Goldman Sachs Asset Management

Strategic Advisory Solutions

JUNE 2024

MARKET PULSE

MACRO VIEWS

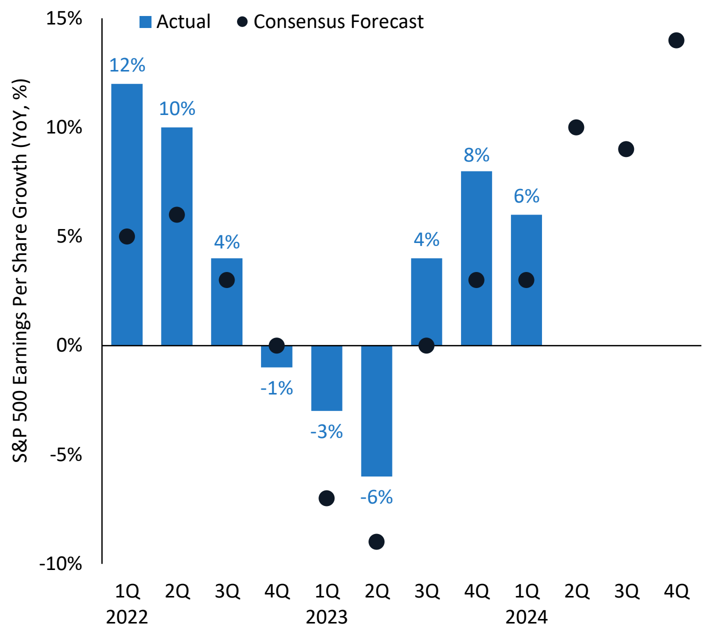
INFLATION: US inflation snapped a string of three consecutive readings that were hotter than consensus expected in April, with core PCE registering at 2.75% YoY. We expect core inflation to remain relatively stagnant for the remainder of the year behind further rebalancing in the auto, housing rental, and labor markets. Meanwhile, disinflation progress in both the Euro Area and the UK has remained broadly on track.

MONETARY POLICY: The FOMC May meeting minutes underscored that the committee is unconvinced by 1Q inflation stickiness, but opinions were divided between both the cause of the firm price growth and the commensurate policy decision. Our colleagues in GIR now expect the first rate cut to occur in September. We maintain our expectation that other major central banks will diverge from the Fed in coming months.

CONSUMER: The US consumer remains healthy, in our view, despite recent signs of slowing. Recent weak spending data and higher credit delinquencies are a risk but may have been driven by one-time tax payments, in our view. We expect above-consensus real spending growth in 2024. The Euro area has shown similar signs of strength, demonstrated by firm spending growth and falling unemployment.

SENTIMENT: Consumer sentiment in the US has fallen alongside a string of firm inflation prints to begin the year. Recent polling indicates that over 50% of Americans believe the economy is currently experiencing a recession, however we believe readings are currently being influenced by the impending Presidential election.

CHART OF THE MONTH[1]



MARKET VIEWS

EARNINGS: The S&P 500 realized year-over-year EPS growth of ~6% in 1Q2024, above consensus expectations for the fifth consecutive quarter. The encouraging headline number is qualified by disappointing recent economic growth data, a mixed consumer outlook, and widening dispersion among Magnificent Seven companies. Still, our colleagues in GIR maintain their 2024 EPS forecast of $241, with risks skewing to the upside on continued potential strength of AI revenue growth.

SMALL CAPS: Macro tailwinds in the form of positive, albeit softer, growth and Fed cuts on the horizon still bode well for a potential small-cap rebound, in our view. We maintain a selective approach, however, as elevated interest rates and investor skepticism surrounding the timing of Fed rate cuts persist. This may challenge index-level investing, but we believe stock selection opportunities remain robust among small caps.

JAPANESE EQUITIES: We retain a positive stance on Japanese equities, supported by our expectations of domestic economic strength and corporate governance reform momentum. Rising inflation has had meaningful impacts on businesses, consumption, and investment, and real wages are expected to rise by their highest amount in over three decades. Inflows into Japanese assets are likely to continue, in our view.

COMMODITIES: Structural opportunities in commodities are evidenced by the five D's: 1) disinvestment in commodities tightening supply, 2) decarbonization requiring higher prices to attract green CapEx, 3) de-risking to hedge market impacts of geopolitical tensions, and 4&5), datacenters and defense spending supporting demand for metals and distillate fuels. GIR expects year-end copper and gold prices to rise 15% to $12,000/t and 14% to $2,700/troy oz, respectively.

