MARKET PULSE

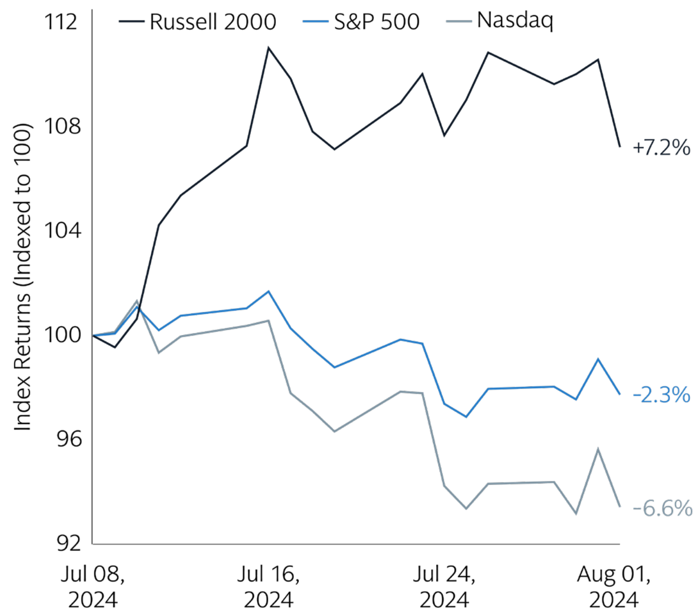
MACRO VIEWS

GLOBAL ELECTIONS: By the end of 2024, more voters will have gone to the polls to express their sentiment on leadership and ideology than in any other calendar year on record. So far, mixed results have failed to provide any consistent ideological migration. What does appear clear are stinging rebukes of incumbents and highly binary nationalistic sentiment. Additionally, the US Democratic switch from Biden to Harris atop the ticket has reset prediction markets to very competitive pre-debate levels.

DM GROWTH: Macro surprise indices in the US and Europe, which evaluate the strength of economic data relative to consensus expectations, have weakened over the last several months. While consumer and credit conditions remain stable, macro risks are becoming more balanced. In the US, we remain keenly attuned to the next phase of labor rebalancing. In Europe, we remain cautiously optimistic about the economic recovery, with political gridlock in France and trade policy uncertainty in Euro area more broadly serving as key risks.

CHINA: After a better-than-expected start to the year, economic growth slowed again in the second quarter. Depressed property sector activity, poor business sentiment, and weak consumer confidence are weighing on domestic demand while strong export growth has been a bright spot this year, largely thanks to resilient global demand, inventory restocking, and the tech investment cycle. We anticipate policy support to remain reactive and incremental with an emphasis on fiscal stimulus. While low inflation gives the PBOC room to do more, a desire to contain RMB depreciation may limit scope for more aggressive monetary policy easing.

CHART OF THE MONTH[1]



MARKET VIEWS

SMALL CAPS: Disinflation and cooling US labor demand should soon rationalize an interest rate cut from the Fed, in our view. As the market-priced probability for a September rate cut moved from 58% at the beginning of July to 100% in early August, the Russell 2000 outperformed the S&P 500 by 9.5pp. The relief provided to smaller companies' debt burdens via lower rates, in conjunction with above-trend economic growth and attractive starting valuations, should provide staying power to the recent small-cap rally, in our view.

RATES: We expect yields across the US curve to remain relatively flat, with the 10-Year US Treasury yield anchored at 4.25% and the front end of the curve experiencing slightly more variability. Related to the latter, the curve may be set to steepen as both sides of the Fed's mandate have moved into better balance and a September cut appears likely.

CREDIT: US corporate credit has seen a dramatic rise in HY dispersion, largely fueled by investor skepticism over lower-rated companies' ability to adjust to higher funding costs. Although the cost of capital has likely peaked, we believe companies must continue to demonstrate financial flexibility given that the Fed's terminal rate may take time to be reached. Accordingly, we expect more of the same: stability across IG credit and HY dispersion, advocating for an active approach to credit investing.

