

Fundamentals First



Kay Haigh

Co-CIO and Co-Head, Fixed Income and Liquidity Solutions

"We expect 2025 to present substantial opportunities for macro investment strategies, which we believe will be a significant driver of portfolio returns. All G10 central banks, except the BoJ, are anticipated to engage in rate cuts, each following different timelines to different terminal rates. However, we remain vigilant to potential upside inflation risks that could alter central bank actions."



Whitney Watson

Co-CIO and Co-Head, Fixed Income and Liquidity Solutions

"Corporate and securitized bonds continue to offer attractive income potential with strong credit fundamentals. That said, historically tight valuations and the outcome of the US election add uncertainty which highlights the importance of active security selection, risk management, diversification, and a dynamic investment approach."

CIO Perspectives

Our [central expectation for 2025](#) is a continued global expansion, further easing of inflation, and broadening central bank rate cuts. However, the outcome of the US election and potential policy shifts add a new layer of uncertainty to the outlook. As we await policy announcements, particularly across trade, fiscal, and immigration, we remain focused on fundamentals such as labor market conditions, which inform consumer spending, and the health of private sector balance sheets, which continue to support income potential across various fixed income sectors. Each G10 economy starts 2025 with lower inflation compared to the start of 2024. Consequently, we expect every G10 central bank, except the Bank of Japan (BoJ), to deliver rate cuts in 2025. This scenario presents opportunities for relative value interest rate exposures and a more [diversified approach to duration](#).

The primary concern regarding our constructive view on fixed income sectors is tight spreads, which tightened further in 2024. However, we believe this tightness reflects healthy credit fundamentals and robust investor demand for attractive yields on offer. Importantly, income potential remains attractive, and our company-level analysis reinforces our benign downgrade and default activity expectations. Nevertheless, we remain vigilant about any revival in "animal spirits" that could lead to less disciplined company balance sheet management. In short, while fixed income spreads are tight, a combination of deteriorating fundamentals and weakening technical dynamics would be needed to trigger a turn in the credit cycle, which is not our base case for the coming year.

However, the 2020s have taught us to expect the unexpected, and entering 2025, we see risks to the global expansion tilted in both directions. A key downside risk is universal US tariffs, adding to existing growth weakness in the Eurozone and China. Conversely, global growth could improve with proactive fiscal stimulus in China or looser fiscal policy in Germany following the election, challenging prevailing pessimism about the Euro area. As the year unfolds, the importance of diversification and balanced exposures, along with a dynamic approach to capture opportunities, will be key. We aim to uphold intellectual humility to learn and adapt as the investment environment changes, alongside constant investing curiosity to achieve our clients' investment goals.

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Summary of Investment Views

[Key investment calls for 2025](#) include diversified duration exposures to benefit from divergent central bank cutting cycles and capturing carry-driven returns from fixed income spread sectors amid healthy credit fundamentals and a supportive macro backdrop. Given current valuations, we prefer high-quality high yield and securitized credit sectors such as Commercial Mortgage-Backed Securities (CMBS) and Collateralized Loan Obligations (CLOs). We also foresee a "stronger for longer" US dollar trend, driven by resilient US growth, equity market outperformance, and potential economic reacceleration from the pro-growth policies of the incoming administration.

	Underweight	Neutral	Overweight	Investment Perspectives
Sovereign Bonds				
US			●	Moderately overweight at the front-end of the curve given the limited market expectations for further Fed easing
Euro Area		●		Positioned for the yield curve to steepen as weaker growth prospects imply more ECB easing than priced
Japan	●			Underweight due to underlying inflation momentum pointing to further BoJ policy normalization
UK			●	Overweight as we expect softening growth and inflation to pave the way for further BoE easing
Other G10			●	Overweight Swedish, Norwegian, Australian, and New Zealand rates; domestic macro dynamics and global growth risks from trade tensions are expected to bring forward monetary easing in Australia and Norway and reinforce ongoing easing in Sweden and New Zealand
Currencies				
US Dollar			●	Overweight given US growth resilience and trade policy uncertainty
Euro	●			Underweight considering ECB easing
Japanese Yen		●		Neutral responding to our currency signals
British Pound	●			Underweight in anticipation of further BoE easing
Chinese Yuan	●			Underweight given weak growth and as a safeguard against anticipated US tariffs on Chinese goods
EM (ELMI)	●			Underweight responding to our currency signals
Fixed Income Spread Sectors				
IG Credit		●		Neutral due to tight spreads but continue to seek bottom-up income and return opportunities.
HY Credit			●	Overweight with a preference for high-quality bonds and selective exposure to CCC-rated bonds
Bank Loans			●	Overweight given attractive income potential but selective given potential stress among issuers with significant short-dated and floating-rate debt
Agency MBS			●	Overweight due to improving technical dynamics into year-end
Securitized Credit			●	Overweight given firm fundamentals with attractive carry in segments like senior CLOs and CMBS
External EMD			●	Moderately overweight as the fundamental backdrop improves with easing financial conditions and progressing debt restructurings
Local EMD		●		Neutral but see upside potential in economies where monetary easing has room to run

Source: Goldman Sachs Asset Management. As of December 16, 2024.

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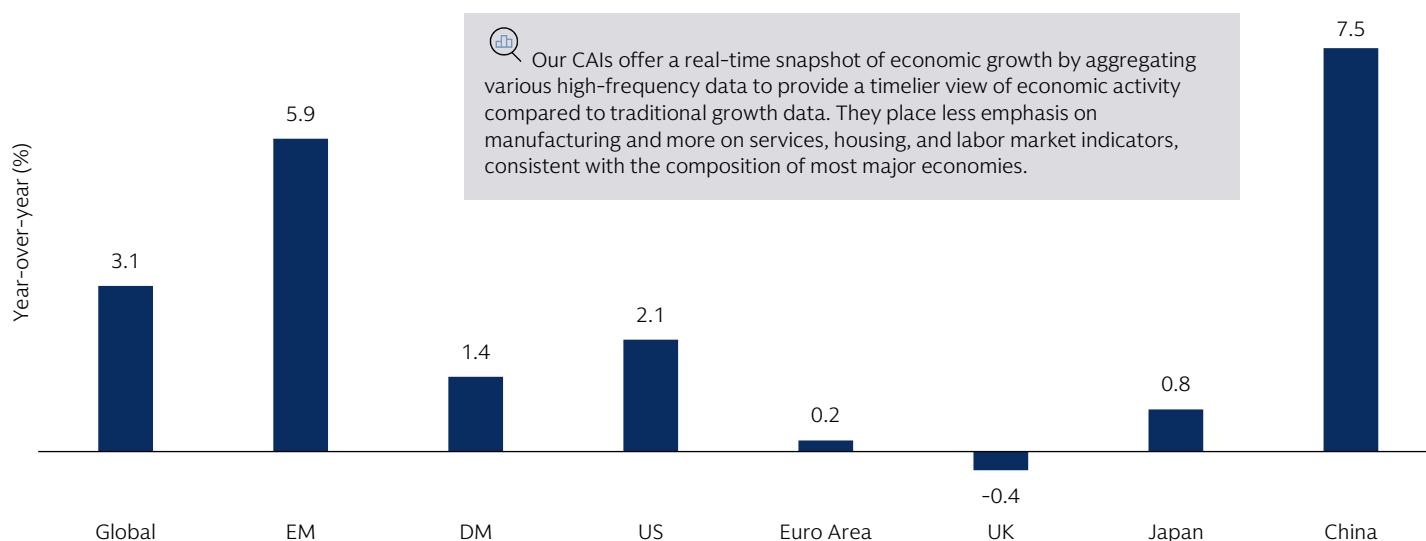
Macro at a Glance

Growth: Growing Divergence

Our current activity indicators (CAIs) suggest that most major economies will enter 2025 from a resilient position, especially the US, which continues to grow above trend. However, we expect more divergent growth outcomes in 2025. Trade policy uncertainty poses downside risks to growth in Europe, China, and potentially the US. Divergence is also expected within regions: Germany's auto and manufacturing sectors face competition from China, while Portugal, Greece, and Spain benefit from tourism, Recovery Fund disbursements, and growth in high-value services. Recent stimulus has reduced downside risks to Chinese growth by addressing structural debt imbalances among local governments. But new risks have emerged from uncertainty around US-China trade relations. Encouragingly, policymakers have strengthened their pro-growth stance. We are monitoring policy measures to address debt imbalances and spur domestic demand.

Exhibit 1: Global Growth Remains Resilient

Our Current Activity Indicators



Source: Goldman Sachs Asset Management. As of November 2024. Abbreviations: Developed markets (DM), emerging markets (EM). **Past correlations are not indicative of future correlations, which may vary.**

Inflation: Last Mile Challenges

Every major DM economy enters 2025 with lower inflation compared to the start of 2024. Goods and energy prices are stable, lagged price or rent resets are nearing completion, inflation expectations are anchored, and wages are normalizing, which should support disinflation in services. Our inflation pressure indicators (IPIs) confirm this trend. Energy prices face two-sided risks: geopolitical-driven supply disruptions could push prices up, while easing regulatory hurdles for US oil and gas supply could push prices down.

