Note: The following is a redacted version of the original report published October 21, 2024 [32 pgs].

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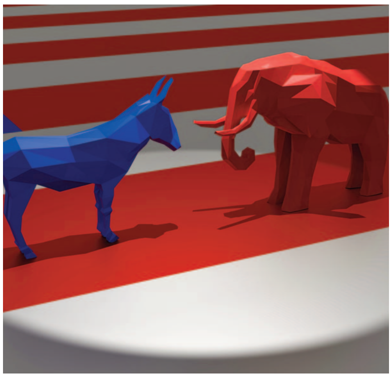
TOP of MIND

POST-ELECTION ECONOMIC POLICIES



With all eyes on the fast-approaching US election amid a close race between two candidates with vastly different worldviews, what the election could portend for economic policy—and the macro and market implications—is Top of Mind. Kevin Hassett, CEA Chairman under former President Trump, and Jared Bernstein, current CEA Chairman, share their views on a range of economic policies on the table, from tariffs to taxes to (de)regulation and beyond, while GS GIR's Alec Phillips offers his own perspective on potential policy shifts in these areas. GS GIR economists and market strategists then deep dive into the two areas most in focus this election season—trade and tax policy—finding that despite the stark differences in proposed economic policies, asset impacts would most likely be modest in a central case that avoids major policy tail risks, which could leave GS economists' friendly macro outlook as the bigger driver of markets. But they still see value in owning protection around the election, as with any macro risk event.

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Extending the Tax Cuts and Jobs Act and relaxing scrutiny/regulation… should be the priorities, and could be enacted quite quickly.

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I would prioritize the two big pieces of unfinished business… affordable housing and childcare, which… I consider to be pretty existential market failures.

- Jared Bernstein

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WHAT'S INSIDE

Allison Nathan | allison.nathan@gs.com Jenny Grimberg | jenny.grimberg@gs.com Ashley Rhodes | ashley.rhodes@gs.com

Macro news and views

We provide a brief snapshot on the most important economies for the global markets

US

Latest GS proprietary datapoints/major changes in views

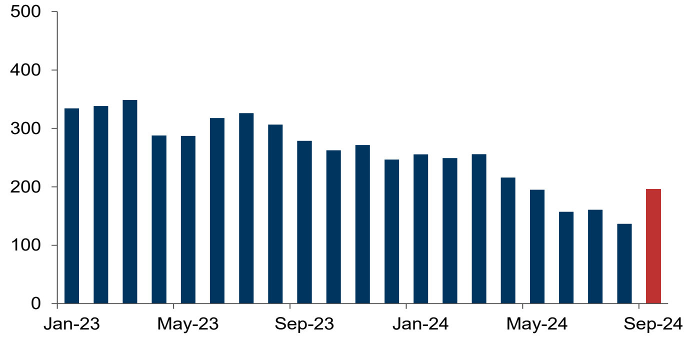
- We lowered our 12m US recession odds by 5pp to the historical unconditional average of 15% following the much stronger-than-expected September US employment report.

Datapoints/trends we're focused on

- Fed policy; we expect the Fed to deliver consecutive 25bp rate cuts to a terminal rate range of 3.25-3.5% by Jun 2025.
- Job growth; we estimate an underlying job growth trend of 196k, higher than our 150-180k breakeven rate estimate.
- Core PCE inflation, which should return to target next year.
- Productivity growth, which we expect to be ~1.7% over the next few years before increasing due to AI later this decade.

A rebound in US job growth

Underlying trend job growth based on payrolls and household survey*, thousands per month



*0.75*3-month average payroll growth + 0.25*9-month average household employment growth. Adjusted for undercounting of immigration.

Source: Goldman Sachs GIR.

Japan

Latest GS proprietary datapoints/major changes in views

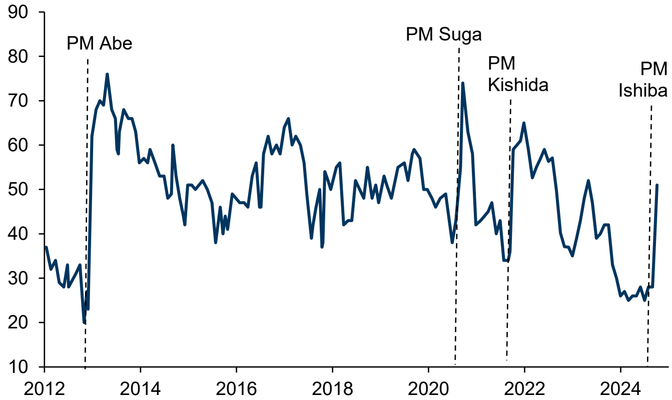
- No major changes in views.

Datapoints/trends we're focused on

- BoJ policy; we expect the next BoJ rate hike in Jan 2025, though a Dec 2024 hike is possible if economic, wage, and price indicators continue to move in line with BoJ forecasts.
- Politics; we don't expect big near-term changes in economic policy—including tax, fiscal, and monetary policy—under newly-elected PM Ishiba and his Cabinet, whose approval rating has risen but remains lower than recent new PMs.
- Consumption; while services consumption fell over the summer, we expect an ongoing virtuous cycle between income and spending amid an improving income backdrop.

Japan: Cabinet approval rating rises

Cabinet approval rating, %



Source: Nikkei, Goldman Sachs GIR.

Europe

Latest GS proprietary datapoints/major changes in views

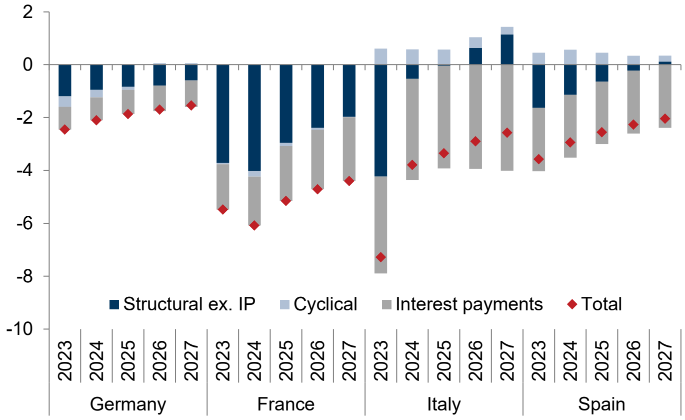
- No major changes in views.

Datapoints/trends we're focused on

- ECB policy; we expect the ECB to continue delivering consecutive 25bp rate cuts to a terminal rate of 2% by Jun 2025, but weaker data could spark faster and deeper cuts.
- BoE policy; we expect the BoE to deliver sequential 25bp rate cuts from Nov onward to terminal rate of 2.75% in Nov 2025.
- Euro area growth; while activity data has continued to weaken, we expect a modest pickup in growth next year to 1.1% yoy as the saving rate declines from very high levels.
- EMU4 fiscal consolidation, which we expect to continue.

EMU4: faster fiscal consolidation ahead

Fiscal balance forecasts, % of GDP



Source: Haver Analytics, Goldman Sachs GIR.

Emerging Markets (EM)

Latest GS proprietary datapoints/major changes in views

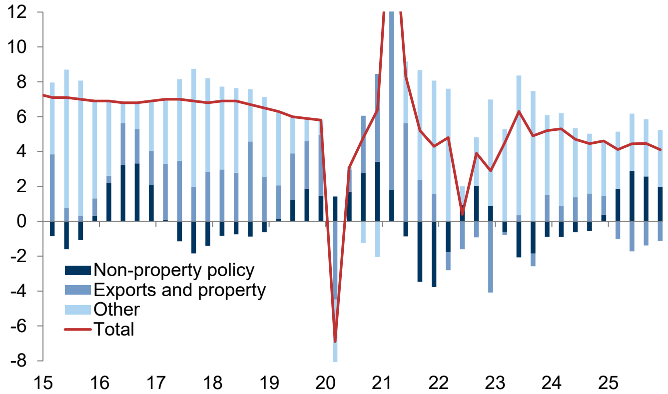
- We recently raised our 2024/2025 China real GDP growth forecasts to 4.9/4.7% (from 4.7/4.3%) on the back of more forceful and coordinated stimulus measures, though we maintain our cautious outlook on China's longer-term growth given deteriorating demographics, a multi-year debt deleveraging trend, and global supply chain de-risking.

Datapoints/trends we're focused on

- EM monetary policy; we expect a further broadening of the EM rate cutting cycle over the next 12 months.
- India growth; we expect below-consensus growth of 6.4% next year amid a credit slowdown and tighter fiscal policy.

China: greater policy offset to export/property drag

Contribution to China real GDP growth, % chg, yoy



Note: 1Q15-2Q24 based on actual data and 3Q24-4Q25 based on GS estimates.

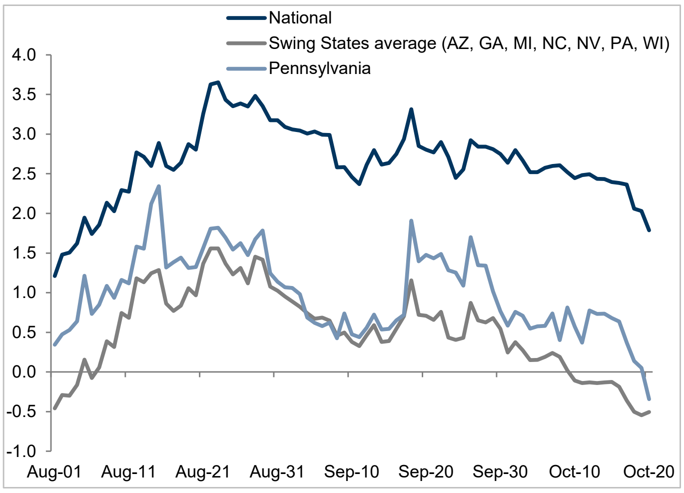
Source: Haver Analytics, CEIC, Wind, Goldman Sachs GIR.

Post-election economic policies

All eyes are on the fast-approaching US election given the closeness of the presidential race and the very different worldviews and proposed policy agendas between former President Trump and Vice President Harris. With voters most focused on the economy heading into the polls, what the election outcome could portend for economic policy—and the economic and market implications—is Top of Mind.

A close presidential race

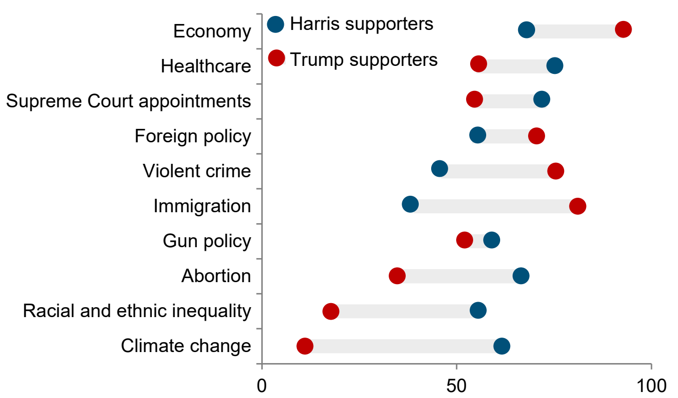
Polling average margins, Democrat minus Republican, pp



Source: FiveThirtyEight, compiled by Goldman Sachs GIR.

It's (still) the economy

% of registered voters who say each is very important to their vote in 2024 election



Note: Survey of US adults conducted from Aug. 26 – Sept. 2, 2024.
Source: Pew Research Center, compiled by Goldman Sachs GIR.

We first explore proposed economic policies (see pgs. 8-9 for details) and their potential implications for the US economy by speaking with economists from each party: Kevin Hassett, former Chairman of the Council of Economic Advisers under President Trump, and Jared Bernstein, current Chairman of the Council of Economic Advisers. They offer their view on a range of economic policies on the table—from tariffs to taxes to (de)regulation and beyond—painting starkly different policy approaches in some key areas, but similarities in others.

Alec Phillips, GS Chief US Political Economist, then offers his own perspectives on potential policy shifts in key economic areas, including fiscal, trade, immigration, and regulatory policy. But we dive deepest into the two areas where differences in approach—and the economic implications—could be the sharpest: **trade and tax policy**.

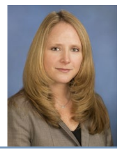
On **trade**, GS senior global economist Joseph Briggs takes an in-depth look at the economic implications of tariffs (see pg. 13 for an explainer on the channels through which tariffs affect inflation and growth). He estimates that targeted tariffs on China would have small global inflation impacts but more meaningful global growth impacts, which Briggs argues could open the door for policy divergence between the Fed and other DM central banks, with more expansive tariffs likely to amplify these effects. GS senior China economists Hui Shan and Lisheng Wang and GS Chief European Economist Jari Stehn then explore the impacts of potential tariffs on China and Europe, respectively. And GS senior FX strategists Michael Cahill and Isabella Rosenberg assess the implications of potential protectionist policies for the US Dollar as well as the viability of a Weaker Dollar policy.

And on **taxes**, GS senior US equity strategist Ben Snider assesses the potential impact of a shift in corporate tax policies on US corporate earnings. His findings suggest that the election outcome could be a catalyst for shifts in the relative performance of high vs. low tax stocks—though history suggests that policymakers will likely need to take concrete legislative steps before stocks meaningfully price corporate tax reform—as well as rotations within the equity market driven by potential shifts in tax, trade, and regulatory policies (see pgs. 22-23 for GS equity analysts' take on potential policy shifts to watch in key sectors).

What about the broader asset implications of potential policy shifts? Despite the sharp differences in proposed economic policies, GS senior market strategists Dominic Wilson and Vickie Chang find only modest asset impacts in a central case in which the major tail risks with respect to trade/fiscal policy and tax/regulation shifts are avoided. If they are, Wilson and Chang believe that GS economists' friendly macro outlook could remain the bigger driver of markets, though they still see value in owning protection around the election, as with any risk event. And for a complete rundown of GS market strategists' views on policies to watch out for by asset, see pgs. 18-20.

Allison Nathan, Editor

Email: *allison.nathan@gs.com*
Tel: *212-357-7504*
Goldman Sachs & Co. LLC



Interview with Kevin Hassett

Kevin Hassett served as Chair of the Council of Economic Advisers during the Trump Administration (2017-2019). He is the Brent R. Nicklas Distinguished Fellow in Economics at the Hoover Institution. Below, he discusses his views on a range of economic policies and their implications for the US economy.

The views stated herein are those of the interviewee and do not necessarily reflect those of Goldman Sachs.

Allison Nathan: How would you characterize the economic landscape that the next US president will inherit?

Kevin Hassett: The economy is somewhat befuddling right now. In August, labor market data seemed to be signaling the start of a recession as indicated by the triggering of the Sahm rule, which justified the Fed's 50bp rate cut in September. But the improvement in the unemployment rate since the summer peak has been one of the sharper improvements in recent history. That improvement, combined with a hotter-than-expected September CPI report, is probably quite troubling for the Fed in the wake of its large cut. So, the turnaround in the data is puzzling, and whether the next administration inherits an economy that has momentum or one that is headed into recession is an open question. That said, it's clear that middle-class families have been hammered by inflation and feel worse off as a result, as reflected in negative sentiment data.

Allison Nathan: A wide range of economic policy proposals are on the table. What are your views on these policies?

