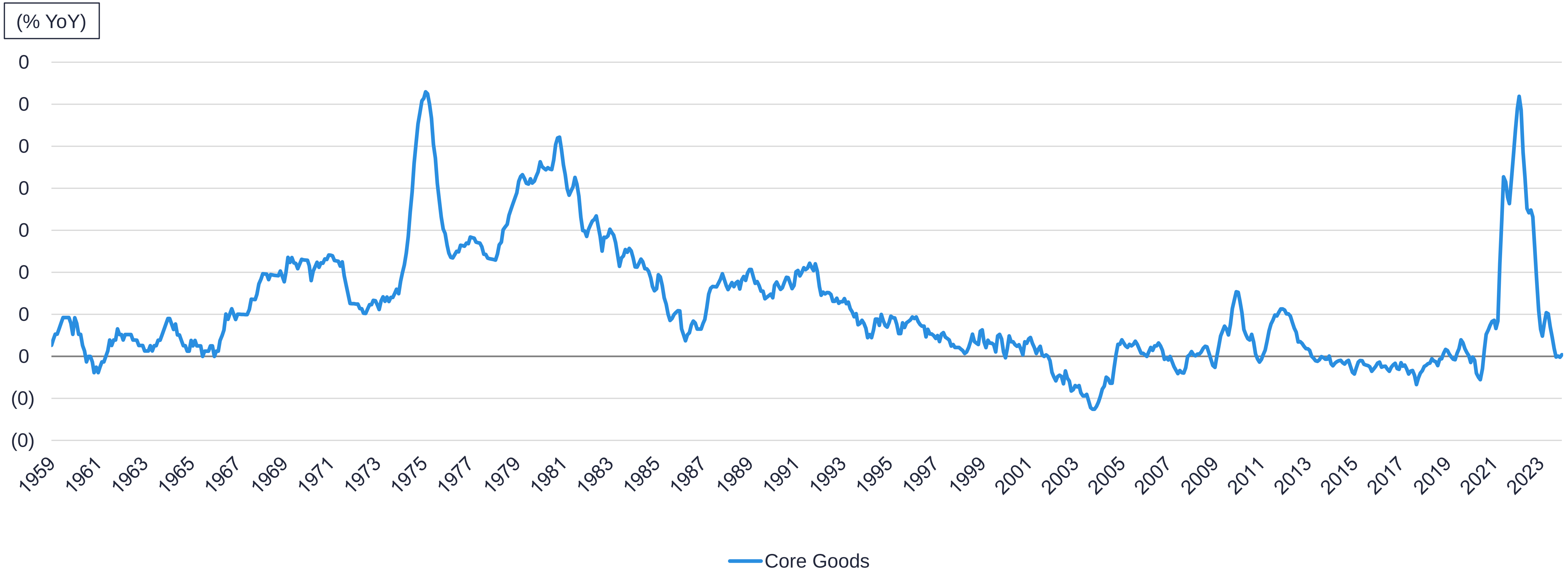
Overview

- **Globalization capped core goods inflation for over 20 years. That globalization dividend is likely behind us.**
  - Chinese exports are less deflationary due to rapidly rising domestic wages
  - Companies are recognizing that efficiency is about more than price – it's also the ability to deliver a product on time
  - Immigration changes have increased the bargaining power of developed market labor
- **Costs related to climate change will add to inflation pressures**
  - The energy transition will require running two global energy infrastructures in parallel for decades, at great expense
  - In the interim, ongoing fossil fuel E&P investment is required to maintain economic growth and the ability to fund the transition
  - Less predictable rainfall could increase food price volatility and decrease transportation network dependability

