Goldman Sachs

Consumer and Wealth Management

Connecticut Retirement Plans and Trust Funds

Investment Strategy Group

Presenter Biographies

Sharmin Mossavar-Rahmani
Partner, Head of the Investment Strategy Group (ISG) and CIO for the Consumer and Wealth Management Division
+1 (212) 902 – 2300

Sharmin is head of the Investment Strategy Group and chief investment officer for the Consumer and Wealth Management Division, responsible for the overall strategic asset allocation and tactical investment strategy. Sharmin joined Goldman Sachs as a partner in 1993. Prior to joining the firm, Sharmin worked at Fidelity Management Trust Company, where she was chief investment officer for all separate and co-mingled fixed income accounts. Sharmin is a member of the Board of Trustees and the Investment Committee of New York-Presbyterian Hospital and Harvard University's Global Advisory Board. She is a former member of the Board of Trustees, and former chair of the Investment Committee of the Trinity School in New York City. Sharmin has published two books, one on bond indexing and one on OPEC natural gas, as well as numerous articles on portfolio management issues. Sharmin earned a BA from Princeton University and an MS from Stanford University.

Lisa Rotenberg
Managing Director, Goldman Sachs Senior Coverage Responsibility for CRPTF
+1 (212) 902 – 7987

Lisa is a managing director with senior coverage responsibility for many of Goldman Sachs' largest institutional investors globally, and leverages her experience with portfolio solutions to advise clients. She has held many roles in the Asset Management Division (AMD) including serving as co-head of the US Public Fund business, co-head of the Corporate Pension business, and as global head of the Consultant Relations business. Lisa was named a Goldman Sachs managing director in 2003. She joined as a vice president in 1994. Prior to joining the firm, Lisa served as Minnesota's deputy state auditor representing the state auditor in all plan sponsor decisions related to the Minnesota State Board of Investment. She also served as Minnesota's chief deputy commerce commissioner with oversight responsibility for the securities, insurance, banking, and real estate industries. Prior to joining the Minnesota Department of Commerce, Lisa served as a special assistant attorney general for the State of Minnesota. She previously served on the Minnesota Governor's Task Force on Small Business Capital Formation. Lisa earned an AB in Government from Harvard University and a JD from the University of Minnesota Law School, where she also served on the Board of Advisors.

Consumer and Wealth Management

US Resilient

Durability is one of the chief elements of strength. Nothing is either loved or feared but that which is likely to endure. – Alexis de Tocqueville, *Democracy in America*

Economic and Financial Market Outlook

Overview of Today's Call

- Economic and Financial Market Outlook
- US Preeminence
- Stay Invested
- Risks

Source: Investment Strategy Group.

Economic Growth to Recover in 2021 – Developed Markets

Real GDP Growth Forecasts (% YoY) – As of April 6, 2021												
	United States			Eurozone			United Kingdom			Global		
Period	ISG	GIR	Consensus	ISG	GIR	Consensus	ISG	GIR	Consensus	ISG	GIR	Consensus
2020	-3.5	-3.5	-3.5	-6.6	-6.6	-6.6	-9.9	-9.9	-9.9	-3.8	-3.4	-3.3
2021	6.6	7.2	5.7	4.6	5.1	4.2	5.2	7.1	4.7	5.6	6.8	5.6
2020-21 Combined	2.9	3.5	2.0	-2.3	-1.8	-2.7	-5.2	-3.5	-5.7	1.6	3.2	2.1

- While global GDP was hit significantly, contracting by an estimated 3.8% in 2020, our base case calls for a solid recovery in 2021, with global GDP expanding by 5.6%. Across major developed regions, we expect the US to outperform.
- The near-term momentum remains challenging while the level of infections is elevated, particularly in the Eurozone. However, we think this setback will prove temporary once the operational challenges of mass vaccinations are surmounted.
- As the pandemic is brought under control, we expect a meaningful acceleration in economic activity, particularly in the services sectors.
- We expect monetary and fiscal policy to remain very accommodative, supporting the recovery.

Source: Investment Strategy Group, Goldman Sachs Global Investment Research, Bloomberg.
Note: Forecasts are estimated, based on assumptions, are subject to revision and may change as economic and market conditions change. There can be no assurance the forecasts will be achieved.

Economic Growth to Recover in 2021 – Emerging Markets

Real GDP Growth Forecasts (% YoY) - As of April 6, 2021

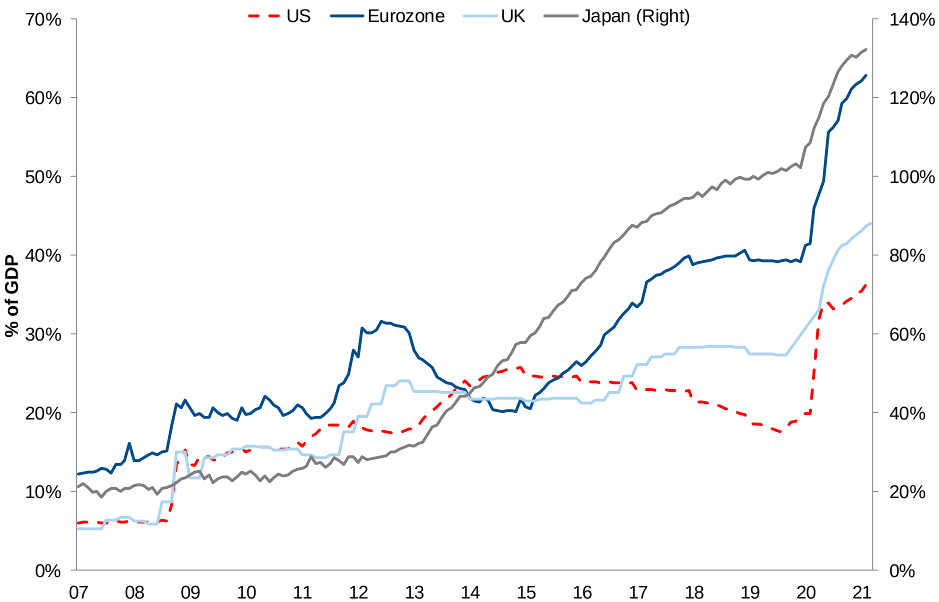
	China			Brazil			India			Russia			Emerging Markets		
Period	**ISG**	**GIR**	**Consensus**	**ISG**	**GIR**	**Consensus**	**ISG**	**GIR**	**Consensus**	**ISG**	**GIR**	**Consensus**	**ISG**	**GIR**	**Consensus**
2020	2.3	2.3	2.3	-4.1	-4.1	-4.1	-7.0	-7.0	-7.0	-3.0	-3.0	-3.0	-1.9	-2.0	-1.3
2021	7.5	8.5	8.5	3.8	4.0	3.5	11.1	10.9	9.5	3.3	4.5	3.0	6.2	7.5	6.7
2020-21 Combined	10.0	11.0	11.0	-0.5	-0.3	-0.7	3.3	3.1	1.8	0.2	1.4	-0.1	4.2	5.3	5.3

- EM GDP shrank 1.9% in 2020, the worst performance in data going back to 1980.
- The recession was short-lived, however, with most economies rebounding by last summer.
- EM economies have entered 2021 with a healthy momentum with upside surprises to growth in Q4 2020. We expect EM growth to rebound to 6.2% this year. There are upside risks from strong external demand driven by reopenings and policy support in DM economies (particularly the US), and downside risks from a rise in infections in Brazil and India.
- In China, we expect 2021 GDP growth to accelerate to 7.5% from 2.3% last year. While fiscal and monetary policy will remain accommodative to support the recovery, policymakers may slowly dial back the level of stimulus given debt concerns—we estimate total debt in China stood at 288% of GDP as of December 2020, up sharply from 270% at the end of 2019.

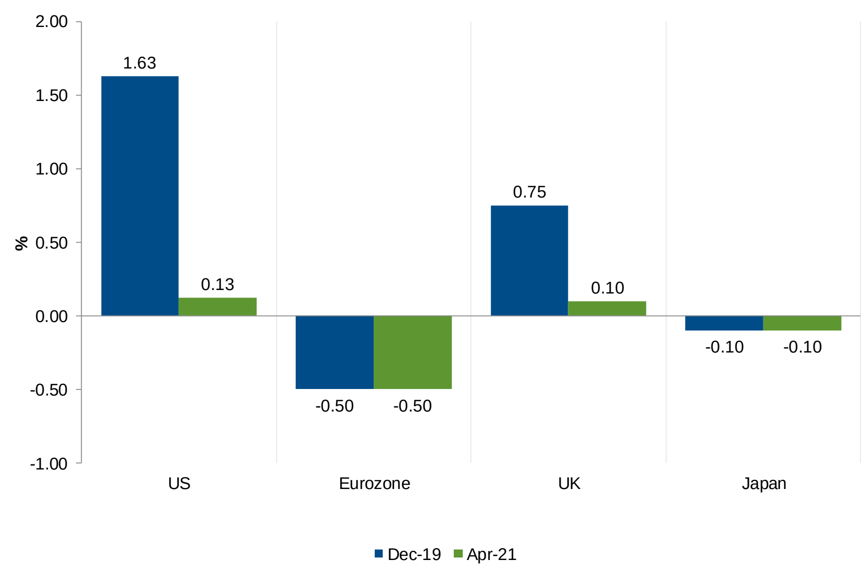
Source: Investment Strategy Group, Goldman Sachs Global Investment Research, Bloomberg.
Note: Forecasts are estimated, based on assumptions, are subject to revision and may change as economic and market conditions change. There can be no assurance the forecasts will be achieved.

Monetary Policy to Remain Accommodative

1. Central Bank Balance Sheets[1]



2. Central Bank Main Policy Rates

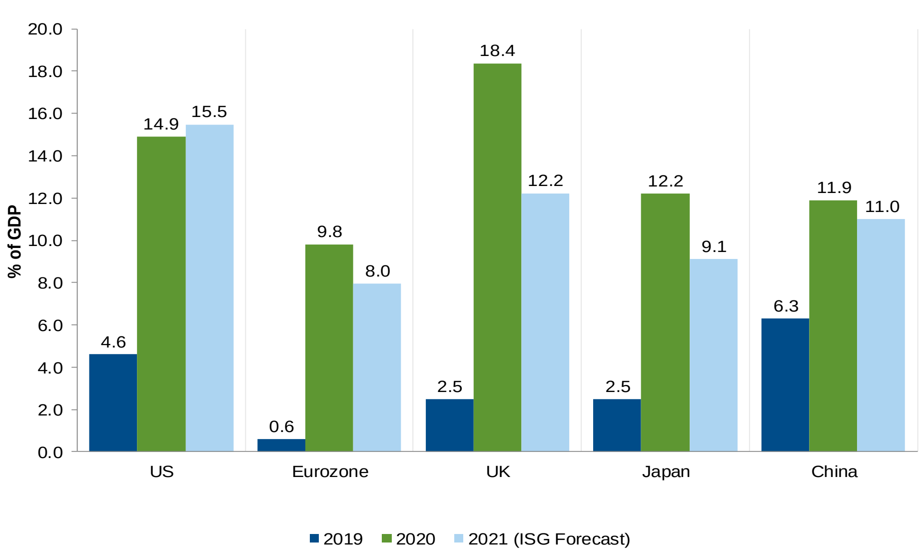


- In response to the pandemic, major central banks eased monetary policy substantially by cutting policy rates and expanding their balance sheets via asset purchases and credit easing operations.
- Looking ahead, we expect central banks to maintain a very accommodative policy stance for an extended period of time.
- We expect policy rates across major developed economies to remain on hold at their current low levels for a while and for central banks to continue their asset purchase programs and maintain credit support measures in 2021.
- This accommodative monetary stance should contain increases in yields, which is reflected in our end-2021 10-year yield forecasts for US Treasuries, German bunds, and UK gilts of, respectively, 1.50 – 2.00%, -0.4 – 0%, and 0.5 – 1.25%.

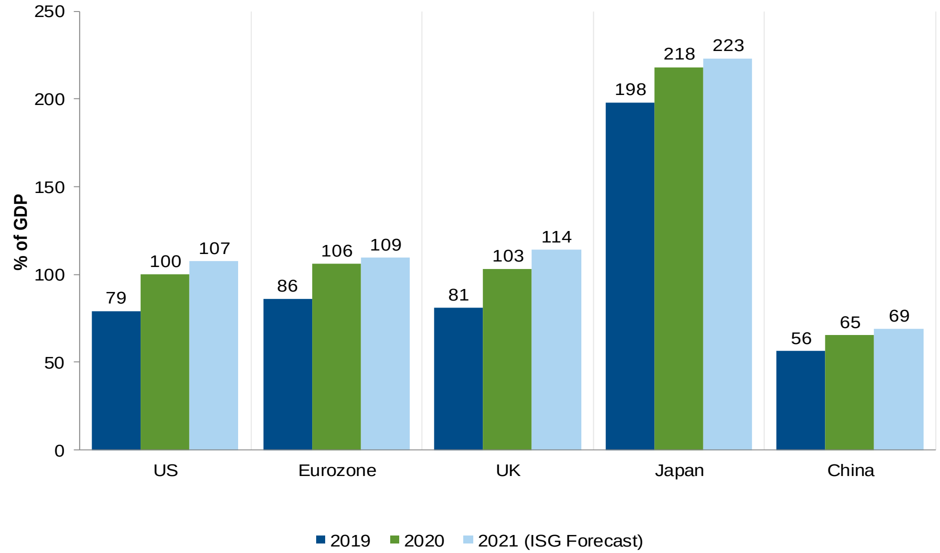
(1) Data are presented as % of annual nominal GDP. UK balance sheet data after Q4 2019 is based on the BoE's Weekly Reports.
Source: Investment Strategy Group, Bloomberg, Haver Analytics.

Fiscal Policy to Remain Accommodative

1. Government Budget Deficits[1]



2. Government Debt-to-GDP Ratios[1]

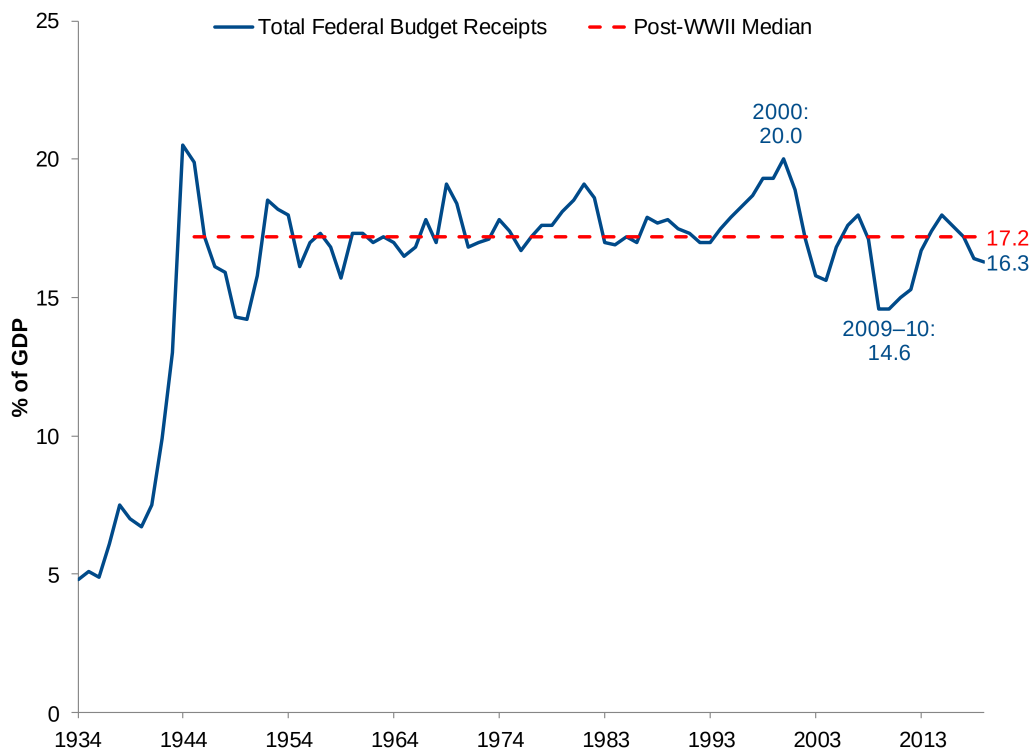


- In response to the pandemic, policymakers globally have delivered unprecedented fiscal stimulus, supporting household incomes and containing corporate bankruptcies.
- We expect fiscal policy to continue supporting the recovery in 2021. Notably, additional near-term fiscal measures in the US reflect the $1.9tn phase 5 coronavirus bill. In Europe, many national fiscal measures were extended into 2021, while the EU-wide Next Generation fund remains on track to start disbursing funds this year.
- As a result, government debt across major economies is expected to increase significantly relative to pre-pandemic levels. However, low interest rates (supported by accommodative monetary policy) will keep the debt burden sustainable, in our view.

(1) Estimates reflect current fiscal policy. The Eurozone aggregate forecast is computed as a weighted average of Germany, France, Italy, Spain. US and UK data are on a fiscal year basis.
Source: Investment Strategy Group, IMF, Haver Analytics.

US Federal Budget Receipts

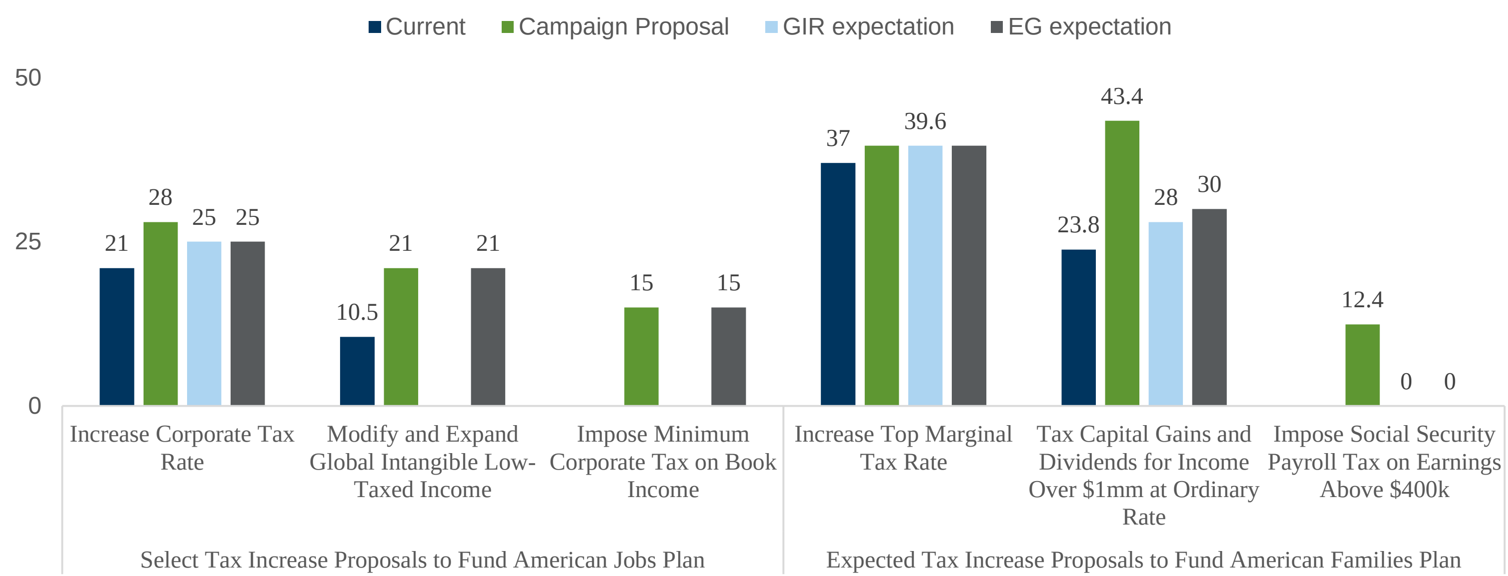
US Total Federal Budget Receipts as a Percent of GDP



Source: Investment Strategy Group, OMB, CBO.

