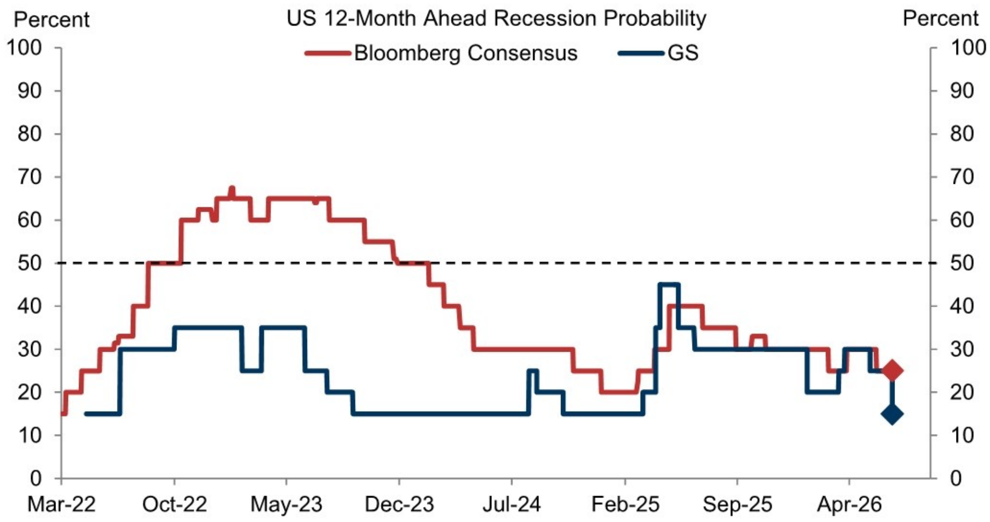
Global Views: More Crude, Less Concern

Jan Hatzius
+1(212)902-0394 | jan.hatzius@gs.com
Goldman Sachs & Co. LLC

1. The agreement between the US and Iran has reduced the downside risks to our economic outlook. Our commodities strategists now see Brent crude at $80 per barrel by the end of 2026, with two-sided risks. On the upside, Iran's announcement on Saturday that the Strait was closed again served as a reminder that oil flows might only recover slowly. On the downside, a near-term glut could develop as oil is released quickly into a market that was already oversupplied before the war. The agreement has led us to cut our 12-month US recession risk estimate further from 25% to the long-term norm of 15%. (This is below our 20% estimate on the eve of the war because the labor market improvement since then indicates greater underlying resilience.)

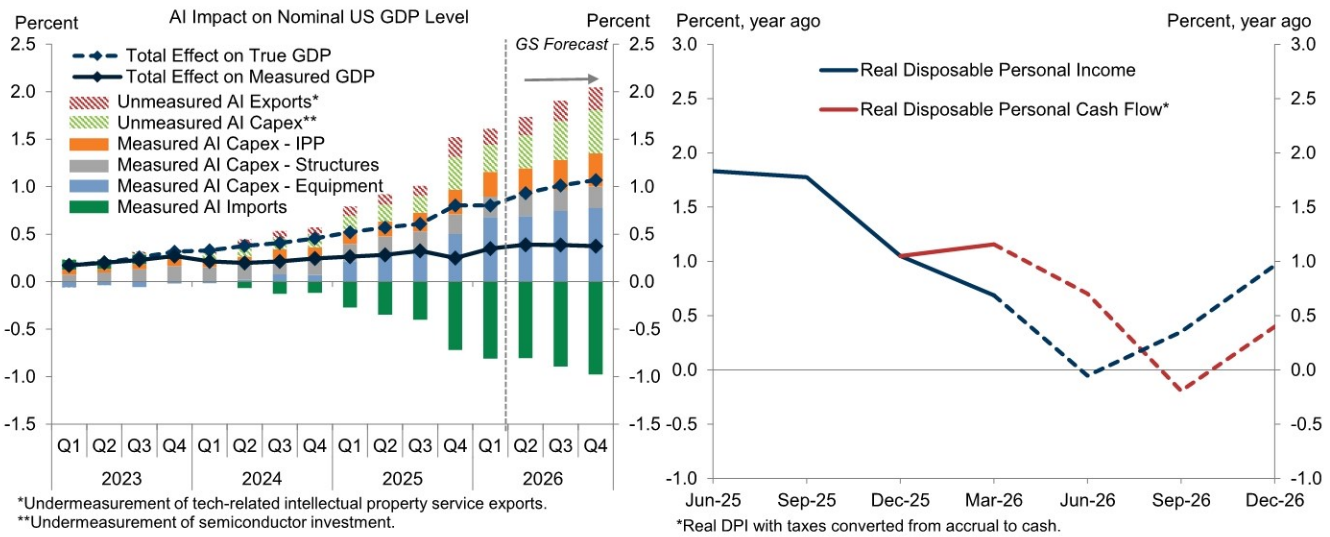
Exhibit 1: US Recession Risk Back to the Long-Term Norm of 15%



