Allison Nathan: Inflation, interest rates, and rising geopolitical tensions may be the hot button issues at the moment, but longer-term structural changes are also playing a bigger role in shaping market returns. So what are the investment implications of these structural shifts?

Peter Oppenheimer: We're entering what I would call a post-modern cycle. And over the medium term, it will mean lower returns at the index level for investors in equities.

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

For this episode, I'm sitting down with Peter Oppenheimer, chief global strategist and head of macro research in
Europe in Goldman Sachs Research. Peter is just out with a new book entitled *Any Happy Returns: Structural Changes and Super Cycles in Markets*, which looks at long-term market trends, what he refers to as "super cycles," and why these super cycles tend to be the primary driver for returns. I'll talk with Peter about where we are in the current cycle and what that means for investors. Peter, welcome back to the program.

**Peter Oppenheimer:** Thank you, Allison. It's great to be here.

**Allison Nathan:** And first, let me just say congrats on the book. It's just out.

**Peter Oppenheimer:** Thank you.

**Allison Nathan:** Very exciting.

**Peter Oppenheimer:** Thank you so much.

**Allison Nathan:** And this is actually your second book, which is absolutely amazing to me, knowing what you do every day for your day job at Goldman Sachs, finding time
to write not one but two books is quite a feat. So again, congratulations on that.

**Peter Oppenheimer:** I appreciate it. Thank you.

**Allison Nathan:** But setting all of that aside, you've just published, as I mentioned, *Any Happy Returns*. Your first book that you published in 2020 was *The Long Goodbye*. How does the new book tie into the first one? And what inspired your research and writing this time?

**Peter Oppenheimer:** Well, the last book, which actually came out just as the lockdowns were beginning during the start of the coronavirus, was really focused on cycles in markets. It was a long-term history of cycles, and it tried to really look at the way that economic and investment cycles coalesced or influenced each other and tried to identify really some of the trigger points for inflection points between one cycle and another. What could you use to identify potential moves? And how these cycles tended to unfold.

This book is complementary to that last one but really focuses, as you say, on long-term secular trends. Because
what I find looking at history is that although cycles do repeat themselves under very different circumstances, they tend to do so under long-term structural changing environments. Some of them are extremely supportive for economic growth and prosperity and returns. While others are much more challenging. What causes those and why?

**Allison Nathan:** So let's dive deeper into the concept that you raise in your book on these super cycles. Why do you think investors should be focused on these?

**Peter Oppenheimer:** I think they need to focus on them because, while investors tend to look at what is urgent -- you know, the next move in the next few weeks or months, the inflection points, and things like interest rates and growth, which tend to repeat themselves in patterns over time -- they often forget what's really important. The long-term drivers in policy, in economic activity, in geopolitics, in politics and social attitudes, and all of these things can have a meaningful effect over the long run on the kinds of returns available to investors.

And often getting the important longer-term trends right and positioning for those can be much more enhancing in
terms of returns than really focusing on the urgent turning points in shorter term cycles.

**Allison Nathan:** So your book goes through a long history, but walk us through the major super cycles that your research revealed.

**Peter Oppenheimer:** Let's look at the periods really since the Second World War because there's been a few major super cycles. The first one really came just after the Second World War, really in the late 1940s through to about 1968. And this was a period of institution building. It was the beginnings of things like Bretton Woods and the World Bank and the IMF. We saw the rebuilding of Europe and Japan with the Marshall Plan, and it resulted in a long period of very strong economic growth. We had very low and stable real interest rates. There was a boom in world trade that followed the creation of things like the GATT Agreement. There was a Baby Boom. And then obviously following that in the 1950s and 1960s, a consumer boom. So that was a long secular upswing, which was very, very profitable for investors.