Expanding tariffs on China

Kevin Hassett: Expanding tariffs on China should be a policy priority for the next administration. The extent to which China is engaging in corporate espionage and stealing intellectual property (IP) from innovative companies in the US and beyond to develop domestic competitors—which I gained substantial insight into during my time at the White House—is truly stunning. This behavior lies way outside the bounds that any other country engages in. So, China deserves any harsh trade policy a country decides to inflict on it and should probably be kicked out of the WTO.

And these unfair trade practices extend well beyond IP theft. Chinese investment in the overproduction of geopolitically important products/materials, like steel, presents a clear threat. It's widely accepted that the Allies won WWII because of US productive capacity, especially in steel, which is crucial to the production of military transportation and hardware. China's huge overcapacity of steel visibly puts it on a war footing. And the dumping of that steel around the world to close down steel industries elsewhere is especially troubling. The US allowing its steel production to disappear while China develops enough capacity for an all-out war would be a serious defense policy error.

Universal tariffs

Kevin Hassett: Most countries charge the US a higher tariff on the goods we export to them—on average, around 6.5%—than we do on the goods they export to us—on average, around 3%. So, the first trade policy proposal in the Republican National Committee's platform is a Reciprocal Tariff Act, whereby the US would impose the same tariff rates on our trading partners as they do on us. Whether the US would go up to 6.5% or our trading partners would come down to 3% is an interesting question, but India, for example, has an average bound tariff rate of around 50%. So, I strongly support reciprocal tariffs, which could improve fairness within our trading relationships.

When it comes to a universal tariff, the question is then how it would coexist with reciprocal tariffs; perhaps the universal tariff would serve as the minimum tariff within that system, but that would need to be worked out, and Congress would need to be involved. While the president can enact some trade policies that address specific national security or anti-dumping concerns without congressional approval, a broader reciprocal trade act or universal tariff would require legislation.

Raising versus lowering corporate tax rates

Kevin Hassett: When assessing tax policies, it is critical to consider not only the tax rate, but also the size of the tax base. The decline in the corporate tax rate from 35% to 21% during the Trump Administration came alongside policies like interest deduction that broadened the base so that the Joint Committee on Taxation's score for the program was around $300bn over 10 years—almost revenue neutral. And the decline in the tax rate substantially reduced the cost of capital, which increased capital spending; studies show that US capital spending rose 10-20% after the passage of the Tax Cuts and Jobs Act (TCJA). This, in turn, led to increases in the marginal product of labor and wages, which further boosted tax revenues via income tax. All told, revenue to GDP during the Trump Administration was above historic norms even with the tax cuts. So, the idea that the US was on the wrong side of the Laffer curve that posits a bell-shaped relationship between tax rates and tax revenues at the prior 35% rate was proven correct ex post by the data.

While I haven't fully studied the revenue impacts of a decline in the corporate tax rate to a proposed 15%, my guess is that we're around the peak of the Laffer curve today, so I doubt that further declines in the tax rate would achieve comparable dynamic effects on the corporate side as they did post the TCJA. But the further decline in the cost of capital could still likely generate a positive revenue effect via higher wages, etc.

On the flip side, the proposed increase in the corporate tax rate by 7pp to 28% would not only be the largest increase in the developed world in the last 50 years, but also apply to today's much larger tax base. So, a rise to 28% would leave us far beyond where we were on the Laffer curve at a 35% rate. Such a damaging tax would certainly be recessionary.

Extending the 2017 tax cuts set to expire next year

Kevin Hassett: The TCJA should be extended given the almost neutral revenue impact of these policies versus the resulting boon to spending and wages. While reining in the deficit will be a necessity for the next administration given the size of the debt and deficit relative to GDP, the issue hasn't been revenue to GDP but rather spending to GDP, which is running around 4% of GDP higher than normal. And attention must be paid to the small business provisions that are also set to expire. The 199A deduction allows small businesses to exempt 20% of their income from tax, which effectively lowers their marginal rate. Around 26mn US small businesses claim that deduction. This proposed tax hike on tens of millions of small businesses, on top of the largest corporate tax hike in the recent history of the developed world, is truly troubling.

Global minimum tax on companies' foreign income

Kevin Hassett: The US should not sign on to a global minimum tax on foreign income. Global tax competition will happen regardless of whether the US signs on to such a tax, which is basically an attempt to mail US corporate tax revenues to foreign governments. It is well known that a consumption tax is the optimal tax. And international tax competition has motivated countries to move their revenue bases toward consumption taxes over time, so toward the optimal tax. Some anti-corporation observers call that a race to the bottom, but it's a race to the top in that it is a race to the optimal tax. Stepping in and disadvantaging US companies by ending a tax competition that is greatly increasing the efficiency of the global tax system would be extremely imprudent.

Taxing capital gains on unrealized income

Kevin Hassett: Taxing on accrual is essentially just a wealth tax, which is exceptionally inefficient and has a profoundly negatively effect on long-run equilibrium consumption growth. Such taxes may seem small, but are actually quite large. If wealth is taxed at, say, 3%, people think, "well, it's only 3%". But if the risk-free interest rate is 3%, then that amounts to a 100% tax on capital income. And a 100% tax on capital income basically kills growth because that income fuels consumption. So, wealth tax proposals are a dangerous idea for the economy.

Expanding child and earned-income tax credits

Kevin Hassett: Families with children generally tend to have lower elasticity of consumption—they can't easily shift away from purchasing milk, diapers, etc.—so they are certainly being hit hardest by inflation. Child tax credits are a sound policy in terms of attempting to address this hardship and equalize opportunity. But the optimal size of child and similar tax credits is unclear, and is more of a political question than an economic one.

Federal bans on price gouging

Kevin Hassett: The federal government should not engage in setting prices. Price-setting would provide too much power to the government, which could use such power to coerce companies into charging prices that are politically expedient. Such policies would be a big step in the direction of central planning, and our research shows that when the government starts to set prices, production declines substantially.

Down payment assistance for first time homebuyers

Kevin Hassett: Stimulating homebuying for those in the bottom half of the income distribution is sensible. Academic literature widely finds that homeownership reduces wealth inequality, makes people more responsible citizens, and imposes many positive externalities on the economy and communities. Yet, owning a home is unreachable for many people today given the significant rise in home prices and interest rates in recent years. So, providing some relief here is a solid idea, though the optimal policy mix to do so is unclear.

Tighter versus looser energy sector regulation

Kevin Hassett: The US energy sector is heavily regulated, and relaxing some of these regulations would be beneficial. The Trump Administration made some tangible gains to this end, by, for example, expanding and facilitating the movement of US natural gas production, which also reduced CO_2 emissions. Substantial low-hanging fruit remains that could further reduce the US' dependency on imported natural gas and other energy sources, such as relaxing the Jones Act, which prevents the shipment of LNG from one US port to another because no US-flagged vessel can do so. So, much can be done.

Tighter versus looser financial sector regulation

Kevin Hassett: While not "financial sector regulation" per se, the FTC's intense scrutiny of mergers and acquisitions that—along with cyclical factors—basically brought these transactions to a standstill in recent years should be relaxed, and quickly. These transactions are a vital part of an efficient economy, and so the intention should be to undertake a regular Herfindahl index type of review rather than to stop them in their tracks.

In terms of financial sector regulation, the SEC and CFTC's befuddling war on crypto has been one of the great financial regulatory failures in US history. The role that both agencies have assumed in determining what constitutes a security, how they can be traded based on that determination, and their attempt to create the regulations through enforcement, is chilling and a clear abuse of financial regulatory authority. Now that these agencies have engaged in such behavior, the concerning question is, "who's next?"

Coordination between the President and the Fed

Kevin Hassett: The academic literature is clear that an independent central bank is important and, on average, leads to superior economic outcomes, though the effects are not awe-inspiring. And the Arthur Burns experience is a vivid example of what can go wrong when the White House coordinates with the Fed. So, suspicions of such coordination/partisanship should be taken seriously, and the next administration should choose a neutral Fed leadership.

Weaker Dollar policy

Kevin Hassett: The strong Dollar has long been an important advantage for the US because of seigniorage. As long as the US economy remains strong, so will the Dollar, no matter what.

Allison Nathan: Which of these should be prioritized?

Kevin Hassett: Extending the TCJA and relaxing scrutiny/regulation in the areas we've discussed should be the priorities, and could be enacted quite quickly; at least on the Republican side, the House reconciliation team is preparing to have legislative language day one. So, the reconciliation package—the big train to leave the station next year—would start to be visible as soon as November should Trump win the election.

Interview with Jared Bernstein

Jared Bernstein is Chair of the Council of Economic Advisers in the Biden Administration. Below, he shares his views on a wide range of proposed economic policies and their implications for the economy.

The views stated herein are those of the interviewee and do not necessarily reflect those of Goldman Sachs.

Allison Nathan: How would you characterize the economic landscape that the next US President will inherit?

Jared Bernstein: In terms of the macroeconomy, the next US president will likely inherit a solid expansion where inflation has come down to close to the Fed's 2% target without sacrificing much economic growth. Unemployment has risen but remains low. The average pace of job gains over the past three months at 186k is at the north end of most labor economists' estimates of breakeven levels, and, importantly, real wages and incomes continue to rise. However, amid this solid macroeconomic backdrop, people remember what the things they regularly consume used to cost before the pandemic-related surge in inflation and many are uncomfortable with the higher price levels they face today. Unfinished business also remains in addressing market failures in affordable housing and childcare, and the next administration will have to watch out for several known banana peels, including extreme weather events, trade and geopolitical challenges, and the unknown challenges that will inevitably occur.

Allison Nathan: A wide range of economic policy proposals are on the table that could shape the years ahead. What are your views on these policies?

Expanding tariffs on China and/or beyond

Jared Bernstein: It's important to distinguish between *targeted* tariffs and *sweeping* tariffs. Targeted tariffs can be a useful tool to protect against unfair trade practices, such as subsidizing overcapacity to gain market share, which remains important in dealing with places like China. But sweeping tariffs that go beyond helping targeted sectors will severely hit US consumers—because they're effectively a large national sales tax—as well as domestic producers that face higher prices for the imported intermediate goods required in their production processes. And while sweeping tariffs can raise substantial revenue from US importers and consumers, they do so inefficiently because they invite retaliation and impact exchange rates, which could undermine any revenue flows. So, the way I think about it is this: we're happy to import disinflation, but we don't want to import deindustrialization. We must embrace the benefits of robust trade flows but stand up to trading partners who engage in unfair practices that could hollow out key US sectors. Targeted tariffs can be quite helpful to that end, while sweeping tariffs can be quite disruptive and destructive.

> "Sweeping tariffs that go beyond helping targeted sectors will severely hit US consumers."

Raising versus lowering corporate tax rates

Jared Bernstein: Lower corporate tax rates would be desirable if revenues weren't an issue. But they are an issue. Continued robust demand for US government debt, as reflected in healthy bid-to-cover ratios at US Treasury auctions, suggests that the US fiscal situation doesn't pose an imminent threat. The US is able to fund and service its debt without breaking much of a sweat. But we must get on a more sustainable fiscal path before a forcing event changes that. And while research suggests that lower tax rates have some positive investment and growth effects, these effects tend to be economically small relative to the large amount of much-needed revenue that is lost. I can't tell you how many times I've sat with folks from the business community who say that we need to get on a more sustainable fiscal path *and* cut corporate taxes, but the two don't usually go well together. Washington has occasionally engaged in a conversation about a tax system with a much broader base that could allow for much lower tax rates, but these discussions haven't gotten very far because everybody wants an exemption. So, in the world we live in, we need a corporate tax rate that enables growth and profitability while raising more revenue. A 28% corporate tax rate seems to strike the right balance between the two, with corporations proving to be highly successful at rates even above 28% in the past. So, raising the corporate tax rate to 28% would be a useful shift.

> "In the world we live in, we need a corporate tax rate that enables growth and profitability while raising more revenue."

Global minimum tax on companies' foreign income

Jared Bernstein: The proposed global minimum tax of 15% is an essential piece of tax policy cooperation that Congress should sign. It's the most effective way to push back on the tax avoidance that has plagued the coffers of almost any country with a multinational company. The 15% rate is manageable for multinationals but works to reduce the transfer pricing, tax shopping, earnings stripping, and other highly inefficient but bottom line-enhancing tax avoidance measures that multinationals employ. The agreement includes a mechanism whereby if a country fails to join it, other countries could claim revenues from that country's multinationals that would otherwise flow to the multinational's home country. So, Congress has strong incentives to sign onto the agreement.

Extending the 2017 tax cuts set to expire next year

Jared Bernstein: Full extension would be harmful to our fiscal outlook. Extending the tax cuts for households with adjusted gross income (AGI) below $400k/year while allowing them to expire for households earning more than that is a more fiscally sustainable plan that injects more fairness into the tax code while raising much-needed revenues.

Taxing capital gains on unrealized income

Jared Bernstein: Here again, taxing capital gains on unrealized income for the highest earners would generate revenue and inject more fairness into the tax system. The Biden Administration has proposed a prepayment tax against future realizations for taxpayers with AGI above $100mn. That's only a few thousand US households but goes a long way in increasing fairness in the tax code because many of these households, especially if their wealth is incorporated, pay effective tax rates in the single digits. While some folks argue that unrealized income is not income and therefore should not be taxed, these assets are routinely used as collateral for income-generating investments. So, there is a strong case for taxing them. The Treasury has explained how doing so would be relatively straightforward for publicly-traded assets and manageable even for non-traded assets.

Expanding child and earned-income tax credits

Jared Bernstein: Expanding these tax credits would be incredibly beneficial to the economy. Such measures helped reduce child poverty by more than half from around 13% in 2019 to around 5% in 2021 then back to 12% when the credit expired. That kind of intervention has been shown to pay for itself many times over, because children who get a better economic start have a much higher chance of reaching their potential and contributing to the economy in ways they wouldn't have otherwise. So, those types of programs have a big bang for their bucks.

Federal bans on price gouging

Jared Bernstein: The federal government should have some authority, as many states already have, to block price gouging, particularly during disasters. Nobody should be selling bottles of water at exorbitant prices after a hurricane. That said, it is important to point out that no one is talking about broad price controls, which can be particularly problematic when supply is already constrained.

Down payment assistance for first time homebuyers

Jared Bernstein: Such assistance could be helpful, but the sequencing is important. To make housing more affordable—again, one of the largest pieces of unfinished business of the Biden Administration—we first need to increase the supply of affordable housing. Affordable housing suffers from a pervasive market failure in that the rents developers can expect to receive do not provide an adequate rate of return to undertake the project. So, we need a system that incentivizes developers to build affordable housing. Policies such as the Low-Income Housing Tax Credit (LIHTC) are already having success, providing $13.5bn toward the building of hundreds of thousands of affordable rental units last year. An expansion of these credits, as well as other proposals like a neighborhood home tax credit that would directly support building and renovating affordable homes, opening up federal properties for housing construction, and removing obstacles to construction like exclusionary zoning would all be helpful toward continuing to address the affordable housing market failure. And once affordable housing becomes available, down payment assistance can play a useful role in getting lower-income households on the first rung of the ladder of homeownership, which is a proven generational wealth enhancer. But providing down payment assistance before the stock of affordable housing increases risks pushing up house prices, which would be counterproductive. So, again, the sequencing is important.