Source: Bloomberg, Goldman Sachs Global Investment Research

2. Alongside the cut to our recession risk estimate, we have nudged up our sequential H2 GDP growth forecast to 2%. The slightly stronger path reflects a positive sequential impulse to real income from lower gas prices, at a time when the economy continues to benefit from the AI boom via higher equity wealth as well as strong capex. But we still expect growth to remain moderate. First, AI capex largely consists of goods that are imported from Asia and, in the case of semiconductors, don't even show up in GDP. Second, even with the drop in gas prices, real income defined on a cash flow basis is likely to slow in H2 as the impact of higher tax refunds and lower final tax payments in Q2 peters out. This is likely to keep real consumer spending growth at just 1½%.

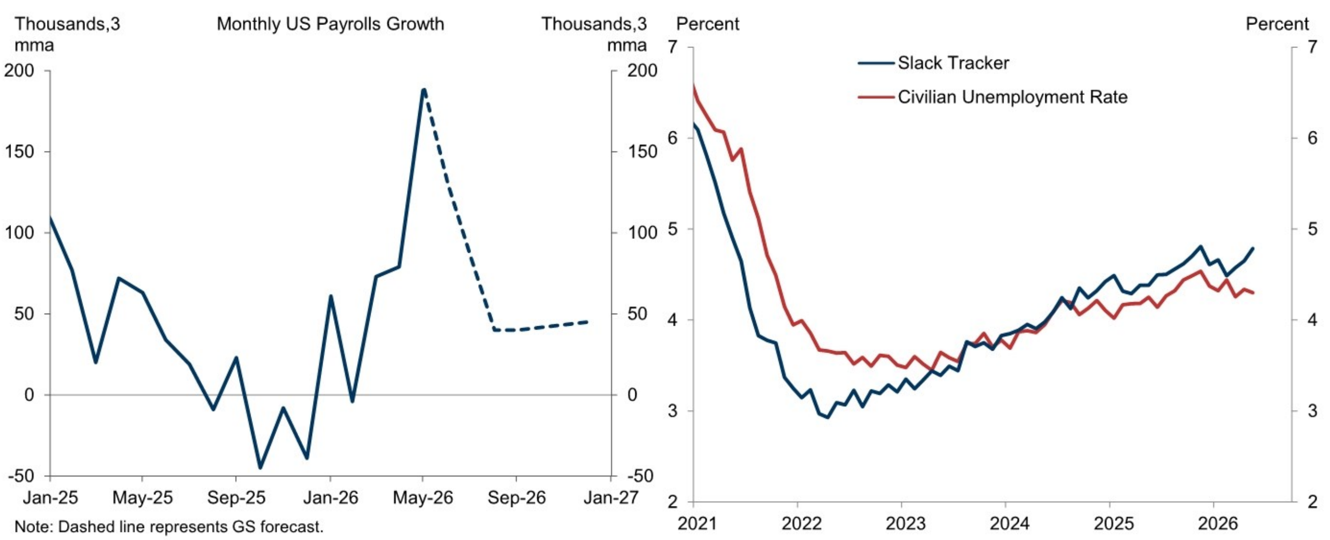
Exhibit 2: AI Investment Surge Adds Little to US GDP and the US Consumer Remains Under Pressure



Source: Bureau of Economic Analysis, Haver Analytics, Goldman Sachs Global Investment Research

3. With GDP still growing modestly below potential, we expect a slowdown in payroll gains from the outsized 188k rate over the past three months to just below our 60k breakeven estimate. Beyond the growth forecast, we would note the failure of other labor market indicators to confirm a sharp recent improvement. Household employment has grown much more slowly than payrolls, the employment/population ratio has trended sideways to lower, and our updated slack tracker—which summarizes ten key indicators of labor market utilization—has recently resumed its gradual loosening of the prior three years. Consistent with this, we expect wage and unit labor cost growth to remain muted despite the earlier increase in headline inflation.

