BRIEFINGS

The key takeaways today:

- The US economy is headed for a soft landing
- The bullish outlook for British stocks
- Why September is the weakest month for equities
- Retail investors should consider private equity
- Gold is set to soar to a record high
- Briefings Brainteaser: When did corporate buybacks last cross $800 billion?

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The US economy is still poised for a soft landing

There's a 20% chance of a US recession over the next 12 months. That figure is unchanged from our economists' estimate before last week's US jobs report for employment in August, writes Goldman Sachs Research Chief Economist Jan Hatzius. The recession probability is now halfway between the 15% our economists estimated just before the weaker-than-expected July jobs report and the 25% they estimated right after.

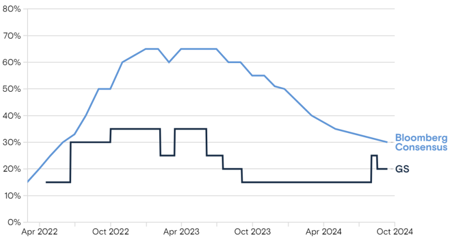
- While last week's jobs data fell modestly short of expectations, it showed a rebound from the previous month and a small dip in the unemployment rate to 4.2%.
- Most other recent economic indicators — including the nonmanufacturing ISM, initial jobless claims, and personal consumption — have been solid. Goldman Sachs Research's US GDP tracking estimate for the third quarter remains at 2.5%.
- Goldman Sachs Research continues to expect three Federal Reserve rate cuts of 25 basis points each at the remaining Federal Open Market Committee meetings this year. “Our confidence that the upcoming cut on September 18 will be modest in size has grown following the latest data, as well as Fed commentary just before the start of the blackout period emphasizing that ‘cuts will be done carefully,'” Hatzius writes.

Read more from Goldman Sachs Research's report on the US and global economy, including the outlook for economic growth in China and the euro area.

***In case you missed it:** Listen to our Markets podcast episode on what the US jobs report means for markets.*

Despite the recent uptick in US unemployment, our recession risk estimate remains low

US 12-month ahead recession probability

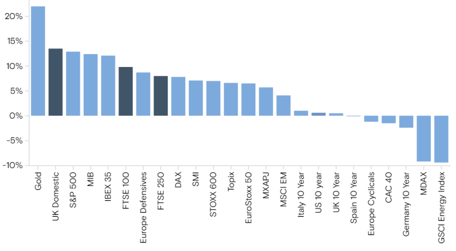


Source: Bloomberg, Goldman Sachs Research
As of Sep. 12, 2024

The bullish outlook for UK stocks

UK stocks have outperformed several major asset classes and equity markets around the world this year. To investors looking for diversification, UK equities may present an opportunity. “Valuations are low, dividend yields are good, and there is less concern around concentrations risk,” says Lindsay Matcham, who works in futures sales trading in Goldman Sachs Global Banking & Markets.

The FTSE 100 and FTSE 250 have outperformed several assets and indices this year



Source: Datastream, Bloomberg, Goldman Sachs Research

Goldman Sachs Research forecasts the FTSE 100 to rise to 8,800 over the next 12 months, up from its present level of 8,256, as of Sep. 4. The index began the year at 7,721 and has registered a year-to-date rise of close to 7%. UK equities “proved resilient in the early August correction,” our analysts note. The robust year comes after over a decade of persistent underperformance: the UK weight in MSCI World has fallen to 2.2% from 5.3% in 2010.

Over the last 10 years, the FTSE 100 has delivered a 6% per annum total return, versus 8% for Stoxx 50, and 13% for the S&P 500. Some of this underperformance is due to weak earnings, domestic political upheavals, and the lack of a large listed technology sector, but much of it owes to a sharp decline in valuation as investors have shunned UK stocks. “The issue is not that foreign investors are refusing to ‘buy British'” our analysts write. Foreign investors own around two-thirds of the UK market cap. Rather, the issue is “a dearth of home-grown equity investing.”

As a result, companies without buyers for their stock trade at a large discount to non-UK equity, and often look to buy back shares; in fact, the only net buyers of UK equities in recent years have been corporates via buybacks, and the total shareholder yield for the FTSE 100 is twice that of the S&P 500. Cash-generative companies in telecoms, energy, and financials, where valuations tend to be low, have been particularly active in buying back stocks.

