

Macro Snapshot

Climate of Change

Market Strategy
Strategic Advisory Solutions

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Executive Summary

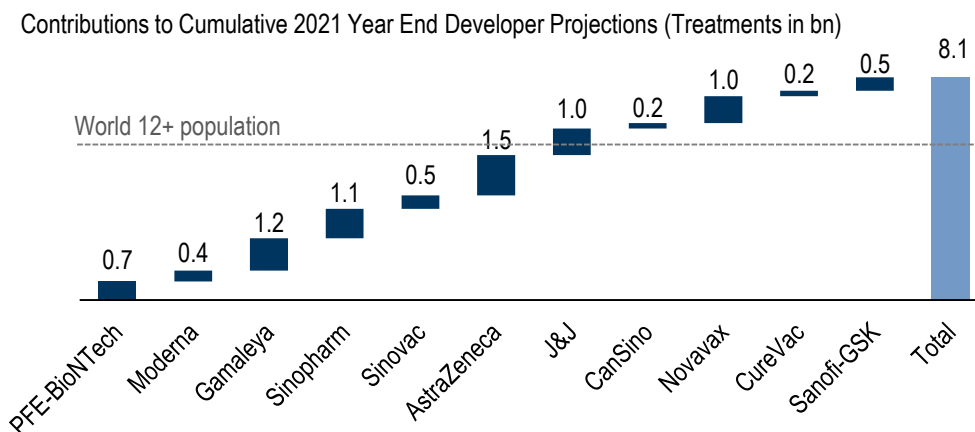
Climate of Change



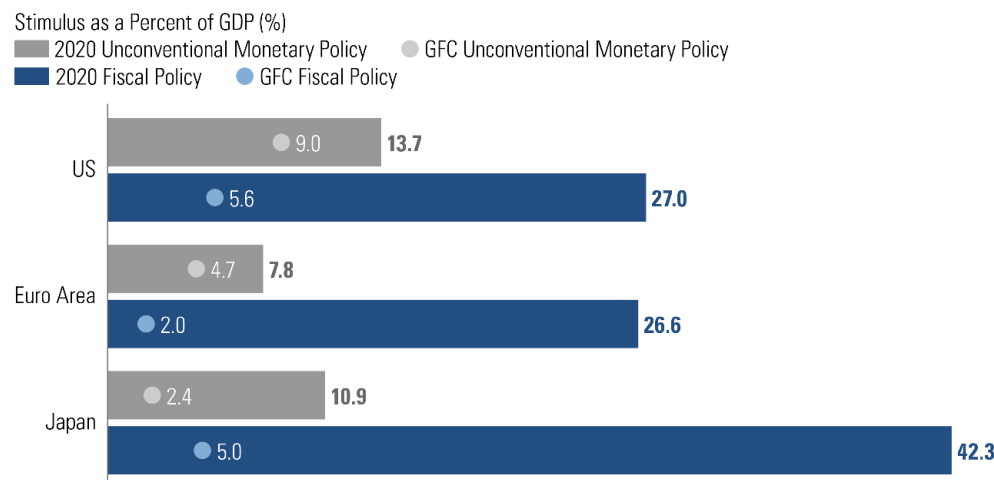
Asset Management

- COVID-19:** SARS-CoV-2 remains the key source of global uncertainty. At more than 84 million cases, the rise in case growth suggests that sustained virus control is inextricably linked to economic recovery.
- Vaccine:** Superforecasters from Good Judgment assigned a 99% chance of vaccinating 25mn people in the US by May 31. US vaccine demand should improve alongside efficacy, public health official approval, and time.
- Stimulus:** The magnitude of countercyclical policy support dwarfs anything deployed in modern history. Monetary policy re-liquefied critical funding markets while fiscal policy built a bridge to recovery for corporates and consumers. Collectively, stimulus may exceed the cumulative GDP lost to COVID-19.
- Re-opening:** The market remains keenly attuned to evidence of economic normalization. After falling to only 38% open in early April, the US economy is now roughly 67% re-opened. While a major improvement, the need for significant recovery remains, particularly for vulnerable sectors like entertainment, retail, lodging and transportation.
- Velocity:** The speed of the market downdraft and subsequent reversal has been historically swift. Following a -34% decline, the equity market has recovered roughly 64%, leaving the S&P 500 up ~16% in 2020.
- Pro-risk:** Our strong view of risk assets, particularly global equities, is supported by 1) recovering global growth of 6.4%, 2) double digit corporate profits, 3) limited need for structural repair, 4) sustainable policy commitments that remove extreme tail risk, and 5) relatively low global interest rates.

