

Market Know-How | 3Q 2024

ARRIVAL

Quarterly Insights and Implementation
Strategic Advisory Solutions

**Hinweis: Dies stellt keine Beratung dar!
Für Anlageentscheidungen wenden Sie sich
an Ihren BeraterIn für eine individuelle
Anpassung an Ihr Investmentprofil.**

This material is addressed to an audience familiar with macroeconomic data, market dynamics, industry trends and other broad-based economic and market conditions. For further information, please consult an authorized financial advisor. Views and opinions expressed are for informational purposes only and do not constitute a recommendation by Goldman Sachs Asset Management to buy, sell, or hold any security. Views and opinions are current as of June 2024 and may be subject to change, they should not be construed as investment advice. This financial promotion is provided by Goldman Sachs Asset Management B.V.
For third party distributors/institutional clients use only—not for distribution to your clients or the general public.



ARRIVAL

The past is a foreign country. They do things differently there. Investors yearning for a return to the market conditions of yesteryear often bide their time on the sidelines, as many struggle to take action in a new—both economically and (geo)politically—investment landscape.

The post-GFC era of low inflation, low interest rates, and low market volatility has been replaced by a more fluid paradigm characterized by sticky inflation, higher-for-longer rates, and frequent bouts of episodic market volatility¹. This is what 'normal' now looks like and, while the certainties of the recent past have been superseded by a less predictable environment, it is replete with investment opportunities.

The prospect of a prolonged period of stubborn inflation implies higher-for-even-longer interest rates, which has created an abundance of yield opportunities for income-hungry, bond investors. The regional-, sector-, and company-dispersion of outcomes in equity markets is likely to broaden, placing a premium on judicious risk management, but creating meaningful potential upside for long-term investors allocating to themes of secular growth.

In this edition of the Market Know-How, we discuss how we believe investors can embark in this 'new normal' by:

- Gaining exposure to European equities to potentially reap the benefits of Europe's economic resurgence and looser monetary stance.
- Being actively positioned in core fixed-income to try to take advantage of diverging monetary policy trends and greater yield dispersion.
- Participating in the differentiated features and potential benefits of private credit to address interest rate concerns.

Source: Goldman Sachs Asset Management. As of June 14, 2024. "GFC" refers to Global Financial Crisis. "Duration" refers to a bond price's sensitivity to a change in interest rates. Diversification does not protect an investor from market risk and does not ensure a profit. There is no guarantee that objectives will be met. Views and opinions are current as of As of June 14, 2024, and may be subject to change. They should not be construed as investment advice. The portfolio risk management process includes an effort to monitor and manage risk but does not imply low risk. Please see additional disclosures at the end of this document.

1. Volatility is a measure for variation of price of a financial instrument over time

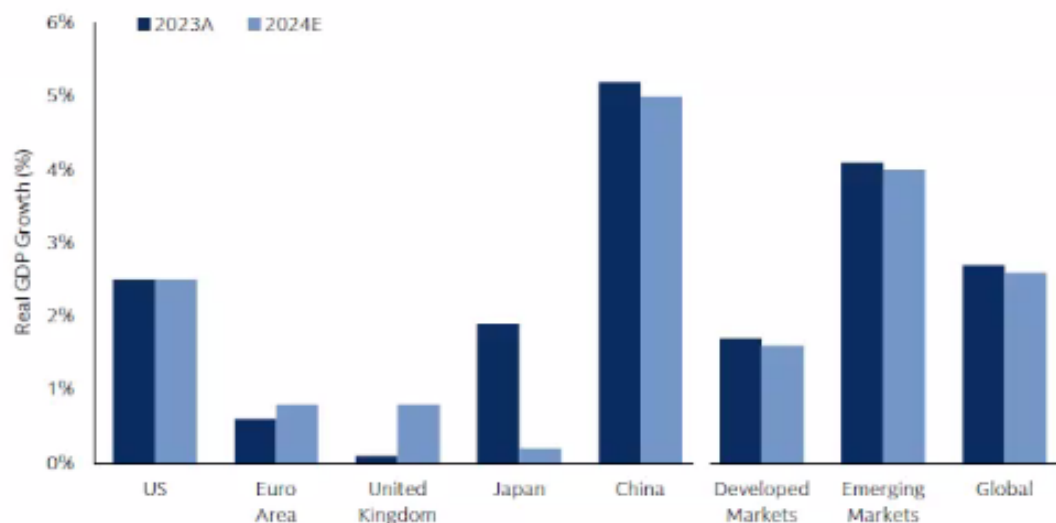
For third party distributors/institutional clients use only—not for distribution to your clients or the general public.

