

Goldman Sachs The Markets
Breaking down the record highs
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Sam Grobart: What are record highs in stock indices like the S&P, NASDAQ, and the Nikkei and even gold telling us about the state of the economy? This is The Markets.

Hi. I'm Sam Grobart. Today, I'm joined by Alexandra Wilson-Elizondo, co-chief investment officer of multi-asset solutions in Goldman Sachs Asset Management. Alexandra, thanks so much for joining us today.

Alexandra Wilson-Elizondo: Thanks for having me, Sam.

Sam Grobart: So we've had some record highs in major indices last week and in the S&P, NASDAQ, and this week even in the Nikkei. What's going on?

Alexandra Wilson-Elizondo: It's a great question. And if you look at the Nikkei, which you've seen the continued outperformance this week from last week, it's really highlight in our minds that the market is wanting to price Japan's economic renaissance. Away from that, you've seen a little bit of a repricing or pullback in US equities. But more broadly, I think you can't make a theme out of a few days, but we do think the market is telling you that this year it's going to reward price discipline and relative value rather than being blindly long beta.

Sam Grobart: How much is AI driving the recent run? And can AI enthusiasm really keep powering this market higher?

Alexandra Wilson-Elizondo: You have seen the Magnificent Seven stocks really driving outperformance this year. And in our mind, the investment thesis is still fully intact, but it is vulnerable to repricing just given sentiment and positioning. Effectively, all the bears are in hibernation. And so you do need to be prepared for that, but that concern about unsubstantiated future profits really has dissipated. And that came along with some of the earnings that came out, which both showed that the

proof is in the pudding but also the forward guidance, which was showing an acceleration. And so we do --

Sam Grobart: There's something real there.

Alexandra Wilson-Elizondo: There's something real there. Now, it's not going to be "rising tide lifts all boats," which we saw last year. We have seen real outperformance from active managers, showing that there is differentiation and dispersion trying to emerge in the marketplace.

Sam Grobart: It's been a good time for active managers, hasn't it?

Alexandra Wilson-Elizondo: Yeah. January I think was one of the best we've seen since the mid '15s, I think. Something to that effect.

Sam Grobart: Yeah. That's a long time.

Alexandra Wilson-Elizondo: Yeah.

Sam Grobart: So we've been talking about some of these records, and we're seeing them not only in indices

but also in gold, which has been trading at all-time highs. What's driving that? What should investors know about this kind of move?

Alexandra Wilson-Elizondo: What it really highlights to me is that there's a lot happening in the world outside of AI and the Fed. Now, to be fair, real rates are one of the largest drivers of gold prices, and so obviously the Fed and the cutting cycle would be important there. So is deglobalization and de-dollarization. And we're about to enter a very polarizing election cycle. And on top of that, some of the tensions that have existed and persisted in the Middle East haven't gone away. And so it's important to remember that there's other things happening in the world, and having a diversified portfolio is important.

Sam Grobart: You were talking about some of the revenue guidance we've seen from the Magnificent Seven, and that's obviously one part of a very bullish market view. But of course the other piece is rate cuts. The market's been expecting a cut by May. We're now in the first week of March. Do you think that May is still on the table?

Alexandra Wilson-Elizondo: It's the topic du jour,

especially because we're starting to see a lot of Fed-speak come out. And the market has repriced back to the December projections for the median dots. So meaning about 75 basis points of cuts for this year. But it's important to remember that the rhetoric since December from the Fed and Fed speakers has been, "Let's not get carried away." And at that point, the data was very much so moving in the direction of a cut. So if you looked more localized, you know, at three-month data annualized, a figure that's very important for the Fed core PCE, it was below 2% and they weren't even talking about cuts at that point.

In our minds, there's still a little ways to go, and I think that "let's not get carried away" is going to be important. And the other thing that they've highlighted is that they need multiple data points. Not two. Multiple.

Sam Grobart: Several.

Alexandra Wilson-Elizondo: Yes.

