



Global Investment Research

The Goldman Sachs Group, Inc.

Growth vs Value and the shift to Alpha

June 2021

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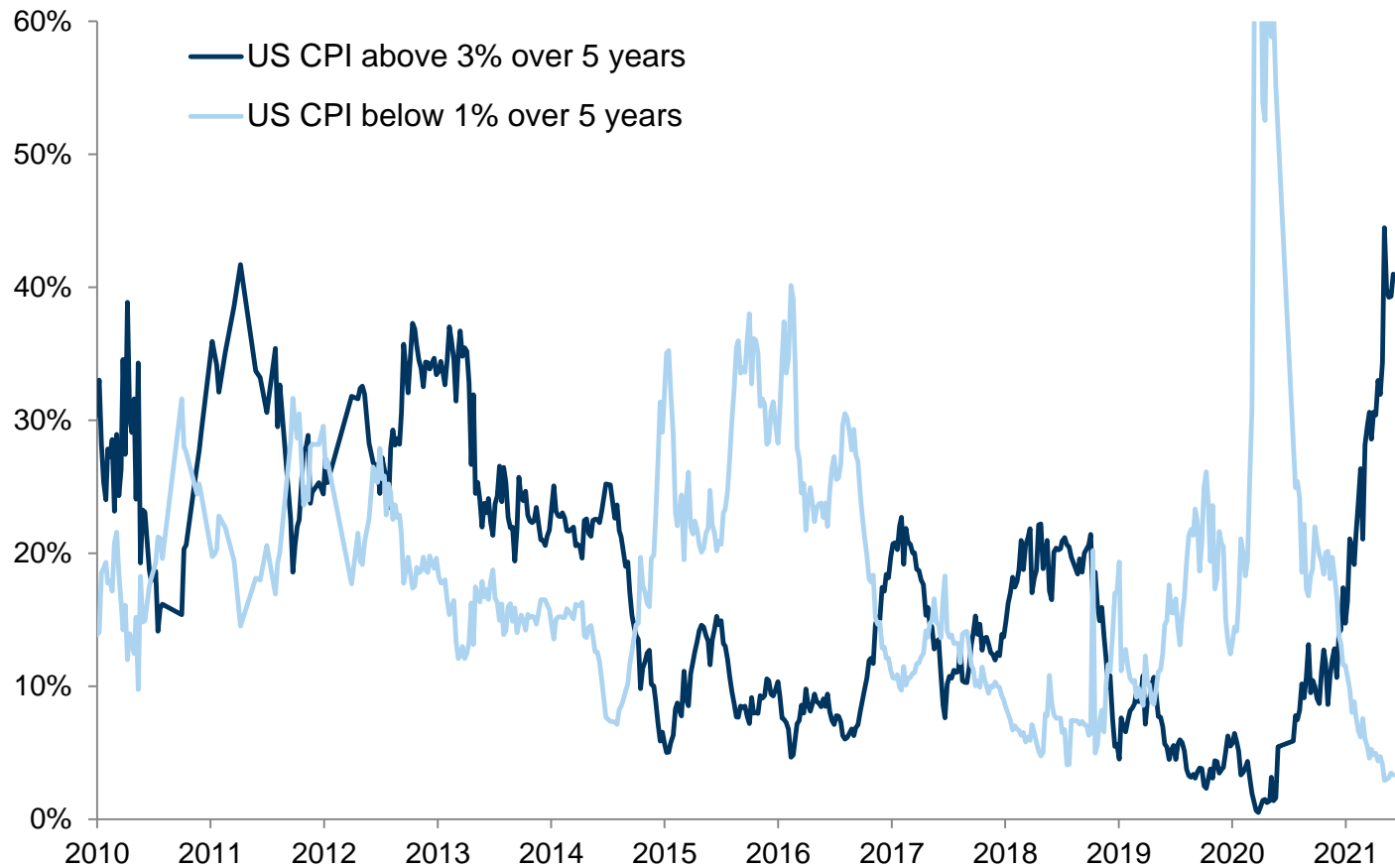
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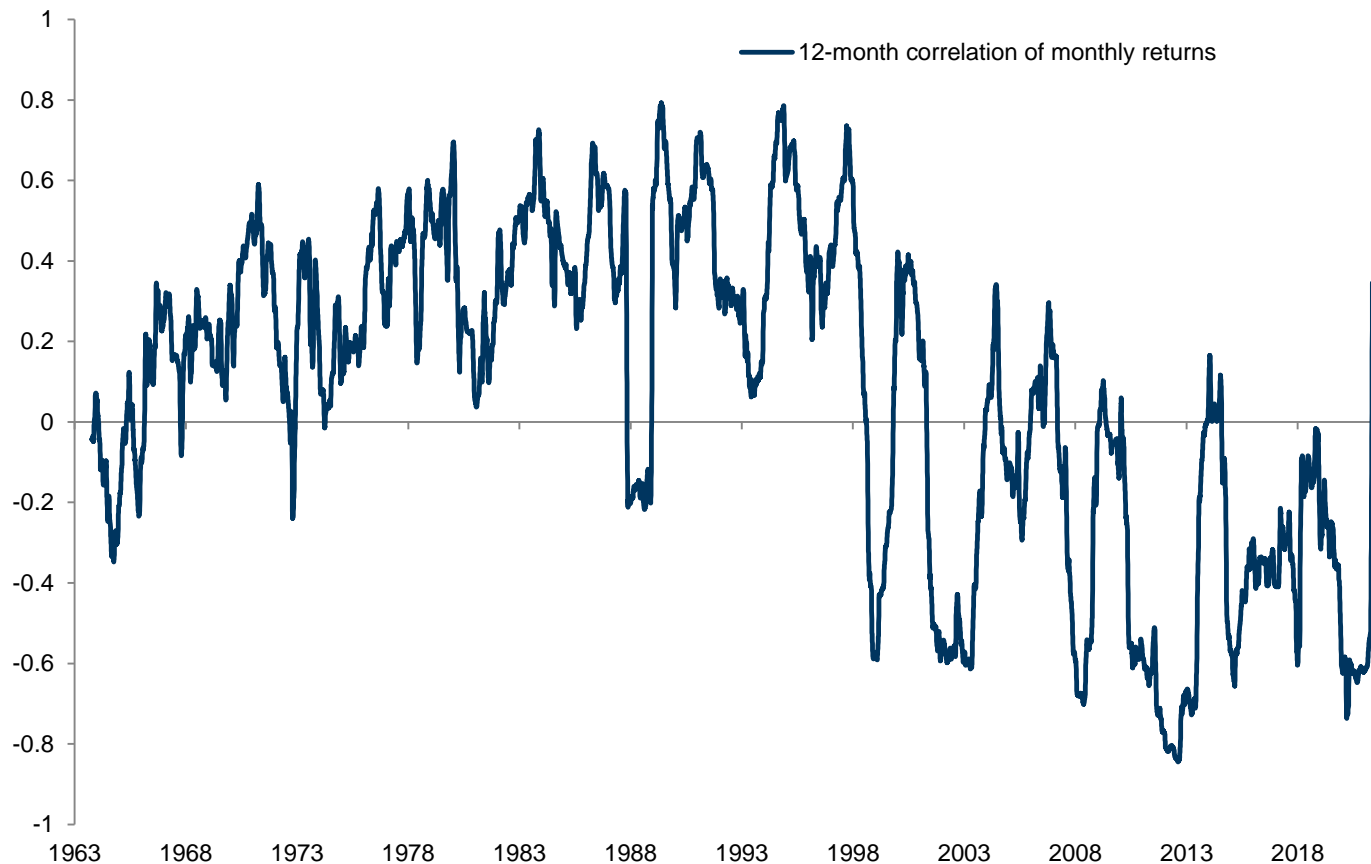
Perceived inflation risks rose recently

The market-implied probability of US inflation overshooting is at record highs
 Based on the probability density function of CPI inflation derived from caps and floors



The recent surge in Equity/Bond correlation is consistent with perceived inflation risks

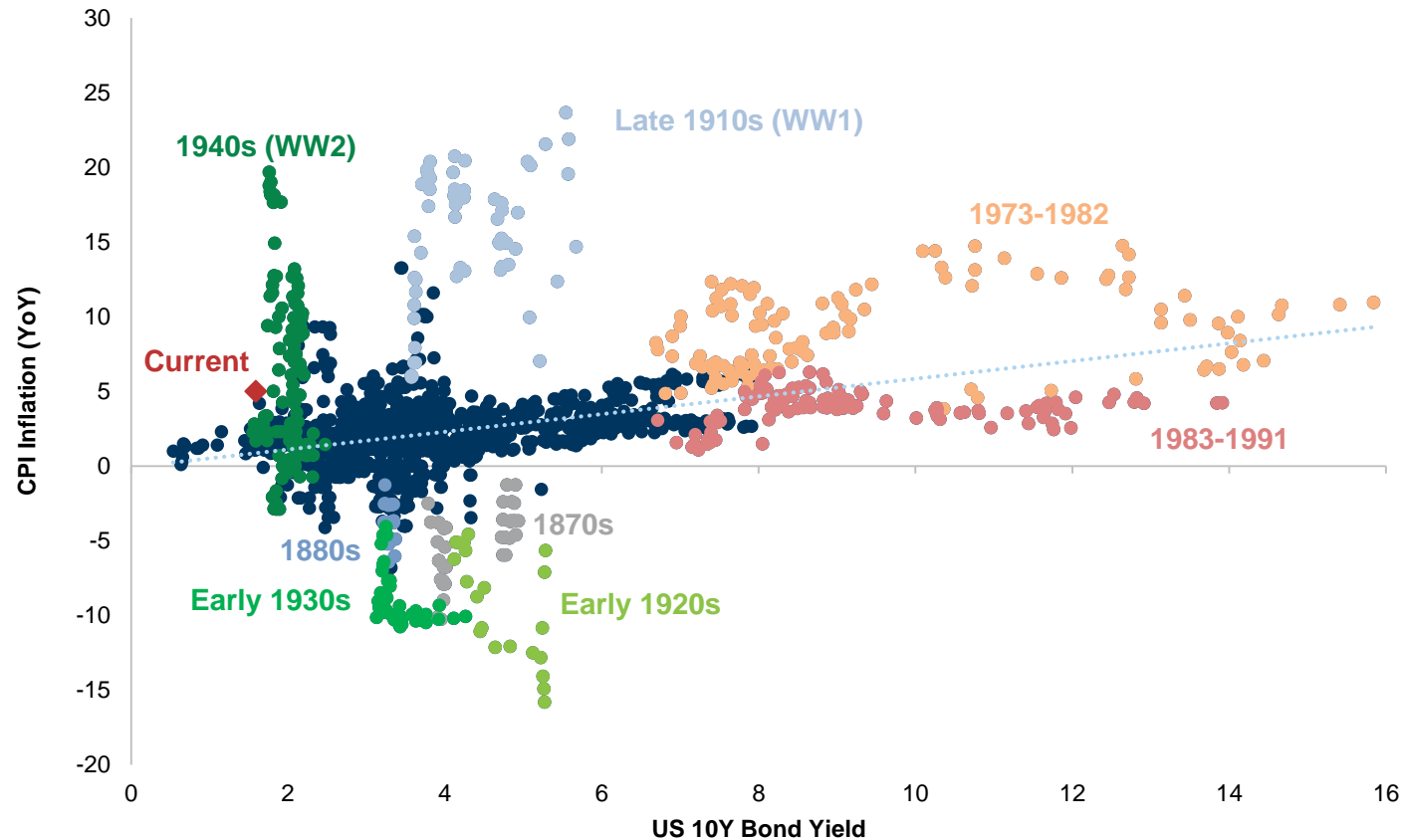
Equity/Bond correlation has turned positive
S&P 500 vs. US 10y Bond 12m correlation of monthly returns



