**Goldman Sachs Exchanges**

**Asset allocation outlook: The case for greater portfolio diversification in 2024**

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**Allison Nathan:** Against a friendlier macroeconomic backdrop, how should investors think about their asset allocation strategies in 2024?

**Christian Mueller-Glissmann:** I would say that compared to the last 20 years, we probably would argue that the optimal asset mix should have a bit more equity, but we have to admit that the first step is probably just getting back to something like 60/40 because a lot of investors in the last year or so have given up on that a bit.

**Allison Nathan:** I'm Allison Nathan and this is Goldman Sachs Exchanges.

For much of 2023, cash was king, but with inflation and

interest rates starting to moderate, even as fears of a US recession fade, the case for taking on more risk may be rising. To help explain their outlooks for asset classes and portfolio strategies, I'm sitting down with Christian Mueller-Glissmann, who heads asset allocation research in Goldman Sachs Research, and Alexandra Wilson-Elizondo, co-chief investment officer of the multi asset solutions business in Goldman Sachs Asset Management. Alexandra is joining me in our New York studio, and Christian is joining us remotely from our office in London. Christian, Alexandra, welcome to the program.

**Alexandra Wilson-Elizondo:** Thank you for having us.

**Christian Mueller-Glissmann:** Thanks.

**Allison Nathan:** So let's just start with an overview of the global economy, just to get a sense of the risks and returns across asset classes. So Christian, where do you think we are right now in the economic and business cycle?

**Christian Mueller-Glissmann:** When we think about cycles, we always look at three overlapping cycles -- the

structural cycle, the business cycle, and the sentiment cycle. So you're asking about the business cycle, so let's start with the US economy. I think the US economy is still relatively late. I think the way we look at this is obviously unemployment, which is low. We look at it with regards to growth, profit margins, elevated. There's a few good things like, for example, leverage in the private sector is not very high. But net-net, we are late cycle. And there's one other feature which you tend to have late cycle, which is that risk premia tend to be low because things are good, and that's been certainly the story of the last year or so where there's always a concern when you're late cycle that a recession is around the corner. But it doesn't have to be the case, at least imminently. And I think markets were probably a bit too bearish at the beginning of the year with regards to recession risks, and now they are coming back to a more normal late cycle setup, fading imminent recession risks. So risk premia have compressed.

And I think a huge help there has been inflation. I think the fact that inflation has normalized despite being late cycle without much growth damage has meant that risk premia have compressed despite a lot of people being worried about being late cycle.

And I think there's a few complications. I think the rest of the world is not necessarily in the same cycle position as the US. So Europe, for example, has been a bit weak on the growth side. And I think Asia is in a very different cycle setup right now. China is more early cycle, fighting with low inflation, weak growth, and as a result of that you have a very different policy setup. And Japan is also much earlier in the cycle, it seems, due to some structural factors as well.

And the last thing I would say is that you're dealing with a lot of divergence between manufacturing and services as well. That's a big gap within the global economy where the services sector is or has been certainly a bit stronger. Whereas you could say that the manufacturing sector has been very weak. Really, for the last 13 months, you could argue manufacturing globally has been in contraction.

So I think there's a bit of divergence globally and with regards to different sectors, but the US cycle, which most people are focused on, is looking reasonably late.

**Allison Nathan:** And just to clarify, when you say

"reasonably late," though, you're not necessarily expecting that we're in recession in 2024.  Just to be clear, Goldman Sachs Investment Research doesn't forecast a recession in the coming year, right?

**Christian Mueller-Glissmann:** That's exactly right. And I think this is important.  To me, an economy can be late for a long time.  Like, the definition of being late doesn't mean there's a recession around the corner.  We've done a lot of work on that.  There have been late cycle periods that last several years.  But it does mean that the cyclical growth potential of the economy is limited because you cannot grow above trend easily for two reasons.

First of all, you are already above trend in some regards. And secondly, there's a speed limit that comes from potentially inflation and from policy with being late cycle. And that's the second factor.  When risk premia are low and central banks are tightening policy, which is often the case late cycle, there is a constraint on valuations and valuation expansion.  So that's the way I would interpret the statement with regards to late cycle.  It doesn't mean that we expect a recession around the corner.  Definitely not.

**Allison Nathan:** And Alexandra, let me turn to you because your team actually commits capital on behalf of institutional investors. And as part of that investing process, you develop your own views on the economy. So how are you thinking about where we are in the cycle right now and recession risk into next year?