Biden Administration Unveils an Initial Set of Proposed Tax Increase

Select Tax Increase Proposals from the 2020 Presidential Campaign and Expected Outcome



- The Administration has unveiled an initial set of tax increase proposals. These increases are intended to offset the costs of the $2.3 trillion American Jobs Plan (physical infrastructure) over 15 years. These proposals focus on corporations.

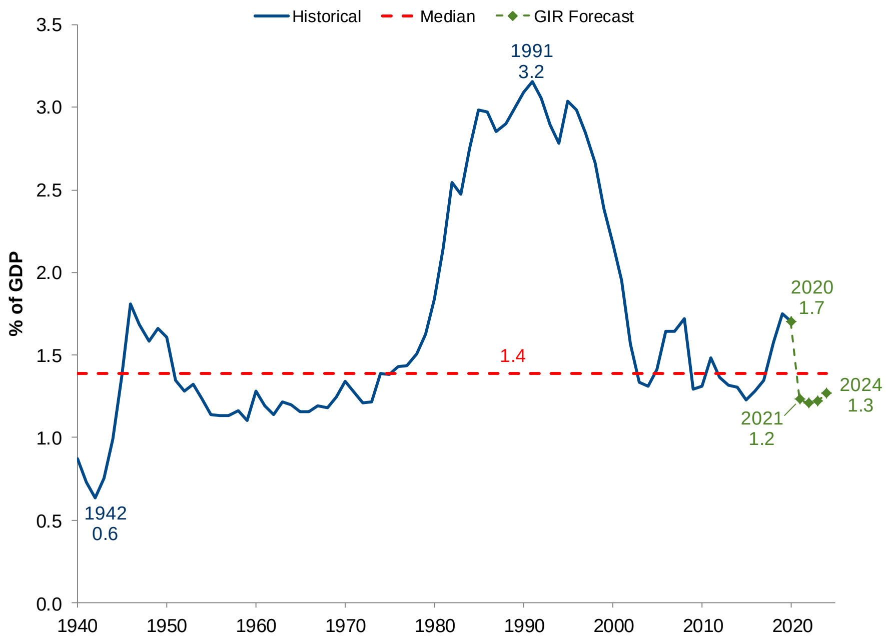
- The next set of proposed increases is expected in late April. These increases are intended to offset the costs of the yet-to-be-published ~$2tn American Families Plan (human infrastructure). These proposals will likely focus on individuals.

- Passage of these tax increases in Congress will be a considerably heavier political lift than the COVID-19 rescue plan. Of the tax increases, corporate tax rate and top marginal tax rate appear most likely to secure enough political support to pass – though the exact levels remain uncertain. None of the potential tax increases are expected to be retroactive.

Note: GILTI – a tax on income earned by foreign affiliates of US companies from intangible assets such as patents, trademarks, and copyrights.
Source: Investment Strategy Group, GS Global Investment Research, Eurasia Group

US Interest Expense Expected to Decline Due to Low Rates

US Interest Expense as Percent of GDP: Realized + GIR Forecasts Through 2023

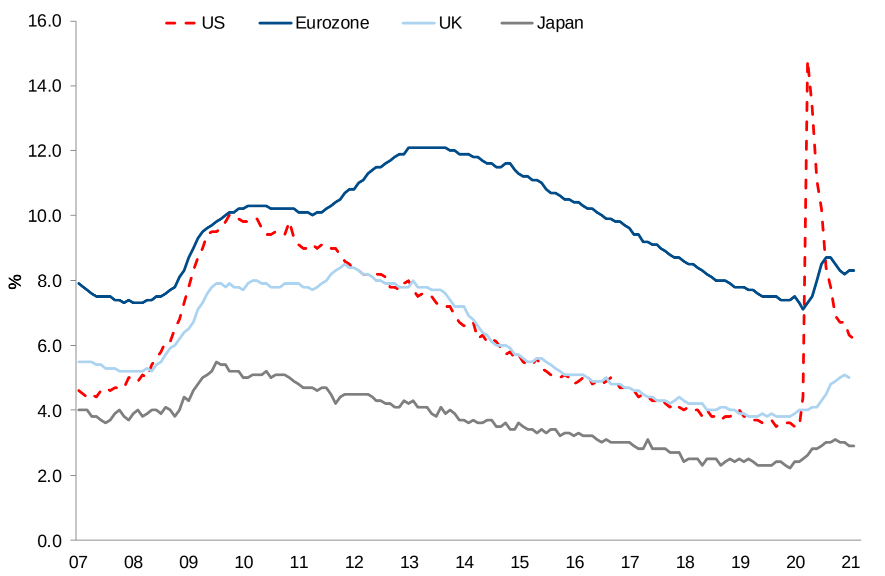


- GIR expects US interest expense as a percent of GDP to be the lowest since the 1960s.

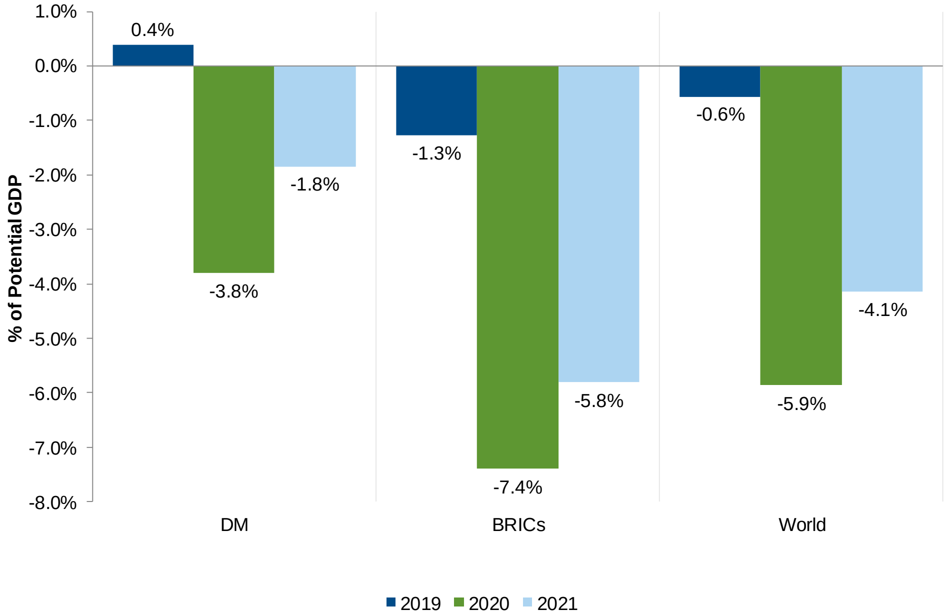
Source: Investment Strategy Group, Congressional Budget Office, Goldman Sachs Global Investment Research, US Treasury.

Large Output Gaps Have Opened Up as a Result of the Pandemic

1. Unemployment Rate – Through March 2021[1]



2. Output Gap Estimates[2]

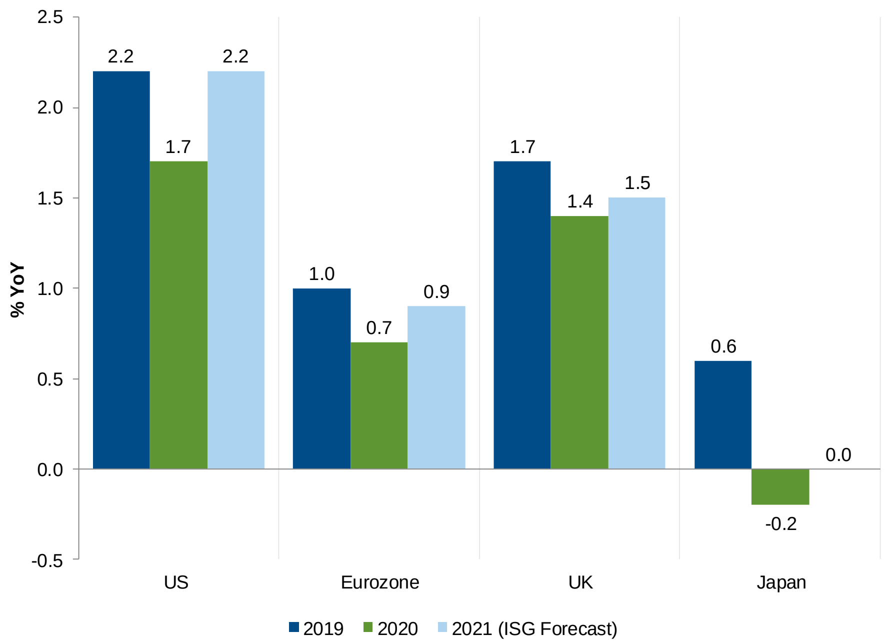


- Labor markets suffered a very large hit from the pandemic. Unemployment rates have surged across regions, albeit less so in Europe and Japan because of the extensive use of short-time work schemes. Still, aggregate hours worked contracted significantly across major developed countries.
- Growth in job vacancies remains soft, but labor markets have started to improve, especially in the US.
- Even as economies have begun to recover, unemployment rates are still elevated and output gaps remain wide. We estimate a world output gap of around -5.9% of potential GDP in 2020, narrowing to -4.1% in 2021[2].

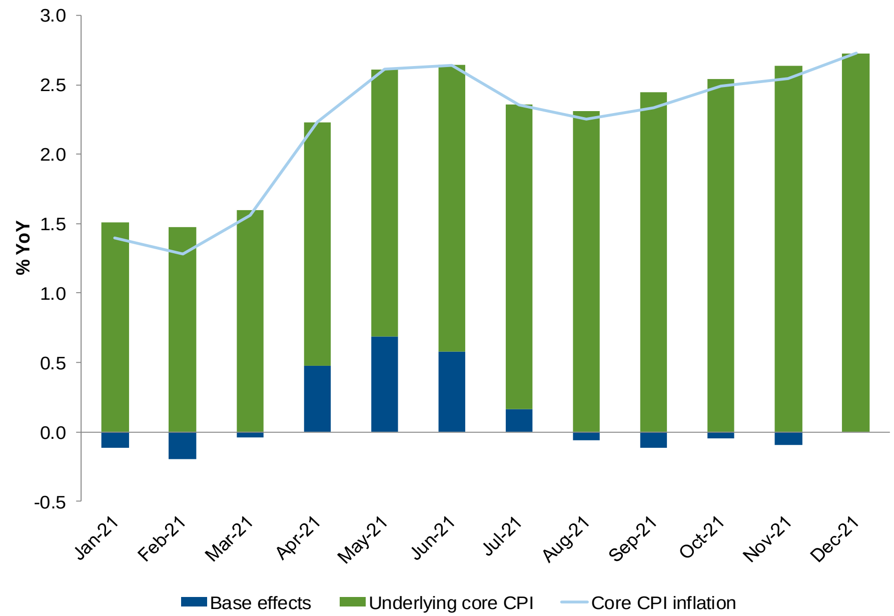
(1) Unemployment rate through March 2021 for the US, February 2021 for the Eurozone and Japan, and through January 2021 for the UK. (2) World output gap estimated as a weighted average of the IMF's output gap estimate for developed economies and the ISG's output gap estimate for the BRICs.
Source: Investment Strategy Group, IMF, Haver Analytics.

Inflation is Expected to Rise

1. Core CPI Inflation[1]



2. Decomposition of US Core CPI into Base Effects and Underlying Inflation

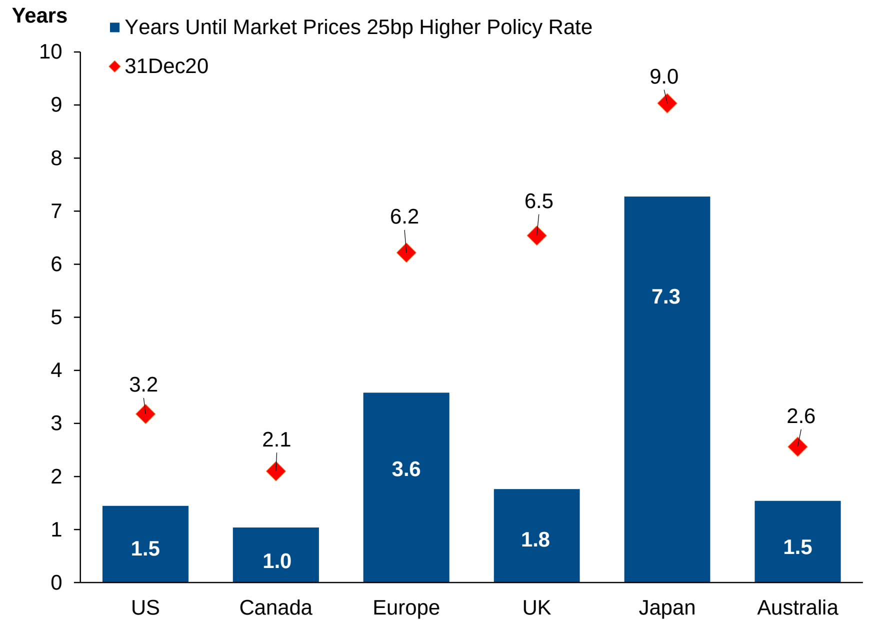


- Still-sizable slack in the economy—evident in the elevated unemployment level—represents a powerful headwind to inflation, although in the US labor market slack is diminishing at a faster-than-expected pace.
- In the US, inflation is likely to rise this year as the economy rebounds and prices recover from currently depressed levels. While in the near term this largely reflects transient drivers, including a low base effect and temporary supply constraints in certain sectors, beyond 2021 diminishing slack is likely to keep inflation above 2%.

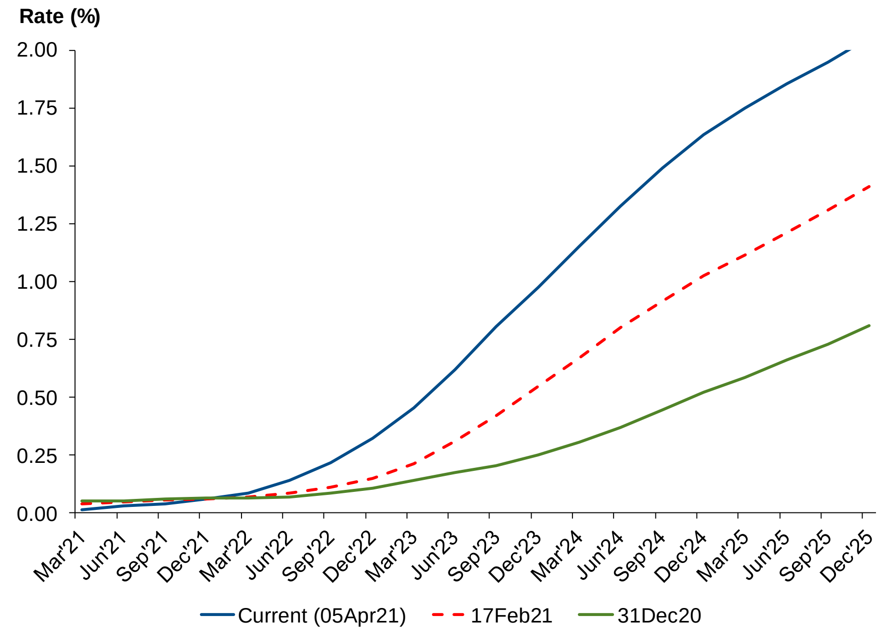
(1) 2021 forecasts reflect the midpoints of the corresponding ISG forecast ranges.
Source: Investment Strategy Group, IMF, Haver Analytics.

Market Expectations for Policy Normalization

1. Front End Policy Rates – As of 05Apr2021



2. US Front End Market Pricing – SOFR[1] futures curve

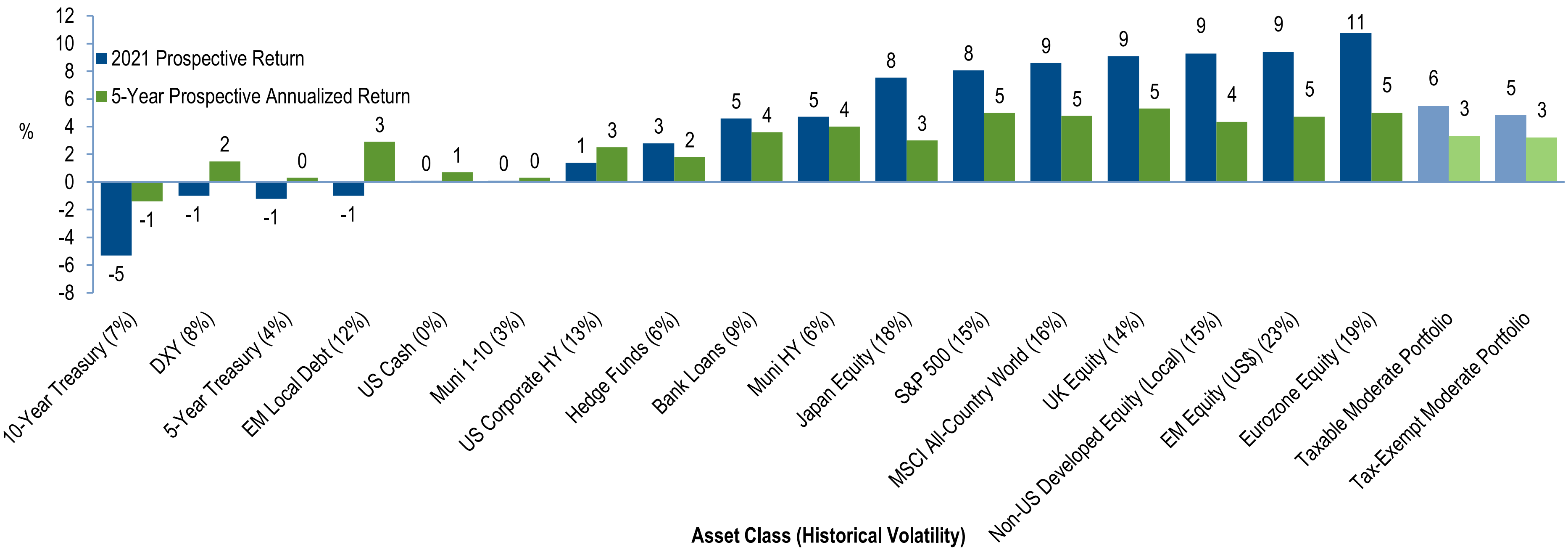


- Since the end of 2020, market expectations for the timing of policy normalization have shifted across developed markets.
- Focusing on US rates and the Federal Reserve, the market is now pricing for lift off to occur by Q4’22 and for ~3 hikes to occur by the end of 2023. This pricing shifted in the past couple months, as the market had been indicating a mid-2023 lift off in February.

