

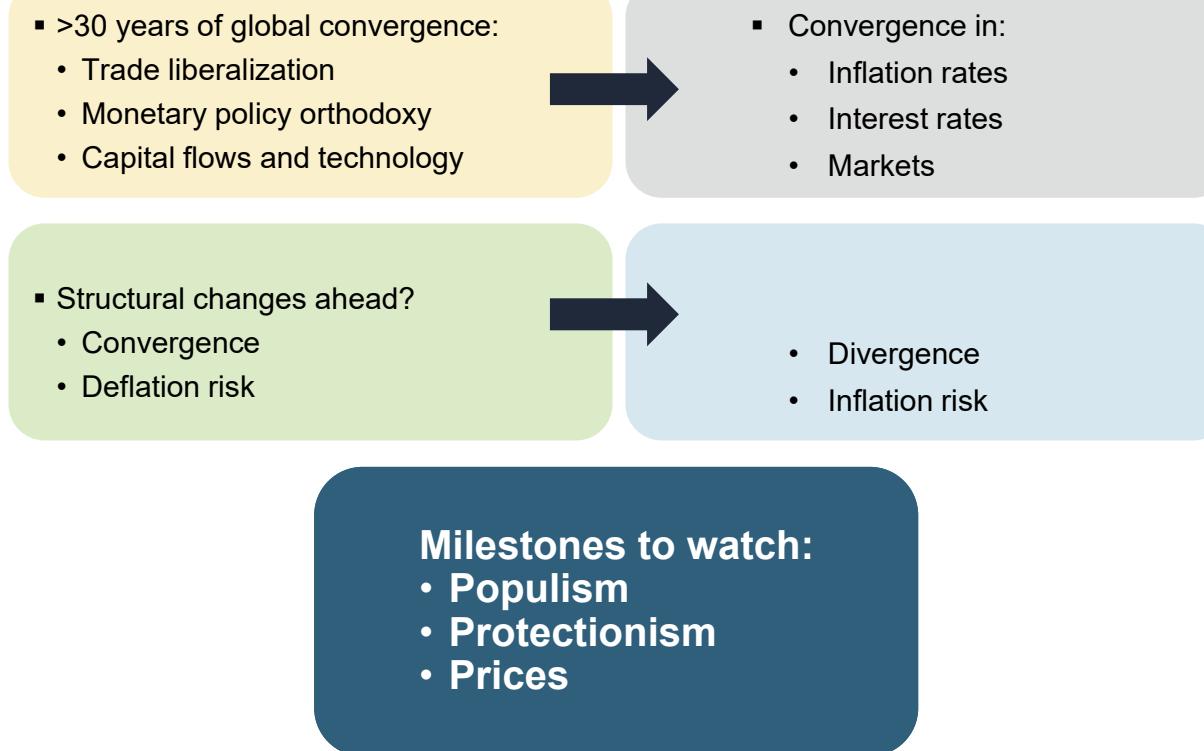


The winds of change are stronger than you think

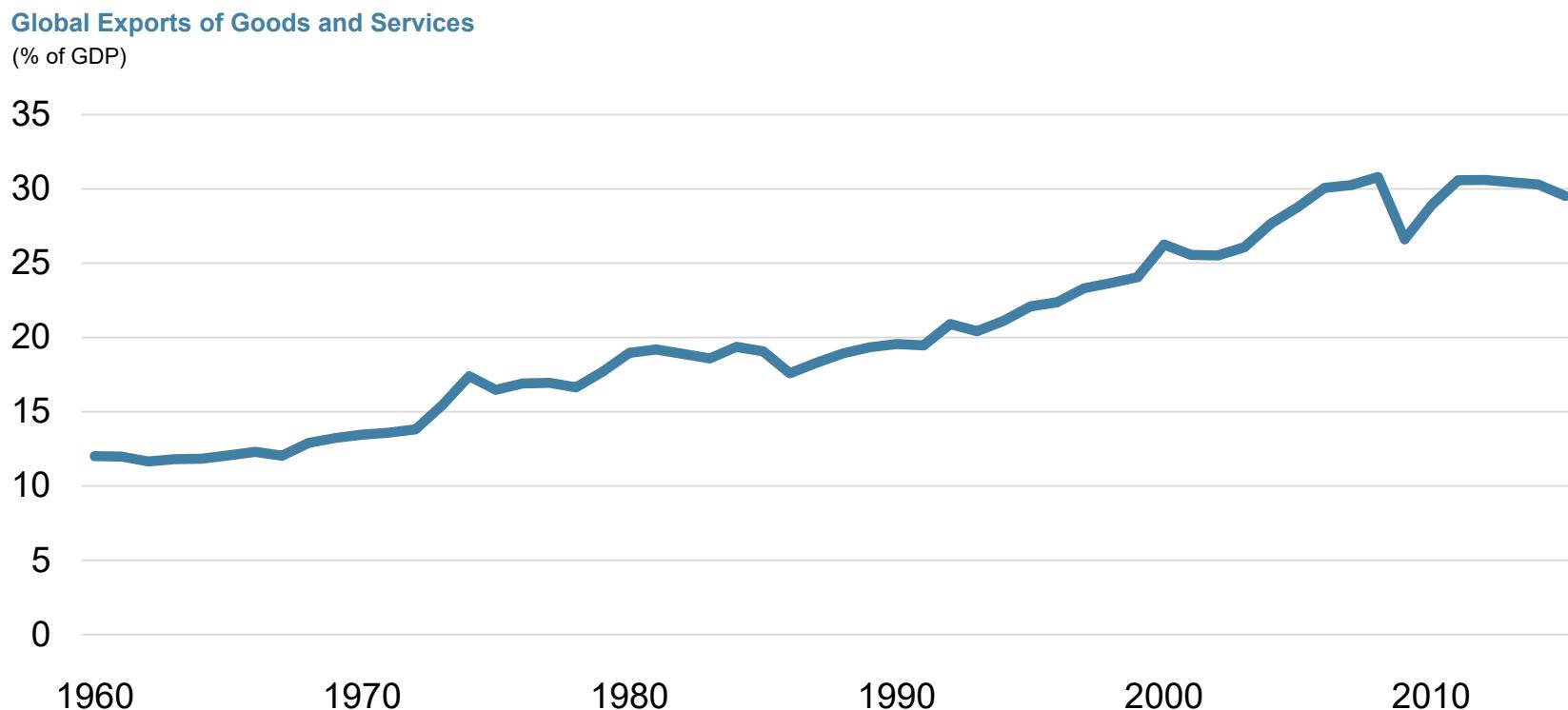
Ronald Temple, CFA

Managing Director, Co-Head of Multi-Asset & Head of US Equity,
Lazard Asset Management (New York)