Exhibit 3: The Payroll Surge Is an Outlier Relative to Other Labor Market Indicators

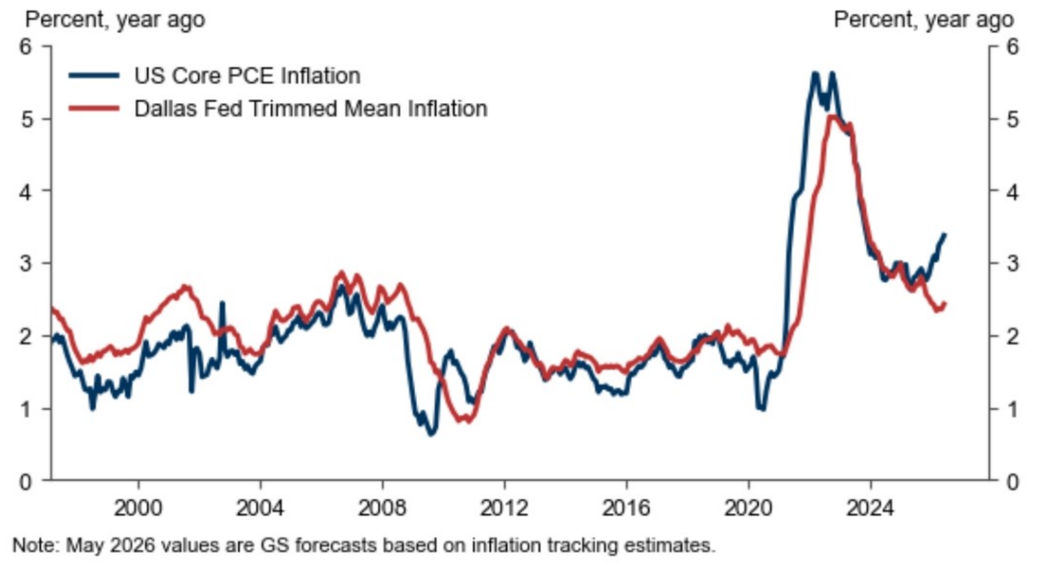


Source: US Bureau of Labor Statistics, Haver Analytics, Goldman Sachs Global Investment Research

4. The plunge in gasoline prices so far in June should result in an outright decline in seasonally adjusted consumer prices. We also expect core CPI inflation to average just 0.17% in the next three months as airfares decline on the back of lower jet fuel prices, hotel rates—which are measured at the time of booking—drop from their World Cup

highs, and rent inflation reverses what looks like a high-side outlier in the Northeast in May. Core PCE inflation is likely to remain more stubborn, in part because of ongoing upward pressure on imputed financial services prices from the equity market rally and price increases in software/accessories whose weight in core PCE is 30 times larger than in core CPI. More statistically based measures such as trimmed-mean PCE should continue to look more benign, however.

Exhibit 4: Trimmed-Mean PCE Still Looks More Benign Than Core PCE

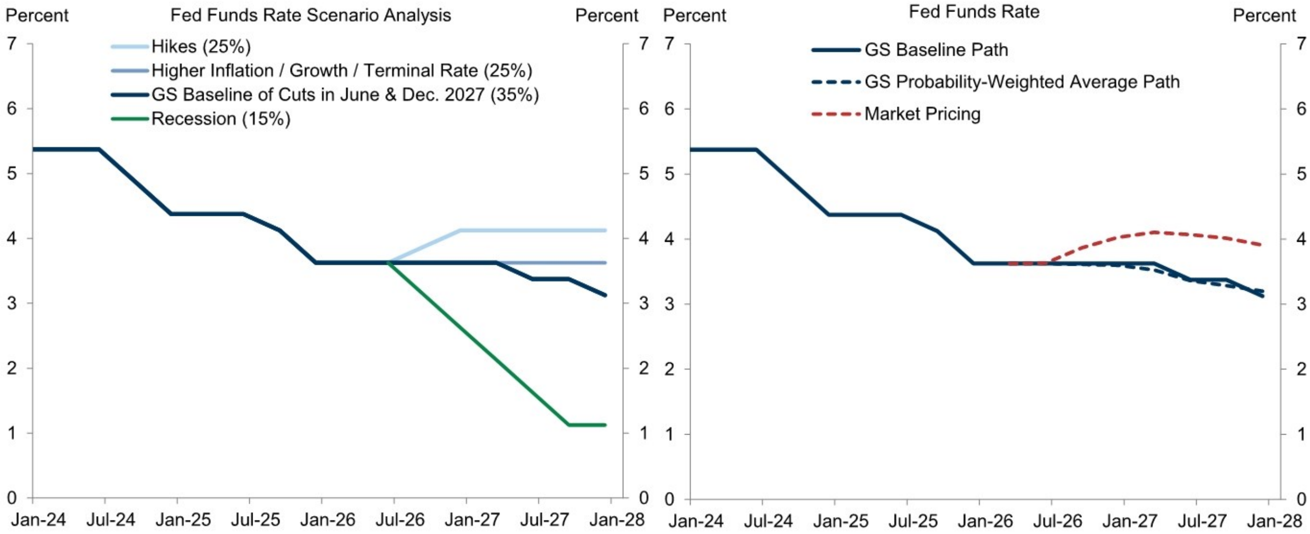


Note: May 2026 values are GS forecasts based on inflation tracking estimates.