Note: Opinions as of March 2024 and subject to change

US Core Goods Inflation Was 0% from 1999 – 2019

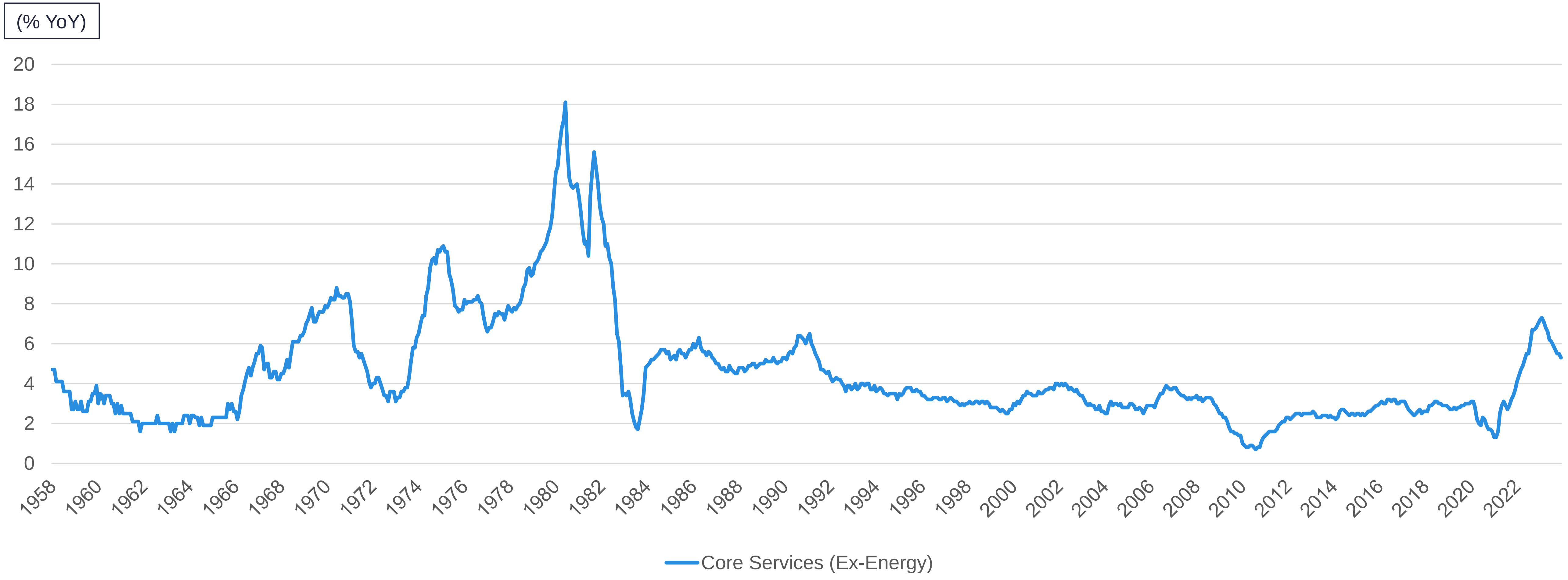
US Goods and Services Inflation



Source: *Bureau of Labor Statistics, Haver Analytics*
Note: As of December 2023

US Services Prices Rose 2.8% per Annum from 1999 – 2019

US Goods and Services Inflation



Source: Bureau of Labor Statistics, Haver Analytics
Note: As of December 2023

Addressing Climate Change Will Likely Increase Inflation

- **Climate change is not a future issue; it's an issue now**
  - ~40% probability global temperatures will rise by 1.5° by 2030[1]

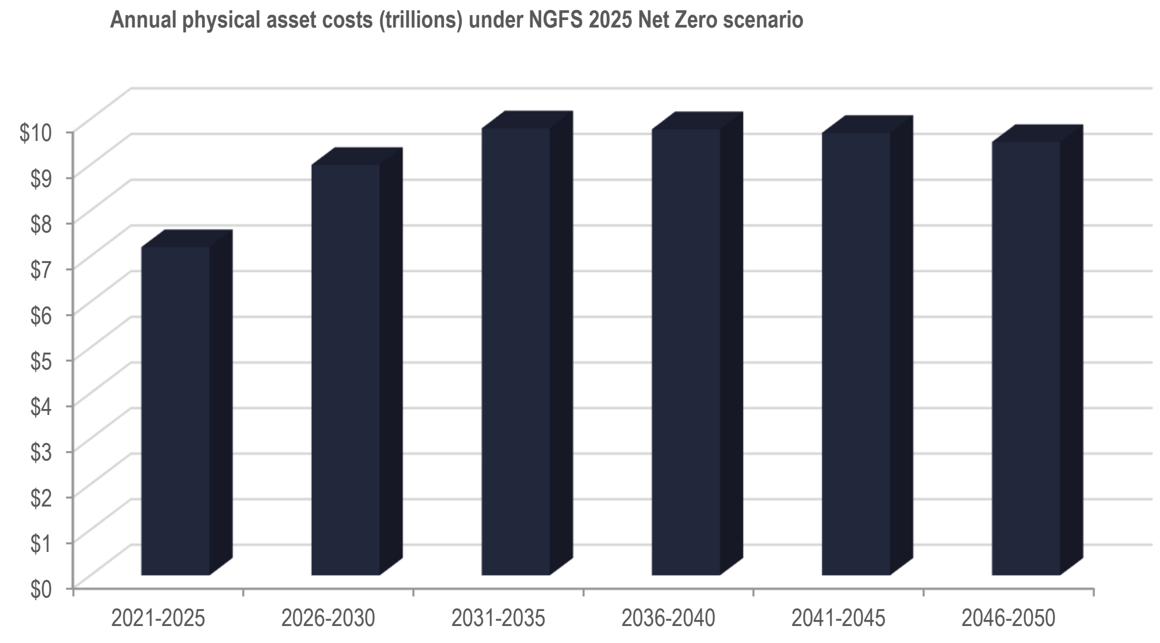
- **Climate change will add to cost pressures in multiple ways:**
  - Adaptation and mitigation costs
  - Physical risks losses
  - Increased cost of capital in higher risk areas
  - Climate volatility
  - Stranded assets
  - Lower labor productivity

Note Opinions as of March 2024 and subject to change
1 Versus pre-industrial levels based on UK Met Office forecast as of May 2022