Were inflation to continue to surprise on the upside, bond yields could catch up

In general, higher inflation is matched by higher bond yields, but different periods have shown that this trade-off is priced differently according to the perceived risks

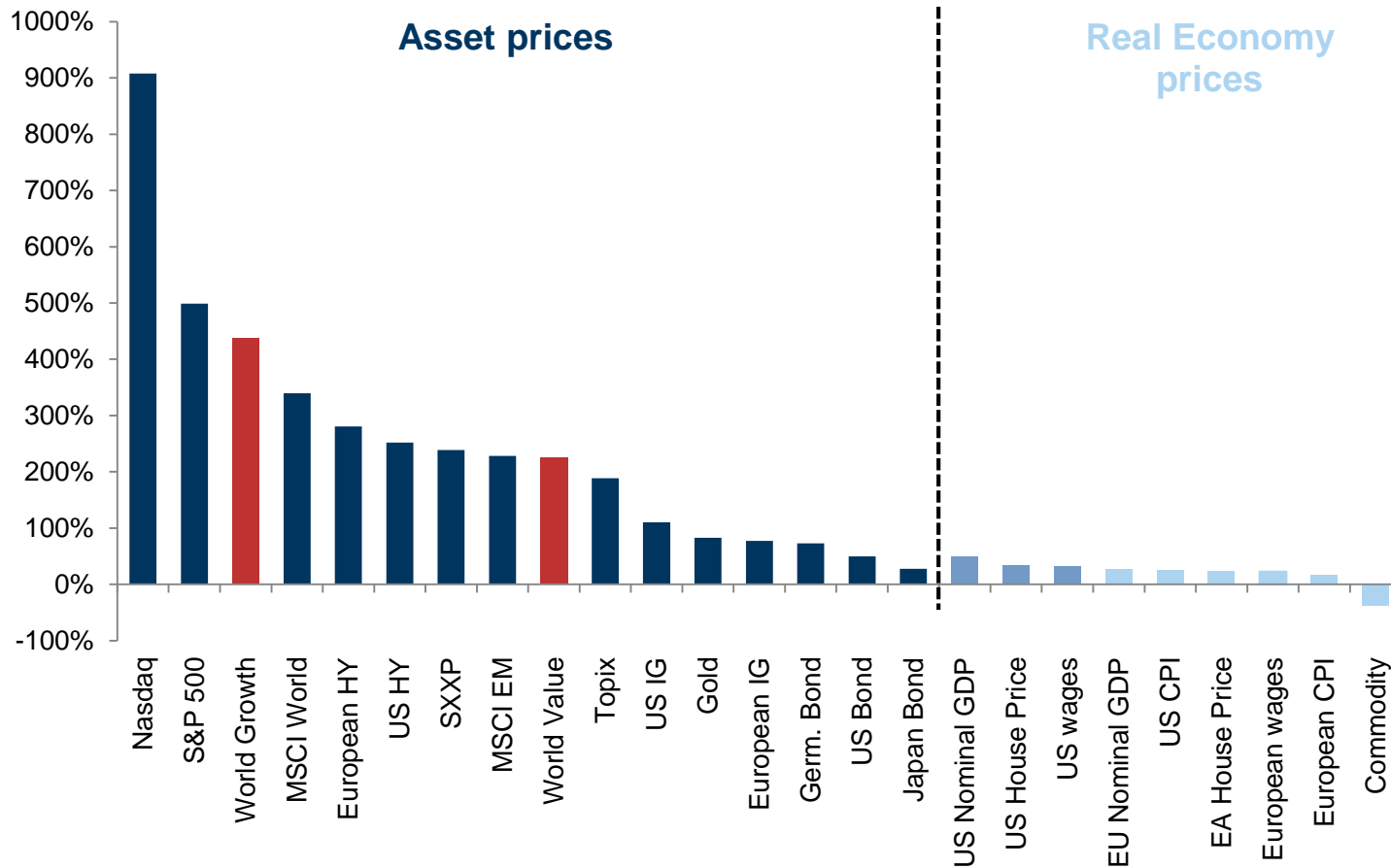
US CPI inflation (%) vs. US 10y bond yield (%)



Higher inflation has implications for rebalancing in the economy

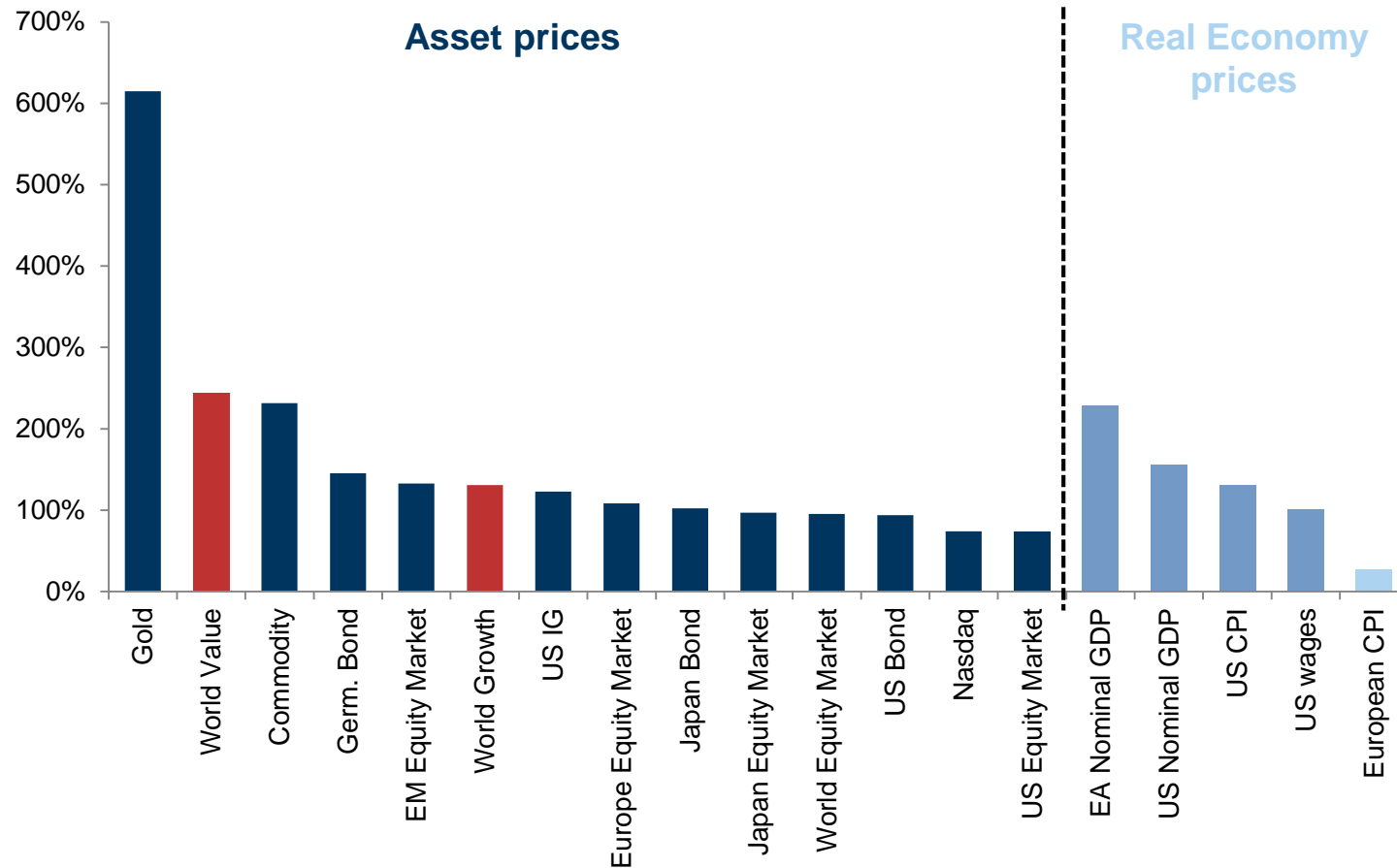
Wide dispersion between asset price inflation and 'real economy' inflation

Total return performance in local currency since January 2009



The 1970s saw a very different outcome for asset performance

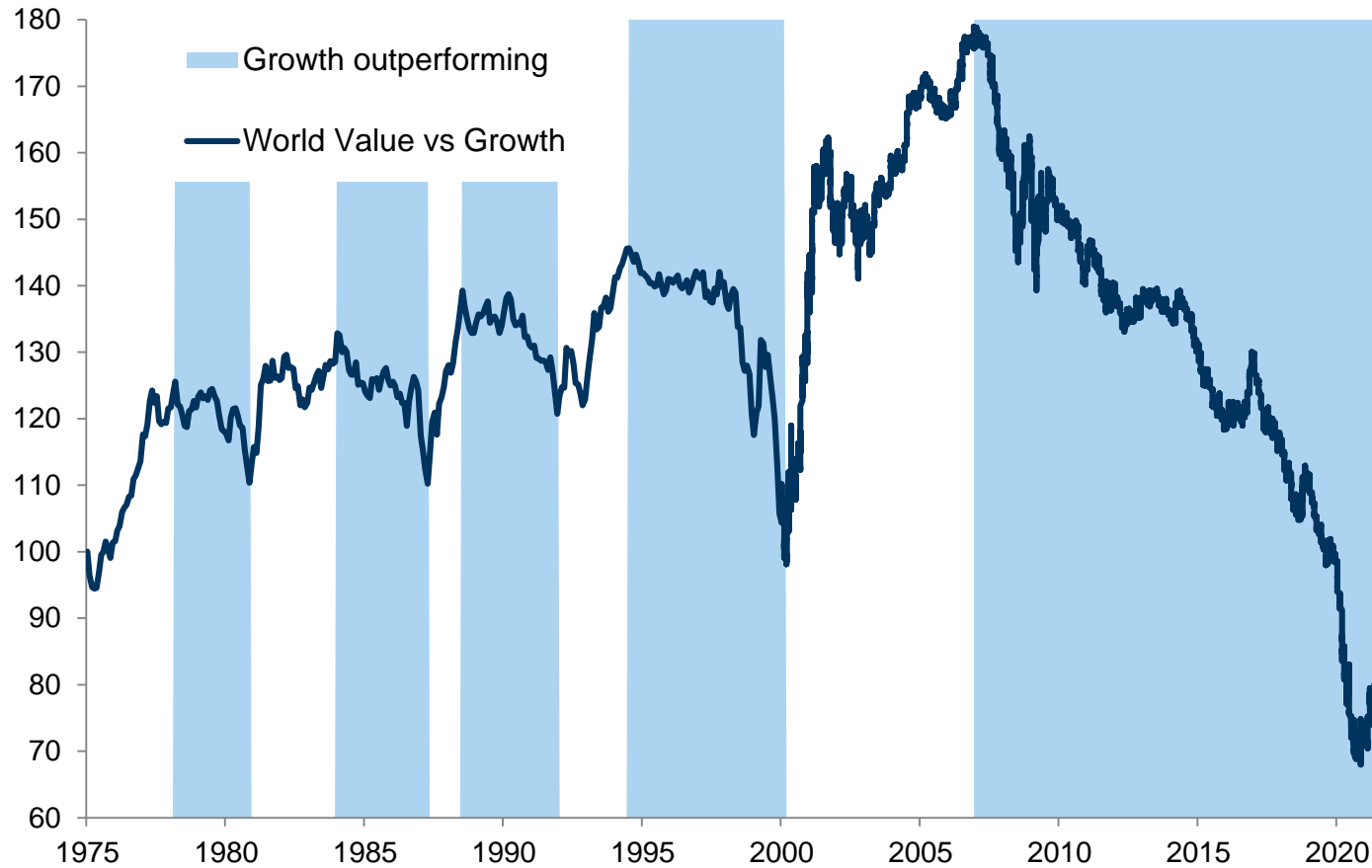
Asset price inflation and 'real economy' inflation during the 1973-1983 decade
 Total return performance in local currency



The secular underperformance of Value to Growth

Growth has outperformed since the GFC

MSCI Indices. Relative price performance in local currency*.

