

Goldman Sachs Exchanges

From Assets to Alpha: David Kostin on US Equities

David Kostin, Chief US Equity Strategist, Goldman Sachs Research

Allison Nathan, Senior Strategist, Goldman Sachs Research

Date of recording: December 2nd, 2025

Speaker: 20-plus percent forecast for stocks next year. That's courageous. A lot of people, they like to come out with, you know, eight to twelve and, you know, that's what they come out with. What makes you so confident?

David Kostin: There are three reasons that we're confident. The first is the economy.

Allison Nathan: That's the voice of David Kostin, back when he made his first TV appearance in 2010 on CNBC. Kostin, who's retiring as our chief US equities strategist this year, joined Goldman Sachs in 1994. Today, we'll get his take on US equity markets, and we'll also get the chance to hear some stories from his career as well as his uniquely informed views on how capital markets have

changed over the past few decades.

David, welcome back to Goldman Sachs Exchanges.

David Kostin: Allison, it's great to be here.

Allison Nathan: Can I first just say that I am sad that this will be the last time I am interviewing you on Exchanges? For our listeners and viewers, David and I have worked together for nearly 30 years. You've been here for 31. I have been here for 28. For half of that time that I have been here, we have sat 20 feet away from each other, so I will really miss you dearly.

David Kostin: I am going to miss you, along with many other colleagues here at the firm, but I am going to be an advisory director in calendar year 2026. And so I'll be interacting with some clients and other internal people. So we'll have an opportunity to see each other. But I've had a great experience for the last three decades.

Allison Nathan: I want to take the opportunity to reflect on your very long career, but before we get into those reflections let me take the opportunity to ask you for the

last time about the markets. US equity markets have made new highs this year, but the markets have been pretty volatile over the past few weeks. So how would you characterize market sentiment right now?

David Kostin: Actually, at the start of the year the sentiment was pretty optimistic. And then of course Liberation Day on the 2nd of April really created a lot of havoc and volatility increased dramatically. But that has receded in the last couple of months. And in fact, the market had a pretty monotonic increase, pretty steady increase from the low in April. And it was only recent when the government data stopped being released that we had a modest increase in volatility.

But I think the story of calendar 2025 thus far has been actually volatility has been right in line with the last five years. The VIX measures around 19, and it's actually trading a little bit below that right now. And I think that bodes pretty well looking into calendar 2026 in terms of the setup for the market.

Allison Nathan: And so in these last client conversations that you're having, are investors nervous or they're just

seeing momentum in the market and expect it to continue in 2026?

David Kostin: Nervousness comes from uncertainty, and uncertainty is a form of risk. And risks in the markets is measured by volatility, which is the VIX. And so the risk has been a lot of concerns on the part of investors, but I think that has been largely dissipated. We had a very strong third-quarter earnings season, which I think was an important stabilizing factor in the market, in my opinion. We had pretty good results not just from the Magnificent Seven but really a broad array of companies in the market increasing earnings up almost 9% year over year, and I think that's a pretty important stabilizing factor in the market right now.

Allison Nathan: Right. There's obviously been a lot of focus on AI. We got some good earnings out of Nvidia. The market still was volatile in the following days because there's still a lot of questions about whether we're in a speculative bubble. We've talked a lot about that on this podcast and within the research group. But you've been watching it very closely, so what are your thoughts?

David Kostin: Allison, the most frequently asked question from investors all over the world has been: Are we in an AI bubble? And that is I think an important answer to that in two ways. The first is it's not a single market. There is a market for price, and there's a market for capital availability. Those are two markets. They exist both in the public and the private space.

So if you take that analysis and think about it, it really has two implications. One, we are not in an AI bubble in the public markets. And I believe in the private markets the availability of capital and the price is probably unsustainable, which one could take as a synonym for a bubble.

I think the way to think about it is as follows. In the public market, Nvidia, which is the company that people most associate with AI, the share price has increased by 12 fold in the last three years and earnings have increased by 12 fold as well. So pretty much the price and the earnings have matched each other.

There'll be one exhibit, one example, of where the price in the public markets -- if you will, AI -- is not a bubble. It's

sort of matched the earnings growth and the price. You can think about the valuation of the largest companies in the market. Many of those associated, of course, with AI. They traded around 30 times earnings. The largest ten companies in the market traded 40 times earnings in 2021, just after coming out of COVID. And in 1999, the 10 largest stocks traded at 50 times earnings. So 30, 40, and 50, so we would say that we're not necessarily in a price bubble, if you will. On an absolute basis, still high relative to history but not nearly what it has been at other periods of time.

