DECEMBER 2025

Macroeconomic Focus

Part 1:
United States

Part 2:
Eurozone

Part 3:
China

LAZARD
FRÈRES GESTION

United States

A divided Fed and a more fragmented investment environment: key risks to monitor in 2026

In December, a few days after the Fed's last meeting, the Q3 GDP figures were published, confirming robust growth (+4.3%) just before the government shutdown began.

This strength should be interpreted with caution. Healthcare spending—which is not a good indicator of underlying economic momentum—accounted for roughly 20% of Q3 GDP growth on its own. Foreign trade also provided significant one-off support, though it is inherently harder to read in terms of trend. In contrast, private investment shows a stark split between the tech sector and the sluggish 'traditional' economy (see chart below), particularly in housing. The year-end outlook remains uncertain: we'll have to wait until February to assess the shutdown's real impact on fourth-quarter GDP.

Monetary policy brought a 25-basis-point rate cut, as expected, but unity on the Board seems to be weakening. Three dissenting votes and remarks hinting at a possible pause in January are suggesting a more cautious, incremental approach. Although the dot plot suggests one last move in 2026, it reflects historic disagreement over the pace of easing. At the same time, the Fed surprised markets by announcing an expansion of its balance sheet through the purchase of short-term securities to prevent any liquidity stress.

The trajectory of base rates will therefore depend on the job market, where signals remain ambiguous. The October-November report oscillates between an improvement in private job creation (75,000 on average) and an unemployment rate rising to 4.6%.

It is also difficult to draw any clear conclusions about inflation: although it slowed to +2.7% in November, it should be kept in mind that the reliability of this figure is compromised by the shutdown, which severely disrupted price collection.

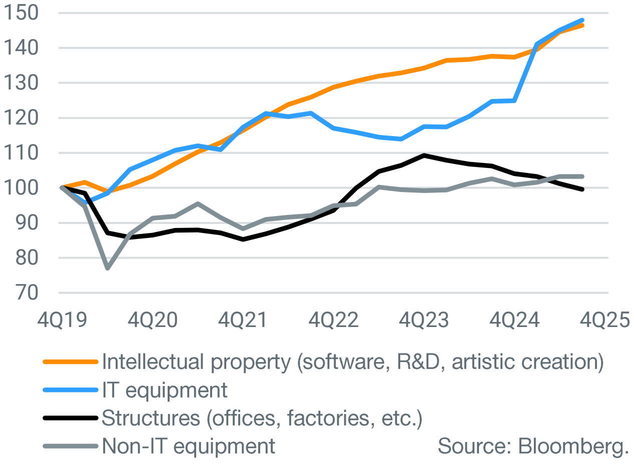
2.7%
Inflation over 12 months (in November)

4.6%
Unemployment rate (in November)

75,000
Private sector job creation (average from Sept. to Nov.)

3.50-3.75%
Target range for the key interest rate

United States | Non-residential investment
100 in Q4 2019



Source: Bloomberg.

Eurozone

Resistance in 2025, recovery in 2026

The European economy has performed better than expected in 2025, with annual growth likely to reach about 1.4%. Excluding Ireland – where intellectual-property transactions distort the Eurozone aggregate – the figure is closer to 1%.

Against a backdrop of geopolitical uncertainty, this represents a resilient performance, supported by strong domestic demand. Consumption contributed about +1.3% to growth in 2025, with retail sales above their long-term trend. This momentum is expected to continue in 2026, which could prove favorable for households. Wage growth excluding bonuses has cooled to a less inflationary rate but remains well above its post-COVID norm, and the labor market is still healthy. Inflation in the Eurozone has shown encouraging signs over the year, although November saw more moderate progress. This should continue to support households in 2026, particularly as savings levels remain high.

Still on the domestic-demand front, the fall in interest rates from 4% to 2% has provided a clear boost to private investment. This momentum could extend into next year, possibly supported by AI-driven spending. In 2026, public investment—via the German plan and NextGen EU—is expected to take over. Overall, Europe has enough domestic-demand resilience to offset the ongoing weakness in foreign trade (see chart below), which has been evident since Q3 2024 and amplified from Q2 2025 by higher US tariffs.

In this context, the ECB maintained the status quo on interest rates in December. It reiterated that it would remain flexible and adjust its stance on a meeting-by-meeting basis.