Tighter versus looser energy sector regulation

Jared Bernstein: It's underappreciated that the current suite of Biden-Harris energy policies have created the conditions for record-high US production of both traditional and renewable energy sources. I've heard people say that the current administration has killed the production of fossil fuels, yet the data scream otherwise. At the same time, renewable electricity has also seen record-breaking growth, which is essential to making progress toward our climate goals. We have a good balance today, and energy policies should strive to sustain that.

Tighter versus looser financial sector regulation

Jared Bernstein: I would leave financial sector regulation to the regulators and to the Federal Reserve. But the lack of contagion that many people initially feared during last year's regional banking crisis was a reflection of the resiliency of the US financial system. That owes in part to the post-Global Financial Crisis Dodd-Frank regulations that aren't perfect but have apparently dampened the old and depressingly reliable Minsky boom-bust cycle. The health of bank—as well as household and company—balance sheets is a key reason why the macroeconomic backdrop is so solid today.

Coordination between the Executive Office and the Fed

Jared Bernstein: The Fed doesn't need input from the executive branch, and history is replete with examples of bad outcomes when central banks are not able to operate independently.

Weaker Dollar policy

Jared Bernstein: Dollar policy should remain the sole purview of the Treasury Secretary. And almost every Treasury Secretary has opposed engaging in any type of currency intervention. That's not to say that currency values always and everywhere must be shaped by market outcomes; central bank actions already play a meaningful role in influencing relative currency values. But the strength of the Dollar reflects the relative strength of our economy, and that's not something that should be fooled around with for any sort of Dollar policy.

Allison Nathan: If you were President, which of these policies would you prioritize?

Jared Bernstein: I would prioritize the two big pieces of unfinished business I've already mentioned, affordable housing and childcare, which, again, I consider to be pretty existential market failures. We've talked about housing, but no one should forget that access to an affordable, quality childcare subsidy would generate very positive spillovers, especially in terms of parents' labor market participation, not to mention their disposable incomes.

Where they stand on key issues

An overview of the US presidential candidates' top priorities as detailed by their campaign/party platforms and speeches

	Harris	Trump
Personal Tax	• Extend the 2017 tax cuts for households making under \$400,000 a year • Expand child tax credit, including providing up to \$3,600 per child tax credit for middle class families and up to \$6,000 for low- and middle-income families with children in their first year of life • Expand the Earned Income Tax Credit to cover individuals and couples in lower-income jobs who aren't raising a child in their home to cut their taxes by up to \$1,500 • Establish a billionaire minimum tax including taxing unrealized gains • Set long-term capital gains tax rate for those earning a million dollars a year or more at 28% • Eliminate taxes on tips for service and hospitality workers	• Extend the 2017 tax cuts that are set to expire at the end of 2025 indefinitely (including preserving the lower tax rates, larger standard deduction, bigger child tax credit, higher estate tax exemption, and a tax break for closely held businesses) • End income taxes on Social Security benefits • Eliminate taxes on tips for millions of restaurant and hospitality workers • Eliminate tax on overtime • Make interest paid on auto loans tax deductible • Eliminate US taxation of Americans living abroad • Fully restore state and local tax deductibility
Corporate Tax	• Raise the corporate tax rate to 28% from 21% • Raise corporate alternative minimum tax from 15% to 21% • Quadruple the tax on stock buybacks • Raise taxes on US companies' foreign income	• Lower corporate tax rate to 15% from 21% for domestic manufacturers • Repeal the green incentives in the Inflation Reduction Act (IRA)
Trade	• Support American leadership in semiconductors, clean energy, and AI • Not tolerate unfair trade practices from China or any competitor • Employ targeted and strategic tariffs to support American workers*	• Impose reciprocal tariffs on US imports equal to the rates trading partners impose on US exports • 10% to 20% universal baseline tariff on all imports • 60% tariff on all imports from China and revoke Permanent Normal Trade Relations (PNTR) for China • Impose tariffs on certain autos from Mexico and possibly from other trading partners
Inflation	• Advance a federal ban on food and grocery price gouging • Invest in building resilient food supply chains • Revitalize competition in food and grocery prices, including cracking down on mergers and acquisitions	• Lower housing costs by cutting regulation and opening parts of federal lands for new home construction • Lift hurdles to oil and gas development and power plant construction, as well as expand LNG exports/distribution, to boost energy supplies and help contain energy prices
Labor	• Sign pro-union legislation, including the PRO Act and the Public Service Freedom to Negotiate Act • Raise the minimum wage, end sub-minimum wages for tipped workers and people with disabilities, and establish paid family and medical leave	• Bring manufacturing jobs back to the US; ban companies that outsource jobs from doing business with the government • Raise wages for American workers
Immigration	• Allocate more money for immigration enforcement • Revive bipartisan border security deal that would give the president the authority to stop processing asylum seekers if crossings rise too high while expanding legal immigration, allocating 50,000 new immigrant visas annually for five years	• Reduce immigration • Strengthen Immigration and Customs Enforcement (ICE) • Increase penalties for illegal entry and overstaying visas • Deport unauthorized immigrants currently in the US

Healthcare	• Expand and strengthen the Affordable Care Act • Make permanent the Biden-Harris tax credit enhancements • Extend the $35 cap on insulin and $2,000 cap on out-of-pocket spending for seniors to all Americans • Accelerate the speed of Medicare negotiations over prescription drugs • Require private insurers to cap out-of-pocket pharmaceutical costs for enrollees above $2,000/year • Increase competition and transparency in the healthcare industry • Cancel certain medical debt	• Bring down prescription drug costs and healthcare costs overall • Increase transparency, promote choice and competition, and expand access to new affordable healthcare and prescription drug options • Protect Medicare, and ensure seniors receive the care they need without excessive costs
Energy & the environment	• Invest in clean energy sources	• Repeal the IRA subsidies for green technologies • Lift hurdles to oil and gas development as well as power plant construction • Expand LNG exports • Reverse restrictions on greenhouse gas emissions
Housing	• Provide first-time homebuyers with up to $25,000 to help with their down payments, with more generous support for first-generation homeowners • Enact Low-Income Housing Tax Credit to support the building of affordable rental housing	• Open limited portions of federal lands to allow for new home construction • Promote homeownership through tax incentives and support for first-time buyers
Federal Reserve	• Support Fed independence	• Allow input from the president on Fed policy
NATO/Security	• Maintain US aid to Ukraine • Advocate for a two-state solution in Israel-Gaza war	• Ensure other NATO members meet the requirement to spend at least 2% of GDP on defense • End US aid to Ukraine; end the war in Ukraine through a negotiated settlement with Russia • Get the conflict in the Middle East "settled"

Note: Intended to provide an overview of the candidates' top priorities as detailed by their campaigns rather than an exhaustive list of all policies.
**Based on statement by a spokesperson for the Harris-Walz campaign.*
Source: Harris-Walz and Trump-Vance campaign website, campaign documents (see here and here for more detail), NY Times, WSJ, various news sources, compiled by Goldman Sachs GIR.

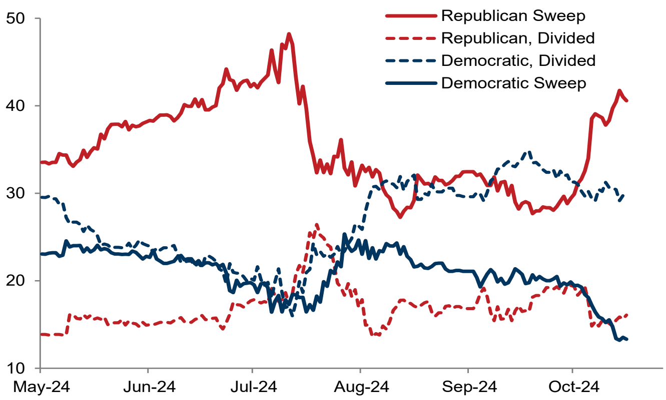
Policy after the US election

Alec Phillips discusses potential post-election policy shifts under various election outcomes

With two weeks to go until the US election, prediction markets show a lean toward former President Trump (62%) over Vice President Harris (38%) and a very slight lean in the House to a Democratic majority (51%), but a clearer tilt toward a Republican majority in the Senate (81%). In light of the congressional outlook, prediction markets see a Republican sweep under Trump and a divided government under Harris as the most likely election outcomes. That said, all four of the main scenarios—a split or sweep under Harris or Trump—are plausible, as the outcome hinges on a few races where the margins are close.

Prediction markets two weeks out from the election

Prediction market-implied probability of election outcome, %



Note: Normalized to sum to Democratic vs. Republican presidential odds.
Source: Polymarket, PredictIt, Goldman Sachs GIR.

Fiscal policy depends on Congress

For fiscal policy, control of Congress matters just as much as control of the White House. Under divided government, the need for bipartisan support would focus legislative efforts on the 2017 tax cuts expiring at the end of 2025 rather than the candidates' broader sets of policies. Republicans argue for full extension of the expiring tax cuts while Democrats oppose extending the lower marginal rates and other provisions for high incomes (around a quarter of the expiring tax cut, or 0.3% of GDP). However, Democrats seek extension of the enhanced health insurance subsidies that also expire at the end of 2025, as well as an expanded fully refundable child tax credit and greater state and local tax deductibility. Upper income tax cuts are more likely to expire in a divided government scenario, but Democrats might opt to extend all of the expiring tax cuts if Republicans agree to include some of their priorities. The economic outlook when Congress is considering a fiscal package will also play a role. A full extension of the tax cuts would become more likely as economic concerns increase, while some fiscal restraint looks more likely under divided government in the benign economic scenario we expect.

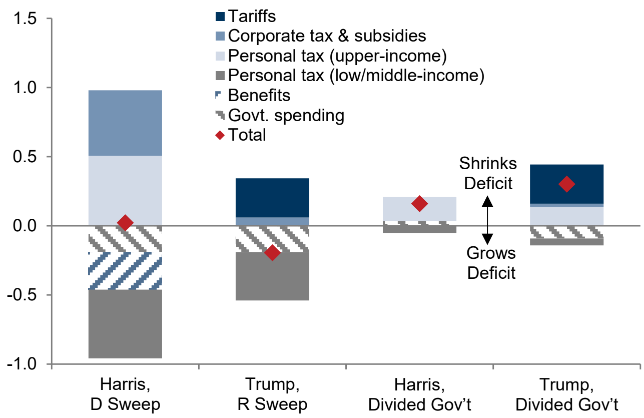
One-party control could lead to more substantial policy changes, though Congress is unlikely to pass either candidate's proposals entirely. Under a Democratic sweep, tax rates would likely rise on corporate and upper-income individual income, but by less than proposed in most cases (e.g., a 25% corporate rate as opposed to the 28% that Harris supports). We are also skeptical that Congress would pass a tax on unrealized gains, although we would expect an increase in the long-term capital gains tax rate. On paper, Harris's proposals would reduce the deficit by around 0.5% of GDP compared with current policy, but this overstates the likely fiscal impact, as Congress would likely decline to enact some policies and scale back others. As such, we expect a Democratic sweep to result in a tax increase sufficient to cover new spending but with little extra revenue to put toward deficit reduction, particularly over the next couple of years.

Tax and spending policies would likely change less under a Republican sweep than a Democratic sweep, as Republicans are not seeking major changes to the 2017 tax cuts nor are they proposing raising corporate or personal taxes. That said, over the last several weeks Trump has proposed new tax cuts worth around 1% of GDP. It seems likely that a fiscal package under a Republican sweep would include some of these items—reducing taxation of tips and overtime pay are most likely—but we would expect Congress to limit the cost of these changes to a few tenths of a percent of GDP.

Under either a Democratic or Republican sweep, we would expect spending to increase more than in divided government scenarios, though the composition would differ, with Democrats likely to boost non-defense spending and benefit programs, while defense spending would likely rise more under a Republican sweep.

Spending would likely increase more in either a Democratic or Republican sweep than in divided government scenarios

Hypothetical deficit effects by scenario (2025-2029 average), % of GDP



Source: Goldman Sachs GIR.

One-party control would also lead to sooner and longer-lasting fiscal policy changes than would be the case under divided government. In a sweep, the majority would use the "budget reconciliation" process to pass fiscal changes in two steps. The process would likely start in 1Q25 with a budget resolution that includes instructions to pass a fiscal package of a certain dollar amount over the next ten years. Those instructions would allow fiscal legislation to pass with only a simple majority (i.e., w/out bipartisan support), and we would expect passage by 3Q25.

By contrast, in a divided government scenario, a bill extending tax cuts would likely not pass until December 2025, as a bipartisan deal seems unlikely before the deadline forces compromise. The duration of fiscal policies would also differ. Under divided government, a deal to extend most or all of the expiring tax cuts might last as little as two years. A Democratic sweep could lead to a longer-term extension of the middle-income tax cuts along with new permanent tax and spending increases, while a Republican sweep would likely lead to a longer-term extension of expiring tax cuts along with some modest new tax cuts (budget rules prohibit reconciliation bills from adding to the deficit after 10 years, so a permanent extension would be unlikely).

The debt limit also needs to be addressed by 3Q25. Prior debt limit debates that have generated the most uncertainty have tended to involve Democratic administrations and Republican House majorities, although prediction markets imply such an outcome is relatively unlikely.

Tariffs would rise under a Trump Administration

Control of Congress would have much less of an impact on trade policy, where the president has substantial executive authority. If reelected, we expect Trump to quickly move to raise tariffs on imports from China. He has proposed repealing Permanent Normal Trade Relations (PNTR) for China—this would raise the effective tariff rate on imports from China by around 40pp—while also mentioning a 60% tariff on all Chinese imports. While such a tariff rate is plausible on certain strategic imports, we expect tariffs on consumer products would rise by less, resulting in an average tariff hike on imports from China of around 20pp—less than proposed but still more than double the rise during the 2018-2019 trade war.

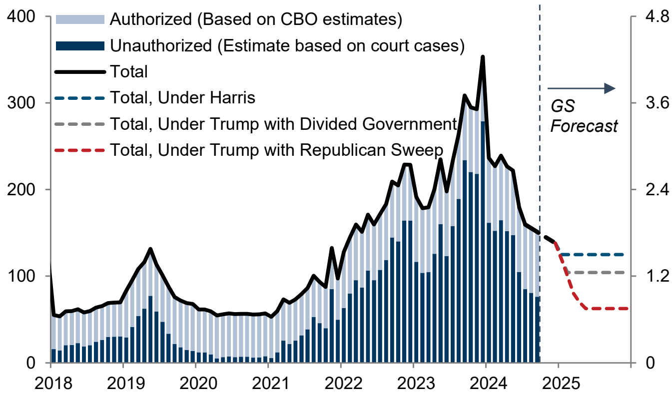
Trump has also proposed a "universal baseline tariff" of 10-20%. It seems clear that he would have legal authority to implement an across-the-board tariff at least temporarily. Sec. 122 of the Trade Act of 1974 allows a tariff of up to 15% for up to five months, and President Nixon used the precursor to the International Emergency Economic Powers Act (IEEPA) to implement a temporary 10% across-the-board tariff in 1971 (see pgs. 24-25). Given Trump's frequent discussion of the idea and likely presidential authority to implement it, we believe there is a fair chance (40%) that he could impose such an across-the-board tariff, at least temporarily. However, we think it is more likely that a second Trump Administration would stop short of a universal tariff and instead focus tariffs on certain trading partners—including the EU and Mexico—or products, like auto imports.

