Goldman Sachs | Portfolio Strategy Research

17 January 2023 | 10:33AM GMT

Global Macroscope

Global Strategy Conference: Results of our 2023 'PM Question Time'

Yesterday, we held our 31st annual Global Strategy Conference in London, which was attended by over 400 clients, in person, for the first time since the pandemic. During the sessions, we surveyed our audience members on their views and outlook. We present the results here, along with our comments and the GS view in each case. When we asked a similar question in last year's conference, we compare the responses with those results. Note that these questions were asked at the outset of the panel sessions, prior to hearing the views of the panelists.

We thank the participants at our conference and wish our readers a successful 2023!

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Global Strategy Conference: Results of our 2023 'PM Question Time'

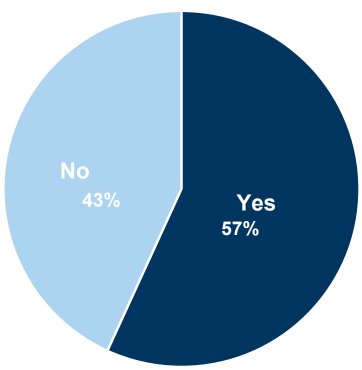
US & Global Economics

Q1. Do you expect a recession in the US in 2023?

57% of our clients do expect a recession in the US while 43% do not (Exhibit 1). This is slightly more optimistic than consensus where the average recession probability stands at 65%. This relative 'bullishness' might be due to the market bounce YTD and the recent good news on the growth-inflation mix.

From here: Our economists do not expect a recession in the US. Their recession probability stands at 35%. Part of this disagreement with consensus arises from our more optimistic view on whether a recession is necessary to tame inflation. They have argued this year that an extended period of below-potential growth can gradually rebalance supply and demand in the labour market and dampen wage and price pressures with a much more limited increase in the unemployment rate than historical relationships would suggest. They also expect more resilience in underlying demand than consensus because their analysis indicates that the combined drag from fiscal tightening and monetary tightening (via financial conditions) has already played a very large role in slowing demand growth in 2022 but will fade quickly in 2023.

Exhibit 1: Do you expect a recession in the US in 2023?



Source: Goldman Sachs Global Investment Research

Exhibit 2: GDP growth, % yoy: GS vs. consensus

	Real GDP Growth					
Percent Change yoy	2022		2023		2024	
	GS	Cons*	GS	Cons*	GS	Cons*
USA	2.1	1.9	1.4	0.4	1.6	1.3
Japan	1.2	1.3	1.4	1.3	1.4	1.0
Euro area	3.4	3.3	0.6	-0.1	1.6	1.4
Germany	1.7	1.8	0.1	-0.6	1.7	1.2
France	2.6	2.5	0.7	0.2	1.4	1.1
Italy	3.8	3.8	0.5	0.0	1.2	1.0
Spain	5.3	4.6	1.3	1.0	1.9	1.9
UK	4.1	4.4	-0.5	-0.9	1.0	0.9
China	2.6	3.0	5.2	4.8	5.2	5.0
Developed Markets	2.6	2.7	1.1	0.4	1.6	1.4
Emerging Markets	3.4	3.1	3.7	3.9	4.4	4.4
World	2.9	3.0	2.2	2.1	2.8	2.9

** Bloomberg consensus*

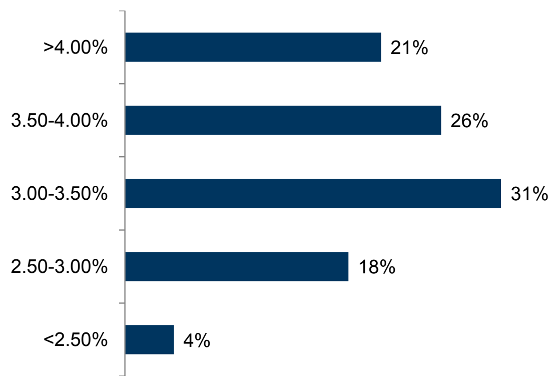
Source: Bloomberg, Goldman Sachs Global Investment Research

Q2. Where do you expect US core PCE inflation to end 2023?