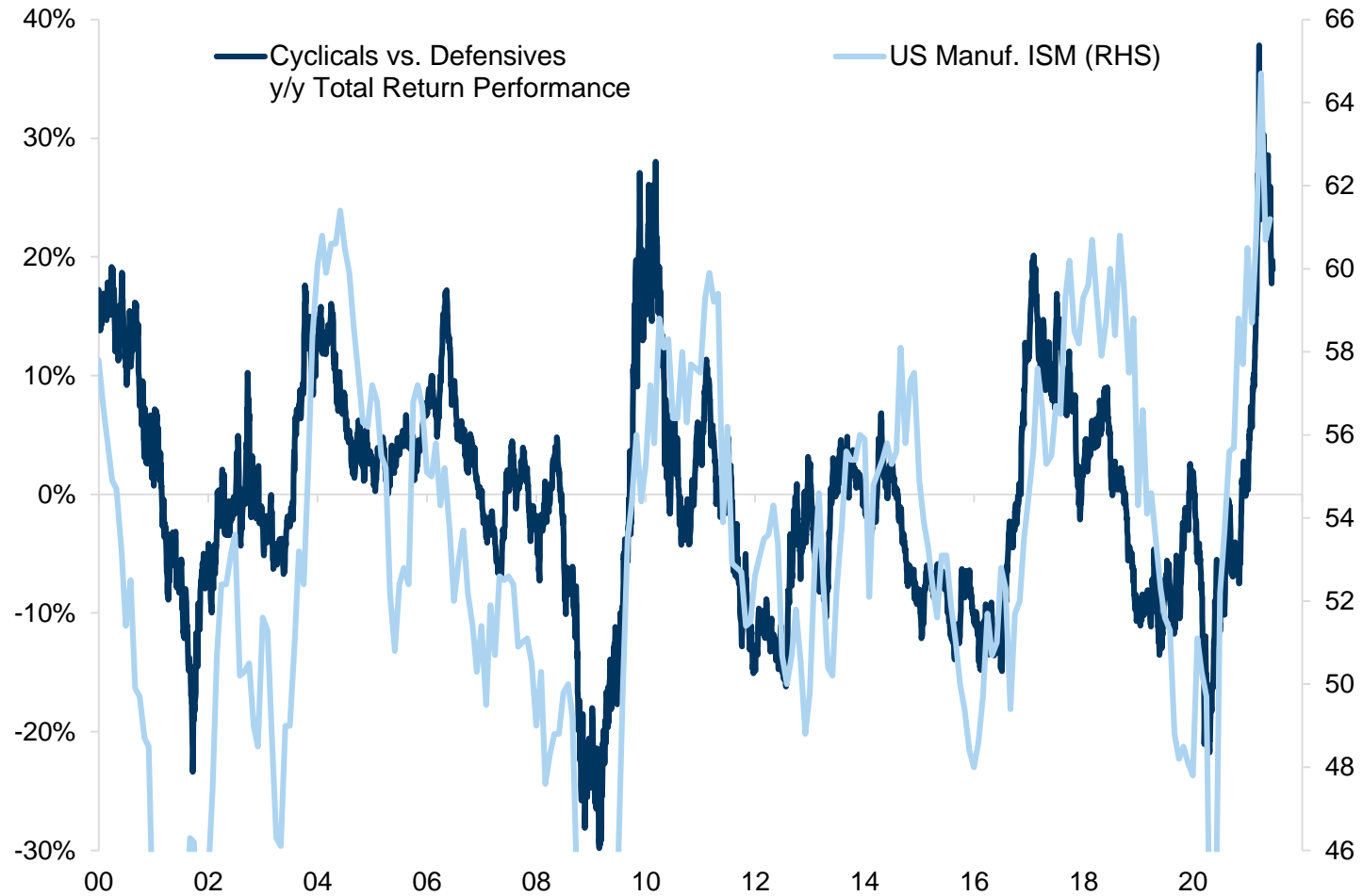


* Monthly Frequency until 2000. Daily Frequency from 2000 onwards.

The rebound in Cyclical has already moved in line with the ISM...

World Cyclical vs. Defensives have kept pace with US ISM

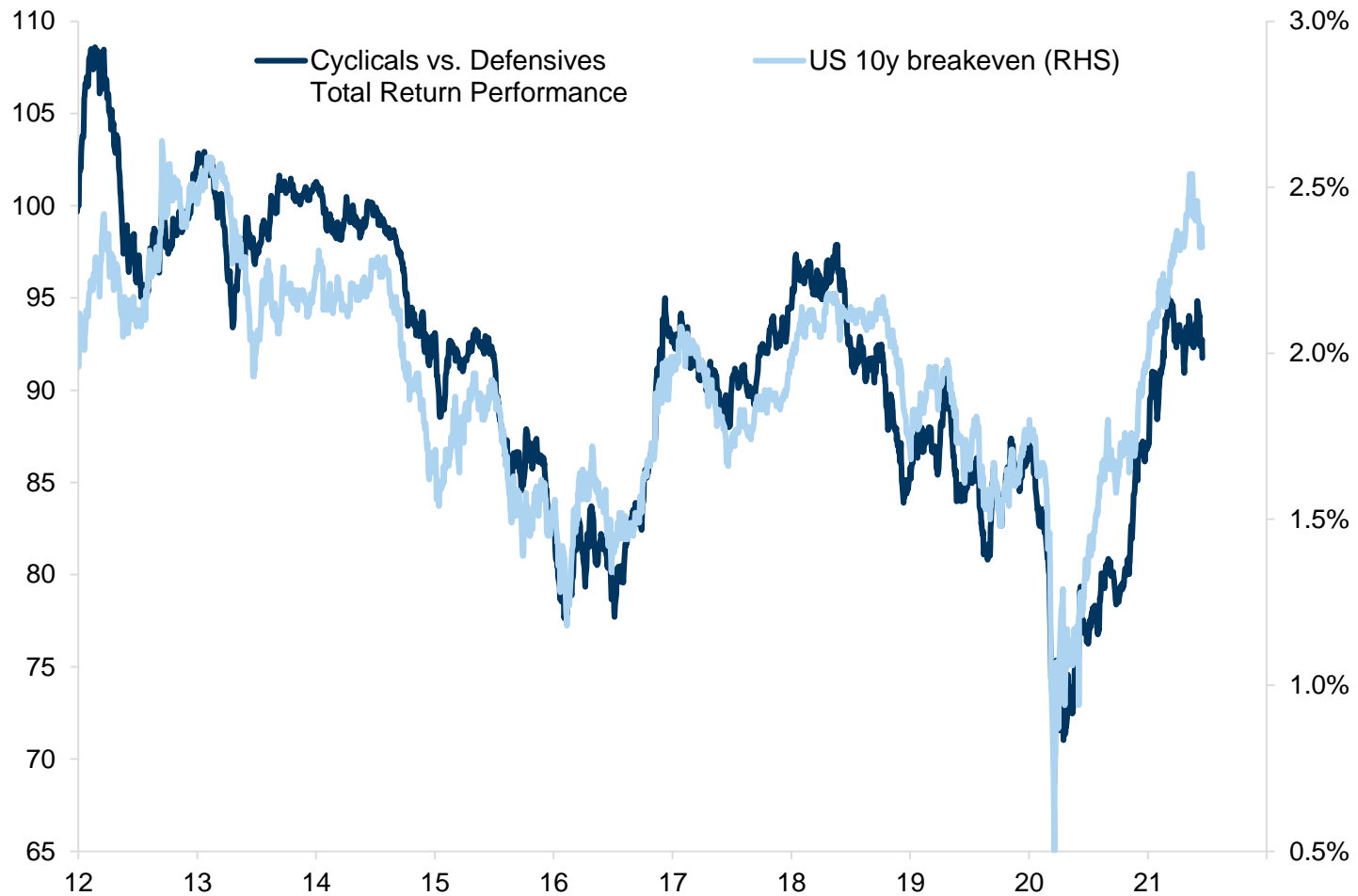
Global Cyclical basket (GSWDCYCL) vs. Global Defensives basket (GSWDDEFS)



... and with inflation

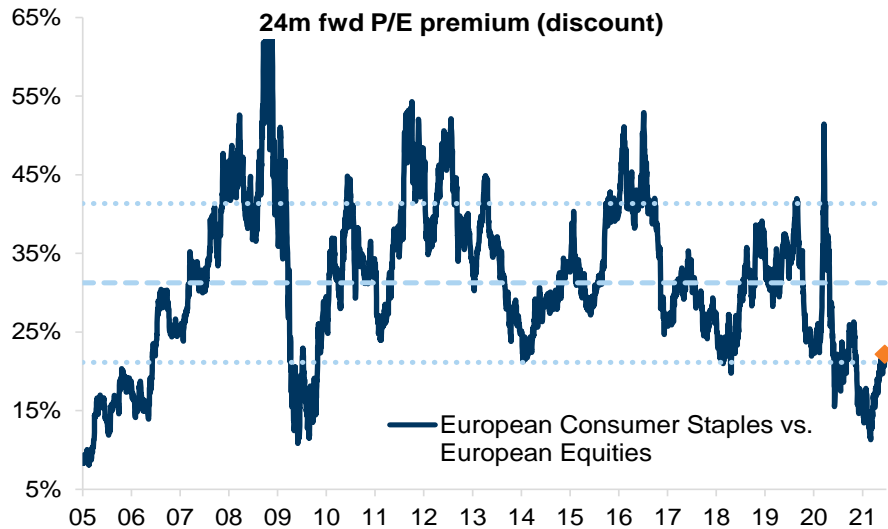
World Cyclicals have moved along with inflation expectations

Global Cyclicals basket (GSWDCYCL) vs. Global Defensives basket (GSWDDEFS)