**Alexandra Wilson-Elizondo:** So we would agree with Christian and his team that we're in fact late cycle, but we'd highlight that it's not end of cycle. Meaning that the recession is not imminent. And we are in fact projecting below-trend growth for the first several quarters of next year, but it will be positive. And that nuance is important.

We seek very clear evidence of soft landing in the data. And by "soft landing," we're referring to a period of full employment with disinflation. Now, disinflation is a double-edged sword. So what do I mean by that? On one hand, as inflation comes down, real wages go up. Real consumer disposable income goes up. And so effectively, the consumer, which is two thirds of the GDP, is in a much better place.

But on the other hand, it endogenously tightens policy. So if policy stays at the same rate and inflation comes down, you have tighter financial conditions in the marketplace. And so even though we don't think we're close to end of cycle, we are forecasting higher-than-average recession probabilities, and this is actually a space where Christian's team and Global Investment Research and my own, we differ.

So we're putting it about 30% probability of recession, which is higher than average, which is at around 12-15. And the thing about that means that there's a really low margin of error. And so what are we looking for in terms of seeing what could ultimately turn the dial a little bit quicker?

Some things we're watching is within the consumer, which we highlighted the level of importance this year just as they drew down savings. Really was a very strong impulse for the economy. We're seeing delinquencies on auto loans up, close to 2008 levels. Delinquencies on credit cards increasing and the rate of interest on credit cards as they start to use them more is close to all-time highs as 20%.

And this is all happening while that fiscal impulse is really falling to the wayside. And so that's really important. But what ultimately really is driving consumption, the consumer, is the labor market. You still have about three million jobs to unemployed workers in the marketplace, which just goes to show that there's still a very healthy labor market there. So we are watching for any signs of weakness, but leading indicators like claims are still at cycle lows. So we're watching for anything that would change this dynamic in a nonlinear fashion.

Something like that could be the psychology of labor hoarding. So if all of a sudden margins start getting squeezed because companies no longer have pricing power, that could impact the psychology of corporate America and they could start all the sudden saying, "This talent that I wasn't willing to give up I now need to."

**Allison Nathan:** So if I understand you correctly, you're mostly focused on the weakness in the consumer as being a catalyst that could push us into a recession. But right now, the indicators aren't pointing substantially in that direction, so you're not forecasting it but you're a little bit

more bearish on the risk than Christian.

**Alexandra Wilson-Elizondo:** Yes, exactly. There's some levels of softening, but there's still a lot of strength.

**Allison Nathan:** So both of you think growth is going to remain positive in the coming year. And Christian, your tone seems to be a little bit more positive than Alexandra. But Christian, if you think about the fact that equity markets have already run up and the markets are pricing a lot of cuts, as Alexandra began to discuss, is there still money to be made if your more benign outcome does play out?

**Christian Mueller-Glissmann:** Yeah. So I think this comes back to the sentiment cycle. I think the business cycle in general is supportive, and to some extent that's been our asset allocation. We want to be invested going into next year. We're neutral equities, neutral bonds, and we've downgraded cash from an overweight. And so to some extent, we're going back to a 60/40 portfolio. And we discussed this on the program before. We were quite worried about 60/40 portfolios in the last year or two. So from that perspective, the macro conditions are conducive.

There's money to be made.

But the sentiment cycle has already shifted materially. And that's both the case for equities and for bonds. And that means that there can be setbacks. The question now is: Should you now turn bearish again on 60/40 on equities and bonds because markets have run ahead of the macro and ahead of maybe our expectations? And I think that's tough. Unless the macro [UNINTEL] significantly changes -- so inflation accelerates or disappoints and/or growth, as Alexandra was mentioning earlier, shows signs of weakness maybe in the consumer -- we think you need to stay the course. And if the setbacks occur and there's no significant change to the baseline, you probably use that as an opportunity to buy the dip and buy the dip in equities and bonds and get back to being fully invested.

And I would argue that there's a lot of investors that are still having significant cash. If you look at money market funds, the assets under management, we're looking at $8 trillion. If you talk to institutional investors, if you talk to also end investors, there is certainly short-duration fixed income probably in overweight versus when people are normally. So we do think that there could be setbacks. I

think the market has moved very fast, but I would argue that these will probably be opportunities with our baseline to further shift towards being invested. And I think it's tough to necessarily argue that the upside we're seeing next year is for 60/40 from here. And also the upside when we published a month ago our outlooks I don't think was that strong because you didn't have a recession.