Most clients (57%) expect the US core PCE to moderate from here and end 2023 between 3% and 4% (Exhibit 3). Respondents see risks skewed to the upside, with 21% of them foreseeing inflation above 4% at year-end.

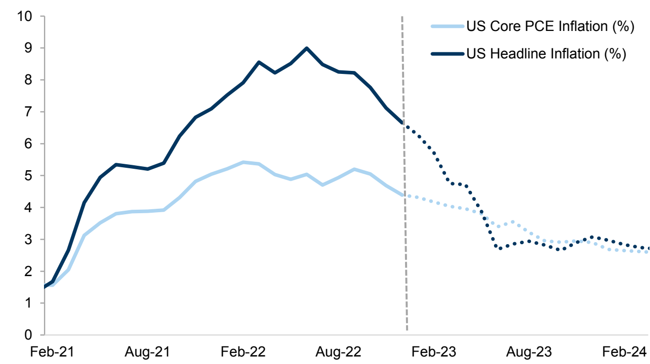
From here: Supply chain recovery finally appears to be yielding the deflationary payback that has been deferred for more than a year by a series of further pandemic- and war-related disruptions. In addition, more moderate commodity price inflation, falling transportation costs, and downward pressure on import prices from dollar appreciation should also help to reduce core PCE goods inflation. On the services side, disinflation will take longer because of some lag from a slowdown in wage growth to a slowdown in inflation in labour-intensive services categories. A more specific reason is that the largest categories, health care and shelter, already appear destined to stay high for longer because of lags in the official data. Taken together, our economists expect year-over-year core PCE inflation to decline to 2.9% in December 2023 and an even larger decline in year-over-year core CPI inflation to 3.0% in December 2023.

Exhibit 3: Where do you expect US core PCE inflation to end 2023?



Source: Goldman Sachs Global Investment Research

Exhibit 4: Our economists believe inflation has peaked in the US
US Headline Inflation (%) and US Core PCE Inflation (%)



Source: Goldman Sachs Global Investment Research

Q3. Where will the Fed stop its hiking cycle? (currently 4.25 - 4.5%)

About 2 out of 3 respondents expect the FOMC to hike by another 50bps or 75bps before stopping, which is consistent with market pricing of +60 bps (Exhibit 5). Outside of this modal outcome, views are skewed to the upside with 23% of clients expecting the FED to bring the policy rate above 5.25%.

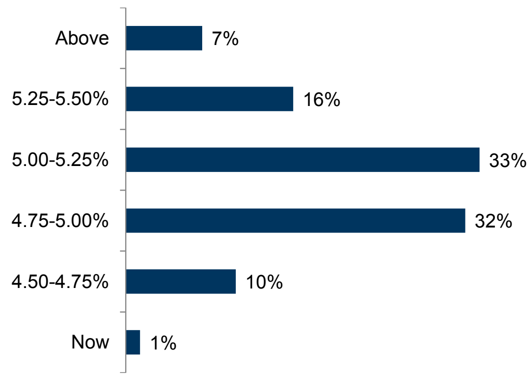
From here: Our economists expect the FOMC to slow the pace of rate hikes further to 25bp at the January 31/February 1 meeting. Beyond February, they continue to expect two more 25bp hikes followed by an unchanged 5-5¼% funds rate through the end of 2023, consistent with the December dot plot but with two-sided risks.

Q4. When do you expect the first rates cut from the Fed?

More than half of the clients (52%) expect the first rate cut in H1-2024, while few (20%) think the FED will cut rates this year (Exhibit 6).

