

**THE DAILY CHECK-IN WITH GOLDMAN SACHS**

**GUEST: DOMINIC WILSON, SENIOR MARKETS ADVISOR, GLOBAL MARKETS RESEARCH GROUP, GOLDMAN SACHS RESEARCH**

**HOST: LIZ BOWYER, GLOBAL HEAD OF BRAND AND CONTENT STRATEGY**

**RECORDED: DECEMBER 1, 2020**

**Liz Bowyer:** Hi, Dominic.

**Dominic Wilson:** Hi, Liz.

**Liz Bowyer:** You and your team at Goldman Sachs Research have developed a framework for analyzing what the approval of a COVID vaccine would mean for markets. What does the recent positive news that we've seen on vaccine development mean for the more optimistic scenario that you outlined earlier this year?

**Dominic Wilson:** Well, as you say, we've been very focused on the prospect for an early vaccine approval as a basis for a more optimistic outlook. You know, obviously a vaccine approval and having a safe and highly effective vaccine allows economic activity to come back more quickly than it otherwise would, particularly in areas where face-to-face activity is important. And so on that front, it's obviously very good news that we look like we're in a position where not just one but perhaps more than one vaccine will be approved by the end of this year, ready for distribution as we move into next year.

And not just that but the results that we've had so far suggest the efficacy rates are even higher than the more positive end of the spectrum of predictions that people have made in advance of that news.

**Liz Bowyer:** And so to what extent has this optimistic scenario shaped your outlook for economic growth?

**Dominic Wilson:** If you think about the scenarios that we have laid out, when we talked last in the summer, our optimistic scenario at that point was that a vaccine would be approved by the end of the year, allowing this kind of delivery process that we seem to be on track for. We incorporated that into our central case in around September, so we've had a much more positive view of the growth outlook than a lot of other people in the market on the basis that we would get news of this kind coming into the back end of the year.

But the market itself and the overall consensus, I think, has been more cautious. Back when we talked in the summer, you know, the market was placing a roughly 10% chance of a vaccine by the end of the year, you know, back in July. That rose only about as high as about 50% even coming into the end of October just before the news hit. And so relative to where people I think were expecting things to be, this is a substantial piece of good news. I think it confirms the sort of more optimistic view that we've taken on that issue and makes us feel more confident that that kind of more optimistic growth forecast is on track.

**Liz Bowyer:** And so what does this mean for the markets?

**Dominic Wilson:** Yeah, there's obviously been a very powerful response over the last few weeks since we've had that news as the market has shifted towards a more optimistic growth outlook, somewhere closer, you know, to our own view. We actually made a fresh set of predictions for how we thought the market would react to this news right at the beginning of November just before the announcements were made. And the basic upshot of those predictions was that what you would expect to see from that growth upgrade was equities moving higher, particularly cyclical sectors and markets, bond yields moving higher, and the dollar weakening, you know, particularly against cyclically sensitive currencies.

That is what we've seen in a pretty powerful way through the last few weeks. And when we use those kinds of benchmarks that we laid out, you're starting to be able to see in some areas that this sort of more optimistic vaccine, you know, induced and vaccine-supported growth outlook is actually quite decently reflected now in certain areas of the market. So although we still feel optimistic about the outlook, we still think there's room to price a more optimistic growth view in general, you know, more than has happened already, it's getting more important to be selective and to look for areas that perhaps reflected that somewhat less.

**Liz Bowyer:** And so what are some examples of those areas?

**Dominic Wilson:** Well, in terms of areas that we feel have probably not fully reflected the optimistic growth views that we have and as a result the consequences of some of these more positive vaccine developments, I think one area that stands out is the commodity-related segments in the emerging market areas.

They've had some gains, but they've gained relatively less than some of the more cyclical developed market areas. And I think as people appreciate and realize that the impact of the vaccine on their growth prospects both directly in terms of helping them but indirectly because of the impact of better growth in the better markets, as that gets appreciated to a greater degree, I think there's probably more room for those areas to run than people yet appreciate.

**Liz Bowyer:** And what are some of the risks that you see in terms of how the market is pricing in vaccine development and distribution?

**Dominic Wilson:** Yeah, I think there are really to my mind two different kinds of risks. The first is in some ways simply the risk of time. The market's seen the vaccine news. It's taken quite a lot of credit for that positive outcome, but the reality is that the economic impact of the vaccines probably won't be felt until the second quarter of 2021, perhaps even beyond that. So the market's essentially priced a forward view that it's not going to see fully validated for several more months. And I think one of the risks is just that markets find those waiting periods hard, and as we go through that, the market either finds fresh things to worry about or it worries about the vaccine process itself and loses faith in the eventual destination that it's already taken credit for.

