Goldman Sachs Asset Management

Strategic Advisory Solutions

JULY 2024

MARKET PULSE

MACRO VIEWS

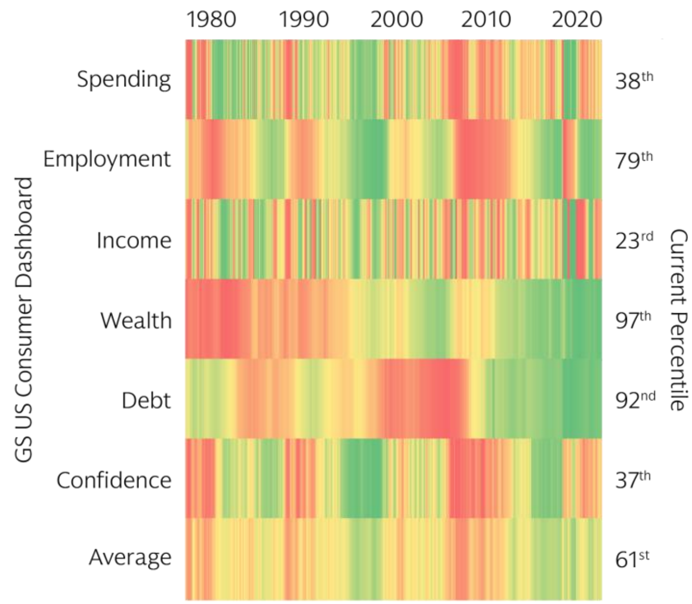
ELECTIONS: The first US presidential debate resulted in a greater implied probability of a Trump presidency, with odds rising by 6pp in prediction markets during the debate, and a decreased probability of President Biden's candidacy. The odds of a Republican sweep rose, but by less than the move in the presidential race. Meanwhile, in the UK the Labour party secured a significant majority, as widely expected. Finally in France, the leftwing Nouveau Front Populaire bloc surprisingly won the most seats but fell short of a majority, leading to a hung parliament.

HOUSING: The gap between outstanding mortgages and current market rates in the US is at its widest in four decades, driving low home turnover and higher prices. As interest rates remain elevated in 2024, we expect homeowner mobility to remain stagnant, providing further support to GIR's expectation that home prices will appreciate by 4.3% in 2024.

LABOR: The unemployment rate has steadily increased to a point of inflection, where any further material softening in labor demand may risk jobs rather than openings. While risks to employment and consumption have grown, we do not expect a significant deterioration due to strong starting points of high payroll growth and a low layoff rate.

JAPAN: Despite lackluster growth in 1Q2024, recent Yen weakness and a continued uptick in inflation should allow the BoJ to deliver their second rate hike in July, in our view. Despite this, we expect economic growth to rebound in 2H2024 behind improving real disposable incomes and corporate earnings outpacing that of other DM economies.

CHART OF THE MONTH[1]



MARKET VIEWS

1H RECAP[3]: Equity markets closed out 1H2024 with solidly positive returns. The Stoxx 600 gained +7%, the TOPIX closed at +18% while the S&P 500 rose +15%. Since 1900, there have been only 25 years with the S&P 500 up more than 15% in 1H. The resulting second half returns were positive 19 of the 25 years, with a median second half return of 8.9% relative to the unconditional median second half return of 7.3%.

US EQUITIES: Our colleagues in GIR increased their S&P 500 year-end target from 5200 to 5600, driven by mild negative earnings revisions, a higher fair value price-to-earnings multiple of 20.4x, and a 2024 earnings per share estimate of $241. They also updated four alternative year-end scenarios: 1) further mega-cap exceptionalism (6300), 2) a "catch-up" (5900), 3) rising recession risk (4800), and 4) a "catch-down" (4700).

VOLATILITY: Implied volatility, as measured by the VIX, remains low, which is further enforced by a low magnitude of daily drawdowns year-to-date. The most severe daily S&P 500 drawdown in June 2024 was –0.31%. This maximum drawdown was the fifth least severe since 1928 and the smallest since February 2017, highlighting the invariable nature of equity returns despite macro-economic uncertainty thus far in 2024.

CROSS ASSET ELECTION VIEWS: We believe a Republican sweep could result in a modest equity rally, higher yields, and dollar strength, while a Democratic sweep could see modest equity downside, higher yields, and dollar weakness. Under the multiple iterations of divided government, we expect similar and muted market responses. Importantly, most US elections prove to be risk clearing events. Increasing volatility has been a clear theme in the second half of past election years, but we believe investors will benefit from sticking to strategic portfolio allocations.

