Goldman Sachs | Asset Management

Strategic Advisory Solutions

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MARKET PULSE

MACRO VIEWS

MONETARY POLICY: Recent rhetoric from major developed market central banks has tilted hawkish as monetary policy officials hope to prevent financial conditions from easing. We expect that the ECB will reduce its policy rate in April while the BoE and Fed will begin easing in May, though risks skew to slightly later cuts.

GEOPOLITICS: The risk of military escalation may be growing as global elections unfold and shipping disruptions in the Red Sea persist. We see Euro area core inflation rising slightly in the short-term due to an increase in shipping costs, though the impact may be negligible. US inflation should largely remain insulated from these higher costs, in our view.

US POLITICS: As many expected, former President Trump won the Iowa caucuses and New Hampshire primary by double-digit margins. Trump's early wins have put him in a strong position to become the Republican nominee, and it is worth noting that no candidate with a twenty-point polling lead entering an election year has lost the primary election. As such, we feel a Trump-Biden rematch remains the most likely outcome.

CONSUMER: Tight labor markets across most economies have continued to buffer the global consumer. The unemployment rate has edged down to 6.4% in the Euro area and moved essentially sideways at historically low levels elsewhere. Household balance sheets generally remain strong and real income growth is firming up. Debt service ratios are healthy in Japan, the US, and Europe, but have jumped in Australia, Canada, and the UK due to a higher share of shorter-fixation mortgages.

MARKET VIEWS

US EQUITIES: The S&P 500 has traded at a historically elevated valuation on both an aggregate and equal-weighted basis. We believe further valuation expansion is unlikely without an additional decline in yields. The S&P 500 P/E has expanded from 17x in October to 20x in January, ranking in the 85th percentile since 1990, a level we expect the market to maintain throughout 2024. Moderate index appreciation should be led by earnings growth this year, in our view.

GLOBAL EQUITY: Japanese equities have extended last year's strong performance, attracting global investors' attention. This trend may continue as the region benefits from a healthy inflation pickup, heightened focus on corporate earnings, and attractive investor incentives to allocate to equities. Though current positioning remains light, we believe net flows will pick up to match this upbeat tone.

SMALL CAPS: Nearly two-thirds of the variation in Russell 2000 12-month returns can be explained by starting valuations and real GDP growth. Given the current combination of discounted prices and a healthy economic outlook, GIR's model implies that the Russell 2000 should return roughly 15% in the next 12 months. Moreover, the prior three occasions in which the S&P 500 notched an all-time high while the Russell 2000 traded at a drawdown similar to its current magnitude resulted in an average Russell 2000 12-month return of 29%.

MUNICIPAL BONDS: If inflation normalization continues and the Fed moves closer to rate cuts, we believe peak opportunities in munis may begin to close. We think yields will move lower in 2024 and valuation ratios relative to Treasuries may tighten further, informing our preference to lock in longer-term yields.

ASSET CLASS OUTLOOK[1]

Less Favorable — More Favorable

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

ASSET CLASS FORECASTS[2]

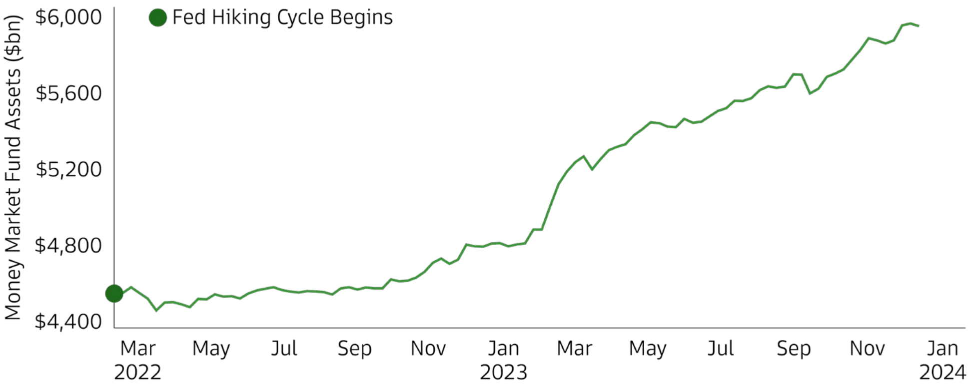
	Current	3m	12m	% ∆ to 12m
S&P 500 ($)	4891	4800	5100	4.3
STOXX Europe (€)	484	470	500	3.3
MSCI Asia-Pacific Ex-Japan ($)	506	530	570	12.6
TOPIX (¥)	2498	2500	2650	6.1
10-Year Treasury	4.1	3.8	4.0	-15 bp
10-Year Bund	2.3	2.1	2.0	-30 bp
10-Year JGB	0.7	0.7	0.9	18 bp
Euro (€/$)	1.09	1.08	1.12	3.1
Pound (£/$)	1.27	1.28	1.35	6.2
Yen ($/¥)	148	145	140	-5.4
Brent Crude Oil ($/bbl)	83.6	80	80	-4.2
London Gold ($/troy oz)	2017	2065	2175	7.9

