

THE DAILY CHECK-IN WITH GOLDMAN SACHS

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RECORDED: NOVEMBER 12, 2020

LIZ BOWYER: Hi Ricardo.

RICARDO MORA: Hi Liz.

LIZ BOWYER: You're the co-head of the firm's Fixed Income, Commodities and Currency Sales Business in the Americas. One of the issues that's been top of mind for investors is the decline of the US dollar which has continued to fall in the wake of the US election. How are you talking with clients about this development?

RICARDO MORA: In general, clients are viewing this less as a concern and more as an opportunity. The US dollar is not a normal currency because of its role in international trade and finance. A weaker dollar can reflect domestic US concerns. But more often than not, the dollar tends to weaken alongside strong global growth and increased risk appetite. Conversely, it strengthens when investors are searching for safety.

So, when we think of the current bout of dollar weakness, it's really reflecting the fact that the US elections have produced a clear outcome. And even more importantly, the assumption that we're likely to move towards a period of strong global growth on the back of a safe and effective vaccine.

LIZ BOWYER: So, could this possibly mean that the US dollar is no longer the safe haven currency of the world?

RICARDO MORA: Well, frankly, it's still highly premature to say that the dollar is no longer a safe haven. It's hard to think an alternative, with such a deep liquid market of safe assets which are US treasuries. And the US retains considerable institutional strength. So, for example, in the middle of a pandemic, in a highly polarized electorate, we just conducted a successful election and we had record participation. So, you know, when you think of other jurisdictions, you also have to think about their progress.

China's efforts of internationalizing the renminbi has gathered pace. Chinese government bonds are now part of the government bond indices. And the EU, the establishment and issuance from the Recovery Fund, is an important step towards fiscal federalism and has created a euro-denominated based asset for the first time.

So, it would not be surprising to see the share of the euro and yuan grow in sovereign wealth funds and reserve manager portfolios. However, given the strength of US institutions, the dollar will remain preeminent.

LIZ BOWYER: So then how do you expect the dollar to stack up against the other G10 currencies?

RICARDO MORA: Well, we expect to see a gradual strengthening of G10 currencies versus the dollar. And that's currently what we see in terms of upside is more of the G10 currencies. And that's also, when you look at what we think is going to do the best against the dollar, it will be those that have embedded commodity exposure. So, for example, if you think about the Australian and the Canadian dollars. But as the year progresses, we have-- we are ripe to think about there's going to be a broad uplift in global growth. And that includes Europe. So, we would also see the euro appreciate versus the dollar.

And then within Europe, we're also very constructive about the pound. So, although we do see what we call a thin Brexit deal, it will still be a Brexit deal. And so, nonetheless, we think that in the forward that you'll see the pound appreciate because of the fact that there is a deal. And in terms of the currency, it should boost the pound versus the dollar.

LIZ BOWYER: What about emerging markets currencies? Isn't a weaker US dollar typically a boon for emerging markets?

RICARDO MORA: Well, that's right. Because a lot of the emerging markets tend to still borrow in dollars. So a weaker dollar tends to ease financial conditions for those countries. We've already seen that dynamic play out since April of 2020 where emerging markets have issued roughly about \$110 billion dollars in debt. And in previous years that would have been about \$75 billion dollars. Also, EM currencies should also recover, although the path there is likely to be uneven.

When you think about it a little bit deeper, many countries are still grappling with local COVID outbreaks. And policymakers

have generally preferred to ease rates and support the local economies and bond markets rather than their currencies.

LIZ BOWYER: So, what are some examples of divergent sets of policies that you see in emerging markets?

RICARDO MORA: Well, let's take a look at Latin America. You have, for example, in Mexico, the Mexican peso with its conservative monetary and fiscal spend has recovered more strongly. Effectively, the government has been very, very conservative in its policies and not been spending money in terms of supporting the local economy.

But you compare that to Brazil. The Brazil real, monetary and fiscal policy has been much looser. And so, transfer, the real has weakened up considerably versus the dollar.

LIZ BOWYER: And how about other asset classes? There's been a strong rally in gold. How should investors be thinking about gold as a store of value?

RICARDO MORA: Well, that's a good question. When you think of government bonds, and particularly in the developed world, they're offering lower and lower yields. And in some cases negative yields. So they're less effective as a diversifier of assets in a downturn of markets. So, typically, people will hold a basket of bonds and equities. And in this case, when you have bonds as your hedge, given the fact that there's no value, they don't really provide a hedge. And so, therefore people are now looking to other asset classes, which includes gold.

Now gold typically has a high correlation to real yields. So, in general, investors may need to look more broadly for hedges to equities and cyclical exposures. And gold, we believe, would be appropriate for that.

Now another hedge would be just the Japanese yen, which again, tends to not be correlated to the overall effect of the other asset classes.

LIZ BOWYER: So given what you're saying about gold, are there other asset classes that could potentially act as a hedge or even challenge the US dollar as a reserve currency?

RICARDO MORA: Well, I would say non-sovereign digital currency like bitcoin are similar to gold and probably deserve a role in certain investor portfolios. But they do not denominate assets.

And they do not, at this point, are involved in significant economic transactions. So, would not be a meaningful competitor to the dollar. That said, a number of central banks are considering launching their own digital currencies, which will be an important development to watch.

LIZ BOWYER: So finally, Ricardo, how are you thinking about the markets in 2021?

RICARDO MORA: When I think of 2021, it seems that there's going to be strong economic growth. Our economists here at Goldman Sachs are predicting 6.1 percent global growth. So on that backdrop we believe equity indices should do well. We believe commodities, markets should continue to perform. We believe emerging markets should do well. We believe the dollar should weaken.

Now what's not clear is the regulatory framework. Four years ago there was a drastic change. Deregulation. On a forward basis it's unclear. But what is clear is this global growth/US growth story. And so, in that construct there's going to be many things to do. And in terms of potential markets and disruptions, we believe that you're going to see many opportunities.

LIZ BOWYER: Thanks, Ricardo.

RICARDO MORA: Of course, Liz. Thanks. I enjoyed my time with you.

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