MACRO

We expect resilient global growth and disinflationary progress to continue, amidst regional nuances. We believe this divergence will likely lead to varied monetary policies globally, with some regions potentially advancing more quickly than others. Growth should be supported by strong real household incomes, a rebound in manufacturing activity, and gradually less restrictive monetary policy, in our view.

Diverging Trends

Changing tides in global growth, headlined by a temporary contraction in Japan and a pick-up in both Europe and the UK, have created uncertainty around the forward paths of central banks. Resilient US growth and early-year inflation surprises have led markets to expect the Fed to cut rates later and more gradually than other major central banks. In Europe, a stronger trend of disinflation supports our view that the ECB and BoE will deliver more rate cuts than the Fed in 2024, even though the path forward is filled with uncertainty. In Japan, despite three consecutive quarters of weak growth, we remain optimistic, mainly on an expected rise in real consumer spending.



Source: Goldman Sachs Global Investment Research and Goldman Sachs Asset Management. As of June 14, 2024. "We" refers to Goldman Sachs Asset Management. "Fed" refers to Federal Reserve. "ECB" refers to European Central Bank. "BoE" refers to Bank of England. "A" refers to actual. "E" refers to expected. 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. 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. For third party distributors/institutional clients use only—not for distribution to your clients or the general public.

Key Insights



MONETARY POLICY

Inconsistent progress on disinflation across major economies has paved the way for a potential decoupling amongst key central banks, in our view. The ECB has already begun to ease rates and the BoE appears to be gearing up for a first cut, while a more cautious approach from the Fed may be the likely scenario, with key inflation and labor prints this summer top of mind.



INFLATION

Inflation has come down in a slow and steady fashion, albeit with regional discrepancies. Despite a hotter start to the year than consensus anticipated, we expect US core PCE inflation to remain relatively flat in the near term on the back of further rebalancing in the auto, housing rental, and labor markets. Disinflation progress in the Euro Area and the UK has remained broadly on track, while in Japan, we expect core CPI to linger above the BoJ's 2% target until mid-2025.



US ELECTION

Republicans have a clear path to flipping the Senate, whereas both the House and White House are toss-ups, in our view. The economy remains top of mind for voters, highlighting the likely impact that upcoming inflation and labor market data will have on the election outcome. The makeup of Congress should provide further clarity on how the next administration will tackle expiring income tax provisions in 2025.



TAIL RISKS

Our base case scenario in the US is an ongoing soft landing, but we acknowledge that tail risks have increased. We see a possible scenario in which growth remains resilient, preventing further disinflationary progress and delaying Fed rate cuts. We also see a small probability of inflation reaccelerating, which could put rate hikes back on the table.



HIGHER FOR LONGER

Government debt sustainability has once again entered the spotlight as interest rates are likely to remain higher-for-longer. The US is not alone, with most G7 countries also experiencing elevated debt levels. Higher costs of servicing debt, political gridlock, and rising government expenses alongside aging populations serve as headwinds to global efforts toward improving debt sustainability.



CHINA

Growth in Q1 came in above consensus expectations, and momentum has remained solid since. Underlying components were more mixed, with growth being driven by strong exports and manufacturing but showing weakness in areas like consumption and property. While the Chinese government is stepping up its efforts to accelerate fiscal support and stabilize the housing market, it is unlikely to be enough to arrest house price declines, pointing at potentially slower growth in the remainder of the year.

