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The Goldman Sachs Group, Inc. (GS) Q4 2022 Earnings Call Transcript

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Q4: 2023-01-17 Earnings Summary

EPS of $3.32 misses by $2.45 | Revenue of $10.59B (-16.19% Y/Y) misses by $288.92M

The Goldman Sachs Group, Inc. (NYSE:GS) Q4 2022 Earnings Conference Call January 17, 2023 9:30 AM ET

Company Participants

Carey Halio - Investor Relations
David Solomon - Chairman and Chief Executive Officer
Denis Coleman - Chief Financial Officer

Conference Call Participants

Glenn Schorr - Evercore
Ebrahim Poonawala - Bank of America
Steven Chubak - Wolfe Research
Betsy Graseck - Morgan Stanley
Mike Mayo - Wells Fargo
Brennan Hawken - UBS
Devin Ryan - JMP Securities
Dan Fannon - Jefferies
Matt O'Connor - Deutsche Bank
Gerard Cassidy - RBC
Jim Mitchell - Seaport Global

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 Fourth Quarter 2022 Earnings Conference Call. This call is being recorded today, January 17, 2023. Thank you. Ms. Halio, you may begin your conference.

Carey Halio

Good morning. This is Carey Halio, Head of Investor Relations and Chief Strategic Officer at Goldman Sachs. Welcome to our fourth quarter earnings conference call. Today, we will reference our earnings presentation, which can be found on the Investor Relations page of our website at www.gs.com. Note information and forward-looking statements and non-GAAP measures appear in the earnings release and presentation.

I am joined by our Chairman and Chief Executive Officer, David Solomon; and our Chief Financial Officer, Denis Coleman. Let me pass the call to David.

David Solomon

Thanks, Carey and good morning everyone. Thank you all for joining us today. I will begin with a review of our financial performance.

Simply said, our quarter was disappointing and our business mix proved particularly challenging. These results are not what we aspire to deliver to shareholders. We generated revenues of $10.6 billion and net earnings of $1.3 billion and earnings per share of $3.32. After nine straight quarters of double-digit returns, fourth quarter performance was certainly an outlier. Results were impacted by several near-term challenges given the difficult operating environment.

On the revenue front, underwriting volumes remained extremely muted despite green shoots that appeared at the end of the third quarter. FICC and equity activities - activity levels dropped after a busy and volatile year for many of our clients and our equity investment portfolio saw continued headwinds.

We also saw higher loan loss provision and expenses. While compensation expenses were down 15% for the year, quarterly expenses rose modestly versus the third quarter. We always strive to maintain a pay-for-performance culture. With revenues down, compensation was lower. That said we also recognize that we operate in a talent-driven business and we must continue to invest in our people whose dedication is critical to our world class franchise.

On our earnings call last July, we first spoke about the challenging operating environment and the proactive measures we were taking on expenses, including slowing hiring velocity and reducing certain components of our non-compensation costs. We have and continue to be incredibly focused on managing our financial resources, especially in light of the worse-than-expected backdrop in the fourth quarter. Specifically, we reduced the size of our balance sheet, further optimized and reduced our RWA footprint and managed down our G-SIB score to hit our 3% target. We have also started firm-wide expense reduction efforts to offset inflationary pressures and right-size the firm for the current environment.

We made the difficult decision to conduct a 6% headcount reduction exercise earlier this month. As we said, we had paused our regular performance management-related reductions during the pandemic and also had a period of strong growth in headcount given the opportunity set in 2021. We feel deeply for the individuals that were impacted by these reductions. They are extremely dedicated and talented individuals and we wish them the best.

Additionally, we are taking a number of strategic actions to help us reach our financial targets and create shareholder value. For instance, this quarter, we completed our reorganization, which will further strengthen our core businesses, help us scale our growth platforms and improve efficiency. This is an important and purposeful evolution of our strategic journey. We also narrowed our ambitions on our consumer strategy and made some key decisions. We started a process to cease offering new loans on the Marcus platform. We will likely allow the book to roll down naturally, although we are considering other alternatives.

In addition, we have postponed the launch of our checking product. At the right time in the future, we intend to offer checking to our wealth management clients. For now, our priority is to strengthen our deposit franchise, card partnerships and GreenSky. Our narrowed approach will allow us to reduce our forward investment spend and rationalize expenses. We are very focused on developing a path toward profitability and platform solutions and we will provide more detail at our Investor Day next month. As you can see from our new segment reporting, we are committed to providing continued transparency for us – for you to hold us accountable.

I want to spend a moment on the broader operating environment. The backdrop over the last year has been incredibly dynamic. There were headwinds we expected, like high inflation, but some we never thought we would see like the ongoing land war in Ukraine. There aren't many signs of widespread distress, balance sheets and company fundamentals are relatively healthy, but it's clear that the outlook for 2023 remains uncertain.

In the U.S., central bank rate increases have started to have an impact on inflation, but they are also lowering the growth trajectory of the economy. And the labor market remains remarkably tight with an estimated 1.7 job openings available for every unemployed American. Our clients are thinking a lot about how to navigate this complex backdrop. CEOs and Boards tell me they are cautious, particularly for the near-term. They are rethinking business opportunities and would like to see more stability before committing to longer term plans. Many firms have started preparing for tougher times focusing on factors within their control.

Taking a step back, I am proud of the significant progress we have made in our strategic evolution since Investor Day 2020. Despite a more challenged fourth quarter performance, we delivered for shareholders in 2022. We generated double-digit returns in a year where rapid monetary tightening and ongoing macro uncertainty drove significant market disruption with both equity and fixed income markets falling for the first time in over 50 years.

