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Q4: 2025-01-15 Earnings Summary

EPS of $11.95 beats by $3.66 | Revenue of $13.87B (22.54% Y/Y) beats by $1.41B

The Goldman Sachs Group, Inc. (NYSE:GS) Q4 2024 Earnings Conference Call January 15, 2025 9:30 AM ET

Company Participants

David Solomon - Chairman & CEO
Denis Coleman - CFO

Conference Call Participants

Ebrahim Poonawala - Bank of America
Christian Bolu - Autonomous Research
Betsy Graseck - Morgan Stanley
Brennan Hawken - UBS
Mike Mayo - Wells Fargo Securities
Devin Ryan - Citizens JMP
Dan Fannon - Jefferies
Gerard Cassidy - RBC

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 2024 Earnings Conference Call. On behalf of Goldman Sachs, I will begin the call with the following disclaimer.

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I will now turn the call over to the Chairman and Chief Executive Officer, David Solomon; and Chief Financial Officer, Dennis Coleman. Thank you. Mr. Solomon, you may begin your conference.

David Solomon

Thank you, operator, and good morning, everyone. Thank you all for joining us. Before I start my prepared remarks, I'd like to take a moment to touch on the devastating fires that have spread across Los Angeles. Our thoughts are with the people of LA, including our colleagues and clients. We join everyone else in thanking the brave five firefighters and first responders working tirelessly to protect that community.

Now let me turn to our results. I'm very pleased with our strong performance as we continue to serve our clients in a dynamic environment. In the fourth quarter, we generated revenues of $13.9 billion, earnings per share of $11.95, and ROE of 14.6% and an ROTE of 15.5%. For the full year, we increased our revenues by 16% to $53.5 billion. We grew our EPS by 77% to $40.54 and improved our ROE by over 500 basis points to 12.7% demonstrating strong operating leverage.

Before we review our financials in detail, I will start today's presentation with a strategic update. Beginning on Page 1, we have a clear purpose at Goldman Sachs. We aspire to be the world's most exceptional financial institution, united by our shared values of client service, partnership, integrity and excellence. These values are the foundation of our strategy and enable us to deliver for our clients and our shareholders.

As shown on Page 2, our interconnected client franchises are at the core of our growth strategy. Our Global Banking and Markets business is distinguished by its scale, profitability and leadership positions. In Investment banking, we once again ended the year as the number one M&A advisor. In markets, we have the number one equities business and a leading fit franchise. These leadership positions have been built over decades of investment and they reflect the confidence and trust that our clients have in us.

Our Asset and Wealth Management business is comprised of a leading global active asset manager, a top five alternatives franchise and a premier ultra-high net worth wealth management business. This scaled business has over $3.1 trillion in assets under supervision with global breadth and depth across products and solutions. Importantly, our One Goldman Sachs operating philosophy drives the interconnectedness between these two world-class businesses, enabling us to seamlessly deliver a variety of unique solutions and execution capabilities to our clients.

Turning to Page 3. Delivering excellence to our clients is only possible because of our greatest asset, our people. Their exceptional focus and dedication supported by our culture of collaboration and excellence is critical in solving our clients' most consequential problems. Our people, history and culture have made Goldman Sachs an aspirational brand around the globe, which allows us to attract quality talent across the organization from our summer interns all the way to our partners, and we invest heavily in our people.

Many of them have long careers at the firm, exemplified by the fact that over 40% of our partners started as campus hires. Of course, not all of our people stay at Goldman Sachs for their entire careers. Many believe for opportunities to lead other companies and investment firms. And these firms, in turn, often become important clients of Goldman Sachs.

Today, more than 275 of our alumni are in C-suite roles at companies with either a market cap greater than $1 billion or assets under management of over $5 billion and hundreds of other alumni end up coming back to the firm as Boomerang hires, including roughly 25 partners and managing directors last year alone, a testament to our enduring brand and culture. All in, we have an exceptional client franchise supported by our best-in-class talent and culture, which enables us to drive our strategy forward, and it is critical that we continue to invest in our people.

Now turning to Page 4. At our first Investor Day in 2020, we laid out a comprehensive strategy to strengthen and grow the firm. We also laid out a number of targets that we could be held accountable for our progress. Today, the evidence is clear, we have met or exceeded almost all of these targets. We have grown our revenues from $37 billion to $54 billion, nearly 50% while improving the durability of those revenue streams.

In Global Banking and Markets, we've maintained our position as the leading M&A adviser in Investment banking and have improved our standing with the top 150 clients and thicken equities over the past five years. At the same time, we've significantly increased our more durable FICC and equity financing revenues, which together have grown at a 15% CAGR to a new record of $9.1 billion this year.

In Asset & Wealth Management, we've consistently grown our more durable management and other fees in private banking and lending revenues, both of which were record in 2024. Notably, management and other fees surpassed $10 billion, exceeding our 2024 target. In addition, alternative fundraising surpassed $70 billion. The success is a direct result of our continued innovation developing new strategies and our long-standing track record of investment performance.

Additionally, we further narrowed our strategic focus. We closed on the sale of GreenSky entered into an agreement with General Motors to transition their credit card program and sold our portfolio of seller financing loans.