The biggest opportunities for assets usually tend to be around recessions for bonds because you have bonds doing very well during the recessions, for equities because you recover. That's when you get the biggest above-average returns for the assets. In a soft landing, sadly, return potentially is always a bit capped to the upside, but I think the other important thing I would mention is we were talking a lot about risk.

Like, while there's always focus on return, one of the reasons why we said it's time to be invested next year is also that we expect lower risks from multi asset portfolios because you actually have more diversification. So I think all of that tells us, yes, markets have seen a lot of relief. We would be selective in leaning against that. Focus may be more on relative value opportunities rather than shifting

too aggressively to beta. And certainly if there are setbacks occurring because of growth and rate shocks, they might be [UNINTEL] opportunities.

**Allison Nathan:** But just to, again, clarify. When you think about portfolio construction today, are you saying stick with a 60/40? Are you leaning in a certain direction? What is your mainline portfolio construction recommendation at this moment?

**Christian Mueller-Glissmann:** Yeah, I mean, the whole optimal asset mix obviously depends on the investor. People often kind of start with a 60/40 because it's a popular benchmark. It's actually since 1950 we found, since World War II, it has been the highest sharp ratio portfolio. So if you owned a 60/40 portfolio since 1950, that wasn't a bad idea, even though occasionally it was a bad idea like in the '70s or last year.

So I would say probably 60/40 is not a bad starting point. And clearly the last 20 years, 60/40 was a very strong strategy, so a lot of people say, "Are you now going back to that?" The funny thing is the optimal portfolio in the last 20 years was not 60/40. It was actually 40/60. So if you

look at the highest sharp ratio portfolio, it was more like a risk parity strategy, like a 40% equity, 60% bonds. So I would say that compared to the last 20 years, we probably would argue that the optimal asset mix should have a bit more equity, but we have to admit that the first step is probably just getting back to something like 60/40 because a lot of investors in the last year or so have given up on that a bit.

**Allison Nathan:** And when you say sharp ratio, it's just the key measure of risk versus return.

**Christian Mueller-Glissmann:** That's exactly right. It looks at the excess return the portfolio delivers versus risk-free rates divided by volatility.

**Allison Nathan:** Question on that 60/40, though, because we talked a lot about in the last year or two the fact that the 60/40 portfolio just wasn't working well as a diversifier because bonds and equities were moving together. That's still been the case recently. Do you think that will change in 2024?

**Christian Mueller-Glissmann:** That's exactly our

expectation for next year. I mean, right now, they're still very closely moving together, but I think we've got to ask ourselves why that is. And I think in the last year or two, inflation and rates volatility were the main driver of markets, and that means that equities and bonds move more together. And I think next year we expect rates volatility to come down. Inflation is already coming down. And by extension, inflation volatility should come down. And there's a bit of potential for growth volatility.

So putting those all together, there is probably diversification benefit, so normalization of inflation makes bond markets a better buffer for equity. And we definitely think our economists have said the same. That, if there's something going wrong in the economy, the Fed has a lot of scope to buffer that and to react. And they seem very reactive. And that's essentially the central bank put.

There's a certain sensitivity to financial conditions tightening. And from that perspective, you are going back a bit to the central bank what we had in the last 20 years.

**Allison Nathan:** And Alexandra, you obviously have a bit more caution in terms of thinking about the macro

outlooks.  So what asset allocation strategy makes the most sense to you right now heading into 2024?

**Alexandra Wilson-Elizondo:** So to your point, in line with our economic outlook, we are cautiously constructive on interest rates.  Similarly to what Christian was mentioning, we think that investors in particular, because they saw how quickly cuts were pulled forward this year, will want more confidence in cash flow.  So that means that they're worried about reinvestment risk.  And that multiple trillion dollar figure that Christian quoted should ultimately leave money markets to go out and towards the belly of the curve.  So we are extending duration or adding interest rate risk to portfolios.

But the thing to note, which was important this year, is that supply is expected to remain elevated next year in treasuries.  About 20% more.  And so we are going to use some of that supply pressure that you could see in the market add into that position slowly over time.

And as it relates to equities, inflation coming down and moderate levels of growth are good for equity markets.  And typically, going into a Fed cutting cycle, large cap equities

do quite well.  So even though equity markets may appear very highly over valued -- so I believe at 19 times forward earnings -- you're seeing about, like, 90 percentile over the last decade in terms of valuations.  There is opportunity for that to continue to go forward.

