Global Economic and Market Outlook

Webinar

June 2, 2025

NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.

Agenda

- Logistics and Introductions
- Presentation
- Q&A

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JUNE 2025

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Global Economic and Market Outlook

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Agenda—Economic Backdrop

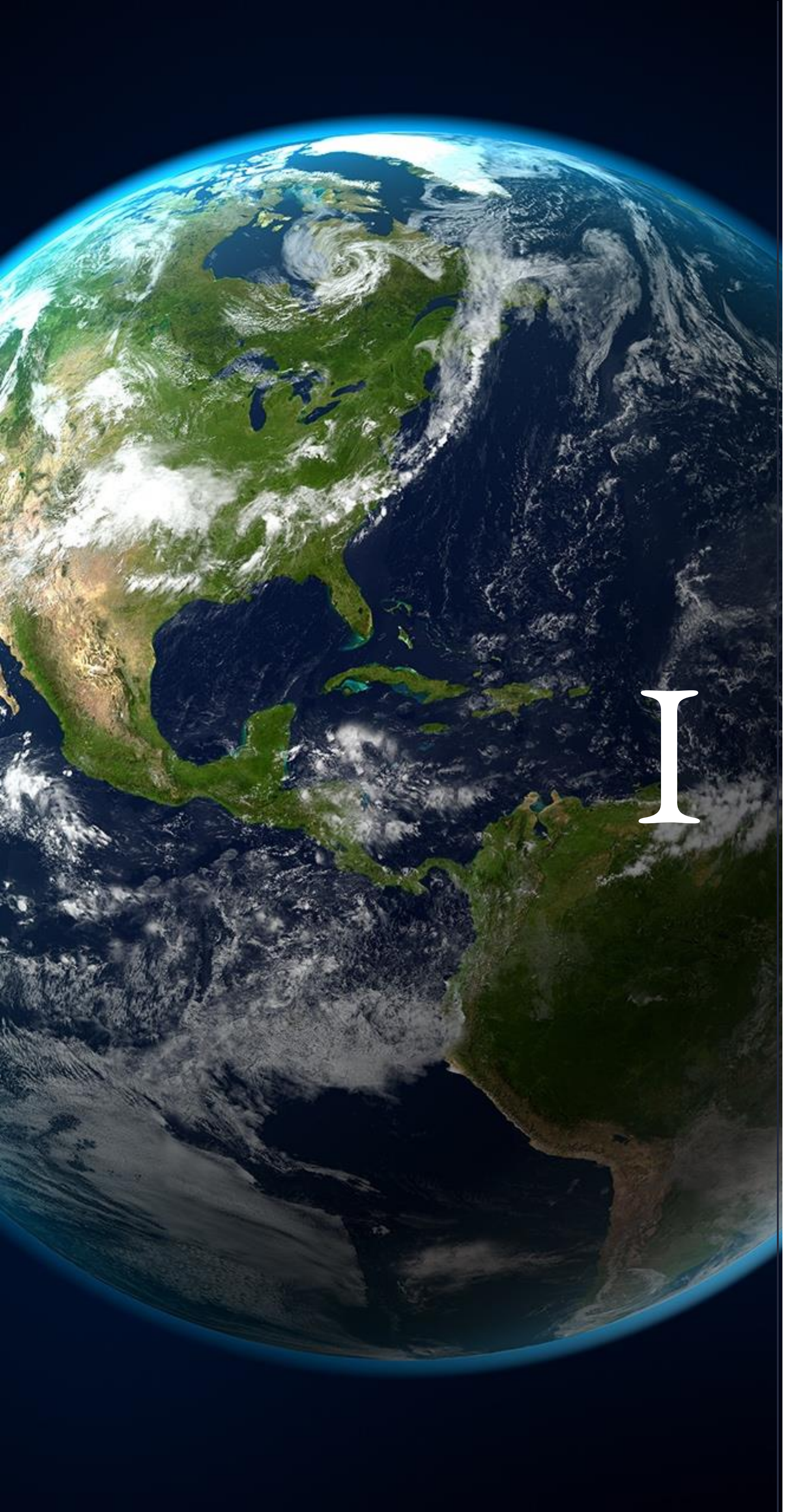
- The US economy was strong entering 2025, but the US-initiated trade war has significantly increased downside risks
  - Tariffs are an immediate challenge, but rising fiscal deficits and inflation arising from stricter immigration enforcement also pose risks
- Eurozone growth was poised to improve in 2025, but US trade policy could trigger another year of stagnation
  - The outlook beyond 2025 has brightened due to Germany's fiscal pivot and ECB easing, but US tariffs represent a near-term headwind
- China now faces not only a real estate crisis, but trade headwinds from the United States
  - Fiscal stimulus announcements have fallen short to date, but China is likely to significantly increase its support of the economy
- Japan's multi-year inflation normalization process is likely to continue with capital optimization offering an idiosyncratic opportunity
  - Governance and takeover code reforms alongside sustained inflation and wage growth could force meaningful changes for corporations

Note: Opinions as of June 2025 and subject to change

Agenda—Market Observations

- Interest rates:
  - The US rates market is conflicted between lower rates due to slowing growth and higher rates due to capital reallocation away from the US
  - European rate curves have steepened as investors balance likely ECB rate cuts in 2025 against less fiscal conservatism beyond
- Developed market credit spreads widened substantially in April only to tighten again since
  - Growth is likely to slow in 2025 and 2026, but recession remains unlikely
  - Even without a recession, credit quality is likely to suffer as weaker growth and higher cost pressures pinch companies
- After a sharp initial sell-off driven by US trade policy, equity markets have rebounded strongly
  - While the worst trade-related uncertainty has likely passed, US earnings expectations are too high, and multiples are not cheap
  - Non-US equity market valuations appear more attractive, but trade-related risks can have a more magnified impact on non-US markets

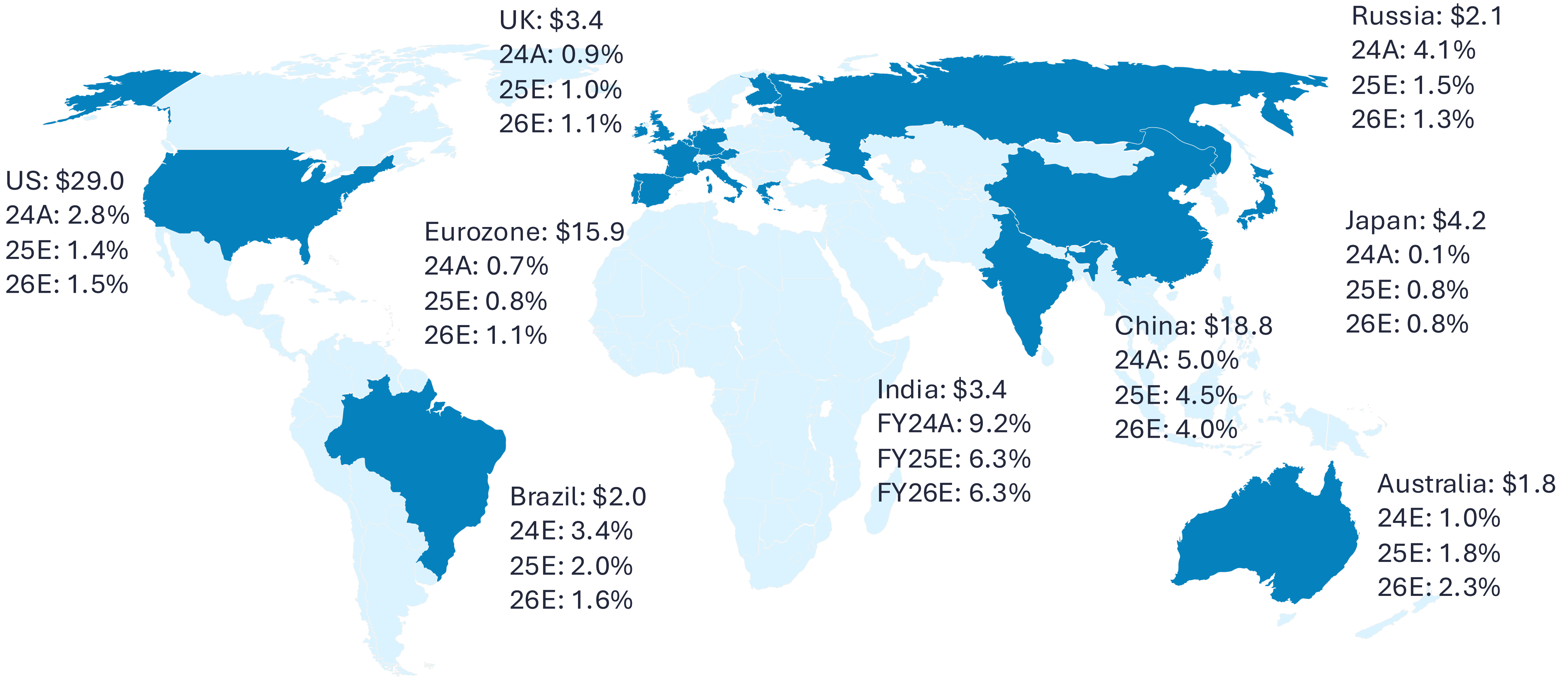
Note: Opinions as of June 2025 and subject to change



I Global Economic Overview

Global Growth Expectations Are Muted through 2025

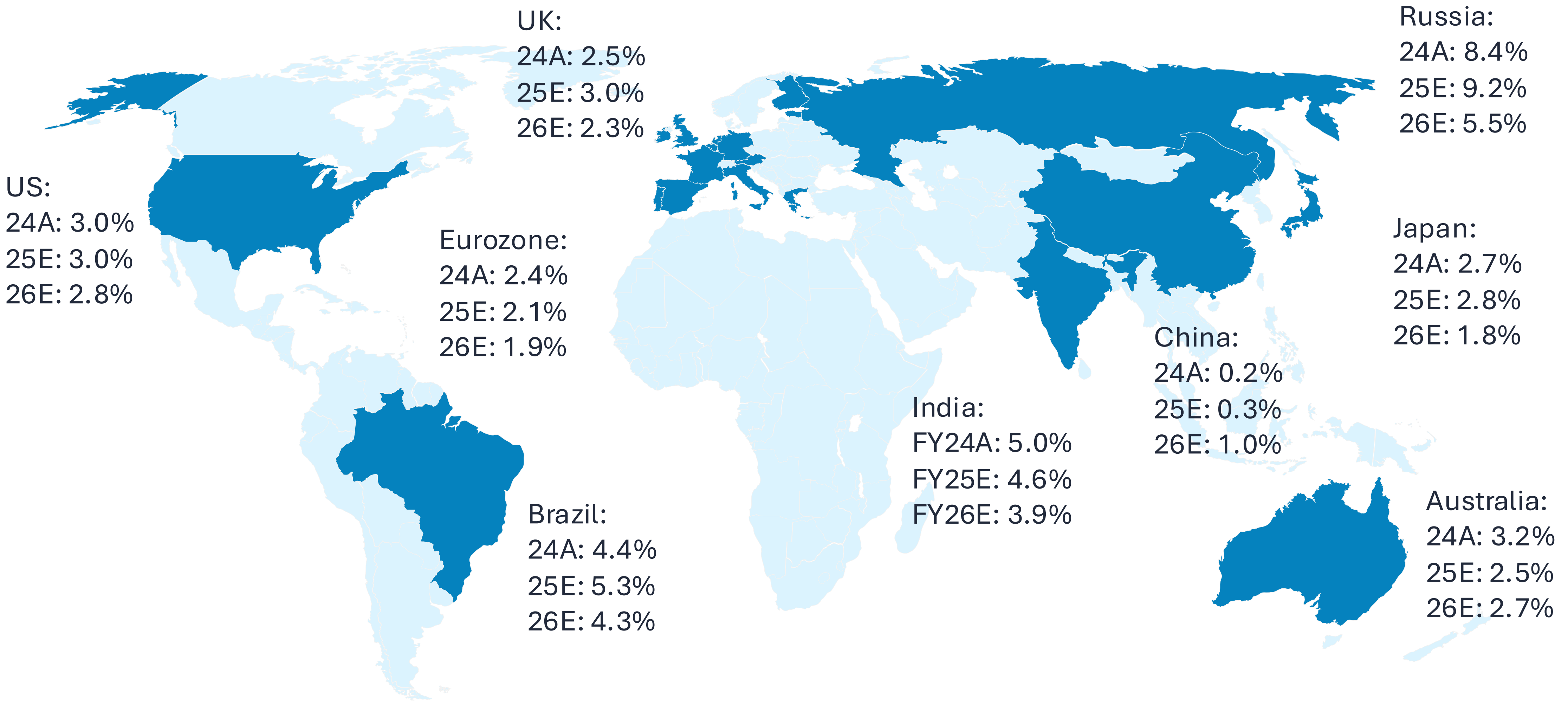
2024 GDP in $ Trillion and Expected Real Growth



Source: Bloomberg, IMF
Note: GDP as of 31 December 2024. India FY ends 31 March for forecasts.
Data is in current price USD trillion
GDP growth forecasts as of 27 May 2025

Inflation Is Expected to Subside in 2025 in Most Developed Economies

Expected Consumer Price Index (CPI) Inflation



Source: Bloomberg
Note: India FY ends 31 March for forecasts.
GDP growth forecasts as of 27 May 2025

II United States

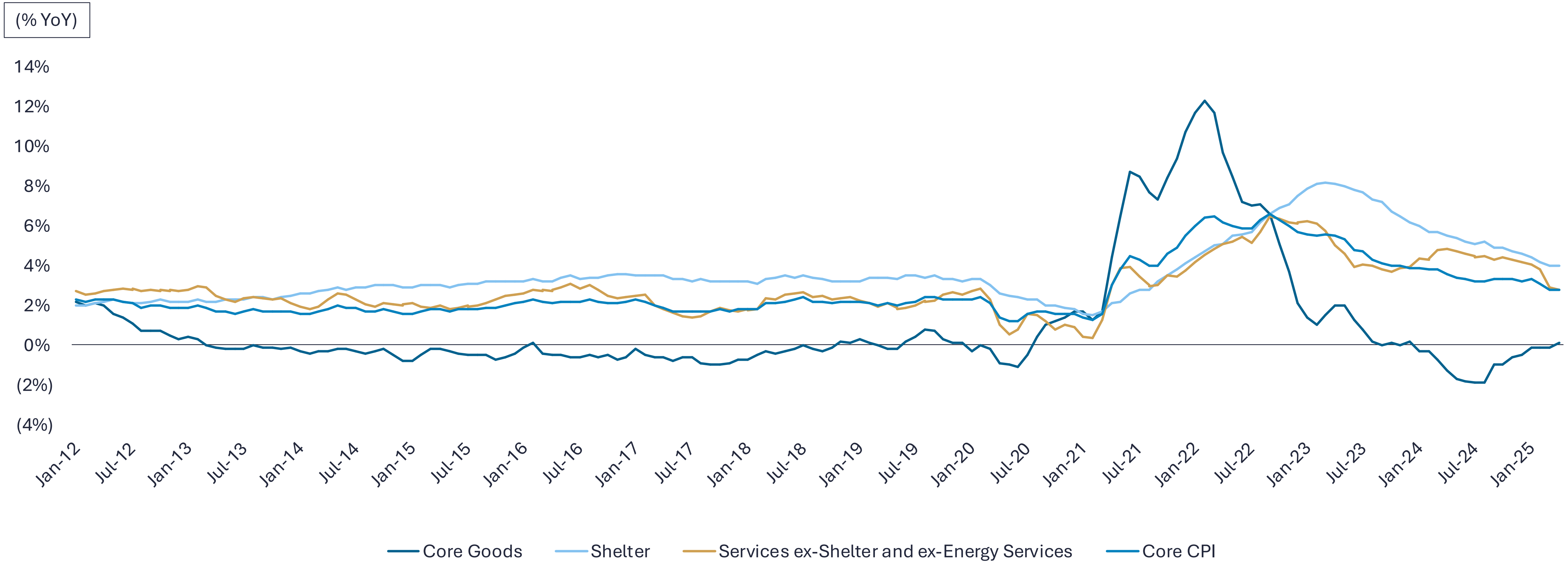
United States Overview—Economic Backdrop

- Stagflation appears to be the most likely scenario for the United States in 2025 and 2026
  - Growth in 2025 is likely to slow with inflation and unemployment rising
- Inflation troughed in April and is likely to reaccelerate through year end as tariffs rise consumer prices
  - Based on tariff announcements through 27 May, I expect core CPI to end 2025 at ~4.0%
  - In 2026, stricter enforcement of immigration policies could replace tariffs as an inflationary force
- Despite meaningful easing of tightness, the US labor market remains at full employment with unemployment at only 4.2%
  - Other labor metrics suggest the labor market might be more fragile
- Rising fiscal deficits are likely to become a worry for markets moving forward
- I do not expect any US rate cuts in 2025 as the Fed prioritizes price stability over maximum employment

Note: Opinions as of June 2025 and subject to change.

US Core CPI Inflation Is Likely to Reaccelerate after Hitting a Cyclical Trough in April

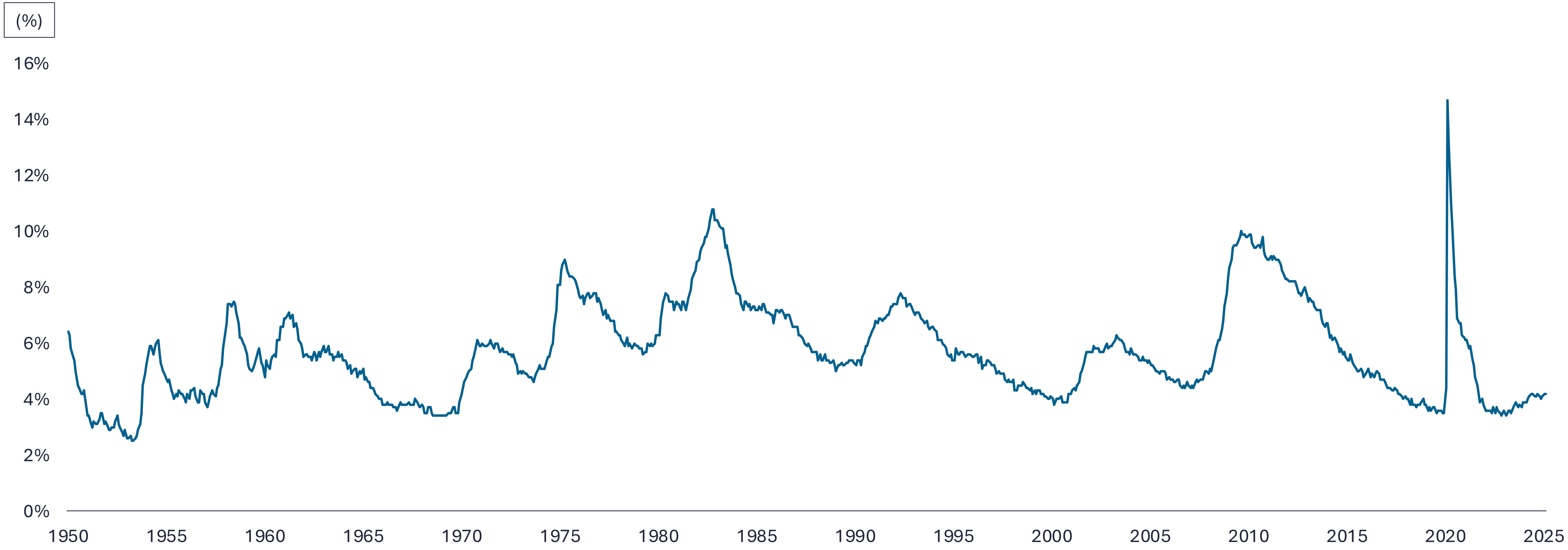
US Consumer Price Index Inflation for Key Categories



Source: Bureau of Labor Statistics, Haver Analytics
Note: As of April 2025
Core goods represent ~24% of core CPI, shelter represents ~44%, and services ex-shelter and ex-energy services represent ~32%.

