

## America Powers On



*Now some folks say it's too big, And uses too much gas  
Some folks say it's too old, And that it goes too fast*

*– Lyrics from “Pink Cadillac” by Bruce Springsteen*

Investment Strategy Group

# US Preeminence in Past Outlooks



Outlook Investment Strategy Group  
January 2010

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## Take Stock of America

We believe that 2010 will see the continuing emergence of fast-growing economies such as China and India, but we don't think their success will cost the US its leadership position. The underlying strength and influence of America is intact.

For Private Wealth Management Clients

Outlook Investment Strategy Group  
January 2011

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## Stay the Course

*The American Evolution:* Much like George Washington crossing the Delaware River in the winter of 1776-77, America's structural resilience, fortitude and ingenuity will carry the economy and financial markets in 2011 – and beyond.

Outlook Goldman Sachs

Investment Management Division

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## US Preeminence

Demographics

Oil Production Growth

Productivity Growth

Equity Market Performance

Our six-year investment theme endures.

Outlook Goldman Sachs

Consumer and Investment Management Division

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## American Preeminence in a Rattled World

Emma Lazarus' *Colossus*

Investment Strategy Group | January 2019

Outlook Goldman Sachs

Consumer and Wealth Management

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## US Resilient

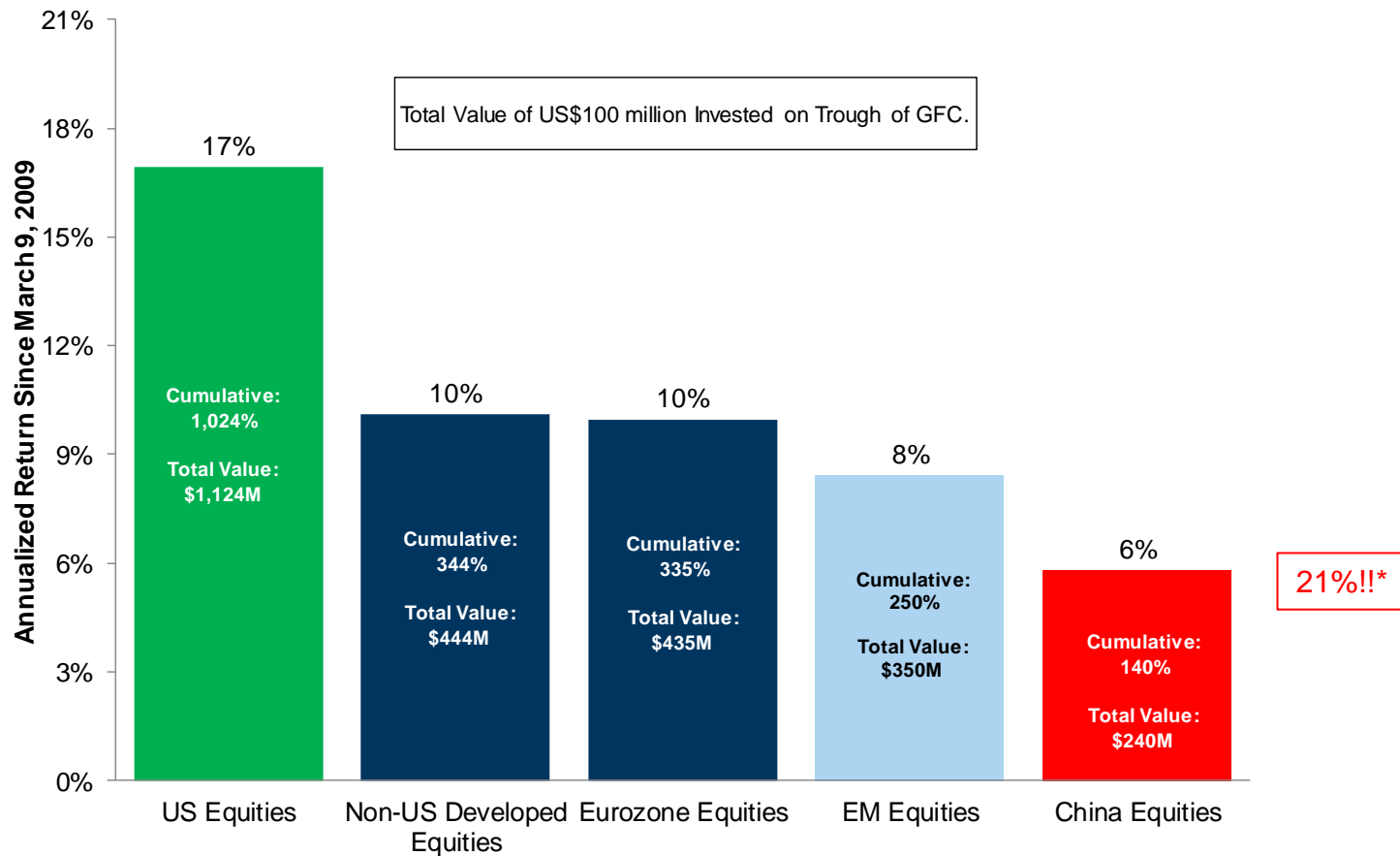
S&P 500  
609%  
December 2020  
March 2009

*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*

Investment Strategy Group | January 2021

# US Equities: Compounding Impact of the Higher Return

Annualized and Cumulative Asset Class Returns Since March 9, 2009  
 – As of August 23, 2024



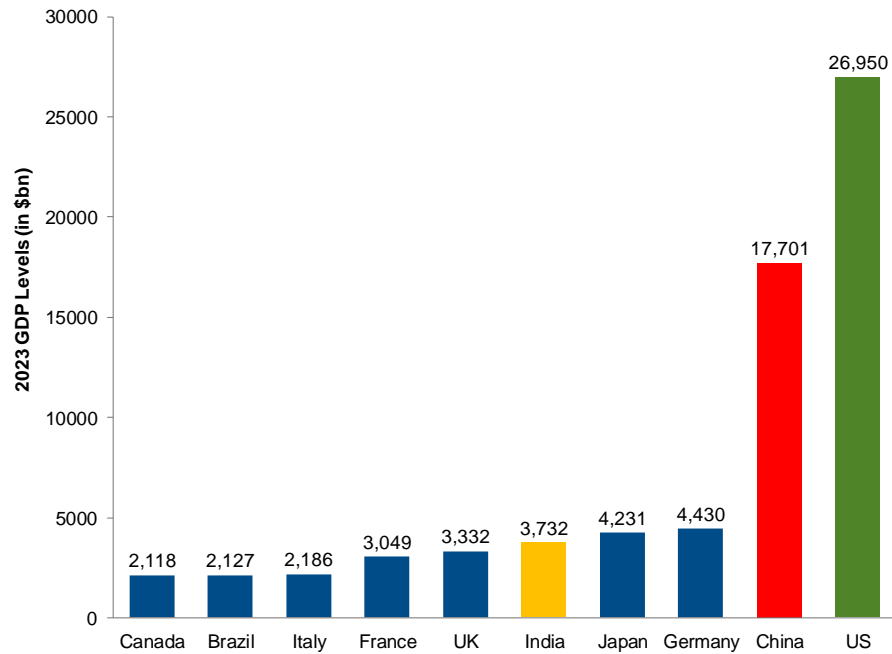
\* Chinese Equities Total Value / US Equities Total Value

Past performance is not indicative of future result, which may vary. Source: Investment Strategy Group, Bloomberg.  
 Note: US Equities: S&P 500, Eurozone Equities: MSCI EMU(\$), Non-US Developed Equities: MSCI World ex. US, EM Equities: MSCI EM(\$),  
 Chinese Equities: MSCI China(\$).

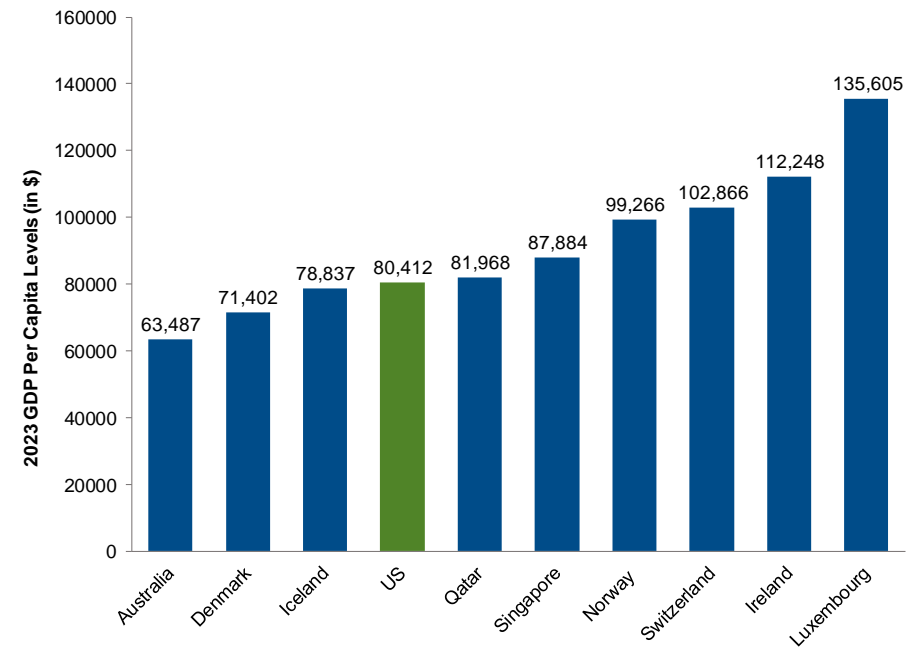
# An Empire of Wealth<sup>1</sup>: The US is the Largest Economy in the World



## 1. Top 10 Countries Ranked by 2023 Nominal GDP



## 2. Top 10 Countries Ranked by 2023 GDP per Capita

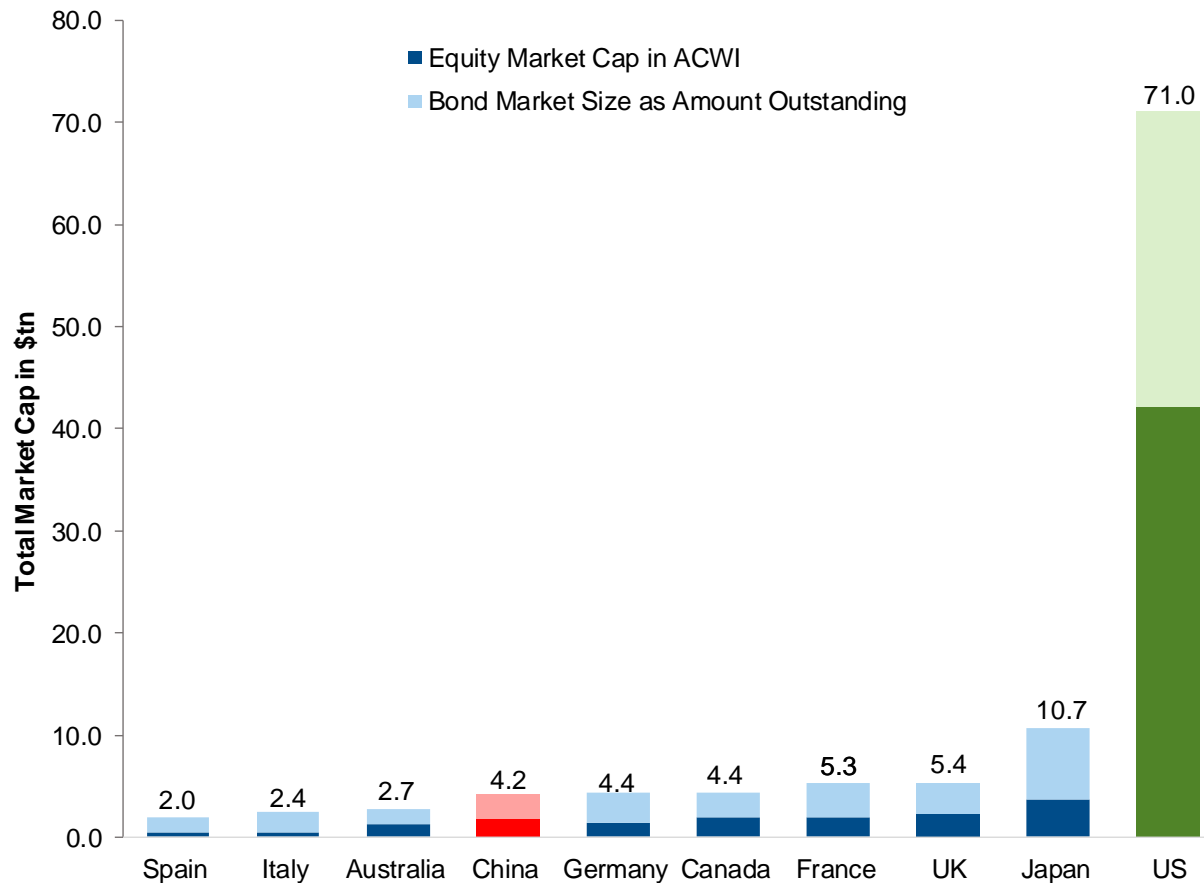


- The US has the largest economy in the world, and the highest GDP per capita of any major economy.

# An Empire of Wealth<sup>1</sup>: The US has the Largest and Deepest Financial Markets



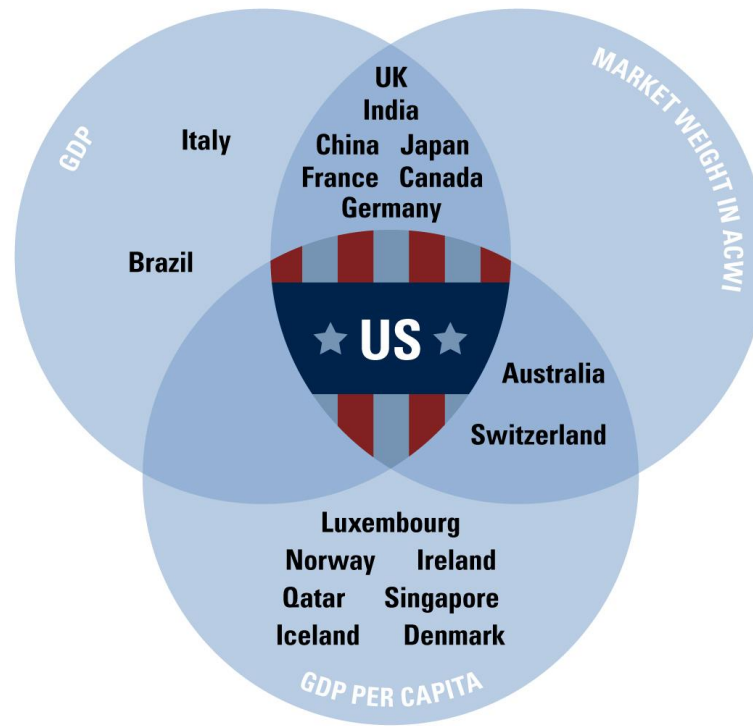
Top 10 Countries Ranked by Size of Bond and Equity Markets – as of December 31, 2023



- At just over \$70 trillion, the US' market capitalization is 7 times as large as that of the next-largest market.

# An Empire of Wealth<sup>1</sup>: The US is the Only Country to Have This Unique Combination

Top 10 Countries by GDP, GDP per Capita, Market Weight in MSCI ACWI



- The US is the only country that ranks in the top 10 globally for GDP, GDP per capita, and equity market cap.



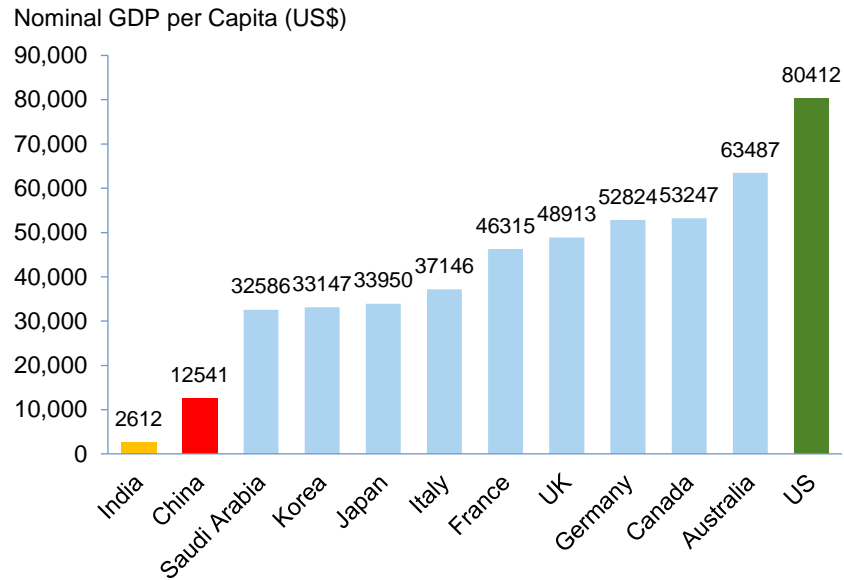
The ultimate strength of the US lies “in its wealth...its capacity to create still more wealth, and its seemingly bottomless imagination in developing new ways to use that wealth productively.”

— John Steele Gordon, *An Empire of Wealth: The Epic History of Economic Power*, 2004

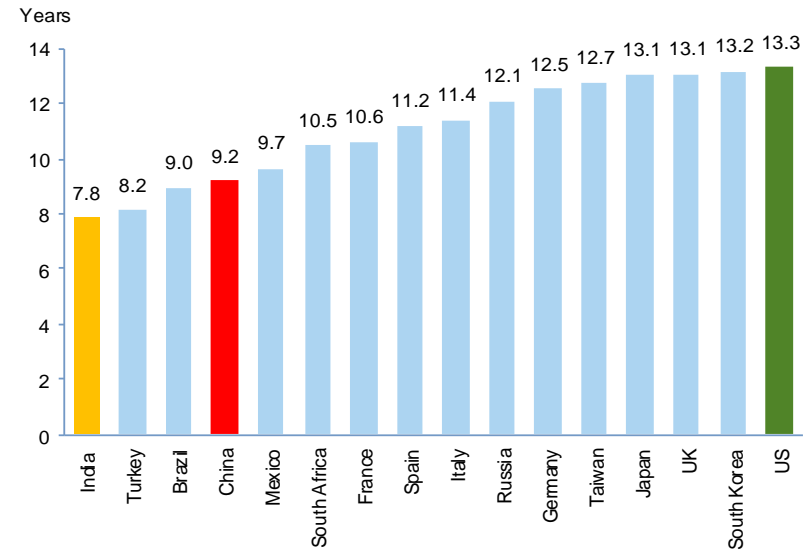


# US Preeminence (I)

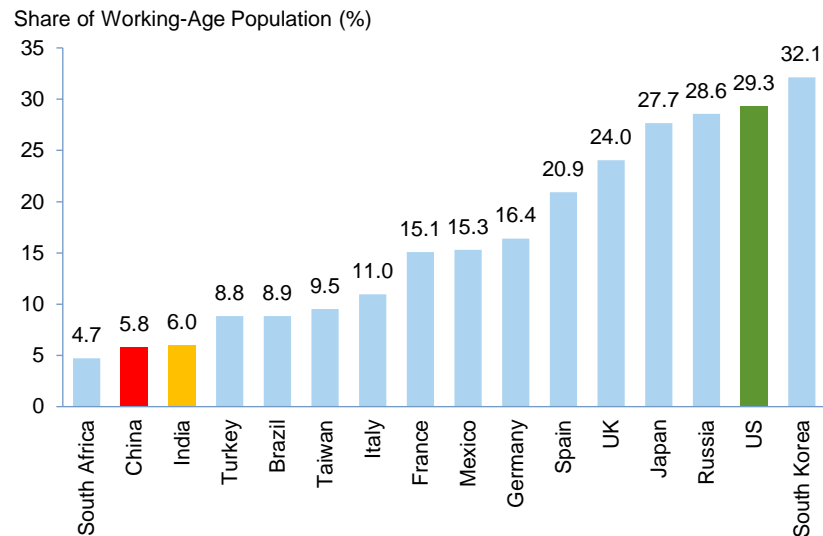
## 1. Nominal GDP per Capita – as of 2023



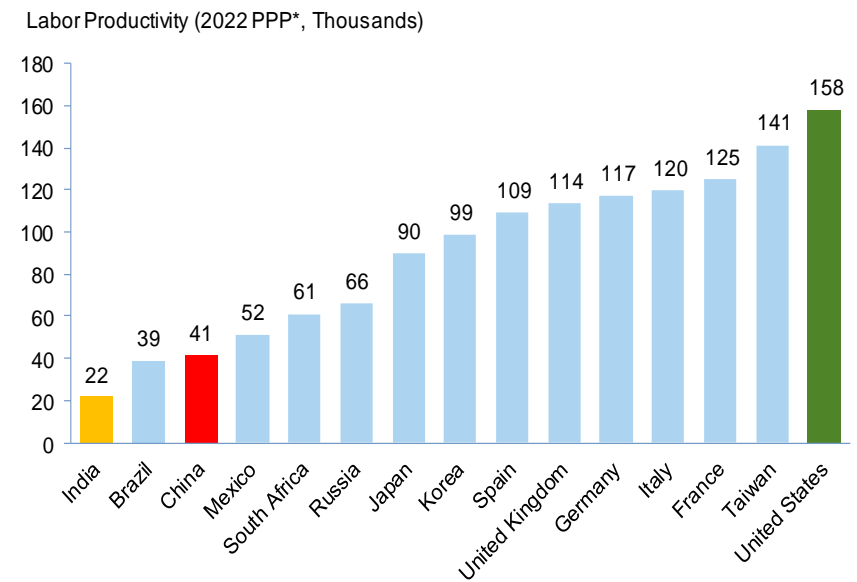
## 2. Average Years of Schooling – as of 2020



## 3. Share of Working-Age Population with Completed Tertiary Education – as of 2020

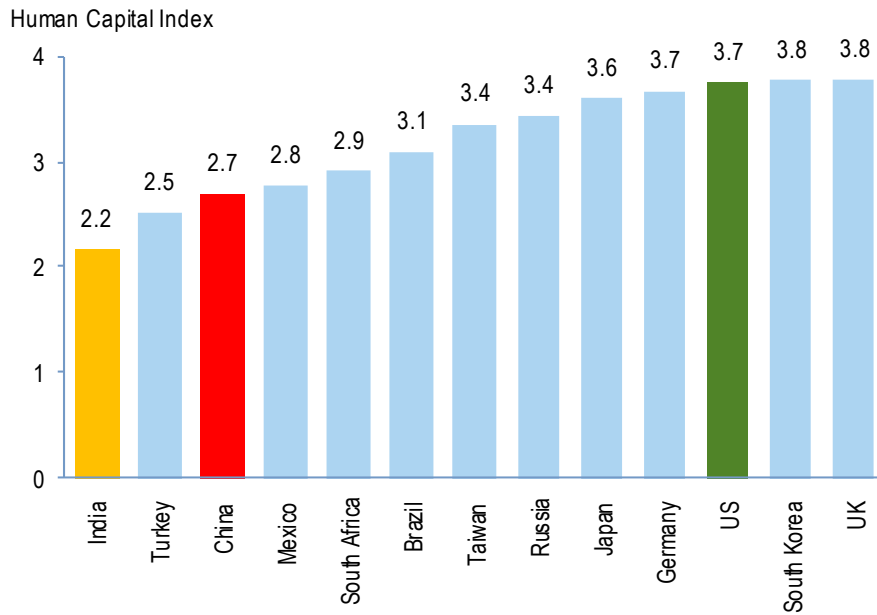


## 4. Labor Productivity – as of 2022

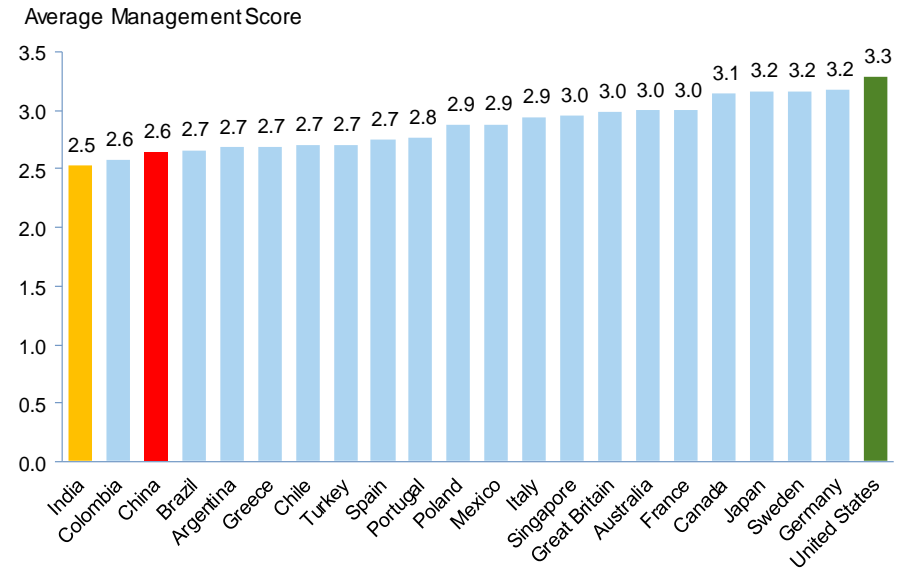


# US Preeminence (II)

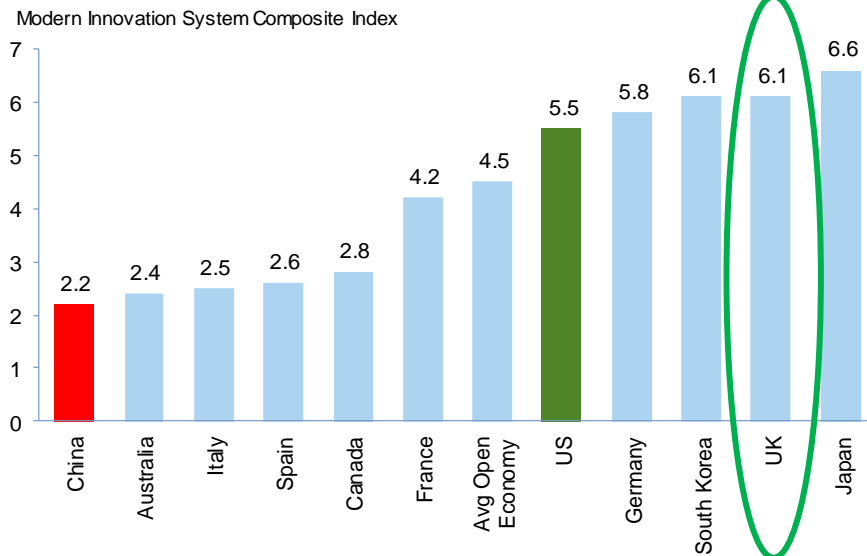
5. Human Capital Index – as of 2019



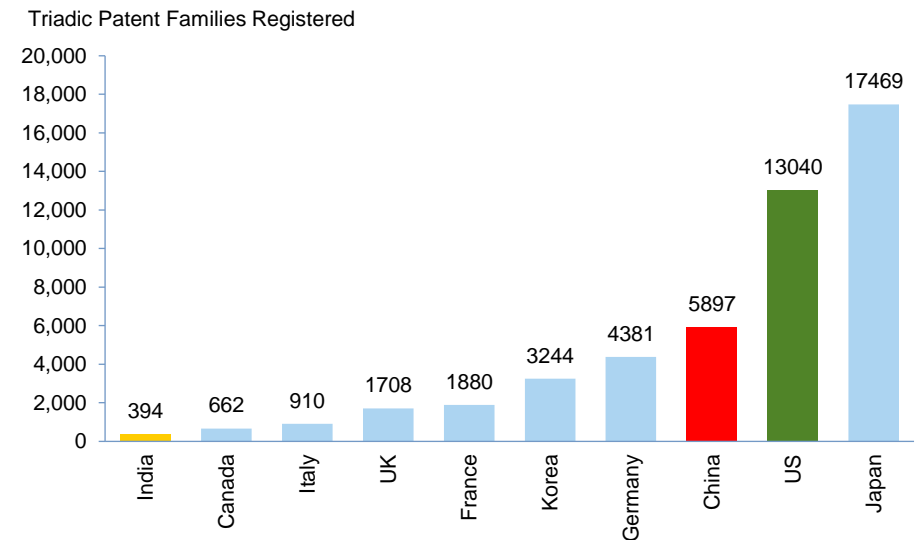
6. Average Management Scores – as of 2015



