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The Goldman Sachs Group, Inc. (GS) Q3 2024 Earnings Call Transcript

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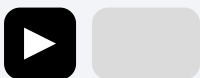
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Q3: 2024-10-15 Earnings Summary



EPS of \$9.02 **beats by \$1.71** | Revenue of \$12.70B (7.46% Y/Y) **beats by \$941.84M**

The Goldman Sachs Group, Inc. (NYSE:[GS](#)) Q3 2024 Earnings Conference Call
October 15, 2024 9:30 AM ET

Company Participants

David Solomon - Chairman and Chief Executive Officer

Denis Coleman - Chief Financial Officer

Conference Call Participants

Glenn Schorr - Evercore
Ebrahim Poonawala - Bank of America
Christian Bolu - Autonomous Research
Mike Mayo - Wells Fargo Securities
Betsy Graseck - Morgan Stanley
Brennan Hawken - UBS
Steven Chubak - Wolfe Research
Devin Ryan - Citizens JMP
Dan Fannon - Jefferies
Gerard Cassidy - RBC
Saul Martinez - HSBC

Operator

Good morning. My name is Katie and I will be your conference facilitator today. I would like to welcome everyone to the Goldman Sachs' Third Quarter 2024 Earnings Conference Call. On behalf of Goldman Sachs, I will begin the call with the following disclaimer.

The earnings presentation can be found on the Investor Relations page of the Goldman Sachs website and contains information on forward-looking statements and non-GAAP measures. This audiocast is copyrighted material of The Goldman Sachs Group, Inc., and may not be duplicated, reproduced, or rebroadcast without consent. This call is being recorded today, October 15th, 2024.

I will now turn the call over to Chairman and Chief Executive Officer, David Solomon; and Chief Financial Officer, Denis Coleman.

Thank you. Mr. Solomon, you may begin your conference.

David Solomon

Thank you, operator, good morning, everyone. Thank you all for joining us. In the third quarter, we produced net revenues of \$12.7 billion and generated earnings per share of \$8.40, an ROE of 10.4% and an ROTE of 11.1%. Overall, I am pleased with our performance especially in a quarter where our results were impacted by selected items including the narrowing of our consumer footprint which reduced our ROE by 80 basis points. Our performance demonstrates the strength of our world-class and interconnected franchises where we were effectively serving clients in a complex backdrop.

Global Banking and Markets, we remained premier M&A advisor and a leading global risk intermediary. Across investment banking, corporate and sponsors remained actively engaged and we see significant pent-up demand from our clients. Our backlog rose again this quarter driven by advisory and we expect our leading investment banking franchises to benefit from the continued resurgence in activity.

In FIC, we delivered record financing revenues and facilitated our clients' risk intermediation needs, particularly as activity levels picked up towards the end of the quarter. And in equities, we reported a very strong performance across both intermediation and financing. Overall, our global broad e-platform remained exceptionally well positioned to support our clients' evolving needs across products and asset classes.

In the Asset and Wealth Management, our position as a leading global active asset manager the top five alternatives player and a premier ultra-high network franchise afford us significant opportunities in secular growth areas. Our assets under supervision reached another record this quarter surpassing \$3 trillion, and representing our 27th consecutive quarter of long-term net inflows. We demonstrated further growth and more durable management, other fees and private banking and lending revenues, which together were a record \$3.4 billion this quarter and up 9% versus last year.

We remain confident in our ability to grow these more durable revenues at a high single digit pace over the coming years, and alternatives fundraising remains strong. We raised over \$50 billion year-to-date, and now expect 2024 fundraising to exceed 60 billion, as we see ongoing demand across asset classes, including private credit, private equity, secondaries, and infrastructure.

Wealth management, we grew our total client assets to \$1.6 trillion, and our ultra-high net worth franchise is well positioned to continue to grow globally as we expand our advisor footprint and our leading offerings and our lending offerings to clients. Our pre-tax margin in AWM is up meaningfully from last year and in line with our mid-20s target. We remain focused on further improving the margins and returns in this business, while also investing to drive growth across wealth management alternatives and solutions.

As I look at the operating backdrop, the U.S. economy continues to be resilient. Inflation has been coming down, the recent unemployment data is supportive, and while we have seen some softness in consumer behavior, the tone of my recent conversations with clients has been quite constructed. The beginning of the rate cut cycle has renewed optimism for a soft landing, which should spur increased economic activity.

More broadly, clients remain highly focused on the trajectory of rates in jurisdictions around the world. The policy implications of global elections, particularly in the U.S. and the high levels of geopolitical instability. Against this backdrop are leading global franchises in supporting our clients as they navigate risks and position themselves for a range of outcomes.

Before I turn it over to Denis, I want to spend a moment on capital and Basel III revision. Although, we have closely followed the recent remarks from regulatory officials about the upcoming reproposal, we continue to have concerns about the overall regulatory process. There remains a lack of transparency and appreciation for the interconnectedness of capital requirements across the proposed fundamental review of the trading book, CCAR and the G-SIB buffer. We recognize this is an ongoing process that will take time, but as we've said before, we need to get this right.