While there is no procedural reason that multiple tariff actions could not be undertaken simultaneously, China-focused tariffs early in the year and an early- to mid-year fiscal debate in a Republican sweep scenario could crowd the agenda and push broader trade actions until later in 2025 or even 2026. However, in a divided government scenario, a sparse legislative agenda with the main fiscal debate not until year's end could argue for earlier action on tariffs in a Trump Administration.

Tighter immigration policy under Trump

Like trade policy, the president has extensive authority over immigration, although some policies would face legal and logistical constraints. Trump could limit humanitarian parole policies that President Biden expanded, which added 800k to net immigration in 2023. However, how much a second Trump Administration could reduce unauthorized border-crossings is less clear, as courts blocked Trump's 2018 asylum policy changes and could constrain future attempts to go beyond the Biden Administration's June 2024 restrictions. With regard to deportations, Republican vice presidential candidate J.D. Vance recently benchmarked the deportation goal at around one million per year. However, while removals would likely rise in a Trump Administration above the roughly 140k last year, capacity constraints could limit removals beyond the average level of 325k in 2017-2019, which is well under that target. Control of Congress could influence those capacity constraints, and we would expect a fiscal package under a Republican sweep to add new immigration enforcement funding. For this reason, we assume that net immigration slows to 750k/year—slightly below the 2017-19 rate—in a Republican sweep but that it runs at 1.25mn/year—slightly above the 2017-19 average—in a Trump/divided government scenario. Under a Harris Administration, we would not expect major changes in policy, but would still expect immigration to continue to decline from the 2023 peak before settling at 1.5mn/year.

Tighter immigration policy is likely under a Trump presidency
GS estimate of monthly net immigration, thousands (lhs), millions, ann. (rhs)



We estimate unauthorized immigration using monthly court case data (new cases not resulting in detention - court cases resulting in deportation) and data on the number of unauthorized immigrants released under parole, reported by CBP. We also assume that an additional 10-15% of unauthorized immigrants do not have official court cases. Authorized immigrants include students, temporary workers, and lawful permanent residents, based on CBO's annual estimate. The monthly estimates include immigrants below age 16.

Source: Goldman Sachs GIR.

Regulation likely to ease under Trump

We would expect a second Trump Administration to result in an easier regulatory climate for several sectors. For energy, this would mean removing hurdles to oil and gas development, expanding LNG exports, and reversing restrictions on greenhouse gas emissions. Financial regulation could also shift, with shifts potentially faster across consumer finance but more gradual in the case of capital and liquidity requirements.

Other sectors might see less of a shift. Antitrust enforcement seems likely to ease somewhat, though we would expect a Trump Administration to continue pursuing some of the major pending cases in the tech sector. The regulatory environment for healthcare is also likely to change less, as Trump pursued drug pricing restrictions in his first term, albeit different ones from those the Biden Administration is now implementing.

That said, while reduced regulation could in principle boost economic activity, our prior bottom-up work in this area suggests that deregulation during the first Trump Administration had a limited macroeconomic impact.

Alec Phillips, Chief US Political Economist
Email: alec.phillips@gs.com Goldman Sachs & Co. LLC
Tel: 202-637-3746

US election: potential China & EA impacts

How might the outcome of the US election impact your region?

China

Hui Shan and Lisheng Wang, GS China economists

- **The US election could have a significant impact on China's growth and policy, especially if it brings a substantial increase in tariffs on imported goods from China.** Indeed, the 2018-19 trade war materially weighed on China's economic growth, with an estimated cumulative GDP drag of 0.65pp amid lower exports, increased uncertainty, and tighter financial conditions. Assuming the same impact but on today's smaller share of Chinese exports destined for the US suggests that a 60% tariff on Chinese goods would reduce China's real GDP by around 2pp. Past experience also suggests that for every $10bn in implied tariff revenue, CNH depreciates by around 0.7% against the USD. Applying this sensitivity to a 60% tariff on all US imports from China suggests that USD/CNH would depreciate to around 8 (from 7.1 currently), although history suggests that policymakers would likely take steps to counteract that degree of RMB depreciation.
- **More broadly, policymakers would likely enact measures to counter the impacts of higher US tariffs.** While policymakers have stepped up policy easing significantly in recent weeks, we think the prior era of relatively reluctant policy easing partially reflects the government's desire to preserve policy space in the event of renewed trade tensions. So, if higher tariffs materialize, policymakers appear willing to launch more stimulus to offset any growth drags. Other Chinese government responses to significantly higher US tariffs could include: allowing the RMB to depreciate meaningfully to offset the tariff impact; curtailing imports from the US directly (e.g., non-tariff barriers for agricultural products); retaliatory tariffs on US exports to China; controls on critical exports to the US (e.g., rare earth minerals); actions against US companies operating in China; a shift toward significant sales of US assets; and increased opposition to the US on geopolitical issues.
- **All that said, the impacts of renewed tariffs on China growth and policy may differ from the 2018-19 trade war given that much has changed since then.** China's economy is far more vulnerable to an economic shock today amid a severe housing downturn, manufacturing overcapacity, and deflationary pressures, which suggests policymakers may act more decisively to counter tariff risks. Chinese manufactures have also likely learned lessons from the 2018-19 experience and have reoptimized their supply chains accordingly. And the products that the US continues to import from China despite the tariffs imposed during Trump's term are likely hard to source competitively elsewhere. Together, these factors likely leave Chinese exports more resilient to a further increase in tariffs from the US.

Europe

Jari Stehn, GS Chief European Economist

- **The US election outcome could have important implications for the Euro area economy from changes it brings in US trade policy, security and defense pressures, and domestic US policies.** While a Harris presidency would likely be mostly status quo across all three fronts, a Trump presidency could lead to some notable shifts.
- **Higher tariffs would likely lead to a sharp increase in trade policy uncertainty, which would weigh on Euro area growth.** Indeed, Europe's economy slowed sharply during the 2018-19 trade war, which owed more to the uncertainty around tariffs than to the actual tariff increases themselves. We estimate that an across-the-board 10% tariff would lower Euro area GDP by around 1%, with more negative effects in Germany than elsewhere in the Euro area given its greater openness and reliance on industrial activity. The impact of higher tariffs on Euro area inflation would likely be small.
- **The election outcome could also entail renewed defense and security pressures for Europe.** Meeting NATO's requirement to spend 2% of GDP on defense and compensating for potential reduced US military support to Ukraine could cost the EU an additional 0.5% of GDP per year. Any resulting growth boost, however, would likely be limited by modest military spending multipliers in Europe, upward pressure on long-term yields from higher deficits, and negative confidence effects from elevated geopolitical risk.
- **Finally, renewed US tax cuts and deregulation could spill over into Europe via stronger US demand and shifts in financial conditions.** Tax relief in the US could lift Euro area activity by around 0.1%. However, the net financial conditions spillover would likely be muted as a notably weaker Euro would offset the effect of higher long-term rates, consistent with the post-election moves in November 2016.
- **Together, such policy shifts would lower Euro area GDP by around 1% and boost inflation by 0.1pp.** The larger and more persistent effect on growth than on inflation would strengthen the case for continued ECB rate cuts in 2025, with simple Taylor rules pointing to additional cuts worth 30-40bp.

A guide: how tariffs affect inflation & GDP

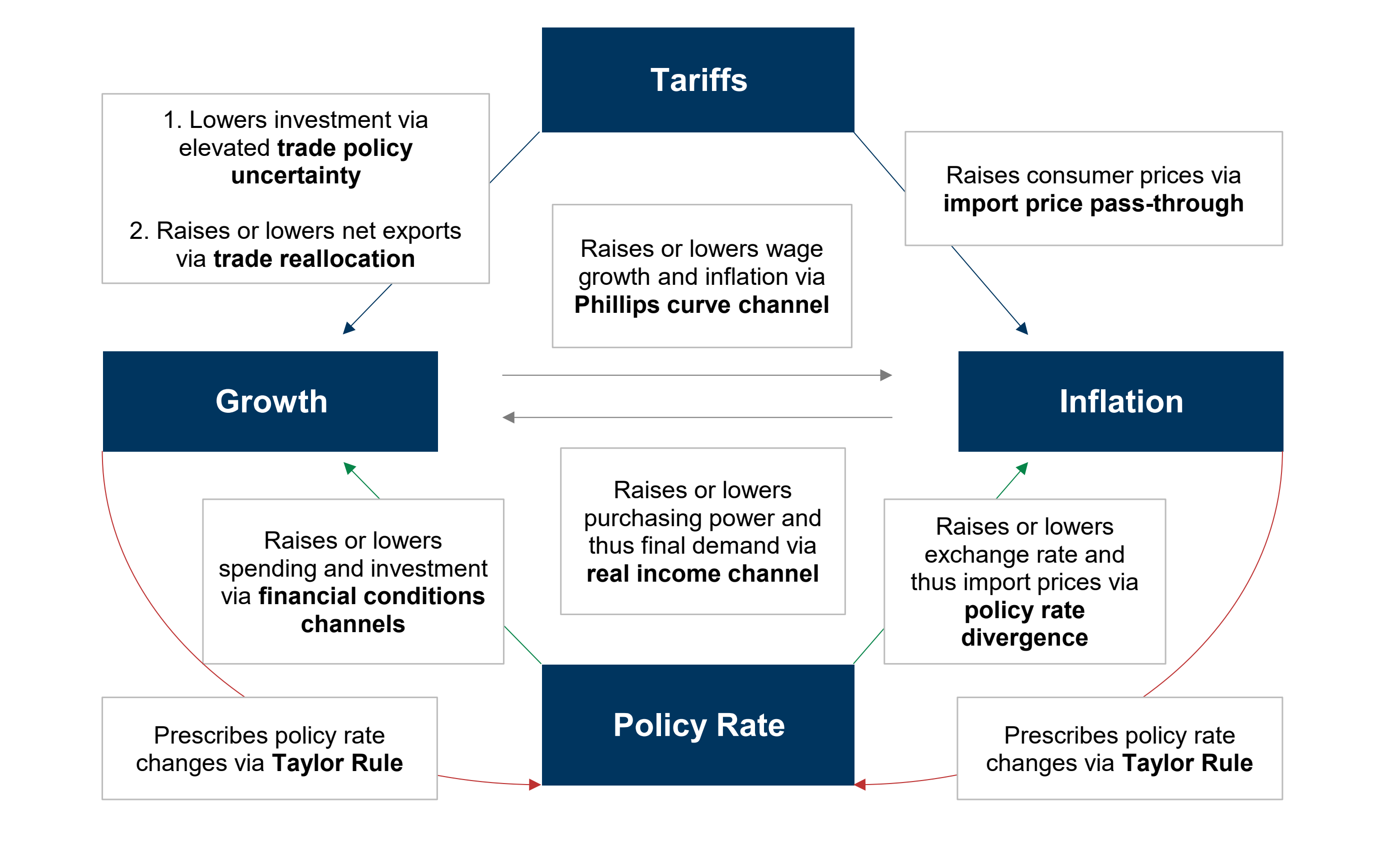
Tariffs affect growth and inflation through a variety of direct and indirect channels. We consider all these channels in our analysis of how higher US tariffs could impact the global economy on the following pages.

We see three main channels through which tariffs could impact **consumer prices**:

(1) A direct boost from tariffs to consumer goods prices, as well as the indirect pass-through of higher intermediate goods prices;
(2) An effect on import prices from likely Dollar appreciation induced by tariffs and their resulting impacts on interest rates;
(3) A drag on wage growth from weaker growth via the Phillips curve channel.

We also see four channels through which tariffs could affect **GDP growth**:

(1) A hit to real personal income from higher prices that lowers consumer demand, partly offset by any reuse of tariff revenue for tax cuts;
(2) A hit to business investment in trade-exposed industries from increased trade policy uncertainty;
(3) An impact on net trade, driven both by a shift in demand away from imports toward domestic goods as well as trade reallocation from exporters more exposed to tariffs to those less impacted;
(4) A spillback from changes in financial conditions to GDP from tariff-induced interest rate changes.



Joseph Briggs, Senior Global Economist
Email: joseph.briggs@gs.com Goldman Sachs & Co. LLC
Tel: 212-902-2163

US tariffs: global impacts

Joseph Briggs assesses the global inflation, growth, and policy rate impacts of higher US tariffs that could materialize after the election

Former President Trump has signaled that he intends to reshape US trade policy by significantly increasing tariffs on foreign goods if elected. As president, Trump could likely unilaterally enact a 10pp across-the-board tariff on all US trade partners, a 60pp tariff on all imports from China, and more narrow tariffs targeted at specific products/economies. While substantial uncertainty exists around which policy measures Trump would actually enact, our baseline outlook for trade under Trump assumes a narrower set of tariffs. In particular, we expect that he would deliver targeted tariffs on China that raise the effective tariff rate on US imports from China by 20pp (with full retaliation from China) and the overall effective tariff rate by 2.7pp, but would generally not place tariffs on other economies.

Using the framework and channels described on pg. 13, we estimate that such a tariff package would have modest impacts on the US economy. We also anticipate such a package would generate small global inflation impacts, larger impacts on global growth, and drive greater policy rate divergence across DMs. However, these impacts could be amplified in a more expansive tariff scenario.

Modest effects on the US economy

The targeted tariffs on China we assume in our baseline would modestly boost US inflation and modestly lower US growth via the channels on pg. 13. We have estimated that each 1pp increase in the US effective tariff rate increases US core PCE prices by slightly over 0.1%. Combining these estimates with the 2.7pp implied increase in the effective tariff rate would result in a 0.3% rise in core PCE prices. We have also found that each 1pp increase in the effective tariff rate lowers US GDP by 0.05--0.15%, with the ultimate impact depending on the extent to which tariff revenue is recycled into tax cuts and whether China retaliates. This implies a roughly 0.1% hit to US GDP in our baseline tariff scenario.

While we would expect the Fed to continue to cut rates in 2025 in this scenario given that tariffs reflect a shift in price levels rather than the underlying inflation trend and that other forces will drive continued disinflation, applying a standard Taylor rule with coefficients of 1.5 for inflation and 0.5 for GDP implies that such a tariff package would call for around 40bp more hawkish policy relative to a no-tariff counterfactual.

Smaller impacts on global inflation...

We find that tariffs would have smaller impacts on global inflation via the three channels in our framework.

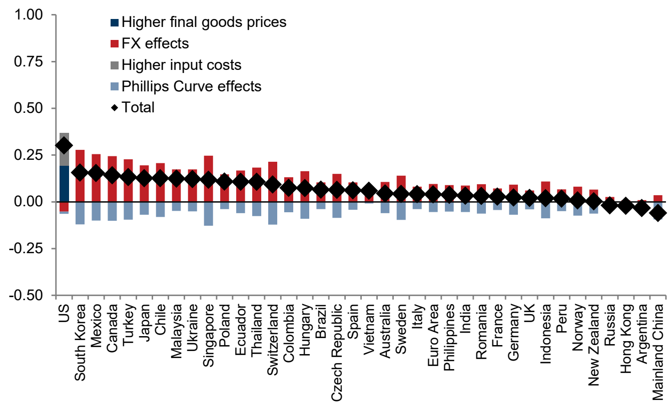
First channel: We assume that China would respond to US tariffs one-for-one, directly raising the prices of consumer goods imports from the US and indirectly boosting prices via more expensive imported intermediate inputs, as occurred during the 2018-19 trade war.[1]

Second channel: Tariffs could also raise inflation through Dollar appreciation. We focus on the inflation impact of Dollar appreciation driven by a more hawkish Fed outlook due to tariffs. The inflation impacts depend on the sensitivity of foreign currencies to US rates as well as the pass-through from goods import prices to consumer prices, the share of Dollar-denominated goods imports, and the goods share of final consumption in each economy.