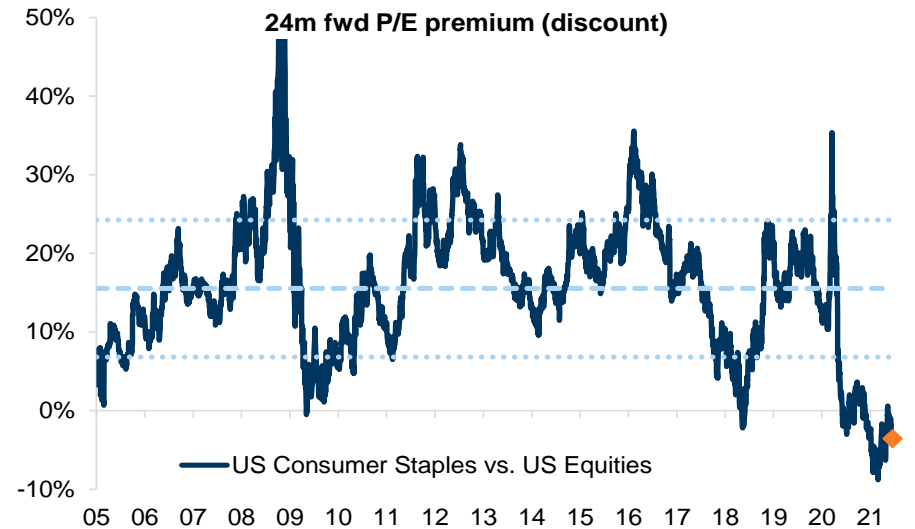


US & Europe Defensives relative valuation is also at historically low levels

Consumer Staples premium is at remarkably low levels in Europe

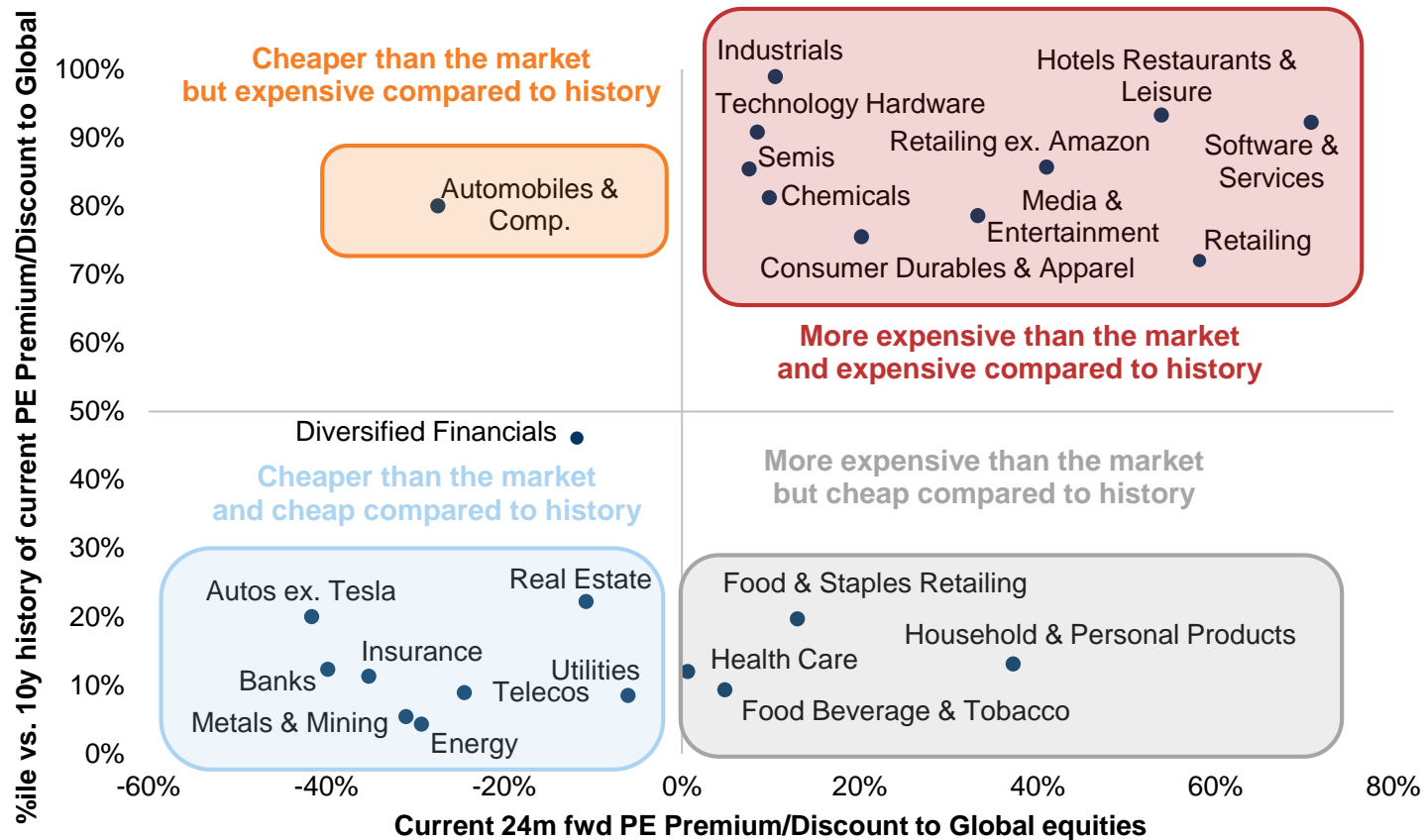


Consumer Staples premium is at a historically low level in the US



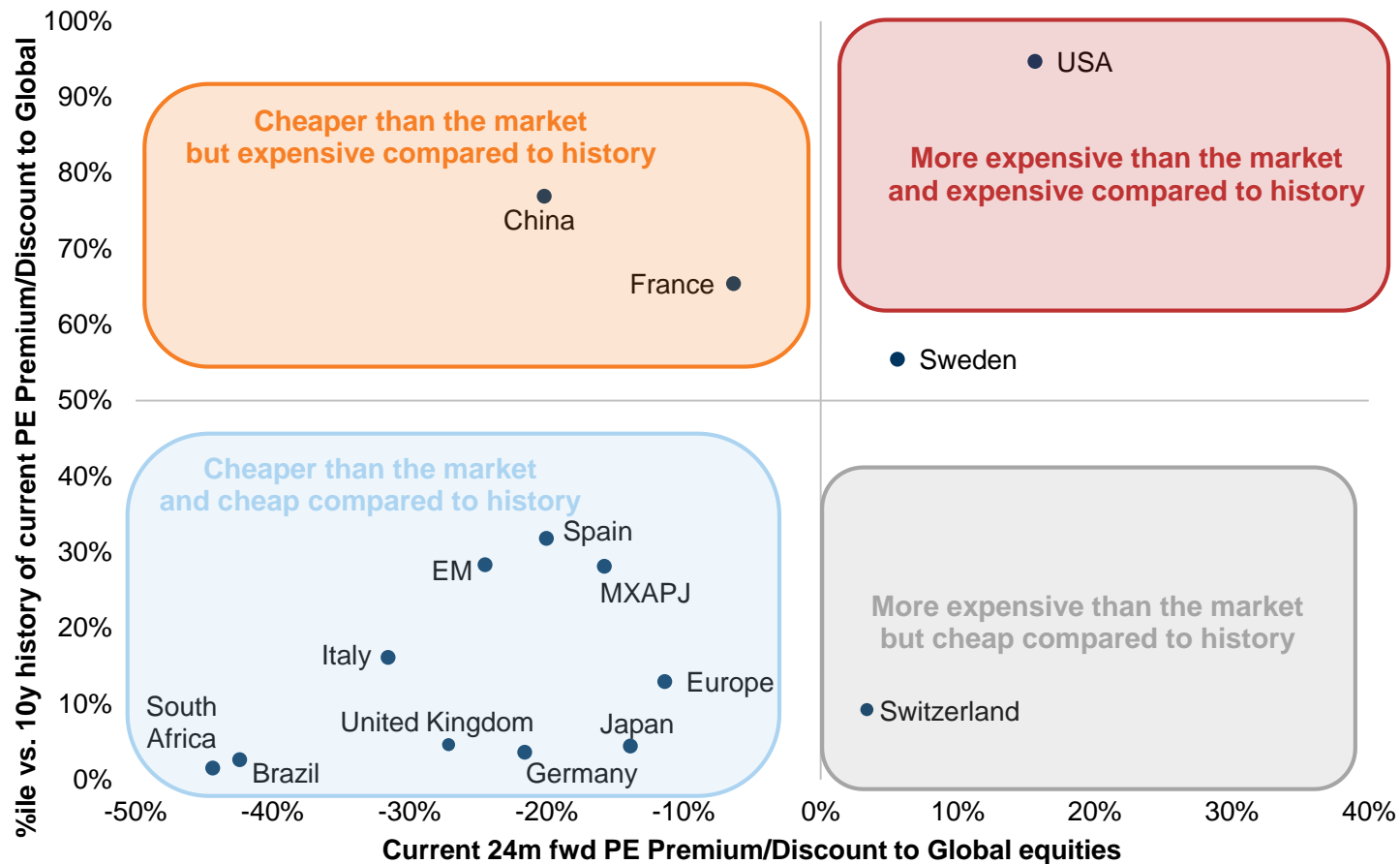
Cheap sectors compared to history look attractive as we move past peak growth

Some sectors look cheap compared with the market and their history



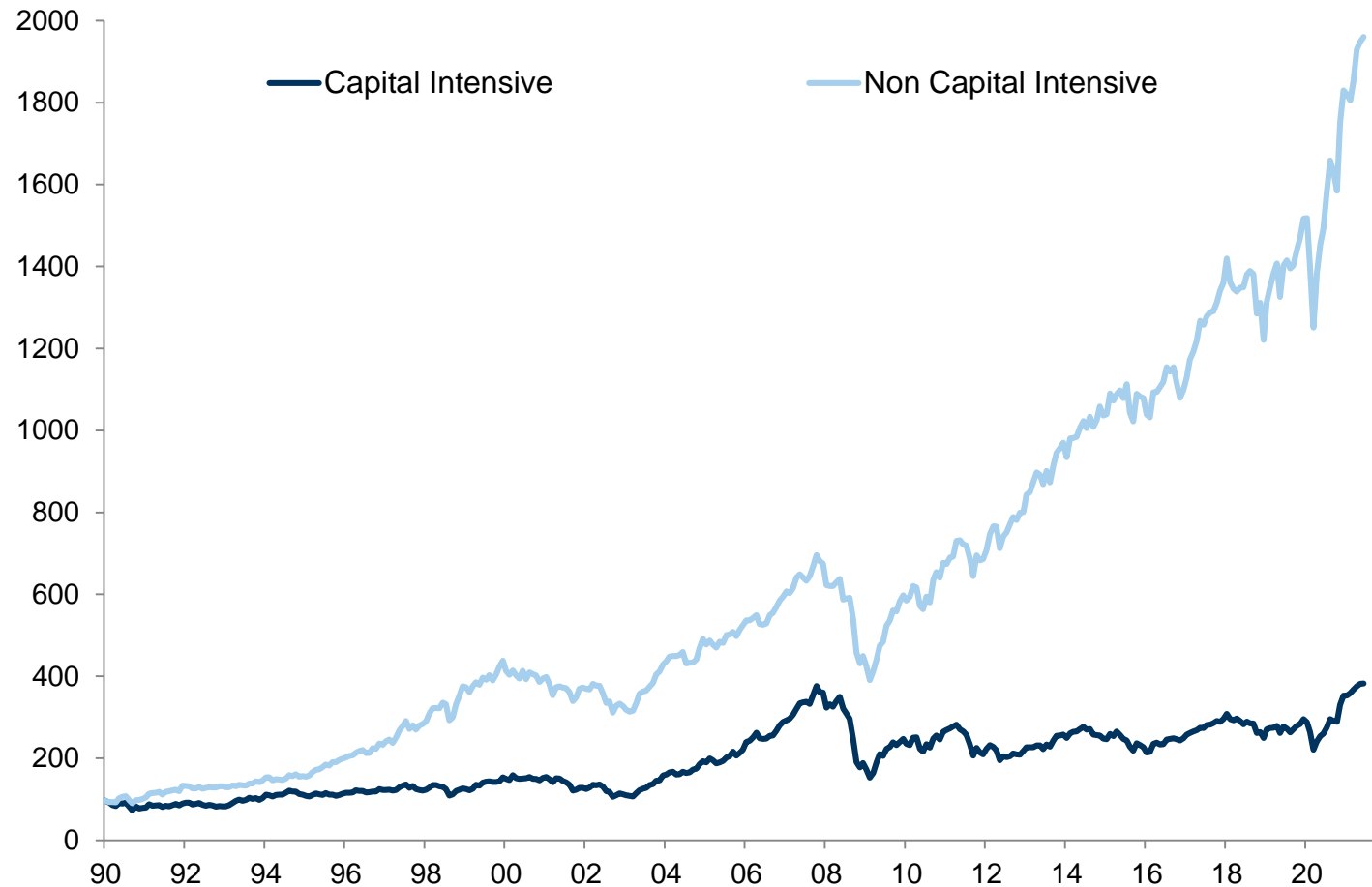
Value-orientated markets like the UK look cheap relative to the World and to their own history