So we see equal risk to the upside and the downside.  And so what we're preferring to do from a total strategic asset allocation perspective is to stay invested in equities, but to underweight bonds, corporate credit bonds against that, so in a beta-neutral term, because we think valuations have really screened in corporate credit.  But we still see fundamentals being strong there.  It's just from a total portfolio construction, it pulls together nicely to have those hedges considering the risks that we talked about earlier.

**Allison Nathan:** I want to talk more about hedging risk because obviously we are in a very volatile moment in the world.  A lot of geopolitical risk.  But before I do, when we talk about these overweight and underweight recommendations, I mean, they are somewhat static in the sense that neither one of you want to change your recommendations that quickly.  And then the macro environment doesn't necessarily change that quickly but

yet the markets are moving so quickly.

So Alexandra, I'd be interested to hear how you all adapt to that in your investment process. How do you adapt to a very fast-moving market relative to your overall view of the world?

**Alexandra Wilson-Elizondo:** It's an excellent point. And I would say we have two things that we've done to make sure that we can navigate what could be highly volatile, quick-moving markets. The first is it's really important to rebalance your portfolios. And a statistic we highlight as it relates to this is, in July of 2021, the NBER, the National Bureau of Economic Research, came out and said that the recession was officially over in April of 2020.

So if you waited for the official announcement, you would have missed 80% of the rally. So if you're constantly rebalancing your portfolio, you're getting access to new market pricing and you don't have to be a market timer, which we all know how that ends up.

The second is we've added newer instruments to be able to respond quickly to risks and opportunities, and those can

come in the format of derivatives with multiple time frames in terms of expiry as well as ETFs, to gain same-day liquidity.

**Allison Nathan:** And so if you put those tools in the context of volatility that may come from geopolitical risk that I just mentioned, are those the tools that you utilize? Or are there other ways that you think about hedging those types of risks within your portfolio construction?

**Alexandra Wilson-Elizondo:** So it depends is the answer. If we're focused on shorter term tactical opportunities, they would be what we would be using in the shorter term time frame. But in the longer term, we've built in what we believe is structural safeguards to the portfolio strategic asset allocation. And I know this is something that Christian's team has very strong feelings about right now is that buying downside hedges is actually very cheap right now. Downside hedges could manifest in puts, for example. But there's also longer term structural things that you can build into a portfolio over time.

One of those for us is we have a rates strategy where we buy options on forward rate curves, which is effectively

taking a view on what the Fed could do over time. And those can provide multiple payouts with cap loss, just given the structure that we're using. And they enable us to stay invested but still have some downside protection so that you don't have the market timing issue of having to sell and be too late and having to get back in and also be too late on the other side.

The other instruments that we use are in the form of FX, where you can be long safe haven assets and short cyclical assets in order to give some diversification and downside protection to portfolios. So for example, you've seen the yen really trade off against the dollar to the tune of 10% this year. There's some real divergences happening in the market that you can take advantage of to build what we believe is to be a more holistic portfolio.

**Allison Nathan:** Right. Those would be sort of overlays on the core construction.

**Alexandra Wilson-Elizondo:** Exactly.

**Allison Nathan:** Christian, talk to us about the work that you've done. As Alexandra alluded to, you've done a

lot of work on thinking about these exogenous risks, these geopolitical risks, and what investors can do to protect themselves against it.

**Christian Mueller-Glissmann:** So the way I think about it in terms of risk management in the portfolio, the first line of defense has to be robust portfolio construction and a lot of it is diversification, a bit like what Alexandra was speaking about. As we know, diversification is the only free lunch in finance, as Markowitz famously said. And I think to some extent, you want to rely on that, especially at times where we think diversification is actually going to be more effective.

That wasn't necessarily true at the beginning of this year or, to some extent, last year, where yields were much lower, but now we do have that bond buffer. So you can think about diversifying with bonds, and that's your starting point.

I think the next step is to create safety, either by avoiding areas that are affected or, a bit like what Alexandra was saying, to look at safe havens. The challenge with this is always do you find something that systematically protects

you but doesn't cost you? And that's the challenge. There's a trade-off between cost and risk reduction. The strategy that was mentioned earlier that's a quite sophisticated strategy and that can work, but generally, as we know, hedging can cost. And that's why you need to be selective.

And even buying assets that don't have a negative carry attached to it can create suboptimal portfolios in the long run, so you need to be a bit careful about that. And what we try to find safe havens that have other optionalities to make sure that you're not just relying on something going wrong where there is a low probability but you have the ability to get paid in other scenarios.

