



Global Investment Research

The Goldman Sachs Group, Inc.

# Perspectives on the US Equity Market

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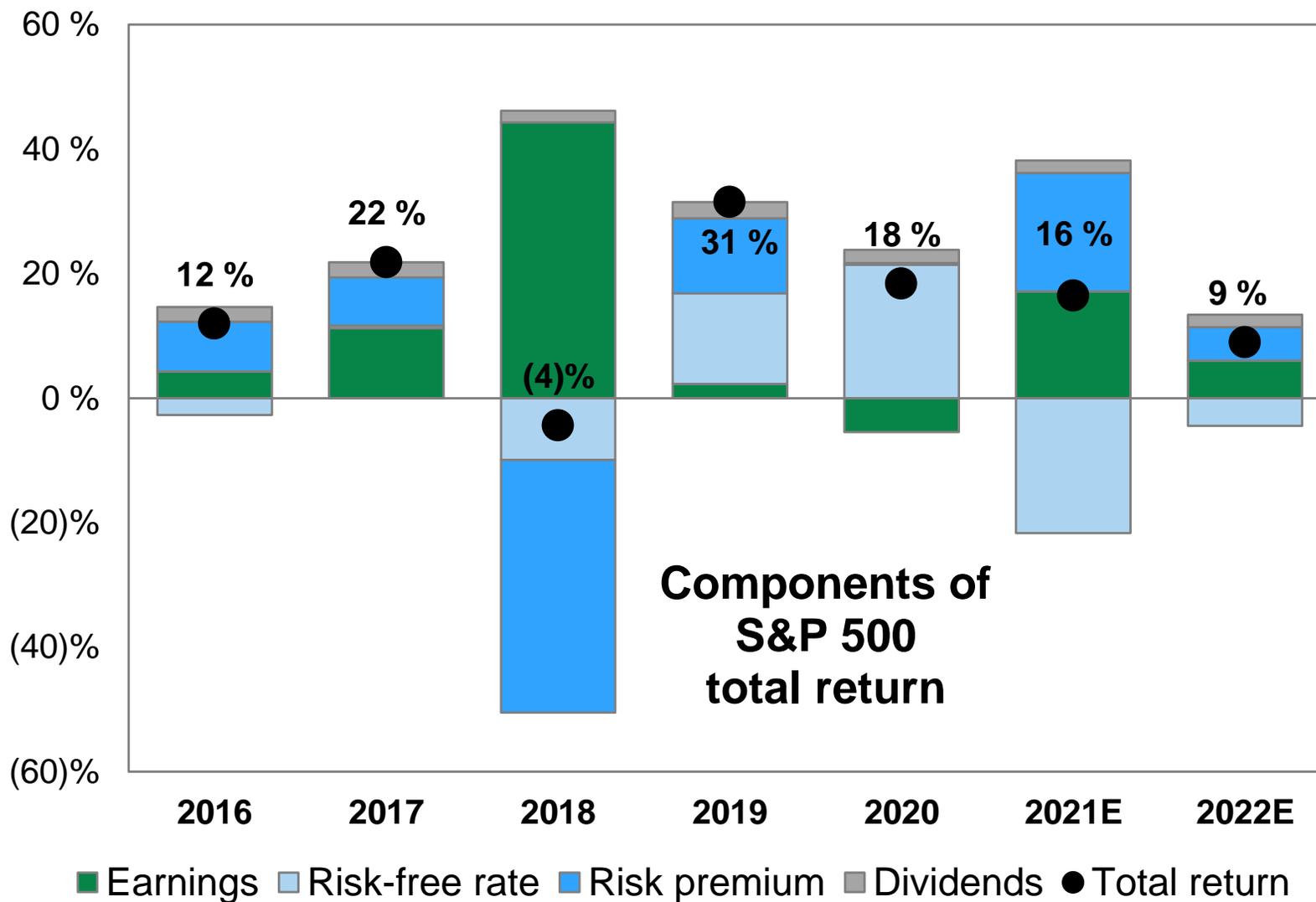
# Path of the market: S&P 500 will end 2021 at 4300

S&P 500 ended 2020 at 3756; we forecast 14% rise in 2021 and 7% in 2022



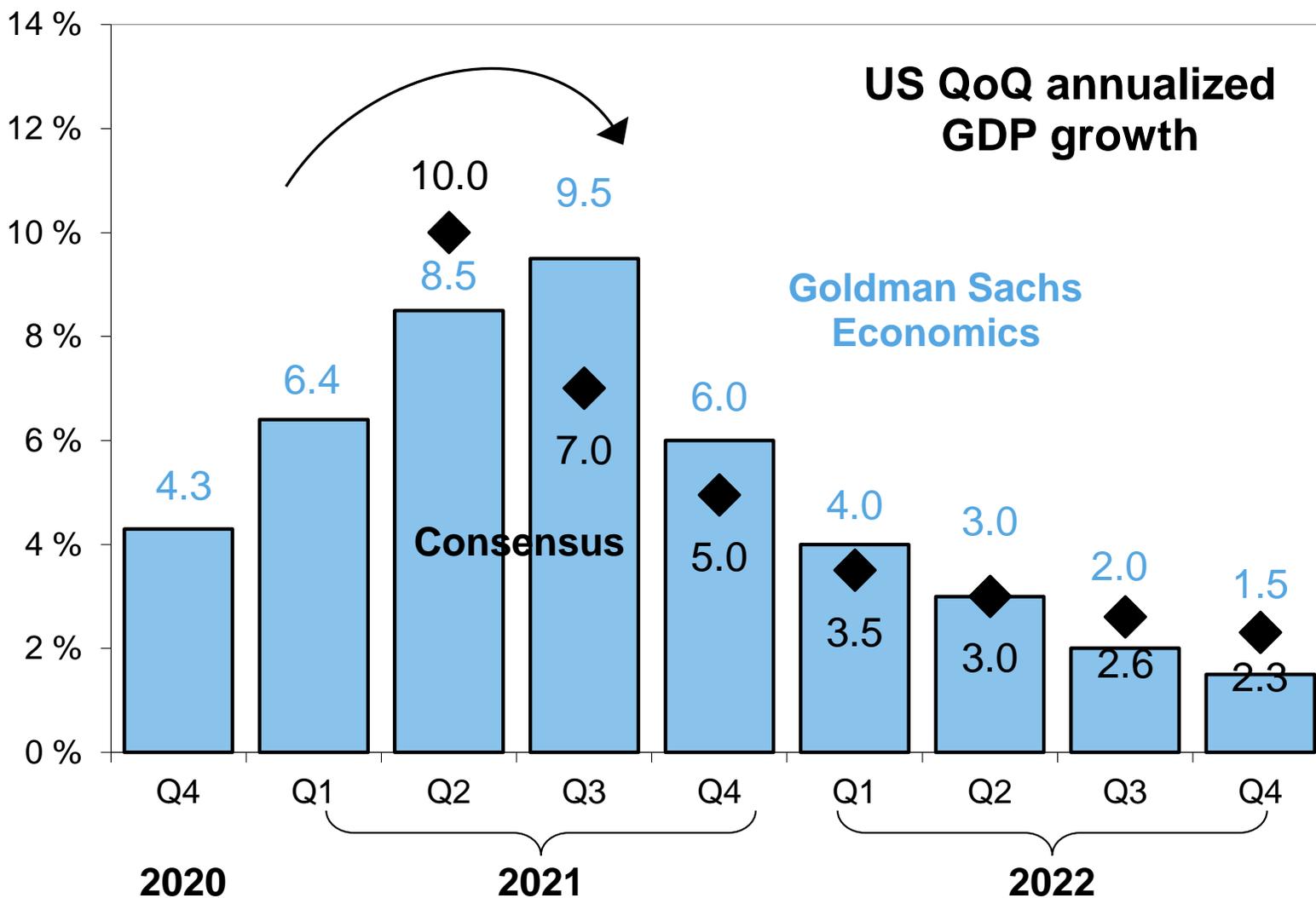
# Earnings will drive 16% S&P 500 total return in 2021