And you can think about the capital availability in the public markets. We've had about 55 IPOs in the United States this year, 55 deals greater than \$25 million in capital raising. You had 280 deals or so in 2021. That was a very robust raising of capital in the IPO market. And you had nearly 400 deals in 1999. This is an example where there is capital availability in the public markets but not necessarily ebullient. It's there but not so dramatic.

I think there's a much different story in the private market for AI, and I think that's an important insight that really came from George Soros in his book *The Alchemy of*

Finance. The Alchemy of Finance was published in 1987, and George Soros laid out his theory of reflexivity, which was linked to an important insight into how the capital markets trade. He had Chapter 1 on the reflexivity of the equity market. Chapter 2, reflexivity in the currency market. Chapter 3, reflexivity in the bond market.

Now what is that reflexivity about? Most people think the valuation of an asset is the discounted future value of the cash flows. George Soros argued in that book, *Alchemy of Finance*, that is not the right way to think about it. That actually the valuation of the shares today, the price change is an integral part of the valuation of the shares. That is a differentiated view. It's thinking about momentum. The relevance for private market for AI is that as these firms are raising capital, the growth rate increases. As the growth rate increases, the valuation of the enterprise increases. And that is a recursive process. Reflexivity is what George Soros called it. And that continues as long as there is new capital that can be brought into the market.

But the experience in 1999 was that at a point in time when the growth cannot be sustained or may not be sustained, you have a recursive or a reflexivity coming

lower, the so-called circular financing, I think are two different issues. One is the nature of reflexivity, and the second is the idea of capital being funded through vendor financing. At some point, the vendor doesn't necessarily have the same growth to be able to fund that growth. And that's a critical distinction between the public markets and the private markets in AI. And it is the number one question that we are getting asked by investors really for the last six to eight months and a concern about it. And I think it's important to break it into the two pieces, price and capital availability in the public and the private markets.

Allison Nathan: And as you said, so there are some areas of concern, but you talk to these investors all the time. And people think, oh, the market's been at an all-time high. We've just talked about volatility picked up. But in general, it's not been a particularly volatile market this year, but it's been a difficult market for a lot of investors. Why is that? And what are they most struggling with?

David Kostin: I think you can think about it in terms of the performance. First of all, if you look at the mutual

funds, around 29% of the mutual funds are beating their style benchmarks. That would be the relative performance of core managers versus the S&P 500 Index, growth managers versus the Russell 1000 Growth Index, and value managers versus the Russell 1000 Value Index. So those are the sort of measures that you think about. And that's typically around 37%. A greater percentage of mutual funds typically outperform than is the current situation here.

And if you think about hedge funds are up around 12% year to date, and that's compared with the S&P 500, an increase of around 17%. The market itself has done pretty well, and the hedge funds and mutual funds have struggled on a relative basis in this environment, which has been so driven by AI trade.

I think the uncertainty and the volatility that occurred around the Liberation Day in April put a lot of investors in a challenging position as the market sold off a lot. A lot of funds did not increase their position, their growth exposure as the market was rallying pretty dramatically in terms of their rebound from the lows this year. I think that's been the challenging story for a lot of fund managers.

Allison Nathan: So we talk about the smart investors, the smart money. What is the smart money doing now? What opportunities do they see?

David Kostin: It's difficult not to own some of the biggest stocks in the market, and that is the performance that has been in the story for this year. I think the opportunities that people are looking for, fund managers, healthcare, statistically cheapest in 30 years on a relative basis. And the idea, relative to the rest of the market, relative to P/E multiple. And as the uncertainty around some of the healthcare policy perhaps recedes, there is an opportunity from a value perspective in some of the defensive sectors and healthcare would be an example.

Second area to focus on that clients are looking around right now is on the consumer, consumer retail. A lot of concern about the state of the consumer, both an income perspective and from an employment and unemployment. But the Goldman Sachs economics team is looking at the sort of middle-income component of the economy that there is actually some stability and some growth. There'll be benefits next year with some of the tax reform that will kick

in. And so a lot of concern around the lower income strata of the United States. The wealthier cohort, the higher income cohort benefiting from the rise in the stock market. That middle income, sort of the companies that are benefiting from that.

And the third would be some of the AI beneficiaries. That there is a lot of focus on beneficiaries particularly on the revenue side. Almost all the discussions around AI tend to be around companies that are looking to improve their margins. Lower their costs and raise their margins, which is important, but a relatively few number of companies have actually focused on really concrete examples of how they're using AI to try to drive their revenue growth. And I think that is what fund managers will embrace and will be rewarded in those share prices.

I think those are three areas. Healthcare, some of the consumer areas, and some of the perceived long-term beneficiaries from AI.

