

Transcripts

# The Goldman Sachs Group, Inc. (GS) Q2 2024 Earnings Call Transcript

Jul. 15, 2024 11:57 AM ET | The Goldman Sachs Group, Inc. (GS) Stock, GS.PR.A Stock, GS.PR.C Stock, GS.PR.D Stock, GS:CA Stock | GS, GS.PR.A, GS.PR.C...



SA Transcripts

153.85K Followers

Welcome to Seeking Alpha!

Articles on **GS** are available to you for free for the next **30** days.

To continue receiving professional-grade analyses on **GS** and gain access to similar insights across the entire market, subscribe to Premium before your trial expires. Start today for only \$4.95 for your first month.

[Join Premium](#)

## Q2: 2024-07-15 Earnings Summary



EPS of \$8.41 beats by \$0.01 | Revenue of \$12.73B (16.85% Y/Y) beats by \$358.03M

The Goldman Sachs Group, Inc. (NYSE:GS) Q2 2024 Earnings Conference Call July 15, 2024 9:30 AM ET

### Company Participants

David Solomon - Chairman and Chief Executive Officer

Dennis Coleman - Chief Financial Officer

### Conference Call Participants

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

## **Operator**

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

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

I will now turn the call over to 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.

I want to begin by addressing the horrible act of violence that occurred over the weekend, the attempted assassination of former President Trump. We are grateful that he is safe. I also want to extend my sincere condolences to the families of those who were tragically killed and severely injured. It is a sad moment for our country. There is no place in our politics for violence. I urge people to come together and to treat one another with respect, civility, dignity, especially when we disagree. We cannot afford division and distrust to get the better of us. I truly hope this is a moment that will spur reflection and action that celebrate, that celebrate what unites us as citizens and as a society.

Turning to our performance. Our second quarter results were solid. We delivered strong year-on-year growth in both global banking and markets and asset wealth management. I am pleased with our performance where we produced a 10.9% ROE for the second quarter and a 12.8% ROE for the first-half of the year. We continue to harness our One Goldman Sachs operating approach to execute on our strategy and serve our clients in dynamic environments.

Global banking and markets, we maintained our long-standing #1 rank in announcement completed M&A and ranked #2 in equity underwriting. Our investment banking backlog is up significantly this quarter. From what we're seeing, we are in the early innings of the capital markets and M&A recovery. And while certain transaction volumes are still well below their 10-year averages, we remain very well positioned to benefit from a continued resurgence in activity.

We saw a solid year-over-year revenue growth across both FIC and equities as our global broad and deep franchise remained active in supporting clients' risk intermediation and financing needs. We continue to be focused on maximizing our wallet share and we have improved our standing to be in the top three with 118 of our top 150 clients.

In asset wealth management, we are growing more durable management and other fees in private, banking, and lending revenues, which together were a record \$3.2 billion for this quarter. Our Assets Under Supervision had a record of \$2.9 trillion and total wealth management client assets rose to roughly \$1.5 trillion. We delivered a 23% margin for the first-half of the year and are making progress on improving the return profile of AWM.

In alternatives, we raised \$36 billion a year-to-date. We completed a number of notable fund closings during the quarter, including \$20 billion of total capital for private credit strategies, and approximately \$10 billion across real estate investing strategies. Given the stronger-than-anticipated fundraising in the first-half of the year, as well as our current pipeline, we expect to exceed \$50 billion in alternatives fundraising this year. This is a testament to our investment performance, track record, and intense focus on client experience. We are excited about the additional growth opportunities for our asset growth management platform.

Let me turn to the operating environment, which remains top of mind for clients. On the one hand, there is a high level of geopolitical instability, elections across the globe could have significant implications for forward policy, and inflation is proven to be stickier than many had anticipated. On the other hand the environment in the U.S. remains relatively constructive. Markets continue to forecast a soft landing as the expected economic growth trajectory improves and equity markets remain near all-time highs.

I am particularly encouraged by the ongoing advancements in artificial intelligence. Recently, our Board of Directors spent a week in Silicon Valley where we spoke with the CEOs of many of the leading institutions at the cutting-edge of technology and AI. We all left with a sense of optimism about the application of AI tools and the accelerating innovation in technology more broadly. The proliferation of AI in the corporate world will bring with it significant demand-related infrastructure and financing needs, which should fuel activity across our broad franchise.

Before I turn it over to Dennis, I want to cover a couple of additional topics that are top of mind for me. First, our recent stress test results. The year-over-year increase in our stress capital buffer does not seem to reflect the strategic evolution of our business and the continuous progress we've made to reduce our stress loss intensity, which the Federal Reserve had recognized in our last three tests. Given this discrepancy, we are engaging with our regulators to better understand its determinations.

Despite the increase in requirements, we remain very well positioned to serve our clients and will continue to be nimble with our capital. In the second quarter, we repurchased \$3.5 billion of shares, which illustrates our ability to dynamically manage our resources and opportunistically return capital to the shareholders. Despite the increase in our repurchase activity, our common equity Tier 1 ratio ended the quarter at 14.8% under the standardized approach, 90 basis points above our new regulatory minimum and above our ratio in the first quarter.

We also announced a 9% increase in our quarterly dividend which underscores our confidence in the durability of our franchise. Since the beginning of 2019, we have more than tripled our quarterly dividend to its current level of \$3 a share.

I'd also like to reflect on the significant milestone we hit in the second quarter, our 25th anniversary as a public company. We went public in 1999, which is also the year I joined the firm, and it's been an eventful 25-years since then. We have persevered through a number of significant global events, including through the dotcom bubble, NASDAQ crash, September 11th, the financial crisis, and the pandemic.