The US Labor Market Appears to Be at Full Employment, But there Are Cracks Beneath the Surface

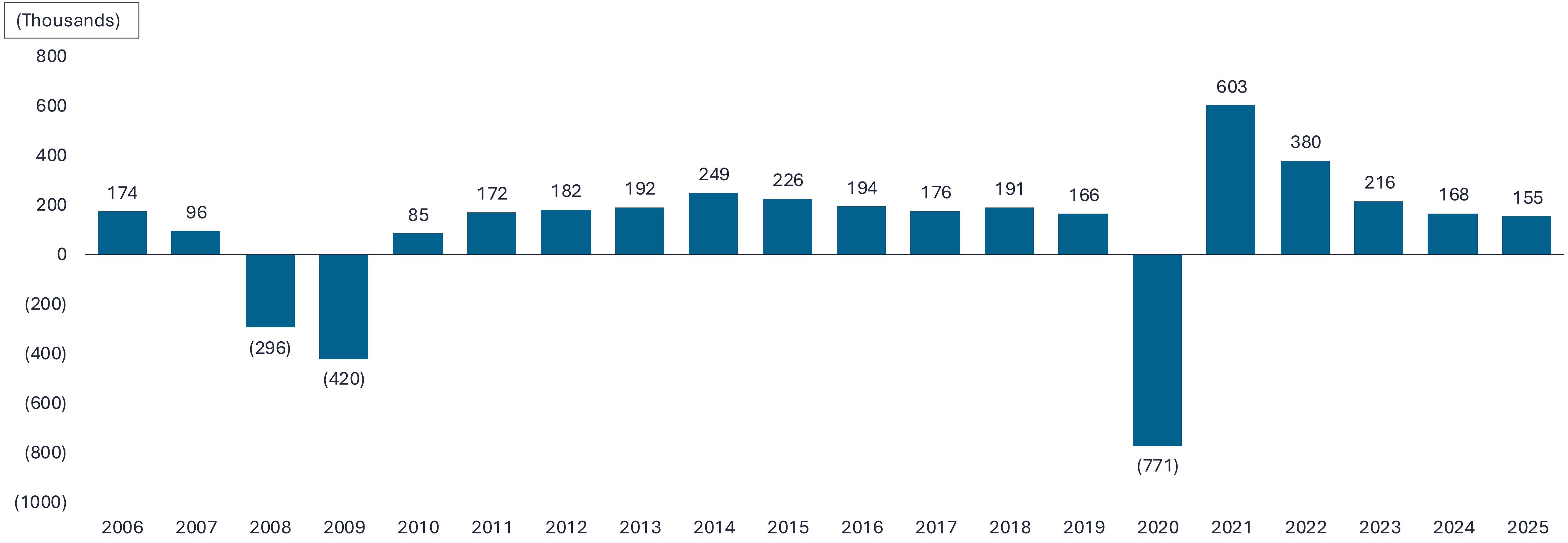
US Unemployment



Source: Bureau of Labor Statistics, Bloomberg
Note: As of April 2025

US Job Creation Slowed in 2024 but Remains Solid

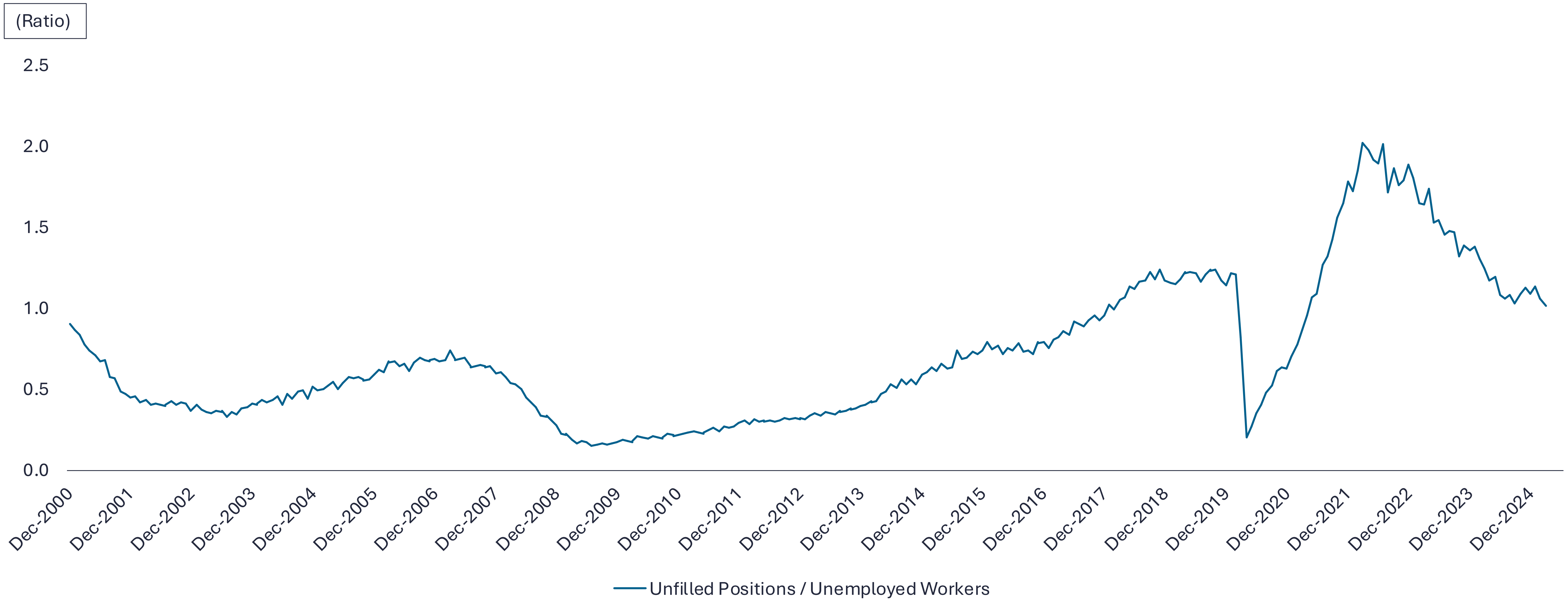
Average Monthly Change in Private Nonfarm Payrolls



Source: Bureau of Labor Statistics, Haver Analytics
Note: As of April 2025

US Labor Market Tightness Has Eased from 2.0 Open Jobs Per Unemployed Worker to 1.0

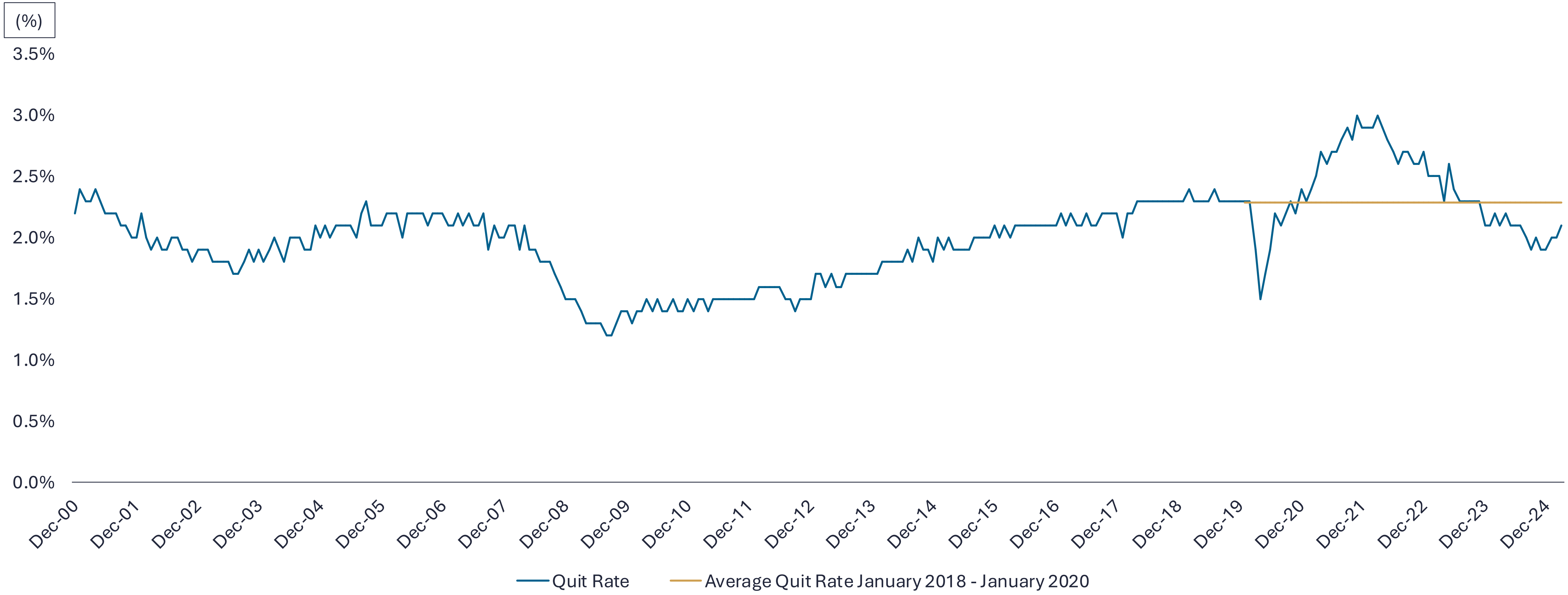
Unfilled Jobs per Unemployed Worker



Source: Bureau of Labor Statistics, Haver Analytics
Note: As of March 2025

The Quit Rate Is Back to 2017 Levels when Unemployment Stood at 4.5%

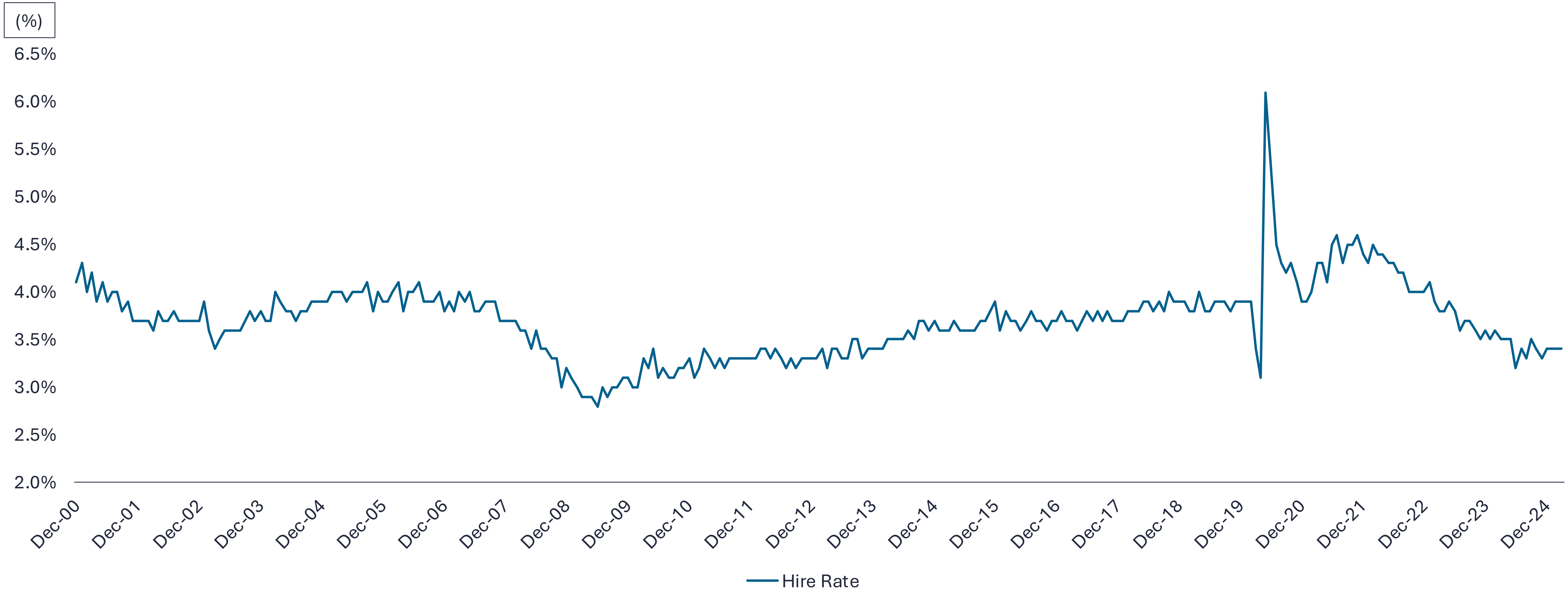
Quit Rate and Average Quit Rate from January 2018 – January 2020



Source: Bureau of Labor Statistics, Haver Analytics
Note: As of March 2025

The Hire Rate Is at 2013 Levels when Unemployment Stood at 6.5% to 7.0%

Hire Rate



Source: Bureau of Labor Statistics, Haver Analytics
Note: As of March 2025

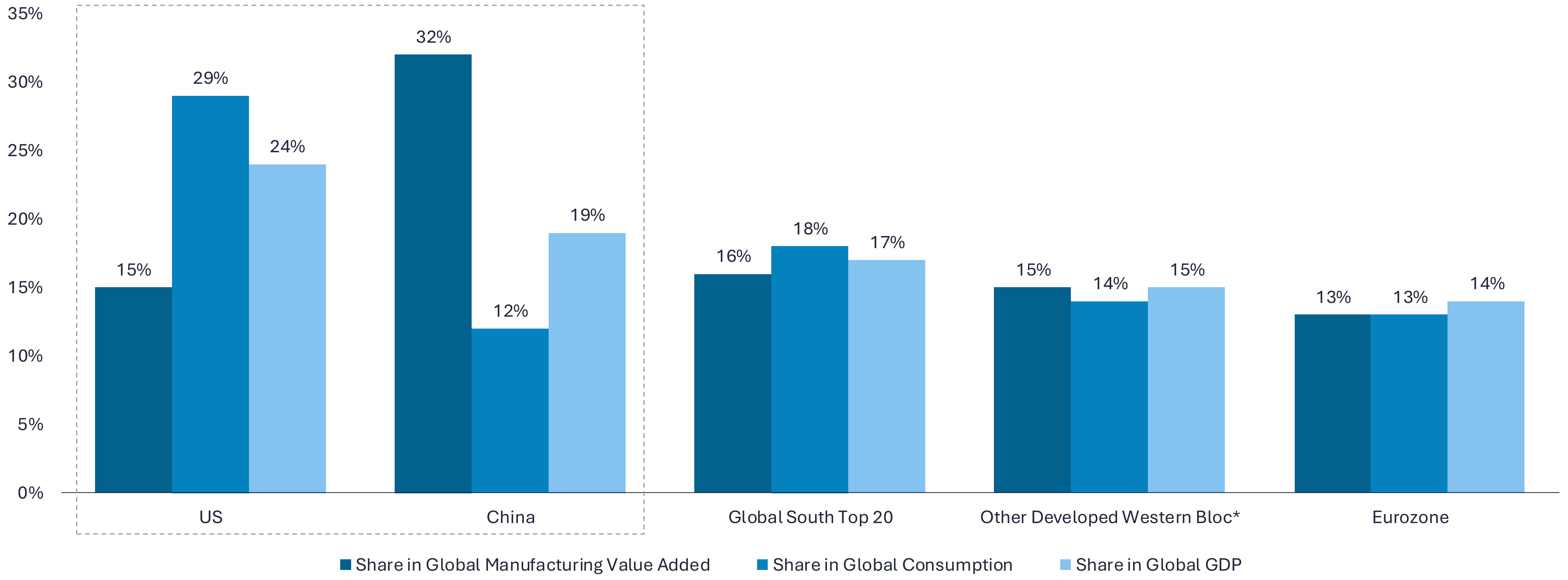
Trump 2.0 Could Be One of the Most Consequential US Administrations since World War II

- There are five key economic policy areas investors should watch carefully
  - Trade
  - Fiscal policy
  - Immigration
  - Fed leadership
  - Deregulation

Note: Opinions as of June 2025 and subject to change

Trade – The Problem from a US Perspective

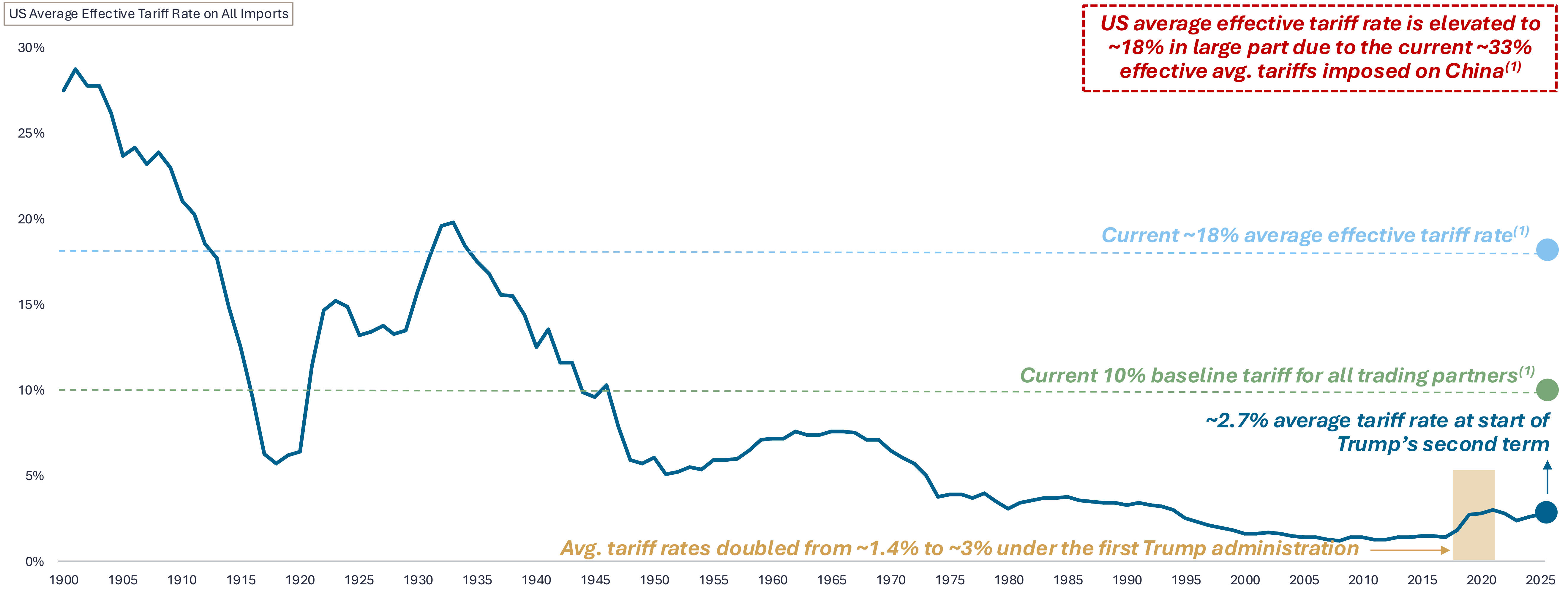
US Trade Balance



Source: Deutsche Bank Research, UN Industrial Development Organization, World Bank Data
Note: As of 2024
* The "Other Developed Western Bloc" includes UK, AU, NZ, CA and the East Asian economies of JP, KR, TW

The Second Trump Administration Is Reversing over a Century of Tariff Reductions

Tariff Announcements as of May 12 Have Pushed the Average US Tariff Rate to Its Highest since the Early 20th Century(1)



Note: Actual rates will depend on final policy implementation.
1 Yale Budget Lab as of May 12. This rate does not factor in substitution effects.

Trade – Tariffs Are Likely to Be Targeted at Countries with Which the US Runs the Largest Deficits

Source: Lazard estimates using 2024 US Census Bureau and UN Comtrade data

Latest Tariff Actions and Potential Measures on the Horizon to Watch

Tariff rates are rapidly evolving and will likely continue to change over the coming weeks alongside the progression of some bilateral negotiations, the implementation of new exemptions, and the announcements of additional levies on specific sectors (1)

Tariffs Currently in Place	
Measure	Effective Date
25% on Canadian and Mexican goods not covered by the US-Mexico-Canada Agreement (USMCA)	March 4 & 6
20% on China for fentanyl-related orders in February and March and 125% related to reciprocal duties between April 2–9 (with some exemptions(2))	April 9
10% universal baseline rate on all other trade partners (with some exemptions(2))	April 9
25% on autos; 25% on auto parts (with some exemptions(3))	April 3; May 3
25% on steel and aluminum	March 12
Elimination of de minimis treatment for China	May 2
10%–49% country-by-country reciprocal rates (suspended for 90 days)	July 9, August 12(3)

Tariffs Potentially on the Horizon	
Measure	Expected Date
Sector-specific duties on copper and lumber under ongoing Section 232 investigations	By December 5(4)
Sector-specific duties on pharmaceuticals and semiconductors via new Section 232 investigations	By December 27(4)
Sector-specific duties on critical minerals and heavy-duty trucks under Section 232	By January 17, 2026(4)
Sector-specific duties on commercial aircraft, jet engines and their parts via Section 232 investigation	By February 3, 2026(4)
25% on countries that import Venezuelan oil	Unknown
100% tariffs on all foreign movie imports	Unknown
Potential investigations into foreign drug pricing discrimination	Unknown

Areas to Watch

- The US is actively engaged in trade negotiations with most major trade partners, recently securing their first deal with the UK and implementing a 90-day pause on April's escalatory trade measures with China. Several additional deals with US trade partners, such as India and Japan, appear to be progressing and may be finalized in the coming weeks. Reciprocal tariffs on countries that do not reach a deal could be reinstated starting July 9, or August 12 in the case of China
- In the meantime, sector-based tariffs are shaping up to be the next phase in trade conflict following the administration's launch of national security trade investigations into copper, lumber, pharmaceuticals, semiconductors, critical minerals, and heavy-duty trucks; new sector duties could complicate any ongoing trade deal negotiations and create layers of various duties on some products

1 As of May 12, 2025.
2 US Customs & Border Protection announced an exemption for smartphones, some computers, and some other consumer electronics onApril 11, 2025.
3 Per US-China Joint Statement on their trade meeting in Geneva, April's reciprocal tariffs (excluding the US's 10% tariffs) were paused for 90 days presumably starting May 14.
4 On April 29, the Administration exempted imported autos from "stacking" tariffs (e.g., tariffs on aluminum and steel) and albwed domestically produced vehicles to claim a tariff offset on imported auto parts of up to 3.75% of the auto's MSRP value. This offset provision will step down to 2.5% after one year and be eliminated the following year.
5 Section 232 investigations typically take up to 270 days to complete, but the administration has signaled it may speed up theprocess and could announce new tariffs sooner.

There Are Three Scenarios That Appear Most Likely

Country & US Trade Deficit	**Scenario 1: "Best Case"** *Universal tariffs land at 10% and a "grand bargain" is reached with China to bring average rates close to 20%*	**Scenario 2: "Middle Case"** *10% tariff on most partners, except for "sticky" cases with high deficits and / or political friction; 40% tariff on China*	**Scenario 3: "Worse Case"** *10% baseline tariff, but higher rates of 15-35% for other partners, and a 60% tariff on China*
China (-$295bn)	20%	40%	60%
EU (-$236bn)	10%	15%	20%
Mexico (-$172bn)	10%	10%	10%
Vietnam (-$123bn)	10%	25%	35%
Japan (-$68bn)	10%	10%	20%
Canada (-$63bn)	10%	10%	10%
UK (+$12bn)	10%	10%	10%
All Others	10%	10%	15%
Potential Impact: US Avg. Effective Tariff Rate[1]	~15%	~20%	~25%
Potential Impact: Overview of Potential Impact	*Stagflation: a slump in growth is likely alongside an uptick in inflation, but the economy adjusts and avoids recession*	*Recession narrowly averted: growth stagnates and inflation spikes, especially in China-dependent supply chains*	*Recession likely: growth declines, inflation increases, and the risk of financial stress rises, especially in the US and China*
Potential Impact: Business Confidence			
Potential Impact: GDP and Inflation			
Potential Impact: Disruptions in Trade			

Note: Tariff rates reflect Lazard estimates.
1 Lazard estimates based on 2024 trade data. Inclusive of preexisting tariffs and new 2025 rates.