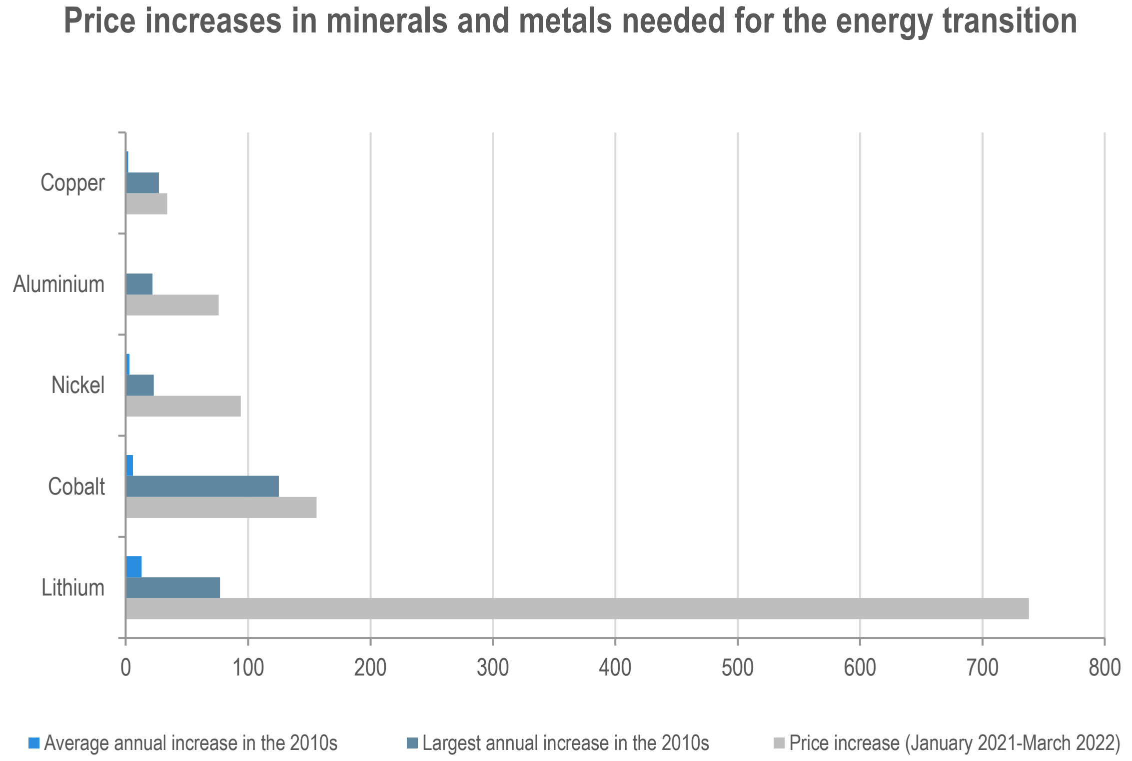
The Energy Transition Will Prove Costly

- **Achieving net zero will require significant investments in infrastructure, construction, metals, and minerals**
- **Increased demand will likely lead to higher prices for copper, lithium, nickel, cobalt, and other critical commodities**

Energy transition projected cost: $275 trillion through 2050*



Prices for transition minerals have already begun to rise**



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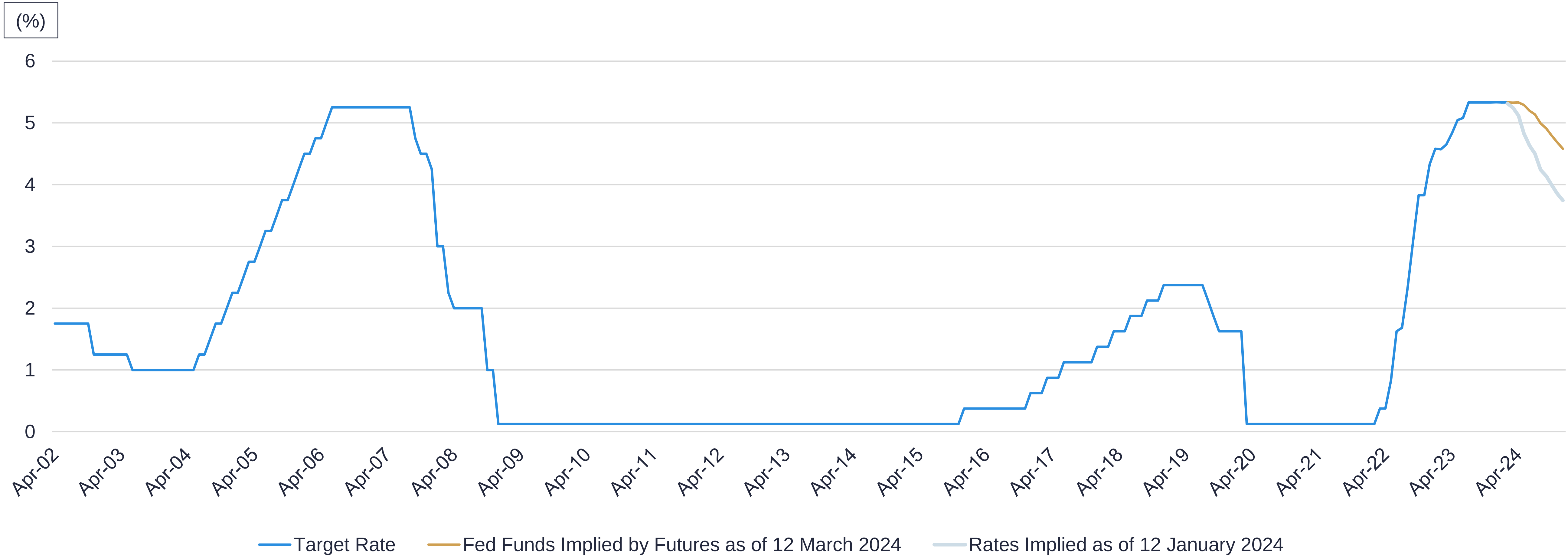
*Data Source: Source: McKinsey & Company "The net-zero transition"
**Data Source: International Energy Agency analysis derived from S&P Market Intelligence

VI Investment Implications

Markets Are Pricing ~ 86 bps of Fed Funds Rate Cuts in 2024 Starting in June*

Federal Reserve Target Rate and Implied Rate through December 2024



Source: Bloomberg, Federal Reserve, Chicago Mercantile Exchange
Note: As of 12 March 2024
* Markets imply 17% chance of 25 bps reduction at May meeting, 79% chance of 25 bps reduction at June meeting, and 100% chance of first reduction through July meeting.

