Goldman Sachs | Asset Management

Strategic Advisory Solutions

August 2023

MARKET PULSE

MACRO VIEWS

CHINA GROWTH: A shorter-than-expected reopening impulse and weakness in exports, housing, and consumption have contributed to a meaningful slowdown. We expect policy loosening to be lighter than in past easing cycles given China's low growth target of "around 5%" and emphasis on "high quality growth." Still, easing has accelerated, and we expect further accommodation to focus on fiscal, monetary, housing, and consumption base, supporting GIR's 5.4% FY GDP growth forecast.

DM GROWTH: GIR has lowered their US recession probability from 25% to 20%, as cooler wage growth informs their conviction that inflation can fall without a recession. Internationally, we believe the Euro area and UK are on similar paths as the US but at different points: the Euro area has further work to do in taming wage growth; the UK even more so.

MONETARY POLICY: We believe the Fed has finished its hiking campaign, though risks are skewed to the upside if markets become too exuberant. In our view, the threshold for rate cuts is high given resilient US growth and thus we expect gradual cuts no earlier than 2Q 2024.

INFLATION: Some speculate that deglobalization and a green transition may structurally increase prices. Certainly, if these trends come in the form of taxes, we think costs would be passed to consumers. However, if they come in the form of subsidies, we think prices would instead deflate. For example, the US CHIPS Act and Inflation Reduction Act offer domestic producers large subsidies, which should offset production costs and in turn, lower consumer costs.

MARKET VIEWS

US EARNINGS: We highlight four themes to focus on during this earnings season: 1) margins, which GIR expects to bottom this quarter, 2) financials, which may provide clarity on the economic impact of bank stress, 3) AI risks and opportunities, and 4) the state of the consumer. GIR continues to forecast full-year S&P 500 EPS of $224.

DM RATES: US Treasury yields have likely peaked; however, we believe risks skew to the upside. Cooling inflation in the US has fueled excessive market optimism in monetary easing and without labor market deterioration, the Fed may hold rates higher for longer. In the UK, high rates are a result of sticky inflation, and may prove to be even more durable than the LDI-related Gilt sell-off in Q3 2022, in our view. In the Euro area, an uncertain activity outlook and a hawkish tilt from the ECB may spawn a higher policy path than is priced in.

FX: We continue to expect the US dollar to depreciate in the long term, however, its descent may be bumpy. Even if the July hike was its last, the FOMC may not be able to pivot until it is confident that prices are stable. Furthermore, sharp dollar depreciation requires currency appreciation prospects elsewhere, which remain to be seen. For example, growth remains subdued in the Euro area, inflation may have peaked in the UK, and monetary easing continues to be deployed in China.

ACTIVE MANAGEMENT: Concentration limits have driven underweight positions in top performing companies among mutual fund managers this year. As a result, only 31% of US large-cap funds have outperformed their benchmarks year-to-date. Despite this, we maintain our preference for an active approach and believe relative performance will improve as returns broaden among index constituents.

ASSET CLASS OUTLOOK[1]

Less Favorable — More Favorable

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

ASSET CLASS FORECASTS[2]

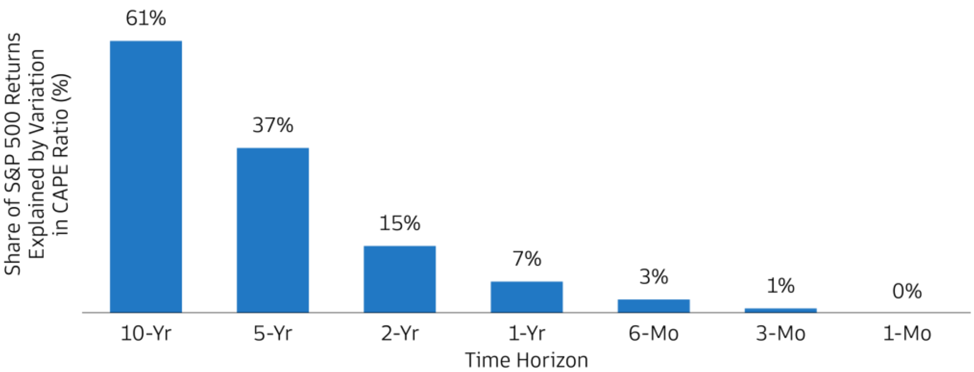
	Current	3m	12m	% Δ to 12m
S&P 500 ($)	4582	4300	4700	2.6
STOXX Europe (€)	471	470	500	6.2
MSCI Asia-Pacific Ex-Japan ($)	539	530	580	7.7
TOPIX (¥)	2291	2200	2500	9.1
10-Year Treasury	4.0	3.9	3.8	-21 bp
10-Year Bund	2.5	2.8	2.4	-3 bp
10-Year JGB	0.6	0.7	0.7	13 bp
Euro (€/$)	1.10	1.07	1.12	1.5
Pound (£/$)	1.29	1.26	1.33	3.6
Yen ($/¥)	141	140	125	-11.2
Brent Crude Oil ($/bbl)	85.0	86	93	9.4
London Gold ($/troy oz)	1961	2050	2050	4.6