Turning to Page 5. Global Banking & Markets, our leading franchise has produced average revenues of $33 billion and an average ROE of 16% over the last five years across a variety of market environments, demonstrating the diversity and strength of this business. While no one has a crystal ball, there are a number of catalysts that we believe will continue to drive activity.

There has been a meaningful shift in CEO confidence, particularly following the results of the U.S. election. Additionally, there is a significant backlog from sponsors and an overall increased appetite for dealmaking supported by an improving regulatory backdrop. The combination of these conditions should spur further activity in 2025.

One large strategic opportunity we are particularly focused on relates to financing. Goldman Sachs operates the fulcrum of one of the most important structural trends currently taking place in finance. The emergence and growth of our private credit and other asset classes that can be privately deployed. Our unique origination capabilities position us to both connect companies' dependable capital and connect investors to assets that can produce superior returns.

Earlier this week, we announced the formation of our Capital Solutions Group, which will harness the power of One Goldman Sachs to provide our clients a comprehensive suite of our financing, origination, structuring and risk management offerings across both public and private markets. We are taking the current capabilities of our financing group, adding coverage of financial sponsors and alternative asset management firms to better innovate and accelerate the delivery of services to clients.

We are also creating an alternative origination group focused on sourcing to provide seamless coverage to our private credit and private equity clients. We are excited about providing our clients with access to differentiated sourcing and investment capabilities, which will in turn help us accelerate growth across the franchise.

Now let me turn to Asset & Wealth Management on Page 6. Our assets under supervision reached another record, reflecting our 28th consecutive quarter of long-term fee based net inflows. In Wealth Management, our total client assets rose to $1.6 trillion. We also bolstered our more durable revenue streams. Management and other fees and private banking and lending revenues together have grown at a CAGR of 12% since 2019, and we continue to expect to drive high-single digit annual growth in the coming years.

Turning to Page 7. We meaningfully improved our AWM pretax margin in 2024, achieving our medium-term target. In our journey to further improve the return profile of the firm, we are committed to driving this business towards mid-teens returns. We see significant growth opportunities across wealth management, alternatives and solutions.

In Wealth Management, we are growing this business by increasing the number of advisers in the field and surrounding them with content specialists. We are expanding our loan product offerings, and we're elevating our overall client experience with further investment in our digital capabilities.

In alternatives, we are scaling our flagship fund program and developing new strategies. We remain focused on penetrating the institutional client base and expanding our wealth channel. Additionally, we are investing in tailored solutions for institutional and third-party wealth clients, who continue to see customization across SMAs, direct indexing and ETFs in a structured form.

On Page 8, we demonstrate the durability of the revenues across the firm. This is not the first time we've laid out this information, but it serves as a good reminder. Baseline revenues are shown in gray, which represent the sum of the trailing 10-year lows for each of the businesses that are considered to be more cyclical advisory, underwriting and intermediation. As I said last year, we believe this is a very conservative measurement because it's unlikely that every one of these businesses would ever hit a low point all at the same time. In the 25 years since we became a public company, it hasn't happened once.

The dark blue represents more durable revenues from financing, management and other fees as well as private banking and lending, which grew 13% versus 2023. Taken together, these two components made up approximately 70% of total revenues in 2024. In addition, given our diversified franchise, we have consistently demonstrated our ability to generate upside across different market environments, which further highlights the revenue generating power of our firm.

Moving to Page 9. Operating efficiency remains one of our key strategic objectives. And while we have made progress, we believe there are significant opportunities to drive further efficiencies across our business. We've established a three year program as a part of our business planning process that will help us dynamically manage our expense base, harness technology and automation, and reinvest in our businesses.

First, we are optimizing our organizational footprint by expanding our presence in strategic locations and calibrating our pyramid structure. Second, on spend management, we are optimizing transaction based expenses and looking to more efficiently manage our vendor and consultant relationships. We will also continue to reduce operating expense associated with our consolidated investment entities as we further sell down those assets.

Lastly, we are leveraging AI solutions to scale and transform our engineering capabilities, simplify and modernize our technology stack, drive productivity. These efficiencies will allow us to further invest for growth and improve client experience.

Moving to Page 10. We believe the path to our return targets is straightforward. First, we have demonstrated our ability to deliver mid-teens returns on our leading global banking and markets franchise. Second, we are making strong progress against our plan to drive asset wealth management to mid-teens and beyond. And lastly, we are driving platform solutions to pretax breakeven in 2025. Taken together, we have a clear path to producing our target returns, which will further unlock shareholder value.

Before turning it over to Denis, I want to spend a moment on regulation. Last month, trade groups representing the major U.S. banks, including Goldman Sachs, filed suit against the Federal Reserve. We have long been concerned that the lack of transparency and the Fed's current stress testing creates uncertainty and at times produces results we cannot understand and which can lead to higher industry-wide borrowing costs, reduced market liquidity and inefficient capital allocations.

For the industry, the bar to take this step was incredibly high. And while the Fed has announced that it's seeking to improve the stress test, the suit was filed to protect our rights. We believe it is our responsibility to continue to press for a more transparent regulatory process in order to foster a more efficient financial system that supports growth and competitiveness of the U.S. economy.