ERP remains elevated versus history, which we expect will offset higher rates



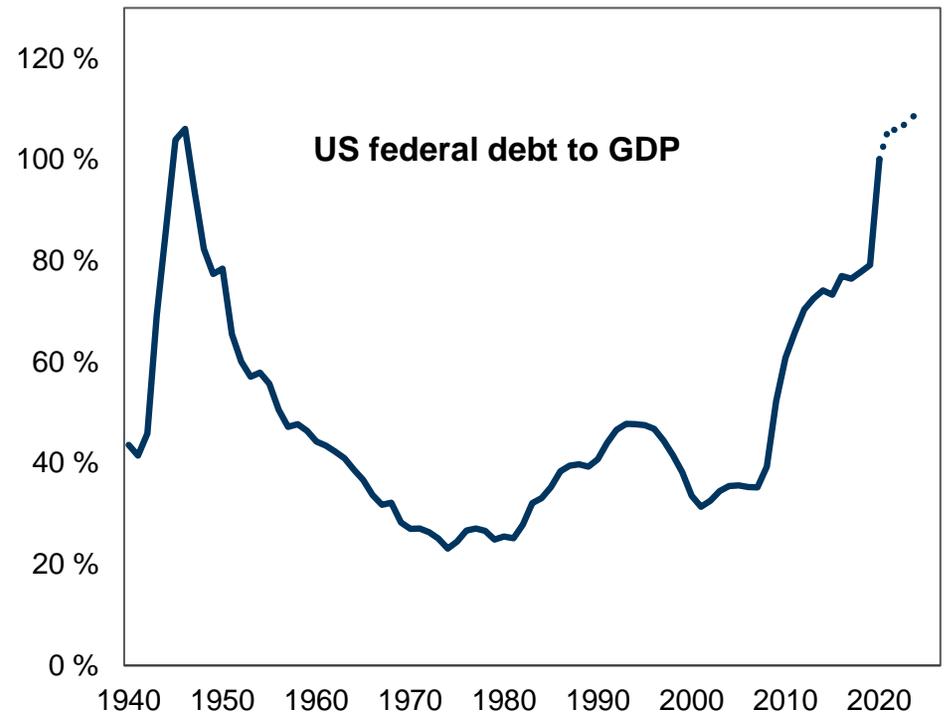
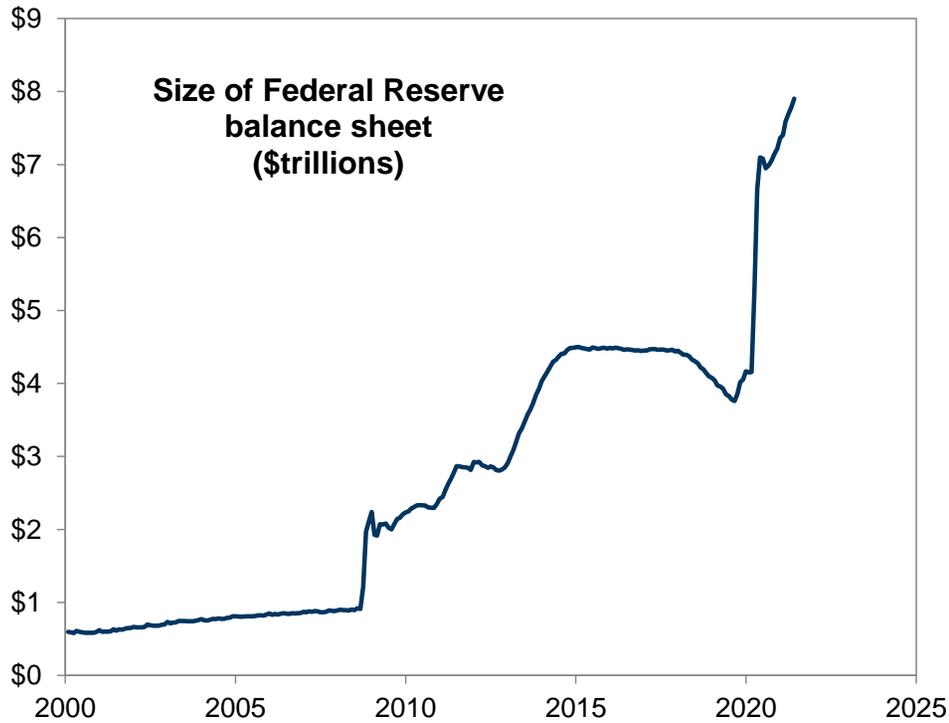
# Shape of the economic recovery: peaking growth

Real US GDP growth rate is strong but decelerating



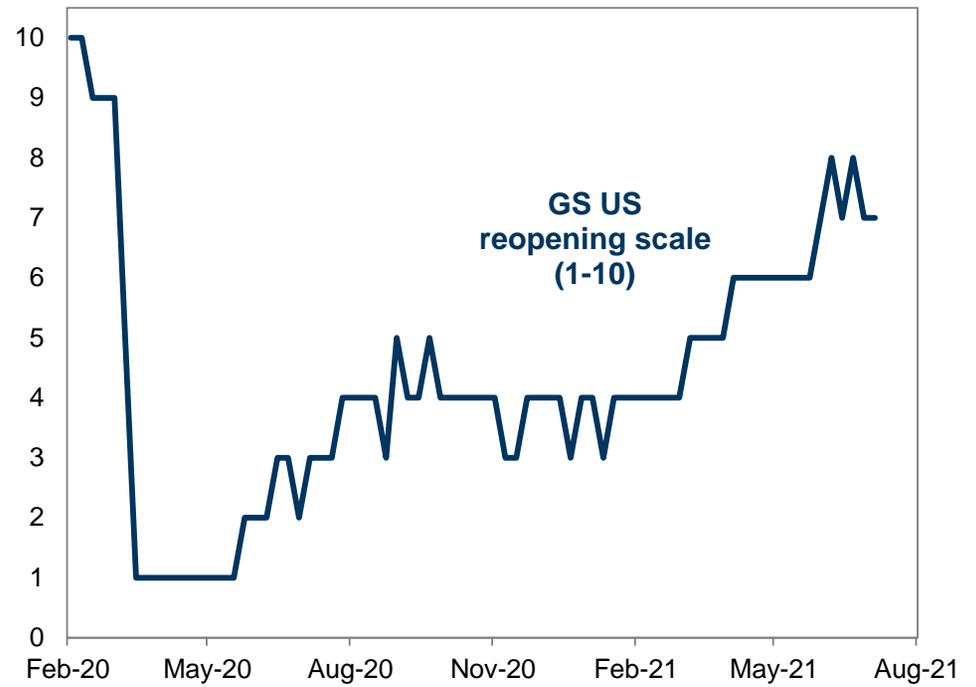
# Powerful fiscal and monetary policy support