Source: Goldman Sachs Global Investment Research and Goldman Sachs Asset Management. As of June 14, 2024. "ECB" refers to the European Central Bank. "BoE" refers to the Bank of England. "Fed" refers to Federal Reserve. "PCE" refers to personal consumption expenditures. "CPI" refers to Consumer Price Index. "BoJ" refers to Bank of Japan. "Soft Landing" refers to a process by which a central bank brings inflation down without pushing the economy into. "G7" refers to Canada, France, Germany, Italy, Japan, the United Kingdom and the United States. 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. Please see additional disclosures at the end of this document.

For third party distributors/institutional clients use only—not for distribution to your clients or the general public.

MARKETS

Equity and bond investors must prepare for more dispersion in a higher rate world. Short-term opportunities may emerge as central banks embark on policy rate normalization at different speeds and timing, with higher terminal rates as the likely endpoint. This structural shift may require more active selection, greater geographical diversification, and non-traditional risk diversifiers in portfolios.

Asset Class Outlook

Over 2 years have passed since major central banks began hiking rates, resulting in their respective economies enduring more restrictive rate levels for longer. The monetary enigma we find today is that global growth has remained relatively resilient, begging the question of whether equilibrium rates are higher than originally thought. As we consider potentially higher equilibriums, we remain constructive on global equities given supportive earnings growth. We also see tactical opportunities in the bond market as yields level off, though potentially higher equilibrium rates may translate into more modest declines. As core fixed income has become increasingly correlated with risk assets, the need to introduce non-traditional diversifiers to portfolios, like liquid alts, has become paramount, in our view.



Past performance does not predict future returns and does not guarantee future results, which may vary. Source: Bloomberg and Goldman Sachs Asset Management. As of June 14, 2024. "Fed" refers to Federal Reserve. Market-Priced Interest rate is based on the overnight indexed swap rate over a 10-year period. The OIS rate is the fixed rate in an overnight index swap contract, which is a type of interest rate swap where two parties agree to exchange a series of interest payments over a notional principal. One party pays a fixed rate and receives the floating rate, while the other receives the opposite. OIS rates are a metric commonly used to reflect the market's pricing of forward-looking interest rates. US refers to USD OIS Forward swap 5y5y. Euro refers to EUR OIS/C Fwd Swap 5y5y. Japan refers to JPY OIS/DC Fwd Swap 5y5y. "We" refers to Goldman Sachs Asset Management. Diversification does not protect an investor from market risk and does not ensure a profit. Past correlations are not indicative of future correlations, which may vary. 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. Please see additional disclosures at the end of this document.

For third party distributors/Institutional clients use only—not for distribution to your clients or the general public.

MARKETS

Key Insights



DM EQUITIES

We believe a resilient macro backdrop across DM economies continues to support our constructive view on equities, though upside potential remains limited due to elevated valuations. In the near-term, we believe higher-for-longer interest rates through the remainder of the year will underscore investor focus on earnings growth and margin expansion. However, as the timeline for monetary policy decisions diverges across DM economies, we believe a regional broadening across equity markets in the long-term is likely.



SMALL CAPS

A higher cost of capital and lagging investor confidence in US small caps have pushed down valuations, providing potentially attractive entry points. In addition to stable growth as a backdrop for a lower risk differential for small caps, we believe mega-cap concentration and stretched valuations may also serve as tailwinds. Globally, we find that small caps tend to outperform as sentiment and activity data improve. With a rising number of unprofitable small cap companies, we remain focused on fundamentals and selectivity.



EM EQUITIES

Chinese equities remain exposed to geopolitical risks despite a potential recovery in macro conditions and strength building on a company-specific level. Recent strength in other EM equity markets has been driven by optimistic growth and global disinflation progress, though we see some markets with stretched valuations limiting upside, evident among some Indian equities.



RATES

Skepticism towards disinflation progress has persisted in H1 2024 across most major economies, leading to a flattening yield curve, though we expect steepening to pick up again through the end of the year along with elevated market volatility. Divergence in the rate cutting timeline may also cause more pronounced interest rate declines in Europe than the US, a trend we expect to continue given the stronger growth outlook in the US.