We then entered a long period from 1968 to 1982, which
you could really summarize as a period of high inflation and low returns. But alongside that, you saw the collapse of things like the gold standard in the early 1970s, the collapse of the Nifty Fifty Bubble in the equity market. It was a period of rising social unrest and strikes. The heating up of the Cold War. The Middle Eastern tensions in the oil embargoes, and that resulted in a collapse in world trade and high debt. And it wasn't a good period for investors across asset classes.

The next cycle, I call it the modern cycle was the very long period from the early 1980s through to the end of the millennium, which peaked with the technology bubble. And it was a period, really, where we started to see the Great Moderation, disinflation and lower cost of capital. We saw big supply-side reforms in economies with deregulation and privatization and so on. And then really the start of the modern era of globalization. There was a lot of cooperation. The WTO was formed in 1995, and India joined in '95 and China in 2001. We also, remember, saw the collapse of the Soviet Union following the fall of the Berlin Wall, and that brought down geopolitical tensions. So that was a very, very profitable secular upswing.
The period from 2000 to 2009 was characterized by bubbles and bursts. Both the technology bubble, which collapsed, and then of course the Financial Crisis. And then we went into really the post Financial Crisis era of zero rates and QE, which resulted in a big upswing but mainly driven by cheap money.

**Allison Nathan:** So that's a fascinating recap. What cycle are we in today? And what are the primary characteristics of it?

**Peter Oppenheimer:** My feeling is that what we're entering is what I would call a post-modern cycle. And I think it is going to be rather different from many of those that I've talked about but with some similarities. We're clearly seeing the end of super cheap money. Yes, interest rates are going to come down in the short term, but they're not likely to fall to the levels we saw in the post Financial Crisis Era. So that means generally a higher cost of capital.

We're also seeing quite clearly I think a shift from the globalized and integrated pattern of world trade towards more regionalization. And that's driven, of course, by
changes in geopolitical tensions but also things like decarbonization. And alongside that, rather than seeing deregulation and increased world trade, we're seeing patterns of increased regulation and higher tariffs and more protectionism. Very different from what we've seen certainly in the last 20 years.

And as a result of new priorities to increase defense spending, for example, as well as costs of subsidies and tax breaks for decarbonization, government spending and deficits are rising rather than falling. And this is happening at a time of generally aging demographics, particularly in the developed economies, together with China. And all of these things I think will create a very different environment for investors with a different range of opportunities relative certainly to what we've seen, I would say, in the cycle since the early 1980s.

**Allison Nathan:** So what are the implications of all that for returns in this cycle?

**Peter Oppenheimer:** Well, I think most likely, over the medium term, it will mean lower returns at the index level for investors in equities because you've got a combination
of a higher cost of capital, no longer falling interest rates, so you're not likely to see financial returns boosted significantly by rising valuations. The returns will be much more a function of underlying structural growth and profitability. And because of greater regionalization and less growth in world trade, you'll probably see lower aggregate growth and less expansion of markets. All of this means lower returns, but it doesn't mean to say there won't be opportunities. I think it does mean that investors will need to be more selective and focus a lot more on, as we would call it, alpha and beta -- differences within and across markets rather than buying and holding markets and expecting valuations to drive returns.

**Allison Nathan:** So two of the biggest developments that have the potential to really remold the global economy, one is something you just mentioned, which is decarbonization. The other, which everyone is very focused on right now, of course, is generative artificial intelligence and the future of artificial intelligence. You write about both of them in the book. These elements couldn't be any more different. I mean, one is about the old economy. One is about the new economy. If we just grab onto the old economy for a moment and this trend towards decarbonization, what are
the investor implications of eventually trying to achieve a zero-carbon world?

**Peter Oppenheimer:** Yeah, I think that's what's so fascinating about the world we're going into. We can talk about headwinds and challenges, but we're also embarking on two of the biggest shocks concurrently that are likely to impact not just economies but the way we live over the next one or two decades. As you say, the acceleration of technology and artificial intelligence but also really reformatting and restructuring the way that we provide and distribute energy.

