# MARKET PULSE

## 10 FOR 2025

**1. GROWTH:** We continue to see limited recession risk and expect several tailwinds to global growth, including strong real household income growth, a smaller drag from monetary/fiscal tightening, a recovery in manufacturing activity, and an increased willingness of central banks to deliver insurance cuts, if needed.

**2. POST-ELECTION POLICY:** While we expect significant US policy changes next year, we think they are unlikely to substantially alter the trajectory of the US economy or monetary policy. In the US, we expect new tariffs on China and autos, reduced net immigration, modest new tax cuts, and a more relaxed regulatory stance.

**3. INFLATION:** Higher tariffs will likely raise US inflation, at least in the short term. Excluding tariffs, we expect US Core PCE to decline to 2.1% in 2025. However, our baseline tariff scenario includes a 0.3-0.4pp boost to core inflation, with a larger impact under a 10% across-the-board tariff.

**4. MONETARY POLICY:** The previous experience with US tariffs in 2019 suggests that if inflation expectations remain well anchored, the Fed would try to 'see through' tariff-driven inflation. We expect the Fed to deliver consecutive rate cuts through 1Q 2025 before slowing its pace until September, reaching a terminal rate of 3.25-3.5%. Globally, we expect cuts from all G10 central banks except the BoJ in 2025.

**5. DM EQUITIES:** GIR forecasts the S&P 500 will rise to 6500 by year-end 2025, predicated on continued US economic expansion, earnings growth of 11%, and a YE NTM P/E multiple of 21.5x. Globally, we expect moderating returns, governed by earnings growth and dividends. We prefer geographic diversification, equal-weight S&P 500, small/mid caps, AI-enabled revenue exposure, and lower volatility call-writing strategies.

**6. EM EQUITIES:** A stronger dollar, higher tariffs on China and autos, and shallower easing cycles across EM provide a more challenging backdrop. We think emerging markets with 1) strong domestic micro fundamentals, 2) insulation from external risks such as tariffs, and 3) supportive local policy are well-positioned to outperform in 2025.

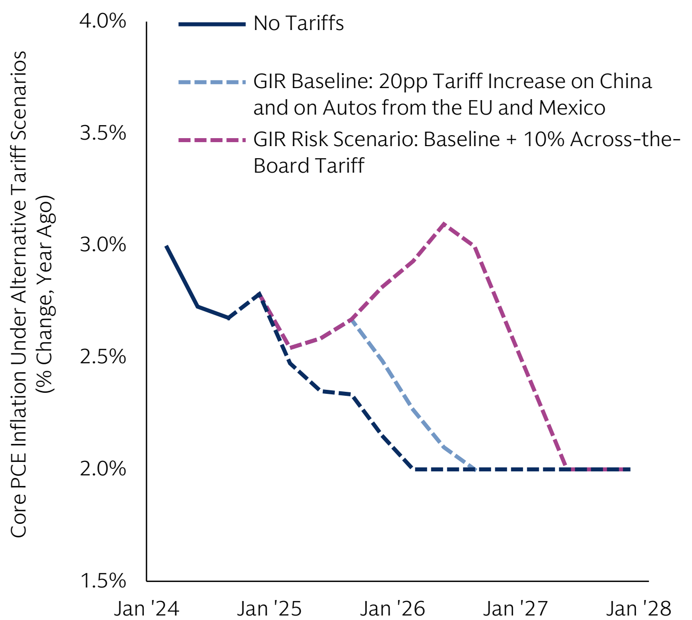
**7. RATES:** In the US, we expect longer-term yields to remain at around current levels, reflecting ongoing pressure from persistently elevated deficits. We think a steepening bias best suits a scenario where the Fed is more focused on growth than inflation risks. Outside the US, the growth downside case for owning duration is most pronounced in Europe.

**8. CREDIT:** Investors will likely start 2025 with tight spread constraints, though we expect these levels to persist. We see risks migrating from systemic concerns within the banking system to broader trade war and US debt sustainability concerns.

**9. CURRENCIES:** We had expected the US Dollar to gradually decline as global growth moved into better balance. However, Dollar challengers still struggle to mount a better case. We now expect tariffs to feature prominently in US policy, along with some further fiscal changes. This backdrop poses a potent combination for Dollar resiliency in 2025.

**10. COMMODITIES:** The wide range of potential US policy shifts may strengthen the role of commodities. Gold and oil positions, in particular, may act as inflation and geopolitical hedges in scenarios such as tariff escalation, supply disruptions, conflict escalation, and debt sustainability.

