# * GS MORNING: 1) FOMC Recap, 2) Central Bank Previews, 3) FX Trader Call Takeaways and 4) Equities Update

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Highlights from GS Research, Sales, and Trading: **1)** FOMC Recap, **2)** Central Bank Previews, **3)** FX Trader Call Takeaways and **4)** Equities Update

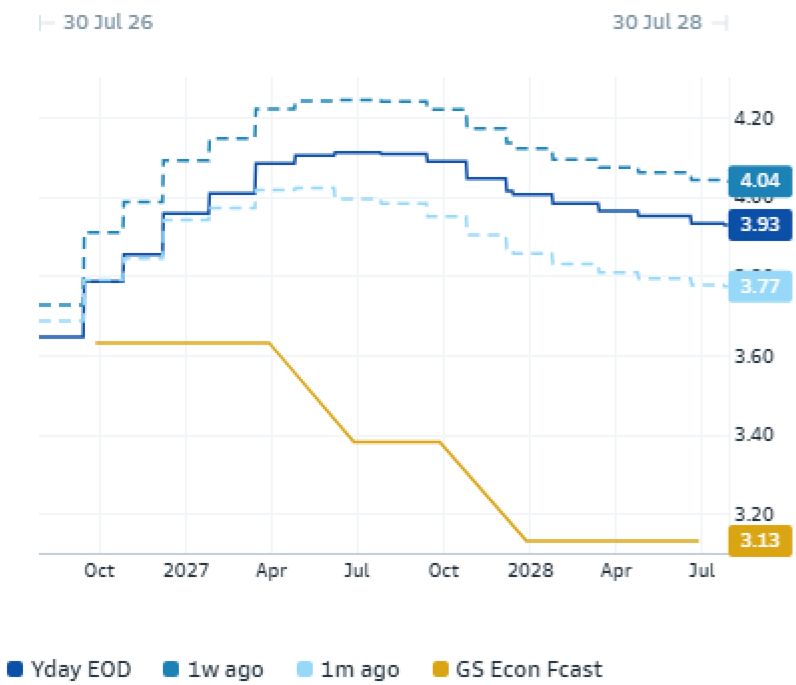
**1) US ECON (MERICLE) – FOMC Recap – LINK**

**BOTTOM LINE:** The run-up to the July FOMC meeting was unusually dramatic, with markets pricing the most uncertainty about whether or not the FOMC would hike in three decades. But the meeting ended with no change to the funds rate, no substantive changes to the statement, and no policy guidance or explanation of the FOMC's interpretation of the inflation situation during the press conference. Presidents Hammack, Kashkari, and Logan dissented in favour of a rate hike.

Chairman Warsh made several dovish comments during his press conference. First, he appeared to downplay AI-related price pressures. Second, asked if the recent rise in interest rates was a signal that the market thought the Fed should hike, he connected it instead to the recent strength of the economy. Third, he hinted that the rise in market interest rates could substitute for a rate hike, though without saying so explicitly. Fourth, asked if the Fed needed to raise interest rates to lower inflation by reducing demand, he suggested that more credibly committing to the inflation target could help to lower inflation by lowering inflation expectations.

The bond market also took the meeting as dovish. Near-term interest rates were lower on the day despite an increase in energy prices, while long-term interest rates rose during the meeting, led by a rise in breakeven inflation compensation. The bond market is now pricing a 60% chance of a rate hike at the next FOMC meeting in September. We continue to expect that softer core inflation in coming months will keep the Fed on hold for the remainder of 2026.