7. Modern Innovation System Composite Index – as of 2022



8. Triadic Patent Families Registered – as of 2020





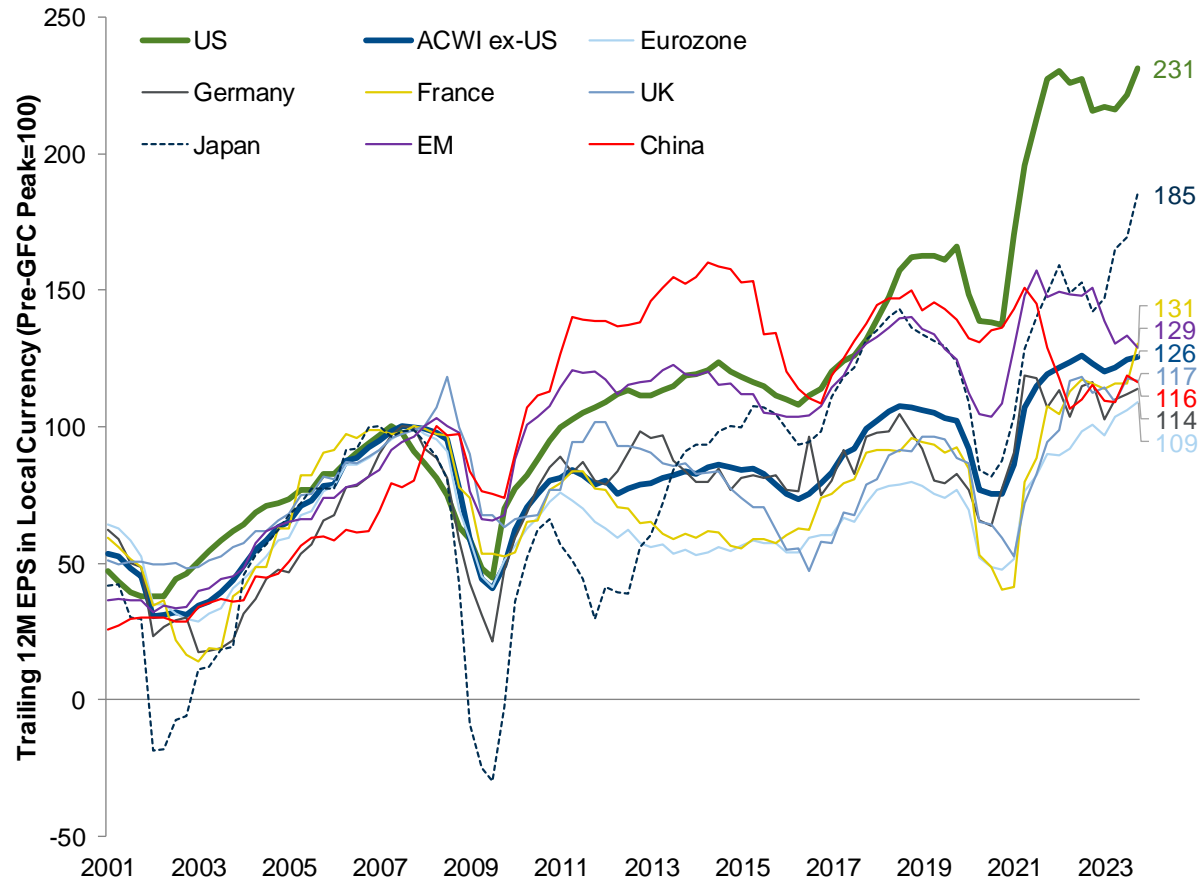
# An Empire of Wealth<sup>1</sup>: The Diversity of the US Economy



- The US has more arable land than any other country, making it the largest exporter of agricultural commodities.
- The US is the largest producer of oil and natural gas liquids.
- The US accounts for 22% of global LNG exports, exceeding both Qatar's and Australia's exports for the first time in 2023.
- The US is at the forefront of technological innovation: the global leader in share of semiconductor sales at 48%.

# The Upward Trend in US Earnings Has Been Relatively Steady

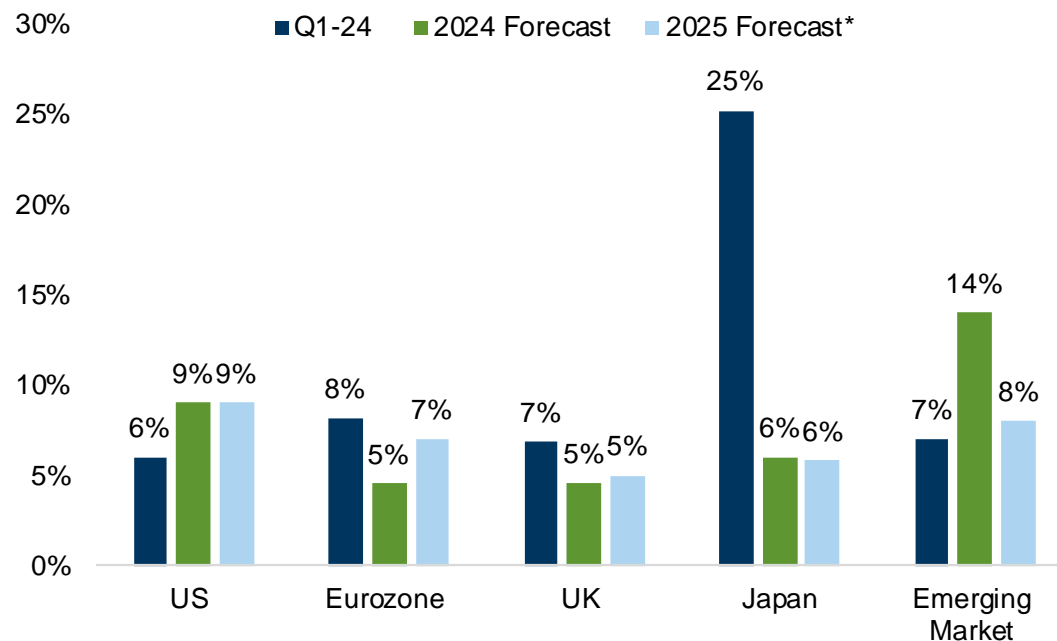
Trailing 12-Month Earnings per Share in Local Currency  
– As of Q1 2024



- From its peak in Q3 2007, US EPS has more than doubled, while the EPS of the rest of the world has increased by only 26%.

# Earnings Per Share Growth

Earnings Per Share (EPS) Growth: 1Q-24 and ISG 2024-25 Forecasts (% YoY)

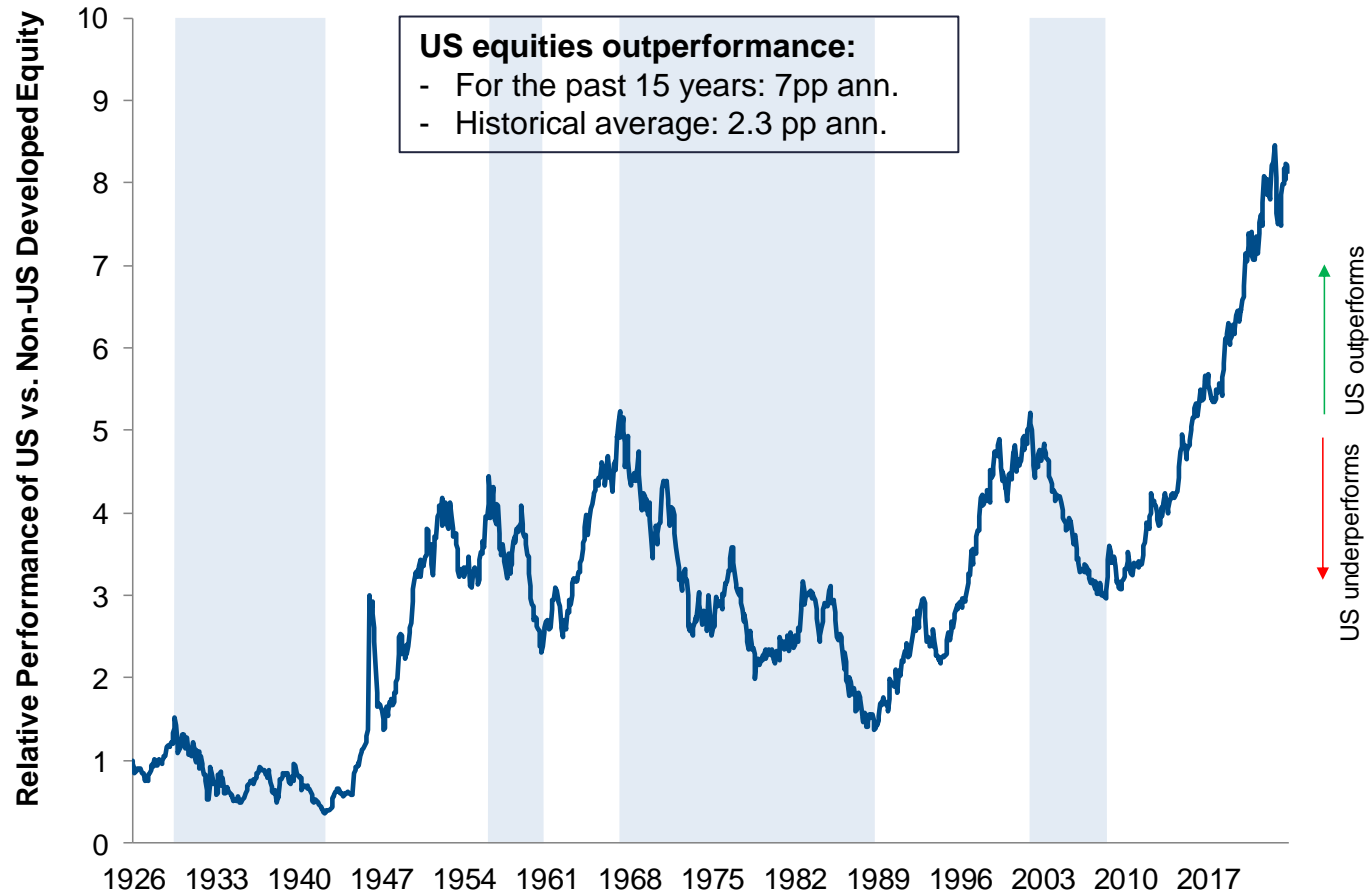


\* 2025 Forecasts for US, Eurozone, Japan and UK are preliminary.

- US (S&P 500):** Earnings grew 6% in Q1-24 compared to last year, but grew 9% excluding a non-recurring acquisition charge taken by Bristol-Myers Squibb. Our 2024 and preliminary 2025 targets imply 8-10% annual earnings growth (9% midpoint) in both years.
- Europe (Euro Stoxx 50) and UK (FTSE 100):** 1Q-24 earnings were stronger than expected. We expect around 5% YoY EPS growth in both regions in 2024. Our preliminary 2025 earnings growth estimates for the Eurozone and UK are 7% and 5%, respectively.
- Japan (TOPIX):** 1Q-24 earnings were stronger than expected, driven by Yen depreciation and increased auto production. Since March 2023, four sectors—financials, industrials, information technology and consumer discretionary—account for 85% of the rise in Japan’s earnings. Given the high base level in 2023 and slower domestic GDP growth, we expect 2024 earnings to grow by 6%. Our preliminary 2025 earnings growth forecast has TOPIX growing earnings by 6% again.
- Emerging Market (MSCI EM):** EPS grew 7% in Q1, but we expect an acceleration in the next three quarters. We forecast 14% and 8% EPS growth in 2024 and 2025, respectively, driven largely by a rebound in info tech (32% EPS CAGR in 2024-25, following -46% in 2023). In terms of countries, we expect EM EPS growth in 2024 to be led by an 85% rebound in Korea, following last year’s -40% contraction. We also forecast 2024 EPS growth of 11% and 14% in China and India, respectively.

# Stay Invested in US Equities vs. Non-US Equities

## Historical Total Return of US vs. Non-US Developed Equities



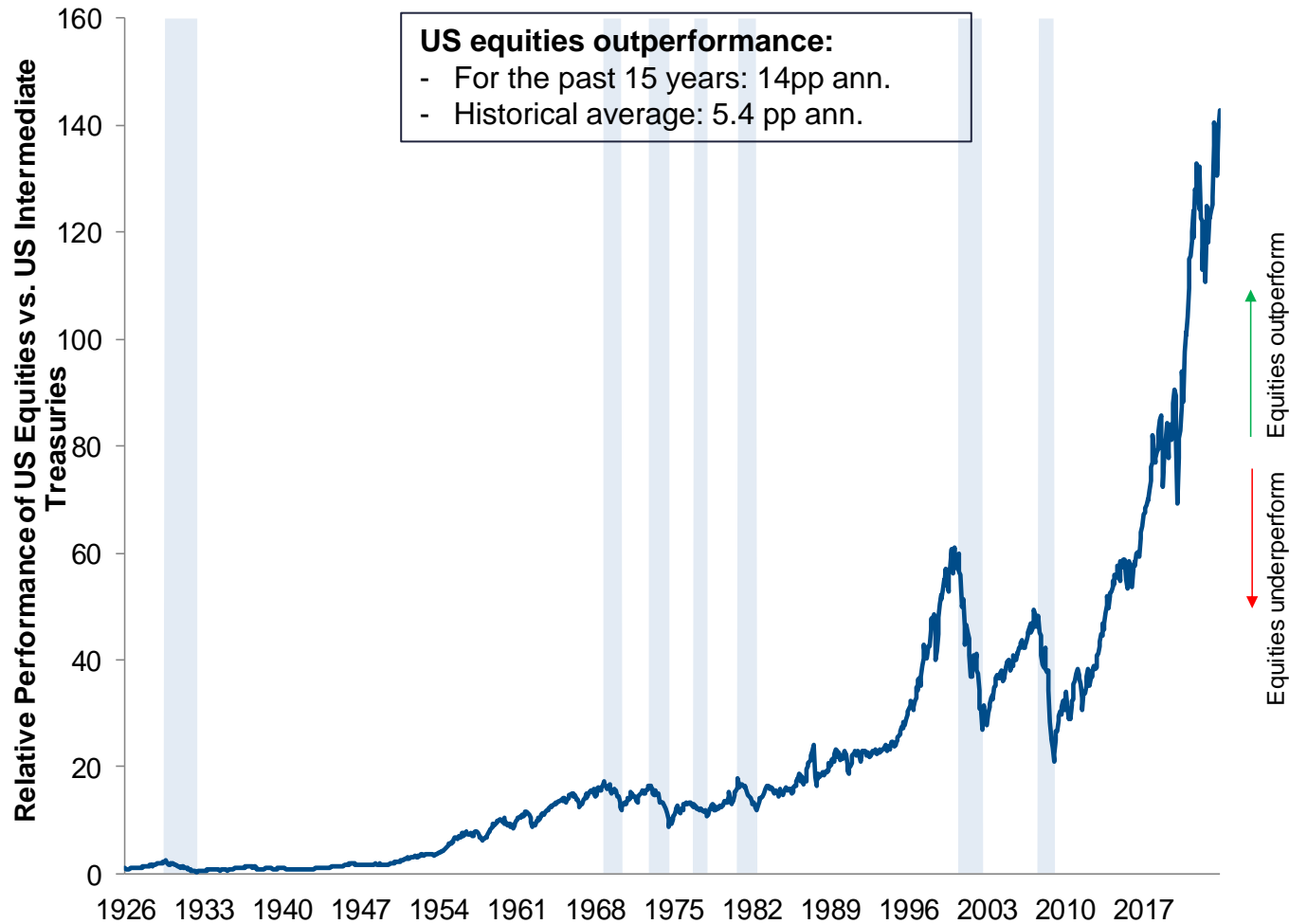
Source: Investment Strategy Group, Global Financial Data, Datastream.

Note: Shaded areas demote US equity relative underperformance. Emerging market equities are excluded as data is not available prior to 1988. Using data from Global Financial Data from 1926 to 1969, and S&P 500 and MSCI World ex-US indices from 1970 to 2023.

Past performance is not indicative of future result, which may vary.

# Stay Invested in US Equities vs. Intermediate Treasuries

Historical Total Return of US Equities vs US Intermediate Treasuries



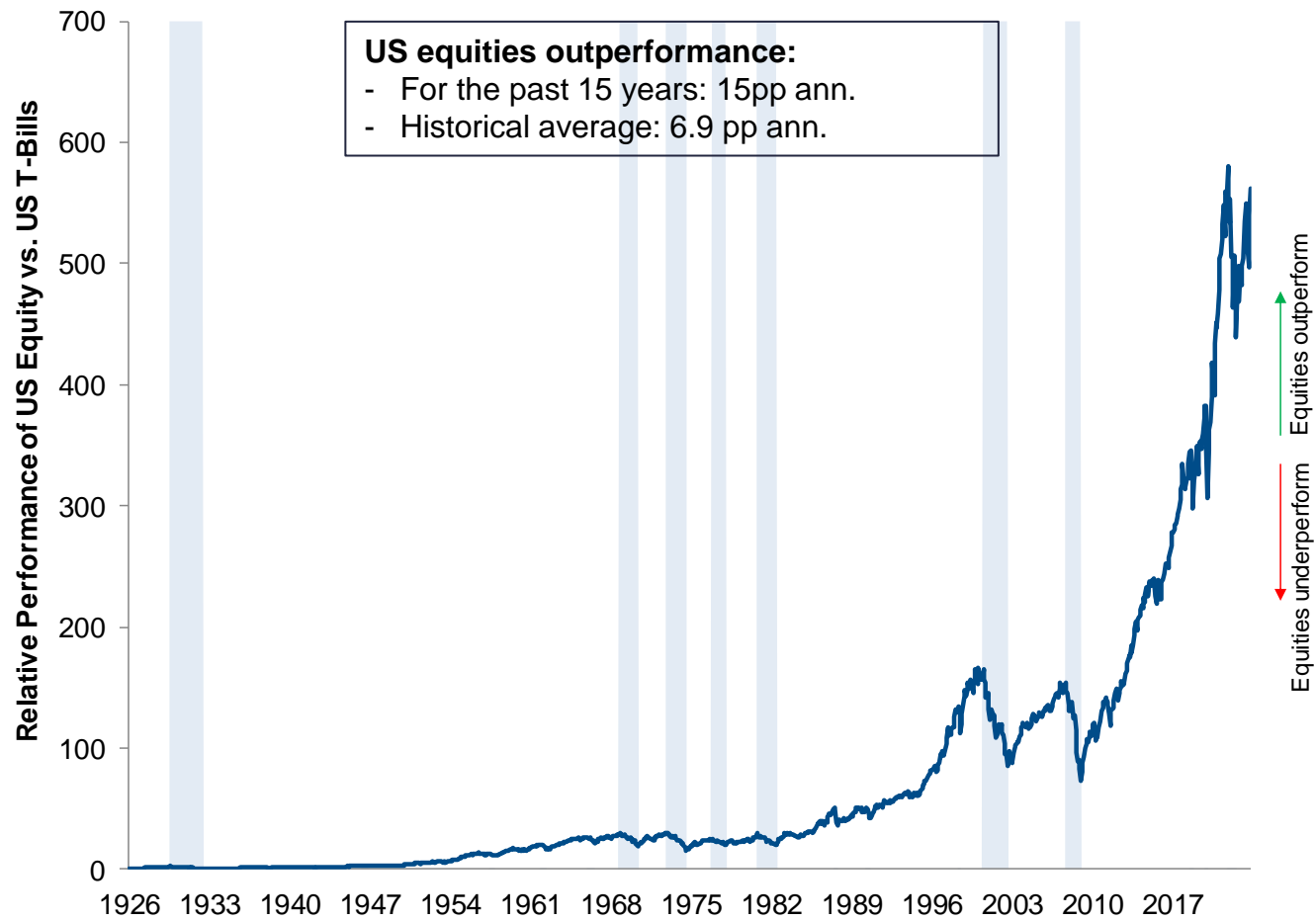
Source: Investment Strategy Group, Global Financial Data, Datastream, Ibbotson.

Note: Shaded areas denote US equity relative underperformance. US equities use data from Global Financial Data from 1926 to 1969, and S&P 500 from 1970 to 2023. US intermediate Treasuries use data from Ibbotson from 1926 to 1972, and Bloomberg US Intermediate Treasuries index from 1973 to 2023.

Past performance is not indicative of future result, which may vary.

# Stay Invested in US Equities vs. Cash

### Historical Total Return of US Equities vs US Treasury Bills



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

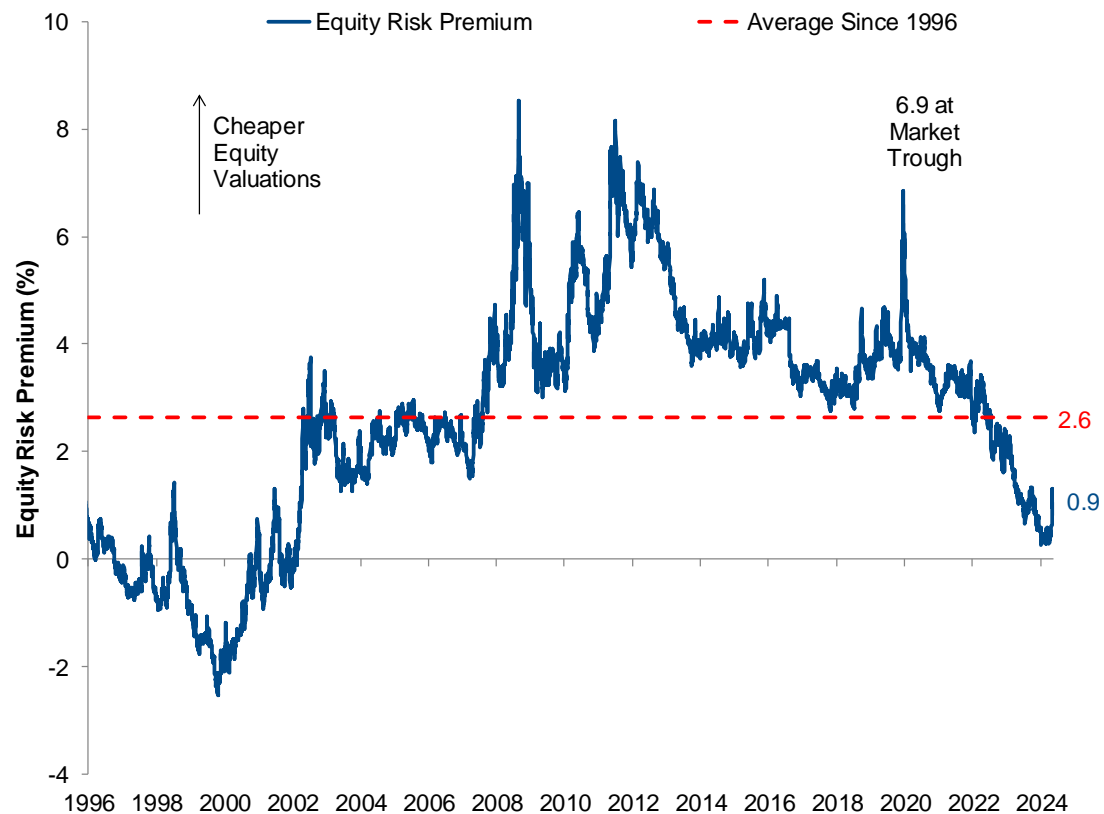
Note: Shaded areas demote US equity relative underperformance. US equities use data from Global Financial Data from 1926 to 1969, and S&P 500 from 1970 to 2023. US Treasury bills use data from Ibbotson from 1926 to 1991, and Bloomberg US Bills (1-3 month) index from 1992 to 2023.

Past performance is not indicative of future result, which may vary.

# The Risk Premium for Owning US Equities is Toward the Low End of its Historical Relationship With Interest Rates



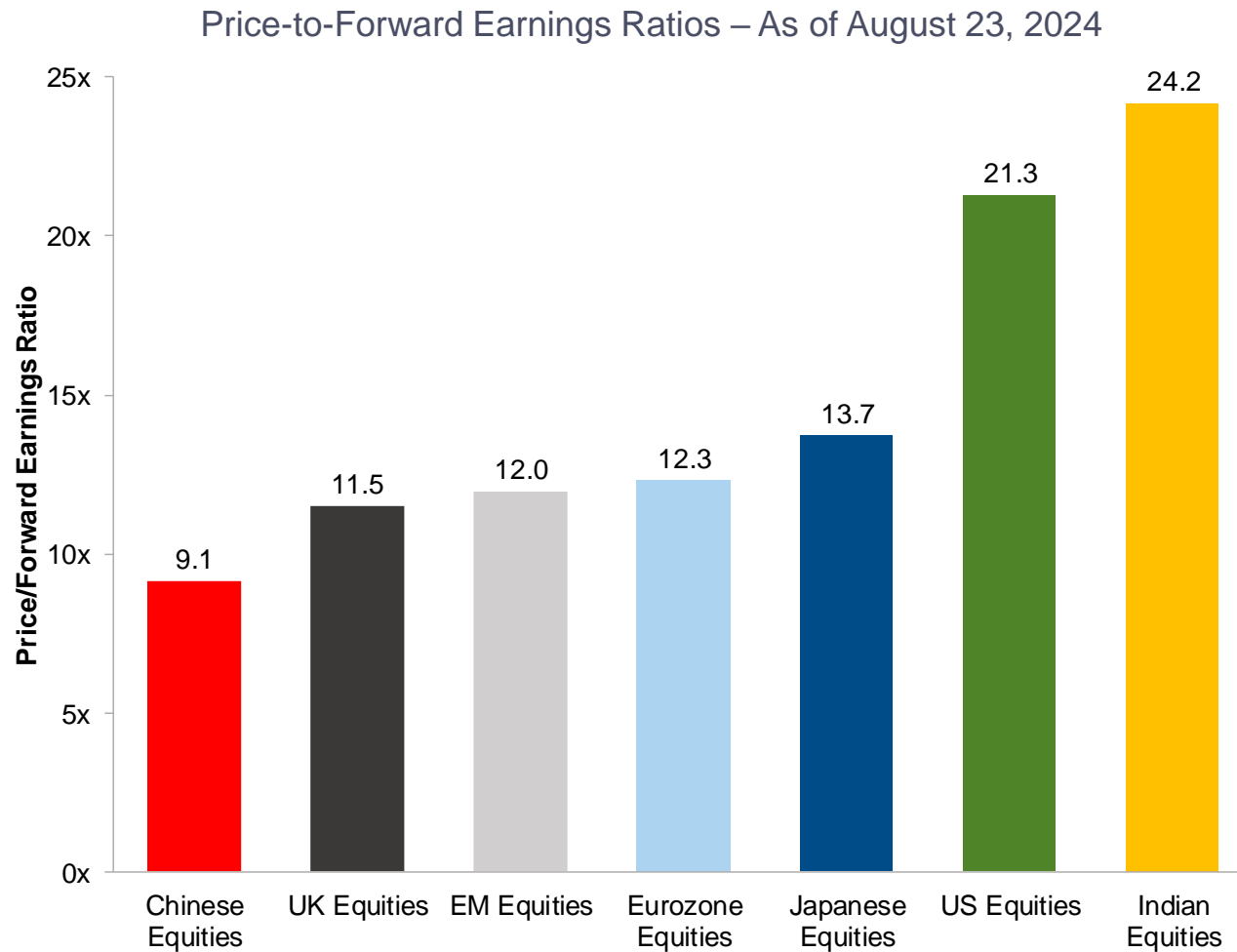
S&P 500 Earnings Yield Less 10-Year Treasury Yield (Implied Equity Risk Premium) – Through August 23, 2024



- US equities are in the 8<sup>th</sup> decile of valuations based on the equity risk premium.



