Goldman Sachs The Markets

How are investors approaching today's market strength?

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Sam Grobart: Stocks are up. Bonds are up. Cash is up. So, what's the investment strategy right now? This is The Markets.

Hi, I'm Sam Grobart. Today, I'm joined by Ashish Shaw, Chief Investment Officer of Public Investing within Goldman Sachs Asset Management. Ashish, thanks so much for joining us again.

Ashish Shaw: Awesome to be here.

Sam Grobart: Ashish, we're in a situation right now where the S&P is trading near the high of the year. Cash is earning historic highs. And bonds have been more attractive than pretty much since the 1980s. How do you prioritize the mix when everything effectively is up?

Ashish Shaw: Sam, one of the things I have to tell you is that we think in 2024, 60/40 is going to be back. A lot of clients are still sitting in cash. And that's been a fantastic trade. Low volatility. They've just earned interest every day. And we think while equities definitely still have opportunities for growth and we expect them to grow in the better outcomes, balancing those portfolios with bonds is going to open up the opportunity to cover the downside if economic growth decelerates or disappoints.

And there is the nirvana case, which I think the market is starting to price, but has a long way to go of we actually get a deflationary boom where inflation comes down, there's still enough growth in the economy to keep us from going into a recession where you can make money in stocks and bonds. But I think the risk return looks a lot better in bonds at these levels than it does in stocks. Having a little bit of both is going to be really good for your portfolio.

Sam Grobart: So, I want to focus on bonds for a second. Interesting data point that crossed my desk. Three years ago, the S&P 500 dividend yield was 1 percent higher than the ten-year Treasury yield. Two years ago, they were even. Now the ten-year Treasury yield is 3 percent above the dividend yield. What's going on?

Ashish Shaw: The Fed's been very deliberate in trying to slow the economy down through its rate hikes. And what we've been watching is the impact of those rate hikes do their work on inflation. So, over the last several months, we've seen inflation continue to tick down. The employment market is opening up in terms of capacity, which creates the capacity for growth.

And so, when it comes to the bond market, those rate hikes have left us with real rates that are north of 2 percent out the curve. And that's just very high relative to the underlying growth potential of the US. And definitely is reflective of a tightening mode. And I think that represents material opportunities.

Now, just recently in the course of the last week we've been hearing from Fed officials that they may be done. And, in fact, may be open to cuts in as early as the first half of the next year. And so, I think that we've seen some rally on the back of that. Definitely seeing steepening, which we think is one of the easier trades or more obvious trades to do here given what's happening in the economy in bond market. And we would expect on the back of that to be good opportunities from a total return perspective in bonds.

Sam Grobart: So, let's pivot back for a moment to stocks, having just talked about bonds for a moment here. Volatility is at an annual low. Is that just, hey, it's the end of the year and we think that the Fed is done working? Or is there something else behind all of it?

Ashish Shaw: I do think the Fed being done or a lot closer to done is driving part of that. And the way it drives it is it's a lot easier to create a balanced portfolio with a mix of stocks and bonds. And so, any time there's a dip in stock market, there's now natural buying from rebalancing because of that negative correlation between stocks and bonds.

I also think that, you know, more and more the market kind of buys into the soft landing, and in fact actually we see a declaration of growth happening, that we're seeing winners and losers inside the stock market. So, rather than just selling everything as you slow but have positive growth, that investors actually buy and sell different stock. And we've seen that in the volatility between the index price, which has really plummeted, and the realized volatility which is even lower versus single stock volatility that still remains relatively high compared to that overall index. And it just tells you that stocks are diversifying themselves. And it also creates a really interesting opportunity set for our active management.

Sam Grobart: We just came off of, obviously, the Thanksgiving holiday and with that Black Friday, Cyber Monday, the holiday shopping season is upon us. What are you seeing out of those big shopping days already? Or what are you looking forward to for the rest of the year in regard to the retail segment?

Ashish Shaw: Yeah. So, I think one of the questions that we've all been asking is how healthy is the consumer? And we've seen some positive signs from the last couple days.

So, the first thing is that consumer spending is definitely up year over year and probably a surprise to the upside which has been a positive thing for the consumer discretionary sector at large. But inside of that, there are some signs of weakening where a lot more of the spending has been as a function of buy now, pay later borrowing.

So, you're starting to see going back to this kind of living on the edge, having to borrow to do their Christmas spending. And you know, that's a sign that you're going to see much greater level of price sensitivity than you maybe saw a year or two ago. That's positive news on inflation side. May be a more challenging piece of news on the margin side.

The other major trend that we've been seeing has been a long-term trend, but it's definitely showing through in the numbers as we've heard the reporting is that we see a continued trend towards online shopping. So, in the store shopping, and for anyone that's gone out shopping on the Friday, Black Friday wasn't particularly busy. You saw spending that was up 1 to 2 percent depending on the measures that you were taking in the store. But then Cyber Monday really poured it on.

So, online shopping, that trend was high single digits, double digits, depending again on the venue you're looking at. And so, that continued shift to online shopping from in person happens.

Interestingly, when we see consumer discretionary spending overall, the shift towards experiences and away from goods also continues to happen. People are very happy to do things in person. They just don't want to shop in person.

Sam Grobart: Interesting. Very interesting, particularly for the brick-and-mortar sector of that industry, obviously.

The investment world lost a titan this week with the death of Charlie Munger at Berkshire Hathaway. Ashish, what about his investing philosophy really stood out to you?

Ashish Shaw: Charlie had been so influential to an entire generation of investors, including myself. We all grew up reading his quotes. I think anything he said I was very happy to lap up as a young investor. And I think one of the attributes of really talented investors is that they seek to take the best from different investors from a style perspective. And Charlie was an absolute gem of an individual. But I think he's going to influence and continue to influence generation after generation of investors because his investment philosophy was very intuitive and something that was accessible to a wide range of individuals.

Sam Grobart: That's really lovely. Thanks. Last question, as ever, what's on your radar for next week?

Ashish Shaw: Sure. So, I'm really looking forward to setting up my Christmas tree. Getting the stockings out. And why do I mention that? It's about to be December. And the seasonals, when it comes to markets, between December and kind of end of March, end of April depending on the market, are pretty darn strong. They're something worth paying attention to.

And while I think a lot in the market are paying attention to employment and growth data, that if you don't pay attention to the fact that December is coming, January is coming, new capital is going to get deployed into the market, where is it likely to go, you're missing out on kind of some of the best return opportunities. And that's something you can predict. Right? You can predict that

December 1st is coming around and that January 1st is going to be right around the corner.

So, my strong urging to all investors out there is it's a great time for risk assets, including corporate credit. It tends to be a less good seasonal time for duration. But given our secular views and just the valuations there, I would use backups as an opportunity to load up, so they don't have regrets into the summer when duration actually ends up being in supply deficit.

Sam Grobart: Ashish, always a pleasure. Thanks so much.

Ashish Shaw: Thanks so much for having me.

Sam Grobart: That does it for another episode of The Markets. Be sure to find us on Spotify, Apple Podcasts, or wherever you get your streaming audio.

I'm Sam Grobart. Thanks so much for listening.