Sam Grobart: Yeah.

Alexandra Wilson-Elizondo: And that could get you to May, but it leans more towards June. And one of the things that's going to be really important for this week is labor data, right? It's Labor Week. And January really put into question is this trend going to continue? So we're going to be looking to this Friday to see was January a red herring or a red flag? And we think that's going to be really important for the trajectory of market pricing from here.

Sam Grobart: Alexandra, how are you advising clients generally in this moment?

Alexandra Wilson-Elizondo: We talked a little bit about our view in terms of the modal outcome being the soft landing, and the central bank put should be very positive for risk assets. That said, the outright level of inflation and relative value of equities to rates markets leads us to be a little bit more tempered in our enthusiasm. And don't get me wrong, we're still long equities, but we're thoughtful.

And we've been looking recently at public credit, which has done extraordinarily well in the face of a lot of supply that's come to market. And we're starting to see some themes that we don't love, both in high yield and in investment

grade. And --

Sam Grobart: What are you seeing there?

Alexandra Wilson-Elizondo: We're really seeing that a lot of the, you know, terms and conditions and underwriting of COVID, people are starting to take advantage of it now. So meaning some of the covenant-lite deals, some of the interplay between capital structure, and then even recently we've seen an investment-grade company recently try and junk themselves in order to be able to be bought by a private equity firm. And so some of those themes give us a little pause, especially given how tight credit spreads have run in. And so you can hedge some of your long position in risk assets by being underweight to that market, but we also continue to really like private credit, which has come in but it hasn't come in one for one with public credit.

Sam Grobart: But that market is a bit more, it's more disciplined, I guess maybe is one way to describe it? Or --

Alexandra Wilson-Elizondo: You know, like, the terms are more bilateral. You can have very strong covenants

and protection. You have access. Some of the main concerns about privates is, like, the illiquidity of it, but there's asset-backed deals, right? So they amortize and they could have shorter weight or average life. So it's not like you're locking up capital forever, and so between the diversification of sectors, the terms, and the last comment that I made, we find it to be an attractive place to be putting capital still.

And then obviously, last but not least, the being question is: What about rates?

Sam Grobart: Right.

Alexandra Wilson-Elizondo: And there we are leaning into Waller and even today Chair Powell's comments on, "What's the rush?" And we had been very focused on the market mispricing that the cut that was coming too soon. And now that we've repriced, the levels are much more attractive.

Sam Grobart: Got it.

Alexandra Wilson-Elizondo: And so we're starting to

think about that, adding more to the portfolio in terms of diversification and balance as we get towards the latter second half of the year.

Sam Grobart: Last question.

Alexandra Wilson-Elizondo: Yes?

Sam Grobart: What are you going to be looking at next week?

Alexandra Wilson-Elizondo: So next week, obviously this Friday will be very important for the labor data that I had talked about.

Sam Grobart: Of course.

Alexandra Wilson-Elizondo: Two key themes that we want to pay attention to. Average hourly earnings, really surprised the upside last time. But so did the work week to the downside. In fact, if you paid attention to the work week, it looked like we were going into recessionary territory.

Sam Grobart: Really?

Alexandra Wilson-Elizondo: But a lot of that had to probably do with the weather. And so we want to look to the data on Friday to confirm or refute that. And then we're starting to get inflation data back. And there, we had a surprise in owners equivalent rent last time, and so we want to see if that gets revised ultimately.

And then this is all the important data points leading into the March 20th FOMC meeting where we'll get a new set of some of the economic projections, which will be very important for the market.

Sam Grobart: Alexandra, thanks as ever. Great to have you on.

Alexandra Wilson-Elizondo: Thank you so much.

Sam Grobart: That does it for another episode of The Markets. Be sure to find us on Apple Podcasts, Spotify, or wherever you get your podcasts. To learn more, please visit us at [GS.com](https://www.gs.com) and sign up for Briefings, our weekly newsletter about the global economy. I'm Sam Grobart.

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