Allison Nathan: That's where the value is, but are clients actually then shifting their portfolios towards these? Or are they mostly sticking to the momentum trades?

David Kostin: Well, the largest stocks in the market are comprising right now around a third of the index. The idea of not owning those stocks would be sort of challenging. A huge amount of risk in order to avoid those. So they tend to own those in a meaningful way.

The mutual funds are underweight those stocks relative to the benchmark. Otherwise, they'd be too concentrated and violate some of the rules on what constitutes a diversified mutual fund from the perspective of the SEC. And so they tend to be a little bit underallocated to the biggest stocks, but the hedge funds are definitely still embracing those companies, which have had terrific performance. They are growing their earnings more rapidly than the rest of the market, and I think it's an important driver of their returns. They're investing huge amounts of CapEx, and that's really the story behind the AI buildout. And so there's a lot of enthusiasm around that.

As I said earlier, I do not believe there's a bubble in the public markets for the AI securities. I think there are a lot of concerns around the commoditization of those products. What is the pricing dynamics of what they can charge in

the future. There's a significant amount of concern, and that's reflected in some of the conversations we have with investors, but they're still owning those companies for as long as they keep generating those earnings.

Allison Nathan: Let me ask you, about a year ago you made news with a very modest forecast for long-term S&P 500 returns. We're talking over the next decade. And that was partially due to what you saw as high valuations. Valuations have only continued to rise, if anything. So do you stand by that relatively dour view of long-term returns?

David Kostin: The Goldman Sachs Portfolio Strategy Team has recently published -- not just a year ago -- most recently published a forecast for the returns for the S&P 500 over the next ten years. There is a range between 3 and 10%, annualized total return. Midpoint of that is around 6.5%. And it is my belief that we're probably going to be in the lower end of that distribution. That's number one.

Number two, that is a return that is still positive, but it is below the long-term average. And one of the reasons for that, in my opinion, is the starting point of valuation is

high. And most importantly, my concern remains around the concentration in the market. And the way I think about it is as follows. That there is high concentration. And in a high-concentration portfolio, one would expect a greater level of prospective volatility than a broadly diversified portfolio. And normally, you would think about an investor being compensated for the potential above average expected volatility, which would be associated with a narrow concentration market.

But that is not the case. The idea is the market trades at a very high valuation. Right now the S&P 500 trades around 23 times forward earnings. That's a pretty high, historically high valuation. Not the highest but pretty close to the highest level. In 1999, it was 24-25 times as an index. So it's very high versus history.

Margins are very high. Now, they could continue to increase. That is a possibility. I think that is probably less likely. So therefore the risks would be that you have potential multiple contraction over time. So earnings will grow, the valuation comes down, and I think the valuation is likely to lead to -- high valuation today -- lead to a below average, still positive but below average return in the next

ten years. Of course, I hope it's a really strong return, but analytically I think it's likely to be below average.

Allison Nathan: Interesting. Let me shift the conversation a bit because, as we mentioned at the top of the program, you are about to end your day job as a chief equity strategist. Ultimately will be at the firm in other capacities. I'm sure this is a time of reflection for you. So let me just ask you, do you still remember your first day? And what was that like?

David Kostin: My first day at Goldman Sachs was a very eventful day in the history of the firm, not because I joined but because on September the 12th of 1994, my first day on the job, I started in the morning and that evening the senior partner resigned or retired. That was Steve Friedman. And that was a very difficult year for the firm.

The Federal Reserve hiked interest rates seven times. The Fed Funds Rate went up 2.5 percentage points, from 3 to almost 5.5%. Ten-year yields went from 6 to 8%. S&P 500 return that year was around 2%. It was a very difficult time for the firm. We had an enormous set of layoffs, so I absolutely remember my first day at the firm.

There were only two research analysts that were hired in the fourth quarter. Myself to focus on real estate. And my colleague for 25 years, Steve Strongin, was hired at the same time to focus on commodities. And those were the two areas that led the firm back to profitability in the next several years. This was before the rise of the tech bubble. It was the rise of raising capital for real estate was an enormous driver of that.

One of my iconic memories for the time I joined is there used to be a vice president's dining room. Everyone was in 85 Broad Street. Single building. Small building. Old. And they had a vice president's dining room, which was available. There was no Internet, so you had to call up and make a reservation. But you could be there, maybe you could seat perhaps 100 people maximum. And you would be able to go through a line, get some food from 12:00 to 12:45. That was one seating. Then they would flip the lights and you had to leave. And then there was another seating from 12:45 to 1:30. And so that was an iconic memory. I got to use that three times because it closed at the end of the year.