What Does the IEEPA Ruling Mean for Tariff Policy?

On May 28, the US Court of International Trade (CIT) ruled the Trump administration exceeded its statutory authority by using the International Emergency Economic Powers Act (IEEPA) to impose tariffs

- **The ruling covers the administration's imposition of:**
  - 10% global baseline duties on all imports
  - Targeted fentanyl-related duties of 20% on China and 10% on Canada and Mexico
  - Country-by-country "reciprocal" tariff rates—which are paused until July 9—on most trading partners.
- **The three-judge panel, including Republican and Democratic appointees, unanimously ruled that the US Constitution grants Congress exclusive authority over international commerce, giving the administration 10 days to "effectuate" the court order by unwinding these IEEPA-based tariffs**
- **While the court has ruled the administration's effort to levy tariffs under IEEPA illegal, alternative statutes can be used instead to impose tariffs**
- **The 25% tariffs on steel and aluminum as well as the 10% tariff on autos and auto parts remain in place**
  - Potential additional Section 232 levies on pharmaceuticals, semiconductors, critical minerals, copper, trucks, aircraft, and lumber are likely to be added given ongoing investigations

There are other legal authorities the President can use to impose tariffs

Authority	Section 122	Section 232	Section 301	Section 338
Description	*Permits tariffs up to 15% to respond to "large and serious" trade deficits*	*Allows tariffs or quotas to be placed on imports deemed a threat to national security*	*Authorizes imposition of trade measures to address foreign unfair trade practices*	*Provides up to 50% tariffs on countries found discriminating against the US*
Implementation Process	*Immediately available, but Congress must renew after 150 days*	*Requires a Commerce investigation, typically up to 270 days for reports but can be expedited*	*Requires USTR investigation, typically 12–18 months but can be expedited*	*Requires USITC[1] report on foreign discrimination. Likely 6–12 months implementation timeline*

While the administration has appealed the ruling, there are other key considerations:

Congress could codify some of the administration's trade policies
- These attempts are unlikely to succeed given divisions among Congressional Republicans

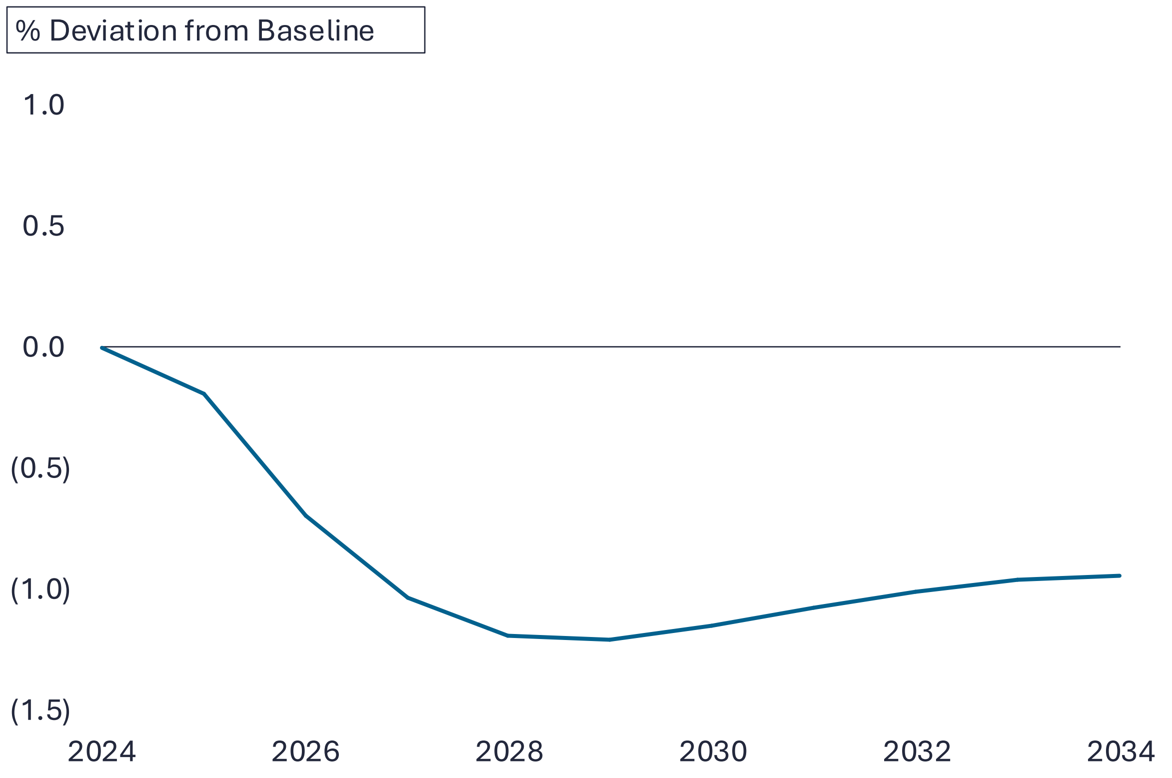
Ongoing lawsuits will persist
- The Trump administration intends to appeal this ruling; the most critical development will be the Supreme Court ruling in the coming months

Initial positive market reaction may not last
- Any initial positive market sentiment will likely be reversed if courts issue a stay on the CIT ruling and IEEPA tariffs are allowed to stay in place during the appeal process

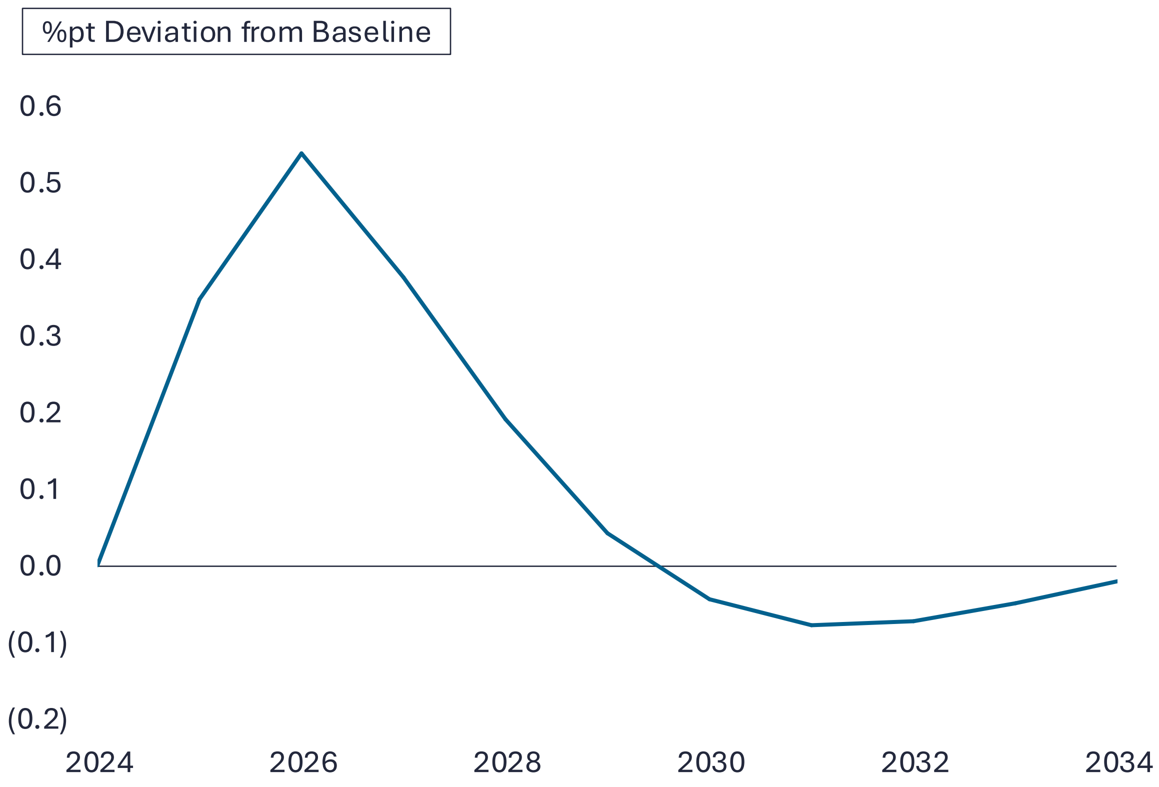
Source: White House; Congress; public news reporting.
1. US International Trade Commission.

Immigration – Mass Deportations Would Likely Increase Inflation and Reduce GDP

Impact on Real GDP 2024–2034: 1.3mn Deportations



Impact on Inflation 2024–2034: 1.3mn Deportations

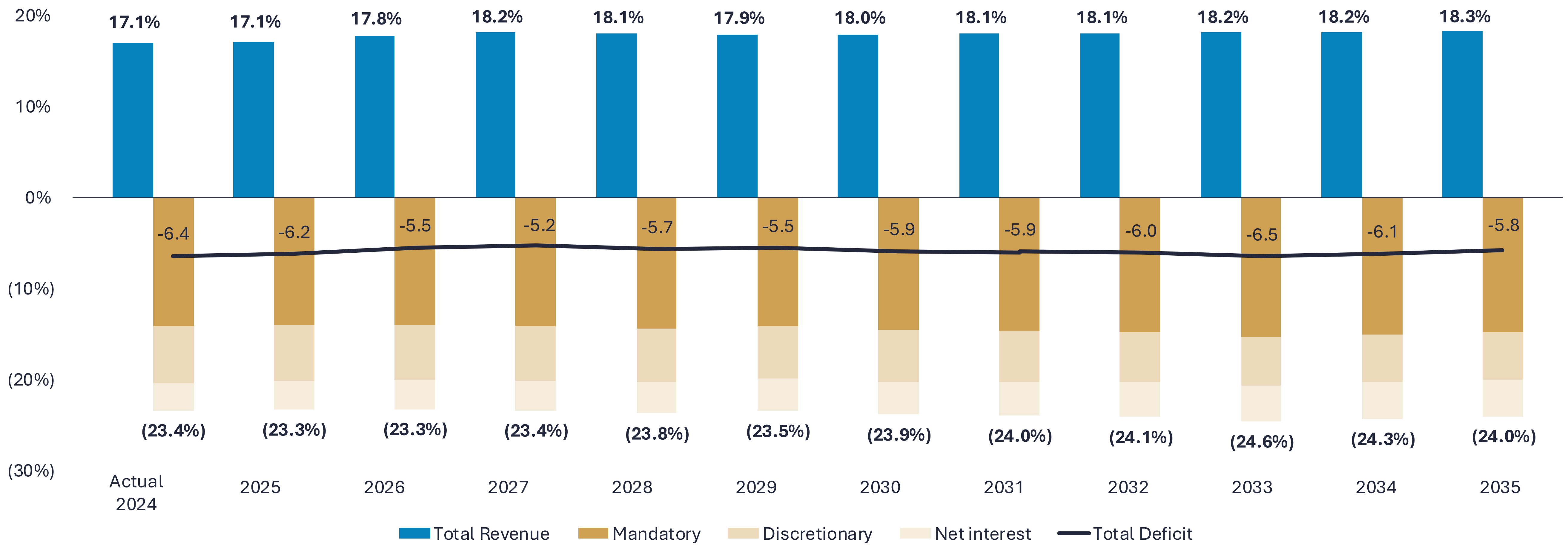


Source: McKibbin, Peterson Institute for International Economics (26 September 2024) "The economic effects of Trump's plans for tariffs, deportations, and the Fed."

Note: As of 26 September 2024. Changes in Real GDP are in percent, and percentage points for changes in inflation. Changes in GDP and inflation are estimated relative to what would have occurred absent the increased rate of deportations. The assumption of 1.3 million deportations is driven by the experience of the United States in 1954 when President Eisenhower deported a like number of people to Mexico.

As of January 2025, Fiscal Deficits Were Forecast to Exceed 5% of GDP for the Next Decade

CBO Budget Projections



Debt held by the public	**97.8%**	**99.9%**	**101.7%**	**103.4%**	**105.4%**	**107.2%**	**109.2%**	**111.1%**	**113.0%**	**115.3%**	**117.1%**	**118.5%**

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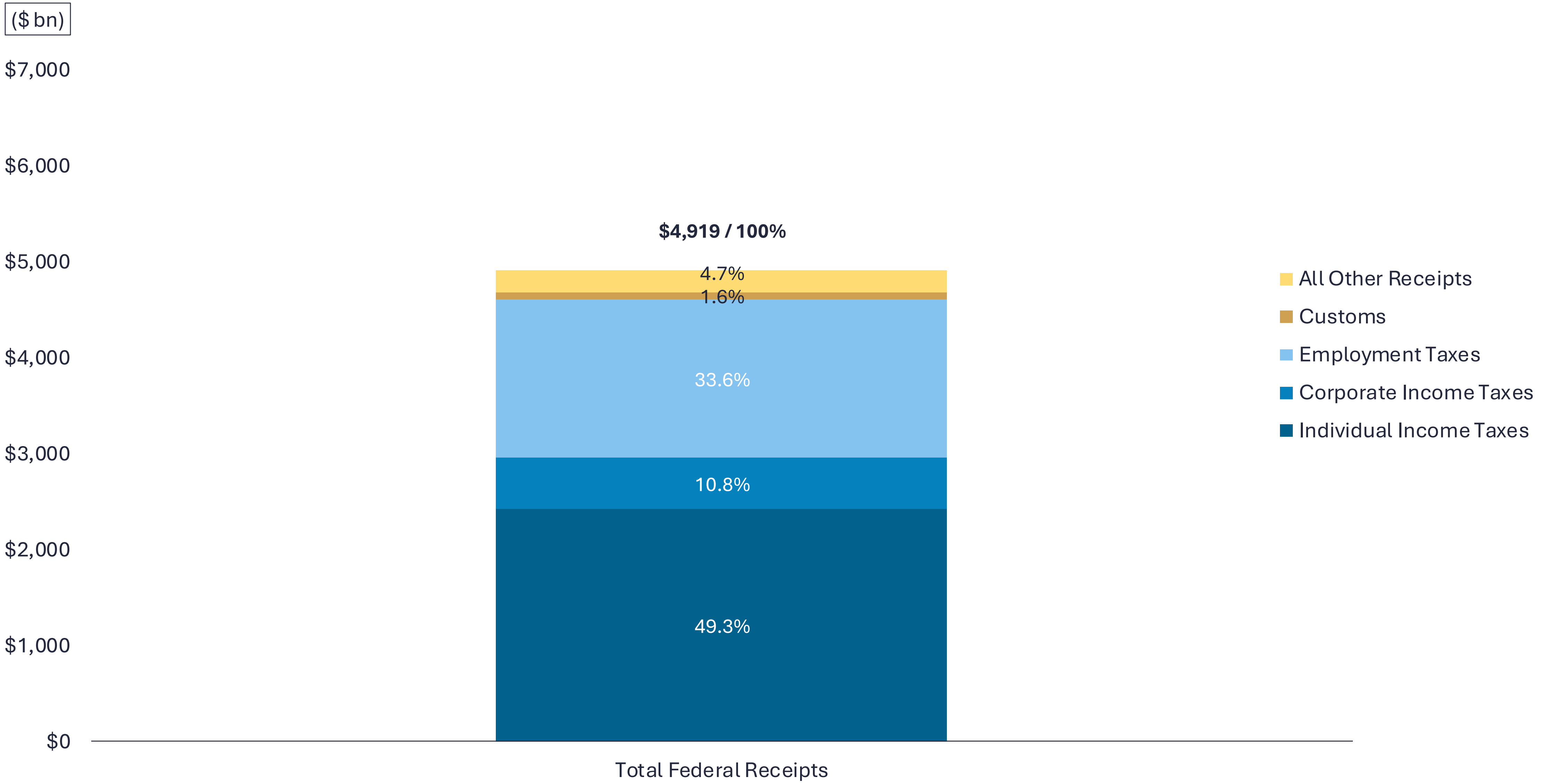
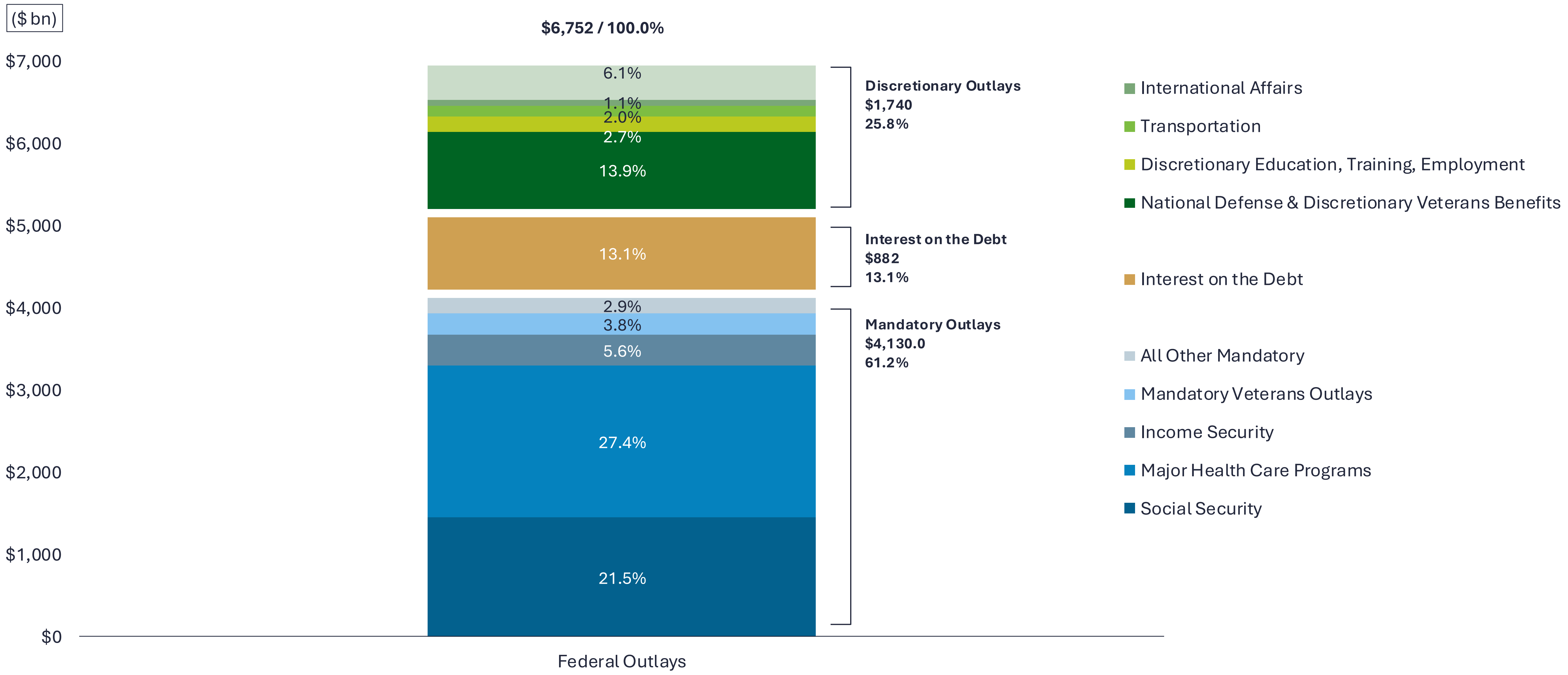
Source: Congressional Budget Office, US Treasury Department
Note: Data presented is in fiscal years which end 30 September, e.g., FY2024 ended 30 September 2024.

Fiscal Deficits – The United States Derives ~83% of Revenue from Individuals versus <2% from Customs



Source: Congressional Budget Office, US Treasury Department
Note: Data presented is in fiscal years which end 30 September, e.g., FY2024 ended 30 September 2024.

Fiscal Deficits – <12% of FY2024 Federal Spending Might Be Truly Discretionary



Source: Congressional Budget Office, US Treasury Department
Note: Data presented is in fiscal years which end 30 September, e.g., FY2024 ended 30 September 2024.

The "One Big, Beautiful Bill" Fiscal Package Relies on Assumptions that Could Prove Unrealistic

The current fiscal package assumes new tax cuts will expire in 2028 while major spending cuts will only begin in 2029. Regardless of which party wins the 2028 elections, it is unlikely the winner would want to preside over tax increases and spending cuts.

