

Mid-Year Outlook 2020



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Today's Investor Concerns



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**Asset
Management**





Mid-Year Outlook: Market and Economic Perspectives

Riding the Storm Out

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LPL Registered Principal

July 2020

Market Strategy
Strategic Advisory Solutions

Executive Summary

Unprecedented, Uncertain, and Unbelievable



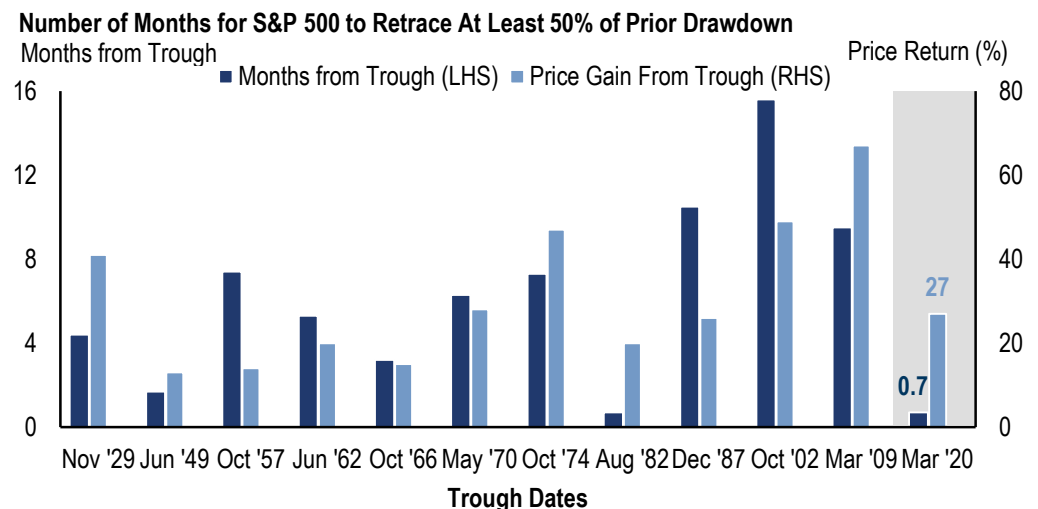
Asset Management

- ❑ **Unprecedented Risk:** Over 80% of COVID-19 cases are mild or asymptomatic, forcing ~95% of economies to lockdown.
- ❑ **Record Speed:** The S&P 500's quick plunge into bear market territory and partial retracement have been historically swift in both directions.
- ❑ **Record Uncertainty:** On March 16th, the VIX Index touched an all-time high of 82.7, reflecting concerns about the scope of coronavirus impact and strained market illiquidity.
- ❑ **Record Lows:** Investors fleeing to safe haven investments pushed the entire US Treasury curve below 1.0% for the first time in history. Additionally, the May WTI Crude Oil contract closed on April 20th at -\$38, reflecting the collision of contract expiration, excess supply, plummeting demand, and limited storage capacity.
- ❑ **Record Highs:** Cumulatively, US Initial Jobless Claims have risen over 40 million since mid-March, suggesting a near-term spike in the unemployment rate of at least 20%.
- ❑ **Record Policy:** As the US CARES Act approaches 13% of US GDP, fiscal policy has been sizeable and well-targeted. The Federal Reserve has lowered interest rates, expanded liquidity facilities, and provided an open-end commitment to broadened balance sheet expansion totaling at least \$5T in financial support.
- ❑ **Bottom Line:** Physical separation policies appear to be working, but have simultaneously unleashed a sudden global economic deceleration. In our opinion, the recovery will be similar to the decline...idiosyncratic and discriminant.

Top 10 Largest Single Day S&P 500 Moves

Date	Positive Return	Date	Negative Return
10/13/08	12%	10/19/87	(20)%
10/28/08	11%	3/16/20	(12)%
3/24/20	9%	3/12/20	(10)%
3/13/20	9%	10/15/08	(9)%
10/21/87	9%	12/1/08	(9)%
3/23/09	7%	9/28/08	(9)%
4/6/20	7%	10/26/87	(8)%
11/13/08	7%	10/9/08	(8)%
11/24/08	6%	3/9/20	(8)%
3/10/09	6%	10/27/97	(7)%