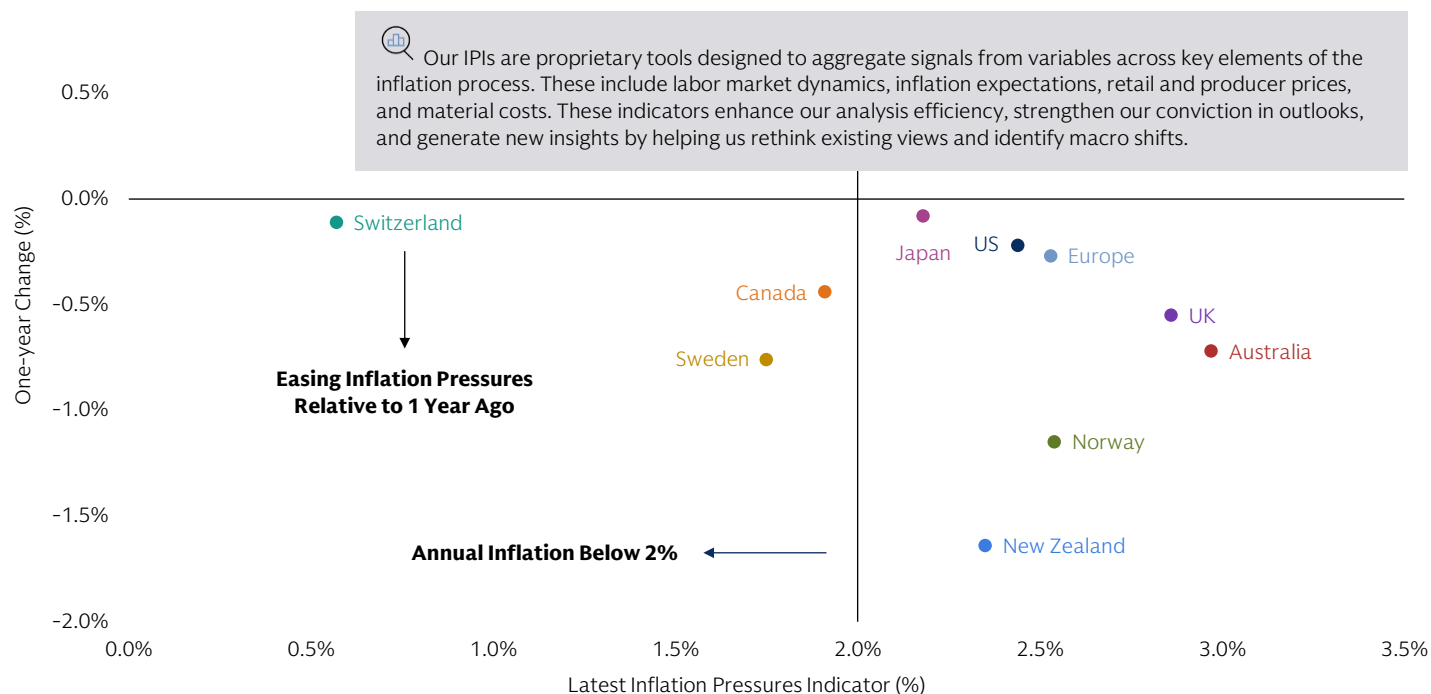
The US inflation path faces three key upside risks, all linked to the incoming US administration's potential policies. The first risk is a genuine reacceleration of the economy. Growth is tracking above 2%¹ and may be further boosted by pro-growth policies such as looser regulation and lower taxes. The second risk involves across-the-board tariffs, though this is not our base case, and downside growth risks could dominate the one-time price uplift. The final risk is significant restrictions on immigration and deportations, which could cause a labor supply shock. However, the likelihood of this is limited by logistical and resource constraints. Of these risks, a reacceleration of the economy is the largest concern. While further inflation progress is our base case, recent years have taught us not to underestimate the implications of changed corporate pricing power or worker bargaining power.

¹ Based on our current activity indicator. As of January 2, 2025.

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Outside of the US, disinflation trends in various economies, including Canada, New Zealand, and Sweden, appear more convincing, as reflected in our IPIs. Even in Australia and Norway, where central banks have yet to begin cutting rates, our IPIs show a deceleration in inflation over the past three months.

Exhibit 2: Easing Inflation Pressures Relative to a Year Ago



Source: Goldman Sachs Asset Management. As of December 16, 2024.

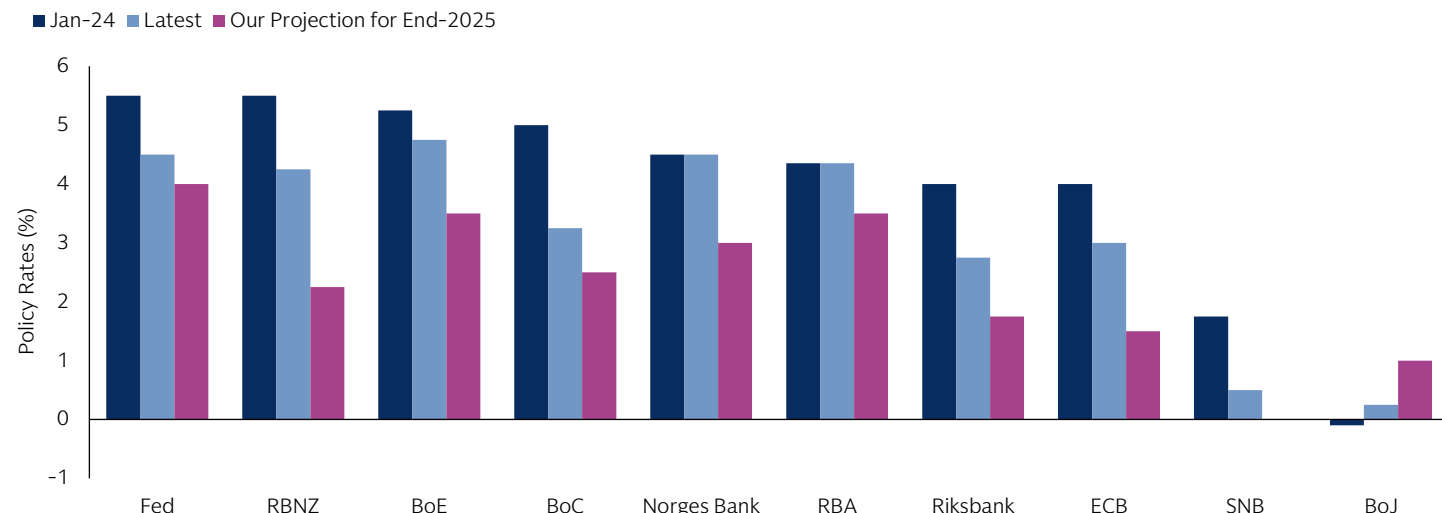
Policy Picture

Central Banks: Divergent Downtrend

In 2024, G10 central banks delivered a cumulative 800bps of policy rate cuts, compared to 1,200bps of rate hikes in 2023.² Currently, seven G10 central banks are engaged in monetary easing cycles. The ECB has implemented four rate cuts, while the Fed has made three, and the BoE two. Smaller central banks like the SNB and BoC closed 2024 with 0.5% adjustments. In 2025, we anticipate more rate cuts, but the pace of adjustments and destinations will diverge. Australia's central bank is in the midst of a dovish pivot, and we expect Norway's Norges Bank to also join the rate-cutting trend. Meanwhile, the BoJ remains a lone hiker due to a virtuous cycle between wages and prices in Japan and considering policy rates are still incredibly low at 0.25%. In our view, the UK faces one of the weakest growth paths, despite the expansionary Autumn budget, reflecting an anticipated negative impact on hiring from the rise in national insurance contributions. Consequently, we expect the BoE to ease more than currently implied by its projections and market pricing. Open economies like the Euro area may also be more sensitive to rising trade policy uncertainty, which could weigh on business investment and broader growth and inflation outcomes, driving policy rates below estimates of neutral.

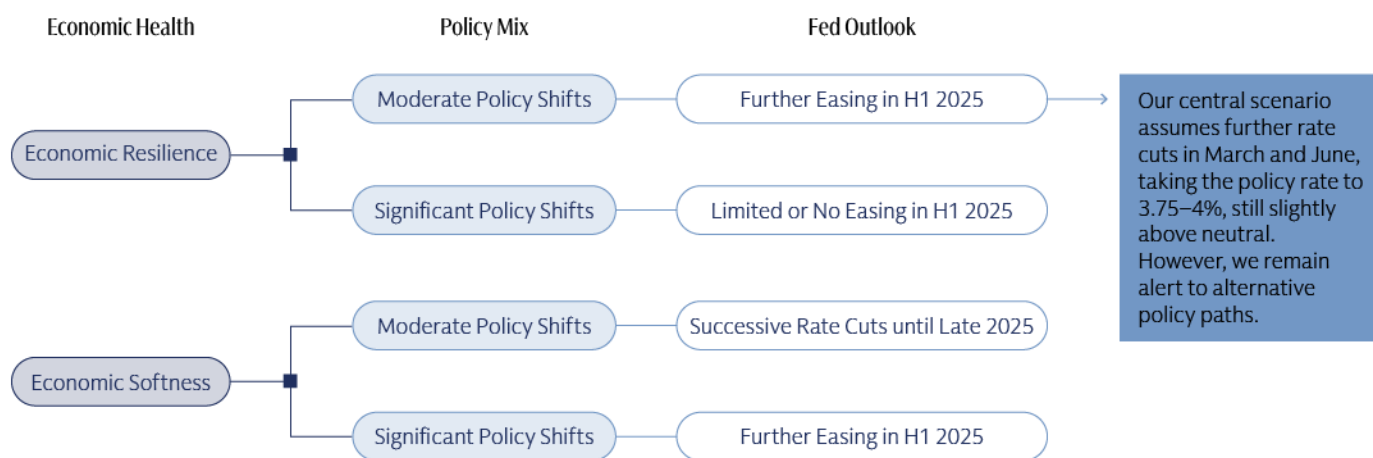
² Source: Macrobond. As of December 31, 2024.