Vaccine Distribution Pipeline



Policy Commitment



Sources of Volatility



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Coronavirus

>84mm

Total confirmed cases worldwide

Labor

6.7%

US Unemployment Rate In November

Regulation

22%

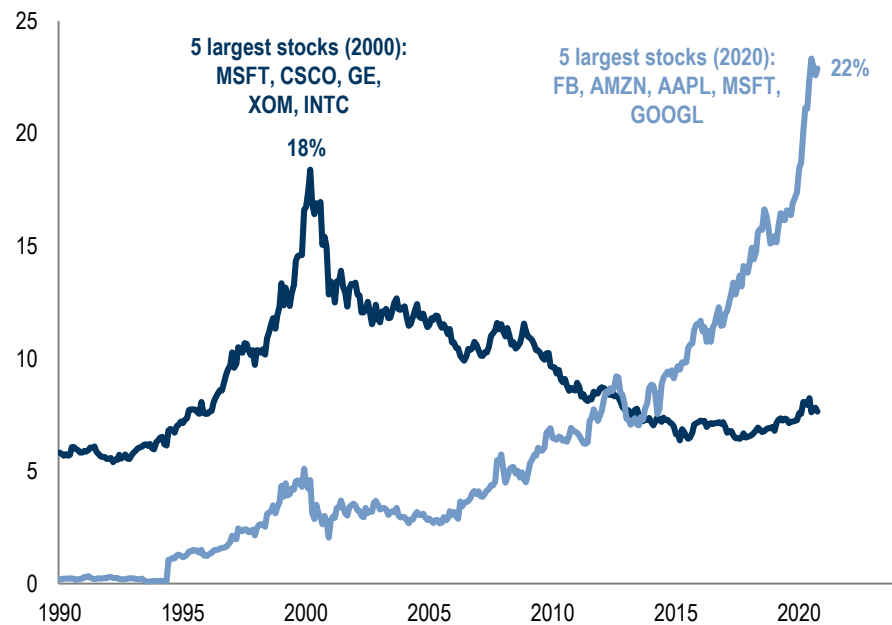
Concentration of large tech companies on Washington DC's radar

Policy

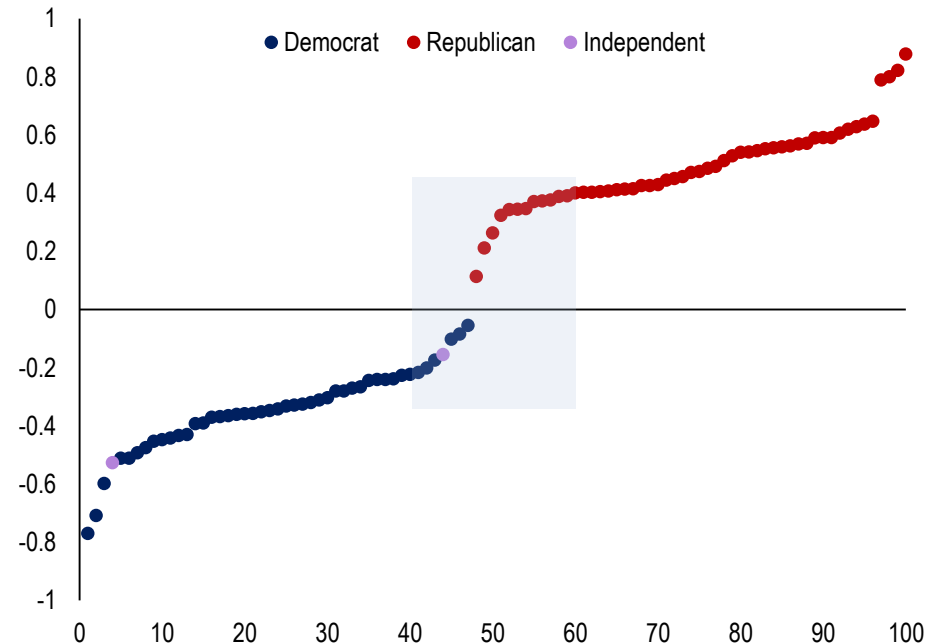
60

Number of Senate votes needed to invoke cloture and pass laws

Equity Market Concentration (%)



Senate Ideology (DW-Nominate Score)



Source: Bloomberg, Goldman Sachs Global Investment Research, VoteView, and GSAM. As of December 29, 2020. Bottom Left Chart Notes: Chart shows the market capitalization of the five largest companies in the S&P 500 as a share of the S&P 500 Index total. Bottom Right Chart Notes: Chart shows the ideology of members of the 2018-2020 Senate based on their voting history.