The final rule have a significant impact on the growth and competitiveness of the U.S. economy. Requiring too much capital will increase the cost of credit for businesses large and small, and will impact growth across the country. We look forward to receiving more clarity from our regulators once the reproposal is published and participating in the new comment period. We remain very engaged both as an industry and as a firm.

In closing, I feel very good about the trajectory of Goldman Sachs. We are leaning into our strengths. Our client franchise is stronger than ever, and we continue to harness our one Goldman Sachs approach. Our world-class talent, execution capabilities, and risk management expertise are core to who we are as a firm and allow us to provide differentiated service to our clients and outperform for shareholders through the cycle.

Let me now turn it over to Denis to cover our financial results in more detail.

Denis Coleman

Thank you, David. Good morning. Let's start with our results on Page 1 of the presentation. In the third quarter, we generated net revenues of \$12.7 billion, up 7% year-over-year. Earnings per share of \$8.40 up 54% year-over-year, ROE of 10.4% and ROTE of 11.1%. As David mentioned, our results were impacted by select items, including agreements to transition the GM card platform and to sell our portfolio of seller financing norms. In aggregate, these items reduced EPS by \$0.62 and our ROE by 80 basis points.

Now turning to performance by segment starting on Page 4. Global Banking and Markets produced revenues of \$8.6 billion in the third quarter. Advisory revenues of \$875 million were up both sequentially and versus the prior year period. We remain number one in the league tables for announced and completed M&A for the year-to-date. Equity underwriting revenues rose 25% year-over-year to \$385 million. As equity capital markets have continued to reopen, though volumes are still well below longer-term averages. Debt underwriting revenues rose 46% year-over-year to \$605 million amid higher leverage finance and investment grade activity.

We are seeing increased client demand for committed acquisition financing, which we expect to continue on the back of increasing M&A activity. Overall, our investment banking backlog rose quarter-on-quarter driven by advisory. FIC net revenues of \$3 billion in the quarter were down from a strong performance last year amid a relatively quieter summer, though we saw a meaningful pickup in activity in September.

A decline in intermediation revenues was partially offset by record FIC financing revenues of \$949 million, which rose 30% year-over-year, primarily on better results within mortgages and structured lending.

Equities net revenues were \$3.5 billion dollars in the quarter, up 18% versus the prior year. Equities intermediation revenues were \$2.2 billion, up 29% year-over-year, primarily driven by strong performance across derivatives and cash products. Equities financing revenues of \$1.3 billion rose versus the prior year amid higher average balances. Across FIC and equities financing revenues were a record \$6.6 billion for the year-to-date, a direct result of the successful execution on our strategic priority to improve the durability of our revenue base.

Moving to Asset and Wealth Management on Page 5. Revenues of \$3.8 billion were up 16% year-over-year. Our more durable management and other fees and private banking and lending revenues reached a new record this quarter of \$3.4 billion. Management and other fees increased 3% sequentially to a record \$2.6 billion for the quarter and \$7.6 billion for the year to-date well on the way to achieving our \$10 billion annual target for 2024. Private banking and lending revenues rose sequentially to 756 million.

We are seeing positive momentum in this business, and we remain focused on increasing lending penetration and expanding our loan product offerings. Incentive fees for the quarter were \$85 million. We continue to expect to reach our annual target of \$1 billion over the medium term, supported by approximately \$4 billion of unrecognized incentive fees as of the last quarter. Equity and debt investments revenues totaled \$294 million reflecting NII in our debt portfolio and markups in our public equity portfolio. For the year-to-date, we generated one and a half billion in combined equity and debt investments revenues.

Now moving to Page 6. Total assets under supervision ended the quarter at a record of \$3.1 trillion, bolstered by \$37 billion of liquidity products net inflows, and \$29 billion of long-term net inflows across asset classes. We continue to see traction in our solutions business where we are leveraging our SMA capabilities and outsource CIO platform to deliver customized multi-asset solutions.

Turning to Page 7 on alternatives. Alternative AUS totaled \$328 billion at the end of the third quarter, driving \$527 million in management and other fees. Gross third-party fundraising was \$16 billion in the third quarter and over \$50 billion for the year-to-date. This brings cumulative third-party fundraising to more than \$300 billion since our Investor Day in 2020. We further reduced our historical principal investment portfolio by \$1.7 billion in the third quarter to \$10.9 billion, bringing year-to-date reductions to \$5.4 billion.

On Page 9, firmwide net interest income was \$2.6 billion in the quarter up versus the prior year period, reflecting an increase in interest earning assets. Our total loan portfolio at quarter end was \$192 billion up year-over-year, driven by an increase in other collateralized lending. For the third quarter, our provision for credit losses was \$397 million, primarily driven by net charge offs in our credit card portfolio and partially offset by \$70 million of net recoveries on previously impaired wholesale loans.

Turning to expenses on Page 10. Total quarterly operating expenses were \$8.3 billion. Our year-to-date compensation ratio net of provisions is 33.5%. Quarterly non-compensation expenses were \$4.2 billion down 14% year-over-year. We remain focused on driving efficiencies across the firm, given ongoing inflationary pressures, competition for talent, and our desire to invest in our engineering and technology platforms. Our effective tax rate for the first nine months of 2024 was 22.6%. For the full year, we continued to expect the tax rate of approximately 22%.