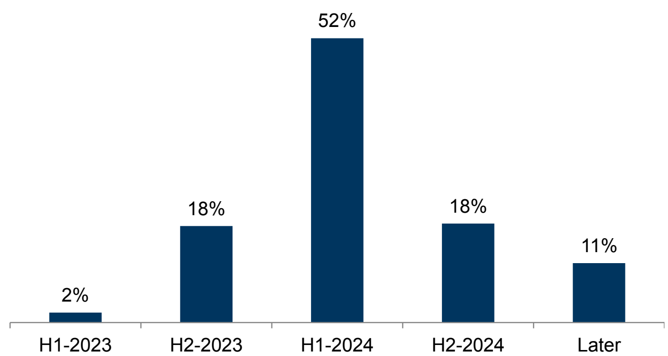
From here: Our economists think that there are two possible rationales for cutting the funds rate in the future: 1) if inflation declines and Fed officials decide that policy does not need to be as restrictive anymore; 2) if the economy is entering recession or threatens to do so without an easing in monetary policy. Our economists are doubtful that a goods-driven decline in inflation that they expect in 2023 would be sufficient to give the FOMC confidence that inflation is moving down in a sustained way and do not expect the US to enter a recession this year. Thus, they expect the FOMC to just leave the policy rate unchanged until something goes wrong - they have cuts in their forecast over 2024-2026, as a placeholder for an uncertain future date when this might happen.

Exhibit 5: Where will the Fed stop its hiking cycle? (currently 4.25 - 4.50%)



Source: Goldman Sachs Global Investment Research

Exhibit 6: When do you expect the first rates cut from the Fed?



Source: Goldman Sachs Global Investment Research

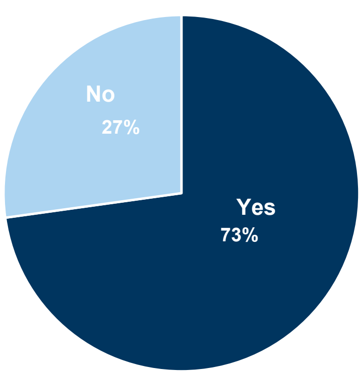
Europe Economics

Q5. Do you expect a recession in the Euro area in 2023?

73% of our clients do expect a recession in the Euro Area while 27% do not (Exhibit 7). This is less optimistic than what they expect for the US (57/43% - see Question 1). The mood is less positive than in 2022, despite the fact that recent hard and soft data has held up better than expected as TTF prices have fallen *c.*80% from their August peak.

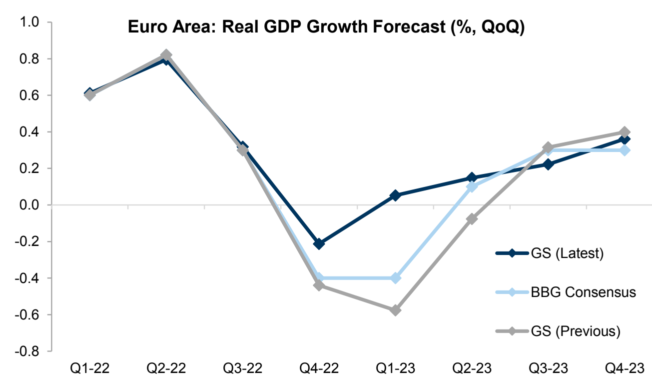
From here: Our economists do not expect a recession in the Euro Area, they expect real GDP growth of +0.1% in Q1, +0.1% in Q2, +0.2% in Q3 and +0.4% in Q4, implying +0.6% for 2023. We thus look for a period of growth weakness rather than a recession over the winter months, although the probability of a technical recession remains elevated at 40% over the next year. Nevertheless, weakness remains for the moment due to high inflation weighting on real disposable incomes and tight financial conditions.

Exhibit 7: Will the Euro Area enter a recession in 2023?