Source: Haver Analytics, Goldman Sachs Global Investment Research

5. The first FOMC meeting under Chairman Warsh was more hawkish than expected. Half of the 18 participants that submitted interest rate projections penciled in one or more rate hikes in the remainder of 2026, and the median projection for core PCE inflation in 2027Q4 rose to 2.5%. While this has increased the upside risks, our baseline forecast remains for no hikes. First, we suspect that about half of the 2026 hikers are nonvoting Federal Reserve Bank presidents, which would leave a majority of voters projecting unchanged or lower rates under appropriate policy. Second, the projections might be stale given the rapid improvement in the news from the Middle East and the plunge in energy prices over the past week. If inflation comes down in coming months—rapidly for headline and gradually for core—and growth remains muted, we expect most voters to continue supporting unchanged rates.

Exhibit 5: While Hikes Have Become More Likely, We Think They Are Less Likely Than Markets Are Pricing



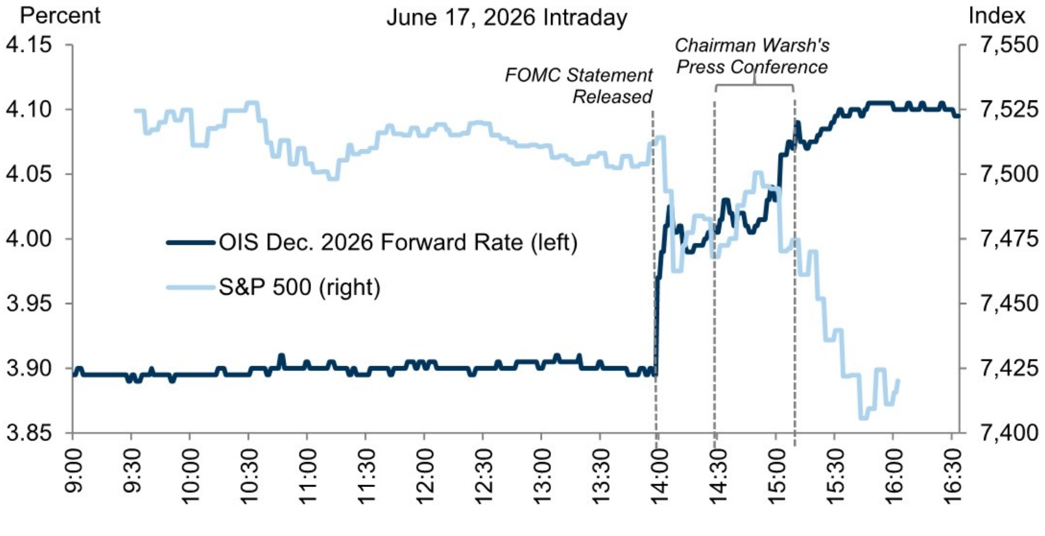
Source: Bloomberg, Goldman Sachs Global Investment Research

6. We had expected Warsh's refusal to provide either a "dot" or verbal guidance about upcoming rate decisions but his broader comments on Fed communications with financial markets went further:

"So I think financial markets perform best when they react to incoming data. I think the financial markets work less efficiently when they ask [the] question 'how will the Federal Reserve react to that incoming information?' The more that markets are paying attention to what's happening in the real economy, deciding what's good data and what's less good data, the more financial markets can price what they believe is the most likely and what are the tail risks."

Since the Fed essentially controls short-term interest rates and the interest rate path matters for asset pricing, it is inevitable that markets ask how the Fed will react to incoming information. Admittedly, this can turn into an unproductive obsession with computing the Fed's reaction function, which is often harder to summarize and subject to greater change than many market participants think. Still, a significant reduction in Fed transparency could make financial conditions—and thus economic outcomes—more volatile as market assumptions about the Fed's thinking become subject to fewer reality checks.

