Allison Nathan: The US has had an exceptional decade. US equities have outperformed those of other regions. The dollar's role as the global trading and reserve currency has remained unchallenged. Growth has exceeded that of other developed markets and has also outperformed growth in many other economies this year. But can this run of US outperformance over the past decade be repeated over the next decade? I'm Allison Nathan, and this is Goldman Sachs Exchanges.

On this special episode, we're breaking down a topic that we hit on in our most recent Top of Mind report now
available on GS.com. We dig into whether the US equity outperformance of the last decade can continue and what that means for investors. We speak with Rebecca Patterson, former chief investment strategist at Bridgewater Associates; Jean Boivin, head of the BlackRock Investment Institute; and Goldman Sachs's chief global equity strategist, Peter Oppenheimer.

Patterson expects another decade of US equity outperformance that she says will be led by generative artificial intelligence and technology more broadly.

**Allison Nathan:** A lot of people do point to the last decade as this decade of equity outperformance in the US do you think that the pendulum is set to swing and that period of US equity outperformance is likely to end?

**Rebecca Patterson:** So a lot can happen in a decade. A lot that we can't even imagine today, but when I think about the next decade in global markets and equities in particular, I think there is a very plausible scenario where the US can outperform. Now that's a big statement because if we go back historically, as you said, Allison, the pendulum swings, you will see outperformance roughly for a decade, and then it
tends to hand over and it's pretty intuitive why that happens with the benefit of hindsight, we can actually see it. And I won't do a big historical dialogue here. But just to give you a couple really quick examples, if you go back to the late 1990s, not dissimilar to where we are today, we were having a big run in US markets, particularly tech stocks. And then they became highly valued, one could argue over owned. And then in early 2000, when the bubble burst, everyone was taking profit, getting out. At the same time, we had sentiment towards, and then the actual event of China joining the World Trade Organization. And that improvement in sentiment, the low valuations, the lack of ownership, the change in growth dynamics pulled capital to China, and then over time into all of the so-called BRICS. And we had a decade where they outperformed the US. Better growth, everything. But then fast forward to 2008, their valuations had risen. They had become over owned. And with that crisis, we had people taking profit or getting out of those positions and the policy response to the crisis in 2008, 2009 led to a regime or a decade that we now refer to as the Great Moderation, subdued growth, low inflation, stable inflation, low interest rates. And in that regime, you were looking for companies that didn't need that cyclical lift because it wasn't
there. There wasn't any cyclical strength. And so organically growing companies, which included tech, did relatively better. They attracted investors and that benefited the US. So, the 2010s became another US decade. So here we are today, 11 out of the last 13 years, the US has outperformed. And when I think about what could drive the next decade, I go back to tech being a possible catalyst to lead to another decade of US outperformance.

**Allison Nathan:** Is this all about generative AI?

**Rebecca Patterson:** It has a lot to do with generative AI. I think it's important first to step back and ask why do I care so much about growth and how does AI play into that. So if you think about what drives equity markets over the longer term. It's really interesting, actually, the factor weights you put on different variables that drive returns. In a short time frame, multiples, both domestic and global tend to be a much more important factor. Over a 10 or 15 year period domestic growth is the dominant factor. Cliff Asness did a great research report in 2011 with two colleagues. And he estimated looking across a number of countries, a number of timeframes that domestic growth alone, that one variable accounted for 40 percent of total equity performance. So it's
a big deal. And when you think about growth in the decade ahead tech, I believe, in the US has the ability to lift growth substantially and lift US equities substantially in two ways. Lifting growth because growth, as we know, at the very simplest terms, is a function of labor and productivity. And labor markets in a lot of countries around the world are becoming smaller. We have deteriorating demographics. We have shrinking workforce populations. So productivity matters more. And in the case of tech and AI in particular, to get to your question, Allison tech and AI, I think as they are broadly disseminated across the economy, and this isn't going to be something we see in a year, it is going to take a decade, but I think we are going to see a substantial productivity lift, maybe along the lines of what we saw from the personal computer. And that's going to lift US growth substantially. And I think we'll see that much more here in America than we see in any country, overseas. The second way tech feeds in to help US equities is through our index composition. When you think about the period that we're facing in the next 10 years, slowing global growth. We're going to be in a regime again where people need organic growers to help their equity returns because the cyclical growth isn't going to be there. Governments are constrained
fiscally. Demographics are working against them. You need organic growers and the US is more than double the weight on technology in its index than non US peers. So I think tech helps the US both through actual growth and through how it's represented in our index.

**Allison Nathan:** The whole concept of AI is that it's accessible. It's out there and anyone in the world can really take advantage of it at this point. So why is this more of a US phenomenon than a global phenomenon?