Fed balance sheet has reached \$8 trillion, Federal debt more than 100% of GDP



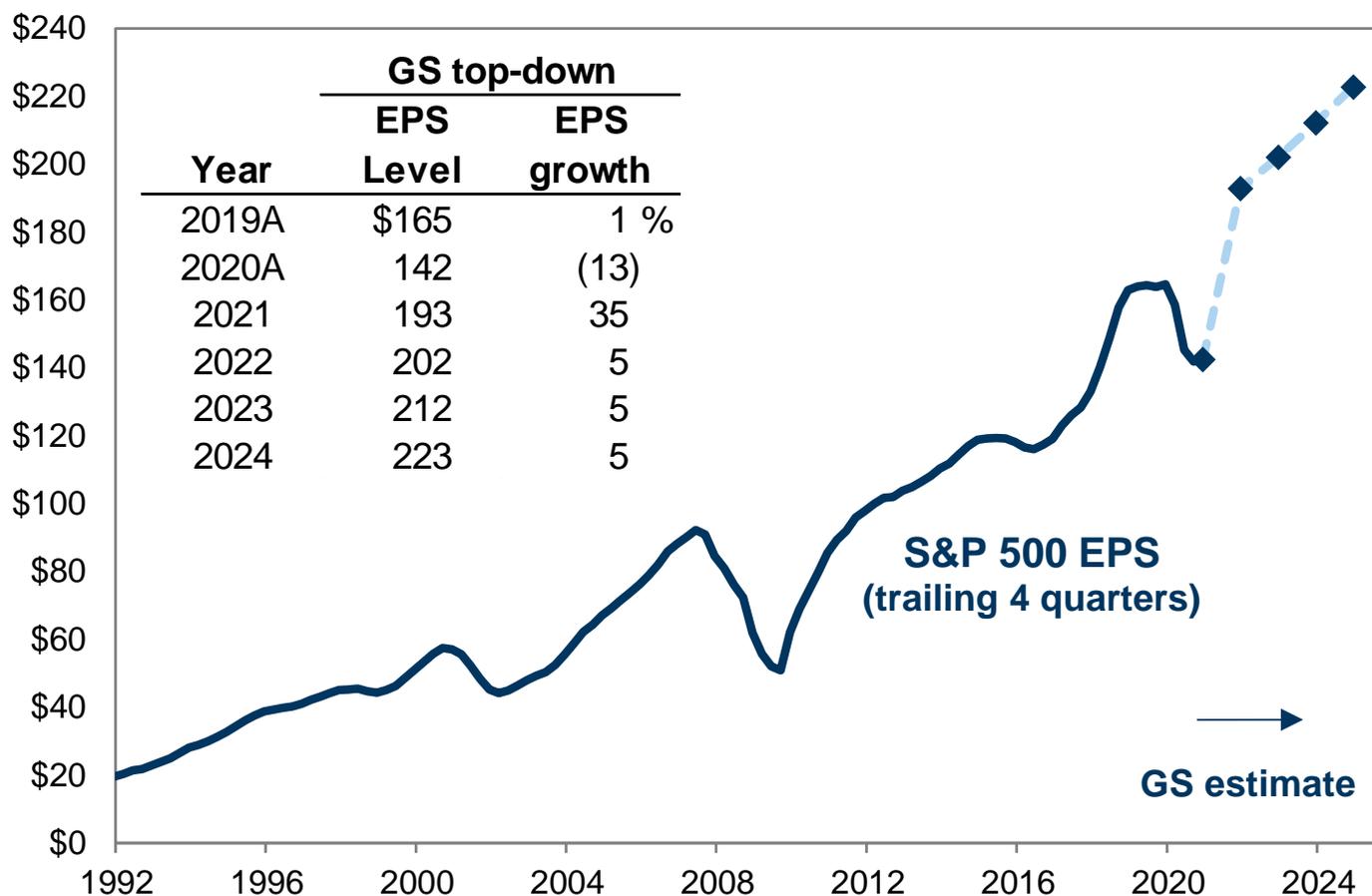
# Consumer strength driving US economy growth

Combination of disposable income and economic reopening drives US GDP path



# Goldman Sachs top-down S&P 500 EPS forecast

After 13% decline in 2020, we expect EPS will rise sharply by 35% in 2021



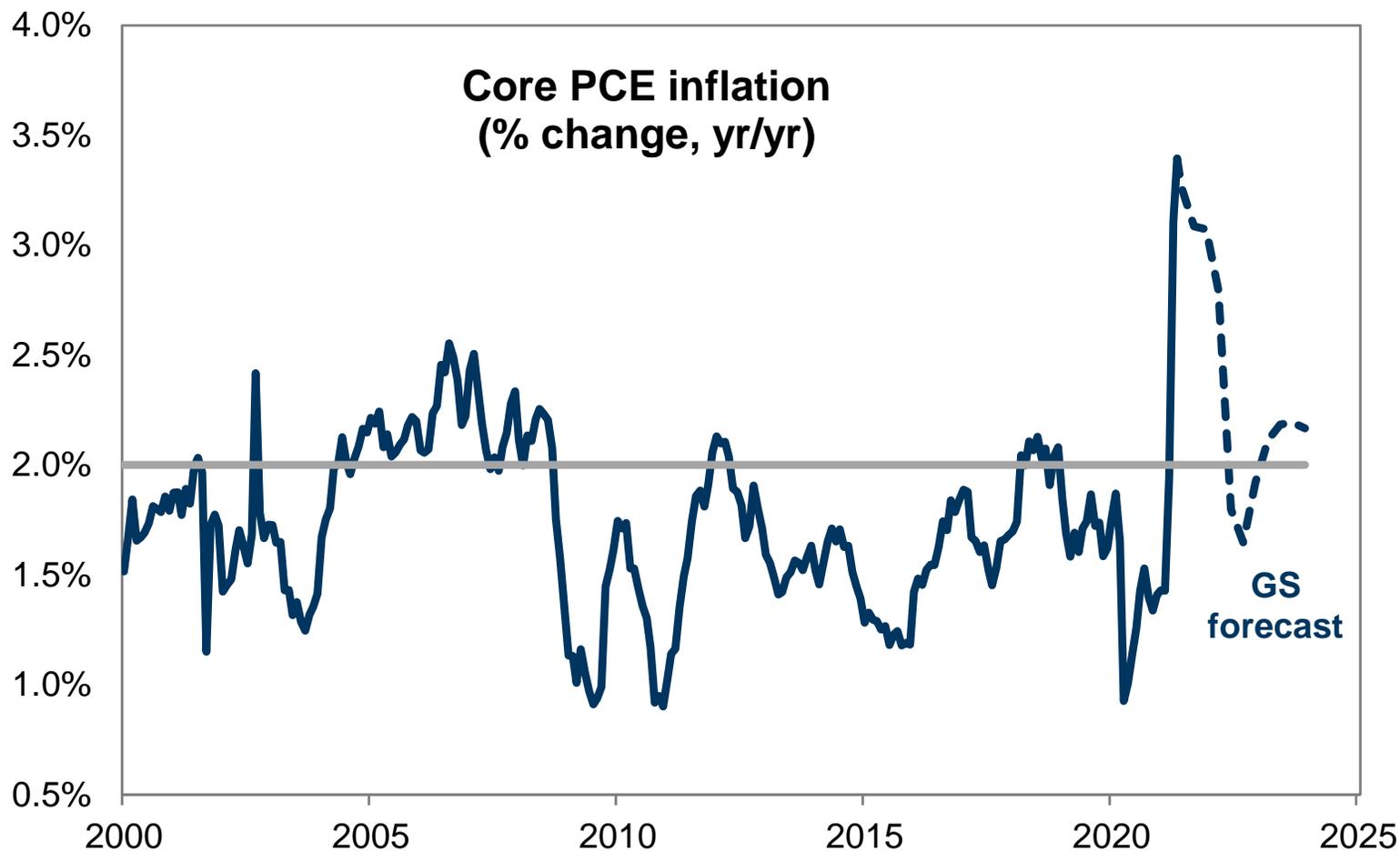
# Absolute vs. relative equity valuations differ

Absolute valuation ranks in 96<sup>th</sup> %ile vs. history, but only 38<sup>th</sup> on relative basis