Next capital on Slide 11. In the quarter, we returned \$2 billion to common shareholders, including dividends of 978 million and stock repurchases of \$1 billion. Our common equity Tier 1 ratio was 14.6% at the end of the third quarter under the standardized approach. During the quarter, the Federal Reserve reduced our SEB requirement by 20 basis points to 6.2%, following a successful appeal process, resulting in a standardized common equity Tier 1 ratio requirement of 13.7%, which became effective October 1st.

We remain very engaged with our regulators on creating a less volatile and more transparent process. Given our 90-basis point buffer, we continue to have flexibility on capital deployment and are very well positioned to serve our clients and return capital to shareholders.

In conclusion, our overall performance reflected the strength of our client franchise and the improving operating environment. We are executing on our strategy where we are maintaining and strengthening our leadership positions across Global Banking and Markets and leaning into secular growth opportunities in Asset and Wealth Management.

Across both businesses, we are making strong progress in growing our more durable revenue streams. Simply put, we are playing to our strengths as a firm and we remain confident in our ability to drive returns for shareholders while continuing to support our clients.

With that, we will now open up the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] We'll take our first question from Glenn Schorr with Evercore.

Glenn Schorr

So, trading question, I mean, markets business has been great, markets have been supportive. But I guess my question is to your comments on the regulatory perception perhaps of trading in general, and August looked like a spike in volatility, but looks like you did really well. This marks many quarters that you and others have done very well for years. Do you feel the business is managed better? Do you feel like your results mean anything towards the outcome on the regulatory side? I'm just curious on what the - if the evidence matters.

David Solomon

I appreciate the question, Glenn, and I mean, it's a hard question to answer. I think we've been clear on some of the advocacy we're doing around the regulatory process, but I've also been clear on regulatory environments, ebb and flow and that people can be policy. And so, overtime, you see shifts in all this. And our job, and I think we've done this effectively over a very long period of time, is to adapt and adjust and be nimble to the different regulatory environments.

With respect to the business of markets which includes FIC intermediation and FIC financing and equities intermediation and equities financing, I think we have an extraordinary leading franchise that we've invested in over a long period of time. We have deep, deep client relationships, clients who rely on us for a package of services and that's not going away.

And certainly, in this environment, this is an environment that's filled with uncertainty their need to constantly be engaging and repositioning and reshaping continues to make them very, very active on a broad global scale. I think that we've done a number of things to evolve the way we run the business over time that I think have made the business more durable.

Certainly, our focus and our emphasis on financing and the way we've grown and managed the financing businesses puts a level of durability into the business that's different than when the businesses were predominantly intermediation businesses. But intermediation continues to be an important service. And when you really step back and you step out a quarter-to-quarter and you look more year-to-year or year-over-year, these are very broad franchises across numerous silos, and they tend to be more resilient and more consistent than one might see when you look quarter-to-quarter.

So, we feel good about the way the franchise is positioned, we'll continue to invest in it and grow it. I think one of the things that people forget is that these businesses are correlated to growth in the world. They're correlated to market cap growth in the world. And as long as you believe, over the medium and long-term, those trends will continue with our capital generation we have the ability to invest in those franchises and grow those franchises over time, and we continue to see attractive return opportunities to do that. How the regulators respond to that over time, I really think is a separate question. And we'll continue to be actively engaged, as we've said to you, we are to ensure that we can manage that appropriately.

Glenn Schorr

I appreciate that. This one will be a short follow-up. With HPI was weak, but that'll happen on any given quarter. I think if you look over a long period of time, you've earned good returns on your historical principal investments. But as that book shrinks the 10.9 that's left, the 4 billion attributed to it, if I take a, should I -- is it okay to take a historical ROE-ish on that capital to think about the lower revenue corresponding to the lower book going forward on HPI?

Denis Coleman

Glenn, its Denis. I guess what I would suggest you take a look at, we have obviously a commitment to reducing the balance of the historical principal investments. And as we continue to have success doing that, there will be less revenue associated with the positions that have now been moved off of the balance sheet. But you will still see revenue generation associated with some of the co-invest positions that we retain as a piece of driving our overall growth of our third-party fund management business as to guidance on future projected returns on that portfolio, I don't think I have a good answer as to exactly what future returns will be relative to prior returns, but I would suggest to you that we have a very diversified portfolio of exposures and a long-standing track record of delivering good returns for our clients.

Operator

We'll take our next question from Ebrahim Poonawala with Bank of America.

Ebrahim Poonawala

I just had a follow-up first on trading and maybe David would appreciate your perspective around when we read about non-bank trading venues, getting into fixed income markets, potentially sort of disrupting the business for the incumbents. Comment on that if you may - you could in terms of other parallels to the equity business that we should draw? And how much of a competitive threat are the non-bank/non-regulated entities, especially given your comments around the regulatory backdrop and kind of the Basel end-game, reproposal and the opaqueness around that? Thank you.