# US Equities Are the Most Expensive After Indian Equities



- US equities are in the 10<sup>th</sup> decile of valuations.

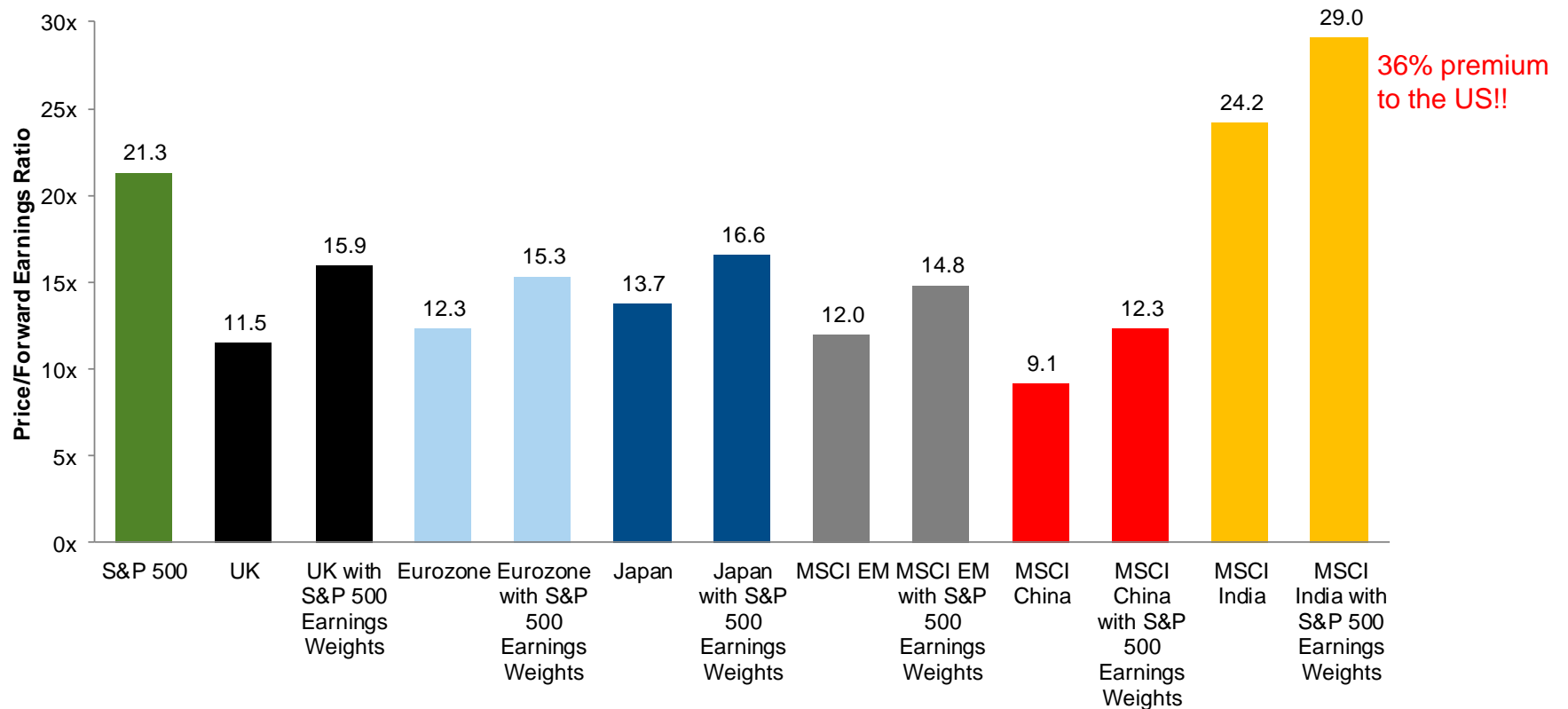
# US vs. UK: Sector Weights and Valuation



		<b>Technology</b>	<b>Energy</b>	<b>Financials</b>
<b>Earnings Weight</b>	<b>US</b>	32%	6%	18%
	<b>UK</b>	1%	19%	28%
<b>NTM PE Multiple</b>	<b>US</b>	29.4x	12.3x	15.6x
	<b>UK</b>	26.1x	8.1x	7.8x

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

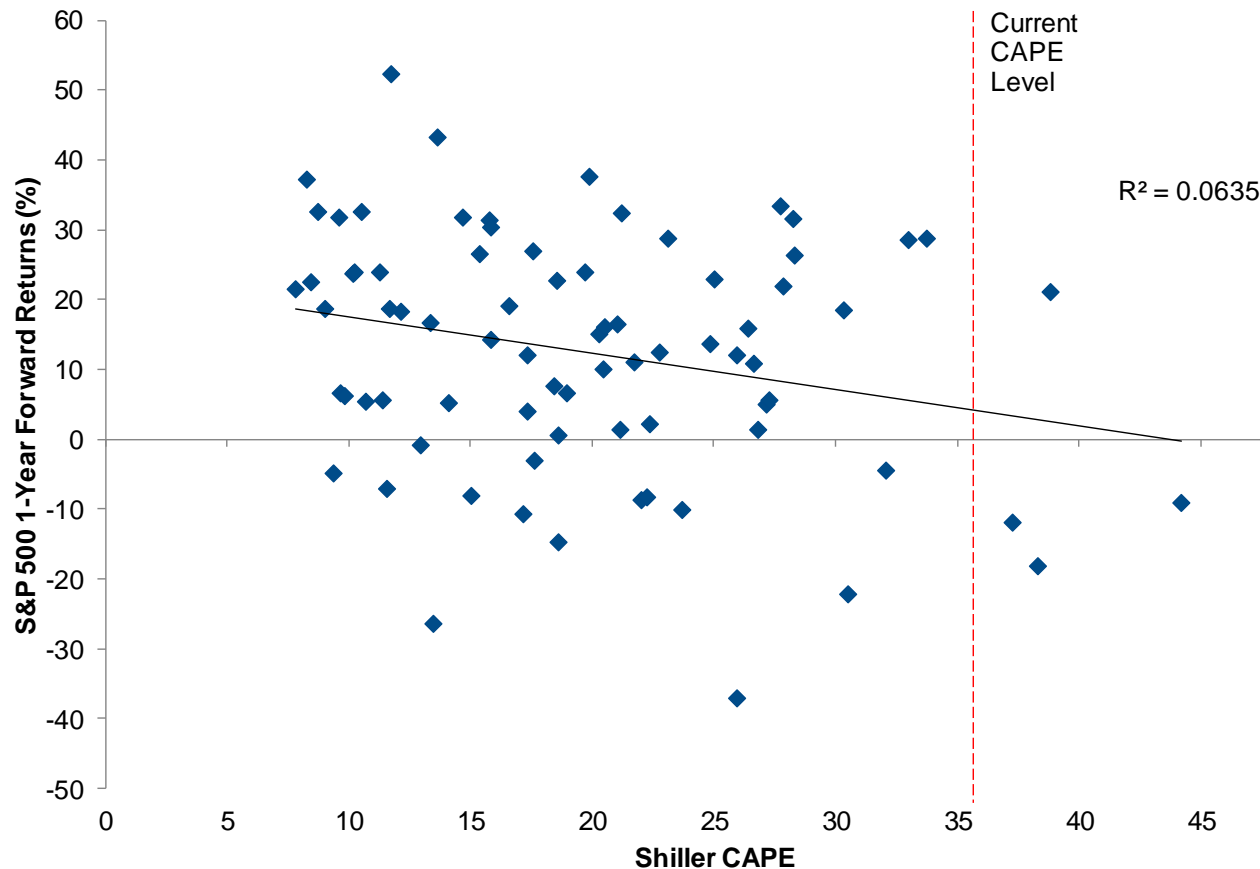
Price-to-Forward Earnings Ratios Adjusted for S&P 500 Earnings Weights  
 – As of August 23, 2024



# Valuations Have Not Been a Reliable Timing Signal in the Past



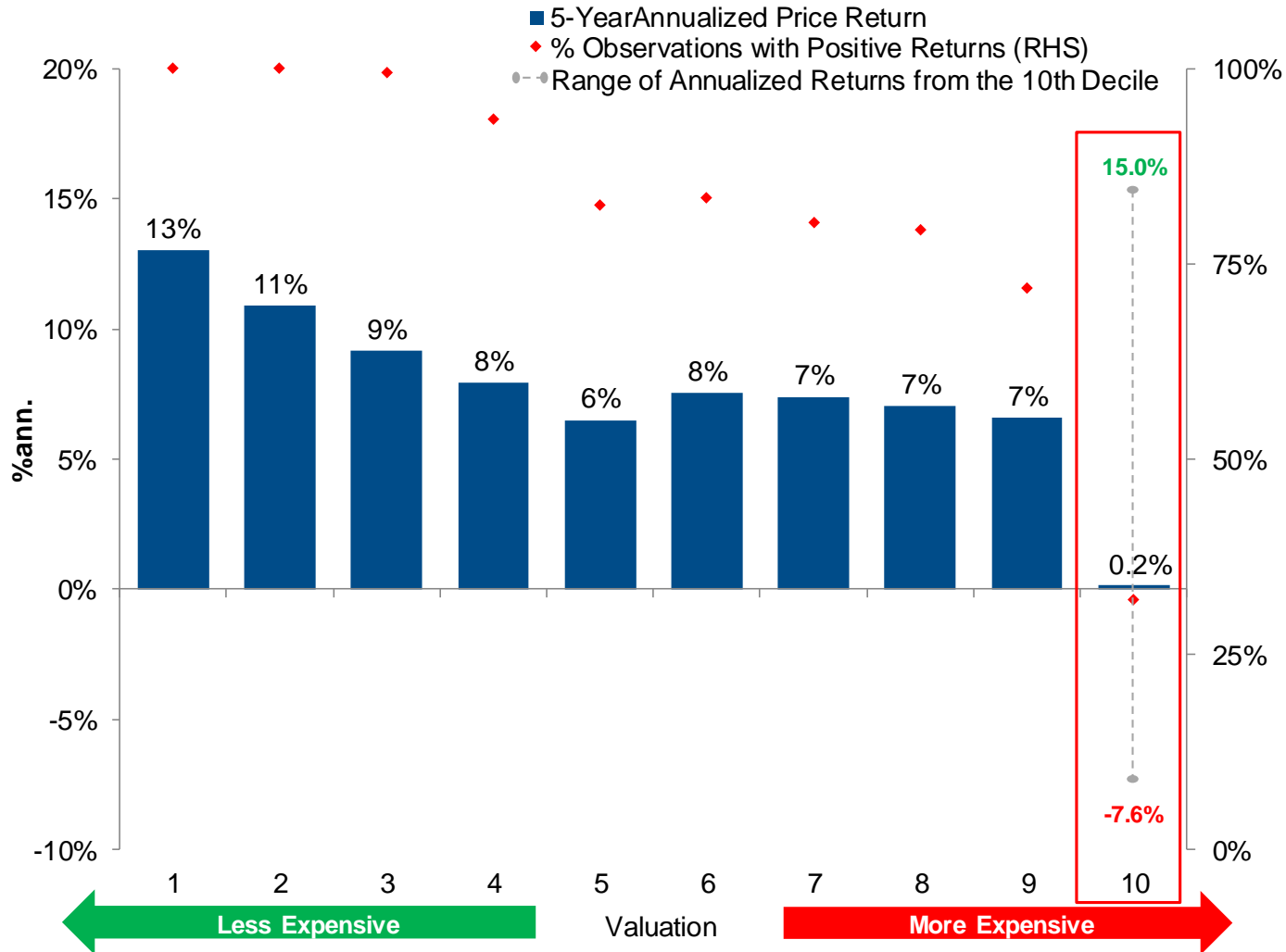
S&P 500 Shiller CAPE vs. Subsequent Calendar-Year Total Return Since 1945  
– As of August 23, 2024



- The beginning price-to-earnings ratio has only explained 6% of the variation in equity returns in the subsequent year historically.

# Valuations Have Not Been a Reliable Timing Signal in the Past (Cont'd.)

5-Year S&P 500 Price Returns from Each Valuation Decile<sup>1</sup> – July 31, 2024



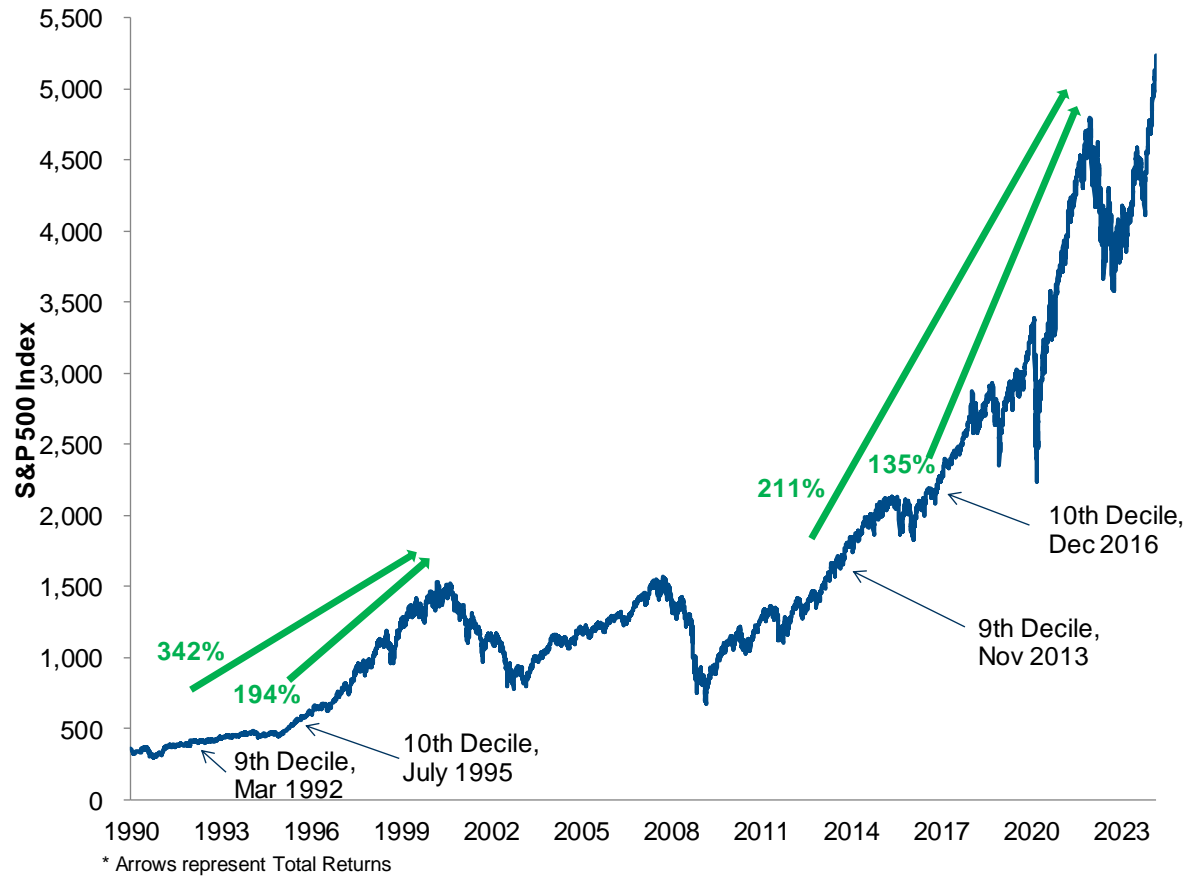
Past performance is not indicative of future result, which may vary.

Source: Investment Strategy Group, Bloomberg, Datastream, Robert Shiller

<sup>1</sup> Based on five valuation metrics for the S&P 500, beginning in September 1945: price-to-trend earnings, price-to-peak earnings, price-to-trailing 12m earnings, Shiller cyclically adjusted price-to-earnings ratio (CAPE) and price-to-10-year average earnings. These metrics are ranked from least expensive to most expensive and divided into 10 buckets based on monthly observations (“deciles”). The subsequent realized, annualized five-year price return is then calculated for each observation and averaged within each decile.

# Valuations Have Not Been a Reliable Timing Signal in the Past (Cont'd.)

S&P 500 Forward Returns After Crossing Ninth and 10th Deciles of Valuations



- Since first entering the 9th / 10th decile in Mar-92 / Jul-95, the S&P 500 rallied 342% / 194% to the bull-market peak.
- Since first entering the 9th / 10th decile in Nov-13 / Dec-16, the S&P 500 rallied 211% / 135% to the peak in January 2022.

# Are Current Valuations in Bubble Territory?

Constituents	S&P 500 Weight	Valuation on		Expected NTM EPS Growth
		NTM PE	24M Fwd PE	
<b>Big Tech</b>				
Microsoft	6.5%	32.6	28.2	9.8%
Apple	6.9%	33.1	31.2	7.3%
NVIDIA	6.7%	44.2	34.4	61.4%
Amazon	3.4%	36.1	28.0	34.7%
Alphabet	3.8%	21.6	18.4	18.7%
Meta Platforms	2.4%	25.3	21.9	18.2%
Tesla	1.3%	75.5	50.6	1.6%
<b>Big Tech Aggregate</b>	<b>31.1%</b>	<b>34.2</b>	<b>29.0</b>	<b>20.0%</b>
<b>S&amp;P 500</b>		<b>21.5</b>		<b>12.2%</b>
<b>Tech Bubble</b>				
Microsoft	4.5%	54.0	53.2	14.3%
Cisco Systems	4.2%	131.8	101.7	34.6%
Intel	3.6%	45.8	42.1	29.1%
Oracle	1.9%	116.4	84.6	33.4%
IBM	1.7%	25.6	23.2	21.4%
Lucent	1.6%	32.6	37.9	37.0%
Nortel Networks	1.6%	106.7	86.4	29.8%
<b>Tech Bubble Aggregate</b>	<b>19.0%</b>	<b>56.1</b>	<b>51.9</b>	<b>25.3%</b>
<b>Nifty Fifty</b>				
IBM	7.1%		35.5	
Eastman Kodak	3.6%		43.5	
Sears Roebuck	2.7%		29.2	
General Electric	2.0%		23.4	
Xerox	1.8%		45.8	
3M	1.4%		39.0	
Procter & Gamble	1.4%		29.8	
<b>Nifty 50 Aggregate</b>	<b>20.0%</b>		<b>34.3</b>	

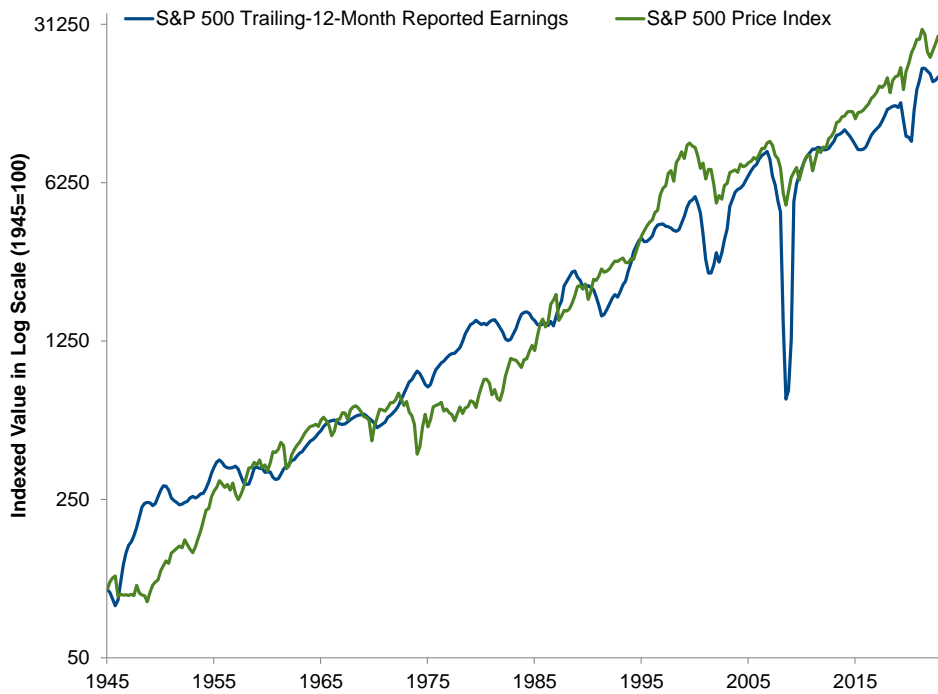
- Large cap technology stock valuations stand below levels seen at the peak of prior bubbles.
- These companies are expected to grow earnings by 20% over the next twelve months, a pace that is 8% higher than that of the broader market, potentially increasing the penalty on multiples if they do not deliver on this growth.



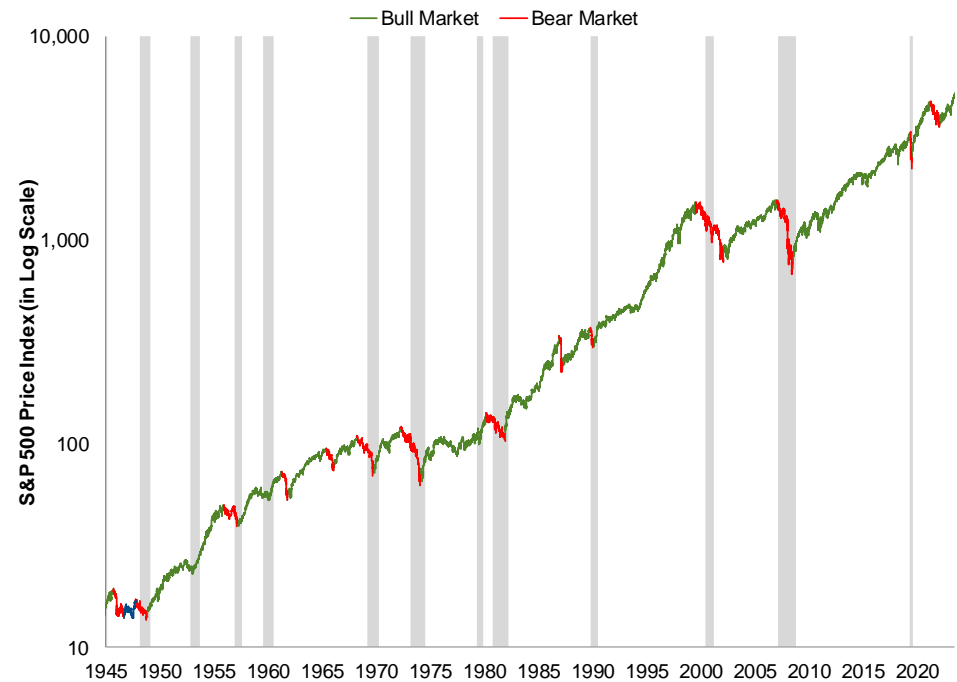
# Stay Invested in US Equities



## 1. S&P 500 Price Index vs. Earnings – Through Q1 2024



## 2. S&P 500 Bull and Bear Markets Over the Post-WWII Period<sup>1</sup>



- The hurdle to underweight US equities is high given the upward trend in earnings and prices.

Past performance is not indicative of future result, which may vary.

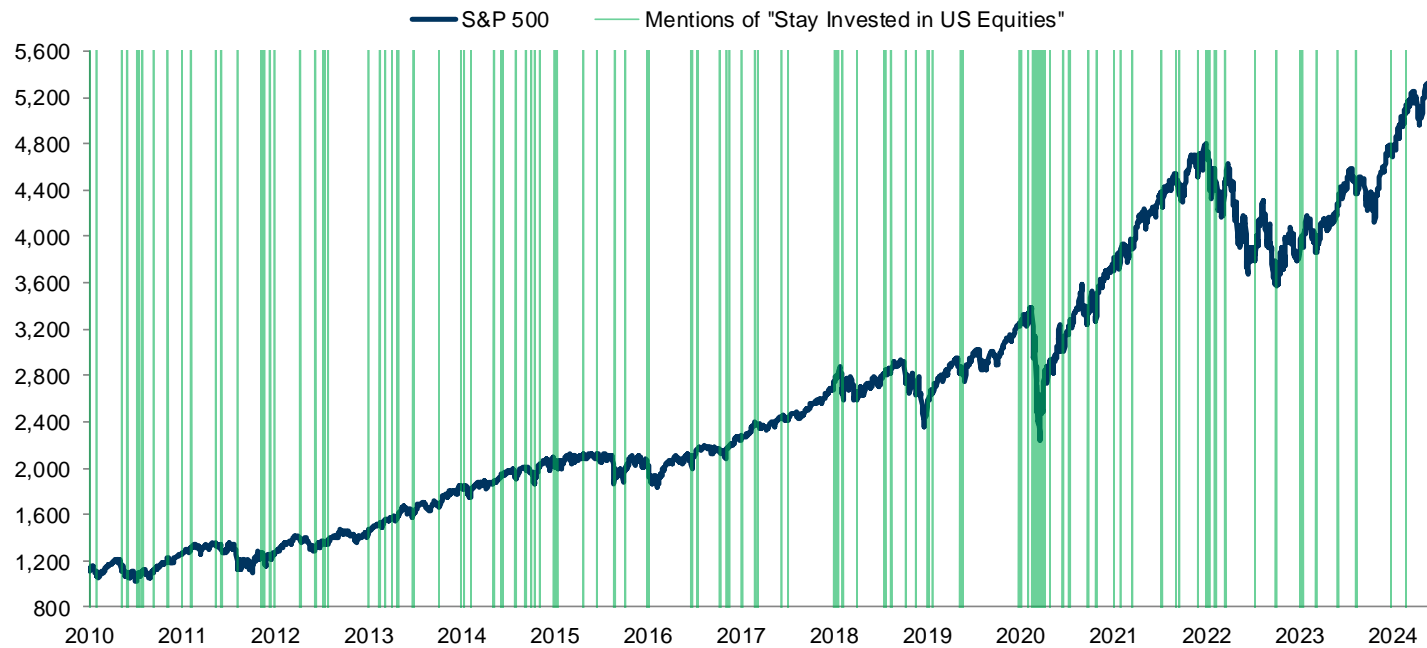
Source: Investment Strategy Group, Bloomberg, S&P Global, Robert Shiller, NBER.