We grew management and other fees by 13% year-over-year and grew net interest income by 19%. We reduced our on-balance sheet alternative investments by $9 billion. We also returned $6.7 billion of capital in the form of dividends and share repurchases and we grew our book value by 7%. This brings our book value growth since our first Investor Day to almost 40%, roughly twice as much as our next closest competitor. That said, we remain focused on the work ahead of us and we believe we have a lot to play for. As we go forward, we are executing on three key priorities we have laid out for the businesses: number one, growing management fees in our asset and wealth management business; number two, maximizing wallet share and growing financing activities and our global banking and markets business; number three, scaling platform solutions to deliver profitability.

We have a proven track record of navigating a wide range of operating environments and we will continue to execute our long-term client-oriented strategy regardless of where we are in the cycle. We have the people in place around the world to serve our clients' broad range of needs with excellence and we are operating from a position of strength with robust capital levels and a clear focus on the path forward. I remain optimistic about the future of Goldman Sachs and confident that we will continue to deliver for shareholders. We look forward to speaking more about this with all of you at our Investor Day on February 28.

I will now turn it over to Denis.

Denis Coleman

Thank you, David. Good morning. Let's start on Page 2 of the presentation. In 2022, we generated net revenues of $47.4 billion, net earnings of $11.3 billion and earnings per share of $30.06. As David highlighted, we have implemented our organizational changes, which form the basis for our earnings presentation today.

Turning to performance by business, starting on Page 3. Global Banking and Markets generated revenues of $32.5 billion for the year, down 12% as higher FICC revenues were more than offset by a steep decline in investment banking fees versus record results last year. The exceptional performance of our Global Banking and Markets business over the last 3 years, including the market share gains we have generated has served a strong ballast for firm-wide performance.

In the fourth quarter, investment banking fees fell 48% year-over-year driven by a significant decline in both equity and debt underwriting as issuance volumes remain muted amid continued market uncertainty. Advisory revenues, however, were $1.4 billion, the third highest in our history rising 45% quarter-over-quarter on higher completed deal volumes.

For 2022, we maintained our number one league table position in completed M&A as we have for 23 of the last 24 years and we ranked second in equity and equity-related underwriting. We also ranked second in high-yield debt underwriting, up from number three last year. Our backlog fell quarter-on-quarter on lower levels of activity, but remain solid, particularly in advisory. That being said, clients are focused on stability and financial conditions, pushing out the timing of transactional activity. While we expect investors will need more certainty before financing markets reopen more broadly, we are seeing some positive signs of activity, particularly in investment grade markets, which have had a strong start to the year in both the United States and Europe.

FICC net revenues were $2.7 billion in the quarter, up 44% year-on-year. In intermediation, we saw strength in rates and commodities amid elevated levels of client engagement, catalyzed by increased central bank activity and rate volatility and improved market-making conditions.

In FICC financing, we saw increases in secured lending driven by higher balances. Full year FICC revenues of $14.7 billion rose 38%. Equities net revenues were $2.1 billion in the quarter, down 5% year-on-year. The year-over-year decline in intermediation revenues was driven by lower levels of client activity, particularly in derivatives, after strong engagement levels throughout the year. Financing revenues of $964 million were relatively resilient despite a decline in prime balances as clients took risk off throughout the quarter. Across FICC and Equities, financing revenues were up 20% in 2022, consistent with our strategic priority to grow client financing activities.

Moving to Asset & Wealth Management on Page 5. For 2022, revenues of $13.4 billion were down 39% year-over-year as a steep decline in revenues from equity and debt investments offset an additional $1 billion of management and other fees and a strong increase in private banking and lending revenues.

Fourth quarter management and other fees of $2.2 billion were up 10% year-over-year. Full year management and other fees were $8.8 billion putting us well on track to hit our $10 billion target in 2024. Fourth quarter private banking and lending net revenues reached a record $753 million, up 77% year-over-year due to higher deposit spreads and higher lending and deposit balances.

Equity investments produced net revenues of $287 million, driven by $270 million of gains on our $13 billion private equity portfolio and roughly $500 million in operating revenues and gains related to CIEs, partially offset by $485 million of net losses related to investments in our $2 billion public portfolio. Debt investments revenues were $234 million, including net interest income of $360 million.

Moving on to Page 6. Total firm-wide assets under supervision ended the quarter at a record $2.5 trillion, driven by market appreciation as well as strong net inflows across fixed income and liquidity products.

Let's now turn to Page 7 where I will review a new page in our presentation focused on our alternatives franchise. Alternative AUS totaled $263 billion at the end of the fourth quarter, driving $492 million in management and other fees for the quarter and $1.8 billion for the year. We remain on track to reach our $2 billion target in 2024. Gross third-party fundraising was $15 billion for the quarter and totaled $72 billion for the year. Third-party fundraising since Investor Day stands at $179 billion.

The table on the bottom left shows our on-balance sheet alternative investment portfolio, which totaled $59 billion. Despite the challenging environment, we reduced on-balance sheet investments by $9 billion in 2022, of which $2 billion was in the fourth quarter. We remain committed to our strategy to reduce balance sheet density and migrate our alternatives business to more third-party funds.

I will turn to Platform Solutions on Page 8. Full year revenues were $1.5 billion, more than double versus 2021. Full year losses of $1.7 billion were driven by $1.7 billion of provisions as we built reserves to reflect $8 billion of loan growth across the portfolio. We also incurred $1.8 billion in expenses as we continue to build out and run these businesses. This included over $200 million of transaction and integration-related costs driven by the GreenSky and GM card portfolio acquisitions. We expect these costs to also impact 2023 results, though at a lower level and decline materially over subsequent years. As David said, our number one priority for this segment is to reach profitability and we look forward to providing you with further details at our Investor Day next month.