The best opportunities are also in the value-orientated markets
MSCI indices



The past decade has rewarded low vs high capital-intensive industries

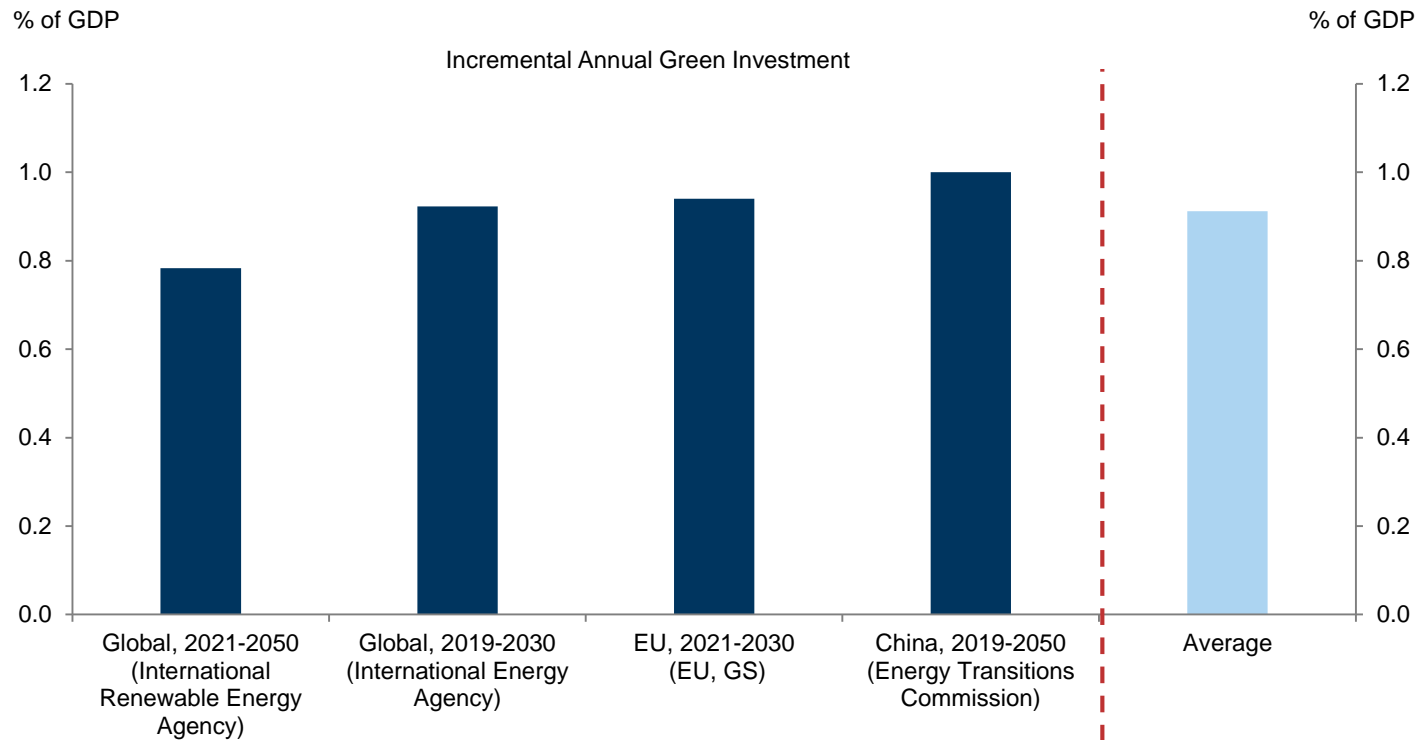
Capital-light* businesses have significantly outperformed those that employ heavy capital



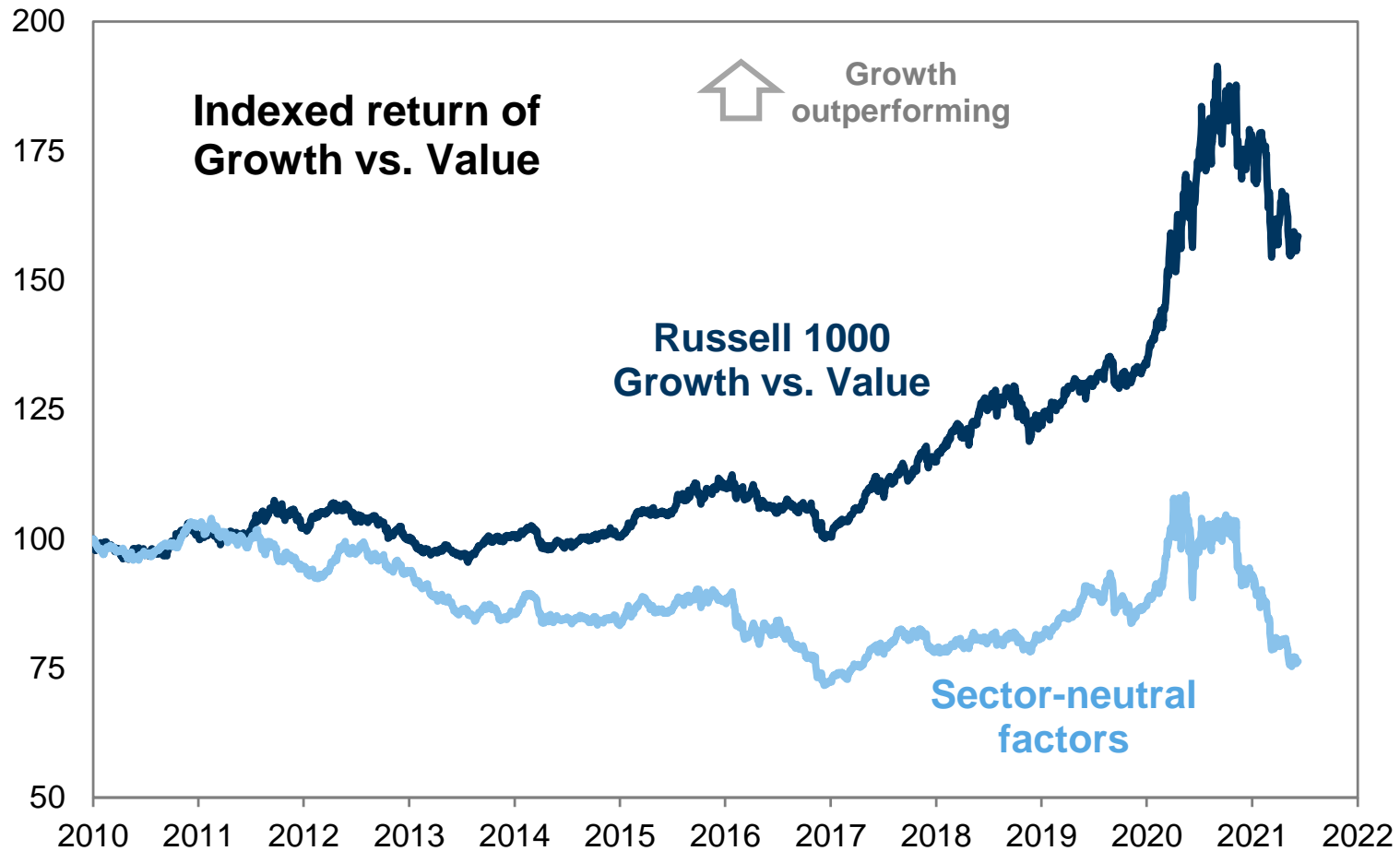
***Capital-intensive:** Electricity, Industrial Materials, Automobiles and Parts, Gas, Water and Multi-utilities, Industrial Metals and Mining, Telecommunications Service Providers, Leisure Goods, Construction and Materials, Oil Equipment and Services. **Non-capital-intensive:** Technology Hardware and Equipment, Medical Equipment and Services, Pharmaceuticals and Biotechnology, Household Goods and Home Construction, Beverages, Food Producers, Retailers, Tobacco, Software and Computer Services, Personal Goods

De-carbonisation investment plans are likely to boost GDP by roughly 1% over the next decade

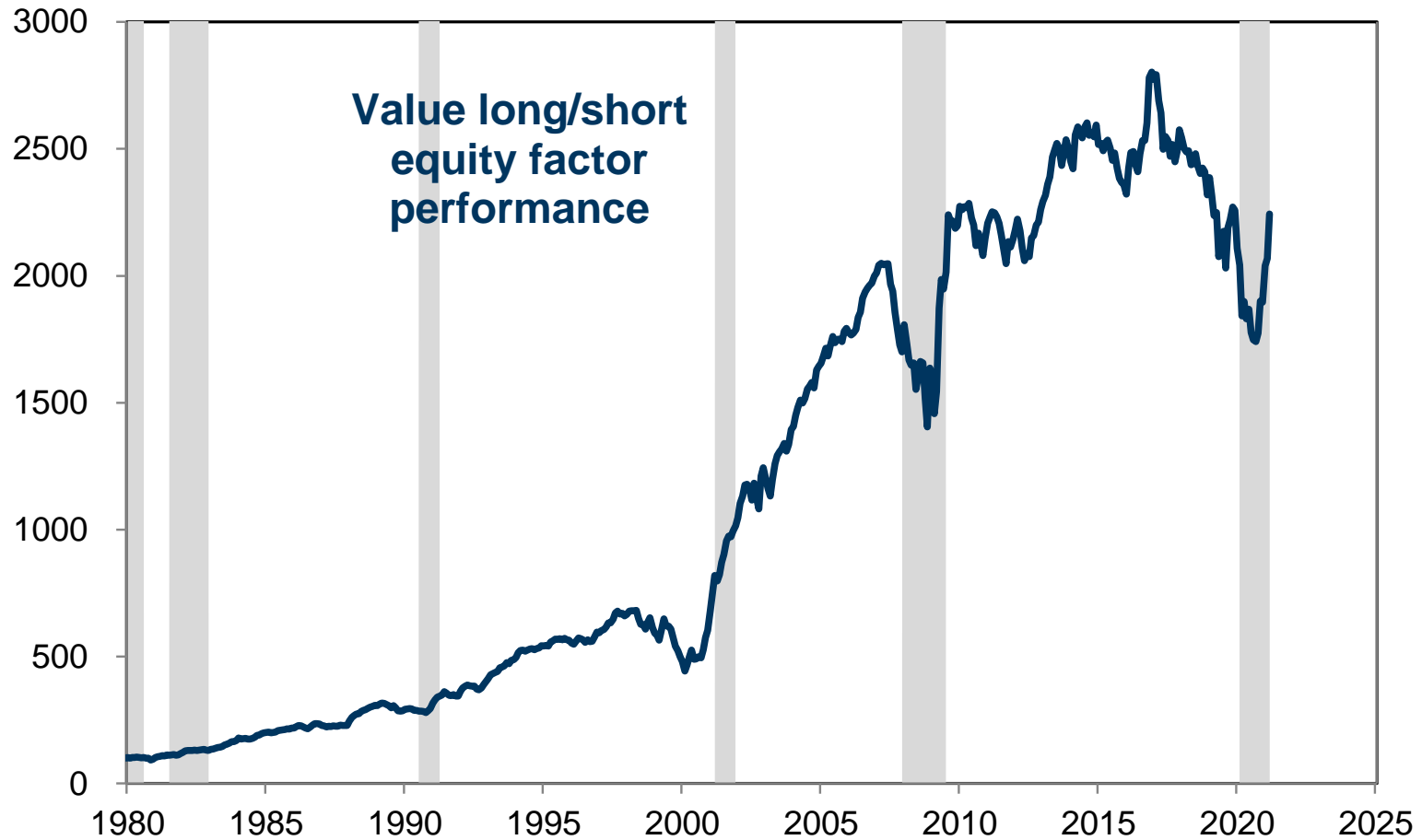
A Rise in Green Investment Demand Worth Nearly 1% of GDP



