

Perspectives from GSAM Strategic Advisory Solutions

MACRO VIEWS

CORONAVIRUS: The initial wave of vaccinations will likely bring about a sustained decrease in hospitalizations as elderly populations, which account for 50-60% of hospitalized patients in the US and UK, are vaccinated first. We expect large shares of developed market populations to be vaccinated by mid-2021, with the US approaching 50% in May.

GROWTH: The US economy now stands at 66% reopened, although retail and hospitality remain sensitive to COVID-19 restrictions. We expect the Biden administration's proposed COVID relief plan, the EU recovery fund, pent-up demand, and an accelerated vaccine rollout to bolster the recovery through relaxed restrictions and reductions in voluntary social distancing. In 2021, we expect the US and Euro Area to grow 6.6% and 5.4%, respectively.

POLICY: President Biden announced details of his \$1.9 trillion (8.6% of GDP) COVID-relief plan, which includes \$1,400 stimulus checks, expanded unemployment benefits, state aid, and public health funding. The plan could face hurdles in the Senate, as the 60 vote threshold would require the support of at least 10 Republican senators. Ultimately, we expect a stimulus package worth \$1.1 trillion (5% of GDP) to pass between mid-February and mid-March.

INFLATION: While significant policy easing is typically cause for inflationary concern, sizeable slack in the economy from depressed capacity rates and elevated unemployment levels will likely keep inflation contained in 2021. Although inflation is expected to receive a boost from base effects mid-year given COVID-driven weakness mid-last year, we anticipate this rise to be transitory, with US core PCE expected to end the year at 1.8%.

MARKET VIEWS

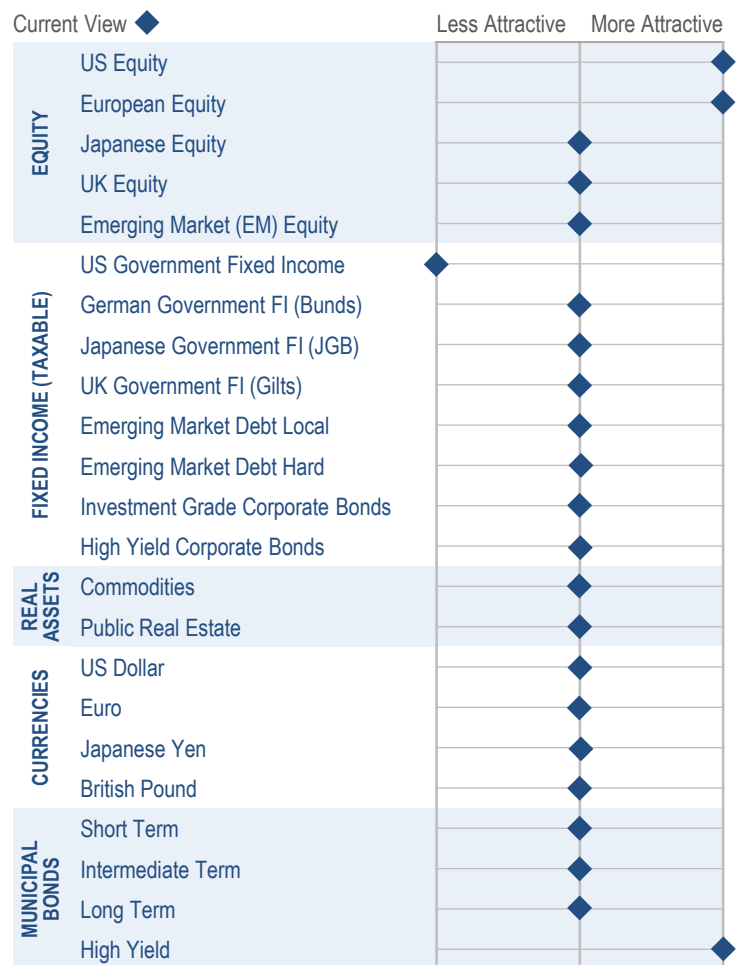
US EQUITIES: The equity momentum from 2020 should continue into 2021. Our expectation for more upside is supported by 1) above-trend, above-consensus global growth, 2) double-digit earnings catch-up, 3) limited structural imbalances and scarring effects, 4) a predictable, macro-guided Federal Reserve, and 5) a near-zero policy rate. Compositionally, earnings growth may drive returns more than valuation, as is common in expansionary phases.