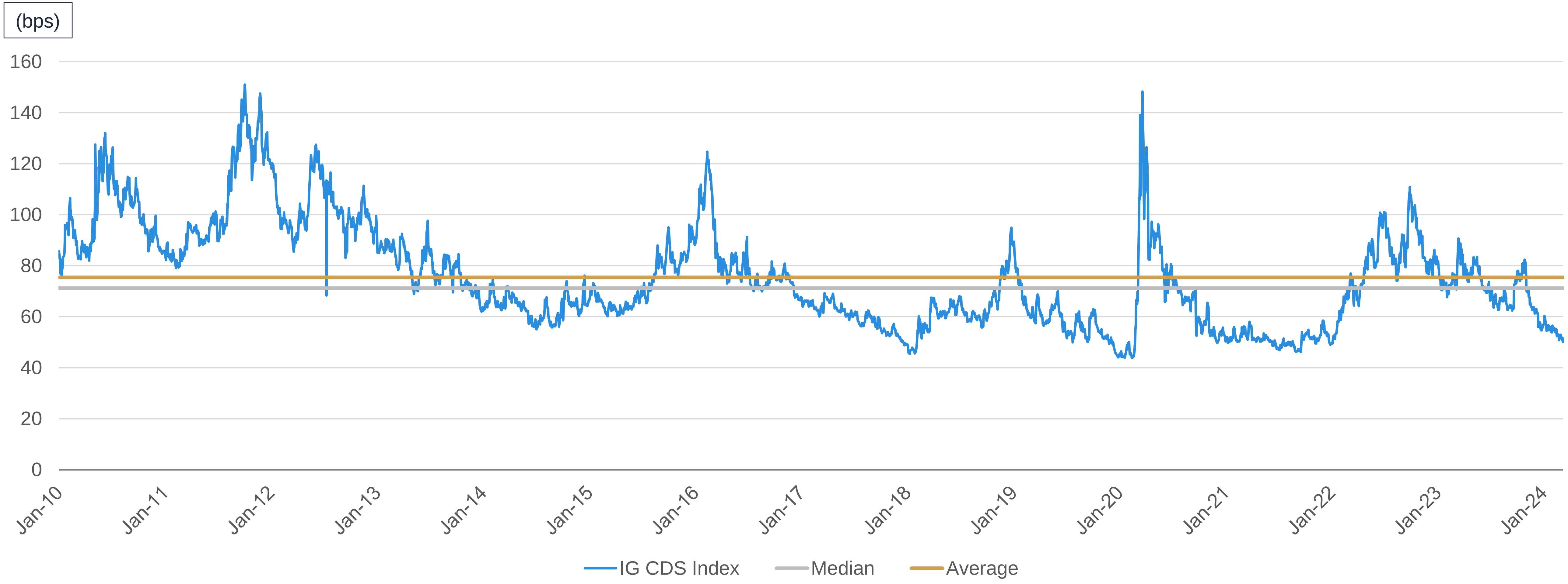
US 5 Year Breakevens Imply Inflation of ~2.2% After the Next 12 Months

Five-Year Breakeven Inflation Rate

Source: Bloomberg
Note: As of12 March 2024

The IG CDS Market Implies Below Average Recession Risk

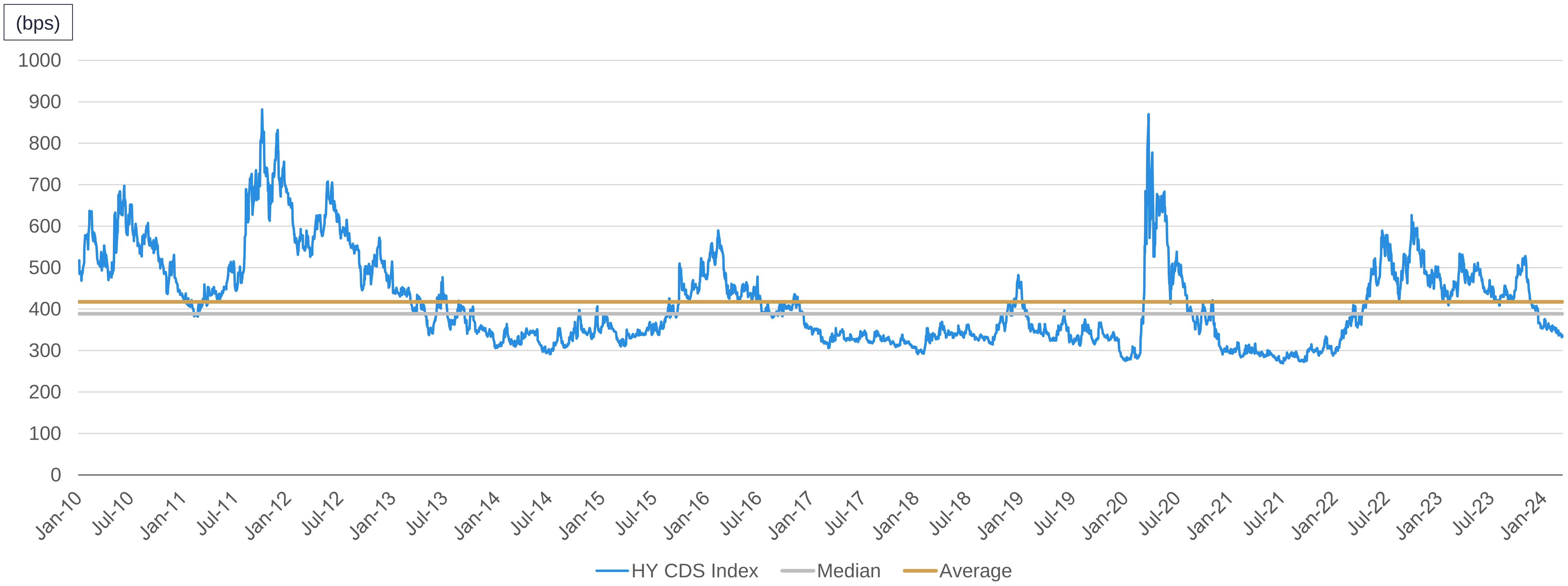
Markit CDX North America Investment Grade Index