Key Tax Cuts		
Measure	**Expiration Date**	**Estimated 10-Year Cost**
Extend & expand persona rate cuts	Permanent	$2.177 trillion
Extend Alternative Minimum Tax repeal for most taxpayers	Permanent	$1.414 trillion
Extend & expand standard deduction hike	Permanent	$1.308 trillion
Eliminate tax on overtime within certain constraints	2028	$124 billion
Increase tax deduction for senior citizens within certain constraints	2028	$72 billion
Allow itemized tax deduction for interest on auto loans	2028	$58 billion
Eliminate tax on tip income within certain constraints	2028	$40 billion

Key Spending Cuts		
Measure	**Initiation Date**	**Estimated 10-Year Savings**
Medicaid eligibility requirements	2029	$880 billion
Inflation Reduction Act Cuts	Immediate	$559 billion
Reduced and restricted availability of funding for undergraduate and graduate education	Varies	$400 billion
Reduced Supplemental Nutritional Assistance Program (SNAP) funding	Varies	$270 billion

The Committee for a Responsible Federal Budget estimates that the "One Big, Beautiful Bill" would add $3.1 trillion to deficits over 10 years if all provisions are implemented as legislated. If the legislation is adjusted to make tax cuts permanent and eliminate certain offsets, the package could add over $5 trillion to the CBO's estimated $21.7 trillion of deficits

As of May 27, 2025.
Source: Committee for a Responsible Federal Budget

Fed Leadership – A Potential Tail Risk Event in 2026

- In 2025, inflation is likely to bottom in the second quarter before reaccelerating due to trade and immigration policies
- The FOMC will meet six more times through year-end and is unlikely to change monetary policy if inflation stops decelerating
- Tension between the Fed and the White House is likely to increase
- The struggle could culminate in 2026 when Jay Powell's term as Fed Chair ends
- If a politically inclined nominee is confirmed by the US Senate, markets could react severely
- This remains a low probability scenario, but investors should be alert to the risk of:
  - Elevated fiscal deficits
  - Rising inflation
  - Increasing unemployment and
  - The perception of a politicized Fed

Note: Opinions as of June 2025 and subject to change

Deregulation – Financial Services and Energy Are Poised to Benefit the Most

Financial Services

Tailwinds	*Headwinds*
✓ Antitrust transparency and industry engagement ✓ Support for M&A activity and some consolidation ✓ Lighter touch regulation ✓ Lower capital requirements ✓ Reduced CFPB role	⊗ Some continued focus on tech-related M&A scrutiny ⊗ Market uncertainty could slow dealmaking and risk appetite

Energy

Tailwinds	*Headwinds*
✓ Federal land opening ✓ Faster permitting ✓ Prioritization of fossil fuel projects ✓ Maintenance of fossil fuel subsidies ✓ Reduced EPA barriers	⊗ Roll-back of clean energy support ⊗ Prioritization of increased supply & lower oil prices ⊗ Tariff cost increases

Note: Opinions as of June 2025 and subject to change

III Eurozone

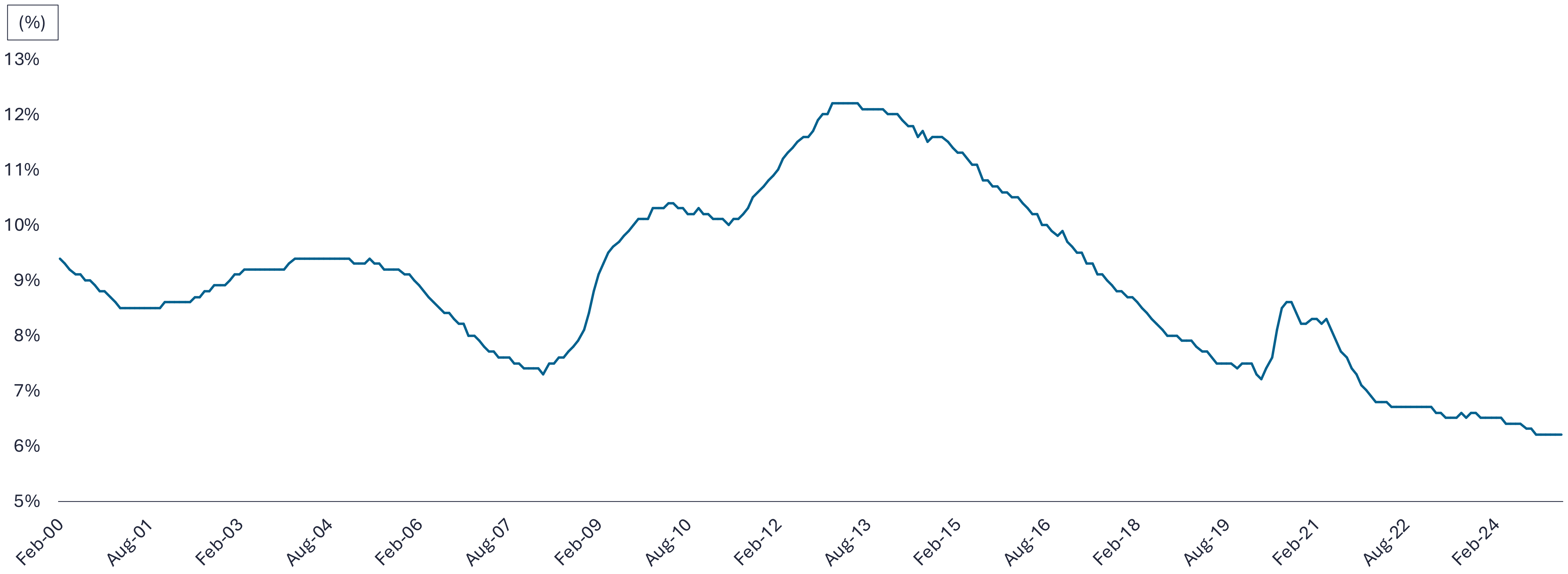
Eurozone Overview—Economic Backdrop

- Eurozone inflation has decelerated more smoothly than in the United States
  - Energy prices led the disinflation, but core metrics are promising
- Rising real wages should continue to lift consumer confidence
  - An extended period of low real per capital GDP growth and negative demographic trends might explain sustained consumer negativity
  - Relaxed fiscal rules to allow much higher defense and infrastructure spending could materially lift growth and stimulate innovation
- The Ukraine-related energy price spike and weaker demand from China hit Eurozone industry hard
  - Energy prices have returned to pre-invasion levels, but European manufacturers still face uncompetitive energy prices versus US peers
- US tariffs could significantly reduce European Union growth in 2025
- Recent fiscal policy initiatives from Germany and the European Commission could significantly lift growth beyond 2025

Note: Opinions as of June 2025 and subject to change

Eurozone Unemployment Is Near the Lowest Level since the Inception of the Common Currency

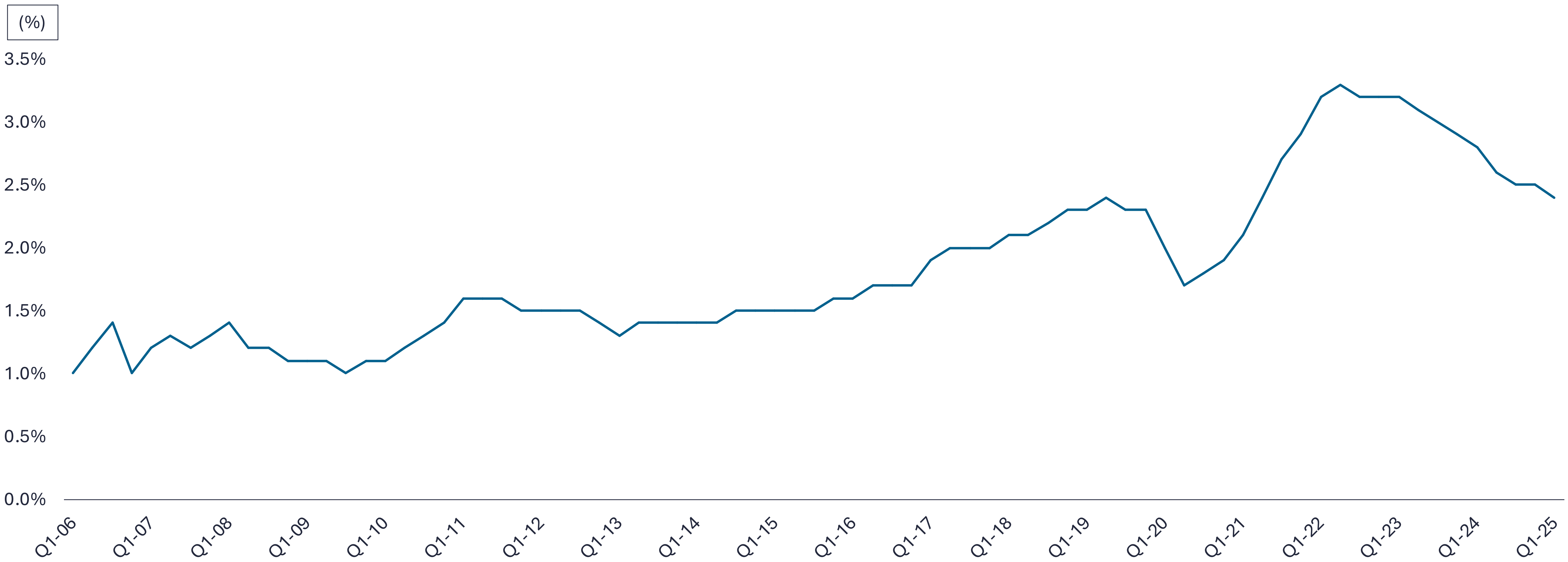
Eurozone Unemployment Rate



Source: Eurostat, Haver Analytics
Note: As of March 2025

Eurozone Job Vacancies Are Elevated But Have Been Declining

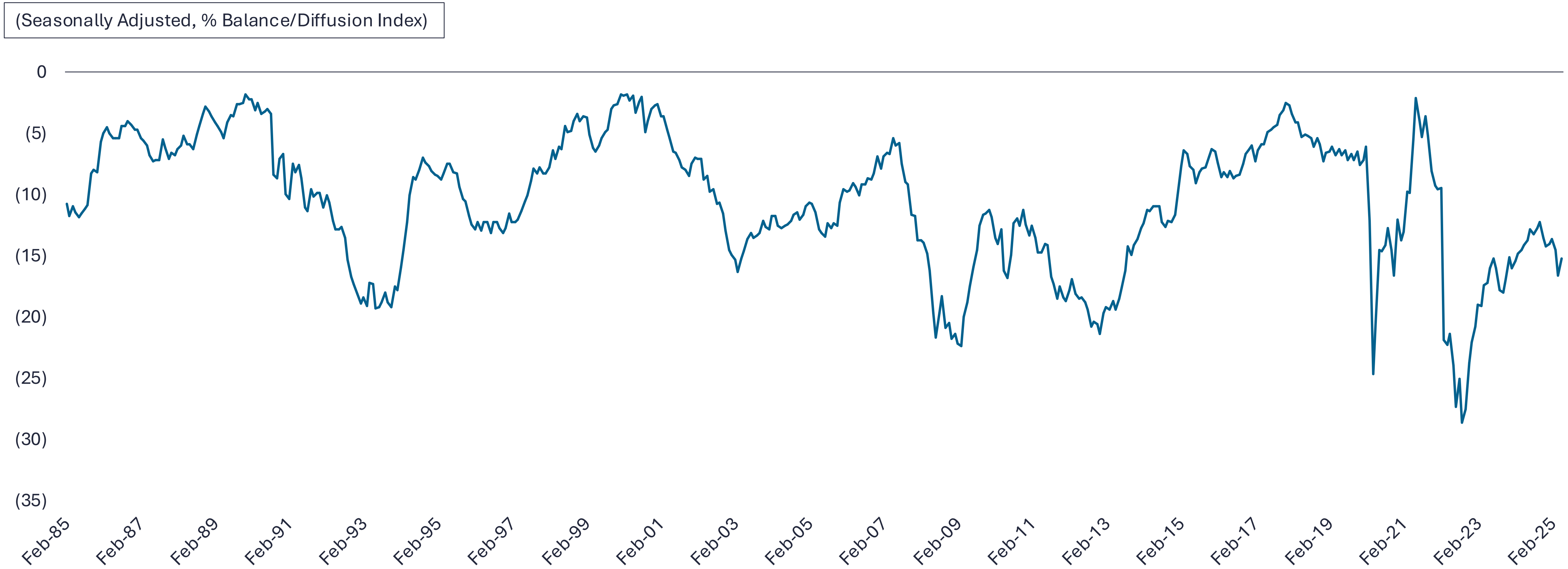
Job Vacancy Rate



Source: Eurostat, Haver
Note: As of Q1 2025
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 Continue Improving in 2025 Absent a Trade War

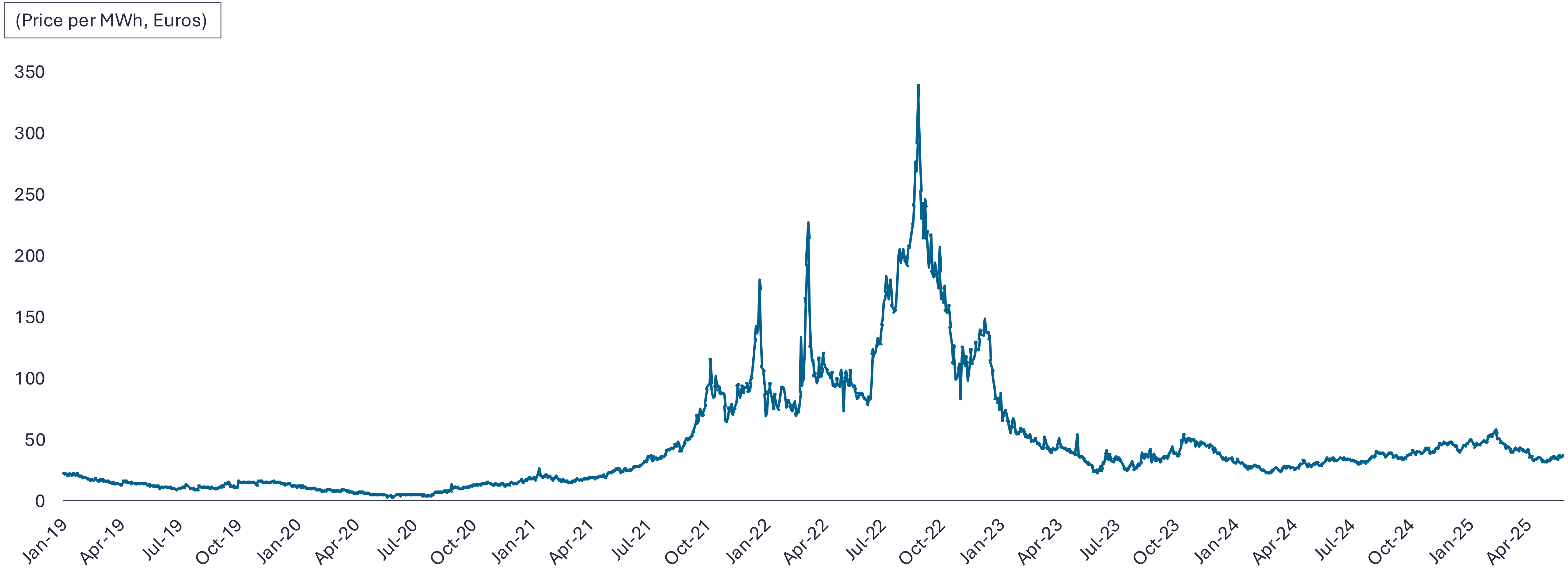
European Commission Consumer Confidence Indicator - Eurozone



Source: Bloomberg, European Commission
Note: As of May 2025

Energy Prices Remain 90% above early 2021 Levels

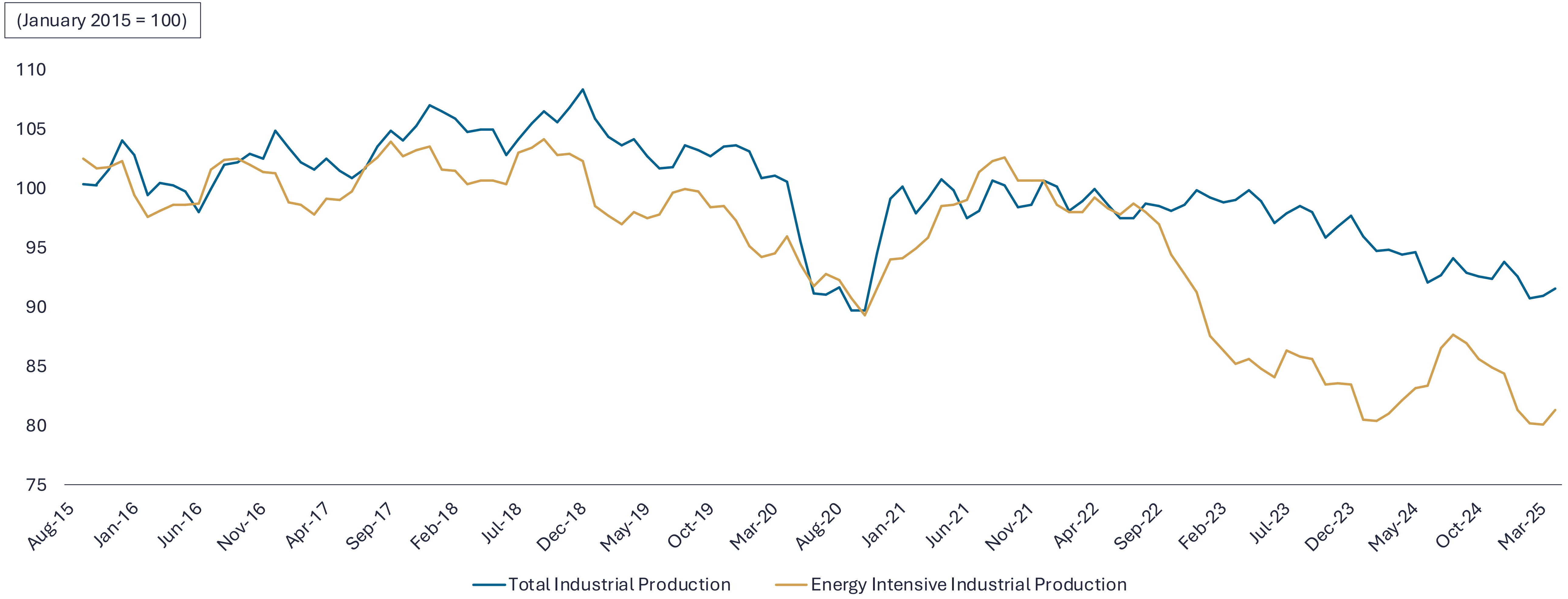
Netherlands TTF Natural Gas One Month Futures



Source: Bloomberg
Note: As of 28 May 2025

Energy Intensive Industrial Production in Germany Is ~18% Below Late 2021 Levels

German Production Energy Intensive Industries and Overall

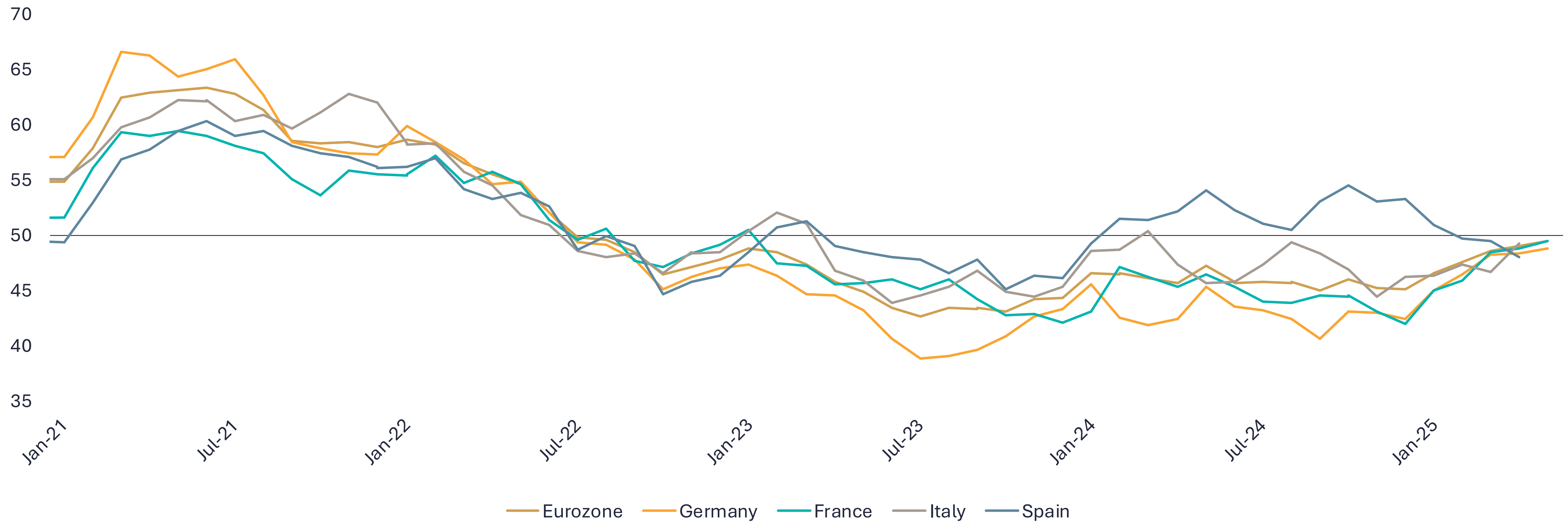


Source: Germany Federal Statistical Office, Haver Analytics
Note: As of March 2025

Manufacturing PMIs Are in Contractionary Territory across the Eurozone

IHS Markit Eurozone Composite Purchasing Managers' Indices (Manufacturing)

