Goldman Sachs Asset Management

Monthly Insights

FROM THE OFFICE OF THE CHAIRMAN

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Abstract

Looking into the Second Half of the Year and Beyond

In this edition of *Monthly Insights* we discuss our views on the current macroeconomic environment and the outlook for the remainder of this year and next. This summer started with growing evidence of a slowdown in global growth momentum. This has put the trajectory of the recovery in question. Markets have responded to this apparent weakening and, as a result, fixed income markets have rallied and equities reversed some of their Q1 gains.

We believe that we will see improvement in the growth/inflation mix in the second half of this year and into 2012. One of our preferred lead indicators—the GS Financial Conditions Index (FCI)—suggests that the financial climate remains very accommodating for the world economy. In the developed world, financial conditions remain at very accommodative levels, which should provide support, or at the very least a floor, to growth. In the Growth and Emerging Markets (EM) world, financial conditions have already tightened significantly since the end of last year, but this should soon start to reverse. With energy and food prices off their highs, we believe Growth/EM inflation could peak this summer, allowing policymakers to cease tightening.

The story of the Growth Markets remains central to our near-term and long-term thinking. The end of the tightening cycle that is in sight in many places, particularly in China, should provide good support for equities in the second half of this year. Given the medium-term challenges facing the US, the global relevance of the Growth Markets is greater than many perceive. In this piece we demonstrate the rebalancing difficulties that the US faces.

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Jim O'Neill's **Viewpoints** and **Strategy Series** abstracts are also available on our website.