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Exhibit 3: Policy Rates Set to End 2025 Lower than Where They Start the Year, Except in Japan

Source: Macrobond. As of December 31, 2024. Abbreviations: US Federal Reserve (Fed), Reserve Bank of New Zealand (RBNZ), Bank of England (BoE), Bank of Canada (BoC), Reserve Bank of Australia (RBA), European Central Bank (ECB), Swiss National Bank (SNB). Fed funds rate reflects upper bound. The economic and market forecasts presented herein are for informational purposes as of the date of this document. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document.

The US policy mix complicates [the Fed's path](#), but we expect the health of the economy to take precedence in driving policy in the near term. As the year progresses, the inflation and labor market consequences of new policies should become clearer, helping to determine whether the Fed's easing cycle will draw to a close or be extended.

Exhibit 4: Near-Term Fed Path Hinges on Economic Health, with Trump 2.0 Policies Shaping Policy Later in 2025

Economic resilience: Defined as the unemployment rate peaking at 4.5% and annual real GDP growth staying above 2%. **Economic softness:** Defined as the unemployment rate rising above 4.5% and annual real GDP growth dropping below trend. **Moderate policy shifts:** Defined as an extension of expiring Tax Cuts and Jobs Act (TCJA) tax cuts alongside targeted rather than broad-based tariffs on Chinese goods and other imports. **Significant policy shifts:** Defined as additional tax cuts beyond an extension of the expiring TCJA tax cuts alongside 60% tariffs on Chinese imports and a broad-based 10% tariff on imports from other countries. Source: Goldman Sachs Asset Management. For illustrative purposes only. As of December 2024.

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What We're Watching

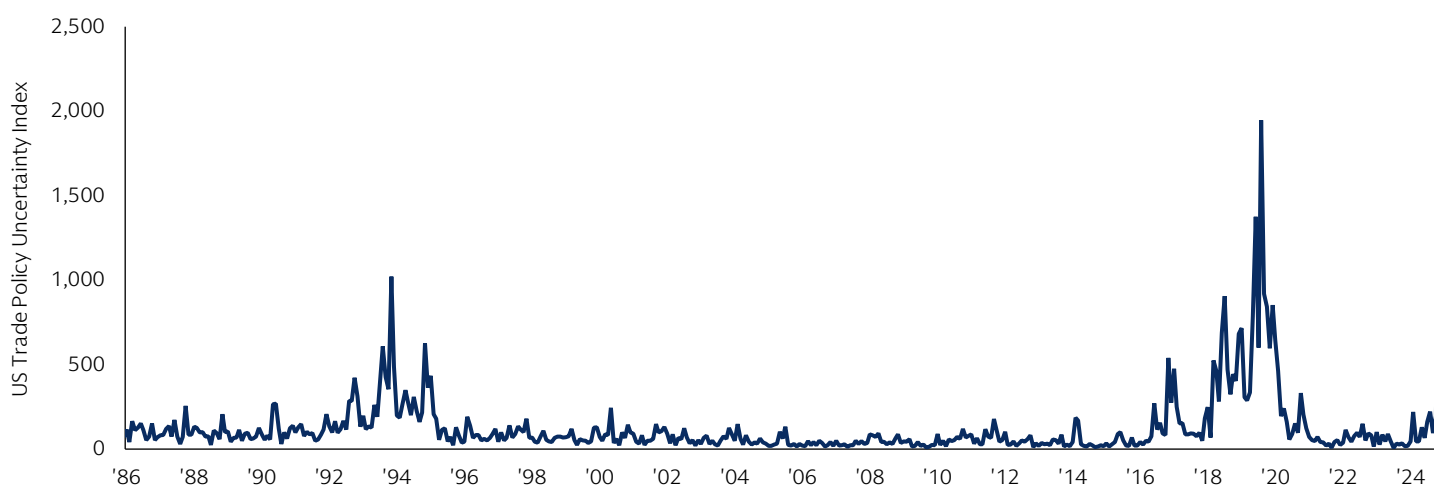
US Policy Mix

The first 100 days of the Trump administration will be crucial for assessing legislative priorities (see “In Focus: US Policy Shifts in a Second Trump Term”). If implemented, tariffs could impact growth and inflation through various direct and indirect channels. The primary risk to global expansion and financial markets would come from a universal rise in tariffs. Predicting the international response and retaliation to higher tariffs is challenging. China is likely to be the first target for US tariffs, which would exacerbate existing domestic challenges linked to the housing downturn. Since the 2018–19 trade war, Chinese policymakers have developed potential retaliatory measures, including a recent ban on exports of several rare earth minerals to the US. [Recent policy rhetoric](#) reflects a strengthened pro-growth stance. However, the degree and effectiveness of the stimulus remain uncertain. In Europe, a one-off tariff shock would likely have a more significant impact on growth than inflation, necessitating additional monetary easing. If universal tariffs spark a global trade war, we will need to assess the impact on supply chains and any associated fiscal easing offsets to determine whether the hit to demand or supply dominates. The latter scenario would be inflationary and complicate the ECB's response. Overall, the implications for growth, inflation, and policy are complex and vary by economy.

Consumer Spending

Consumer spending, a key driver of economic growth in major economies, is influenced by the health of the labor market, household financial well-being, and confidence in economic prospects. Consumers continue to benefit from healthy labor markets, with unemployment rates remaining close to historical lows in the Euro area and Japan. Although the unemployment rate has risen somewhat in the US, this increase partly reflects an influx of immigrant workers, and recent indicators show some stabilization in the labor market's weakening trend seen in summer 2024. Balance sheets remain generally strong, and debt service ratios are low in most major economies, including the US, Euro area, and Japan. However, the UK and other small open economies like Australia and Canada are exceptions due to a higher share of shorter fixation mortgages. We also observe weaker consumer confidence in the Euro area compared to the US, which may explain higher savings rates and muted consumer spending despite real income gains. Overall, conditions for sustained consumer spending remain in place, supporting corporate earnings growth and income potential across corporate and securitized credit. However, we observe divergence across countries and among consumer cohorts, highlighting the importance of bottom-up security selection.

Exhibit 5: Elevated Trade Policy Uncertainty Has Potential to Weigh on Investment and Activity



Source: Macrobond. As of November 2024. More detailed information about the index can be found [here](#).

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Politics & Policies

The significant rise in public debt post-Covid, coupled with limited prospects for near-term consolidation and political uncertainty, could lead to volatility in sovereign bond markets, as seen in the UK in 2022 and [France in 2024](#). The experience in France highlights the political challenges of enacting fiscal consolidation, which can create heightened policy uncertainty and weigh on investment and economic activity. However, political change can also catalyze an expansion in fiscal measures that may unlock growth opportunities. Germany stands out as a key candidate in this regard. With the largest fiscal space among major developed markets, Germany's debt-to-GDP ratio is 64%, compared to over 120% in the US. The constitutional debt brake rule limits the cyclical deficit to 0.35% of GDP, requiring a two-thirds parliamentary majority to amend. Germany has underperformed its peers in recent years due to the drag on industrial activity from high energy prices and China's evolution from a key export market to a main competitor. The upcoming election in February could broaden fiscal options, potentially leading to increased investment spending and a revival of the economy. This would benefit the broader Euro area and help offset potential headwinds from hawkish US trade policy.

In Case You Missed It



Watch

Watch our webinar on Fixed Income Perspectives for 2025. Reach out to your Goldman Sachs Asset Management representative the replay link.



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Read more in the [Asset Management Outlook: Reasons to Recalibrate](#) and our [Fixed Income Musings](#) for weekly views on the global economy, economic policy and fixed income markets.



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In Focus: US Policy Shifts in a Second Trump Term

The outcome of the US election has potential to drive significant policy shifts. While there is uncertainty about how campaign and social media rhetoric will translate into reality, we highlight four key areas of potential policy changes and their potential economic or investment implications. We believe the primary risk to the global expansion and financial markets would come from a universal rise in tariffs.