Globalization Backlash: Populism, Protectionism & Prices



Global Trade Growth Outpaced GDP Growth for Decades

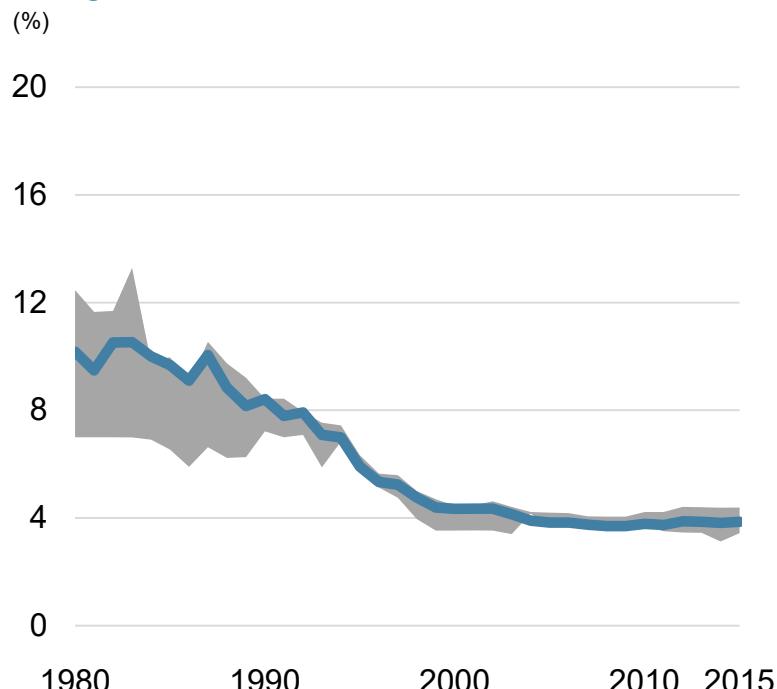


As of 2015.
Source: World Bank World Development Indicators

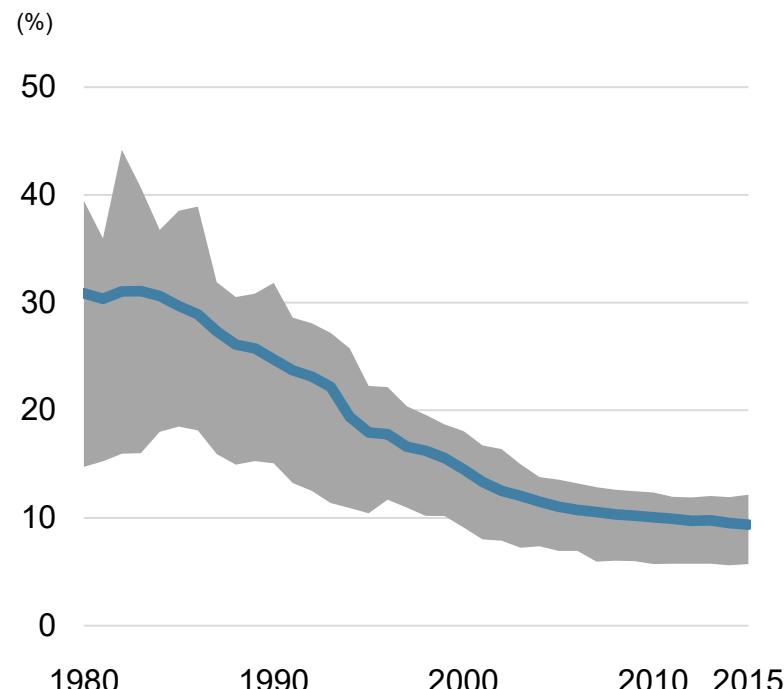
3 | Lazard Asset Management

Trade Barriers Declined Globally

Average Tariffs in Advanced Economies



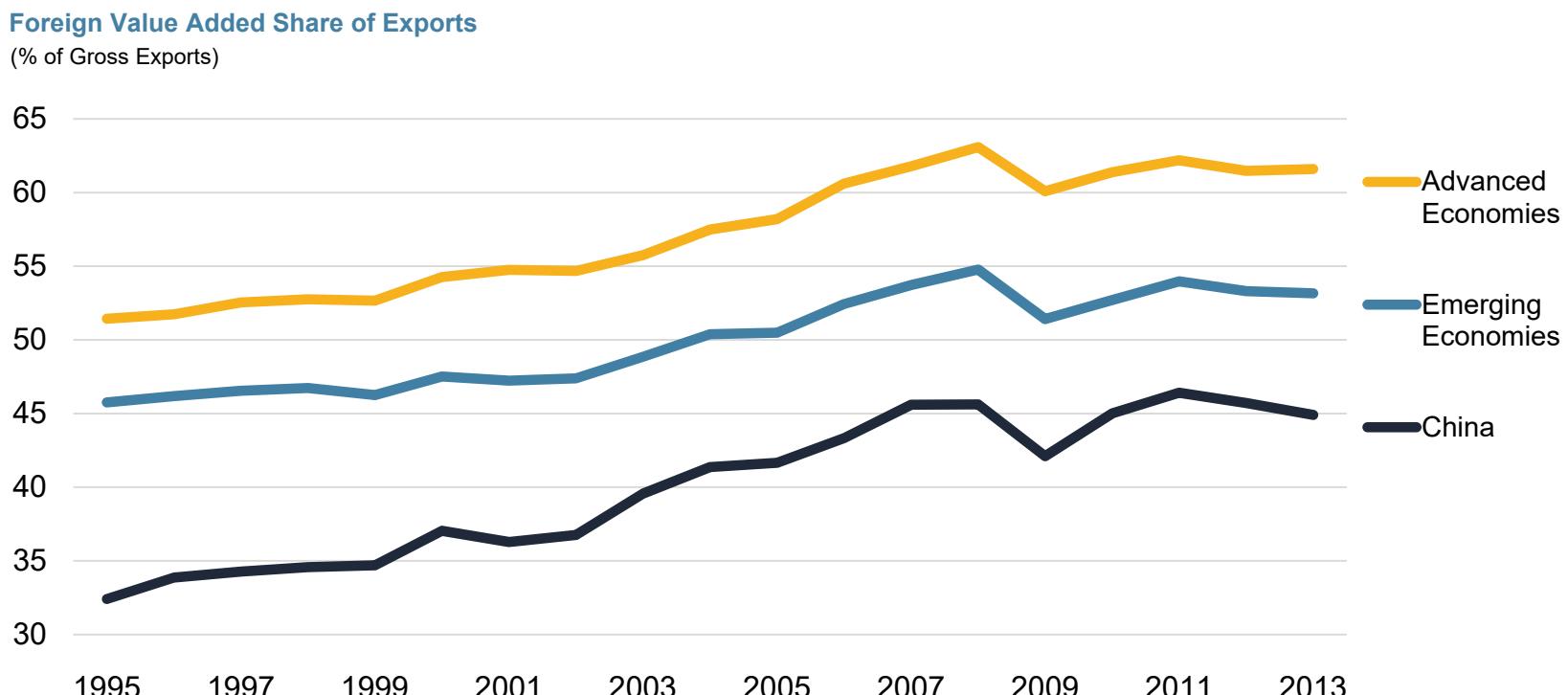
Average Tariffs in Emerging and Developing Economies



As of 2015
Grey shaded regions indicate the interquartile range.
Source: IMF World Economic Outlook October 2016

4 | Lazard Asset Management

Global Value Chains Became More Important



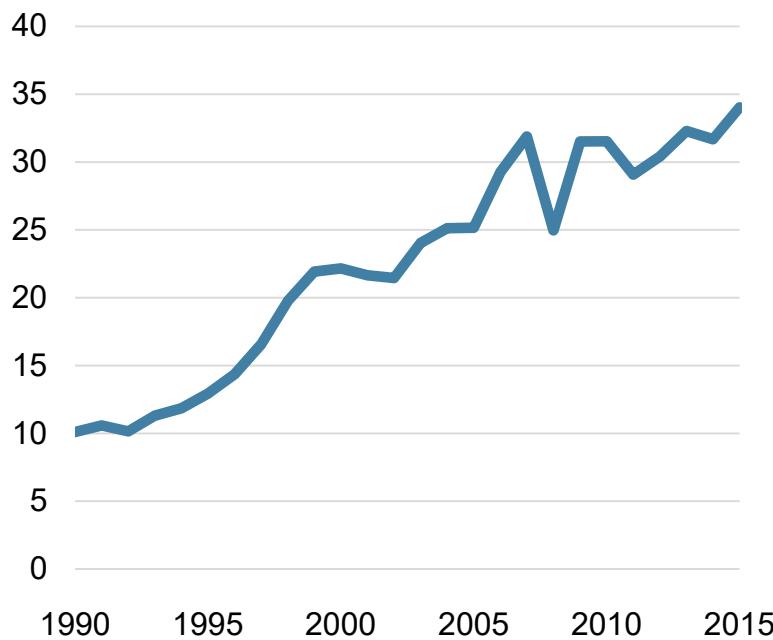
As of 2013

Averages are weighted averages. Shares are (Foreign Value Added in Exports + Domestic Content in Exports Re-used in Partner's Exports) / Gross Exports.
Source: IMF World Economic Outlook October 2016

Capital Increasingly Crosses Borders

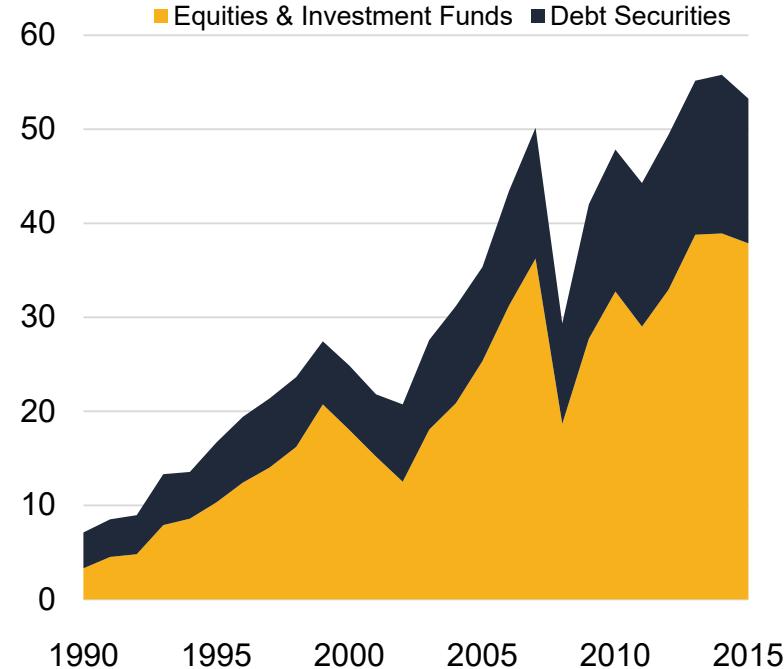
World FDI Outward Stock

(% of GDP)



US International Portfolio Investment Assets

(% of GDP)



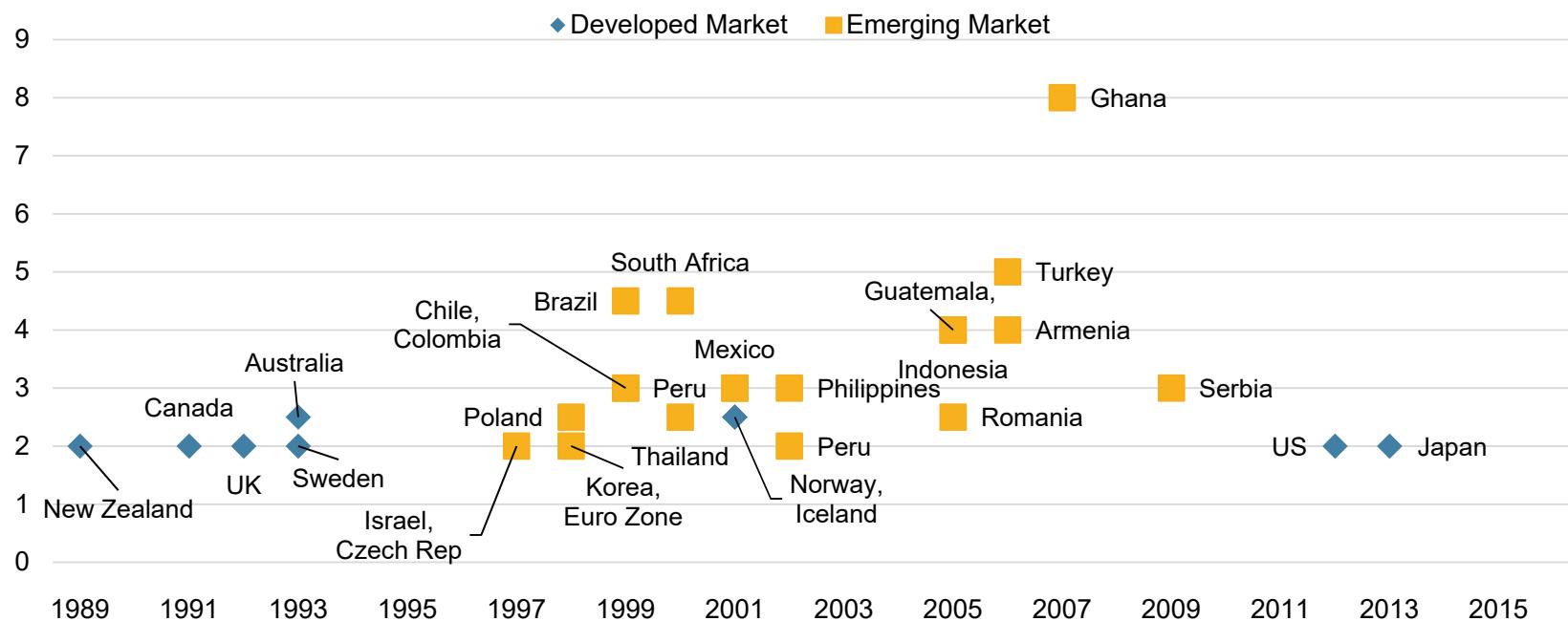
As of 2015

Source: UNCTAD World Investment Report 2016, US Bureau of Economic Analysis, Haver Analytics

Monetary Policy Converged Globally

Introduction of Inflation Targeting By Central Banks

Current Inflation Target (%)