ASSET CLASS FORECASTS[2]

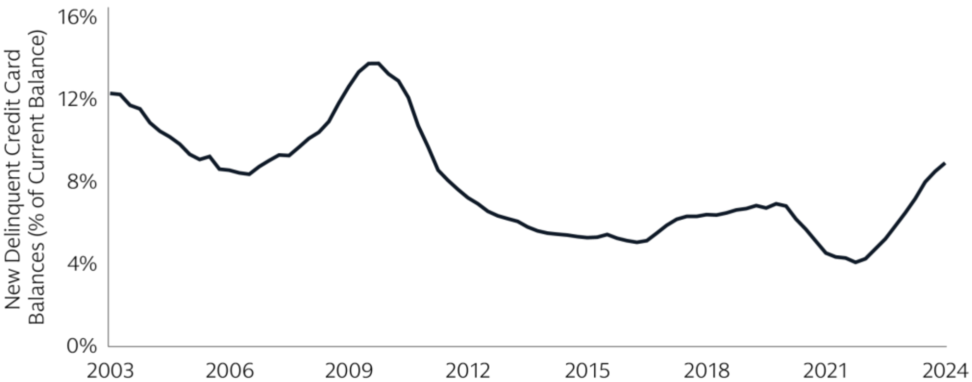
	Current	3m	12m	% Δ to 12m
EQUITIES				
S&P 500 ($)	5567	5400	5700	2.4
STOXX Europe (€)	517	510	540	4.5
MSCI Asia-Pacific Ex-Japan ($)	577	570	615	6.7
TOPIX (¥)	2884	2800	2900	0.5
RATES				
10-Year Treasury	4.3	4.3	4.2	-8 bp
10-Year Bund	2.5	2.3	2.2	-34 bp
10-Year JGB	1.1	1.1	1.6	50 bp
CURRENCIES				
Euro (€/$)	1.09	1.05	1.08	-0.5
Pound (£/$)	1.28	1.24	1.28	-0.1
Yen ($/¥)	160	155	150	-6.5
REAL ASSETS				
Brent Crude Oil ($/bbl)	87	86	81	-6.7
London Gold ($/troy oz)	2379	2600	2700	13.5

Source: MSCI, GS Global Investment Research (GIR), and Goldman Sachs Asset Management. As of June 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 predict future returns and does not guarantee future results, which may vary.**

Health Check

Regular health checks are prudent and important for detecting problems before they grow too large. We approach the well-being of the US consumer in a similar manner, seeking to identify signs of poor health that could lead to greater problems for the economy down the road. We do this by analyzing 1) what consumers owe, 2) what they own, and 3) to what extent incomes will continue to grow. By dissecting troublesome areas, we find that the US consumer should bend, not break, in 2024.

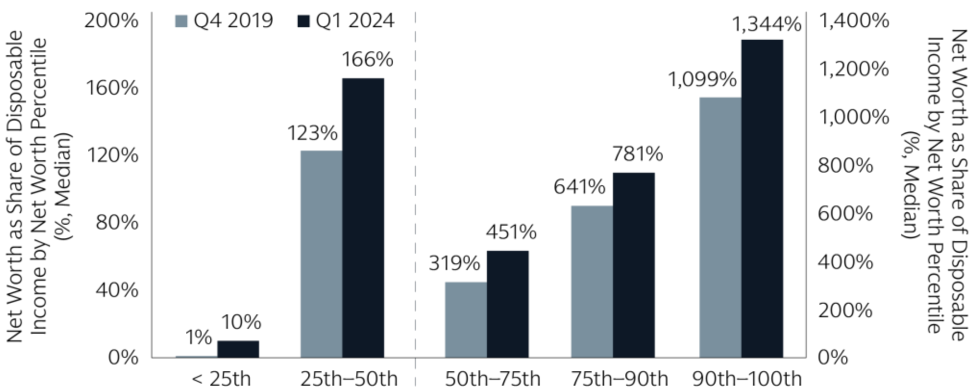
DEBT SERVICING



US consumers, led by low-income cohorts, have struggled to repay debt, reflected by the surge in credit card delinquencies in recent quarters. Contributing factors have included 1) a riskier borrower pool receiving credit due to pandemic-related distortions in 2020, 2) higher interest expenses, and 3) higher prices as a result of high inflation. However, households now appear to be spending more in line with their incomes and as a result, delinquencies should peak in 2H 2024, in our view.

Source: Federal Reserve, Goldman Sachs GIR, Goldman Sachs Asset Management.

