MARKET PULSE

MACRO VIEWS

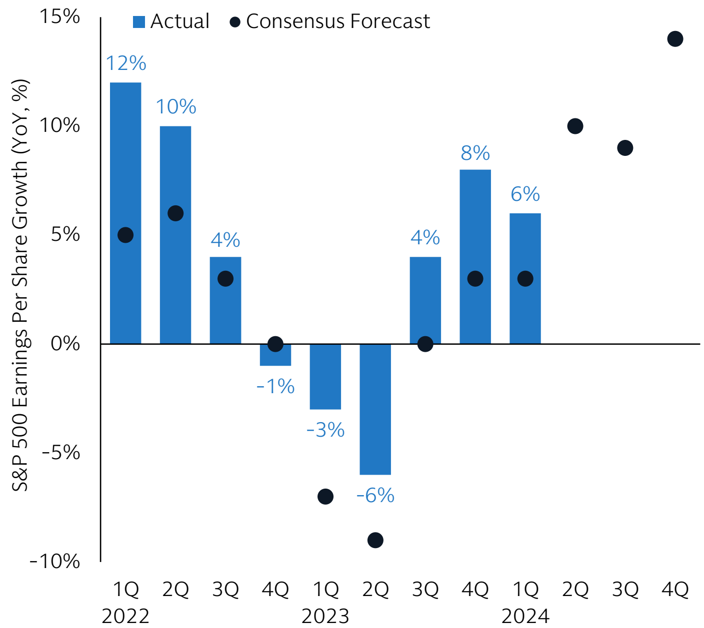
INFLATION: US inflation snapped a string of three consecutive hotter-than-expected readings in April, with core PCE registering at 2.75% YoY. In the UK, the April inflation print surprised to the upside, tilting the risks towards a later cut. In the Euro area, the May flash inflation print delivered a slight upside surprise (by 0.1pp) in both headline- and core inflation, mainly due to a sequential increase in services prices as the job market remains tight.

MONETARY POLICY: The FOMC May meeting minutes revealed that opinions were divided regarding both the cause of the firm price growth and the commensurate policy decision. Our colleagues in GIR now expect the first cut to occur in September. Albeit the disinflationary path not being perfectly linear in the Euro area, the ECB Governing Council went ahead with a cut in June, in line with our forecast.

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 are driven by backward-looking 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 firmer-than-expected 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 YoY EPS growth of ~6% in 1Q24, above-consensus expectations for the fifth consecutive quarter. However, the encouraging headline number is being challenged by disappointing recent economic growth data and a less rosy consumer outlook. In Europe, equities have proven resilient year-to-date, due to strong earnings and continued improvements in activity. Our colleagues in GIR forecast STOXX 600 YoY EPS growth of 6% and 4% for 2024 and 2025, respectively.

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 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. We expect year-end copper and gold prices to rise to $12,000/t and $2,700/troy oz, respectively.

ASSET CLASS FORECASTS[2]

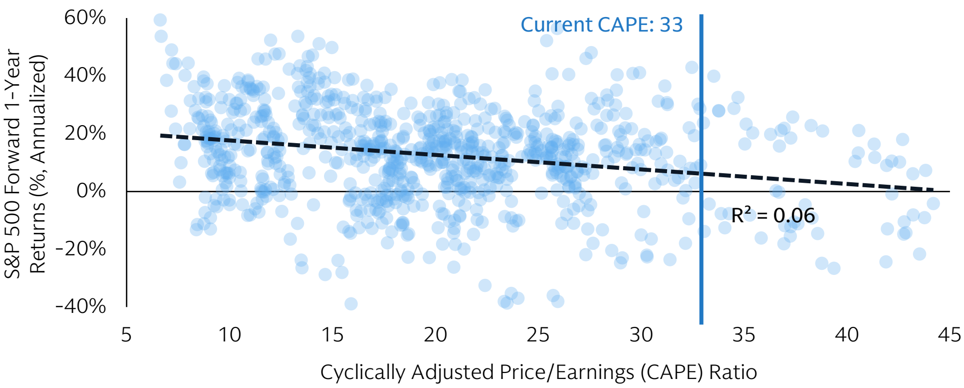
	Current	3m	12m	% Δ to 12m
EQUITIES				
S&P 500 ($)	5353	5000	5200	-2.9
STOXX Europe (€)	525	510	540	2.9
MSCI Asia-Pacific Ex-Japan ($)	562	570	615	9.5
TOPIX (¥)	2757	2800	2900	5.2
RATES				
10-Year Treasury	4.3	4.3	4.2	-8 bp
10-Year Bund	2.6	2.3	2.2	-35 bp
10-Year JGB	1.0	1.1	1.6	56 bp
CURRENCIES				
Euro (€/$)	1.08	1.05	1.08	0.3
Pound (£/$)	1.28	1.24	1.28	0.0
Yen ($/¥)	155	155	150	-3.1
REAL ASSETS				
Brent Crude Oil ($/bbl)	80	87	82	2.6
London Gold ($/troy oz)	2361	2600	2700	14.4

