

THE DAILY CHECK-IN WITH GOLDMAN SACHS

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Liz Bowyer: Hi Oscar.

Oscar Ostlund: Hi Liz.

Liz Bowyer: Oscar, you run the Marquee Quick Poll, which is the firm's monthly survey of our institutional investor clients. And always an interesting lens into investor sentiment. One of the biggest stories in the markets recently has been the participation of retail investors. What did the poll tell you about how investors are viewing this development?

Oscar Ostlund: Well, first of all while newspapers were very focused on the retail side of the story, I think for most institutional market participants, the focus was on equity long-short hedge funds and, in particular, some of the deleveraging process that we saw over the last week and a half.

Retail investors, seemingly, pushed a certain number of stocks up leading to a short squeeze into some of the most shorted stocks that had quite a significant impact on a number of hedge funds. What was interesting though is that number one, over that period we saw a relatively limited move in the broader market. If you look at the S & P, which had a very shallow selloff and has already recovered. And if you look at the broader market, it was very, very little spillover into the macro markets.

Liz Bowyer: And what kind of historical precedents are you looking at to put this all into context?

Oscar Ostlund: Well, I think over the last 20 years we've had a certain number of similar bar shocks that have VaR shocks that have had a negative impact on levered investors, in particular, where positionings were crowded or concentrated.

One of the most recent one was the VIX short squeeze that we saw at the very beginning of 2018. It's interesting to know that the set up at the end of last year and at the beginning of this year looked very much the same way as the set up in 2017 going into 2018 with a very strong consensus and relatively crowded

positions [UNINTEL]. Back then, at the end of January, early February 2018, the market effectively squeezed out a lot of the VIX shorts, and in particular, the XIV ETF which effectively collapsed leading to a relatively large spill over in the equity market. The S & P fell quite significantly in February of 2018.

This year so far, despite a relatively significant move in concentrated positions, we have seen a very shallow move in risk. And most of our participants in the survey tell us that they think this is a very contained event that will have virtually no spill over effect into the broader market. So, we continue to feel very comfortable with the growth rate and the outlook for growth assets as we see the vaccination and fiscal legs, or tailwinds, if you want, continue to blow and actually strength in Q1.

Liz Bowyer: One other fact in projecting economic growth is the roll out of the COVID vaccine. We now have more information on how that's going. Do you see that shifting the way investors are thinking about the trajectory of economic growth?

Oscar Ostlund: Yes, very much. Since December we've seen relatively positive uprating of expectations around the speed of the vaccination campaigns. Obviously, the faster we vaccinate people, the quicker we can go back to a normal life and the economy can go back to its full speed. But there was a certain number of concerns, I think, or questions raised by investors in December. And we noticed that there was a relatively big spread between what our research call was for the speed of the vaccination of the US population and what our investor clients were thinking.

Over the last month we've seen a tightening of that spread. And we now have more than 50 percent of our participants in the survey expecting half of the US population to be vaccinated somewhere around June or July. This, obviously, will be very positive for growth this year. And every month could account for quite significant upswing in GDP at the end of the year.

Liz Bowyer: How about interest rates? Does the poll show any shift in the way institutional investors are thinking about the low-rate environment?

Oscar Ostlund: Well, I would say the whole period from April of last year until January of this year we saw very strong bullish sentiment. But we also saw a strong correlation between equities going up and rates going up. That positive correlation between

equity price and rates is what we viewed as the reflation rate. As investors' expectations of growth was going up, inflation expectations were moving higher, pushing rates higher. And at the same time with higher growth expectations came a higher equity crisis.

But this month we've noticed a relatively significant shift in this view and a potential flip in investors' perception of the correlation between rates and equities. As a matter of fact, we're starting to see investors being worried that if rates were to move higher too fast, it could have a negative impact on equity prices. So, while most of the fundamentals continue to be very supportive of the equity market, we do look with caution at the rates market for a potential sell off or move higher in rates. And in particular, in real rates, which are the real determinant of our [UNINTEL] conditions.

Liz Bowyer: And how about sentiment around the US dollar. That was one of the most favored trades at the end of last year and heading into 2021. What are you seeing there?

Oscar Ostlund: Definitely, that's one of the biggest shifts amongst investors, I would say, conviction levels over the last month. Up until last month, the short dollar trade, together with the short bonds trade, were the favored trade among our global investor client base. We've seen a significant haircut into the conviction levels around the short dollar trade. And I think it's mainly due to the fact that we discussed, what we discussed about inflation, the fact that inflation expectations are now close to the Fed target. And secondly, that the investor base may not feel as comfortable going long currencies that are, themselves, facing challenges with their vaccination campaign or other domestic growth and economic issues.

Liz Bowyer: And how does the story of the US dollar compare to some of the other major world currencies?

Oscar Ostlund: Well, in particular, the Euro was one of the favorites to go long against the dollar in the last couple of months. And we've seen the view on the Euro, the bullish view on the Euro, probably completely evaporate with a now relatively neutral view. It's worth noticing that the EU has taken some delays in its vaccination campaign. And I think investors are worrying about the negative impact on growth that could have.

Liz Bowyer: Thanks, Oscar.

Oscar Ostlund: Thank you, Liz. It was great to be here again.

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