**CHART 1:** FOMC Market Pricing



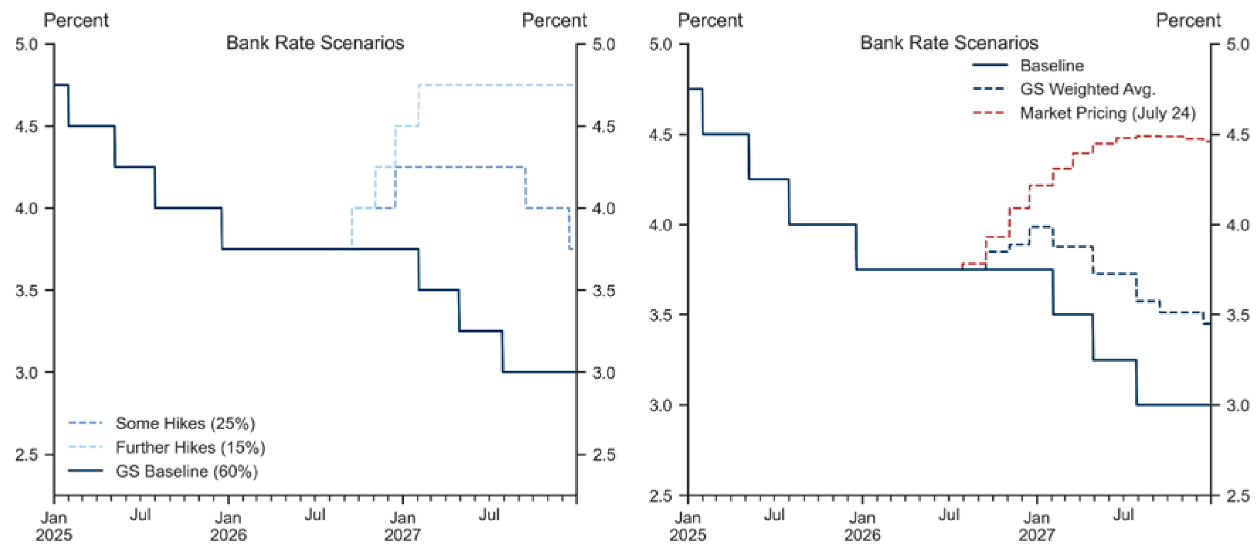

Source: Marquee MarketView

**2) Central Bank Previews**

**JAPAN ECON (OTANI) – BoJ Preview – LINK:** The Japanese economy is recovering moderately in line with the BOJ's outlook. Although price trends are currently somewhat weak, we expect rising upstream costs to spill over to consumer prices going forward. Under these circumstances, in its July Outlook Report, we believe the BOJ is likely to maintain its broad scenario that the economy will continue to grow moderately albeit at a decelerated rate, and that CPI inflation will increase due to higher crude oil prices, but will subsequently decline as the impact of higher crude oil prices wanes. However, with crude oil prices lower than when the April Outlook Report was published, we expect the BOJ to raise its growth forecasts and lower its price forecasts slightly in the July Outlook Report. We believe the BOJ will maintain the status quo at the July meeting, and continue to expect the next rate hike in January next year. However, the timing of rate hikes is likely to be significantly influenced by market developments and the degree of progress in communication with the government.

**UK ECON (MOBERLY) – BoE Preview – LINK:** Wholesale oil and gas prices have risen significantly in recent weeks. But the MPC will likely feel that it has more time to assess the impact of renewed energy price pressures given softer incoming wage and inflation data and tightening financial conditions. We consequently expect the Committee to hold the Bank Rate. A 7-2 vote split looks most likely, though we see risks of further dissents. The updated projections will probably show a slightly lower peak in inflation, reflecting weaker recent data and limited changes in the energy price assumptions compared to the April forecast round. We expect the medium-term forecast to show a slight undershoot given a higher conditioning path for Bank Rate. Given those projections, the Bank's policy simulations should show slightly less tightening than in April. Looking ahead, we continue to think that the Bank will probably remain on hold this year if oil prices fall back in line with our strategists' forecasts. That said, risks to our baseline have increased, and the MPC could well be persuaded to tighten policy if energy price pressures continue to build or signs of notable second-round effects emerge. Even so, current market pricing – which implies almost three hikes – looks too high.

**CHART 1:** BoE – Notable Hawkish Risks to Our Forecast but Market Pricing Looks Too High




Source: Goldman Sachs Global Investment Research, Bloomberg

### 3) FX Trader Call Takeaways

Key takeaways from our weekly FX Trader Call, occurring every Wednesday @ 2:00 LDN. Reach out to receive a recurring calendar invite.