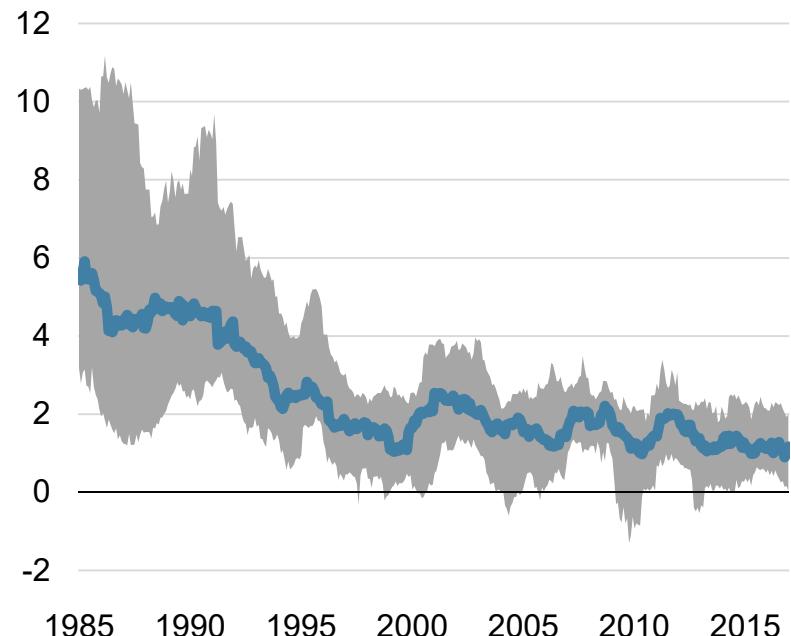
As of 2015
 Dates correspond to formal adoption. Chart adds the US and Japan to countries listed in the BOE report. Inflation targets are current targets. Marker indicates midpoint of inflation target ranges.
 Source: Bank of England, "State of the Art of Inflation Targeting – 2012", central bank websites

7 | Lazard Asset Management

Inflation and Interest Rates Converged

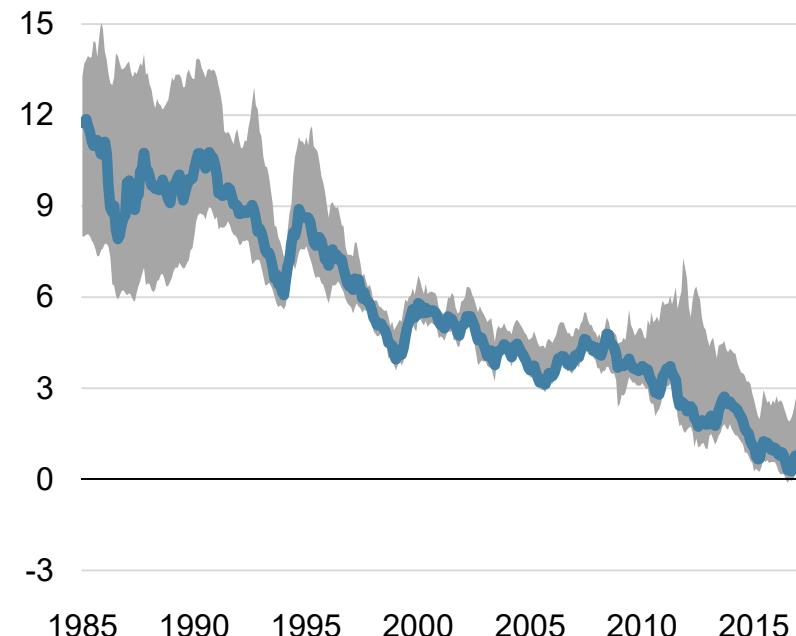
Core CPI in 20 Developed Economies

YOY Change (%)



10Y Government Bond Yields in 20 Developed Economies

(%)



As of December 2016

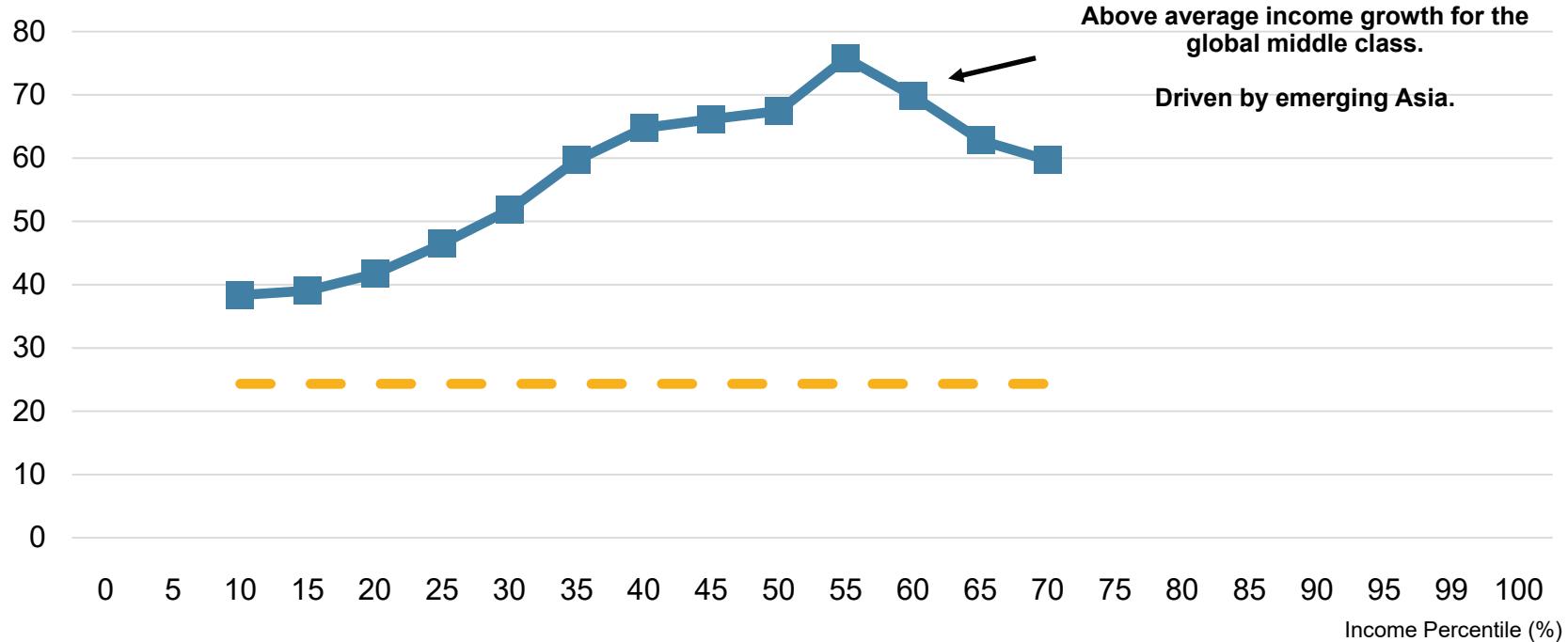
Sample includes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK, US. Australia and New Zealand CPI are disaggregated quarterly data series.

Source: national sources, Haver Analytics

Globalization Made the World Smaller...

Increase in Real Income by Percentile of Global Income, 1988-2008

Increase in Real Income (%)



Incomes are purchasing-power parity adjusted. Y-axis displays the growth rate of the fractile average income (in 2005 PPP USD). Weighted by population. Growth incidence evaluated at ventile groups (e.g. bottom 5%); top ventile is split into top 1% and 4% between P95 and P99. The horizontal line shows the growth rate in the mean of 24.34% (1.1% p.a.).

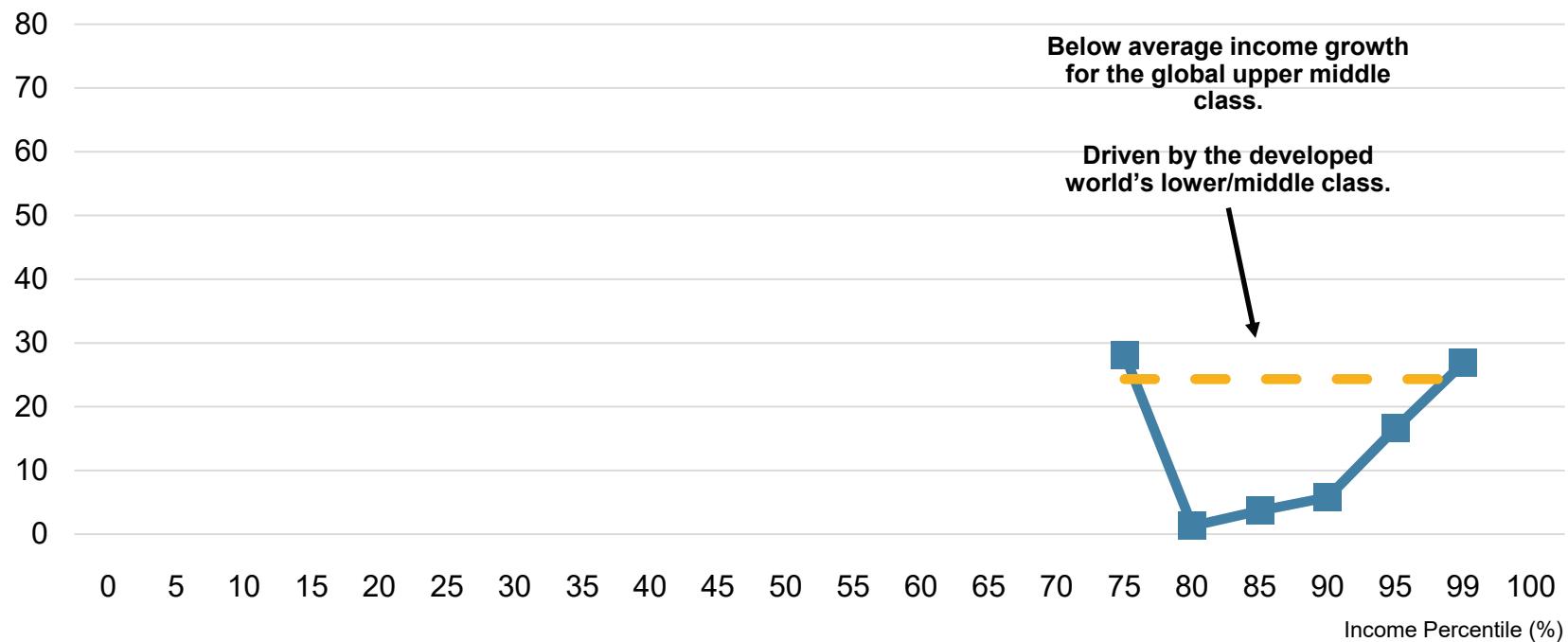
Source: Lakner, Christoph and Branko Milanovic. "Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession". World Bank Economic Review, 2016 30(2): 203-232. First published online August 12, 2015.