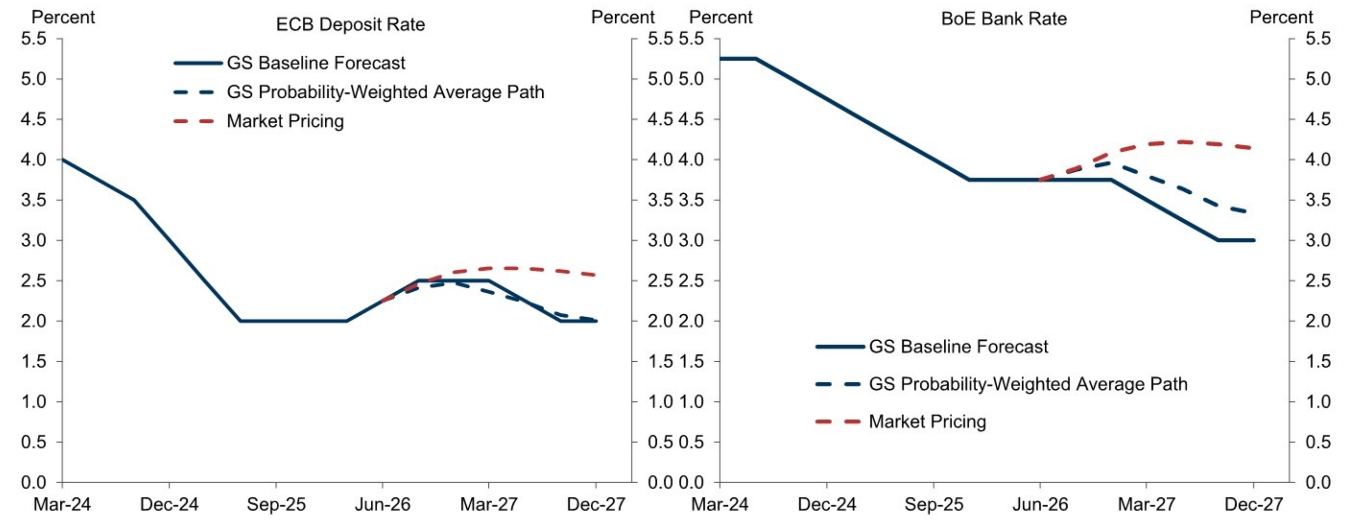
Exhibit 6: FOMC Meeting Illustrates the Importance of Fed Communications for Financial Conditions



Source: Bloomberg, Goldman Sachs Global Investment Research

7. The ECB hike to 2.25% was widely expected, but the drop in energy prices has shifted the balance of risks around our forecast of one more 25bp move in September to the downside. Either way, we continue to expect a return to a 2% deposit rate in 2027 and thus remain dovish relative to market pricing. In the UK, Sir Keir Starmer has stepped down as prime minister in favor of Andy Burnham, who inherits an economy with more potential than widely appreciated. On monetary policy, the improvement in wage and price inflation even prior to the recent oil price drop has strengthened our view that the MPC won't hike in coming months and will ultimately cut Bank Rate to 3% in 2027, well below market pricing.

Exhibit 7: Our ECB and BoE Rate Views Remain Below Market Pricing

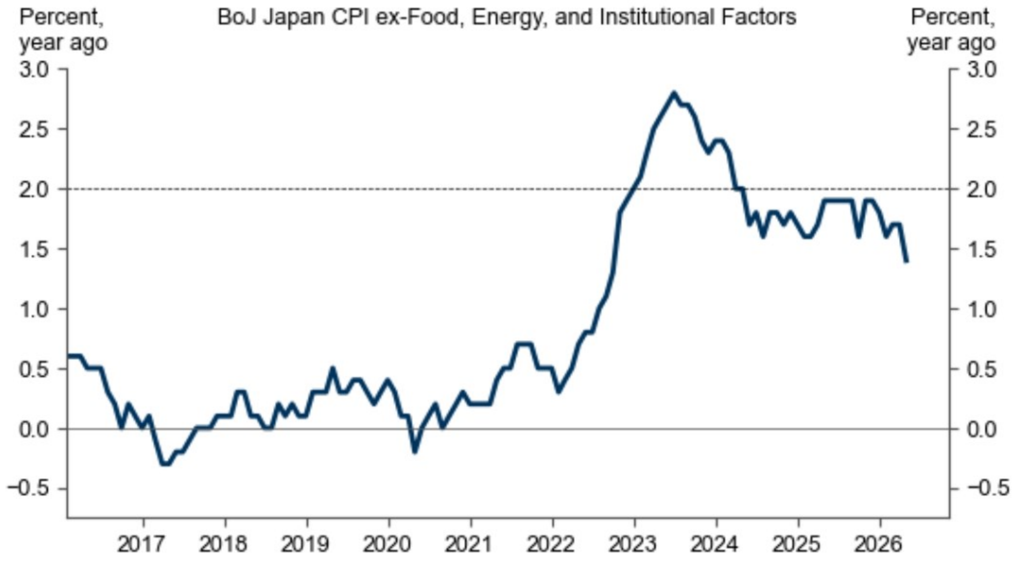


Source: Bloomberg, Goldman Sachs Global Investment Research

8. The Bank of Japan hiked by 25bp to 1%, the highest level in 30 years. We expect two more 25bp hikes every six months or so until the policy rate hits 1½% next summer. The BoJ can take its time because inflation—using its estimate of CPI excluding all food and

energy as well as institutional factors such as changes in school tuition rates—is running at only about 1½% year-on-year and GDP is likely to grow just 0.5% in 2026. The biggest challenge for the Japanese economy remains fiscal sustainability, as the decline in the debt/GDP ratio over the past decade could reverse if Prime Minister Takaichi implements her expansionary plans and long-term interest rates climb further toward the levels seen in other G10 economies.