On Page 9, firm-wide net interest income of $2.1 billion in the fourth quarter was up 2% relative to the third quarter due to higher rates and increased loan balances. Our total loan portfolio at quarter end was $179 billion, modestly higher versus the third quarter, reflecting growth in collateralized lending and credit cards. Our provision for credit losses was $972 million. For our wholesale portfolio, provisions were driven by impairments and portfolio growth. The overall credit quality of our wholesale lending portfolio remains resilient. In relation to our retail portfolio, provisions were driven by continued portfolio growth, net charge-offs and a worsening of our baseline scenario. We are seeing early signs of credit deterioration that are in line with our expectations. We anticipate further pressure in 2023 given the vintage and nature of our portfolio.

Let’s turn to expenses on Page 10. Quarterly operating expenses were $8.1 billion. Total operating expenses for the year were $31.2 billion, down 2%. Compensation expenses fell 15% despite a 10% increase in headcount and were partially offset by higher non-compensation expenses. The increase was primarily related to acquisitions, transaction-based costs and continued investments in technology.

In addition, client-driven market development costs were higher following lower levels during the pandemic. As previously discussed, we are actively engaged in expense mitigation efforts. This includes targeted reductions across communications and technology spend, professional fees and advertising costs as well as the recent headcount reduction exercise. We expect that the impact of these actions will become more fully reflected in our results over time, remain highly focused on operating efficiency and are committed to our 60% efficiency ratio target as the right place to run the firm.

Turning to capital on Slide 11. Our common equity Tier 1 ratio was 15.1% at the end of the fourth quarter under the standardized approach, up 80 basis points sequentially. This represents a 130 basis point buffer to our new capital requirement of 13.8%. In the fourth quarter, we returned $2.4 billion to shareholders, including common stock repurchases of $1.5 billion and common stock dividends of $880 million. Based on our capital levels at the end of the quarter, we started 2023 with a strong capital position, enabling us to support our clients and return excess capital to shareholders. As it relates to our funding plan based on current expectations, we intend for 2023 issuance to run significantly below 2022 levels, though we will remain dynamic with respect to business needs and market opportunities.

In conclusion, despite the challenging operating environment in 2022, we delivered double-digit returns for shareholders, returned $6.7 billion of capital and made material progress on our strategic initiatives to better serve clients and strengthen and diversify the firm. We remain focused on executing on our strategic priorities and creating value for our shareholders and we look forward to seeing many of you at our upcoming Investor Day in February.

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] We will take our first question from Glenn Schorr with Evercore.

Glenn Schorr

Hi, thanks very much. So given the capital RWA and expense actions that you have already taken, if 2023 is a little bit better in banking, but it's kind of the same atmosphere we've been in because it feels like it's lingering. Can you all get closer to your return targets this year? I know it's very difficult in this backdrop but what I am getting at is do we need investment banking to be a lot better to get there or have the actions you've taken start closing the gap? Thanks.

David Solomon

So, thanks, Glenn and I appreciate the question. Obviously, an improved capital markets environment would certainly help in that direction. We talk about our targets in a normalized environment. One thing I just want to make sure people are focused on is we have to do better in asset management. This certainly has been a part of our strategy over the last 3 years is to reduce our balance sheet and asset management. And we have made real progress on that over the last 3 years, but we still have a very significant asset management balance sheet larger than we would like to have. We reduced it by $9 billion this past year and we intend to move forward. But given the disruption in asset prices and the density of that balance sheet, it's not surprising when you have $32 billion of capital allocated to that segment. And if you look at the fourth quarter, the fourth quarter, it earned zero, even with some businesses in there that are highly profitable, I don't think that's normal. I don't think our expectation is that continues exactly the same way. And so I think a combination of some normalization in capital markets activities and a more balanced environment with respect to the asset management balance sheet certainly would have a big impact. I'd highlight last year, we way outperformed the peer average ROE by about 900 basis points because of kind of the massive outperformance of that balance sheet, given all the stimulus and a bunch of that reversed, and we're just more sensitive to that.

Denis Coleman

I mean things I might add, Glenn, is in addition to our business mix on the [forward] (ph) I think the reason why we're taking action with respect to our headcount footprint and some of our non-compensation expenses is to drive efficiency even further. And as you point out, with the capital build that we have as at the beginning of the year, we're in a pretty flexible position in terms of how we can deploy that either in support of attractive opportunities within the business and/or returning incremental capital to shareholders.

Glenn Schorr

Okay. I appreciate that. And then maybe staying up to 50,000, transaction banking is good, but it's unfortunately a small revenue base. Consumer maybe music to some investors ears is being deemphasized. So I guess my question is, whereas your goal is to build a more durable firm and I share that goal, where do you think that comes from going forward if some of the pieces are either small or being deemphasized from the past strategy? Thanks.

David Solomon

Well, I think, Glenn, the big thing in that, and it's always been a big part of it is the shift from a balance sheet intensive asset management business to a client-oriented fee-based business. Our organic growth across our asset management business on a relative basis was still good in 2022 when you look broadly across the industry. We continue to grow our management fees in the asset management business. We're continuing to grow our wealth business. Our wealth business overall grew nicely during the course of 2022. And so it's that mix change, less balance sheet intensity, growth in asset and wealth management, continued financing growth in our core Global Banking and Markets business, which you've seen and continue to grow and then getting these platforms that we have to operate profitably, which we believe we can do. We believe they are good businesses at scale, but they are in a different stage of the development. Those things should make the business more resilient, and that's not inconsistent with the strategy we laid out 3 years ago, and we will amplify again next month at Investor Day. What I think was an outlier for sure in this environment is the massive quick swing in asset prices and the impact that our capital markets heavy and balance sheet intense business had, of course, with a drag from some of the investments we're making in other things.