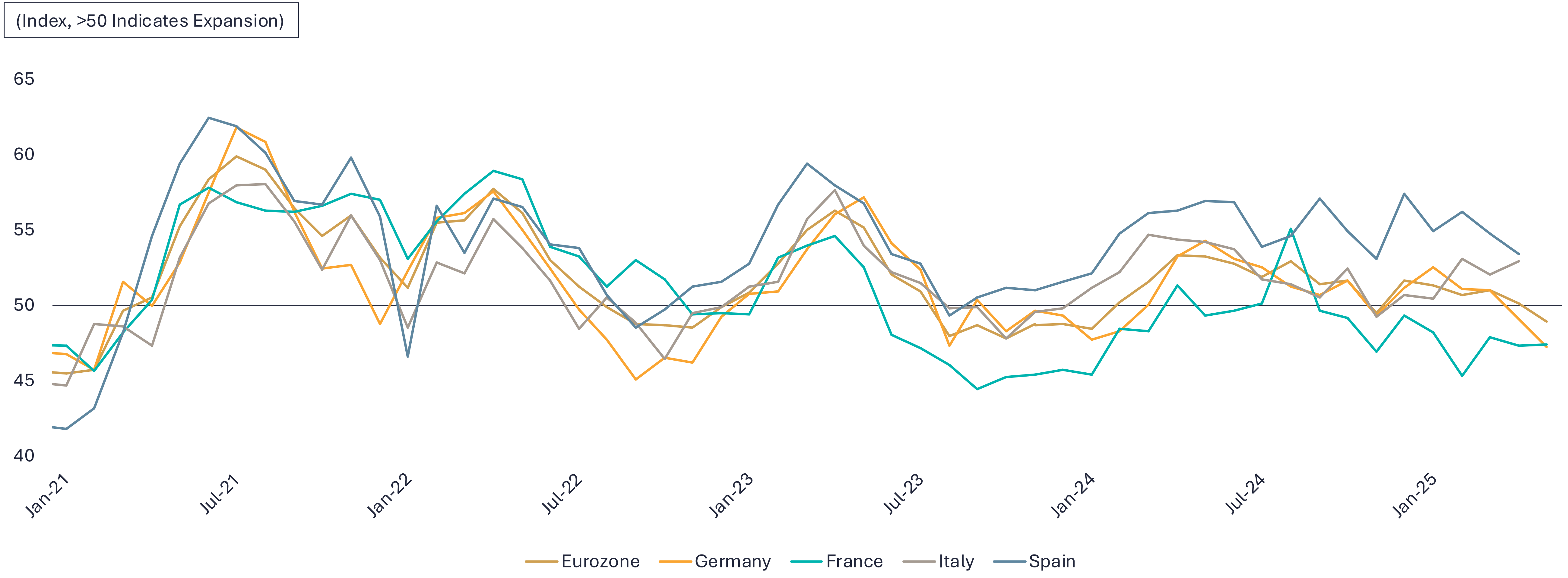
(Index, >50 Indicates Expansion)



Source: IHS Markit, Haver Analytics
Note: As of May 2025 for Eurozone, France, and Germany. As of April 2025 for Italy and Spain

Most Eurozone Countries' Services PMIs Remain in Expansionary Territory

IHS Markit Eurozone Composite Purchasing Managers' Indices (Services)

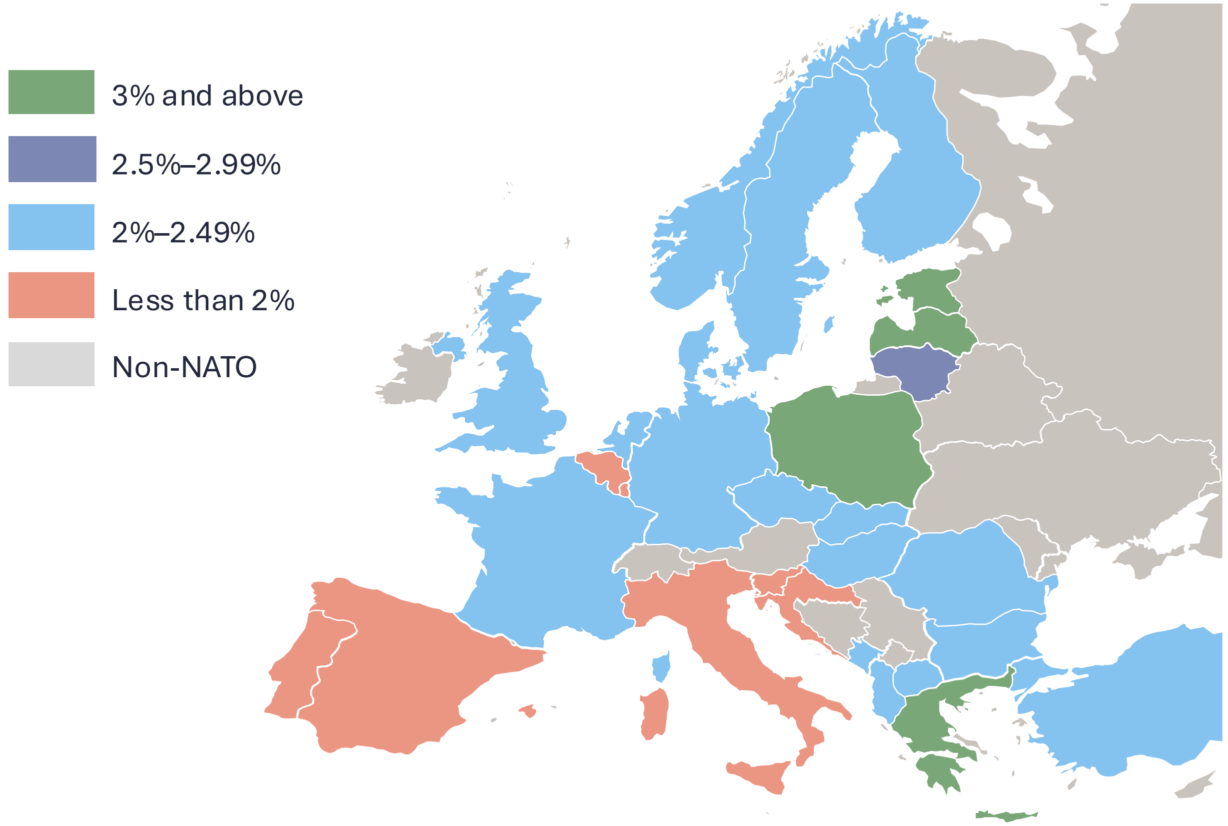


Source: IHS Markit, Haver Analytics
Note: As of May 2025 for Eurozone, France, and Germany. As of April 2025 for Italy and Spain

Europe Might Be at a Watershed Moment

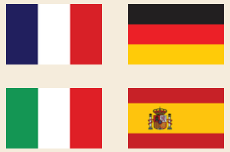
Despite Record Defense Spending, Several NATO Members Have Yet to Reach NATO's 2% of GDP Spending Target—Let Alone Trump's Call for 5%

Defense Spending by NATO Countries in Europe, as % of GDP[1]



However, Major New Defense Spending Plans Are in Process as the US Pulls Back Support for Europe

- **ReArm Europe Initiative**: Mobilizing up to €800bn
  - Includes €150bn in loans for member states to invest in defense capabilities
- **Joint weapons purchasing**



- **German Spending Package**: Could allow for more than €1tn in new investments over the next decade
  - Includes debt-financed €500bn infrastructure fund
- France, Italy, Spain, and others have announced new spending commitments and defense investment funds

- **Raising defense spending target to 2.5% of GDP** with the goal to eventually hit 3%
  - This would represent £13.4bn annually in new spending

Source: NATO, European Commission, European Union member states, and public reporting.
1 NATO.

Germany's Fiscal Reversal Is Particularly Important

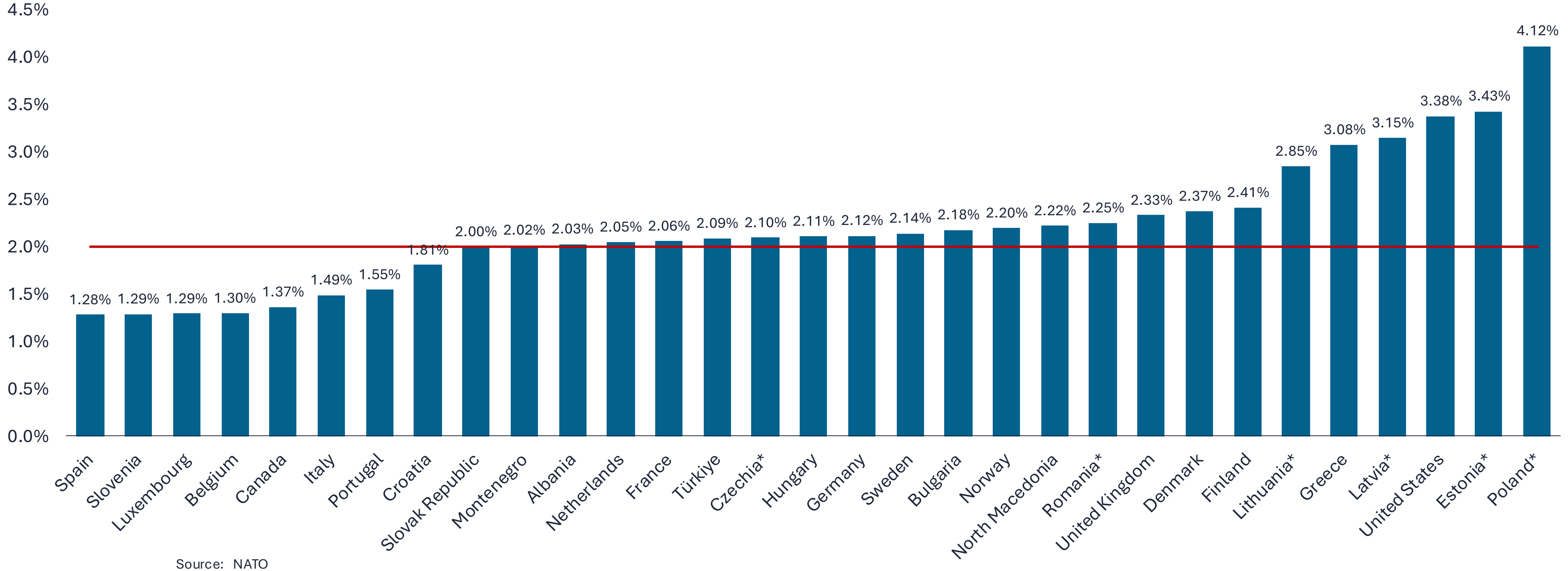
Measure	Details
Exclude Defense Spending >1% of GDP from Debt Brake Calculation	• Germany spent 2.1% of GDP on defense in 2024 • An increase in defense spending to 3.5% of GDP would represent additional spending of €60 billion per year • Only counting defense spending up to 1% of GDP under the debt brake could free up an additional €43 billion per year for other spending
Create €500 Billion Infrastructure Fund	• Fund to be spent over 12 years • Represents ~€42 billion per year of additional infrastructure spending • €100 billion of spending targeted toward energy transition and €100 billion for Länder (German federal states) and municipalities
Länder Debt Limit	• Länder now allowed to take on debt of up to 0.35% of GDP per year • Equates to ~€15 billion per year of additional borrowing and spending

Total spending and borrowing could increase by ~€115 - 120 billion per year (2.6% - 2.8% of GDP)
Debt-to-GDP ratio rises from 63% in 2024 to 70% - 75% by 2030

Source: Kiel Institute for the World Economy, PIIE
Note: As of January 2025

Geopolitics – Fiscal Stress Is Likely to Increase Significantly for Most Non-US NATO Members

Defense Spending as % of GDP



Source: NATO
As of 2024

* Explanation from NATO: "These Allies have national laws or political agreements which call for 2% of GDP or more to be spent on defense annually, consequently future estimates are expected to change accordingly. For past years Allies defense spending was based on the then available GDP data and Allies may, therefore, have met the 2% guideline when using those figures. (In 2018 and 2021, Lithuania met 2% using November 2018 and June 2021 OECD figures respectively).

IV China

China Overview—Economic Backdrop

- Falling home prices have hit Chinese confidence
  - The median Chinese household has about 60% of its assets in residential estate
  - Previously occupied home prices are down between 27% and 36% across major cities
- The trade war with the United States is adding to economic pressure in China
  - US tariffs will likely add to deflationary pressure in China
  - US tariffs could lower China's GDP growth by over one percentage point absent offsetting domestic stimulus
- 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
- Stimulus measures announced by the central government have fallen short of investor expectations
  - Announcements in late September 2024 initially appeared to represent a turning point in terms of the scope and scale of intervention
  - Fiscal initiatives announced at the March 2025 Two Sessions fell short of expectations again, suggesting ongoing economic weakness

Note: Opinions as of June 2025 and subject to change

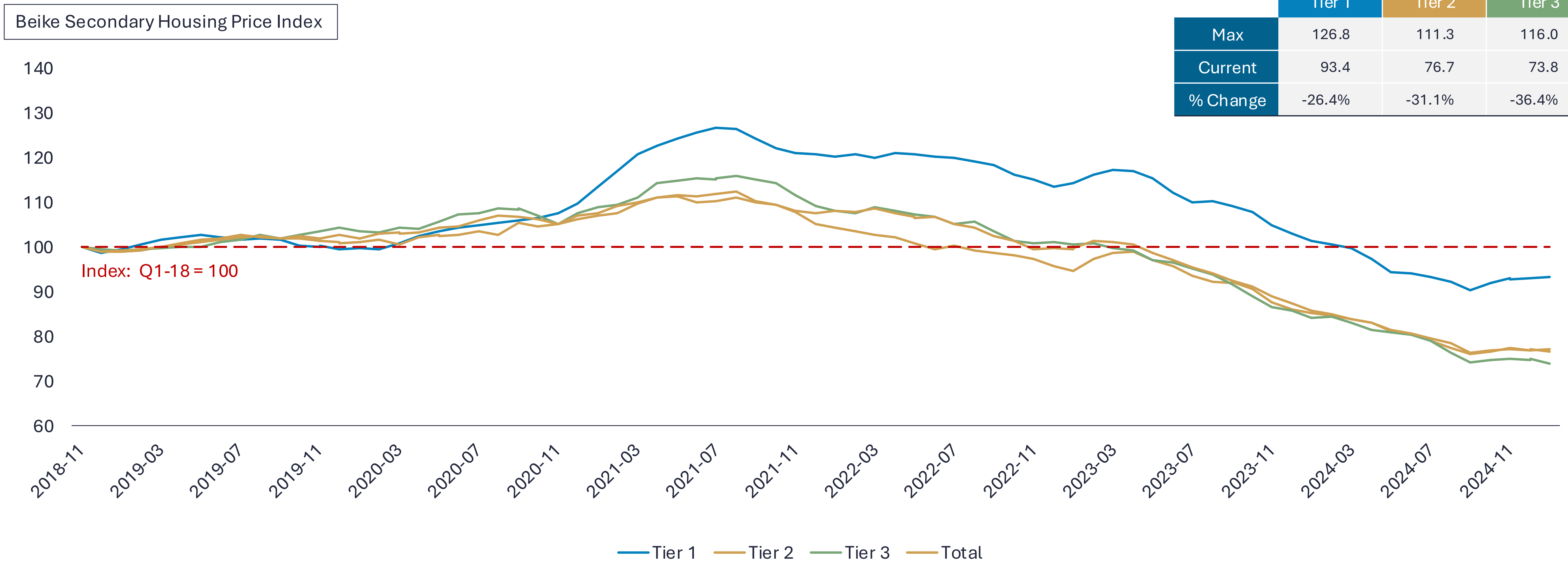
Chinese Consumer Confidence Remains Near Record Low Levels

Survey of Chinese Consumer Confidence

Source: Chinese National Bureau of Statistics, Bloomberg
Note: As of February 2025

Home Prices in China Have Fallen Materially in the Secondary Market

50-City Secondary Housing Price Index - By City Tiers

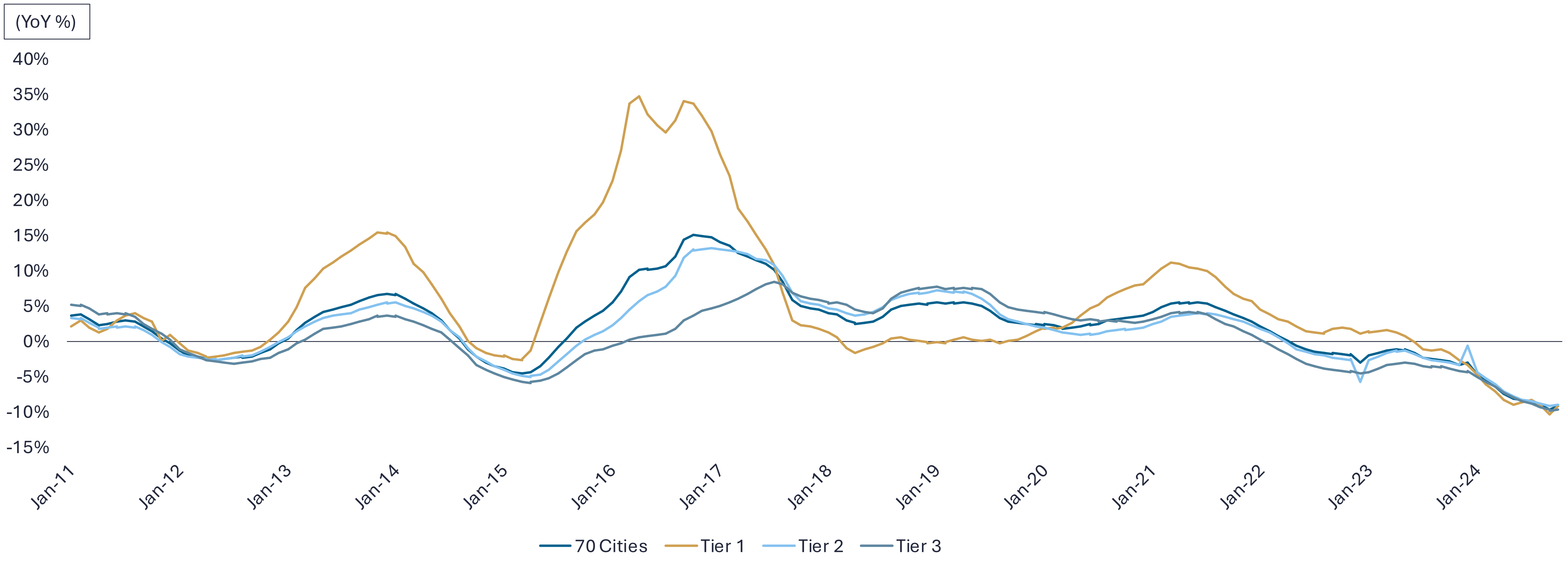


	Tier 1	Tier 2	Tier 3
Max	126.8	111.3	116.0
Current	93.4	76.7	73.8
% Change	-26.4%	-31.1%	-36.4%

Source: Lazard, Beike, and Morgan Stanley
Note: As of March 2025

China Property Prices Remain Weak, Dampening Confidence

70-City Price Index of Existing Residential Buildings



Source: Chinese National Bureau of Statistics, Haver Analytics
Note: As of April 2025

Markets Initially Interpreted Measures Announced in Late September 2024 as a Step Change...

Stimulus	Details
Rate Cuts	• Cut 7-day reverse repo rate by 20 bps to 1.5% from 1.7% • Reduced 1-year medium-term lending facility (MLF) rate by 30 bps • Lowered LPR and deposit rates by 25 bps in July 2024 and again in October 2024
Housing Markets	• Lowered minimum down payment for first and second homes to 15% • Allowed banks to reduce existing mortgage rates by 50 bps potentially reducing interest costs by RMB150 billion per year or 2.5% of annual disposable income • Announced review of requirements to tap funding for local governments to buy unsold housing for social housing purposes
PBoC Bank Reserve Requirement Ratio Cut	• Cut Reserve Requirement Ratio (RRR) by 50 bps providing RMB1 trillion of long-term liquidity to banking system • Hinted at potential for additional 25 to 50 bps of RRR reduction by year end
Equity Market Support	• PBoC will set up RMB500bn liquidity provision program for non-bank financial service institutions to borrow directly from PBoC with appropriate collateral • PBoC will create a re-lending program for banks to support list companies' share buy-backs

At its 26 September meeting, for the first time, the Politburo explicitly called for action to "stop the decline and stabilize the property market." The meeting focused on economic challenges and reiterated the government's commitment to attaining the 5% real GDP growth target. Fiscal stimulus is expected to follow.