Third channel: To gauge how the growth impacts of tariffs feed through to inflation, we combine our estimates of the growth impacts with a standard Phillips curve coefficient of 0.15, such that each 1% hit to GDP growth lowers inflation by 0.15pp. Combining the contributions from each of these channels, we estimate that targeted tariffs on China would raise global prices by only 0.1% on average, with the US driving much of the impact.

A 20pp increase in the effective tariff rate on US Imports from China would raise prices by 0.1% globally

Effect of 20pp increase in the effective tariff rate on US imports from China on price level assuming full retaliation, %



Source: Goldman Sachs GIR.

...but larger impacts on global growth

Conversely, we find that tariffs would have more meaningful impacts on global GDP via the four channels in our framework.

First channel: Assuming that China fully retaliates to US tariffs, the hit to real income from higher prices would impact consumer spending almost one-for-one, since tariff-driven price increases would likely disproportionately affect lower-income households with high propensities to consume out of income. A full retaliation by China would also lead to an increase in government revenue, which could partially help offset the real income hit if recycled back to the economy.

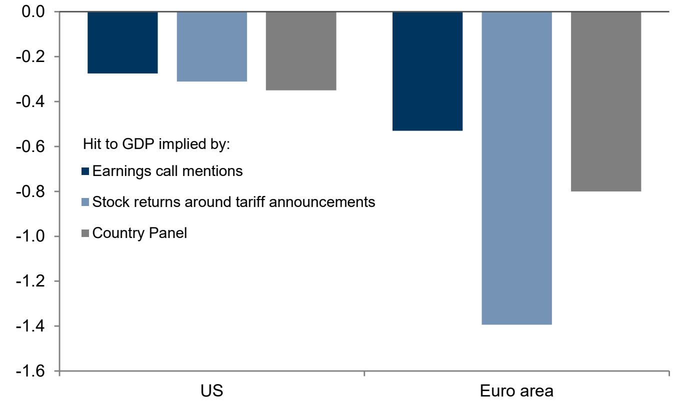
Second channel: Heightened trade policy uncertainty will likely weigh on investment in the near term as companies delay export-oriented investments until the policy outlook becomes clearer. Our analysis suggests that trade policy uncertainty will have a modest growth impact in relatively closed economies like the US, but a larger impact in more export-dependent

[1] To estimate the extent to which retaliatory tariffs would raise prices in China and other economies, we use data from the World Input-Output Tables to calculate the share of core consumption accounted for by direct and indirect import price increases. We assume that increases in import prices are fully passed on to consumers, consistent with evidence from the 2018-19 trade war.

economies like the Euro area. As a baseline, we assume that trade policy uncertainty rises half as much as its peak during the 2018-19 trade war.[2]

An increase in trade policy uncertainty to half as much as its peak during the 2018-19 trade war could hit investment

Real GDP hit from trade uncertainty due to lower investment, pp



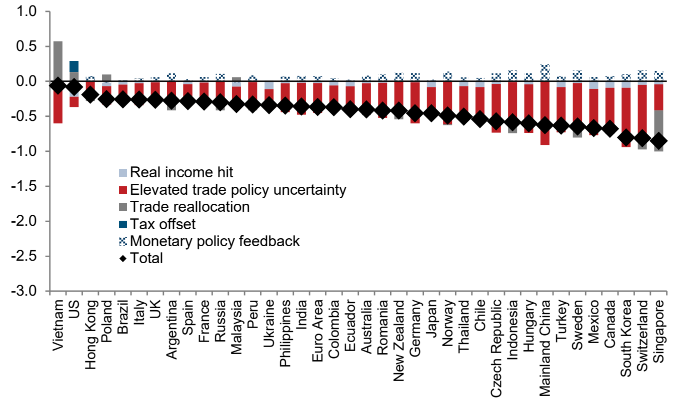
Source: Goldman Sachs GIR.

Third channel: We find that Mexico and Southeast Asia would likely benefit from tariff-driven trade reallocation away from China. We assume that these effects would take three years to phase in completely, consistent with a more substantial but slower reallocation than the more incremental rerouting during the 2018-19 trade war.

Fourth channel: Higher inflation and lower growth should have offsetting effects on policy rates, which should, in turn, feed back into growth via changes in financial conditions. Accordingly, we combine our estimates of the impact on rates with our standard FCI impulse framework to gauge the impact of tariff-driven rate changes on growth.

A 20pp increase in the effective tariff rate on US imports from China could lower global growth by 0.4%

Effect of 20pp increase in the effective tariff rate on US imports from China on GDP assuming full retaliation, %



Source: Goldman Sachs GIR.

Summing the contributions from each of these channels, we estimate that targeted tariffs on China would have a negative growth impact in nearly all economies and lower global GDP by 0.4%, with the growth drags outside of the US and China mostly reflecting a hit to investment from the (smaller) rise in trade policy uncertainty.

A door to policy divergence

Although we expect that a tariff-driven uplift to US inflation would lead to only slightly more hawkish Fed policy in 2025, we estimate that the smaller inflation uplift and larger growth hit in other economies would have dovish policy implications, thereby opening the door for policy divergence (particularly in the Euro area and other DMs) after several years of a relatively synchronized global policy cycle.

Larger tariffs, larger impacts

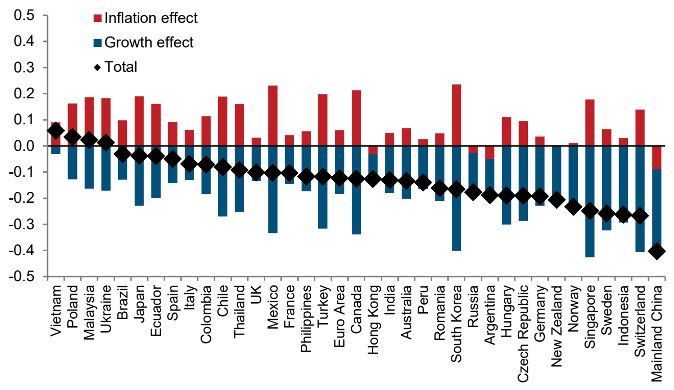
Ultimately, the inflation, growth, and policy impacts of tariffs will depend critically on the tariff package delivered. While our analysis focuses on a relatively benign scenario in which the US implements targeted tariffs on China, risk exists of a more expansive tariff scenario in which a 10pp across-the-board tariff is implemented as well.

Although the channels of impact would remain the same, the economic impacts in this scenario would be much larger. In the US, such a tariff package would raise price levels by a bit more than 1% and lower GDP by around 0.5% (vs. 0.3% and 0.2% in our baseline, respectively). We also estimate a 0.5% uplift to global ex-US prices—with more upside in Canada, Mexico, and other EMs with high exposure to USD-denominated trade—and a 0.9% hit to global GDP, largely due to an even bigger increase in trade policy uncertainty.

A tariff-driven uplift to US inflation of this magnitude could call for a more hawkish shift in Fed policy, while a larger global growth drag would call for even more dovish policy elsewhere. A simple illustrative Taylor rule implies that global central banks could, on average, ease policy by over 50bp in excess of the Fed relative to a no-tariff counterfactual. As such, whether and how US trade policy shifts post the election is key to watch.

Larger tariffs would support more policy divergence

Effect of 20pp increase in the effective tariff rate on US imports from China on Taylor Rule-prescribed policy rate assuming full retaliation, pp



Source: Goldman Sachs GIR.

Joseph Briggs, Senior Global Economist

Email: *joseph.briggs@gs.com* *Goldman Sachs & Co. LLC*
Tel: *212-902-2163*

[2] We extrapolate the results from the US and Euro area to other economies based on their respective export exposures.

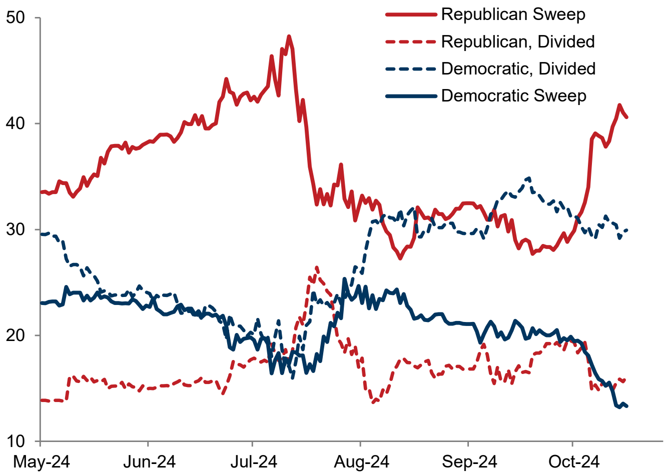
US election: estimating asset impacts

Dominic Wilson and Vickie Chang assess the potential asset market impacts of different US election outcomes, finding only modest impacts in the central case

With only weeks to go until the US election, prediction markets show a lean toward former President Trump over Vice President Harris and a Republican sweep and a divided government under Harris as the most likely election outcomes, though these markets have been volatile. The two main approaches we've developed to estimate the potential asset market impacts of the four main election outcomes show only modest market moves in the central cases, especially compared to the moves during the 2016 and 2020 elections, with the potential for larger moves lying in the tails of the distribution of possible outcomes with respect to trade and fiscal policy and tax/regulation shifts. If the major tails are avoided, the outlook for risk assets may be relatively benign and our friendly macro outlook could remain the bigger driver of markets, though we continue to see value in protection around the election, as we have with other macro risk events this year.

Prediction markets two weeks out from the election

Prediction market-implied probability of election outcomes*, %



*Normalized to sum to Democratic vs. Republican presidential odds.
Source: Polymarket, PredictIt, Goldman Sachs GIR.

Benchmarking the asset impacts: a guide

Over recent months, we have looked at two different ways of benchmarking the potential impact of the election on macro assets. The first approach—"**fundamental-based"**—translates macro and policy scenarios into potential market impacts. The second approach—**"event-based"**—observes the actual market reactions to well-defined events over which the probabilities of the different election outcomes shifted. This approach benefits from the relatively large number of events that have occurred during this unusual election cycle.

The fundamental-based approach uses our economists' baseline scenarios for trade and fiscal policy and tax and regulation shifts across the election outcomes (see pgs. 10-11). Our economists expect targeted tariffs on Chinese imports and mostly unchanged tax policy under Republican control and no tariff increases but higher taxes under Democratic control in their base case.[1]

The event-based approach uses evidence from the September 10 presidential debate. We take the shift in prediction market probabilities over the window of the debate and scale that to estimate what a full shift to either candidate could look like.[2]

Modest asset impacts...

Using these two approaches, we estimate that the predicted asset market moves in our central scenarios are modest compared to the moves of the 2016 and 2020 elections. We think the potential for larger moves lies mostly in the tails of the distribution with respect to trade and fiscal policy and tax/regulation shifts. The removal of these tail risks may also unlock more upside in some assets than we assume.

Opportunities versus options volatility in R and D win scenarios

	Fundamental Estimates				Event Study	
	R Sweep		Trump with Divided Government		Trump Win, Sept 10 Debate	
	Change	Vol-Scaled	Change	Vol-Scaled	Change	Vol-Scaled
Equities						
S&P 500	1.3%	0.26	-0.3%	0.05	1.5%	0.30
Russell 2000	--	--	--	--	4.5%	0.49
FX						
EUR/USD	-2.6%	0.83	-2.6%	0.81	-2.0%	0.63
JPY/USD	-2.9%	0.62	-2.4%	0.51	-2.0%	0.42
AUD/USD	-2.2%	0.51	-2.4%	0.54	-1.8%	0.41
CAD/USD	-1.6%	0.70	-1.8%	0.76	-1.3%	0.57
MXN/USD	-2.0%	0.24	-2.2%	0.26	-1.6%	0.19
CNH/USD	-3.7%	1.12	-3.7%	1.11	-2.9%	0.86
SGD/USD	--	--	--	--	-2.3%	0.80
USD TWI	2.7%	--	2.7%	--	2.0%	--
Rates						
UST 10y	27bp	0.58	18bp	0.38	25bp	0.53

	Fundamental Estimates				Event Study	
	D Sweep		Harris with Divided Government		Harris Win, Sept 10 Debate	
	Change	Vol-Scaled	Change	Vol-Scaled	Change	Vol-Scaled
Equities						
S&P 500	-4.2%	0.60	0.3%	0.06	-1.9%	0.28
Russell 2000	--	--	--	--	-5.9%	0.57
FX						
EUR/USD	3.4%	1.15	3.5%	1.18	2.7%	0.90
JPY/USD	2.9%	0.58	4.0%	0.78	2.6%	0.51
AUD/USD	3.2%	0.79	2.9%	0.72	2.3%	0.58
CAD/USD	2.4%	1.09	2.1%	0.97	1.7%	0.80
MXN/USD	3.0%	0.42	2.6%	0.37	2.2%	0.30
CNH/USD	4.8%	1.49	4.9%	1.51	3.7%	1.16
SGD/USD	--	--	--	--	3.0%	1.13
USD TWI	-3.3%	--	-3.3%	--	-2.6%	--
Rates						
UST 10y	-20bp	0.43	-38bp	0.80	-33bp	0.69

Note: Vol-scaled returns are absolute returns as a proportion of 2m 25d put or call implied volatility deannualized to 45 days. FX changes are XXX vs. USD, so that a negative/positive change implies currency weakness/strength vs. USD.

Source: Goldman Sachs GIR.

[1] We incorporate the distribution of risks around tariffs in our calculations by using the expected value of tariffs rather than our economists' more modest base case of mostly China-focused tariff action under a Republican presidency to account for the risk of a broader 10pp across-the-board tariff. We also use our portfolio strategists' estimates of the potential impacts of corporate tax policy on earnings laid out on pg. 21.

[2] While the responses from that debate are reasonably consistent with those from three prior relevant episodes we have identified, we favor loading only on the debate because it is the most recent episode and most clearly represents a Trump vs. Harris probability shift.

Comparing our estimates of the predicted asset moves under our central scenarios to the implied volatility in options markets shows that FX currently offers the best opportunities for the main shifts that we expect in both directions, implying that the wings of the distribution may be underpriced. CNH, SGD, and EUR stand out, especially for a Trump victory.

In rates, the implied moves in 10-year Treasury yields are more modest but could still be large relative to normal volatility if they occur over a short window, at least in the Republican sweep or Harris with divided government scenarios. Potential equity outcomes generally look smaller relative to options volatility, but the Russell 2000 may have more scope to move, particularly on a Republican sweep.

At this point, it seems likely that the election will remain finely balanced, so the main resolution may take place only around Election Day itself. Volatility also tends to decline after the election as the range of potential policy outcomes narrows and known risks are avoided.

...but still value in protection

Our central case outcomes show both relatively small asset moves and, in general, relatively benign implications for risk assets if the major tails are avoided. That is particularly true of the two outcomes that prediction markets see as most likely—Harris with divided government and Republican sweep, whose prediction market-implied probabilities sum to around 70%. If the market moves toward the view that the potential election outcomes are manageable, it may simply focus on the broader economic backdrop. Given our still-benign "soft landing" view, this reinforces our general stance of finding ways to stay long equities with protection, with the election proving to be one more event risk to manage.