CREDIT: Credit spreads across the quality spectrum have reverted back to pre-crisis levels, but we believe the improving default backdrop, carry potential, and low risk of excessive reflation should still attract investors looking for yield. Our preference for bank loans over HY is reinforced by the potential for further spread compression, lower duration, better loss recovery, and a possible capital flow rotation. In Europe, a stronger ECB "put" and more conservative balance sheet management should enhance credit quality relative to US credit.

FX: A weaker USD remains our base case, though a more moderate pullback should be expected. While market consensus may crowd the trade, we think selling pressure has been concentrated in tactical positioning so far. Surprises to the pace of vaccine recovery or growth expectations are risks to our view.

CRYPTOCURRENCIES: Speculative positioning in Bitcoin drove outsized return (300%) and volatility (67%) in 2020. A pick-up in retail and institutional participation reflects broader commercial acceptance as a form of payment and cash diversifier usage, respectively. While cryptocurrency adoption is gaining in popularity, we think its existence will likely feature alongside, rather than replace, deeply entrenched, liquid fiat currencies.

ASSET CLASS VIEWS¹



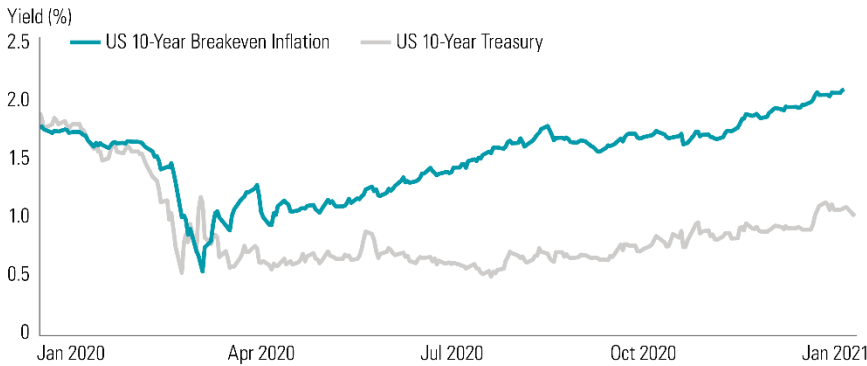
ASSET CLASS FORECASTS²

	Current	3m	12m	% Δ to 12m
S&P 500 (\$)	3714	3900	4300	15.8
STOXX Europe (€)	396	405	430	8.6
MSCI Asia-Pacific Ex-Japan (\$)	685	705	755	10.3
TOPIX (¥)	1809	1800	1940	7.3
10-Year Treasury	1.1	1.2	1.5	44.9 bp
10-Year Bund	(0.5)	(0.5)	(0.3)	21.4
10-Year JGB	0.0	0.0	0.1	5.3
Euro (€/\$)	1.21	1.25	1.28	5.4
Pound (£/\$)	1.37	1.42	1.45	5.6
Yen (\$/¥)	104.7	103	100	(4.5)
Brent Crude Oil (\$/bbl)	55.9	60.0	65.0	16.3
London Gold (\$/troy oz)	1864	2300	2300	23.4