[1] SOFR = secured overnight financing rate, risk-free rate benchmark in the US.
Source: Investment Strategy Group, Bloomberg.

ISG 2021 and 5-Year Prospective Total Returns

2021 and Five-Year Prospective Annualized Pre-Tax Return Projections (Rounded) – As of March 29, 2021

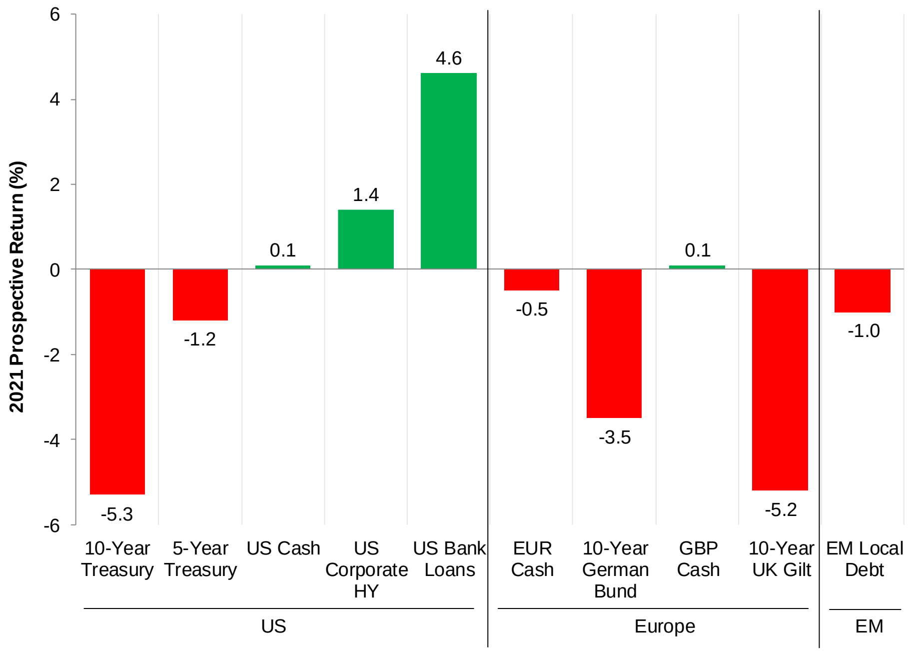


- We expect a base case total return of 8% for US equities and 8.6% for the MSCI All Country World Index.
- In the year ahead, non-US developed equities and emerging market equities are forecast to outperform US equities, but match or lag it over the next five years. These non-US markets also typically have higher volatility.
- Equities should outperform cash and bonds; US Treasuries are projected to have negative returns in coming years.

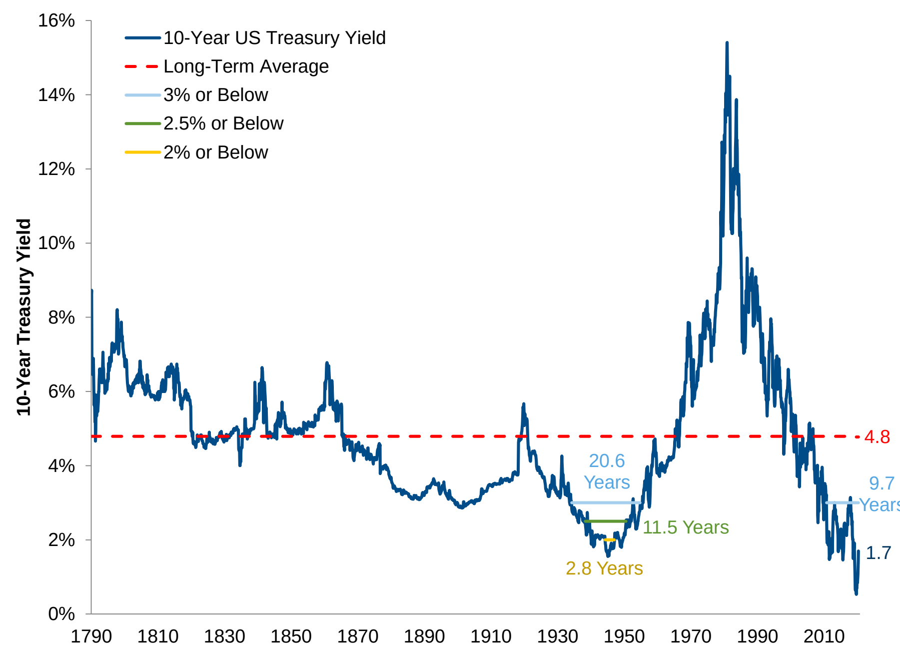
Note: These forecasts have been generated by ISG for informational purposes. Return targets are based on ISG's framework, which incorporates historical valuation, fundamental and technical analysis. Dividend yield assumptions are based on each indexes trailing 12-month dividend yield. They are based on proprietary models and there can be no assurance that the forecasts will be achieved. Please see additional disclosures and indices used at the end of this publication. Source: Investment Strategy Group.

Higher Interest Rates in 2021 Will Weigh on High Quality Bond Returns. We Prefer Credit Over Duration

1. ISG Prospective 2021 Fixed Income Returns by Asset Class



2. US 10-Year Treasury Yield Since 1790

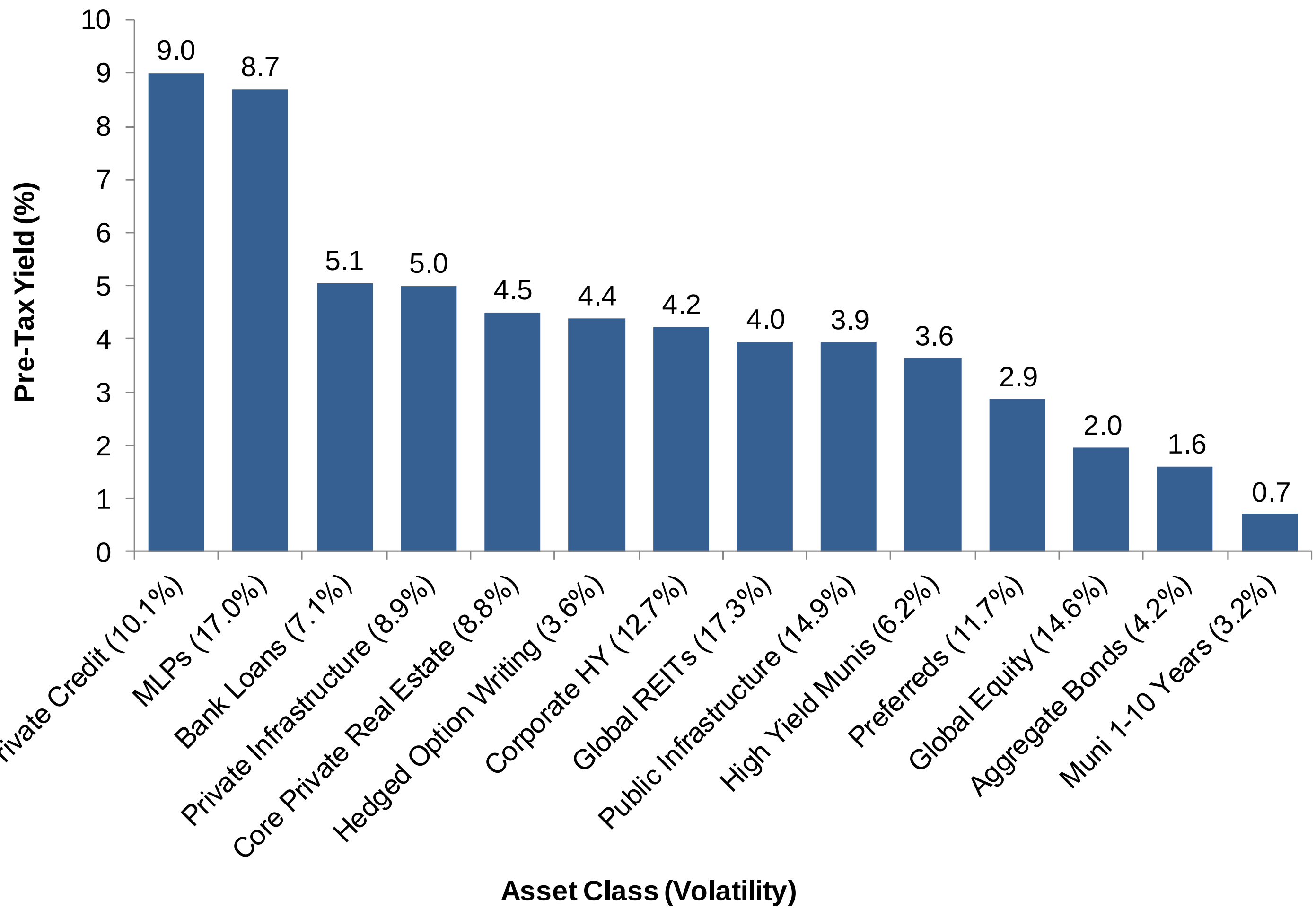


- Several factors make bond returns vulnerable to rising interest rates this year: a strengthening global economic recovery on the back of widespread vaccinations, already record low yields, receding flight-to-safety premiums in sovereign bond prices, and high government issuance to finance fiscal measures.
- But a disorderly backup in rates is unlikely given today's economic slack and the lingering disinflationary impacts of the pandemic. This backdrop will provide cover for central banks to maintain stimulative monetary policy this year.
- We expect the 10-year Treasury yield to be between 1.50% and 2.00% by the end of 2021. While we expect rates to increase, history reminds us that interest rates can remain low for long periods of time.

Source: Investment Strategy Group, Datastream, Bloomberg, Global Financial Data.

Enhancing Income

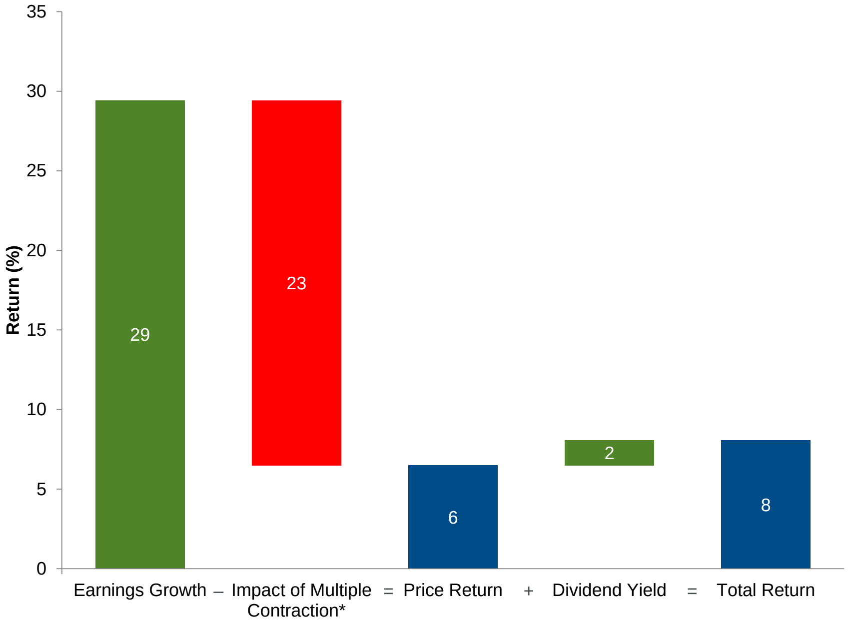
Yield of Various Asset Classes – As of March 31, 2021



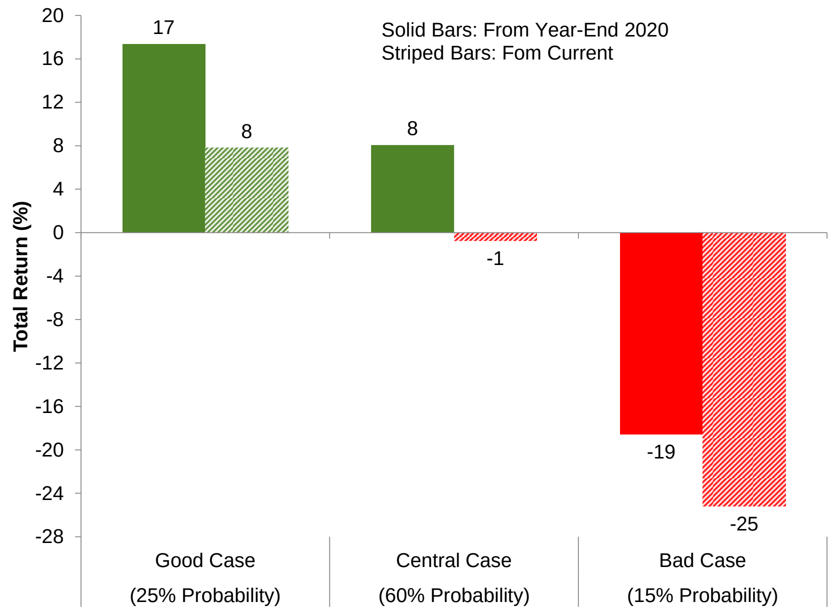
Note: Preferreds not adjusted for taxes.
Source: Investment Strategy Group, Bloomberg.

We Expect Attractive Returns for US Equities in 2021

1. Decomposition of ISG Central Case S&P 500 Return for the Year 2021



2. ISG S&P 500 Total Return Forecast at Year-End 2021 – As of April 6, 2021

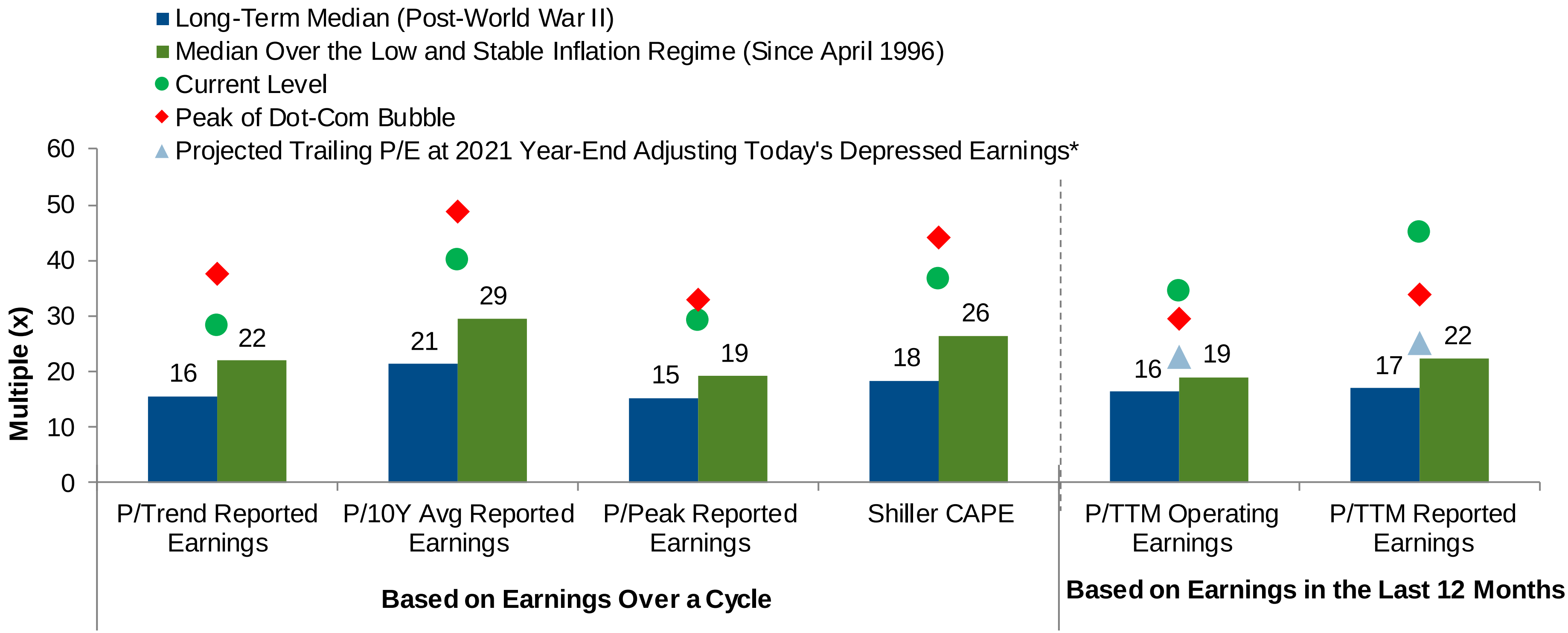


- With a 60% probability, we expect the S&P 500 to reach 3950–4050 by the end of 2021 in our central case:
  - Total returns of 7–9% (8% midpoint)
  - Earnings growth of 28–31% (29% midpoint), reflecting $141 in 2020 and $180–185 in 2021
  - Dividend yield of 2%
  - A compression in valuation multiples
- Our good case implies a 17% total return (or 4350 price) with 25% odds, reflecting a faster and more widespread rollout of vaccinations and better-than-expected economic growth.
- Our bad case implies a -19% total return (or 3000 price) with 15% odds, reflecting the potential for a more deleterious turn in COVID-19 developments and unfriendly regulatory or tax policies.

* Includes the compounding effect between earnings and multiples.
Source: Investment Strategy Group, Bloomberg.