Note: As of January 2025

… But Fiscal Stimulus Remains Underwhelming Since

4Q-2024 Stimulus	Details
Local Government Debt Resolution	• Expanded local government debt swap facilities to resolve off-balance sheet obligations • One-time RMB6trn increase in local government special debt ceiling • RMB800bn annual increase of new local government bond quota from 2024 – 2028

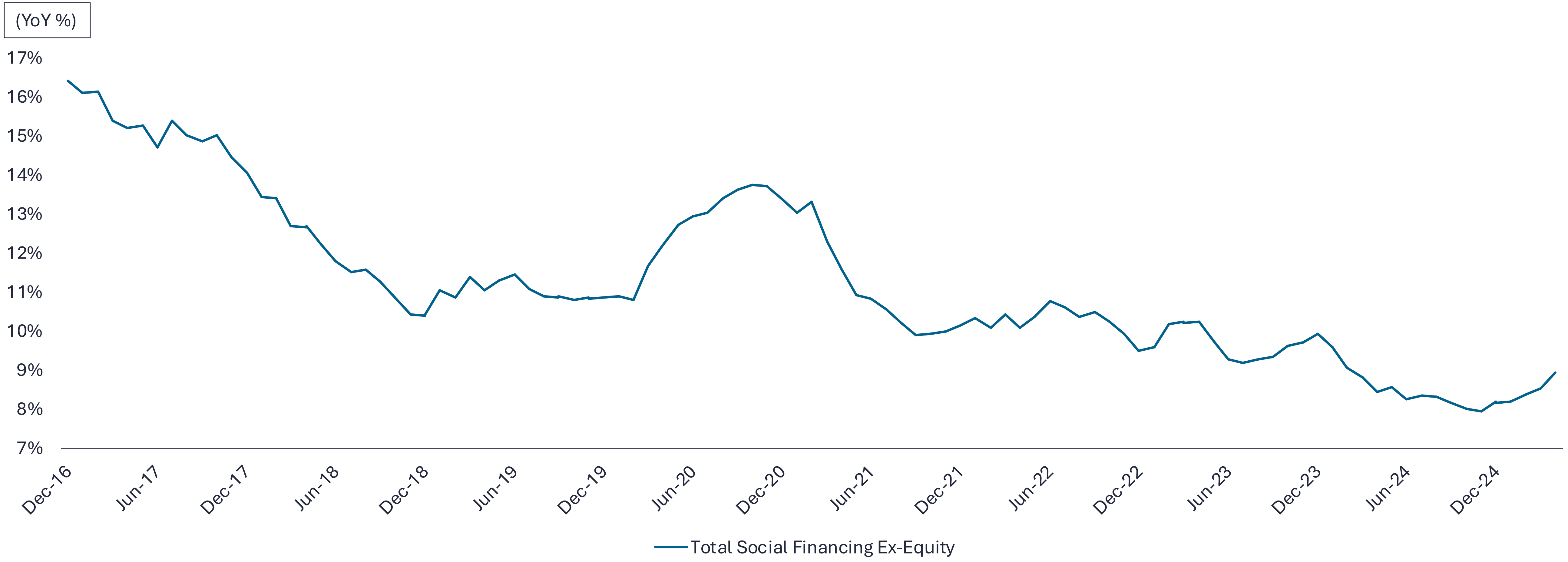
March 2025 Stimulus	Details
Bank Recapitalization	• Ministry of Finance will provide RMB500bn to facilitate bank increased lending for share buybacks (versus expectations for RMB1.0trn)
Consumer Trade-in Subsidies/Stimulus	• New funding of RMB300bn was announced to fund consumer durable purchase subsidies
Increased Fiscal Deficit and Debt Issuance Allowances	• The government announced a fiscal deficit target of 4% of GDP, up from 3% in 2024, equating to RMB5.7trn, up by RMB1.6trn • Ultra-long Special Central Government Bond issuance of RMB1.3trn (versus expectations for RMB2.0trn) • Increased allowance for Local Government Special Bond issuance of RMB500bn (to RMB4.4trn)
Social Safety Net	• Increased minimum monthly old age pension benefit by RMB50bn (RMB20 per month per person increase)

LAZARD

Note: As of June 2025

China's Credit Growth Has Begun to Accelerate due to Monetary Stimulus

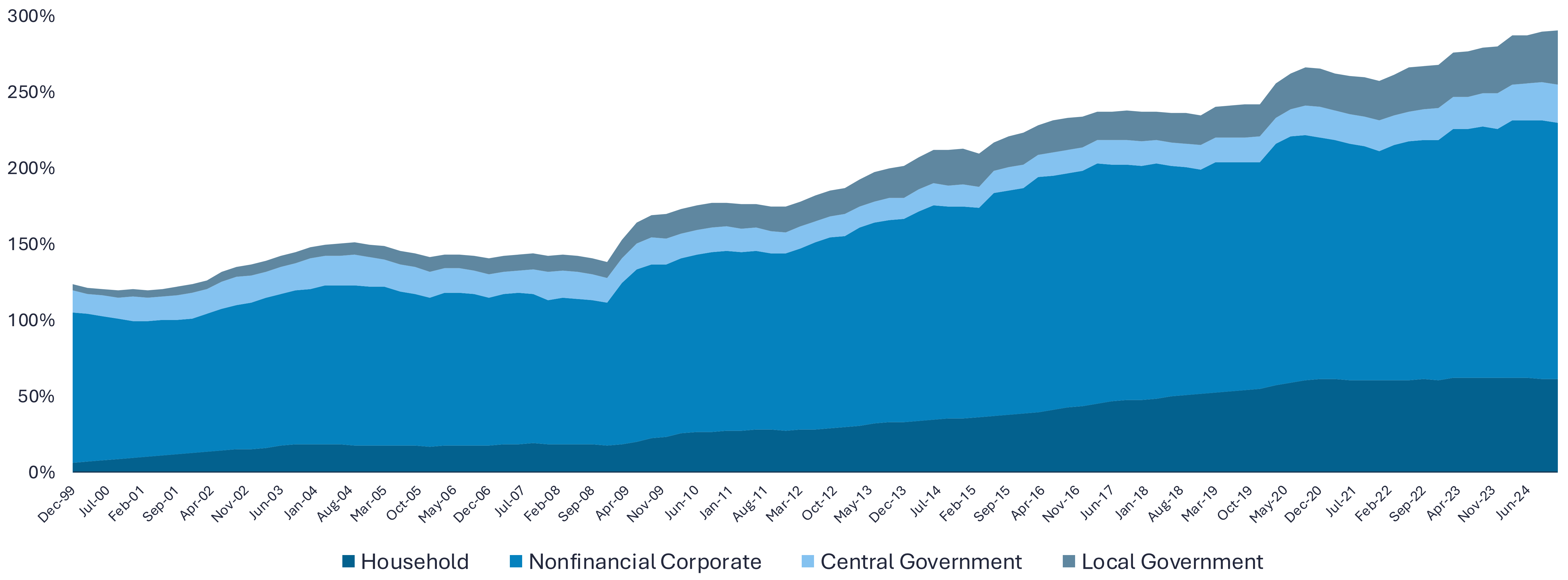
Total Social Financing Outstanding



Source: People's Bank of China, Haver Analytics
Note: As of April 2025

China's Nonfinancial Sector Debt Now Exceeds 290% of GDP, Limiting the Ability to Borrow More

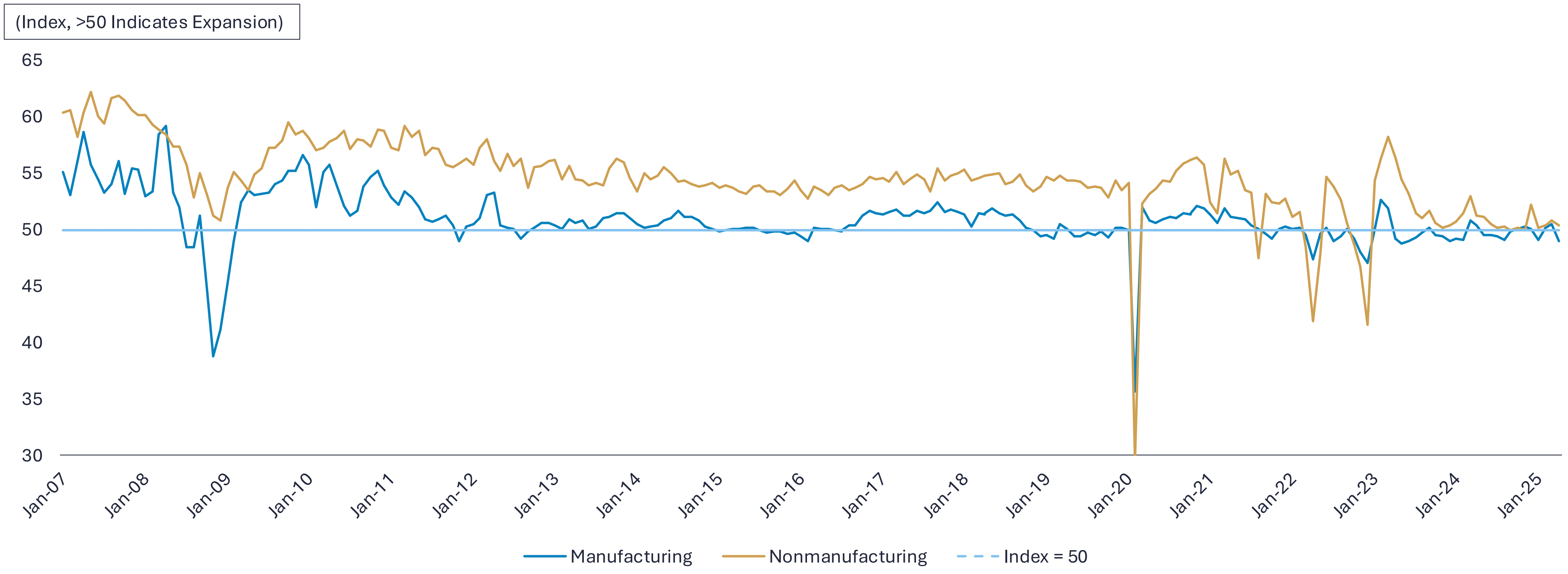
Nonfinancial Debt as % of GDP



Source: Center for National Balance Sheets, Haver Analytics
Note: As of December 2024

China's NBS PMI Indices Suggest Economic Stagnation

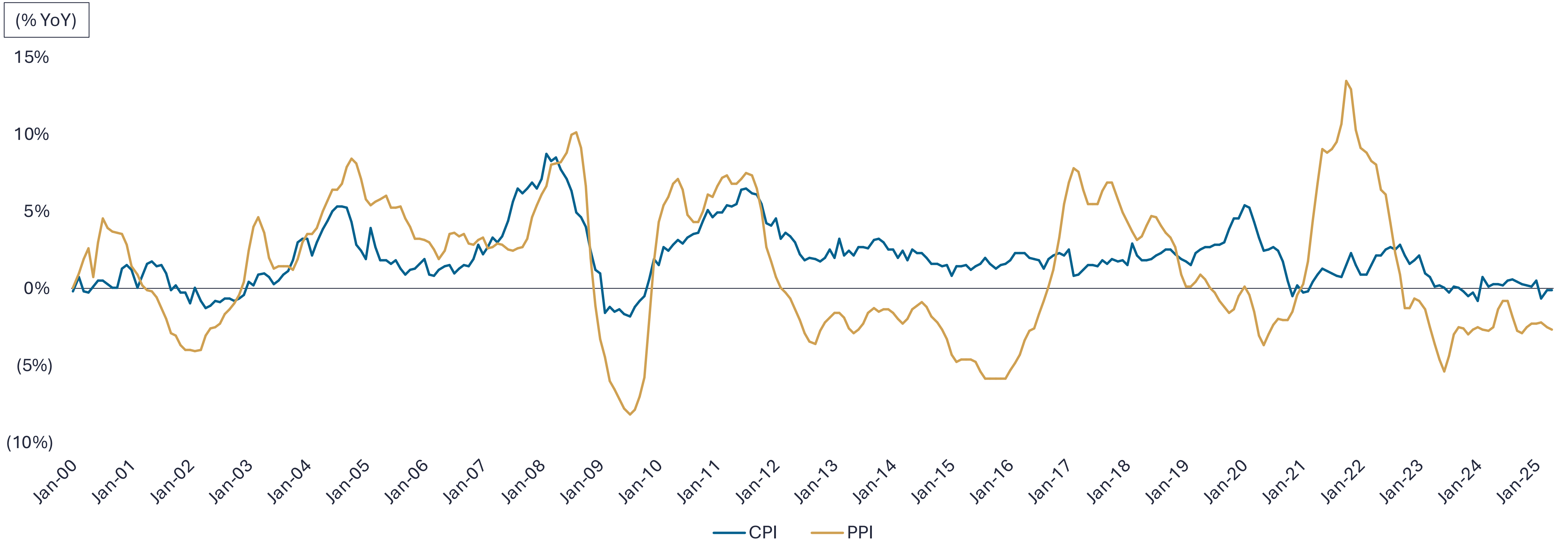
National Bureau of Statistics Purchasing Managers Indices



Source: National Bureau of Statistics, China Federation of Logistics and Purchasing, Haver Analytics
Note: As of April 2025

China Inflation Is Undesirably Low with PPI Deflation for 31 Months and CPI ≤1% for 27 Months

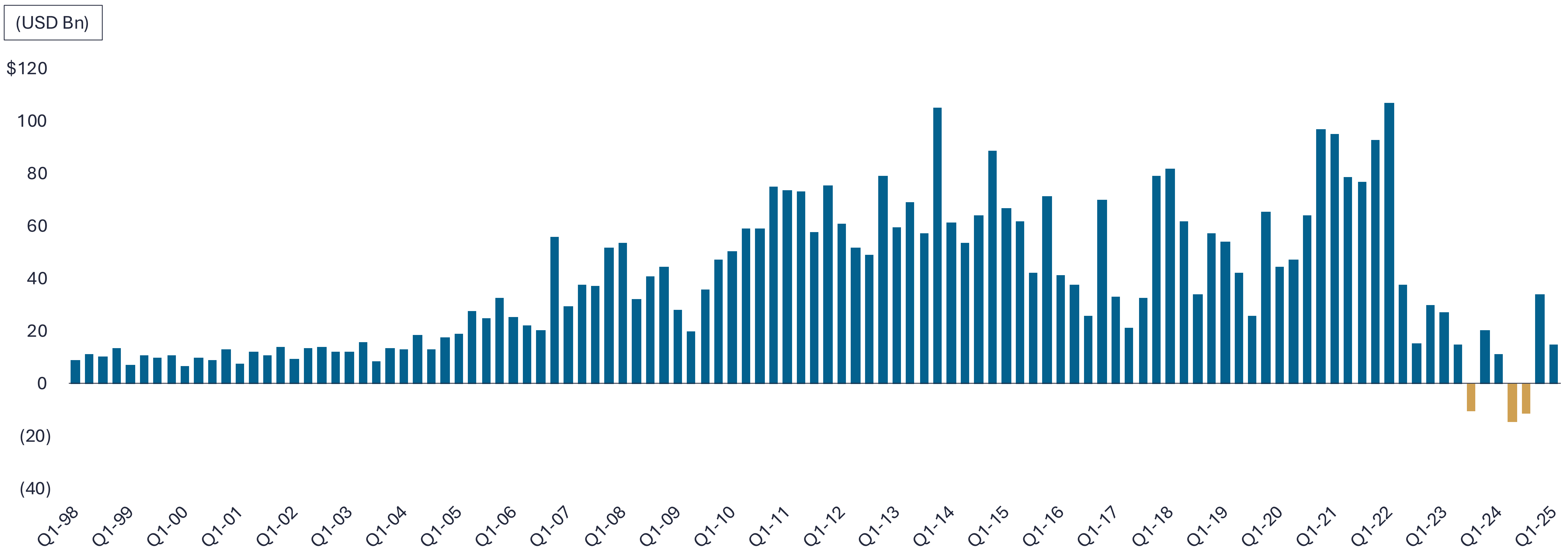
China CPI and PPI



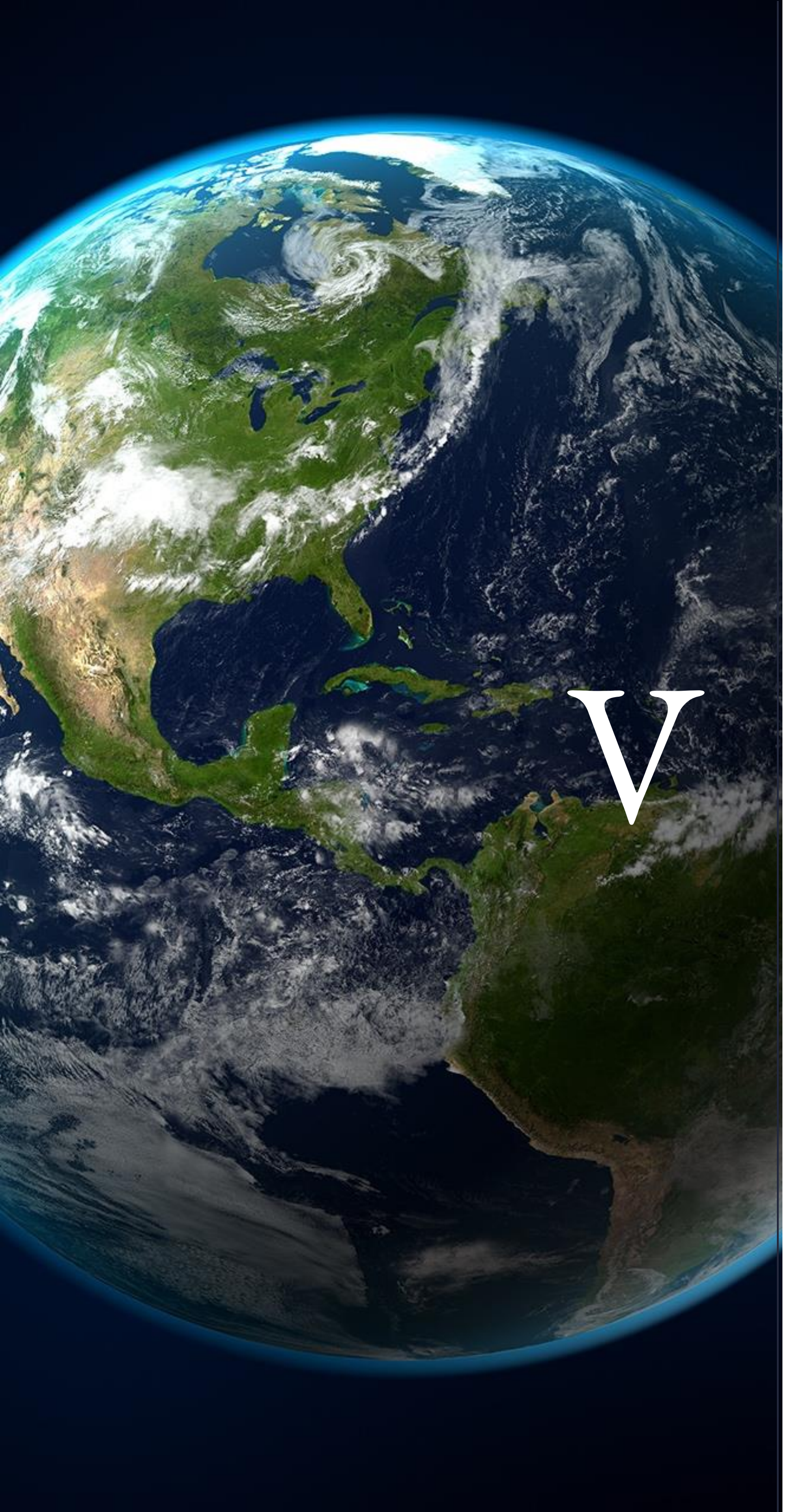
Source: Bloomberg, National Bureau of Statistics
Note: As of April 2025

Foreign Direct Investment into China Has Been Negative for 3 of the Last 7 Quarters

Flow of Foreign Direct Investment



Source: Chinese State Administration of Foreign Exchange, Haver Analytics
Note: As of March 2025



V Japan

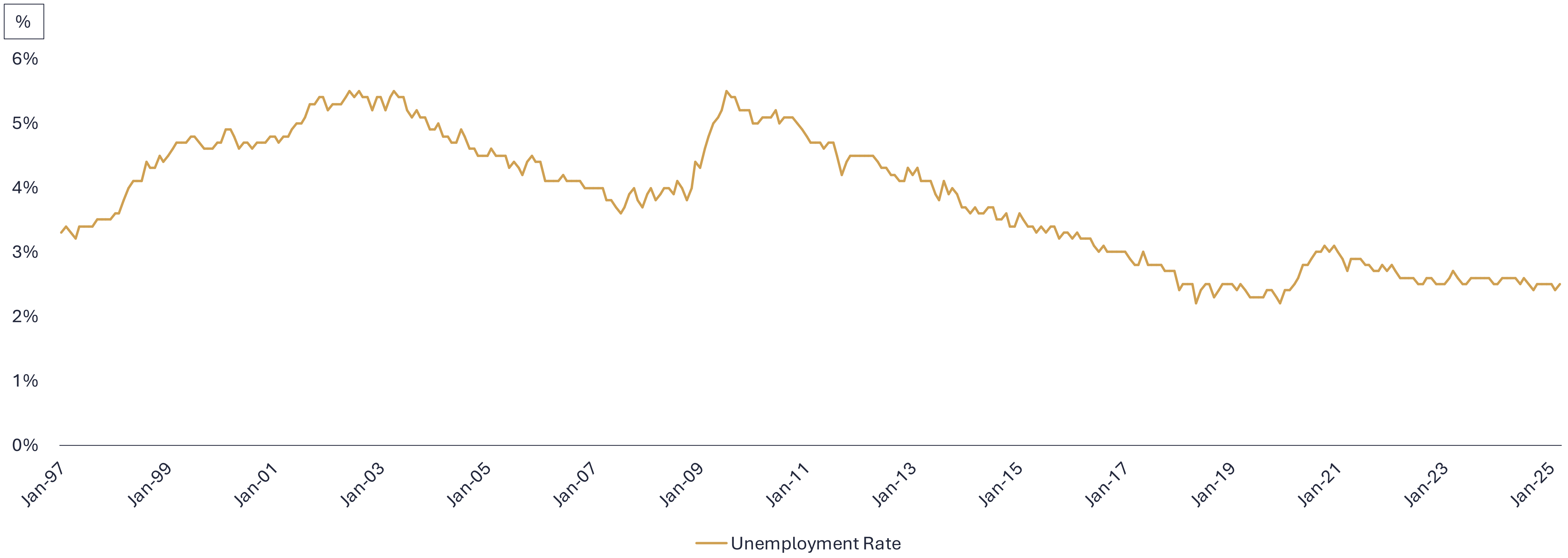
Japan Overview—Economic Backdrop

- Inflation is running above 2% (for now) and tight labor markets suggest price pressures could be sustained
  - Spring shunto wage negotiations thus far suggest a domestic wage-price cycle that might sustain higher inflation
- Corporate governance reforms on the Tokyo Stock Exchange could be a game changer
- The consumer response to sustained higher inflation could represent a paradigm shift for consumption and investing
- Political change could increase uncertainty and market volatility in the near-term

