THE DAILY CHECK-IN WITH GOLDMAN SACHS

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Liz Bowyer: Hi Kamakshya.

Kamakshya Trivedi: Hi Liz.

Liz Bowyer: So, we last spoke a year ago today for the very first episode of the Daily Check In. And we talked about the search for a market trough. Certainly, where markets would bottom out was very much a question on investors' minds. What were you thinking at that time as an economist for Goldman Sachs?

Kamakshya Trivedi: Yeah, I mean, you have to remember that at that point a year ago we were in the throes of one of the deepest economic and market collapses. And what we were discussing and what we had tried to set out in our research were the conditions you needed to see to form a market trough based on the history of cycles that we have across different economies and different markets.

The key point that I think we were looking for at that point is that markets only ever trough when they are able to put limits on the extent of the risks or the left tail damages that can occur in the course of a downturn. And those-- that point is often visible earlier than the actual recovery and economic data is visible. And so, we were looking for some of those conditions that allowed the market to put a limit on the downside risks.

Liz Bowyer: And remind us what those conditions were.

Kamakshya Trivedi: Those conditions include, obviously, first and foremost, that we wanted to see a flattening out in the infection rate curve, given that this was a public health emergency. Remember, at that point it wasn't even obvious that lockdown would work in bringing the infection cases down. So, that was one of the first things. We wanted to see that we had some visibility on the depth and the duration of the economic hit to the economy. And we were keen to see that some of the funding and market stresses that had begun to be visible were being mitigated by policy reaction function. And of course, that other risks should not materialize, things like EM funding issues or commodity price collapses.

And the remarkable thing is while we were articulating those conditions in our research and talking to you in that first Daily Check In, the market was already beginning to form a bottom with the low point in the S & P 500 taking place literally in that last week of March.

Liz Bowyer: And now, sitting here one year later, what's your biggest takeaway?

Kamakshya Trivedi: The single biggest takeaway is the speed at which events have unfolded. Both in the way down when you had the falls in the economic activity and market prices. And then in the very dramatic recovery. You know, we've had, you know, some pretty dramatic events. I mean, you take the US unemployment rate, for example, you went from something like 3.5 percent in February to 15 percent unemployment rate in April. And you know, oil prices fell to negative $40 as people were literally paying to have the barrels taken off their hands.

And then as it became clear and apparent that, you know, lockdowns worked, that it was possible to control the virus, and the case loads were beginning to flatten and that there was some possibility of vaccines down the line, you saw a very remarkable recovery as well. The unemployment rate halved again in the US by the autumn. Oil prices went from minus 40 to plus $40 per barrel. And, you know, stock prices, you know, by the autumn had already outpaced their pre-pandemic levels.

So, the key takeaway for me is that, you know, the historical playbook worked in terms of what conditions you needed to see for the markets to trough and move up again. But that it all happened at a much faster pace. This was a cycle on fast forward.

Liz Bowyer: And looking forward into 2021 and beyond, what's your outlook for global growth?

Kamakshya Trivedi: We're expecting very, very strong growth, both in the US and in the rest of the world, nearly 7 percent. The closest to anything like that would have been after the global financial crisis. But this is comfortably on pace to exceed even that. If our forecasts prove to be correct, and we are considerably above consensus in terms of our economic forecasts, we haven't really seen growth rates like this in the world for nearly half a century. And of course, it's going to be uneven across different parts of the world depending on how the vaccine rollout progresses. But really as the year goes on, we're expecting to see very, very strong growth rates across most of the regions of the world.

Liz Bowyer: And what gives you and your colleagues in Goldman Sachs Research such confidence that growth will be so strong?

Kamakshya Trivedi: There are really two things. First and foremost are the vaccines. You know, we've had a wide range of evidence now that all the different vaccine platforms have high efficacy rates at preventing severe disease. And we've now even had, you know, some evidence from the real-life example, you know, a place like Israel where the vaccination rollout is the furthest ahead, it's been possible to restore much of the economic activity without seeing case loads pick up again. So, first and foremost, you know, this recession was caused by a public health emergency. If it is-- if we can start putting that public health emergency behind us on the back of vaccines, we think you should be able to restore a lot of that lost economic activity over the past year, and that bounce back is part of what is going to cause the very strong global growth rates that I flagged.

I think the second important one is the degree of fiscal support. The US has just passed a very large fiscal package, nearly, you know, $2 trillion. There's enormous fiscal support in Europe and the UK as well. And that should continue to propel growth higher across the developed world. And you also have some smaller, you know, fiscal increases across much of the emerging market world. And I think the key thing there is that because of this fiscal support, that has prevented a lot of scarring across household and corporate balance sheets. And that means that, you know, once these restrictions are lifted, households and corporates can start spending their buffers, can start investing again. And that should be the second big driver of the very strong growth that we expect.

Liz Bowyer: So, you mentioned that markets have been on fast forward. Do you expect that to continue?

Kamakshya Trivedi: Very much so. The thing that I will be looking for is this notion that we have dubbed the growth rates tango. That's the idea that as the growth recovery moves from forecast to fact, you start to see interest rates moving higher as well. And central banks start to debate whether it's-- the time is right to start removing some of the extraordinary accommodation that they have put in place. That back and forth between growth and rates is fairly typical in recoveries. But again, the unique thing about this cycle is how early that is happening. It's already occurring now. Whereas traditionally it would happen one, two years after the bottom in markets. You're already actually seeing some emerging markets, central banks raise policy rates, places like Brazil and Russia. And market interest rates, you know, across the developed world, specifically in the US but also across Europe, have started moving up pretty sharply as well.

Bottom line. You know, we continue to think that cyclical and growth sensitive assets, including global equities, commodities, and some commodity linked emerging markets, those should all continue to do well in this sort of very positive growth backdrop that I described. But relative to the past six months, I think it will be much more important for investors to protect against or position portfolios also for rising rates as this growth rates tango plays out.

Liz Bowyer: Thanks KT. Great to see you again.

Kamakshya Trivedi: Thanks Liz.