9 | Lazard Asset Management

...But Also Exposed Stress

Increase in Real Income by Percentile of Global Income, 1988-2008

Increase in Real Income (%)



Incomes are purchasing-power parity adjusted. Y-axis displays the growth rate of the fractile average income (in 2005 PPP USD). Weighted by population. Growth incidence evaluated at ventile groups (e.g. bottom 5%; top ventile is split into top 1% and 4%) between P95 and P99. The horizontal line shows the growth rate in the mean of 24.34% (1.1% p.a.).

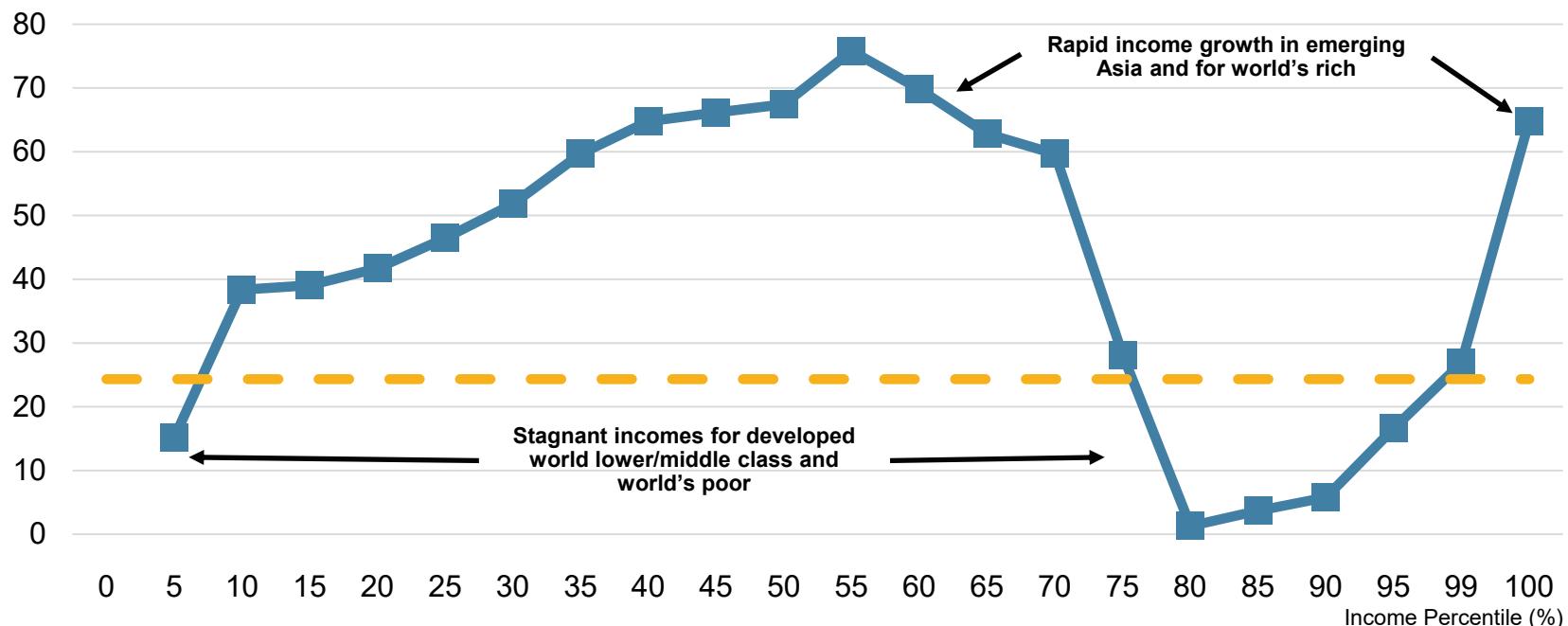
Source: Lakner, Christoph and Branko Milanovic. "Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession". World Bank Economic Review, 2016 30(2): 203-232. First published online August 12, 2015

10 | Lazard Asset Management

Globalization Made the World Smaller But Also Exposed Stress

Increase in Real Income by Percentile of Global Income, 1988-2008

Increase in Real Income (%)

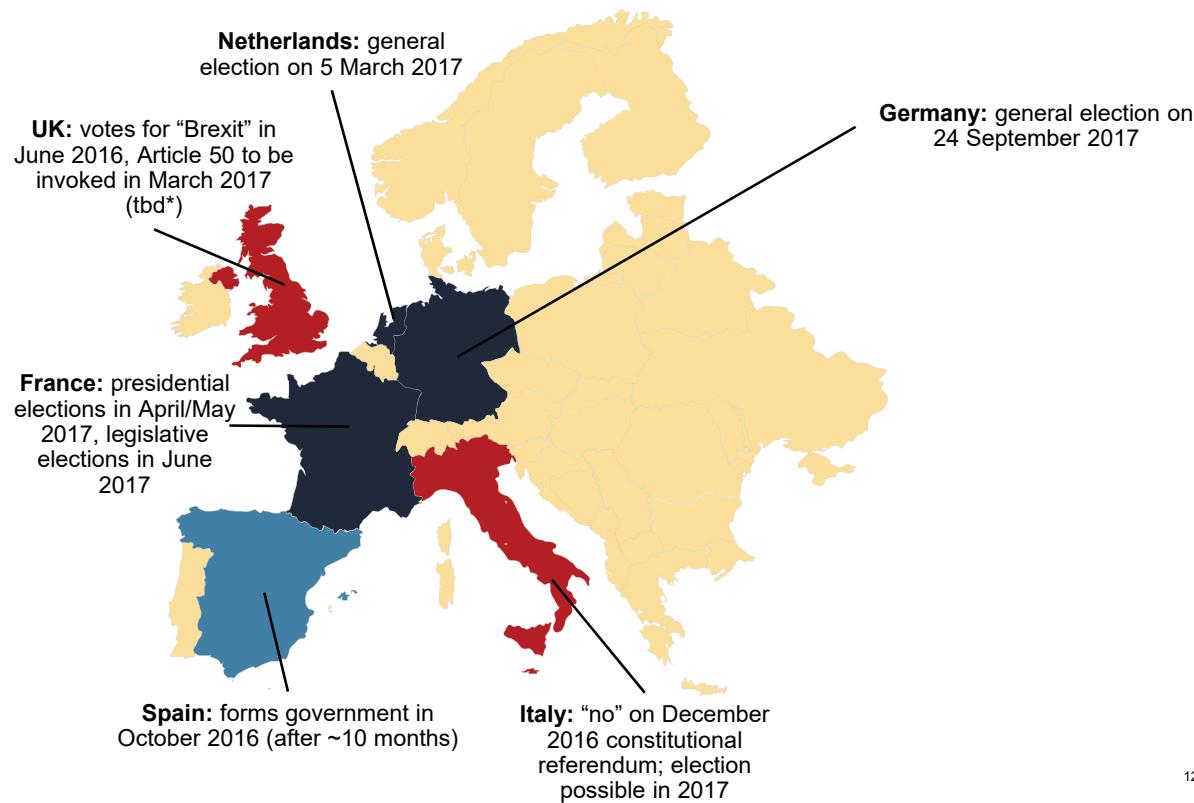


Incomes are purchasing-power parity adjusted. Y-axis displays the growth rate of the fractile average income (in 2005 PPP USD). Weighted by population. Growth incidence evaluated at ventile groups (e.g. bottom 5%); top ventile is split into top 1% and 4% between P95 and P99. The horizontal line shows the growth rate in the mean of 24.34% (1.1% p.a.).

Source: Lakner, Christoph and Branko Milanovic. "Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession". World Bank Economic Review, 2016 30(2): 203-232. First published online August 12, 2015.

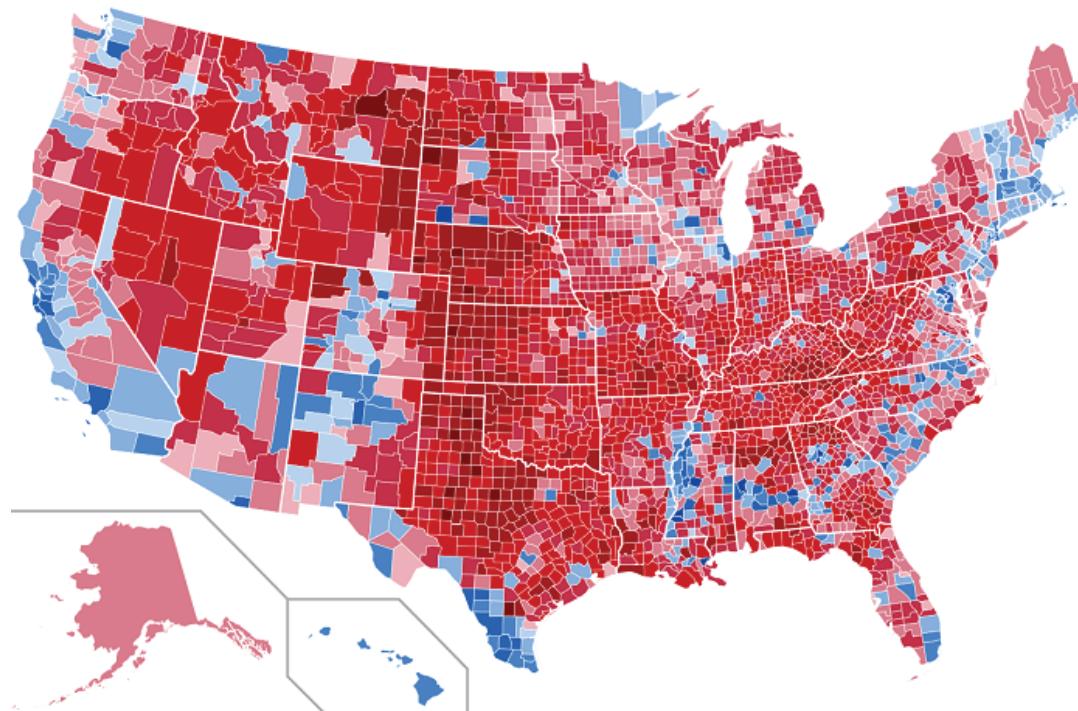
11 | Lazard Asset Management

The Disillusionment Has Spread across Europe...