FX

While we still expect the US dollar to weaken in the long term, any delay in the start to the Fed's easing cycle might lead to renewed dollar strength in the short term. The currencies of the countries where central banks have already started to cut rates - notably the euro, the Canadian dollar, the Swedish Krona and the Swiss franc, - look especially vulnerable, in our view.



CREDIT

We believe credit spreads are likely to remain tight, as resilient fundamentals and balanced supply-demand dynamics continue to support a healthy outlook. Risks skew to slight upticks in defaults and net debt to EBITDA ratios across borrowers, though a positive macro backdrop may limit downside. We see opportunities in EUR IG due to cheaper valuations giving way to potentially attractive yields. We have also become more constructive on Asia HY given the elevated carry, improving China economic prospects, and diversification benefits.

Past performance does not predict future returns and does not guarantee future results, which may vary. Source: Goldman Sachs Global Investment Research and Goldman Sachs Asset Management. As of June 14, 2024. "We" refers to Goldman Sachs Asset Management. "DM" refers to developed markets. "EM" refers to emerging markets. "EBITDA" refers to earnings before interest, taxes, depreciation, and amortization. "EUR IG" refers to European investment grade. Diversification does not protect an investor from market risk and does not ensure a profit. 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. Please see additional disclosures at the end of this document.

For third party distributors/institutional clients use only—not for distribution to your clients or the general public.

EUROPEAN EQUITIES

OUTLOOK

Accelerating

After years of sluggish growth, the European economy seems to be finally turning a corner. In June, the ECB began its easing cycle by cutting rates by 25bp, motivated by sufficient cumulative inflation progress. Whilst we believe headline inflation is likely to stay at around current levels in the coming months, we expect it to move gradually towards target next year. Simultaneously, activity is re-accelerating: real GDP grew by 0.3% QoQ in Q1, notably faster than expected. As the growth drag from restrictive monetary policy continues to ease, we expect real household income growth to improve, as nominal wage gains remain firm, and inflation normalises further. Continued improvement in the growth/inflation mix should provide a tailwind for European equities.

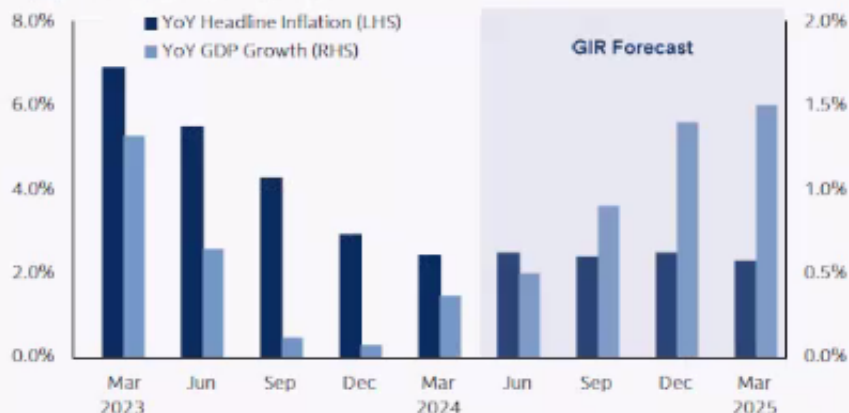
Pick Your Player

A normalisation of monetary policy followed by an economic expansion has historically been associated with an outperformance of European equities. This outperformance could be even more pronounced as the ECB diverges from the Fed. Of course, not all sectors are set to benefit to the same extent. We find that cyclicals tend to outperform in this environment as the growth effect tends to dominate the rate effect, especially given that this easing cycle is likely to be gradual and shallow. Technology should also continue to do well given the focus on AI and strong fundamentals. Overall, we believe that this environment should be supportive of European equities, but selectivity at country and sectoral level remains key.