Source: GS Global Investment Research (GIR) and GS Asset Management. As of July 2023. "We" refers to GS Asset Management. The Macro and Market Views expressed may differ from those of GIR and other divisions of Goldman Sachs and its affiliates. See page 4 for additional disclosures. 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.**

Staying the Course

Full valuations in US equity markets may make the grass appear greener in other asset classes, specifically with cash now yielding over 5%. Although defensive tactical shifts may provide short-term outperformance, they have a tendency to become strategic allocations if they're not closely monitored. Investments in cash funded from equity capital have historically not proven to be a successful strategy for longer-term capital appreciation, even when equities are expensive and cash yields attractive.

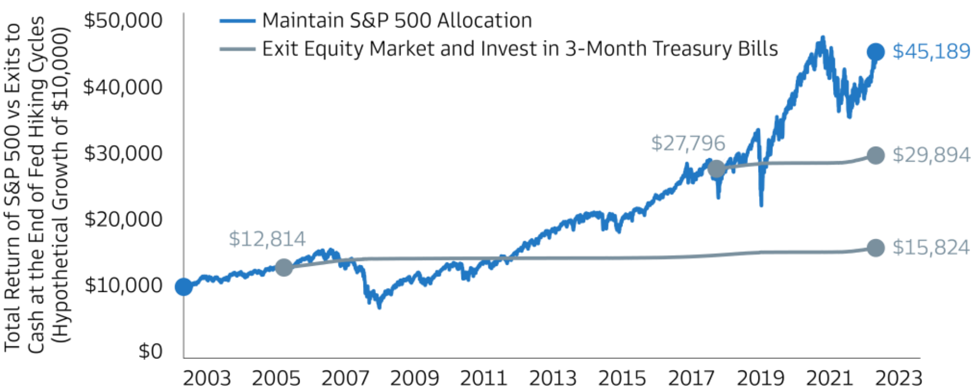
THE PRICE WE PAY



US equities may feel a bit pricey with the S&P 500's cyclically adjusted price-to-earnings (CAPE) multiple in the top quintile since 1950. Fortunately for investors, prices aren't always the primary determinate of performance, especially as time horizons shorten. For example, valuations historically have explained only 15% of deviations in S&P 500 returns over a two-year time horizon. The price of an investment is a factor worth considering, but we don't believe it is the only one.

Source: Robert Shiller, Bloomberg, and Goldman Sachs Asset Management.

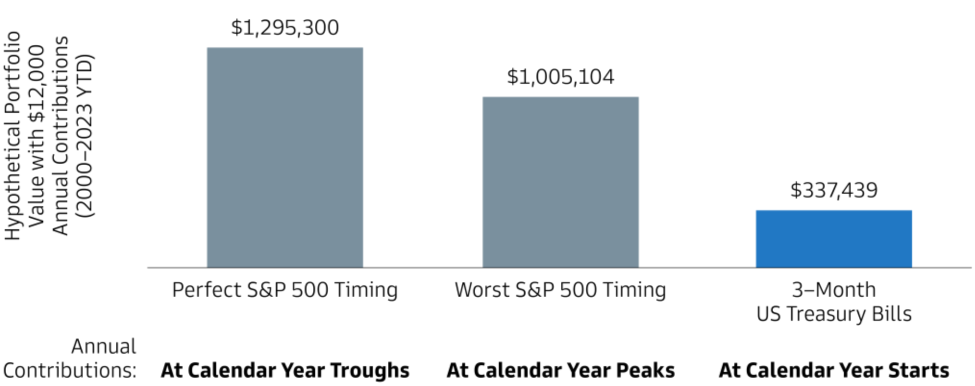
RESISTING TEMPTATION



Abandoning strategic equity allocations may be most tempting at the end of central bank tightening cycles when cash yields reach their most attractive levels. Historically however, exiting the equity market to invest in cash at these inflection points has not provided durable capital appreciation in the longer term. Investors may need to exercise discipline in maintaining target equity weights to achieve long-term return targets.