... and the United States

US County-Level Presidential Election Results, 2016



As of 2016
Source: Wikimedia

13 | Lazard Asset Management

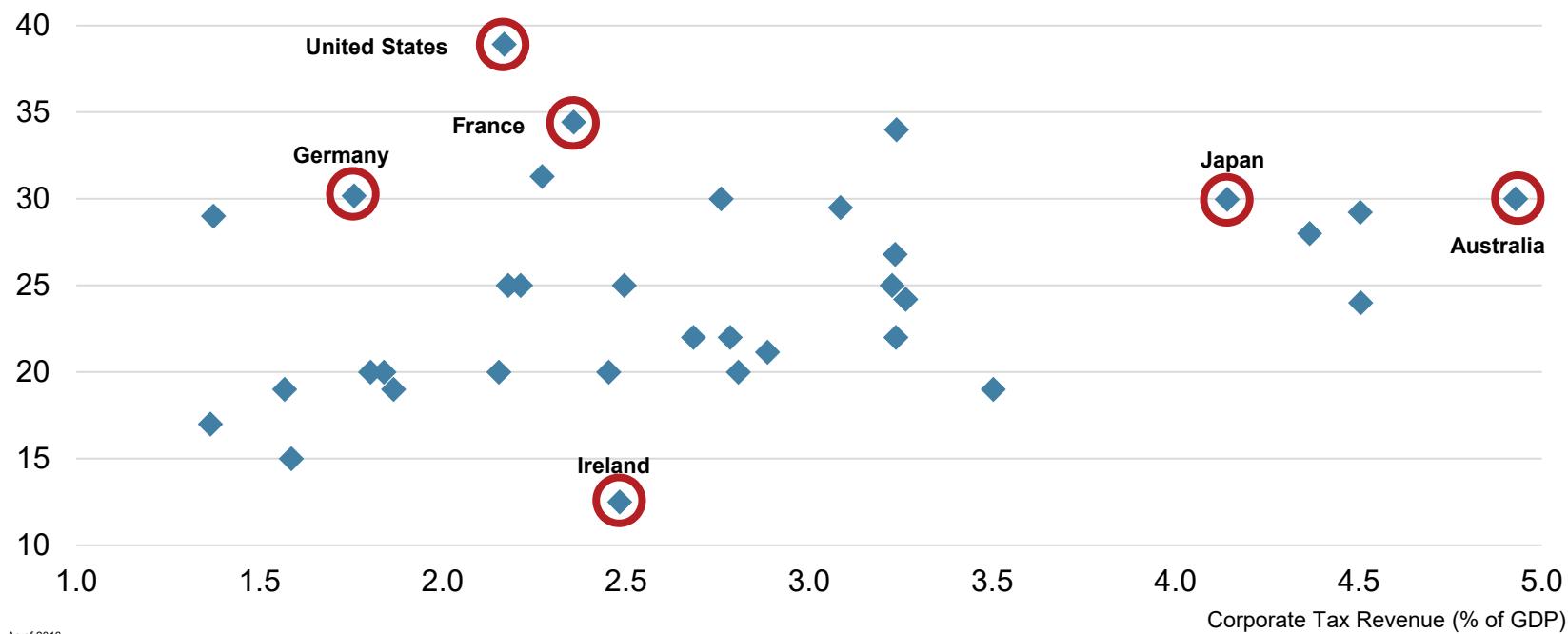
The Consequences of the US Election Will Be Significant

- Corporate Tax Cuts
 - The details are critical
- Deregulation
 - Financials
 - Energy
 - Environment
- Other policy changes
 - Healthcare
 - Immigration

US Corporate Taxes: High Rates, Low Returns

Corporate Tax Rate Versus Revenue, OECD

Corporate Tax Rate (%)



As of 2016

Tax rates and revenues are for all levels of government. Tax revenues are on income, profits and capital gains of corporates and are averages for the last three years available, typically 2013-2015. Data set covers: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Luxembourg, Mexico, Netherlands, New Zealand, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, UK, and the USA. Chart excludes Norway which collects the highest corporate tax revenue as a share of GDP among OECD countries due in part to taxes on energy sector profits.

Source: OECD, Absolute Strategy Research

15 | Lazard Asset Management

US Border Adjustment Tax = Protectionism

	Current
Revenue	\$100
Domestic	
Foreign	
Costs	\$60
Domestic	
Foreign	
Pre-Tax Profit	\$40
Domestic	
Foreign	
US Tax Rate	35%
Taxes	\$14
Net Income	\$26

US Border Adjustment Tax = Protectionism

	Current	100% US Business
Revenue	\$100	\$100
Domestic		\$100
Foreign		
Costs	\$60	\$60
Domestic		\$60
Foreign		
Pre-Tax Profit	\$40	\$40
Domestic		\$40
Foreign		
US Tax Rate	35%	20%
Taxes	\$14	\$8
Net Income	\$26	\$32

US Border Adjustment Tax = Protectionism

	Current	100% US Business	Full Importer
Revenue	\$100	\$100	\$100
Domestic		\$100	\$100
Foreign			
Costs	\$60	\$60	\$60
Domestic		\$60	
Foreign			\$60
Pre-Tax Profit	\$40	\$40	\$40
Domestic		\$40	\$100
Foreign			(\$60)
US Tax Rate	35%	20%	20%
Taxes	\$14	\$8	\$20
Net Income	\$26	\$32	\$20

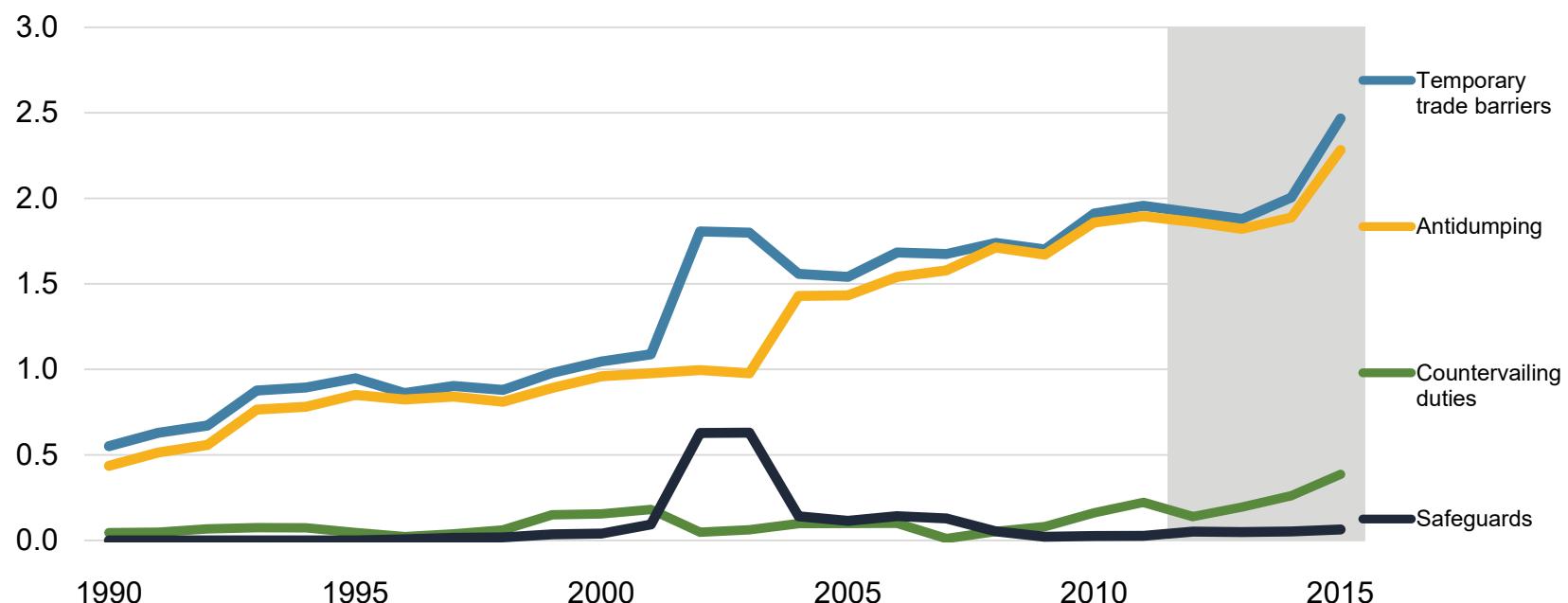
US Border Adjustment Tax = Protectionism

	Current	100% US Business	Full Importer	Full Exporter
Revenue	\$100	\$100	\$100	\$100
Domestic		\$100	\$100	
Foreign				\$100
Costs	\$60	\$60	\$60	\$60
Domestic		\$60		\$60
Foreign			\$60	
Pre-Tax Profit	\$40	\$40	\$40	\$40
Domestic		\$40	\$100	(\$60)
Foreign			(\$60)	\$100
US Tax Rate	35%	20%	20%	20%
Taxes	\$14	\$8	\$20	(\$12)
Net Income	\$26	\$32	\$20	\$52

Global Protectionism May Already Be Rising

Temporary Trade Barriers

(% of products)



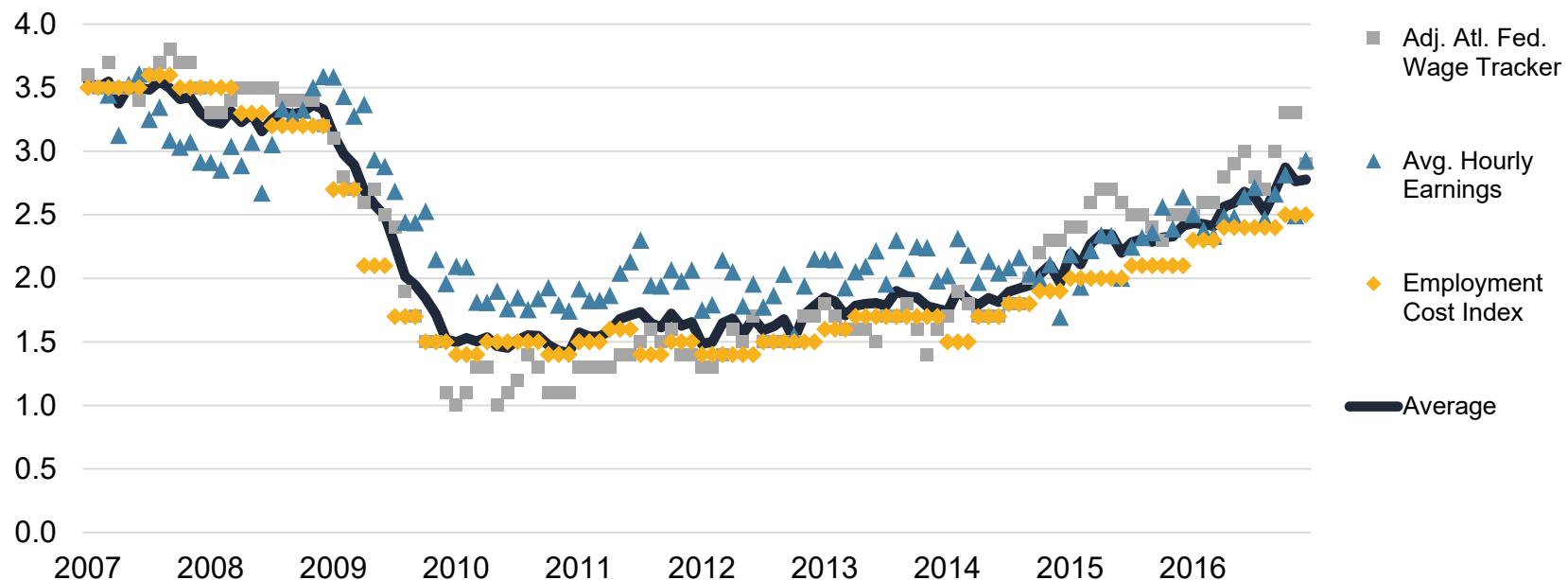
As of 2015
Source: IMF World Economic Outlook October 2016