**Brandon Brown (US Treasury Trading):** We're looking forward to after the FOMC meeting, where we have month-end and the quarterly refunding announcement. We think it's a toss-up on whether the Treasury changes its guidance about holding off on coupon supply that increases for the next several quarters. If they were to change the wording and imply that coupon supply increases could come as early as Q1, that would certainly be a bearish impulse for duration. Moving out the curve, the market is probably overly long. There's very little appetite to play for extended hiking cycle, but there's quite a bit of appetite to play for a hold over the next several months and a lot of the client base sees the risk reward as if they're hiking, they're hiking a small amount. If we get low growth in the second half and the labour market starts to weaken into next year, then they could cut a lot more. Back-end positioning has grown longer over last few months as well. You can see it in the CFTC data, where Asset Managers have rotated a lot of longs from the front end out to the long end, so positioning in US and on long-end futures is the longest that it's been on the AM side in the last year. We think that leaves the back end a bit susceptible. We bumped up against the high yield of the cycle a few times and AM's have been there to buy and keep us in the range. If we do get a big selloff, we're very cautious on the back end. We think that the rhetoric that a hike will stabilise the back end is overdone, given how much back-end buying has already occurred. We just don't know if there's going to be another big wave of buying, if we are pressing up against those cycle high yields again.

**Pete Callahan (US TMT Sector Specialist):** TMT globally, particularly in the US, has come under fire as of late. Semiconductors are underperforming the S&P500 by over 22pts in July. July is set to be the biggest month of underperformance since September of 2001. Most investors would have said this started off as a healthy reset of very extreme levels of performance and positioning as the semiconductor group doubled across April and May.

From then, you've had a global deleveraging event across most markets. I think most of this gets tied to the emergence of the open source LLMs and what that does or doesn't mean for the prior triopoly of frontier models that the world has focused on. When I think about what's going on in tech, the issues have mostly been positioning related, which you have to feel better about today, certainly more than a month ago. It is less about valuations now. The NASDAQ, for example, is at 21x forward P/E. This decade, it's really only been cheaper than this during the depths of Covid. For the market, it becomes a size, scale, scope and sustainability of investment issue, and that's what I think the market is trying to get its arms around. The forecasted Capex in 2027 and the market trying to get comfortable with returns on that invested capital, such that we can start to put big multiples on these earnings streams. My sense is that revenues and Capex are relatively well previewed by the market. I think what I would be focused on would be the margin lines for these companies. Most of them will report some version of a cloud margin, so that will be a big focus for me. If it looks like returns on invested capital are improving and there's good incremental margins to me, that would be the green light the market would look for if we start to trade a bit better on risk, coming out of what has been one of the most dynamic months of performance in tech since the dotcom era.

**4) Equities Update**

**MSFT (note):** Up 7% AH on a strong 4QFY print, with revenue of $90.0bn up 17% cc y/y and c.3% above Street, while non-GAAP EPS of $4.74 was up 23% y/y and c.11% above Street. The key positive was Azure growth of 43% y/y cc, around 300bps better than expected, with 1QFY Azure guided to 40-41% versus Street at 41%, while Microsoft 365 Commercial Cloud also improved and Copilot reached over 30m paid seats, up c.10m q/q. The main take is that Microsoft delivered tangible proof points on AI monetisation, Azure acceleration, Copilot adoption and improving AI unit economics, helped by faster GPU dock-to-live times, pricing/bundling and model-routing efficiencies. Capex management maintained their ~$190B CY26 expectation for the year with Q3 at $41bn in the quarte. Interesting that MSFT increased he useful life of DCs from 15 to 25 years, which will transition some future leases into operating from finance leases. While this is not expected to impact OM, management expects it to lower headline accrued capex. Management still expects FY27 FCF to remain positive, with sustained double-digit revenue and operating-income growth, mid-to-high-single-digit opex growth and some gross-margin pressure offset by accounting and efficiency benefits. See Gabriela take.