Operator

Thank you. We will take our next question from Ebrahim Poonawala with Bank of America.

Ebrahim Poonawala

Good morning and thank you. I guess maybe, David, just sticking to that, as you make the asset management business less dense in terms of balance sheet consumption, how do we think about the ROTE target you put out last year? Is that still achievable within the 3-year time frame that you had laid out or does that get pushed out given the work that needs to be done and, in a world, where consumer is being deemphasized?

David Solomon

I think, candidly, that it depends on the environment. An environment with massive swing in asset prices continues, we will push it out. If that simply normalizes then the overall economic picture of the firm, in addition to the work we're doing on the expense side that we've gotten focused on, will show a very, very different picture. I'm not going to guess on how that will play out. But again, I'd amplify that I don't think what we saw in 2022 was normal. And certainly, if you go back and look at 15 years of history, it wasn't.

Ebrahim Poonawala

Okay. And I guess just as a follow-up in terms of growth in asset management, wealth management, significant asset price dislocations. Does that create some M&A opportunities when you think about inorganic growth in those businesses? Or for the time being is the expectation that most of this is going to be organic?

David Solomon

I think at the moment, we're extremely focused on in 2023, executing on the decisions we made to invest in our platform and moving forward from here, I do think that in the future, there still could be inorganic opportunities to accelerate the journey in asset and wealth management. But certainly, this year, we're focused on the execution. We made an acquisition in asset management last year. We want to integrate NNIP. We want to move forward with that. So I think this year, we will be focused on execution.

Ebrahim Poonawala

Got it. Thank you.

Operator

We will take our next question from Steven Chubak with Wolfe Research.

Steven Chubak

Hey, good morning.

David Solomon

Good morning.

Steven Chubak

So David and Denis, I wanted to start off with a question just on the provision outlook. Admittedly, the loan loss provision came in higher than we had anticipated. And I was hoping you could just speak to, how much of it was growth math related versus deterioration in the macro? And given some of the planned actions you're going to take for that business, how should we think about like a normalized level of loan growth and provision expectation that we should expect going forward?

Denis Coleman

Good morning, thank you for that So let me help with some color as it relates to provisions, particularly in the fourth quarter. So order of magnitude, the component of that build attributable to growth was about 50%. Net charge-offs about 25%, and the balance attributable to our scenario. I think what you can see in the build of the provisions over the course of the fourth quarter, and we do expect some of this to continue over the course of 2023 is that we began the on-balance sheet originations in our point-of-sale lending platform, GreenSky. And so that obviously brings with it an upfront reserve build. So that's something that initiated over the balance of this past year and will continue through the following year.

Steven Chubak

Got it. And maybe just for a follow-up on capital. As it relates to the discussion tied to Glenn's question, I was hoping you could speak to how you're scenario planning for Basel IV, Basel III end game. I recognize we don't have a proposal yet, but certainly, it has significant implications for future returns you can generate. You're running with a healthy level of cushion at the moment. But just wanted to understand how you see it impacting your various businesses? What planned actions can you take to maybe mitigate some of the pain?

Denis Coleman

Sure. Fair question on everybody's mind. As you note, we don't yet have the details. But we give it a lot of thought. We've taken a number of steps in terms of building out our modeling capabilities to make sure as and when we do get an actual rule that we will be in a position to respond quickly to that. We do have a long-standing track record of responding to changes to regulatory guidance. You can see over the course of the fourth quarter across a number of our financial resources that we were able to maneuver them very, very quickly to build capital and change our RWA footprint, given our view of the environment and some strategic decisions there. So we're standing by for more detail on the rule, but confident that when we get it, we will be able to manage accordingly.

Steven Chubak

That's great. Thanks for taking my questions.

Operator

Thank you. We will take our next question from Betsy Graseck with Morgan Stanley.

Betsy Graseck

Hi, good morning.

David Solomon

Good morning, Betsy.

Denis Coleman

Good morning.

Betsy Graseck

Two questions. One follow-up on the consumer business, I heard you on the markets pull back, you're going to see originating there. Does that give you more room to lean into growth and we should expect acceleration and the partner card GreenSky, those pieces that you are keeping or is this market pullback going to feed either capital increase or the ability to lean in other business lines like the ISG business?

Denis Coleman

Sure. Betsy, it's Denis. I'll start with that. So as we indicated, we're going to cease the originations in under Marcus lending. And then furthermore, expect for that portfolio actually to roll off or we may pursue other alternatives. That should free up a bunch of financial resources. We're continued within the overall asset and wealth management segment where the deposit business is resident within the private banking and lending line. That remains a strategic priority for the firm, and we've experienced very good growth there. That business is achieving more and more scale. So that will remain an ongoing focus. I think once we have reduced some of the resourcing allocated to markets and lending, we will continue to narrow the focus of our ambitions and our investment spend. And within the Platform Solutions business, we're now down to three different businesses: transaction banking, the cards platform and our point-of-sale lending business, GreenSky. And our focus is really on just narrowing to drive those businesses across the segment to profitability.

Betsy Graseck

Okay. Then separate question just on the expenses in this quarter. I know you had the action of the headcount reduction. Is there a severance embedded in this quarter that we should strip out because, obviously, it's not ongoing? Or does that hit 1Q? Maybe you could speak to how we should think about that? Thanks.

Denis Coleman

Sure. Thanks, Betsy. Because we communicated the reductions in 2023, any associated severance expense associated with those reductions will be 2023 expenses.

Betsy Graseck

Okay, thanks.