David Solomon

Yes. Sure, Ebrahim, and I appreciate the question, and this gets a lot of attention, particularly in the press. But I think there are a couple of things when you stand back that are important to think about. And look, the equities journey is a relatively good journey. There's been lots of -- first of all, there's lots of competition in all these businesses. There's always been competition, but there are very few platforms that offer the leading capital allocators and asset managers in the world, the scale and the breadth across all the services that they need in an integrated basis. And that's very, very important to those clients when you go out and you talk to those clients.

There can always be competition and there always will be competition. I just highlight, our equity business is as large and as scaled and as profitable as ever. Even though over the last 25 years, there's been enormous competition in the equity business. There's been digitization, there's been changed, there are now a handful. By handful, I'd say less than a handful. There are now one or two players that are trying to compete in some of the credit spaces, et cetera. And will they compete and will they win business?

Of course, they'll win business. But these are big, big markets. We offer scaled solutions that are integrated for our clients and we continue to be enormous liquidity provider, financier of those clients, which by the way is very, very important to them for the way their overall ecosystem works. So while these businesses always will be competitive and they continue to be competitive, again, we feel very good about the way our franchise is positioned to continue to be a leading player for our clients in these spaces.

Ebrahim Poonawala

Understood. And just a follow-up on -- back to ROE and conversations with investors around, you have done a good job over the last year or two, performance has been strong. Stocks reflected that. As we think about the journey here from a 12%, 13% ROE to something that's maybe 15% plus, what are the building blocks one could argue that the market backdrop, not the best, but not the worst? What needs to happen for Goldman to get to a point where we are registering a 15%-type ROE on a more recurring basis? Thank you.

David Solomon

Well, I appreciate the question. And we've been very clear, we have a mid-teens target and that we believe we are on the journey of executing towards it. I think the first thing that has to happen is we need to continue to execute over a period of time to deliver on that. And again, I think it's a pretty simple building block of a story.

First, we have a Global Banking and Markets business, and you can go look at the performance over the last five years of that business and the returns that, that business has delivered. I would say that I still believe we have some tailwind dynamics around the investment banking activity, and I just highlight that while investment banking revenues have improved, and we've made progress, we are still not operating at 10-year averages in M&A and equity volumes.

M&A volumes year-to-date are 13% below 10-year averages. Now that's better than the 25% below 10-year averages that they were for the first nine months of last year and equity volumes at 27% below 10-year averages. Now that's better than the 34% to 35% that they were below 10-year averages for the first nine months last year. But there's no reason why we're not going to get back to 10-year average is a tailwind, but you can look at the performance in banking and markets, and that's one building block in the foundation for mid-teens returns.

The second is our continued progress, which requires more time and more execution on our part around Asset and Wealth Management. And while we've improved the margins, we still have work to do on the margins and also the returns, and we continue to be very focused. But we are confident over the course of the next few years that we can bring the returns of our Asset & Wealth Management franchise into the mid-teens.

The next building block or the last building block is we continue to narrow our consumer footprint and the drag associated with the platform business, that will get to a point where it basically becomes negligible. It's getting closer to that. And so, if you put those building blocks together, Global Banking and Markets, its actual performance with a little bit more of a tailwind, which obviously it benefits from continued progress on Asset and Wealth Management, that is our business, and we should be able to deliver those returns. We're focused on it. We have more work to do, but that is the path, and I think it's pretty clear.

Operator

We'll take our next question from Christian Bolu with Autonomous Research.

Christian Bolu

Can you hear me? I just have a question on the trading business and the competitive landscape. How are you thinking about the -- maybe the broader competitive landscape with the -- with other banks? Your market share seemed to peak in 2022. It's been a bit choppy since then as a market share. Just curious, are you seeing signs of competitors coming back, increasing competition from anywhere. I'm just curious on your thoughts there.

David Solomon

When you have leading market shares, our Global Banking & Markets franchise, you bounce around at different levels based on short-term activity, but what I'd say is if you step back and you look over the last five years, we took a step function up in our market share broadly across the plot. And so, from quarter-to-quarter, you'll see variability. But I still think those market shares are positioned in a leading position, and we're zealously focused on them. We're zealously focused on the top 150 clients, which obviously make a huge contribution to the markets business. We're obviously always focused on our overall banking footprint and the opportunities there.

And obviously, in a better M&A environment where there's more large cap M&A. You do see some movement in our market share. So that's a market share tailwind for us. They've always been competitive business, Christian. Again, we think we're very well positioned with our clients and have deep trusting long-term relationships and through our one Goldman Sachs operating ethos, a history of delivering for them through the cycle. There's always going to be competition, but we like the way our business is positioned. And I don't see anything that fundamentally changes that, but have operated in these businesses. We've operated in these businesses for a long time. There are always going to be competitive businesses.

Chinedu Bolu

Okay. On Private Banking, just another set of very strong results there, I think revenue growth up 10%. And if I'm doing my math correctly, organic flows are in the high single-digit range, which would put you, I think, best in class. So just remind us again like what's driving strength there? And then maybe any key initiatives for growth over the next couple of years that should help sustain this growth.

David Solomon

Sure, I'll start. I don't know Denis might have something to add. But at a high level, this is a strategic decision that we have this big ultra-high net worth platform, and we were underinvested in lending to those clients. And there's a lot of historical reasons for why that's the case, starting with the fact that 15 years ago, we want a bank. And so, we really didn't look at the world that way.

