

US Weekly Kickstart

What if? S&P 500 outcomes if inflation, interest rates, and tax reform deviate from our base-case forecast

Halfway through the year, the S&P 500 stands just 1% below our year-end 2021 price target of 4300. Our forecast is conditional on our macro assumptions: Inflation will diminish, interest rates will rise, and a portion of President Biden’s fiscal plan will pass into law. But this future is not guaranteed. Recent client discussions have focused around the risks to our baseline macro forecast. We consider three “what if” scenarios that each focus on a key macro assumption and explore the implications of alternative outcomes for US equity returns, earnings, and valuations: (1) “What if inflation is not transitory,” (2) “What if interest rates fall or rise more than we expect,” and (3) “What if tax reform does not materialize?”

Performance

The S&P 500 was up 1.1% this week. Energy was the best-performing sector (+3.1%) while Utilities was the worst-performing sector (-3.1%). We expect the S&P 500 will end 2021 at 4300 (+0.8%).

S&P 500 earnings and valuation

	Goldman Sachs Portfolio Strategy		Consensus Bottom-Up	
	2021E	2022E	2021E	2022E
EPS	\$193	\$202	\$191	\$211
Growth	35 %	5 %	34 %	10 %
	NTM	2022E	NTM	2022E
P/E	21.6x	21.1x	22.2x	20.2x

Source: I/B/E/S, FirstCall, Goldman Sachs Investment Research

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Conversations we are having with clients: Uncertainty surrounding inflation, rates, and taxes

1. “What if inflation does not prove transitory?”

Our economists’ baseline forecast assumes that the recent surge in inflation will prove transitory and core CPI will decline to 2.3% next year from the most recent print of 3.8%. Our economists’ “trimmed core PCE” [shows that outliers had an outsized effect](#) on the recent spike in inflation. They attribute most of the above-consensus inflation readings to temporary re-opening factors that [should subside within the next 3-6 months](#). In addition, they believe labor supply will rebound significantly by year-end as coronavirus concerns continue to diminish and temporary supplemental unemployment benefits expire. This should ease wage pressures and reduce investor concerns about persistently high inflation in coming years.

Higher inflation than we expect would boost sales but weigh on corporate profit margins. Inflation has been positively correlated with sales but negatively correlated with margins. Rising input costs, including wages, could weigh on margins if companies fail to raise prices sufficiently to offset inflation. In our [1Q 2021 Beige Book](#), we noted that many firms had begun taking price action but expected inflation to be transitory. Based on our top-down model, each percentage point of core CPI inflation above our forecast would lift S&P 500 sales growth by about 1 percentage point, reduce net profit margins by about 10 bp, and, for moderate changes in inflation, on net leave S&P 500 EPS unchanged relative to our baseline.

Persistently high inflation would also represent a headwind to valuation multiples. Elevated inflation would likely lead to more Fed tightening than we now expect, raising rates and reducing equity valuations. Our economists believe the Fed will announce in December that tapering will begin in early 2022. Fed funds hikes will start in 2H 2023. As a result, we expect the S&P 500 P/E will be roughly flat during the next year, resulting in equity prices appreciating roughly in line with EPS growth.

Historically, US equities have performed best in low inflation environments. Since 1960, the median annualized real S&P 500 return during periods of low inflation has been 15% vs. 9% in periods of high inflation. In periods of high inflation, stocks have performed better alongside falling inflation (15%) than alongside rising inflation (2%). See [US Weekly Kickstart](#), June 4, 2021.

Elevated inflation would boost the relative performance of stocks with high pricing power. The performance of high (GSXUSHGM) vs. low (GSXULVGM) pricing power stocks has been volatile in recent weeks alongside shifting investor views on inflation risk. At the sector level, high inflation has historically corresponded with the outperformance of the Health Care, Energy, Real Estate, and Consumer Staples sectors.

2. “What if interest rates fall or rise more than we anticipate?”

Our baseline 2021 S&P 500 price target of 4300 assumes that the 10-year Treasury yield will rise to 1.9% by end-2021 and that the P/E multiple remains stable around 22x. Our rates strategists expect the increase in nominal Treasury yields will be [led primarily by real rates](#) and driven in part by [higher global bond yields](#). We expect the equity risk premium (ERP) will decline in the second half of

this year, offsetting some of the impact of higher rates on equity valuations and leading to a roughly flat P/E multiple through year-end.

All else equal, if interest rates remain roughly flat through the end of this year, our S&P 500 dividend discount model (DDM) would suggest a fair value of 4700, or 9% above our current baseline price target of 4300. If rates fail to rise because of weakening growth, then lower earnings or a higher ERP would suggest a lower S&P 500 price despite lower interest rates. However, holding our baseline ERP constant, a 10-year US Treasury yield of 1.6% (the 3-month average) would lift our DDM-implied fair value estimate to around 4700. On our 2022 EPS estimate of \$202 for 2022, this would imply an NTM P/E of 23x.

Under a different scenario, if interest rates were to overshoot our forecast and end the year at 2.5%, but nothing else were to change, our S&P 500 DDM would imply a fair value of just 3550, or 17% below today’s price. Our economists expect the Fed will [begin tapering its current monthly debt purchases](#) in early 2022. This decrease in demand will likely coincide with more deficit spending and potentially greater bond issuance following the passage of President Biden’s infrastructure bill. Again holding our baseline ERP and EPS growth forecasts constant, our DDM would imply a P/E multiple contraction to 18x.

3. “What if tax reform does not pass?”

Our baseline earnings forecast assumes that a portion of President Biden’s full tax proposal will become law by year-end and take effect in 2022, reducing S&P 500 EPS by 5% relative to our forecast under current tax law. Our political economist [expects](#) that the federal statutory corporate tax rate will be raised to 25% from 21%, rather than the 28% rate proposed by Biden. He also believes that roughly half of the proposed foreign income tax hike will become law and that the capital gains tax rate for upper income individuals will be raised to 28%. Based on these assumptions, we expect the S&P 500 will generate EPS of \$202 in 2022 (+5% growth vs. 2021).

Under current tax policy, we would expect index-level S&P 500 EPS of \$212 in 2022, representing 10% y/y growth. For context, the current bottom-up consensus 2022 EPS forecast is \$211. Using our baseline year-end 2021 P/E forecast of 21.3x, a “no tax reform” scenario would lift our 2022 S&P 500 EPS estimate and our year-end 2021 S&P 500 fair value estimate by 5%, supporting a price target of 4500.

Within the market, a failure to lift corporate and capital gains tax rates would generally favor Growth stocks. Although the ultimate implications of corporate tax reform are hard to predict without knowing which parts of the proposal will be enacted and in what size, foreign-facing sectors with low effective tax rates including Communication Services, Info Tech, and Health Care appear most vulnerable (see [US Weekly Kickstart](#), Mar. 19, 2021). With regards to capital gains taxes, Growth stocks such as those in the Tech sector have generated the strongest returns in recent years, suggesting the largest potential risk from tax-related investor selling ahead of a potential tax hike later this year (see [US Weekly Kickstart](#), Apr. 23, 2021).

Charts we are watching: Earnings sensitivity to macro variables, yield gap, and tax impact on EPS

Exhibit 1: Our baseline macro assumptions

as of June 24, 2021

	Consensus bottom-up		GS top-down	
	YE 2020	Current	YE 2021	YE 2022
EPS				
2021	\$167	\$191	\$193	\$193
2022	195	211	202	202
2023	214	232	212	212
EPS growth				
2021	22 %	34 %	35 %	35 %
2022	17	10	5	5
2023	10	10	5	5
Nominal UST yield	0.9 %	1.5 %	1.9 %	2.1 %
Equity risk premium	5.9	5.4	4.7	4.5
Cost of equity	6.8	6.8	6.6	6.6
S&P 500 level	3756	4266	4300	4600
<i>Change from previous</i>		14 %	1 %	7 %
Implied NTM P/E	22.4 x	21.5 x	21.3 x	21.7 x
% rank vs. history	95%	93%	93%	93%
Implied NTM yield gap	353 bp	317 bp	280 bp	251 bp
% rank vs. history	30%	36%	43%	46%

Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 2: Sensitivity of S&P 500 EPS to macro variables in our top-down model

as of June 24, 2021

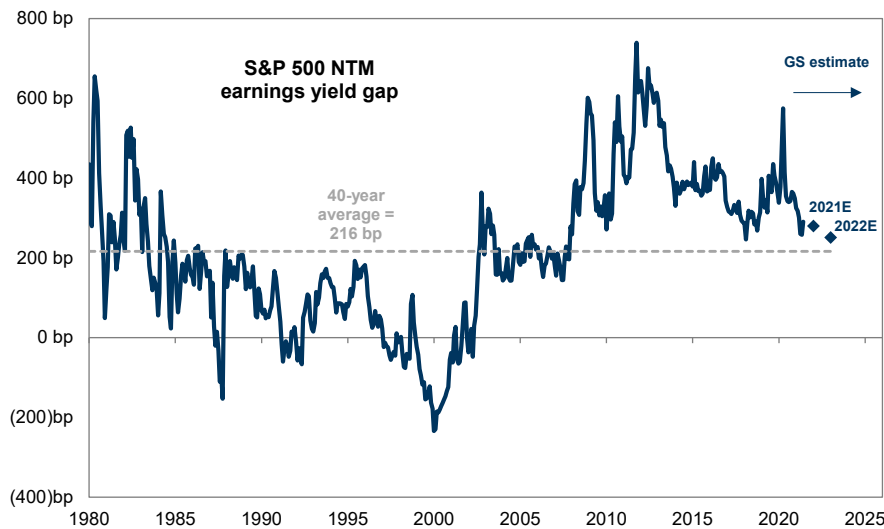
Variable	Baseline		Chg from baseline	Sensitivity	
	2021E	2022E		\$	%
US GDP	7.0 %	5.1 %	+100 bp	+\$7	3.5%
World GDP	6.6 %	4.9 %	+100 bp	+1	0.5
Core CPI inflation	2.2 %	2.3 %	+100 bp	+0	0.0
Brent crude oil	\$75	\$75	+10 pp	+0.5	0.3
10-year UST yield	1.9 %	2.1 %	+100 bp	+0.3	0.2
Trade-weighted US dollar	(2)%	(6)%	+10 pp	-4	-2.3
Statutory corporate tax rate	26 %	30 %	+1 pp	-1.5	-0.8
GS EPS estimate	\$193	\$202			

Note: Tax rate includes federal, state, and local tax.

Source: Goldman Sachs Global Investment Research

Exhibit 3: S&P 500 earnings yield gap should move towards long-term average

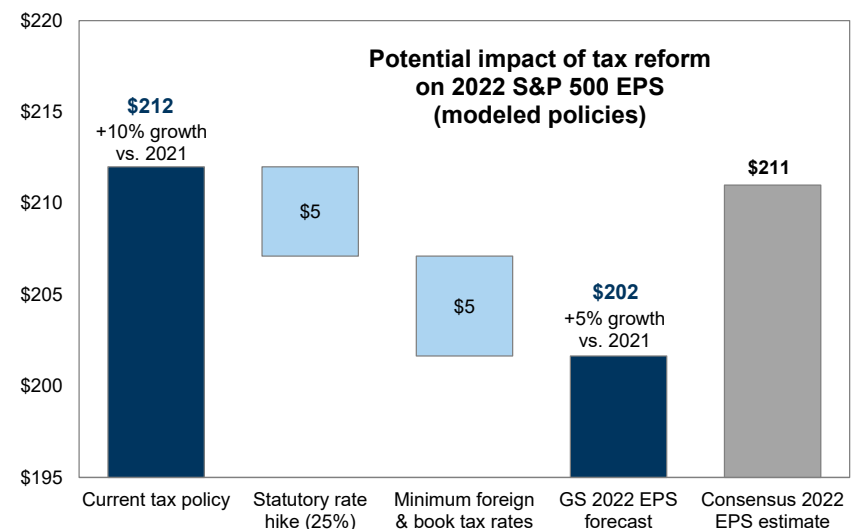
as of June 24, 2021



Source: Compustat, Goldman Sachs Global Investment Research

Exhibit 4: No tax reform would represent 5% upside to our 2022 EPS estimate

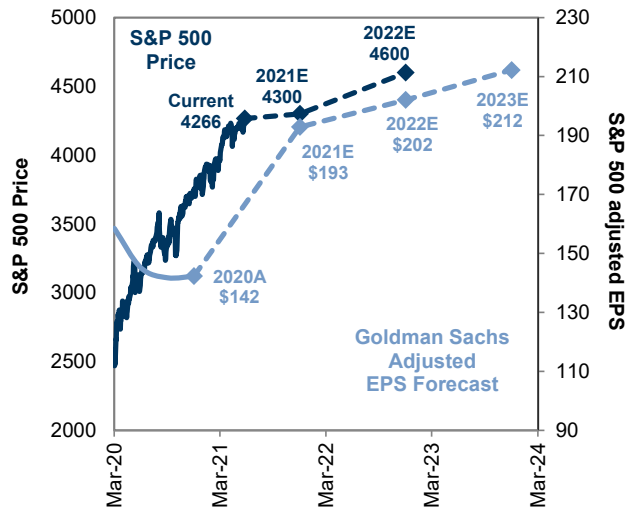
as of June 24, 2021



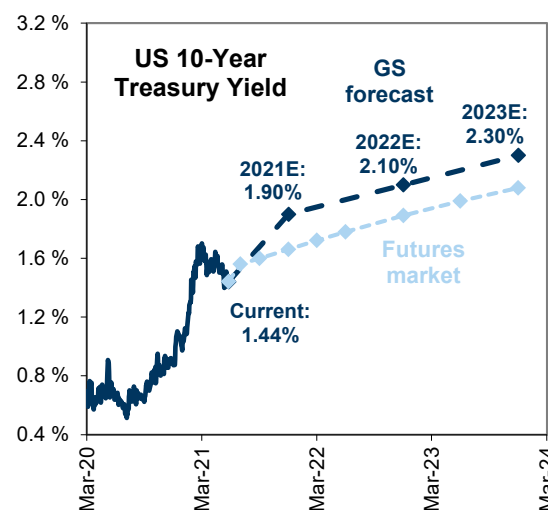
Source: Goldman Sachs Global Investment Research