In our central economic forecast, US growth will also likely be stronger than expected, raising the risk of somewhat higher US rates and a stronger USD. Those are also the asset implications of some potential election tail risks, strengthening the case for owning some of that optionality. The market appears to be pricing a relatively benign version of tariff and tax risks, so we continue to think that downside tail protection in equities or replacing some upside with call options may make sense.

Even where the risks are real, though, the market may not price them until later. Market views of the policy agenda can also change, often significantly. Pre-election proposals also may not accurately reflect a post-election agenda. Because sweeps offer more opportunity for policy shifts, they create more potential for the policy agenda to shift in unexpected directions after the election result is known, as was the case in 2016 and 2020, opening up more ways for the election outcome to affect markets.

Dominic Wilson, Senior Markets Advisor

Email: *dominic.wilson@gs.com* *Goldman Sachs & Co. LLC*
Tel: *212-902-5924*

Vickie Chang, Senior Global Markets Strategist

Email: *vickie.chang@gs.com* *Goldman Sachs & Co. LLC*
Tel: *212-902-6915*

US election: potential asset impacts

	Summary Views	Trump win and Republican Congress	Trump win and Divided Congress	Harris win and Democratic Congress	Harris win and Divided Congress
G10 FX	**We expect only gradual further Dollar depreciation given the US' likely continued growth and asset exceptionalism and believe the Dollar's high valuation will only erode slowly. Trade policy post the election will likely be the fulcrum for FX markets. Higher tariffs should support the Dollar via Terms of Trade and diverging monetary policy impulses.**	• **Higher tariffs** should strengthen the Dollar on a broad basis as currencies adjust to reflect changing Terms of Trade—for example, higher tariffs increase the cost of foreign goods for US consumers, which can be offset by flexible exchange rates—and diverging monetary policy impulses as central banks react to different inflation and growth impacts from tariffs. • **Using tariff revenues to lower domestic taxes** should act as a fiscal stimulus, which would also support the Dollar.	• **China-focused tariffs** rather than a **more expansive tariff package**, which may require congressional support, would argue for a narrower Dollar rally, though we would expect a smaller FX impulse than during the 2018-19 trade war, in part because policymakers and markets may be more confident about the resilience of Chinese exports to higher tariffs.	• **Limited changes to trade policy** from the status quo would likely lead markets to trade some near-term tariff relief, which would likely be negative for the Dollar. However, the scope for Dollar depreciation should be limited because market pricing is not as dislocated from fundamentals as in 2016 or 2020, and the **small fiscal boost** in this scenario should provide a modest offset.	• **Limited changes to fiscal and trade policy** from the status quo would likely lead FX markets to revert relatively quickly to trading the current macro backdrop.
DM Rates	**A more constrained fiscal environment leaves the evolution of Fed policy and economic data as the primary determinants of the level of rates and curve shape, and our economists' above-consensus US growth forecast and relatively sanguine recession risk assessment support yields remaining higher across the curve. However, scope exists for the election to have a tangible, if smaller than in 2016 or 2020, impact on yields depending on the incoming administration's trade and fiscal policy.**	• A **slightly larger fiscal deficit** compared to a divided government scenario and the **potential for higher tariffs** argue for modestly higher yields across the curve. • While the market has been focused on the fiscal impulse as a source of upside risk to term premia, thereby arguing for curve steepening in a Republican sweep scenario, increased focus on the risks from **higher tariffs** could bring offsetting flattening pressure on the curve.	• Without congressional support to pursue more **expansionary fiscal policy** in a divided government scenario**, trade policy** will likely be the primary driver of rates markets. Our estimates suggest relatively stable yields based on the likely growth and inflation effects, but we see potential for sharper curve flattening with scope for the long-end to rally if markets become more concerned about trade risks.	• A **slightly larger fiscal deficit** compared to a divided government scenario would argue for modestly higher yields across the curve. • A potential **alleviation of tariff-related risks** and the pricing in of more **expansionary fiscal policy** could impart a steepening bias.	• **Limited changes to fiscal policy** from the status quo and a potential **reduction of tariff risks** suggest lower yields across the curve.
Equities	**A strong corporate earnings outlook and more monetary policy easing ahead point to further upside for equities regardless of the election outcome. The resolution of political uncertainty following the election should provide a near-term tailwind to equities, consistent with the historical pattern. However, the election outcome will likely drive rotations within the equity market.**	• The **potential for lower corporate tax rates** and other **pro-growth policies** could prove supportive for US equities, with small-caps and cyclical industries likely outperforming. • Correlations with prediction markets suggest some **regulation**-intensive industries like financials and fossil fuels should also outperform. • The **prospect of higher tariffs** could lead to the outperformance of stocks with high domestic revenue and supply chain exposure.	• **Limited prospects for tax cuts or other major legislative changes** would likely lead stocks to focus primarily on **trade policy** and **regulation,** with the rotations likely similar to those in a Republican sweep scenario.	• The **possibility of tax hikes** would likely weigh modestly on equity valuations. • **Continued regulatory and legislative focus on renewable energy and infrastructure investment** should lead to the outperformance of stocks exposed to these areas. • A reduction in the probability of **significant tariffs** should benefit US stocks with high international business exposure as well as non-US equities.	• The status quo would likely mean a substantial decline in policy uncertainty, which would allow equity investors to focus on the strength of the current macroeconomic backdrop.

Emerging Markets	**Emerging Markets will largely take their cue from the new administration's trade policy. Without headwinds from higher tariffs, EM FX should benefit from a more balanced global growth outlook and Fed easing, and EM equities should benefit from the non-recessionary growth backdrop, central bank easing, robust earnings growth, and reasonable valuations.**	• The potential for **higher tariffs** and increased trade tensions could result in a stronger US Dollar, leaving few winners across EM assets. • The ultimate impact, though, would depend on whether tariffs apply to all trading partners or if China is the focal point. Within EM FX, apart from CNH itself, ZAR and KRW are among the most exposed currencies to US tariff risks, and TWD, THB, and MYR have the highest betas to USD/CNH moves, while the Mexican Peso's high beta to risk leaves it vulnerable to a deterioration in risk sentiment even if the **US-Mexico trade relationship** remains largely intact. • Within EM equities, North Asia (Taiwan and Korea), Mexico, and, to a lesser extent, Brazil equities appear most exposed to **higher tariffs**, while India, MENA, and CEE-3 equities screen as relatively insulated.	• A divided Congress would likely lead to similar **trade policy** as a Republican sweep scenario given that the president has authority independent of Congress on many aspects relating to trade policy. • However, **tariff increases** may be more limited in scope in a divided government scenario given the potential for some tariff proposals to require legislative approval, reducing the probability of "left tail" outcomes.	• The status quo would likely mean no significant changes to **trade policy,** which would provide some relief to the most tariff-exposed EM currencies as well as EM equities.	• The status quo would likely mean no significant changes to **trade policy**, which would provide some relief to the most tariff-exposed EM currencies as well as EM equities.
Credit and Mortgages	**We expect spreads will remain within their recent range. While the election has not been a driver of relative performance in the corporate bond market up to now, tax, housing, and government-sponsored enterprise (GSE) policies will be key areas to watch for credit and mortgages post-election.**	• The **potential implementation of a 10% across-the-board tariff on all US imports and a 60% tariff on imports from China** would be more inflationary in the US but more damaging to growth in the Euro area, potentially leading to greater monetary policy divergence between the Fed and the ECB that would likely fuel some outperformance of the EUR vs. USD market. • **Removing the GSEs from government conservatorship** could prove supportive for GSE junior preferred stocks. However, the GSEs would need roughly \$300bn of total capital for privatization to be viable, a significantly larger amount than the \$125bn in capital they currently hold. The current trajectory of aggregate net income growth implies that it would take five years of sufficient capital accumulation for the GSEs to reach \$300bn of total capital. Aggressive FHFA action, including **writing off the US Treasury's large senior preferred stock position in the GSEs or converting it to equity**, could accelerate this timeline.	• **Tighter fiscal policy** than under single-party control would likely have an only muted impact on risk appetite as investors continue to focus on the durability of the cycle. If anything, tighter fiscal policy would reduce the risk of an unwelcome back-up in long-dated yields.	• **Providing tax credits for builders of starter homes** could ease the current housing affordability crisis by expanding housing inventory, though coordination with state and local policymakers could make the zoning reform necessary to build these homes tricky to implement. • **Providing a \$25k tax credit for all eligible first-time homebuyers** would likely help stoke demand as first-time homebuyers are typically constrained by the downpayment financing. However, without an increase in housing supply, the impact on affordability will likely be limited. • **Raising the statutory federal corporate tax rate back to 28%** would reduce earnings by around 5% and thus likely fuel some passive re-leveraging in 2025. Worth noting, however, is the high dispersion in effective tax rates and the interaction between profitability and tax rates.	• **Tighter fiscal policy** than under single-party control would likely have an only muted impact on risk appetite as investors continue to focus on the durability of the cycle. If anything, tighter fiscal policy would reduce the risk of an unwelcome back-up in long-dated yields.

Commodities	**We are more selective and less constructive on commodities amid softening cyclical support for the complex, with a more cautious stance on oil, copper, and other industrial metals but still bullish gold, though a potential disruption in energy supplies owing to the Middle East conflict could push oil risk premia and prices higher. Higher tariffs would likely further weigh on global commodity demand, though gold would likely find support.**	• Potential **China tariff hikes/universal tariffs** could exert downward pressure on global commodity demand, though they could support gold. • **Stricter enforcement of sanctions on Iran** could lead to a drop in Iran crude supply, though increased supply from OPEC+ would likely provide an offset. • Potential **increases in Russian pipeline supply and an easing of sanctions on Russian LNG supply** could expand global gas supply in the short term. • Over the medium term, **looser regulations on US upstream activity** would likely further boost natural gas supply, while potential **regulatory support for LNG and gas-fired power plants** should boost medium-term natural gas demand. • A **potential unwinding of the electric vehicle (EV) tax credits** in the Inflation Reduction Act (IRA) would likely pose downside risk to US demand for green metals.	• A divided Congress would likely lead to similar **trade and regulatory policy shifts** as in a Republican sweep given that the president has broad authority over trade and regulatory policy. • However, given that some **tariff policies** may require congressional approval, the downward pressure on global commodity demand may be more limited.	• The status quo would likely mean limited changes to energy regulation and legislation, including a **continued push for EVs and renewables**, which would likely support demand for green metals.	• The status quo would likely mean limited changes to energy regulation and legislation, including a **continued push for EVs and renewables**, which would likely support demand for green metals.

Thanks to Michael Cahill, Will Marshall, Ben Snider, Kamakshya Trivedi, Tarun Lalwani, Teresa Alves, Lotfi Karoui, Vinay Viswanathan, Samantha Dart, Daan Struyven, and Lina Thomas for their respective asset contributions.

US equities: corporate tax impacts

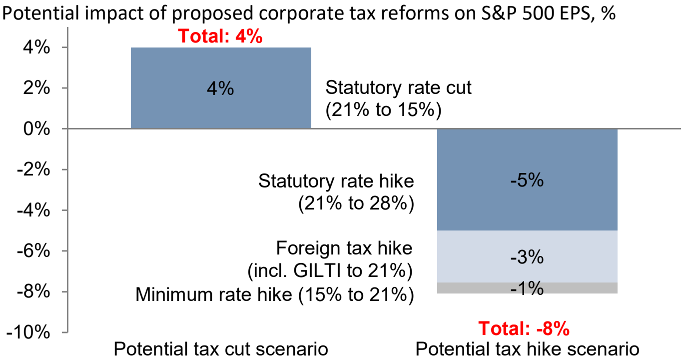
Ben Snider assesses the impact of potential post-election corporate tax shifts on earnings

Among the policy shifts that could occur post the US election, corporate tax reform would most directly impact company profits and stock prices. Former President Trump has proposed lowering the US statutory federal corporate tax rate on domestic income from its current level of 21% to 15%, among other proposals, while Vice President Harris has proposed lifting it to 28%, alongside proposed hikes to the tax rate on foreign-derived income and the minimum corporate tax rate. If enacted, such changes could shift S&P 500 EPS by 5-10%. However, campaign proposals don't always translate into legislative reality. And lessons from the 2017 tax cuts suggest that concrete legislative steps will likely be required before stocks move meaningfully to price corporate tax reform.

Corporate tax rates and earnings impacts

We estimate that each 1pp change in the statutory domestic tax rate would shift S&P 500 EPS by slightly less than 1%, all else equal.[1] Accordingly, the presidential candidates' proposed corporate tax changes could directly affect S&P 500 earnings by 5-10%. Indeed, a tax cut scenario in which the corporate tax rate declines from 21% to 15% would arithmetically *boost* earnings by ~4%. And a tax hike scenario in which the rate rises to 28% would *reduce* earnings by ~5%. When combined with additional proposed changes to foreign income taxation and an increase in the alternative minimum tax rate from 15% to 21%, this scenario could reduce S&P 500 EPS by ~8%.

Proposed corporate tax reforms could shift S&P 500 EPS by 4-8%
Potential impact of proposed corporate tax reforms on S&P 500 EPS, %



Source: Goldman Sachs GIR.

Minor impacts from other policy proposals

Other proposed changes to the corporate tax code should have only minor impacts on S&P 500 EPS. An extension or expiration of the 2017 Tax Cuts and Jobs Act's (TCJA) bonus depreciation, R&D expensing, and interest deductibility provisions would together shift S&P 500 EPS by ~1-2%. And an increase in the buyback excise tax (1% currently) would have no direct impact on earnings, though it could weigh on share repurchase activity.

Potentially more limited net impact

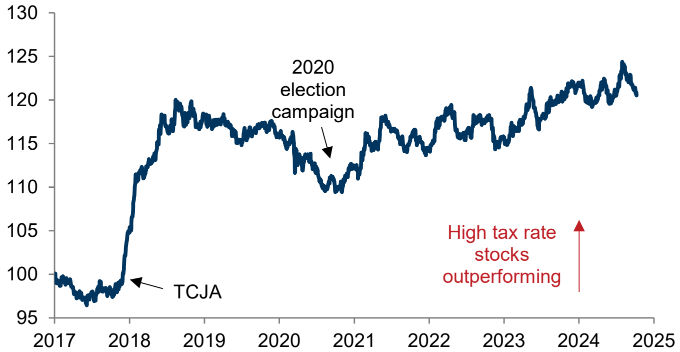
The net impact of post-election policy changes on earnings will likely be smaller than these estimates imply. Even if the next president controls Congress, history has shown that political compromise often leads to differences between campaign proposals and actual legislation. And secondary impacts of shifts in tax policies, such as tax-related changes in economic activity, could also impact corporate earnings, as could shifts in other policies like fiscal or trade policies. On net, it seems likely that the impact of post-election corporate tax policy changes on S&P 500 earnings will reside in the low single digits at most.

Lessons from the 2017 tax cuts

Following the passage of the 2017 TCJA—which cut the statutory federal tax rate on domestic income from 35% to 21%—the S&P 500 immediately rallied by roughly the same magnitude as the earnings boost it ultimately received. Rising earnings expectations lifted the S&P 500 by 10% in the two months around the TCJA's passage (from late November 2017 through late January 2018)—roughly in line with the eventual 12% EPS boost in 2018 from the TCJA cuts (compared with likely counterfactual growth under constant tax policy).