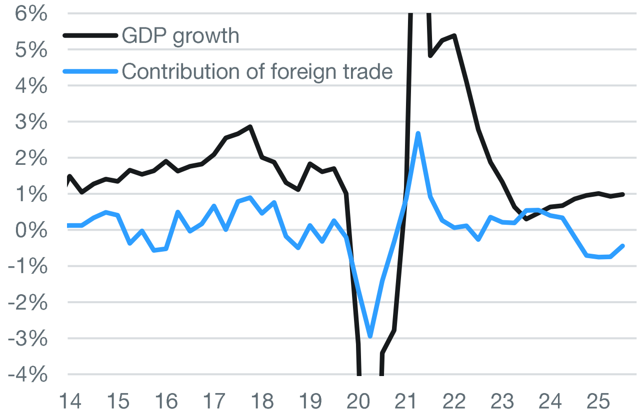
6.4%
Unemployment in the Eurozone

51.9
Composite PMI in December

2.4%
Core inflation in March

+1.5%
Retail sales in November (YoY)

Eurozone | Year-on-year GDP growth (excluding Ireland)



Source: Bloomberg.

China

Between transitions and uncertainties

In line with its ‘anti-involution’ initiative, Beijing is attempting to restructure an industrial system characterized by significant overcapacity—solar-panel production at approximately 140% of global demand and battery output at 110%, effectively saturating global markets. Although China has begun its transition toward a higher value-added industrial model, questions remain over its sustainability, particularly with respect to margin levels required to generate adequate returns on invested capital. This transition introduces notable risks: it is likely to depress employment and activity in sectors with excess capacity, thereby weighing on growth. In November, industrial production moderated to 4.8% year-on-year, and both manufacturing PMI indices slipped below 50, indicating that a sustained recovery is not yet on the horizon.

Although third-quarter figures remain relatively strong, fourth-quarter data appear more mixed. Household demand follows the same trend: retail sales slowed in November, reducing growth to around 4% for the first 11 months of the year. The transition toward a growth model less dependent on external demand is being impeded by a complex social backdrop. The move toward a less export-dependent growth model is hindered by fragile consumer sentiment (see chart below) due to the ongoing real estate crisis, which keeps households in precautionary-saving mode.

In this context, deflationary pressures remain strong, with the GDP deflator having fallen for ten consecutive quarters, though we are beginning to see signs of possible stabilization in both producer and consumer prices.

The risk of a Chinese hard landing is limited: policymakers could step up support if conditions slip beyond their tolerance level, and the prospect of further US tariff hikes has diminished markedly.

+0.7%
Consumer prices (in November)

5.1%
Unemployment rate (in November)

+5.9%
Export growth (in October, YoY)

+4.8%
GDP growth in Q3 2025 (YoY)

China | Consumer Confidence Index

Source: Bloomberg.

Disclaimer

Document completed on January 2, 2026.

This document has no pre-contractual or contractual value. It is provided to the recipient for informational purposes only. It contains analyses and descriptions prepared by Lazard Frères Gestion SAS based on general information and historical statistical data from public sources. The opinions expressed above are subject to change. Past performance is not indicative of future results.

These elements are provided for informational purposes only and do not constitute a guarantee of future performance. These analyses or descriptions may be subject to interpretation depending on the methods used.

The analyses and/or descriptions contained in this document should not be interpreted as advice or recommendations from Lazard Frères Gestion SAS. This document does not constitute a recommendation to buy or sell, nor an incentive to invest in the instruments or securities mentioned herein.

Any management method presented in this document does not constitute an exclusive approach, and Lazard Frères Gestion SAS reserves the right to use any other method it deems appropriate. These presentations are the intellectual property of Lazard Frères Gestion SAS.

About the Lazard Group:

Founded in 1848, **Lazard** is one of the world's leading financial advisory and asset management firms, with operations in North and South America, Europe, the Middle East, Asia, and Australia. Lazard provides advice on mergers and acquisitions, capital markets, restructuring/liability management, geopolitics and other strategic issues, as well as asset management and investment solutions to institutions, corporations, governments, partnerships, family offices and high net worth individuals. For more information, please visit www.lazard.com.

Lazard Frères Gestion is the asset management company of the Lazard group in France. It benefits from all the expertise of a major asset management firm backed by a powerful international group to support its clients. For more information, please visit www.lazardfreresgestion.fr.