Markets and Money Flow

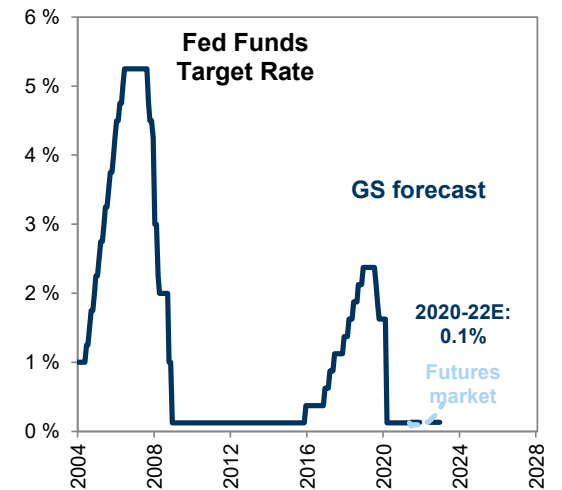
S&P 500 level and EPS



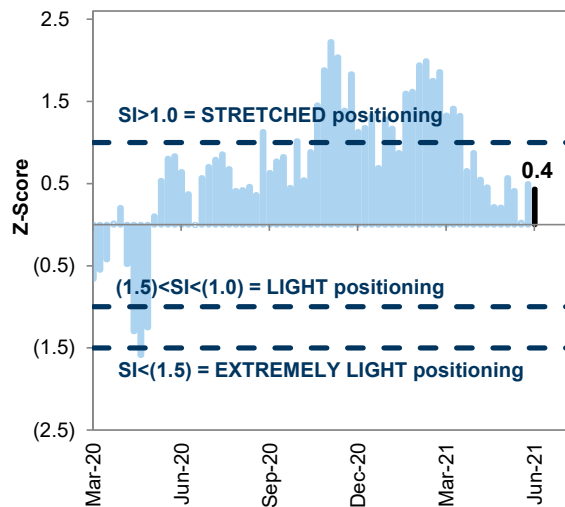
10-yr. Treasury Yields



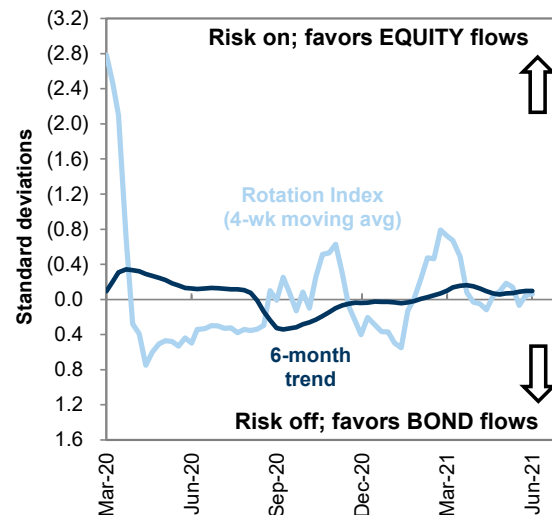
Fed Funds Target Rate



Sentiment Indicator



Rotation Index



Volatility



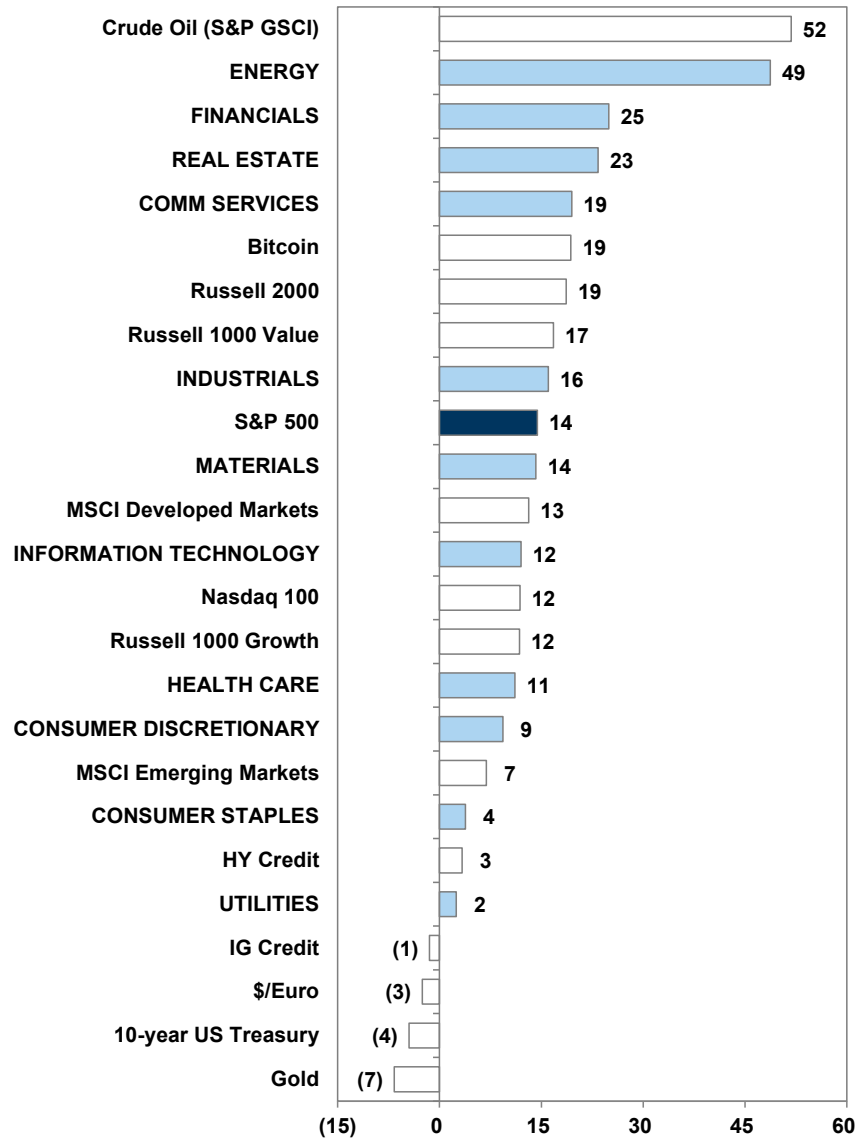
Note: Sentiment Indicator measures stock positioning across retail, institutional, and foreign investors versus the past 12 months. Readings below -1.0 or above +1.0 indicate extreme positions that are significant in predicting future returns.

Note: Rotation Index plots the first principal component of weekly reallocation activity across equity and debt mutual fund and ETF categories as a measure of retail risk appetite.

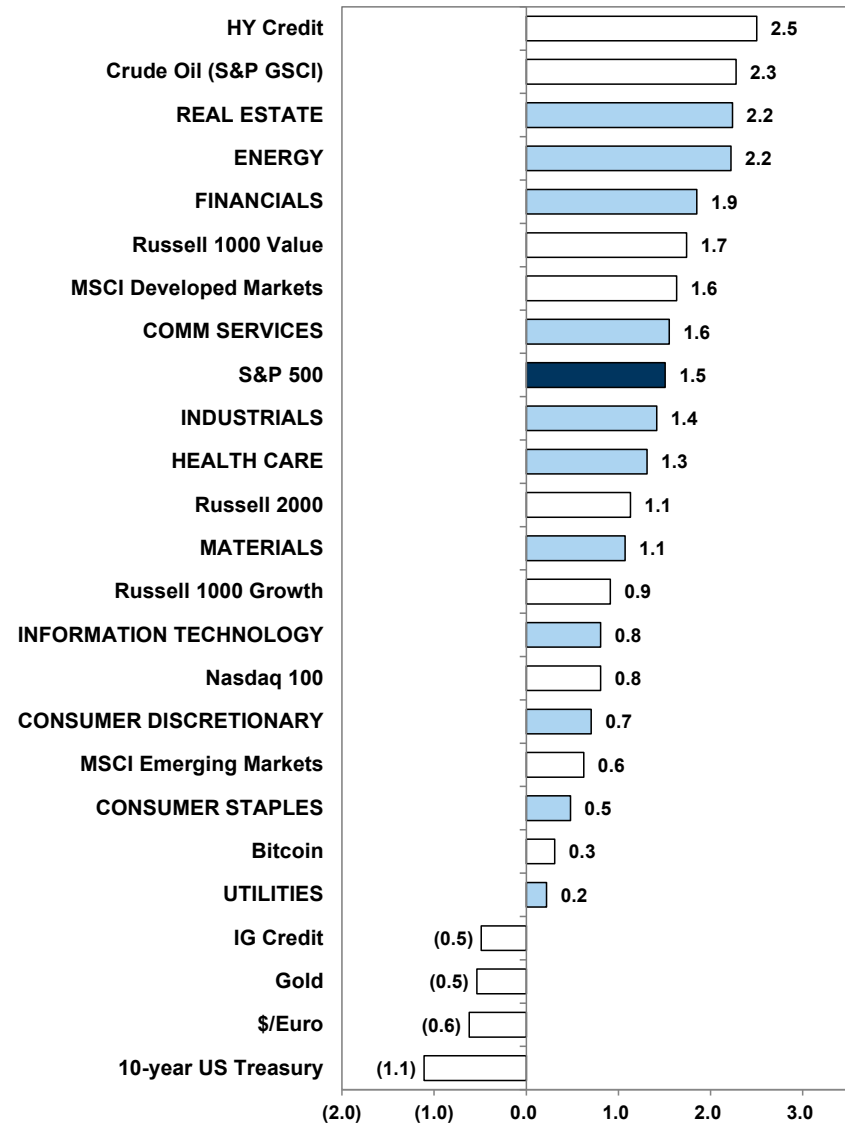
Source: Haver, EPFR, FactSet, CFTC, and Goldman Sachs Global Investment Research.

Market Performance: YTD absolute and risk-adjusted returns

Total Return



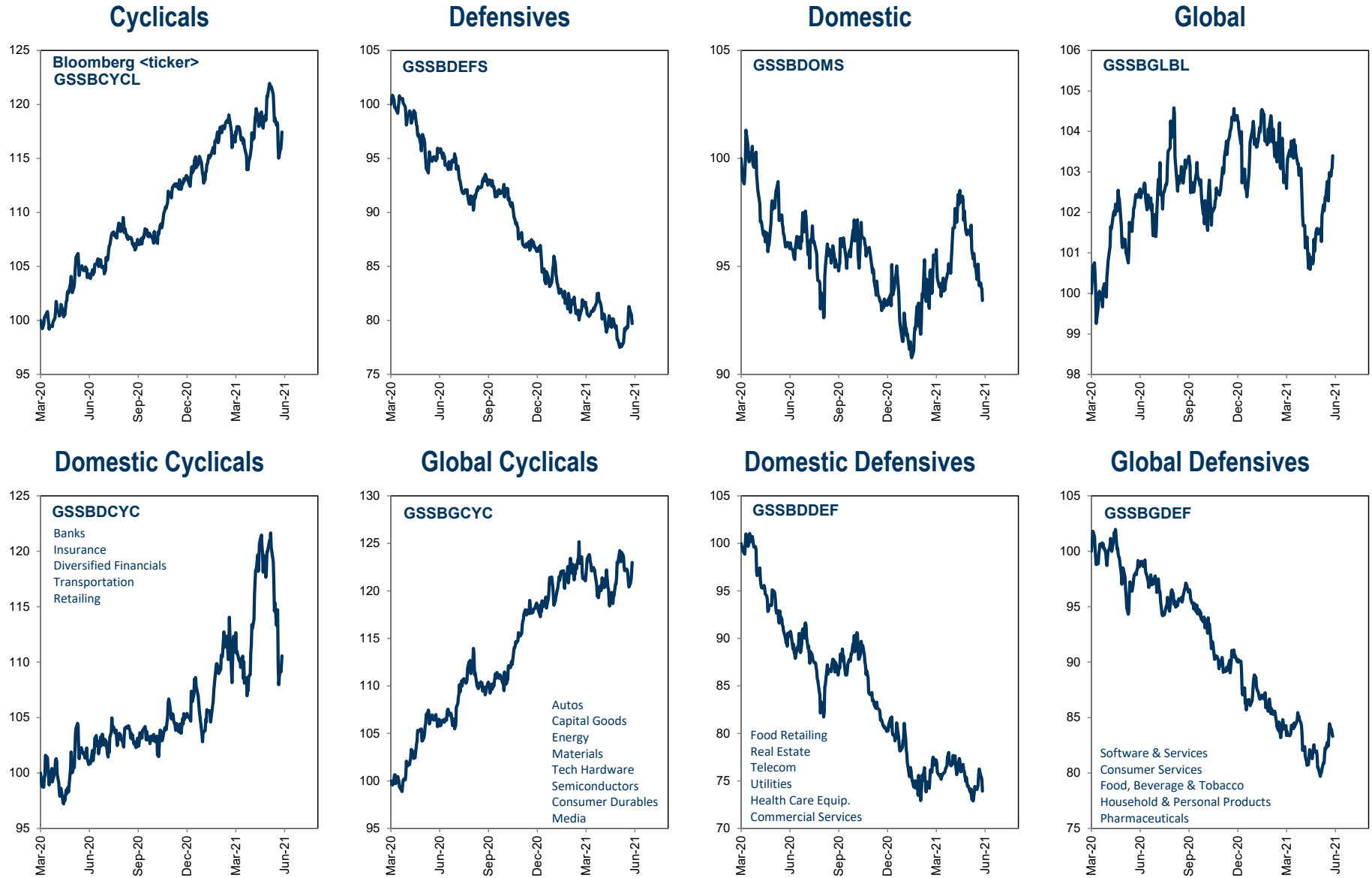
Risk Adjusted Return (Sharpe Ratio)



Note: Crude Oil (S&P GSCI) return represents S&P GSCI Crude Oil Index total return. Spot change equals 45% YTD.

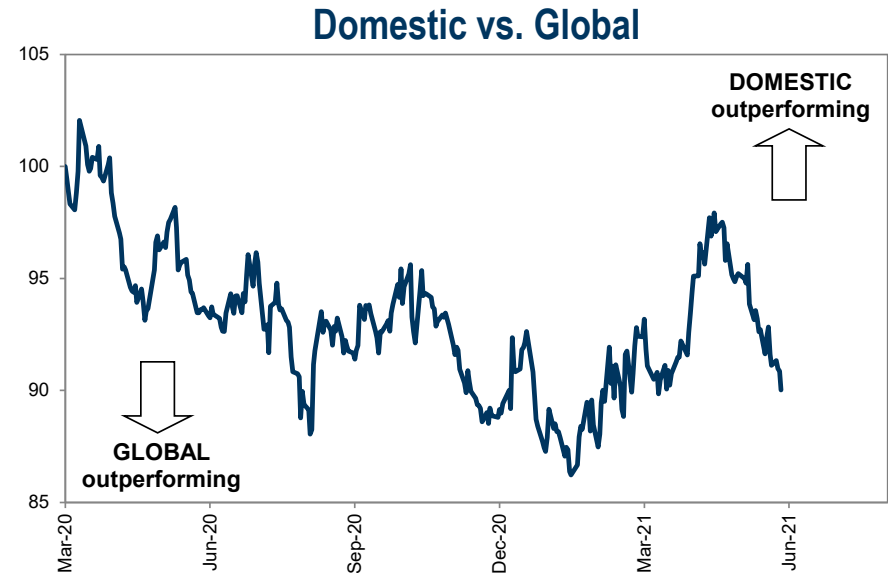
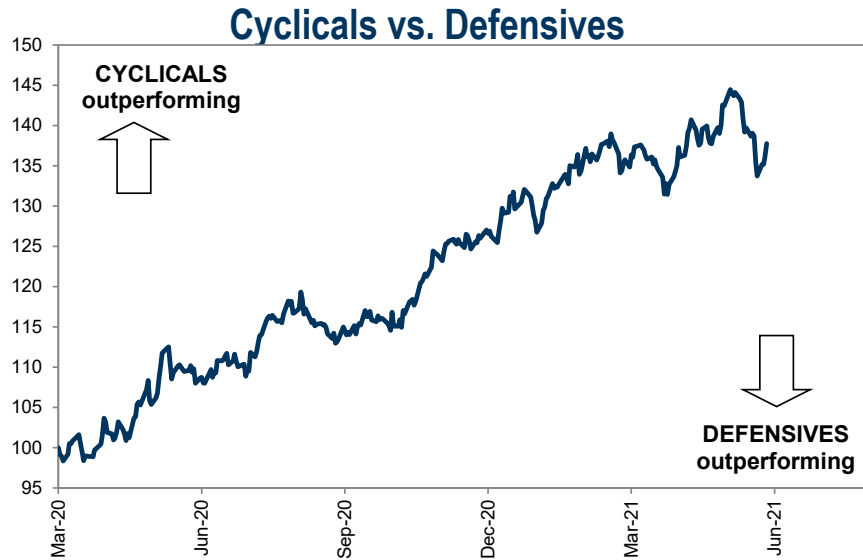
Source: Haver, FactSet, and Goldman Sachs Global Investment Research.

Sector Baskets – Performance Relative to S&P 500



Source: FactSet and Goldman Sachs Global Investment Research.