Potential Policy Shift	Potential Economic and Investment Implications
Rise in Tariffs	A range of tariff rises have been floated including a 60% tariff on non-consumer Chinese goods, 25% tariffs on Mexican and Canadian exports, tariffs on steel and aluminum from the EU, and a universal tariff of 10-20%. ³ The US President has broad authority to make tariff decisions through various trade acts, though there are limits. Even before additional US tariffs—which may be used as a negotiating tactic—are implemented, trade policy uncertainty can weigh on business investment and growth, particularly in impacted trade partners such as Europe. We do not believe higher tariffs necessarily lead to sustained higher inflation and higher rates. Tariffs would have a one-time effect on US consumer prices, with the 2018-19 experience showing companies largely passed on higher input costs to consumers. In theory, the Fed should look beyond this and only respond if there is a sustained shift in inflation expectations and underlying inflation momentum. In practice, however, a one-time inflation shock from tariffs would add to an 18% cumulative rise in consumer prices since 2020, ⁴ potentially prompting the Fed to be more responsive than it might have been pre-pandemic. On the other hand, a fresh inflation shock could weigh on consumer spending, especially for lower-income households. This could have dovish implications for the Fed outlook. Growth headwinds are likely to be larger outside the US, including in China and in open economies such as the Euro area.
Reduction in Taxes	An extension of the 2017 tax cuts, set to expire at the end of 2025, is widely anticipated. However, implementing additional tax cuts and large-scale spending plans without corresponding revenue-raising measures or realized efficiency gains may prove challenging. This is particularly true given the changed interest rate and debt backdrop compared to 2016. The fiscal deficit now stands at over 6% of GDP, up from 3% in 2016. Meanwhile, the 10-year US Treasury yield is above 4%, compared to around 2% on the day of the 2016 election, and gross debt to GDP has risen from 104% to 124%. Additionally, US Treasury Secretary nominee Scott Bessent has indicated sensitivity to bond market perceptions of fiscal sustainability.
Relaxation of Regulations	Antitrust enforcement is expected to relax, potentially spurring M&A activity. However, we do not believe this will automatically be credit unfriendly (see “Credit Check-In”). Easier approval for energy projects is also anticipated, along with a potential reversal of restrictions on greenhouse gas emissions. Additionally, we may see regulatory easing in the financial sector, including for consumer finance companies and banks. These changes could have sector-specific implications for corporate credit and the sustainable bond market.
Restrictions on Immigration	US immigration surged to over 3 million in 2023, helping to rebalance the labor supply with demand, which cooled wage pressures and services inflation. ⁵ We believe a drop to a pace slightly below the pre-pandemic average of 1 million per year is likely. With the labor market largely rebalanced, the implications for growth and inflation may be limited. However, mass deportations of unauthorized immigrants could significantly impact the labor supply, particularly in industries such as construction, as well as inflation. Nevertheless, legal and logistical constraints make this scenario less likely.

³ Source: Goldman Sachs Global Investment Research US Economics Analyst: The Election and the Economy: Estimating Immigration, Trade, and Fiscal Effects, as of September 3, 2024, and Global Economics Comment: Economic Impacts of Tariff Proposals on USMCA Participants, as of December 2, 2024.

⁴ Source: Macrobond, Goldman Sachs Asset Management. As of November 2024.

⁵ Source: Goldman Sachs Global Investment Research US Economics Analyst: 10 Questions for 2025. As of December 29, 2024.

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Credit Check-In

We maintain exposure to both investment grade (IG) and high yield (HY) corporate credit for income-driven returns. During our latest quarterly investment meetings, we reviewed the outlook corporate credit fundamentals. Key takeaways from the analysis include:

Credit Fundamentals Remain Strong

Company balance sheets are healthy, and the economic backdrop remains supportive. With interest rates likely having peaked for this cycle, concerns about rising interest expenses should dissipate. Easing inflation and economic growth will also support earnings growth. We monitor capex as a percentage of operating cash flow to gauge overinvestment. Currently, only utilities and airlines in the Global IG market exceed a threshold of more than 100%, which we would deem overinvestment. This is driven by decarbonization efforts and sector expansion for airlines. Beyond this, we don't see signs of broad-based overinvestment, even in the Tech sector, where AI investments surged in 2024 but are largely made by cash-rich firms. However, we remain mindful of developments among certain semiconductor producers.

1. Downgrade and Default Activity is Subdued

Rating migrations showed a positive trend in 2024, with more company rating upgrades than downgrades. Rising stars from the HY market to IG outpaced fallen angels. This trend was observed in Europe as well, despite a weaker economic backdrop. In 2025, after four years of low activity, we expect downgrades to increase. However, our bottom-up analysis suggests that fallen angel volumes will remain low at 1% of the US IG index par value, up from 0.2% in 2024, but still below the long-term average of 1.5%.⁶ Realized downgrades may be more modest, as our projection is based on conservative estimates, reflecting companies with a higher than 30% probability of downgrade to HY. We also anticipate a decrease in rising star momentum in 2025, largely because most pandemic-era fallen angels have already been upgraded back to IG. Our HY team estimated US defaults to be 1% in 2024, close to the realized 1.3% rate and more accurate than industry estimates exceeding 3%, demonstrating the value of bottom-up company analysis. In 2025, we expect the US HY default rate to remain contained. While default activity, including distressed exchanges, may rise, losses given default are likely to be minimal as markets have priced in the issues within distressed credit. Lastly, a large share of downgrade and default activity is linked to idiosyncratic or structural trends that, as active investors, we can navigate through bottom-up security selection.

2. Animal Spirits Won't Necessarily Dampen the Positive the Credit Mood

"Animal spirits" refer to the overall mood of businesses that can lead to increased investment, spending, and economic activity, driven by optimism and confidence in future economic prospects. The potential for looser regulatory policies and lower corporate tax rates has led to expectations of a revival in animal spirits among US companies, as reflected in business surveys. Improving CEO confidence tends to drive more M&A activity, which can result in increased debt issuance. However, this doesn't have to be the case, especially if companies are starting from a position of healthy cash levels. This allows any uptick in corporate activity, such as M&A, to be funded by cash or equity rather than debt, especially considering the cost of debt remains higher than in the last cycle and equity valuations are relatively elevated.

3. Attractive Income Potential

With corporates maintaining financial discipline and preserving healthy credit metrics, we do not anticipate a sudden turn in the credit cycle. Consequently, we expect carry—or income—to be a key driver of returns in 2025. With ongoing monetary easing and declining rates, we are comfortable extending exposures out the credit curve. Historically, spreads can remain tight for extended periods, as seen in the pre-financial crisis period (2004–2007) and the mid-1990s when US IG spreads stayed below 100bps for over four years, and the Fed managed a soft landing. The current episode of similarly tight spreads is about 10 months old. If today's cycle resembles the mid-1990s, spreads could remain in their current range for many more quarters.

4. Consumer Spending, Tariffs and Corporate Behavior Are Key Watchpoints

The health of the labor market is crucial for sustaining consumer spending, which drives around two-thirds of US growth, and broader economic and earnings growth. Other key risks on our radar include broad-based tariffs, which could challenge both global and US growth, and a potential increase in M&A-driven new bond supply.

⁶ Source: Bloomberg, Barclays, Goldman Sachs Asset Management. As of December 5, 2024.

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Asset Class Views

Interest Rates

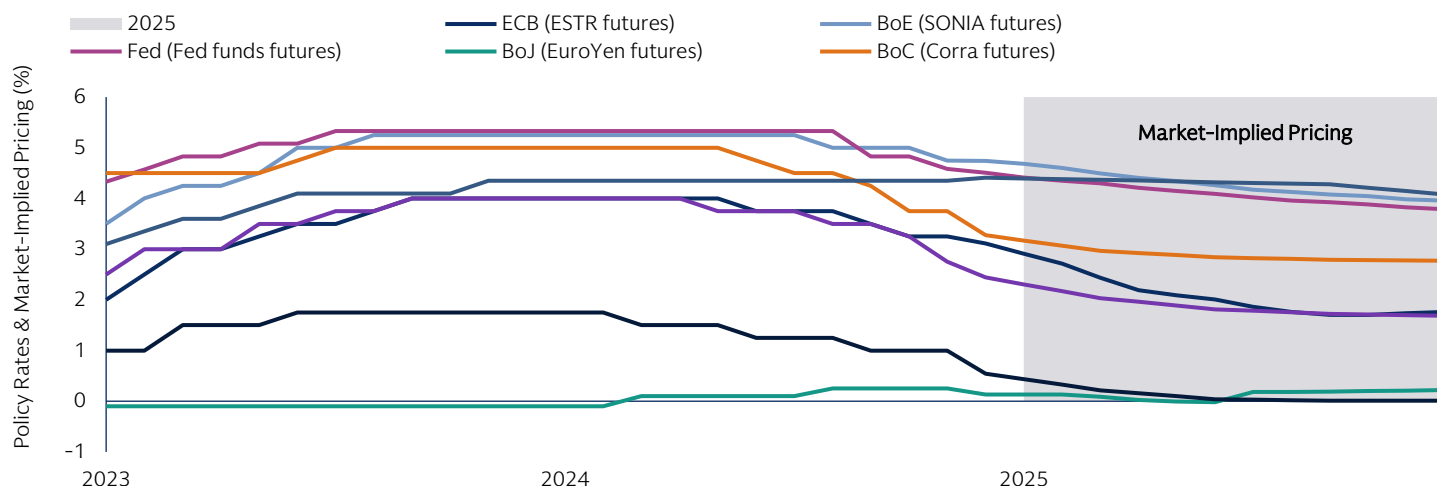
Outlook

The current US economic landscape, characterized by resilient growth, a loosening labor market, and ongoing disinflation, supports further Fed rate cuts in the near term. However, the potential for a pause in policy actions at meetings in 2025 has increased, especially with the economy growing above trend and potentially boosted by pro-growth policies like looser regulations and tax cuts. In contrast, the Euro area faces subdued growth and disinflation, tilting ECB policy risks in a dovish direction. We are mindful of both upside risks from a recovery in consumer spending and downside risks from tariffs. In the UK, optimism over the growth and inflation implications of the Autumn budget may lead to a cautious approach to easing by the BoE in the near term. However, we believe risks are skewed towards faster rate cuts over the course of 2025 as growth disappoints and inflationary pressures ease. The BoJ ended eight years of negative policy interest rates in early 2024, and wage-price dynamics suggest further rate hikes ahead, given that real rates remain low. For more on our G10 central bank expectations, see “Policy Picture”.