But lending into an ultra-high net worth franchise is a very good business, and it's a very important part of the business. And we understand that we've learned and we've seen it through investment banking, and we've seen it through market that when you holistically look at the integration of services that you provide to your client, including lending, you improve your market share position.

So, when you look at our wealth franchise versus under other wealth franchises, we've been underpenetrated the lending to those wealth clients and we put in place resources a leadership team on a focused effort to increase that activity to these clients. While we've moved the needle, we're still underweighted versus other competitors like JPMorgan, and I would expect that we have a relatively good growth trajectory to continue to invest in that capability for our clients. And Denis I don't know if there's anything you want to add on that?

Denis Coleman

The only thing I'd amplify, which I think we've mentioned before, we feel like we've run this play before. So, we worked on a strategy to holistically cover clients in banking by integrating lending as part of the holistic suite of services we provided them, improved our market share position with those clients. We've implemented the same thing across the GBM public businesses of FICC and equities.

We stand underpenetrated relative to peers today, and we believe that by taking the same holistic approach to the clients in the wealth business that we can improve our market shares and the nature of our relationship with those clients. As David said, we are allocating incremental resources, more specialist capabilities and giving our advisers the confidence to offer a competitive product to their clients to improve the overall relationship they have with their clients.

Operator

We'll go next to Mike Mayo with Wells Fargo Securities.

Mike Mayo

The first question relates to why do you stop platform solution sets of business line? And what's happening with the Apple Card? And do you plan to exit that and take charges for that? And kind of what's going on with that? Again, two-thirds of the firm's global banking market, one-third is wealth and asset management, and then you have this kind of extra business there.

David Solomon

Yes. Thanks, Mike. I mean I know there's a lot of focus on that. I think we've been pretty clear in our messaging that we are continuing to narrow our consumer footprint. I don't have a lot more to say about where we are with Apple Card other than we're running it and improving it. And that's really all that I have to say. But I think the direction of travel at this point is pretty clear.

Mike Mayo

Well, back to the core business then, you said M&A is still 13% below 10-year averages. To what degree are 10-year averages less relevant because of the sponsor activity. You guys have said -- it seems like everyone has a different number, whether it's \$1 trillion or \$3 trillion of dry powder out there by sponsors that are ready, willing and able to pursue acquisitions. And I don't think you've ever had that level of dry powder before. So, could this be an M&A super cycle because all that money gets put to work? And if so, how would you change that 10-year average to adjust for that?

David Solomon

I mean, one, I think there are long-term secular trends around M&A and market cap, which, by the way, are also meaningfully below trend I think that's more driven by the current regulatory environment and the fact that there has not been a lot of large-cap M&A with the market cap expansion, especially around TAP, that might be permanent. It might not, but my guess is that will ebb and flow from time to time.

But your sponsor point, Mike, is a very, very good point. And the bottom line is the sponsors have been slower to turn on than I would have expected, but they will turn on. By the way, if that -- all that dry powder is deployed okay, M&A volumes versus the 10-year averages will go up. But by the way, if we were sitting here five years ago, 10-year average was lower five years ago than it is today because the 10-year average is definitely correlated to market cap growth and economic growth.

So, I do think we'll operate a 10-year averages. I do think over time, by the end of the decade, the 10-year average will actually be higher than it's been with a historical lens. But I will say at the point lower to deploy than we would have expected, but we see more activity. Some of that is indicative of the growth in our backlog that we've highlighted. And I do think that sponsor activity will continue to accelerate over the next 6, 12, 24 months.

Operator

We'll go next to Betsy Graseck with Morgan Stanley.

Betsy Graseck

Can you hear me okay? Okay, super. Yes, I totally agree. We've been calling for capital markets rebound. It's really nice to see it coming through. Two questions. One on the expanding loan offerings that you mentioned earlier. And I know we touched on it briefly in the Q&A. Just a few questions ago. What I wanted to make sure I understood is, when you think about the RWA impact of reducing the private investments that you're doing, you're reducing that portfolio and then increasing the expanded loan offerings into Asset & Wealth Management. Do you see that as RWA neutral is the density of the loan offerings higher or lower than the investment, the private equity investments that you've got?

Denis Coleman

Sure, Betsy. Very good question. So generally speaking, the density of the HPI that we have left to sell down is high and the density asset and wealth loans is low. So, migrating RWA towards the lending businesses improves the durability, the predictability, the recurring nature of it, it brings forth the holistic access to the clients, all their wealth management needs and it is more capital efficient for us. So that is an underpinning component of the strategy as well.

Betsy Graseck

Okay, super. Right, because it's collateralized heavily, right? Okay. Then the other question I had was just on the GM cut. I wanted to make sure I understood this. So as far as I get it's signed but not closed yet. So, can you give us a sense as to when you think it's going to close? And are there any trailers in your P&L when it does close, for example, anything we should be aware of with regard to either payments to on the contract to GM? Or is there like a lot of cap that you have to be involved in? I'm just trying to make sure I understand how to model this as we go forward.