Note: Opinions as of June 2025 and subject to change

Japan's Labor Market Is Tight

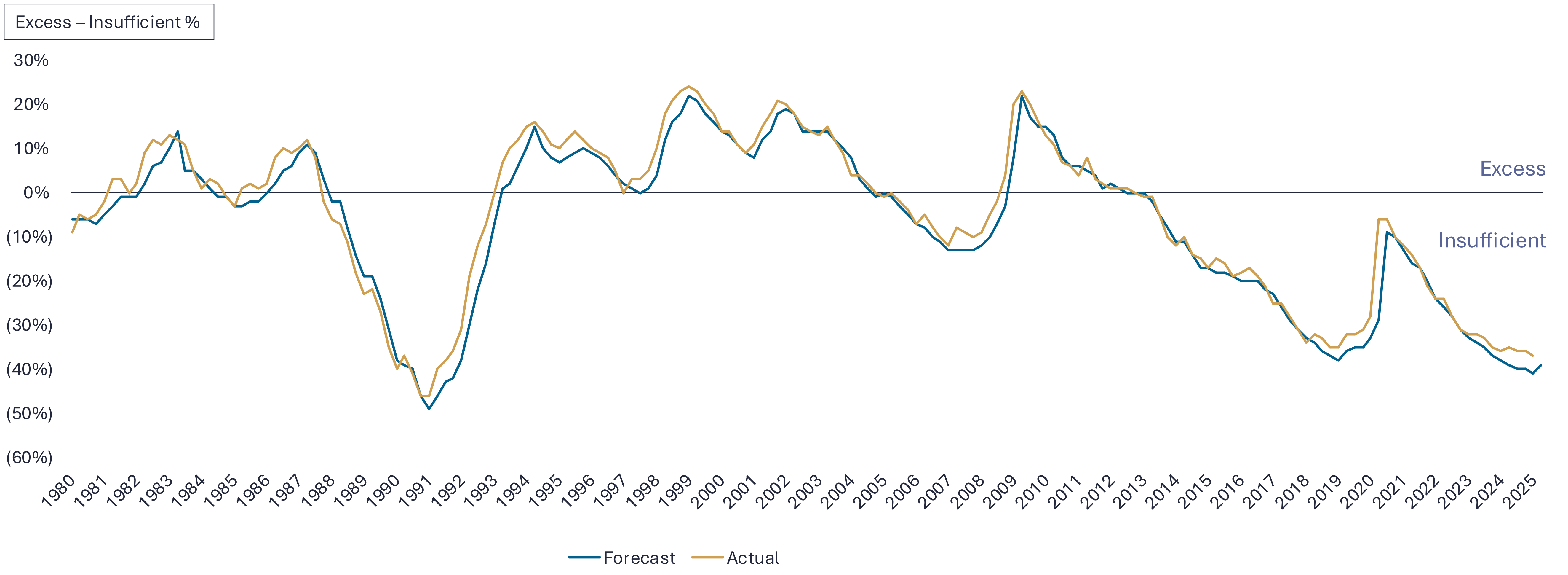
Unemployment Rate



Source: Ministry of Internal Affairs and Communication, Haver Analytics
Note: As of March 2025

Japan's Labor Market Is the Tightest since 1991

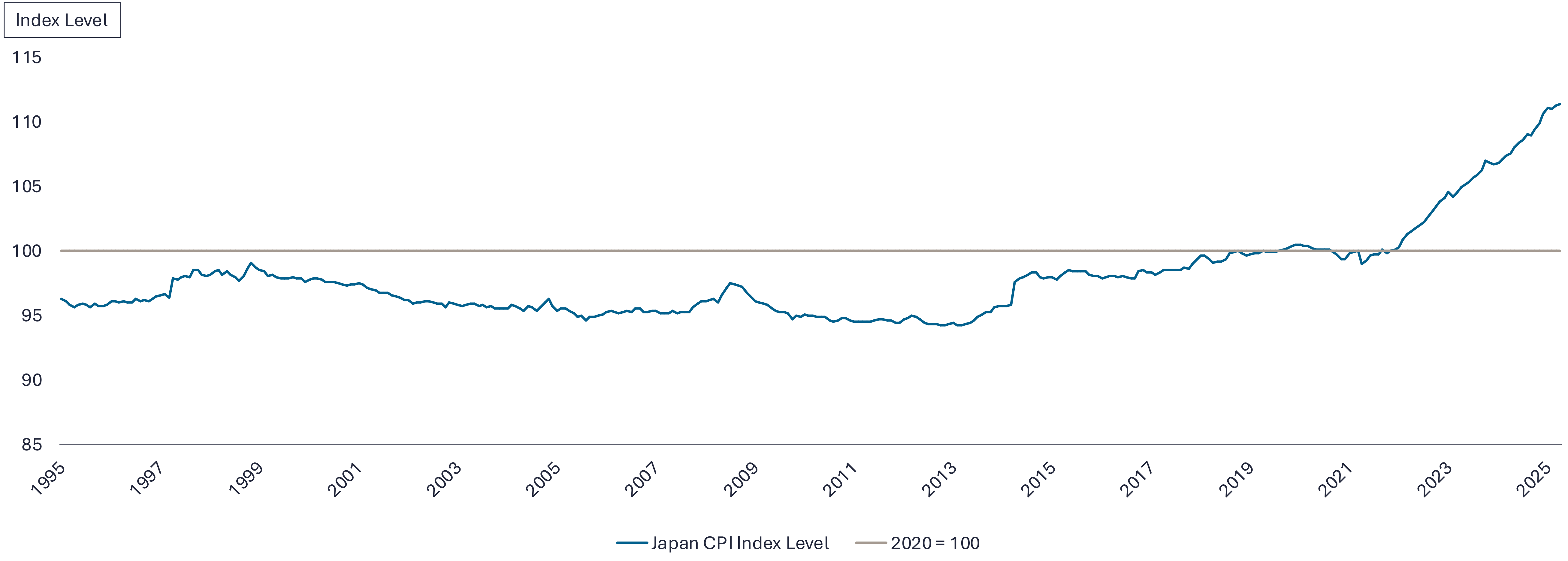
Tankan Survey of Enterprises, Employment Conditions



Source: Bank of Japan, Haver Analytics
Note: As of March 2025

After Decades of Price Stability, Inflation Took Off since Late 2021

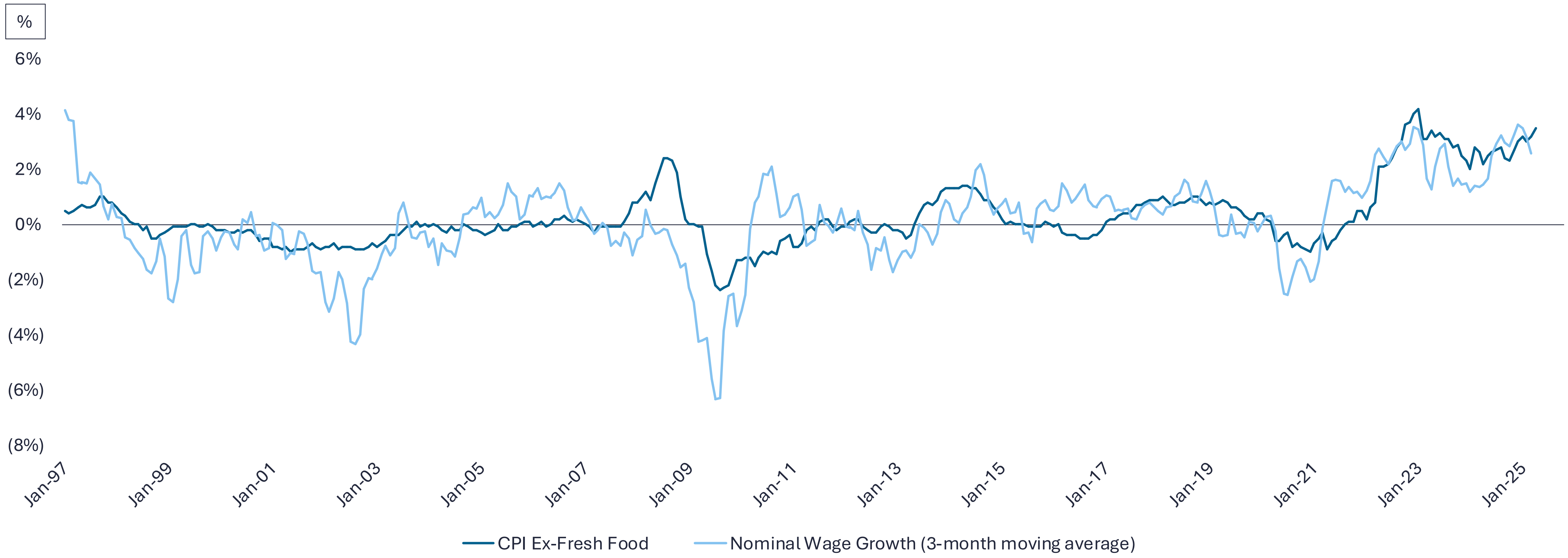
Japan General Consumer Price Index (SA, 2020 = 100)



Source: Japan Ministry of Internal Affairs and Communications, Haver Analytics
Note: As of April 2025

Despite Labor Market Tightness, Japanese Real Wages Have Declined in Recent Years

Wages and Inflation



Source: Bank of Japan, Ministry of Health, Labor, and Welfare, Haver Analytics
Note: As of April 2025 for CPI Ex-Fresh Food. As of March 2025 for Nominal Wage Growth

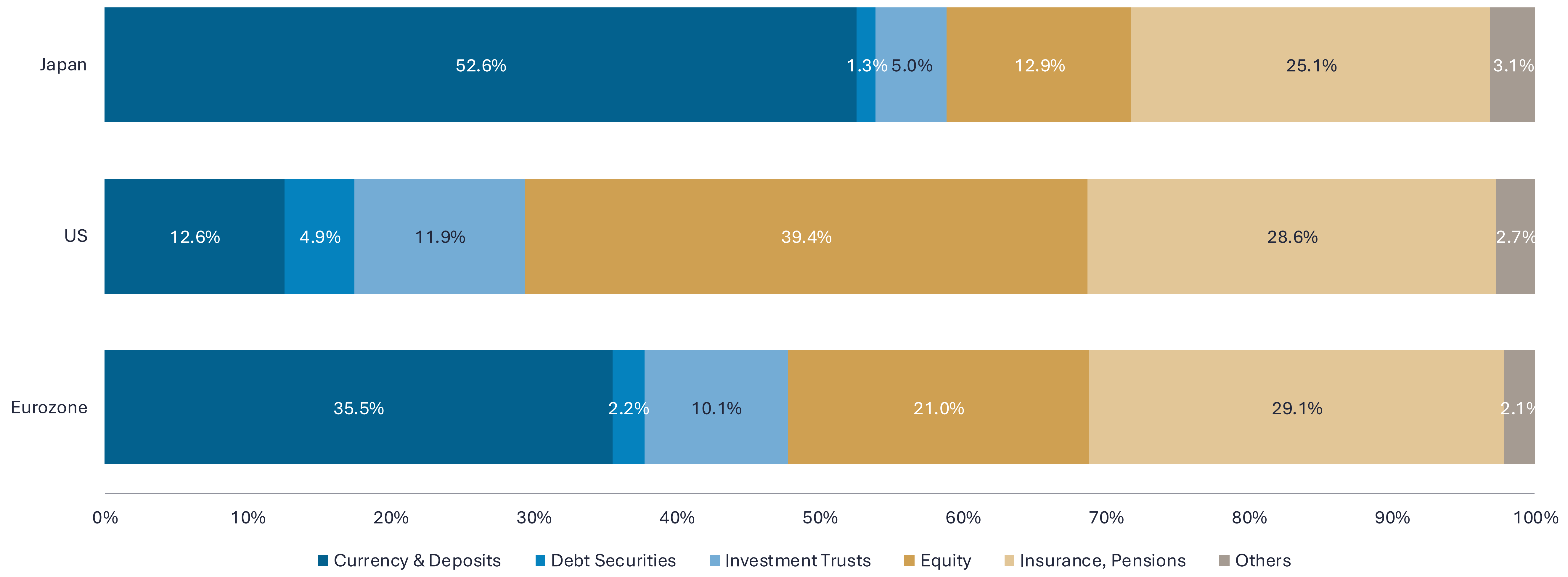
The Tokyo Stock Exchange (TSE) Is Driving Corporate Governance Improvements

- Requiring action plans to address share prices trading at low valuation multiples
  - In January 2023, TSE urges listed companies to enhance medium- to long-term corporate value, including promoting "cost of capital conscious management"
  - Initially, companies with a price/book ratio consistently <1x were requested to disclose their action plans. The TSE subsequently extended the directive to even higher valuation companies.
  - As of 31 January 2025, 91% of Prime Listed and 49% of Standard Listed companies have made such disclosures.
  - Starting in January 2025, the TSE has also listed companies that wish to have more contact from institutional investors with 12% of Prime Listed companies and 2% of Standard Listed companies seeking additional contact.
- Attracting global investors to Japanese equities by improving timely disclosure of financials in English
  - No later than April 2025, all Prime Market companies must disclose key financial statements in English and Japanese simultaneously. As of fiscal year 2024, 52% of companies provided full disclosure in English, up from 48% the prior year, but far short of 100%.

Source: Bernstein, Japan Exchange Group
Note: As of January 2025

Japanese Households Have Much Lower Equity Ownership than Global Peers

Allocation of Household Financial Asset Holdings

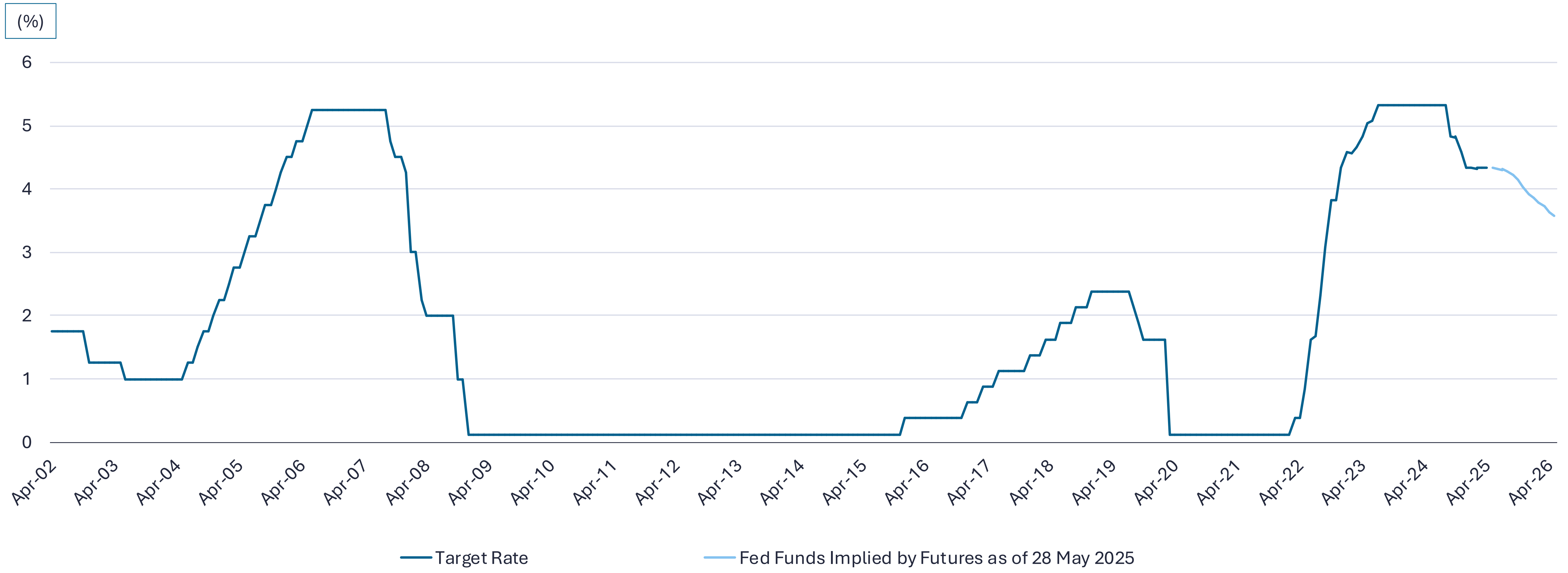


Source: Bank of Japan, Goldman Sachs, Lazard
Note: As of December 2023 for Japan. As of March 2023 for Eurozone and United States.

VI Investment Implications

Markets Are Pricing ~46 bps of Additional Fed Easing through 2025*

Federal Reserve Target Rate and Implied Rate through May 2026



Source: Bloomberg, Chicago Mercantile Exchange, Federal Reserve
Note: As of 28 May 2025
* Markets imply a 2% chance of a 25-bps rate cut at the June meeting and a 23% chance of an additional 25-bps cut at the July meeting.

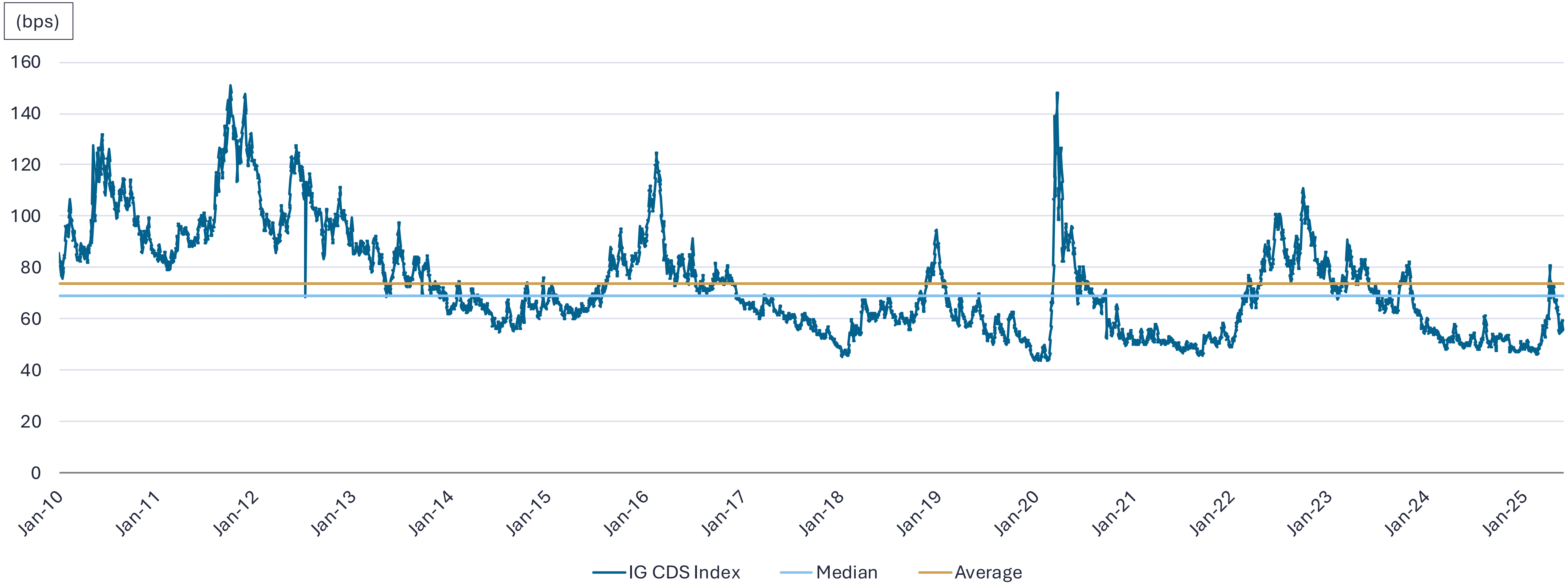
US Breakevens Imply Inflation of ~2.4% Over the Next Five Years

Five-Year Breakeven Inflation Rate

Source: Bloomberg
Note: As of 16 May 2025

The Cost of Protection in the Investment Grade CDS Market Surged from Mid-February before Subsiding

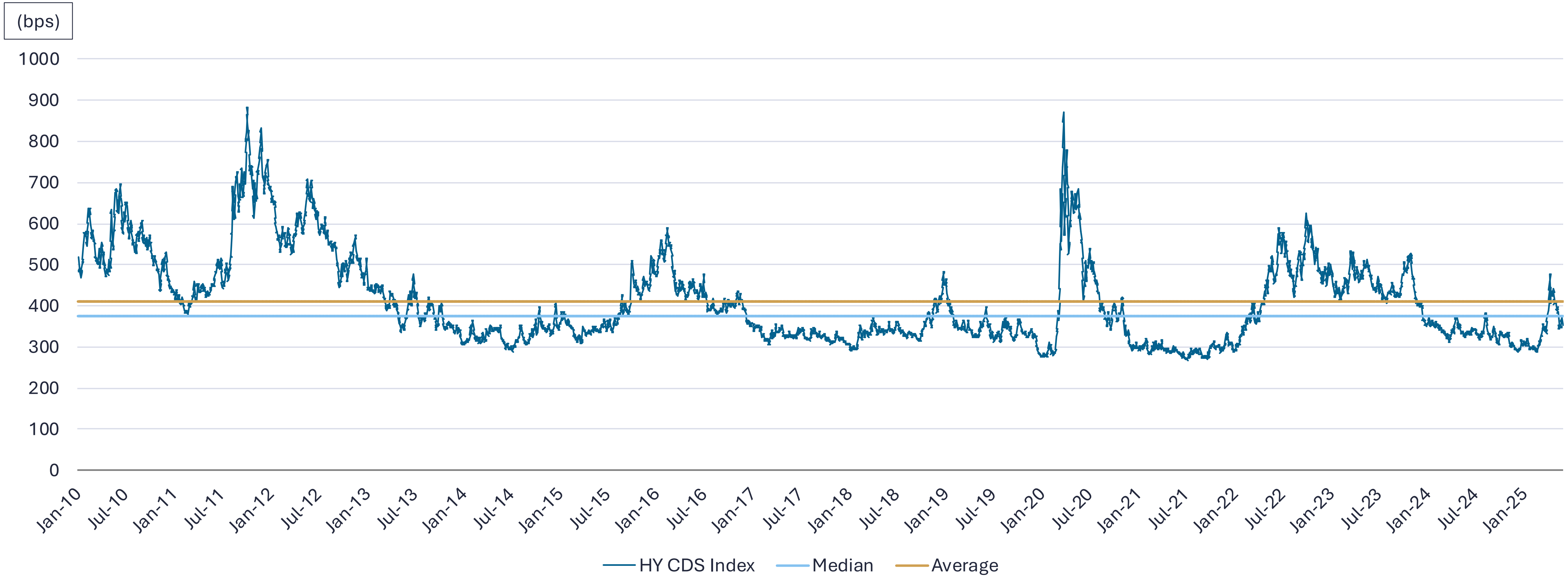
Markit CDX North America Investment Grade Index