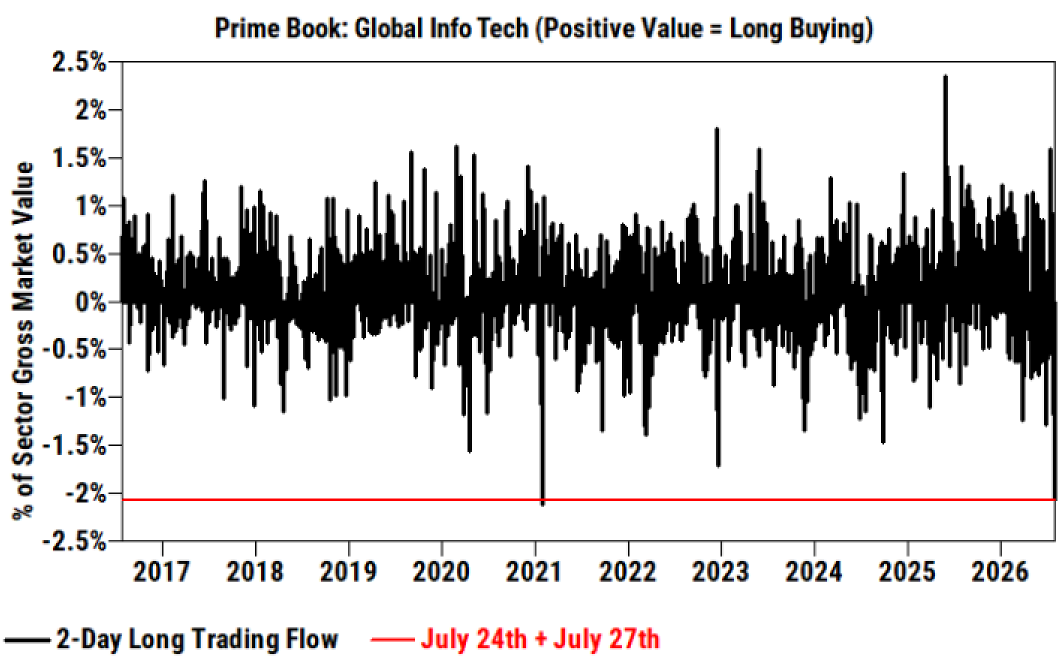
**META (note):** Meta traded c.-7% AH despite a solid core advertising print, with revenue up 27% y/y cc, Q2 ad revenue up 28% y/y, and Q3 revenue guided to $61-64bn versus consensus at c.$63.1bn. The main positive was that AI continues to improve engagement, recommendations and ad monetisation, with Advantage+ reaching c.$75bn ARR and management highlighting future opportunities across AI agents, enterprise tools, subscriptions, model/API monetisation and compute licensing. The issue is that investors remain focused on the scale and timing of AI spend: Meta raised the lower end of FY capex to $130-145bn, lifted the low end of FY GAAP expenses to $165-169bn partly due to a $2.4bn legal charge, and commentary implied more upward pressure on 2026/27 opex and capex – GIR further raised their cumulative 2027-28 capex estimates by ~14% and cut 2027 EPS 12% and 2028 3% and his PT by 11%. Net-net, the print showed strong AI-driven ad momentum, but the post-results debate is whether Meta can prove enough ROI from its growing compute buildout to justify the higher spend. See Eric take Read across for Semicap and AI hardware is positive on the capex but debates will remain

**EQUITY DERIVATIVES SALES (COPPERSMITH) – LINK:** After one of the most violent de-risking episodes in years, it's becoming increasingly difficult to argue positioning remains the primary headwind for AI. The latest leg lower came after Hynix earnings failed to inspire confidence, but the index managed to reverse off the lows and hold its

200-day moving average. RSI is also approaching 30, a level not seen since the Liberation Day sell-off. The move has become disruptive enough that policymakers are stepping in again, with discussions around even tighter leverage restrictions. If implemented, that should ultimately be volatility dampening. Friday and Monday together marked the largest two-day long liquidation in global Info Tech on the GS PB book since January 2021 and the second largest in the past decade. Global memory stocks saw record selling, while single-name tech flows ranked among the weakest on record. The unwind has materially cleaned up positioning, albeit from extremely crowded levels. Historically, momentum reversals after crowded rallies tend to overshoot before stabilizing. This episode already sits toward the more severe end of prior unwind periods, suggesting a meaningful amount of forced selling may already be behind us. Going forward, the debate increasingly shifts from who still needs to sell to whether fundamentals can reassert themselves.