Sources of Stability



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Financial Conditions

98

Financial conditions index near all-time lows

Corporates

-10%

Bankruptcy rate below pre-pandemic levels

Housing

\$3.6 tn

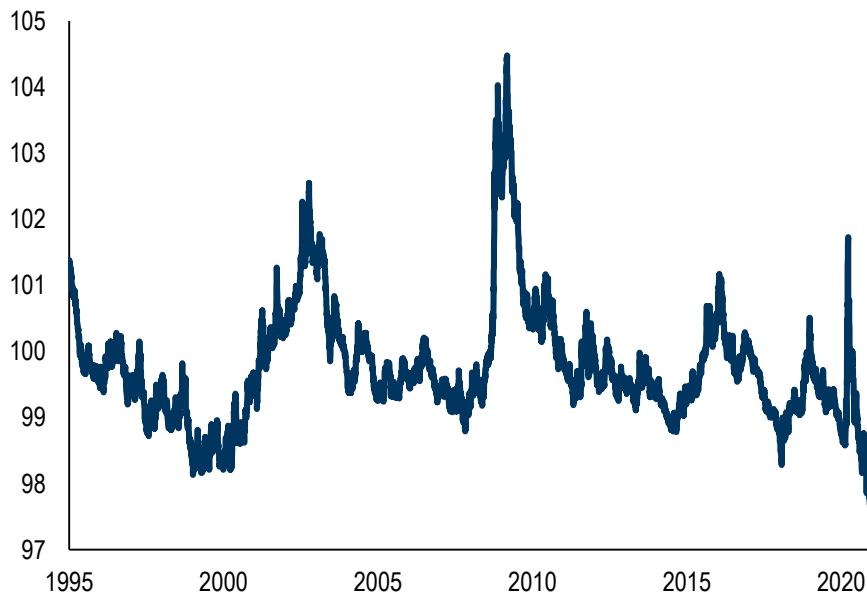
Mortgage origination reflects low interest rates and housing strength

Household

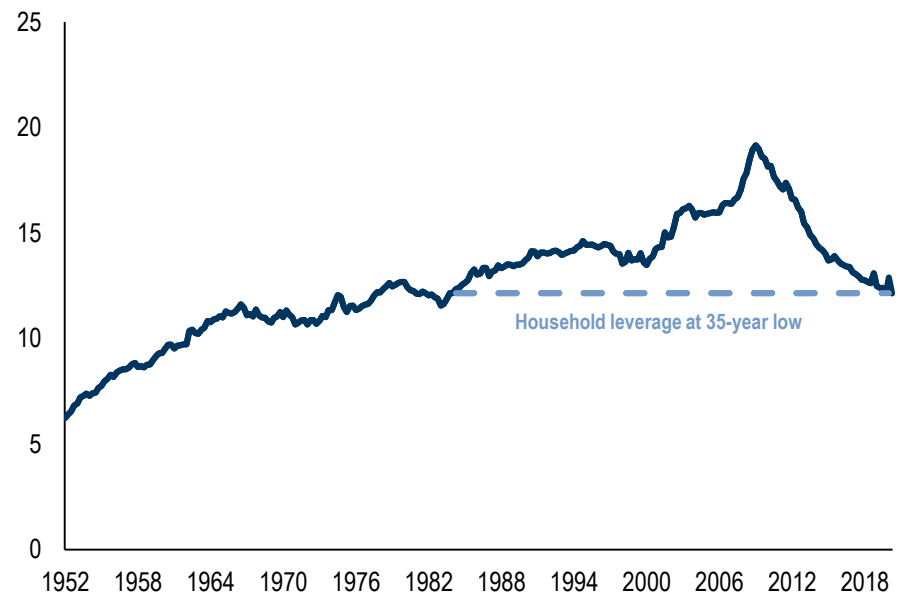
13%

Savings rate sets stage for potential consumer rebound

US Financial Conditions Index



US Household Leverage (%)