Source: MSCI, GS Global Investment Research (GIR), Macrobond, and Goldman Sachs Asset Management. As of June 6, 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 5 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.**

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.

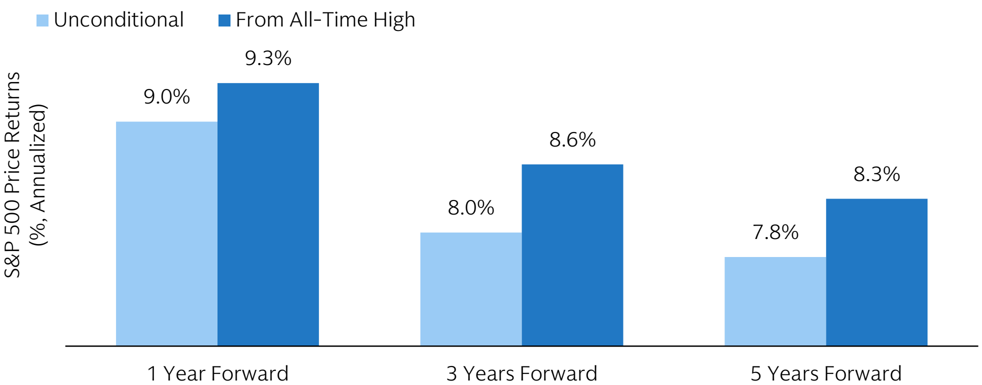
VALUE OF VALUATIONS



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.

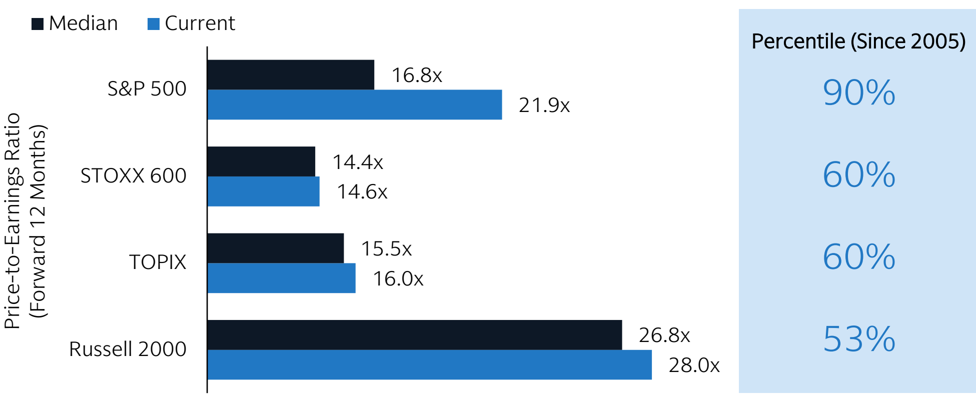
BUYING HIGH, SELLING HIGHER



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. 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. As well valuations that are roughly in line with their historical medians, small-cap, Japanese, and European equities should benefit from firm economic growth in the US, corporate reforms 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 predict future returns and does not guarantee future results, which may vary.**

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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 3rd, 2024. Current data is provided by Macrobond. As of June 6th, 2024.

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 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

Capex refers to capital expenditures

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.

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.

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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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