In closing, I'm very confident about the trajectory of Goldman Sachs. We are incredibly well positioned to serve our clients and to continue to drive strong returns for shareholders as we execute with a relentless emphasis on client service, partnership, integrity and excellence.

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

Denis Coleman

Thank you, David, and good morning. Let's start with our results on Page 11 of the presentation. In the fourth quarter, we generated net revenues of $13.9 billion, EPS of $11.95, and ROE of 14.6% and an ROTE of 15.5%, resulting in full year EPS of $40.54 and an ROE of 12.7%. As David highlighted, we made significant progress this year on executing our strategic priorities. In aggregate, these select items had a de minimis impact on the firm's full year results.

Turning to results by segment. Starting on Page 14. Global Banking & Markets produced revenues of $35 billion for the year, up 16% amid broad based strength versus last year. In the fourth quarter, Investment banking fees of $2.1 billion rose 24% year-over-year. Advisory revenues came in at $960 million and equity underwriting revenues increased substantially year-over-year to $499 million, as strong equity markets supported robust issuance activity.

Net underwriting revenues rose 51% to $595 million amid higher leveraged finance activity, given the strengthening financing conditions post-election. For 2024, we maintained our number one position in the league tables for announced and completed M&A, ranked third in equity underwriting, and second in leverage lending. Despite strong accruals in the fourth quarter, our Investment Banking backlog rose sequentially and remains robust, particularly in advisory.

The intensity of our client dialogues has been increasing, and we're seeing renewed CEO confidence and desire from sponsors to transact. While there remains some policy uncertainty, there is an expectation that the regulatory burden will be reduced, which should serve as a tailwind to risk assets and capital deployment. We are optimistic on the outlook for 2025 and expect a further pickup in M&A and IPO activity.

FICC net revenues were $2.7 billion in the quarter, up 35% year-over-year. In intermediation, we saw strength in currencies and mortgages. Record FICC financing revenues rose 34% versus last year, primarily on better results within mortgages and structured lending. Equities net revenues were $3.5 billion in the quarter. Equities intermediation revenues were $2 billion, up 30% year-over-year, primarily driven by strong performance in cash products.

Record Equities financing revenues of $1.5 billion rose 36% versus the prior year amid higher average balances in prime and stronger performance in portfolio financing. For the full year, total equities net revenues were a record $13.4 billion amidst strong levels of client engagement and higher client balances. Across FICC and Equities, financing revenues rose 17% in 2024 to a record $9.1 billion.

Moving to Asset & Wealth Management on Page 15. For 2024, revenues of $16.1 billion rose 16% year-over-year as our more durable revenues grew to new records. In the quarter, management and other fees were a record $2.8 billion, up 8% sequentially and 15% year-over-year. Private banking and lending revenues rose 11% year-over-year to $736 million.

Incentive fees for the quarter were $174 million, bringing our full year incentive fees to $393 million. We expect to make further progress in 2025 towards our annual target of $1 billion. Equity and debt investment revenues totaled $993 million for the quarter, reflecting markups across our private and public portfolios and NII in our debt portfolio. For the full year, these combined revenues totaled $2.4 billion.

Now moving to Page 16. Total assets under supervision ended the quarter at a record $3.1 trillion, driven by $70 billion of liquidity products net inflows and $22 billion of long-term fee based net inflows across asset classes.

Turning to Page 17 on alternatives. Alternative assets under supervision totaled $336 billion at the end of the fourth quarter, driving $621 million in management and other fees. Gross third-party fundraising was $20 billion in the fourth quarter and $72 billion for the year. For 2025, we expect fundraising to be consistent with levels achieved in recent years.

On Page 19, our total loan portfolio at quarter end was $196 billion, up year-over-year, reflecting an increase in other collateralized lending. Our provision for credit losses was $351 million in the quarter, primarily driven by net charge-offs in our credit card portfolio and balance growth, partially offset by reserve releases in the wholesale portfolio.

Let's turn to expenses on Page 20. Total operating expenses for the year were $33.8 billion. Our 2024 compensation ratio net of provisions was 32%. Quarterly non-compensation expenses were $4.5 billion, down 8% year-over-year.

As David mentioned, we're driving efficiencies across our organizational structure, spend management and automation efforts, which will enable us to further invest across the client franchise. These efforts are designed to enhance productivity and help drive operating leverage, as we work towards achieving our through-the-cycle targets. Our effective tax rate for 2024 was 22.4%. For 2025, we expect a tax rate of approximately 20%.

Next, capital on Slide 21. Our common equity Tier 1 ratio was 15% at the end of the fourth quarter under the standardized approach, a 130 basis points above our current capital requirement of 13.7%. In the fourth quarter, we returned approximately $3 billion to common shareholders, including common stock repurchases of $2 billion and dividends of $965 million.

In conclusion, our strong performance this year reflects the strength of our client franchise, our intense focus on execution and an improving operating environment. We continue to maintain our leadership positions across Global Banking & Markets and are leaning into secular growth opportunities across Asset & Wealth Management. As we enter 2025, we remain confident in our ability to deliver for clients and drive strong returns for shareholders.

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] We'll go first to Ebrahim Poonawala with Bank of America.

