

# MARKET PULSE

## 10 FOR 2023

**1. ECONOMIC GROWTH:** On the heels of an aggressive tightening in financial conditions and restrictive monetary policy in 2022, GIR expects global growth to move below trend to 1.9% in 2023. Investors may be underestimating the resilience of the US economy, which contrasts with a mild recession in Europe and a bumpy reopening in China.

**2. INFLATION:** Prices will likely slowly cool, with notable improvement in the policy-critical areas of shelter and wages. Supply chains have functioned better, with further improvements likely if China implements a more flexible COVID-19 strategy. Still, wage growth and long-term inflation expectations are likely key factors in forward monetary policy.

**3. MONETARY POLICY:** Sticky inflation remains the preeminent global concern, locking central banks (CB) into a pause-over-pivot bias in 2023. Consequently, CBs are eager to nudge growth below potential. In the US, GIR expects a terminal rate of 5-5.25% and no cuts in 2023. In the Euro area and UK, terminal rates may reach 3.25% and 4.50%, respectively.

**4. GEOPOLITICS:** Acute geopolitical dynamics remain present as ever, hallmarked by conflict in Ukraine, territorial flexing by China, and entrenched societal polarization. On the latter, we expect increasing uncertainty in government composition and policy.

**5. DM EQUITY:** Rising cost of capital should accelerate the transition from highly bifurcated macro to deeply idiosyncratic drivers of return. To compete with compelling cross-asset opportunities, we believe a focus on profits over revenue, quality over capitalization, and company over country, is warranted. As current macro risks remain unresolved, a US equity tilt appears warranted, but the attractive cyclical and potential FX tailwinds of non-US equities may emerge in 2023.

**6. EM EQUITY:** EM equities face a challenging composition of subpar growth and a sharp tightening in financial conditions. However, we believe pockets of value may exist in EMs that are closer to relief from inflation and rates, including Brazil, Chile, and Korea.




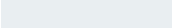


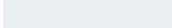
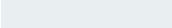
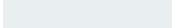
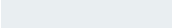


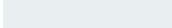
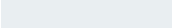
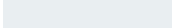
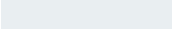
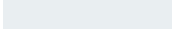



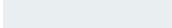
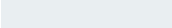
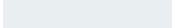
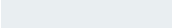
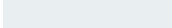
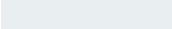




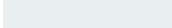
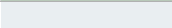
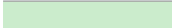
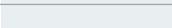
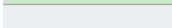
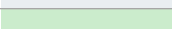



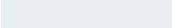

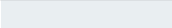
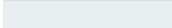



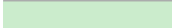
**7. RATES:** Global yields will likely move in tandem with CB policy paths, with potential differentiation due to regional energy exposure. GIR forecasts rates to top out in 1H 2023, though acknowledge the risk to the upside given policymakers' willingness to overshoot. Globally, we believe the deepest level of curve inversion is behind us.

**8. CREDIT:** Credit fundamentals have peaked but remain on solid footing. US corporates have room for additional spread widening, but disciplined capital management, a low wall of debt maturity, and cash-rich balance sheets may act as buffers. In Europe, uncertainty around policy and energy pose headwinds despite attractive valuations.

**9. CURRENCY:** Near-term US dollar strength may persist as global growth risk is to the downside. Over the longer term, the US dollar looks vulnerable to high valuation and global recovery. Should the global growth-inflation mix improve, the USD is likely to rebate recent gains.

**10. COMMODITIES:** Supply challenges are structural, based on years of underinvestment. While weakness may persist from factors such as higher real rates, USD strength, and recessionary concerns, longer-term physical tightness will not be easily resolved.

## ASSET CLASS VIEWS<sup>1</sup>

	Less Favorable    More Favorable	
	Shorter Term	Longer Term
<b>EQUITY</b>		
US Equity		
European Equity		
Japanese Equity		
Emerging Market (EM) Equity		
<b>RATES</b>		
US Government Fixed Income		
DM Government Fixed Income		
EM Debt Local		
Municipal Bonds		
<b>CREDIT</b>		
US Investment Grade		
US High Yield		
Euro Area Corporates		
Asia High Yield		
EM Debt Hard		
<b>REAL ASSETS</b>		
Oil		
Copper		
Gold		
Global Real Estate		
<b>CURRENCIES</b>		
US Dollar		
Euro		
British Pound		
Japanese Yen		
Chinese Renminbi		