Valuations Have Been Higher During Periods of Low and Stable Inflation Than Over the Entire Post-WWII Period

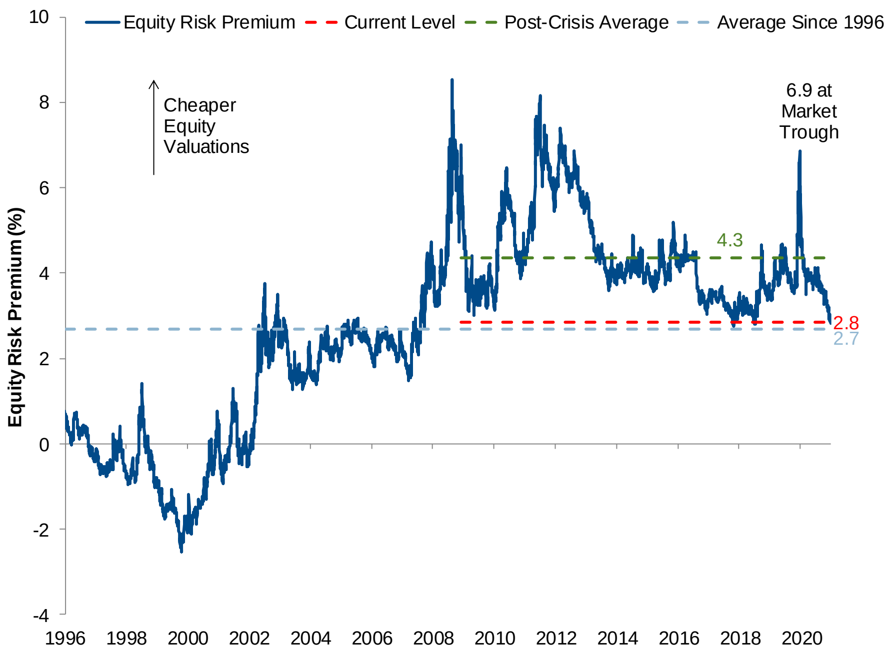
S&P 500 Valuation Multiples – As of April 6, 2021



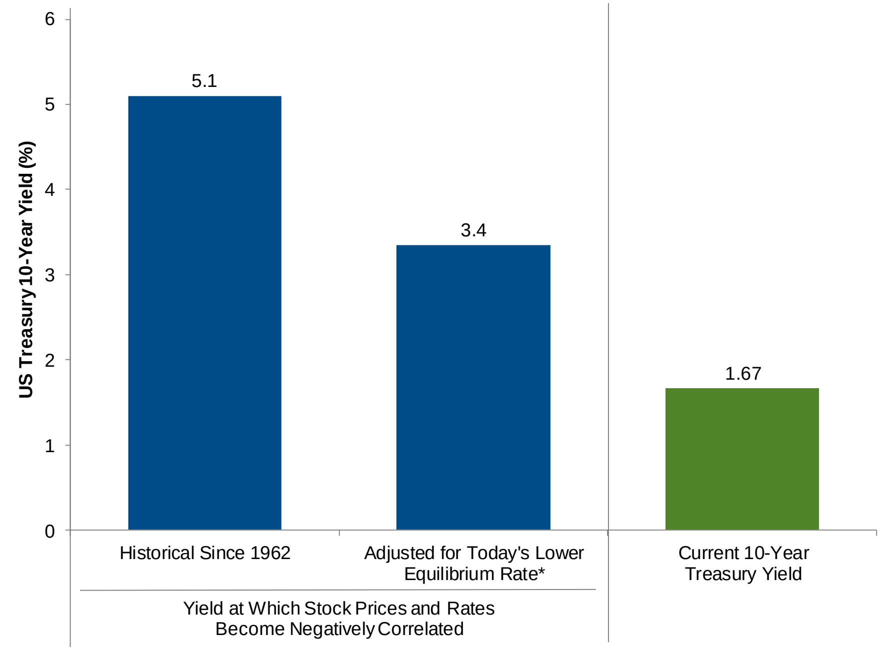
* Based on the midpoint of ISG's central case forecast range for the S&P 500 at 2021 year-end.
Source: Investment Strategy Group, Bloomberg

Today's Low Interest Rates Support Higher Valuations and Have Room to Rise Before Becoming a Headwind for Equities

1. S&P 500 Implied Equity Risk Premium: Forward 12-Month Earnings Yield Less US Treasury 10Y Yield – As of April 1, 2021



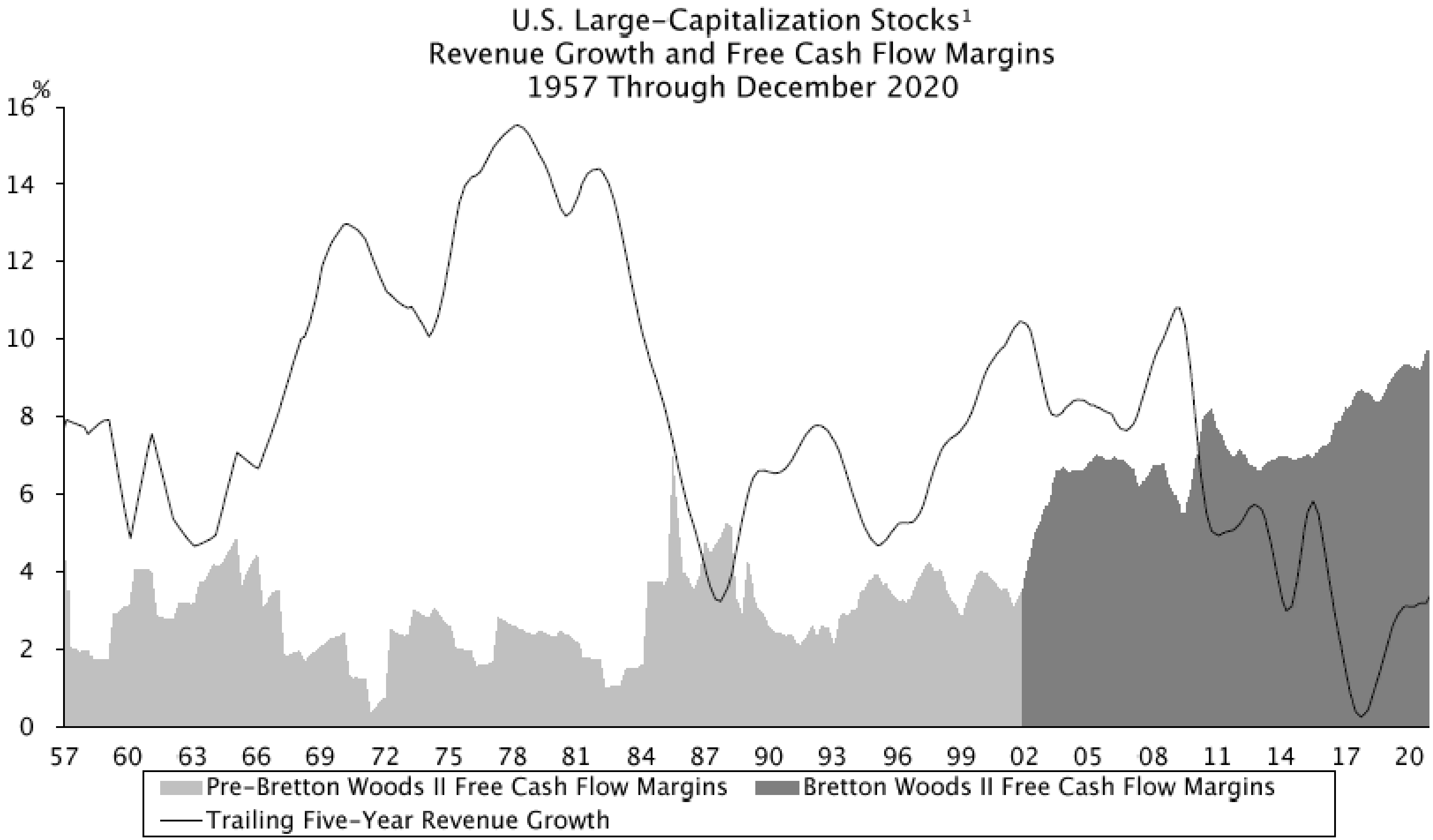
2. Inflection Point for Negative Correlation Between Stock Prices and Bond Yields – As of April 6, 2021



- The implied equity risk premium (ERP)—the difference between the earnings yields and the bond yield—is still an attractive 2.8% and is considerably better than the negative ERP seen during the technology bubble.
- Although we expect rising rates to compress valuations this year, interest rates have ample room to increase before they would jeopardize the bull market, provided they are rising in response to improving real growth.
- Keep in mind that 92% of S&P 500 debt is fixed-rate debt and only 14% matures over the next two years, so it would take a number of years for higher rates to negatively impact aggregate S&P 500 interest expense.

* Adjusts for the reduction of 1.75 percentage points in the long-run equilibrium nominal rate, in line with the shift in Federal Reserve projections since 2012.
Source: Investment Strategy Group, FactSet, Bloomberg, Global Financial Data, Haver Analytics.

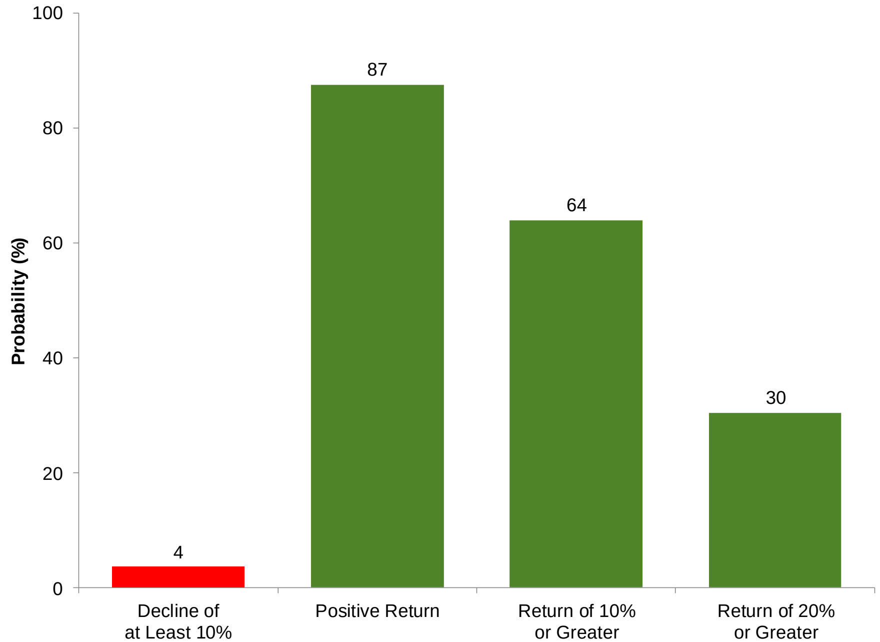
Constructing Stock-Picking Models Requires Judgements About Fundamentals



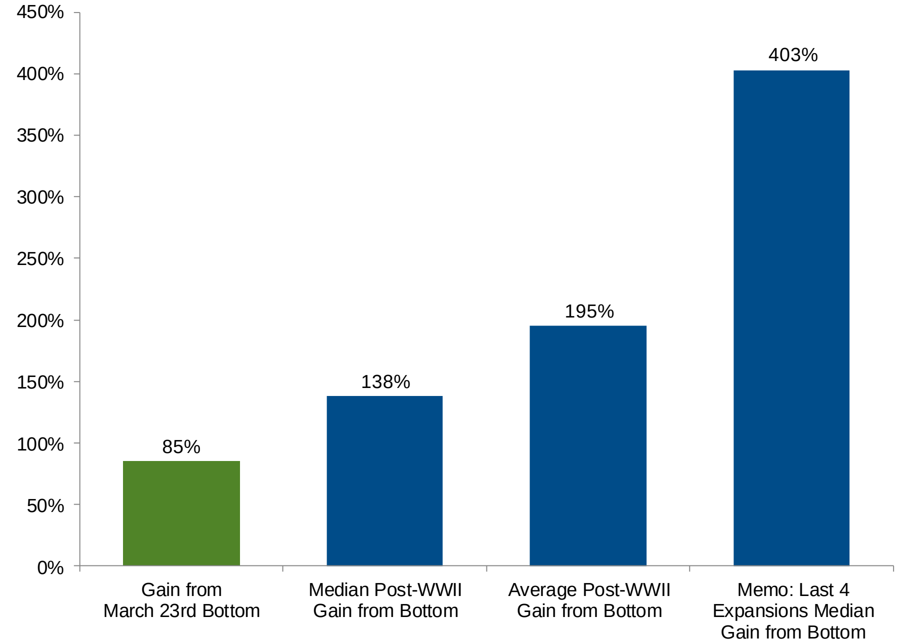
1.Equally-weighted returns.
Source: Corporate Reports, Empirical Research Partners Analysis.

Equities are Likely to Deliver Attractive Returns During This Economic Expansion, as They Have in the Past

1. Odds of Various S&P 500 One-Year Total Returns During US Economic Expansions[1]



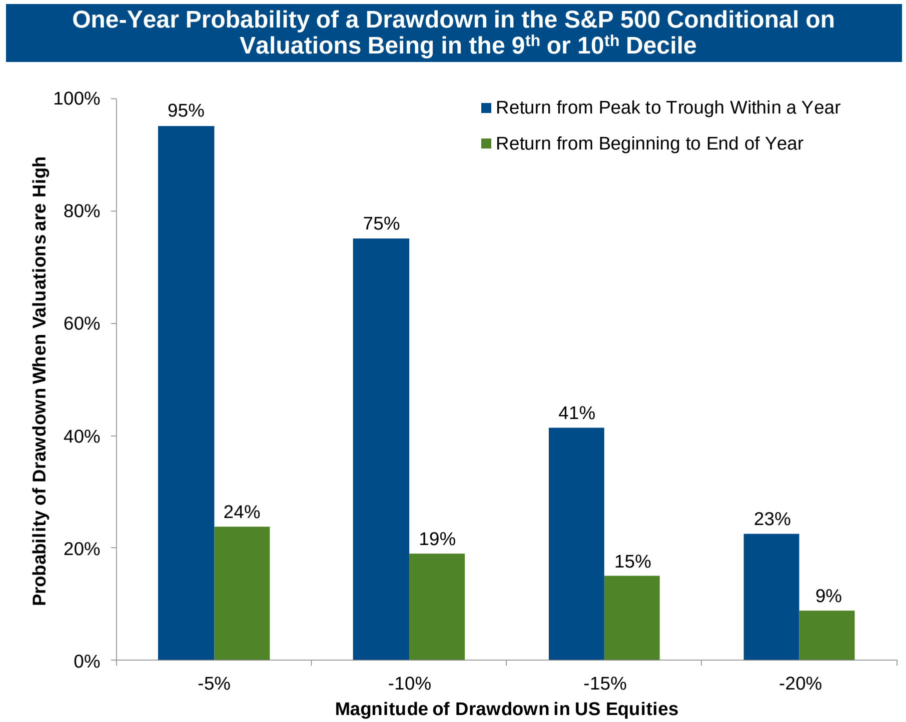
2. S&P 500 Total Return from Equity Trough to Beginning of Next Recession[2] – As of April 6, 2021



- Investors have enjoyed 87% odds of a positive return—and a much greater likelihood of large gains than of large losses—in years when the economy is expanding.
- In fact, nearly three-fourths of historical equity declines in excess of 20% occurred during US economic contractions. With our forecast placing just 10% odds on a recession this year, the economic backdrop in 2021 is favorable for stocks.
- Past economic expansions have been associated with sizable cumulative equity gains, implying ample upside despite the 85% equity rally from last year's March low.
- Given these historical analogs and our fundamental views, we expect equities to deliver mid-single-digit annualized returns that will be superior to cash and bonds for the foreseeable future.

(1) Based on data since 1945. (2) Recession start date is defined as the first date of the NBER business cycle peak month.
Source: Investment Strategy Group, Bloomberg.

S&P 500 Drawdown Probability Over One Year Window



- Over a 12-month period the historical probability of a 5% correction from current valuation levels is 95%, and the probability of a 10% correction is 75%.
- The odds of a pullback persisting through the year have been much lower. The historical probability of a 5% correction from beginning to end of year is only 24%.

Source: Investment Strategy Group, Bloomberg.

We are Tactically Overweight Value vs. Growth and Small-Cap vs. Large-Cap Equities

1. US Russell 1000 Value vs. Growth Relative Total Return – Through April 6, 2021

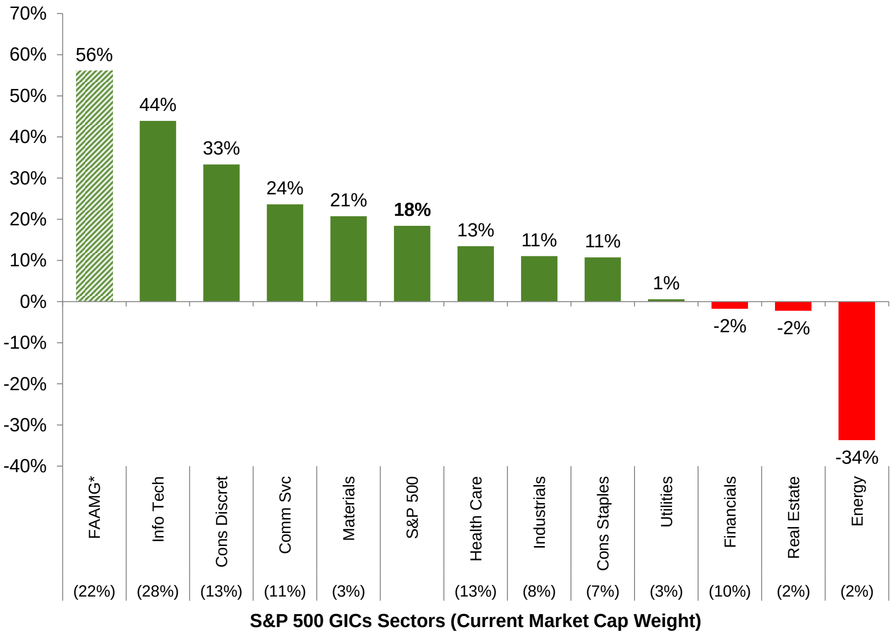
2. US Small-Capitalization vs. Large-Capitalization Relative Total Return – Through April 6, 2021

- Value has underperformed growth by 336 percentage points (pp) (or 5.6pp ann.) since August 2006, and by 36% in 2020 given the global pandemic/zero rates. Relative performance is now at levels last seen during the technology bubble.
- The valuation spread between cheap and expensive stocks stands about 1.3 standard deviations above its mean. Such wide spread reflect the higher risk premiums offered by value stocks, which have been associated with subsequent outperformance.
- Small cap stocks have lagged large cap stocks by about 1.8% a year since July 1983. As a result, the Russell 2000 index's price to cash flow multiple stands in the bottom 20% of its past range relative to the S&P 500.
- We expect the economic recovery fueled by broad vaccine rollout to be the catalyst for value's and small cap's outperformance this year. Similar periods of economic recovery have supported returns of value and small cap stocks in the past.

Source: Investment Strategy Group, Bloomberg.