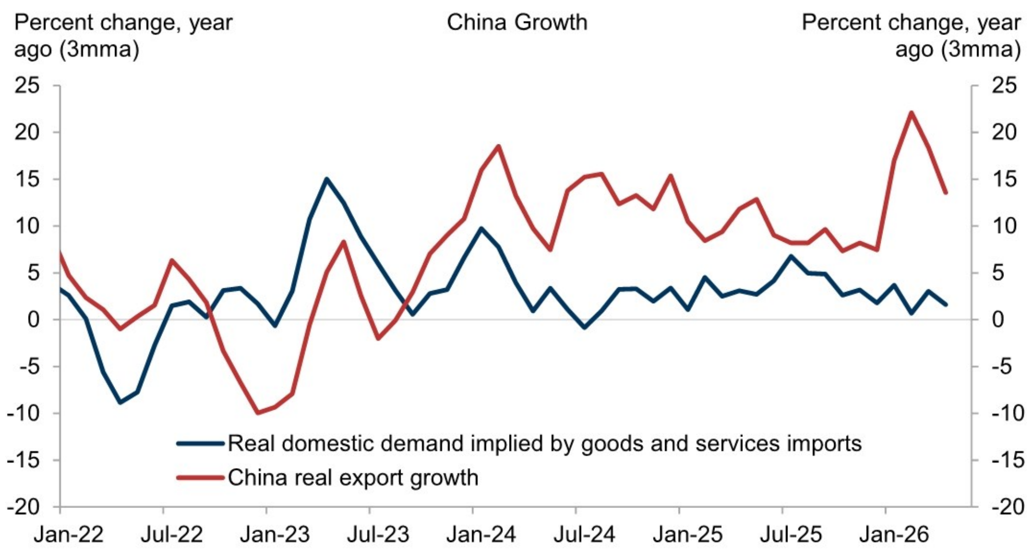
Exhibit 8: Underlying Inflation in Japan Remains Benign



Source: BoJ, Haver Analytics, Goldman Sachs Global Investment Research

9. We attribute most of the downside growth surprises in China in April and May to a combination of the oil shock, payback for the consumer goods trade-in program, and the government's decision to slow fiscal spending after the strong Q1 GDP print. June is likely to remain sluggish because of heavy rainfall, but we expect a rebound in Q3 as the temporary drags abate, the oil shock reverses, and policymakers respond to the recent weakness with more fiscal spending. Underneath the short-term ups and downs, the gap between domestic demand and exports continues to grow, which drives up the current account surplus with negative effects on many of China's trading partners.

Exhibit 9: China's Domestic Demand Is Growing Far More Slowly Than Its Exports



Source: Haver Analytics, Goldman Sachs Global Investment Research

10. US financial markets have digested the hawkish FOMC shock well, with declines in breakeven inflation and 30-year Treasury yields alongside a rebound in broad equity indices. If the near-term economic outlook settles into calmer waters, the focus on the sustainability of the AI trade is likely to grow even further. The work of our equity and cross-asset strategists suggests that ongoing upside surprises in AI capex, strength in S&P earnings, and the relative absence of private sector financial imbalances should all help equity markets make further headway in coming months. However, valuations of AI-related stocks are now high even relative to our optimistic views regarding the economic value that is likely to be created by AI over the next decade, so it is getting harder to justify further large gains.

Jan Hatzius

Disclosure Appendix

Reg AC

I, Jan Hatzius, hereby certify that all of the views expressed in this report accurately reflect my personal views, which have not been influenced by considerations of the firm's business or client relationships.

Unless otherwise stated, the individuals listed on the cover page of this report are analysts in Goldman Sachs' Global Investment Research division.

Contributing Authors: Jan Hatzius Goldman Sachs & Co. LLC.

Unless otherwise stated, the individuals listed in the Contributing Authors disclosure of this report are analysts in Goldman Sachs' Global Investment Research division.

Disclosures

Regulatory disclosures

Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; for equity securities, market making and/or specialist role. Goldman Sachs trades or may trade as a principal in debt securities (or in related derivatives) of issuers discussed in this report.

The following are additional required disclosures: **Ownership and material conflicts of interest:** Goldman Sachs policy prohibits its analysts, professionals reporting to analysts and members of their households from owning securities of any company in the analyst's area of coverage. **Analyst compensation:** Analysts are paid in part based on the profitability of Goldman Sachs, which includes investment banking revenues. **Analyst as officer or director:** Goldman Sachs policy generally prohibits its analysts, persons reporting to analysts or members of their households from serving as an officer, director or advisor of any company in the analyst's area of coverage. **Non-U.S. Analysts:** Non-U.S. analysts may not be associated persons of Goldman Sachs & Co. LLC and therefore may not be subject to FINRA Rule 2241 or FINRA Rule 2242 restrictions on communications with a subject company, public appearances and trading in securities covered by the analysts.