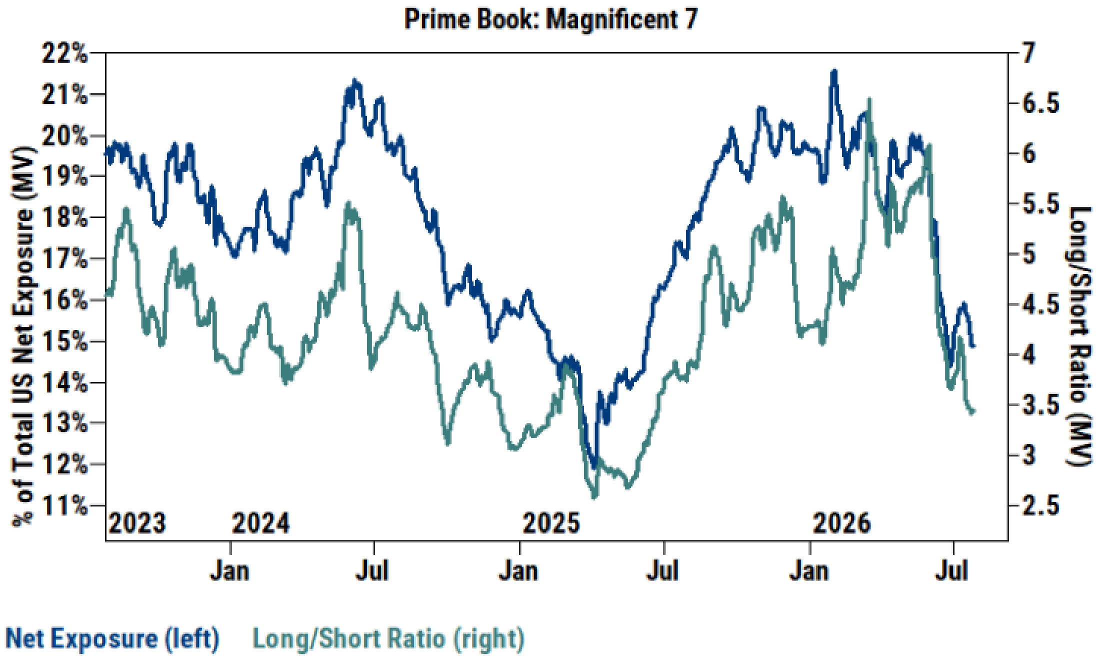
**EQUITY FRANCHISE SALES (NARAIN) – LINK:** CXMT's $9.8b IPO and subsequent 500% rally is testament to China's single mindedness in their ambition to achieve technology self-sufficiency. It has also reminded the world that the memory market is more than just a two-horse race. Coincidentally, since the CXMT listing was announced on May 28th, Samsung and Hynix shares have corrected by 35%. Amidst this week's market volatility, investors may have missed what I believe is the most interesting report GS has published on the AI race. Our data centre analyst Tim Zhao has produced a deep dive comparison between NVDA and Huawei chips. Today, for the same amount of computing power, Huawei 950 chips cost 3.2x the amount of Nvidia's B300.

**CHART 1:** Friday & Monday Marked the Largest Two-Day Long Liquidation in Global Info Tech on the GS PB Book Since January 2021




Source: GS FICC & Equities

**CHART 2:** Aggregate Mag7 Net Exposure and Long/Short Ratios Now Sit Near One-Year Lows




Source: GS FICC & Equities

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