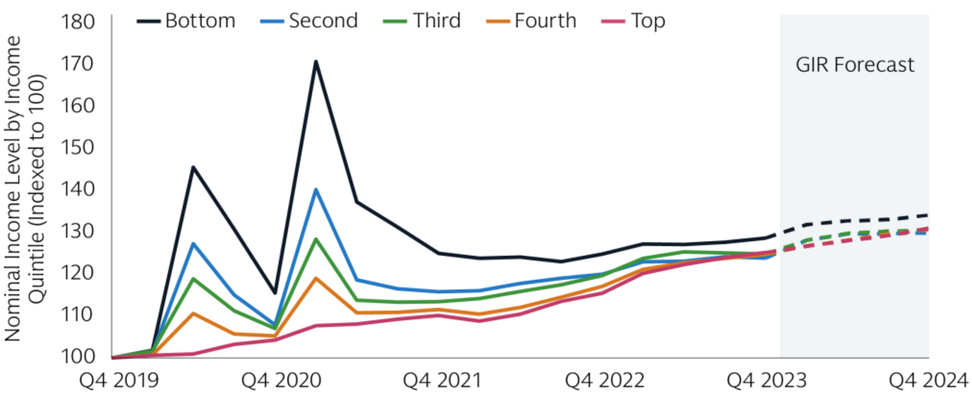
ASSET GROWTH



US household net worths as a percentage of personal income reached a historic high in 2021, as consumers had accumulated excess savings and low rates boosted asset prices. More recently, household wealth has largely been driven by higher equity prices. Despite a higher exposure to financial markets, we find that it is not only the wealthiest US households that have benefited from this. Rather, household wealth as a share of income is higher across all wealth profiles relative to 2019.

Source: Federal Reserve, Goldman Sachs GIR, Goldman Sachs Asset Management.

INCOME PROGRESSION



Contrary to popular belief, real wages are currently above the pre-pandemic trend for the bottom 40% of the wage distribution relative to 2019 and somewhat below trend for the top 60%. We believe incomes will converge as 1) lower-income households are more indebted, 2) their debt holdings are skewed towards higher-rate loans that reprice relatively quickly, and 3) they generate less interest income due to lower exposure to financial markets. Despite this convergence, we expect continued real income gains across all earners this year.

Source: Federal Reserve, Goldman Sachs GIR, Goldman Sachs Asset Management.

"We/Our" refers to Goldman Sachs Asset Management. Top Section Notes: Source: Federal Reserve, Goldman Sachs Global Investment Research, Goldman Sachs Asset Management. As of March 31, 2024. Middle Section Notes: Source: Federal Reserve, Goldman Sachs GIR, Goldman Sachs Asset Management. As of June 24, 2024. Bottom Section notes: Source: Federal Reserve, Goldman Sachs GIR, Goldman Sachs Asset Management. As of June 24, 2024. The economic and market forecasts presented herein are for informational purposes as of the date of this document. There is no guarantee that objectives will be met. There can be no assurance that forecasts will be achieved. Please see additional disclosures at the end of this document. **Past performance does not predict future returns and 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 June 26, 2024. Shading indicates most negative (red) to most positive (green) observations since 1980. Spending refers to real spending growth. Employment refers to the unemployment gap. Income refers to real income growth. Wealth refers to the ratio of household net worth to disposable income. Debt refers to household debt service ratio. Confidence refers to the average of normalized University of Michigan Consumer Sentiment Index and Conference Board Consumer Confidence measures.
2. Price targets of major asset classes are provided by Goldman Sachs Global Investment Research. Source: "Global equities gained 1.9%; Technology outperformed" – July 8, 2024.
3. 1H recap performance is in local currency.

Page 1 Definitions

Pp refers to percentage points

GIR refers to Goldman Sachs Global Investment Research

BoJ refers to the Bank of Japan

DM refers to developed market

Mega-cap exceptionalism refers to S&P 500 returns led by the largest names in the index

Catch-up refers to broadening S&P 500 returns in response to continued disinflation

Catch-down refers to worsening returns among the largest names in the S&P 500

Renewed recession fears refers to increasing recession probabilities

VIX refers to the Chicago Board Options Exchange's CBOE Volatility 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.

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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.

Performance Data

Period (as of Jun-2024)	S&P500	STOXX600	TOPIX
Jun-2023 - Jun-2024	23%	11%	23%
Jun-2022 - Jun-2023	18%	13%	22%
Jun-2021 - Jun-2022	-12%	-10%	-4%
Jun-2020 - Jun-2021	39%	26%	25%
Jun-2019 - Jun-2020	5%	-6%	0%

The currency perspective is local.

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