Goldman Sachs The Markets

Will Fed Cuts Drive Stocks Higher?

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Chris Hussey: This is The Markets. I'm Chris Hussey. And today is Thursday, September 18th. And we're here on the Goldman Sachs Trading Floor with Tony Pasquariello, our Global Head of Hedge Fund Coverage with the Global Banking & Markets division. Tony, thanks so much for being with us.

Tony Pasquariello: Happy to do this.

Chris Hussey: Tony P, as you're known. It's funny because, you know, a year ago you and I met, just before the Fed meeting. That was the first Fed cut of the cycle. They took a pause. They've just cut again. What do you make of everything we saw yesterday from the Fed cut?

Tony Pasquariello: What I took away yesterday was they basically said we're going to cut five times in the next couple of years. Three times this year. One on the board obviously already. One next year. One in '27. Roughly consistent with the GS view. Slightly different, you know, timing sequence. But five cuts.

And yet, they took up their expectations for growth. They took up their expectations for inflation. They took down their expectations for unemployment. So, what they're essentially telling you is we're going to be cutting into a cyclical upswing. We're going to be cutting into an economy that is going to run a little bit hotter. I think that is what the market has been attaching to, that idea.

So, I think a lot of this is in the price in a way. But affirmational of the trend that the market was on.

Chris Hussey: Well, let's talk about what's in the price because the market response was kind of meh. What do you make of the market response yesterday and going forward?

Tony Pasquariello: There were elements of travel and arrive. I mean, there's that rally immediately thereafter, particularly in small-cap that faded by the end of the day.

As we sit here pre-open T+1, markets very well bid up and through the highs. And so, you know, I think what you see is what you get which is, again, a message that ratified kind of this instinct that the market had and clearly wants to run with a little bit.

We're also sitting here in expiry week. It's quarterly expiry. It is that third Friday of the quarter. There's oftentimes kind of a technical element to that, that can actuate the market's natural trend. So, it does feel like, you know, from here to Friday you have a little bit of that also on the side effect of the market.

Chris Hussey: Yeah, that's a great point because I stay close to the technicals with your options exposure. Talk to us a little bit about where you see the path from here. Because you've taught me over the last ten years you don't fight the Fed. But we're doing this, as you said, into an accelerating economy and a market that's at an all-time high. Does that adage still hold here? Don't fight the Fed?

Tony Pasquariello: I think so. Look, I tend to be a big student of market history. And the history book is very clear, which is when the Fed is cutting, again, into a cyclical upswing, typically the outcomes are favorable. When the market's cutting with the market on the debt highs, typically the markets fall through to the upside.

And so, I mean, big ball, in the absence of recession, markets tend to go up. When the Fed is adding stimulus on top of that, again, typically the wind's blowing in a favorable direction for the bulls. Well, let's talk about that market history because I was at Communicopia last week. I was also at Communicopia back in 1999. It had a similar feel. The markets have a similar feel too. You've got valuations extended. You've got market concentration. How do you square the circle with the market history of 1999 and today?

Tony Pasquariello: So, I started here in 1999. I started investing in college. I had an E-Trade account. So, you know, kind of, my formative years in the stock market was kind of that late '90s period which in the end was an extraordinary bubble that had a very long bear market that followed thereafter.

And so, when you're sitting here with NASDAQ up 16 of the past 17 years, you're right, you should be asking these questions. Are we in bubble territory or not?

I would say, Chris, objectively the market is top heavy. Objectively the market is concentrated. Objectively the PE is high relative to history. But what I take a little bit of comfort in is you look at the top ten stocks in S&P where so much of the game has been. The PE on that cohort is 28. At the highs, the debt highs in March of 2000, that was 43.

So, I'm not saying that 28 isn't high. I'm saying there's a good bit of distance between 28 and 43. And so, a client of mine always says, "Hey, Tony, you need to know what ballpark you're playing in." The ballpark we're playing in is one of demanding valuation and, again, a very concentrated market.

That said, what's gotten us to this point is very significant compounded earnings growth. And like I've said before, I'm just not willing to pick a fight with that momentum today.

Chris Hussey: Well, let me ask you a little bit about that ballpark. Is this an AI ballpark or a cyclical growth ballpark now that the Fed is starting to cut?

Tony Pasquariello: Well, certainly AI has captivated the market's imagination for the past almost three years now. So, the new world was revealed November of 2022. And since then, this has been theme number one. It has generated enormous amount of performance. Again, captured the market's imagination. And the capex numbers associated with this build out are eye popping.