FX: Increasingly hostile trade rhetoric throughout this year's election season alongside US economic growth that has remained more resilient than global peers argues for near-term dollar strength. The USD/JPY experienced a sharp move lower toward the end of July and could be maintained by converging policy rates in coming months. With that said, still firm US growth and risk sentiment may limit Yen appreciation.

ASSET CLASS FORECASTS[2]

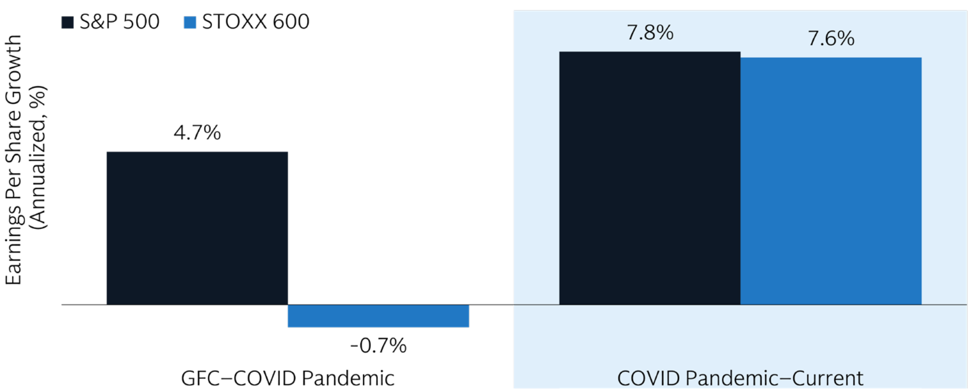
	Current	3m	12m	% Δ to 12m
EQUITIES				
S&P 500 ($)	5459	5400	5700	4.4
STOXX Europe (€)	513	510	540	5.3
MSCI Asia-Pacific Ex-Japan ($)	558	570	615	10.1
TOPIX (¥)	2700	2800	2900	7.4
RATES				
10-Year Treasury	4.2	4.3	4.2	-1 bp
10-Year Bund	2.4	2.3	2.2	-23 bp
10-Year JGB	1.1	1.1	1.6	57 bp
CURRENCIES				
Euro (€/$)	1.09	1.05	1.08	-0.5
Pound (£/$)	1.29	1.27	1.32	2.6
Yen ($/¥)	154	155	150	-2.5
REAL ASSETS				
Brent Crude Oil ($/bbl)	81.1	86	81	-0.2
London Gold ($/troy oz)	2383	2600	2700	13.3

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

Turning Tides

US investors may often rationalize underweight international equity positions by their underperformance relative to US counterparts for 11 of the last 15 calendar years. With that said, we don't believe past underperformance is a factor which governs future return prospects. Instead, fundamental drivers such as earnings, interest rates, and currency fluctuations are of higher consideration and when analyzing these factors, we find that the tides that have supported recent US dominance may be turning.

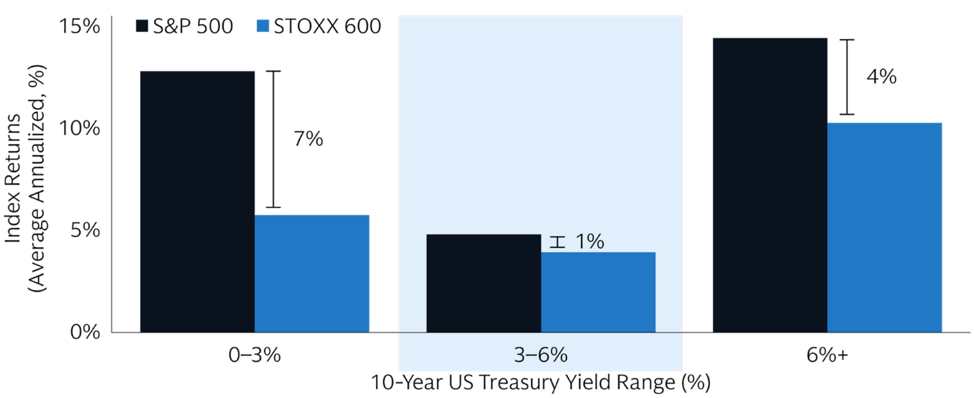
EARNINGS



Most fundamental to equity returns is earnings growth. The consistency of US outperformance in recent history may therefore not be a surprise. Between the Global Financial Crisis and the onset of the pandemic, S&P 500 corporations grew earnings by roughly 5% per annum, relative to STOXX 600 corporations which saw earnings contract by roughly –1% per annum. However, since March 2020, European corporations have been far more competitive with US peers, growing earnings at roughly the same pace.