Ebrahim Poonawala

Good morning. I guess maybe just David following up on the comments you made around regulations. Like, when you talk to investors, I mean, we saw what happened with the SCB last year. And I think there's been a laser focus on being more punitive on capital markets post GFC for many justifiable reasons.

But just talk to us when you think about the regulatory outlook and I appreciate significant uncertainty we're waiting for policymakers to kind of take new feed, but how do you think that plays out? And in particular, in terms of the operating backdrop for your capital markets business, investment banking business, like, how should we think about how could it be different over the next two to three years relative to the last five or even 10 years?

David Solomon

Well, it's hard -- I mean, it's hard for me to speculate given where we are, and I appreciate the question. It's something, obviously, we're spending a lot of time thinking about, but I think they're obviously -- when you talk about capital, there are obviously three avenues. First, there is CCAR and you'd note the industry took an action because the industry doesn't think that the way CCAR operates and the lack of transparency is appropriate or candidly legal. And so that's why we took the action that we did.

The Fed has commented that it plans to make changes in adjustments. But obviously, there are changes going on with the administration shift. There are changes going on at the Fed. And it's hard for me to speculate how that will all play forward other than to say that the industry believes, as an industry, we believe strongly, and we believe this for years, this is not working appropriately at a system with more transparent and consistent capital that you can plan around makes a more efficient and more productive system. And so we're hopeful that we'll make some progress with that.

The second, obviously, is Basel III. And given the change in administration and the change of leadership inside the Fed, our expectation would be that there'll be a different approach than what have been put forward. But again, we'll have to watch, and we'll have to wait. And then last, there's G-SIB and the calibration of G-SIB. G-SIB was always supposed to be calibrated to growth in market cap economies it hasn't been. And so that's another avenue of dialogue.

Net-net, unpredictable. I don't want to predict. I don't want to speculate. But certainly, it feels like we're in an environment where there could be a constructive discussion about improving the transparency, clarity and consistency around this. And I think that would be very, very good, both for the system and capital markets broadly (ph).

Ebrahim Poonawala

That's fair. And just a follow-up on the Slide 5, you mentioned the forward catalyst, increased sponsor activity. We've been waiting for this. We have seen some signs of a pickup there. You've talked about M&A being sort of sub 10-year averages. Give us a sense of just how quickly -- I mean, we know the DOJ, FTC backdrop will be more conducive for dealmaking, just how quickly could we see a more significant ramp up around deals, IPOs? Is it a second half event? Could we see that as early as the next couple of months?

David Solomon

I think you're going to see it throughout 2025. I don't want to speculate where it will land versus 10 year averages, but it's certainly setting up to be much more constructive and robust. And the data set that we would have that allows us to articulate that is, we can obviously track our backlog, but we can also track increased activities, dialogues inside the firm. And I'd say there's been a meaningful pickup in large-cap M&A dialogue and inquiry. There's been a meaningful pickup in sponsor inquiry and dialogue, and we continue to see strong positive backlog trends as Denis highlighted to you.

Operator

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

Christian Bolu

Good morning, David and Denis. Maybe just follow-up, maybe take a question here. But if I'm reading the slides correctly, footnotes 11 and 12, which help bridge your ROE gap to 15%. Are you assuming sort of roughly $9 billion of capital return from HPI platform solutions to shareholders? Because if you are, maybe talk through how that puts against things like SLR constraints at that level of capital return? And then just more broadly on capital, just given the improving opportunity set here, how are you balancing returning capital to shareholders versus investing in the business?

David Solomon

Sure. So I'll start, and Denis will add, particularly on capital return. But our path to mid-teens is a simple analysis than what you laid forward. The firm is driving toward having two fundamental business platforms and we've been very clear on this as we've narrowed our focus, Global Banking & Markets and Asset & Wealth Management. We still have the legacy platforms, but we continue to make progress around that. Global Banking & Markets, I think, has shown over the course of the last five years that this business should be mid-teens throughout the cycle.

On Asset & Wealth Management, we've commented to you that we've met our medium-term margin, target margin, but we have not yet improved the returns in that business to the levels that we believe that we can return them. We believe over the next couple of years, continued scaling and profitability in our alternative platform combined with our ability to continue to grow management fees and at the same time, also free up capital from legacy principal investments will allow us to bring the returns in Asset & Wealth Management to the mid-teens or higher.

In addition, Platform Solutions, where we still have the Apple Card platform, this year, depending on how you look at it, and I'll give you rough numbers was a 75 basis point to 100 basis point drag on the firm's overall ROE, that will improve in 2025 and 2026. And so it's just math. If you have a mid-teens Global Banking & Markets business, if we get Asset & Wealth Management, the mid-teens plus and we removed the drag from the platform that gets you to a mid-teens business. We have a high level of confidence in our ability to execute against that. Denis will give you a comment. We're obviously generating a lot of capital. We do see opportunities to deploy. So Denis will give you some comments on how we're thinking about capital deployment and also returns.

Denis Coleman

Sure. Thanks, David. And Christian, I think you're making references some capital release numbers. Within the overall remaining portfolio of HPI, we do note that there's about $4 billion of retaining attributable – of remaining attributable equity. And then, obviously, over time, we both have to narrow the pretax drag in Platform Solutions and ultimately, someday may be able to release all of the equity associated with that business as well. So those are obviously contributors to our longer-term return target achievement.