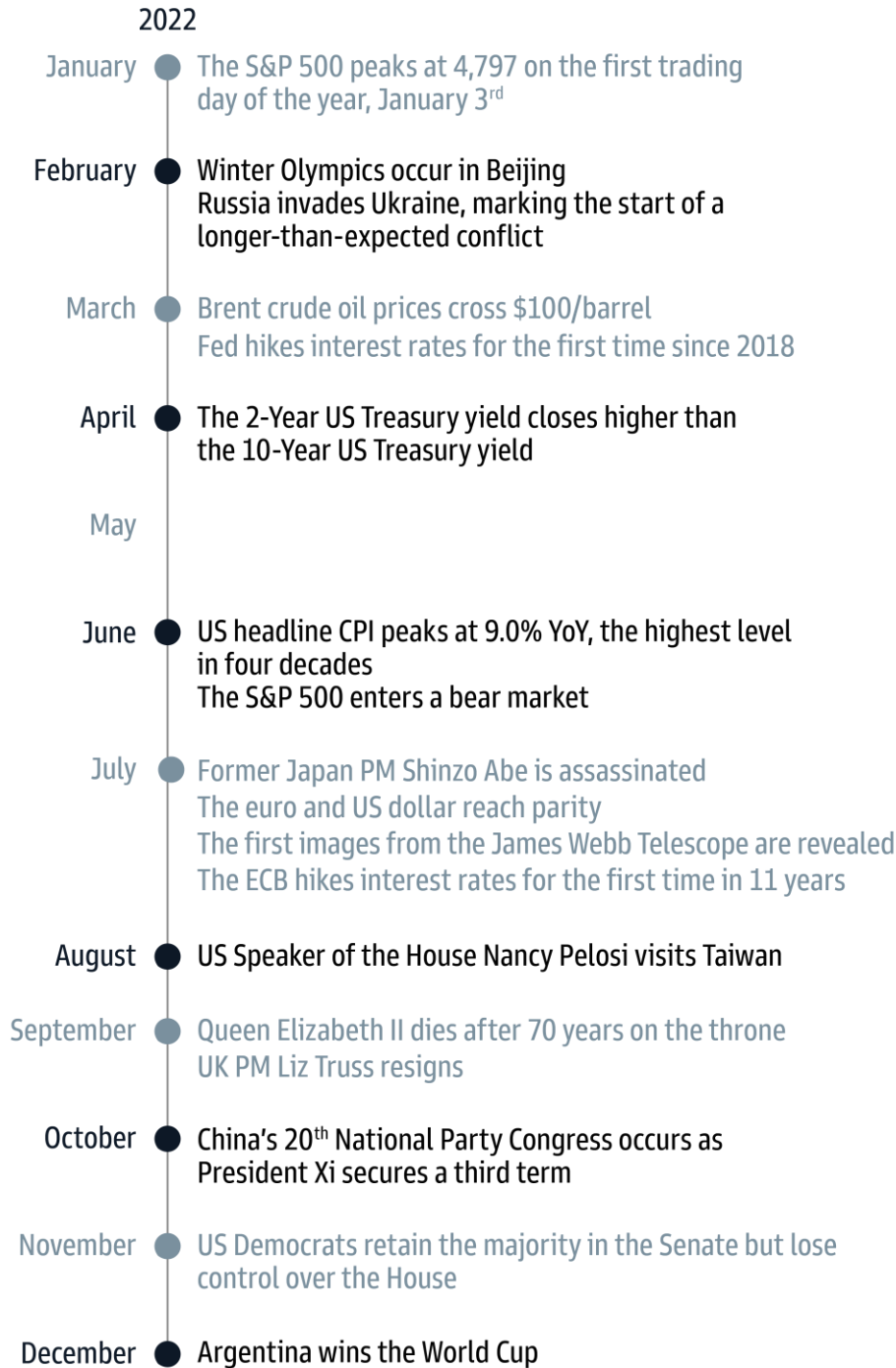
## ASSET CLASS FORECASTS<sup>2</sup>

	Current	3m	12m	% Δ to 12m
S&P 500 (\$)	3852	3600	4000	3.8
STOXX Europe (€)	425	390	450	5.9
MSCI Asia-Pacific Ex-Japan (\$)	508	510	550	8.2
TOPIX (¥)	1950	2000	2200	12.8
10-Year Treasury	3.5	3.6	4.2	73 bp
10-Year Bund	2.2	2.7	2.8	59 bp
10-Year JGB	0.3	0.3	0.3	0 bp
Euro (€/\$)	1.06	0.94	1.05	(1.0)
Pound (£/\$)	1.22	1.07	1.22	0.3
Yen (\$/¥)	137	155	140	2.5
Brent Crude Oil (\$/bbl)	79.0	90	105	32.8
London Gold (\$/troy oz)	1790	1850	1950	9.0

Source: Goldman Sachs Global Investment Research (GIR) and Goldman Sachs Asset Management as of December 2022. The economic and market forecasts presented herein are for informational purposes as of the date of this presentation. There can be no assurance that the forecasts will be achieved. Goldman Sachs does not provide accounting, tax or legal advice. Please see additional disclosures at the end of this presentation. **Past performance does not guarantee future results, which may vary.**

## 2022: Year in Review

This past year saw a rapid economic deceleration, with inflation prevailing as the dominant global concern. Russia's invasion of Ukraine amplified supply chain disruptions, and interest rates rose to a level not seen since the Global Financial Crisis. In the stream of so many headlines, many macro and market events may be hard to recall or believe. Looking ahead to 2023, we closed the 2022 chapter with a year-end review.