Sector Baskets Performance

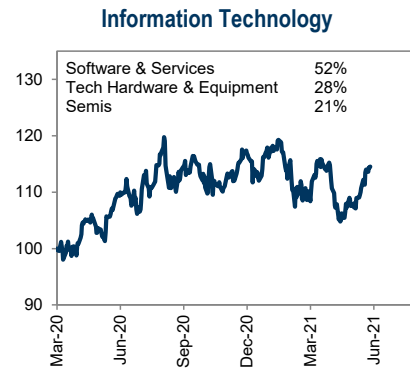
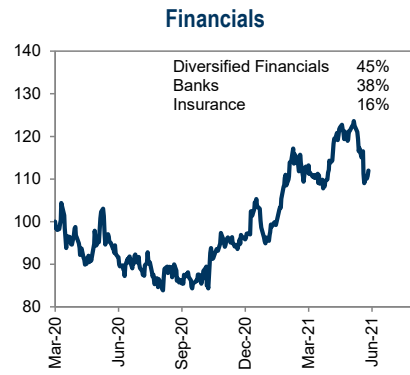
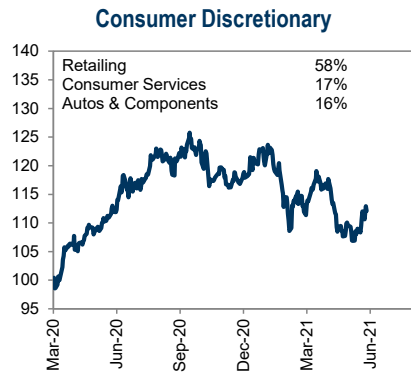


Performance and fundamentals of our sector baskets

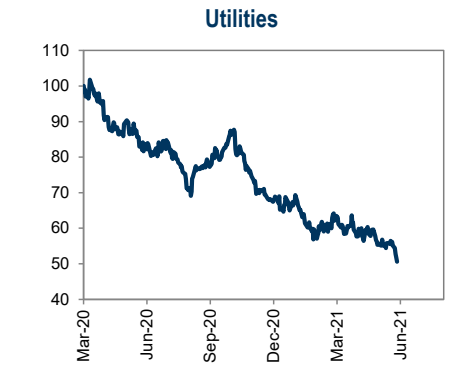
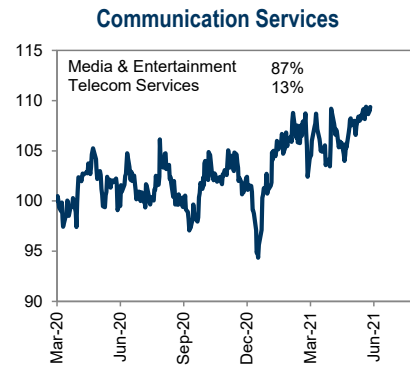
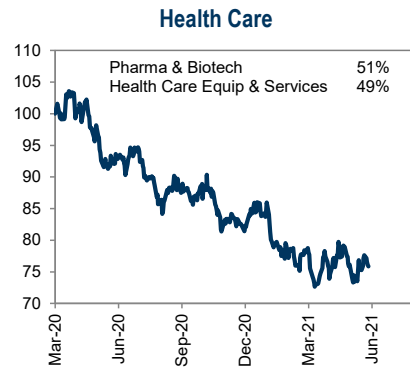
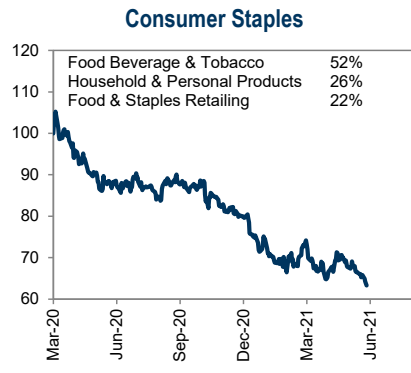
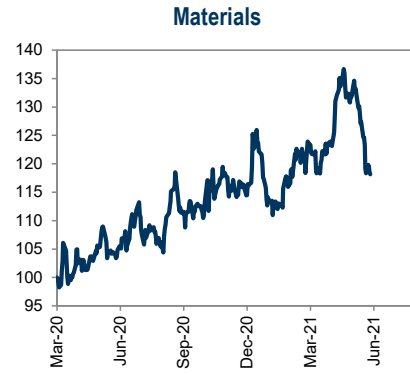
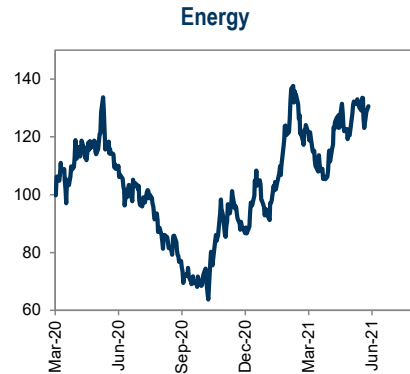
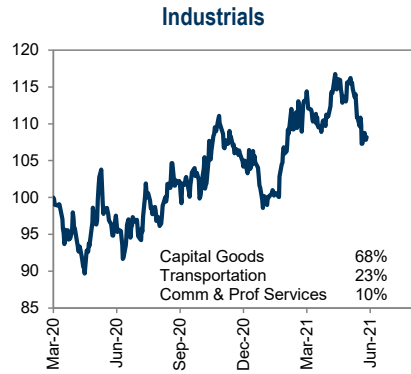
Basket	Bloomberg Ticker <GSSBXXXX>	# of Stocks	% of S&P 500 Cap	Beta	Non-US Sales	Earnings Growth		Sales Growth		NTM P/E	LTM P/B	Div Yield	Total Return				
						2021E	2022E	2021E	2022E				1 Wk	1 Mo	3 Mo	LTM	YTD
Cyclicals	CYCL	237	43 %	1.1	34%	61 %	12 %	21 %	9 %	20.4x	3.3x	1.3 %	1.8 %	1 %	10 %	51 %	16 %
Defensives	DEFS	263	57	1.0	24	18	10	10	6	23.8	7.0	1.4	0.6	2	10	30	11
Domestic	DOMS	217	35 %	1.0	15%	32 %	8 %	9 %	7 %	19.9x	3.0x	1.6 %	0.5 %	(0)%	9 %	41 %	15 %
Global	GLBL	283	65	1.0	44	37	13	18	8	23.7	6.6	1.3	1.4	3	10	42	14
Domestic Cyclicals	DCYC	80	13 %	1.0	20%	62 %	7 %	23 %	15 %	16.0x	1.9x	1.6 %	1.5 %	(3)%	10 %	49 %	18 %
Global Cyclicals	GCYC	157	30	1.1	42	60	16	21	8	23.2	4.8	1.2	2.0	3	10	53	16
Domestic Defensives	DDEF	137	22	0.9	13	13	9	8	6	23.2	4.7	1.6	(0.0)	1	9	31	11
Global Defensives	GDEF	126	35	1.0	48	21	12	13	7	24.1	9.9	1.3	0.9	3	10	30	10
Services-providing	SERV	256	57 %	1.0	20%	34 %	13 %	11 %	9 %	23.7x	4.3x	1.1 %	1.1 %	2 %	11 %	43 %	17 %
Goods-producing	GOOD	244	43	1.0	45	35	9	17	5	20.5	5.4	1.7	1.0	2	9	41	12
S&P 500		500	100 %	1.0	29%	34 %	10 %	13 %	7 %	22.2x	4.7x	1.4 %	1.1 %	2 %	10 %	42 %	14 %

Source: FactSet and Goldman Sachs Global Investment Research.

Sectors – Relative Performance vs. S&P 500

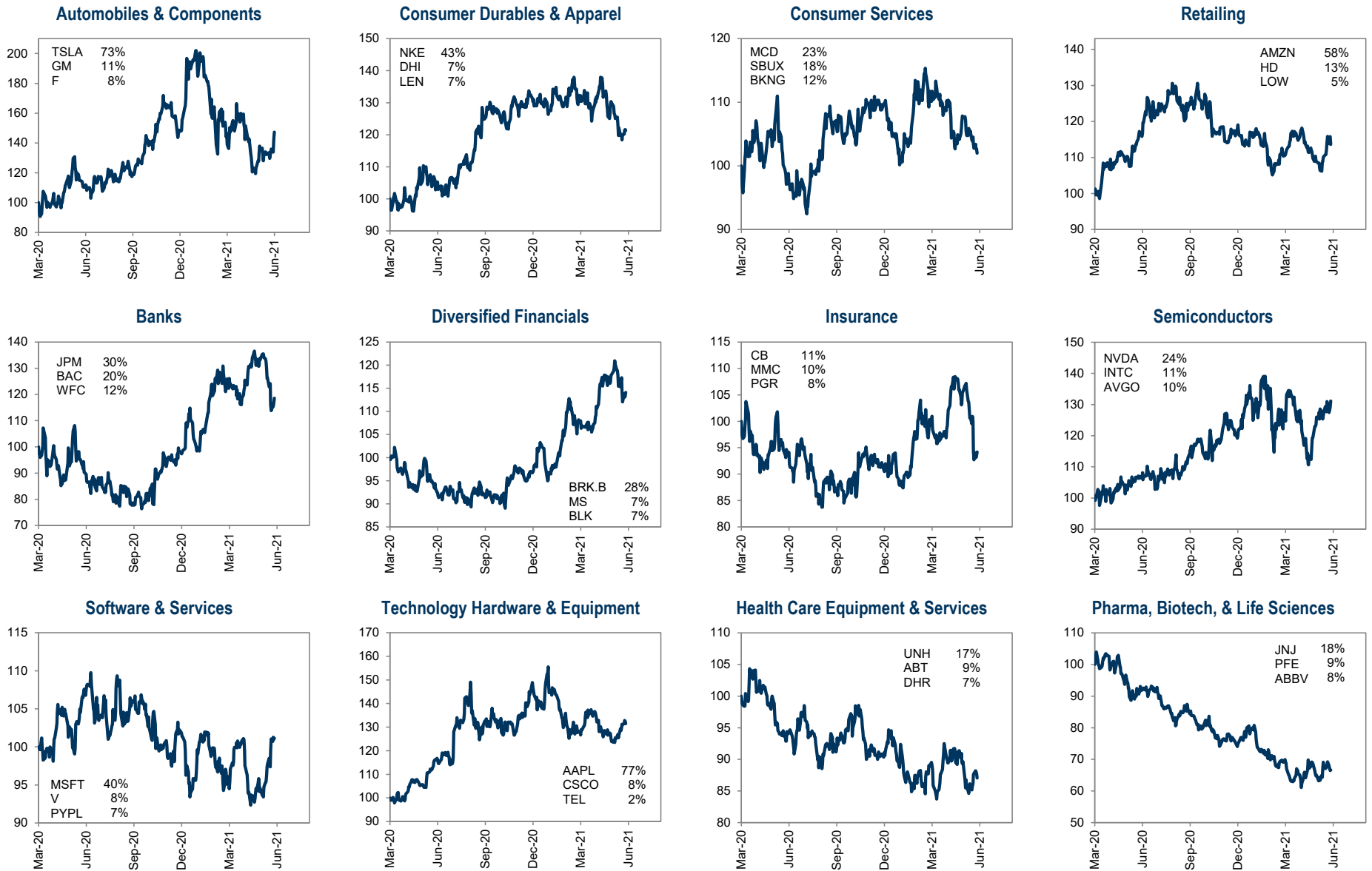


Recommended Sector Positioning			
Sectors	Goldman Sachs Weighting	S&P 500 Wgt	YTD
Industrials	Overweight	9%	16 %
Info Tech		27	12
Consumer Discr		12	9
Energy	Neutral	3	49
Financials		11	25
Comm Services		11	19
Materials		3	14
Health Care		13	11
Real Estate	Underweight	3	23
Consumer Staples		6	4
Utilities		2	2
S&P 500		100%	14 %



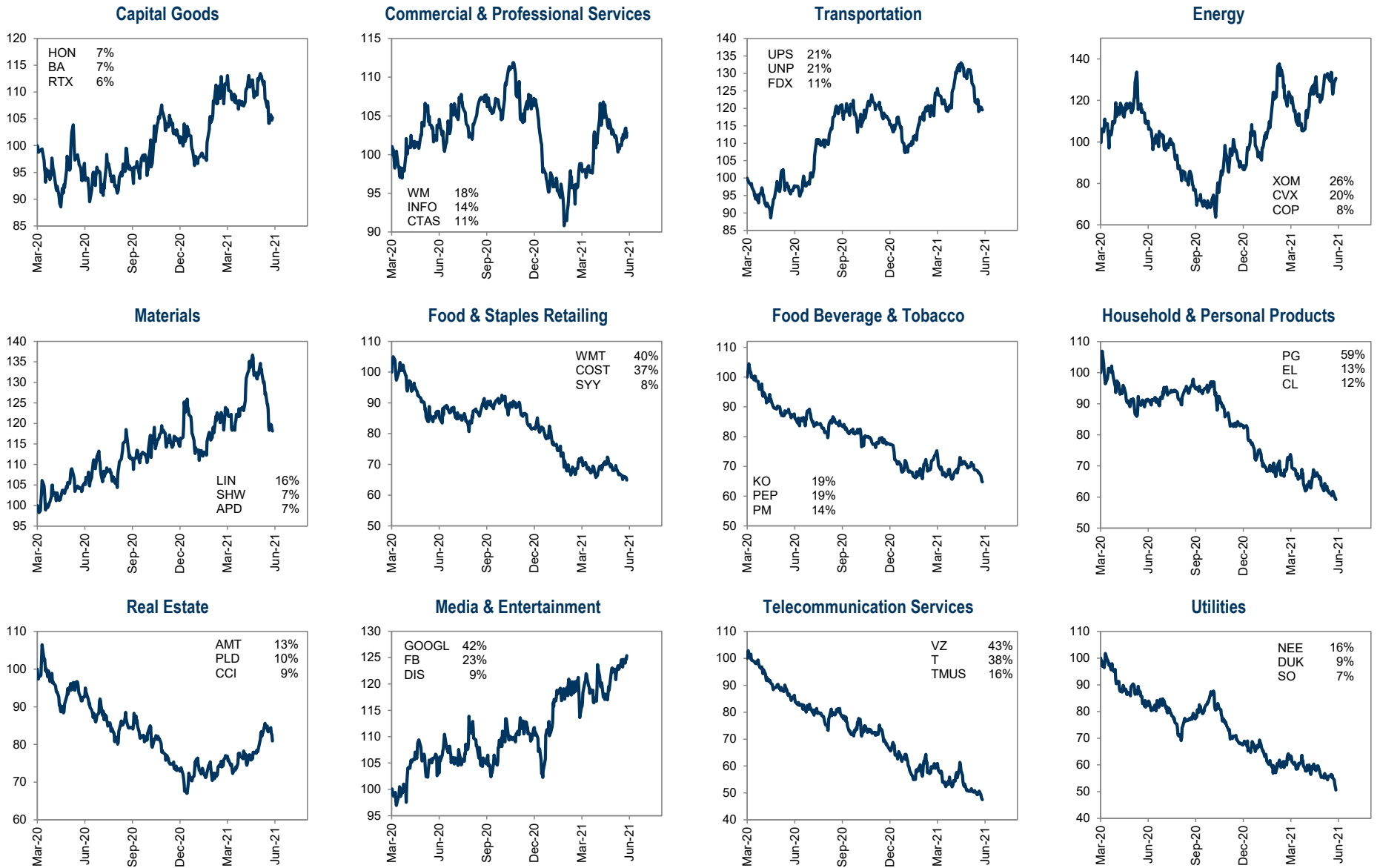
Source: FactSet and Goldman Sachs Global Investment Research.

Industry Groups – Relative Performance vs. S&P 500 and 3 largest stocks



Source: FactSet, compiled by Goldman Sachs Global Investment Research.

Industry Groups – Relative Performance vs. S&P 500 and 3 largest stocks (continued)



Source: FactSet, compiled by Goldman Sachs Global Investment Research.

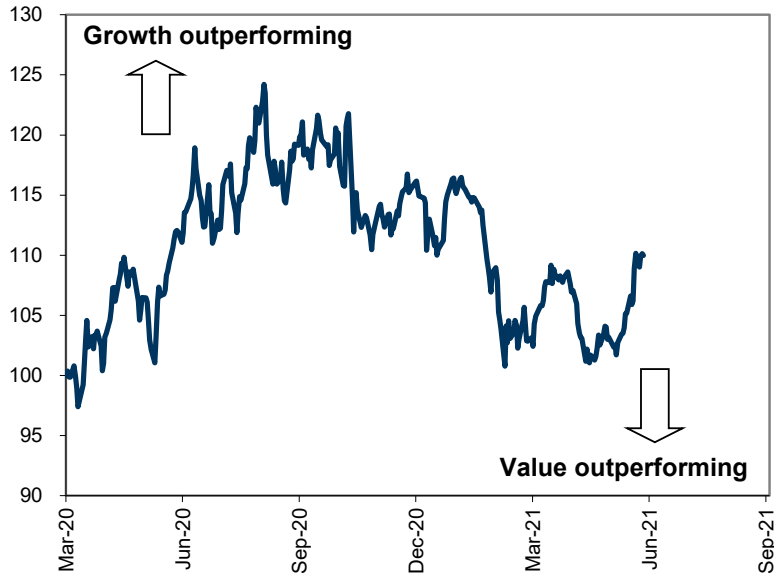
S&P 500 Sector and Industry Group Performance