A Swift Retracement



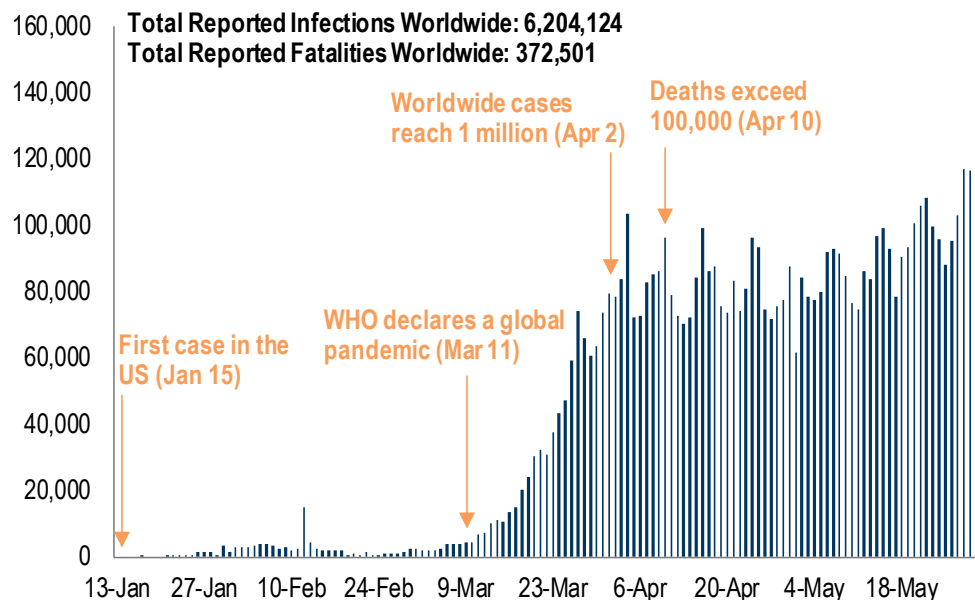
COVID-19 Update



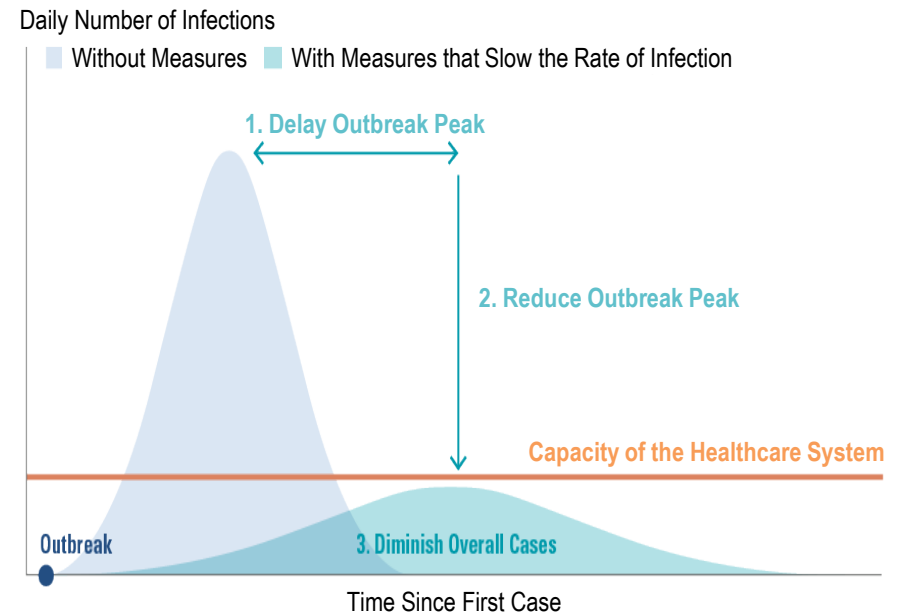
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Cases	Virus	Shutdown	Vaccine	Treatment
>6mm Total confirmed cases worldwide	2.3 Estimated coronavirus natural reproduction number	~95% Of global economies were placed under lockdown	12-18 Month condensed timeline to vaccine development	250 Potential treatments, including drug screening initiatives

Global New Daily Cases



Illustrative Development of a Pandemic Over Time



Source: Bloomberg, World Health Organization, and GSAM. As of May 31, 2020. **Past performance does not guarantee future results, which may vary.**

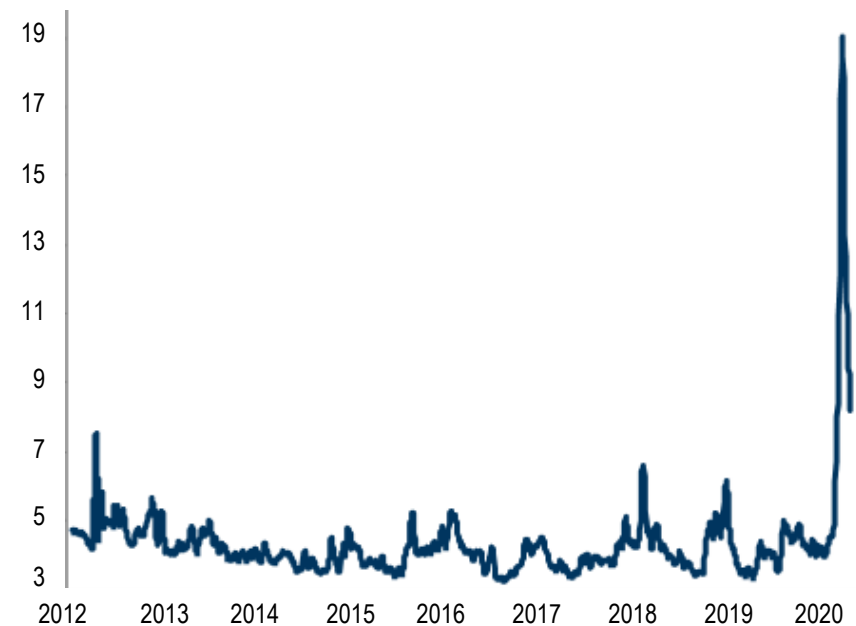
Sources of Volatility

Labor	Elections	Regulation	Credit	Liquidity
40mm Initial Jobless Claims over the last 10 weeks	270 Electoral votes to win, key toss up states: AZ, MI, PA, WI, NC, FL	20% Concentration of large tech companies on Washington DC's radar	12% Energy company representation in the US High Yield Index	72% US equity volume is algorithmically traded

Equity Market Concentration (%)



Median S&P 500 Stock Bid-Ask Spread as % of Price (bp)