Past performance does not predict future returns and does not guarantee future results, which may vary. Source: Goldman Sachs Global Investment Research and Goldman Sachs Asset Management. As of June 14, 2024. Top Chart Notes: As of May 31, 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 the forecasts will be achieved. Please see additional disclosures at the end of this document. Bottom Chart Notes: As of May 31, 2024. The chart illustrates the relative performance of the MSCI EMU sectors relative to the unweighted benchmark, which is derived by calculating the average total return of all sectors, following one standard deviation move in Euro area growth and the 2y bund yield (representing the growth and rates sensitivity). The data is of monthly frequency and ranges from January 2000 to May 2024. Euro area growth is represented by the Euro area composite PMI. For illustrative purposes only. For third party distributors/institutional clients use only—not for distribution to your clients or the general public.

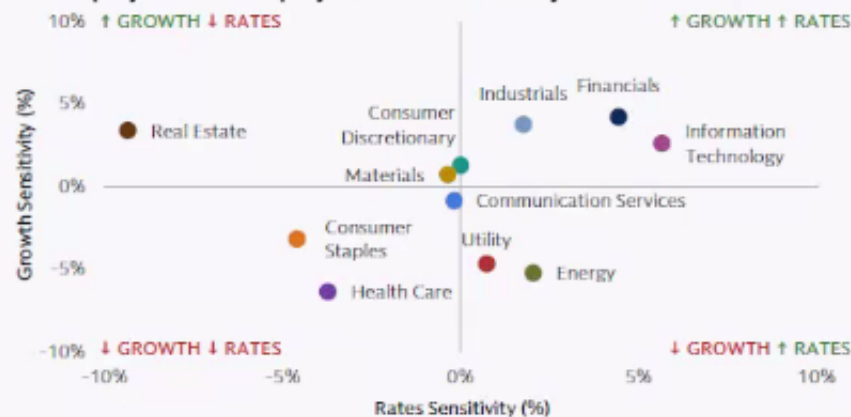
SOLUTIONS

Euro Area Growth & Inflation Mix



Source: Bloomberg, Haver Analytics, Goldman Sachs Global Investment Research (GIR), and Goldman Sachs Asset Management.

EMU Equity Sectors Display Different Sensitivity to Growth and Inflation



Source: Bloomberg, Macrobond, and Goldman Sachs Asset Management.

PRIVATE CREDIT

OUTLOOK

Financing Flexibility

As interest rates have remained higher for longer and economic growth has slowed, companies who have tapped private markets for debt financing may become more burdened by the floating rate structure of their outstanding debt. Fortunately, this concern can be addressed through flexible loan features offered to borrowers via private credit. Lenders often boast deep access to company records and a bilateral relationship with their borrowers, affording them the potential to recognize early signs of distress and quickly implement workouts such as pricing amendments, sponsor infusions, and pay-in-kind structures to avoid a covenant breach before it occurs. As such, default rates of private companies have remained around 2%, while those across the leveraged loan market have trended beyond 6%.