Operator

Thank you. We will take our next question from Mike Mayo with Wells Fargo.

Mike Mayo

Hi. I have one. Dave, I think it's your birthday today, right? You announced that a few years ago.

David Solomon

It is my birthday, and I couldn't be happier to be on this call with you. But thank you. Thank you for that.

Mike Mayo

Well, since it's your birthday, do you want the positive question or the negative question first.

David Solomon

You want – I'm happy to take any question. Any question that you have, Mike. You know that. We're happy to take questions both positive and tough. I mean it wasn't a great quarter. So I don't expect all the questions to be easy.

Mike Mayo

Well, I mean, it is concerning in terms of the reorg, I mean we will get more at the Investor Day. And just a comment, I hope you give us more data. Here we have three new sectors, and you only gave us the prior four quarters and the prior 2 years without much detail. So I hope you give us more ahead. But the question is, you present the firm differently, but will the firm actually be run differently other than the more narrow focus on consumer?

David Solomon

Yes. And so I appreciate that. And to – two comments. First, just on the transparency and information comment, I think this management team, Mike, over the last 4.5 years has been super focused on increasing the transparency of Goldman Sachs, and we remain focused on that. If you have certain feedback on things you'd like to see, etcetera, we really welcome that, and Carey will reach out to you, and we will take that feedback. But we're focused on giving our investors more and more and creating the right kind of transparency around what we're doing.

Second, on the evolution and the move to this, what I'd say, and this has been something that's been a journey that we started a number of years ago, but the firm is now organized and presented externally the same way we run it internally. And that candidly is a difference than the way Goldman Sachs has been during my tenure at the firm. In terms of our core business of banking and markets, there are synergies that we've been driving as these businesses cooperate that we think we can now get more out of in our client orientation across our broad franchise that this organization of those businesses together really helps. I highlight that we feel great about the performance of those businesses since our Investor Day. It's long forgotten. But when we did our Investor Day, back in 2020, nobody believed that we could get the ROE of the markets business above 10%. That was a big question on the minds of investors. And we look now at our combined banking and markets business, this business, we think, is a leader. It outperforms in terms of its market share and outperforms in terms of its returns relative to competitors, and we continue to grow it and continue to stay laser-focused on the client experience and also the returns and the performance of that business. We also think there continues to be opportunity to grow our financing business there, and we're very, very focused on that.

In asset and wealth management, we've worked hard to bring a number of businesses together into an integrated franchise so we can really have transparency and focus on our ability to grow management fees and drive performance and serve more clients in that business. And as we've said over the last few years, reduce the balance sheet intensity of that. And we're on a journey. Would I like it to be further along? Yes. If it was further along, there would have been less volatility, particularly in the context of this year in the fourth quarter. But we continue – that's something we laid out 3 years ago, and we continue to move at that. The change strategically of a narrowing of our focus on certain things in consumer business, I think, is a change. We continue to feel very good about the deposit platform and the contribution it makes. We think our partnership with Apple will provide meaningful dividends for the firm over time. We think GreenSky is a good business that can be accretive, but the platforms are in a different stage of development than our other businesses. They are small in the overall scale of Goldman Sachs, but we think there are benefits to that for the firm. We will communicate more as we move forward around that, but we're making progress and we will continue to run that narrow focus in a way that we think can drive profitability. So that's a high-level response. I don't know if there is something else you want me to drill into, but that's a high-level response.

Mike Mayo

Yes, the follow-up is more specific. I mean, look, you said it's a disappointing quarter. Your returns are well below where you want them to be, and variable revenues and variable costs, not so much your efficiency ratios go the other direction. So I mean, I think investors would appreciate some detail on some of the benefits of what you might get on the expense side, okay, you're scaling back consumer as I asked you last quarter, you said you were losing money so maybe you lose less money. The headcount reduction should allow you to save money. So can you ballpark the benefits to expenses from the moves in consumer and the headcount reductions? And along those lines now that you've moved capital well above the regulatory and your own firm's target buyback so cost and buyback kind of what to think about for 2023?

Denis Coleman

Sure, Mike, let me take that. So unpacking a couple components. So we exercised a headcount reduction earlier this year, approximately 3,200 employees left the firm. The run rate expense associated with that group was approximately $475 million, and we expect the benefit in 2023 north of $200 million associated with that. Beyond that, we have a series of non-compensation expense initiatives. We're setting out guardrails for our business leaders to drive more efficient levels of non-compensation spend. The narrowing of the focus in consumer is important. There are a number of ways in which we could have chosen to expand the offering and capabilities of that. The focus is now narrow. And then finally, as you identify, we have more flexibility with respect to capital deployment, which we intend to take advantage of.

Operator

Thank you. We will take our next question from Brennan Hawken with UBS.

Brennan Hawken

Good morning. Thanks for taking my questions. I just wanted to follow-up on some of those questions for Mike. And just really be honest kind of surprised to not hear that there were restructuring and severance charges in the fourth quarter, just given how elevated the expenses were. So I guess, can you provide a little bit of color on the inflexibility, revenues down 20% for the full year. And I understand that, of course, markets are competitive, but the positioning of comp in 2021 was – it was a remarkable year. Some of it even identified or segregated as special and therefore, shouldn't be expected to repeat. So the – was the discipline fully there? Are you doing enough on comp? You have reiterated the focus on efficiency, but the results here in – I get it, nobody is buying Goldman today for 2022 results, but still the results seem to set up sort of a challenging entry point for the beginning of the year.