Top Table Source: Haver, Federal Reserve, Goldman Sachs Global Investment Research, CNBC, Freddie Mac, and GSAM. As of December 31, 2020. 'PCE' refers to personal consumption expenditures, the Federal Reserve's target measure of inflation. 'GFC' refers to the Global Financial Crisis, which began in 2007. Bottom Left Chart Source: Federal Reserve and GSAM. As of December 31, 2020. Bottom Right Chart Source: Federal Reserve of St Louis and GSAM. As of December 10, 2020. **Past performance does not guarantee future results, which may vary.**

Capital Market Forecasts



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We believe recovery should be favorably reflected in risk asset returns

	Current	Forecast			Upside/ Downside to 12m TP (%)
		3m	6m	12m	
Equities					
S&P 500 (\$)	3756	3900	4100	4300	14.5
STOXX Europe 600 (€)	399	405	420	430	7.8
MSCI Asia-Pacific Ex-Japan (\$)	662	650	675	700	5.7
Topix (¥)	1805	1750	1800	1875	3.9
10Y Rate (%)					
					(bp)
US	0.9	0.8	1.0	1.3	42.7
Euro area (Germany)	-0.6	-0.6	-0.5	-0.4	17.5
Japan	0.0	0.0	0.0	0.1	8.0
Currencies					
€/\$	1.22	1.25	1.27	1.28	4.6
£/\$	1.37	1.42	1.44	1.45	6.1
\$/¥	103.2	103.0	102.0	100.0	-3.1
Commodities					
Brent Crude Oil (\$/bbl)	51.8	47.0	51.0	63.0	21.6
NYMEX Nat. Gas (\$/mmBtu)	2.54	3.25	3.25	2.75	8.3
London Gold (\$/troy oz)	1888	2300	2300	2300	21.8
LME Copper (\$/mt)	7742	8200	8700	9500	22.7

Global **equity strength** as prospects for a vaccine- and stimulus- fueled recovery pull returns forward

Global **rates edge higher** on the long end reflecting favorable cyclical impulses

USD weakens further from the pressure of high valuation and countercyclical characteristics

A **bull cycle in commodities** emerges as significantly reduced investment collides with recovering demand

Source: Goldman Sachs Global Investment Research and GSAM. As of January 4, 2020. 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. Please see additional disclosures at the end of this presentation.

Drivers of Above-Consensus Views



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Real GDP Growth						
Percent Change YoY	2018	2019	2020 (f)		2021 (f)	
			GS	Cons.	GS	Cons.
US	3.0	2.2	-3.4	-3.9	5.9	3.8
Japan	0.3	0.7	-5.3	-5.6	3.6	2.5
Euro Area	1.8	1.3	-7.2	-7.7	5.5	5.2
UK	1.3	1.3	-11.2	-10.0	7.0	5.5
China	6.7	6.1	2.4	2.0	8.0	8.0
India	6.8	4.9	-7.7	-9.0	9.9	7.4
Russia	2.4	1.3	-4.0	-4.0	5.0	3.0
Brazil	1.3	1.1	-4.5	-5.2	3.8	3.5
Developed Markets	2.2	1.6	-5.4	-5.5	5.5	4.1
Emerging Markets	5.1	4.2	-2.3	-0.8	7.2	4.9
World	3.8	3.0	-3.6	-4.0	6.5	5.2

Our views are framed by:

- Above-consensus global growth of 6.5%**, pulled forward by early vaccine distribution and accommodative policies
- Double-digit earnings recovery** that broadens to cyclical, value, and global sectors
- Absence of structural recessionary drivers** such as financial bubbles or oil-price spikes
- Perceived policy “puts”** from fiscal and monetary authorities reduces tail risks
- Anchored rates** with limited inflation may push policy hikes out to 2025