Source: Goldman Sachs Global Investment Research

Exhibit 8: Weakness But No Recession



Source: Goldman Sachs Global Investment Research, Haver Analytics, Bloomberg

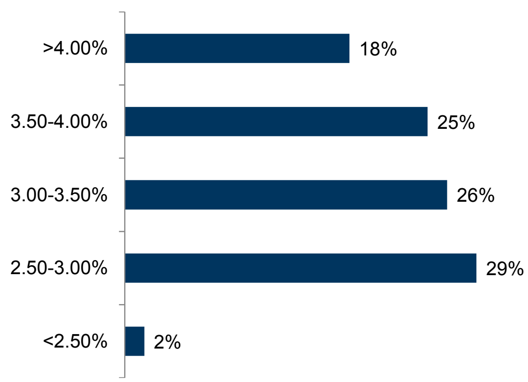
Q6. Where do you expect Euro area core inflation to end 2023?

29% of our clients expect Euro area core inflation to end 2023 in the range of

2.50-3.00%. The results show that there is a material skew to the upside (2.50% and above) as only 2% expect Euro area core inflation to fall below 2.50% at the end of 2023. That said, we would note that these polls generally underestimate the significant moves (on the way up and on the way down). For example, last year, at our conference in January, 60% of our clients expected Euro Area inflation to end 2022 below 2.25%. Ultimately, it reached *c.*10% in December.

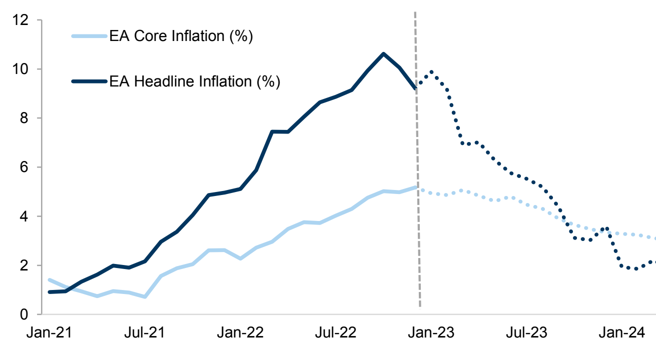
From here: Our economists believe inflation has peaked in Europe thanks to rapidly falling energy prices and easing bottlenecks in global supply chains. They think Headline inflation peaked at *c.*10% in November for the Euro Area and forecast core inflation falling back to 3.3% and headline inflation falling back to 3.6% in December 2023, respectively. Still, the delayed transmission of high energy and labour costs to consumer prices, suggests there may still be upward pressure due to service inflation.

Exhibit 9: Where do you expect Euro area core inflation to end 2023?



Source: Goldman Sachs Global Investment Research

Exhibit 10: Our economists believe inflation has peaked in Europe
EA Core Inflation and EA Headline Inflation (%)



Source: Goldman Sachs Global Investment Research

Q7. Where will the ECB stop its hiking cycle?

30% of our clients expect the ECB to end its hiking cycle as the policy rate reaches 3.25%. The results are skewed to the upside with 39% of respondents expecting the ECB policy rate to be raised to 3.50% or above. (Exhibit 11).

From here: Our economists look for a terminal rate of 3.25% in May. Given surprisingly resilient growth, sticky core inflation pressures and hawkish commentary, they expect the Governing Council to tighten significantly more in coming months. They believe that 50bp hikes are very likely in each of February and March, before slowing to 25bp in May. Their baseline remains that the Governing Council stops in May at 3.25% as headline inflation cools notably and the Fed stops hiking, but we see a low bar for a further 25bp hike to 3.5% in June in case of more persistent service inflation pressures. The firmer growth outlook reinforces our view that the ECB is unlikely to cut soon after reaching the terminal rate and we maintain our forecast for the first cut in 2024Q4, two quarters after the Fed.