20 | Lazard Asset Management

US Cyclical Inflation Is Rising

Wage Growth Accelerating

YOY Change (%)

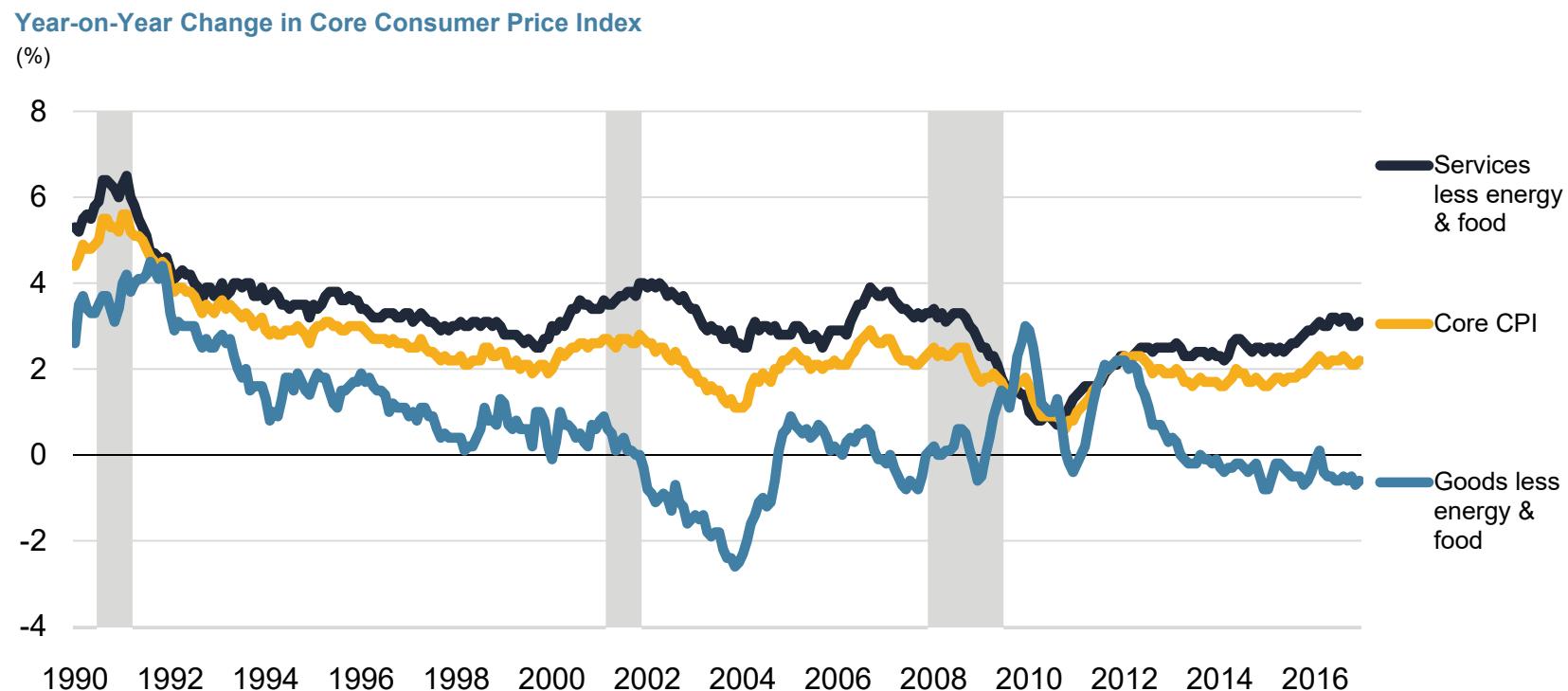


As of December 2016

Average Hourly Earnings are for all employees. Employment Cost Index (ECI) is for wages & salaries of civilian workers excluding incentive-paid occupations. The ECI is a disaggregated quarterly series. The Atlanta Fed Wage Growth Tracker is adjusted downwards by 0.6 percentage points to reflect its historical spread with other wage measures.

Source: Goldman Sachs, Bureau of Labor Statistics, Federal Reserve Bank of Atlanta, Haver Analytics

Globalization Held US Inflation Down



As of December 2016
Source: Bureau of Labor Statistics, Haver Analytics

22 | Lazard Asset Management

What Assumptions Should Investors Question?

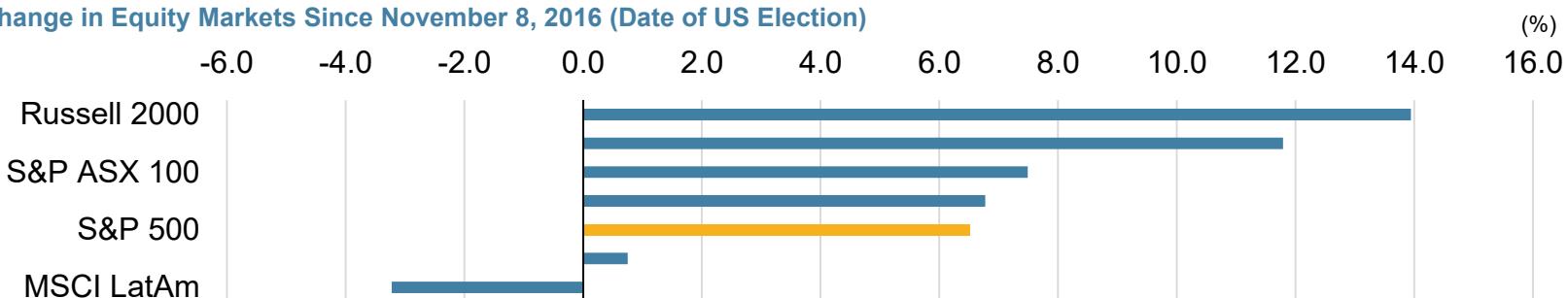
- “Inflation and interest rates will stay ‘lower for longer’”
 - Inflation, volatility and term risk premia increase
 - Fixed income and equity bond proxies at risk
- “Policy making is predictable”
 - Polling
 - Style
 - Substance
- “Bonds are safe”
 - Time to reconsider this part of your core allocation?
- “Value is dead”
 - Growth outperformed value >9 years
 - Yield at any price drove low volatility stocks

What Assumptions Should Investors Question?

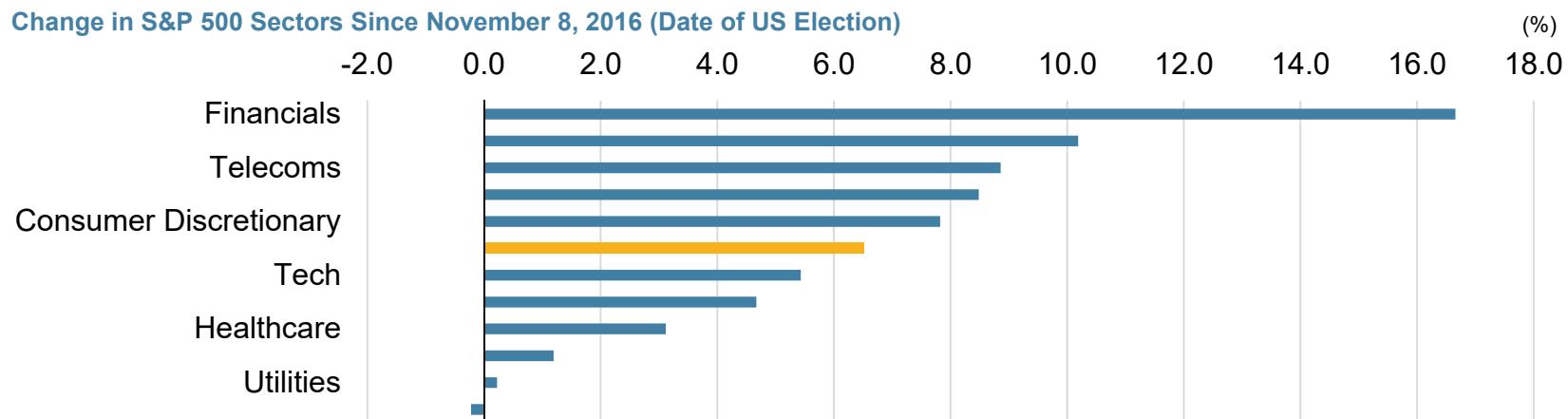
- “China = EM”
 - Old paradigm – commodity users versus producers
 - New paradigm – export-oriented versus domestically-focused
- “Large cap equities = inflation protection”
 - Pricing power
 - Elasticity of demand and supply
 - Source of inflation
- “Tracking the index is sufficient”
 - Higher volatility
 - Lower correlations and higher dispersion
 - Broader inefficiencies
 - Beta insufficient

Investment Implications - Increased Dispersion

Change in Equity Markets Since November 8, 2016 (Date of US Election)