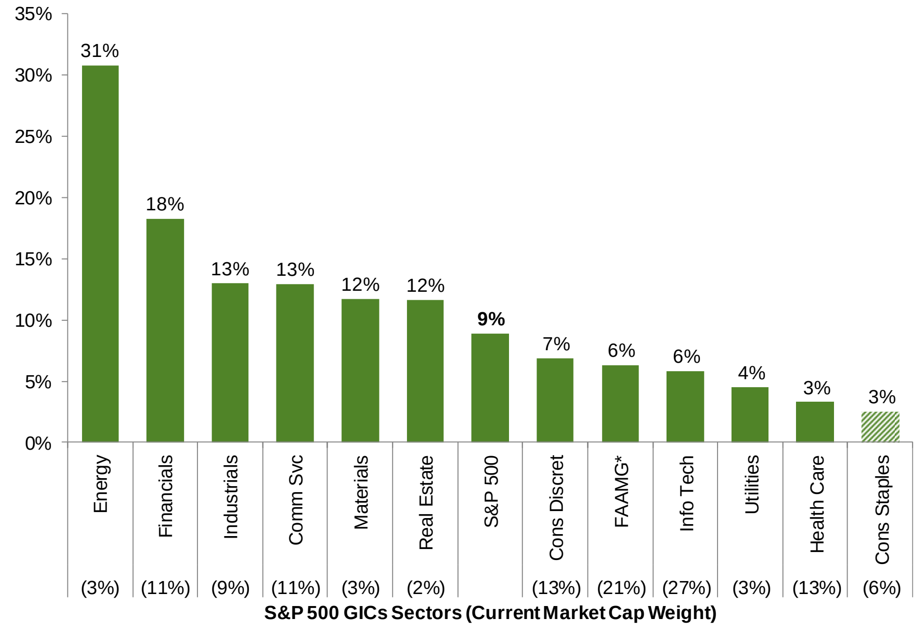
Growth versus Value Outperformance Accelerated in 2020 (I)

1. S&P 500 Sector Total Returns in 2020



* FAAMG includes Facebook, Apple, Amazon, Microsoft and Google.

2. S&P 500 Sector 2021 YTD Total Returns – As of April 6, 2021



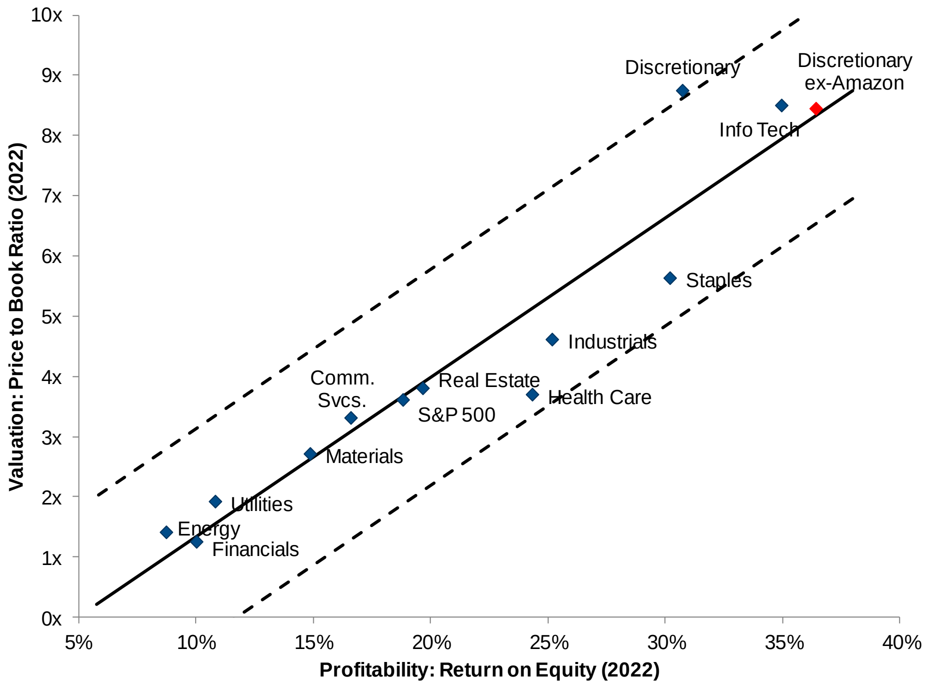
* FAAMG includes Facebook, Apple, Amazon, Microsoft and Google.

- The Russell 1000 Growth index outperformed the Russell 1000 Value index by around 36 percentage points in 2020 given the global pandemic and its hit to growth and interest rates.
- The significant underperformance of cyclical equities in 2020, particularly energy and financials, suggests investors remain highly skeptical of the economic trajectory despite the recovery in the headline S&P 500.
- The weak growth backdrop has led investors to pay a premium for growth, leading to crowding in popular tech names.

Source: Investment Strategy Group, Bloomberg, Bloomberg, Factset, Datastream, S&P Global.

Growth versus Value Outperformance Accelerated in 2020 (II)

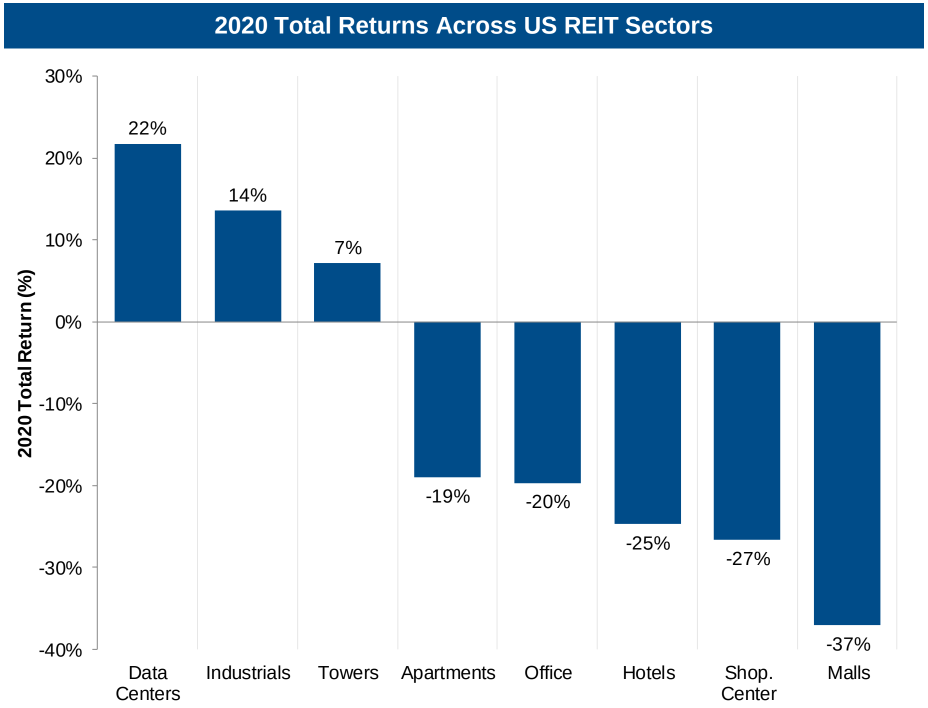
S&P 500 Sector Dispersion: Normalized (2022 Consensus) P/B vs. ROE



- When we look at normalized (using 2022 estimates) valuation relative to profitability, sectors like Information Technology and Consumer Discretionary trade at a slight premium, while Healthcare, Industrials and Staples trade at a discount. When we adjust the valuation of Consumer Discretionary for Amazon, the sector trades at a valuation inline with its profitability.

Source: Investment Strategy Group, Bloomberg, Bloomberg, Factset, Datastream, S&P Global.

Sizable Dispersion in Performance Across Real Estate Sub-sectors During 2020



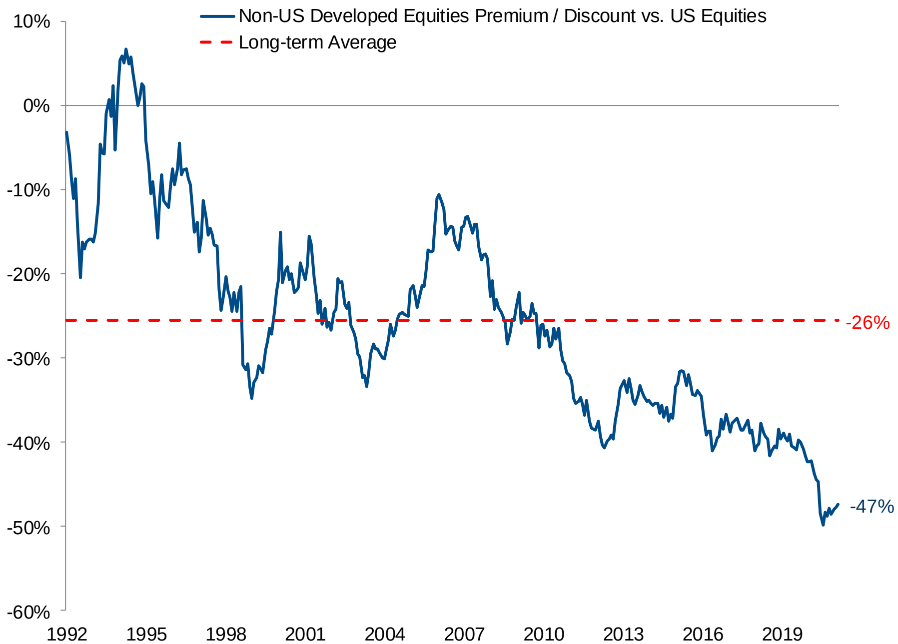
- 2020 saw considerable dispersion in sector performance among REITs. Malls, shopping centers and hotels that were severely affected by COVID-19 underperformed, as well as companies with higher leverage and shorter lease terms.
- Newer non-core REIT sectors such as datacenters and towers have outperformed, along with industrials/warehouses which benefit from a physical to digital transition.

Performance based on Bloomberg US REIT Sector indices except Datacenters and Towers where a basket of companies was used to calculate year to date returns for the sector.

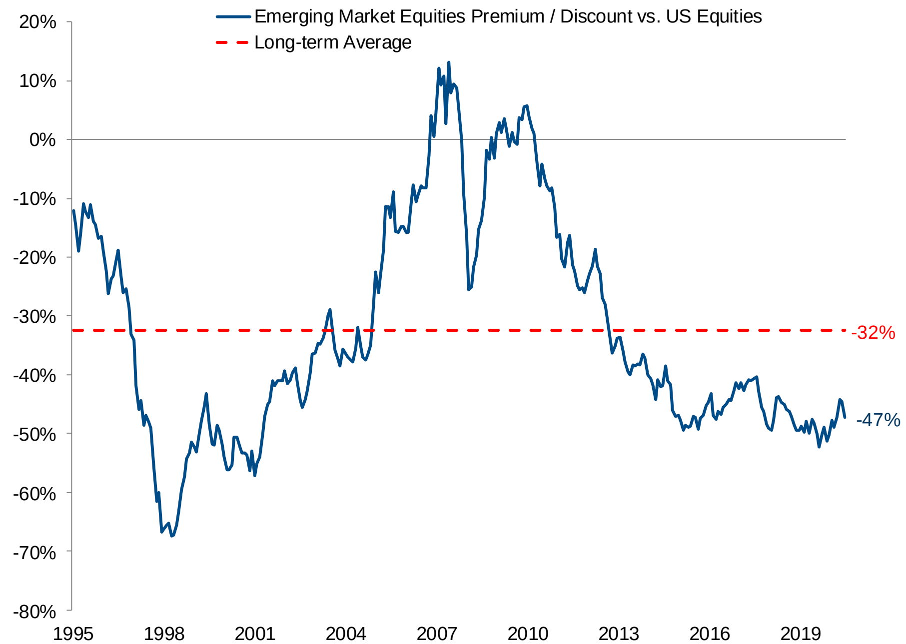
Source: Investment Strategy Group, Bloomberg, Factset. Data as of Dec 31, 2020

Non-US Equities Trade at Large Discounts to the US, but Valuation has no Bearing on Subsequent Performance

1. Non-US Developed Equity Valuation Premium / Discount to US Equities – As of March 2021



2. EM Equity Valuation Premium / Discount to US Equities – As of March 2021

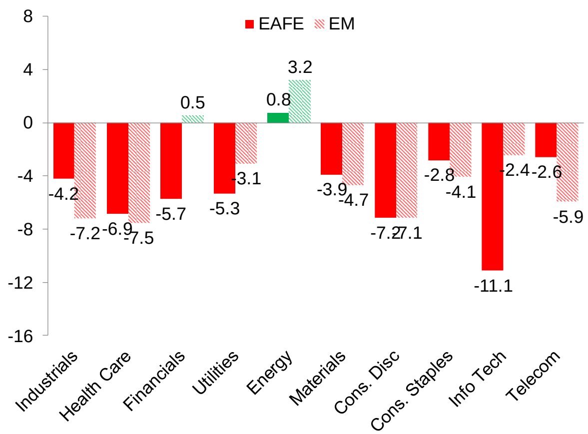


- Non-US developed markets and EM equities continue to trade at large valuation discounts to US equities.
- However, we do not recommend a broad tactical tilt to either funded out of US equities, given:
  - No evidence that significant discounts have led to outperformance over the subsequent one and five years.
  - Non-US developed and EM equities do not typically outperform US equities in a downdraft.
  - Underlying fundamental factors do not present compelling rationale to overweight non-US equities.

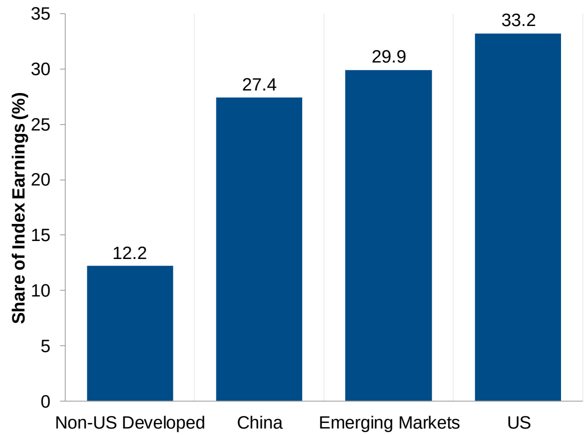
Source: Investment Strategy Group, Datastream.

No Compelling Rationale to Overweight EAFE or EM Equities versus the US

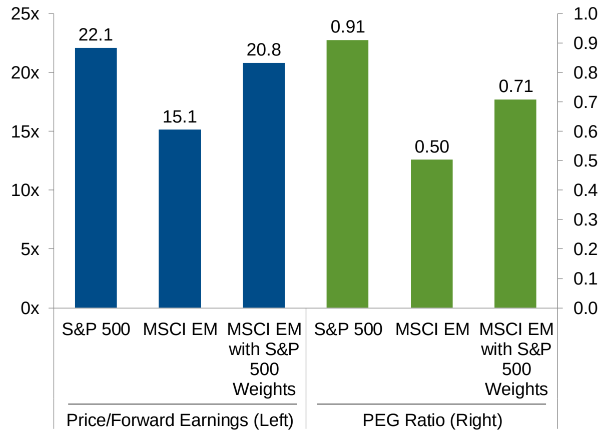
1. Annualized US vs. Non-US Earnings Growth Gap Since 2007[1] – Through March 2021



2. Technology Stocks' Earnings Weight Across Regions[2] – As of April 2, 2021



3. Price/Forward Earnings and PEG Ratios[3] – As of April 2, 2021



- Earnings outside the US have substantially lagged those of the US across most sectors since the peak in earnings growth in 2007.
- The divergence in earnings can be partly attributed to the higher exposure of the US equity market to the broader technology sector. However, even adjusting for sector weights, US companies in aggregate earn more than their non-US counterparts.

1. Indices are based on annual MSCI data, beginning in 2007. Analysis uses 12-month forward earnings in order to mitigate the impact of negative earnings periods.
2. Includes information technology, internet and direct marketing retail, and interactive media services.
3. Using ISG estimates for 12-month forward EPS growth.
Source: Investment Strategy Group, Bloomberg, Datastream, FactSet.

ISG Tactical Views

Equities

- **MLPs**
  Long MLPs, funded from investment grade fixed income.
- **Long S&P 500 Energy Sector**
  Long S&P 500 energy sector, funded from investment grade fixed income.
- **Long S&P 500 Healthcare Sector Relative Value**
  Long S&P 500 healthcare sector vs. short beta-adjusted S&P 500 index.
- **Systematic Downside Mitigation Tilt**
  Short Systematic Downside Mitigation basket, long S&P 500 futures (delta-neutral).
- **Systematic Upside Improvement Tilt**
  Long Systematic Upside Improvement basket, short S&P 500 futures (delta-neutral).
- **Short S&P 500 Put**
  Short a Dec. 31, 2021 put struck 5% OTM.
  Short a Dec. 31, 2021 put struck 10% OTM.
- **Short Russell 2000 Put**
  Short a Dec. 31, 2021 put struck at-the-money.
- **Eurozone Banks**
  Long Eurozone bank equities on a currency hedged basis, funded from investment grade fixed income.
- **Short Eurozone Banks Put**
  Short a 12-month put struck at-the-money.
- **Long Europe Stoxx 600 Call vs. Short Stoxx 600 Put**
  Long Europe Stoxx 600 call struck 5% OTM, funded by a short position in Stoxx 600 put struck 15% OTM, both expiring Dec. 17, 2021.

Fixed Income, Currencies and Commodities

- **Higher US 30Y Swaps**
  Short a 9M30Y receiver swaption struck at-the-money.
- **Long US Bank Loans**
  Long US bank loans, funded from investment grade fixed income.
- **Long US dollar vs. Yen**
  Long a 2-year USDJPY call struck at-the-money-spot.
- **Long US dollar vs. Swiss franc**
  Long a 2-year USDCHF call struck at-the-money-spot.
- **Short Euro vs. US dollar**
  Long a 2-year EURUSD put struck at-the-money-spot.
- **Short Gold**
  Long a July 16, 2021 put struck 5% OTM.

ISG Tactical Views by Asset Class – As of April 6, 2021

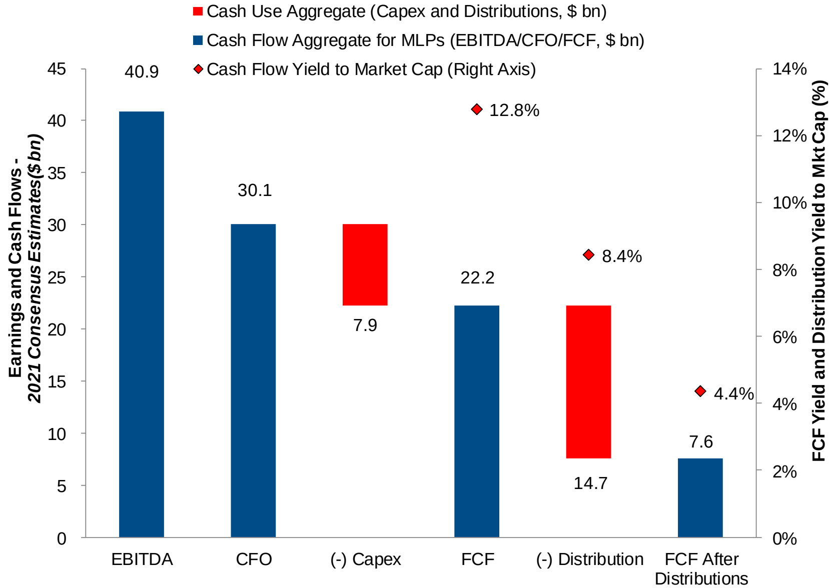
Asset Class	Current Tactical View
Fixed Income	
Investment Grade	Underweight
US Bank Loans	Overweight
Global Equity	
US Equity	Overweight
MLPs	Overweight
Energy Sector	Overweight
Healthcare Sector	Overweight
Small Cap Equity	Overweight
EAFE Equity	Neutral
Eurozone Banks	Overweight
Emerging Market Equity	Neutral
Currencies	
Euro (vs. USD)	Underweight
Swiss Franc (vs. USD)	Underweight
Japanese Yen (vs. USD)	Underweight
British Pound (vs. USD)	Neutral
Commodities	
WTI Crude Oil	Neutral
Gold	Underweight
Real Estate	Neutral

Source: Investment Strategy Group.