**Rebecca Patterson:** I think the reason it benefits the US more is a couple fold. We have a critical mass in technology companies, we have the elephants in the room, the Magnificent Seven, Tesla, Meta, Nvidia, Apple, Microsoft, Alphabet, Amazon. They have cash flow that are going to allow them to continue to invest and grow and benefit US companies more directly. It's not all going to go out overseas the same way that maybe access to certain large language models do. I think secondly, we have a government that actually encourages this. In contrast to China, which in recent years has gotten a little more skeptical about having very large, successful private sector tech companies. And then we also have a secondary education system that's going
to allow us to have more and more tech savvy trained labor force workers that we're going to need to propel this forward. So I think that unique nature of the US tech infrastructure is going to allow the US to benefit from it in different ways than countries overseas.

Allison Nathan: There's been so much discussion about AI. So, how much upside is really left?

Rebecca Patterson: Valuations for the US market overall are relatively high, for some of the tech names even higher. Ownership has definitely increased of US assets, stocks and bonds over the last decade. And again, when we think about history, these usually were factors that led to another market taking over. So I think there is reason to be cautious, but when I think about how tech could flow through to the economy, again, I'll go back to history and think about other structural changes in the economy. So 1950s, 1956, specifically, President Eisenhower passed the Federal Highway Act. And we spent the next few years building highways across America. And again, building that whole ecosystem, even though it was publicly known, even though the initial pop in assets had occurred, we saw related stocks in industrial transport sectors and subsectors
outperforming the market for years, three, five years after that announcement was made. Similarly, if you go to the 1980s, when President Reagan significantly upped military defense spending. Not a straight line, lots of wiggles, but over several years, even though it was publicly known. So you could say, it's in the price. It's public information. No, those stocks outperformed the market for several more years. So even though you could say a lot of good news is discounted in US tech today. If it is able to have the productivity gains that it could. We're talking about something that will take years to really be disseminated across the economy and monetized, but there's so much potential here. It's different. It's not like defense spending. That's very concentrated. This is going to be very diffuse. This is going to be in every industry. When you aggregate all those things together, I think it still has the potential to lift productivity enough that it could be materially important for GDP. I don't think that is priced in.

**Allison Nathan (Narration):** BlackRock Investment Institute's Jean Boivin is somewhat less optimistic about the outlook for US equities. He thinks they'll most likely
continue to outperform on a 5- to 10-year horizon, but he says that's a harder bet to make than in the past because of important structural shifts in the economy or, as he calls them, “mega forces.”

**Allison Nathan:** From an asset perspective or more broadly. Is it right to think that the US has been exceptional in recent decades?

**Jean Boivin:** I think it has been exceptional. If we talk about the last 20, 30 years, I think it has been exceptional. We've seen a lot of innovation of the US that has allowed companies to reach massive scale. Companies that can generate very significant capitalization with 20,000 employees. Not many countries have been able to create an environment where that's possible. And to me, that's a big story for why we've seen the stock market performing so well. So as a retrospective comment, I don't think this is highly debatable. But as a forward statement I think there's more question now, I still think that business condition that create the possibility for companies to take innovation and develop at scale is still unmatched. But there are other
conditions around demographics around geopolitics that can now dent this benefit more than they have in the past.

We believe that for the last couple of years we've entered a new macro regime that is very different from the 40 years prior to 2020, which has been labeled as the Great Moderation by some and now we think this is very different and we call that a regime because we think this is persistently different. And at the heart of it, there are three big macro trends that have been shifting. Changing more or less at the same time as the pandemic hit. They have to do with demographics in the US that have started to be a binding constraint with the unprecedented wave of people aging into retirement. There's another big trend that is about the rewiring of globalization that has also been taking a different turn more or less at the same time. And then you have a third one, which is about the transition to a low carbon economy. Whatever we think is desirable on that front, there is a changing energy mix for the world that has also changed more or less at the same time. And these three things mean that we're in a world that is a lot more shaped by the supply side, the production capacity of the global economy, which is very different from 40 years prior where production capacity had been increasing at a steady pace.
year after year, pushed by these big trends all moving in the same direction. That leads us to think that the lens to apply here is not one of a cycle, like a business cycle. And this is why actually we're not embracing the soft landing versus hard landing debate, because that to us is more of a cyclical kind of lens on what we think is more of a structural adjustment. So we're adjusting to these big structural shift. And in fact, those adjustment at the end of the day mean two big things. One is lower trend growth that we're adjusting to, which jars with the dominant narrative that the US economy is resilient and we have strong labor markets and so on. In reality, we think this is more of a stagnation story over the last 18 months. And then the second big trend that we've been talking about for many years is a big resetting of rates, which has been happening.