1. Shaded periods denote US recessions. 1947-1948 is colored blue because it was neither a bull nor a bear market.

# We Recommended Clients Stay Invested on 123 Occasions



## S&P 500 Price Index and ISG Recommendations to Stay Invested



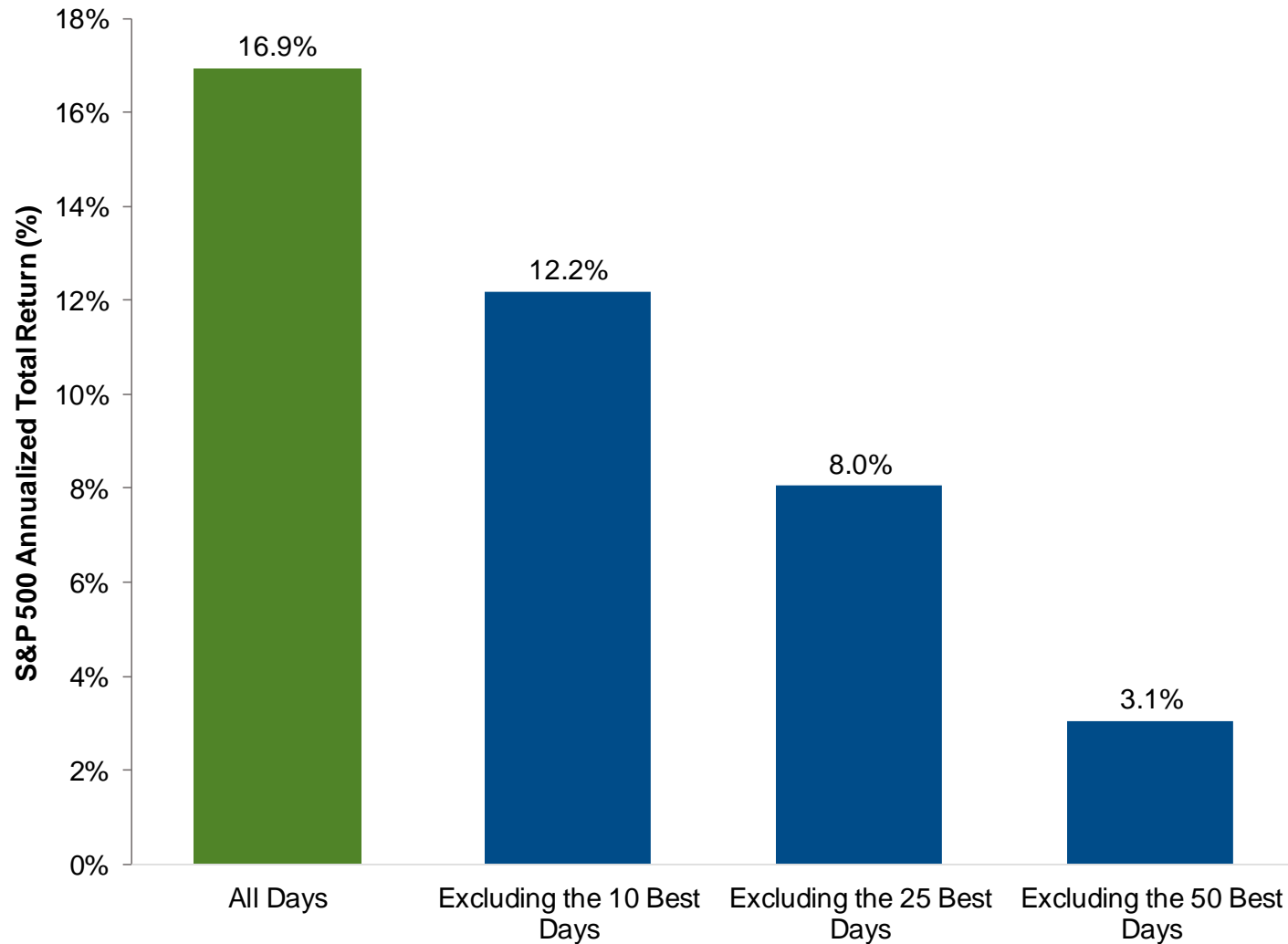
- This view has been historically been a primary driver of model portfolio returns and the costs of prematurely exiting can be high.
- Our continued recommendation to stay invested is not a blind endorsement of a buy-and-hold strategy. Rather, it reflects the relatively low odds we place on a US recession or external shock strong enough to undermine the US expansion.

(1) ISG began recommending that clients "Remain invested in US equities" on January 4, 2010.  
Source: Investment Strategy Group, Datastream.

# Stay the Course: Penalties for Missing the Market's Best Days Are Stiff



S&P 500 Annualized Total Return – March 9, 2009 to August 23, 2024



Past performance is not indicative of future result, which may vary.  
Source: Investment Strategy Group, Bloomberg.

# We Expect Global Growth to Remain Near Trend Levels



## Real GDP Growth Outlook – As of August 26, 2024

% YoY	2023	2024 Projections	
	Actual	ISG	GIR
<b>US</b>	2.5	2.5 (1.9)	2.7
<b>Euro Area</b>	0.5	0.7 (0.5)	0.7
<b>Japan</b>	1.7	0.0 (0.9)	0.1
<b>UK</b>	0.1	1.1 (0.5)	1.1
<b>China (?)</b>	5.2	4.8 (4.8)	4.9
<b>India</b>	7.7	7.0 (6.1)	6.7
<b>Brazil</b>	2.9	2.2 (1.5)	2.5
<b>Russia</b>	3.6	3.3 (2.2)	3.5
<b>World</b>	3.1	3.1 (2.9)	3.1

Note: All forecasts calculated on calendar year basis.  
Numbers in parentheses are end-of-2023 ISG projections.

# We Expect Inflation to Moderate, and Most Major Central Banks to Start Cutting Rates in 2024



## Inflation and Rates Outlook – As of August 26, 2024

Percent	Headline CPI		Core CPI**		Policy Rate		10-Year Bond Yield***	
	2024 Annual Average*				2024 Year-End			
	ISG	GIR	ISG	GIR	ISG	GIR	ISG	GIR
<b>US</b>	2.5 (2.6)	2.6	3.0 (2.8)	3.0	4.63 (4.38)	4.63	4.00 (3.70)	4.25
<b>Euro Area</b>	2.4 (2.3)	2.5	2.7 (2.5)	2.9	3.25 (2.75)	3.25	2.10 (2.10)	2.25
<b>Japan</b>	2.6 (2.7)	2.5	2.2 (2.7)	2.3	0.40 (0.20)	0.25	0.75 (0.75)	1.25
<b>UK</b>	2.6 (2.7)	2.5	3.7 (3.3)	3.7	4.75 (4.50)	4.75	3.30 (3.30)	3.75
<b>China</b>	0.3 (0.7)	0.4	0.8 (1.1)	0.8				

\* US inflation projections are Q4/Q4 CPI

\*\* Core excludes food and energy.

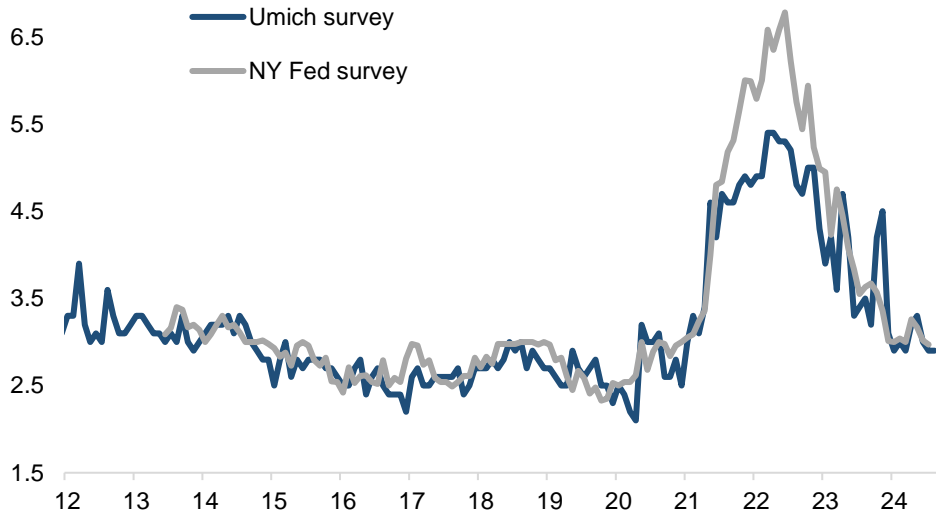
\*\*\* For Eurozone, we show the 10-year German bund yield.

Numbers in parentheses represent end-2023 ISG projections.

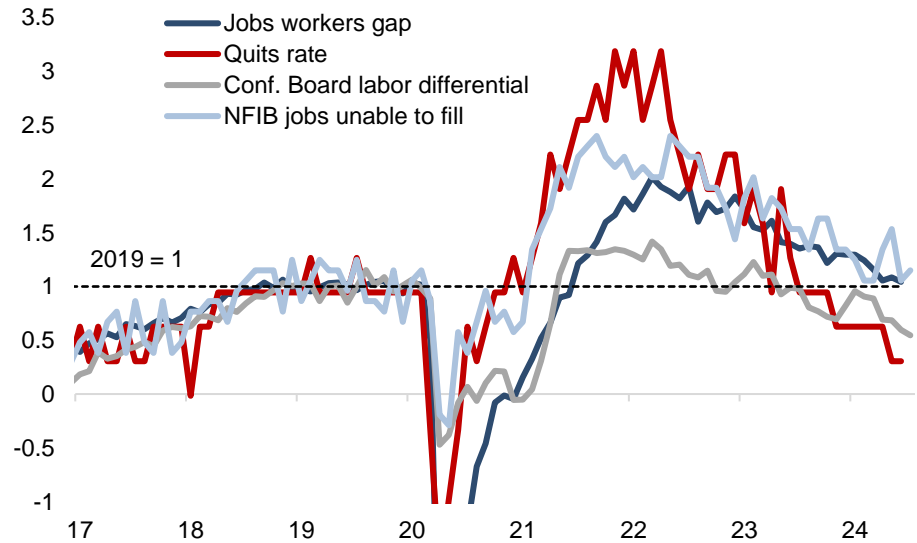
- US: 3 cuts in 2024 starting in September
- Euro Area: 3 cuts in 2024 starting in June
- UK: 2 cuts in 2024 starting in August
- Japan: 3 hikes (10-15bp) in 2024 starting in March

# Bigger Picture Drivers of Inflation Do Not Signal a Reacceleration

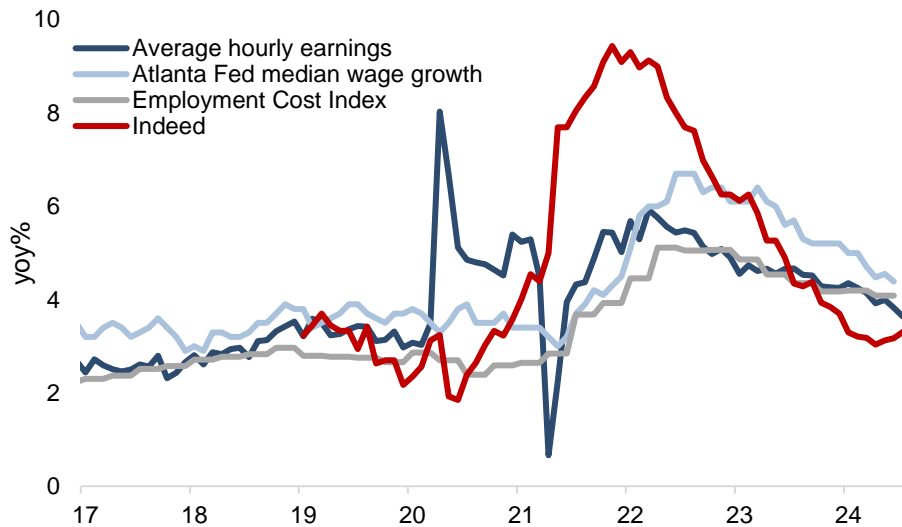
## 1. Inflation Expectations (Year Ahead)



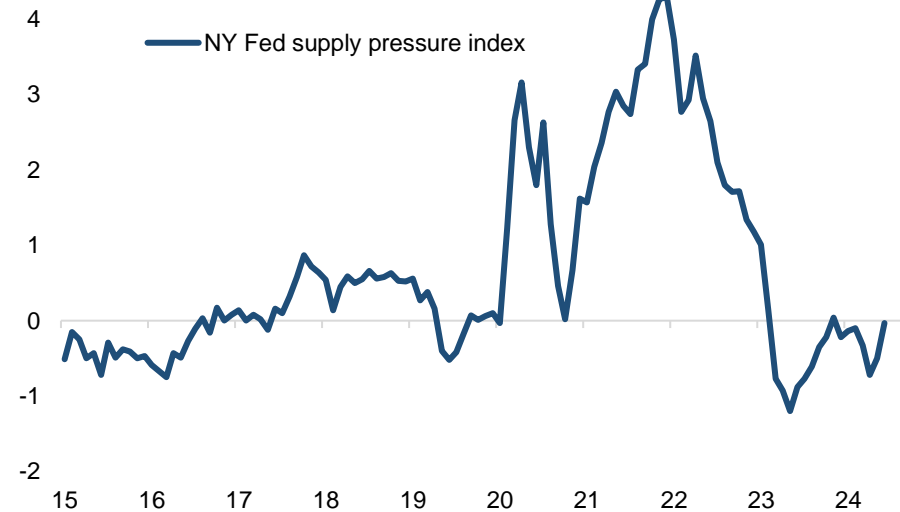
## 2. Indicators of Labor Market Tightness



## 3. Wage Growth Trackers



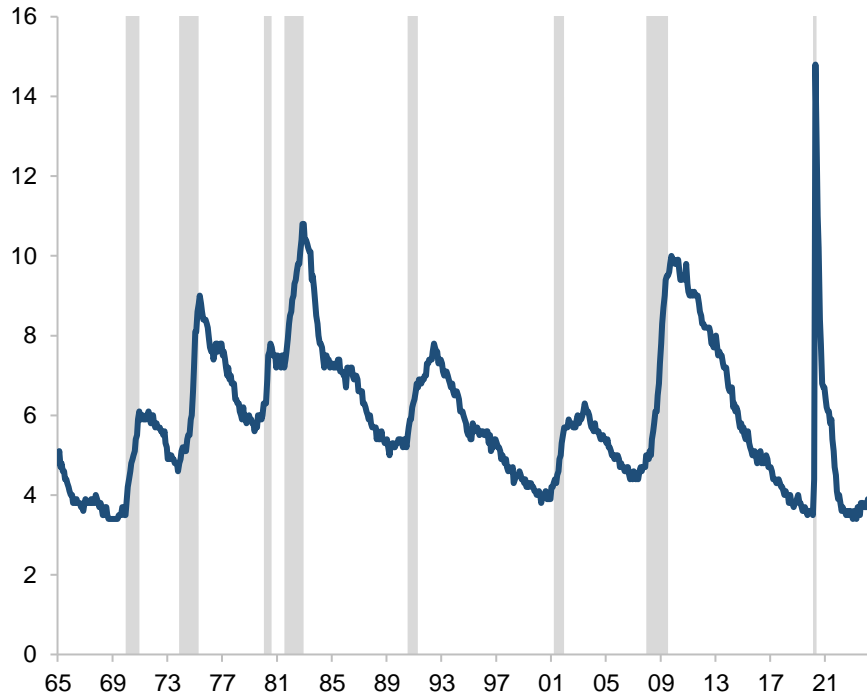
## 4. Global Supply Chain Pressure Index



# Recession Risk is Elevated, but Still far From Being our Base Case

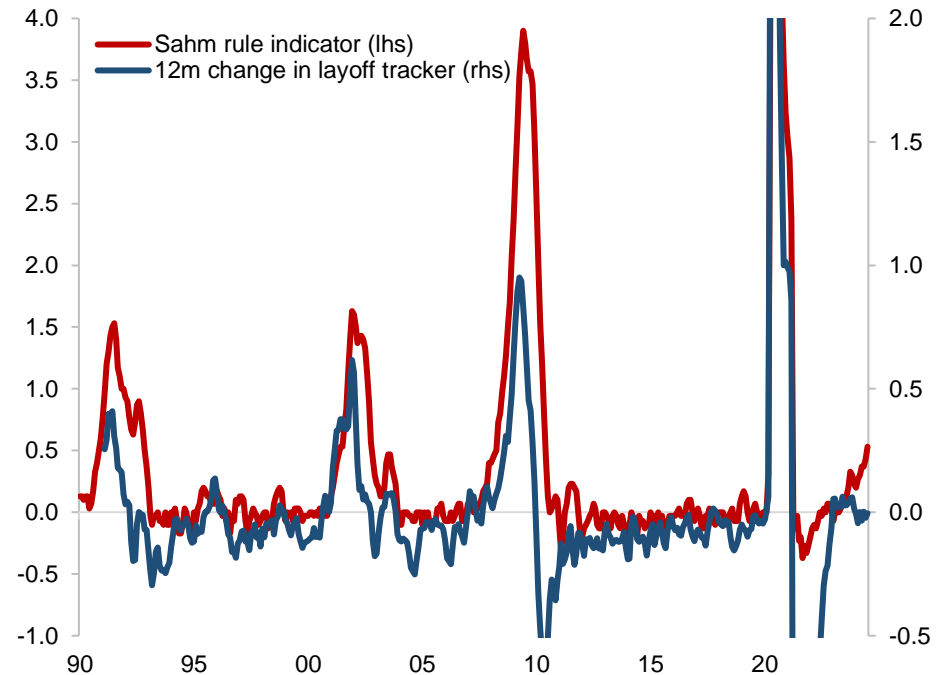


## 1. US Unemployment Rate, %



\* Shaded areas denote recession

## 2. Sahm Rule Indicator vs 12m Change in Layoffs



- The rise in the US unemployment rate to 4.3% has rekindled recession fears, particularly after triggering the “Sahm Rule<sup>1</sup>” recently.
- These worries reflect the historical tendency for unemployment to keep rising once it has begun, as increasing layoffs leads to less spending, which results in businesses laying off even more employees.
- But rising unemployment in the current cycle has been driven primarily by immigrants entering the workforce, not spiking layoffs.
- This is a critical distinction, because fewer layoffs imply less of a headwind to spending.

(1) The Sahm Rule is an economic indicator that uses the change in the 3-month average of the unemployment rate from its low point in the prior 12 months to identify recessions. An increase above 0.5% is historically consistent with the start of a recession.

Note: The layoff tracker is an average of initial claims, JOLTS layoff rate, and employed to unemployed flows, expressed as z-scores.

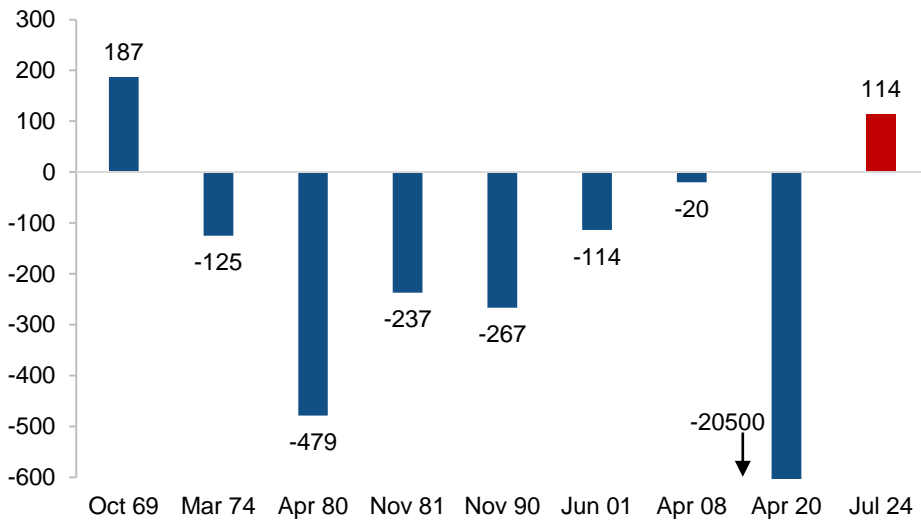
Source: Investment Strategy Group, BLS, Haver Analytics.



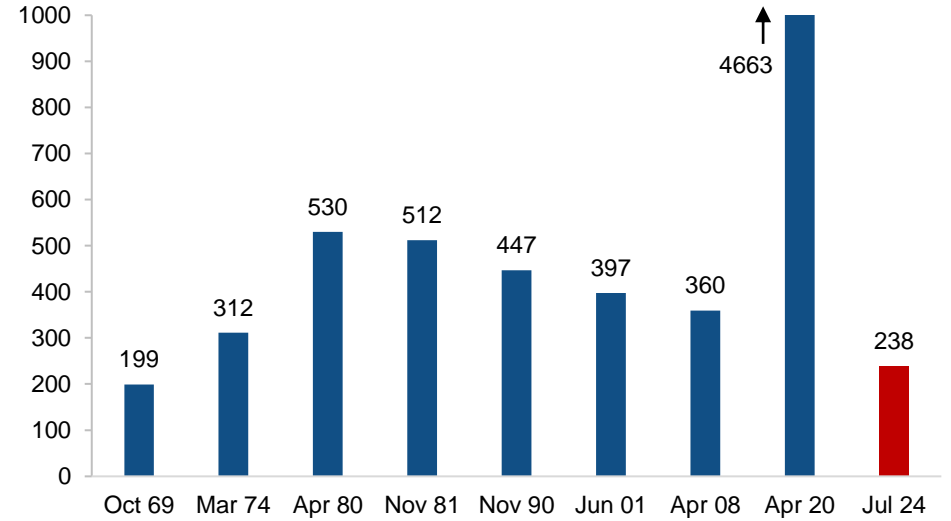
# Other Economic Indicators are Stronger Than Past Periods When the Sahm Rule Triggered a Recession Warning



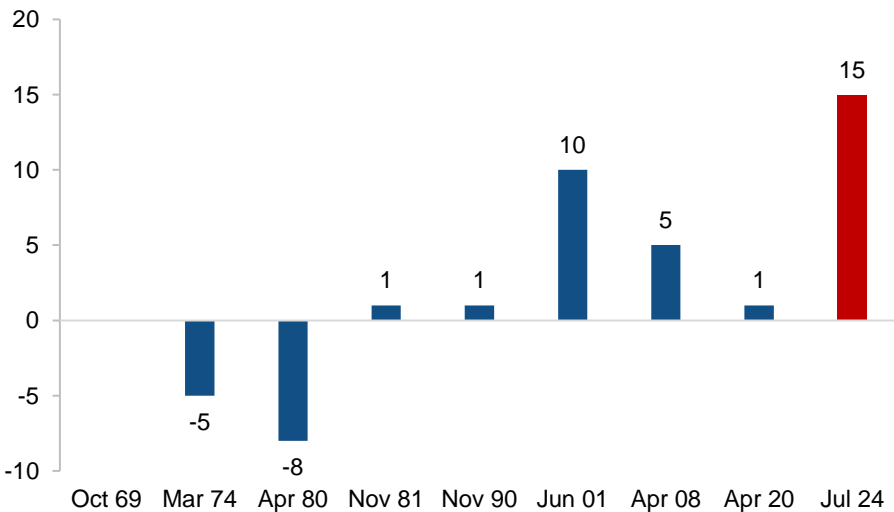
1. Change in Nonfarm Payrolls, Thousands (real-time)



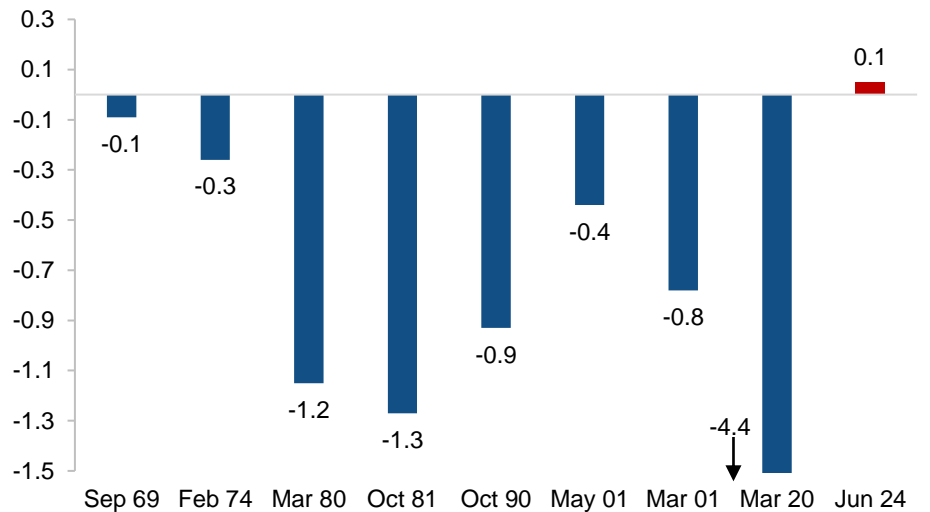
2. Initial Jobless Claims, Thousands



3. Net % of Small Business Planning to Increase Employment



4. Chicago Fed National Activity Index

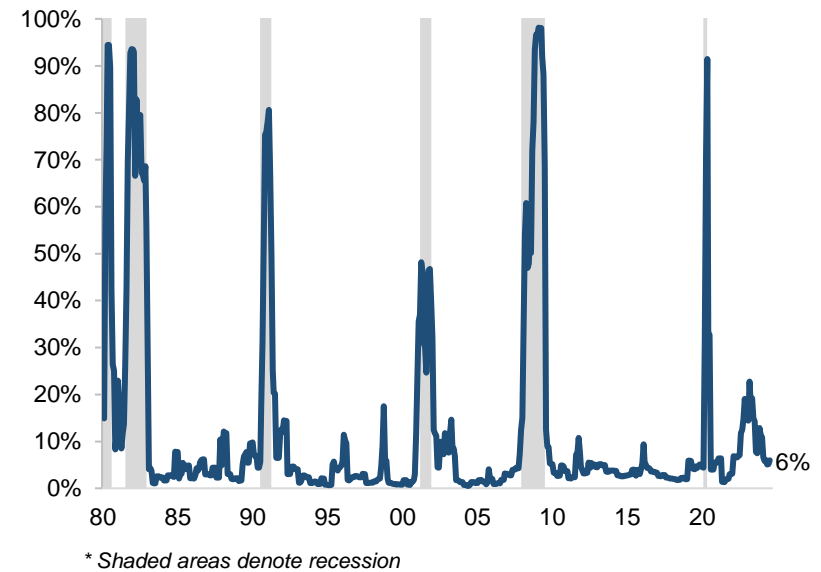


# Other Real Time Recession Models Have not Triggered

## 1. Various Popular Real-Time Recession Indicators

Model*	Avg lag to NBER start (months)	Past recession threshold	Triggered?	Value
<b>Furno &amp; Giannone 2023 rec probability</b> (uses ISM manf. and Composite Indicator of Systemic Stress)	0.3	50%	NO	3.3%
<b>St Louis Fed smoothed rec probability</b> (uses NBER indicators: payrolls, IP, RPI, Real manf sales)	1.3	30%	NO	0.2%
<b>SPF probability</b> of decline in current quarter GDP	2.5	45%	NO	16%
<b>Sahm Rule</b> (uses unemployment rate)	2.3	0.5	YES	0.53