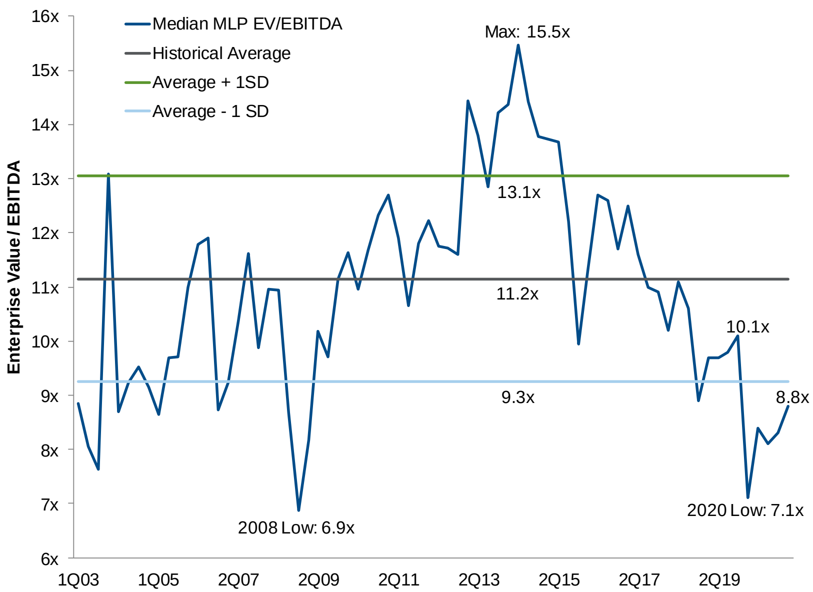
Overweight MLPs / Midstream Companies

Continued Cash Flow Discipline Leads to Potential for Appreciation in 2021

1. 2021 Cash Flow Waterfall Estimates for Alerian Index Constituents ($ bn)



2. Median EV / EBITDA[3] Multiple for MLPs (Forward 12-Month EBITDA)



- **Continued Capital Discipline:** 2021 earnings (EBITDA[1]) estimates for the midstream sector have risen 2% since the start of the year, while capital expenditure estimates have declined 7.8% over the same period. Put simply, companies are spending less on new project construction given reduced production from E&Ps and are retaining more cash flow.

- **Attractive Cash Flow Yields:** Given improved capital discipline, the sector is priced to deliver a free cash flow yield of 12.8%[2] before distributions based on 2021 estimates (versus 4.1% for the S&P 500) and 4.4%[2] after distributions.

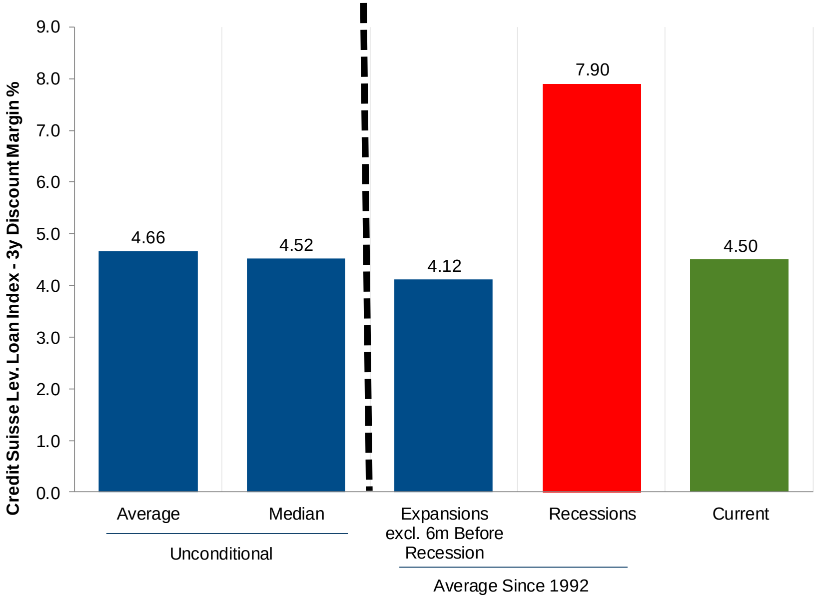
- **Attractive Valuations:** The sector's valuation still stands at a discount relative to history and more than one standard deviation from historical average. A return to valuations at the end of 2019 still implies healthy returns from current levels. We expect the sector to appreciate 23% in 2021 through a combination of distributions and price appreciation.

1. EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization. 2. Free Cash Flow Yield = (Cash flow from operations less capex) / market capitalization. We measure Free Cash Flow After Distributions as Cash Flow from Operations less Capex less Distributions. 3. EV / EBITDA = Enterprise Value/EBITDA. Source: Investment Strategy Group, Bloomberg, Eikon.

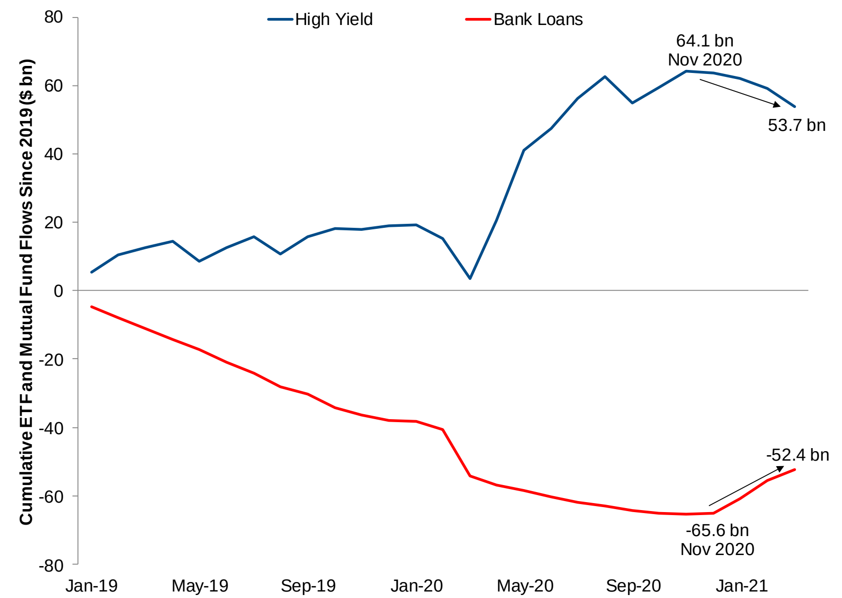
Overweight Bank Loans

Spreads are Wide Relative to Expansionary Medians and High Yield Bonds

1. Leveraged Loan Spreads, Current Levels Versus Recessions/Expansions



2. Cumulative ETF and Mutual Fund Flows, HY and Bank Loans Since 2019



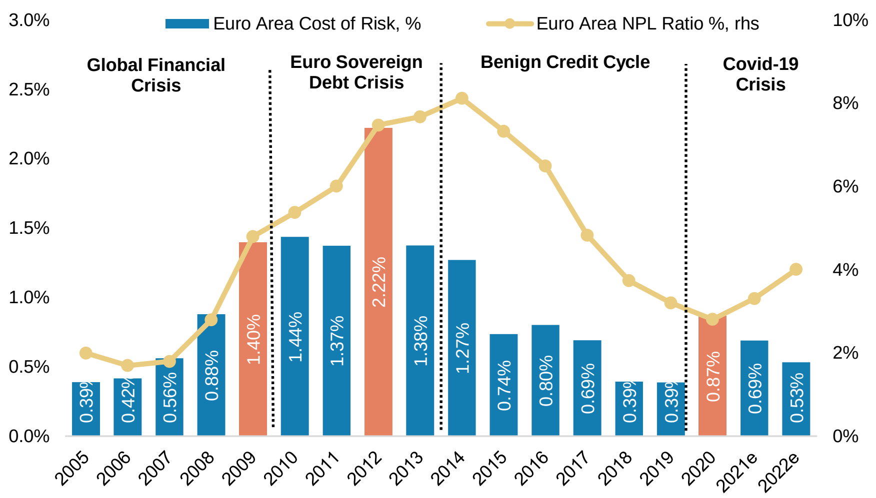
- **Attractive Spreads:** Leveraged loan spreads stand at around 450 bps and are close to historical medians. The sector also offers 157 bps of incremental compensation relative to high yield bond spreads[1], which are in their 7th percentile relative to history. Spreads are also around 40 bps higher than the average seen during economic expansions.
- **Limited Interest Rate Duration:** US leveraged loan's 0.25 year rate duration is attractive in the modestly higher interest rate environment we expect. This has manifested itself in fund flows. Bank loans had seen outflows and high yield bonds had seen inflows until late Nov 2020, but these flows have reversed in recent months as rates have risen.
- **Attractive Returns:** Our default models as well as realized default rates point to a decline in defaults during 2021. Coupled with incremental spread and low duration, we expect the sector to deliver 5-6% returns in 2021.

1. HY spreads measured using the Bloomberg Barclays HY Index stand at 293 bps as of April 6th, 2021. Source: Investment Strategy Group, Bloomberg. Market Data as of April 6th, 2021.

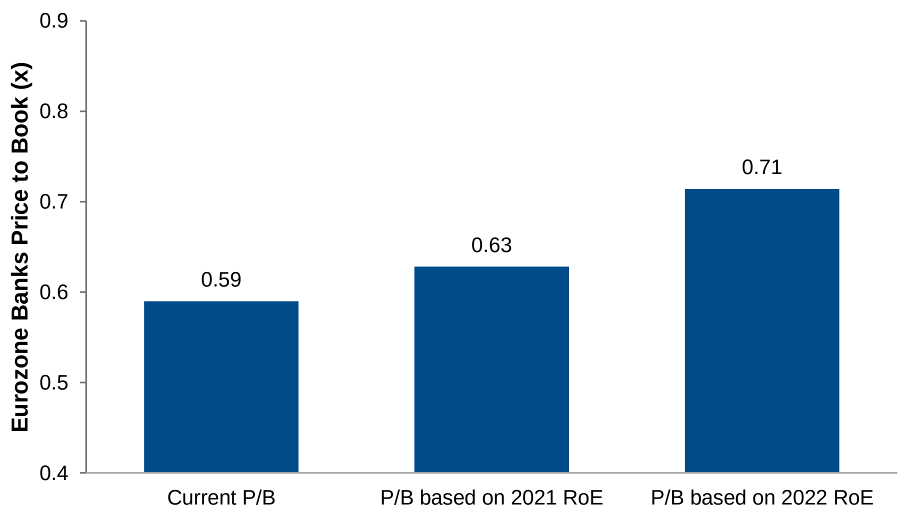
Overweight Eurozone Banks

Attractive Valuation and Rising Earnings Should Continue to Generate Positive Returns

1. Covid-Related Impairments Likely Peaked in 2020



2. We Expect Bank Valuations to Rise With Improving Return on Equities

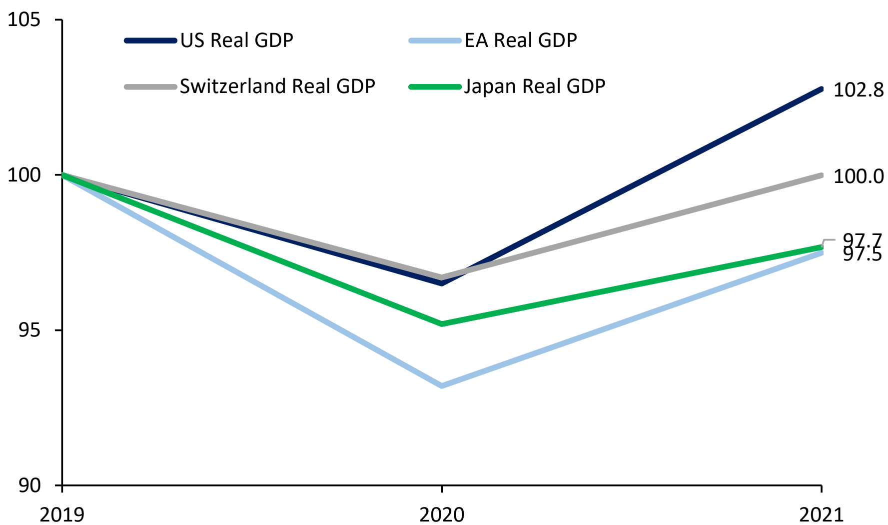


- **Rising Earnings:** Improving global growth and gradually rising interest rates should boost earnings, which have already benefitted from lower-than-expected provisions for loan losses.
- **Attractive Valuation:** The sector's rise in earnings will also boost return on equity, thereby warranting a higher price to book multiple. We expect Eurozone banks to deliver 15% total return over the next 12 months.
- **Increased Capital Return:** In contrast to the years following the global financial crisis, banks are well-capitalized and don't need to raise capital. In fact, banks are expected to be net buyer of their own shares after the ECB lifts ECB restrictions in the fourth quarter.

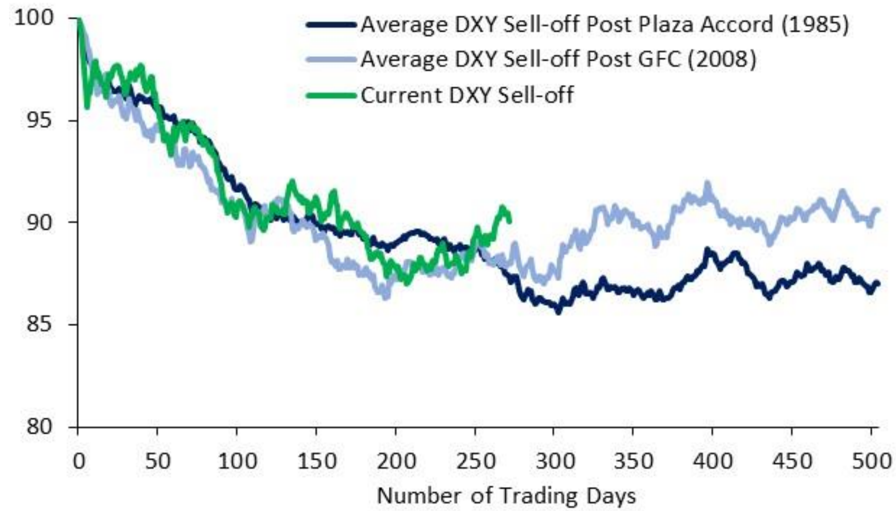
Cost of Risk: Loan Loss Provision / Average Loans.
Source: Investment Strategy Group, Datastream, I/B/E/S, Morgan Stanley Research.

We Expect the Dollar to Strengthen Relative to the Euro and Swiss Franc

1. Major DMs Real GDP[1] (Indexed to 100, 2019 End)



2. Average Dollar Index Decline

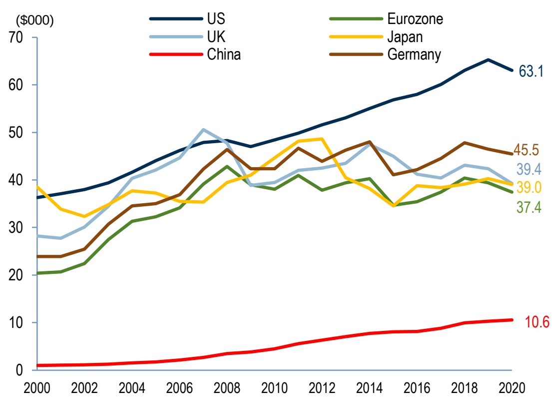


- **US Economic Growth to Outperform Developed Market Peers:** US economic growth is on pace to outperform that of the Eurozone, Japan and Switzerland by 3-5 percentage points over 2020 and 2021 combined. In fact, the US is the only developed economy whose GDP is set to exceed its pre-pandemic level by the end of the 2021.
- **Relative Central Bank Postures:** The euro, yen and franc will continue to be attractive funding currencies relative to the dollar as the Federal Reserve is likely to begin preparing the market for the tapering of its quantitative easing program well before similar policy normalization steps from other developed market central banks.
- **Historic Dollar Analogues:** Dollar bear cycles on average stabilized after drawdowns similar to the contemporary sell-off. Therefor, past performance suggests the dollar may have limited downside relative to current market pricing

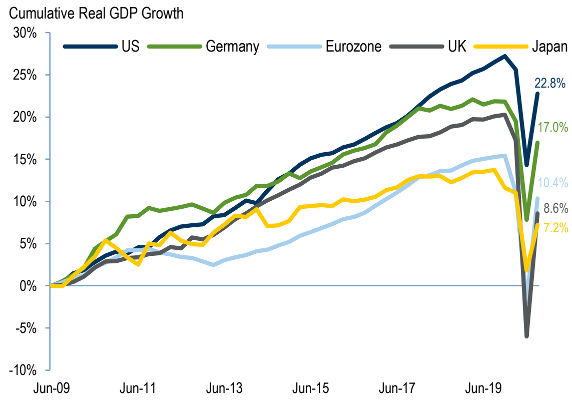
(1) Based on ISG Forecast except for Switzerland, which is based on average of IMF and BBG Consensus Forecast.
Source: ISG, IMF, Bloomberg.