I think as it relates to capital return, as we sit headed into 2025, we have 130 basis points of cushion versus Reg Min (ph). As David has commented, as the firm believes there should be a significant uptick in client opportunity. As always, we would look to fill that demand as best we possibly can as a matter of priority. We remain committed to sustainably growing our dividend, and then obviously, seek to return excess capital.

You all will have noted last year was a record year for capital return by Goldman Sachs. So we were able to grow the franchise, grow the firm as well as return record levels of capital to shareholders. As we head into '25, we'll support clients, invest in sustainably grow our dividend and then to the extent we have excess capital return it to shareholders, all the while managing an appropriate buffer given some of the ongoing regulatory uncertainty.

Christian Bolu

Okay. Got you. Maybe David, look, kudos to you on the firm, you're clearly taking share across your businesses, whether it's markets or alternatives and in private wealth doing a great job. But just given to your point, the improved opportunity set here and perhaps more friendly regulatory environment. Any thoughts on doing a strategic deal to accelerate your growth prospects within alts or private wealth?

David Solomon

Yeah. I appreciate the question, Christian. And look, we always think about, particularly around our Asset & Wealth platform, are there things that could accelerate our growth and journey and the overall mix of the firm. As I've said before, the bar for doing something is high. I'd also say, these businesses are sold, they're not bought. And at the moment, the market is valuing these businesses with an extraordinary amount of forward growth. But we obviously watch the space.

And over time, could there be opportunities? Yes. But at the moment, we’re very focused on execution. I think one of the things we’re so excited about for the firm is we have an ability to continue to execute organically on what we’ve laid out in front of you and continue to improve the returns of the firm. Plus, I think as you point out, we have tailwinds from both the environment and improving environment for the kinds of activities that flow into our ecosystem and also the overall business and regulatory environment. So I think execution right now continues to be our primary focus.

Operator

We'll take our next question from Betsy Graseck with Morgan Stanley.

Betsy Graseck

Hi. Good morning.

David Solomon

Good morning, Betsy.

Betsy Graseck

Hi. I did just want to follow up on one thing here regarding the point you were making on Platform Solutions. It's a drag right now, 75 bps to 100 bps on ROE, but '25 and '26, that will improve. So could you just step us through -- I mean, we know what your plans are for Platform Solutions. But I'm wondering what's happening in '25 and '26 that will drive the reduction of the drag in this year and next, if you could speak through that.

David Solomon

Yeah. At a high level, Betsy, we're obviously -- the primary thing is in Platform Solutions is the Apple partnership. As you know, we have a contract with Apple to run that partnership until 2030, although, there's some possibility that it won't continue until that time frame. The most important thing that's happening is the card continues to improve and its performance and the card is driving towards profitability. And so the improvement in the profitability of the card has an impact on the short-term drag.

Ultimately, whether it's in the medium-term or through the life of the contract, that's not going to be a long-term business for the firm, and that will ultimately allow us to exit and return capital, but I'm really not in a position to comment any more specifically other than the direction of travel that you're aware of.

Betsy Graseck

Okay. Great. And then separately on the changes that were discussed with regard to how you're structuring the financing team that's within investment banking, if I got it right. Could you just help us understand, how does this management structuring change the revenue growth outlook that you're looking for? Like, why did this deliver better growth?

David Solomon

Sure. So -- yeah. So first of all, it's in Global Banking & Markets. And so I think the way, Betsy, you should think about Global Banking & Markets, and we've been on a journey to really think about all the efficiencies that exist between what was the traditional investment banking business, what we'll call the financing or capital markets businesses and then the global markets businesses, which are the trading businesses, and we brought them all together in Global Banking & Markets.

I think you should now think about that big business, that big $35 billion business as kind of having three big platforms. One is what we call traditional investment banking; two is what we call capital solutions; and three is what we call global markets or trading. The organizational structure that we're creating allows us, we believe, to take advantage of something that Goldman Sachs is very uniquely positioned at the fulcrum of which is this intersection between both public markets and private markets and the way you marry capital with issuers, but also marrying issuers and their need for capital with all different kinds of investors.

And I think the thing that we're very uniquely positioned on is, one, we have extraordinary relationships with 12,000 companies in the world. Two, we have extraordinary what I'll call public market financing capabilities. But three, we also have an ability, whether it's through our balance sheet, whether it's through what you'll call traditional distribution channels into institutional clients or it's through our asset management platform and our own asset management products have a range of alternatives that we can marry to issuers to make sure they get the best product service and results. And so this is a way of getting that all coordinated in OneGS fashion across the firm.

And so we've taken the traditional financing businesses and capital markets businesses. We've taken all the coverage of financial sponsors. We've taken all the coverage of alternative firms in our trading businesses and we are putting them together and we're bringing talent that understands both our own balance sheet and capital deployment and the ability to distribute these products together to try to optimize our capability around that. And this is where we actually think there's going to be growth in the capital markets. And so our ability to capture more of that share, we think the setup allows us on a relative performance basis to do better.