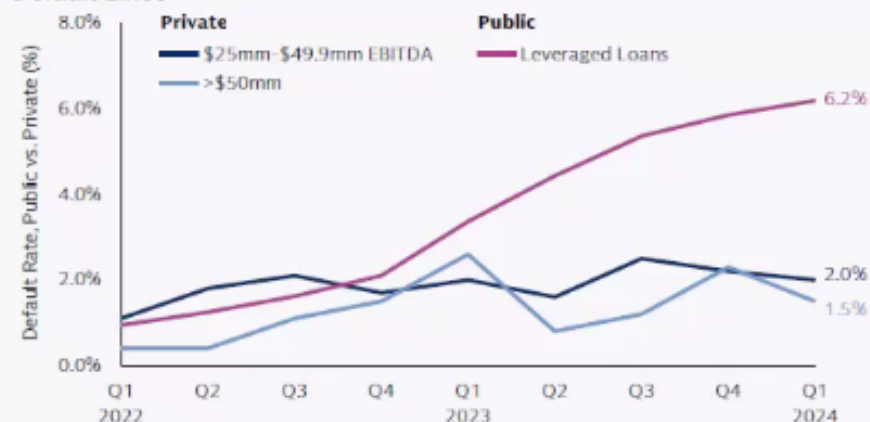
Loyalty Points

The floating rate structure of loans provided by private lenders may be a concern as central bank rate cuts appear to be on the horizon, in our view. With that said, attractive yield spreads, upwards of 800bps in recent years, seem to have kept return targets competitive. Even if falling rates amplify the incentive for public debt, demand for private credit may remain relatively inelastic due to the pricing certainty, flexible loan structures, and close lender relationships offered to borrowers. In past periods leading up to Federal Reserve rate cuts, private credit provided annual outperformance of 330bps relative to high yield bonds and 670bps relative to the leveraged loan market. Resilient performance before and after interest rate cuts demonstrates the attractiveness of the asset class despite its floating rate nature.

Past performance does not predict future returns and does not guarantee future results, which may vary. Source: Goldman Sachs Asset Management. As of June 11, 2024. Top Right Section Notes: As of March 31, 2024. Chart shows the default rates of private companies broken into \$25mm-\$49mm and >\$50mm EBITDA, compared to default rates of public companies in the leveraged loan market. "EBITDA" refers to earnings before interest, taxes, depreciation and amortization. Bottom Section Notes: As of June 10, 2024. Bottom Right Chart shows the median 12-Month forward returns of different loan markets beginning from 3 months prior to Fed rate cuts. Yield spreads upwards of 800bps refers to the spread over the floating rate base of private loans. Please see additional disclosures at the end of this document. There is no guarantee that objectives will be met. For illustrative purposes only. For third party distributors/institutional clients use only—not for distribution to your clients or the general public.