		Weight	1 Week	1 Month	3 Months	Last 12 Months	YTD		
S&P 500		100 %	1.1 %	1.8 %	10 %	42 %	14 %		
S E C T O R	Energy	3 %	3.1 %	5.8 %	13 %	56 %	49 %	Top quartile	
	Consumer Discretionary	12	1.8	4.2	9	37	9	Bottom quartile	
	Information Technology	27	1.6	5.1	13	43	12		
	Industrials	9	1.5	(1.2)	8	56	16		
	Financials	11	1.4	(2.9)	10	62	25		
	Communication Services	11	1.1	3.2	11	47	19		
	Materials	3	0.4	(5.7)	8	53	14		
	Health Care	13	0.4	0.9	10	30	11		
	Consumer Staples	6	(0.5)	(2.0)	5	23	4		
	Real Estate	3	(0.9)	4.3	16	35	23		
Utilities	2	(3.1)	(3.4)	2	16	2			
								Region	Cycle
I N D U S T R Y G R O U P	Automobiles & Components	2 %	7.8 %	11.4 %	9 %	67 %	6 %	Global	Cyclicals
	Energy	3	3.1	5.8	13	56	49	Global	Cyclicals
	Consumer Durables & Apparel	1	2.5	(0.4)	4	52	8	Global	Cyclicals
	Banks	4	2.4	(5.7)	7	70	28	Domestic	Cyclicals
	Software & Services	14	2.1	5.5	13	36	14	Global	Defensives
	Capital Goods	6	1.7	(0.7)	7	55	17	Global	Cyclicals
	Media & Entertainment	10	1.3	3.8	13	55	23	Global	Cyclicals
	Transportation	2	1.2	(3.5)	8	64	16	Domestic	Cyclicals
	Commercial & Professional Services	1	1.2	1.2	14	42	11	Domestic	Defensives
	Technology Hardware & Equipment	8	1.0	3.6	11	49	5	Global	Defensives
	Semiconductors & Semiconductor Equipment	6	1.0	6.4	13	59	18	Global	Cyclicals
	Insurance	2	1.0	(4.4)	7	46	17	Domestic	Cyclicals
	Diversified Financials	5	0.8	0.0	14	63	25	Domestic	Cyclicals
	Health Care Equipment & Services	6	0.8	(0.1)	9	40	12	Domestic	Defensives
	Retailing	7	0.6	4.4	11	34	11	Domestic	Defensives
	Food & Staples Retailing	1	0.5	(1.0)	8	26	4	Domestic	Defensives
	Materials	3	0.4	(5.7)	8	53	14	Global	Cyclicals
	Consumer Services	2	0.2	(0.1)	5	45	8	Global	Defensives
	Pharmaceuticals Biotechnology & Life Sciences	7	(0.1)	2.0	10	22	10	Global	Defensives
	Telecommunication Services	1	(0.2)	(0.9)	2	12	3	Domestic	Defensives
Household & Personal Products	2	(0.5)	(2.7)	1	17	(2)	Global	Defensives	
Real Estate	3	(0.9)	4.3	16	35	23	Domestic	Defensives	
Food Beverage & Tobacco	3	(1.0)	(2.0)	6	26	7	Global	Defensives	
Utilities	2	(3.1)	(3.4)	2	16	2	Domestic	Defensives	

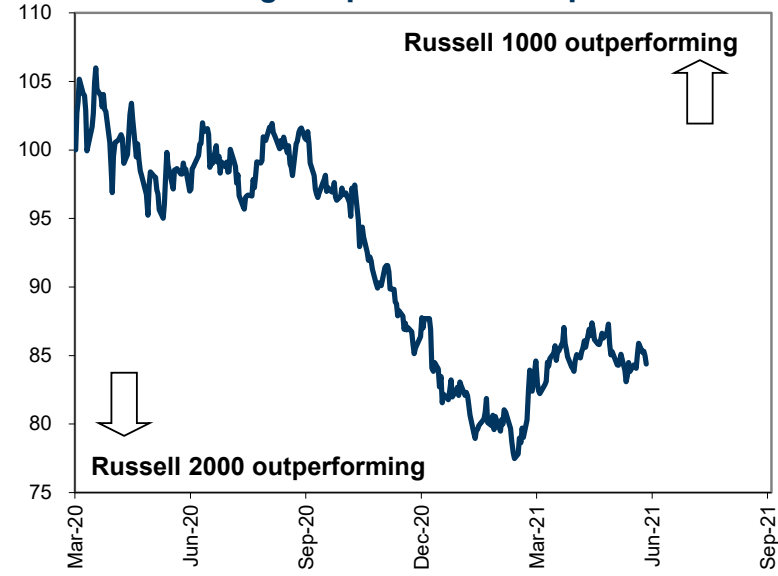
Source: FactSet and Goldman Sachs Global Investment Research.

Style and Size

Growth vs. Value



Large-cap vs. Small-cap



Sectors: Russell 1000 Growth vs. Value

Russell Sector	1-Week (% Return)			YTD (% Return)		
	Growth	Value	Δ (bps)	Growth	Value	Δ (bps)
Utilities	(1)	(3)	174	13	3	955
Technology	2	1	110	16	17	(159)
Health Care	1	(0)	110	11	10	159
Financials	2	1	96	15	25	(1,002)
Cons Discretionary	2	2	65	4	13	(892)
Industrials	2	2	35	12	17	(527)
Materials	0	0	6	5	17	(1,212)
Consumer Staples	(1)	(1)	(33)	1	9	(801)
Energy	3	3	(40)	6	48	(4,173)
Index	2	1	99	12	17	(502)

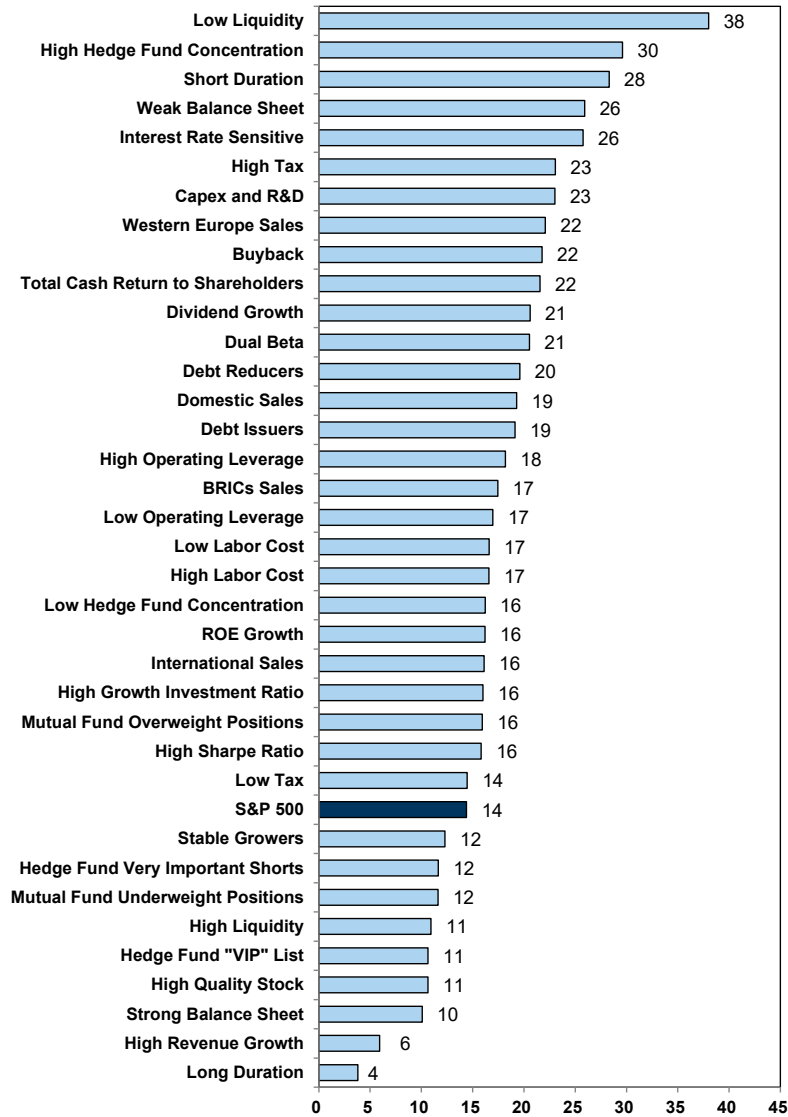
Sectors: Russell 1000 vs. Russell 2000

Russell Sector	1-Week (% Return)			YTD (% Return)		
	R1000	R2000	Δ (bps)	R1000	R2000	Δ (bps)
Financials	1	1	49	24	23	45
Cons Discretionary	2	2	(23)	8	38	(3,012)
Industrials	2	2	(54)	15	19	(394)
Utilities	(3)	(2)	(85)	4	0	311
Technology	2	3	(103)	16	11	473
Materials	0	2	(181)	16	26	(930)
Health Care	1	3	(205)	11	3	711
Consumer Staples	(1)	1	(230)	6	16	(1,022)
Energy	3	7	(371)	46	50	(420)
Index	1	2	(82)	14	19	(448)

Source: FactSet and Goldman Sachs Global Investment Research.

US Portfolio Strategy Baskets are available on GS [Marquee](#) platform

YTD Performance



	Ticker	Total Return			P/E	EV/Sales	Div	
		1 wk	1 mo	YTD	NTM	NTM	Yield	
Macroeconomic	Dual Beta	GSTHBETA	1.3 %	2 %	21 %	16x	3.5x	0.1 %
	Interest Rate Sensitive	GSTHUSTY	0.7	(1)	26	17	2.2	1.4
	High Tax	GSTHHTAX	1.4	2	23	21	3.5	1.0
	Low Tax	GSTHLTAX	0.5	1	14	21	4.7	0.5
	High Labor Cost	GSTHHLAB	1.0	1	17	21	3.7	1.0
	Low Labor Cost	GSTHLLAB	0.7	(0)	17	17	2.7	1.0
Geographic Sales	Domestic Sales	GSTHAINT	1.1 %	1 %	19 %	21x	3.1x	1.1 %
	International Sales	GSTHINTL	0.6	1	16	24	5.5	0.8
	BRICs Sales	GSTHBRIC	0.9	1	17	21	4.8	0.8
	Western Europe Sales	GSTHWEUR	1.1	(0)	22	20	3.5	0.2
Fundamental	High Revenue Growth	GSTHREVG	1.9 %	3 %	6 %	26x	4.9x	0.1 %
	High Operating Leverage	GSTHOPHI	1.2	1	18	22	2.5	0.2
	Low Operating Leverage	GSTHOPLO	0.6	1	17	23	5.4	0.8
	Stable Growers	GSTHSTGR	0.5	0	12	23	3.8	1.2
	ROE Growth	GSTHGROE	0.7	(1)	16	21	3.4	1.5
	High Quality Stock	GSTHQUAL	1.4	3	11	29	4.3	0.8
	Long Duration	GSTHLDUR	3.9	3	4	51	12.5	0.0
	Short Duration	GSTHSDUR	0.5	12	28	13	2.0	0.9
	Strong Balance Sheet	GSTHSBAL	2.1	5	10	39	7.8	0.0
	Weak Balance Sheet	GSTHWBAL	0.1	(2)	26	15	2.6	1.0
Uses of Cash	Capex and R&D	GSTHCAPX	0.7 %	1 %	23 %	13x	2.8x	1.0 %
	Total Cash Return to Shareholders	GSTHCASH	0.0	1	22	16	3.4	2.0
	Buyback	GSTHREPO	0.3	1	22	17	3.8	1.2
	Dividend Growth	GSTHDIVG	0.5	(1)	21	14	2.6	2.8
	High Growth Investment Ratio	GSTHHGIR	1.2	3	16	26	5.1	0.0
	Debt Issuers	GSTHDISS	0.5	2	19	20	3.6	0.6
Debt Reducers	GSTHDRED	1.0	(1)	20	16	2.4	1.0	
Risk & Liquidity	High Sharpe Ratio	GSTHSHRP	1.7 %	2 %	16 %	19x	4.5x	0.7 %
	High Liquidity	GSTHHLIQ	1.2	2	11	23	4.6	1.6
	Low Liquidity	GSTHLLIQ	1.5	(2)	38	16	1.8	2.2
Hedge Funds & Mutual Funds	Hedge Fund "VIP" List	GSTHHVIP	1.9 %	3 %	11 %	28x	5.9x	0.0 %
	Hedge Fund Very Important Shorts	GSTHVISP	0.9	1	12	21	4.3	2.1
	High Hedge Fund Concentration	GSTHHFHI	2.9	2	30	20	3.3	0.0
	Low Hedge Fund Concentration	GSTHHFSL	0.5	(2)	16	23	3.9	2.4
	Mutual Fund Overweight Positions	GSTHMFOW	1.4	0	16	18	3.6	1.4
	Mutual Fund Underweight Positions	GSTHMFUW	0.7	2	12	26	4.9	1.8
					S&P 500 Median	26	4.6	1.6

For details and constituents of our baskets see [Anatomy of our US Portfolio Strategy Thematic and Sector Baskets](#), March 16, 2021.

Source: FactSet and Goldman Sachs Global Investment Research.

US Portfolio Strategy Baskets – Relative performance vs. S&P 500

Macroeconomics

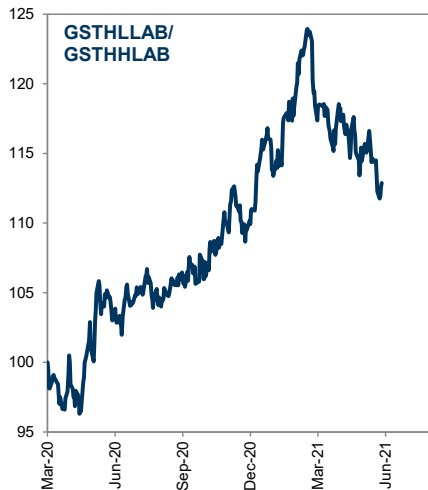
Dual Beta



Interest Rate Sensitive



Low vs. High Labor Cost



High vs. Low Tax Rate

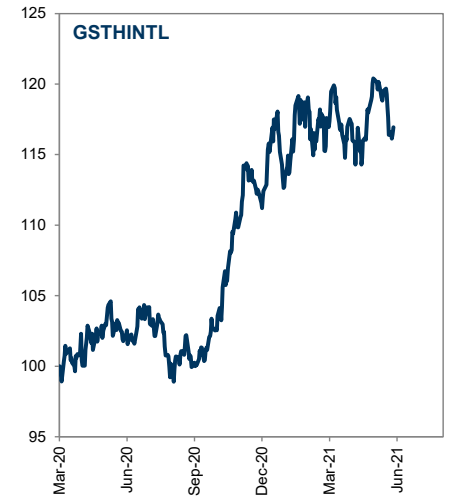


Geographic Sales

US Sales



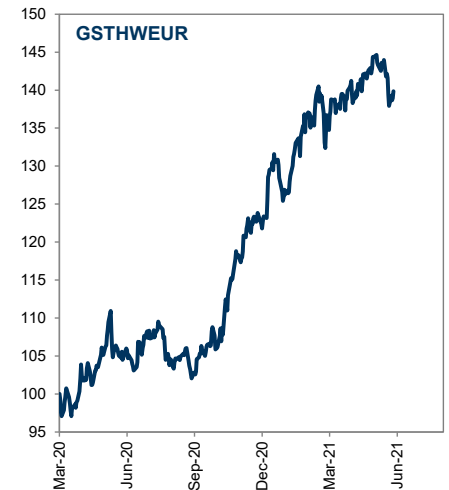
International Sales



BRICs Sales



Western Europe Sales

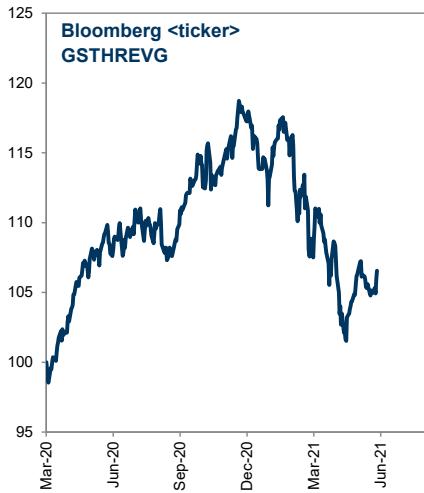


Source: FactSet and Goldman Sachs Global Investment Research.

US Portfolio Strategy Baskets – Relative performance vs. S&P 500 (continued)

Fundamentals

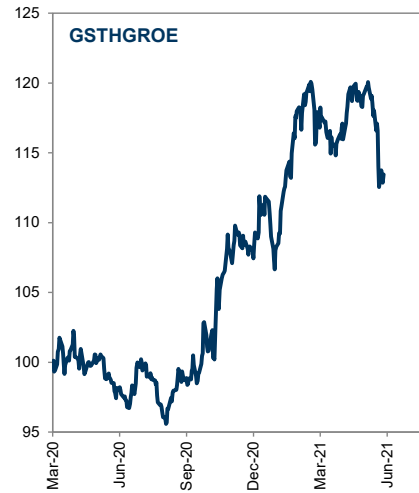
Revenue Growth



High vs. Low Operating Leverage



ROE Growth



Long vs. Short Duration



High Quality



Strong vs. Weak Balance Sheet



High vs. Low Adjusted FCF



Stable Growers



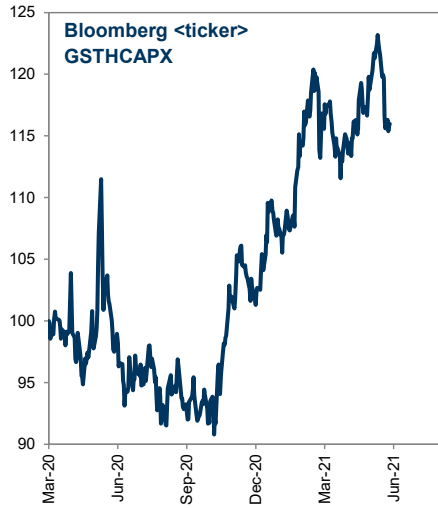
Source: FactSet and Goldman Sachs Global Investment Research.