Opportunities

With policy rates still restrictive and disinflation ongoing, any downside data or policy surprises could lead to renewed declines in bond yields. This highlights the value of duration exposures as protection against downside growth risks and market volatility, as seen in August 2024. This is particularly relevant outside the US, where risks from US protectionism, underwhelming China stimulus, or geopolitical instability may exacerbate downside growth risks. More broadly, we believe 2025 will be an opportunistic environment for relative value interest rate views, reflecting divergent central bank paths. We are overweight UK rates, where we think easing domestic inflation pressures, reflected in slowing services and private sector wage inflation, will warrant more BoE easing than market pricing implies. By contrast, we expect the BoJ to continue its gradual policy normalization path, hence we remain underweight Japanese rates. Among smaller economies, we believe subdued economic activity and a dovish central bank reaction favor overweight exposure to Swedish rates. Additionally, we are positioned for the European yield curve to steepen from current flat levels as the ECB delivers monetary easing and fiscal concerns preserve term premium in longer-dated government bond yields.

Exhibit 6: Divergent Policy Paths Present Relative Value Opportunities



Source: Macrobond. As of December 16, 2024.

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Currencies

Outlook

We anticipate a “stronger for longer” US dollar driven by resilient US growth, equity market outperformance, inflation risks from tariffs, and potential economic reacceleration from pro-growth policies of the incoming administration. The dollar also benefits from its safe-haven status amid trade and geopolitical uncertainties. While temporary pullbacks in the dollar's uptrend are possible, positioning data indicates that investors are not excessively overweight the currency relative to real yield differentials with other currencies, suggesting potential further upside driven by both technical dynamics and underlying fundamentals.

Opportunities

We are positioned for further strength in the US dollar, owing to robust macro fundamentals and positive market sentiment. However, we may revisit our dollar view if global growth improves, potentially due to China's fiscal stimulus and looser fiscal policy in Europe following the German election. Elsewhere, we are underweight European currencies like the euro and British pound, given our dovish outlooks for ECB and BoE policies. We are also underweight commodity-oriented G10 currencies, such as the Canadian and New Zealand dollars, where central banks exhibit a dovish stance. Among high-yielding EM currencies, we are underweight the Mexican peso, which may face challenges from US protectionist policies, and the Chinese yuan, influenced by our currency signals and the likely easing path for PBoC policy.



Our currency strategy combines **systematic signals** and **fundamental macro research**. We systematically derive investment signals based on analysis of carry prospects, macro fundamentals, and market sentiment. Our portfolio managers then exercise discretion to adjust or override these signals based on fundamental economic research, market intelligence and risk analysis, ensuring a risk-aware approach to optimizing returns.

Source: Goldman Sachs Asset Management. For illustrative purposes only.

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Investment Grade

Outlook

The outlook for IG credit in 2025 remains positive, with key credit metrics such as leverage, debt servicing capacity, profitability, and liquidity positions all in good standing. While there has been some increase in capital deployment, cash relative to total assets remains adequate. The anticipated relaxation of antitrust enforcement and improved sentiment could spur M&A activity, but we do not believe this will necessarily be credit unfriendly (see “Credit Check-In”). In the US, above-trend nominal GDP growth has supported corporate revenue and earnings growth this year, with expectations for an acceleration in 2025. In contrast, Europe faces headwinds from slower nominal GDP growth and higher exposure to China where demand is weak, especially in the luxury goods and automotive sectors, which are constraining earnings performance. A potential increase in US tariffs in 2025 could add to these challenges for European firms. Despite record supply in IG markets, elevated demand from investors has helped keep spreads in check. We expect this robust demand to continue, as yields remain at historically high levels. An increase in M&A activity could lead to higher supply levels, which we are monitoring closely. Overall, we believe supply and demand dynamics will remain favorable in the coming year. The importance of generating alpha from fundamental security selection is underscored by historically tight spread levels.

Opportunities

We remain overweight IG corporate credit, given the favorable macro backdrop and solid credit fundamentals. We view yield levels between 3–5% as attractive for strong income generation and total returns. We see value in non-cyclical companies that can withstand a potential deceleration in nominal GDP growth, such as food and beverages, both in the US and in Europe. We also continue to find opportunities in bonds issued by US and European banks, which provide attractive income and where capital positions can withstand a normalization in loan quality following a period of low delinquencies. We also expect net interest margins for banks to increase. Additionally, we favor sectors with growth potential and a stable customer base, including software and hardware technology companies in the US benefiting from the surging demand for artificial intelligence and cloud computing. Conversely, we are cautious on the global automotive sector, given slowing demand and declining profit margins. From a ratings perspective, we remain constructive on BBB-rated bonds in the US despite tighter spreads, as we expect fallen angel activity to stay contained. Companies in this rating cohort demonstrate a commitment to conservative capital management, especially compared to higher quality counterparts. We maintain our overweight in US front and intermediate maturity bonds versus longer-dated bonds, given their attractive carry and roll.

5.2%

US IG credit yield, higher than 83% of the time over the past decade¹

24%

Rise in US IG bond supply relative to a year earlier which has been met with robust investor demand²

13%

Share of new US IG issuance linked to M&A activity in 2024,³ the highest since 2018—this is a trend we will be closely monitoring in 2025.

¹ Source: Macrobond, ICE BofA, as of December 17, 2024. ² Source: Bloomberg, Barclays, Goldman Sachs Asset Management. As of December 5, 2024.

³ Source: Bloomberg, J.P.Morgan, as of December 1, 2024.

High Yield Credit and Bank Loans

Outlook

We anticipate that credit fundamentals and supply-demand dynamics will remain supportive in 2025, leading to mid- to upper-single digit total returns for leveraged credit markets. Leverage and interest coverage ratios for issuers in the high yield bond market indicate sound credit fundamentals. Third quarter earnings have reaffirmed prior positive credit fundamental trends, showing low-to-mid single digit revenue and earnings growth. Notably, nearly 80% of the issuers we track provided forward earnings guidance that met or exceeded our expectations. Reflecting improved credit quality, the share of BB-rated debt, the highest high yield rating cohort, has increased from 35% in 2013 to 50% today.⁷ Our annual company-level analysis suggests that default rates in the high yield and leveraged loan markets will remain contained in 2025. While there may be a slight increase in distressed debt exchanges, potentially lifting default rates somewhat, our analysis indicates that loss given default should be limited. This is because the securities likely to be impacted have already

⁷ Source: J.P.Morgan, as of December 1, 2024.

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been discounted to reflect this risk. Therefore, we do not expect returns in the coming year to be significantly affected by an uptick in defaults or distressed exchanges. Although tight spreads are often a concern, we believe the more critical metric to watch for a potential market turn is the quality of underwriting standards. Encouragingly, we see limited evidence of a decline in these standards, which historically has led to increased default activity. This includes periods such as the early 1990s LBO-loan boom, the early 2000s deferred pay bond structures for the telecommunications sector expansion, the LBO boom before the global financial crisis, and the energy default cycle in 2015–16 when falling crude oil prices led to bankruptcies among highly indebted, low-quality upstream oil producers. New bond supply among low-rated issuers has remained contained for both high yield bonds and leveraged loans, and earnings trends have been positive across rating cohorts.

While spreads are tight, especially in the context of a 15-year lookback, absolute yields remain attractive. US HY credit yields more than 7%, while leveraged loans yield more than 8%. European HY is yielding around 5.6%, reflecting a lower risk-free rate in Europe. In 2025, we anticipate an increase in exits of private equity investments through strategic M&A activity or IPOs. This uptick in corporate activity is expected to drive US HY bond supply higher, creating opportunities for us to add exposure to high-conviction views. We also expect lower policy rates to provide financing relief for leveraged loan issuers with floating-rate liabilities, particularly lower-rated issuers.

In Europe, we see opportunities in Real Estate, including hybrid securities, and in BB-rated bonds, which offer attractive carry and roll-down potential. These bonds also stand to benefit from more easing in the Euro area relative to the US.