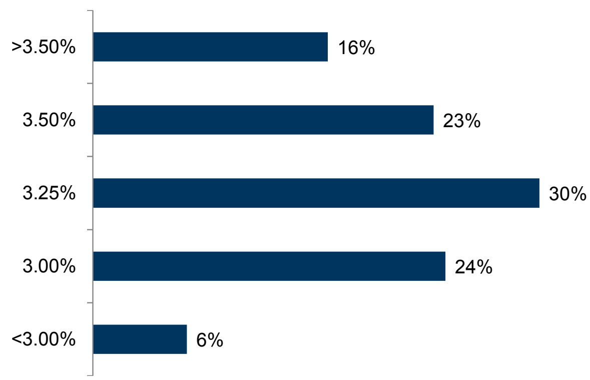
Q8. Where will the BoE stop its hiking cycle?

23% of our clients expect the BoE to stop its hiking cycle as the bank rate reaches

4.25%. However, this masks the wide distribution of answers where most clients expect the BoE to stop between 4.00-4.50% (Exhibit 12). The market is pricing the bank rate to reach 4.50% by March 2023.

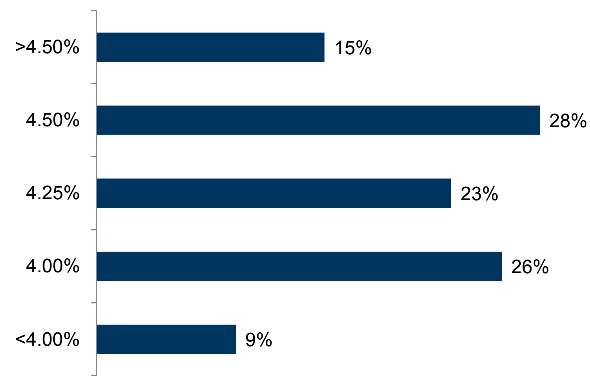
From here: Our economists expect a terminal Bank Rate of 4.5% in May. The MPC pushed back against market pricing in November and stepped down the hiking pace to 50bp in December with two dissents to keep Bank Rate on hold. They do not, however, look for a near-term end to the hiking cycle despite this dovish rhetoric, the recession and higher mortgage rates. The main reason is that the UK labour market is significantly overheated, like the US jobs market. The unemployment rate stands at 3.7% (up only slightly from the trough), vacancies remain very high (with a notably positive jobs-workers gap) and wage growth is still very strong (with our wage tracker running at 6%). Although we see core inflation past the peak, we expect UK core inflation to remain notably higher than elsewhere in 2023H1 and look for a 50bp Bank Rate hike in February, followed by 25bp hikes in March and May for a terminal rate of 4.5%.

Exhibit 11: Where will the ECB stop its hiking cycle? (currently 2.00%)



Source: Goldman Sachs Global Investment Research

Exhibit 12: Where will the BoE stop it hiking cycle? (currently 3.50)



Source: Goldman Sachs Global Investment Research

Equities & Asset allocation

Q9. In 2023, what will global equity returns be in $ terms?

After 2021 and 2022, when global equities returned respectively +17% and -20% (USD, total return), the majority of our clients (46%) expect positive, but single-digit, returns (0% to 10%) in 2023. The distribution is more skewed to the upside than last year, when only 13% of the clients expected returns above 10%, while today, 27% of the clients expect double-digit returns. Overall, 73% of our clients are expecting positive returns this year (vs. 78% expecting the same last year) (Exhibit 13).