Source: Bloomberg, Markit
Note: As of 7 March 2024

HY CDS Implies Below Average Recession Risk

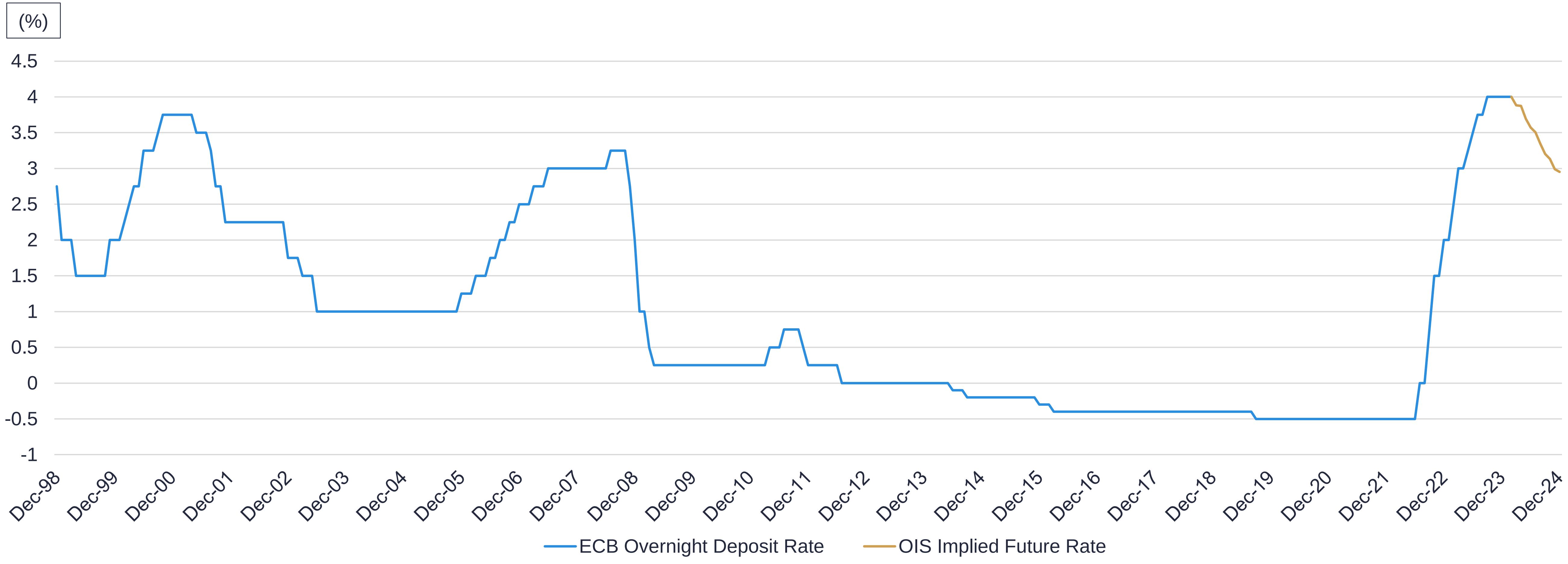
Markit CDX North America High Yield Index



Source: Bloomberg, Markit
Note: As of 7 March 2024

Markets Suggest ~95 bps of ECB Rate Cuts in 2024 Starting in June*

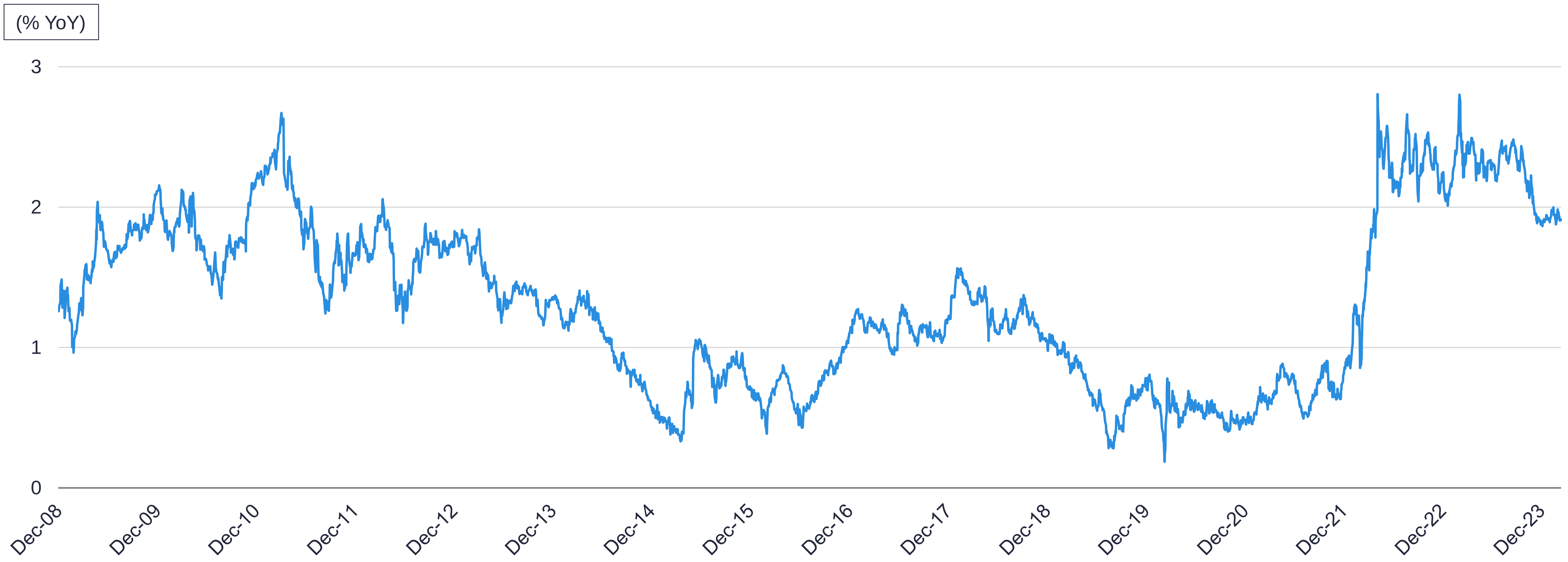
Implied Eurozone Deposit Rate through December 2024



Source: Bloomberg
Note: As of 12 March 2024
* Markets imply a 13% chance of 25 bps cut at April meeting and 92% chance of 25 bps cut at June meeting.