Source: MSCI, GS Global Investment Research (GIR), and Goldman Sachs Asset Management. As of January 2024. "We" refers to Goldman Sachs 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.**

Municipal Bonds

Inflation and its underlying drivers appear poised to cool in the year ahead, which may allow central banks to pivot from their current restrictive stances. The precise magnitude of rate cuts in 2024 may be uncertain but one trend seems clear: shorter-maturity interest rates will likely fall. We believe this may encourage a reallocation from cash to asset classes that have more durable cash flows. Municipal bonds, with elevated yields and healthy credit profiles, may serve as an attractive alternative.

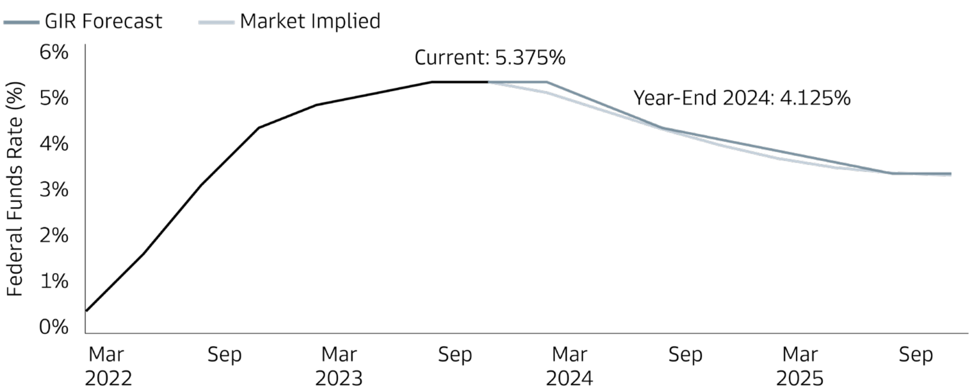
CASH COWS



Inverted yield curves have offered rare opportunities for investors to be compensated more for taking less risk. The spread between the 2-Year and 10-Year US Treasury (UST) yields has been negative for roughly 18 months, one of the longest periods of inversion in history. As a result, investors have captured attractive risk-adjusted yields with assets in money market funds growing by $1.4 trillion since the Fed began its hiking cycle in March of 2022, representing a 31% increase over that time.

Source: Bloomberg and Goldman Sachs Asset Management.

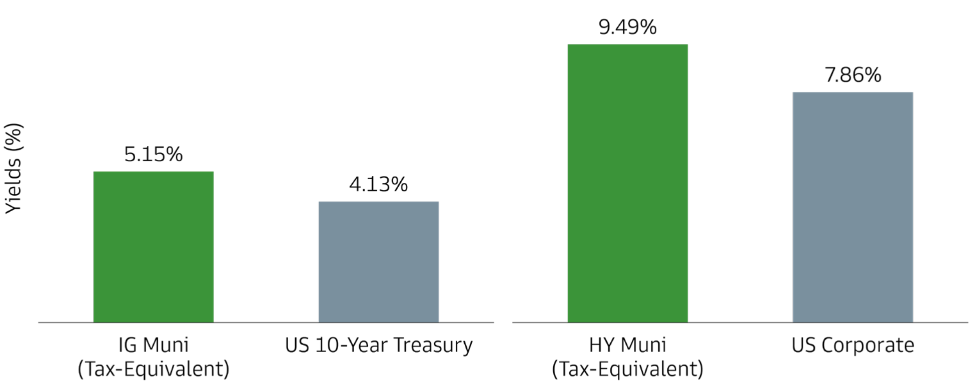
WHAT GOES UP MUST COME DOWN



The Fed appears poised to cut its policy rate in 2024 in response to cooling inflation and a softening labor market. With cash rates set to decrease as a result, our fixed income strategists anticipate a re-steepening of the curve, with the 10-Year UST forecasted to yield 30 bps more than the 2-Year UST by year end. We believe this normalization will highlight the importance of securing longer-dated cash flows found within intermediate-duration fixed income.