Source: Bloomberg and Goldman Sachs Asset Management.

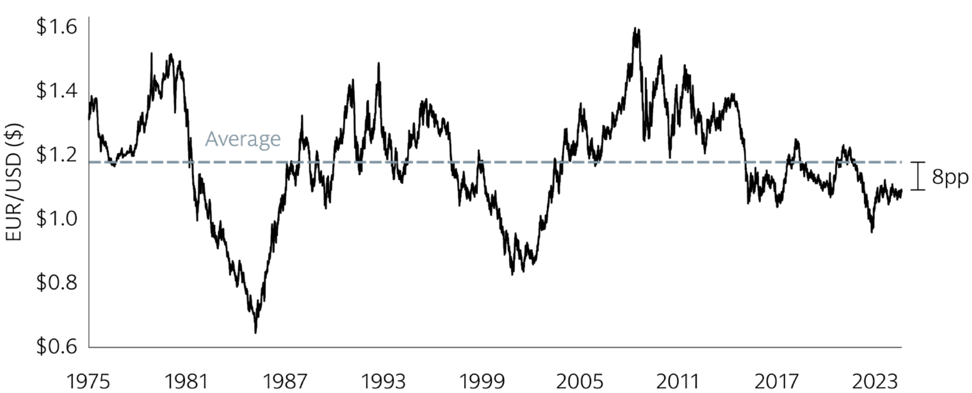
INTEREST RATES



Falling interest rates between 2008 and 2020 were a welcome development for US equities given their higher exposure to the technology sector relative to Europe. Since bottoming in 2020 however, the 10-Year US Treasury yield has stabilized at a higher floor and will likely remain above 4% regardless of near-term policy rate movements, in our view. During similar rate environments historically, European equities underperformed US counterparts by an average of just –1pp annualized, relative to –7pp in low-rate environments.

Source: Bloomberg and Goldman Sachs Asset Management.

CURRENCIES



The strongest periods of international performance have tended to coincide with foreign currencies strengthening against the US dollar. Currencies tend to fluctuate in multi-year cycles and since 2008, the euro weakened against the greenback by –32%. While protectionist government policies may argue for further dollar strength, we believe the EUR/USD trading –8pp weaker than its average since 1975 provides international equity investors with a better starting point relative to last cycle.

Source: Bloomberg and Goldman Sachs Asset Management.

"We/Our" refers to Goldman Sachs Asset Management. Top Section Notes: Source: Bloomberg and Goldman Sachs Asset Management. As of June 28, 2024. Middle Section Notes: Source: Bloomberg and Goldman Sachs Asset Management. As of June 28, 2024. Bottom Section notes: Source: Bloomberg and Goldman Sachs Asset Management. As of July 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 guarantee future results, which may vary.**

Important Information

1. Chart Source: Bloomberg and Goldman Sachs Asset Management. As of August 1, 2024. **Past performance does not guarantee future results, which may vary.**
2. Price targets of major asset classes are provided by Goldman Sachs Global Investment Research. Source: “Global equities lost 0.9%; Japan underperformed” – July 29, 2024.

Page 1 Definitions

DM refers to developed market

PBOC refers to the People’s Bank of China

RMB refers to Renminbi

Pp refers to percentage points

Fed refers to the Federal Reserve

HY refers to High Yield

IG refers to Investment Grade

Page 2 Notes

Top Section Notes: GFC refers to Global Financial Crisis. The period between the Global Financial Crisis and COVID Pandemic references trailing twelve-month earnings growth between January 2008 and February. The period between the COVID Pandemic onward references trailing twelve-month earnings growth between February 2020 to June 2024.

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 **Nasdaq Composite Index** is a broad-based market index that includes more than 3700 stocks listed on the Nasdaq stock exchange.

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.

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.

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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