7.2%

US HY credit yield, higher than 63% of the time over the past decade¹

5.4%

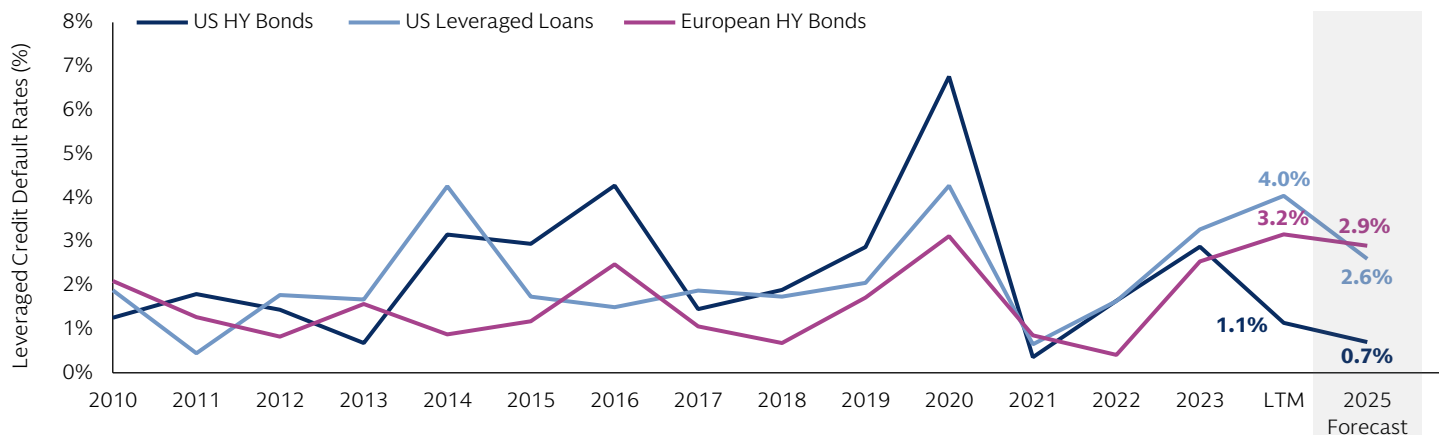
European HY credit yield, higher than 69% of the time over the past decade¹

50%

Share of BB-rated debt in the US HY market, up from 35% in 2013²

¹ Source: Macrobond, ICE BofA, as of December 17, 2024. ² Source: J.P.Morgan. As of December 1, 2024.

Exhibit 7: We Expect Default Rates to Stay in Check in 2025



Source: J.P. Morgan for realized default rates as of November 30, 2024, and Goldman Sachs Asset Management for 2025 projections. Our estimates do not include opportunistic distressed exchanges. However, even if we account for potential opportunistic distressed exchanges, while the default rate may rise, our analysis indicates that loss given default should be limited because the securities likely to be impacted have already been discounted to reflect this risk.

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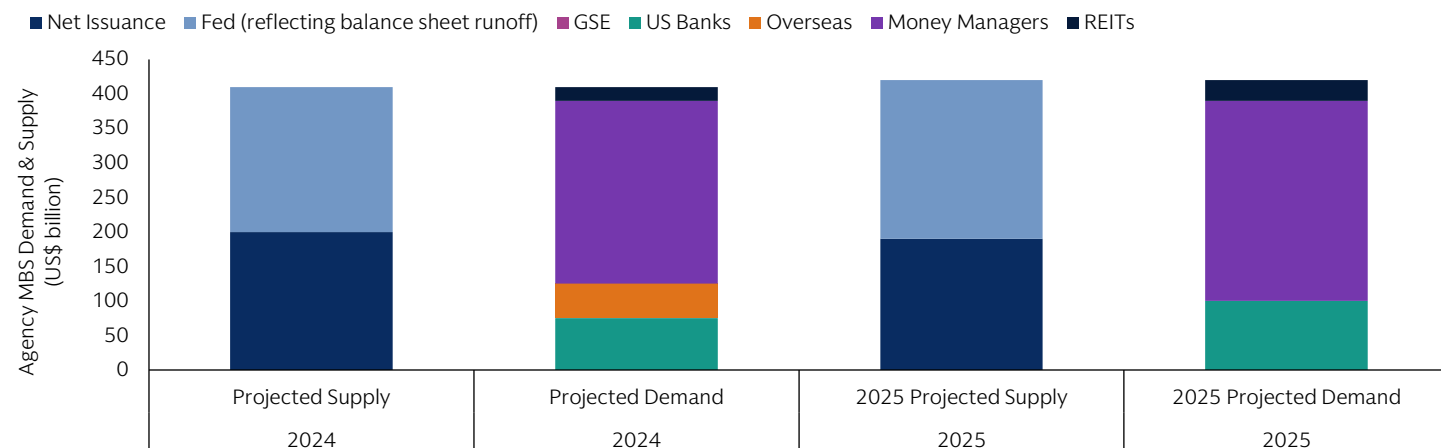
Agency MBS

Outlook

We believe the fundamental backdrop remains supportive of agency MBS. Although tariff risks, potential fiscal expansion, and uncertainty around the Fed's terminal rate could cause interest rate volatility, we believe this will not diminish the potential for attractive income gains in 2025. Furthermore, although policy rates are expected to trend lower, we anticipate intermediate bond yields and mortgage rates to remain higher than the last cycle. This, combined with home price appreciation, will likely keep housing activity in check and, in turn, keep agency MBS supply muted. Currently, only around 5% of outstanding mortgages could be refinanced at a lower interest rate.

Consequently, prepayment activity is low and expected to remain so, further underpinning the asset class. The Fed has been reducing its balance sheet passively since June 2022, and in summer 2024, the FOMC decided to decrease the pace of this reduction starting in June 2024. In 2025, we think the FOMC may halt the runoff of US Treasury securities but expect they will keep the current \$35bn cap on MBS unchanged, consistent with the Committee's goal of tilting the balance sheet towards Treasuries over time. This runoff may add \$175bn-\$200bn of supply. Combined with \$200bn-\$225bn of organic new supply, we anticipate around \$400bn of new agency MBS supply in 2025, closely aligned with 2024. On the demand side, we expect bank demand to pick up from around \$75bn of purchases in 2024 to \$100bn or more in 2025. This reflects clarity on bank capital regulations, rising bank deposits as Fed QT is wound down, and a steeper US Treasury yield curve, which reduces prepayment risk. Additionally, we anticipate \$50bn of demand from foreign investors and \$25bn from mortgage REITs. This leaves \$225bn for money managers to absorb, similar to 2024. In other words, we expect a relatively benign technical environment. The privatization of Fannie Mae and Freddie Mac was a topic of conversation during President Trump's first term, and we think talks will restart at some point in his second term. While we don't anticipate this to be at the top of the new presidential agenda, we expect progress to be made towards privatization over the next four years. This can take many forms, but ultimately, we expect any privatization efforts to be done without major disruption to the agency MBS market.

Exhibit 7: A Broadly Balanced Demand & Supply Backdrop



Source: Goldman Sachs Asset Management. As of December 2024.

Opportunities

Agency MBS is one of the few fixed income sectors where we anticipate tighter spreads in 2025, given the wider starting point and the potential for our constructive outlook on fundamentals and technical dynamics to materialize. Attractive yields continue to entice demand from investors seeking income and total return potential. Within the sector, we favor higher coupons, Ginnie Mae's, and specified pools. Higher coupons have the most attractive valuations on both an option-adjusted and nominal spread basis and should benefit from lower prepayment risk in a higher rate environment. Ginnie Mae continues to be the preferred sector for US banks and foreign buyers due to the explicit government support. Given our expectations for investor demand, we see upside relative to Fannie Mae and Freddie Mac. Lastly, specified pools currently offer attractive income, and an improved prepayment profile compared to generic collateral or TBAs.

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Securitized Credit

Outlook

We expect a supportive economic backdrop of steady growth, declining inflation, and further monetary easing to drive positive returns in securitized credit sectors in 2025, primarily through income. In the CMBS market, we are closely monitoring the office commercial real estate (CRE) sector, where many pre-pandemic leases are set to expire. This could provide clarity on the supply-demand balance in a sector that has faced headwinds from higher rates and rising vacancy rates due to hybrid work trends. Lower office supply, stabilized demand, lower rates, and pro-growth US policies could improve prospects for office CRE in 2025. However, some office CRE will continue to face pressure, potentially affecting CMBS market performance. We are also watching two potential implications of the new US Administration for securitized sectors. First, looser regulations could increase M&A and LBO activity, leading to another strong year for leveraged loans and new CLO supply. Second, US trade policy, particularly tariffs on European goods, could impact European corporates and the European CLO market.

Opportunities

While certain sectors have room for spread tightening, we do not expect significant spread compression. Instead, we believe that sector selection, security selection, capital structure positioning, and diversified exposures will be key to delivering returns in 2025. We see CMBS as a bright spot for total return potential in 2025, with valuations still dislocated from underlying fundamentals. We favor securities issued over the past couple of years due to strong underwriting standards and higher quality collateral within the securitized pool of assets. We also see value in CLOs. Although spreads are no longer notably wide relative to corporate credit, a spread premium remains, offering multi-sector fixed income investors an opportunity to capture higher income potential.

Exhibit 9: Securitized Sector Spreads Have More Room to Compress Relative to Other Fixed Income Sectors

	December 2024 (bps)	Last 10 Year Average (bps)	Year-to-date Change (bps)	Last 10 Year Percentile
US Investment Grade	79	128	-25	0
European Investment Grade	98	123	-37	23
UK Investment Grade	91	148	-43	0
US High Yield	275	435	-59	1
European High Yield	302	402	-93	11
EM External	328	381	-55	17
EM Corporate	223	334	-65	0
US Agency MBS	43	37	-5	62
US ABS	83	97	-39	48
US CMBS	99	97	-59	52

Source: Macrobond, Goldman Sachs Asset Management, ICE BofAML and J.P. Morgan. As of 18 December 2024.