German 7 Year Breakevens Imply Inflation of ~1.8% After the Next 12 Months

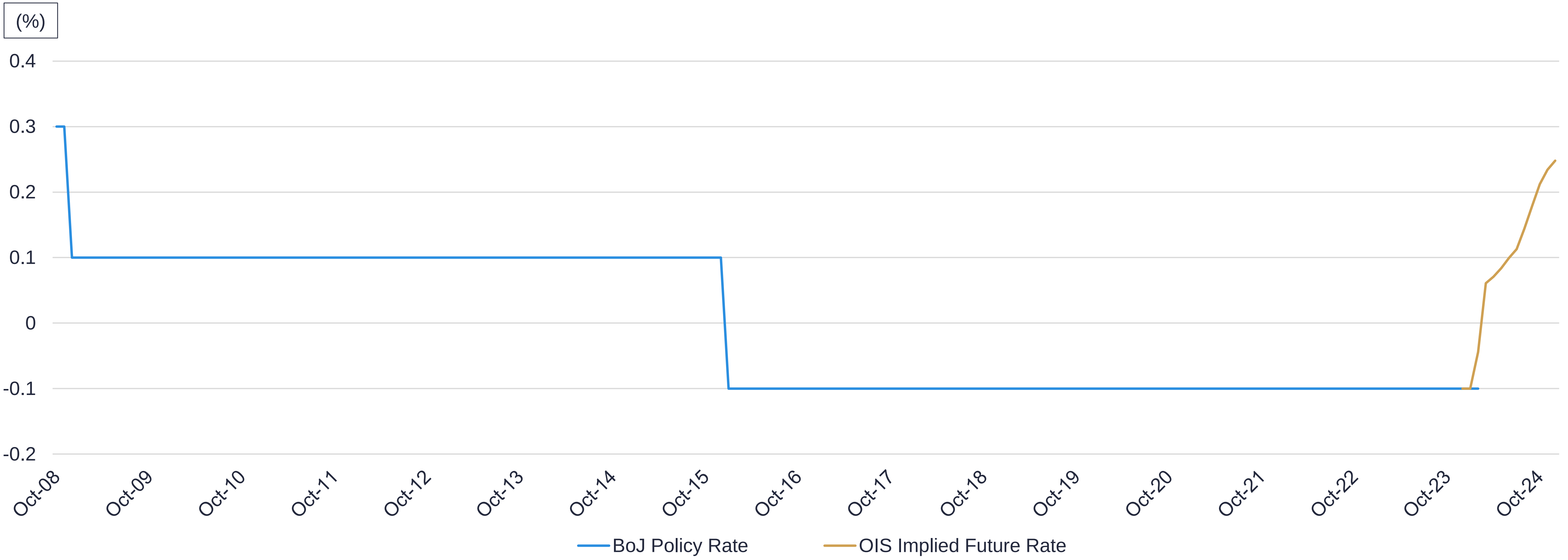
Seven-Year Breakeven Inflation Rate



Source: Bloomberg
Note: As of 12 March 2024

Markets Suggest ~26 bps of BoJ Rate Hikes in 2024 Starting in April or June*

Implied Eurozone Deposit Rate through December 2024

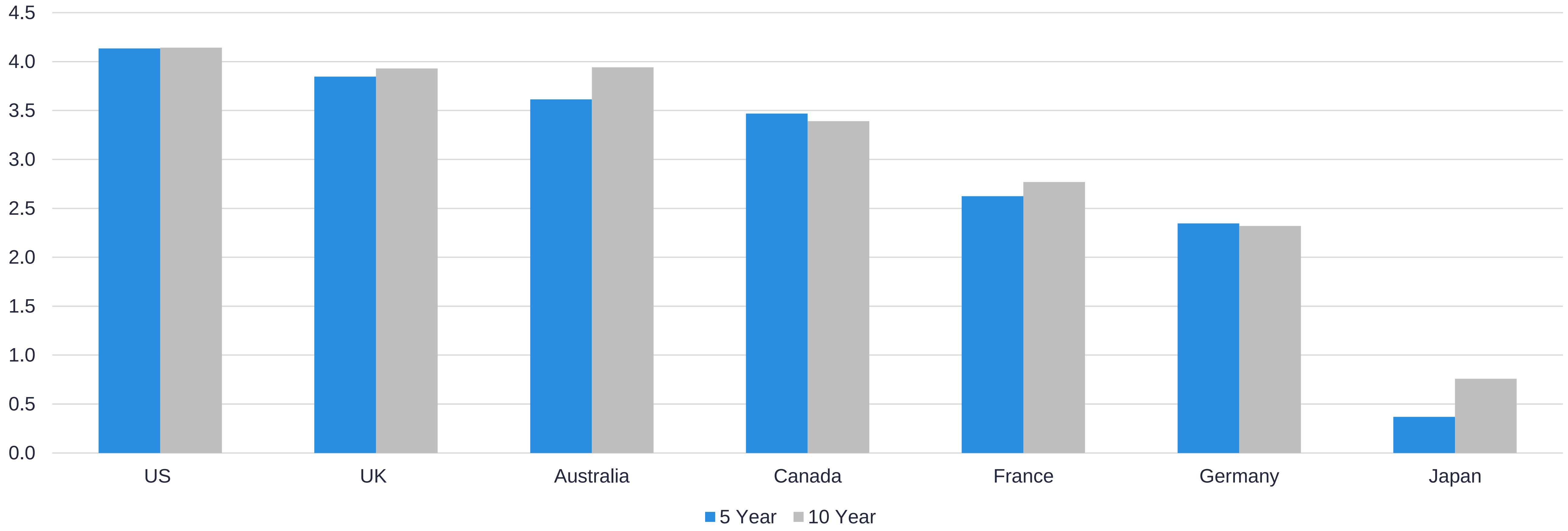


Source: Bloomberg
Note: As of 12 March 2024
* Markets currently imply 66% chance of a 10 bps hike in March, 81% chance of a 10 bps hike in April, and 100% chance of a 10 bps hike at the June meeting.