The second one, which you referred to, is more on the operational side. You know, we've obviously got vaccines that are close to approval. That approval process has to occur. You've got to produce more. You've got to distribute them. You've got to have people come and take up the vaccines so that we get towards herd immunity in key areas of the world.

And those processes are things that have been prepared for for a long time, so there's a lot of preparation that's already happened. But this is a massive undertaking. There are bound to be road bumps along the way. We're pretty optimistic in general that those problems will all be manageable. But I do think there's prospect for some nerves around parts of that process. And I think one of the things that we may see in markets is this just having the faith that the ultimate destination is what will be delivered when the market worries about it may be one of the sources of opportunity over the next few months.

**Liz Bowyer:** So even with faith in that ultimate destination, how

should investors balance the more positive vaccine development news with the current surge in coronavirus cases in different parts of the world?

**Dominic Wilson:** Yeah, that's a great question, and it's something that comes up a lot at the moment. You know, obviously alongside the good news on vaccines, we're seeing a pretty sharp rise in case growth, first, in Europe and, following thing more recently, in the US. And we've already seen economic impact from that. We've downgraded our own growth forecast for both sides of the Atlantic over the last couple of months and anticipate a period of softer growth ahead at least for another few months.

If you think about setting the vaccine news against that, it provides a very positive anchor for the medium-term outlook. And so for a lot of asset markets, which weight more heavily on the longer term outlook like equities, there's going to be a strong tendency to look through some near-term deterioration. And on that basis, the vaccine news I think provides some limit to the kind of downside that you might see if the news continues to be bad on the health front.

Having said that, having taken credit for a pretty positive outlook, it's still true that if the economic situation deteriorates in the near term that there is going to be more focus on those downside risks, perhaps more of those jitters that I mentioned before as we wait for the vaccine to come. And I do think it's a reason why it's important that continues [AUDIO SKIP] made on the policy front to provide that kind of infection control to give us a bridge to the point where we get to the vaccine outcome, you know, hopefully by the mid to late spring.

**Liz Bowyer:** So finally, Dominic, what does this all mean for the outlook that Goldman Sachs Research has for economic growth in 2021?

**Dominic Wilson:** Yeah, well, it's obviously a very important part both in terms of the overall growth picture and in terms of the timeline that we see for that. Our global economics team has done a lot of work over the last, you know, few months in terms of trying to estimate the impact that the vaccine would have on global economic activity. And the numbers that they get are pretty large. For the US and Europe, our expectation and latest predictions are that having this vaccine adds about two percentage points of GDP by the end of 2021.

But China, that's done a better job of virus control and has had a stronger recovery up until this point, you know, the impact is positive but it's smaller. But on aggregate, these are pretty significant numbers, and they're pretty critical to the more positive economic growth view that we have for next year.

They're also important for the timeline. As I mentioned before, we're seeing softer growth now as some of these virus issues resurface. But what you should start to see as you move deeper into 2021 is a sharp acceleration in the pace of growth particularly from the second quarter onwards. And so if you look at those two things, we think the basis for this stronger growth picture, particularly in the back half of next year, is extremely strongly supported by the vaccine picture. And on that basis, you know as I said in the beginning, the news that we've had over the last few months is a very powerful force in making us feel confident that that ultimate destination of a better growth outlook and a stronger recovery is one that we're headed towards.

**Liz Bowyer:** Thanks, Dominic.

*This transcript should not be copied, distributed, published or reproduced, in whole or in part, or disclosed by any recipient to any other person. The information contained in this transcript does not constitute a recommendation from any Goldman Sachs entity to the recipient. Neither Goldman Sachs nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this transcript and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. The views expressed in this transcript are not necessarily those of Goldman Sachs, and Goldman Sachs is not providing any financial, economic, legal, accounting or tax advice or recommendations in this transcript. In addition, the receipt of this transcript by any recipient is not to be taken as constituting the giving of investment advice by Goldman Sachs to that recipient, nor to constitute such person a client of any Goldman Sachs entity.*

*This transcript is provided in conjunction with the associated video/audio content for convenience. The content of this transcript may differ from the associated video/audio, please consult the original content as the definitive source. Goldman Sachs is not responsible for any errors in the transcript.*