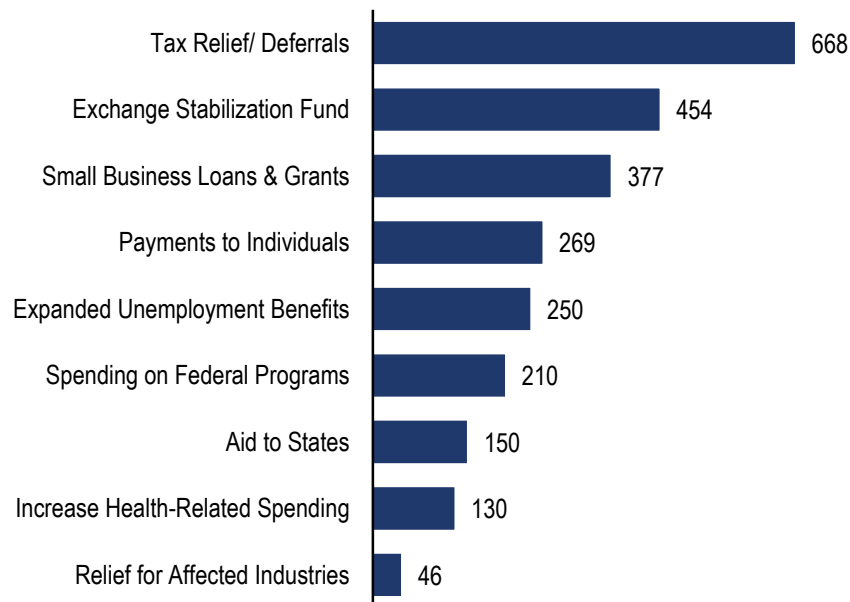


Source: Bloomberg, Goldman Sachs Global Investment Research, and GSAM. As of May 31, 2020. Bottom Left Chart Notes: Chart shows the market capitalization of the five largest companies in the S&P 500 as a share of the S&P 500 Index total. Bottom Right Chart Notes: Chart shows the 10-day average of the median bid-ask spread of companies in the S&P 500 index. "Bp" refers to basis point, equal to 1/100th of 1% or 0.01%. **Past performance does not guarantee future results, which may vary.**

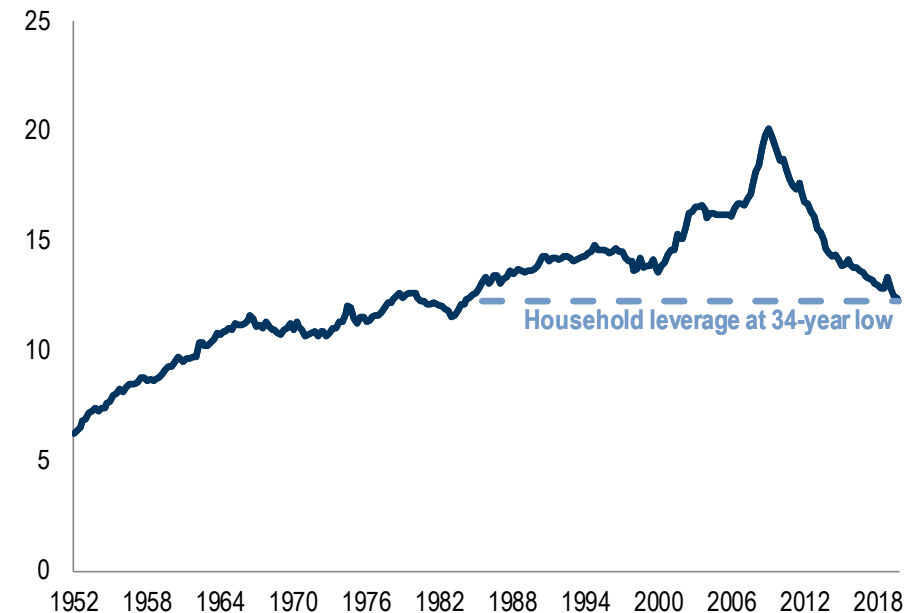
Sources of Stability

Fiscal	Central Banks	Inflation	Refinancing	Households
<h2>13%</h2> <p>Of US GDP has been targeted in stimulus and loans</p>	<h2>10</h2> <p>Of 10 major central banks easing in 2020</p>	<h2>1%</h2> <p>2020 core PCE allows ample room for policy support</p>	<h2>13mm</h2> <p>Households may refinance mortgages</p>	<h2>33%</h2> <p>Savings rate sets stage for potential consumer rebound</p>

CARES Act Components (\$, billion)



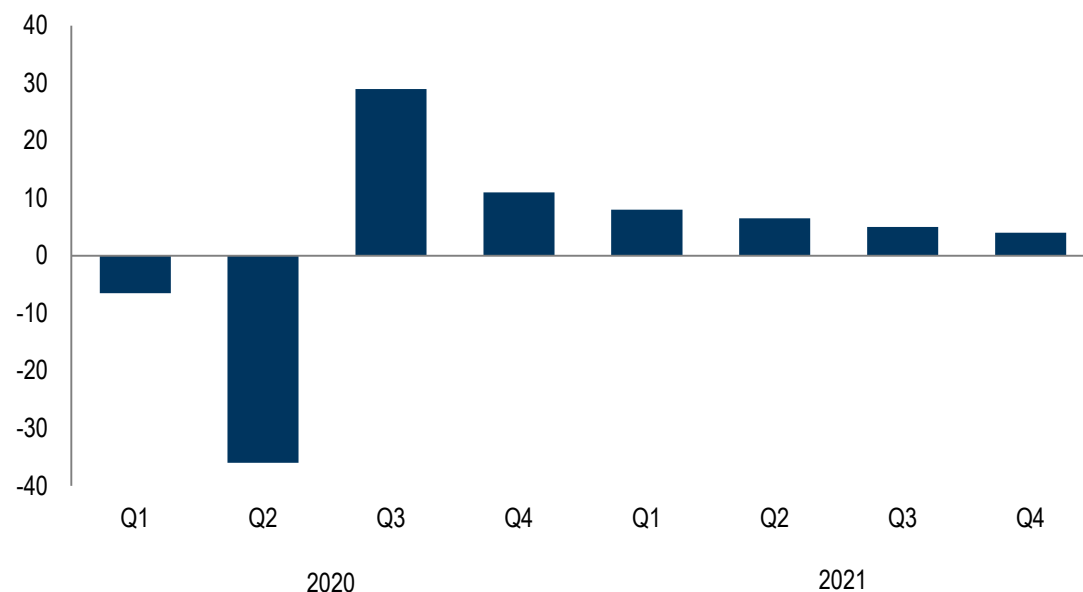
US Household Leverage (%)