Extending Debt Duration Appears Unattractive at Current Levels

Five- and Ten-Year Bond Yields

(%, from highest ten-year yield to lowest)



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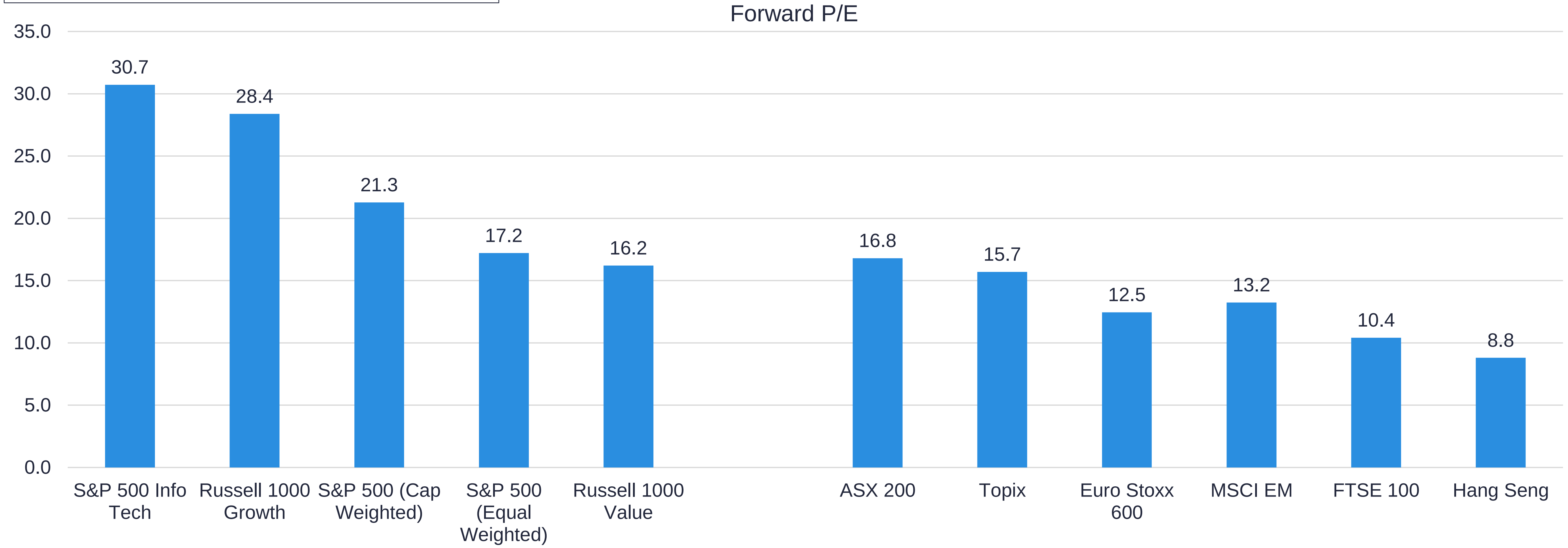
Source: Bloomberg
Note: As of 12 March 2024

US Equities Appear Expensive Largely Due to Highly Valued Growth Stocks…

(Listed from highest to lowest in US and outside of US)



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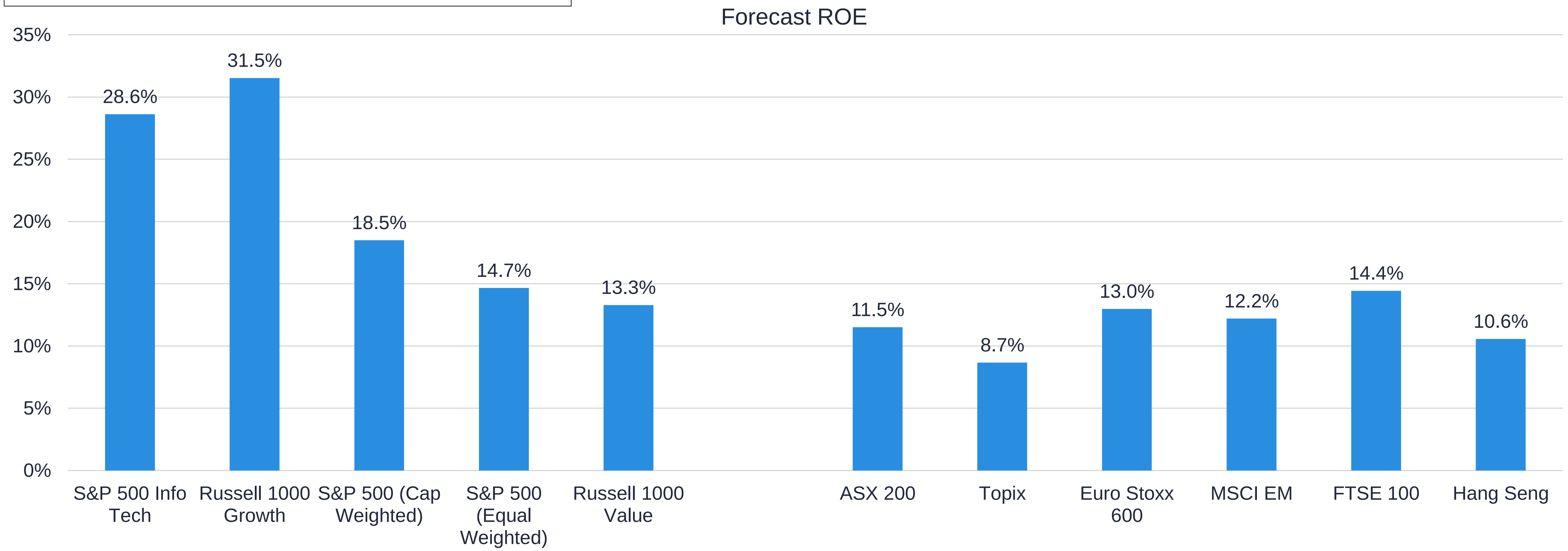
Source: Bloomberg
Note: As of 12 March 2024