Valuation metric	Aggregate index		Median stock	
	Current	Historical %ile	Current	Historical %ile
EV / sales	3.5 x	100 %	4.3 x	100 %
EV / EBITDA	17.5 x	99	16.1 x	99
Cash flow yield (CFO)	5.4 %	97	5.7 %	NA
Price / book	4.7 x	96	4.5 x	100
Forward P/E	22.3 x	94	21.1 x	99
Cyclically adjusted P/E (CAPE)	33.2 x	94	NA	NA
Free cash flow yield	3.6 %	60	3.9 %	68
<b>Median absolute metric</b>		<b>96 %</b>		<b>99 %</b>
Yield gap vs. real 10-year UST	583 bp	61 %	609 bp	47
Yield gap vs. 10-year UST	351 bp	38	377 bp	27
Yield gap vs. IG	290 bp	32	317 bp	22
<b>Median relative metric</b>		<b>38 %</b>		<b>24 %</b>

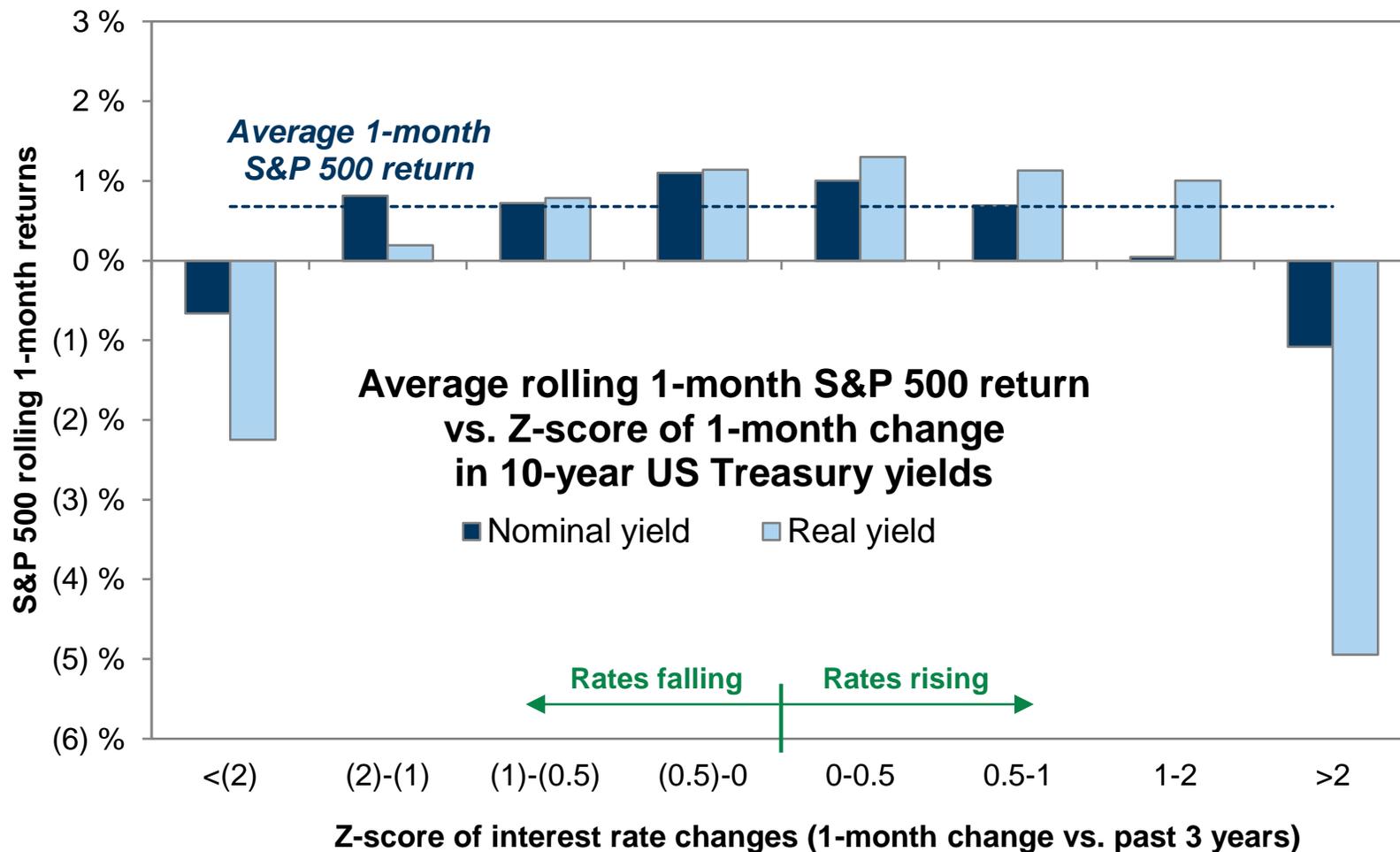
# Risk #1: Inflation

GS Economics expects the inflation spike will be “transitory”