## 2. Average Current Recession Probability

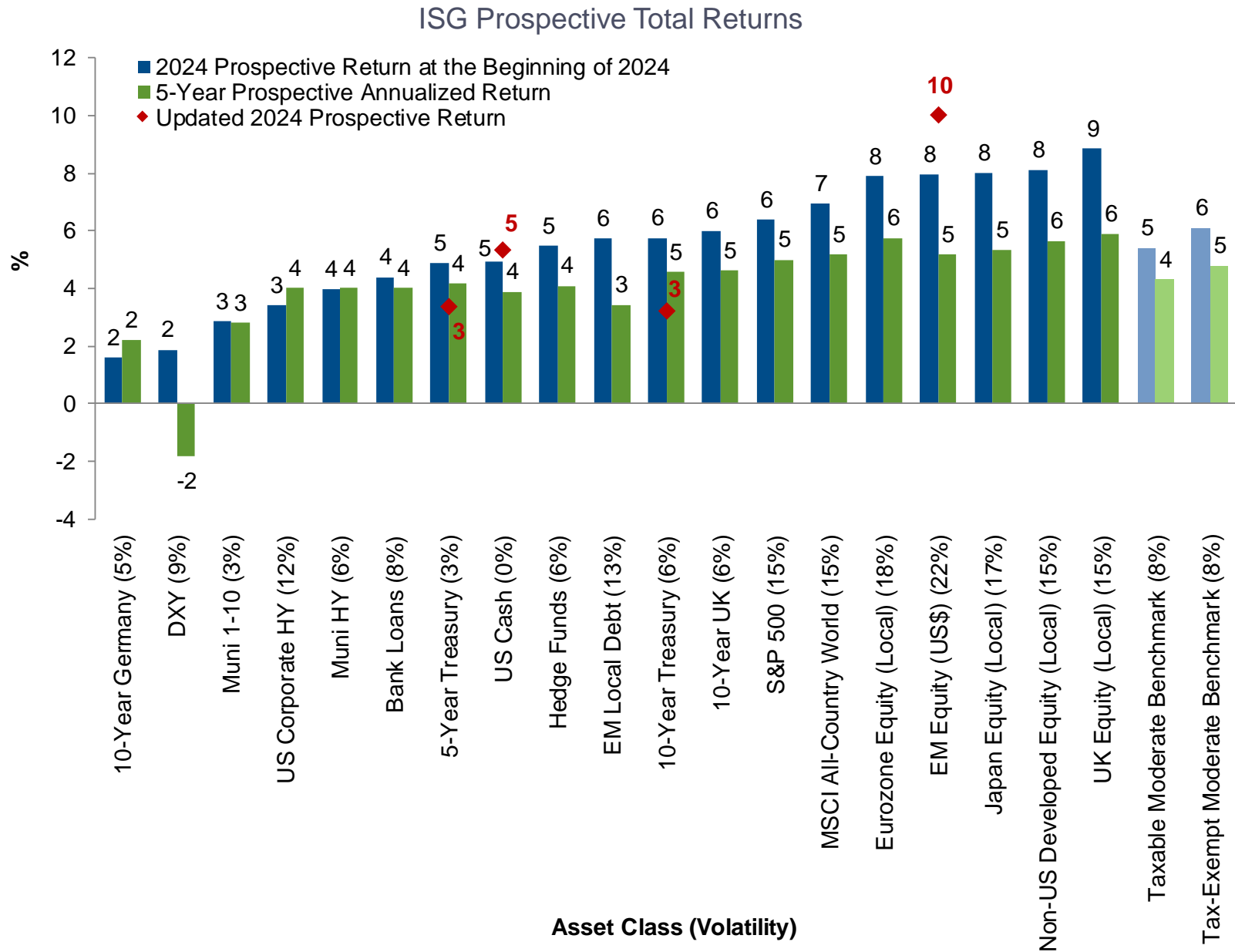


- The table above shows 4 methods of recession nowcasting that each have a 100% record since 1980 with no false positives.
- The Sahm rule is the only indicator 'triggered' and there has never been a historical instance when it triggered before the others.

Source: Investment Strategy Group, Haver Analytics, [Furno & Giannone 2023](#), St Louis Fed, Philadelphia Fed.

\* ISM manf = ISM Purchasing Managers' Index (PMI) Manufacturing; payrolls = non-farm payroll employment; IP = the index of industrial production; RPI = real personal income excluding transfer payments; Real manf sales = real manufacturing and trade sales.

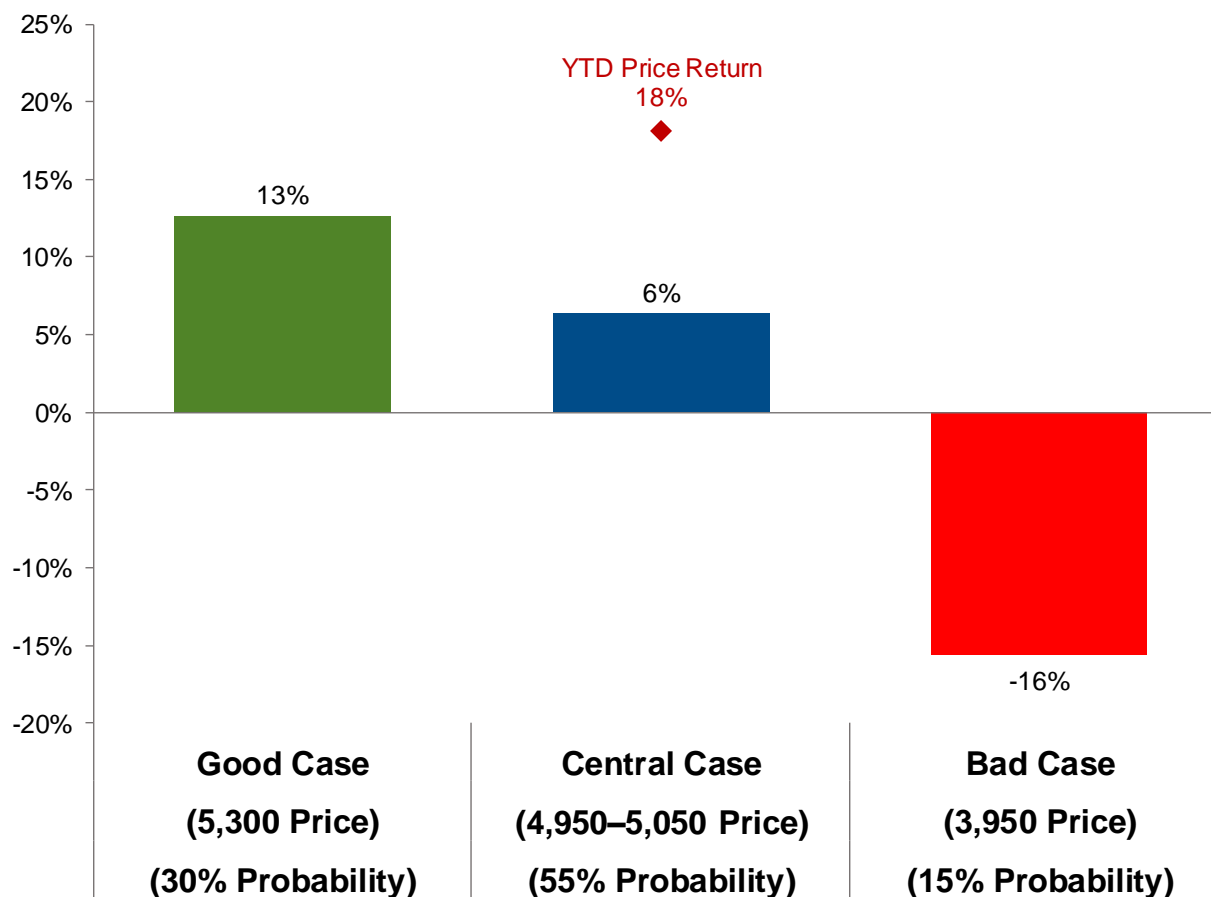
# ISG 2024 and 5-Year Prospective Total Returns



# We Continue to Recommend Clients Stay Invested in US Equities



2024 ISG Total Return Forecast Scenarios for S&P 500 – As of August 23, 2024

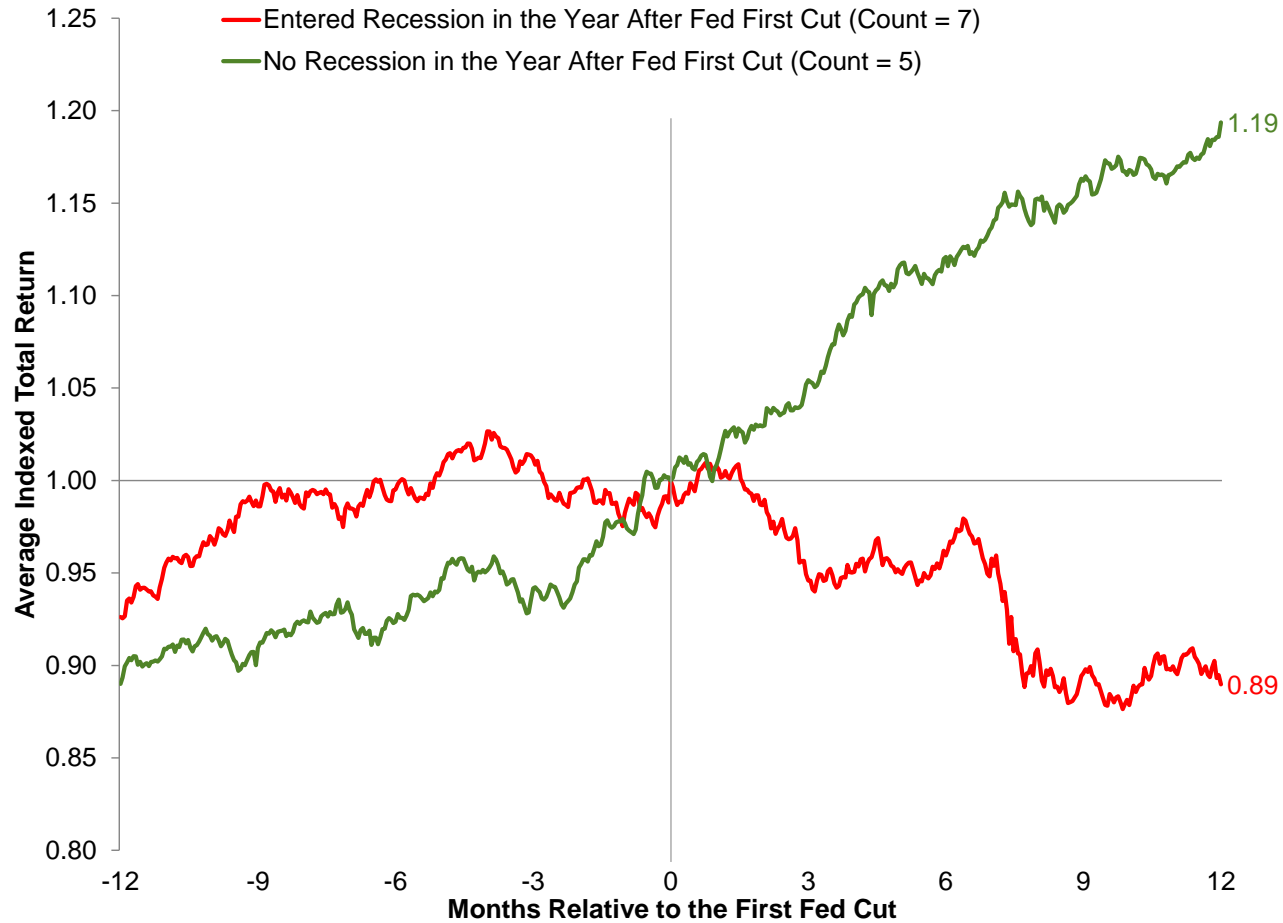


- Earnings growth of 8–10% (9% midpoint), based on our forecast of \$222 EPS in 2023 and \$239–244 in 2024
- Dividend yield of 1.5%
- A modest 4% contraction in valuation multiples

# Equity Returns Have Been Favorable When the Federal Reserve Cut Interest Rates and the US Avoided a Recession



S&P 500 Performance Around the First Federal Reserve Rate Cut<sup>1</sup>



Source: Investment Strategy Group, Bloomberg.

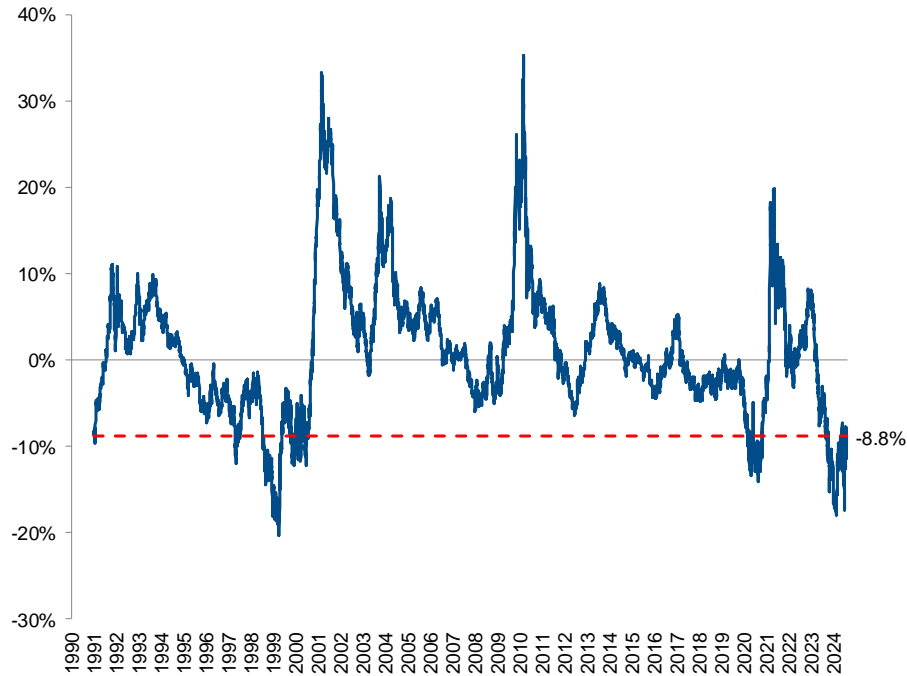
Past performance is not indicative of future result, which may vary.

1. Based on data since 1945.

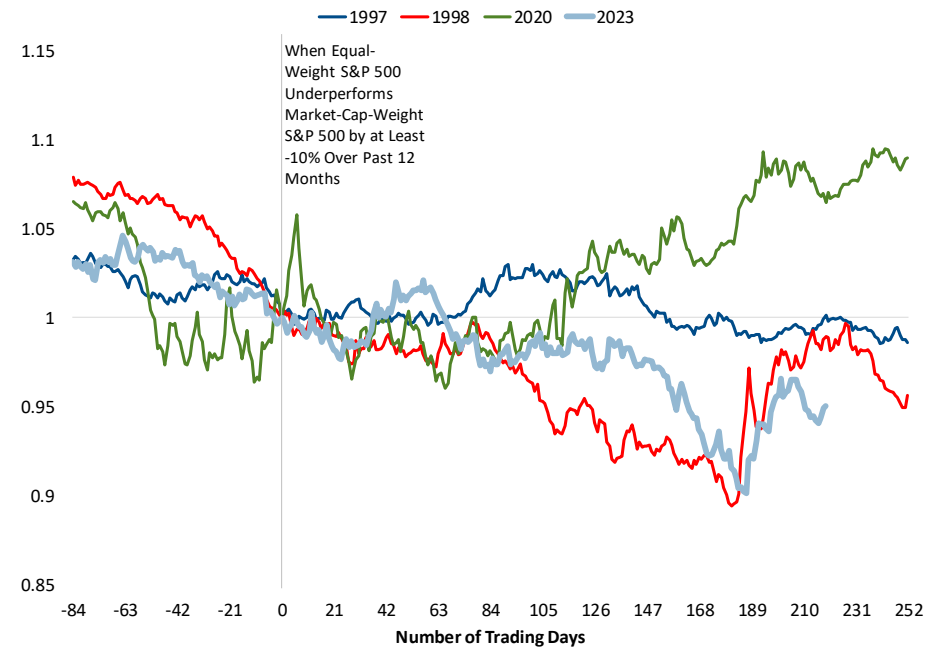
# Relative Performance of Equal-Weighted S&P 500 in the Year Following Narrow Market Breadth was Mixed



1. Rolling 1-Year Total Return Difference of Equal Weight vs. Market Cap Weight S&P 500 – Through August 23, 2024



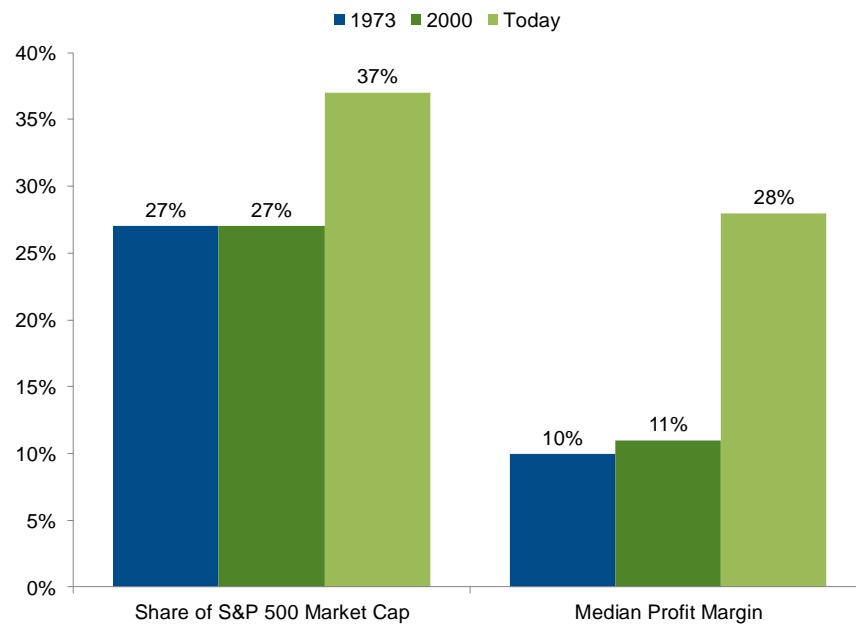
2. Indexed Relative Performance Ratio of Equal- vs. Cap-Weighted S&P 500 Following Narrow Breadth – Through August 23, 2024



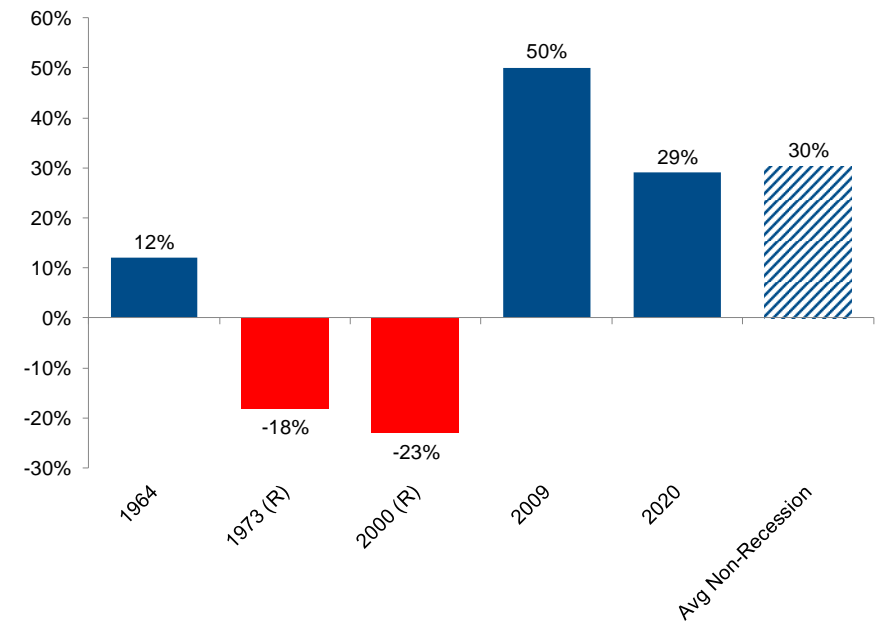
# Corporate and Macroeconomic Fundamentals Were More Important to Past S&P 500 Returns Than Index Concentration



## 1. Characteristics of Top 10 S&P 500 Firms During Past Periods of High Index Concentration<sup>1</sup>



## 2. Returns in the Year Following Six Past Episodes of High Index Concentration<sup>1</sup>

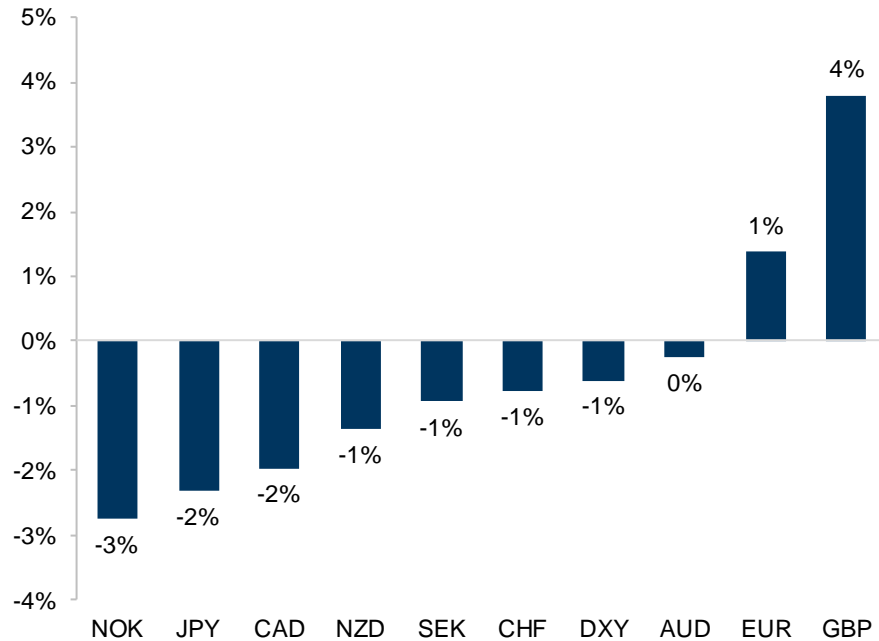


- Today's top 10 stocks have profit margins nearly 3x higher than past leaders that represented a similar share of the S&P 500.
- Returns in the year after past periods of high index concentration were dominated by whether a recession occurred:
  - Recessions in the 12 months following 1973 and 2000 saw double-digit S&P 500 declines
  - The remaining non-recessionary periods saw an average gain of 30% despite similarly high index concentration

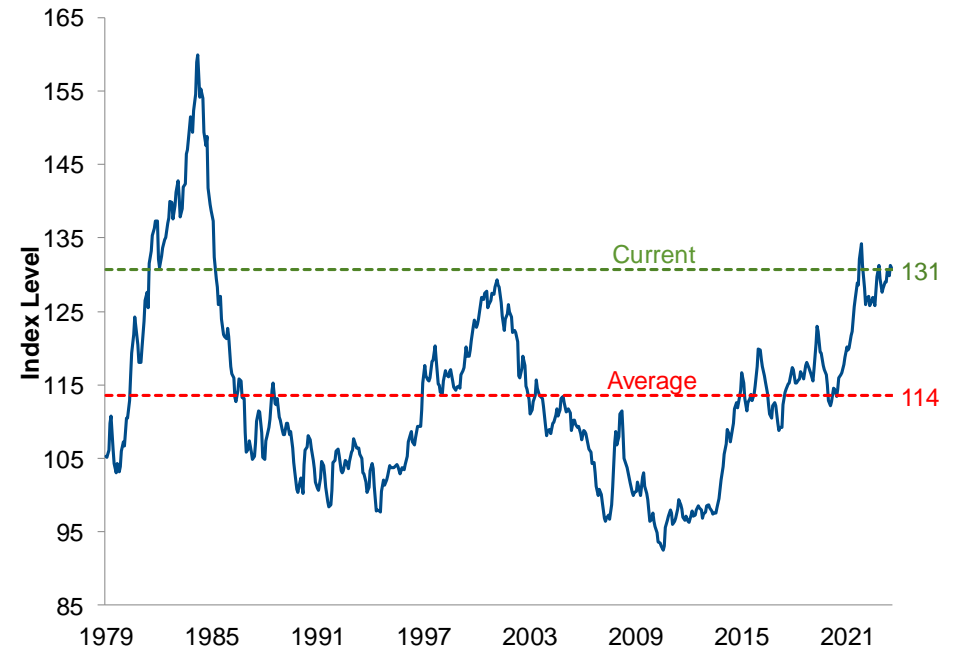
# The US-Dollar Will Likely Be Supported by a Cautious Fed Despite Elevated Valuations



1. YTD Developed Market FX Performance – Through August 23, 2024



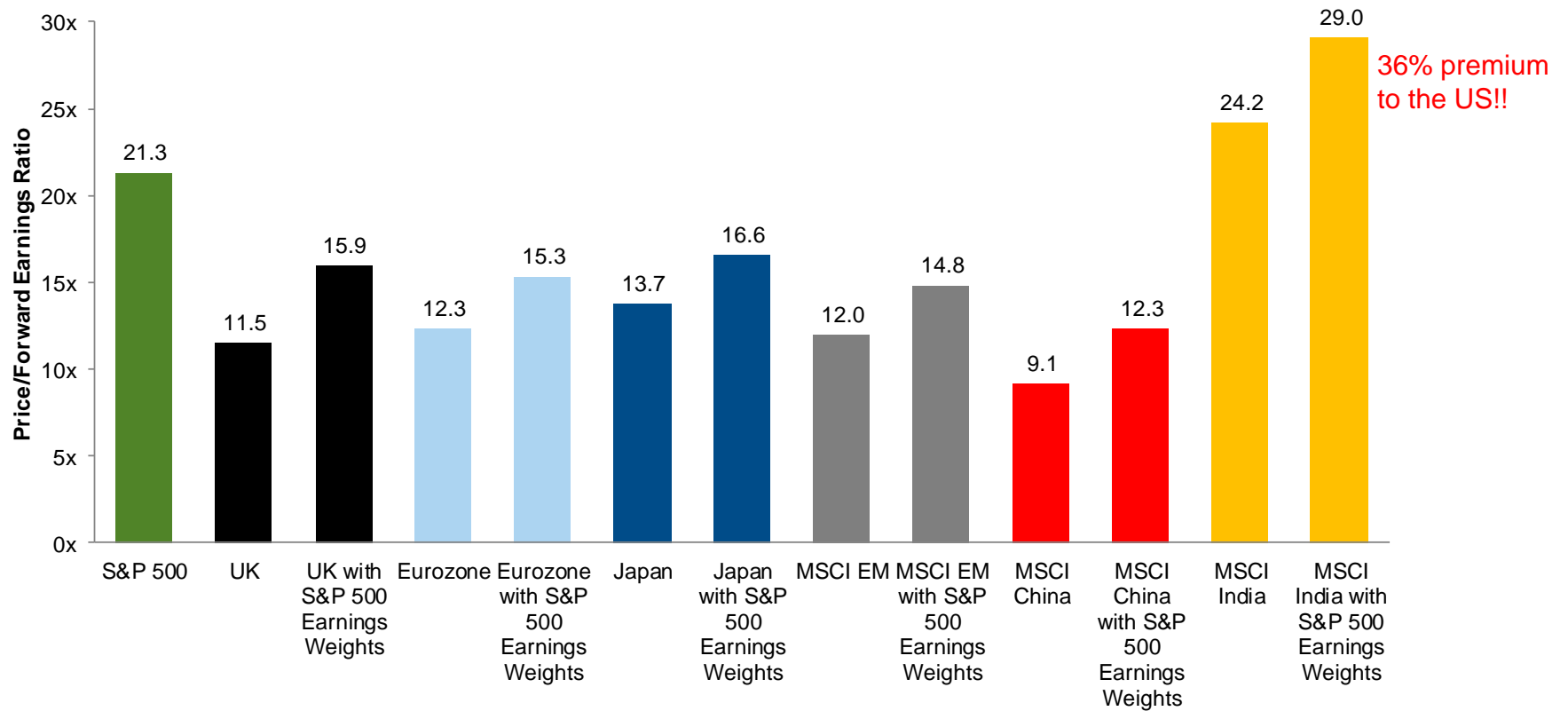
2. US-Dollar Real Effective Exchange Rate – Through July 2024





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

Price-to-Forward Earnings Ratios Adjusted for S&P 500 Earnings Weights  
 – As of August 23, 2024



# A Problem in the Making



Insight 


Investment Management Division

## Emerging Markets: As the Tide Goes Out




"It's only when the tide goes out that you learn who's been swimming naked."  
Warren Buffett, 1992 Letter to Berkshire Hathaway Shareholders

Investment Strategy Group | December 2013

Insight 


Investment Management Division

## Walled In: China's Great Dilemma




We believe China's debt burden, the inevitable rebalancing of the economy, unfavorable demographics, structural fault lines and the weight of history will bear down on its growth rates.