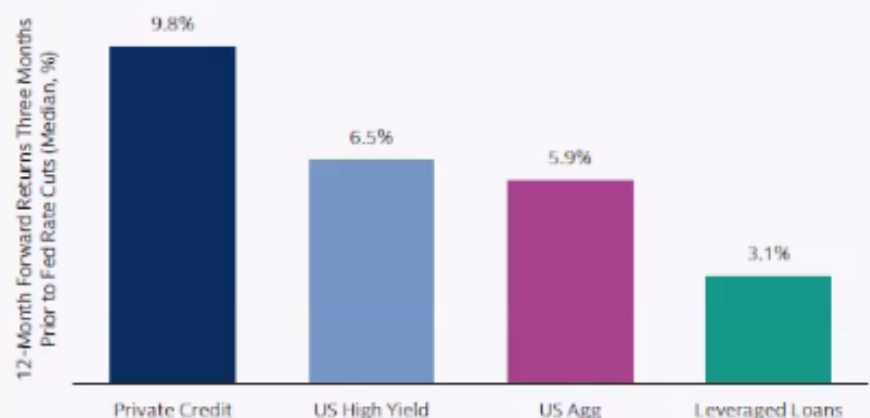
SOLUTIONS

Default Lines



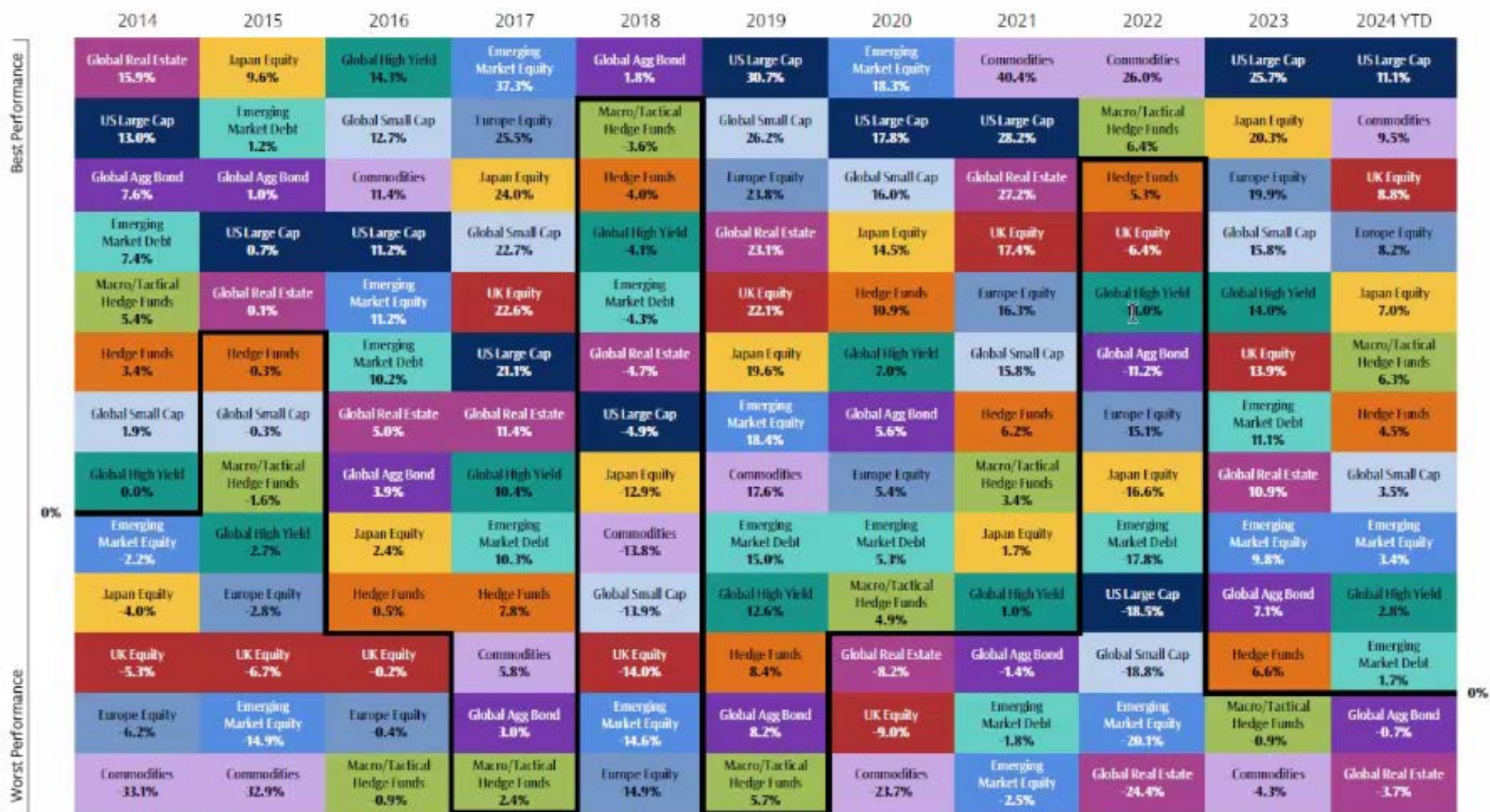
Source: Proskauer, GS Global Investment Research, and Goldman Sachs Asset Management.

Rate Cut Reactions



Source: Cliffwater, Bloomberg, and Goldman Sachs Asset Management.

RELATIVE ASSET CLASS CALENDAR-YEAR PERFORMANCE



Past performance does not predict future returns and does not guarantee future results, which may vary. Source: Bloomberg, Macrobond, and Goldman Sachs Asset Management. As of May 31, 2024. This example is for illustrative purposes only to show the performance dispersion between various asset classes over time and the potential importance of diversification. Diversification is the process of allocating capital in a way that reduces the exposure to any one particular asset or risk. Diversification does not protect an investor from market risks and does not ensure a profit. Please see additional disclosures on page 15 of this document. Macro Hedge Fund is as of the latest available date: April 30, 2024. Note that 'Macro/ Tactical Hedge Funds' is represented by a 50/50 blend of the HFRX Macro/CTA Index and the HFRI Macro Index. This example is for illustrative purposes only to show the performance dispersion between various asset classes over time and the potential importance of diversification.

For third party distributors/Institutional clients use only—not for distribution to your clients or the general public.