ASSET CLASS FORECASTS[2]

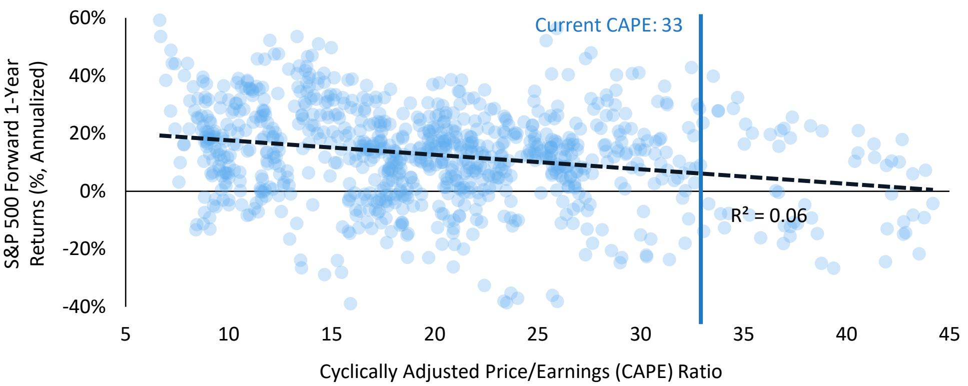
	Current	3m	12m	% Δ to 12m
EQUITIES				
S&P 500 ($)	5278	5000	5200	-1.5
STOXX Europe (€)	518	510	540	4.2
MSCI Asia-Pacific Ex-Japan ($)	548	570	615	12.3
TOPIX (¥)	2772	2800	2900	4.6
RATES				
10-Year Treasury	4.5	4.3	4.2	-27 bp
10-Year Bund	2.6	2.3	2.2	-43 bp
10-Year JGB	1.1	1.1	1.6	48 bp
CURRENCIES				
Euro (€/$)	1.08	1.05	1.08	-0.4
Pound (£/$)	1.27	1.24	1.28	0.5
Yen ($/¥)	157	155	150	-4.6
REAL ASSETS				
Brent Crude Oil ($/bbl)	81.6	87	82	0.5
London Gold ($/troy oz)	2331	2600	2700	15.8

Source: MSCI, GS Global Investment Research (GIR), and Goldman Sachs Asset Management. As of May 2024. "We/Our" 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.**

Reaching New Peaks

Summiting a mountain may often be why one traverses it in the first place. But a hyper-fixation on reaching the top may neglect the opportunity to experience beauty along the way. Comparably, investors focused on identifying when a market has reached its peak may fail to recognize investment opportunities in its climb higher. While valuations of US large-cap equities are currently stretched, history suggests that an all-time high experienced today can often be a ledge on the path to a new peak tomorrow.

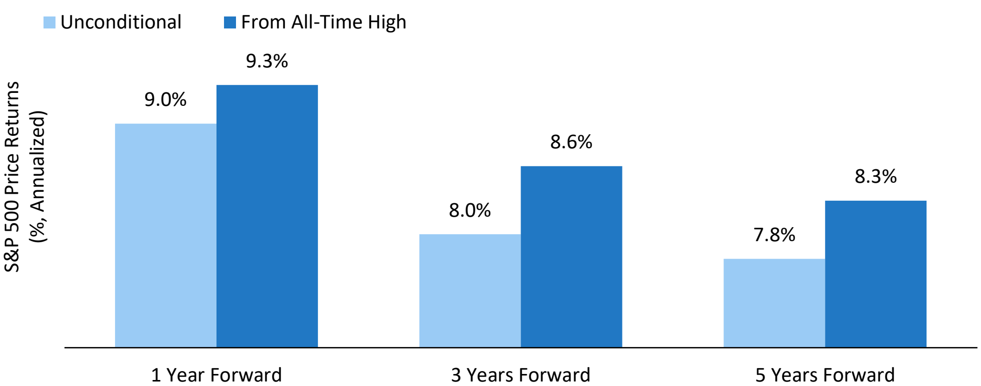
VALUE OF VALUATIONS



The S&P 500 has notched 24 all-time highs in 2024, causing valuations to rise and investors to practice restraint in deploying capital. Exercising caution in an expensive market is prudent, but we believe valuations alone should not serve as the basis for investment decisions. In fact, starting valuations have been a weak predictor of future returns, explaining only 6% of the variance in forward 1-year S&P 500 returns and 18% of the variance in forward 3-year returns.

Source: Bloomberg and Goldman Sachs Asset Management.