Denis Coleman

So Brennan, a couple of questions. As for the reasons to take severance expense in 2023, that's the accounting rules with respect to timing of our communication to those employees. So that's what explains the time frame in which the expenses going to be booked. As it relates to compensation expense, variable expense flexibility in the fourth quarter, I guess I would point out a couple of things. One, the overall comp and benefit expense were down 15%. We had grown headcount by 10% additionally. And when you – that's over $2.5 billion of less compensation and benefit expense, so it's a meaningful number. And if you look at the components of our employee base, we have a very large number of people that earn relatively less money are impacted by inflation and are really important to the overall operation and delivery of our firm on behalf of our clients. And we have relatively fewer employees that are higher earning employees face clients and generate revenue, and we were able to reduce the compensation substantially there in line with the performance. But ultimately, it's a balance. And we have excellent people. We depend on them to deliver for clients. The market for talent remains really robust, and we had to strike the right balance between taking down that variable expense in respect of our performance while maintaining the franchise to make sure that we're in the position that we can deliver for clients and shareholders in 2023 and beyond. Certainly, we can have brighter opportunity sets on the forward and we want to make sure that we are positioned to capture that.

Brennan Hawken

Okay. Alright. Thanks for that color, Denis. I appreciate that. This one might end up being moved, but I just don't want to confirm it. I have spend some time yesterday looking at previous disclosures of J-curve expectation and whatnot, but it seems as though exiting Marcus and the tone down. Should we not even be thinking about a J-curve for the consumer business? Is that not a consideration here any longer because it does seem as though the cross through from the breakeven even ex-provision has been a lot longer than expected. So, should we just forget about that chart given the pivot, or does that still remain part of the consideration?

Denis Coleman

So, a couple of things I would point out. As people would have seen in the earnings release this morning, the Platform Solutions segment on a quarter-over-quarter basis actually had reduced operating expenses. So, we remain really focused on continuing to drive at the expense of these platforms in aggregate, and we expect to drive a lot of benefit at scale. But as we have discussed and you will observe, we also continue to build our provisions as we scale some of those activities. And so our focus remains singularly on driving towards profitability of this segment, but there will continue to be a period of time during which we lose money until we reach that point of ultimate profitability. And we do look forward to trying to help people understand and map out that progression across the various businesses within that segment at Investor Day.

Operator

Thank you. And we will take our next question from Devin Ryan with JMP Securities.

Devin Ryan

Great. Good morning David and Denis and happy birthday, David.

David Solomon

Thank you.

Devin Ryan

I guess just first one to zero in on transaction banking here in platforms. $325 million for transaction banking and other in 2022 is up 50% year-over-year. So, you guys have really had great growth from scratch just a couple of years ago, but still obviously immaterial. So, I just want to talk a little bit about how you feel like progress is going in that part of the business. Can this get to a multi-billion dollar business just doing kind of what it's already doing? I know you just launched in Europe there, really just trying to think about kind of the execution roadmap for that part of the business.

Denis Coleman

Sure. Thanks for that question. Now, we are very pleased with the progress of the transaction banking business, and it's a business that has particular benefits as we scale activities on it. We have our tech platform up and running. We continue to grow our clients on the platform. They unanimously continued to give us the feedback that it is a very differentiated and attractive platform to be part of. And we have taken that business, as you say, from its inception to larger scale. We think there is a lot of potential for that business on the forward. And we are very focused at this point in time in continuing to drive deposit balances, continue to drive our customer count, further penetrate, as you mentioned, our international expansion continues. We have opened in our fifth country. We now have increasing capabilities to serve clients across the world. There are true benefits to the network effect of a business like this with global reach. And we continue to see very, very good opportunities for this business.

Devin Ryan

Okay. Great. Thanks. A follow-up here just on the market's financing opportunity. So, that's already obviously been a nice part of the story for Goldman. What do you need to do to grow financing further? Is it just a lot of the same kind of blocking and tackling, or are there specific things you could point to that could drive kind of another step function there? And then just kind of more near-term, you talked about prime brokerage balances being down and declining through the quarter. Has that changed at all just to start this year with risk appetite to maybe a bit better today than through most of the fourth quarter?

Denis Coleman

Yes. A couple of comments I would make. So, I think as it relates to the FICC financing, we have a very good opportunity set in front of us. The progress that we have made with the client franchise and our market shares and given the overall backdrop and the availability of financing in the world right now, our clients continue to come to us. And given the capital position that we sit with at the beginning of the year, we have capacity to fuel incremental financing activities in the FICC business. On the equity side of the equation, obviously, asset markets moved around quite severely, particularly in the end of the year, which drives prime brokerage balances. But as you know, we are also working very hard to reduce our financial resource footprint, particularly our G-SIB level. That brought with it significant RWA reductions. And it was not really the environment that we were pushing on growth, certainly in the fourth quarter. I think as we turn the page on a New Year, there is lots of opportunity for us to continue to drive our equity financing activities, and we have less constraints given that we have now achieved the 3% G-SIB target.

Devin Ryan

Okay. Thank you.

Operator

We will take our next question from Dan Fannon with Jefferies.

Dan Fannon

Thanks. Good morning. I wanted to expand upon the new Slide 7. And as you look at the different buckets and asset classes, how much of these funds are evergreen and open or are going through periodic fund raises and closings? And I was hoping you could maybe provide some context on what the fundraising has been for subsequent funds, meaning the size increase that you have typically seen for second or third funds from the previous one to give us a sense of the momentum you are seeing in that business?

Denis Coleman

Sure. So, we always have a very, very broad portfolio of funds. And we have been in this investing business for a number of decades, and it's one of the contributors to our position as the number five largest active asset management firm in the world. And across the portfolio of different funds, we have some extremely mature businesses. Our GS Capital Partners, equity investing business, our mezzanine funds, some of our loan funds. We have multiple mature businesses that are frequently deploying successfully and then going back to raise new monies and continue to support sort of the franchises that we have in that channel. And we continued to diversify and expand our offering and open up new strategies in response to what we see are pockets for client demand. So, as we think about the overall opportunity set, we have a global, broad and deep investing platform that has offerings for many different types of investors, many of which are very, very mature in terms of their track record and some of which are newer.