## CHART OF THE MONTH[1]




## ASSET CLASS FORECASTS[2]

| | Current | 3m | 12m | % Δ to 12m |
|---|---|---|---|---|
| **Equities** | | | | |
| S&P 500 ($) | 6,032 | 6,100 | 6,500 | 7.8 |
| STOXX Europe (€) | 510 | 500 | 530 | 3.9 |
| MSCI Asia-Pacific Ex-Japan ($) | 576 | 585 | 630 | 9.3 |
| TOPIX (¥) | 2681 | 3,000 | 3,100 | 15.6 |
| **Rates** | | | | |
| 10-Year Treasury | 4.2 | 4.3 | 4.3 | 6 bp |
| 10-Year Bund | 2.1 | 2.1 | 1.9 | -19 bp |
| 10-Year JGB | 1.0 | 1.2 | 1.6 | 52 bp |
| **Currencies** | | | | |
| Euro (€/$) | 1.05 | 1.06 | 1.03 | -2.3 |
| Pound (£/$) | 1.27 | 1.32 | 1.30 | 2.4 |
| Yen ($/¥) | 150 | 155 | 159 | 5.7 |
| **Real Assets** | | | | |
| Brent Crude Oil ($/bbl) | 72.9 | 75 | 74 | 1.5 |
| London Gold ($/troy oz) | 2659 | 2670 | 2930 | 10.2 |

Source: GS GIR and GS Asset Management. As of November 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 3 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 predict future returns and does not guarantee future results, which may vary.**

## Ripple Effect

Now at the cusp of a new political regime and shifting macroeconomic dynamics, we expect 2025 to boast a robust US economy but continued investor anxiety, as the results of corporate earnings, domestic policy decisions, and geopolitical escalation may create ripple effects into near-term market outcomes. While markets may remain resilient against a solid macro backdrop, we believe investors can enhance their existing positions by broadening exposure across market cap, regions, and asset classes.

### GROWTH

**Hard At Work:** Hard CAIs (current activity indicators), such as manufacturing and industrial production, have been positive for 24 consecutive months in the US, the 6th longest streak since 1972. In contrast, Soft CAIs, such as consumer sentiment and business optimism, have been negative for 11 of those 24 months.

**An Arm And A Leg:** US prices today are 21% higher than pre-pandemic levels, whereas they would only be 10% higher if inflation stayed at 2% since February 2020.

**Shopping Spree:** On that note, disposable personal income is up 31% since February 2020, helping to drive a 35% increase in consumer spending over that same period.

### POLITICS

**Running Red:** President-elect Trump won a second non-consecutive term, while the GOP flipped the Senate and maintained control of the House, delivering the 5th Republican sweep in the post-WWII era. The S&P 500 has returned 16% on average during Republican sweeps over this period.

**Flipping The Script:** For the first time in almost 120 years of records, incumbents lost re-election in every one of the 10 major countries that have been tracked by the ParlGov global research project and held national elections in 2024.

**Wide, And Getting Wider:** Over the last 10 years, US Federal Government Revenue has increased 14%, while US Government Spending has increased 38%, contributing to the widest Federal deficit on record[1].

### EQUITIES

**Growth Mode:** Since 1949, the average bull market lasted 5.5 years, returning 192% on average, while the average bear market lasted 11.2 months, returning –33% on average. The current bull market, which began in October 2022, has returned 69% over 2.2 years.

**Priced For Perfection:** The average trailing-twelve-month P/E ratio of the top 10 S&P 500 companies today sits at 48.6x, while the P/E ratio of the S&P 500 is 26.8x, at its 93rd percentile since 1990.

**Health Is Wealth:** The number of zombie companies in the S&P 500, or companies with a lower trailing 12-month net income than interest payments, is at its 3rd lowest level since 2008—at just 35 companies.

### FIXED INCOME

**A Bad Stretch:** With the US Aggregate Bond Index down –17.3% since August 2020, the US Bond Market has now been in a drawdown for over 52 months, which is the longest period in history.

**Opposite Paths:** Since the Fed cut interest rates by 50bp on September 18, the 10-Year US Treasury yield and the 30-Year US mortgage rate have risen by 56bp and 72bp, respectively.

**Tight Spreads:** US high yield credit spreads are at their tightest levels since June 2007 and in the lowest quintile historically, which has typically been a negative sign for forward equity and credit market returns.

Source: Bloomberg, ParlGov, FRED, US Department of the Treasury, Goldman Sachs Global Investment Research, and Goldman Sachs Asset Management. As of December 2, 2024, or latest available. [1] Percentages shown are adjusted for inflation. “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. **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 December 4, 2024. Chart shows GIR's forecast for US Core PCE inflation under three different potential tariff scenarios. For illustrative purposes only. There is no guarantee that objectives will be met.
2. Price targets of major asset classes are provided by Goldman Sachs Global Investment Research. Source: "Publishing our GOAL outlook" – December 2, 2024.

**Page 1 Definitions**

Core PCE refers to Personal Consumption Expenditures, less food and energy

pp refers to percentage point

Fed refers to Federal Reserve

G10 refers to the Group of Ten

BoJ refers to Bank of Japan

GIR refers to Goldman Sachs Global Investment Research

YE refers to year-end

NTM refers to next-twelve-months

P/E refers to price-to-earnings

AI refers to artificial intelligence

DM refers to developed markets

EM refers to emerging markets

Bp refers to basis points

**Page 2 Definitions**

GOP refers to the Grand Old Party, or the Republican Party

**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.

When interest rates increase, fixed income securities will generally decline in value. Fluctuations in interest rates may also affect the yield and liquidity of fixed income securities.

Diversification does not protect an investor from market risk and does not ensure a profit.

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