US Portfolio Strategy Baskets – Relative performance vs. S&P 500 (continued)

Uses of Cash

Risk & Liquidity

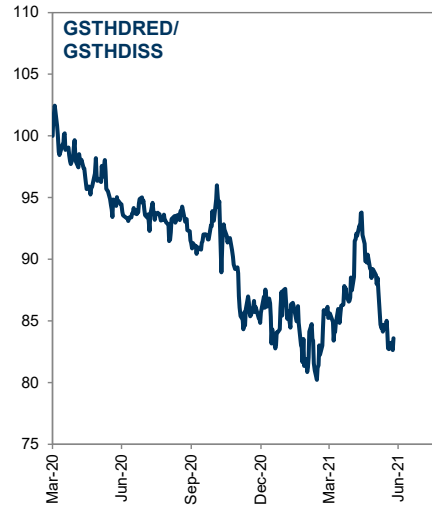
Capex and R&D



High Growth Investment Ratio



Debt Reducers vs. Issuers



High Sharpe Ratio



Total Cash Return



Buybacks



Dividend Growth



Low vs. High Liquidity



Source: FactSet and Goldman Sachs Global Investment Research.

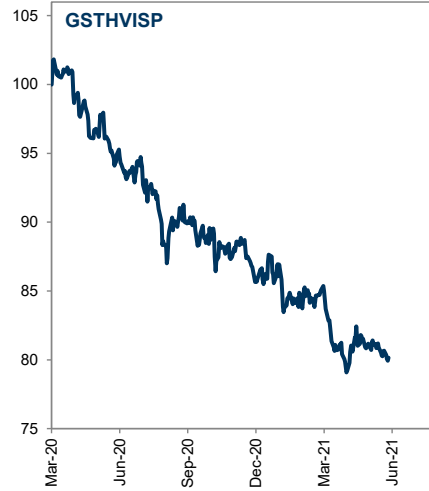
US Portfolio Strategy Baskets – Relative performance vs. S&P 500 (continued)

Hedge Fund Ownership

Hedge Fund VIP



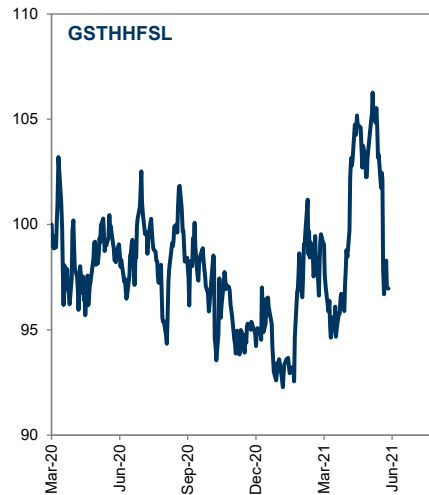
Short Positions



High Concentration



Low Concentration

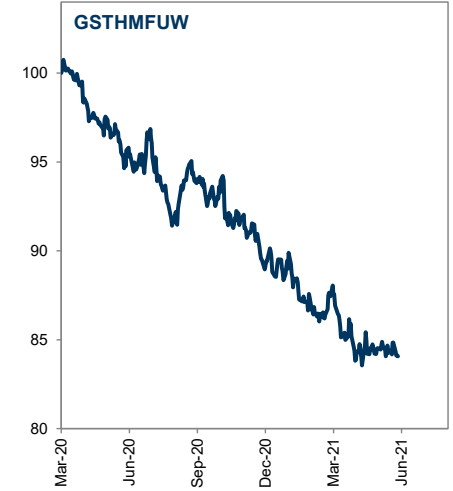


Mutual Fund Ownership

Overweight Positions



Underweight Positions



Source: FactSet and Goldman Sachs Global Investment Research.

S&P 500 Earnings, Sales and Revisions

Consensus Bottom-Up EPS

	2020A	Adjusted EPS GS Top-Down				Adjusted EPS Consensus Bottom-Up			
		Contribution		EPS growth		Contribution		EPS growth	
		2021E	2022E	2021E	2022E	2021E	2022E	2021E	2022E
Information Technology	\$34	\$44	\$46	27 %	6 %	\$43	\$47	24 %	10 %
Financials	23	36	34	54	(6)	35	34	48	(1)
Health Care	28	31	32	12	0	32	33	14	3
Communication Services	16	20	22	23	12	20	22	26	12
Consumer Discretionary	9	15	17	67	12	14	20	63	36
Industrials	8	14	17	89	16	13	18	73	36
Consumer Staples	11	12	12	5	2	12	13	6	7
Materials	4	6	7	58	8	6	6	66	(5)
Utilities	5	6	6	5	3	6	6	5	5
Real Estate	4	5	5	5	3	5	5	7	4
S&P 500 ex-Energy	143	188	196	32	4	185	203	29	10
Energy	(1)	5	6	NM	24	6	8	NM	23
S&P 500 EPS	\$142	\$193	\$202	35 %	5 %	\$191	\$211	34 %	10 %

Earnings & Sales Revisions (Consensus)

	EPS REVISIONS				SALES REVISIONS			
	1 month		3 month		1 month		3 month	
	21E	22E	21E	22E	21E	22E	21E	22E
Energy	8.1 %	6.7 %	28.9 %	19.5 %	0.7 %	0.8 %	8.8 %	3.5 %
Materials	4.2	2.2	15.8	11.6	1.1	1.0	5.6	5.3
Consumer Discretionary	3.0	1.4	11.5	8.5	0.5	0.3	2.3	3.8
Real Estate	1.2	1.1	7.1	3.2	NM	NM	NM	NM
Financials	1.1	0.3	18.0	5.0	NM	NM	NM	NM
S&P 500	1.1	0.8	8.7	5.3	0.4	0.4	2.6	2.6
Information Technology	0.9	0.9	6.8	6.0	0.6	0.7	3.3	3.6
S&P 500 ex. Energy	0.8	0.5	8.1	4.8	0.3	0.4	2.1	2.6
Industrials	0.6	0.7	4.6	6.0	0.2	0.4	2.7	3.1
Consumer Staples	0.4	0.2	1.6	1.1	0.5	0.5	1.0	1.2
Communication Services	(0.0)	0.2	11.1	6.8	0.0	0.1	2.2	2.4
Health Care	(0.2)	(0.2)	1.6	0.8	0.1	0.3	0.9	1.1
Utilities	(0.4)	(0.4)	(1.5)	(0.9)	NM	NM	NM	NM

Earnings Growth (consensus bottom-up)

	2021 Earnings Per Share Growth				Annual	
	1QE	2QE	3QE	4QE	2021E	2022E
Industrials	(2)%	355 %	77 %	66 %	73 %	36 %
Materials	59	114	70	32	66	(5)
Consumer Discretionary	221	167	6	25	63	36
Financials	135	114	15	(2)	48	(1)
S&P 500	48	61	23	17	34	10
S&P 500 ex. Energy	49	48	18	12	29	10
Communication Services	51	36	16	7	26	12
Information Technology	40	29	21	12	24	10
Health Care	23	12	9	11	14	3
Real Estate	(1)	8	11	9	7	4
Consumer Staples	8	6	3	5	6	7
Utilities	8	1	4	9	5	5
Energy	17	NM	NM	NM	NM	23

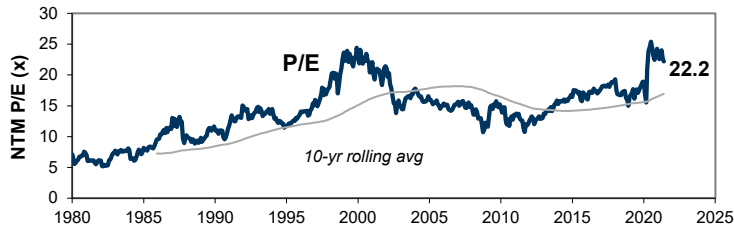
Sales Growth (consensus bottom-up)

	2021E Sales Per Share Growth				Annual	
	1QE	2QE	3QE	4QE	2021E	2022E
Energy	(3)%	78 %	40 %	37 %	32 %	4 %
Communication Services	16	25	19	17	19	10
Consumer Discretionary	18	30	14	13	17	13
Materials	10	29	19	13	17	3
Industrials	2	26	17	15	14	9
S&P 500	9	21	13	12	13	7
Information Technology	20	15	13	8	13	7
S&P 500 ex. Energy	10	18	11	10	12	8
Health Care	7	12	5	6	7	5
Consumer Staples	3	6	4	5	4	4

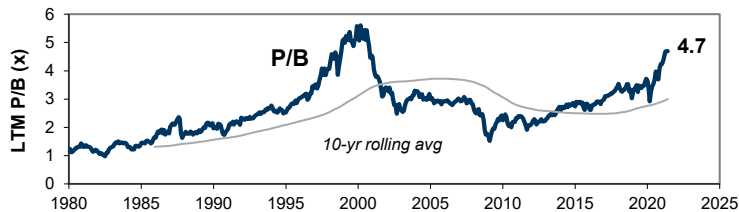
Source: FirstCall, I/B/E/S, FactSet, and Goldman Sachs Global Investment Research.

Valuation: Absolute and Relative

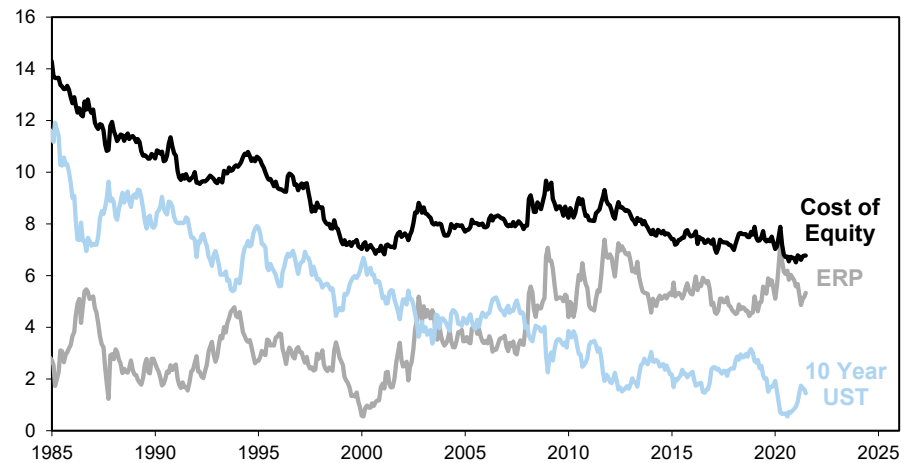
S&P 500 NTM P/E



S&P 500 LTM P/B



S&P 500 Cost of Equity = ERP + 10-yr UST



We estimate the equity risk premium (ERP) using our DDM framework to model expected future cash flows.
We solve for the cost of equity that implies the market is at 'fair value' and then deduct the 10-year US treasury.

Current aggregate valuation metrics - absolute

	EV/ Sales	EV/ EBITDA	Price/ Book	FCF Yield	PEG Ratio	NTM P/E
S&P 500	3.4x	17.4x	4.7x	3.6 %	1.2x	22.2x
Financials	NM	NM	1.7	NM	1.1	14.8
Materials	3.1	13.8	3.4	4.5	1.2	17.2
Health Care	2.2	14.4	5.2	5.3	1.5	17.4
Energy	2.2	25.6	1.9	2.2	0.4	17.5
Utilities	NM	11.8	2.2	(3.9)	3.2	18.9
Cons Staples	1.9	14.5	6.6	4.9	2.3	21.0
Real Estate	NM	NM	4.3	NM	1.7	23.3
Comm Services	4.7	12.8	4.5	4.3	1.1	23.8
Industrials	3.1	23.0	6.0	2.6	1.5	24.9
Info Tech	7.2	21.3	11.4	3.6	1.6	27.0
Cons Discr	3.2	22.0	12.6	2.9	1.0	34.8

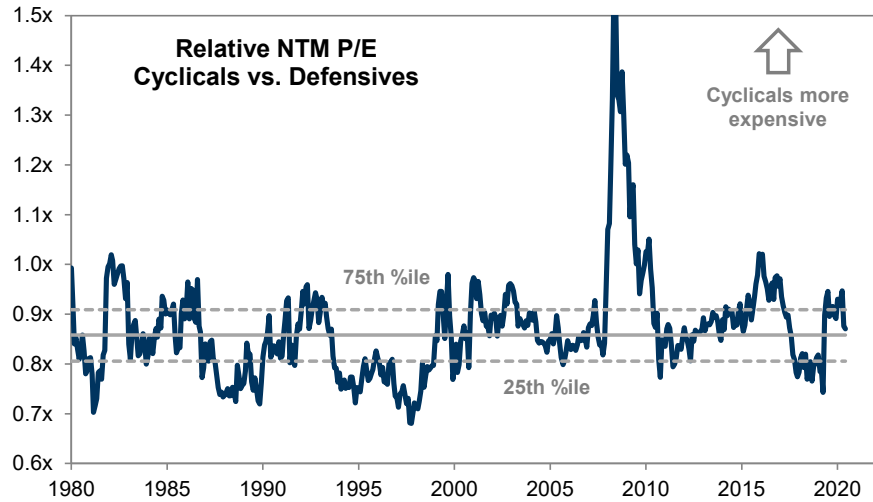
Current relative valuation vs. historical average (Z-score)

	10-year						30-year	
	EV/ Sales	EV/ EBITDA	Price/ Book	FCF Yield	PEG Ratio	P/E	Median Z-Score	Median Z-Score
S&P 500	2.9	2.3	2.9	1.4	(0.6)	1.7	2.0	1.9
Cons Staples	(2.2)	(2.5)	(1.6)	(1.9)	0.4	(1.8)	(1.9)	(1.8)
Materials	(1.6)	(1.9)	(1.3)	(2.1)	(0.6)	(2.6)	(1.7)	(0.8)
Health Care	(2.1)	(1.9)	(1.6)	(0.7)	0.9	(1.4)	(1.5)	(1.4)
Financials	NM	NM	(1.6)	NM	(0.2)	(1.4)	(1.4)	(1.1)
Comm Services	(1.8)	(2.8)	(1.4)	(0.1)	(0.3)	(0.8)	(1.1)	(1.1)
Energy	(0.6)	1.1	(1.1)	(0.7)	0.2	(0.7)	(0.6)	(0.3)
Real Estate	NM	NM	(2.1)	NM	1.9	(0.3)	(0.3)	0.2
Utilities	NM	(2.6)	(2.6)	2.7	0.2	0.2	0.2	0.8
Industrials	(0.8)	2.9	(0.5)	1.8	(0.0)	1.3	0.7	1.1
Cons Discr	0.9	1.2	2.1	(0.1)	0.1	1.3	1.1	1.4
Info Tech	1.5	1.4	1.8	1.7	1.9	2.1	1.8	0.9

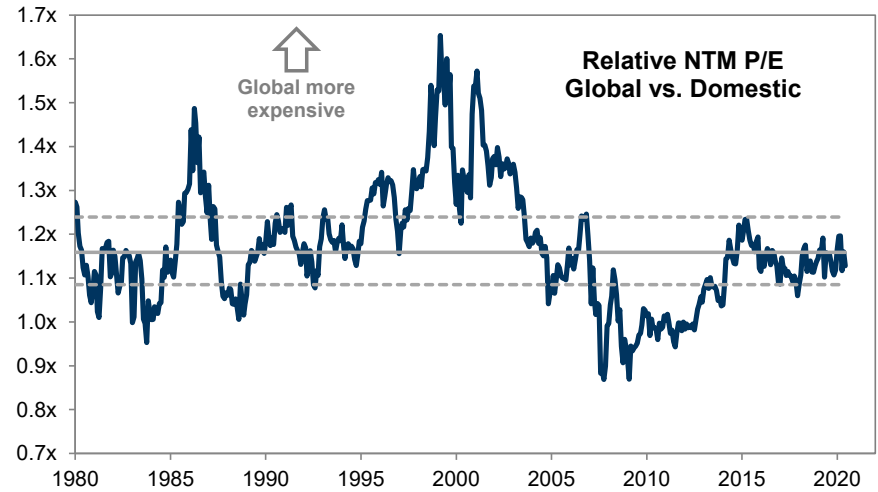
Source: FactSet, I/B/E/S, FirstCall, and Goldman Sachs Global Investment Research.