Allison Nathan: If you think about your current view of the world and your view of the mega trends, does that suggest that US markets will continue to outperform, or do you see some other trends as well coming in and changing what we've become more familiar with over recent decades?

Jean Boivin: On a strategic 5-year to 10-year horizon I see outperformance from the US, but I would say that it's more
uncertain than it would have been 20 years ago. I talk about these big three trends that I mentioned before, they're part of the mega forces, but I would add to it AI, I would add to it the future of finance, which is a structural adjustment in the financial architecture that are playing out. I think also the ability to be bold with things like the Inflation Reduction Act and try to build that scale. That's why my default is still for the US to be a productive place. And I think there's a bigger story in the near term that is US driven in those than Europe. So we end up seeing more opportunities within the US universe than we would see in Europe, not because we're more positive about the macro, but we see these mega forces playing more in the US. I think on the flip side the rewiring of geopolitics is a big question mark, and I think will be more challenging going forward. One ways it manifests itself is on the appeal of US denominated asset going forward could change. It's not a change overnight but it is raising some questions over time. And finally, I think the other mega force is demographics. After two decades of the share of labor income declining and seeing companies generating corporate profits and that being friendly or supportive of shareholders, we might be now, because of the demographic pressure entering a world where employees will have more
bargaining power. We're going to see the labor share of income increasing. And then the equity implications of that landscape cannot be extrapolated from the past, right? So there's going to be potentially a bit of a headwind on corporate profits.

Allison Nathan (Narration): And Goldman Sachs Research's Peter Oppenheimer explains why significant outperformance of the US equity market over the past decade may be harder to repeat over the next decade.

Allison Nathan: So Peter, how usual or unusual has the last decade of US outperformance actually been?

Peter Oppenheimer: I think the first thing to say is that the scale of the outperformance of the US equity market relative to other equity markets was unusual, but I think that reflects what were some very unusual conditions that followed the financial crisis and amongst those I would really emphasize three in particular. The first is the unprecedented decline in global interest rates that followed the financial crisis, which was contributed to of course by quantitative
easing but also attempts by central banks everywhere to cut interest rates to zero or even below. And that broadly had the effect of boosting the relative performance of longer duration assets. Equities that had higher growth were rerated relative to those in more mature industries. The second thing that we have to emphasize is that in the years that followed the financial crisis, many traditional industries, or what you might describe as value orientated parts of the equity markets were facing some major structural headwinds, banks were having to delever and raise capital, commodity stocks were derating as commodity prices fell amid weak demand. And those sectors were more highly represented in non-US markets than in the US. And then the third critical issue, which really marked the success of the S&P during that decade was the remarkable growth of the technology sector, which grew in valuation terms, in market capitalization weight, but also reflected much stronger fundamentals than we saw in other industries in the US or indeed in other parts of the world. And of course, over that decade, the technology sector became increasingly dominant in the US equity market. And a handful of companies went from about 10 percent of the market capitalization to about 25%. These companies were seeing
roughly double or triple the revenue growth of the rest of the market. And perhaps twice, in most years, the margin. So when you take all of those things together, US equity market understandably did extraordinarily well. All of those conditions were pretty unusual relative to longer term history, where the differences in performance had been more neutral.

**Allison Nathan**: Some of these factors have already reversed, obviously interest rates are much higher than they were. So, can we expect this outperformance to continue in the next decade?

**Peter Oppenheimer**: Clearly, interest rates have gone up a lot now. And although interest rates may well have peaked, and we would expect they will come down moderately over the next few years, they’re not likely to fall to the levels that we were seeing after the financial crisis. So that significant driver of reevaluation of long duration equities will not be repeated in quite the same way. The second thing we have to say is that the troubles that many traditional industries faced after the financial crisis are no longer as significant. Banks have got plenty of capital in aggregate. They’re not raising capital. Their rates of return have improved, and
that's true across the commodity complex and industrials as well. So the very negative performance in the value parts of the market are not likely to be repeated in the way that we saw in the decade or so after the financial crisis, and that then leaves the unique success of the technology sector itself, which is much bigger in the US equity market than in many other equity markets, and, of course, is dominated by a small number of very large, very profitable, very cash generative companies. And I think of the three drivers, this is the one that's likely to remain significant differentiator for the U.S. We wrote recently a paper called Why AI is not a bubble. And, of course, not all of the technology sectors benefits relate to AI, but some do. And if you look at the valuations of those dominant companies in the US, they still remain much lower than we've seen in other bubble periods in the past for the technology sector or more broadly. So I think that technology is still going to be a major comparative advantage for the US. It's a bigger sector in the US than in other markets, and that's really an area that I think will, remain more supportive for that market. But these other factors I think are fading.