Top Table Source: Haver, Federal Reserve, Goldman Sachs Global Investment Research, CNBC, and GSAM. As of May 31, 2020. 'PCE' refers to personal consumption expenditures, the Federal Reserve's target measure of inflation. 'GFC' refers to the Global Financial Crisis, which began in 2007. Bottom Left Chart Source: Goldman Sachs Global Investment Research and GSAM. As of March 31, 2020. Bottom Right Chart Source: Federal Reserve of St Louis and GSAM. As of December 31, 2019, latest available data. Leverage refers to household liabilities as a percent of household assets. **Past performance does not guarantee future results, which may vary.**

US economic growth drag from COVID-19 likely concentrated in H1 2020

US GDP Annualized Quarterly Growth (%)



Key Drivers for Lower Growth

- Sharp contraction in March and April
- Consumers and businesses continue to cut back on spending
- Manufacturing and construction recover faster than services
- Policy response mitigates second round income effects

Source: Goldman Sachs Global Investment Research and GSAM. As of May 31, 2020.

Risk assets may moderate going forward

	Current Level	12m Forecast	Forecast Upside/Downside (%)
Equities	Index level		Total Return
S&P 500 (\$)	3044	3100	3.6
Stoxx Europe 600 (€)	350	370	9.1
Topix (¥)	1564	1500	-1.5
10 Year Gov. Bonds	Yield (%)		Total Return
US	0.64	1.00	-2.3
Germany	-0.45	-0.58	1.5
Japan	0.01	-0.07	1.1
UK	0.18	0.62	-3.5
Corporate Bonds	Spread		Total Return
Bloomberg Barclays US IG	178	140	4.0
Bloomberg Barclays US HY	631	523	7.9
iBoxx EUR IG	176	144	4.3
BAML EUR HY	560	502	6.5
Commodities	Spot Price		Spot Return
WTI (\$/bbl)	34	48.5	43.9
Copper (\$/mt)	5352	6000	12.1
Gold (\$/troy oz)	1732	1800	4.0

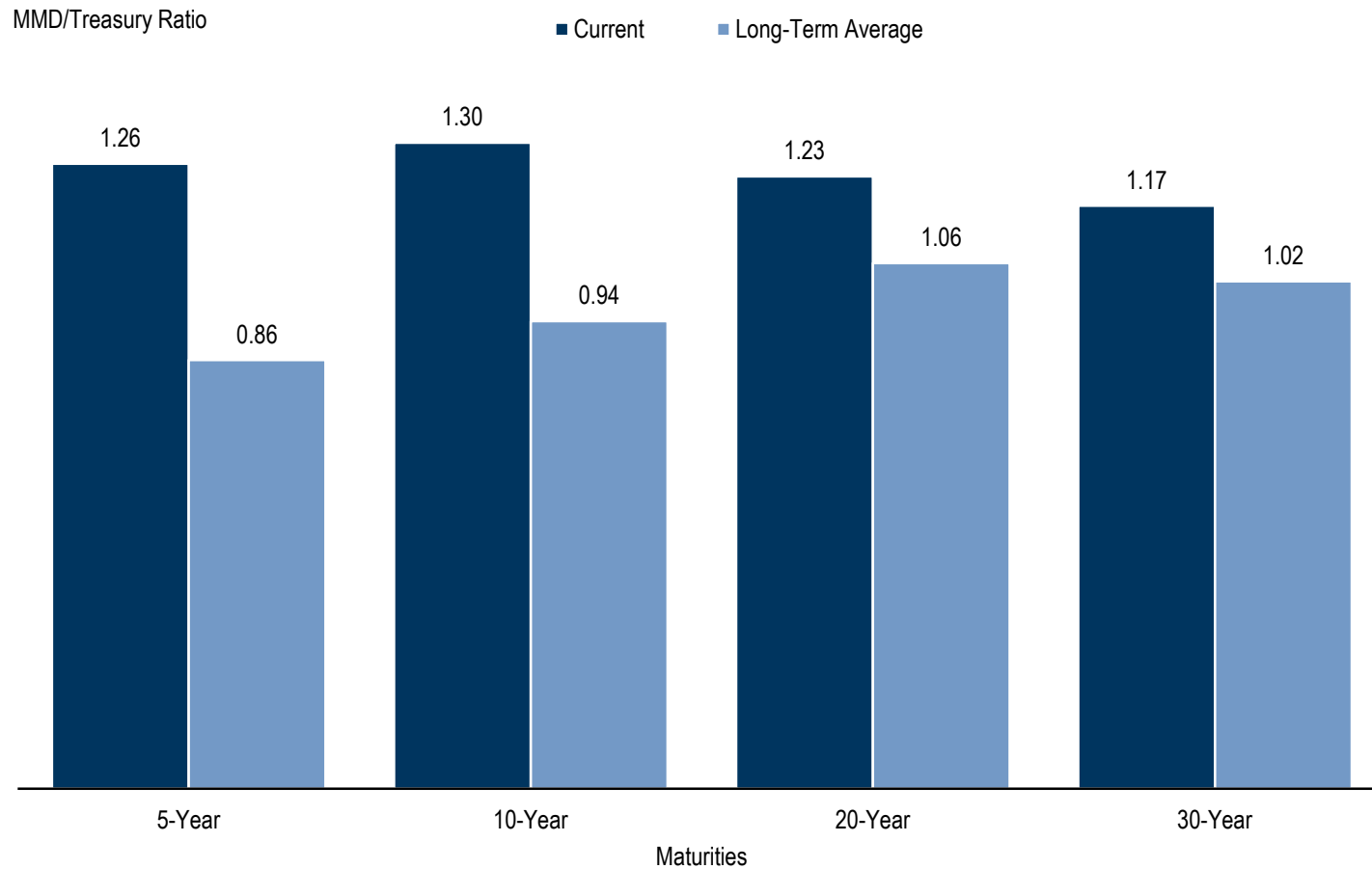
Source: Goldman Sachs Global Investment Research and GSAM. As of May 31, 2020. The economic and market forecasts presented herein are for informational purposes as of the date of this presentation. There can be no assurance that the forecasts will be achieved. **Past performance does not guarantee future results, which may vary.**