Growth has sharply underperformed since November

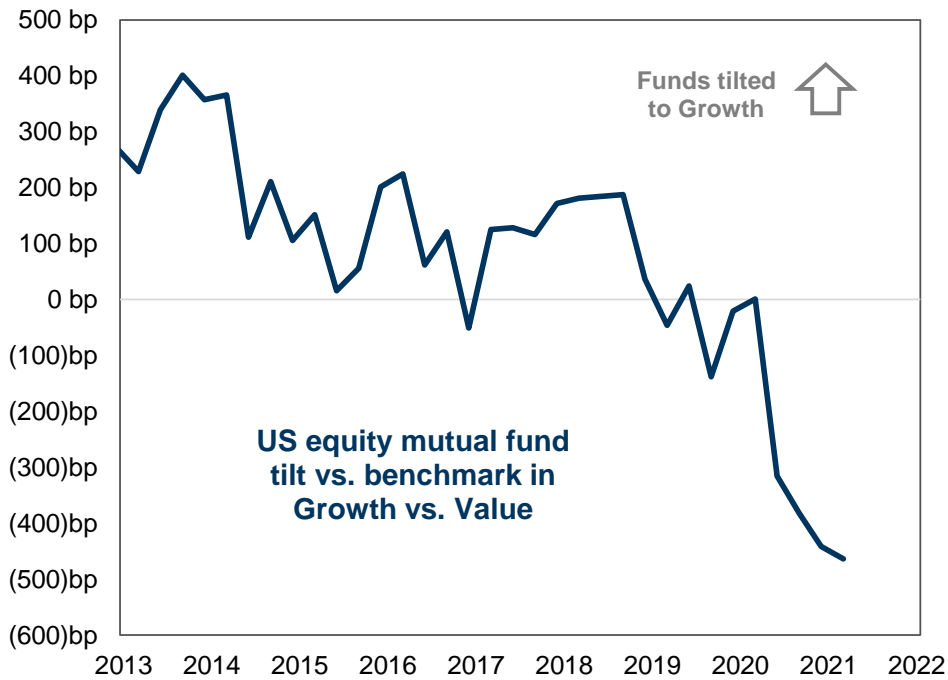


Value was a consistent winner prior to the GFC

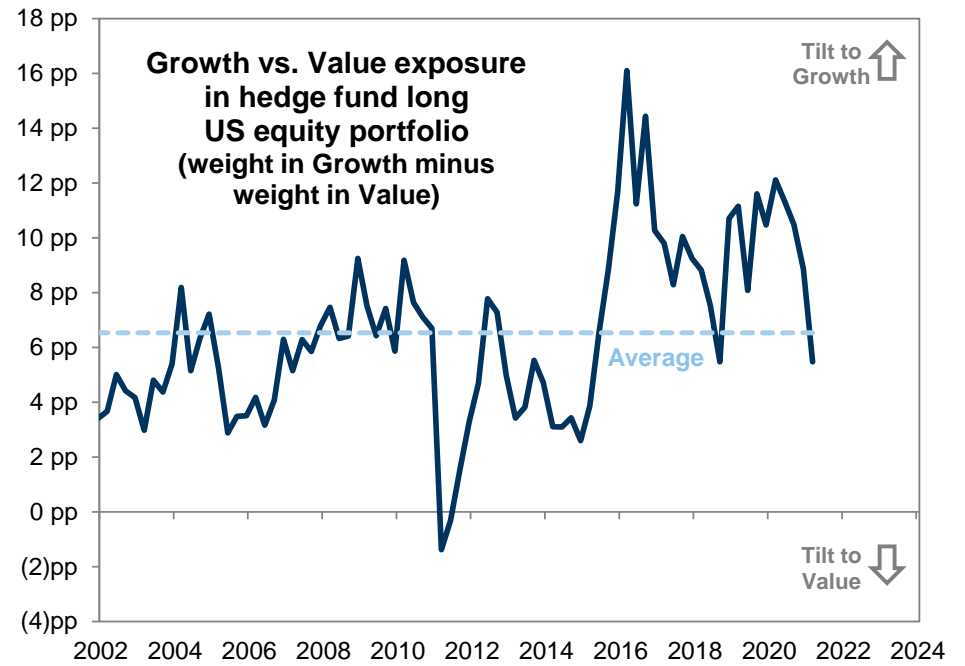


Approach #1: Positioning

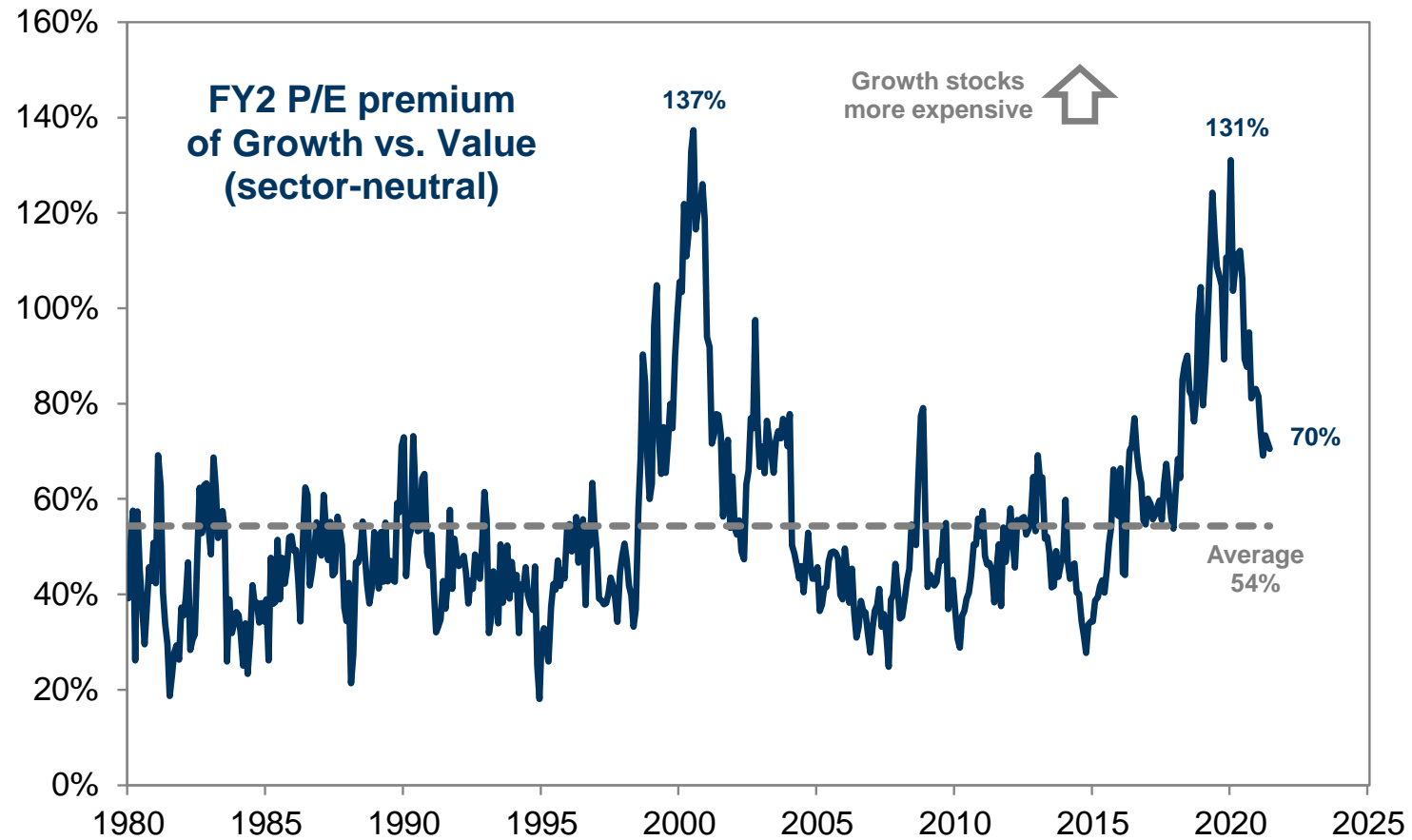
Mutual funds



Hedge funds

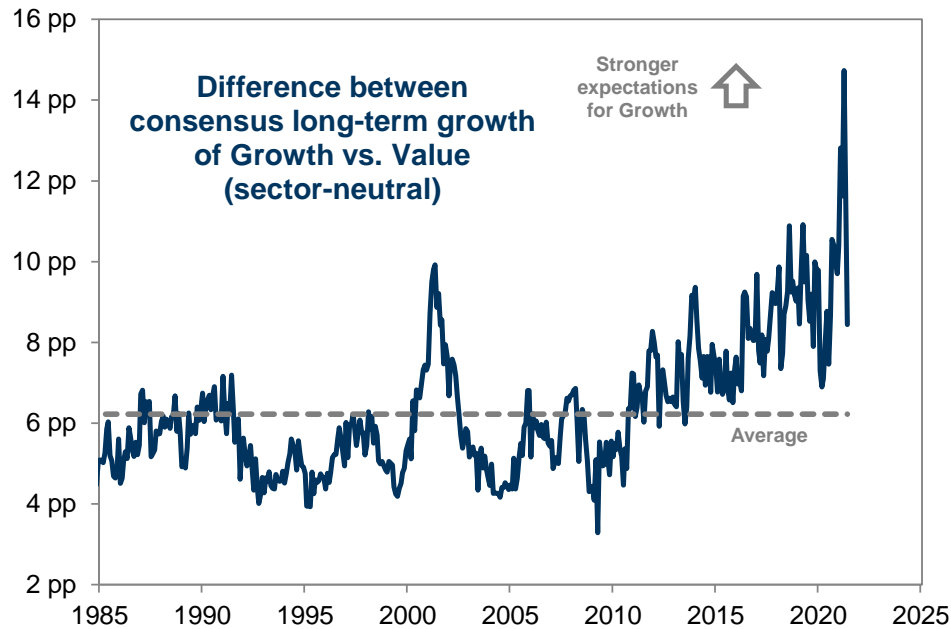