Bear Market Risks

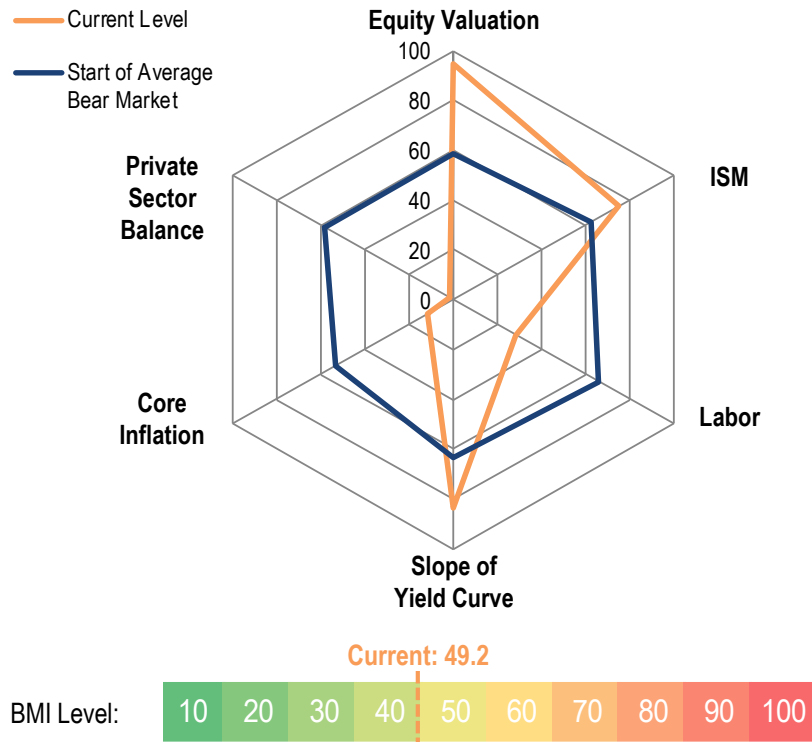


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Bear Market Risk remains moderate, though conflicting signals are present

Components for Bear Market Risk

Risk Level of Indicator (100 = High, 0 = Low)



Currently, the 12M probability of a bear market is **27-38%**.

Unpacking the Components

Component	Signals to Watch	%tile	Risk Level
Equity Valuation	High valuation is a feature of most bear markets, but rarely a trigger for market decline	94.8	Major
ISM	High ISM suggests moderating growth and lower equity returns	75.0	Medium
Labor	Bottoming unemployment rate precedes most bear markets; ample labor market slack today	28.8	Low
Slope of Yield Curve	Flat yield curve precedes inversion; recovering growth should moderately lift long-dated rates today	83.9	Medium
Core Inflation	Rising inflation suggests late cycle condition, but currently below target	11.4	Low
Private Sector Balance	Elevated imbalances imply excess corporate spending; limited leverage and stable corporate balance sheets lessen risks today	1.0	Low

Left Chart Source: Bloomberg, Robert Shiller, FRED, and GSAM. As of November 30, 2020. Risk Level indicates historical percentile from 1st to 100th for each indicator, where 100 is the highest the indicator has ever been in history and 0 is the lowest. Data analyzed from common inception from January 1954 to present. Core Inflation refers to Core CPI, Equity Valuation refers to Shiller Cyclically Adjusted PE Ratio, ISM refers to ISM Manufacturing Index, Labor refers to Unemployment Rate, Slope of Yield Curve refers to the spread between the 3 Month Treasury yield and the 6 Quarter Forward interpolated yield, Private Sector Balance refers to total saving minus total investment of all US households and businesses. Right Chart Source: GSAM. **Past performance does not guarantee future results, which may vary.**

Key Takeaways



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- Vaccine and policy should drive global economic and market normalization in 2021, but path of recovery likely flattens further out
 - High equity valuation and a flat yield curve may signal caution ahead, offset by macro improvement and limited inflation pressures
 - Risk asset opportunities ahead are increasingly idiosyncratic, concentrated, and global

Glossary



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Equities

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.

Fixed Income

The 10-Year Treasury is a U.S. Treasury debt obligation that has a maturity of 10 years.

Other

P/E refers to the price to earnings ratio.

EPS refers to earnings per share.

The CAPE Ratio is the cyclically adjusted price-to-earnings ratio and is defined as price divided by the average of ten years of earnings, adjusted for inflation.

Stimulus refers to the estimate of total fiscal easing and loan guarantees for the calendar year, based on enacted and proposed policy stimulus.

Unconventional monetary policy refers to asset purchase programs.

Index Benchmarks

Indices are unmanaged. The figures for the index reflect the reinvestment of all income or dividends, as applicable, 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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