US Preeminence (I)

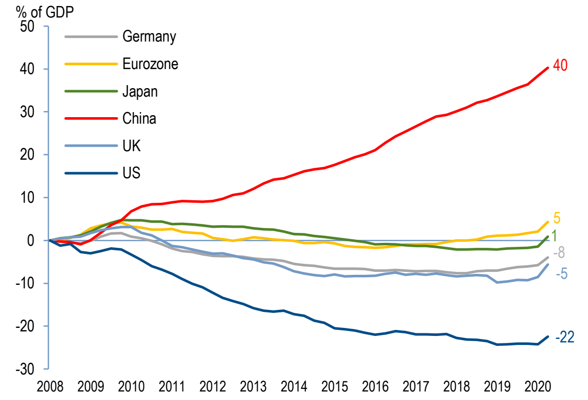
1. GDP Per Capita



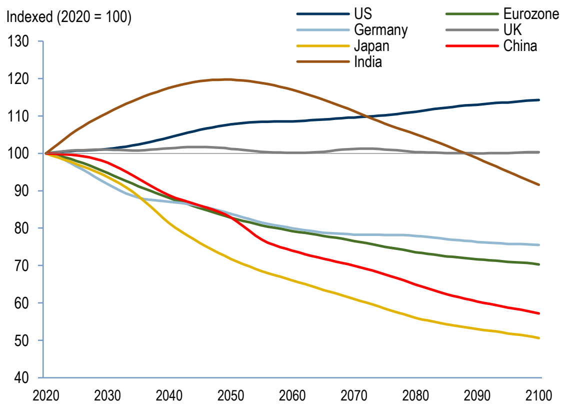
2. Post-GFC Cumulative Real GDP Growth



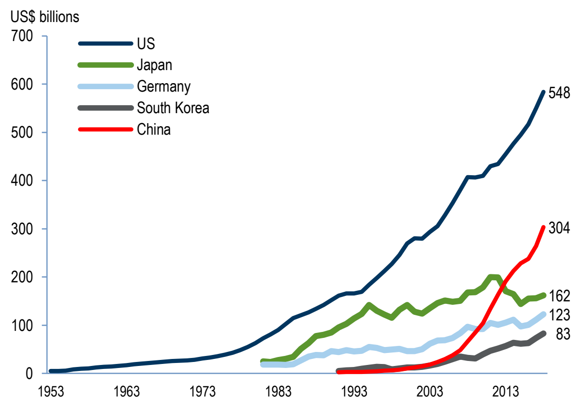
3. Cumulative Change in Household Leverage



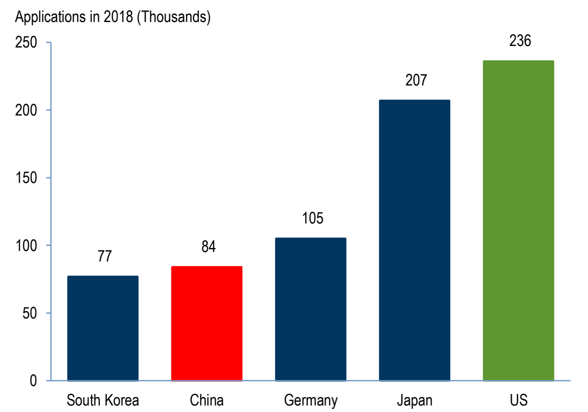
4. Working-Age Population Projections



5. Research and Expenditure Development Over Time



6. Applications for Invention Patents Filed Abroad

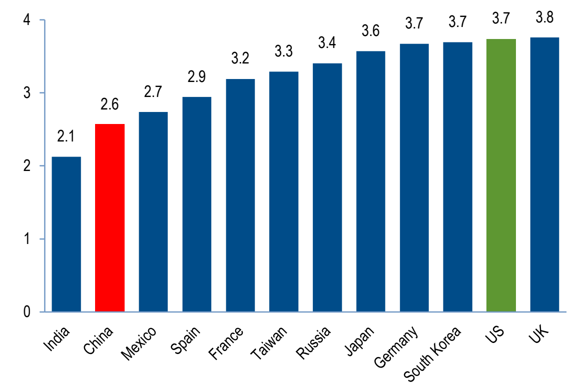


Sources: Investment Strategy Group, Haver, Goldman Sachs Global Investment Research. BIS, Datastream, IMF, World Bank, United Nations Population Division, World Intellectual Property Organization.

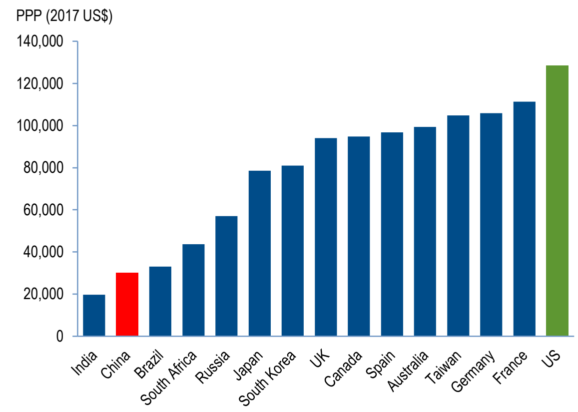
US Preeminence (II)

Goldman Sachs

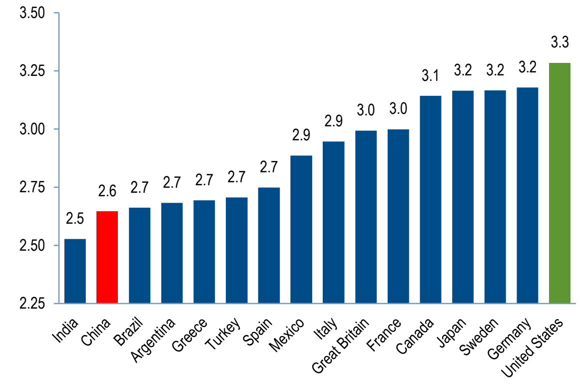
1. Human Capital Index



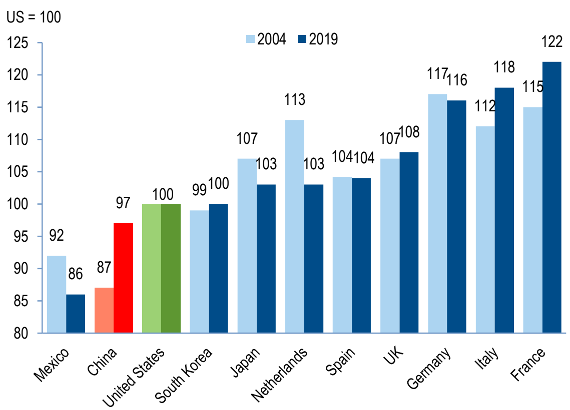
2. Countries' Level of Output Per Worker



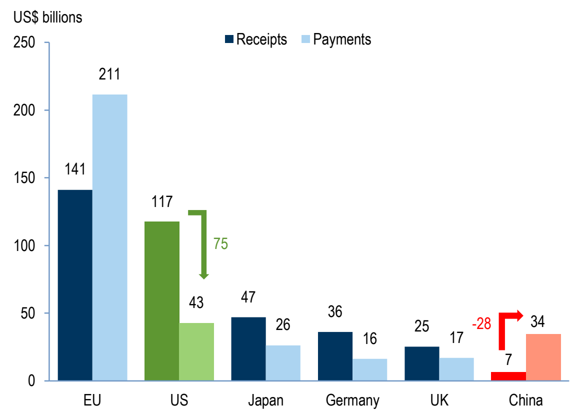
3. Average Corporate Management Score



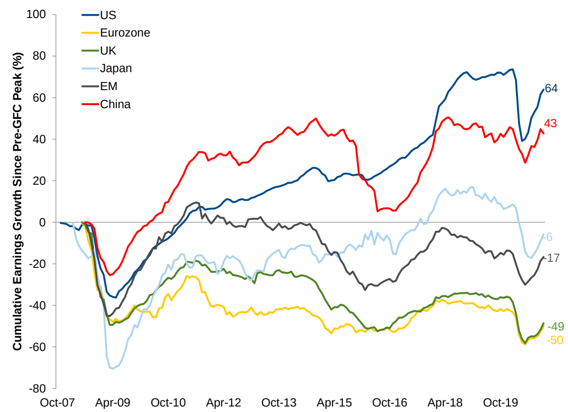
4. Global Manufacturing Cost-Competitiveness Index



5. Charges for the Use of Intellectual Property



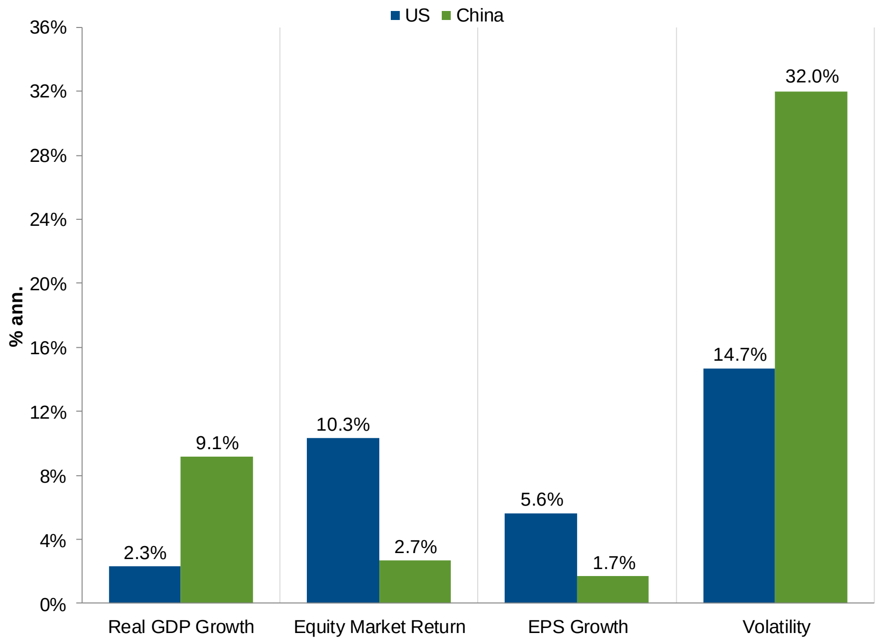
6. Earnings Growth since Pre-GFC Peak



Sources: Investment Strategy Group, Haver, Goldman Sachs Global Investment Research. BIS, Datastream, IMF, World Bank, United Nations Population Division, BCG.

US Preeminence (III)

1. Real GDP Growth and Equity Market Characteristics (%ann.)[1] – As of March 2021



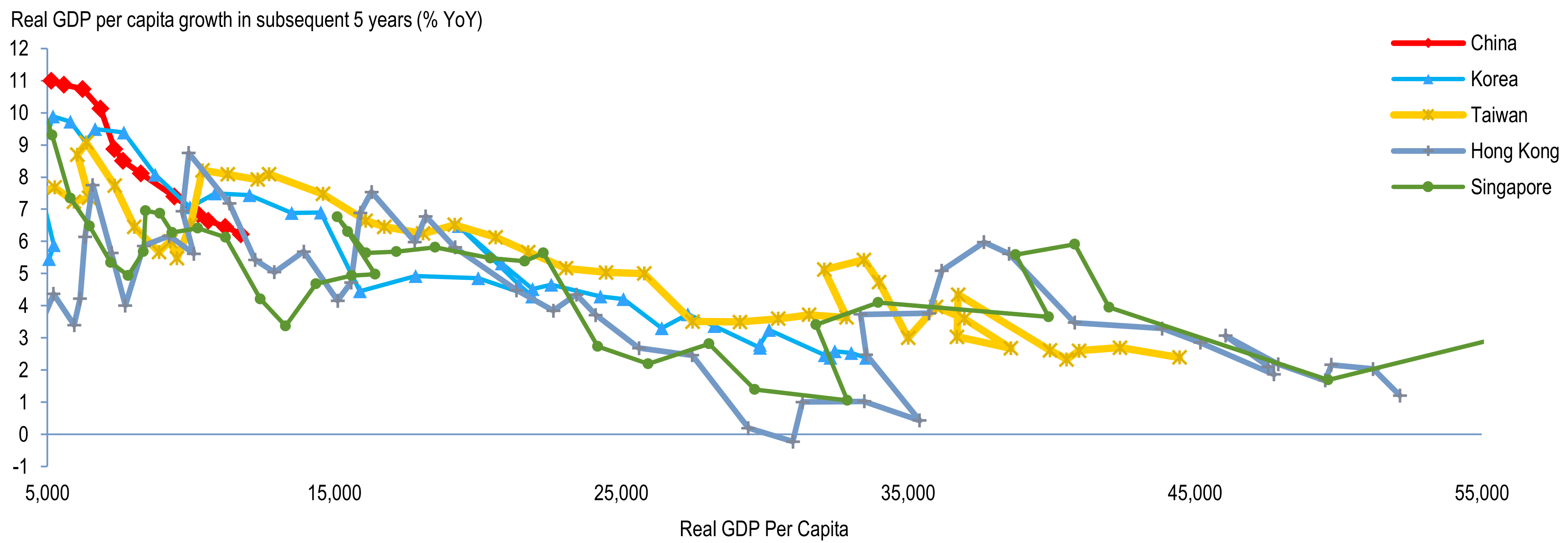
2. Large Chinese Companies and US and/or Israeli Predecessors

	Chinese Companies	US/Israeli Companies
E-Commerce	Alibaba (1999)	Amazon (1994)
	JD.com (1998)	eBay (1995)
	Pinduoduo (2015)	Groupon (2008)
Social Network	Tencent (1998)	Facebook (2004)
Instant Messaging	Tencent OICQ/QQ (1998)	ICQ (1996)
Web Search	Baidu (2000)	Google (1998)
Smartphones	Huawei (1987)	Apple (1976)
	Xiaomi (2010)	
Streaming	iQiyi (2010)	Netflix (1997)
Microblogging	Sina Weibo (2009)	Twitter (2006)
Online Payments	Alipay (2004)	PayPal (1998)

(1) Based on data since inception of the MSCI China Index on 12/31/1992.
Source: Investment Strategy Group, Datastream, MSCI.

US Preeminence (IV)

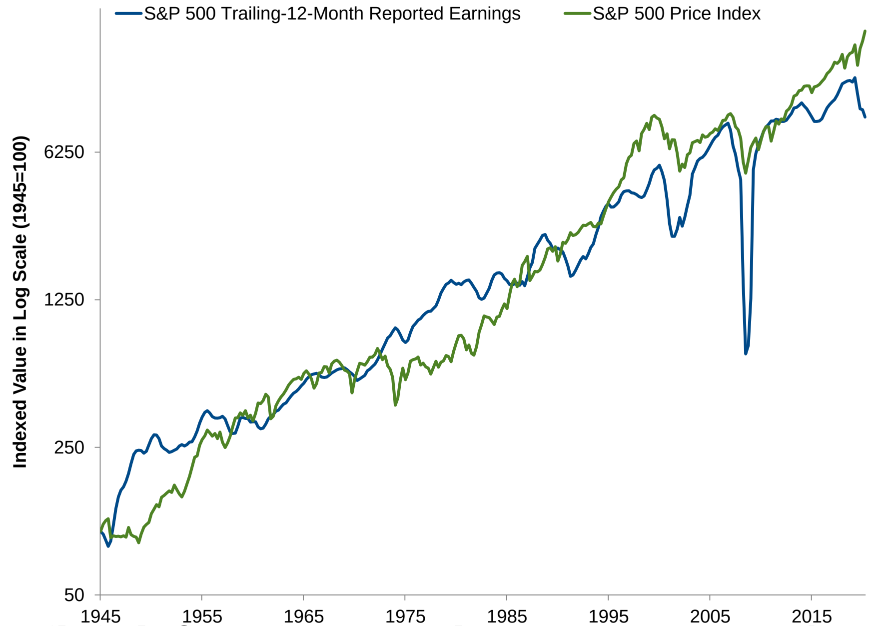
GDP Per Capita vs. Growth in Subsequent 5 Years



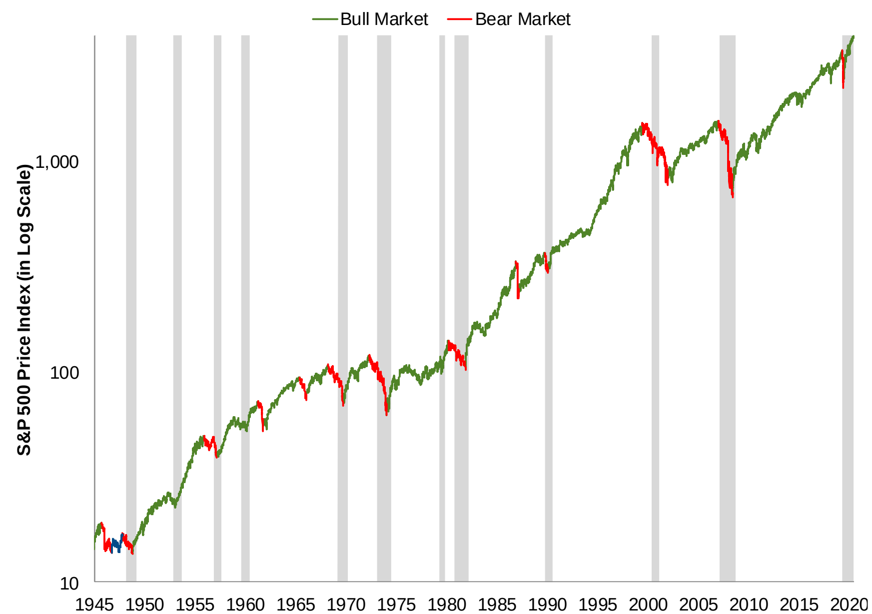
Source: Investment Strategy Group, Haver.

Stay Invested: The Hurdle to Underweight Equities is High Given the Upward Trend in the Earnings and Prices

1. S&P 500 Price Index vs. Earnings



2. S&P 500 Bull and Bear Markets Over the Post-WWII Period[1]

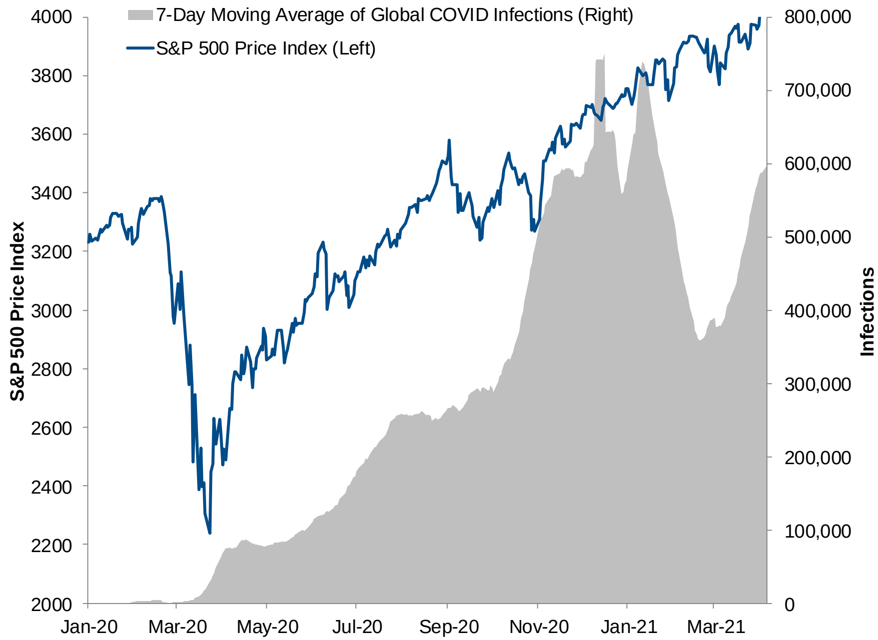


- **Tailwind of Earnings Growth:** S&P 500 companies have grown their earnings at a steady rate of 6% per year since WWII. Earnings also grow more often than not, as they have increased 69% of the time and declined 31% of the time since WWII.
- **Long-Term Trend of Prices:** Prices of US equities follow the path of corporate earnings in the long run. The correlation between 10-year price returns and 10-year earnings growth has been 0.50.
- **Asymmetry of Tactical Asset Allocation:** Overweighting equities when they are cheap has a greater probability of success than underweighting equities when they are expensive. Equities are an appreciating asset class whose earnings grow with the economy, and have always recovered from bear markets eventually, typically within two years, on average.
- We do not endorse a buy-and-hold investment strategy but instead recognize that the odds of success when underweighting equities is low unless valuations and the odds of recession are both excessively high, neither of which apply today.