Denis Coleman

Sure, Betsy. So, in terms of timing, it's signed but not closed. There has to be a conversion to the new issuer and then ultimately at closing of the platform transfer expectations we're targeting Q3 of 2025. So that's sort of timing from a modeling perspective. And I guess what I would tell you, we obviously have responsibility for operating the platform until that point in time. So, we will continue to incur call it, the run rate operating losses associated with that business. As a guide, I'd point you to where we were in Q1 and Q2 of this year, something on the order of negative \$50 million or \$60 million per quarter, just to give you a sense for how that rolls forward from here until closing.

Operator

We'll go next to Brennan Hawken with UBS.

Brennan Hawken

I wanted to follow up a little bit on the investment backlog commentary. I know you said that advisory drove a lot of the growth in the backlog. But we did see some sponsors recently to the IPO market with some success. And so curious about what you're seeing on the ECM and IPO side, particularly as we see early signs of sponsors reengaging with that distribution channel?

David Solomon

So, thanks for the question, Brennan. I mean there's no question equity activity picked up. But as I highlighted a few moments ago, volumes are still running 25% below 10-year averages. And IPOs running even more significantly below 10-year averages. I do think the sponsors, again, some of it is sponsor monetization. And because sponsors have had their portfolios marked a little bit higher, they've been slow and they're kind of waiting for growth to bring up some of the values. But I do see an acceleration of activity and I expect it to continue, and there's no fundamental reason why equity volumes ultimately shouldn't run a 10-year averages. And that those averages will grow over time with a growth in market cap and a growth in the deployment of sponsored capital.

Brennan Hawken

Great. And then we've seen several partnerships and some innovation getting announced in the private credit world recently. And given your heritage in that business, how do you plan to approach and prosecute that opportunity?

David Solomon

Sure. We have a very broad and interesting credit platform that is integrated in a one GS way, to some degree, on a differentiated way than many of the people we compete with. We obviously, as a credit originator in our investment banking business are one of the leading credit originators is not a leading position in leveraged loans and high-yield debt for quite some time and a leading position with sponsors and the origination of that, we obviously, we originate and distribute. We also in our Asset & Management business, we are a leading player in private credit with \$140 billion of private credit assets and growing and investing in that.

I think one of the things that's interesting when you look at the discussion and the integration of this around the street, there is plenty of capital that is interesting in deploying into private credit. The valuable part of the ecosystem is origination channels. And there are obviously some private credit players that have interesting origination channels and platforms. But I would say when you look across Goldman Sachs, our origination ecosystem across both our Global Banking & Networks business and also in our Asset & Wealth Management business, is unique and differentiated and something that I think will continue to differentiate the firm as we continue to lean into and grow our private credit platform.

Operator

We'll go next to Steven Chubak with Wolfe Research.

Steven Chubak

I wanted to spend some time just looking at or unpacking some of the self-help levers, recognizing that the business is still burdened by capital consumption from some of the noncore assets, whether it's in consumer or equity investments. Denis, I believe in your prepared remarks, you alluded to an 80 bp drag on ROE from consumer. And I was hoping you could maybe provide a more holistic picture, just frame the drag on returns from various noncore activities today. And are there any remaining self-help levers that could bolster returns which may still be on the come?

Denis Coleman

Sure. I think the 80-basis point drag is the simplest way to understand the impact of those items, which we have identified as the selected items, which we have announced, we are in the process of disposing of. Obviously, if we complete -- if we were to completely exit all consumer-related activities, there would be more associated capital relief potential. And we can obviously across the AWM franchise moved down the vast majority of the HPI exposure, that currently has a little over \$4 billion of attributed equity associated with it. So, you have the dynamic of sort of reducing the P&L components. And then over time, we will remove the capital. So, removing the capital associated with HPI and then ultimately moving the capital associated with the consumer businesses that will provide incremental tailwinds to us over time.

Steven Chubak

That's great. And just for a follow-up on buybacks. Just stock is currently trading at 1.6x book, does suggest some expectation in the market for returns to get closer to mid-teens ROE target. Just wanted to hear your perspective on price sensitivity to buy back at current valuation levels and in anticipation, at least of David's response, citing prioritization of organic growth where do you see the most attractive opportunities to deploy capital organically today?

Denis Coleman

Our capital deployment philosophy unchanged. I think if you take some of our comments in the prepared remarks about the outlook that we have, some of the engagement we're seeing from clients, potential opportunities for the capital markets reopening to take the next step forward and see capital committed acquisition financing, that is an activity that's very core to Goldman Sachs. We have a historical leading market share position there given netting up our advisory franchise and our underwriting capabilities.

And so that would be an attractive place for us to deploy incremental capital continuing to drive the recurring revenue streams across wealth and the financing business and public is an attractive place to deploy capital. And that is our priority as we sit here today with our 90 basis point buffer heading into the fourth quarter. But we also remain very committed, as we've said before, to sustainably growing our dividend. That's a core part of our philosophy. And we do believe it's important to also continue to return capital to shareholders. We do have a higher valuation. We do think about that. We are sensitive to that, but I don't believe that our current valuation is such that we shouldn't be also returning capital to shareholders.

Operator

We'll go next to Devin Ryan with Citizens JMP.