Approach #2: Valuations

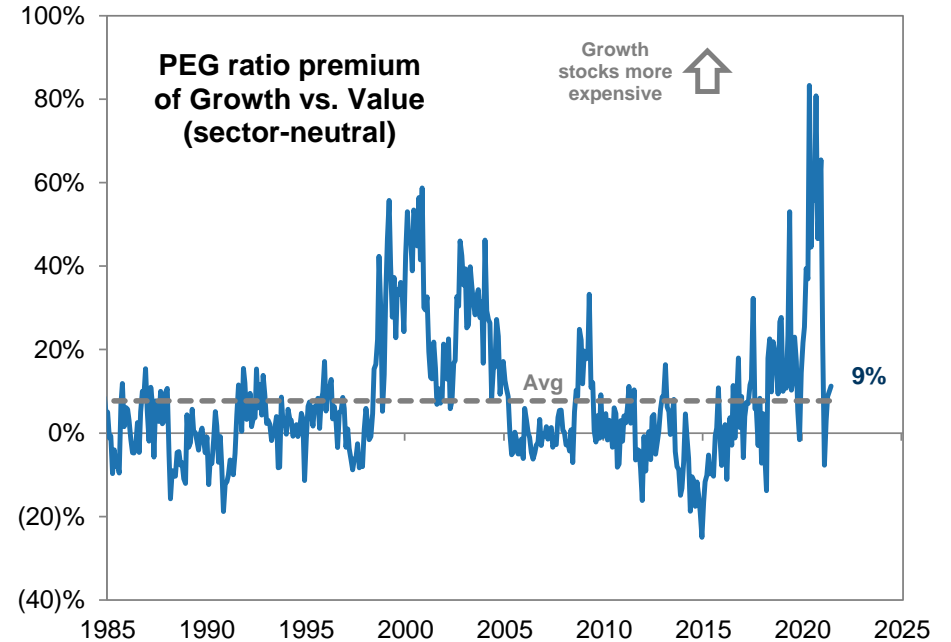


Valuations adjusted for growth expectations

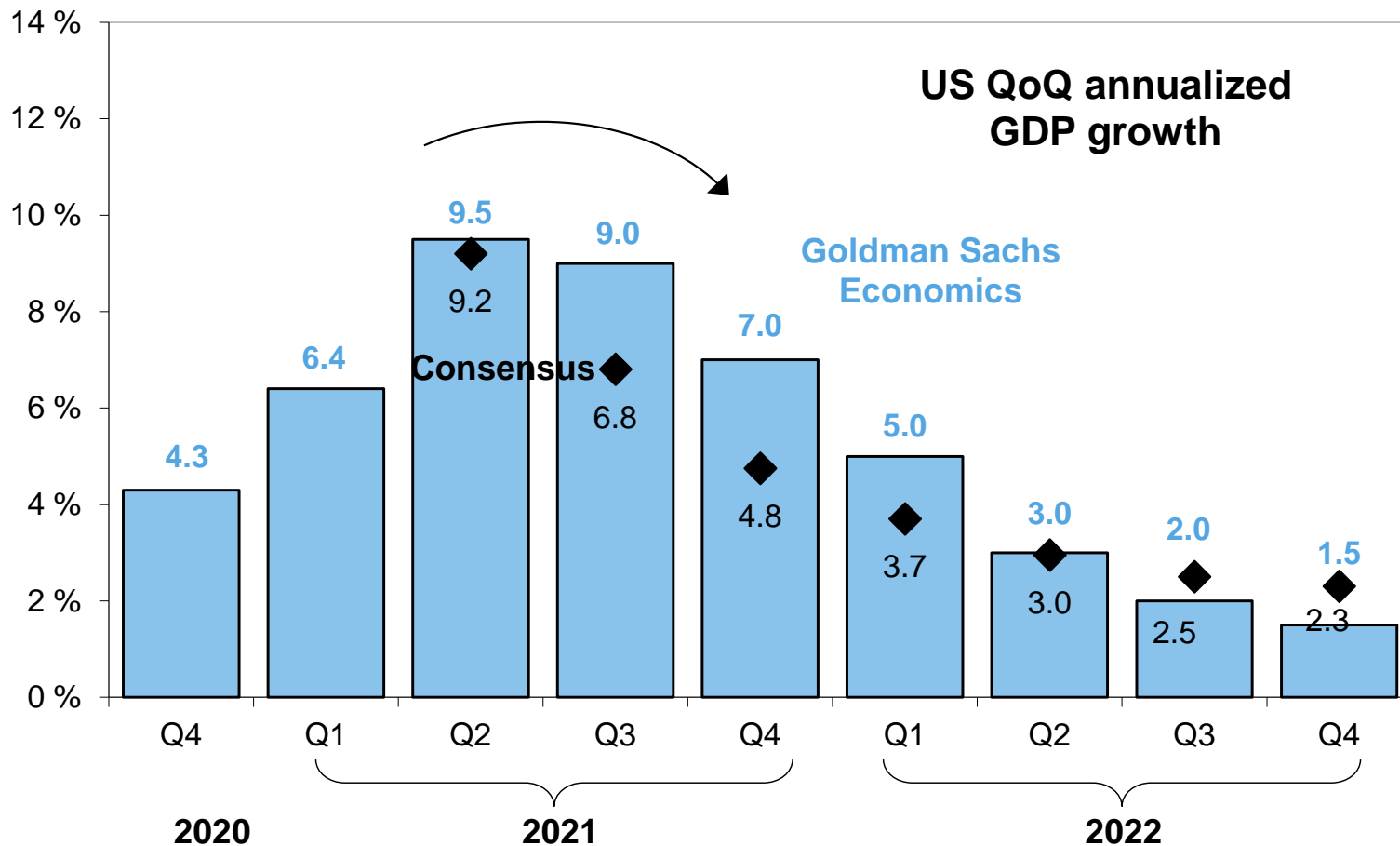
Analysts expect a large difference in growth rates



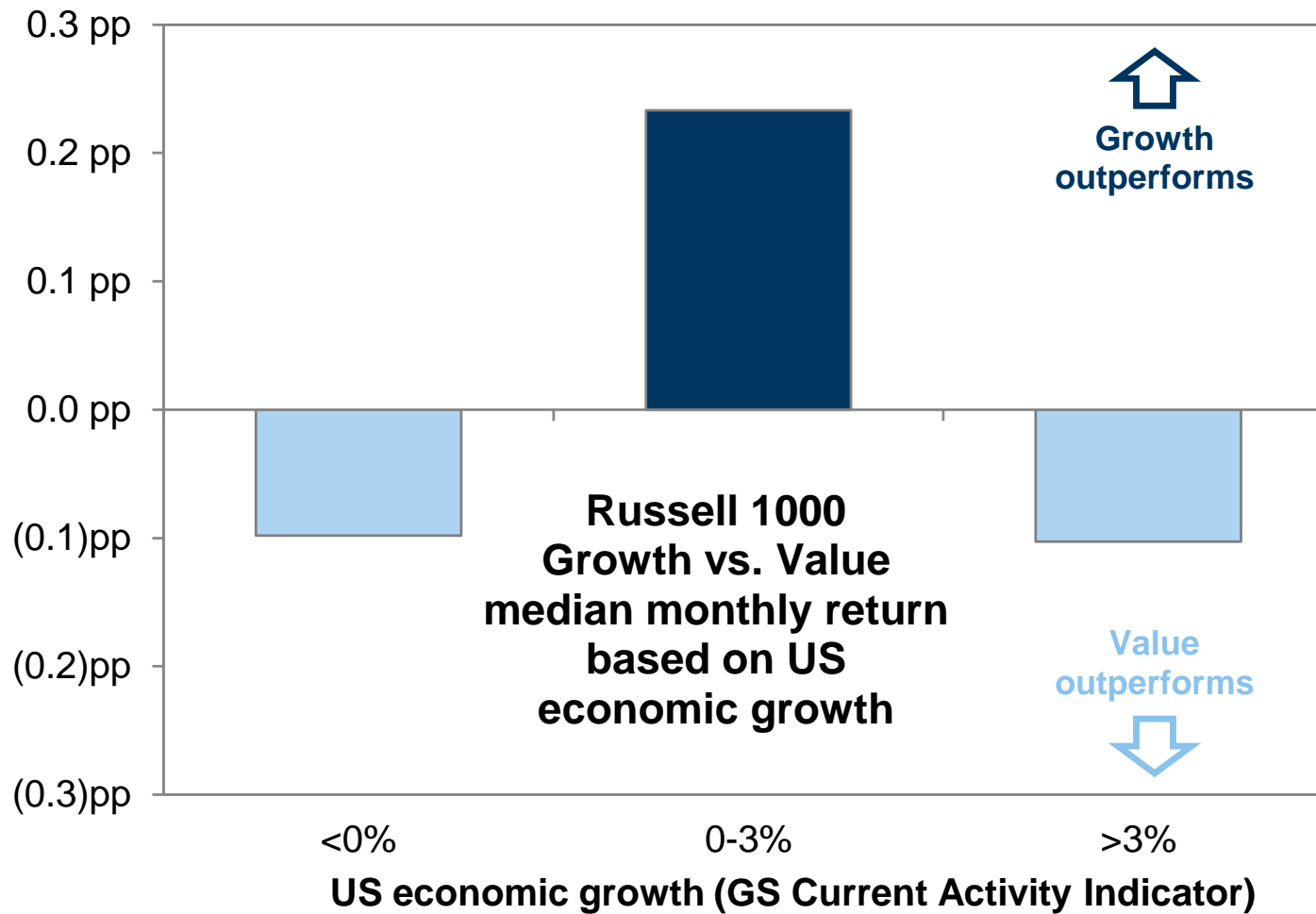
Growth vs. Value PEG ratio is in line with historical average