There was no cafeteria. There was no gymnasium. There was no health unit. It was a pretty traditional office building, but there was this area that you could sign up for. Occasionally we took up that opportunity to have lunch together. It was a great opportunity as well to meet other people, but I only got to use it three times.

Allison Nathan: So it was an inauspicious start to your career, but in some ways quite lucky because, as you said, you were in an area that ended up being a tremendous growth area for the firm and an important area of the firm. And I always say luck has something to do with it, right? Hard work, but luck.

You have had so many interactions with the most influential investors and asset allocators in the world. If you were to think back, are there one or two conversations that have really stuck in your mind?

David Kostin: So there are. I mentioned earlier George Soros and his book, *The Alchemy of Finance*. I took the opportunity to go see him and discuss that. His insights came from an analysis of real estate securities, and I was the real estate analyst.

I had reason in 2015 to fly to Omaha, Nebraska, to meet Warren Buffet. And I had another reason 24 years before that I met him in 1991. So we met in 2015. Of course, there were reasons why I would remember the previous meeting. I was shocked that he also had remembered that. His memory is extraordinary, and he asked a lot of questions.

I would say, Allison, there's sort of several meetings and client types that resonate with me over time. And it was the way that those fund managers engaged with our research, my research, and the research of the rest of the team. And so one is from a macro perspective. Paul Jones at Tudor Investments. And the way he would engage with my analysis on the equity market, and he was always thinking about what were the implications for the rates market, the currency market, the commodities market as he would think about other ways to implement some of our views or some of our insights into equities and how would he play that across in other areas? So I thought that process and over the many years I had a chance to interact with him and other macro investors as well. That was an interesting way for me to learn how other people

incorporate our analysis.

Another approach were the hedge funds. They engaged single stocks, much more specific, more tactical in nature. And I have a particularly strong memory of a number of meetings with Jim Parsons at Junto Capital, where I would go in, we did the analysis of the positions that were published on the long side of his portfolio. We would go in, we'd say, "Jim, I think you should be selling these stocks. You should be buying these stocks." And we would have a very intense dialogue over an hour and a half meeting, and he has an amazing poker face. So I could never tell if he was agreeing or disagreeing or what he had on the short side of his book, and so that was a series of those meetings that really stand out.

And the third classification would be mutual fund managers. And there, you know, I had a lot of meetings with Don O'Neill who retired after 40 years at the Capital Group. And the meetings there were always about the longer horizon and what happens if X development takes place and how do you think about that? And our analysis we had some nearer term views, longer term views, but he would really challenge my thought process to expand.

And so when I think back, Allison, the client meetings, that is the best part of the job in my opinion, to engage with fund managers of all types. And some of the research they would ask to do some customized projects for them, which really gave a lot of enjoyment to the job over many years.

Allison Nathan: Right. And it makes your research better, having all of these different perspectives.

David Kostin: Absolutely. Engaging with the clients. And that was the heart of what we try to do at Goldman with our investment research, to engage with some of the leading investors in the world.

Allison Nathan: Capital markets have obviously also changed dramatically over the past 30 years of your career. When you think back to some of the biggest changes, are there any that you feel have generally been underappreciated for their impact?

David Kostin: My perspective as I think about the arc of my career, it was very asset focused at the beginning of my career. And in fact, last evening I had the

opportunity to have dinner with Eric Dobkin, a very prominent senior partner at Goldman. But he was the one who invented the equity capital markets on Wall Street here at Goldman. And he and I worked together on a number of equity offerings in the 1990s, and we reminisced around that.

But the idea of assets and the asset value and what is a company worth and how to think about that in terms of how investors will embrace a particular company has evolved. And while it's still important, a lot of the discussions that we have now are around alpha in the market. And what I mean by that are the characteristics of individual companies. So companies can be collectively viewed as part of a basket. And we started to introduce this in 2006, which is almost 20 years ago. Ways of trading not just individual companies, of course, but they may group those in certain categories, whether they're a group of companies that are more exposed to non-US revenues or stronger balance sheets or certain attributes of companies. And investors have been trading those over time. That's increased in my client conversations. I call so from assets to alpha. That existed before, but I think it's become ever more so as a trend. And so that's not

something that is always appreciated or viewed, but I think that is something, an important development over the last couple decades.

Allison Nathan: And so in some ways, the job of a strategist has changed as you thought about implementation of some of these strategies. How else has the job changed over the last 30 years?

David Kostin: It has changed in a number of important ways. The framework that we use is actually quite similar. Think about it in terms of the economy, earnings, the valuation, and money flow. And I think about those as almost four legs of a table in trying to understand where the opportunities may exist. Is it an economic cycle we should be thinking about? Should we be thinking about earnings and margins? And what are the stress points of different industry groups? Valuations, where are there opportunities? And where is the money flow coming from?