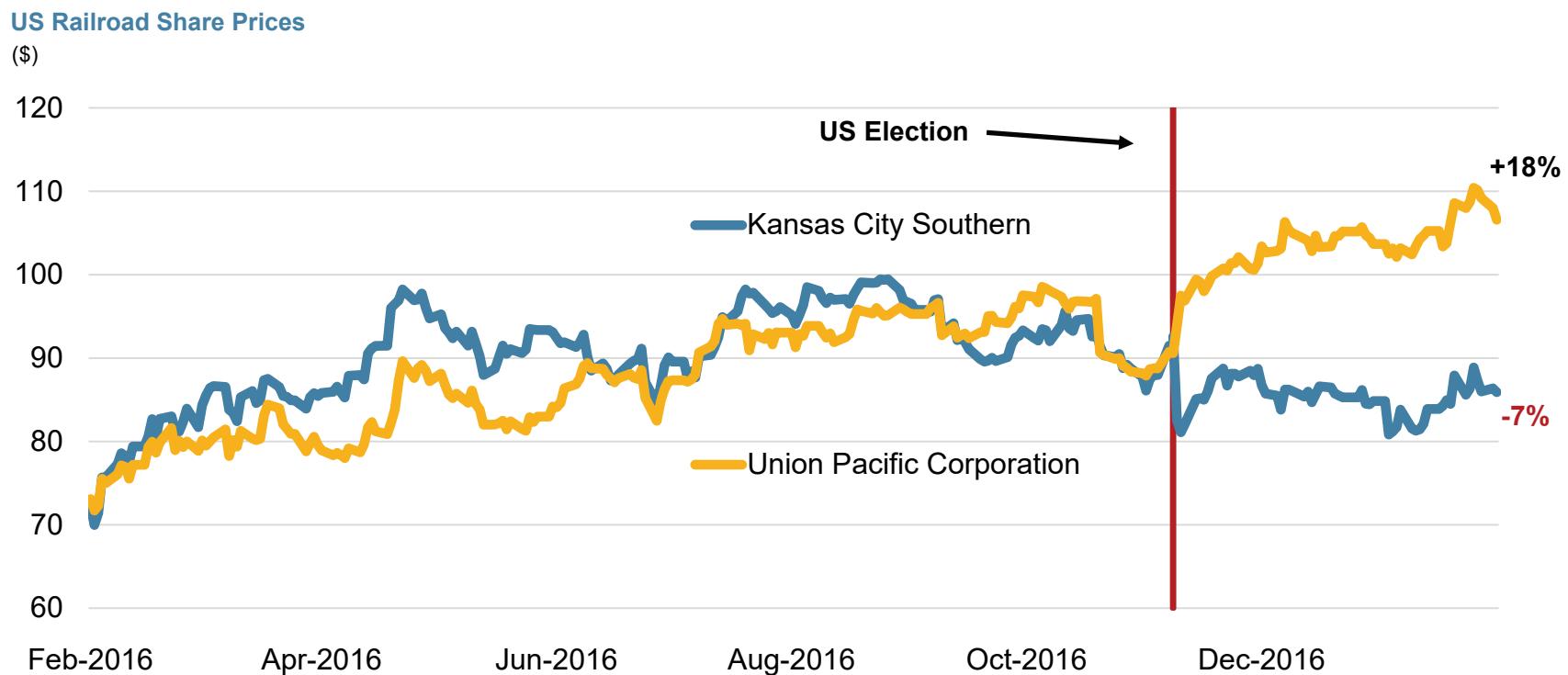
Change in S&P 500 Sectors Since November 8, 2016 (Date of US Election)



As of 31 January 2017
Source: Bloomberg

25 | Lazard Asset Management

Investment Implications: Policy Uncertainty Moves Markets

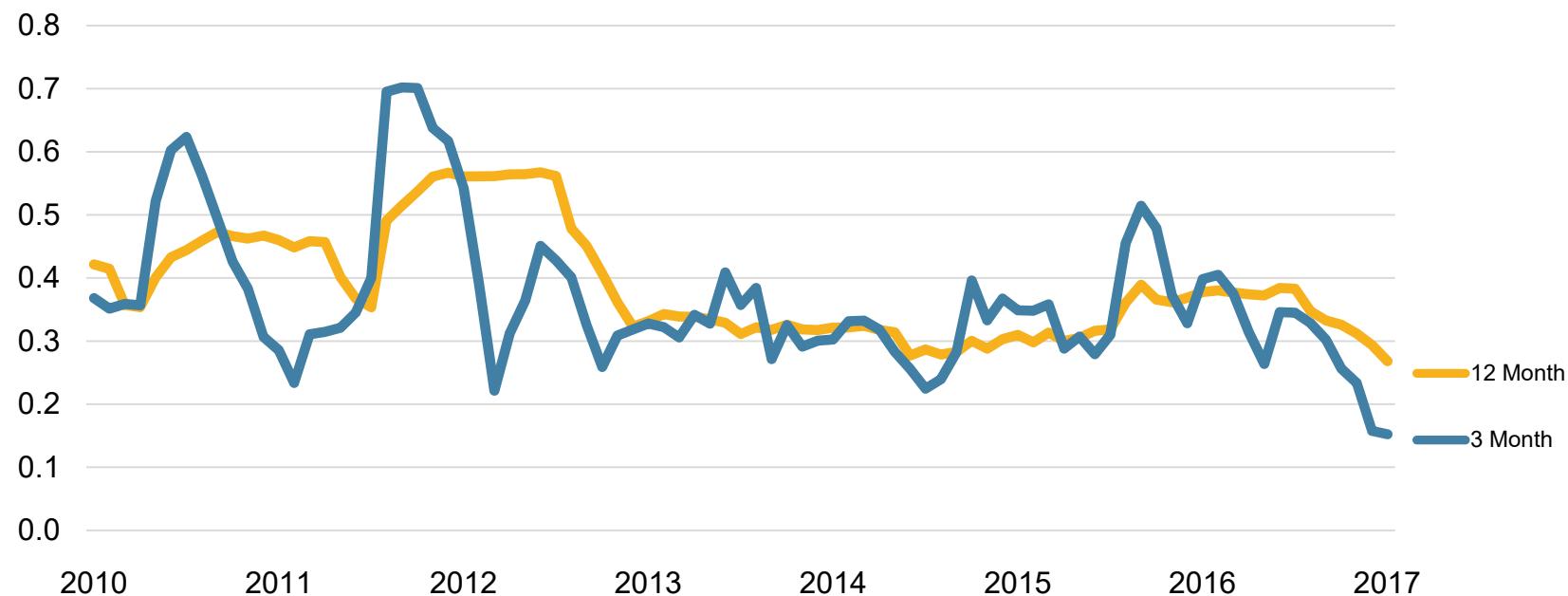


As of 31 January 2017
Source: FactSet

26 | Lazard Asset Management

Correlations Have Declined in the US

S&P 500 Pairwise Correlation

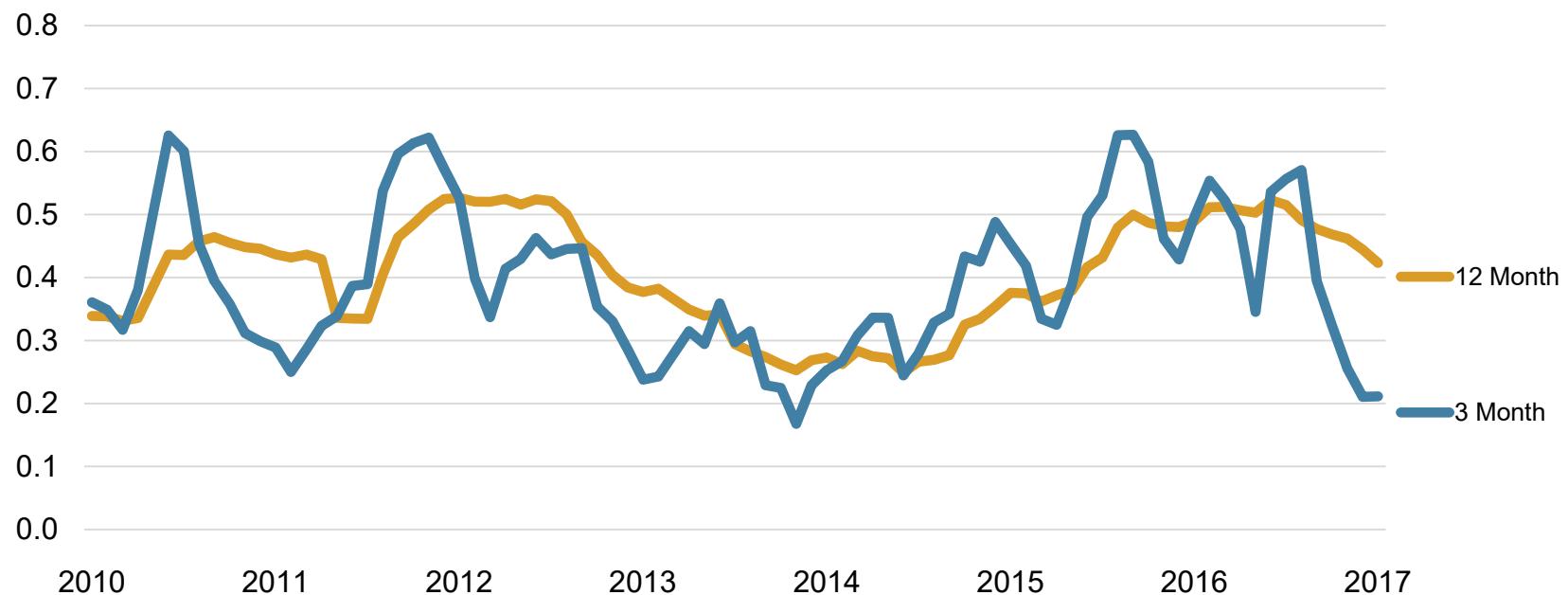


As of 31 January 2017
Monthly calculations based on daily returns.
Source: FactSet