I think looking at decarbonization to begin with, the thing that's really striking about it is the cost and the physical nature of achieving those goals. When I say the physical nature, I mean you can't achieve these things simply through technological innovations and apps on phones, for example, or software. You actually have to go and build stuff again. And it will be very costly.

I mean, if you look at estimates from the United Nations, for example, the bill for infrastructure spending through to 2040 is likely to be something in the region of $100 trillion
when you take into account both the need to decarbonize and also Sustainable Development Goals for things like electricity and water. So these are massive bills. And the challenge, of course, is who pays and how it's paid for? But what it will achieve I think is two things.

Firstly, a lot of opportunities for companies that can actually achieve those outcomes to build this infrastructure. And secondly, in the long run, if we can allocate the costs appropriately, we will end up with an opportunity to have marginal units of energy costing virtually nothing, which would be a huge long-term boost to growth and result in other positives from a cleaner environment, more sustainable environment, and obviously positive health effects from that as well. So certainly challenges but a lot of opportunities for investors.

**Allison Nathan:** At the opposite end of that, we have the artificial intelligence and just technology more broadly. So what are the opportunities there? Obviously, investors have been very focused on it this year. It's driven a lot of returns. Do you see that extending medium to longer term?
**Peter Oppenheimer:** I think the answer to that is yes. I think that the opportunities for artificial intelligence and the products and services and applications that it may trigger will be quite transformative as well. Of course, there will be negatives. It is likely to generate job displacement. Our economists estimate that it could be in the region of 300 million fulltime jobs that are displaced over time globally. But as we've seen with other waves of technology historically, they're likely to be replaced by other jobs that are created in newer industries. And I think that the exciting thing about AI is the prospects that it raises to boost productivity. And this is coming, in a way, at a very exciting time when we have, in many economies, full labor markets struggling to find people in an era of aging demographics. And again, referencing our economists' work that estimates that we could see a boost in productivity of something like 1.5% per annum over the next decade. These could be very meaningful indeed.

And I think that, while you've seen a lot of excitement of course this year triggered by the large language models reaching sort of commercialization, there's plenty still to play for because it will be equally in industries outside of the technology sector which can start to employ these
technologies in ways that could be highly productive and generate very strong growth rates over time.

**Allison Nathan:** And Peter, to me, one of the most striking trends that your research identified by looking at multiple market cycles is that the more tech-enabled society becomes the more people actually long for what's left behind. What do you mean by that?

**Peter Oppenheimer:** Yeah, I call it the nostalgia economy. And I think that people often look at technological changes and see these as being disruptive, which they are. But there's also psychologically I think a very powerful force towards hankering after the things that have been lost as technology becomes a more dominant force in our lives. And that's true even more so in a very digital world where things become more and more virtual. And we're seeing it and have seen it many times in the past.

I mean, even if you go back to the 19th century with the development of railroads. It was seen at the time as being really the end of the era of using horses. No one wanted to breed or own horses anymore for, in some sense, obvious
reasons. But it wasn't actually true. In fact, demand for horses went up because, as railroads accelerated transportation from city to city, you really ended up with a sort of last-mile problem. How did you get things to people's homes? Which of course is exactly the issue we're facing in parallels today.

Many other examples of how people have been quick to dismiss industries or businesses as technologies have disrupted them. An example I like to look at is the onset of digital watches in the 1970s. These were very cheap. They were extremely reliable. They were more accurate than watches that predated them, and people thought that was the end of mechanical watches. Well, it wasn't. The Swiss mechanical watches industry today is extremely profitable and very large. We saw similar issues with cinema, with the advent of video technology and then DVDs. And we've seen it in many other ways as well.

But this sort of hankering for the past is I think accelerating. You know, interesting that, for example, HMV, the old record store in Oxford Street in London has just reopened and is selling vinyl again. We're seeing a boom in things like art design or bakeries. And nostalgia,
in fact, was the most common Internet search related word in the fashion industry in 2018. People are looking at old styles and even reused clothes. About half of Millennials are now saying that they would shop for secondhand or used clothes. And I think this is a reflection, again, of this hankering for the past.