Investment Strategy Group | January 2016

Insight 

Consumer and Wealth Management

## Middle Kingdom: Middle Income



"If you do not change direction, you may end up where you are heading."  
— Chinese Philosopher Lao-Tzu, Sixth Century BC

Investment Strategy Group | December 2022

# China Faces Headwinds to Economic Growth Which Cannot be Readily Reversed

- Weak Demographics
- Low Levels of Education
- Stalled Reforms
- Rising Debt and Defaults
- Policy Uncertainty
- Economic Growth Taking a Backseat
- History of Extractive Institutions



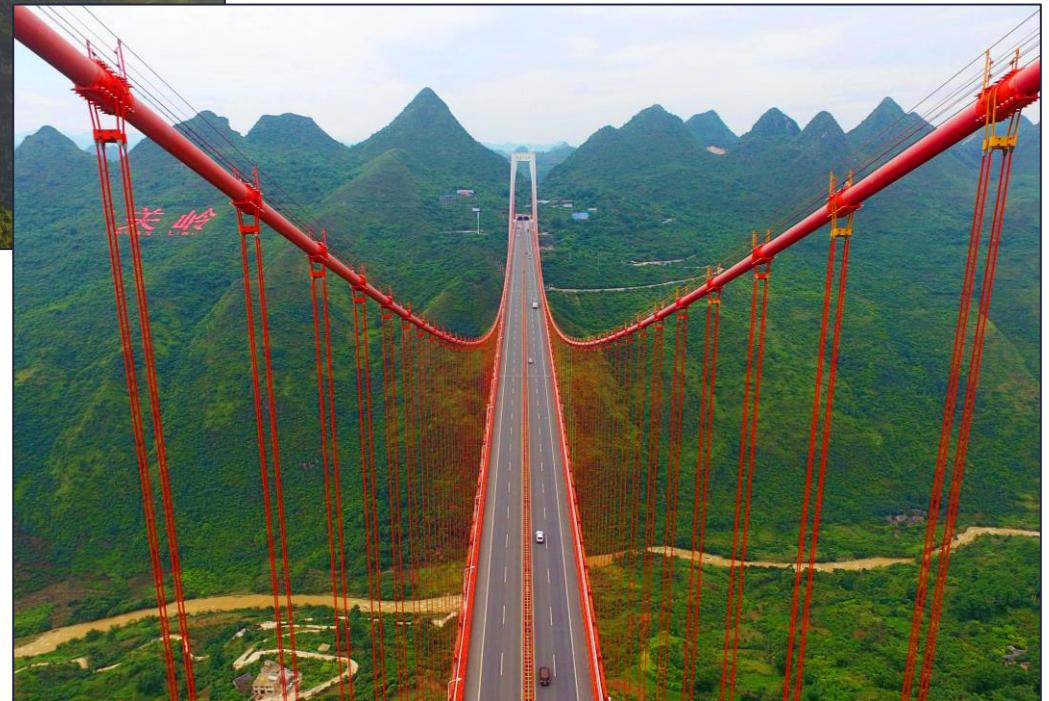


# The Province of Guizhou's Bridges Are Marvels of Engineering, But at What Cost?



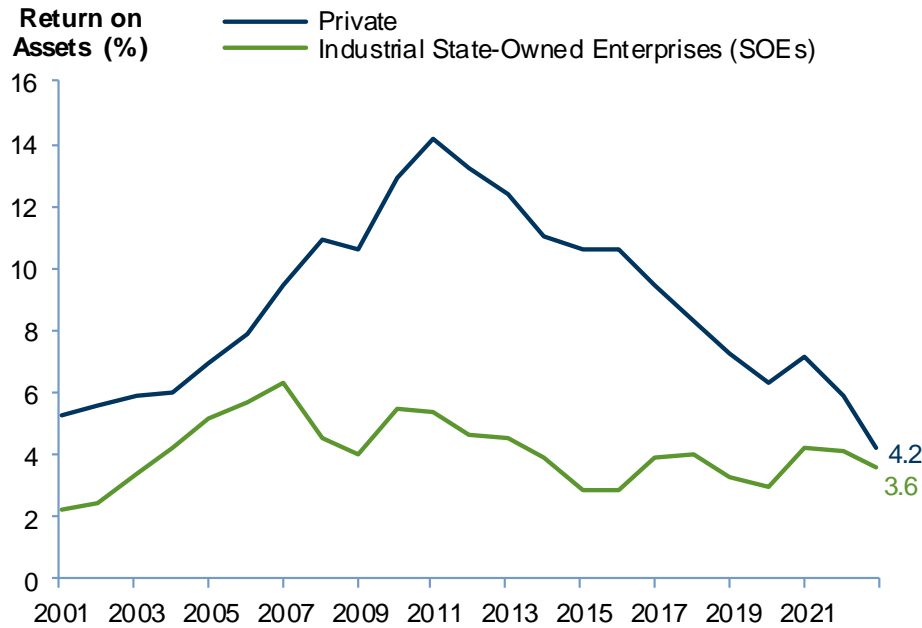
The province of Guizhou is the fourth-poorest province in China, its GDP per capita is 40% lower than that of China. Recall that China's GDP per capita at \$12,541 is nearly 20% below the poverty level in the US, which has a GDP per capita of \$80,412.

Yet this province is reported to have 5 of the 10 tallest bridges in the world. This infrastructure investment has resulted in very high debt levels that the province can no longer service.

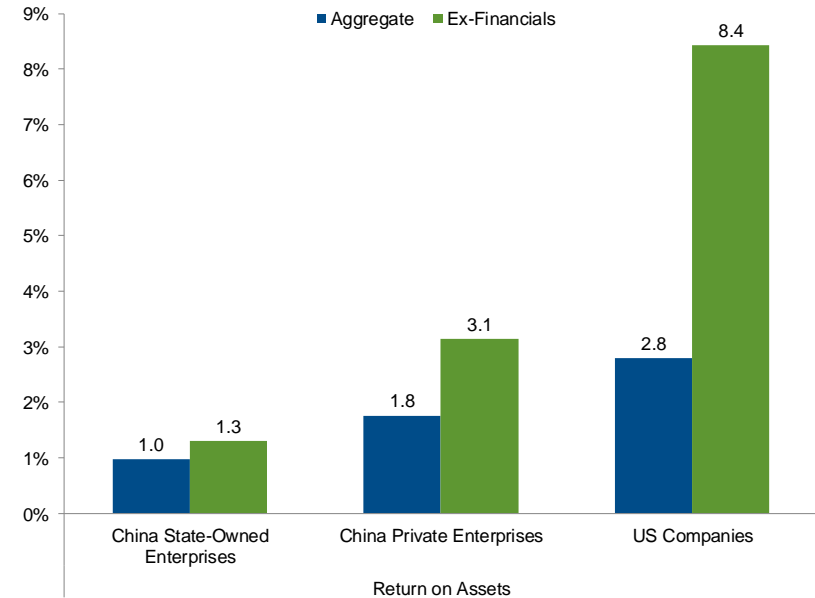


# SOE – State Champion

## 1. Return on Assets for Chinese Industrial Enterprises



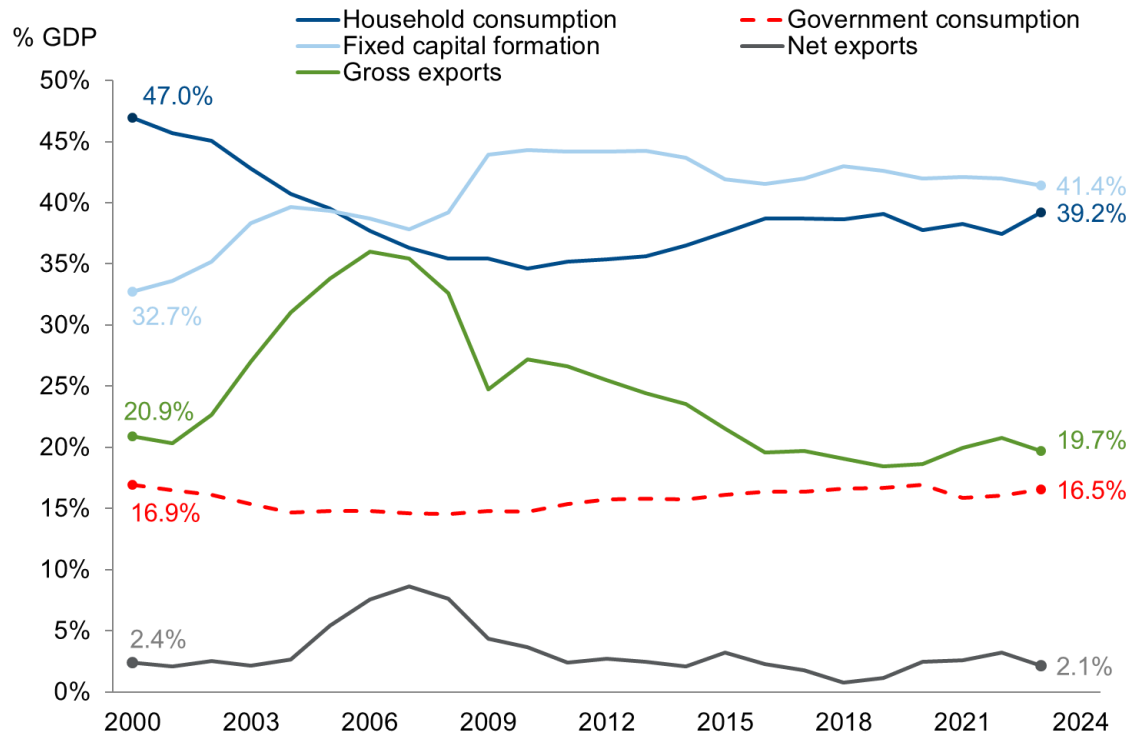
## 2. Profitability Metrics of Fortune 500 Companies – As of 2022



- The return on assets for industrial SOEs is lower than that of the private sector. Even among Fortune 500 companies, large State-Owned Enterprises (SOEs) are 44% less profitable than their private sector counterparts and 64% less profitable than US companies, based on return on asset.

# China's Economy Remains Imbalanced

China's Consumption, Investment and Net Exports as a Share of GDP – Through 2023



- China's economy remains unbalanced, consumption is too low and investment is too high.
- We forecast that China's overinvestment on infrastructure, declining exports as a share of GDP, and deterioration of its property sector will slow the country's GDP growth to an average of 3.4% over the next 10 years and to 2.3% by 2033.
- The regulatory crackdown has introduced uncertainty and negatively impacted investor confidence.

# China's GDP Growth Rate Peaked in 2007

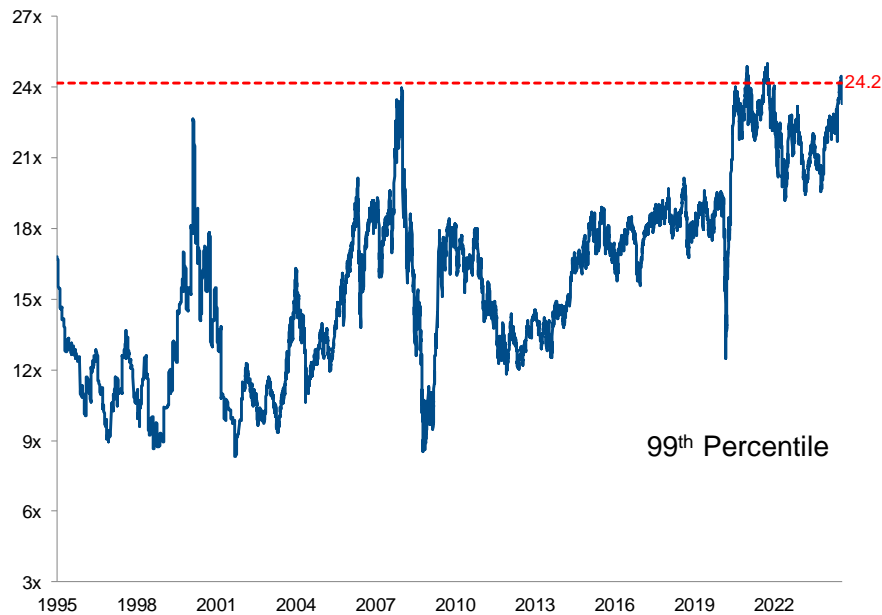


- China's three-year moving average growth rate peaked at 12.8% in 2007 and has declined since, reaching a low of 4.6% by 2022.
- We expect GDP growth to drop to about 3.1% by 2028 and settle closer to 2.3% by 2033 from its 10-year average annual growth rate prior to Covid-19 (2010-2019) of 7.7%.

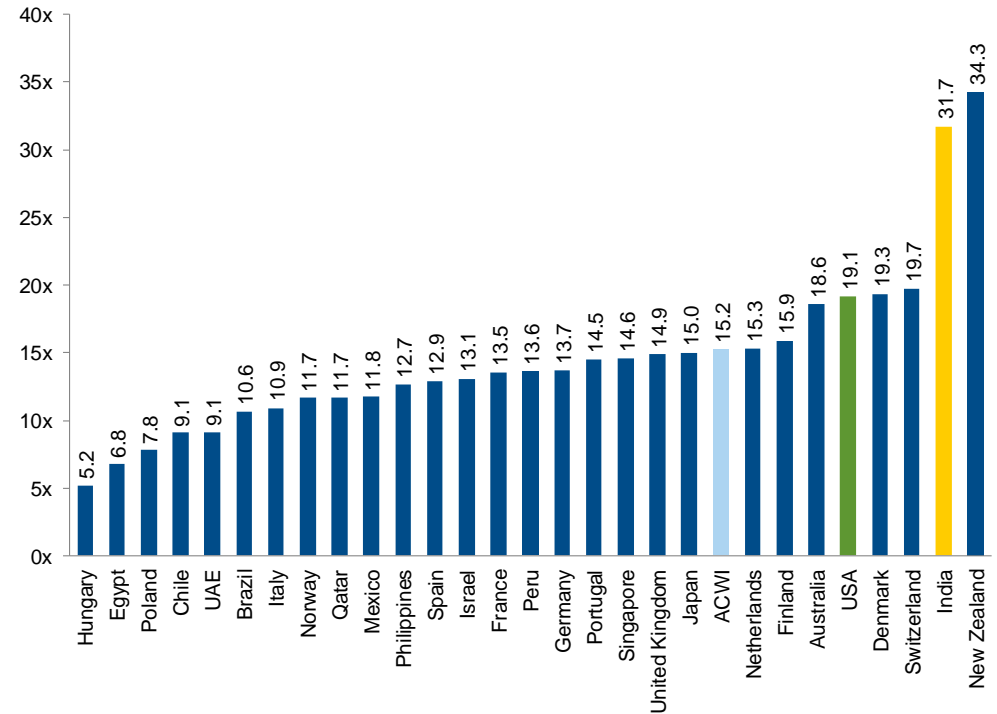
# Indian Equity Valuations are Expensive



1. MSCI India Price/Forward Earnings Ratio – Through August 23, 2024



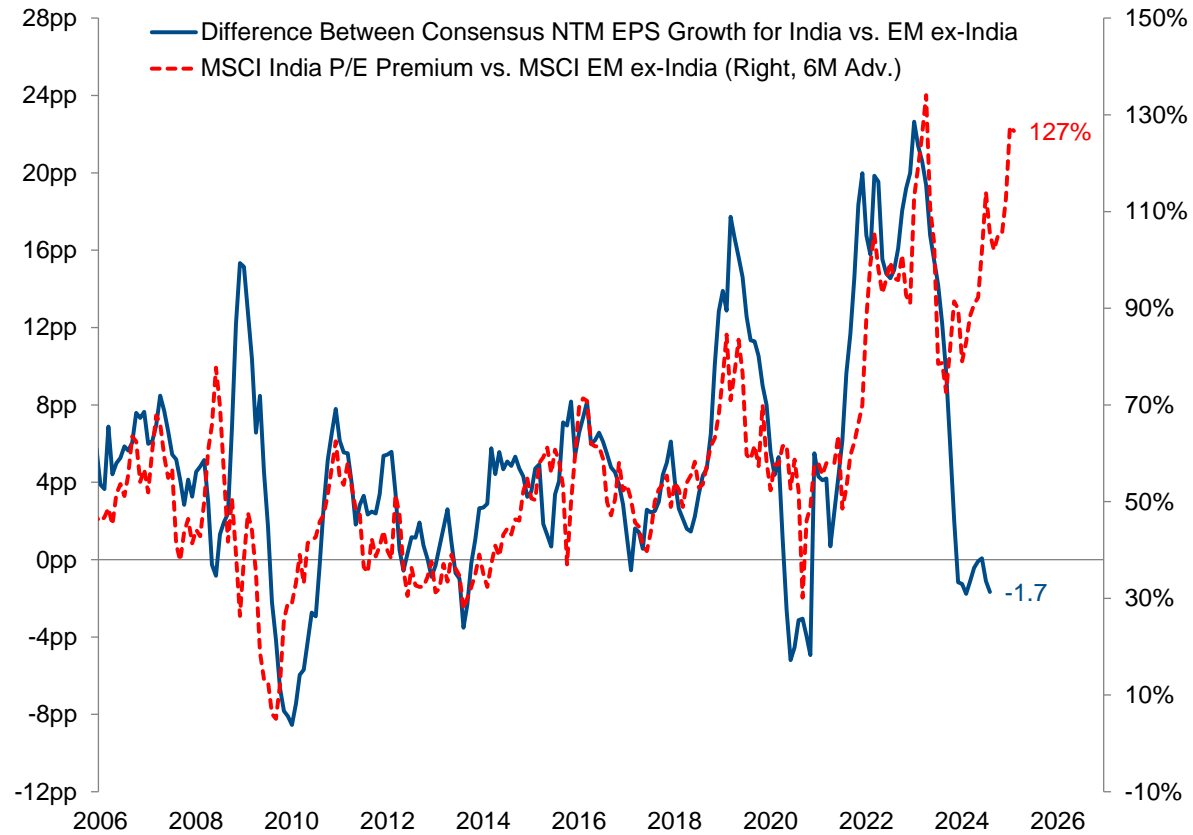
2. MSCI ACWI Countries' Median P/E Ratio – As of August 23, 2024





# Investors are Over-Paying for Growth in India

### MSCI India vs. MSCI EM ex-India NTM EPS Growth Gap and NTM P/E Premium – Through August 23, 2024



# Risks to Our 2024 Outlook



- Israel-Hamas War
  - Escalation into a broader regional war
- Iran
  - Potential Israeli attack on Iran's nuclear sites
  - Sale of drones and missiles to Russia
- Russia-Ukraine War Escalation
  - Potential decline in Western support to Ukraine
  - Russia's growing relationship with Iran and North Korea
- US-China Tensions
- North Korea
  - More ballistic missile testing
- Cybersecurity
- Terrorism
- US Domestic Politics
  - US Government Shutdown
  - US Debt
  - US Elections

# S&P 500 Price Action in Response to Key Geopolitical Events



## Equity Market Reaction to Select Geopolitical Events (%)

Reaction to Select Geopolitical Events			
Event	S&P 500		
	2-Day <sup>1</sup>	30-Day	To Worst
World War II (Sep-1939–Sep-45)	1.1	14.4	-33.2 (-44%) <sup>2</sup>
Pearl Harbor Attack (Dec-1941)	-3.8	-2.9	-10.2
Invasion of South Korea (Jun-1950)	-5.4	-10.0	-12.9
Cuban Missile Crisis (Oct-1962)	-3.8	9.4	-3.8
Gulf of Tonkin Incident (Aug-1964)	-0.2	-1.2	-2.2
Arab Oil Embargo (Oct-1973)	-0.2	-5.7	-16.4
Iran-Iraq War (Sep-1980)	0.1	2.1	-4.4 (-27%) <sup>3</sup>
Iraq Invasion of Kuwait (Aug-1990)	-3.0	-9.3	-16.9
September 11 Attacks (Sep-2001)	-4.9 <sup>4</sup>	0.4	-11.6
US Invasion of Iraq (Mar-2003)	2.5	2.2	-3.0
Crimea Conflict (Feb-2014)	0.8	0.7	N/A
Downing of MH17 (Jul-2014)	-0.2	-1.3	-3.6
Russia-Ukraine War (Feb-2022)	-0.4	5.5	-3.1 (-17%) <sup>5</sup>

**Past performance is not indicative of future result, which may vary.**

Source: Investment Strategy Group, Council on Foreign Relations, Bloomberg, Datastream, Global Financial Data.

(1) Measured from the closing price on the prior day to the closing price on the subsequent day.

(2) Peak-to-trough maximum drawdown experienced by the S&P 500 during WWII (Oct-1939 through Apr-1942).

(3) Peak-to-trough maximum drawdown experienced by the S&P 500 during the subsequent recession and bear market (Nov-1980 through Aug-1982)

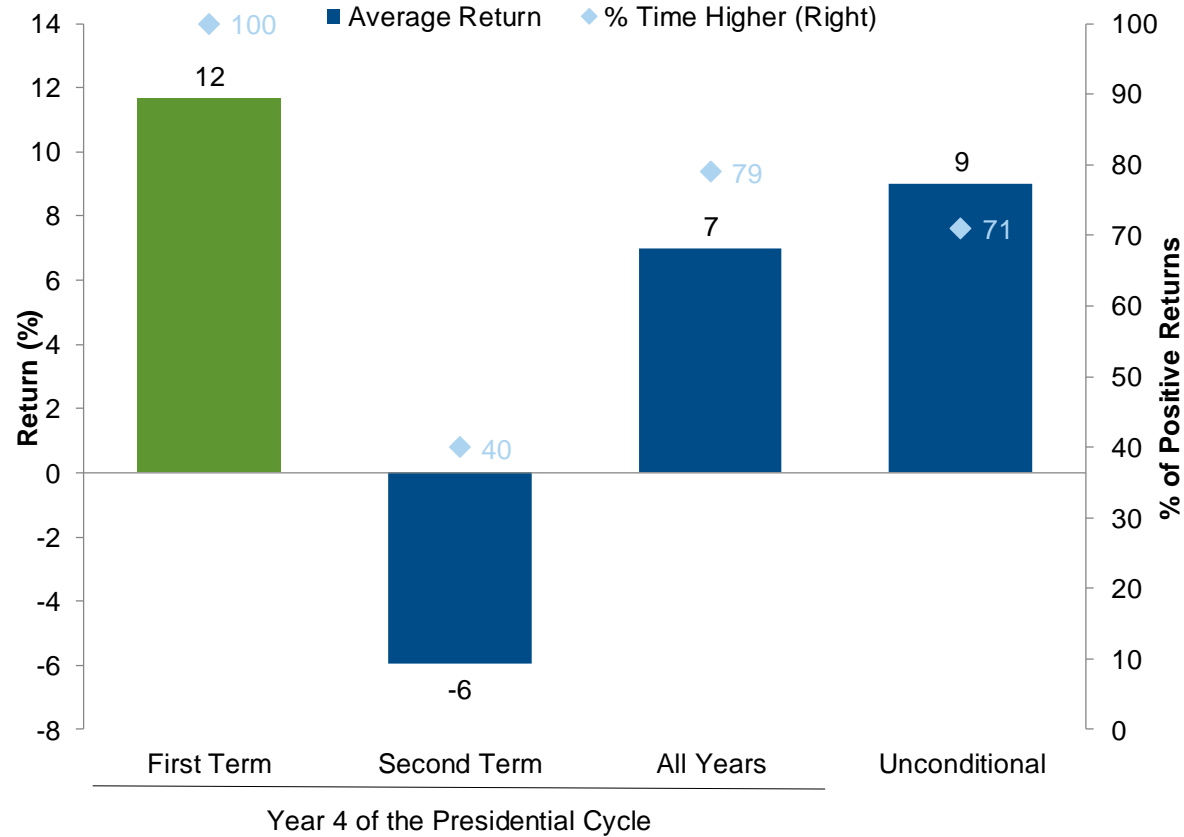
(4) Performance measured from market close on September 10, 2001, to market close on the next trading day, September 17, 2001.

(5) Maximum drawdown experienced during the subsequent bear market (through Oct-2022)

# Equity Returns Have Been Favorable in the Election Years of First-Term Presidents



S&P 500 Price Returns in Year 4 of the Presidential Cycle<sup>1</sup>



# Risks to the U.S. Political and Economic System



“

Once our constitutional system unravels, the damage is irreversible, and our republic fails just as so many others have throughout history.