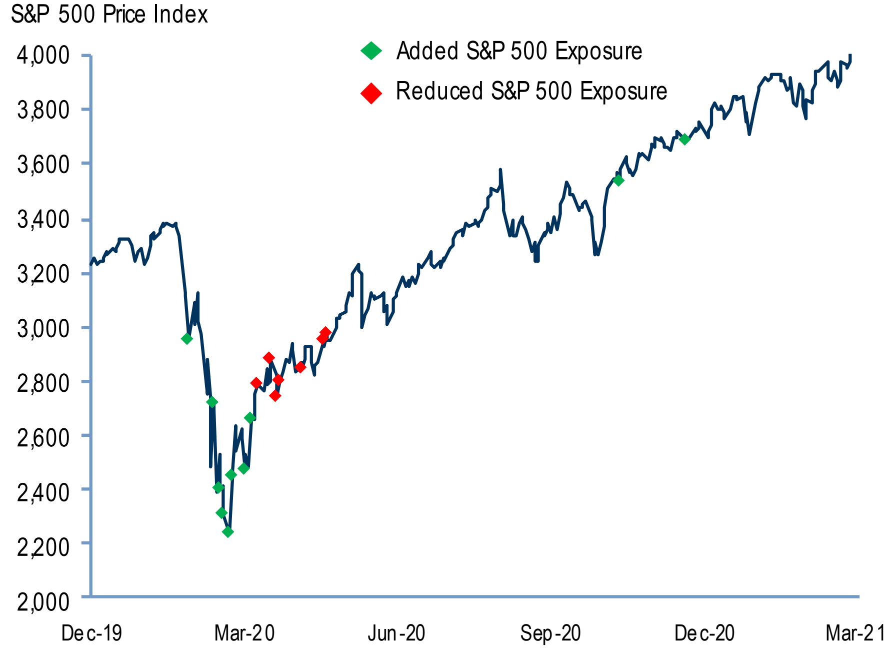
(1) Shaded periods denote US recessions. 1947-1948 is colored blue because it was neither a bull nor a bear market.
Source: Investment Strategy Group, Bloomberg, S&P Global, Robert Shiller, NBER.

Financial Market Reaction to Catastrophes and Surprises is Unpredictable

1. S&P 500 Index Performance in the Context of COVID-19 Infections – Through April 5, 2021



2. S&P 500 Price Index and ISG Tactical Tilts[1] – Through April 6, 2021



- Shocks like pandemics, tsunamis and wars are inevitable, but since they cannot be predicted, it is best to ride them out.
- No equity investor would have predicted a US equity market return of 18% in 2020 in the face of nearly 20 million reported coronavirus infections and 345,000 fatalities, an estimated GDP decline of 3.5%, an estimated earnings decline of 17%, and about 11 million unemployed people in the US.
- Our strategy was to increase equity exposure as the S&P 500 became cheap enough to offer compelling value for a long-term investor and reduce it as prices recovered. All told, we recommended 19 tactical tilts on the S&P 500 last year.
- The recommendation for clients to rebalance their portfolios after they had deviated 5% from their strategic target was even more impactful, adding an incremental 1.9% returns to a moderate risk portfolio last year.

(1) Tactical tilts shown are only those published during the year 2020 related to the S&P 500.

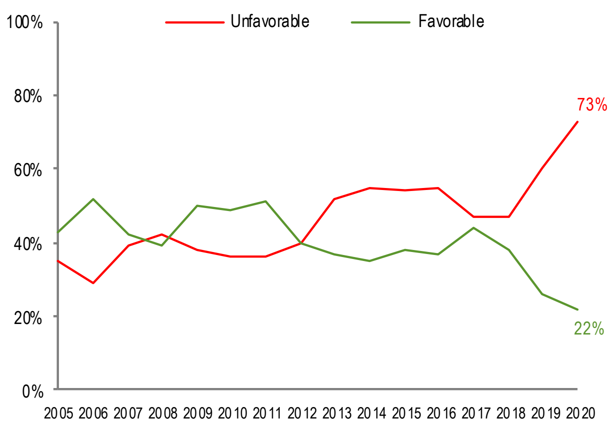
Source: Investment Strategy Group, Bloomberg, Datastream, WHO, National Health Commission of PRC, John Hopkins University, NEJM.

Risks to Our 2021 Outlook

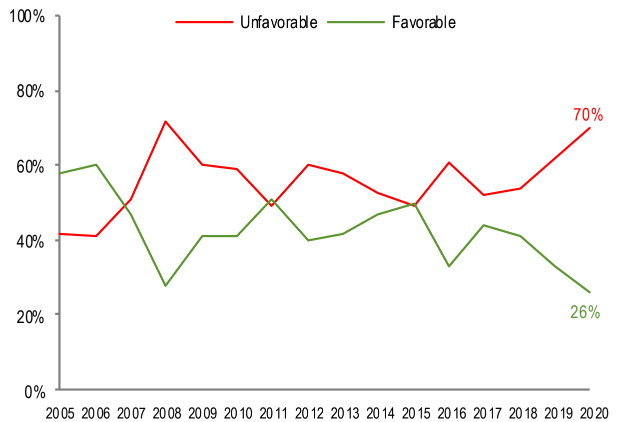
- COVID-19 Pandemic
- US-China Relations
- Geopolitical
- Cybersecurity
- Domestic Policies
- “Techlash”
- Recession

Western Developed Countries' Perception of China

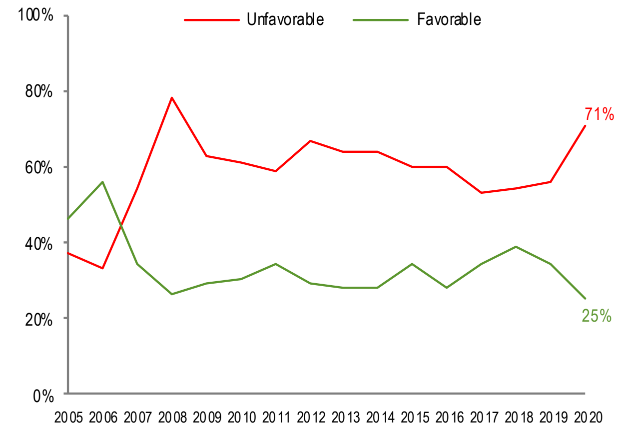
1. % of Americans Surveyed with Opinion



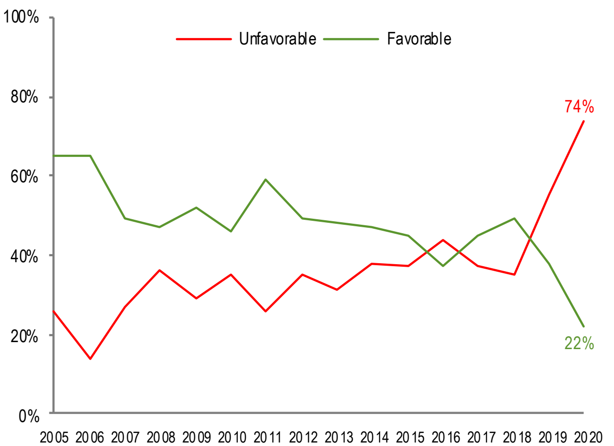
2. % of French Surveyed with Opinion



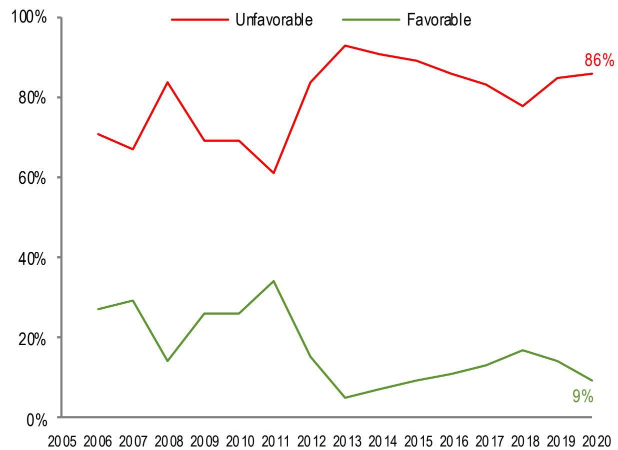
3. % of Germans Surveyed with Opinion



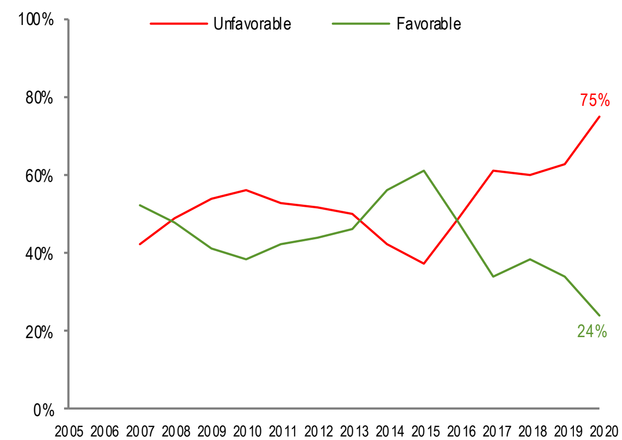
4. % of Britons Surveyed with Opinion



5. % of Japanese Surveyed with Opinion



6. % of Koreans Surveyed with Opinion



Data as of 2020. Note: 2020 survey was mid-year. All other years' surveys were as of the end of the year. Source: Investment Strategy Group, Pew Research.

Key Takeaways

- **Strong pickup in global growth:** We expect most countries to grow above trend as they recover from the pandemic-induced recession. The US and China will likely be the only two large economies whose GDP levels at the end of 2021 will be higher than in 2019.
- **Accommodative monetary and fiscal policy: :** Among those in developed economies, we expect the US Federal Reserve to be the first to raise policy rates, but our base case is that the first such tightening is still some two and a half years away. In the US, the Biden administration is set to deliver more fiscal stimulus.
- **Low risk of recession:** We have assigned a 10% risk of recession in the US and globally over the next year.
- **Abundance of risks:** The two greatest risks we face are a worsening of the pandemic and a deterioration in US-China relations.
- **Attractive portfolio returns:** We expect moderate-risk and well-diversified portfolios to return just under 6% in 2021, driven by 8–10% return from US and non-US equities and modestly negative returns in high-quality fixed income securities.
- **Stay invested:** While the margin of safety has declined given current high valuations in equities, we recommend clients stay invested at this time. We believe we are in the nascent stage of a multiple-year economic expansion that supports mid-single-digit annualized equity returns that are superior to cash and bonds.
- **US preeminence is intact**, supported by economic strength, abundant natural resources, human capital advantages, and a vibrant, innovative and efficient private corporate sector.

Source: Investment Strategy Group.

Appendix

Global Equities: Sector Composition

Sector Composition (% of Index Market Cap) – As of April 2, 2021

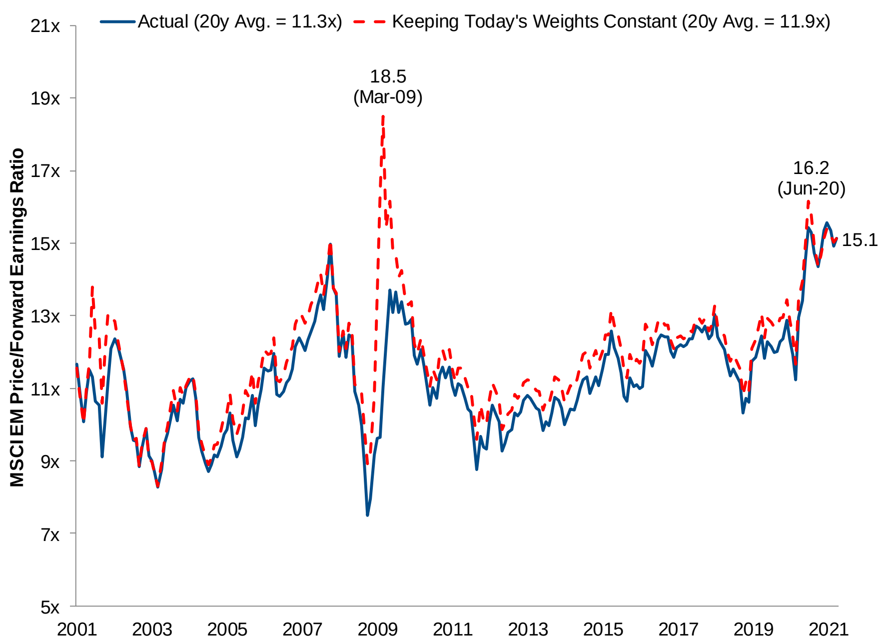
Sector	S&P 500	MSCI EAFE		MSCI EM	
		Weights	Difference vs S&P 500	Weights	Difference vs S&P 500
Communication Services	11.0%	5.3%	-5.7pp	12.0%	1.0pp
Consumer Discretionary	12.4%	12.8%	0.4pp	17.8%	5.4pp
Consumer Staples	6.1%	10.2%	4.1pp	5.6%	-0.5pp
Energy	2.8%	3.3%	0.4pp	4.8%	1.9pp
Financials	11.3%	17.3%	5.9pp	18.0%	6.6pp
Health Care	12.8%	11.9%	-0.9pp	4.5%	-8.4pp
Industrials	8.8%	15.5%	6.7pp	4.3%	-4.5pp
Information Technology	26.9%	9.1%	-17.8pp	21.1%	-5.8pp
Materials	2.7%	7.9%	5.3pp	8.0%	5.3pp
Real Estate	2.5%	3.1%	0.6pp	2.1%	-0.4pp
Utilities	2.6%	3.6%	1.0pp	2.0%	-0.7pp

- Compared with international equities, the S&P 500 is overweight information technology and underweight financials and commodities.

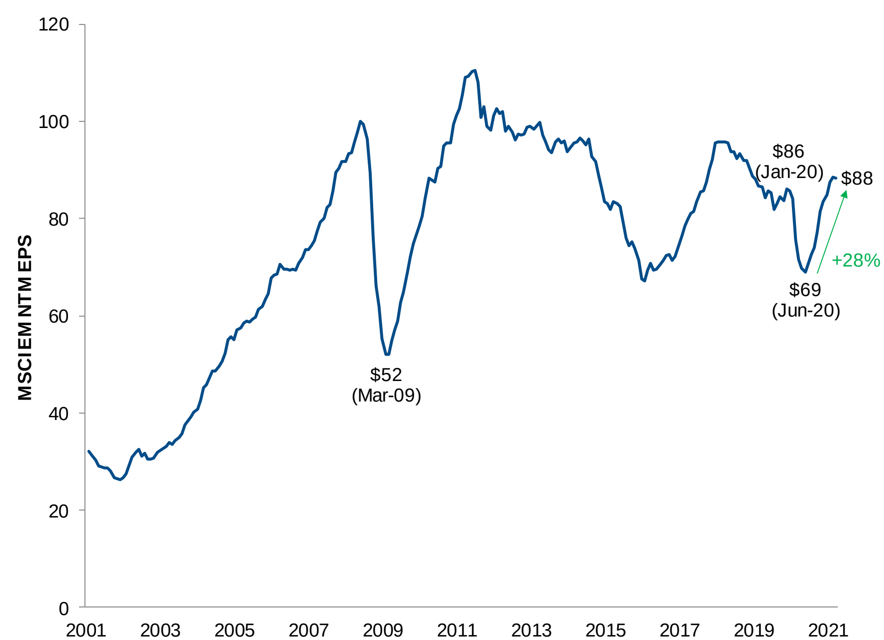
Source: Investment Strategy Group, Datastream, MSCI.

EM Equity Valuations Are Expensive Even When Adjusting for Today's Sector Composition

1. MSCI EM Price/Forward Earnings Ratio – Through April 2, 2021



2. MSCI EM NTM EPS – Through April 2, 2021



- Some investors argue that MSCI EM valuations *should* be expensive relative to history given the change in the index's sector composition over the last several years, with a larger weight in growth sectors such as info tech and consumer discretionary and a smaller weight in value sectors such as financials and commodities.
- That said, EM equity valuations still look very elevated even when taking that into account. The only other points in time over the last two decades when MSCI EM's P/E ratio was meaningfully more expensive than today were in March 2009 and June 2020, but that was entirely due to depressed earnings estimates—which is not the case currently.

Source: Investment Strategy Group, FactSet.

Presenter Biographies

Sharmin Mossavar-Rahmani
Partner, Head of the Investment Strategy Group (ISG) and CIO for the Consumer and Wealth Management Division
+1 (212) 902 – 2300

Sharmin is head of the Investment Strategy Group and chief investment officer for the Consumer and Wealth Management Division, responsible for the overall strategic asset allocation and tactical investment strategy. Sharmin joined Goldman Sachs as a partner in 1993. Prior to joining the firm, Sharmin worked at Fidelity Management Trust Company, where she was chief investment officer for all separate and co-mingled fixed income accounts. Sharmin is a member of the Board of Trustees and the Investment Committee of New York-Presbyterian Hospital and Harvard University's Global Advisory Board. She is a former member of the Board of Trustees, and former chair of the Investment Committee of the Trinity School in New York City. Sharmin has published two books, one on bond indexing and one on OPEC natural gas, as well as numerous articles on portfolio management issues. Sharmin earned a BA from Princeton University and an MS from Stanford University.

Lisa Rotenberg
Managing Director, Goldman Sachs Senior Coverage Responsibility for CRPTF
+1 (212) 902 – 7987

Lisa is a managing director with senior coverage responsibility for many of Goldman Sachs' largest institutional investors globally, and leverages her experience with portfolio solutions to advise clients. She has held many roles in the Asset Management Division (AMD) including serving as co-head of the US Public Fund business, co-head of the Corporate Pension business, and as global head of the Consultant Relations business. Lisa was named a Goldman Sachs managing director in 2003. She joined as a vice president in 1994. Prior to joining the firm, Lisa served as Minnesota's deputy state auditor representing the state auditor in all plan sponsor decisions related to the Minnesota State Board of Investment. She also served as Minnesota's chief deputy commerce commissioner with oversight responsibility for the securities, insurance, banking, and real estate industries. Prior to joining the Minnesota Department of Commerce, Lisa served as a special assistant attorney general for the State of Minnesota. She previously served on the Minnesota Governor's Task Force on Small Business Capital Formation. Lisa earned an AB in Government from Harvard University and a JD from the University of Minnesota Law School, where she also served on the Board of Advisors.

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The following table provides an example of the effect of management and incentive fees on returns. The magnitude of the difference between gross-of fee and net-of-fee returns will depend on a variety of factors, and the example has been simplified.

Period	Gross Return	Net Return	Differential
1 year	6.17%	4.61%	1.56%
2 years	12.72%	9.43%	3.29%
10 years	81.94%	56.89%	25.05%

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Important Information

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