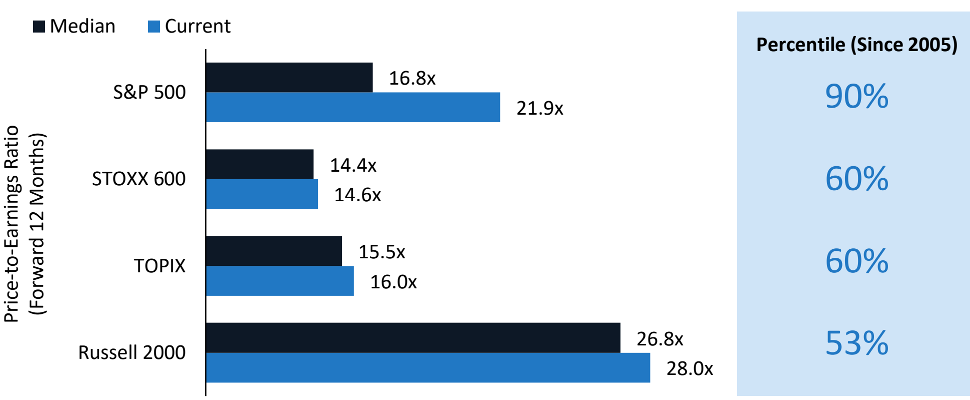
BUYING HIGH, SELLING HIGHER



Conventional wisdom cautions against buying any security at its peak price. With that said, peaks can only be identified with the benefit of hindsight, something investors do not have at their disposal in the moment. Contrary to intuition, investing in the S&P 500 exclusively on days when the market reached an all-time high has outperformed a strategy of investing on any given day, providing stronger returns on each a 1-year, 3-year, and 5-year forward basis.

Source: Bloomberg and Goldman Sachs Asset Management.

DISCOUNTS FOUND DOWN AND OUT



For investors who are particularly valuation-sensitive and already hold strategic target weights in US large-cap equities however, we believe relative discounts may be found by looking down in market capitalization and outside of the US. In addition to valuations that are roughly in line with their historical medians, small-cap, Japanese, and European equities may benefit from firm economic growth in the US, corporate reform in Japan, and disinflation in Europe, respectively.

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 April 30, 2024. Middle Section Notes: Source: Bloomberg and Goldman Sachs Asset Management. As of May 23, 2024. Bottom Section notes: Source: Bloomberg and Goldman Sachs Asset Management. As of May 17, 2024. The economic and market forecasts presented herein are for informational purposes as of the date of this document. There can be no assurance that forecasts will be achieved. Please see additional disclosures at the end of this document. **Past performance does not guarantee future results, which may vary.**

Important Information

1. Chart Source: Goldman Sachs Global Investment Research and Goldman Sachs Asset Management. As of May 29, 2024. Chart shows consensus bottom-up earnings per share growth estimates at the start of each quarterly earnings season.
2. Price targets of major asset classes are provided by Goldman Sachs Global Investment Research. Source: “Global equities lost 0.8%; EM underperformed” – June 3, 2024.
3. Sentiment polling sourced from Harris Insights & Analytics.

Page 1 Definitions

Core PCE refers to the Personal Expenditures Price Index, excluding food and energy prices

YoY year-over-year

FOMC refers to the Federal Open Market Committee

GIR refers to Goldman Sachs Global Investment Research

EPS refers to earnings per share

Magnificent Seven refers to Apple, Microsoft, Meta, Amazon, Tesla, Nvidia, and Google.

AI refers to artificial intelligence

Green CapEx refers to capital expenditures made in environmentally sustainable economic activities

Oz refers to ounce

Page 2 Definitions

Top Section Notes: Chart shows forward 1-year total returns of the S&P 500 relative to its cyclically adjusted price-to-earnings ratio at the start of the period. Analysis considers monthly returns since 1950.

Middle Section Notes: Chart shows average forward price returns of the S&P 500 following an all-time index high being reached versus unconditional returns over 1-year, 3-year, and 5-year periods. Unconditional returns refer to the average return of the index beginning on any trading day regardless of whether or not an all-time high was reached.

Bottom Section Notes: Price-to-earnings ratios are measured as the price of each index relative to consensus estimates for forward 12-month earnings of companies within each index.

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 **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 **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.

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 **MSCI AC Asia ex Japan Index** captures large and mid cap representation across 2 of 3 DM countries (excluding Japan) and 8 EM countries in Asia.

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, prepayment and extension risk. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond’s price. The value of securities with variable and floating interest rates are generally less sensitive to interest rate changes than securities with fixed interest rates. Variable and floating rate securities may decline in value if interest rates do not move as expected. Conversely, variable and floating rate securities will not generally rise in value if market interest rates decline. Credit risk is the risk that an issuer will default on payments of interest and principal. Credit risk is higher when investing in high yield bonds, also known as junk bonds. Prepayment risk is the risk that the issuer of a security may pay off principal more quickly than originally anticipated. Extension risk is the risk that the issuer of a security may pay off principal more slowly than originally anticipated. All fixed income investments may be worth less than their original cost upon redemption or maturity.

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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