The last thing I would mention -- and Alexandra mentioned it as well -- I think sometimes it's fine to think about hedges. I think I always say a regular hedging is for gardeners because it's too expensive. But I think occasionally equity options are attractive, and that's where we are right now. The volatility is low. The skew is low. That's the cost of puts versus calls, and we're clearly looking at put options. So I think sometimes it's also a good idea to look at equity put options.

And what's important in risk management is that you have something that's effective and reactive, and equity puts are very effective and reactive to portfolio risks. So you don't have to take the risk that, for example, if you go for a safe haven, that it is actually reactive and effective because there are other drivers. With regards to equities, we know it's a "catch it all." There's a lot of things that equities can suffer if there's shocks.

**Allison Nathan:** And let me ask you a bit about some of these other alternatives, Christian. We haven't really talked about alternative assets in this conversation yet. What role can they play in this macro backdrop in terms of thinking about portfolio allocation?

**Christian Mueller-Glissmann:** So it's not a bad idea to look at alternatives that are, on one hand, possibly a bit more un-correlated but also they are a bit more alpha assets, less beta assets, that rely on these traditional asset markets to deliver attractive returns. So I do think that, to some extent, the soft landing happening and looking more likely to happen increases the case for alternatives for diversification but also for return generation.

So I think from that perspective, we have a lot of conversations with end investors where both, for example, hedge funds or private markets fit in the portfolio right now. And I think there's two elements that are interesting. A lot of people tend to look at hedge funds for risk reduction, and it's not been easy to make that case if you have cash rates being so high and hedge funds, in a lot of cases, the type of returns they're targeting are not that high. But I think as cash, as we discussed, the next year possibly will get less attractive rates come down. That type of narrative to avoid hedge funds or not allocate to hedge funds is softening a bit.

And I think for private markets, a lot of people we speak to today, they look for returns in private markets. And like the way I think about private markets is it's a very highly active form of asset management. Like, a very active strategy. Concentrated portfolios. Direct engagement with the assets. Negotiation of covenants. Managing recovery rates. So to some extent, it's in line with what I said, shifting from beta to alpha a bit, to look at private markets. We don't necessarily put much value on the lack of reporting, which kind of lowers the reported volatility. And

I think a lot of the asset allocators we speak to today look through that in their portfolio optimization anyhow.  But that's another benefit.

A lot of people were very concerned about private markets this year, and we talked about this on the program.  Is there a big potential for private market valuations to catch down to public market valuations?  And for sure there is still some residual risk, but public market valuations have actually picked up again.  So the gap is not that large anymore.  So the private markets might have gotten away with it, if that makes sense.  And actually smooth volatility, which can be a benefit, especially to end investors, even though some of it is just reporting.

So we do actually think that there is value in these markets.  We've had a lot of focus on private debt in particular because people want to be a lender, but the type of public credit spreads you're getting are not that attractive.  So people have been looking at private credit to look at more attractive opportunities to benefit from the higher-for-longer environment on the one hand but on being a lender at a time where some corporates and some people need to refinance.

**Allison Nathan:** Is that what you're seeing, Alexandra? What are you seeing on the alternative investment side?

**Alexandra Wilson-Elizondo:** So we believe that privates and alternatives are an integral part of your long-term strategic asset allocation, depending on your liquidity profile needs. To similar points Christian was making, within the private markets, you can actually have an acyclical experience. And that means that, because you have more control in some instances, you can actively address inefficiencies, which might be keeping valuations of a company down, in order to extract value. And so that's one way that you might be able to increase alpha in a portfolio.

But there's also access to spaces that you can't get in public markets, and those would be things like infrastructure build-outs, a lot of the ESG financing is happening in private markets, and you also get the complete life cycle of companies. So early stages that you don't typically get in the public markets.

So along those veins, you get, to the point Christian made,

increased diversification and potential alpha benefits over time.  It really depends on what your liquidity needs are because obviously the capital is tied up.

**Allison Nathan:** So finally, let me just ask you about some longer term structural shifts that could have implications for portfolio construction.  Artificial intelligence definitely comes to mind.  Such a big theme for 2023.  How do you think about shifts in longer term trends like that and how it might impact portfolio construction in the future, Alexandra?

**Alexandra Wilson-Elizondo:** So I'll begin with AI, which you can't talk about markets these days without mentioning those two letters.  We do agree and believe in the power of AI, and there have been figures that our colleagues in GIR have put out in terms of increased productivity to the tune of 1.5%, potential GDP improvement.  That could be quite meaningful.