Source: Bloomberg and Goldman Sachs Asset Management.

"WHAT" OVER "WHEN"



Top-ticking an expensive market is a fear of many investors, though we believe what you invest in can often be more important than when. The difference in ending portfolio values between perfectly timed annual S&P 500 contributions and the worst-timed contributions is ~$300k. Meanwhile, the difference between the worst-timed contributions and holding cash is ~$600k. We believe this larger opportunity cost underscores the appeal of strategic equity weights.

Source: Bloomberg and Goldman Sachs Asset Management.

Top Section Notes: As of June 30, 2023. "CAPE" refers to cyclically adjusted price/earnings. Middle Section Notes: As of July 21, 2023. Bottom Section notes: As of July 21, 2023. "Perfect timing" is a strategy in which $12,000 is invested into the S&P 500 at its lowest closing value each year. "Worst timing" is a strategy in which $12,000 is invested into the S&P 500 at its highest closing value each year. "Cash" is a strategy in which $12,000 is invested into three-month US Treasury bills at the start of each year. Please see additional disclosures at the end of this document. **Past performance does not guarantee future results, which may vary.**

Important Information

1. Asset Class Outlook for equities, credits, sovereigns, real assets, and currencies are informed by Goldman Sachs Asset Management, Goldman Sachs Global Investment Research, and Goldman Sachs Investment Strategy Group views. The views expressed herein are as of May 2023 and subject to change in the future. “Shorter Term” view refers to less than 6 months. “Longer Term” view refers to 1–5 years. Individual portfolio management teams for Goldman Sachs Asset Management may have views and opinions and/or make investment decisions that, in certain instances, may not always be consistent with the views and opinions expressed herein.
2. Price targets of major asset classes are provided by Goldman Sachs Global Investment Research. Source: “Global equities gained 1.2%; Cyclicals Outperformed” – 07/31/2023.

Page 1 Definitions

GIR refers to Goldman Sachs Global Investment Research

FY refers to full-year

GDP refers to gross domestic product

DM refers to developed market

AI refers to artificial intelligence

EPS refers to earnings per share

Sticky inflation refers to persistently high inflation

LDI refers to liability-driven investing

Hawkish refers to less accommodative monetary policy

ECB refers to European Central Bank

FOMC refers to the Federal Open Market Committee

Page 2 Definitions

Full valuations is subjective terminology describing elevated S&P 500 valulation relative to its own history.

Cash refers to ultra-short fixed income.

Top Section Notes: Data from 1950 through 2023. Chart shows the R-squared of forward returns of varying time horizons regressed on CAPE ratios. Past correlations are not indicative of future correlations, which may vary. For illustrative purposes only.

Middle Section Notes: Chart shows growth of $10,000 through investments in the S&P 500 and two scenarios in which capital is reallocated to 3-month Treasury Bills on the date of the final hike in the prior two Fed hiking cycles. The results are based on the historical returns of the indices used and no representation is made that an investor will achieve similar results. The example provided does not reflect the deduction of investment advisory fees and expenses which would reduce an investor's return. The results will vary based on market conditions.

Bottom Section Notes: Top-ticking refers to purchasing an investment at a local high. Chart shows a hypothetical portfolio’s gross return from 2000 to 2023.

Glossary

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.

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.

Risk Considerations

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 US 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.

You could lose money by investing in money market funds. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

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

Income from municipal securities is generally free from federal taxes and state taxes for residents of the issuing state. While the interest income is tax-free, capital gains, if any, will be subject to taxes. Income for some investors may be subject to the federal Alternative Minimum Tax (AMT).

High yield fixed income securities are considered speculative, involve greater risk of default, and tend to be more volatile than investment grade fixed income securities.

US Treasuries are a debt obligations 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.

Gold is a specialized, concentrated asset that comes with unique risks. All investing is subject to risk, including the possible loss of the money you invest. Investments that concentrate on a relatively narrow market sector face the risk of higher share-price volatility.

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