Denis Coleman

And Betsy, one thing I'd add just in terms of overall financials, obviously, our segments are not changing. The subsegments that we report into are not changing. These -- this sort of streamlined synthesized origination capability, we think will enable us to accelerate revenue growth by serving our clients more efficiently, but the suite of activities that are undertaken by these originators and instructors we'll continue to populate the same financial line items that we have today. We just think this is a better way of organizing our people against the client opportunity set and doing everything else that David just enumerated.

David Solomon

And look, if you go back in history, Betsy, just to expand on it. I mean years ago, the capital markets business is 25 years ago, the Capital Markets business has sat in the trading businesses. And 20 years ago, it was a dramatic thing to put them in investment banking, so they were closer to clients. And so our mindset is always how do we organize our people and our resources, create a OneGS ethos and be is connected to our clients to make the experience for our clients as seamless and is simplified and is leveraging as possible.

Operator

We'll take our next question from Brennan Hawken with UBS.

Brennan Hawken

Hi. Good morning. Thanks for taking my question. You spoke earlier to the capital unlock within the improving ROEs in AWM. But some of the more business oriented components would be driving lending solutions within wealth and scaling the flagship products and all, which I thought was interesting. I was hoping you could speak to lending penetration and where that sits versus your target within the wealth business and whether there's been an uptick in demand more recently, given some of the market developments and what contribution you're expecting from ranking the flagships and maybe highlighting some of those franchises? Thanks.

Denis Coleman

Sure, Brennan. Thanks a lot for the question. I appreciate it. So obviously, the strategy to grow wealth is three part in terms of primary focus: Wealth Management, Alts and Solutions. Within Wealth Management, you enumerate one particularly attractive opportunity set for us, which is lending. And we've noted previously that we believe that we are relatively underpenetrated, relative to some of our competitors across our wealth platform.

And we've been making investments in our human capital expertise, educating our client-facing professionals that we have capabilities and ambitions to support clients through lending activities. We did grow our private wealth lending balance is about $5 billion on the year. We are committed to a multiyear journey of increased penetration. I think relatively, we are still very low. So we are making progress. We are optimistic, but I think we have a lot of room to improve that.

In terms of the Alts business, there are a number of ways that we continue to grow and make progress in our Alts franchise. It continues to be an attractive and appropriate component of our wealth clients portfolio. We have very good manufacturing capabilities as a firm and also a robust third-party wealth channel as well that clients can take advantage of within the portfolio of alternative offerings that we make available to clients.

We have certain of our flagship funds and those are raised from time-to-time, and those are attractive opportunities for us to secure client for deployment, and they also position the firm well as a known and credible deployer of capital. So we'll continue to raise those funds over time. And as we have more assets under management per strategy, if you will, better depth that will enable us to improve the overall operating leverage of that component of the Asset & Wealth Management business.

Brennan Hawken

Great. Thanks for that color. And David spoke to some of the operating efficiencies when reviewing -- when giving the strategic update. It's interesting because how do we think about the push and pull of expenses and efficiencies as we move into 2025 given the expectations for pretty robust and all the indications you've given for a pretty robust improvement in capital markets activity or maybe if it's easier to answer, what's the right way to think about incremental margins on revenue growth as we move forward.

Denis Coleman

Sure, Brennan. I appreciate that. We're actually trying to do a number of things at the same time, which is what gives rise to your question. So first and foremost, we continue to see good opportunities to grow the firm, and we expect that as we continue to grow the firm, we should be able to continue to deliver incremental operating leverage. You saw in the course of the last year that our efficiency ratio improved by 1,200 basis points. Now it's on the order of 63%, moving closer to our target of 60%. So scaling the business, driving incremental operating leverage continues to be a huge focus of this management team.

It's also the case that we see very attractive opportunities to make investments to scale the firm, to improve client experience, to improve our employees' productivity, and we want to be able to finance some of that incremental investment spend, a lot of which takes place in the engineering space by driving incremental efficiencies across the firm. And thinking about, as David ran through the ways we organize ourselves, the way we locate our professionals, the way we manage our spend processes, accountability this program that David made reference to has accountability up to the management committee of the firm.

It's an important piece of how we focus on running the firm efficiently, and we think it's something that's designed to give us capacity to fund some of the investments that we think are the best ways to continue to scale the firm make it more resilient and improve overall client and employee experience.

Operator

Thank you. We'll take our next question from Mike Mayo with Wells Fargo Securities.

Mike Mayo

Hi, David. There was another Wall Street's CEO who said he was the most positive he's been in 25 years. So how good could things get in your mind because you're saying the regulatory environment, the economic environment, the backlogs are up and that if I was doing a model for the industry, if we go back to the '21 pandemic highs?

And on the other side of this, as highlighted by Slide 9, you're all focused on expenses. And on the -- maybe if rates go up too much, what level of a 10 year yield do you think it puts a wrinkle in the kind of the bullish thesis you're laying out here, a 10 year 5%, 6%, 7%. What's the most likely thing that would drill your lofty expectations?

David Solomon

Look, Mike, I appreciate the question, and I'd say at a high level, there's no question that I highlighted in my remarks. There's been a sentiment shift broadly as I talk to CEOs since the election. But that doesn't stop us from at Goldman Sachs constantly thinking by nature of risk managers thinking about how the environment can change, how that can evolve. I think at the moment, for our business and our business mix, particularly, around capital markets activity, etc. We have -- it feels like we have a tailwind going into 2025.