We ourselves have been talking about seeing 40% productivity gains within our engineering cohort.  But we do think that there are going to be winners and losers as you start to really understand the true implications of AI

and how quickly certain segments of the market or sectors should have adapted and maybe you were too slow or you were over promised and under delivered.

And so we've always believed in the value of active management, but this is one of the spaces that we think it's particularly important because it's been a "rising tide lift all boats" kind of experience this year. We do expect to see some divergence there. So there's the active management approach.

The second is we've talked a lot about rates coming down, but we don't think we're going to be returning back to that financial repression era where you're back to zero. And that does have meaningful implications for portfolio construction, your longer term strategic asset allocation and your capital market assumptions. And so if you adjust those, you actually will tend to have a bit more rate sensitivity to your strategic asset allocation. That's important.

But also, because there's been so much issuance, there is a larger deficit, there is some consideration, which we mentioned earlier, about are there going to be any

structural changes to the buyers of treasuries? Will they lose some of that defensive property just as a result of the experience we've had over the last couple of years? And so we are paying attention, and that's one of the reasons we are legging towards that allocation rather than going full hog at this point.

**Allison Nathan:** Christian?

**Christian Mueller-Glissmann:** Yeah, now we come to the last cycle, the structural cycle. And the way I think about it, it's a bit like two major things that subsume some of the things that were mentioned by Alexandra. On the one hand, you have higher inflation risk, higher inflation volatility. After years of low and anchored inflation, we have this big inflation shock. And while we now are on the good side of inflation risks -- so inflation is coming down and it's coming down a lot faster than a lot of people expected -- there's still the concern that inflation volatility in the coming years will remain high. So inflation might at some point re-accelerate, and it comes back to the three D's -- deglobalization, decarbonization, and demographics. We spoke about this before.

And to some extent, these issues, they linger and they are not completely solved. They can create supply shortages, bottlenecks, frictions, and inflation can actually occasionally come back. And the longer term shift in a portfolio we've been advocating in the balanced bear research is that you want to think about real assets in the portfolio and real asset allocation, which, in the last 20 years, there was little value of having real assets in the portfolio. They are a very poorly defined group of companies as well. There's a lot that falls into that, a lot which has different drivers, so you need to be careful and revisit real assets as a tool in the portfolio.

And the second shift is the reverse, which is productivity. So you have the inflation volatility on the one hand, which is essentially you're running out of stuff. That creates inflation. And then productivity is on the other side. You essentially do more with less, and that fights the inflation over time.

So AI helps with labor productivity, so you have less people in the workforce. Demographics. But you might actually get more productive, you need less people. You have decarbonization pressure, but you have renewable energy,

which can actually over time reduce the costs of energy and to some extent reduce the volatility of energy supply because you're diversifying it.  And the same with deglobalization.  You'll find new ways to automate and make reshoring viable.

So I think there's all kinds of these longer term trends of productivity that you want to think about.  And I agree with Alexandra, the challenge is ex ante.  So to predict who's going to be the winner and who's going to be loser is very tough.  So the way you want to think about it in your strategic allocation is that you probably want to have some optionality by some companies and/or allocate to areas like venture capital or growth equity that have the ability to take market share and/or enable incumbents to become more productive.  And I think that's an investment theme that I think will not go away.  There's nothing new really.

Technology revolutions happen all the time, and they deal with problems we have in society or in the economy.  And we have several going on.  It's not just AI.  It's also GOP1 and a major healthcare revolution.  So I think to some extent, from a structural cycle point of view, it's the balance between the two.  Like, managing and having

diversification for inflation risk and inflation volatility which might come back. There seems to be less urgency on that right now because inflation is actually not a problem. But I think you want to keep it in mind because inflation might come back.

And then on the flip side longer term, you want to think about getting exposure to productivity and beneficiaries from that.

**Allison Nathan:** Christian, Alexandra, thanks so much for joining us.

**Alexandra Wilson-Elizondo:** Thank you for having us.

**Christian Mueller-Glissmann:** Thanks for having us.

**Allison Nathan:** Thanks for listening to this episode of Goldman Sachs Exchanges, recorded on Friday, December 8th, 2023. If you enjoyed this show, we hope you follow us on Apple Podcasts, Spotify, or Google Podcasts or wherever you listen to your podcasts and leave us a rating and comment.

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