Municipal Bonds



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Municipals pressured by liquidity, not credit fundamentals



Source: MMD and GSAM. As of May 31, 2020. 'MMD/Treasury Ratios' refers to the yield of AAA-rated municipal bonds versus US Treasury bonds of the same maturity.

Bear Market Review



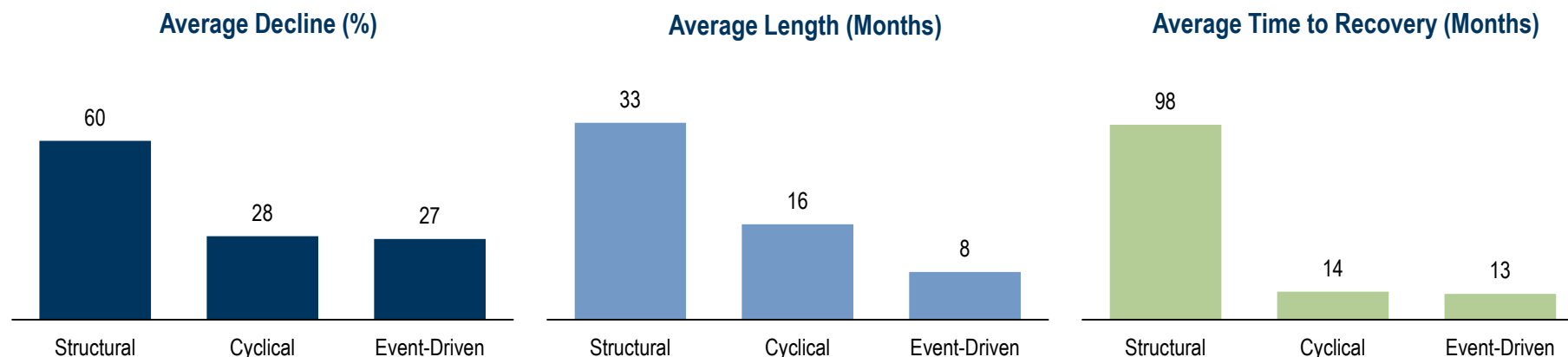
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Characteristics of a Bear Market

Pre-Bear	Structural	Cyclical	Event-Driven
Rising Rates	✓	✓	Maybe
Exogenous Shock	Maybe	Maybe	✓
Speculative Rise in Equity Prices	✓	✗	✗
Economic Imbalances	✓	✗	✗
Rising Productivity	✓	Maybe	-
Unusual Strength in the Economy	✓	✗	✗
New Era Belief	✓	✗	✗

Post-Peak	Structural	Cyclical	Event-Driven
Economic Recession / Downturn	Usually	Usually	Maybe
Profit Collapse	✓	✓	Maybe
Interest Rates Fall & Trigger Rise in Equity Prices / Fall in Bonds	✗	✓	Usually
Price Shock	✓	✗	✗