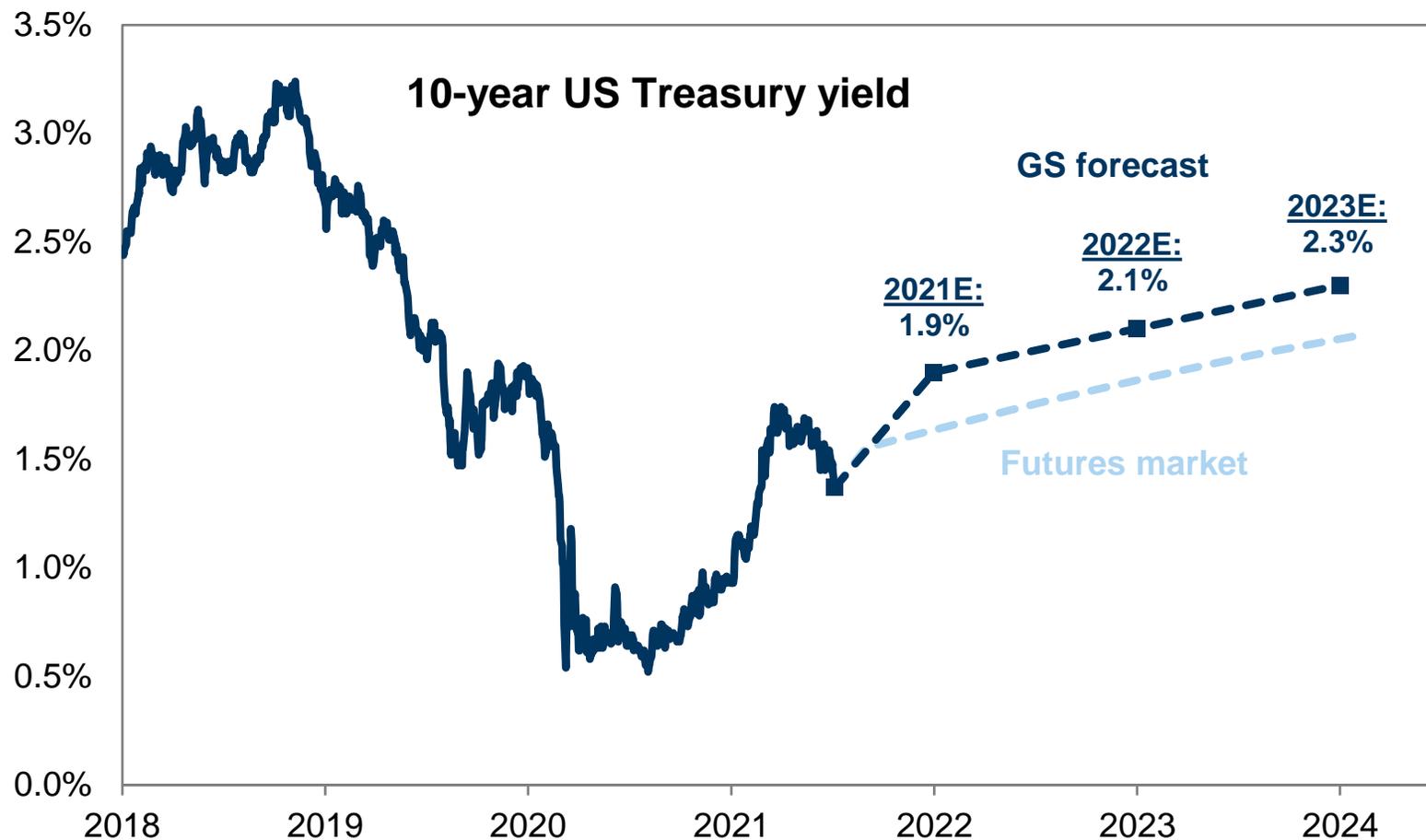
# Risk #2: Interest rates

Equities typically struggle when interest rates rise sharply



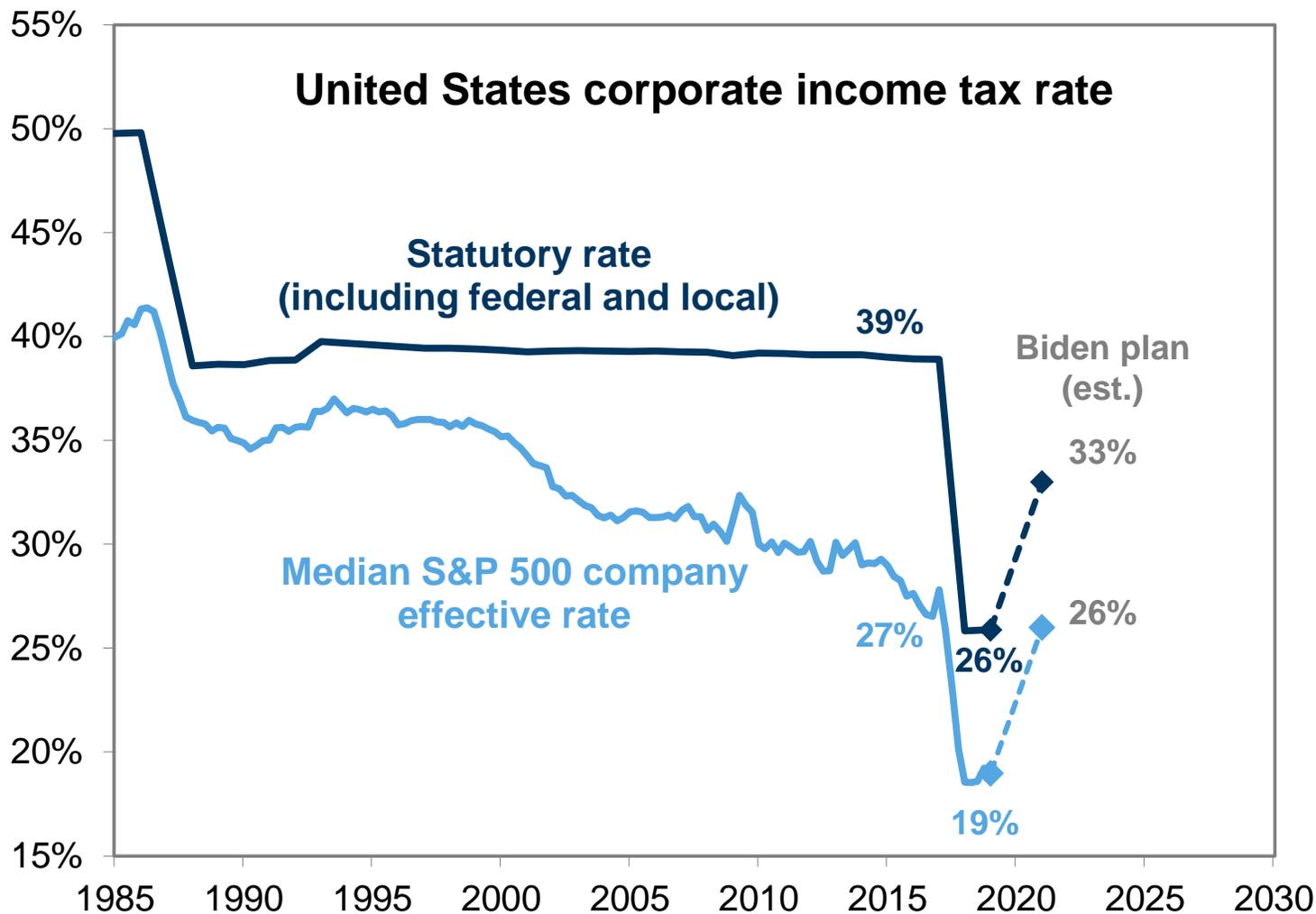
# GS expects the 10-yr UST yield to rise to 1.9%

Our Rates strategists forecast real yields will be the main driver of the leg higher