The TCJA experience suggests that most investors will wait for legislative clarity before fully adjusting their portfolios to reflect changes in tax policy. While a basket pair of stocks with high vs. low effective tax rates rallied briefly post the 2016 election, reflecting some probability of tax cuts, it subsequently traded sideways through mid-2017 as policymakers drafted legislation. The baskets began to rotate again in earnest only in November as the bill began passing through Congress. While the bill ultimately became law in December, it took until mid-2018—after two quarters of reported earnings under the new tax code—for the basket rotations to fully reflect the TCJA.

High tax stocks outperformed following TCJA passage
Indexed return of High vs. Low Corporate Tax baskets (GSPUTAXP)



Note: Baskets developed by the Global Banking and Markets Division.
Source: Goldman Sachs FICC and Equities, Goldman Sachs GIR.

Stocks aren't pricing tax reform expectations

The recent performance of tax-sensitive stocks suggests little expectation of impending tax reform. The high vs. low tax basket pair (GSPUTAXP) has returned -1% YTD, demonstrating no clear correlation with recent prediction market-implied election odds. In contrast, in mid-2020, high tax stocks lagged their low tax peers, moving closely in line with prediction markets as investors focused on the possibility of a reversal of the 2017 tax cuts following the 2020 election. Given the current uncertainty around the policy outlook, policymakers will likely need to take concrete steps toward the passage of legislation before stocks move meaningfully to price corporate tax reform.

Ben Snider, Senior US Portfolio Strategist

Email: *ben.snider@gs.com* *Goldman Sachs & Co. LLC*
Tel: *212-357-1744*

[1] Our estimates of the potential earnings impacts are based on a combination of reported financial statements as well as estimates from our economists and third-party researchers regarding how tax policy changes would affect government revenue.

US election: potential sector impacts

What potential policy changes following the US election matter for your sector, and what are their implications?

Financials

Richard Ramsden, GS Equity Research

- **Shifts in key personnel could significantly impact the regulatory framework for banks.** A number of proposed rules from the Fed, CFPB, and SEC have not yet been finalized, including the Basel 3 endgame proposal, late fee proposal, changes in liquidity requirements, and numerous market structure proposals. So, if the next administration makes changes in key personnel at the Fed, CFPB, OCC, and FDIC, these proposals could be significantly modified or even dropped altogether. This would impact both the revenue outlook for the banking industry as well as bank returns and valuations. Regional bank M&A could also accelerate if changes in FTC and Fed leadership result in an expedited process for deal approval or changes to the criteria by which bank M&A is assessed.
- **Changes to corporate tax rates could disproportionately impact banks.** The vast majority of bank earnings are domestic, and banks have fewer deductions than other sectors, which leaves bank earnings more sensitive to changes in the headline corporate tax rate than the average S&P 500 sector. Changes to the corporate tax rate could also shift incentives for capital expenditure and investment projects—some of the key drivers of corporate loan growth.

Clean Energy

Brian Lee, GS Equity Research

- **Shifts in the Inflation Reduction Act (IRA) could impact the clean energy industry.** The IRA has catalyzed spending, profit-enhancing incentives, and job creation across multiple clean energy industries. In particular, solar manufacturers have benefited from the Section 45X manufacturing credits while project developers have benefited from investment tax credits (ITC) as well as Domestic Content bonus credits. These tailwinds have supported the build-out of domestic solar component manufacturing as well as the adoption of solar generation within the US. A withdrawal of Section 45X credits by a new administration would weigh on the profitability of domestic manufacturers and hurt their competitive positioning compared to imported products. And any changes to ITC and domestic content credits could impact demand for domestically sourced components.
- **Tariff policy could benefit domestic solar manufacturers.** Tariffs on imported products would make domestic prices more competitive and bolster the value of domestically manufactured products. So, in the event of a tariff increase, average selling prices (ASPs) for domestic modules would likely increase, boosting revenue for domestic solar panel makers.
- **Sustained policy tailwinds for nuclear energy are likely in any election outcome.** Given the elevated need for clean baseload energy, we expect bipartisan support for continued US nuclear development, in line with the broad support for the Constellation-proposed restart of Three Mile Island by 2028. The constructive multi-year outlook for international nuclear development as well as more resilient-than-expected US nuclear capacity should benefit large uranium producers.

Oil and Gas

Neil Mehta, GS Equity Research

- **Geopolitics, LNG policy, and US supply in focus.** On geopolitics, whether the next president will be more forceful in enforcing sanctions on Iranian oil supply, which has increased from 2.2mn bpd five years ago to 3.0-3.5mn bpd in recent months, is in focus. On US oil production, changes in policy that would make it more difficult to permit and drill in federal lands (e.g. New Mexico Permian) could be material, but, in that context, we note that the Biden Administration permitted the final investment decision of the Willow Project for ConocoPhillips in Alaska. Lastly, investors are focused on whether the DOE pause on permits for US LNG exports could be resolved.

Healthcare

Asad Haider, GS Equity Research

- **Lowering prescription drug costs is likely to remain a bipartisan area of focus.** Both presidential candidates have pledged to lower prescription drug prices (see pgs. 8-9) via actions to expand the scope of drugs subject to price negotiation and reduce channel costs through measures like Pharmacy Benefit Manager (PBM) reform. As such, a bill consistent with the Lower Prices, More Transparency Act could pass following the election regardless of the outcome. Both parties also believe they can achieve drug cost savings without stifling innovation, with notably limited desire among Democrats to change the grace period during which a drug would not be subject to negotiation (nine years for small-molecule drugs vs. 13 years for biologics), despite the biopharma industry's opposition to this statute. For Democrats, implementation of IRA's existing drug pricing negotiation provisions is also likely to remain a focus. And under a Trump Administration, there could be renewed efforts to align US prices for some drugs to lower prices for those same drugs in outside US (OUS) markets, though the mechanism for implementation of this is not yet clear.
- **Support for Medicare Advantage (MA) reform also possible in any election outcome.** The Centers for Medicare & Medicaid Services (CMS) under the Biden Administration has emphasized financial stewardship for the MA program and Republicans also see a need for refinements to aspects of the program that have grown beyond what was originally intended. Such reforms could include (1) refining the scope of supplemental benefits and (2) ensuring risk adjustment payments align with the severity of patient needs. This could result in a continued challenging backdrop for MA insurers regardless of the outcome of the election, as both parties see a need for fiscal sustainability.
- **Medicaid policy could shift substantially.** Whether the next administration continues to expand or instead scales back Medicaid funding will matter significantly for the healthcare sector, with any pullback in funding presenting headwinds to Medicaid MCOs as well as Providers.
- **Status of ACA/healthcare exchanges and subsidies also remain in question.** Failure to extend the enhanced advance premium tax credits (APTCs) that are set to expire at the end of 2025, or even scaling them back in any way, could present material headwinds for ACA beneficiaries.
- **Changes in corporate tax rates could also impact healthcare companies.** Higher corporate tax rates under the next administration could weigh on some healthcare companies, especially the lowest tax rate companies, all else equal.
- **Headwinds to large-scale M&A/vertical integration could continue.** Healthcare has been a point of emphasis for the FTC under Chair Lina Khan—including addressing the drug supply chain as well as consolidation among payors and providers—and some continuity of this agenda is likely in any election outcome.

Industrials

Joe Ritchie, GS Equity Research

- **Inflation Reduction and CHIPS Act should continue to fuel the US Manufacturing Renaissance.** The IRA outlined nearly $400bn in federal funding, including ~$265mn in tax credits for clean energy production, manufacturing components, and electric vehicles (EVs). The CHIPS Act incentivizes manufacturing of semiconductors and supports an incremental ~$400bn+ in announced Mega projects, of which ~$74bn have broken ground since 2021. Policy changes around these acts could impact the longevity of the US manufacturing boom that is in the early stages of development. However, four out of the five states participating in this manufacturing (Texas being one) are Red states (based on the 2020 election), which leads us to the view that the probability is low that the IRA/CHIPS Act would be repealed in full, and we also note that implementation of the tax credits is well underway and major changes would require an act of Congress. In the case of a partial repeal, public comments by the Republicans have focused mostly on EVs/offshore wind, and we would expect the impact to other manufacturing verticals to be limited.
- **Tariffs and corporate taxes remain a watch item.** If tariffs increase under the next administration—including on China and Mexico—companies that import from China and/or have a large manufacturing base in Mexico could face material headwinds. And US-based companies with high domestic exposure face the most risk in an election outcome that results in a higher corporate tax rate.

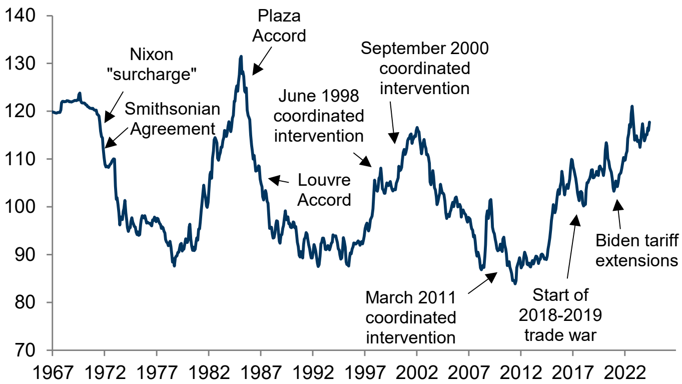
Tariffs & FX pacts: lessons from the past

Michael Cahill and Isabella Rosenberg assess the viability of an FX pact to weaken the USD

Former President Trump sought to reshape global trade in the US' interest and advance protectionist trade policies during his first term and he appears set to take a similar approach in a second. Indeed, reports suggest that his advisors, running mate Senator J.D. Vance, and former trade chief Robert Lighthizer, are considering a variety of policies to increase the competitiveness of US exports, including imposing additional tariffs and devaluing the Dollar, which is now close to all-time highs. While the US, in coordination with other developed countries, has used tariffs and currency devaluation together in the past—most notably in the 1971 Smithsonian Agreement—we think a unified and meaningful currency agreement looks unlikely in today's environment amid numerous challenges.

The Dollar has been highly valued for a decade, with intervention often occurring around peaks in the Dollar's value

Real Federal Reserve Broad Trade-Weighted Dollar Index



Note: Uses the trade-weighted value of the Dollar vs. G10 pre-1973.
Source: Federal Reserve Board, Haver Analytics, Goldman Sachs GIR.

Smithsonian Agreement: "our currency, your problem"

The 1971 Smithsonian Agreement was one of the most salient attempts at using tariffs together with currency devaluation to shift the global trade balance. In the early 1970s, the US faced a yawning trade deficit and rapidly diminishing gold reserves, which put significant downward pressure on the Dollar. Concerned about a balance of payments crisis, policymakers had two choices to address the imbalance: tighter monetary policy or a weaker currency. However, policymakers viewed higher interest rates as costly for economic growth and under Bretton Woods, the Dollar was pegged to gold so it could not weaken without a formal devaluation.

Deeply averse to the "loss of prestige" associated with unilaterally devaluing the Dollar, the Nixon Administration imposed a 10% tariff to pressure other countries to revalue their currencies, thereby weakening the Dollar. However, while this choice ostensibly "saved face", this "revaluation" was simply devaluation by another name. In the end, the Dollar devalued by nearly 9% against gold and the US quickly removed the 10% tariff. However, the agreement lasted only a few years before collapsing in February 1973.

The current backdrop: history rhymes, but doesn't repeat

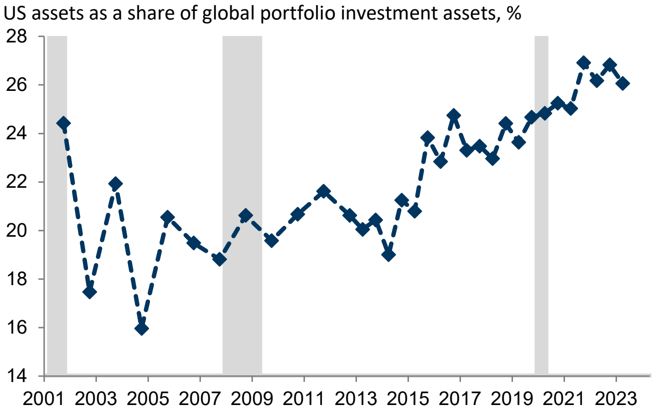
Many of the conditions that bred the so-called "Nixon Shock" exist in the current US and global economic backdrop. The Dollar remains the world's reserve currency at the center of the international monetary system and the US budget deficit has grown. Current account imbalances are even larger today, and a weaker Dollar could, in theory, shift that imbalance, although it is unclear if that is economically necessary.

That said, today's environment and the past backdrop differ in important ways. Most notably, market factors are not pushing the Dollar weaker as they were leading up to the Smithsonian Agreement. Policy intervention tends to be more successful when it aligns with fundamentals, which leaves the success of a similar agreement more questionable today.

And unlike the early 1970s, no evidence points to an ongoing run on Dollar assets. Instead, foreign positioning in US Treasuries and other portfolio assets is at historic highs as competitive returns have made US assets especially attractive to foreign investors. And while many policymakers and market participants remain concerned that the size of the deficit could dampen confidence in the Dollar, the depth of the US capital market has established a solid foundation for the Dollar's dominance; deep and liquid capital markets are a key component of reserve currency status—a factor that holds back many of the Dollar's challengers.

Foreign positioning in US portfolio assets is at historic highs...

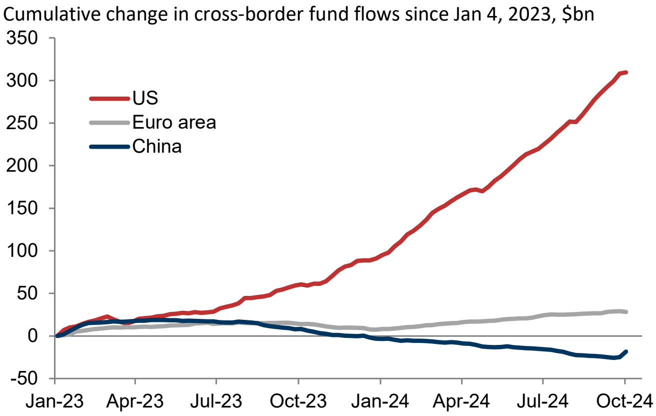
US assets as a share of global portfolio investment assets, %



Source: CPIS, IMF, EPFR, Haver Analytics, Goldman Sachs GIR.

...and we see no evidence of a run on Dollars

Cumulative change in cross-border fund flows since Jan 4, 2023, $bn



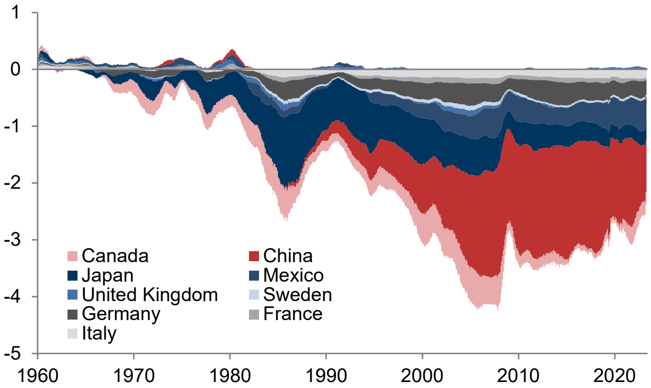
Source: CPIS, IMF, EPFR, Haver Analytics, Goldman Sachs GIR.