Valuation: Sector baskets

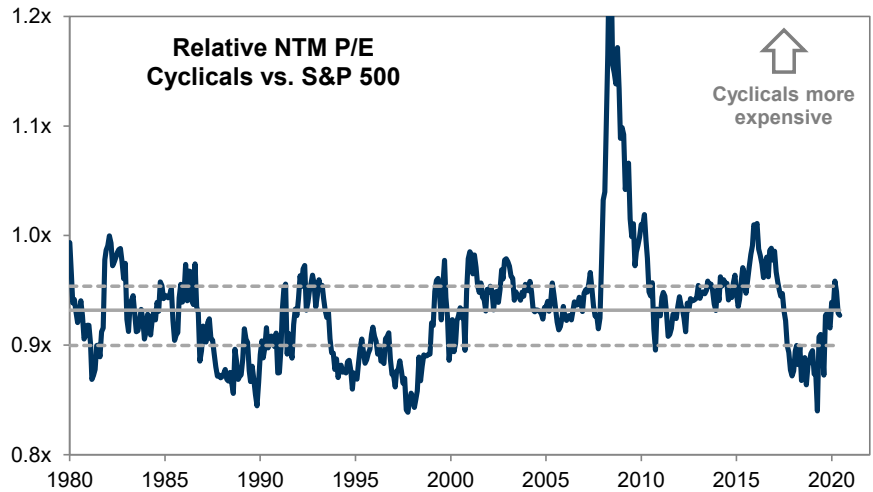
Valuation of Cyclical vs. Defensives



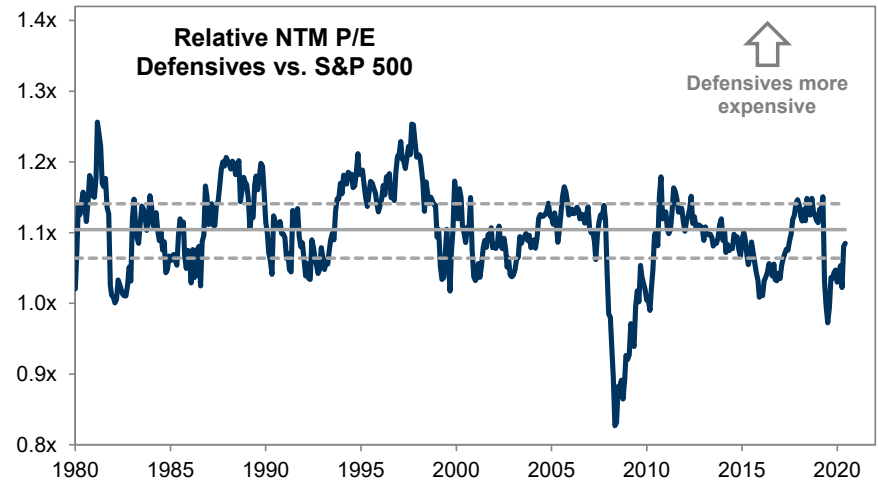
Global vs. Domestic



Cyclicals vs. S&P 500

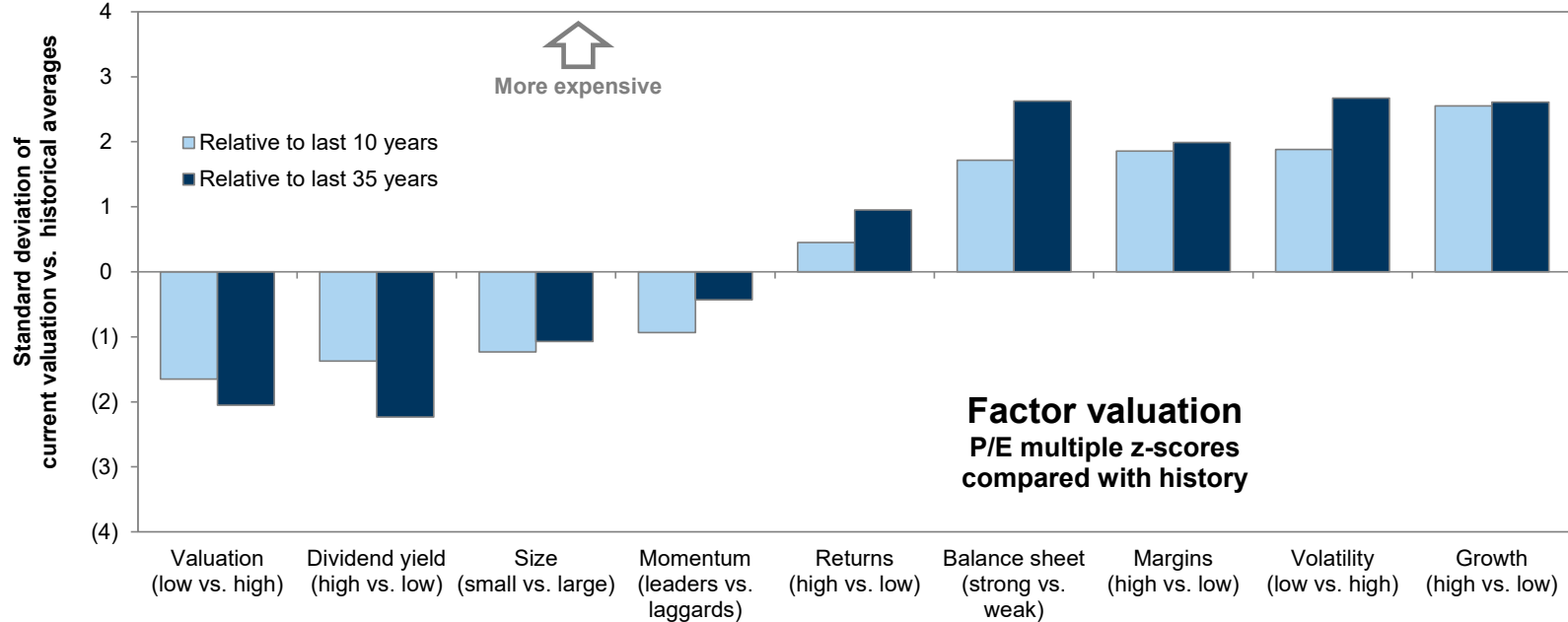
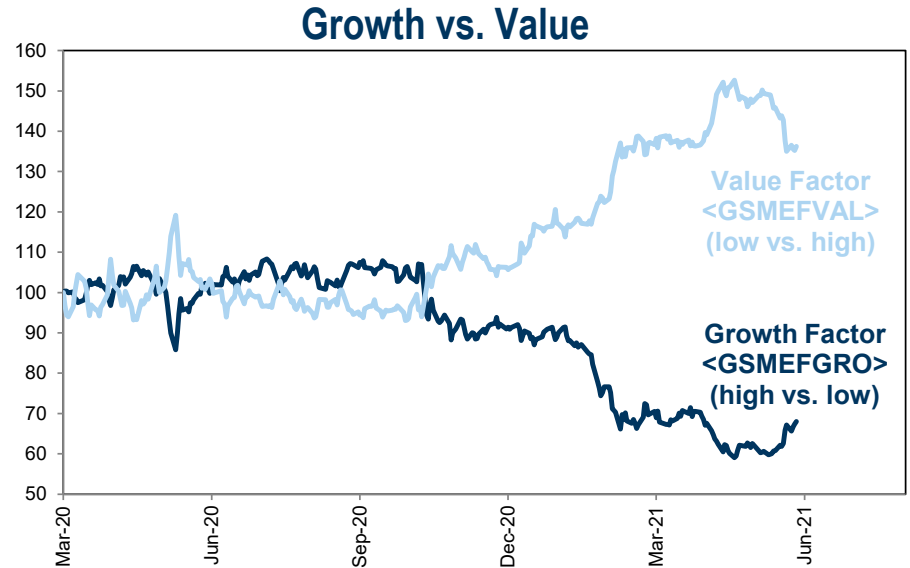
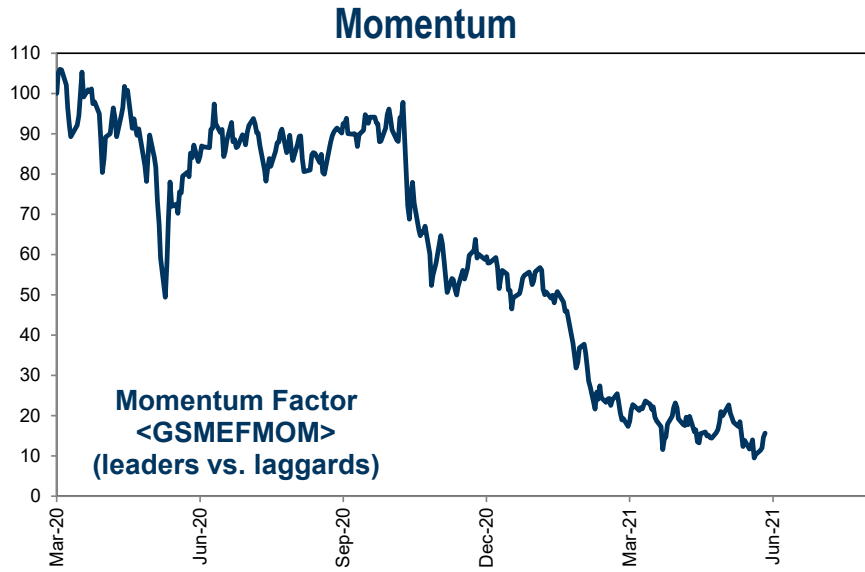


Defensives vs. S&P 500



Source: Compustat, FactSet, I/B/E/S, and Goldman Sachs Global Investment Research.

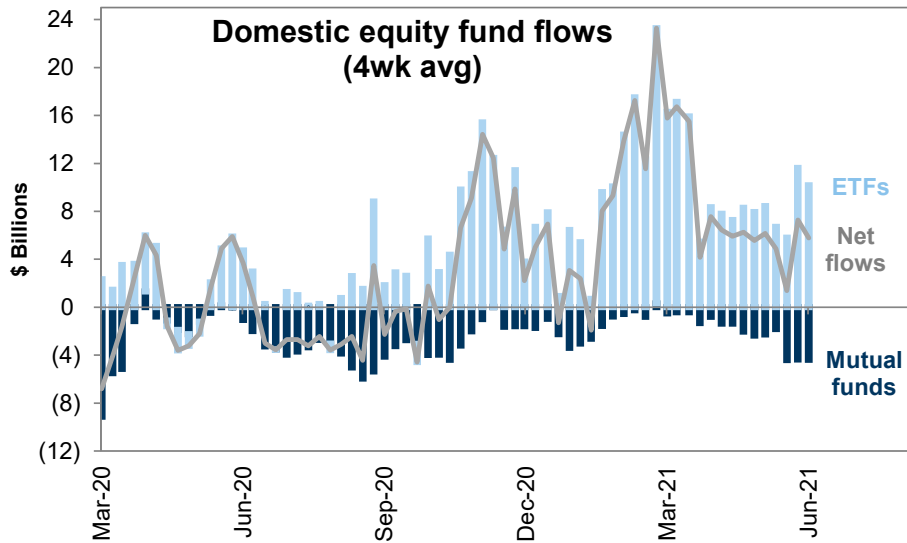
Factors: Performance and Valuation



Source: Compustat, FactSet, I/B/E/S, and Goldman Sachs Global Investment Research.

Fund Flows, Fund Performance, and Short Interest

Domestic equity fund flows

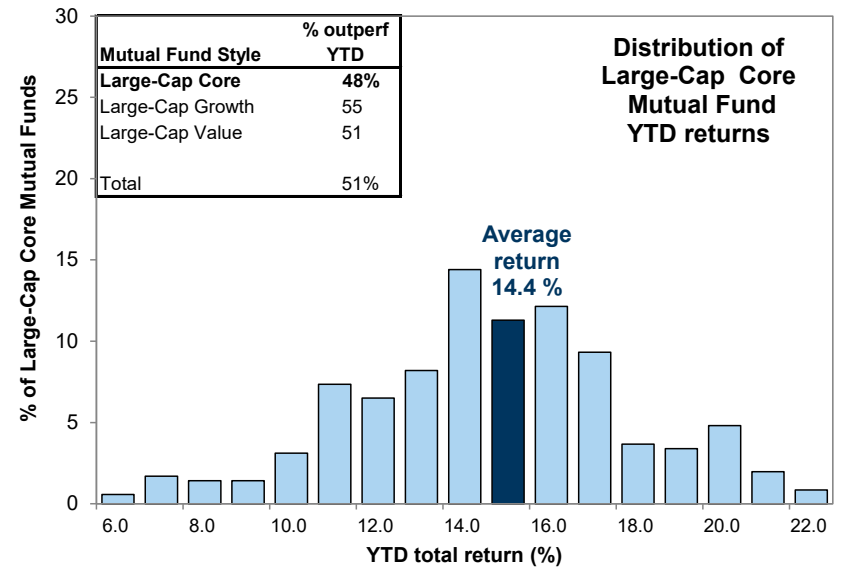


Weekly fund flows

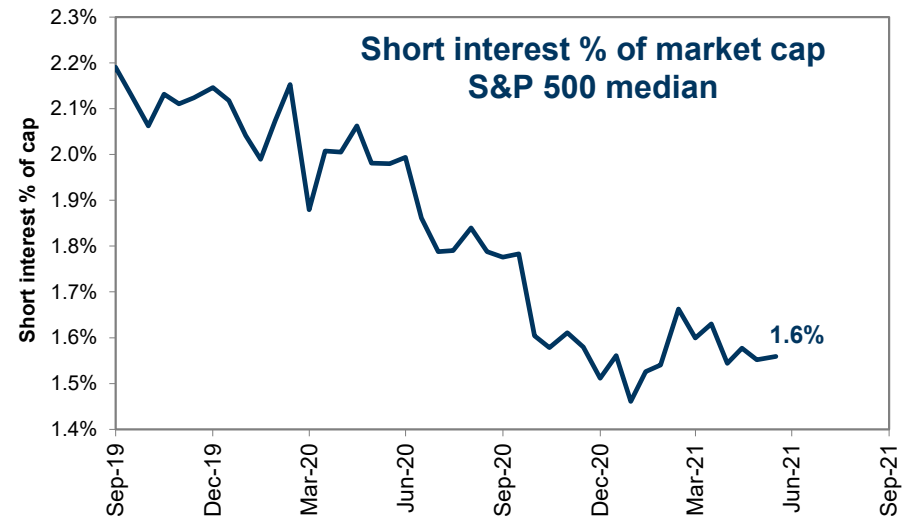
(\$ billions)	EPFR Mutual Fund Flows			EPFR ETF Fund Flows		
	Total Assets	4-Wk Avg Flows	Total Flows YTD	Total Assets	4-Wk Avg Flows	Total Flows YTD
All Equity	9,977	(1.4)	103.9	7,122	16.9	470.8
U.S. Equity	4,102	(4.4)	(48.4)	4,310	10.2	260.1
Equity Income	686	(0.1)	(9.8)	379	1.4	28.5
Int'l Equity	5,204	3.9	161.0	2,232	5.0	164.5
Global	670	(0.9)	(8.8)	580	1.8	46.2
ESG/SRI	940	3.0	95.9	231	1.4	59.4
All Bonds	5,739	8.9	158.7	1,597	3.7	117.8
All Taxable Bond	4,840	7.9	132.9	1,244	2.9	105.8
Gov't Treasury	384	0.0	4.9	277	0.2	1.3
Municipal Bond	515	1.0	21.0	75	0.6	10.7
ESG/SRI	362	1.4	32.5	40	0.3	14.7
Money Market	6,368	(21.4)	102.8	66	(0.7)	12.8

Source: FactSet, EPFR, and Goldman Sachs Global Investment Research.