27 | Lazard Asset Management

Correlations Have Declined in Europe as Well

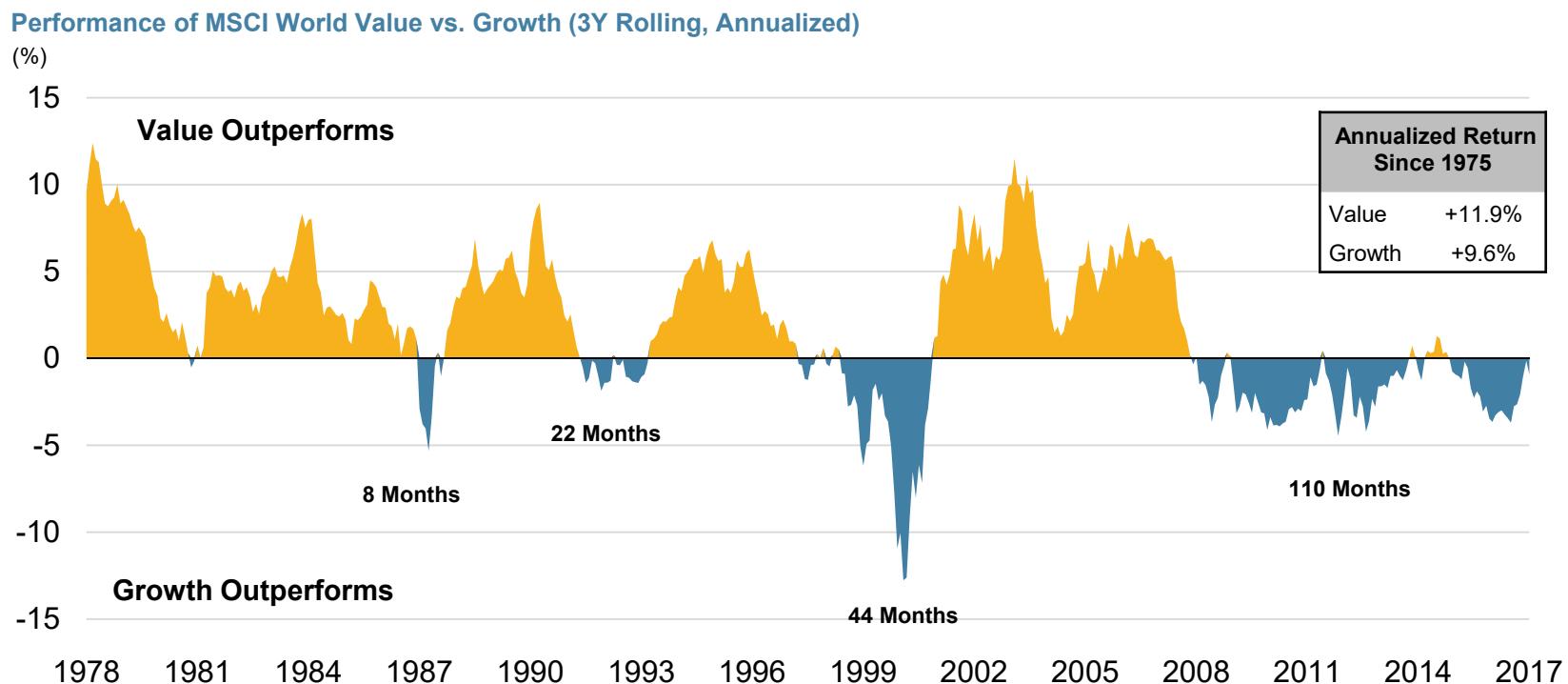
MSCI Euro Zone Pairwise Correlation



As of 31 January 2017
Monthly calculations based on daily returns.
Source: FactSet

28 | Lazard Asset Management

Value Has Been Out of Favour for an Extended Period



As of 31 January 2017

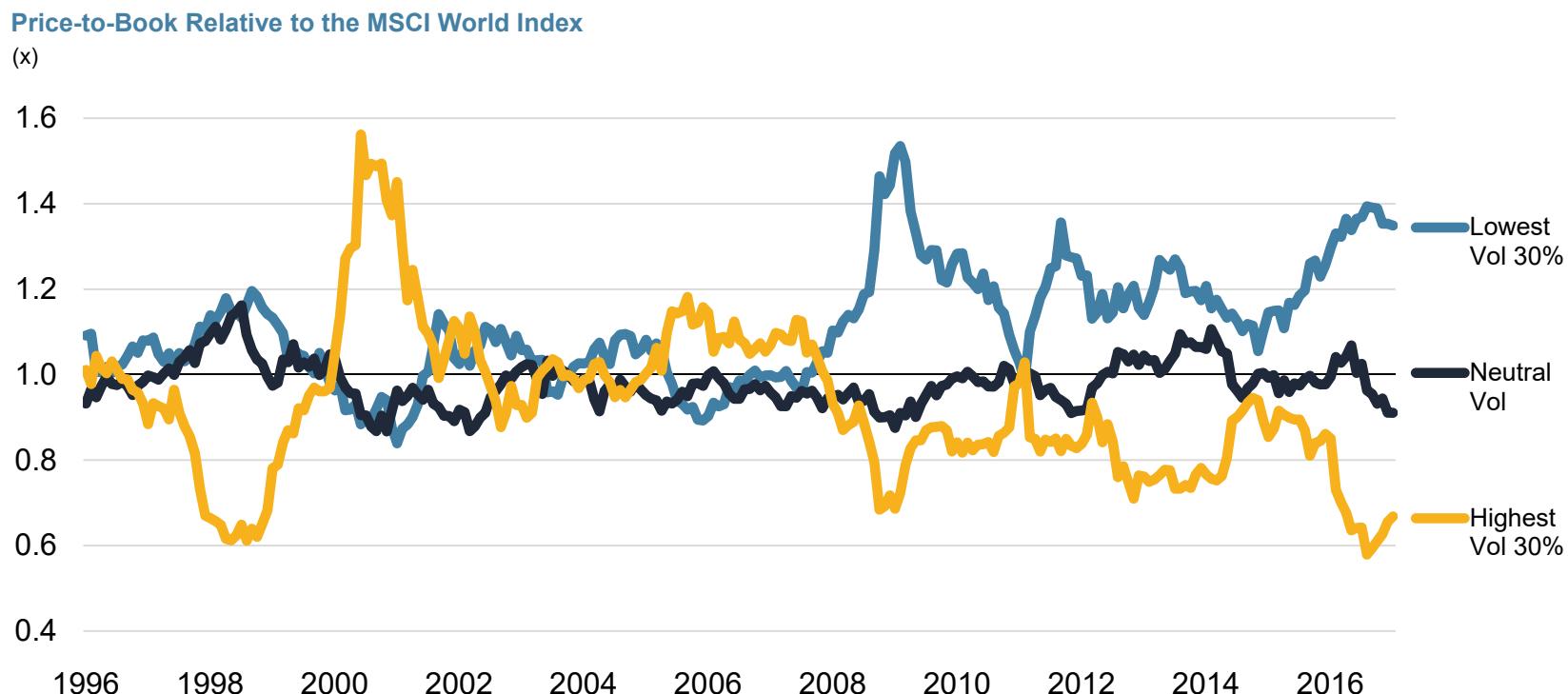
This information is for illustrative purposes only and does not represent any product or strategy managed by Lazard. An investment cannot be made directly in an index. Indices are unmanaged and have no fees.

The performance quoted represents past performance. Past performance is not a reliable indicator of future results.

Source: MSCI, Bloomberg

29 | Lazard Asset Management

Low Volatility Stocks are Expensive



As of 31 January 2017

This information is for illustrative purposes only and does not represent any product or strategy managed by Lazard. An investment cannot be made directly in an index. Indices are unmanaged and have no fees. Investment characteristics are based upon the above indices.

Source: UBS Quant, FactSet, MSCI

30 | Lazard Asset Management

The Risks Have Changed; Has Your Portfolio?

- Both left- and right-tail risks have increased
 - Convergence to divergence
 - Deflation risk to inflation risk
-
- Questions to ask yourself:
 - How are you addressing tail risks?
 - If inflation grinds higher for 3 years, are you protected?
 - If global policies diverge, can you capitalize on the opportunity?

Disclosures

Information and opinions presented have been obtained or derived from sources believed by Lazard to be reliable. Lazard makes no representation as to their accuracy or completeness. This presentation is for informational purposes only. It is not intended to, and does not constitute, an offer to enter into any contract or investment agreement in respect of any product offered by Lazard Asset Management and shall not be considered as an offer or solicitation with respect to any product, security or service in any jurisdiction or in any circumstances in which such offer or solicitation is unlawful or unauthorized or otherwise restricted or prohibited. All opinions expressed herein are as of the date of this presentation and are subject to change.

An investment in bonds carries risk. If interest rates rise, bond prices usually decline. The longer a bond's maturity, the greater the impact a change in interest rates can have on its price. If you do not hold a bond until maturity, you may experience a gain or loss when you sell. Bonds also carry the risk of default, which is the risk that the issuer is unable to make further income and principal payments.

Equity securities will fluctuate in price; the value of your investment will thus fluctuate, and this may result in a loss. Securities in certain non-domestic countries may be less liquid, more volatile, and less subject to governmental supervision than in one's home market. The values of these securities may be affected by changes in currency rates, application of a country's specific tax laws, changes in government administration, and economic and monetary policy. Emerging market securities carry special risks, such as less developed or less efficient trading markets, a lack of company information, and differing auditing and legal standards. The securities markets of emerging market countries can be extremely volatile; performance can also be influenced by political, social, and economic factors affecting companies in emerging market countries.

The securities and/or information referenced should not be considered a recommendation or solicitation to purchase or sell these securities. It should not be assumed that any of the referenced securities were or will prove to be profitable, or that the investment decisions we make in the future will be profitable or equal to the investment performance of securities referenced herein.

Certain information included herein is derived by Lazard in part from an MSCI index or indices (the "Index Data"). However, MSCI has not reviewed this product or report, and does not endorse or express any opinion regarding this product or report or any analysis or other information contained herein or the author or source of any such information or analysis. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any Index Data or data derived therefrom. The MSCI Index Data may not be further redistributed or used as a basis for other indices or any securities or financial products.

This material is for informational purposes only. It is not intended to, and does not constitute financial advice, fund management services, an offer of financial products or to enter into any contract or investment agreement in respect of any product offered by Lazard Asset Management and shall not be considered as an offer or solicitation with respect to any product, security, or service in any jurisdiction or in any circumstances in which such offer or solicitation is unlawful or unauthorized or otherwise restricted or prohibited.

Australia: FOR WHOLESALE INVESTORS ONLY. Issued by Lazard Asset Management Pacific Co., ABN 13 064 523 619, AFS License 238432, Level 39 Gateway, 1 Macquarie Place, Sydney NSW 2000. **Dubai:** Issued and approved by Lazard Gulf Limited, Gate Village 1, Level 2, Dubai International Financial Centre, PO Box 506644, Dubai, United Arab Emirates. Registered in Dubai International Financial Centre 0467. Authorised and regulated by the Dubai Financial Services Authority to deal with Professional Clients only. **Germany:** Issued by Lazard Asset Management (Deutschland) GmbH, Neue Mainzer Strasse 75, D-60311 Frankfurt am Main. **Japan:** Issued by Lazard Japan Asset Management K.K., ATT Annex 7th Floor, 2-11-7 Akasaka, Minato-ku, Tokyo 107-0052. **Korea:** Issued by Lazard Korea Asset Management Co. Ltd., 10F Seoul Finance Center, 136 Sejong-daero, Jung-gu, Seoul, 100-768. **United Kingdom:** FOR PROFESSIONAL INVESTORS ONLY. Issued by Lazard Asset Management Ltd., 50 Stratton Street, London W1J 8LL. Registered in England Number 525667. Authorised and regulated by the Financial Conduct Authority (FCA). **Singapore:** Issued by Lazard Asset Management (Singapore) Pte. Ltd., 1 Raffles Place, #15-02 One Raffles Place Tower 1, Singapore 048616. Company Registration Number 201135005W. This document is for "institutional investors" or "accredited investors" as defined under the Securities and Futures Act, Chapter 289 of Singapore and may not be distributed to any other person. **United States:** Issued by Lazard Asset Management LLC, 30 Rockefeller Plaza, New York, NY 10112.

The winds of change

A black and white photograph showing three sailboats racing on the ocean. The boat in the foreground has a large purple sail, while the others have dark sails. The background features a dramatic, cloudy sky.