Devin Ryan

Question on just the alternative asset management fundraising. And looking at the fee rates. So, the largest at bucket corporate equity is seeing a declining fee rate since the end of 2022. I know there were some legacy funds in there that are sensing, but it would just be great to get an update on the outlook for the fee rates, just given all that fundraising that you've done in alts in recent years. And just when we should think about the inflection occurring as recently raised AUM moves into fee earnings? And then we should think about kind of the right steady state because it would seem like out there.

Denis Coleman

Sure. Thank you. Appreciate the question. Obviously, we put that disclosure out there, so you can track it and follow it over time. It's obviously very much mix dependent in terms of the nature of the particular at assets that are coming in thing which is a strategic initiative that is very valuable to growth of our asset management franchise, an important to a lot of our investment in our clients are the services we provide through our OCIO offerings.

But in certain of those portfolios, we do bring on board some Alts assets and the effective fee associated with that is lower than paid Goldman Sachs fund generated alternative fee. So, we have a multichannel asset accumulation strategy that we're deploying to grow the overall scale and scope of that business. And for us, having scale is an important contributor, ultimately, to driving margins, efficiencies and returns in the business, but not each of the channels comes with the same exact effective fee. So, you may see some slight variation in that over time.

Devin Ryan

Okay. And then just a follow-up on the trading business, obviously, results have been incredibly resilient and the firm has gained market share. And so, I'd love to get a little bit of a flavor, if you can, just around how much of trading revenue today is driven by your electronic trading capabilities and how that's evolved over the past handful of years. I know there's been a lot of investment there, and you guys have some pretty differentiated offering. So, I just wanted to get a little bit of sense of that. And then how that plays into the story of market share from here just as you become more relevant with clients.

Denis Coleman

Sure. Thanks for the question. I mean we look at equity and then frankly, even FICC trading activities, the strategy facing clients is multichannel again. So, we have voice. We have high-touch voice, and we have electronic, and increasingly, we're finding ways to integrate those activities to optimize ultimately the way that we can make markets and deliver solutions for clients. So, we have both, call it, run rate, more plain vanilla intermediation activities. Now we have the capacity to either take on board more interesting structure or complicated trades with or without deployment of risk capital in the process. and the approach is to have a distributed set of channels across the public side trading businesses.

Operator

We'll go next to Dan Fannon with Jefferies.

Dan Fannon

Denis, I want to come back to a comment you made about reiterating the \$1 billion goal for performance fees. And I think you said \$4 billion of unrecognized gains. You're obviously run rating well below that here year-to-date. Can you talk about the time period you think to get to that \$1 billion? And is there seasonality with certain maybe liquid products that are typically more recognized in the fourth quarter? Or is this something that should be more pro rata?

Denis Coleman

So, the \$4 billion is versus the stock of outstanding funds that are in process of deploying, completing harvesting and migrating their way to the end to their investment cycle. Given a lot of the other commentary that we've been discussing about level of activity, strategically, openness of capital markets, in particular, equity capital markets, sponsor monetization activity, et cetera, as it relates to our portfolio where we own some balance sheet investments, and we own investments in funds, we have not had as much monetization in line with where the market has been generally.

So as activity improves, we will also see more monetization and we expect that over the next several years, we will move towards those medium-term targets of a run rate, \$1 billion worth of incentive fees. But I can't tell you exactly the rates that comes in, that will be dependent on how ultimately these funds harvest and when we're in a position to ultimately pay carry to investors and recognize our own incentive fees.

Dan Fannon

Got it. And then just a follow-up on wealth management, understanding the strategy of growing lending. But can you talk about the growth overall of the adviser base and how you're thinking about that over the next kind of one to two years in terms of net recruiting, hires and ultimately, investment in that business beyond just diversifying the revenue streams?

Denis Coleman

Sure. So, I think we have made a strategic decision that the investment in advisers needs to be a strategic and sustained investment program. So rather than having it a sort of ebb and flow across different market environments or based on what the firm's perceived capacity to invest may or may not have been at different years in the past. I think part of the strategy of investing in what is a really outstanding business at Goldman Sachs, where we're the premier ultra-high net worth firm, we are making a sustained commitment to invest in advisers over multiple years.

And so that is sort of a foundational underpinning of how we're looking to invest in that business. And when David makes comments about our ability to drive growth and returns across AWM and that we are focused not just on margins and returns, but investing to grow. One of the places that we think is an attractive place to invest and grow is actually in the adviser footprint.

Operator

We'll go next to Gerard Cassidy with RBC.

Gerard Cassidy

Can you guys share with us your Goldman is in a unique position, I think, to be able to share with investors the benefits of private credit. I think, David, you mentioned you have \$140 billion in private credit assets. And when you see your clients choosing a channel to access monies from you, whether it's private credit or just lending. Can you share with us the advantages that you see through private credit or the regular loan portfolio that your customers may benefit from?

David Solomon

So, I appreciate the question, Gerard. I think one of the things that's interesting about this is, this gets framed in very binary ways. And obviously, private credit is a broad term and it refers to a lot of things. It certainly refers to a lot of investment-grade lending, a lot of which is on insurance company balance sheets. It can refer to direct lending in the below investment-grade business, which, by the way, is a component of our syndication activity and origination activity, particularly with sponsors. It can be direct lending for small and medium-sized enterprises.

