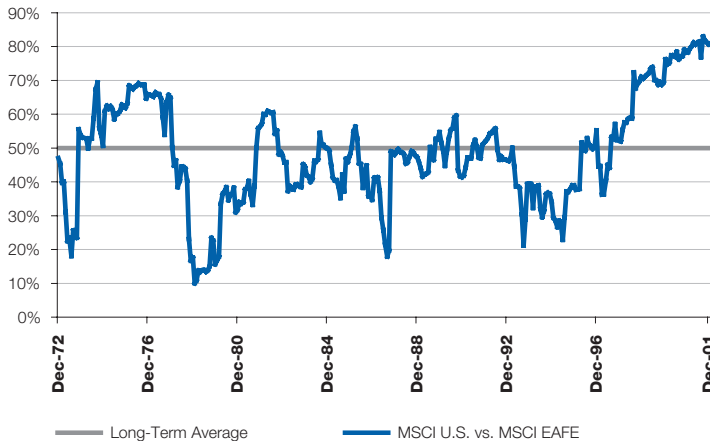


Correlation

Insight into How Global Equity Markets Relate

**Rolling 3-Year Correlation
MSCI U.S. vs. MSCI EAFE**



The chart above depicts the rising correlation between the MSCI U.S. and the MSCI EAFE indices, and would seem to support those who advocate cutting allocations to international investments. Looks, however, can be deceiving. When evaluating this information, it is important to note the cyclical nature of the correlation. Over time, it has ranged from 0.1 to 0.7, peaking recently at 0.8. The fact underpinning this cyclicity, however, is not obvious from the chart: the correlation has always tended to be higher during periods when strong secular trends swayed market performance. For instance, the correlation is strongest during the bear market of the early-to-mid 1970s and in the bull market of the late 1990s.

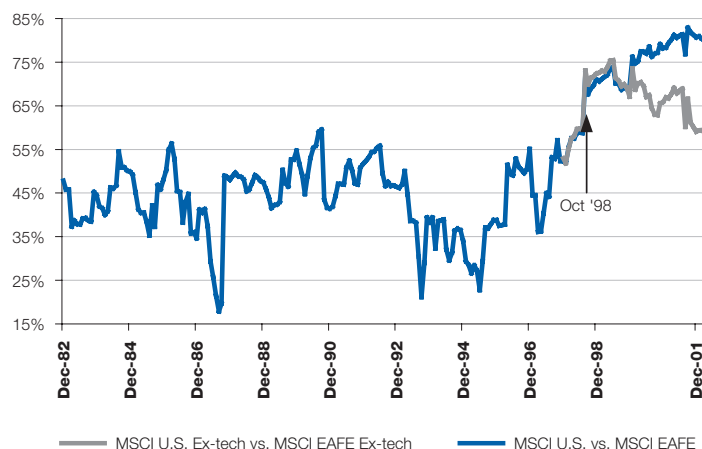
In the 1970s, the oil embargo and the collapse of the Bretton Woods

monetary system led to global economic weakness; stocks worldwide responded by falling in tandem. However, when the global macroeconomic shocks subsided, the correlation similarly decreased, reaching a new low in 1978.

Similarly, the bull market of the late 1990s was also a global phenomenon: the momentum-driven rise and subsequent, precipitous fall in technology, media, and telecommunications (TMT) stocks was driven by the quick adoption of new technology, particularly the Internet.

In considering the chart below, note the degree to which the rise in correlation between the MSCI U.S. and the MSCI EAFE is driven by a greater correlation amongst technology stocks. When the technology sector is removed, correlation between the MSCI U.S. and MSCI EAFE appears to be lessening. Absent a global phenomenon, the developed markets remain uncorrelated.

**Rolling 3-Year Correlation
MSCI U.S. vs. MSCI EAFE – Tech/Ex-Tech**



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