Perhaps one last point to say is that, you know, the biggest stock in Europe or amongst the top three stocks in Europe is a luxury goods company. And the second richest person in the world is a person who sells heritage and nostalgia really in these products. And I think it's important not to dismiss the way that new technologies create new technologies and new industries and opportunities, but they can also create very significant growth in the value of things that are seen to be left behind.

**Allison Nathan:** That's fascinating, Peter. And I mean, to me, it just really comes down to the fact that technology can create greater efficiency, greater expediency, but ultimately, as consumers, as people living in this world, that's not the only thing we value. There's beauty. There's quality in a different way.
Peter Oppenheimer: And face-to-face relationships as well. Exactly, yeah.

Allison Nathan: Yeah. So it's very useful that you could put some analysis behind that trend. So we've talked about the implications of all of this for returns. You're basically looking for somewhat lower returns relative to recent cycles in current cycle as it unfolds ahead. What does that mean for sector selection and stock picking in this cycle?

Peter Oppenheimer: I think that there's three or four things that I would emphasize. One of them is that if you're going into a longer period of lower returns -- and I think that's a realistic assumption in an era where you're not seeing permanently falling interest rates -- that doesn't mean to say you can't get returns. But I think investors need to lengthen their time horizons and really looking at compounding returns over time. And that's something that was very familiar as a concept in previous super cycles.

Really, people looked at how you could make returns by investing for long periods. And that really I think comes down to two things. Finding quality companies in growth
industries that can reinvest at a high rate and generate stable and persistent profits. And the second is actually in deep value areas of the market, often in very mature industries where companies are generating a lot of cash that they can distribute in dividends that are going to compound over time. So I'd look at compounders. I think, secondly, as I mentioned earlier, more of a focus on alpha than beta. That means less of just looking at index returns but more differentiation within a cross-market. So being more selective.

The third thing I would say is the value of diversification. I mean, the last decade actually diversification has not really paid off. If you look at equities, really all you wanted was the US equity market or even US tech. Anything else would have lowered your returns. Actually, that was true across multi-asset funds as well, when you really only wanted a split between bonds and equities. Other assets didn't really help. I think that was all a function of ever-lower interest rates reaching zero. But as you move into a lower return environment, more diversification across assets, across geographies, and even across styles I think will help to boost risk-adjusted returns.
So those are the things I think it probably implies. And then also really identifying and backing companies that can benefit from some of these super trends in things like AI and the implications that AI have on other industries. Think of the accelerated productivity and drug discovery in things like healthcare, for example. And together with that, some of the companies in mature industries that are very good at building physical infrastructure that will see increased demand as we roll out new investments to achieve the goals of decarbonization.

**Allison Nathan:** Peter, before I let you go, any last words of guidance for investors operating in this cycle?

**Peter Oppenheimer:** Well, I think what I would emphasize and what I think I’m trying to show in this book is that there’s the temptation always to look at what is urgent, and that often means short-term developments. When is the next interest rate cut? How big is it going to be? Are we going to get 1% growth or 1.5% growth? And there’s less emphasis on really the important stuff, which is really about how the world around us is changing and what impact can that have on longer-term investment opportunities.
And so I think that really emphasizing the importance over the urgent issues probably requires a lot more thought. And challenging though it may be because we're in a very rapidly changing world, not just technologically as we've been describing but geopolitically in terms of things like supply chains and onshoring and challenges to globalization and resource scarcity, these things are a great challenge. But also I think there are some very exciting opportunities that are going to result from these very significantly influencing developments of technology and the move towards a decarbonized economy. And that that combination will no doubt create losers but many more winners. And I think people should really focus on those two developments in particular.

**Allison Nathan:** Peter, thanks again for joining us.

**Peter Oppenheimer:** Thank you so much.

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