**Former Congresswoman Liz Cheney**  
**December 14<sup>th</sup>, 2023**  
**The Wall Street Journal**

“

[A second term with President Trump risks] undercutting the entire framework within which the United States and its business community have operated for all of our lifetimes.

**Former Secretary of the Treasury Larry Summers**  
**January 5<sup>th</sup>, 2024**  
**Wall Street Week**

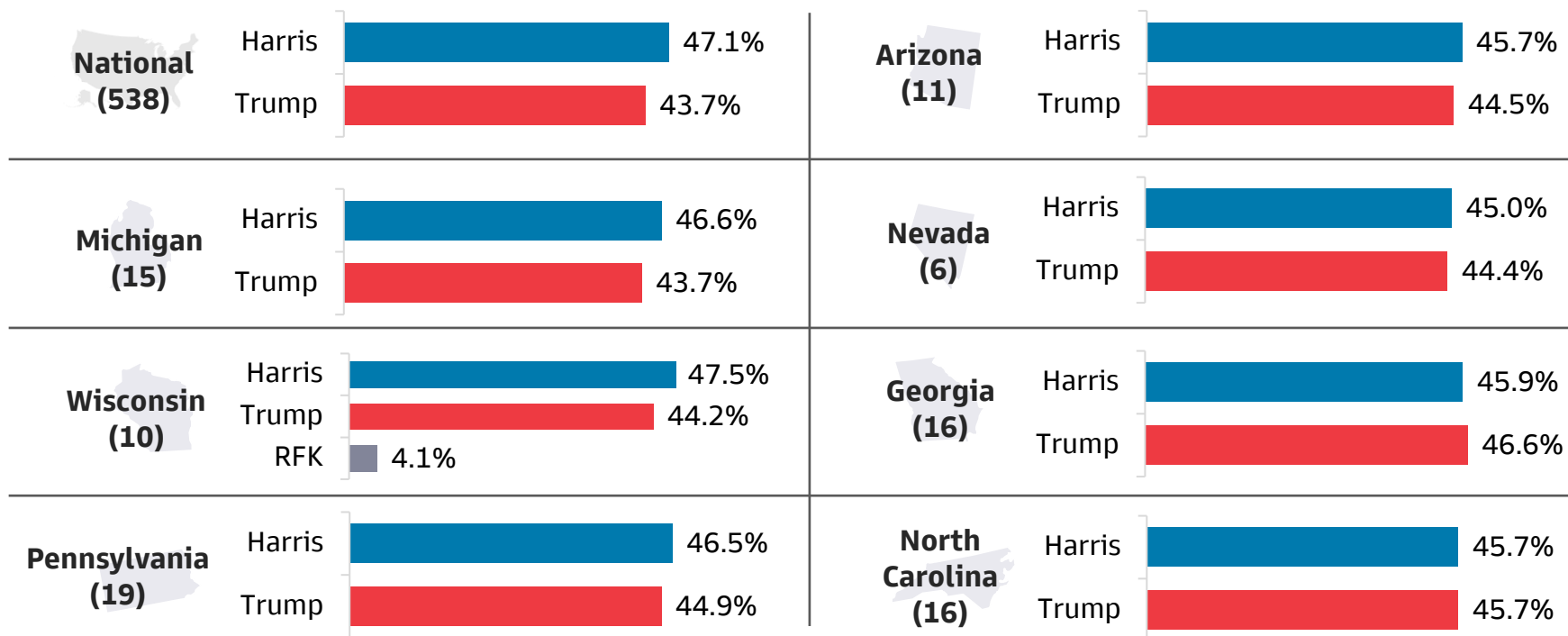
“

...vicious personal attacks, portents of doom and disaster if one or another of the opponents were to be elected, and scurrilous rumors of betrayal and intrigue pervaded every aspect of the contest. [Each side believed the other's election] would threaten the very existence of the republic.

**Historian James Roger Sharp,**  
**The Deadlocked Election of 1800: Jefferson, Burr, and the Union in the Balance**  
**Source: Karl Rove, "America is Often a Nation Divided," The Wall Street Journal,**  
**August 25<sup>th</sup>, 2023**

# US 2024 Presidential Polling

Average Polling for Each Candidate<sup>1</sup> – As of August 26th, 2024

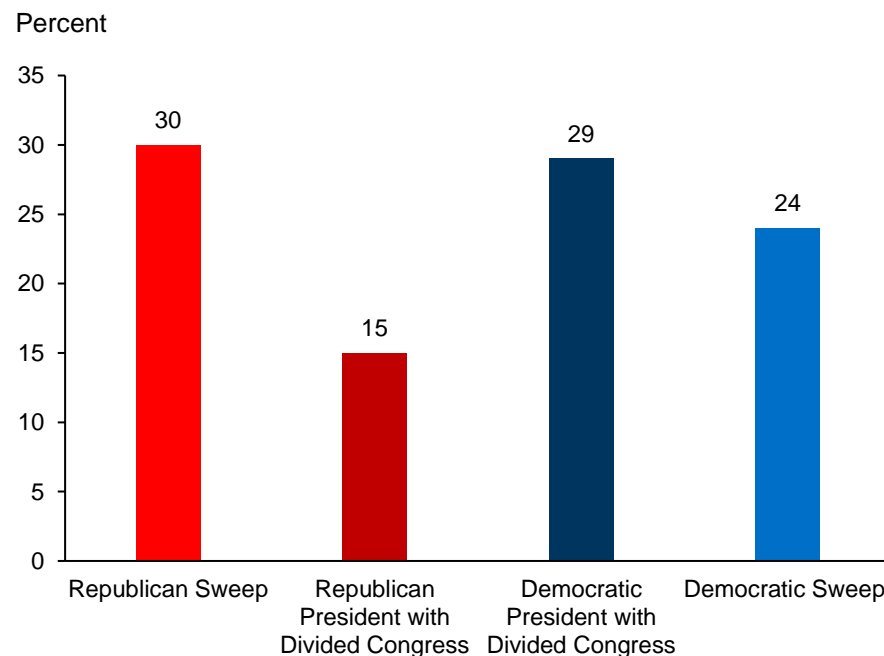
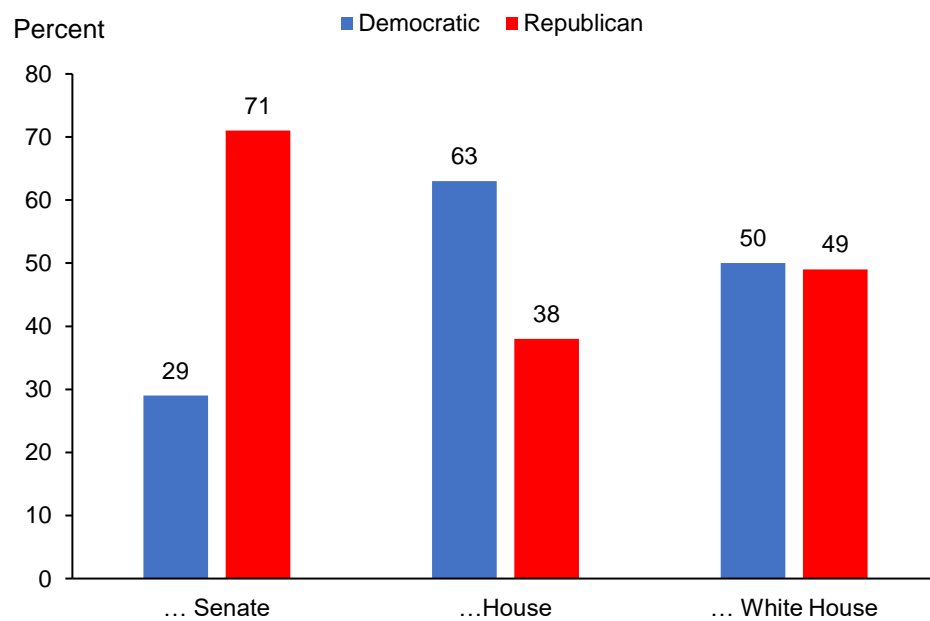


- Polling remains close, both nationally and in key swing states.
- Among the factors that may be affecting polling are the attempted assassination of former President Trump, a post-Republican National Convention “bump”, and the transition from the Biden to the Harris campaign. Harris’ formal nomination, her selection of a running mate, and the upcoming Democratic National Convention may further influence the polls.

# Back to a Close Contest, Except in the Senate

1. Prediction Market-Implied Odds for Control of the...

2. Prediction Market-Implied Election Scenario Odds



- There are 34 Senate races in 2024. Democrats are most vulnerable in the Trump states of Ohio, Montana and West Virginia.
- The House is expected to be a toss-up: 538's generic congressional ballot has Democrats up by 1.7pp as of August 26th. Whichever party wins is expected to have only a slim majority.
- Prediction markets believe the Democratic victories are becoming more likely.

# Potential Scenarios and Policy Implications

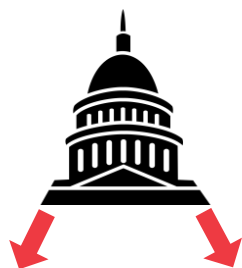
Eurasia assesses 31% odds.

## GOP SWEEP

**TRUMP** wins presidency



**REPUBLICAN** Congress



House:

**REPUBLICAN**

Senate:

**REPUBLICAN**

- Two reconciliation bills likely
- 2017 tax cuts renewed / extended
- GOP Senate can unilaterally confirm president's nominations

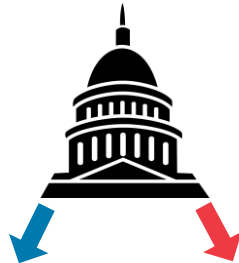
Eurasia assesses 33% odds.

## STATUS QUO, CONGRESS FLIPS

**HARRIS** wins presidency



**DIVIDED** Congress



House:

**DEMOCRATIC**

Senate:

**REPUBLICAN**

- Major legislation challenging
- 2017 tax cuts revisited / scaled back
- GOP Senate has veto power on president's nominations

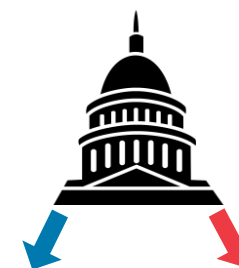
Eurasia assesses 24% odds.

## EXECUTIVE OVERHAUL

**TRUMP** wins presidency



**DIVIDED** Congress



House:

**DEMOCRATIC**

Senate:

**REPUBLICAN**

- Major legislation challenging
- 2017 tax cuts renewed / scaled back
- GOP Senate can unilaterally confirm president's nominations

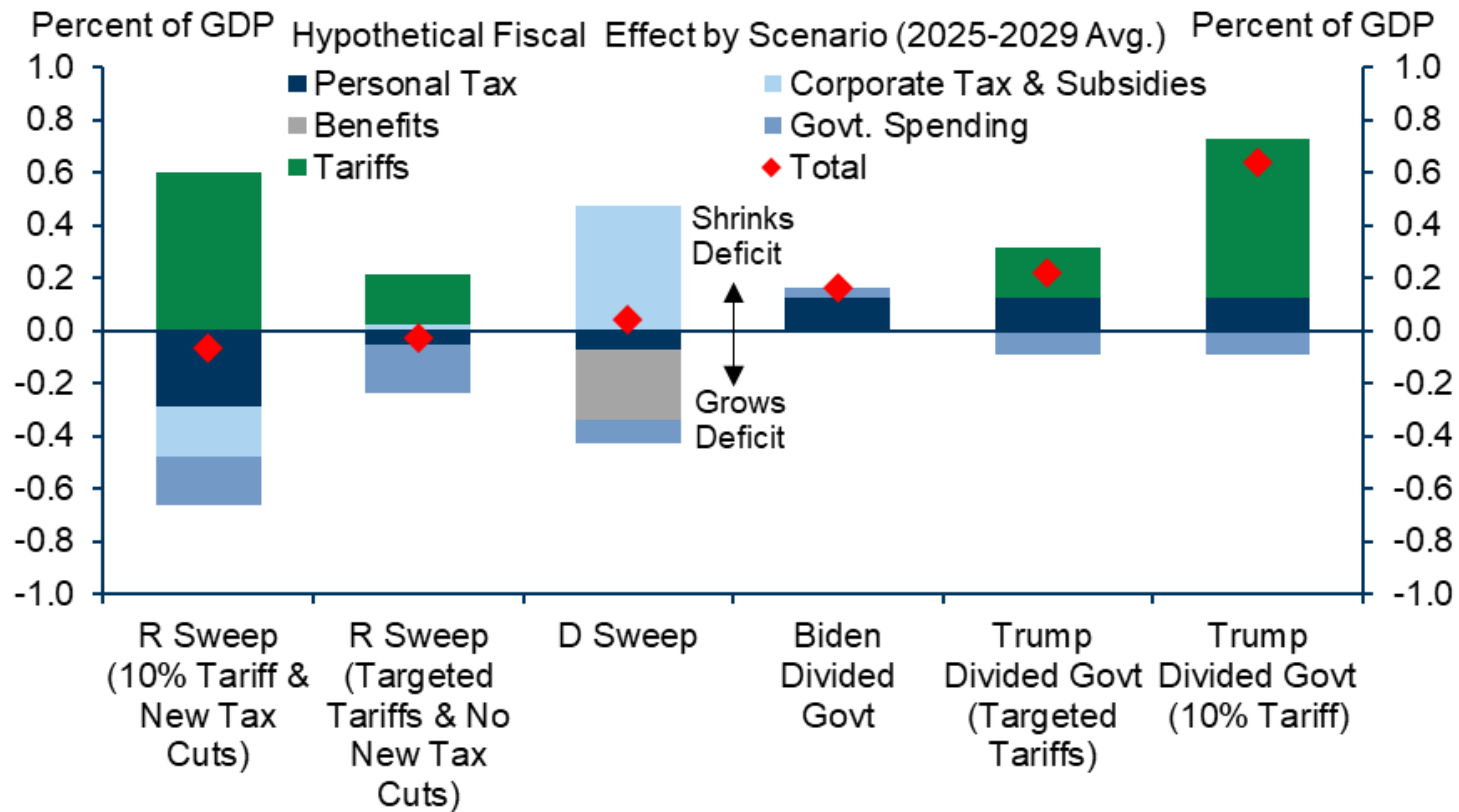


# Candidate Positions



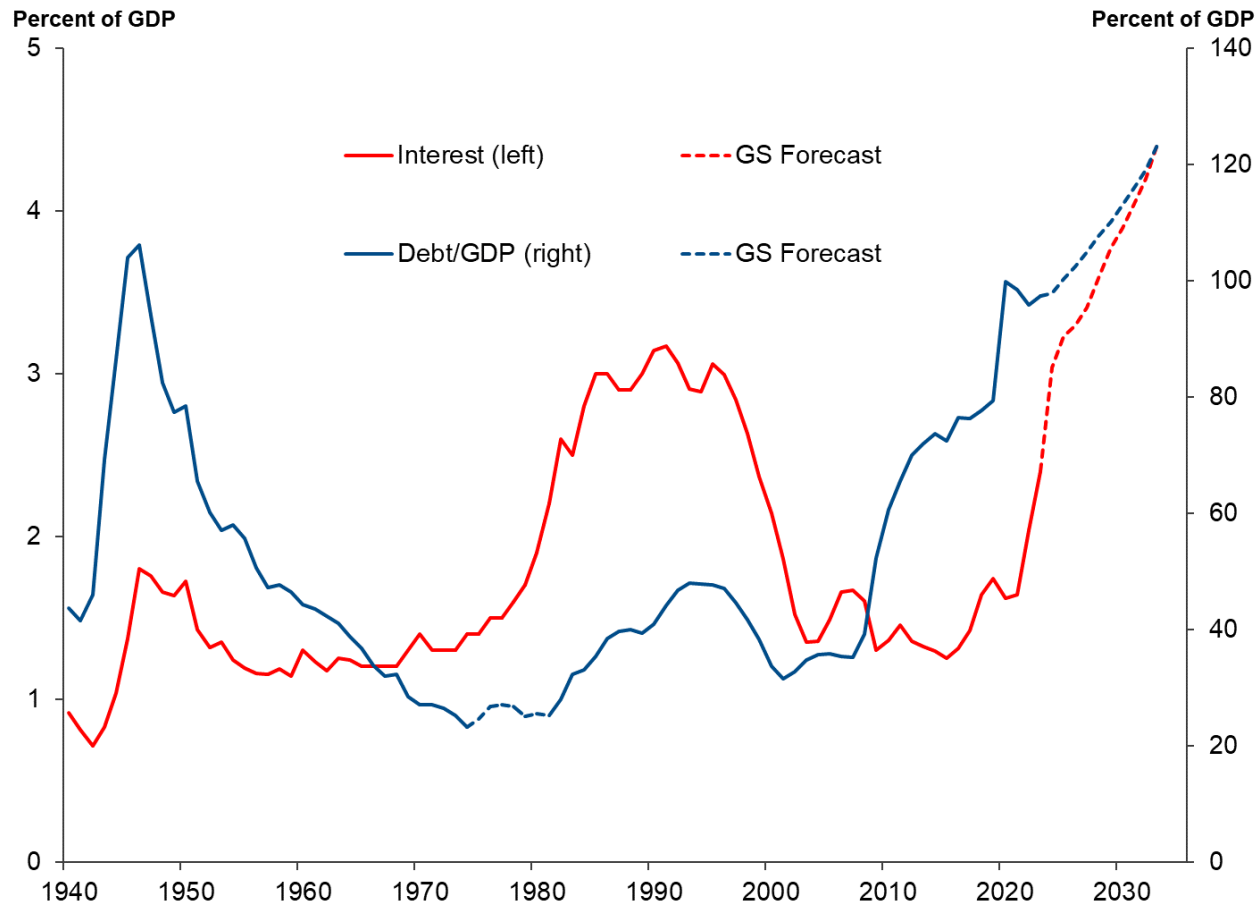
		Donald Trump	Kamala Harris
<b>Tax Policy</b>		Extend and possibly expand 2017 tax cuts. No tax on tips or Social Security.	Extend 2017 personal income tax cuts for those earning less than \$400k per annum after 2025. Increase the top rate to 39.6% Corporate: Proposed 28% from 21% Wealth: Proposed a "Billionaire Minimum Income Tax" - 20% minimum tax rate on "full income, including unrealized appreciation". No tax on tips.
<b>Spending</b>		Would cut domestic spending, but not cut "a single penny" from Medicare or Social Security	Expand education, health care, and other programs
<b>Trade Policy</b>		10% across-the-board tariffs, 60% China tariffs, Trump Reciprocal Trade Act	Some tariffs, export controls, entity list additions, investment restrictions
<b>Immigration Policy</b>		Tighten: "largest deportation operation in American history"	Implemented new border policies, would likely pursue much of the Senate's bipartisan border agreement
<b>Fed Policy</b>		Has argued for presidential involvement in Fed Reserve decisions.	Has vowed to never interfere in the decisions that the Federal Reserve makes.
<b>Foreign Policy</b>	<b>Ukraine</b>	End the war in 24 hours. Europe to reimburse the U.S.	Support Ukraine "as long as it takes"
	<b>Middle East Policy</b>	Support Israel, confront Iran – possible sanctions?	Pursue a cease-fire and regional security agreement, and a diplomatic resolution to the Iranian nuclear program

# Fiscal Effects by Election Scenario



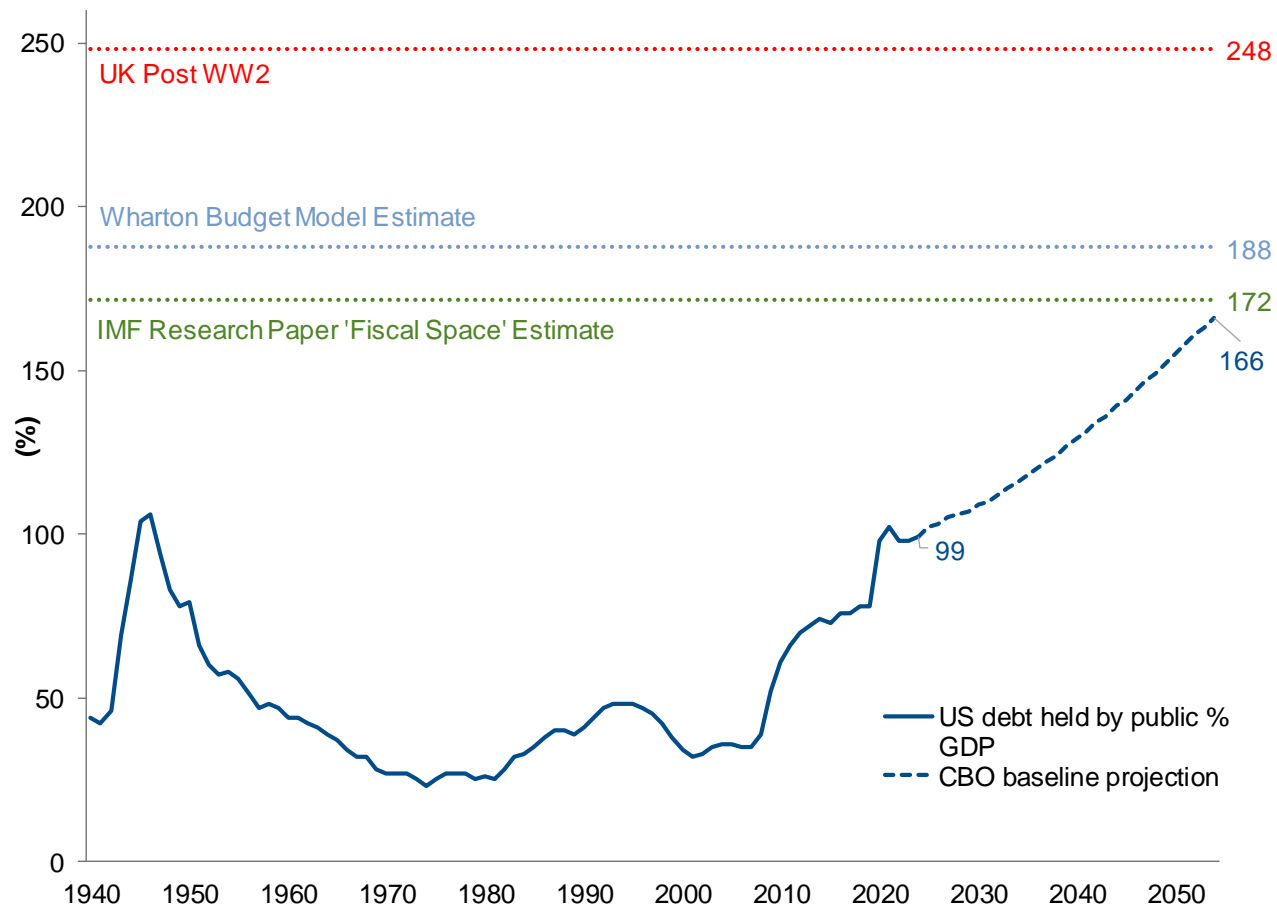
# Uncharted Territory for Debt and Interest Costs...

## Federal Interest and Debt Levels



# The Tipping Point

US Government Debt % GDP vs Potential 'Unsustainable' Thresholds



These forecasts are estimated, based on assumptions, and are subject to significant revision and may change materially as economic and market conditions change.  
 Source: Investment Strategy Group, Haver Analytics, CBO, Penn Wharton Budget Model, Bank of England, IMF Staff Position Note: D'Ostry et. Al. (2010).

# America is Often a Nation Divided

A Protestor at an Anti-Vietnam War Demonstration in Chicago, August 1968



“

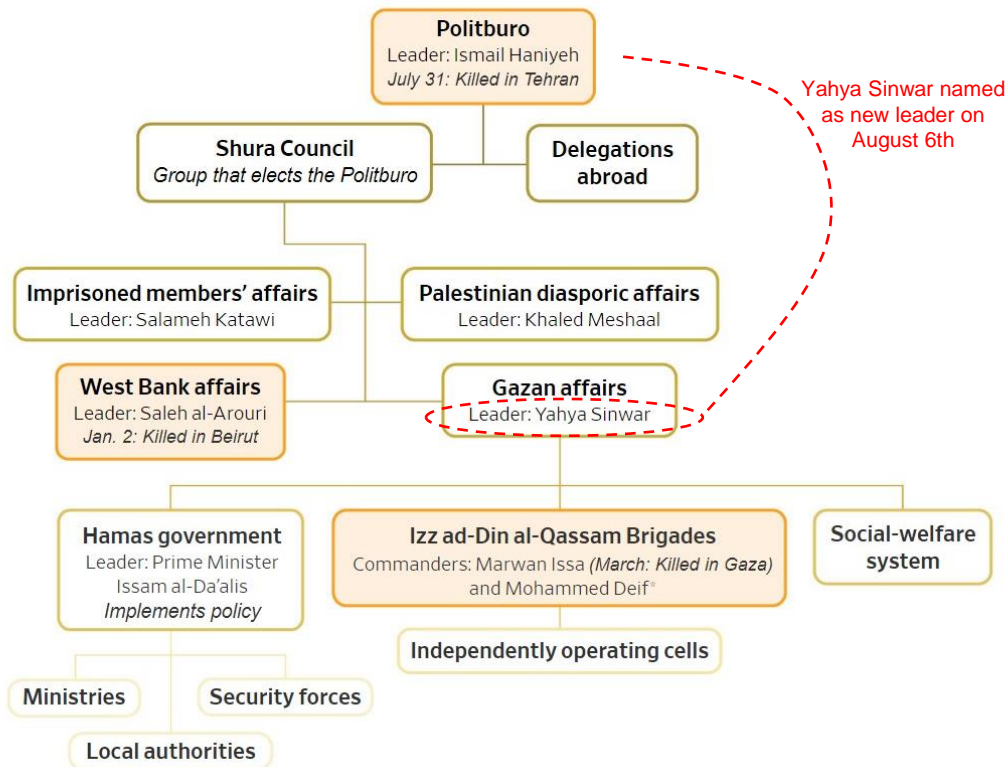
It's bad today, but it's been worse before, and it will be better ahead. Change is coming....The better angels of our nature as Americans will emerge and win out.

Karl Rove, "America is Often a Nation Divided"  
August 25th, 2023

# Appendix

# Risk of Escalation in the Middle East

## 1. Hamas's Governing Structure



## 2. The Middle East Region



- The region is positioning for Iranian retaliation in coming days, potentially at a larger scale than in April<sup>1</sup>.