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Emerging Market Debt

Outlook

2024 has once again demonstrated the resilience of EM debt, underpinned by strong economic and credit fundamentals, regained market access for HY issuers, and progress towards resolving debt restructurings. Looking ahead to 2025, robust fundamentals and proactive domestic policies will be crucial in driving performance amidst a challenging external environment characterized by tariff risks and a stronger US dollar, which has already impacted EM currencies and local bond markets. Many EM sovereigns have strong external balances and high currency reserves, which can help buffer against external shocks. We expect the positive credit rating momentum observed since late 2023 to remain intact despite individual challenges, and we do not foresee any sovereign defaults in 2025. The resilience in returns in 2024, despite a busy election calendar, uncertain geopolitical environment, and a high-rate regime, highlights the improved quality of the asset class over the past decade. Our current activity indicators suggest growth is tracking around 4%, a pace the IMF forecasts will continue into 2025 and surpassing DM growth. In addition, recent pro-growth signals mitigate growth tail risks in China. Meanwhile, EM corporates continue to exhibit financial discipline, maintaining lower leverage compared to similarly rated DM peers.

Although there has been a slight increase in capital expenditures, EM corporate bond issuers remain cautious about expanding operations or making acquisitions. With high interest rates but a lower cost of equity, EM companies are likely to fund growth ambitions through a diversified mix of financing, including cash or equity, rather than relying solely on debt. We believe this prudent approach will help maintain strong credit fundamentals in 2025. Continued disinflation and high real rates support further monetary easing, but a stronger US dollar may lead some EM central banks to proceed cautiously. This calls for a selective approach to EM exposures. From a market technical standpoint, while inflows into dedicated EM funds have been tepid, a peak in interest rates for this cycle, a low starting point for EM allocations and inflows into global multi-sector and US-dollar denominated fixed income funds may benefit EM sovereign credit in 2025, as well as potentially EM corporate bonds and EM local debt. Furthermore, new issuance in 2024 was well received, resulting in minimal widening pressure on spreads and we expect demand-supply to stay broadly balanced in 2025.

Key risks on our radar include the prospect of higher tariffs and a stronger-for-longer US dollar. We believe improved fundamentals will enable many EM sovereigns to withstand targeted US protectionist measures, with the ability to address export headwinds through currency adjustments. We also expect EM corporates to demonstrate financial flexibility and preserve their credit metrics. However, we remain vigilant to the tail risk of universal tariffs. Fiscal concerns are also on our radar, though we view these as medium-term challenges rather than immediate issues, particularly for certain pockets of EM, including Latin American and Central and Eastern European countries. Overall, we view the asset class as an attractive source of income and alpha potential that can diversify existing EM or fixed income allocations.

Opportunities

We believe EM sovereign valuations are particularly appealing compared to other fixed income sectors with the asset class delivering attractive income but also exhibiting potential for total return from spread compression, especially among HY issuers. Lower US rates may also contribute to positive total returns, which we expect to range from high single digits to low double digits in 2025. The high dispersion within the asset class offers opportunities to add excess return through careful security selection. For instance, we see investment potential in rising star candidates such as Morocco, Oman, Serbia, and Paraguay. Several frontier countries also offer investment potential, including Nigeria, Sri Lanka, and Ghana, as they continue to demonstrate positive reform momentum and a strong commitment to addressing economic imbalances. Debt restructurings among distressed EM sovereign issuers have led to the creation of State Contingent Debt Instruments (SCDIs), where payments depend on economic outcomes. These instruments have facilitated quicker resolutions to debt restructuring and faster reintegration of EM sovereigns into global capital markets, which can open the door to IMF support. They also exhibit positive convexity, which means their value increases at an accelerating rate as interest rates decline. This characteristic can lead to potentially high returns for investors. We anticipate that these trends will create total return opportunities for certain issuers potentially upgraded to B-rated status. On the other hand, some IG countries, like Romania and Panama, are at risk of downgrades but are already exhibiting HY-like valuations. These countries may present interesting opportunities for alpha generation.

High yields suggest mid to high single-digit returns for the EM corporate bond market in 2025, with spreads remaining unchanged to slightly wider and lower US Treasury yields driving total returns. We also see potential for excess returns through bottom-up security selection. We are overweight on BB- and BBB-rated issuers and favor non-cyclical sectors like Food & Beverages, which benefit from strong brand recognition, global operations, and customer loyalty. Additionally, we are overweight domestically-oriented Banks in Latin America and Europe, particularly in countries like Mexico and Colombia, due to their traditional lending models, strong capital positions,

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and robust net interest margins. In Turkey, we see opportunities for spread compression across banks, ports, and the beverage sectors compared to sovereign bonds. Selected airport issuers in Mexico and Panama are also seen as valuable due to limited competition, dollarized tariffs, and resilient passenger numbers. Conversely, we are underweight financials across Asia and the Middle East, driven by our view on valuations. We are closely monitoring the China Real Estate sector but remain underweight due to ongoing weakness in property sector activity.

In EM local bonds, we focus on fiscal positions and central bank credibility to identify markets where we believe ongoing services disinflation will pave the way for monetary easing. For example, a dovish ECB may pave the way for more dovish paths in CEE economies including the Czech Republic, where real rates are high. Several idiosyncratic stories, such as South Africa, Israel, Turkey, Egypt also present good alpha generation plays along the curve. As always, EM is a heterogeneous asset class that presents high dispersion but also presents alpha potential for active investors.

Currency Considerations: The "original sin" in EM financing is borrowing in US dollars but repaying with local currency cash flows. Depreciation of local currencies can make this challenging, which both issuers and investors are aware of. In recent years, both sovereigns and corporates have taken steps to reduce risks associated with foreign currency liabilities. This includes improved current account positions, foreign currency reserves and local currency borrowing among sovereigns. Among corporates, this includes having a natural hedge through dollar-denominated revenue streams, especially in commodity-oriented sectors. For companies that do not hedge currency risk this way, a strong balance sheet, low debt levels, and adequate liquidity can help protect against currency market fluctuations. Overall, we are aware of the risks linked to a stronger dollar but believe active bottom-up issuer analysis can help us navigate these risks.

Municipal Bonds

Outlook

Municipal bond yields rose in 2024 but still delivered positive total returns, showcasing the power of income to drive performance and its crucial role in dampening volatility. We believe income will again be the primary source of investor returns in municipals in 2025. Major municipal debt underwriters are forecasting an average supply of \$500 billion for 2025, with tax-exempt supply making up most of the issuance. This robust pace of new issues aligns with ongoing infrastructure spending by state and local governments. Given our constructive and income-focused outlook on municipal returns in 2025, we anticipate positive aggregate demand for municipals. In 2024, municipal funds saw over \$42 billion in inflows, a significant turnaround from the \$17 billion of outflows the previous year.⁸ The most common measure of municipal valuations, the ratio of AAA-rated municipal yields to comparable maturity US Treasury yields, traded at the tighter end of historical valuations for much of 2024. This ratio ranged from 57% to 73% throughout the year, below its 10-year average of 86%.⁹ We expect a similar pattern in 2025. However, the market could see these ratios increase significantly if policy headlines from Washington cause investor concerns over any changes to tax policy. While we view this as a remote risk, it has become more pronounced given the US election result.

Opportunities

With recent innovations, investors now have more options than ever to access the municipal market through separately managed accounts, mutual funds, and exchange-traded funds (ETFs). Tax-equivalent yields are compelling across both IG and HY municipals, making income a powerful source of return and a cushion against rate volatility. Investors can maximize after-tax yields by pivoting between tax-exempt and taxable securities as valuations fluctuate. As the municipal yield curve normalizes, portfolio construction will be key in optimizing carry and roll. We anticipate rate volatility throughout the year due to choppy economic data and uncertain Fed policy headlines. We believe investors should take advantage of periods of volatility and weakness to tactically add exposure. Additionally, with a stable credit backdrop, an appropriately sized allocation to lower-rated municipal credits could further enhance returns in the coming year. Importantly, an active approach to portfolio management remains crucial across SMAs, mutual funds, and ETFs to navigate uncertain times effectively.

⁸Source: J.P.Morgan Municipal Weekly Fund Flows Update. As of December 5, 2024.

⁹Source: Bloomberg. As of December 23, 2024.

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Exhibit 10: Key Components of Our Constructive Municipal Bond Outlook**Income Driven Returns**

Elevated coupon income will power municipal bond returns as price appreciation is expected to be muted.

**Supply & Demand**

Supply should have another record year due to new project spending and refinancing activity. Demand will remain robust due to absolute yield levels.

**Stable Credit Environment**

Credit spreads are tight, but we expect them to stay that way due to the stable credit environment across most municipal sectors.

Source: Goldman Sachs Asset Management. For illustrative purposes only.

Responsible Investing

Outlook

We forecast \$600 billion in new green bond supply for 2025, building on the record issuance seen in 2024. In Europe, while new issuance is expected to moderate as the market matures, we anticipate continued growth in sectors where issuance is still modest, such as Chemicals, Steel, Cement, and Technology. This positions EM bond issuers as key contributors to our new supply forecast for 2025. For context, ESG-labeled bonds now account for 28% of new US dollar-denominated bond supply by EM issuers in Asia excluding Japan.¹⁰ We expect sustainability bond issuance to reach \$250 billion in 2025. In contrast, sustainability-linked bond issuance is expected to decline next year as investor demand wanes due to challenges in measuring sustainability without the transparency of the use-of-proceeds structure, amid increased regulatory scrutiny. Social bond issuance is set to amount to \$150 billion, aligning with social bond issuance in 2024. Corporates are finding it challenging to locate social projects or assets that meet typical new bond issuance benchmark volumes, with most issuance driven by governments. This brings our total green, social, and sustainability bonds issuance forecast to \$1 trillion for 2025, compared to \$940 billion in 2024.