… But US Equities Also Deliver Higher Returns on Capital than Other Markets

(%, from highest to lowest forward P/E in US and outside of US)



Source: Bloomberg
Note: As of 12 March 2024

The S&P 500 Index Has Derated by 1.1 P/E Points Since the Early 2022 Peak

EPS and P/E Drivers from 2022 Market Peak

	Price	=	P/E	x	EPS
Peak	4,797	=	21.5	x	$223
Trough	3,577	=	15.2	x	$236
	-25.4%		-6.3x		5.8%
			(-29.5%)		
Trough	3,577	=	15.2	x	$236
Current	5,096	=	20.5	x	$249
	42.5%		5.3x		5.6%
			(34.9%)		
Peak	4,797	=	21.5	x	$223
Current	5,096	=	20.5	x	$249
	6.2%		-1.1x		11.7%
			(-4.9%)		

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Source: Bloomberg, UBS, Standard & Poor's, Refinitiv, and FactSet
Note: As of 29 February 2024

The Largest 6 Stocks in the S&P 500 Index Have Derated by 5.4 P/E Points

EPS and P/E Drivers from 2022 Market Peak

	Price	=	P/E	x	EPS
Peak	100	=	33.9	x	$3.0
Trough	59	=	21.1	x	$2.8
	-41.0%		-12.8x		-5.4%
			(-37.6%)		
Trough	59	=	21.1	x	$2.8
Current	121	=	28.5	x	$4.3
	105.6%		7.4x		52.4%
			(34.9%)		
Peak	100	=	33.9	x	$3.0
Current	121	=	28.5	x	$4.3
	21.3%		-5.4x		44.1%
			(-15.9%)		

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Source: Bloomberg, UBS, Standard & Poor's, Refinitiv, and FactSet
Note: As of 29 February 2024

The Remaining 494 Stocks in the S&P 500 Have Derated by 0.7 P/E Points

EPS and P/E Drivers from 2022 Market Peak

	Price	=	P/E	x	EPS
Peak	100	=	19.1	x	$5.2
Trough	77	=	13.9	x	$5.6
	-22.6%		-5.2x		6.3%
			(-27.2%)		
Trough	77	=	13.9	x	$5.6
Current	100	=	18.4	x	$5.4
	29.2%		4.5x		-2.3%
			(32.3%)		
Peak	100	=	19.1	x	$5.2
Current	100	=	18.4	x	$5.4
	0.0%		-0.7x		3.8%
			(-3.7%)		

LAZARD

Source: Bloomberg, UBS, Standard & Poor's, Refinitiv, and FactSet
Note: As of 29 February 2024

Conclusions

Economic Backdrop

- **Global growth is likely to be muted in 2024**
- **US disinflation is well underway with core inflation likely to fall below 2.5% during 1H24**
  - The Fed is likely to respond to falling inflation by cutting nominal rates as much as 100bps in 2024 and another 100bps in 2025
- **Eurozone recession risk remains elevated through 1H24, but the 2H24 outlook is brightening**
  - Monetary policy easing should lift activity as 2024 progresses
- **China growth is likely to benefit from numerous government stimulus measures, but structural challenges remain**
  - Real estate challenges have seriously impaired confidence
- **Structurally higher inflation is a risk over the next 5 – 10 years**
  - Reconfiguration of global supply chains + energy transition costs are likely to drive prices higher…
  - … but AI could be deflationary

Note: Opinions as of March 2024 and subject to change

Conclusions

Investment Implications

- **Fixed Income:**
  - More attractive investments: EM debt, IG corporate, convertible bonds
  - Less attractive: long duration, HY corporate, leveraged loans
- **Equities**
  - More attractive investments: quality at an attractive price, EM, Japan, small cap (with Quality bias), selected thematics
  - Less attractive: speculative growth
- **Alternative Investments**
  - More attractive investments: income-producing real assets, e.g., infrastructure
  - Less attractive than in the past: private equity

Note: Opinions as of March 2024 and subject to change

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Appendix

Biography

Ron Temple, CFA, Chief Market Strategist

Ronald Temple is the Chief Market Strategist for Lazard's Financial Advisory and Asset Management businesses. In this role, Ron provides macroeconomic and market perspectives to Lazard's investment teams on a firmwide basis and works closely with Lazard's Geopolitical Advisory group to assess economic and market implications of key geopolitical issues globally. Ron also advises clients of Lazard's Asset Management businesses regarding macroeconomic and market considerations that are important to achieving their objectives. Previously, Ron was the Head of US Equity and Co-Head of Multi-Asset Investing for Lazard Asset Management. In this role, Ron was responsible for overseeing the firm's US equity strategies, Multi-Asset investing, as well as several global equity strategies. He was also a Portfolio Manager/Analyst on various US and global equity teams. Ron joined Lazard in 2001 as an equity analyst with ten years of global experience including fixed-income derivative trading, risk management, corporate finance and corporate strategy in roles at Deutsche Bank AG, Bank of America NT & SA, and Fleet Financial Group in London, New York, Singapore, San Francisco, and Boston. Ron has an MPP from Harvard University and graduated magna cum laude with a BA in Economics & Public Policy from Duke University. He is a member of the Council on Foreign Relations, the Economic Club of New York, the CFA Society New York, is the chair of Duke University's Graduate School Board of Visitors.

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