**1 ATH**

All-time highs hit by the S&P 500 in 2022 versus 70 in 2021<sup>1</sup>

**Energy**

Best performing global equity sector for two years in a row<sup>1</sup>

**€311/MWh**

Peak cost of European natural gas, the highest on record<sup>1</sup>

**\$2,007**

Median US rent as of November 2022, a 7.4% YoY increase<sup>2</sup>

**425bps**

Increase in the Fed Funds Rate in 2022<sup>3</sup>

**Sweden**

Fastest country at Wordle, solving puzzles in an average 3.72 turns<sup>4</sup>

**\$1.46tn**

Crypto market cap erased since the start of 2022<sup>5</sup>

**219**

±1% or greater intraday S&P 500 moves in 2022, the most since 2009<sup>1</sup>

Section Notes: <sup>1</sup> Bloomberg, <sup>2</sup> Redfin, <sup>3</sup> Federal Reserve, <sup>4</sup> Word Tips, <sup>5</sup> CoinMarketCap, and Goldman Sachs Asset Management. As of December 31, 2022. "YoY" refers to year over year. For illustrative purposes only. Goldman Sachs does not provide accounting, tax or legal advice. The economic and market forecasts presented herein are for informational purposes as of the date of this document. There can be no assurance that the forecasts will be achieved. **Past performance does not guarantee future results, which may vary.**

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2. Price targets of major asset classes are provided by Goldman Sachs Global Investment Research. Source: "Global equities lost 2.1%; Cyclical underperformed" – 12/19/2022.

### Page 1 Definitions:

Bp refers to basis point.

Brent crude oil is a common international benchmark for oil prices.

Central bank pivot refers to the shift in monetary policy stance from tightening to easing or vice versa.

Core PCE refers to the core personal consumption expenditure price index, excluding food and energy.

Curve inversion refers to the difference in yield between the 10-year maturity and 2-year maturity of government bonds.

DM refers to developed markets.

EM refers to emerging markets.

FX refers to currencies.

Inflation expectations refer to the rate at which consumers, businesses, and investors expect prices to rise in the future.

Terminal rate refers to the peak central bank policy rate at the end of a hiking cycle.

### Page 2 Notes:

Bear market refers to an equity market drawdown of -20% or more.

Bp refers to basis point.

Brent crude oil is a common international benchmark for oil prices.

ECB refers to the European Central Bank.

Fed refers to the Federal Reserve.

Fed Funds Rate refers to the Federal Funds Rate.

MWh refers to megawatt hour.

Median refers to a midpoint value.

PM refers to Prime Minister.

US CPI refers to US Consumer Price Index, year-over-year.

### Glossary

The Bloomberg US Aggregate Bond Index represents an unmanaged diversified portfolio of fixed income securities, including US Treasuries, investment grade corporate bonds, and mortgage backed and asset-backed securities.

The MSCI AC Asia Pacific ex Japan Index captures large and mid cap representation across 4 of 5 Developed Markets countries and 8 Emerging Markets countries in the Asia Pacific region.

The S&P 500 Index is the Standard & Poor's 500 Composite Stock Prices Index of 500 stocks, an unmanaged index of common stock prices. The index figures do not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index.

The Tokyo Price Index (TOPIX) is a metric for stock prices on the Tokyo Stock Exchange (TSE). A capitalization-weighted index, TOPIX lists all firms that have been determined to be part of the "first section" of the TSE.

The 10-Year US Treasury Bond is a US Treasury debt obligation that has a maturity of 10 years.

The University of Michigan Consumer Sentiment Index is a monthly survey of personal consumer confidence in economic activity. The index assesses how consumers view their own financial situation, the general economy over the near term, and their view of the economy over the long term.

Indices are unmanaged. The figures for the index reflect the reinvestment of all income or dividends, but do not reflect the deduction of any fees or expenses which would reduce returns. Investors cannot invest directly in indices.

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Equity securities are more volatile than bonds and subject to greater risks. Foreign and emerging markets investments may be more volatile and less liquid than investments in U.S. securities and are subject to the risks of currency fluctuations and adverse economic or political developments. Investments in commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or factors affecting a particular industry or commodity. The currency market affords investors a substantial degree of leverage. This leverage presents the potential for substantial profits but also entails a high degree of risk including the risk that losses may be similarly substantial. Currency fluctuations will also affect the value of an investment.

Investments in fixed income securities are subject to the risks associated with debt securities generally, including credit, liquidity, interest rate, call and extension risk.

A 10-Year Treasury is a debt obligation backed by the United States government and its interest payments are exempt from state and local taxes. However, interest payments are not exempt from federal taxes.

The above are not an exhaustive list of potential risks. There may be additional risks that should be considered before any investment decision.

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