Dan Fannon

Okay. And then just following up on the earlier question around kind of the FICC and trading backdrop. It sounds like you are through kind of the optimization of RWAs, but maybe can you talk about where you see on the broader intermediation side, the backdrop, maybe the backdrop today and maybe where you see market share opportunities into the rest of the year?

Denis Coleman

Sure. So, we continue to focus on market share. Market share data lags, but through the third quarter of last year, it shows that we continued to grow market share in those businesses, sales and trading. So, that remains a very, very core focus of the firm. We continue to make progress, and we think we can make incremental progress. One of the attractive things about that business for us is that we have a number of different business lines, which have enabled us to perform across a variety of environments. The last year, given what happened with rate normalization and energy markets around the world, were a particular tailwind to the interest rate products business, the commodities business. Meanwhile, we had softer performance in credit, mortgages and some of the equity intermediation activities. Certainly, if the new issue debt underwriting markets come back online as early indications on the investment-grade side of things suggest and if the equity underwriting activities are to open up, there is a lot of activity that takes place with investors as they position in advance of and after new offerings that we should be able to capture, given the investment that we have made in the client franchise. So, I can't predict exactly where activity will come from 2023. Certainly, some of it may be a continuation of those areas that were active in 2022. But it's quite possible that certain activities that were softer in '22 could rotate and become more relevant in 2023.

Operator

Thank you. We will take our next question from Matt O'Connor with Deutsche Bank.

Matt O'Connor

Good morning. You mentioned continued interest in asset and wealth management deals, kind of over time. It sounds more like bolt-on, but I guess just are you more open-minded towards maybe a transformational deal as we think out, not necessarily this year, but just in the next couple of years. I mean to-date, you have – what I would characterize, I think most people had characterized, you have piece-mailed some deals. You have done some organic expansion and mixed results in different areas. But just thoughts on maybe more openness to something transformational down the road.

David Solomon

I think we have been asked this question. I appreciate the question. We have been asked it a bunch over time. I think in certain businesses like asset and wealth management, there are significant things that could meaningfully accelerate the platform. We have the fifth largest active asset manager in the world now that we have stood up all the businesses inside Goldman Sachs. And so that scale is real. And there certainly could be opportunities to increase that scale. And certainly, there are opportunities in wealth for us to do things that are more significant. I would say that the bar to do those things is extraordinarily high. There are not a lot of opportunities out there necessarily to do it. Certainly, over the last 5 years, the prices have been eye-popping, maybe we are in a different environment where well, that will normalize. But we are always open to things that we think can strengthen Goldman Sachs, but also as somebody that's been an M&A banker for a significant part of my career, I know the barter do that, the cultural issues, the integration issues, the bar has to be very, very high. So, I would say we are always open. But at the moment, our focus is on executing on the plate of opportunities we have in front of us, and we think we can drive good returns, good book value growth, good performance for our shareholders as we look forward in the coming few years with what we have on our plate.

Matt O'Connor

Okay. That was clear. Thank you very much.

Operator

Thank you. We will take our next question from Gerard Cassidy with RBC.

Gerard Cassidy

Thank you. Good morning. David, in your opening comments, you gave us your three priorities of growing management fees in the Asset & Wealth Management business, maximizing the wallet share and growing financing activities in global banking and markets and then scaling the platform. In your – in the number two, maximizing the wallet share, can you share with us where are you today with the wallet share, both in investment banking and markets? And how are you pursuing to grow that over the next couple of years?

David Solomon

Yes. So, we – you can take a look at our performance in these businesses. And you can see that the performance is quite strong. A couple of things I will point to even in this quarter's performance. You can look at our relative M&A revenue performance. You can look at our relative FICC performance and even our equities performance in what's been a tough quarter, the relatives look pretty good. We set out 3 years ago, and this was a big structural change. We had never really thought about client market shares in our markets business. We had always thought about them in our investment banking business. And we really – we brought that ethos into the markets business. And I know everyone on this call has heard us talk about how 3 years ago, we set out to say there are 100 clients that contribute meaningfully to our FICC and equities businesses. And we are top three with only 44 of them. We are now top three with 77 of those top 100. And now we have shifted the focus to really look at okay, top three, but why aren't we wanted to, what are the number of clients that we can be number one and two with, and we think there is more room that we can drive on wallet share by really focusing and ticking equities on that number one and number two position. In banking, the wallet share has really come from footprint growth. That footprint grows candidly has been a little bit expensive when there has been zero capital markets revenue because that footprint growth does tilt toward capital markets activity, but we think that will serve us well if you take a 3-year or a 5-year view looking forward. So, again, there is a lot of attention paid to some of the things that we are investing in. The core of the firm is very strong. Those wallet shares are strong, but we still see more opportunity and we are laser-focused on continuing to execute on it. And I don't think there is any business in investment banking and markets that is as strong and powerful as this business, so we will continue to focus on strengthening it as we move forward.

Gerard Cassidy

Very good. And then as a follow-up on the shift in strategy in the consumer business, you have been very clear, obviously, on how you are positioning this going forward. I may have missed this, so I apologize. But what went wrong? When you go back to when you guys started to move into these businesses 3 years ago or so, I know Marcus deposits has been around longer than that. But when you look back on what you were hoping to do and how it turned out, what went wrong?