And I do think that levels that have been below historical averages are going to a minimum normalize, maybe do better. I certainly wouldn't say, I have any expectation of capital markets activity going back to 2021, anomalies anytime soon, but it is a more constructive environment. And so that, of course, is something that we think about as we think about deployment of resources and investment in the business. Now all that said, we can't predict the environment. The environment changes and we're running the firm for the medium and the long term.

And so we are very, very focused on our growth and returns over the medium term, our growth of the firm over the medium term and our ability to serve our clients and execute well. And I am very confident, very, very confident that no matter what the world throws at us, Goldman Sachs over time will continue on that journey of doing really well and growing the returns of the firm and serving our clients with excellence and distinction. I think the environment feels good, but I'm not at all confused that I could wake up in three months and there could be things going on in the world that would change that perspective. And we're always thinking about that, always trying to look around corners and are always going to manage the firm for the medium and the long-term.

Mike Mayo

And then specifically, I guess why is Platform Solutions still around? I mean you're number one in deal making and you haven't been able to work that out. And on the other hand, the financing organic growth, how big is that today and how big do you expect that to be in five years, and what about credit risk that's related to that? Thanks.

David Solomon

Yeah. On the first question, I don't really have anything to say. It's different than what I've said about our journey around the consumer platforms in the business, but I appreciate the question. On the second point, we continue to believe that there's opportunity for our -- for us to grow our financing business. Our financing business scales with growth in the world.

Of course, we're incredibly focused on risk management and credit risk and the scale of that business against our equity base and our balance sheet, etc. But as the world grows, we believe there's opportunity for us to continue to grow and scale that business. And I think we've proven that over time. I mean, Denis, do you want to add anything around that?

Denis Coleman

Yeah. Just I draw a connection back, Mike, to some of the comments that David made earlier, which is, if really the secret sauce in driving some of these activities for clients is origination, distinction and differentiation. The establishment of the Capital Solutions Group enables us to have all of that origination centralized and we can, from that origination continue to grow the FICC financing balance sheet in an appropriate risk adjusted fashion.

We can underwrite and distribute some of that product to other investors across our franchise, and we can also help AWM source investments that provide attractive risk adjusted returns to the clients at AWM. So there's an opportunity to continue to invest in growing the financing capabilities that we've been reporting on, but we also have incremental outlets for the origination excellence given the demand that we see across various types of investors around the market.

Operator

Thank you. We'll take our next question from Devin Ryan with Citizens JMP.

Devin Ryan

Thanks so much. Good morning, David and Denis. First question just on the banking and markets, market share, wallet share, obviously, incredibly impressive over the last handful of years. And I think just a testament to the execution. When we look at this kind of new capital solutions organization, it would seemingly better positioned with sponsor clients and just, I think, gives that indication of where you guys are going there.

How do you think about your market share today with sponsors and not sure if you can give any framework or numbers there? And then, how you think about the ability to take share in that group and how important that will be to driving further kind of wallet share gains from here like you've done in the past? Thanks.

David Solomon

Yeah. We -- I mean, we've -- over the last 20 years, we've made enormous investment in our relationships and our coverage and sponsor community. We have leading share with the sponsors. I don't think we quantify it specifically. But we have -- it's fair to say, we have leading share with sponsor community. I think we're very well positioned as they're active to capture our fair share and even sometimes more than our fair share of that activity.

What I'd say is, it's been an environment where they've been incredibly quiet both from a deployment perspective, also a monetization perspective, and that's just not consistent. I've said consistently that sponsors make money by doing two things: buying new things, selling old things. And so the fact that we've gone through a period of time where they haven't done a lot of either of those things, that will normalize over time.

Part of it was a reset in kind of valuation expectations. Some of it was growing into valuation expectations that are kind of run ahead, but I do believe very strongly that the next 24 months will be a much more constructive environment to response to activity. And our share positioning with them is very good. I think these organizational changes will only strengthen that position.

Devin Ryan

Great. Thank you. And then, just in terms of on the alternative asset management fundraising has been terrific. How should we think about the pace of deployment of kind of that record fundraising and then just kind of the trajectory of kind of the acceleration in performance fees because it would seem that, that -- there could be a pretty big step function higher in performance fees, but you need to deploy that capital first. So just the time line to kind of think through that path. Thank you.

Denis Coleman

Sure, Devin. So we're focused on that as well. And it's a good question because it hits a number of topics. So obviously, we had good success raising Alts funds and surpassed all the various targets that we set out repeatedly, but now it's an opportunity for us to deploy. And the deal making environment and the transaction volumes moving to the market over the last couple of years being subdued has also impacted our ability to deploy into transaction. So as the overall backdrop improves, that should be a more attractive opportunity for us to start deploying the money that we've raised and drive our AUS.

At the same time, that same slightly more muted environment for transaction activity has been -- there's been less by way of monetization activity. And so as we, again, enter into, hopefully, a more supportive backdrop, there will be better opportunities for us to continue to monetize investments across our fund structures, and as we reach the end of investment cycles and fully monetize and become in a position to start returning capital to our investors, then you'll see the incentive fees start to come through our financials as well.