Mutual Fund Performance

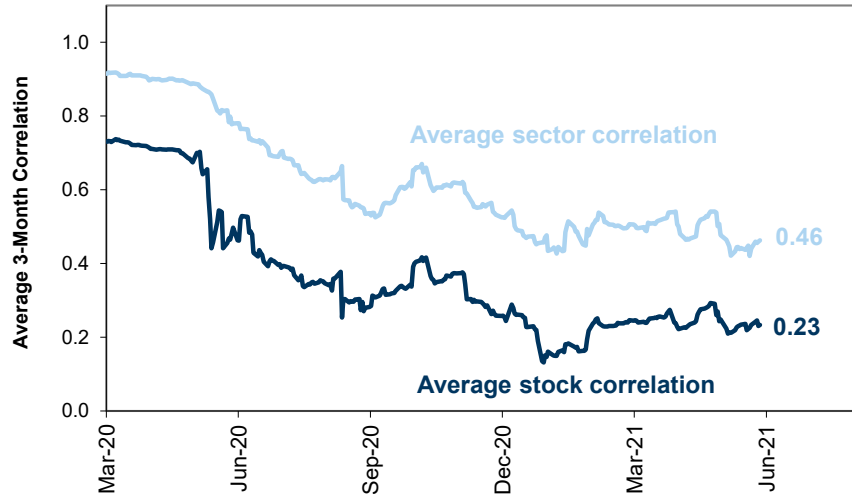


Short Interest

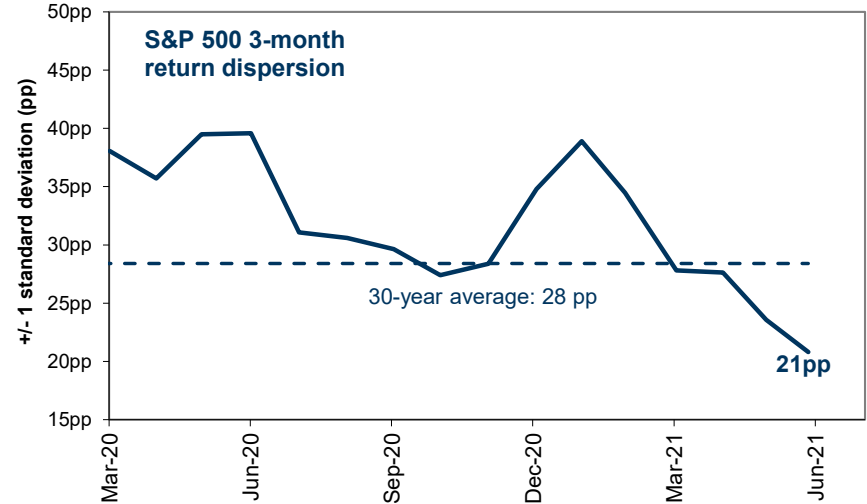


Correlation, Breadth and Dispersion

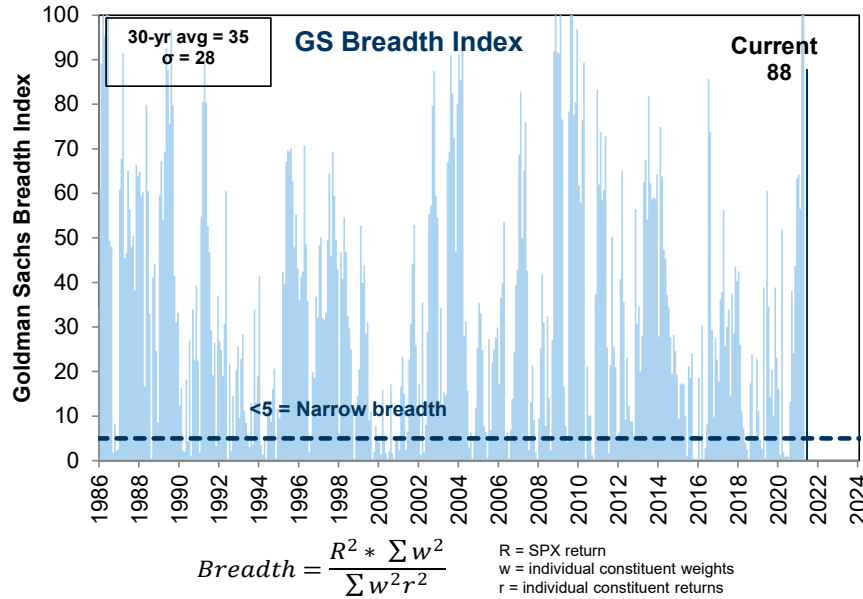
Sector and Stock Correlation



S&P 500 3-month Return Dispersion



Goldman Sachs Breadth Index (GSBI)



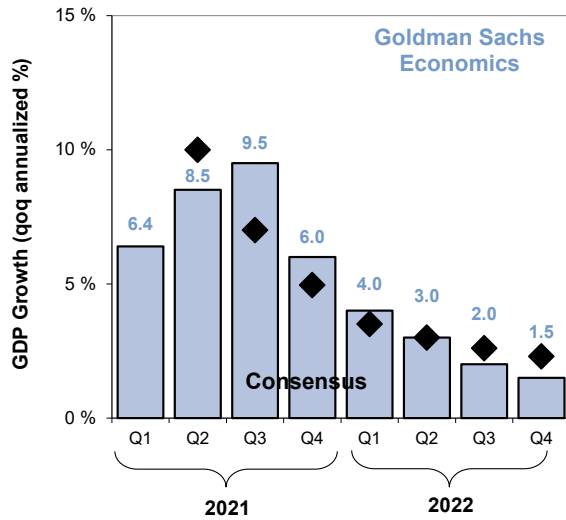
Return Dispersion

	+/- 1 Standard Deviation					
	1-Month Returns			3-Month Returns		
	Current Jun 24	30-Year Average	Historical %ile	Current Jun 24	30-Year Average	Historical %ile
S&P 500	13 pp	16 pp	24 %	21 pp	28 pp	10 %
Communication Services	11 pp	15 pp	32 %	35 pp	26 pp	82 %
Real Estate	8	9	53	12	15	41
Health Care	15	15	67	22	26	35
Financials	11	13	54	16	22	35
Energy	16	14	73	20	25	31
Materials	9	15	12	20	25	22
Industrials	10	13	28	18	23	21
Information Technology	13	19	18	24	34	19
Consumer Discretionary	11	17	7	21	29	9
Utilities	7	10	38	9	18	6
Consumer Staples	7	13	1	12	22	0

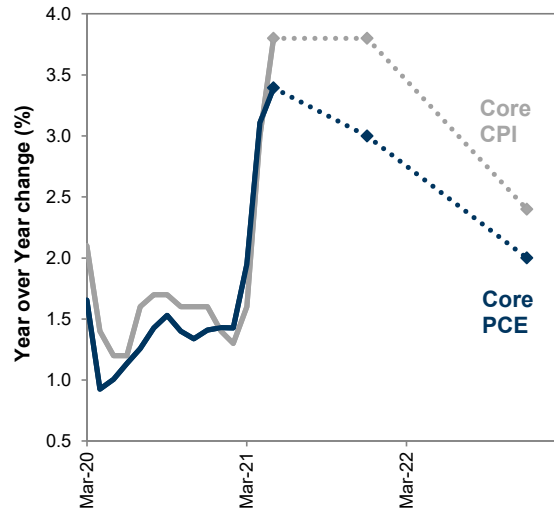
Source: FactSet and Goldman Sachs Global Investment Research.

Economics

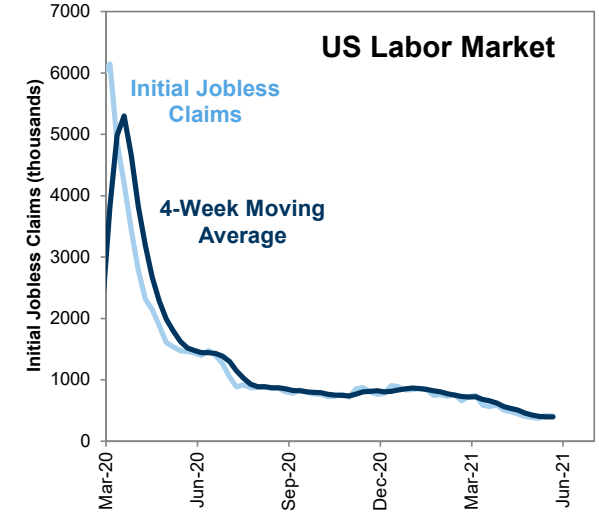
GDP



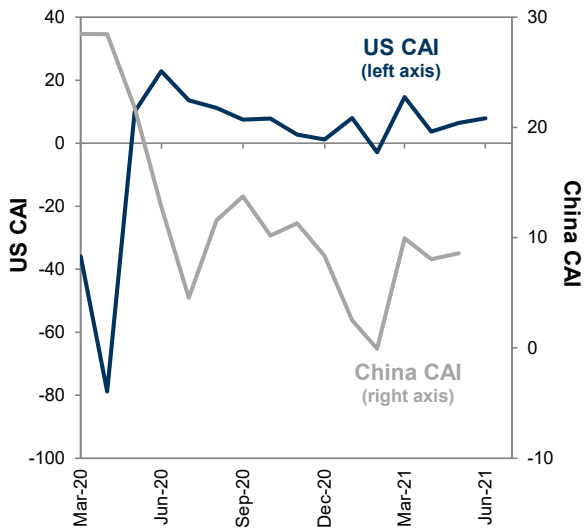
Core PCE and CPI



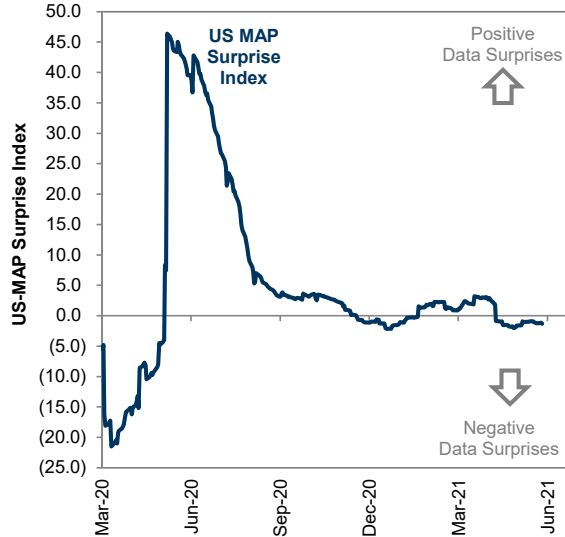
Employment



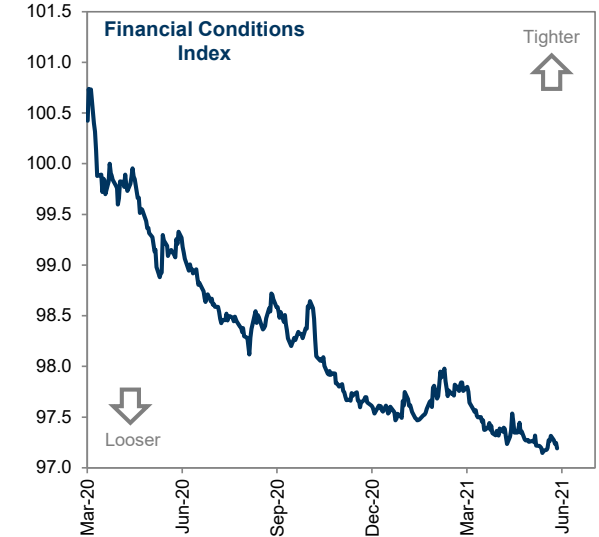
Current Activity (CAI)



Economic Surprise (MAP)



Financial Conditions (FCI)



Our Current Activity Indicator (CAI) measures the growth signal in major high-frequency activity indicators for the US economy, expressed in GDP-equivalent units.

Source: FactSet and Goldman Sachs Global Investment Research.

Goldman Sachs Global Macro Forecasts

Goldman Sachs Global Macro Forecasts						Change to Target
units	Current	3m	6m	12m		
Equities						
MXAPJ	level	696	700	725	770	11 %
TOPIX	level	1947	2050	2100	2150	10
STOXX Europe 600	level	457	460	470	480	5
S&P 500	level	4266	4300	4300	4450	4
Ten Year Rates						
US	%	1.4	1.9	1.9	2.0	56 bp
Japan	%	0.1	0.3	0.3	0.3	25
Euro Area (Germany)	%	(0.2)	0.0	0.0	0.0	19
Corporate Bonds						
High yield	bp	278	310	305	300	22 bp
Investment grade	bp	82	92	91	88	6
Currencies						
Euro / US Dollar	EUR/\$	1.19	1.20	1.23	1.25	5 %
Sterling / US Dollar	£/\$	1.39	1.36	1.40	1.42	2
US Dollar / Yen	\$/¥	111	110	108	106	(4)
Commodities						
LME Copper	\$/mt	9391	10500	11000	11500	22 %
COMEX Gold	\$/troy oz	1777	2000	2000	2000	13
WTI Crude Oil	\$/bbl	70	77	72	72	3
Brent Crude Oil	\$/bbl	75	80	75	75	0
NYMEX Nat. Gas	\$/mmBtu	3	3	3	3	(15)

	EPS Forecast			EPS Growth		NTM P/E		Div Yield
	2020	2021	2022	2021	2022	Current	YE 2021	
MXAPJ	\$ 30	\$ 41	\$ 48	33 %	16 %	15.8 x	16.2 x	2.4 %
TOPIX	¥ 95	¥ 126	¥ 138	33	9	14.8	15.6	2.2
STOXX Europe 600	€ 17	€ 25	€ 28	45	11	17.3	17.3	2.8
S&P 500	\$ 142	\$ 193	\$ 202	35	5	21.6	21.3	1.4

Source: FactSet and Goldman Sachs Global Investment Research.

Goldman Sachs US Economics Forecasts

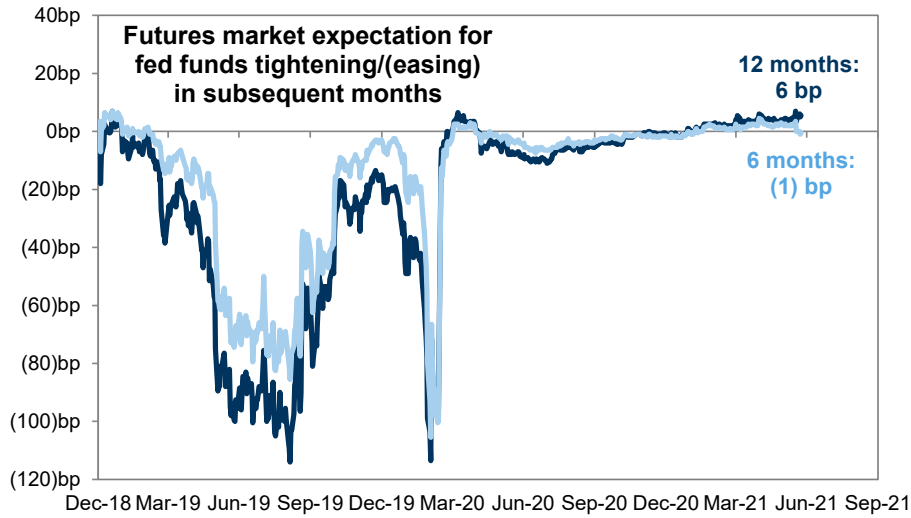
	Share of GDP	% Annual Change			
		2019	2020	2021E	2022E
OUTPUT AND SPENDING					
Real GDP	100%	2.2%	(3.5)%	6.9%	4.7%
Consumer Spending	70	2.4	(3.9)	8.5	4.5
Total Fixed Investment	18	1.9	(1.8)	11.0	5.4
Business Fixed Investment	15	2.9	(4.0)	9.8	5.7
Structures	2	(0.6)	(11.0)	(3.9)	7.0
Equipment	7	2.1	(5.0)	15.9	4.6
IP Products	5	6.4	1.7	10.5	6.4
Residential Investment	4	(1.7)	6.1	14.9	4.5
Federal Government Spending	7	4.0	4.3	2.9	(0.9)
State and Local Government	10	1.3	(0.8)	0.2	3.1
Net Exports (Bil.)	(6)	(918)	(926)	(1,248)	(1,291)
HOUSING MARKET					
Housing Starts (000s)		1,292	1,397	1,628	1,676
New Home Sales (000s)		683	828	900	919
Existing Home Sales (000s)		5,327	5,658	6,348	6,470
Case-Shiller Home Prices (%)		3.4	9.8	6.8	3.9
INFLATION					
Core CPI		2.2	1.6	3.8	2.4
Core PCE		1.6	1.4	3.0	2.0
LABOR MARKET					
Unemployment Rate		3.6	6.7	4.2	3.5
U6 Underemployment Rate		6.8	11.7	8.2	7.1
Payrolls (000s)		201	(942)	770	289
GOVERNMENT FINANCE					
Federal Budget (FY, Bil.)		(984)	(3132)	(3300)	(1800)
Federal debt-to-GDP ratio (FY, %)		79	100	105	104
FINANCIAL INDICATORS					
Fed Funds Rate		1.6	0.1	0.1	0.1
10-year Treasury Rate		1.9	0.9	1.9	2.1