DON'T FEAR THE RATE REAPER

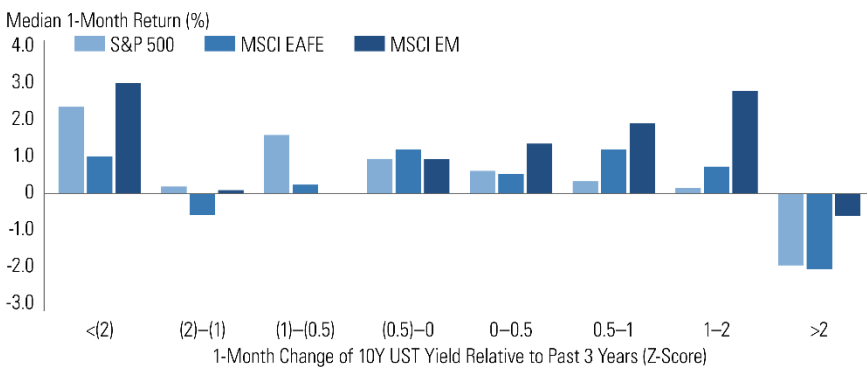
Forecasts for higher inflation and higher yields in 2021 pose potential headwinds to risk assets, but we would argue that the stronger growth outlook is the more important catalyst. With continued fiscal and monetary support and a vaccine-shaped recovery, we expect 2021 GDP growth of 6.6% in the US and 6.5% globally. As activity resumes, we expect the reflationary trends to continue, with the US 10-Year Treasury yield ending the year around 1.5% and core PCE inflation reaching 1.8%.



Source: Bloomberg and GSAM.

Inflation and nominal rates may move higher...

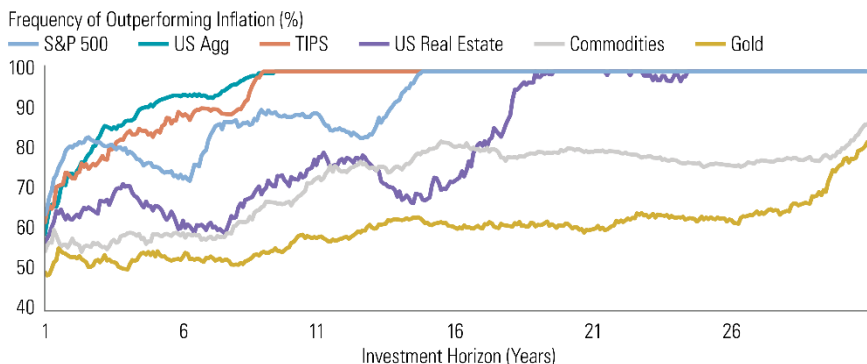
Inflation expectations (as measured by breakeven rates) and nominal rates dislocated last year as policymakers anchored nominal yields while breakeven inflation normalized higher. In 2021, we expect inflation and nominal rates to both edge higher in line with stronger growth expectations. This dynamic may drag on long duration assets, but is likely to support more 'reflationary assets' such as value and cyclical equities, as well as commodities.



Source: Bloomberg and GSAM.

...but the speed of change may matter more...

Historical data suggests that the 10-Year Treasury yield could reach 3.4% before it becomes a meaningful headwind to equity prices. Equities can usually digest rising bond yields as long as they come from low levels, happen gradually, and occur alongside better growth. However, a rapid rise could create speedbumps. An increase of more than two standard deviations in a given month, or approximately 32 basis points today, is typically when market volatility emerges.



Source: Bloomberg and GSAM.

...and portfolios often build in potential buffers

The building blocks of a basic portfolio may provide an effective reflation hedge. Core equities and fixed income have historically beaten inflation a majority of the time, and their track record only improves as the investment horizon is extended. Other assets such as TIPS or gold may garner interest, but we would remind investors of their associated challenges with duration, taxes, and funding. Rather than configuring part of a portfolio for inflation purposes, we believe in a long-term commitment to strategic asset allocation.