Source: Bloomberg, Markit
Note: As of 28 May 2025

The Cost of Protection in the High-Yield CDS Market Increased 50% in < 2 Months before Subsiding

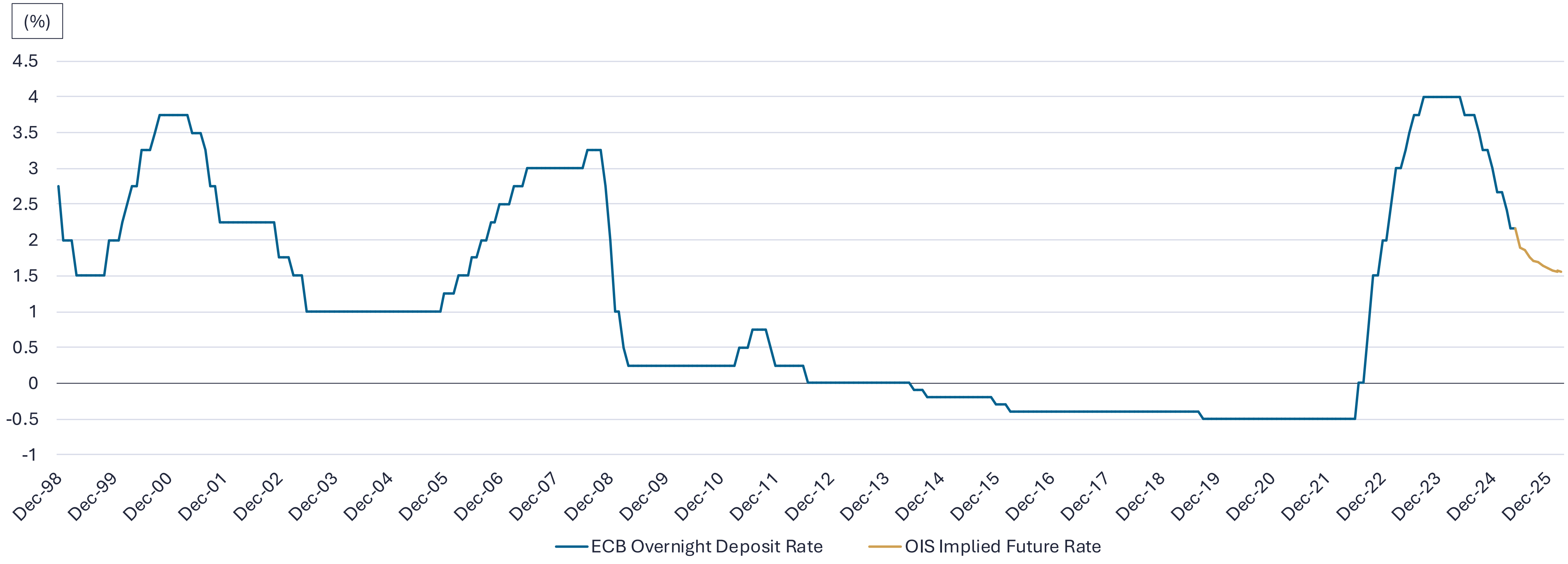
Markit CDX North America High Yield Index



Source: Bloomberg, Markit
Note: As of 28 May 2025

Markets Suggest ~56 bps of Additional ECB Rate Cuts through 2025*

Implied Eurozone Deposit Rate through March 2026



Source: Bloomberg
Note: As of 28 May 2025
* Markets imply a 100% chance of a 25-bps rate cut at the June meeting and a 27% chance of an additional 25-bps cut at the July meeting.

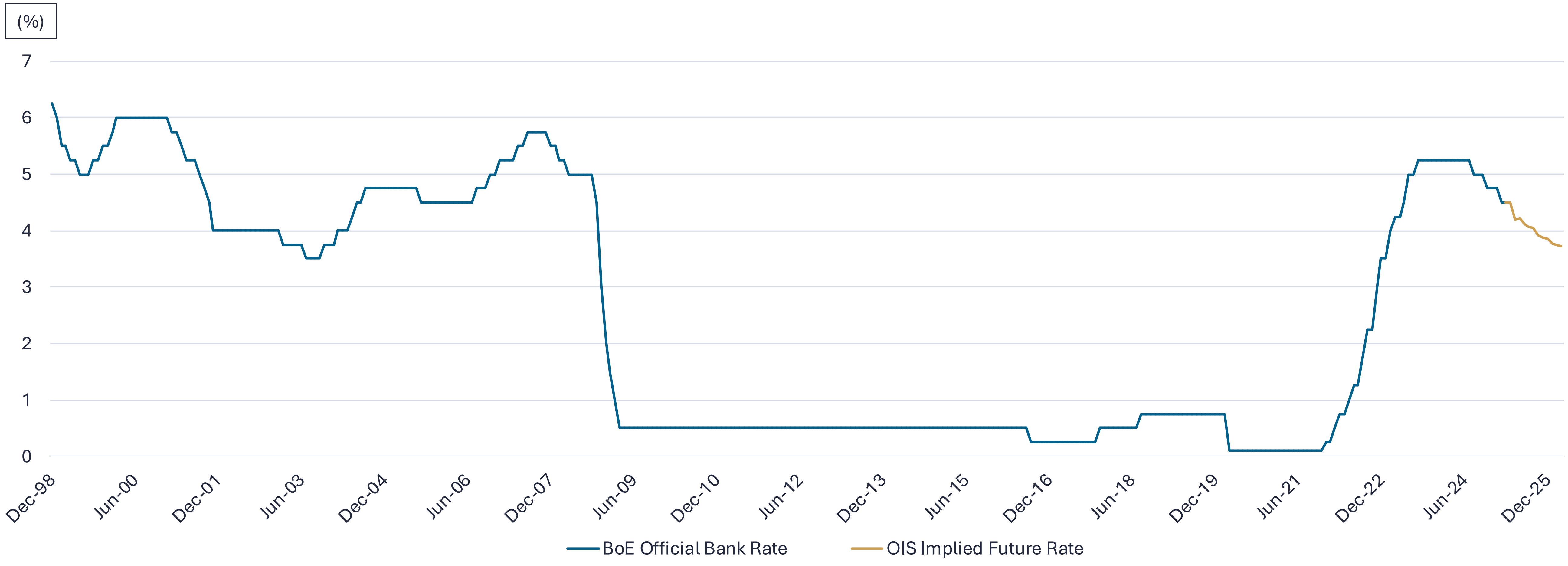
German Breakevens Imply Inflation of ~1.8% Over the Next 7 Years

Seven-Year Breakeven Inflation Rate

Source: Bloomberg
Note: As of 28 May 2025

Markets Suggest ~36 bps of Additional BoE Rate Cuts through 2025*

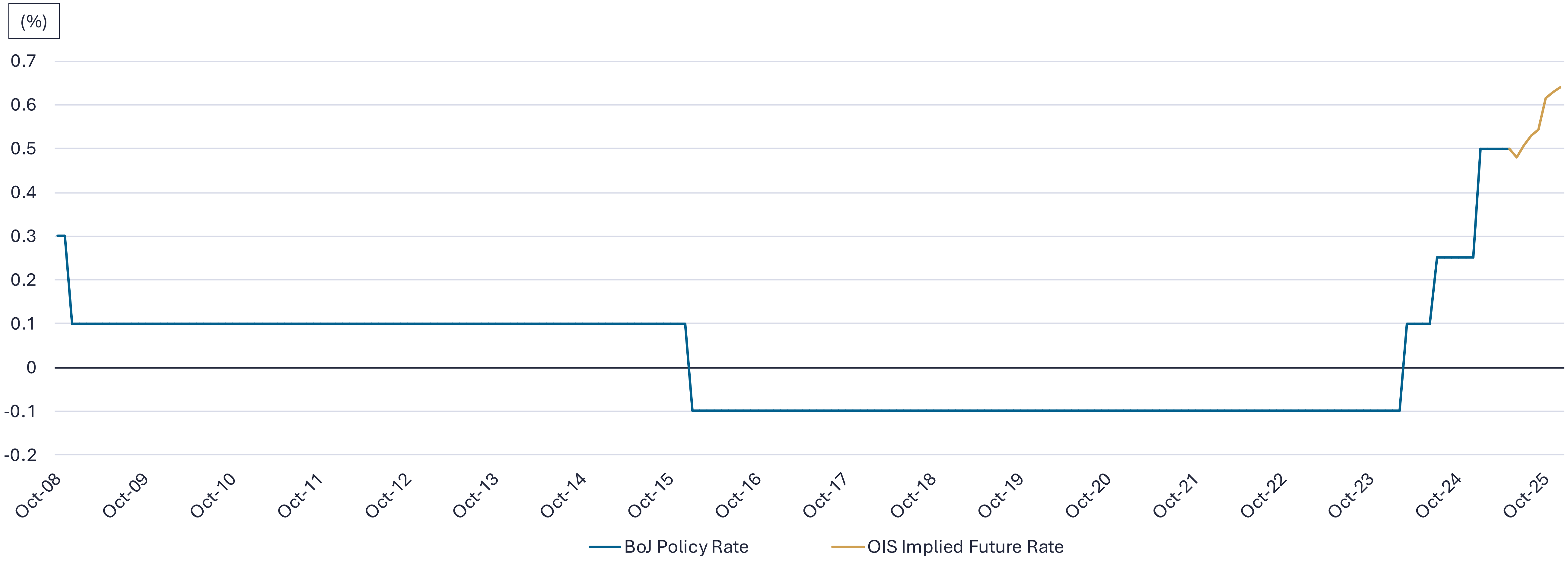
Implied Eurozone Deposit Rate through March 2026



Source: Bloomberg
Note: As of 28 May 2025
* Markets currently imply a 2% chance of a 25-bps cut in June and a 48% chance of an additional 25-bps cut in August.

Markets Suggest ~16 bps of Additional BoJ Rate Hikes through 2025*

Implied Eurozone Deposit Rate through December 2025

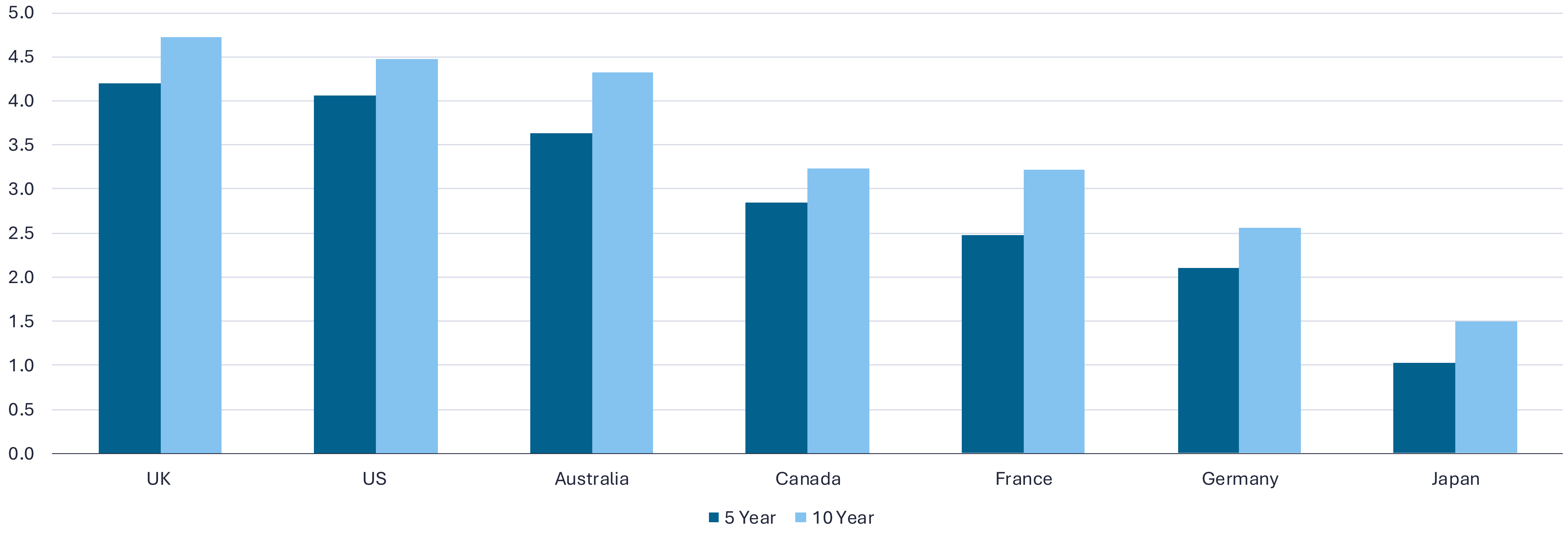


Source: Bloomberg
Note: As of 28 May 2025
* Markets currently imply a 2% chance of a 25-bps hike at the June meeting and a 13% chance of one 25-bps hike through July.

Longer Duration Yields Remain below Fair Value

Five- and Ten-Year Bond Yields

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

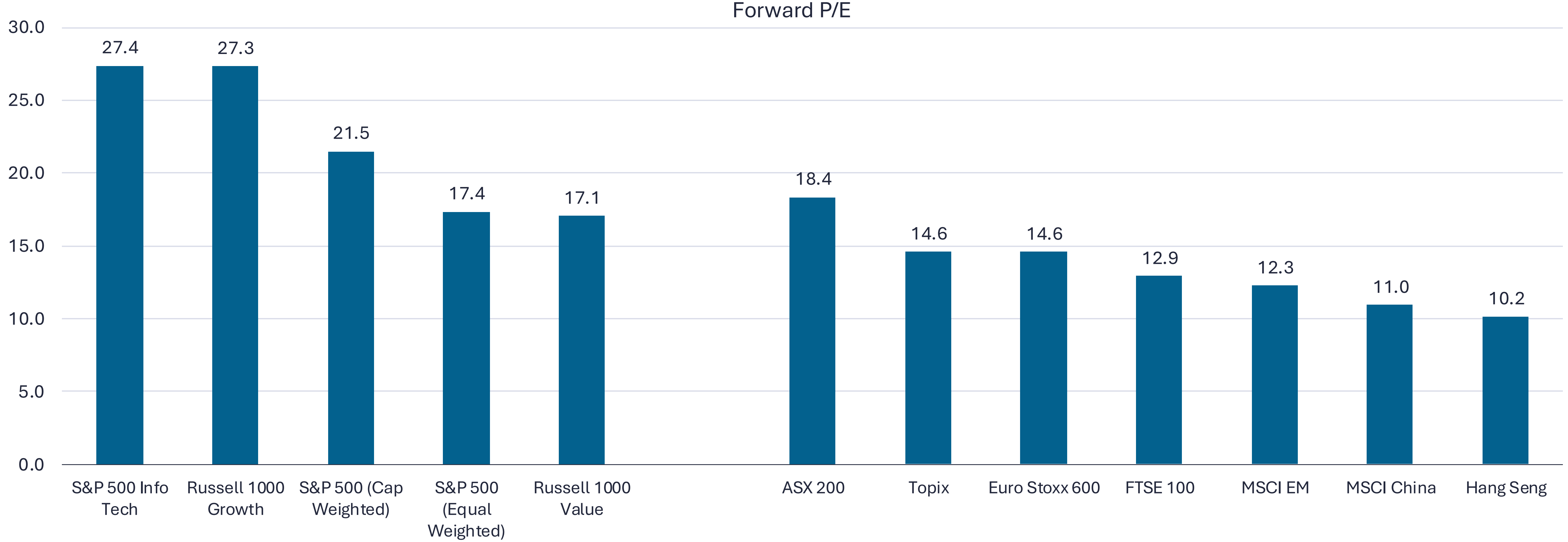


Source: Bloomberg
Note: As of 28 May 2025

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

Forward P/E

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

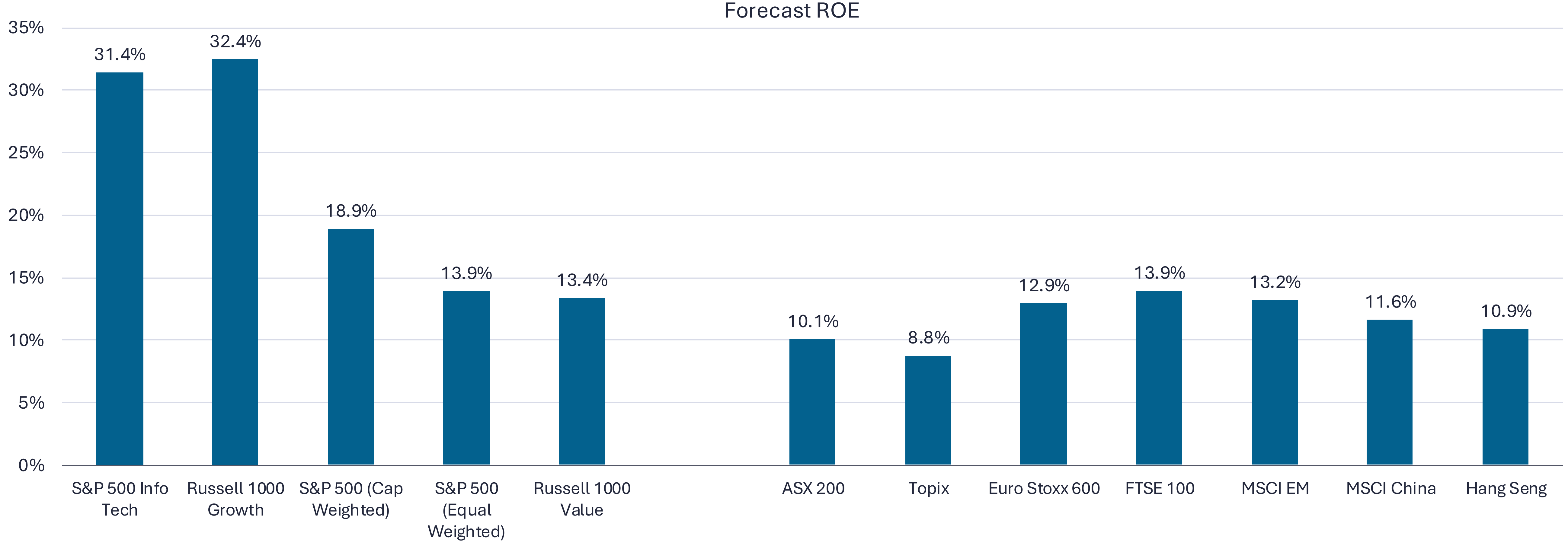


Source: Bloomberg
Note: As of 28 May 2025

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

Forecast ROE

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



Source: Bloomberg
Note: As of 28 May 2025

Conclusions—Economic Backdrop

- The US economy was strong entering 2025, but the US-initiated trade war has significantly increased downside risks
  - Tariffs are an immediate challenge, but rising fiscal deficits and inflation arising from stricter immigration enforcement also pose risks
- Eurozone growth was poised to improve in 2025, but US trade policy could trigger another year of stagnation
  - The outlook beyond 2025 has brightened due to Germany’s fiscal pivot and ECB easing, but US tariffs represent a near-term headwind
- China now faces not only a real estate crisis, but trade headwinds from the United States
  - Fiscal stimulus announcements have fallen short to date, but China is likely to significantly increase its support of the economy
- Japan’s multi-year inflation normalization process is likely to continue with capital optimization offering an idiosyncratic opportunity
  - Governance and takeover code reforms alongside sustained inflation and wage growth could force meaningful changes for corporations

Note: Opinions as of June 2025 and subject to change

Conclusions—Market Observations

- Interest rates:
  - The US rates market is conflicted between lower rates due to slowing growth and higher rates due to capital reallocation away from the US
  - European rate curves have steepened as investors balance likely ECB rate cuts in 2025 against less fiscal conservatism beyond
- Developed market credit spreads widened substantially in April only to tighten again since
  - Growth is likely to slow in 2025 and 2026, but recession remains unlikely
  - Even without a recession, credit quality is likely to suffer as weaker growth and higher cost pressures pinch companies
- After a sharp initial sell-off driven by US trade policy, equity markets have rebounded strongly
  - While the worst trade-related uncertainty has likely passed, US earnings expectations are too high, and multiples are not cheap
  - Non-US equity market valuations appear more attractive, but trade-related risks can have a more magnified impact on non-US markets

Note: Opinions as of June 2025 and subject to change

Conclusions—Asset Allocation Implications

- Fixed Income:
  - More attractive: Short- to Intermediate-duration bonds, higher credit quality, convertible bonds
  - Considerations: Increased volatility likely to be sustained as the trade war increases uncertainty around growth, inflation, and default risk
- Equities:
  - More attractive: Quality at attractive valuation, non-US equities with preference for Japan and EM
  - Considerations: Security selection will be critical globally as trade war effects vary significantly across countries, sectors, and companies
- Alternatives:
  - More attractive: Income producing real assets, e.g., infrastructure
  - Considerations: If interest rates remain at higher levels, returns on leveraged assets could be reduced relative to historical levels

Note: Opinions as of June 2025 and subject to change

VII 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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Questions