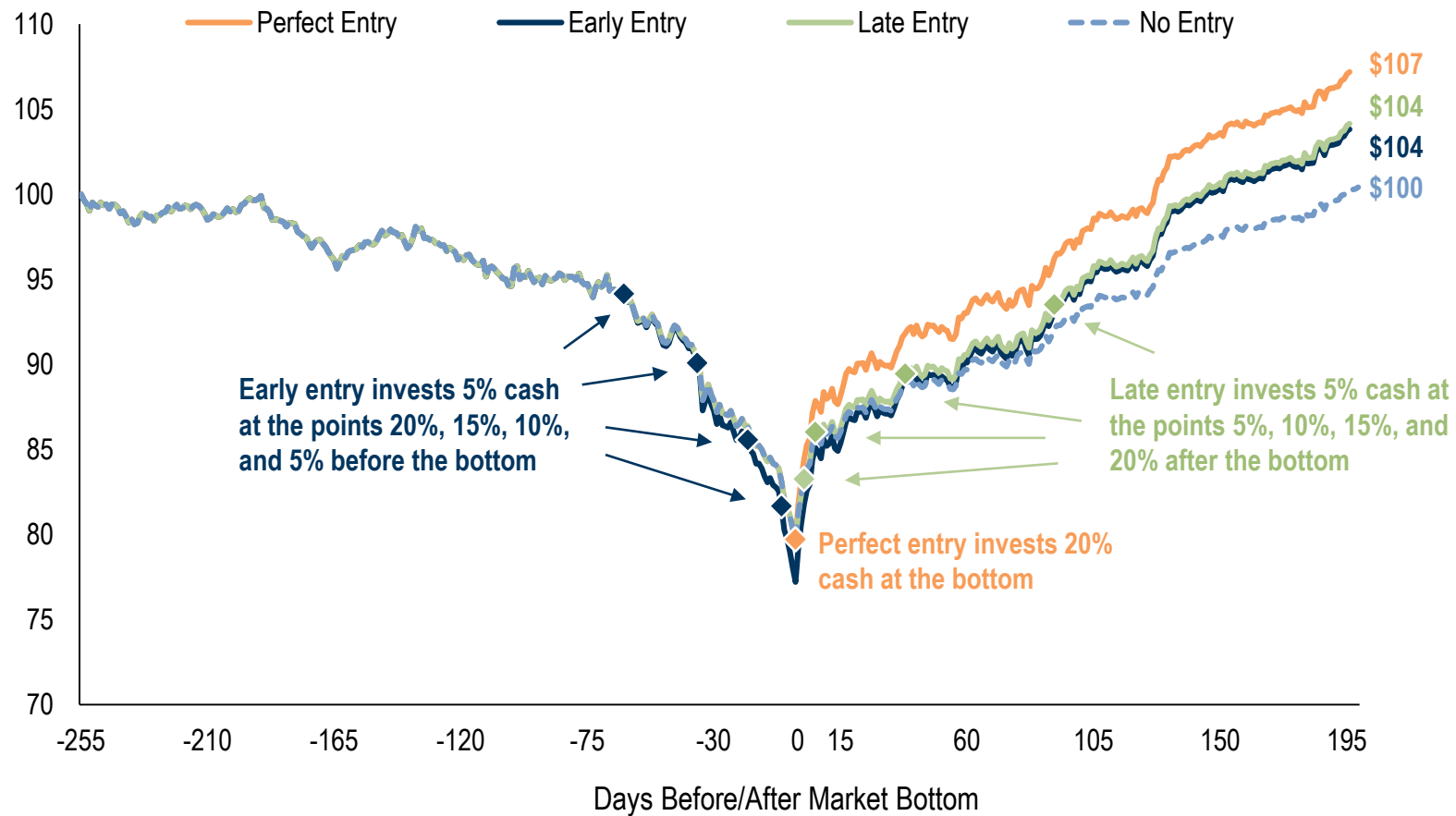
US Bear Markets and Recoveries



Source: Goldman Sachs Global Investment Research and GSAM. As of May 31, 2020. Analysis from 1928 to present. Bear market refers to a drawdown from peak-to-trough of 20% or greater.

Cash invested after the bear bottom has still enjoyed favorable results

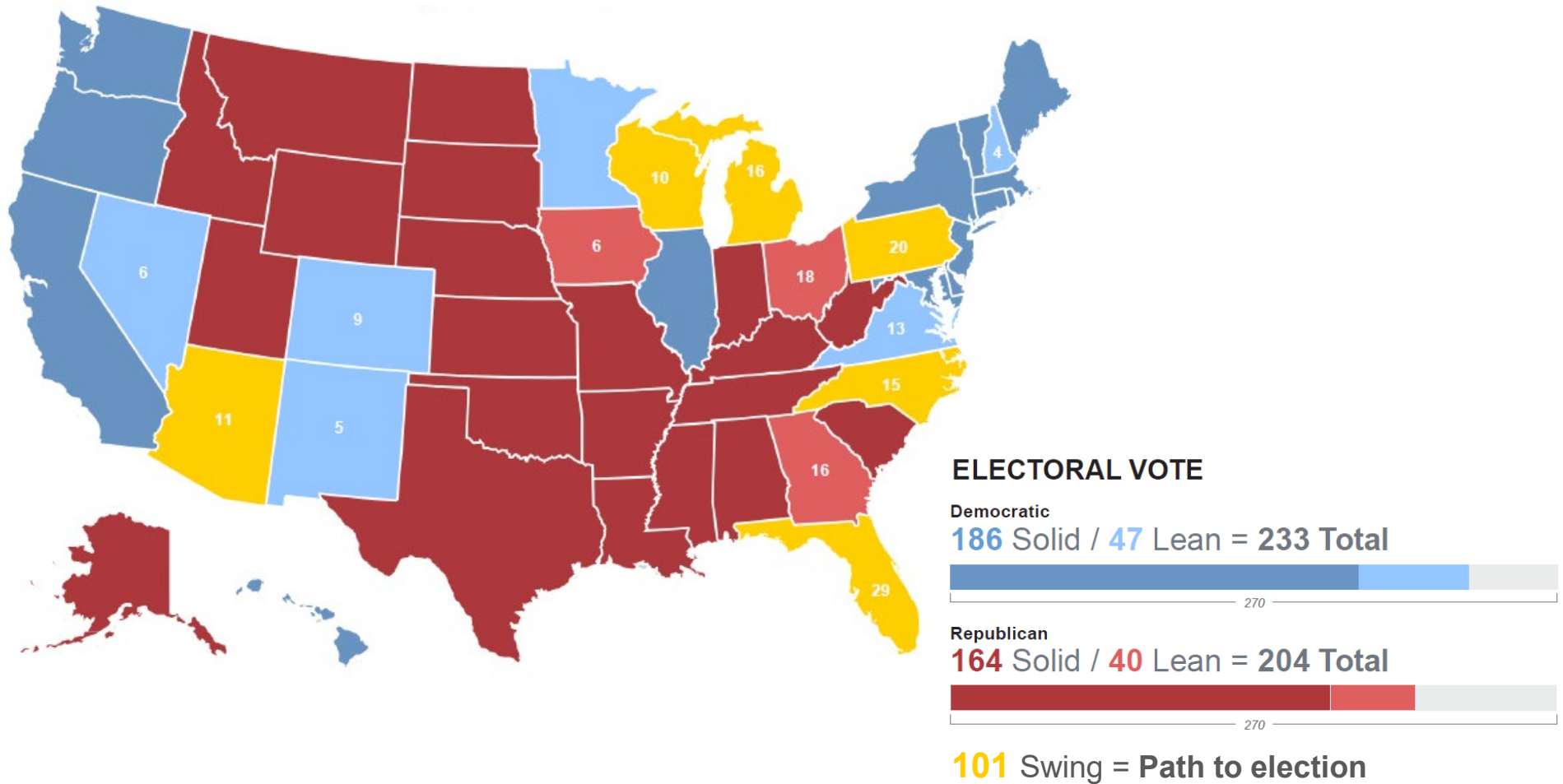
80/20 Equity/Cash Portfolio Timing in Average Bear Market (Growth of \$100)