It's not the only story. It is not the only story. And so, in a way this kind of gets into a conversation about market breadth. I tend to find market breadth is like listening to sports talk radio. Right? Everyone's got an opinion. They're often wrong. By definition, someone's going to be wrong. And there's often religion. And so, one could say, hey, this has been a very narrow rally. I don't totally agree with that. You know? We sit here today. There's 11 headline sectors in S&P 500. I think all 11 are positive on the year. And yes, the fastest horse in the race have been mega-cap technology companies. But certainly not the only pockets of strength in the market.

Chris Hussey: All right, against that backdrop what's the trade? What do you want to do from here?

Tony Pasquariello: Look, I tend to be a trend guy and a momentum guy. So, again, I think job number one for me is just to keep my eye on the ball. That is US tech. I'll say one more thing about US tech which is, as I said earlier, in 16 of the past 17 years the total return of NDX100 has been positive. That's some form of magic. If you were to ask why and what paved that total return of over 2200 percent, 75 percent of that was earnings. 16 percent of that was dividends. So, only about 9 or 10 percent of that was valuation. And so, again, I'm still a believer you want to go with the earnings momentum for now.

Chris Hussey: In the past you've been a proponent of Japan. Occasionally China. Do you want to dip your toes away from the US or is it all about the US?

Tony Pasquariello: I think the US will be the best game in town. I don't think it will be the only game in town. Europe's had its moment in the sun. I think that's fleeting as we speak. So, I'm much less favorable on the European trade. I think Europe tends to be a moment in time. It does have these short cycle rallies. But your timing better be impeccable. And then it's time to go elsewhere with your capital.

Asia's performed comprehensively very well. Japan's on the highs. Korea's on the highs. Taiwan's on the highs. As you say, China's been performing better. If I had to pick one horse within kind of the pan-Asia race, I would stick with Japan. It is the shareholder reform story. There could be a political catalyst here. And I think Japan has these demonstrated properties a bit like the US, which is you can get exposure to AI. You can get exposure to semis. You can get exposure to defense. And so, it does offer some of the sectors that I think stock operators are really attracted to.

Chris Hussey: Just drilling down on that trade in the US. Do you want to go with the Magnificent Seven or do you want to go a little bit deeper into like software and things like that?

Tony Pasquariello: I tend to be more of a Mag 7 person as opposed to some being like a basket of non-profitable tech stocks. Now by the way, that cohort's performing better. It's kind of like small-caps. So, some of the more disadvantaged parts of the market, the laggards, if you will, are catching up. But for me, it's still sticking with the biggest and best, those with the deepest moats. Those are generating returning and reinvesting capital on a level that no other companies on the planet can come close to.

Chris Hussey: All right, what are you watching out for next week?

Tony Pasquariello: I don't know if I have a laser sharp view on next week. I think the market's going to continue, of course, to obsess over the Fed. I have a client whenever I say, "What do you think?" He'll say, "It's not what I think. It what the Fed thinks." So, now that we started this kind of second cutting cycle, of course the Fed will loom large. And then all of the names and faces associated with who the next chair will be.

We're going to have a jobs number the first week of October. Which I think will loom very large in the market equation given how poor the prior two numbers have been. And so, I think it's a bit of the monetary dynamic. It's a bit of the employment dynamic. I think we're all wondering what exactly is going on with the US labor market. How much of that is constraint on the supply side? How much of that, perhaps, is the early impingement of AI? How much is just, kind of, the lasting scar tissue from the uncertainty around peak tariff uncertainty? So, what ultimately is the fate of the US labor markets, I think, is a very important question.

And then it's going to get quiet. And then it's going to get very busy as it relates to earnings. So, we're kind of in the quiet zone and the black out period. But come October, as we kind of move through October, the volume of the micro will start to pick up quite a bit.

Chris Hussey: All right, a bunch of people will get really mad at me if I didn't ask you this last question and that is football season to start. Pats are one and one. Your Red Sox too are on the brink of maybe going to the playoffs. Who's got a better chance this year? Pats or Sox?

Tony Pasquariello: If I had to pick, I'm going to place a bet with the Red Sox. I mean, look Chris, it's Boston sports. Like one of these teams will wind up winning a championship. And so, just wait. Just wait for it.

Chris Hussey: That is the best. Tony, thanks so much for joining us.

Tony Pasquariello: Happy to do it.

Chris Hussey: That does it for this week's session of The Markets. I'm Chris Hussey, thanks for listening.

Recorded on September 18, 2025.