Goldman Sachs The Markets

Why US Stocks May 'Grind Higher'

Ashok Varadhan, Co-Head of Global Banking & Markets

Mike Washington, Host, Co-Head of New York & International High Touch Sales Trading, Global Banking & Markets

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Mike Washington: This is The Markets. I'm Mike Washington. Today is Wednesday, August 5th, and I'm on the Goldman Sachs Equities trading floor, joined by Ashok Varadhan. Ashok is the co-head of Global Banking and Markets at Goldman Sachs. Ashok, it's great to have you.

Ashok Varadhan: Yeah, it's good to be here again.

Mike Washington: I got to tell you, there's a ton going on right now. I feel like there's a bunch of different ways that we could take this conversation, but I want to start on AI and momentum. You were on this podcast back in Q4 of 2025. You said that stocks are going higher and AI specifically was going higher. We just had one of the most violent momentum drawdowns in history last week to a V-shaped recovery in tech, and S&P sits at all-time highs.

Do you feel like this is the setup that markets could continue to grind higher on the go forward, or is there a wall of worry that we still have to get over?

Ashok Varadhan: I think we probably grind higher. I'd say obviously July was a difficult month for markets across a bunch of variety of different things.

I'd say first, obviously, the war re-escalated, and that obviously created some, some trepidation in the market. There was obviously nervousness that the Fed could potentially hike rates, and that created an item on the wall of worry. And then, of

course that kind of related to and kind of somewhat unrelated to, like you said, the violent tech momentum unwind that we saw.

And I think sort of all of those things, not just the tech momentum unwind, but I think all of those things kind of hit something like a recovery towards the latter part of July. And so it feels like signals are a little bit clear ahead. I'd also say is clearly it's well documented that there was a lot of leverage, in the AI trade, and I think a lot of that leverage has been unwound, which leads for a higher quality rally going forward.

Mike Washington: One feature of 2026 has been that single stock vol relative to index vol is stretched. The spread is very high. What do you make of that? Is that a feature that is going to continue into the end of 2026, or do you start to see that revert, where index vol starts to match what you're seeing on the single stock side?

Ashok Varadhan: I think we're going to still see high levels of dispersion. I don't know if it's going to be as extreme as what we saw. In fact, what's interesting is, given all of the things that transpired in the month of July, the S&P was unchanged. So that gives you a sense of, like, the stability that you're seeing at the index level, but the variance that you're seeing on the single stock level.

I think that's likely to continue because of this AI theme affects companies so differently, whether you're in the supply side of the chain, whether you're a consumer of AI, whether you're a hyperscaler. I think there are so many different facets that affect sort of the perception of your company on a go-forward basis, so that's likely to continue. That being said, I think we've probably seen the extremes of dispersion.

Mike Washington: You mentioned the Fed, you mentioned some of these crosscurrents of what the interest rate environment is looking like. We came into the year expecting cuts. It doesn't feel like we're getting that at all.

Actually, probably going to get a hike by the end of the year if you look at what the market is pricing in. What do you make of that? What do you make of the interest rate path on the go forward?

Ashok Varadhan: I don't think we will see hikes in the latter part of this year. I think rates are going to stay on hold.

I know that's a little bit counter-consensus or that's not consistent with what you're seeing in market pricing, but my view is that a lot of the things which caused inflation to be elevated are a little bit in the rearview mirror with respect to, obviously, with respect to tariffs. And also if you believe that we're on the precipice of getting a deal certainly around the Strait of Hormuz. I'd also say that while the AI infra build-out can put pressure on resources and stoke some inflation fears over the long run, I do think it's, you know, once the infra is built, it's fairly disinflationary.

Mike Washington: I want to double-click on that AI infra that you just mentioned in particular to credit, if you put your credit lens on. As hyperscalers, companies are having to tap into debt markets to now finance some of these AI investments, are you surprised that credit spreads have remained tight in light of that?

And then to a second point, you don't expect rate hikes this year, do you think that that actually presents a really constructive backdrop for credit?

Ashok Varadhan: I think I'm fairly constructive on credit. That being said, we're seeing a lot of supply, and I think with that supply there needs to be a little bit more of a risk premium or a little bit more of a concession.

I think you're seeing that. I think part of the reason why credit spreads are not moving out wildly is the actual underlying nominal economy has proved itself incredibly resilient despite some of these exogenous shocks. And so if you think the exogenous shocks are going away and you still have the resilience of the economy, I think you can still say that your sort of realized expectation of default remains fairly low.

Mike Washington: On the currency side, there was some yen intervention last week to stabilize Asian markets. How do you factor the risk that is posed if the, the yen destabilizes in the way that potentially people are starting to fear?

Ashok Varadhan: Coming out of the pandemic, and certainly over the course of the last three or four years, you've seen inflation all around the globe running above stated central bank targets. I think you've seen normalization in the US, you've seen normalization in Europe, whether that be in Eurozone or in the UK, and you haven't seen meaningful normalization in Japan, and that's the reason why the yen is trading weak.

I don't really believe in intervention. I don't think it works over the longer run. I think ultimately, to see stabilization in the yen, the Bank of Japan is going to have to normalize rates properly.

Mike Washington: That makes a ton of sense. We've talked currencies, we've talked credit, we've talked equities, rates. If you had to package it up into one trade right now, what's the trade?

Ashok Varadhan: Well, I think there are a couple of different things. I think, one, I think energy is going to go back down. I think oil settles back down well below $70 a barrel, maybe even lower once we get towards the latter part of the year.

I think that that makes me very constructive on front-end yields in the US. I think, you know, if you look at hikes priced in, I think that's fairly attractive. And like I said before, I think that leads for a backdrop in which sort of the overall market is going to really participate in both the productivity gains from AI, but also a resilient, a resilient economy.

Mike Washington: Which I also think underscores your probably broader thesis that markets are headed higher. There's a really constructive backdrop. Growth is strong. You just look at this earnings period, and we should continue to grind higher into year-end.

Ashok Varadhan: Yeah. I'd say, stay invested. Stay invested would be my advice.

Mike Washington: Which was your thesis in Q4, and you were right.

Ashok Varadhan: Yes, stay invested.

Mike Washington: Okay, Ashok, what are you watching moving forward?

Ashok Varadhan: We have a jobs report, which I want to pay a lot of attention to, and of course, we get more readings on inflation. Those are the two pieces of the puzzle that we don't have, and so we'll be paying close attention to that.

Mike Washington: Awesome. Ashok, it's always great to have you here.

Ashok Varadhan: Thank you. Thanks you.

Mike Washington: And that does it for this week's episode of The Markets. I'm Mike Washington. Thanks for listening.

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