Additional disclosures required under the laws and regulations of jurisdictions other than the United States

The following disclosures are those required by the jurisdiction indicated, except to the extent already made above pursuant to United States laws and regulations. **Australia:** Goldman Sachs Australia Pty Ltd and its affiliates are not authorised deposit-taking institutions (as that term is defined in the Banking Act 1959 (Cth)) in Australia and do not provide banking services, nor carry on a banking business, in Australia. This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act, unless otherwise agreed by Goldman Sachs. In producing research reports, members of Global Investment Research of Goldman Sachs Australia may attend site visits and other meetings hosted by the companies and other entities which are the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Goldman Sachs Australia considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting. To the extent that the contents of this document contains any financial product advice, it is general advice only and has been prepared by Goldman Sachs without taking into account a client's objectives, financial situation or needs. A client should, before acting on any such advice, consider the appropriateness of the advice having regard to the client's own objectives, financial situation and needs. A copy of certain Goldman Sachs Australia and New Zealand disclosure of interests and a copy of Goldman Sachs' Australian Sell-Side Research Independence Policy Statement are available at: https://www.goldmansachs.com/disclosures/australia-new-zealand/index.html. **Brazil:** Disclosure information in relation to CVM Resolution n. 20 is available at https://www.gs.com/worldwide/brazil/area/gir/index.html. Where applicable, the Brazil-registered analyst primarily responsible for the content of this research report, as defined in Article 20 of CVM Resolution n. 20, is the first author named at the beginning of this report, unless indicated otherwise at the end of the text. **Canada:** This information is being provided to you for information purposes only and is not, and under no circumstances should be construed as, an advertisement, offering or solicitation by Goldman Sachs & Co. LLC for purchasers of securities in Canada to trade in any Canadian security. Goldman Sachs & Co. LLC is not registered as a dealer in any jurisdiction in Canada under applicable Canadian securities laws and generally is not permitted to trade in Canadian securities and may be prohibited from selling certain securities and products in certain jurisdictions in Canada. If you wish to trade in any Canadian securities or other products in Canada please contact Goldman Sachs Canada Inc., an affiliate of The Goldman Sachs Group Inc., or another registered Canadian dealer. **Hong Kong:** Further information on the securities of covered companies referred to in this research may be obtained on request from Goldman Sachs (Asia) L.L.C. **India:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (India) Securities Private Limited, Research Analyst - SEBI Registration Number INH000001493, 10th Floor, Ascent-Worli, Sudam Kalu Ahire Marg, Worli, Mumbai-400 025, India, Corporate Identity Number U74140MH2006FTC160634, Phone +91 22 6616 9000, Fax +91 22 6616 9001. Goldman Sachs may beneficially own 1% or more of the securities (as such term is defined in clause 2 (h) the Indian Securities Contracts (Regulation) Act, 1956) of the subject company or companies referred to in this research report. Investment in securities market are subject to market risks. Read all the related documents carefully before investing. Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. Goldman Sachs (India) Securities Private Limited compliance officer and investor grievance contact details can be found at: https://www.goldmansachs.com/worldwide/india/documents/Grievance-Redressal-and-Escalation-Matrix.pdf, and a copy of the annual audit compliance report can be found at this link: https://publishing.gs.com/content/site/india-annual-compliance-report.html. **Japan:** See below. **Korea:** This research, and any access to it, is intended only for "professional investors" within the meaning of the Financial Services and Capital Markets Act, unless otherwise agreed by Goldman Sachs. Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (Asia) L.L.C., Seoul Branch. **New Zealand:** Goldman Sachs New Zealand Limited and its affiliates are neither "registered banks" nor "deposit takers" (as defined in the Reserve Bank of New Zealand Act 1989) in New Zealand. This research, and any access to it, is intended for "wholesale clients" (as defined in the Financial Advisers Act 2008) unless otherwise agreed by Goldman Sachs. A copy of certain Goldman Sachs Australia and New Zealand disclosure of interests is available at: https://www.goldmansachs.com/disclosures/australia-new-zealand/index.html. **Russia:** Research reports distributed in the Russian Federation are not advertising as defined in the Russian legislation, but are information and analysis not having product promotion as their main purpose and do not provide appraisal within the meaning of the Russian legislation on appraisal activity. Research reports do not constitute a personalized investment recommendation as defined in Russian laws and regulations, are not addressed to a specific client, and are prepared without analyzing the financial circumstances, investment profiles or risk profiles of clients. Goldman Sachs assumes no responsibility for any investment decisions that may be taken by a client or any other person based on this research report. **Singapore:** Goldman Sachs (Singapore) Pte. (Company Number: 198602165W), which is regulated by the Monetary Authority of Singapore, accepts legal responsibility for this research, and should be contacted with respect to any matters arising from, or in connection with, this research. **Taiwan:** This material is for reference only and must not be reprinted without permission. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. **United Kingdom:** Persons who would be categorized as retail clients in the United Kingdom, as such term is defined in the rules of the Financial Conduct Authority, should read this research in conjunction with prior Goldman Sachs research on the covered companies referred to herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risks warnings, and a glossary of certain financial terms used in this report, are available from Goldman Sachs International on request.