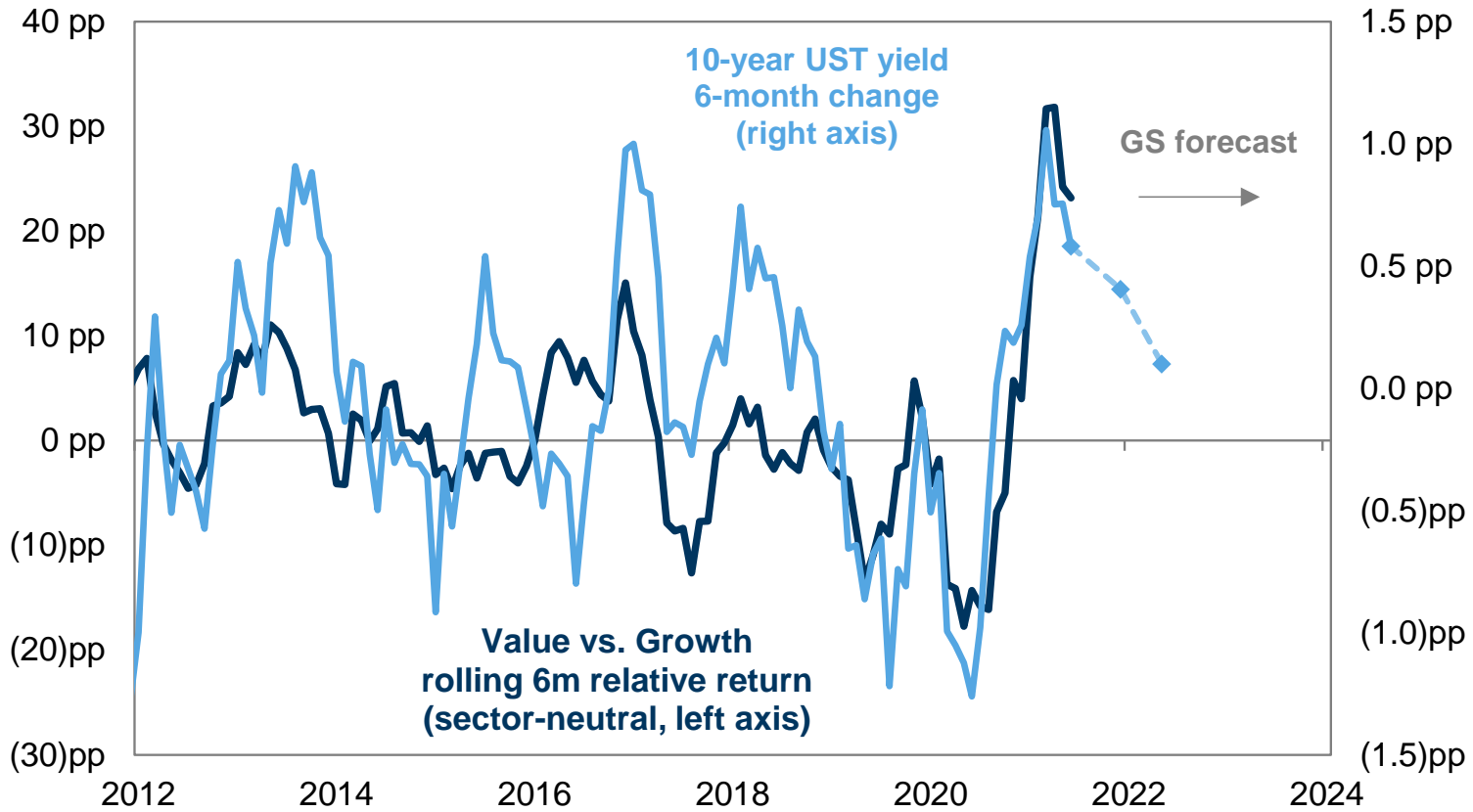
Approach #3: Macroeconomic environment



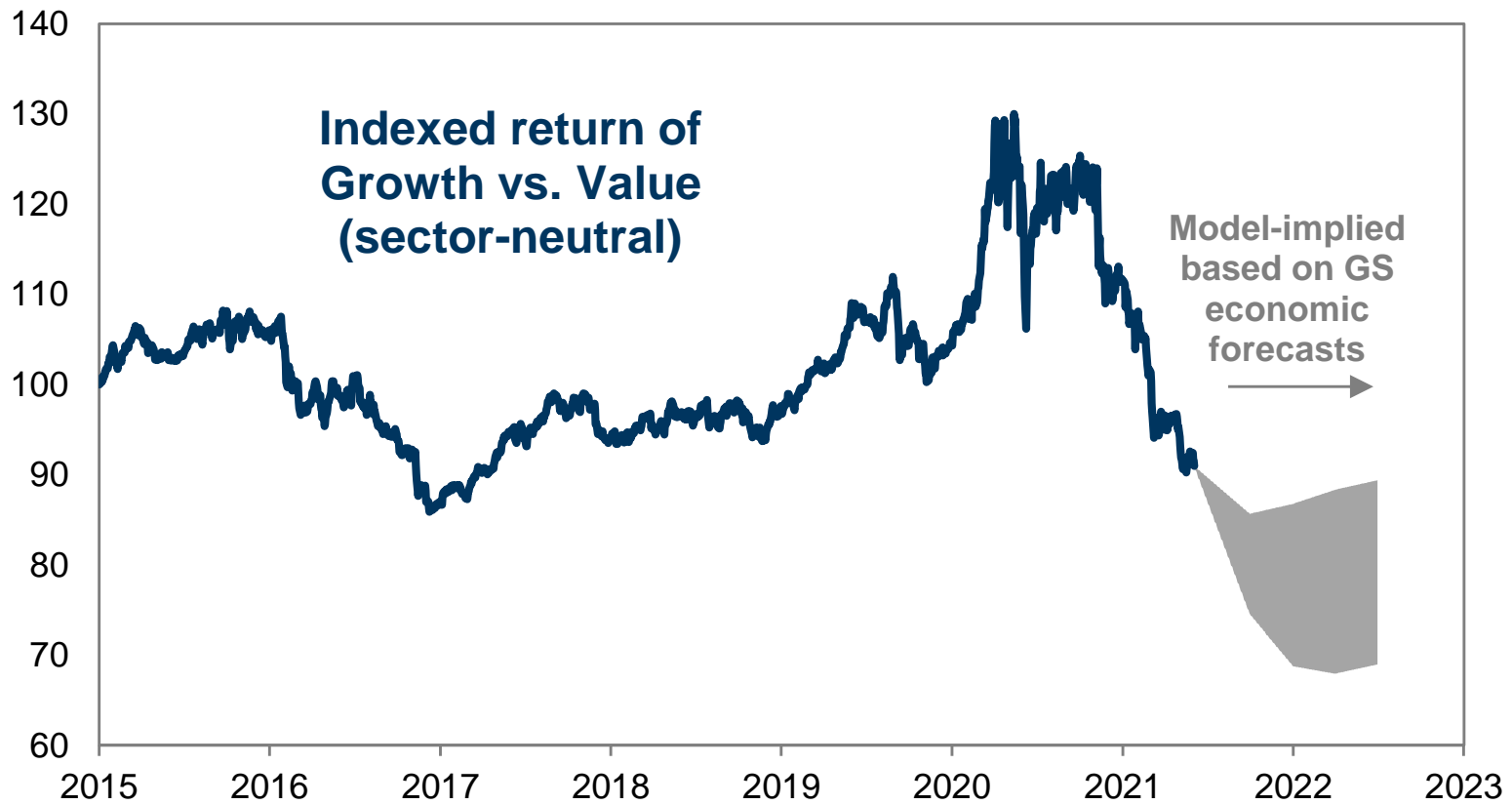
Value does best alongside strong economic growth



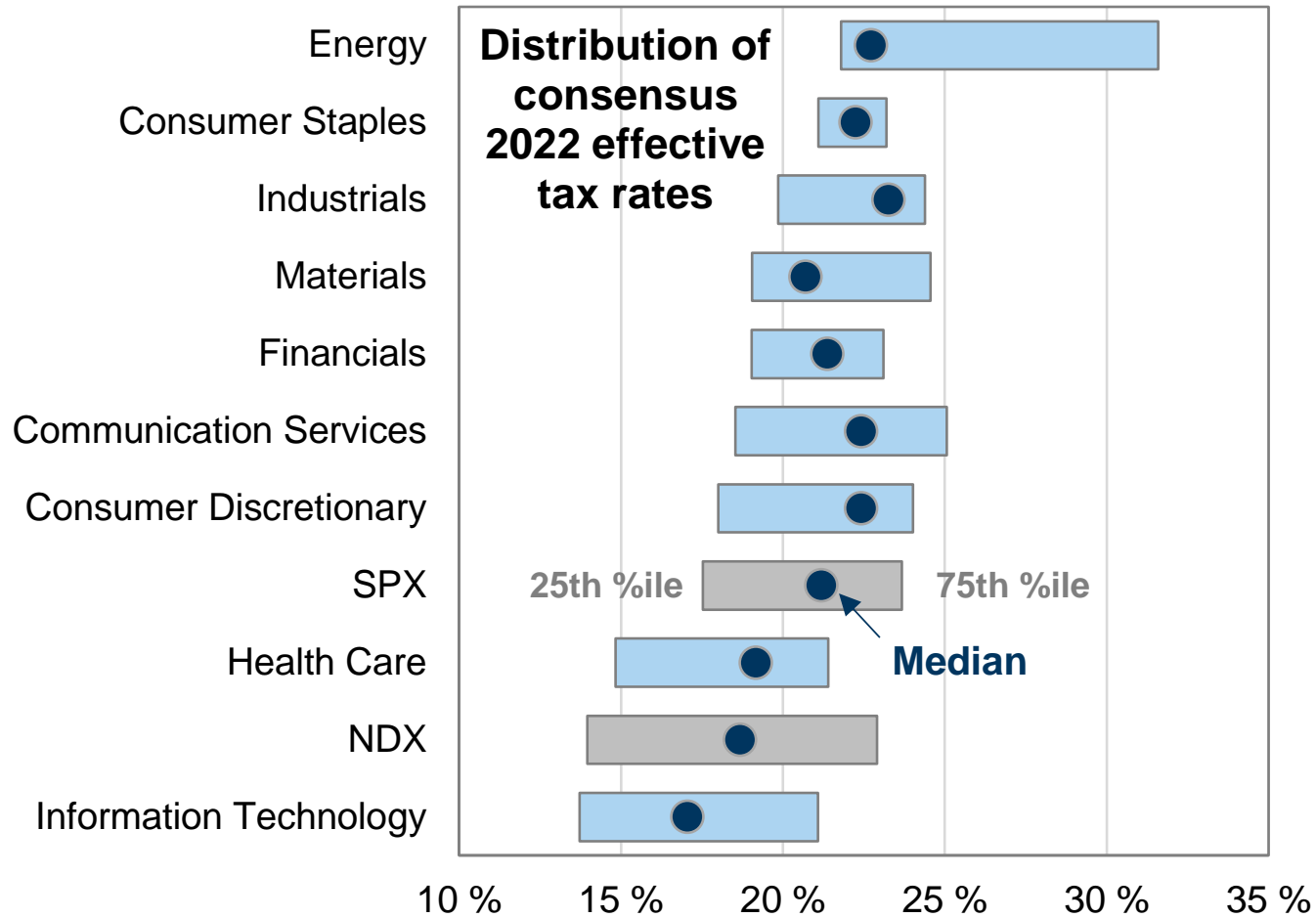
Direction of interest rates is key driver



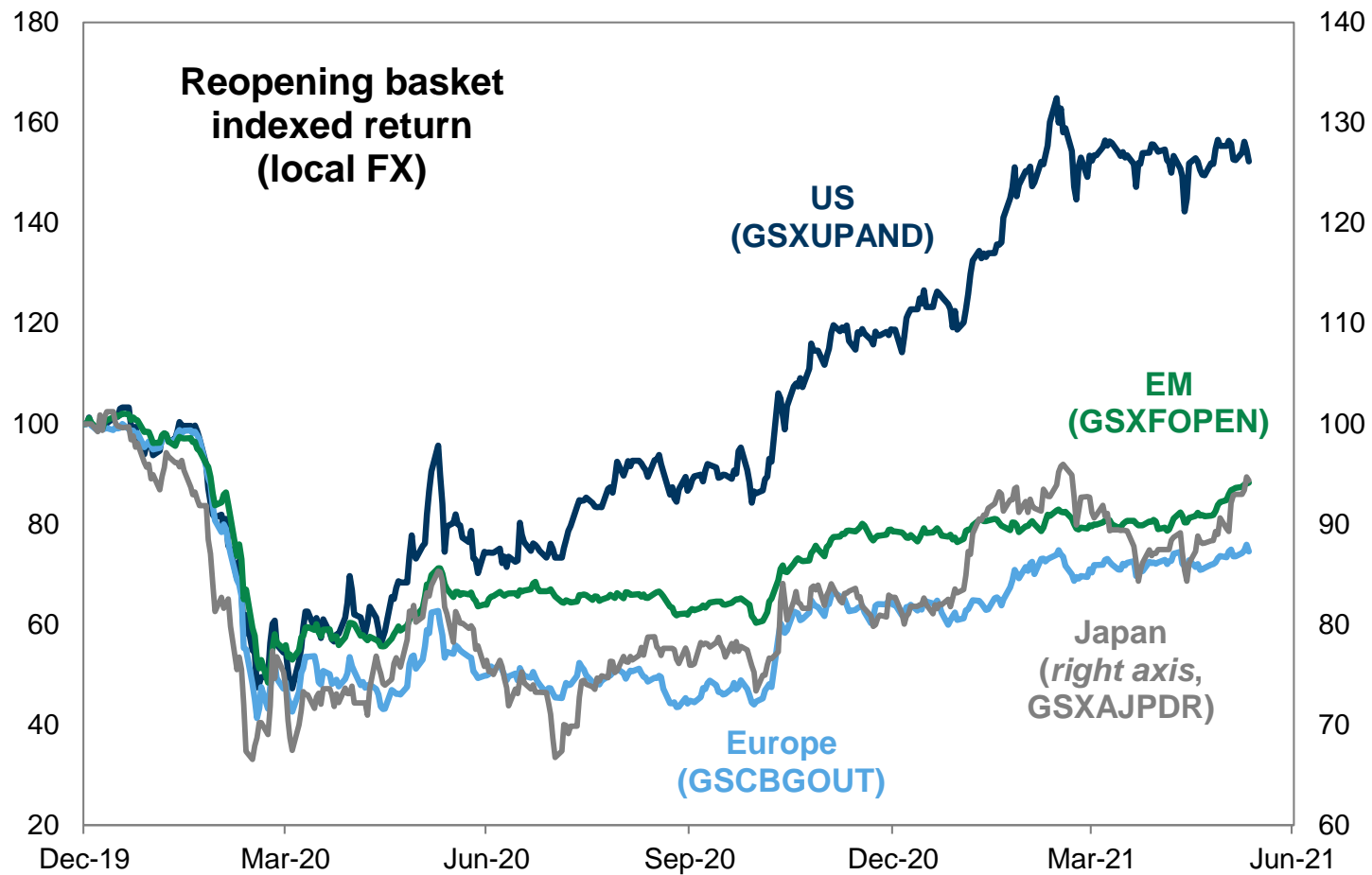
Macro model shows pendulum swinging back



Fiscal policy adds to uncertainty and volatility



“Reopening” stocks around the world



US sector valuations relative to history

Sector	Consensus FY2 P/E		P/E premium vs. S&P 500		EPS yield gap vs. 10-year UST	
	Current	30-year %ile rank	Current	30-year %ile rank	Current	30-year %ile rank
Health Care	16x	57%	(20)%	2 %	467bp	25 %
Consumer Staples	20	81	(0)	6	343	30
Energy	16	70	(18)	7	453	28
Comm Services	21	87	4	7	320	35
Materials	20	95	(1)	25	346	34
Financials	15	94	(26)	31	513	44
Info Tech	23	81	18	47	265	44
Industrials	21	99	5	78	317	52
Utilities	18	98	(8)	84	386	71
Consumer Discr	27	96	34	98	212	67
S&P 500	20x	91%			341bp	41%



Global Investment Research

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June 18, 2021

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