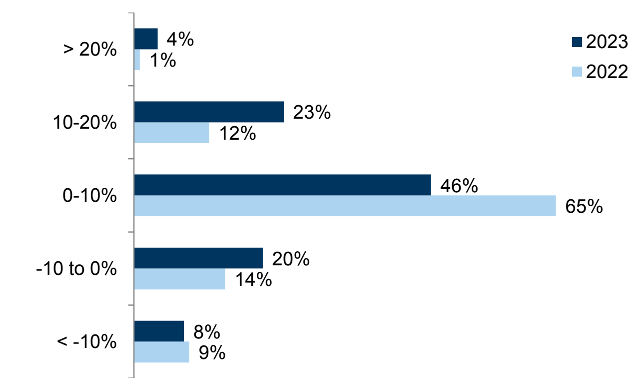
From here: Our targets in each region imply a price return in global equities in the low-single-digit space, or the mid-single-digit space including dividends. After a strong rally year-to-date, we remain cautious on equities. While we expect a turning point in markets this year, the hurdle rate for investing in equities has increased. There is now a reasonable alternative return available in bonds and cash. We continue to expect a relatively 'flat and fat' market environment. The outlook for earnings will be crucial because higher real interest rates are likely to constrain valuations. We generally expect profits to weaken more than consensus does, albeit less than in many historical recessionary periods. The main reason why our profit forecast top-down is below the bottom-up consensus is that we expect margins to weaken.

Q10. Which region will perform best in 2023 (in local currency terms)?

There is a clear consensus that Asia (ex. Japan) will be the best performing region in 2023. Clients have much more faith in Asia (ex. Japan), which attracted 48% of the votes, compared to only 18% last year. The boost from China reopening will be quite substantial for the MSCI Asia Pacific ex Japan index which fell 20% last year, the 4th largest decline in the 35-year index history. With this, our clients expect Europe and the US to be the relative losers. Only 18% of our clients expect the US to outperform - a major change after a decade of outperformance. Last year, the majority of our clients forecast the relative outperformance of Europe we saw in 2022 (in local currency terms). They do not expect this to continue and exhibit a more balanced approach.

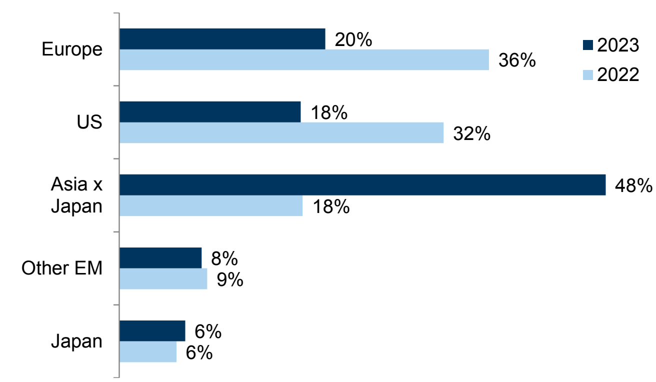
From here: Our current targets imply relatively modest annual returns of around 2% for the S&P 500, 7% for the STOXX 600, 9% for the MXAPJ and 21% for the TOPIX (all total return, in local currencies). While valuations in most markets have come down this year, the US continues to look expensive. This partly reflects sector weighting differences, but even when we compare these markets on a sector-adjusted basis, the premium of the US vis-a-vis the rest of the world looks extreme.

Exhibit 13: In 2023, what will global equity returns be in $ terms?



Source: Goldman Sachs Global Investment Research

Exhibit 14: Which region will perform best in 2023 (in local currency terms)?



Source: Goldman Sachs Global Investment Research

Exhibit 15: Key market forecasts

	Index Level		Price Return		Total Return**	
	Current	12m	Local	USD*	Local	USD*
S&P 500	3999	4000	0%	0%	2%	2%
STOXX Europe 600	455	465	2%	4%	6%	7%
TOPIX	1886	2200	17%	19%	19%	21%
MSCI Asia-Pacific ex Jp ($)	546	580	6%	6%	9%	9%
Global Equities***	-	-	1%	2%	3%	4%

* GS FX Strategy forecast ** Consensus 12m fwd Dividend *** Mkt cap weighted avg of our regional forecasts

Source: Datastream, FactSet, Goldman Sachs Global Investment Research

We would like to thank Marcus von Scheele and Parthivi Bansal for their contributions to this report.

Disclosure Appendix

Reg AC

We, Guillaume Jaisson, Andrea Ferrario, Peter Oppenheimer, Christian Mueller-Glissmann, CFA and Sharon Bell, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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