Lazard Multi-Asset Team
Letter from the Manager

APR
2020

Changes to the Market Forecast (7 April 2020)

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
24% No Change	35% Down 4%	31% Up 2%	10% Up 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.

The markets' reaction to the global spread of COVID-19 has been sudden and fierce. Some countries in Asia, especially China, felt the impact sooner and are now attempting to recover. Others, primarily in Europe and the Americas, are focused on minimizing economic damage, while trying to avoid overstressing their health care systems by "flattening the curve" of coronavirus case increases through social distancing and other measures. Looking out over our 6- to 12-month forecast horizon, we are focused on three points of a risk-reward triangle: the behavior of the virus; monetary actions to provide liquidity and support for certain market segments; and fiscal actions to support household and business sectors. Forecasting the "shape" of the eventual recovery in economic activity is no easy task; we will continue to assess the three points above in an attempt to determine whether the global economy rebounds vigorously (V-shape), gradually (U-shape), erratically (W-shape), or (we hope not) unimpressively (L-shape).

Economy

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

Depression/ recession	Below trend	Stable growth	Overheating
27% Down 10%	33% Up 1%	33% Up 7%	7% Up 2%

COVID-19 continues to harm business conditions globally and will result in sharply weaker economic reports in coming months. Given the sudden onset of the virus, the speed of its spread, and the extent of government actions, the lag between surveys and the release of economic data makes it seem as though we are in the eye of a hurricane. Early indicators in Europe and the Americas suggest that key employment and GDP statistics will generate headlines that may prove shocking.

Valuation

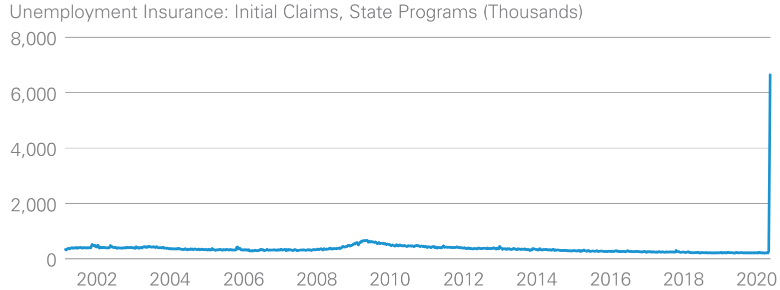
What is the outlook for business costs, profit margins, and returns over the next six-to-twelve months?

Poor	Moderate	Positive	Bright
30% Up 4%	43% Down 3%	21% No change	6% Down 1%

The deterioration of employment conditions is unprecedented. At the outset of 2020, the US unemployment rate was at a 50-year low, and hourly workers were finally experiencing wage gains above inflation. But new claims for unemployment insurance have surged, and even more applications are yet to be processed. The impact on the widely followed unemployment rate will probably be spread over two or three months.

Record Level of Weekly Unemployment Claims

Unemployment Insurance: Initial Claims, State Programs (Thousands)



As of 28 March 2020
Data are seasonally adjusted
Source: Department of Labor

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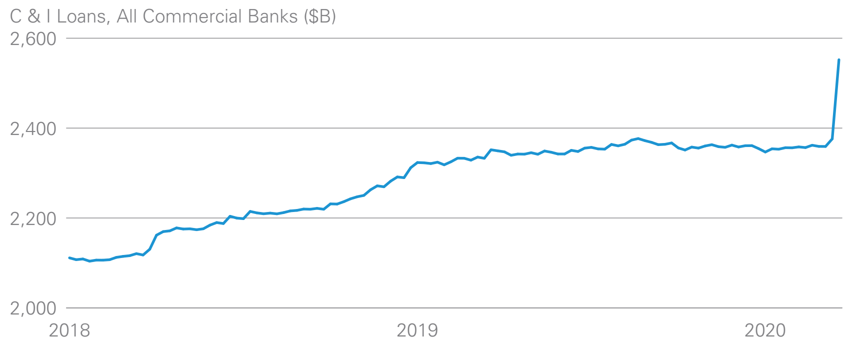
Liquidity

How are credit markets likely to be characterized over the next six-to-twelve months?

Very weak	Weak	Normal	Very strong
17% Up 5%	33% Down 2%	38% Down 7%	12% Up 4%

Many businesses around the world—particularly travel, in-person entertainment, discretionary shopping, dining, etc.—face a liquidity crunch and are seeking to establish or utilize credit lines with lenders. In most cases, large commercial banks are extending these loans; the Federal Reserve reports a sharp increase ($176 billion by the end of March) in Commercial & Industrial loans. As expected, the Fed and other central banks around the world have responded quickly to provide expansive liquidity.

Surge in Commercial and Industrial Loans



As of 25 March 2020
Data are seasonally adjusted
Source: Federal Reserve Board

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
22% Up 1%	33% Down 10%	30% Up 5%	15% Up 4%

Despite the steep decline in risk markets and signs of a sharp economic contraction, reports from advisors that many individual investors are relatively comfortable with existing allocations, and are in fact looking for opportunities to increase exposure, potentially suggest a resilient complacency. Much is still unknown about the behavior of the virus, but the speed and size of fiscal measures to help cushion the economic impact are impressive, and we expect to see even more support in the near future.

Current Six-to-Twelve Month Global Market View

Investors now face a barrage of negative economic reports, especially as policy success in “flattening the curve” would mean that the economic contraction could last longer than several months. Typically, a drop of the magnitude seen so far in risk assets would improve valuations, but the virus poses the risk of a “new normal” for many sectors dependent on gatherings of consumers. There is no recent precedent for a situation where so many companies—often with substantial debt loads and fixed expenses—face such steep cuts to revenues. On the other hand, human ingenuity will likely find therapeutic treatments for the virus, devise ways to battle equipment shortages, and develop a vaccine to help protect individuals in the future. Some regions are also starting to recover from the pandemic just as it intensifies in others. Having positioned to weather a substantial drawdown in risk assets, we will look to close out the most defensive exposures and selectively rotate toward assets that will benefit from such a recovery.

Favor

- Defensive, low volatility equities
- Quality, large-cap equities
- High-quality investment grade corporate/ sovereign debt

Avoid

- Economically sensitive small-cap equities
- Cyclical equities
- High yield corporate bonds

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