Real GDP

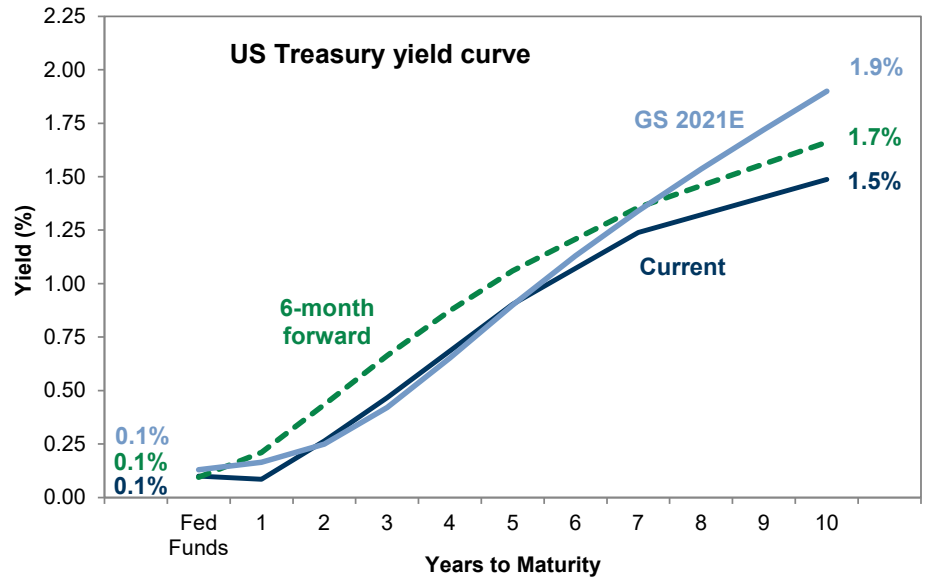
	2020E	2021E	2022E	2023E
China	2.0 %	8.8 %	5.7 %	5.4 %
Australia	(2.4)	5.5	3.1	2.0
Russia	(2.9)	4.3	3.7	3.2
World	(3.3)	6.6	4.8	3.3
USA	(3.5)	6.9	4.7	1.8
Brazil	(4.4)	5.8	2.6	2.5
Japan	(4.7)	2.7	3.2	1.3
Germany	(5.1)	3.5	4.7	1.8
Euro Area	(6.7)	5.2	4.5	1.7
France	(8.0)	6.4	4.4	1.9
Italy	(8.9)	5.7	4.4	1.2
UK	(9.8)	8.1	5.5	1.7
Spain	(10.8)	7.0	6.3	1.8

Politics and policies

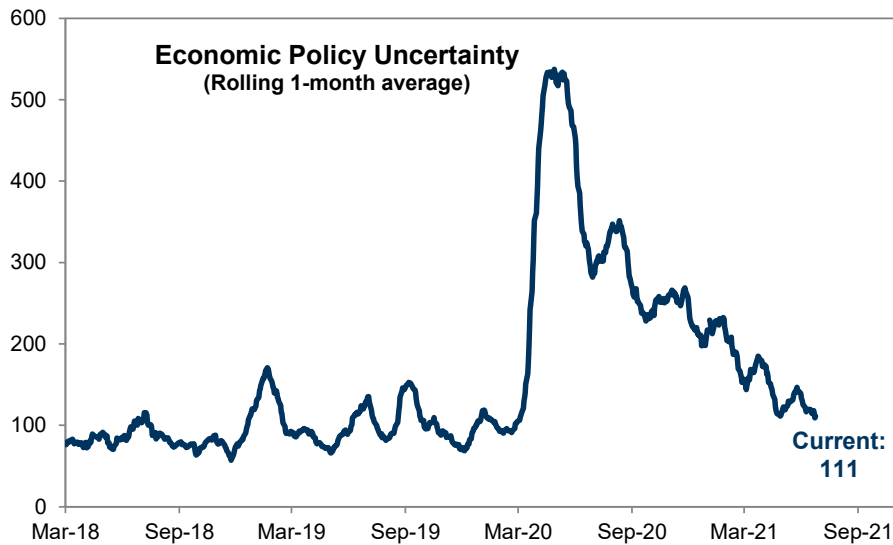
Market-implied change in fed funds rate



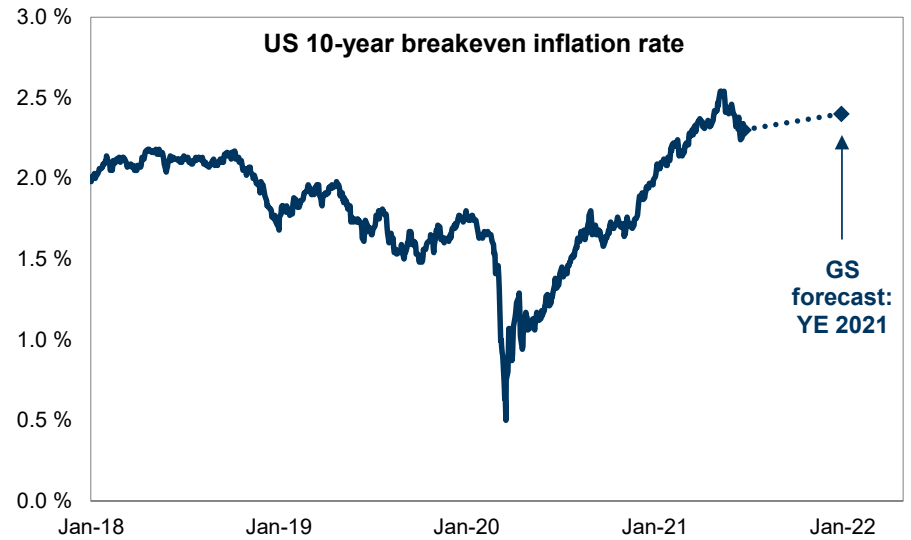
US Treasury yield curve



Economic Policy Uncertainty

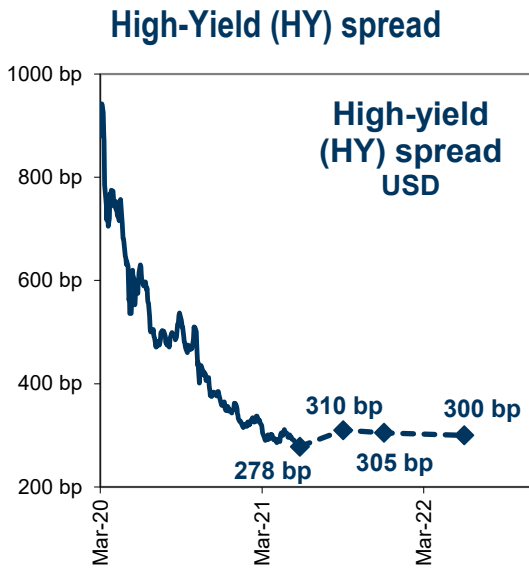
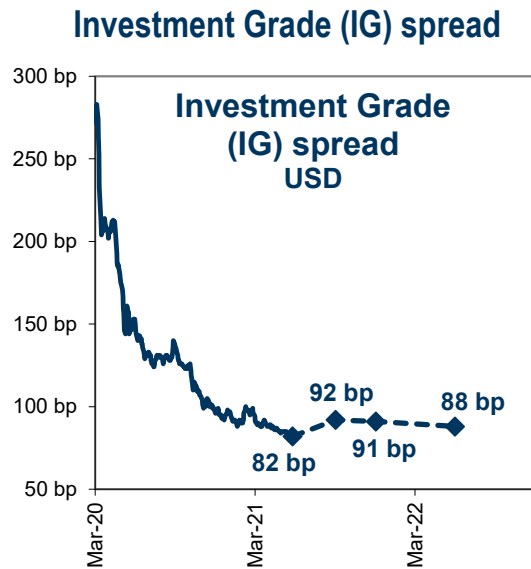
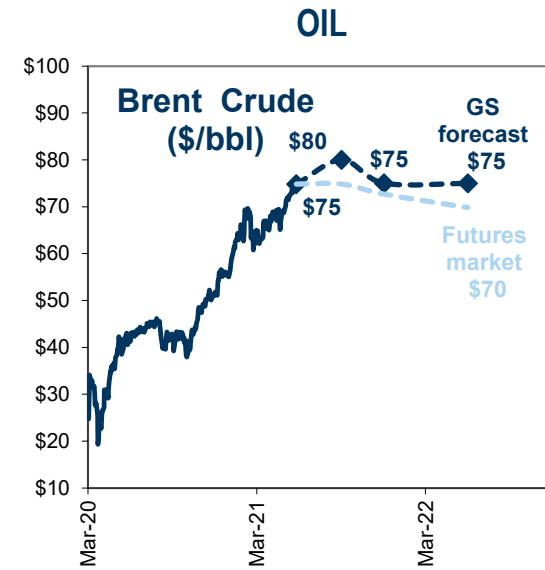
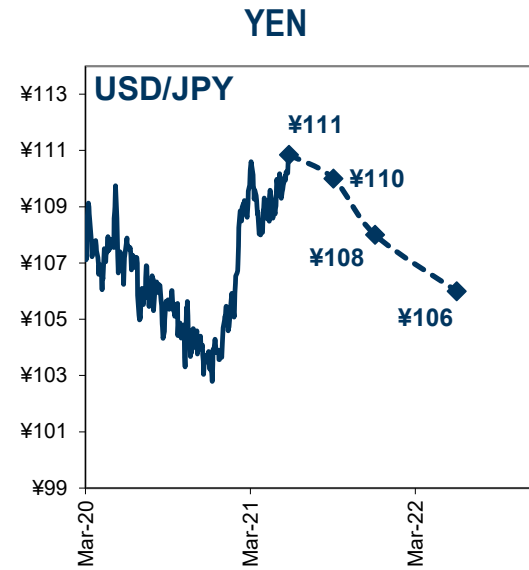


Breakeven inflation



Source: FactSet, PolicyUncertainty.com, Federal Reserve Bank, Haver Analytics, and Goldman Sachs Global Investment Research.

Goldman Sachs Global Macro Forecasts



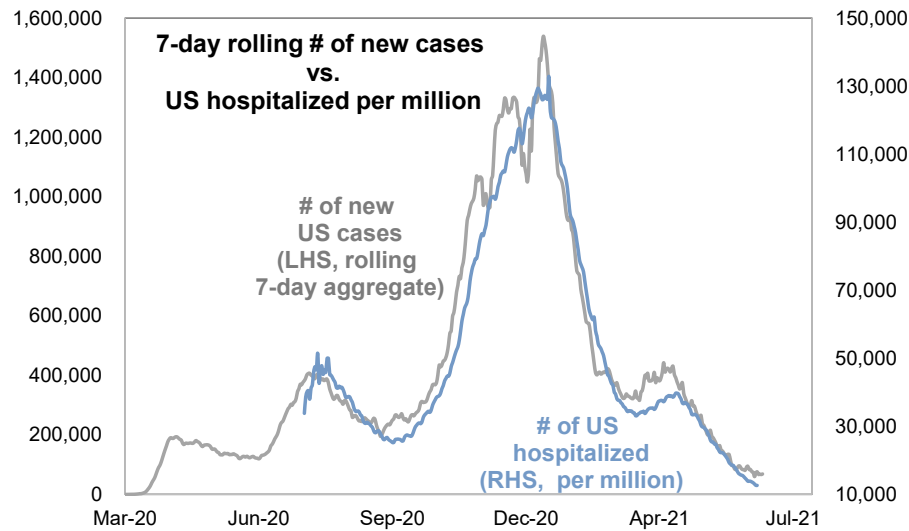
Global Equity Market performance

Market	Price Return (%) US Dollar				Local Currency
	1-Wk	1-Mo	3-Mo	YTD	
France (CAC 40)	(1)%	1 %	12 %	16 %	19 %
Brazil (Bovespa)	3	13	30	14	9
Mexico (Bolsa)	3	1	12	14	15
U.S. (S&P 500)	1	2	10	14	14
UK (FTSE 100)	(1)	(1)	7	12	10
Europe (DJ Stoxx 600)	(1)	0	9	12	15
Germany (Dax)	(1)	(1)	8	10	14
Spain (IBEX 35)	(1)	(4)	8	10	12
Korea (KOSPI)	0	4	10	9	14
Australia (ASX 200)	(1)	1	7	8	10
Japan (TOPIX)	(1)	(0)	(1)	0	8
China (MSCI China)	1	2	1	(0)	(0)
Average	0 %	1 %	9 %	10 %	12 %

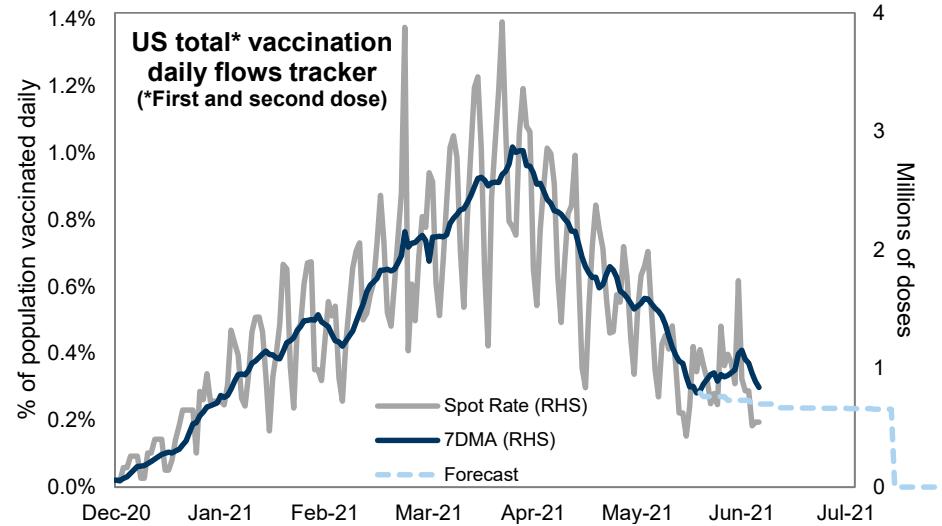
Source: FactSet and Goldman Sachs Global Investment Research.

COVID-19 update: Confirmed cases, vaccinations, and equity performance

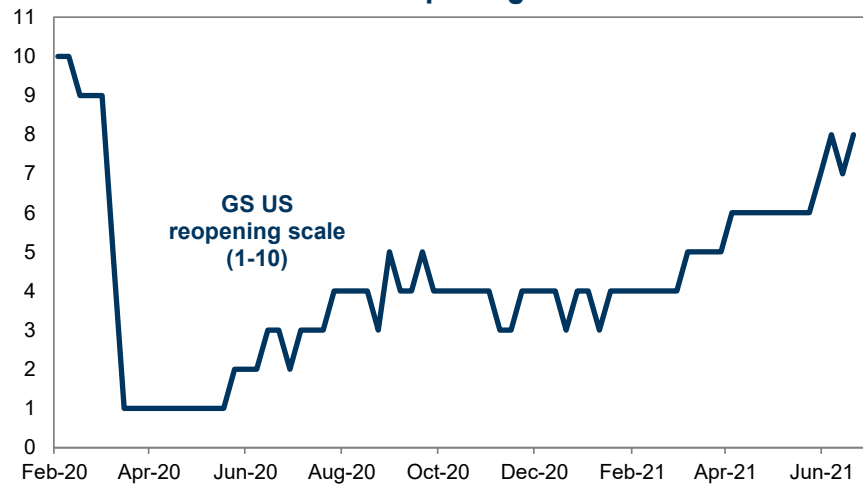
New US cases vs. Americans hospitalized



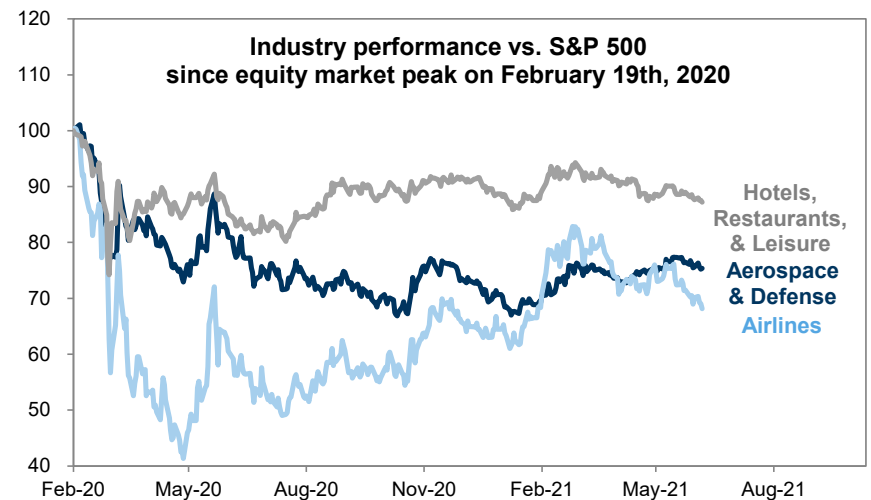
US vaccination tracker



GS US reopening scale



Relative performance of select affected industries



Note: GS US Reopening scale calculates the growth or decline in various "Stay at Home" and "Back to Work" metrics, then uses them to compute a score from 1 to 10. A score of 10 designates 'Fully Open.' 1 implies 'Lockdown.' For methodology, see "Measuring the Reopening of America."

Source: FactSet, JHU CSSE, CDC, and Goldman Sachs Global Investment Research.