Top Section Notes: As of January 25, 2021. Breakeven inflation is the difference between the nominal yield on the 10-Year Treasury and the real yield on the 10-Year Treasury Inflation-Protected Security (TIPS). Middle Section Notes: As of December 31, 2020. Chart shows the median one-month return of different equity indices for a given Z-Score change in the 10-Year US Treasury yield. 'Z-Score' is a standardized measure for the number of standard deviations from the mean. Bottom Section Notes: As of December 31, 2020. Chart shows the historical frequency that different asset classes outperformed inflation, based on rolling monthly returns for 1-month to 30-year holding periods. Please see page 3 for additional disclosures. **Past performance does not guarantee future results, which may vary.**

Important Information

1. Asset Class Views for equities, credits, sovereigns, real assets, and currencies are provided by GSAM Multi-Asset Solutions. Views for municipal bonds are provided by GSAM Fixed Income. The views expressed herein are as of January 2021 and subject to change in the future. Individual portfolio management teams for GSAM may have views and opinions and/or make investment decisions that, in certain instances, may not always be consistent with the views and opinions expressed herein.
2. Price targets of major asset classes are provided by Goldman Sachs Global Investment Research. Source: "A global fund flow boom – and not just ESG" – 02/01/2021.

Page 1 Definitions:

Basis point (bps) refers to a common unit of measure for interest rates and other percentages. One basis point is equal to 1/100th of 1%, or 0.01%.

Brent crude oil is a common international benchmark for oil prices.

COVID-19 refers to the illness induced by the 2019 novel coronavirus.

ECB refers to the European Central Bank.

ECB "put" refers to the backstop-effect of the central bank.

EM refers to emerging markets.

FX refers to foreign exchange or currency markets.

GDP refers to Gross Domestic Product.

HY refers to high yield.

Inflation is a general rise in the price level in an economy over a period of time, resulting in a sustained drop in the purchasing power of money.

P/E refers to the price-to-earnings ratio.

US Core PCE refers to the Federal Reserve's preferred measure of inflation, the price index of personal consumption expenditures excluding food and energy.

USD refers to the US dollar.

Volatility is a measure of variation of a financial instrument's price.

Page 2 Definitions:

Commodities refers to the S&P GSCI Commodity Index is a composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

US Agg refers to the Bloomberg Barclays US Aggregate Bond Index, which represents an unmanaged diversified portfolio of fixed income securities, including US Treasuries, investment grade corporate bonds, and mortgage backed and asset-backed securities.

US Real Estate refers to the Dow Jones US Select Real Estate Securities Index that tracks companies that are both equity owners and operators of real estate in the US.

TIPS refers to the Bloomberg Barclays US Treasury Inflation-Linked Bond Index which measures the performance of the US Treasury Inflation Protected Securities (TIPS) market.

Glossary

The MSCI AC Asia Pacific ex Japan Index captures large and mid cap representation across 4 of 5 Developed Markets countries and 8 Emerging Markets countries in the Asia Pacific region.

The unmanaged MSCI EAFE Index (unhedged) is a market capitalization weighted composite of securities in 21 developed markets.

The MSCI Emerging Markets Equity Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

The S&P 500 Index is the Standard & Poor's 500 Composite Stock Prices Index of 500 stocks, an unmanaged index of common stock prices. The index figures do not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index.

The Tokyo Price Index (TOPIX) is a metric for stock prices on the Tokyo Stock Exchange (TSE). A capitalization-weighted index, TOPIX lists all firms that have been determined to be part of the "first section" of the TSE.

The 10-Year US Treasury Bond is a US Treasury debt obligation that has a maturity of 10 years.

Indices are unmanaged. The figures for the index reflect the reinvestment of all income or dividends, but do not reflect the deduction of any fees or expenses which would reduce returns. Investors cannot invest directly in indices.

Important Information

Risk Considerations

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Investments in fixed income securities are subject to the risks associated with debt securities generally, including credit, liquidity, interest rate, call and extension risk.

A 10-Year Treasury is a debt obligation backed by the United States government and its interest payments are exempt from state and local taxes. However, interest payments are not exempt from federal taxes.

The above are not an exhaustive list of potential risks. There may be additional risks that should be considered before any investment decision.

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Compliance code: 228408-OTU-1343393
Date of First Use: January 29, 2021

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