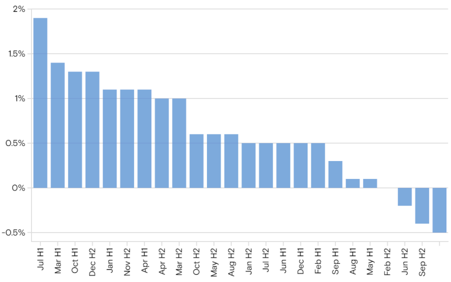
In case you missed it: *Read [our previous article](#) about why European bank stocks are forecast to rally even further.*

Why September is the weakest month for equities

Since 1950, the second half of September has delivered the worst S&P 500 returns of any two-week trading period in the calendar year. The last 11 days of the month are historically even more dire; since 1928, the median S&P 500 return is negative for 10 out of those 11 days, says Scott Rubner, on the Emerging Markets Ex-Asia Derivative Sales and Macro Execution team. “The annual September weakness can traditionally be explained by the flow of funds into and out of the equity markets,” Rubner says.

US companies have been the largest buyers on equity markets. But as a number of companies enter a “blackout period” — a phase when they're unable to buy and sell shares ahead of the release of their earnings reports — Rubner expects corporate demand for shares to drop by 35% for around two weeks beginning Sep. 13.

Median two-week returns from the S&P 500 since 1950



Source: Goldman Sachs Research • As of Sep. 4, 2024
Past performance is not indicative of future returns.

Other institutional investors tend to rebalance their portfolios towards the end of every quarter, which in this case is the last half of September. Pension funds are 103% funded at the moment, according to the Milliman Top 100 Pension Funding Index, a measure of assets and future liabilities. “We have consistently seen them reduce equity risk and immunize liabilities (against the risk of interest-rate fluctuations) while moving into investment-grade credit around this time of the year,” Rubner says

Another factor this year is the upcoming US presidential election in November, and the prospect of policy uncertainty in its wake. “If I backtest this year against the previous six elections, it's exponentially more levered,” Rubner says. A potential risk is to go long on equities heading into the election, and “then something out of the blue happens, like say a capital gains tax on realized gains.”

September is the obverse of July, which has historically been the best month for equities. July 2024 had “a bit of a first-half-second-half story to it,” Rubner says. “It was pretty good to start with, and then it faded off around July 16. But overall, it was still positive on the month.” This month too, performances are in line with historical expectations. “The S&P 500 is down 3.14% to date, as of Sep. 10, so it's acting consistently,” Rubner says.

The next white space for the alternative asset industry

Joe Baratta (L), Blackstone's Global Head of Private Equity, with Alison Mass of Goldman Sachs Global Banking & Markets on Goldman Sachs Exchanges: Great Investors

The career of Joe Baratta, Blackstone's global head of private equity, has mirrored the growth of the private equity industry from a cottage industry in the 1990s to a trillion-dollar business today. And while private equity is a relatively mature asset class among institutional investors, Baratta notes there is opportunity for uptake from individual investors. “It should play a significant role,” Baratta says on the [Goldman Sachs Exchanges: Great Investors](#) podcast.

Less than 1% of assets held by retail investors are invested in alternatives, Baratta notes. By contrast, university endowments and state pension plans typically hold as much 50%-60% and 6%-25%, respectively, in alternative assets, he says.

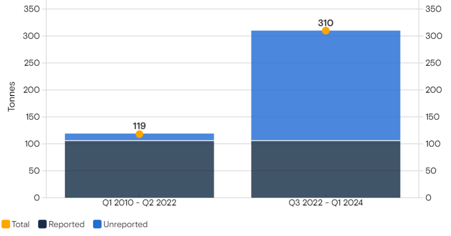
In case you missed it: *Listen to [our Goldman Sachs Exchanges: Great Investors episode](#) on the evolution of private equity and alternative markets.*

Gold prices forecast to climb to record high

The price of gold has increased more than 20% this year, peaking at a record of more than $2,500 per troy ounce. Goldman Sachs Research forecasts [the price of gold will reach $2,700 by early next year](#), buoyed by interest rate cuts by the Federal Reserve and gold purchases by emerging market central banks. Gold could get an additional boost if the US imposes new financial sanctions or if concerns mount about the US debt burden.

Reported and unreported gold net purchases by central banks

Quarterly average



Source: World Gold Council, IMF, Company data, Goldman Sachs Research

Gold is our strategists' preferred near-term long (the commodity they most expect to go up in the short term), and it's also their preferred hedge against geopolitical and financial risks. Overall, Goldman Sachs Research forecasts a total return of 5% for the GSCI Commodity Index in 2025, down from the 12% total return it expects for this year.

"In this softer cyclical environment, gold stands out as the commodity where we have the highest confidence in near-term upside," Goldman Sachs Research strategists Samantha Dart and Lina Thomas write.

Briefings Brainteaser: Buyback bonanza

As of Aug. 9, US share buyback authorizations touched $819 billion this year, a 14% rise over last year. When was the last time buyback authorizations crossed $800 billion in a single year?

A) 2012
B) 2022
C) 2018
D) Never

Check the answer here.

Goldman Sachs in the news

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