European Union and United Kingdom: Disclosure information in relation to Article 6 (2) of the European Commission Delegated Regulation (EU) (2016/958) supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council (including as that Delegated Regulation is implemented into United Kingdom domestic law and regulation following the United Kingdom's departure from the European Union and the European Economic Area) with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest is available at https://www.gs.com/disclosures/europeanpolicy.html which states the European Policy for Managing Conflicts of Interest in Connection with Investment Research.

Japan: Goldman Sachs Japan Co., Ltd. is a Financial Instrument Dealer registered with the Kanto Financial Bureau under registration number Kinsho 69, and a member of Japan Securities Dealers Association, Financial Futures Association of Japan Type II Financial Instruments Firms Association, and Investment Management Association of Japan. Sales and purchase of equities are subject to commission pre-determined with clients plus consumption tax. See company-specific disclosures as to any applicable disclosures required by Japanese stock exchanges, the Japanese Securities Dealers Association or the Japanese Securities Finance Company.

Global product; distributing entities

Goldman Sachs Global Investment Research produces and distributes research products for clients of Goldman Sachs on a global basis. Analysts based in Goldman Sachs offices around the world produce research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy. This research is disseminated in Australia by Goldman Sachs Australia Pty Ltd (ABN 21 006 797 897); in Brazil by Goldman Sachs do Brasil Corretora de Títulos e Valores Mobiliários S.A.; Public Communication Channel Goldman Sachs Brazil: 0800 727 5764 and / or contatogoldmanbrasil@gs.com. Available Weekdays (except holidays), from 9am to 6pm. Canal de Comunicação com o Público Goldman Sachs Brasil: 0800 727 5764 e/ou contatogoldmanbrasil@gs.com. Horário de funcionamento: segunda-feira à sexta-feira (exceto feriados), das 9h às 18h; in Canada by Goldman Sachs & Co. LLC; in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs New Zealand Limited; in Russia by OOO Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman Sachs & Co. LLC. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom.

Goldman Sachs International ("GSI"), authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA, has approved this research in connection with its distribution in the United Kingdom.

European Economic Area: Goldman Sachs Bank Europe SE ("GSBE") is a credit institution incorporated in Germany and, within the Single Supervisory Mechanism, subject to direct prudential supervision by the European Central Bank and in other respects supervised by German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) and Deutsche Bundesbank and disseminates research within the European Economic Area.

General disclosures

This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. The information, opinions, estimates and forecasts contained herein are as of the date hereof and are subject to change without prior notification. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by Global Investment Research. Goldman Sachs & Co. LLC, the United States broker dealer, is a member of SIPC (https://www.sipc.org).

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and principal trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, principal trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research, unless otherwise prohibited by regulation or Goldman Sachs policy.

The views attributed to third party presenters at Goldman Sachs arranged conferences, including individuals from other parts of Goldman Sachs, do not necessarily reflect those of Global Investment Research and are not an official view of Goldman Sachs.

Any third party referenced herein, including any salespeople, traders and other professionals or members of their household, may have positions in the products mentioned that are inconsistent with the views expressed by analysts named in this report.

This research is focused on investment themes across markets, industries and sectors. It does not attempt to distinguish between the prospects or performance of, or provide analysis of, individual companies within any industry or sector we describe.

Any trading recommendation in this research relating to an equity or credit security or securities within an industry or sector is reflective of the investment theme being discussed and is not a recommendation of any such security in isolation.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options and futures disclosure documents which are available from Goldman Sachs sales representatives or at https://www.theocc.com/about/publications/character-risks.jsp and https://www.goldmansachs.com/disclosures/cftc_fcm_disclosures. Transaction costs may be significant in option strategies calling for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request.

Differing Levels of Service provided by Global Investment Research: The level and types of services provided to you by Goldman Sachs Global Investment Research may vary as compared to that provided to internal and other external clients of GS, depending on various factors including your individual preferences as to the frequency and manner of receiving communication, your risk profile and investment focus and perspective (e.g.,