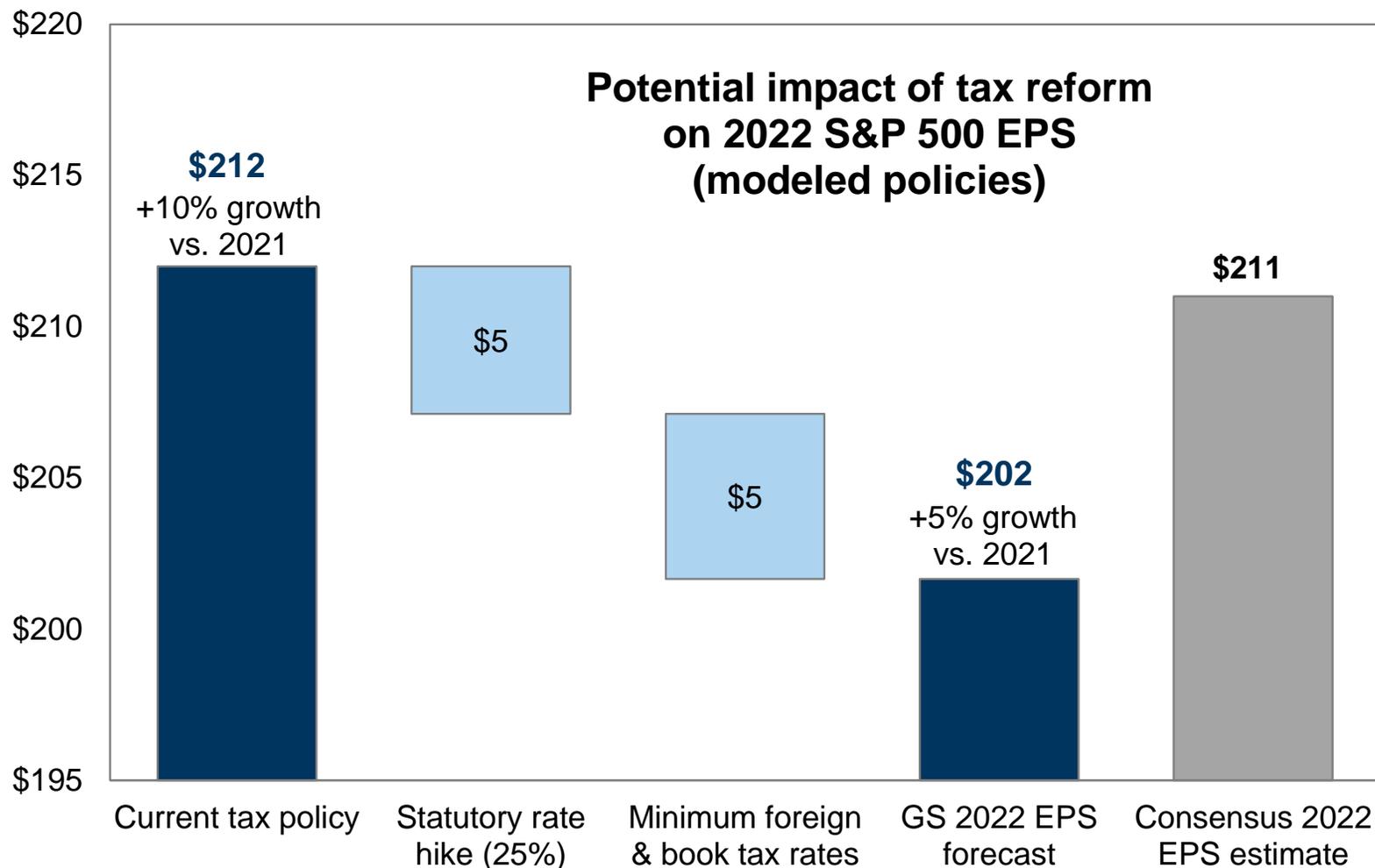
# Risk #3: Tax reform

We assume statutory federal corporate tax rate rises from 21% to ~25%



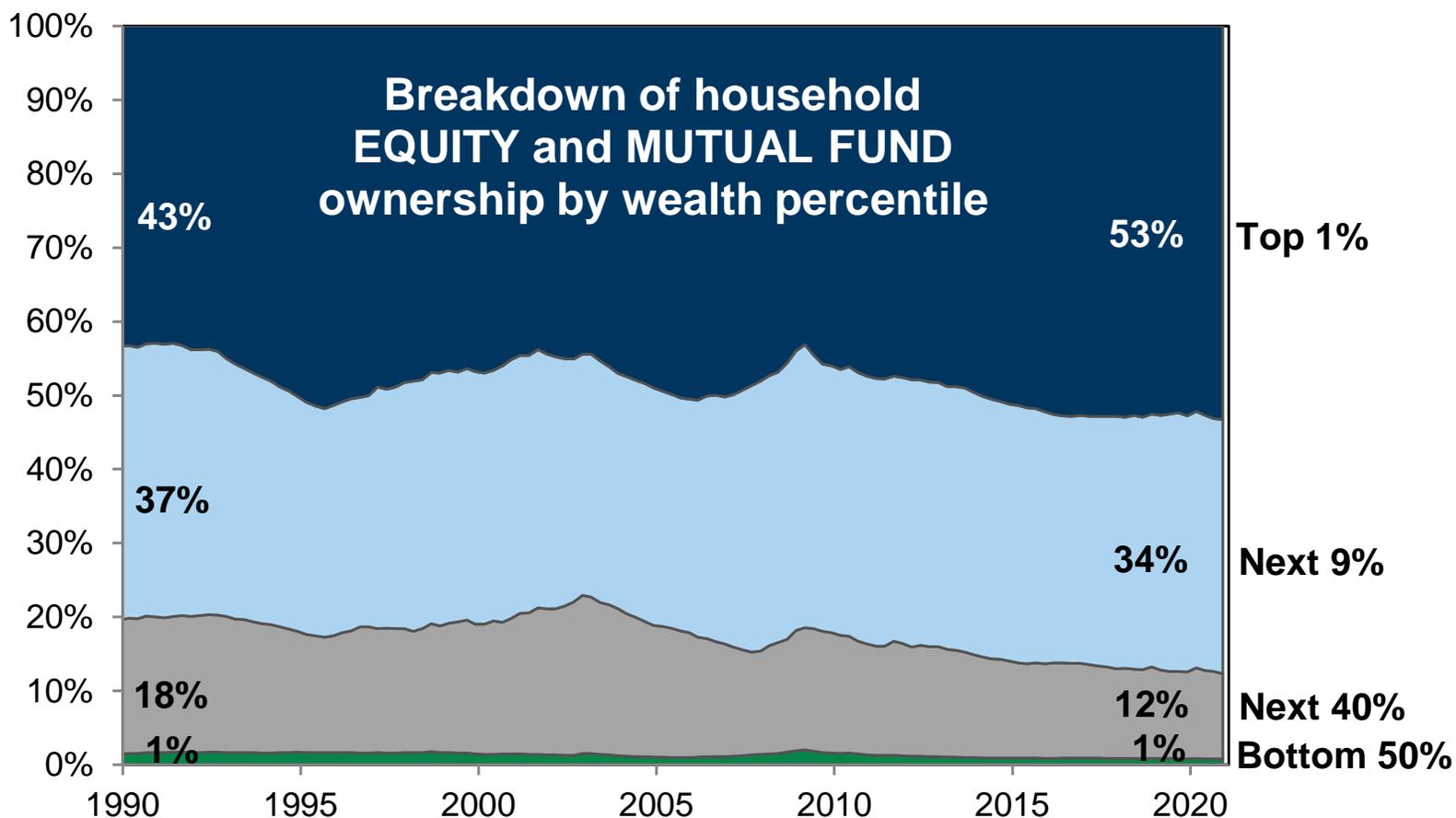
# Corporate tax hikes create 2022 earnings headwind

We model a 5% hit to EPS under a narrow version of the Biden plan



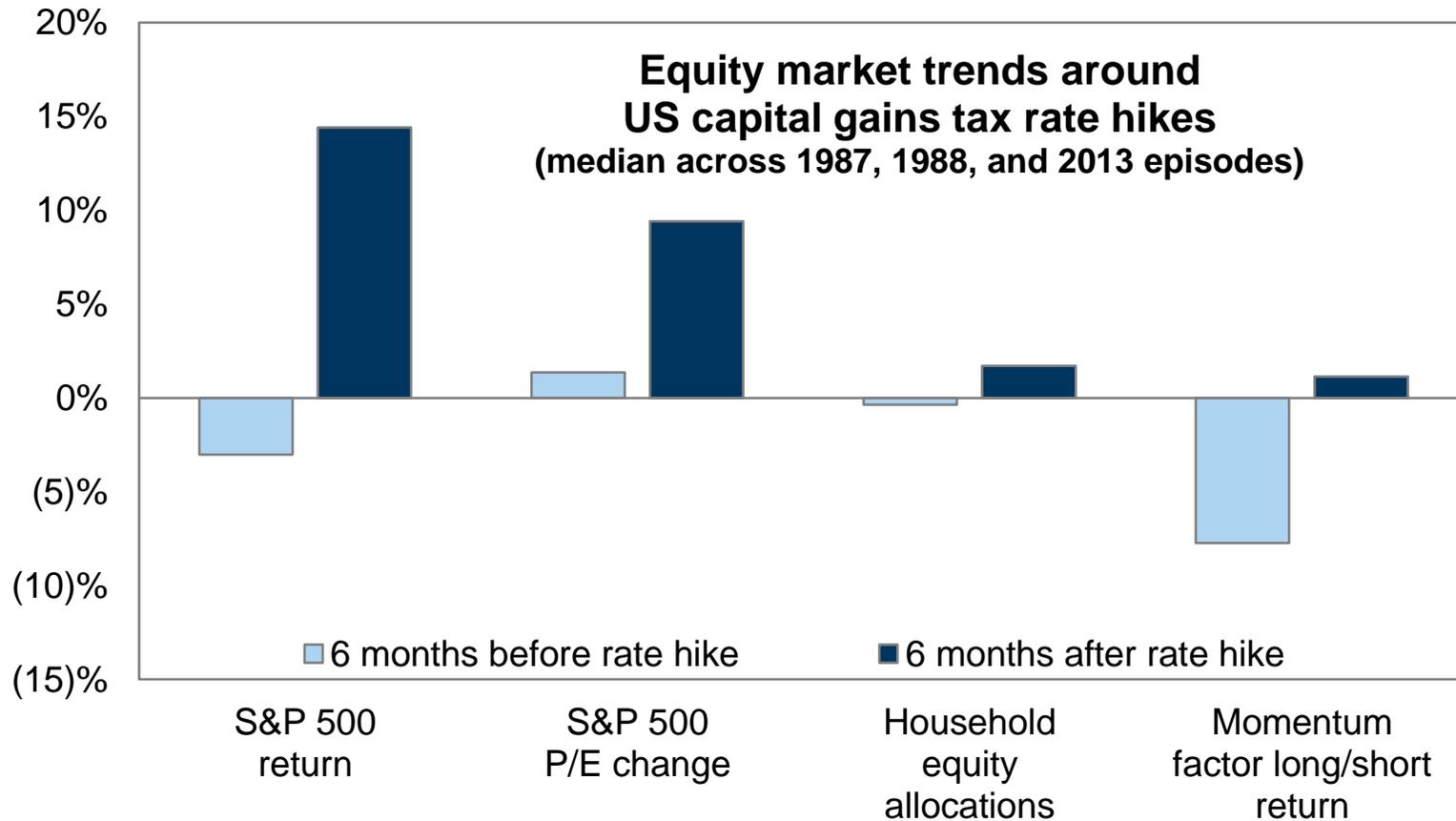
# Top 1% of households own 19% of US equity market