Source: Bloomberg and GSAM. As of May 31, 2020. 'Bear market' refers to a peak-to-trough decline of 20% or greater. 'Average Bear Market Decline (Growth of \$100)' refers to the average equity drawdown and recovery for bear markets in the post-war era. **Past performance does not guarantee future results, which may vary.**

2020 Presidential Snapshot

The path to 270 electoral college votes may run through six toss-up states

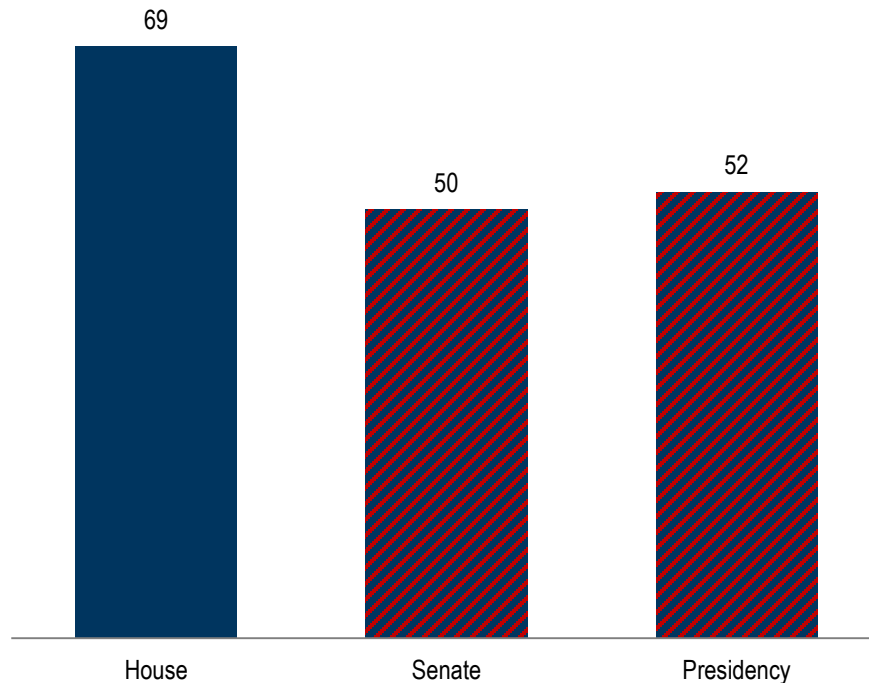


Source: Real Clear Politics and GSAM. As of May 31, 2020. For illustrative purposes only.

Political rhetoric may be larger than policy impact

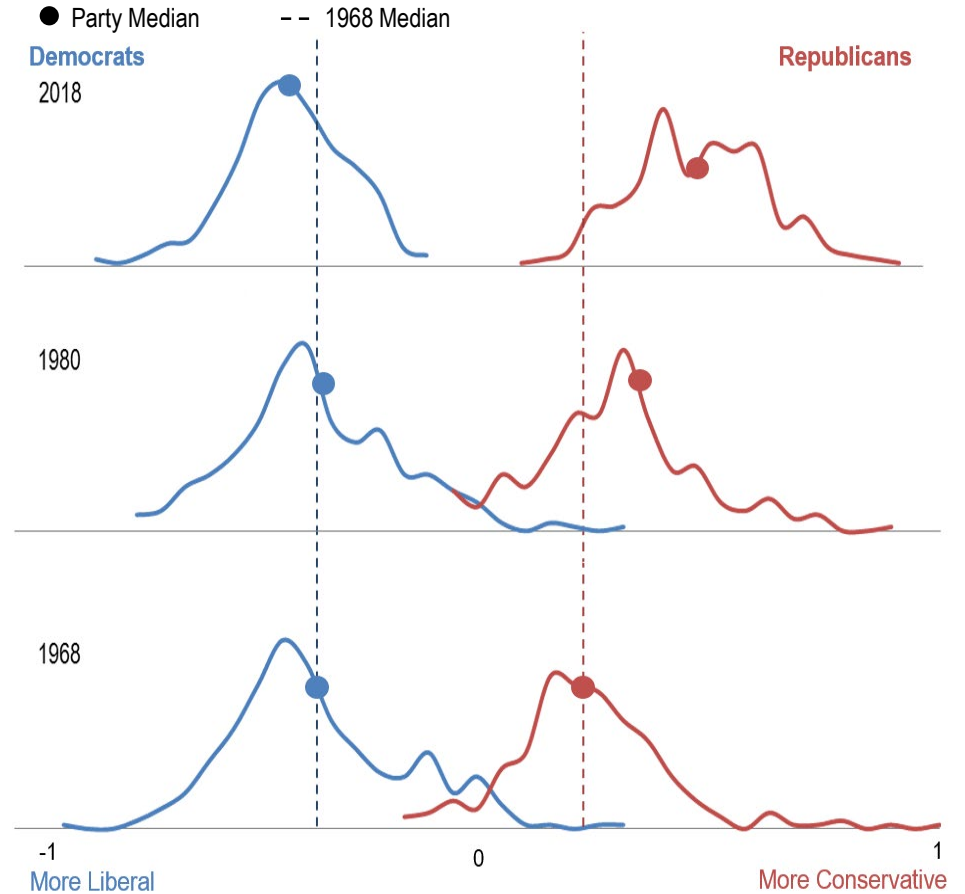
Prediction markets suggest a divided government

Odds that Democrats will win in 2020 (%)



Divided government suggests limited policy changes

Distribution of Political Ideology in Congress



Source: Bloomberg, PredictIt, VoteView, and GSAM. As of May 31, 2020. The economic and market forecasts presented herein are for informational purposes as of the date of this presentation. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this presentation. For illustrative purposes only.