That framework has remained pretty consistent over a long period of time, and that was a lesson that I learned very clearly from Steve Einhorn, one of my predecessors. He hired me. There have been four equity strategists at

Goldman Sachs in the last 55 years. During that same period of time, there's been nine senior partners and CEOs of the company. And so the four strategists, you had Lee Cooperman, who really focused on stocks; Steve Einhorn looked at both the framework involving the economy and stocks; Abby Cohen, my immediate predecessor, really had a way of focusing on the economy, what the implications were for the equity market; and myself, I've perhaps maybe moved the pendulum a little bit more closer to where Steve positioned it. And that was more consistent with my background as an equity analyst covering individual stocks. And so a lot of conversations I had relate to stocks.

And my successor, who is Ben Snider, and he's worked with me for the last 15 years, he will develop his own approach. But those are the developments that I've seen.

Allison Nathan: David, you've obviously had a hugely successful career here at Goldman. Not many people are at Goldman for more than 30 years in a very prominent seat, so I would be remiss if I didn't ask you what advice you have for people who are entering Goldman Sachs today or entering the workforce today.

David Kostin: So there's the general observations, banal if you will, work hard and things like that. And I think the important point for any business and particularly at Goldman Sachs of a young person who's joining the firm is to think about one's role and how that fits into the broader business environment. And what I mean by that is if you understand where you sit and your contributions to the commercial process then you can see how that changes over time. And as you see that change over time, you can see where there are opportunities to perhaps have a variant perspective on how to approach client problems. And I think that is not appreciated as much.

Each person starts in a modest role because you're more junior generally and you can observe a lot of senior people. But understanding how your tasks fit into a broader perspective is important. And whether that is somebody in research, whether that's investment banking, whether that's trading, whether sales, I think that is an important perspective.

And the second is to think about the fact that there's an enormous breadth of clients that are out there. And you think about sovereign wealth funds and pension funds and

insurance companies and endowments and hedge funds and mutual funds, all of whom are looking at a public market or a private market in venture capital or private equity that is they're approaching the challenge of getting returns in different ways. They have different horizons. They have different risk tolerances. And so that has made the job energizing and engaging. I traveled more than 100 days a year for more than a couple decades. And all those different conversations are really what I remember, will remember fondly and particularly my engagement with colleagues here at Goldman Sachs. So it's been an honor to be here, as you said, at the firm for more than 30 years and sort of leave my mark. And then also transition to my successor Ben Snider, who I think will do a great job.

Allison Nathan: Great. David, thank you so much for your time today. And again speaking personally, I just again want to thank you for all the insights, all the humor, all the candid discussions. I can't count the number of afternoons I've spent in your office spending much longer than I anticipated. But stories, David, I'm going to miss the stories. And I stand by my view that nobody can light up a room like David Kostin can. So we are going to really miss you. And I am sure our audience who knows you well

will agree with me.

David Kostin: Thanks, Allison. It's been a pleasure to be at Goldman Sachs for a long time and also my conversations with you are among my fonder memories. Thank you.

Allison Nathan: And thank you for listening to this episode of Goldman Sachs Exchanges, which was recorded on Tuesday, December 2nd. I'm Allison Nathan.

Disclaimer: The opinions and views expressed herein are as of the date of publication, subject to change without notice and may not necessarily reflect the institutional views of Goldman Sachs or its affiliates. The material provided is intended for informational purposes only and does not constitute investment advice, a recommendation from any Goldman Sachs entity to take any particular action, or an offer or solicitation to purchase or sell any securities or financial products. This material may contain forward-looking statements. Past performance is not indicative of future results. Neither Goldman Sachs nor any of its affiliates make any representations or warranties, expressed or implied, as to the accuracy or completeness of

the statements or information contained herein and disclaim any liability whatsoever for reliance on such information for any purpose. Each name of a third-party organization mentioned is the property of the company to which it relates is used here strictly for informational and identification purposes only and is not used to imply any ownership or license rights between any such company and Goldman Sachs. A transcript is provided for convenience and may differ from the original video or audio content. Goldman Sachs is not responsible for any errors in the transcript. This material should not be copied, distributed, published, or reproduced in whole or in part or disclosed by any recipient to any other person without the express written consent of Goldman Sachs. Disclosures applicable to research with respect to issuers, if any, mentioned herein are available through your Goldman Sachs representative or at www.GS.com/research/hedge.html. Goldman Sachs does not endorse any candidate or any political party. Copyright 2025, Goldman Sachs, all rights reserved.