Wealthiest 1% own 53% of total US household equity assets



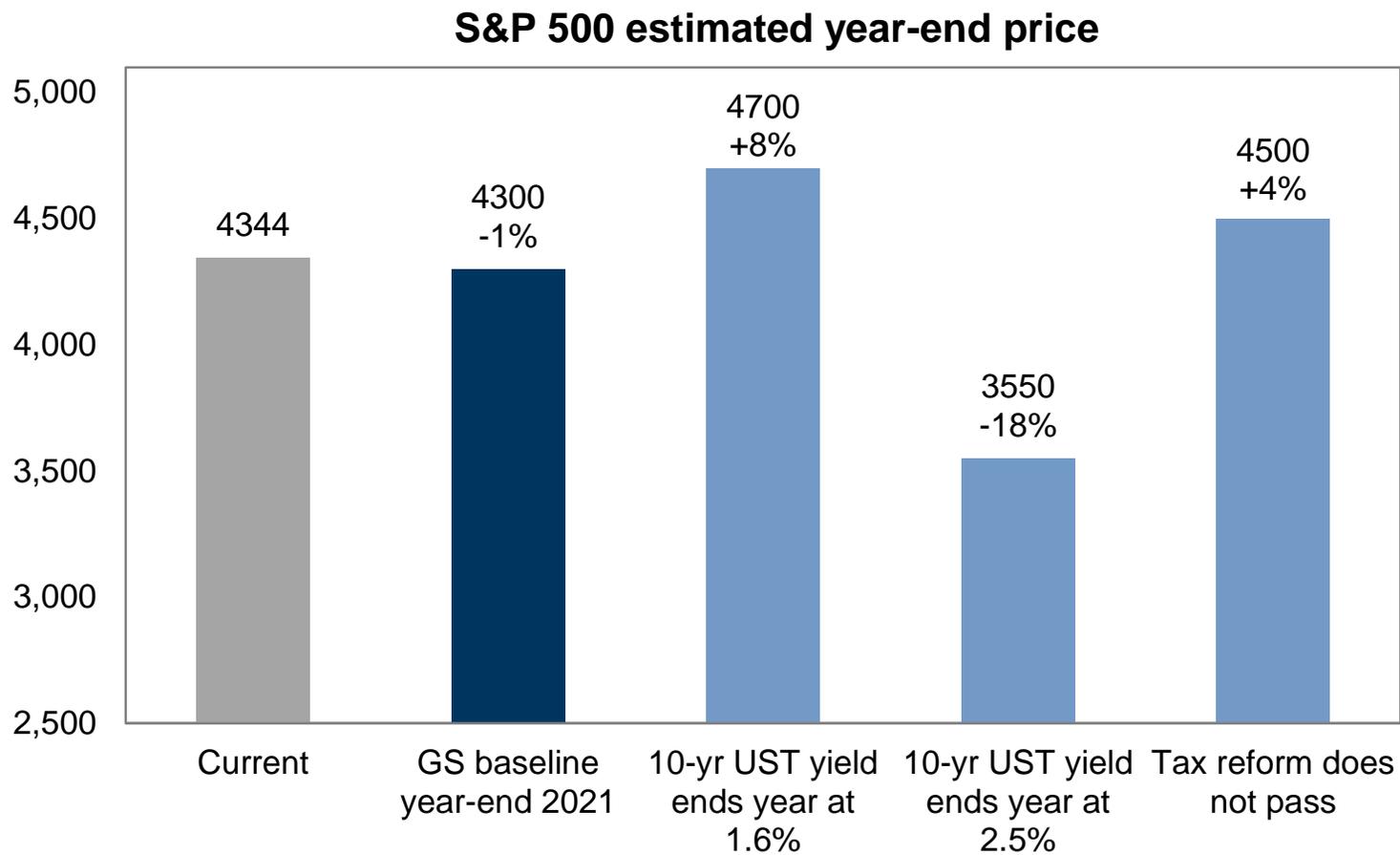
# Equity returns around capital gains tax rate hikes

Dynamics prior to capital gains rate hikes tend to be short-lived



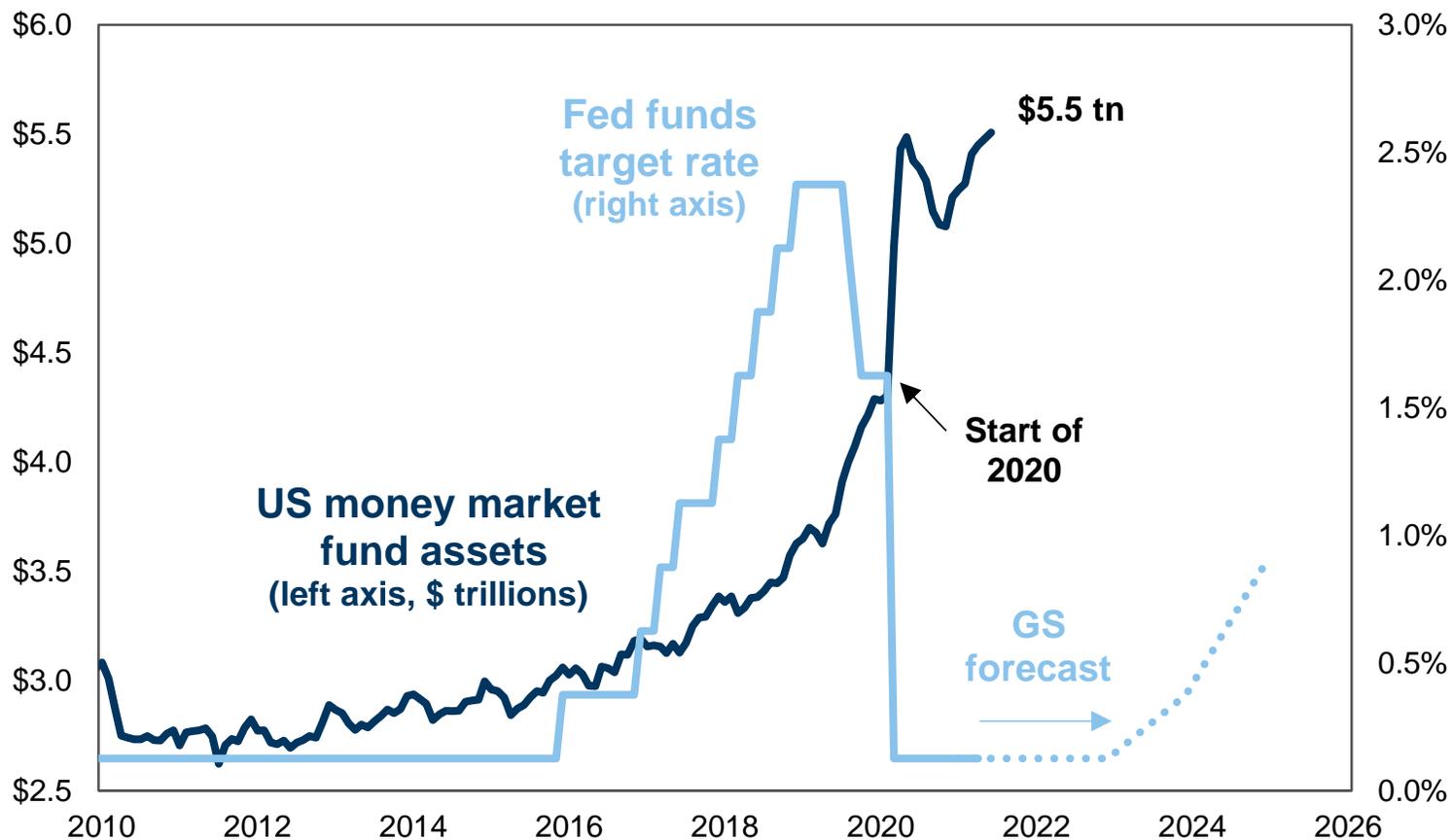
# What if...