Source: Atlanta Fed, GS GIR, and GS Asset Management.

SEIZING TODAY'S YIELDS



Fortunately for investors with elevated cash holdings today, we believe opportunities can be found within the municipal bond market. Beyond strong yields, credit quality has been supported by one-time federal grants. Although this support has begun to wane, previous aid has allowed municipalities to strengthen fiscal positions by building reserves and/or paying down debt, all while tax receipts have remained strong given the avoidance of a US recession.

Source: Bloomberg and Goldman Sachs Asset Management.

"We" refers to Goldman Sachs Asset Management. Top Section Notes: Source: Bloomberg and Goldman Sachs Asset Management. As of January 17, 2024. Middle Section Notes: Source: Atlanta Fed, Goldman Sachs Global Investment Research, and Goldman Sachs Asset Management. As of February 1, 2024. Bottom Section notes: Source: Bloomberg and Goldman Sachs Asset Management. As of January 23, 2024. The economic and market forecasts presented herein are for informational purposes as of the date of this presentation. There can be no assurance that forecasts will be achieved. Please see additional disclosures at the end of this presentation. **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 January 2024 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 1.3%; Cyclicals outperformed” – January 29, 2024.

Page 1 Definitions

Hawkish refers to a state of less accommodative monetary policy

ECB refers to the European Central Bank

BoE refers to the Bank of England

Fed refers to the Federal Reserve

P/E refers to the price-to-earnings ratio and is calculated by dividing the current price of a security or basket of securities by forward consensus 12-month earnings projections

GDP refers to gross domestic product

GIR refers to Goldman Sachs Global Investment Research

Page 2 Definitions

Top Section Notes: Charts shows total assets held in money market funds by institutional and retail investors between the date of the Fed’s first hike in the current monetary tightening cycle and the date of the latest reported data.

Middle Section Notes: Chart shows GIR’s expected future path of the federal funds rate relative to estimated probability distributions implied by the prices of options from the Chicago Mercantile Exchange that reference the three-month compounded average Secured Overnight Financing Rate (SOFR). Bps refers to basis points, or 1/100th of 1%.

Bottom Section Notes: A 40.8% tax rate is used to calculate tax-equivalent yield. “AAA” refers to the AAA-rated portion of the Bloomberg Municipal Bond Index. Yields do not reflect the performance for any Goldman Sachs product. Goldman Sachs does not provide accounting, tax or legal advice.

Index Benchmarks

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 **Russell 2000 Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

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. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region.

The **MSCI AC Asia Pacific ex Japan Index** captures large and mid cap representation across 4 of 5 Developed Markets countries (excluding Japan) and 8 Emerging Markets countries* in the Asia Pacific region. With 1,309 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The **Japan TOPIX Index** is a capitalization-weighted index of the largest companies and corporations that are found in the First Section of the Tokyo Stock Exchange.

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.

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

International securities may be more volatile and less liquid and are subject to the risks of adverse economic or political developments. International securities are subject to greater risk of loss as a result of, but not limited to, the following: inadequate regulations, volatile securities markets, adverse exchange rates, and social, political, military, regulatory, economic or environmental developments, or natural disasters.

Emerging markets investments may be less liquid and are subject to greater risk than developed market investments as a result of, but not limited to, the following: inadequate regulations, volatile securities markets, adverse exchange rates, and social, political, military, regulatory, economic or environmental developments, or natural disasters.

Commodities greater volatility than investments in traditional securities. Investments in commodities may be affected by changes in overall market movements, changes in interest rates, or factors affecting a particular industry or commodity. Commodities are also subject to social, political, military, regulatory, economic, environmental or natural disaster risks.

The risk of foreign currency exchange rate fluctuations may cause the value of securities denominated in such foreign currency to decline in value. Currency exchange rates may fluctuate significantly over short periods of time. These risks may be more pronounced for investments in securities of issuers located in, or otherwise economically tied to, emerging countries. If applicable, investment techniques used to attempt to reduce the risk of currency movements (hedging), may not be effective. Hedging also involves additional risks associated with derivatives.

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