Opportunities

Green, social, and sustainability bonds ("impact bonds") benchmarks continue to offer higher yields compared to conventional bonds. This allows investors to capture higher income potential while contributing to sustainable goals. Additionally, ongoing monetary easing cycles, particularly in Europe where the green bond market has longer duration, could boost performance relative to conventional bonds in 2025. Furthermore, strong issuance in emerging market green, social, and sustainability bonds provides ample opportunities to capture new issue premiums. With stronger growth in the labeled bond market compared to the regular fixed income market in emerging markets, we believe this will be a positive performance driver for dedicated labeled bond portfolios in these regions.

¹⁰ Source: HSBC. As of December 9, 2024.

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Liquidity Solutions

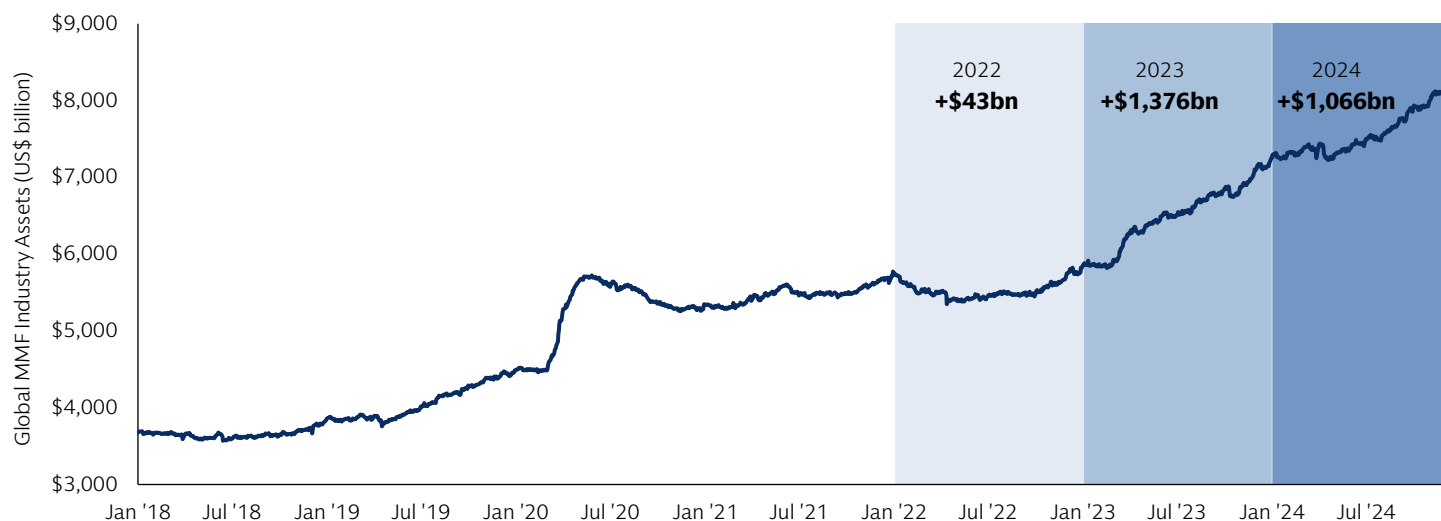
Outlook

Global money market funds experienced record flows in 2024, with assets surpassing the \$8tn mark for the first time in November.¹¹ We believe this highlights the strong appeal of money market funds across various currencies. We expect this trend to continue in 2025. Notably, US money market funds (MMF) also reached a milestone, with assets under management exceeding \$7tn for the first time in November. We anticipate ongoing central bank easing cycles in 2025, although rates may ultimately settle at levels higher than the previous cycle. In the US, the prospects for pro-growth policies, including a looser fiscal stance, may complicate the Fed's path and present upside risks to inflation and rates.

Opportunities

As we step into the new year, we believe the need to make your cash work harder remains a constant priority. As such, we anticipate that money market funds will continue to stand out among cash alternatives like Treasury bills and cash deposits. This is largely due to their ability to adjust duration through active portfolio management. We also foresee a sustained demand for money market funds from investors who prioritize capital preservation and liquidity as their primary investment objectives. Moreover, the capacity to extend slightly out the curve will likely boost the attractiveness of short-duration investment strategies. As interest rates decline and the yield curve steepens, the value of extending duration to capture incremental yield will become increasingly significant. In summary, we believe that the short-duration opportunity set will serve as an ideal parking place for opportunistic capital, offering both liquidity and yield.

Exhibit 11: Record Cash Holdings in MMFs—Will 2025 See a Shift to Short Duration Strategies?



Source: Goldman Sachs Asset Management, iMoneyNet. As of December 9, 2024.

¹¹ Source: Goldman Sachs Asset Management, iMoneyNet. As of December 9, 2024.

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Central Bank Snapshot

	INTEREST RATE POLICY	BALANCE SHEET POLICY	OUTLOOK	OUR OUTLOOK RELATIVE TO MARKET- IMPLIED PRICING
Fed	Federal funds rate: 4.25–4.5% Last change: December and November 2024 (–25bps), September 2024 (–50bps) Hiking cycle duration: 17 months Rate at the start of latest hiking cycle: 0.25%	The Fed has been reducing its balance sheet passively since June 2022. The FOMC decided to decrease the pace of this reduction starting in June 2024, with the monthly runoff scaling down from \$60 billion to \$25 billion.	We think additional rate cuts in March and June are plausible, but we are vigilant to various potential scenarios. Expected rate at end-2025: 3.75–4% Neutral rate estimate: 2.5 – 3.0%	Slightly dovish
ECB	Deposit facility rate: 3% Last change: December, October, November and September 2024 Hiking cycle duration: 15 months Rate at the start of the latest hiking cycle: –0.5%	The ECB started reducing its balance sheet in March 2023 and ceased reinvestments from its APP in July 2023. The reinvestment of proceeds from maturing securities under the PEPP will gradually decrease starting July 2024 and conclude in December 2024.	We expect consecutive 0.25% rate cuts until the policy rate reaches 1.5%. Expected rate at end-2025: 1.5% Neutral rate estimate: 2.0 – 2.25%	Slightly dovish
BoE	Bank Rate: 4.75% Last change: November and August 2024 (–25bps) Hiking cycle duration: 21 months Rate at the start of the latest hiking cycle: 0.1%	The BoE has actively been reducing its balance sheet since November 2022. At the September 2024 meeting, the MPC voted to maintain the pace of gilt stock reduction at £100bn. Given higher redemptions, this implies a notable reduction in the pace of active sales.	We believe the BoE will cut rates at each Monetary Policy Report meeting in 2025 (February, May, August, November), and possibly in June. Expected rate at end-2025: 3.50% Neutral rate estimate: 2.50–3.0%	Dovish
BoJ	Policy deposit rate: 0.25% Last change: July 2024 (+15bps), March 2024 (+20bps) Duration of negative rates: 98 months Rate at start of the latest hiking cycle: –0.10%	The gradual reduction plan for JGB purchases will be from around ¥6tn per month to around ¥3tn over 18-months. Reduced bond buying will initially concentrate on intermediate maturity bonds.	We anticipate ongoing policy normalization in 2025. Expected rate at end-2024: 15% Neutral rate estimate: 1.0–1.50%	Hawkish

Source: Goldman Sachs Asset Management. As of December 19, 2024. **Abbreviations:** Pandemic Emergency Purchase Program (PEPP), Japanese Government Bond (JGB). The **neutral rate estimates** come with a degree of uncertainty. They are derived from a combination of fundamental, market, and model-based assessments. The ranges for the Fed, BoE and BoJ reflect the diversity of these estimates. For the ECB, the range represents the spectrum of policymakers' estimates, which has been adjusted based on our discretionary perspective. Estimated neutral rates by central banks are as follows: BoE 2–3%, BoJ 1–2.5%, Fed 2.4–3.8%, ECB 1.5–3%. The economic and market forecasts presented herein are for informational purposes as of the date of this document. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document.

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GLOSSARY

Distressed exchanges occur when a financially troubled company seeks to restructure its debt voluntarily by offering new, typically less favorable, terms to bondholders to avoid default. This might involve reducing the face value of the bonds, lowering interest rates, or extending the maturity period. Although bondholders may experience losses, distressed exchanges are often seen as a more controlled and negotiated resolution compared to the uncertainty and lengthy legal processes associated with defaults and bankruptcy proceeding uncertainty.

Deferred pay bond structures are a type of bond where the payment of cash interest is deferred for a certain period. This means that instead of receiving regular interest payments, the bondholder will receive the interest payment in kind.

Leveraged buyouts (LBOs) are acquisitions where a company is purchased primarily with borrowed funds. The assets of the company being acquired, along with those of the acquiring company, are often used as collateral for the loans.

Sustainability bonds are use-of-proceeds instruments, as defined by ICMA Sustainability Bond Guidelines). Sustainability-linked bonds are tied to an issuer's overall sustainability performance.

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