So, there's a wide range of things. When I listened to your question, when I pull away as you're asking in particular about leverage finance activity and how our clients choose channels in terms of where to get capital. And I'd say they don't go in through the bias, they're actually looking for a capital structure that works for their particular solution. And I think that one of the things that positions us well is we are a unique player that we have an ability to either syndicate and underwrite distribute.

We have an ability to direct lend. We have an ability to show clients alternatives that can best meet their needs and their might needs might be different in different transactional situation. So, we like our positioning there. I do say that I believe from a secular perspective, there will be continued growth in private credit, particularly in the leveraged finance space. And so, we're looking to capture that. but it's more complicated. There are different channels, there's different origination efforts than sometimes the way this is all for trade. But we feel like we're well positioned across the spectrum to be a significant participant in this space.

Gerard Cassidy

And David, just a quick follow-up on that. That was very thorough. Who do you find these your primary competitors? Again, you're in a unique position, I think, to be able to benefit from this. Who do you bump into the most?

David Solomon

Well, it depends what you're doing. So, it goes back to exactly what I said it, it depends what you're doing. If you're in the leverage finance market and you're looking at a syndicated capital structure and you're competing for that, you're going to bump into JPMorgan, for example. If on the other hand, you're looking at direct lenders, then you're going to bump into a bunch of people that play a leading role in that space, which can include people like HPS or Ares or other direct platforms. If you're looking at investment grade, insurance company balance sheet, you might run into Apollo. I mean it really depends on who the client is, what their need is and what the activity is. And it's actually quite a broad and complicated space.

Denis Coleman

I mean the only thing I'd add, Gerard, if you just think about it, I think David has laid this out really well. If you think about where Goldman Sachs is positioned against this opportunity set. We have capacity to lend to alternative clients, for example, who are deploying into the private credit space. We have the capacity to underwrite and distribute different types of investment-grade and noninvestment-grade capital structures and we have the capacity to offer investment opportunities to clients who want to get exposed to the asset class. And while we compete with all of those different parties that David enumerated, I'm hard-pressed to find many people that have the breadth of exposure to each aspect of this ecosystem relative to us. So we really like our position in terms of the secular trends there and how we can support clients in each and every aspect of the continuum.

Operator

We'll take our next question from Saul Martinez with HSBC.

Saul Martinez

I wanted to ask about the margin trajectory in Asset & Wealth Management. Year-to-date, you're at -- you got a 24% pretax margin. You've already reach the mid-20s medium-term target. I know you've talked about that margin expanding beyond mid-20s. But how do we think about where it can ultimately land in the time horizon around it? Obviously, you're growing your all business, you have \$4 billion of unrecognized incentive fees. You talked about the private banking and lending platform. Just can you get to a pretax margin of above 30% like your peers? And again, how do we think about the glide path from here and the time horizon around that?

Denis Coleman

Sure. Thank you, Saul. So obviously, we've just arrived at our mid-20s target. I think it's important that we consolidate our position there. We think there are plenty of opportunities to continue to drive that margin higher as we scale top line, as we improve the mix of alternatives across our platform, and we look to drive other operating efficiencies across the business segment. There are plenty of competitors that have margins as you cite, that are 30% or higher. So, our commitment is to continue to improve the margins. But we're also thinking increasingly about opportunities we have to scale and create value for the long-term. So, we are going to try and find the balance between incremental margin improvement and making the right investment decisions that unlock long-term value in this segment. But for the time being, we think that both can be achieved.

Saul Martinez

Okay. Got it. That's helpful. And then maybe if I could follow up on capital and just how you're thinking I know you talked about your capital strategy a bit. But how are you thinking about just capital allocation buybacks given the uncertainty around Basel, we have a proposal, we have the speech outlining the reproposal. We have an agency that seemingly one of the agencies, obviously, resisting seemingly the reproposal. We have an election that could play a big role in terms of influencing whatever outcome happens. So just -- I mean, how are you thinking about your capital? And why do you think a 90-basis point buffer is the write buffer given all that uncertainty.

Denis Coleman

Okay. Thank you. Look, what I would say for the last period of quarters and years, we've been operating in an environment with a bunch of regulatory uncertainty. There's also been operating uncertainty as well. I think the economic trajectory, outlook and client franchise is coming more into focus frankly, that presents opportunities.

So, we run a buffer so that we have pent-up capacity to support incoming client opportunities. But we also run the buffer given other uncertainties in the world, which include regulatory. As to when we will have the next bit of clarity and be able to interpret exactly what that means for our capital position, I couldn't tell you right now.

But we have a long history of making adjustments to our activities when we get that regulatory feedback. From everything we know, there are generally time lines associated with those rules coming into effect. And we feel like this is the right place to run our capital to support the client franchise and be prepared for other unexpected developments, including regulatory.

Operator

Thank you. At this time, there are no additional questions. Ladies and gentlemen, this concludes the Goldman Sachs third quarter 2024 earnings conference call. Thank you for your participation. You may now disconnect.

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