Our incentive fees were up sharply on a year-over-year basis, but they're still short of our $1 billion annual target. Our expectation is that we will continue to make progress towards that target over the course of 2025, the extent of that progress, obviously, will be a function of the environment, but we should continue to make progress towards the $1 billion target, given where we sit in the outlook that we have.

Operator

Thank you. We'll take our next question from Dan Fannon with Jefferies.

Dan Fannon

Thanks. Good morning. I wanted to follow up on the alternatives. You talked about consistent levels of fundraising as we look at '25. Could you maybe talk to the asset classes or the funds that you think will drive that growth going forward and how the fees may be different or are they the same as kind of what's in the ground of your existing book of alternatives today?

Denis Coleman

Sure. So given the breadth of our alternatives platform, the fundraising has come in from a number of different channels has been very diversified. And I think that's one of the strengths of our platform is one of the ways it positions us as one of the top five alternative players in the market. So as we move forward, we would continue to expect to raise money across the various asset classes within our alternatives platform. We are not seeing significant fee compressed, if you will. That's a question that we get on the Alts side.

So we'd expect to be raising the same type of funds with roughly the same fee structure, there obviously can be variations in mix. And so different types of alts products sourced through different channels bring with them different fees. So that can change average effective fees in the Alts space. But in terms of our strategy, continue to raise a diversified suite of funds, expect a reasonably consistent volume and don't expect fees per type of origination activity to meaningfully change.

Dan Fannon

Understood. And then just as a follow-up, both Asset & Wealth Management revenues on the management fee side, we saw good growth year-over-year, both for the year and the fourth quarter. There was a little bit higher growth in wealth, both in the fourth quarter and the year. I guess, as you look at those businesses going forward, do you expect to see a divergence in either of those segments or do you think that consistently, they will both grow at similar levels?

Denis Coleman

So look, there are obviously different idiosyncratic factors within both the asset management and the wealth management sectors. We obviously like the optionality to continue to raise and grow our management fees across both of those subsegments. And we re-underwrite our expectation that we will continue to grow AWM management and other fees, high-single digits over the next several years. We've obviously outpaced that recently, but we sort of would re-underwrite our forward growth expectations to be high-single digits.

Operator

Thank you. We'll go next to Gerard Cassidy with RBC Capital Markets.

Gerard Cassidy

Hi, David. Hi, Denis. David or Denis, can you share with us -- I mean, the outlook, many of us -- you folks included, I think, looks very positive for the capital markets businesses, the economy, etc. And aside from the geopolitical risks that are obvious to all of us. Can you guys give us two or three risks where could derail this shared optimism we have for the outlook for the business?

David Solomon

I mean the world -- I mean, I appreciate the question, right. The world is a complicated place, and there's a lot going on in the world. Markets reacting can change their sentiments very, very quickly. We obviously have a new administration with that change. There are a bunch of things people are talking about that have people excited from a business environment, a lower regulatory touch environment, etc. But at the same point, there are a broad array of policy initiatives that can all have an impact on market sentiment and the direction of travel.

And I'd say, at the moment, there's uncertainty. When you look broadly across immigration policy, trade policy, tax policy, energy policy, we'll get more clarity around all of this, but there are different outcomes. There can be sentiment shifts plus there's a lot going on in the world. And there are all sorts of significant risk we spend a lot of time thinking about. We think about cyber risk a lot. It's something we haven't talked about in a while on this call. So the world is a complicated place.

Fundamentally, at our core risk managers, we try to think about these things, make sure the firm is resilient and well positioned to navigate them. And I would say, at the moment, the environment is quite constructive. The economy in the U.S. is quite constructive still. But it's a complicated world. And I think we all should be on our toes and be prepared for the unexpected because I tell you every single year the consensus that people tell me in January, the year turns out to be different than the consensus. And I'm sure this year, there'll be some surprises to the ups, and there'll be some surprises to the downs as there always are.

Gerard Cassidy

Yeah. No, I agree with that. That's for sure. Thank you, David. And then coming back to, obviously, you guys have been investing heavily in technology for years in driving those operating efficiencies. In Slide 9, you talk about them, particularly in automation. And then you talk about leveraging the AI solutions. As outsiders, when do you think we'll be able to see the success that you're having with AI. I know there's probably early successes already, but will there become a time when we'll be able to say, wow, earnings were actually favorably impacted by X percent because of the success in the AI implementation that you've done?

David Solomon

We are having early success. And this firm is zealously focused on its expense base and creating efficiencies that give us the capacity to invest in our franchise and grow our client franchise. Can we get to a point where you can say it's affected by this percent? I don't necessarily think that's the way to think about it. We're going to continue to use technology to make the firm more productive. We're going to continue to scale and create automation of platforms that allow us to deploy resources and other places will allow us to serve our clients better and grow our franchise. And that's something we're going to continue to be operationally very focused on.

We've made good progress on it, but we have -- we see and we have and Denis explained this in his comments and I hinted at it too. We see lots of opportunities to continue to do that in the coming years. And I think the way that investors should look at it and think about it, it's that focus on that and the capacity it creates allows us to scale investments that can continue to strengthen the franchise. And so that's the way I think we think about it and we try to operate.

Operator

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

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