**Allison Nathan (Narration):** We then dig into what this all means for how investors should be positioned for the next
decade. Patterson believes investors should be at last slightly overweight US equities and also favors them over the shorter term.

**Allison Nathan:** What is your investment advice given everything we've talked about? What should investors do? How should they be positioning for the near term and the longer term?

**Rebecca Patterson:** My long term view is fairly clear that I still believe the US is likely to have both the growth and the equity market composition in a slower global growth environment where the US can outperform. So as I take a strategic allocation view, I want to be at least benchmark weight to the US. And probably slightly over. Over the shorter term on a more tactical view over the next 6 to 12 months, I still am going to favor the US even though I think there's a chance the US goes down because I think it could still go down by less than others. But then the question is, okay, if US equities are just muddling along or actually somewhat lower going into next year, where would I rather be? And what we've seen historically is that in downturns, the US total return tends to be as good or better than overseas, partly because American investors have a home
bias. When they're in doubt, they prefer to have big US companies they know, and part of that is a flight to liquidity and safety, which tends to benefit the Dollar. And so your total return is better in the US than it might be in overseas markets.

**Allison Nathan (narration):** But Oppenheimer argues that investors should focus more on regional and broader portfolio diversification ahead.

**Allison Nathan:** How should investors be positioning for the coming decade?

**Peter Oppenheimer:** Investors need to think about diversifying geographically and across different factors and indeed sectors much more in the next decade than they were perhaps used to in the last decade. And there are a number of reasons for this. One of them is that, over the course of the period since the pandemic, you actually have seen a narrowing of the profit growth differentials between the US and other markets. To give you an example, in the decade after the financial crisis, if you look at the 600 biggest stocks in Europe, they annualized profit growth at zero, in other words, over the whole decade, effectively, there was no profit growth. The S&P over that decade, profits were annualizing
at about 5%. And so consequently the US did very much better aided also by the effect of lower rates. If we look at the post pandemic cycle, so really since 2020, European profits have annualized at around 11 percent and the S&P has seen profits annualizing at about 8%. So actually, Europe, albeit for a short space of time, has actually seen stronger profit growth than the US. I think as we move forward in time, we would see relatively similar profit growth numbers across the major regions, not the big differential we saw characterizing the last decade. I also think that we're moving into a phase of lower aggregate beta in equities. What I mean is the movements in the broader index relative to what we describe as alpha, which is really movements within the index. So, we think the broad index levels won't appreciate in the way that we've been used to because interest rates won't fall as consistently and profit growth may be lower, but there will be bigger differential returns within the main indices. We've argued for what we've called a fat and flat market, lower aggregate returns, but with wider trading ranges, and that tends to be more supportive of alpha rather than beta, and therefore picking great companies really irrespective of where they are. Again, using Europe as an example, if you look at what we call the GRANOLAS, the 11
super large dominant companies in the European region, these have actually outperformed the NASDAQ during the period since US interest rates have been rising. They’re in Europe, but they’re not really levered to the European economy. They’re global strong balance sheet, high returning strong cash generative companies that are doing very well. So I think people would need to be a little bit more agnostic to region and indeed to factor and really back great companies wherever they are.

**Allison Nathan (Narration):** Boivin, for his part, sees value in the equities and other asset classes most exposed to the mega forces he expects to increasingly shape the world.

**Jean Boivin:** We’re still adjusting to this higher rate environment. This is not over. So the hurdle to invest and to deploy capital is what you can get in short term government debt and cash. That is not the most exciting portfolio construction story, but it is still the place where we see opportunities. So this is an asset class that still has appeal even though we’ve seen rates continue to go up. And we don’t think that we’re going to see rates coming down anytime soon. So the income you’re getting is going to be persistent. And that’s also in the context where in terms of broad asset
class, the macro is not yet your friend. And so we're more cautious and underweight on DM equities. That said, within those, I think this is really about finding the mega forces that I talked about. So while US equities as an index is not to us appealing or attractive, within the US universe, there are significant opportunities. We think the AI story hasn't played out. There'll be some excesses in some companies to monitor. So it's not a blanket statement, but that thematic to US will be generating return. And that's a conviction we have still at this stage. And then one place where we see still room to grow structurally and so still makes sense to pay attention to is the private credit piece of the portfolio. There's a cyclical story that is happening. Maybe with slowing and then some default with higher rates that might be putting pressure on credit overall, but private credit itself might be able to cushion that initially better. And then we see also more of a structural story where financing will have to come more from the private credit part of it. And so that's going to lead to some increase in the importance of that asset class over the medium term. So I would say this is how we big picture think about navigating this environment.

**Allison Nathan:** So obviously lots to think about on this topic. I'll leave it there for now.
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