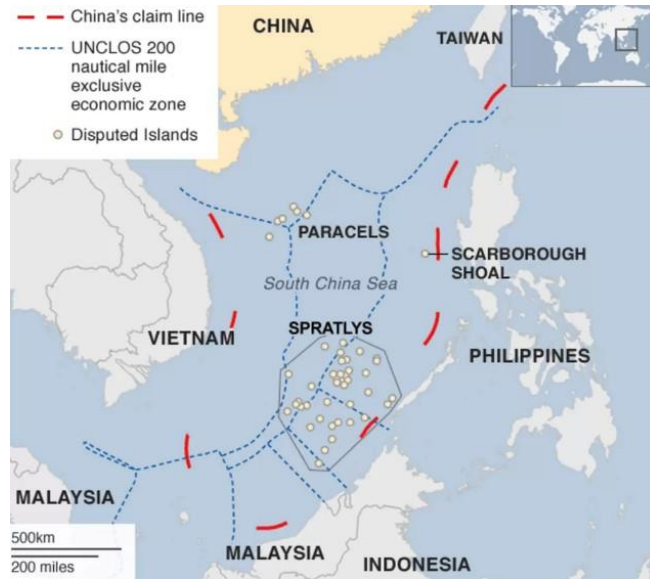
# Ukraine-Russia War





# US-China Geopolitical Tensions: Taiwan

## 1. Competing Claims in the South China Sea



## 2. Strait of Malacca and Surrounding Waterways



“

Yes [the U.S. will defend Taiwan militarily]. That's the commitment we made.

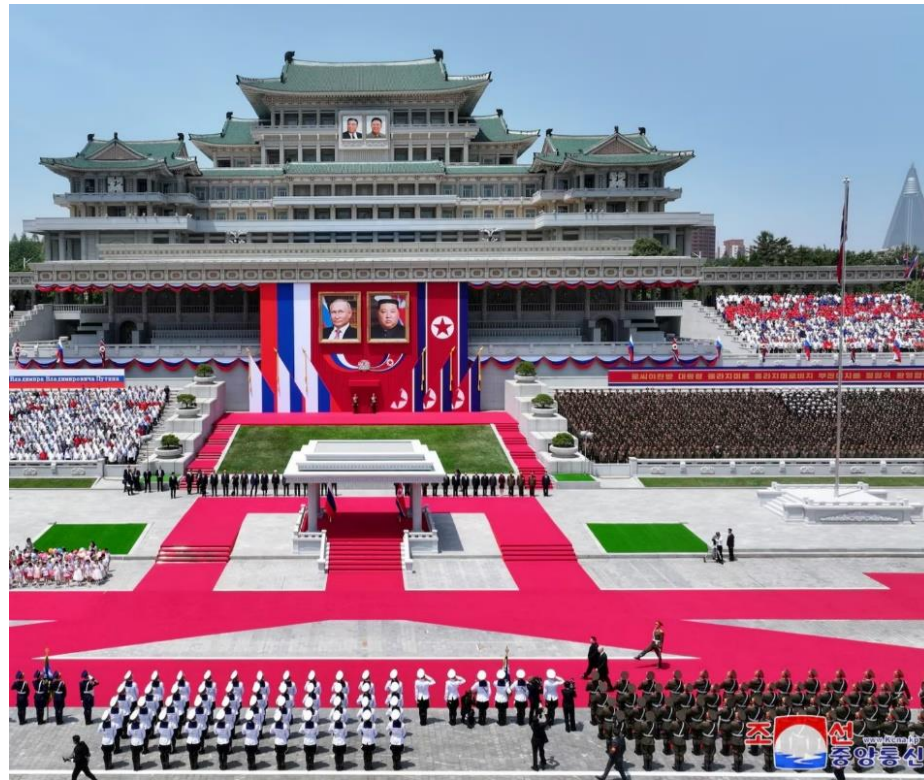
President Biden, in response to a reporter  
May 23rd, 2022

“

The reunification of the motherland is a historical inevitability.

Xi Jinping  
December 31st, 2023

# Putin Visits North Korea



“

In case any one of the two sides is put in a state of war by an armed invasion from an individual state or several states, the other side shall provide military and other assistance with all means in its possession without delay.

Treaty on Comprehensive Strategic Partnership  
June 20th, 2024

- Russia and North Korea committed to mutual defense, weapons transfers, and sanctions evasion measures.

# FANGMANT Stocks Weight in S&P 500

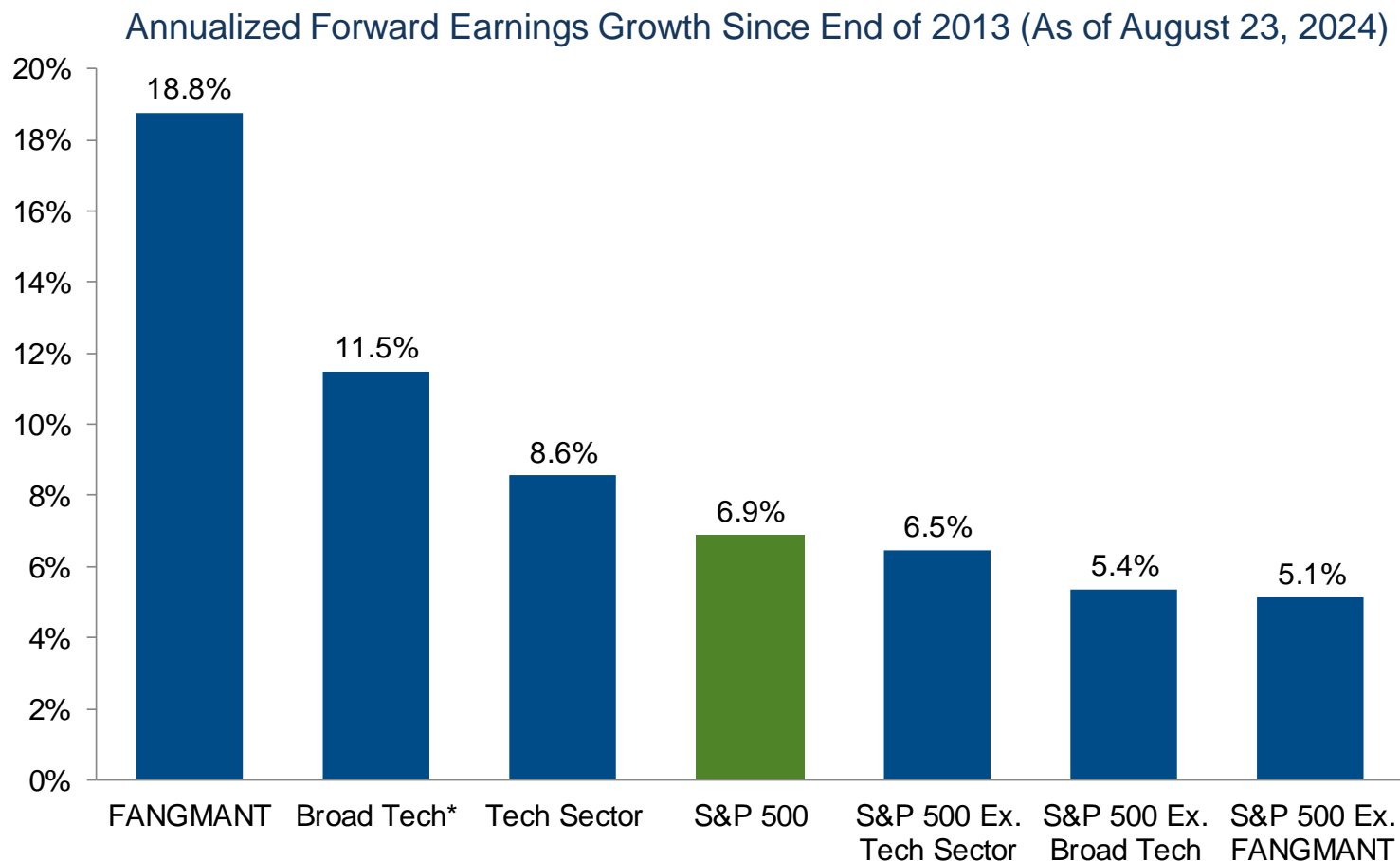


FANGMANT Stocks' Weight in S&P 500: Market Capitalization and Forward Earnings – Through August 23, 2024



- FANGMANT stocks' share of market capitalization and earnings in the S&P 500 has increased significantly over the last decade, driven by FANGMANT stocks' faster earnings growth and multiple expansion.
- FANGMANT stocks represent 32% of S&P 500's market capitalization and 22% of S&P 500's forward earnings today.

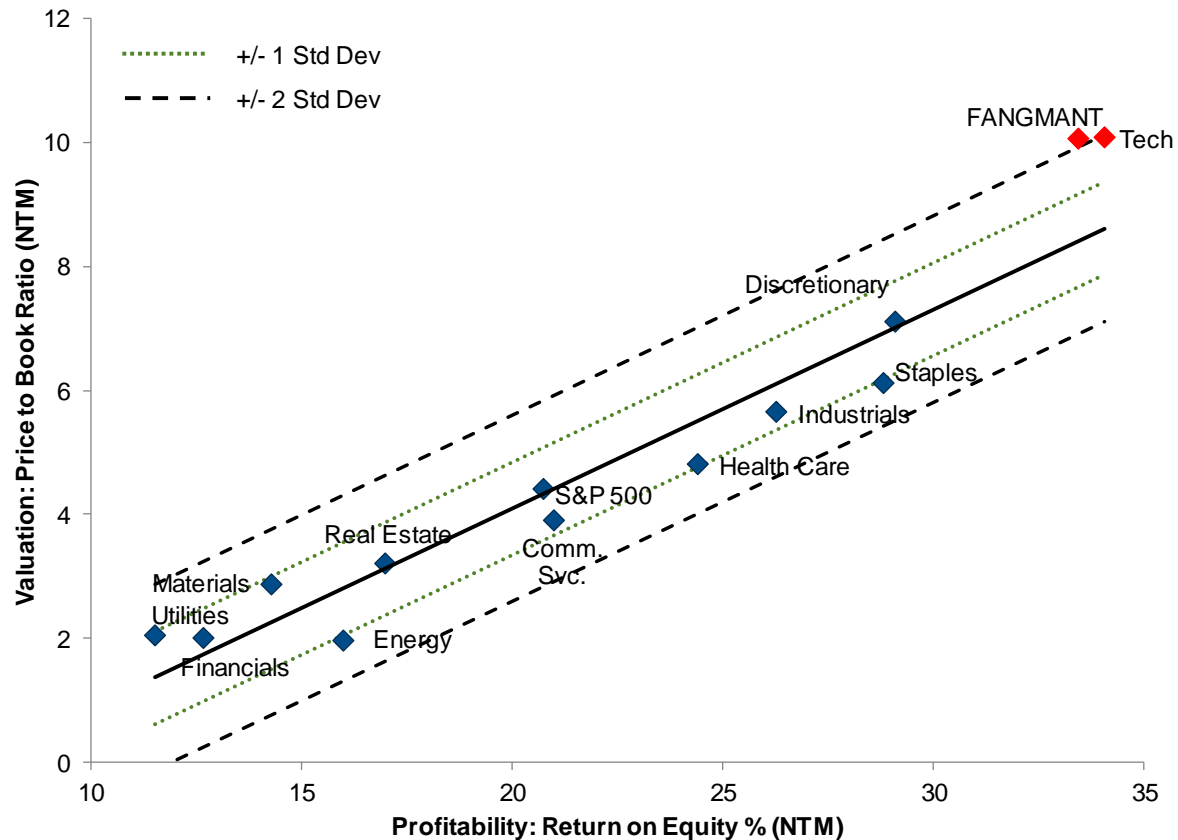
# Tech Contribution to Earnings Growth Over the Last Decade



- FANGMANT companies grew their earnings at 18.8% annualized over the last decade, vs. the remaining stocks' 5.1%. FANGMANT stocks contributed 37% of S&P 500's earnings growth over this period (i.e. the remaining stocks contributed 63%).
- The broad tech sectors\* contributed 42% of S&P 500's earnings growth. The contribution is higher due to the broad tech sectors' higher weight in S&P 500.
- The information technology sector contributed 26% of S&P 500's earnings growth over the last decade.

# Relative Valuations for S&P 500 Sectors

Price to Book Ratio vs. ROE for S&P 500 Sectors & FANGMANT  
 – As of August 23, 2024

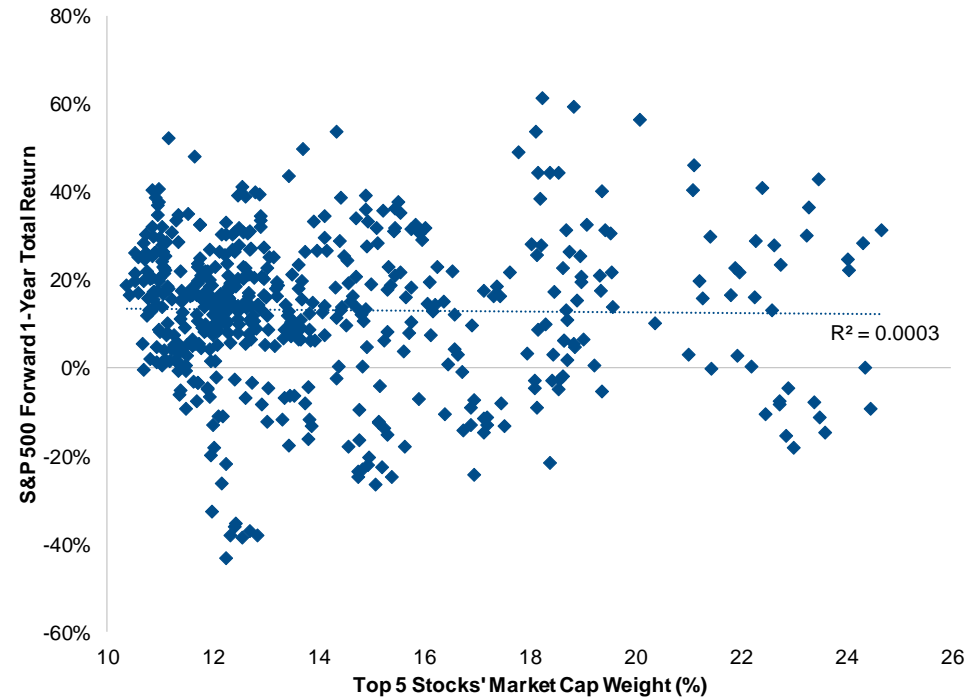


- The relative valuations<sup>1</sup> for the S&P 500 and its component sectors indicate that the technology sector is expensive relative to other sectors adjusting for its higher level of return on equity.
- The FANGMANT stocks trade at a price to book ratio of 10.1x, more than two standard deviations above the level implied by the historical relationship between the P/B ratio and the return on equity.

# The Concentration of Top Stocks in the S&P 500 has had no Bearing on Forward Returns in the Past



1. Market Cap Weight of Top 5 Stocks in the S&P 500 – Through Aug 26, 2024      2. S&P 500 Top 5 Stocks' Weight vs. 1-Year Forward Returns

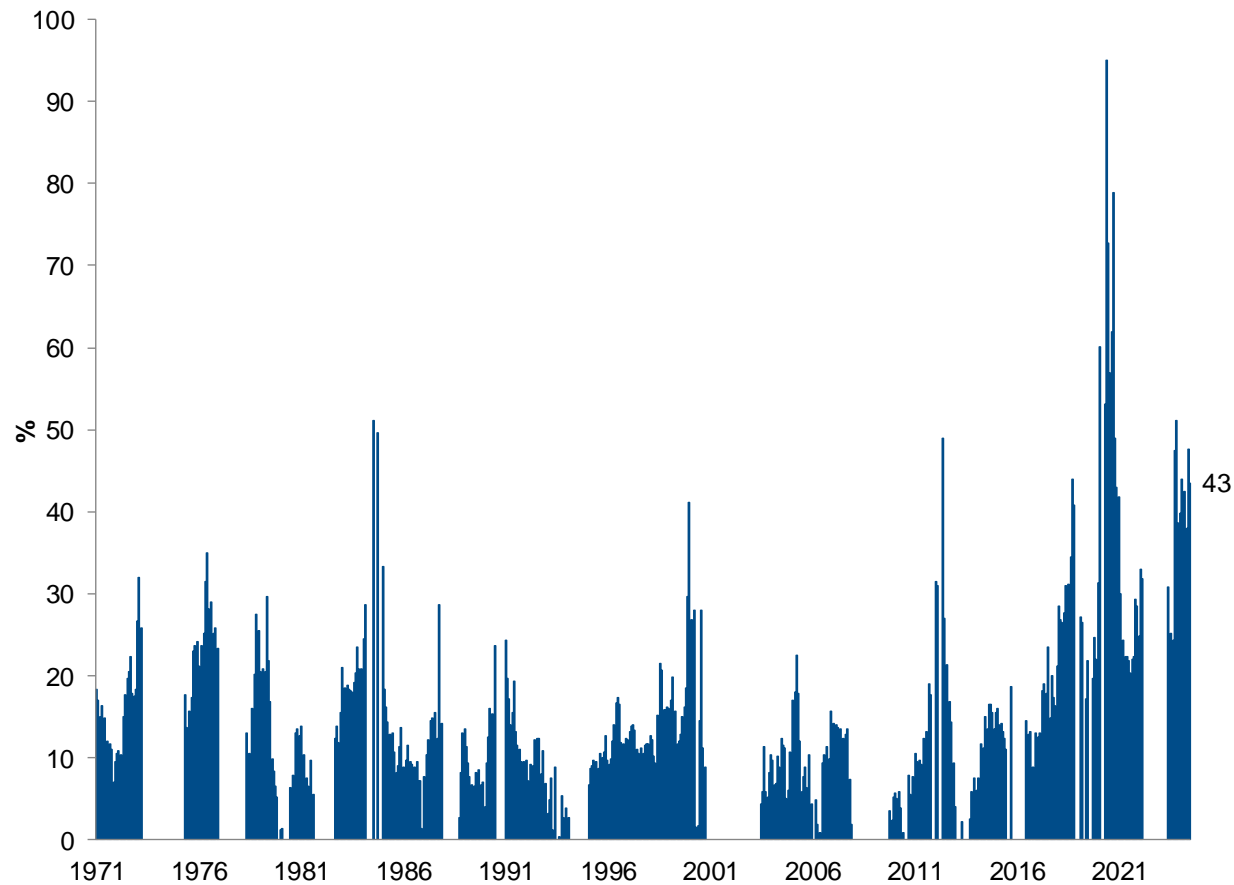


- The top five stocks in the S&P 500 account for 27.3% of the market capitalization of the S&P 500 today, close to the highest level seen in 40 years.
- Market concentration has had no bearing on forward one-year returns in the past.

# A Handful of Companies Have Driven the Bulk of Market Gains Last Year



Share of Rolling 12-Month S&P 500 Returns Explained by the Top-Five Companies by Market Cap<sup>1</sup> – Through July 31, 2024

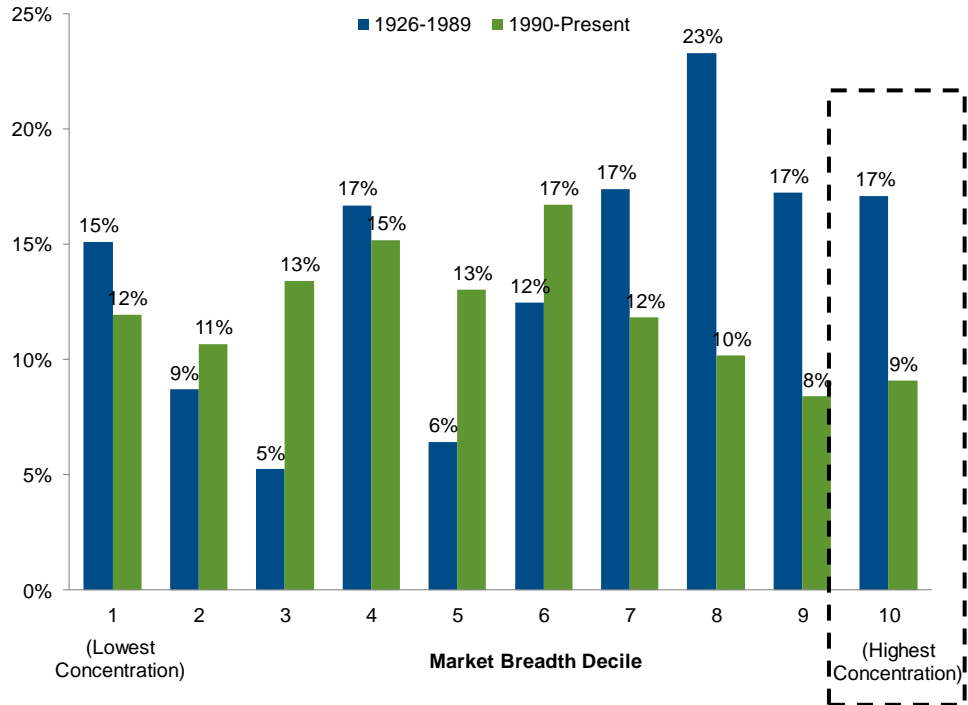


- The top five stocks in the large capitalization universe represent 43% of the gains realized in the last 12 months.
- This is among the highest readings in history, having been higher only 4% of the time over rolling 1-year windows since 1970.

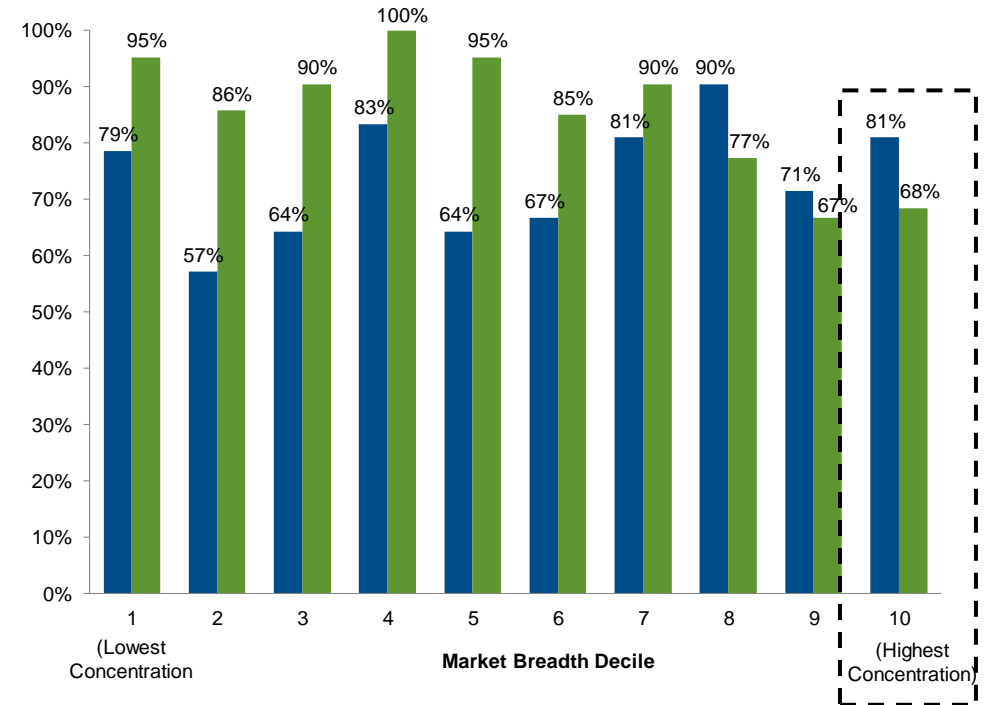
# Narrow Market Breadth was Still Associated With Positive Returns Over the Subsequent Year



1. Large-Cap Stocks 12-Month Forward Returns by Deciles of Market Breadth<sup>1</sup>



2. Percentage of Positive Large-Cap Stocks Returns Over Next 12-Months by Deciles of Market Breadth<sup>1</sup>



Source: Investment Strategy Group, Empirical Research.

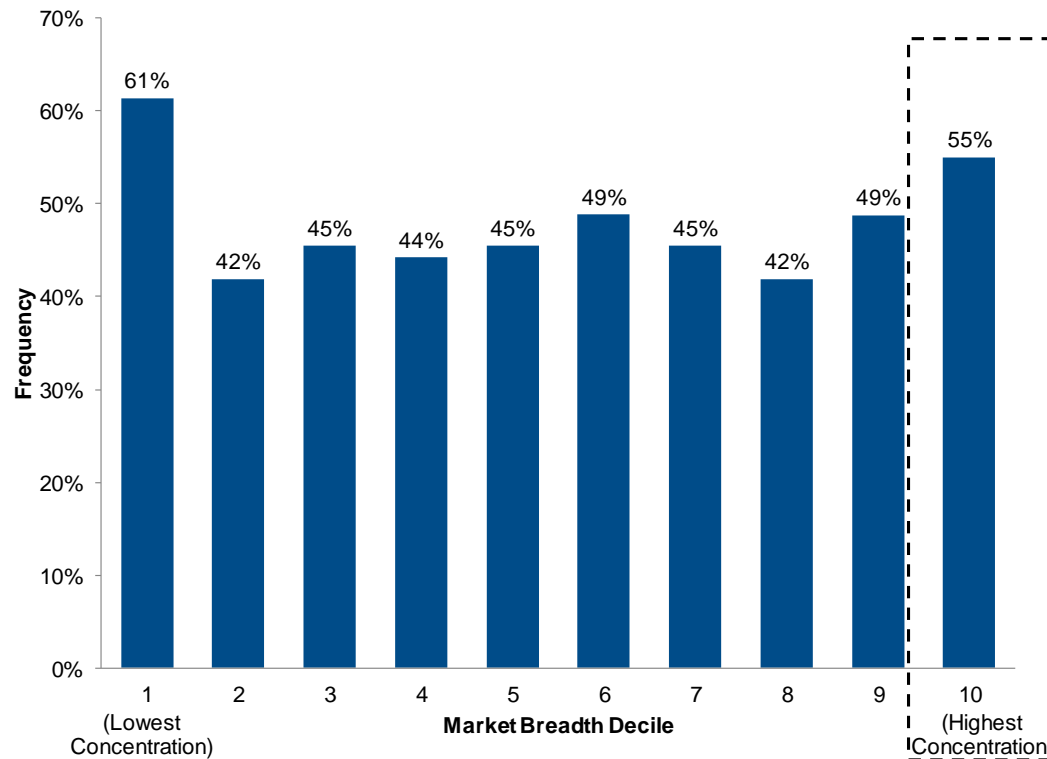
(1) Forward returns shown are based on market-cap-weighted returns data for large-cap stocks. The market breadth measure is defined as share of market returns explained by the top-five companies by market cap over the previous 6 months. Excluding periods when the capitalization-weighted market return was lower than 5% or the return of the top five companies was negative.



# The Relative Performance of Remaining Stocks vs. Broad Market was Mixed Following Past Episodes of Narrow Market Breadth



Percentage of Time the Remaining Stocks Outperformed the Broad S&P 500 in the 12 Months Following Each Decile of Market Breadth, Based on Rolling 12-Month Windows<sup>1</sup>



- There has also been little relationship between market breadth and the subsequent relative performance of top vs. remaining stocks.
- The remaining stocks excluding the top 5 outperformed the broad S&P 500 index 55% of the time in the subsequent year following the highest market concentration decile like today's. The 55% frequency is not too far from even odds of 50%.

Past performance is not indicative of future result, which may vary.

Source: Investment Strategy Group, Empirical Research.

(1) The market breadth measure is defined as share of market returns explained by the top-five companies by market cap over the previous 12 months. Excluding periods when the capitalization-weighted market return was lower than 5% or the return of the top five companies was negative.

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