The structure of the FX market is also very different today. The global move away from pegged arrangements toward flexible exchange rates renders currency agreements more challenging. The Smithsonian Agreement precipitated a sharp decline in the number of pegged exchange rates from around 80% of exchange arrangements to a little over 50% in 2019.

Current trade relationships also differ from those in the period leading up to the Smithsonian Agreement. At the time, the US' deepest trade deficits were with **Canada, Japan, and Germany**. Today, its biggest trade deficits are with **China and Mexico**. If the countries involved in the Smithsonian Agreement revalued by the same amounts today, the trade-weighted Dollar would only weaken by **3.5%.** The Yuan matters much more for the value of the Dollar today, so it would be challenging for the Dollar to see material weakness without China's participation in a revaluation, which seems unlikely given China's policy priorities.

The US merchandise trade deficit has shifted from Canada, Germany, and Japan to China and Mexico

US merchandise trade balance by region, % of GDP



Source: IMF, Goldman Sachs GIR.

Challenges to tariffs & FX agreements: the list goes on

Amid such differences, several other challenges exist to a new currency agreement, including changes in how the US and other countries approach FX policy.

First, the US has generally avoided using FX intervention as a policy tool. Intervention has gone out of fashion as governments have switched to flexible arrangements to better tailor monetary policy to domestic factors. And, importantly, intervention—as well as tariffs—could erode the Dollar's reserve currency status over time by introducing volatility and damaging existing trade relationships. The US has participated in coordinated intervention only three times since the mid-1990s in very special circumstances, including the 2011 earthquake in Japan. Japan's recent experience with FX intervention offers some important lessons as well. Recent efforts to curb Yen weakness have been expensive and resulted in only temporary deviations from trend, highlighting the difficulty of intervention when macro factors push the exchange rate in an opposing direction.

Second, the US Treasury has taken a firm stance against foreign currency intervention against the Dollar. The Trump Administration labeled several countries as "currency manipulators," and, more recently, the Biden Administration reminded Japan that "intervention should be reserved only for very exceptional circumstances."

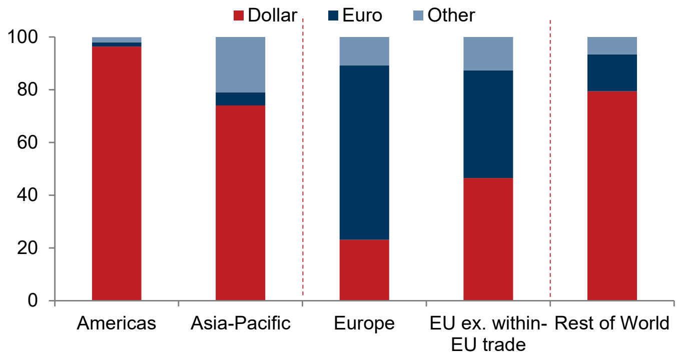
Third, large FX appreciation could be unpopular with regions struggling with weaker growth relative to the US given concerns about falling into the same trap as Japan following the Plaza Accord. Rapid currency fluctuations can also cause substantial earnings volatility for companies that hedge foreign currency exposures as well as lead to inflation swings. As such, private and official actors would likely caution against any policy changes that cause extreme moves in major exchange rates.

Fourth, intervention would need to involve some uncomfortable tradeoffs regarding reserve management. Most notably is the potential purchase of CNY assets, which comes with practical limitations, including capital controls and geopolitical concerns.

Finally, the Dollar denominates the vast majority of global trade, exceeding its share of global imports by most measures. This is a key reason for the Dollar's dominance and status as the global reserve currency. However, it also means that devaluing the Dollar would do little in the way of lowering the cost of US exports relative to those of other countries. From this perspective, US gains from a weaker Dollar would be relatively limited, making the tradeoffs listed above even less palatable.

The Dollar denominates a large share of global trade

Share of export invoicing, %



Source: Bertaut et al. (2023), Eurostat, Goldman Sachs GIR.

A currency agreement looks unlikely, but other paths toward a weaker Dollar exist

Former President Trump and his associates continue to float using tariffs and Dollar devaluation to gain a protectionist edge in global trade, but many challenges render this policy less tractable today. And while the US shares a "coincidence of wants"—with several of its largest trading partners such as China and Japan preferring a somewhat stronger currency—a much stronger Yen could thwart Japan's inflationary efforts and a much stronger Renminbi may not ultimately be in China's interest either.

Tariffs could be used as a negotiating tool for a coordinated currency pact, but Trump's 2024 platform proposes using tariff revenues to lower domestic taxes and advocates for maintaining the Dollar's reserve currency status, which are both at odds with a major currency pact.

Given all these challenges, a unified and meaningful currency agreement looks unlikely today, in our view. However, with tariffs clearly on both parties' agendas, the US will continue to encourage other countries to take steps to rebalance global trade. Treasury reports under both the Trump and Biden Administrations have advocated for fiscal expansion in countries like China and Europe. US fiscal consolidation could also be a helpful measure. Such a combination of more balanced fiscal policy is a more plausible and productive path to rebalancing global trade and weakening the Dollar.

Michael Cahill, Senior FX Strategist

Email: michael.e.cahill@gs.com Goldman Sachs International
Tel: +44-20-7552-8314

Isabella Rosenberg, Senior FX Strategist

Email: isabella.rosenberg@gs.com Goldman Sachs & Co, LLC
Tel: 212-357-7628

Summary of our key forecasts

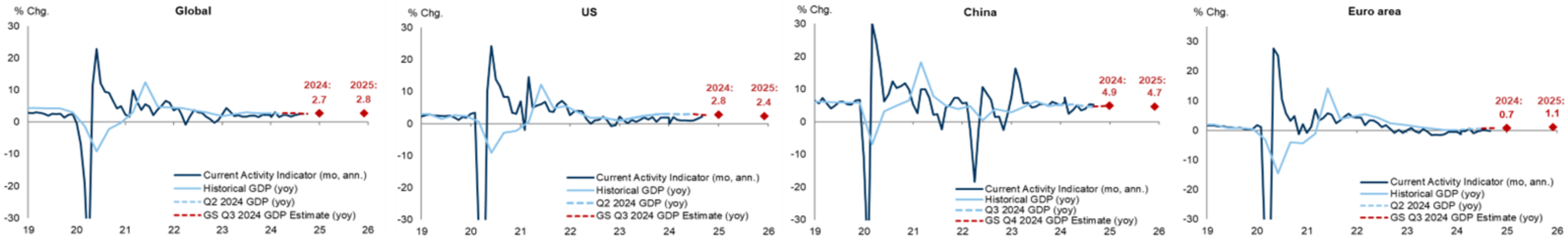
GS GIR: Macro at a glance

Watching

- **Globally,** we expect real GDP growth of 2.7% yoy in 2024, reflecting tailwinds from real household income growth, a gradual recovery in manufacturing activity, and continued rate cuts. We expect global core inflation to fall below 3% by end-2024 and converge toward 2% by end-2025 as core goods inflation continues to decline, shelter inflation falls further, and both services inflation and wage growth continue to slow in response to the improved supply-demand balance across the global economy.
- **In the US,** we expect above-consensus real GDP growth of 2.5% in 2024 on a Q4/Q4 basis reflecting consumer spending growth, easing financial conditions, and a rebound in inventory investment. We expect core PCE inflation to stand at 2.6% yoy by December 2024 before converging toward 2% next year, reflecting further rebalancing in the auto and housing rental markets. We expect the unemployment rate to end 2024 at 4.1% and decline gradually to 3.8% over the next two years.
- **We expect the Fed** to deliver consecutive 25bp cuts from November 2024 through June 2025 to a terminal rate range of 3.25-3.5%.
- **In the Euro area,** we expect real GDP growth of 0.7% yoy in 2024 amid weakening activity data, though we continue to expect firm real income growth and a diminishing monetary policy drag to support growth in coming quarters for real GDP growth of 1.1% in 2025. We expect core inflation to slow somewhat further to 2.6% yoy by December 2024 before declining toward 2% next year, reflecting continued declines in services inflation, normalizing wage growth, and further scope for energy-related effects to fade.
- **We expect the ECB** to deliver a 25bp cut in December, after which we expect sequential 25bp cuts until the policy rate reaches 2% in June 2025.
- **In China,** we expect real GDP growth of 4.9% yoy in 2024 as strong exports and the recent significant step up in policy easing measures offset growth headwinds such as weak domestic demand and the ongoing property market downturn, although we think the latest round of policy easing is unlikely to reverse China's structural challenges including deteriorating demographics, a multi-year debt deleveraging trend, and global supply chain de-risking.
- **WATCH US ELECTION AND CONFLICT IN THE MIDDLE EAST.** Uncertainty around the US election remains high, and we continue to think the outcome could have important policy implications, especially around trade, immigration, and fiscal policy. The conflict in the Middle East also remains highly uncertain and continued escalation could send oil prices substantially higher.

Goldman Sachs Global Investment Research.

Growth



Source: Haver Analytics, Goldman Sachs Global Investment Research.
Note: GS CAI is a measure of current growth. For more information on the methodology of the CAI please see "Improving Our Within-Month CAI Forecasts," Global Economics Comment, Mar. 06, 2023.

Forecasts

Economics

GDP growth (%)	2024 GS (Q4/Q4)	2024 Cons. (Q4/Q4)	2024 GS (CY)	2024 Cons. (CY)	2025 GS (CY)	2025 Cons. (CY)
Global	2.8	--	2.7	2.6	2.8	2.6
US	2.5	2.0	2.8	2.6	2.4	1.8
China	4.9	4.6	4.9	4.8	4.7	4.5
Euro area	0.9	1.0	0.7	0.7	1.1	1.2

Policy rates (%)	2024 GS	2024 Mkt.	2025 GS	2025 Mkt.
US	4.38	4.38	3.38	3.32
Euro area	3.00	2.93	2.00	1.84
China	1.50	1.30	1.10	--
Japan	0.25	0.30	0.75	0.58

Markets

Interest rates 10Yr (%)	Last	E2024	E2025
US	4.08	3.85	4.10
Germany	2.18	1.90	2.00
Japan	0.97	1.10	1.80
UK	4.00	3.75	3.60

FX	Last	3m	12m
EUR/$	1.09	1.10	1.15
GBP/$	1.30	1.34	1.40
$/JPY	150	148	140
$/CNY	7.10	7.15	7.25

Commodities	Last	3m	12m
Crude Oil, Brent ($/bbl)	73	77	75
Nat Gas, NYMEX ($/mmBtu)	2.26	3.10	3.75
Nat Gas, TTF (EUR/MWh)	39.16	40	33
Copper ($/mt)	9,503	9,210	10,630
Gold ($/troy oz)	2,713	2,750	3,040

Credit (bp)		Last	4Q24
USD	IG	81	90
	HY	286	291
EUR	IG	118	120
	HY	327	336

Equities

S&P 500	E2024 GS	E2024 Cons.	E2025 GS	E2025 Cons.
Price	6,000	--	--	--
EPS	$241	$240	$268	$275
Growth	8%	8%	11%	15%

Returns (%)	12m	YTD	E2024 P/E
S&P 500	7	23.0	24.9x
MXAPJ	13	15.5	15.4x
Topix	8	13.6	15.7x
STOXX 600	3	9.6	14.8x

Consumer	2024 CPI (%, yoy)	2024 Unemp. Rate	2025 CPI (%, yoy)	2025 Unemp. Rate
US	2.9	4.1	2.2	3.9
Euro area	2.3	6.7	1.9	6.7
China	0.4	--	0.9	--

Wage Tracker 2024 (%)	Q1	Q2	Q3	Q4
US	4.2	4.0	3.9	--
Euro area	--	--	--	--
China	--	--	--	--

Source: Bloomberg, Goldman Sachs Global Investment Research. For important disclosures, see the Disclosure Appendix or go to www.gs.com/research/hedge.html.

Market pricing as of October 18, 2024

Glossary of GS proprietary indices

Current Activity Indicator (CAI)

GS CAIs measure the growth signal in a broad range of weekly and monthly indicators, offering an alternative to Gross Domestic Product (GDP). GDP is an imperfect guide to current activity: In most countries, it is only available quarterly and is released with a substantial delay, and its initial estimates are often heavily revised. GDP also ignores important measures of real activity, such as employment and the purchasing managers' indexes (PMIs). All of these problems reduce the effectiveness of GDP for investment and policy decisions. Our CAIs aim to address GDP's shortcomings and provide a timelier read on the pace of growth.

For more, see our CAI page and Global Economics Analyst: Trackin' All Over the World – Our New Global CAI, 25 February 2017.

Dynamic Equilibrium Exchange Rates (DEER)

The GSDEER framework establishes an equilibrium (or "fair") value of the real exchange rate based on relative productivity and terms-of-trade differentials.

For more, see our GSDEER page, Global Economics Paper No. 227: Finding Fair Value in EM FX, 26 January 2016, and Global Markets Analyst: A Look at Valuation Across G10 FX, 29 June 2017.

Financial Conditions Index (FCI)

GS FCIs gauge the "looseness" or "tightness" of financial conditions across the world's major economies, incorporating variables that directly affect spending on domestically produced goods and services. FCIs can provide valuable information about the economic growth outlook and the direct and indirect effects of monetary policy on real economic activity.

FCIs for the G10 economies are calculated as a weighted average of a policy rate, a long-term risk-free bond yield, a corporate credit spread, an equity price variable, and a trade-weighted exchange rate; the Euro area FCI also includes a sovereign credit spread. The weights mirror the effects of the financial variables on real GDP growth in our models over a one-year horizon. FCIs for emerging markets are calculated as a weighted average of a short-term interest rate, a long-term swap rate, a CDS spread, an equity price variable, a trade-weighted exchange rate, and—in economies with large foreign-currency-denominated debt stocks—a debt-weighted exchange rate index.

For more, see our FCI page, Global Economics Analyst: Our New G10 Financial Conditions Indices, 20 April 2017, and Global Economics Analyst: Tracking EM Financial Conditions – Our New FCIs, 6 October 2017.

Goldman Sachs Analyst Index (GSAI)

The US GSAI is based on a monthly survey of GS equity analysts to obtain their assessments of business conditions in the industries they follow. The results provide timely "bottom-up" information about US economic activity to supplement and cross-check our analysis of "top-down" data. Based on analysts' responses, we create a diffusion index for economic activity comparable to the ISM's indexes for activity in the manufacturing and nonmanufacturing sectors.

Macro-Data Assessment Platform (MAP)

GS MAP scores facilitate rapid interpretation of new data releases for economic indicators worldwide. MAP summarizes the importance of a specific data release (i.e., its historical correlation with GDP) and the degree of surprise relative to the consensus forecast. The sign on the degree of surprise characterizes underperformance with a negative number and outperformance with a positive number. Each of these two components is ranked on a scale from 0 to 5, with the MAP score being the product of the two, i.e., from -25 to +25. For example, a MAP score of +20 (5;+4) would indicate that the data has a very high correlation to GDP (5) and that it came out well above consensus expectations (+4), for a total MAP value of +20.

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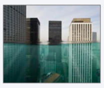

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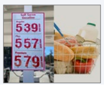

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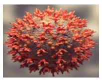

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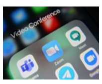

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