David Solomon

Well, I think there are a bunch of things that went right, and there were some things that did not go well. I think we executed well on some things that we didn't execute on others. But the simple thing that I would phrase, Gerard, and I think it's a fair question, is we tried to do too much too quickly. And of course, in the environment that we are in, it's hard to go back when we started in that strategy 6 years ago. We obviously built the deposit business, the loan business, and we talked about a much broader platform. And I think we came to the conclusion that there were some changes. One of the big changes that affect the pace of the ability to do this and it's different in scaling things like this is CECL is a big change. CECL changed the curve on growing these lending businesses at scale from scratch. So, we have had to adjust to that. The regulatory environment has also changed over the course of the last couple of years. But I think it became clear to us early in 2022 that we were doing too much, was affecting our execution. I think we probably, in some places, haven't had all the talent that we have needed to execute the way we have wanted. We are making adjustments on that, but by narrowing down the three core things that we are going to focus on that we actually think are good businesses that can be accretive to the firm. I think we have got it in a place now where we can create a more cogent path forward. And so that's what we are doing. And I – the takeaway I would like investors to understand is when we see things, we look at things and we pivot. We are not married to things. We are willing to change. I think when I go back to our 2020 Investor Day, and I look at what we laid out during that period of time, we have accomplished and have executed on the vast majority of things we have laid out. That doesn't mean there is not more work to do. But you know what, we didn't execute perfectly on some. So, we have taken a hard look at those and you make adjustments. And that's kind of the ethos of the nimbleness of Goldman Sachs that I want to amplify. We are always willing to make changes. We are always going to be focused on shareholders. And even though everything has not gone perfectly, again, I would point to our 40% book value growth since our Investor Day, and I map that out. Our book value per share growth, I believe it's more than double the next nearest competitor. And so we are going to continue to stay focused on the medium and long-term. I think we are good at nimbly making adjustments, and we will always be very clear to have when we get things right or we get things wrong.

Operator

Thank you. We will take our next question from Jim Mitchell with Seaport Global.

Jim Mitchell

Hey. Good morning. Maybe just your thoughts on the outlook for investment banking, I appreciate Denis' comments, we have seen a big increase in debt issuance, so some improving liquidity in the debt markets at least. Is that, in your mind, a leading indicator for beginning to monetize backlogs? And just generally, how are you thinking about the outlook for investment banking? Thanks.

David Solomon

Yes. Sure. I think that – I think one of the things we are dealing with and it's over-amplified in our very capital market-centric business is that 2021 was not normal. The second half of 2020 and 2021 were not normal. They were way inflated by the massive fiscal stimulus that created kind of, I would call, on the spectrum of activity, excess activity, pulled a lot of activity forward. And then because of market disruption, we have tightened monetary conditions meaningfully in 2022. It's the first year in over 50 years that both fixed income and equity markets were down. We had the S&P down 20%, the NASDAQ down 30%. You had a real change in asset values across the spectrum. And when that happens, it takes a period of time for people to adjust. My historical experience would be that period of time is kind of four quarters to six quarters. And so if you think about it, if somebody had a stock that was trading at $100 and the stock goes down by 30%, certainly, for the next couple of quarters, they are still thinking about $100. But if it's at $70 for four quarters or five quarters, six quarters, then it's $70. And suddenly, when you look ahead and you think about either an M&A transaction or financing, you have more realism about the reset of values. So, I think we are well into that journey of a reset and expectations. I think it might have another quarter or two quarters to further reset, but I think we are starting to see some additional improvements, people point to the investment-grade debt market. That would obviously be where it would come first. But my expectations would be in the back half of '23 meaningfully better. And also, it's interesting, and I will be heading to Dallas tonight with others, but I was watching some of the commentary, the macro commentary. People are softening their view of 2023. And I would say it's getting a little bit more dovish, a little bit more of a softer landing than kind of where people were a quarter or two quarters ago. And that too, will affect capital markets opportunity because it's really tied to confidence. So, I think we are going through that. I don't think anything has fundamentally changed. I think these capital markets businesses are still very big businesses. But you shouldn't look at 2022 as normal, just as you shouldn't look at 2021 is normal. They normalized somewhere in the middle.

Jim Mitchell

Right. And maybe just a follow-up on the reserve and provisioning. That's obviously been a big drag in profitability as you grow the platform business. But as you shrink Marcus, is there also any desire to kind of slow. I know GreenSky is growing on balance sheet, but the rest of the business is that slow? Do we start to see provisioning slow and given how high your reserve levels already are? Just trying to get a better picture on how to think about that cadence and maybe where your macro assumptions are in your reserve levels?

Denis Coleman

Sure. So, as it relates to slowing growth, we actually did slow origination activity over the course of the fourth quarter. Over the course of the year, we have implemented a number of changes to our credit underwriting, tightening some of those provisions. And so we actually did see a slowing of new originations. That being said, the vast majority of the provision build was attributable to the existing balances as opposed to the new originations. So, that's also something that we are going to watch very carefully as things develop. You notice our overall coverage ratio increasing. That's a function of what we have observed in our portfolio, but as well as our macroeconomic outlook. And so we have made some adjustments, which reflect our best estimates for performance in the economy going forward.

Operator

At this time, there are no further questions. Please continue with any closing remarks.

Carey Halio

Since there are no more questions, we would like to thank everyone for joining the call. And certainly, if additional questions arise, please don't hesitate to reach out to me or others on the Investor Relations team. Otherwise, we look forward to speaking with you soon and seeing many of you at our Investor Day on February 28th. Thank you.

Operator

Ladies and gentlemen, this concludes the Goldman Sachs fourth quarter 2022 earnings conference call. Thank you for your participation. You may now disconnect.