Sensitivity around our baseline macro assumptions



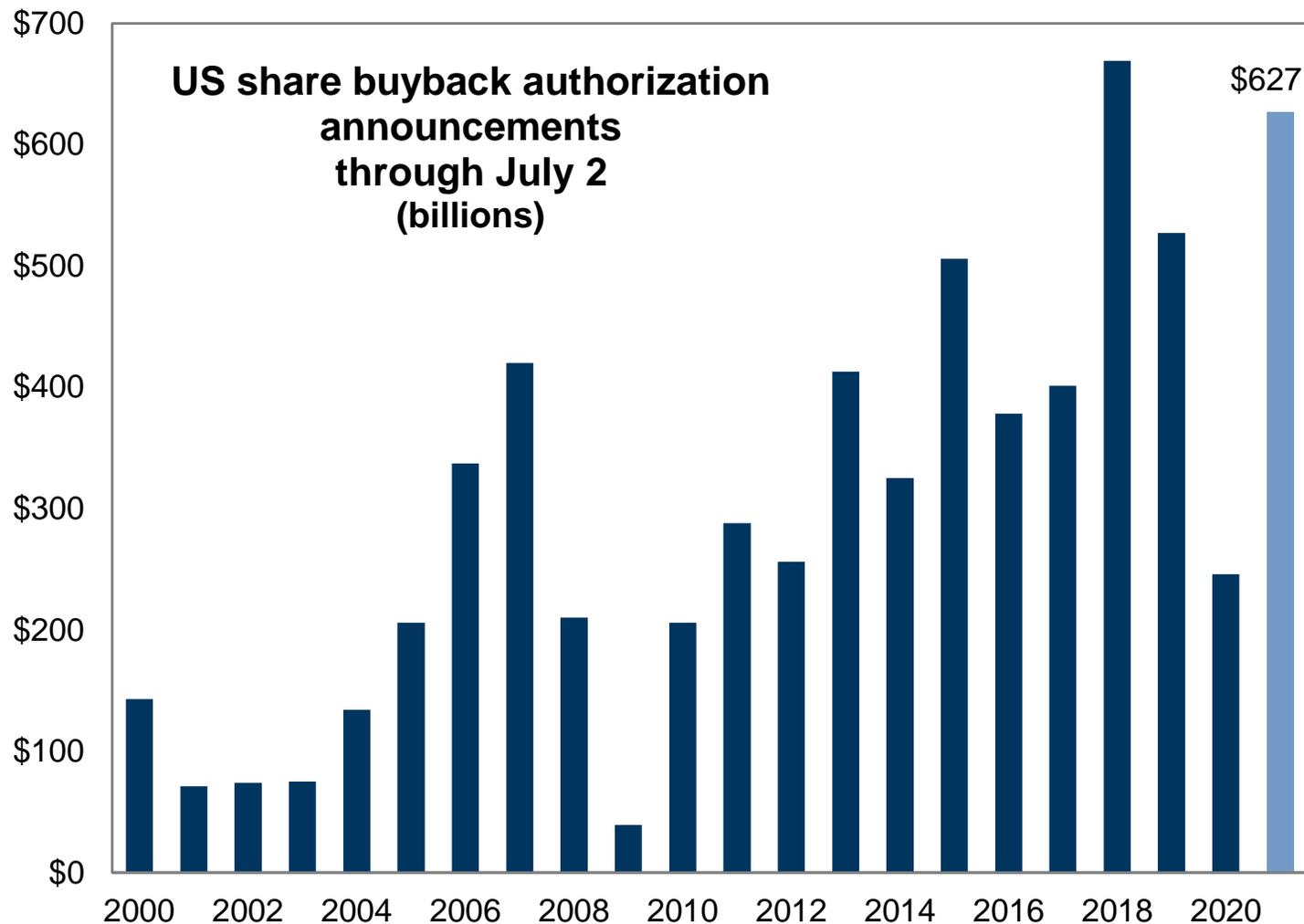
# Excess cash should support household equity inflows

Roughly \$5 trillion of assets remain in US money market funds



# Buyback announcements have also surged YTD

Corporates, households will be large drivers of net equity demand



# Goldman Sachs 2021 global macro forecasts

Equities, rates, credit, currencies, and commodities

## Goldman Sachs Global Macro Forecasts

	units	Current	3m	6m	12m	Change to Target
<b>Equities</b>						
MXAPJ	level	689	730	760	790	15 %
TOPIX	level	1955	2050	2100	2150	10
STOXX Europe 600	level	456	460	470	480	5
<b>S&amp;P 500</b>	<b>level</b>	<b>4344</b>	<b>4300</b>	<b>4300</b>	<b>4450</b>	<b>2</b>
<b>Ten Year Rates</b>						
US	%	1.3	1.9	1.9	2.0	68 bp
Japan	%	0.0	0.3	0.3	0.3	26
Euro Area (Germany)	%	(0.3)	0.0	0.0	0.0	26
<b>Corporate Bonds</b>						
High yield	bp	265	310	305	300	35 bp
Investment grade	bp	81	92	91	88	7
<b>Currencies</b>						
Euro / US Dollar	EUR/\$	1.18	1.20	1.23	1.25	6 %
Sterling / US Dollar	£/\$	1.38	1.36	1.40	1.42	3
US Dollar / Yen	\$/¥	111	110	108	106	(4)
<b>Commodities</b>						
LME Copper	\$/mt	9528	10500	11000	11500	21 %
COMEX Gold	\$/troy oz	1794	2000	2000	2000	11
WTI Crude Oil	\$/bbl	70	77	72	72	3
Brent Crude Oil	\$/bbl	75	80	75	75	1
NYMEX Nat. Gas	\$/mmBtu	4	3	3	3	(20)

# Disclosure Appendix

July 6, 2021

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