Policy Risk



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Progressive policy implementation may be limited to executive orders

Legislation

- **Healthcare:** Universal coverage
- **Environment:** Green New Deal, ban all fracking
- **Education:** Free public college
- **Corporates:** Antitrust reform
- **Infrastructure**

60 votes –
Major policy changes highly unlikely

Reconciliation

- **Healthcare:** Public option
- **Environment:** Carbon tax
- **Education:** Student loan forgiveness
- **Tax proposals:** Personal, corporate, and capital gain rates

51 votes –
Fiscal policy changes likely moderated

Executive Order

- **Healthcare:** Reversing ACA deregulation, drug pricing, legalizing marijuana
- **Environment:** Ban fracking on federal land, stricter regulations and standards
- **Education:** Regulate for-profit higher ed institutions
- **Corporates:** Limit stock buybacks, stricter merger approval
- **Finance:** Regulate banking activities
- **Trade policy:** Trade deals, tariffs, investigations
- **Immigration**

0 votes –
Proposals possible through executive order

Source: Strategas and GSAM. As of May 31, 2020. Votes refer to the number of Senate votes necessary to pass policy. For illustrative purposes only

Acute period of uncertainty and global recession

- Unprecedented nature of coronavirus and medically-targeted policy
- Near-term growth drag followed by sequential acceleration

Markets and economy recover in 2H 2020

- Substantial fiscal and monetary policy support
- Episodic volatility continues

Pre-emptive risk management

- Tail risk from coronavirus, liquidity, and elections
- Diversification is strategic, not tactical

Source: GSAM. As of May 31, 2020. Diversification does not protect an investor from market risk and does not ensure a profit.

Risk Considerations



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Equity securities are more volatile than fixed income securities and subject to greater risks. Small and mid-sized company stocks involve greater risks than those customarily associated with larger companies.

Investments in foreign securities entail special risks such as currency, political, economic, and market risks. These risks are heightened in emerging markets.

Emerging markets securities may be less liquid and more volatile and are subject to a number of additional risks, including but not limited to currency fluctuations and political instability.

An investment in real estate securities is subject to greater price volatility and the special risks associated with direct ownership of real estate.

Investments in fixed-income securities are subject to credit and interest rate risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and principal. This risk is higher when investing in high yield bonds, also known as junk bonds, which have lower ratings and are subject to greater volatility. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Although Treasuries are considered free from credit risk, they are subject to interest rate risk, which may cause the underlying value of the security to fluctuate. Income from municipal securities is generally free from federal taxes and state taxes for residents of the issuing state. While the interest income is tax-free, capital gains, if any, will be subject to taxes. Income for some investors may be subject to the federal Alternative Minimum Tax (AMT).

Investments in commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or factors affecting a particular industry or commodity.

The currency market affords investors a substantial degree of leverage. This leverage presents the potential for substantial profits but also entails a high degree of risk including the risk that losses may be similarly substantial. Such transactions are considered suitable only for investors who are experienced in transactions of that kind. Currency fluctuations will also affect the value of an investment.

The above are not an exhaustive list of potential risks. There may be additional risks that are not currently foreseen or considered.

Index Benchmarks

Indices are unmanaged. The figures for the index reflect the reinvestment of all income or dividends, as applicable, but do not reflect the deduction of any fees or expenses which would reduce returns. Investors cannot invest directly in indices.

The indices referenced herein have been selected because they are well known, easily recognized by investors, and reflect those indices that the Investment Manager believes, in part based on industry practice, provide a suitable benchmark against which to evaluate the investment or broader market described herein.

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Glossary



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Equities

The S&P 500 Index is the Standard & Poor's 500 Composite Stock Prices Index of 500 stocks, an unmanaged index of common stock prices. The index figures do not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

The Chicago Board Options Exchange Volatility Index (VIX) reflects a market estimate of future volatility, based on the weighted average of the implied volatilities for a wide range of strikes.

The Chicago Board Options Exchange SKEW Index ("SKEW") is an index derived from the price of S&P 500 tail risk. Similar to VIX®, the price of S&P 500 tail risk is calculated from the prices of S&P 500 out-of-the-money options.

Fixed Income

The 10-Year Treasury is a US Treasury debt obligation that has a maturity of 10 years.

Other

CAPE Ratio is the cyclically adjusted price-to-earnings ratio and is defined as price divided by the average of ten years of earnings, adjusted for inflation.

Cash flow yield (CFO) refers to the cash flow from operations as a percentage of market capitalization, representing the income created by an investment.

EBITDA refers to earnings before interest, taxes, depreciation, and amortization, and is a measure of a company's overall financial performance.

EPS refers to earnings per share.

Euro area refers to the Eurozone. The Eurozone is comprised of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

EV refers to enterprise value, the total value of a firm as calculated by the total market capitalization, plus total debt, less cash.

P/E refers to the price to earnings ratio.

Volatility is a measure of variation of a financial instrument's price.

Yield gap is the ratio of the dividend yield of the S&P 500 to a denominator of the yield of the 10-Year US Treasury.