When I look back at how we overcame these challenges, immediately think of our culture, one that has evolved, no doubt, but always stayed true to our core values. I know that the preservation of our culture is paramount to serving our clients with excellence, maintaining our leading market positions, growing our businesses, and continuing to attract and retain the most talented people.

In closing, I'm very confident about the state of our client franchise. We are delivering on our strategy by leaning into our core strengths effectively serving clients in what remains a complicated operating environment.

Now let me turn it over to Dennis to cover our financial results in more detail.

### **Dennis Coleman**

Thank you, David, and good morning. Let's start with our results on page one of the presentation. In the second quarter, we generated net revenues of \$12.7 billion and net earnings of \$3 billion, resulting in earnings per share of \$8.62, an ROE of 10.9%, and an ROTE of 11.6%.

Now turning to performance by segment starting on page four. Global banking and markets produced revenues of \$8.2 billion in the second quarter, up 14% versus last year. Advisory revenues of \$688 million were up 7% versus the prior year period. Equity underwriting revenues rose 25% year-over-year to \$423 million as equity capital markets have continued to reopen. No volumes remain well below longer term averages.

Debt underwriting revenues rose 39% to \$622 million amid strong leverage finance activity. We are seeing a material increase in client demand for committed acquisition financing, which we expect to continue on the back of increasing M&A activity. Our backlog rose significantly quarter-on-quarter, driven by both advisory and debt underwriting.

FIC net revenues were \$3.2 billion in the quarter, up 17% year-over-year. Intermediation results rose on better performance in rates and currencies. FIC financing revenues were \$850 million, a near record, and up 37% year-over-year.

Equity's net revenues were \$3.2 billion in the quarter, up 7% year-on-year as higher intermediation results were helped by better performance in derivatives. Equity's financing revenues were \$1.4 billion, down modestly from a record performance last year, but up 5% sequentially. Taken together, financing revenues were a record \$2.2 billion for the second quarter and a record \$4.4 billion for the first-half of the year. Our strategic priority to grow financing across both FIC and equities continues to yield results as these activities increase the durability of our revenue base.

I'm moving to asset wealth management on page five. Revenues of \$3.9 billion were up 27% year-over-year. As David mentioned, our more durable management and other fees and private banking and lending revenues reached a new record this quarter of \$3.2 billion. Management and other fees increased 3% sequentially to a record \$2.5 billion, largely driven by higher average assets under supervision.

Private banking and lending revenues rose 4% sequentially to \$707 million. Our premier ultra-high net worth wealth management franchise has roughly \$1.5 trillion in client assets. This business has been a key contributor to our success in increasing more durable revenues and provides us with a strong source of demand for our suite of alternative products. A great example of the power of this unique platform. We expect continued momentum in this business as we also deepen our lending penetration with clients and grow our advisor footprint. Our pre-tax margin for the first-half was 23%, demonstrating substantial improvement versus last year and approaching our mid-20s medium term target.

Now moving to page six. Total assets under supervision ended the quarter at a record of \$2.9 trillion, supported by \$31 billion of long-term net inflows, largely from our OCIO business, representing our 26th consecutive quarter of long-term fee-based inflows.

Turning to page seven on alternatives. Alternative AUS totaled \$314 billion at the end of the second quarter, driving \$548 million in management and other fees. Rose third-party fundraising was \$22 billion for the quarter and \$36 billion for the first-half of the year. In the second quarter, we further reduced our historical principal investment portfolio by \$2.2 billion to \$12.6 billion.

On page nine, firmwide net interest income was \$2.2 billion in the quarter, up sequentially from an increase in higher yielding assets and a shift towards non-interest bearing liabilities. Our total loan portfolio at quarter end was \$184 billion, flat versus the prior quarter. For the second quarter, our provision for credit losses was \$282 million, primarily driven by net charge-offs in our credit card portfolio and partially offset by a release of roughly \$115 million related to our wholesale portfolio.

Turning to expenses on page 10. Total quarterly operating expenses were \$8.5 billion. Our year-to-date compensation ratio net of provisions is 33.5%. Quarterly non-compensation expenses were \$4.3 billion, and included approximately \$100 million of CIE impairments. Our effective tax rate for the first-half of 2024 was 21.6%. For the full-year, we continue to expect the tax rate of approximately 22%.

Next capital on slide 11. In the quarter we returned \$4.4 billion to shareholders, including common stock dividends of \$929 million and common stock repurchases of \$3.5 billion. Given our higher than expected SCB requirement, we plan to moderate buybacks versus the levels of the second quarter. We will dynamically deploy capital to support our client franchise, while targeting a prudent buffer above our new requirement.

Our board also approved a 9% increase in our quarterly dividend to \$3 per share beginning in the third quarter, a reflection of our priority to pay our shareholders a sustainable growing dividend and our confidence in the increasing durability of our franchise.

In conclusion, we generated solid returns for the first-half of 2024, which reflects the strength of our interconnected businesses and the ongoing execution of our strategy. We made strong progress in growing our more durable revenue streams, including record first-half revenues across FIC and equities financing, management and other fees, and private banking and lending. We remain confident in our ability to drive strong returns for shareholders, while continuing to support our clients.

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

## **Question-and-Answer Session**

### **Operator**

Thank you. Please stand by as we assemble the Q&A roster. [Operator Instructions] We'll take our first question from Glenn Schorr with Evercore.

### **Glenn Schorr**

Hi there. Thanks very much. So I liked your forward leaning comments on the IBC pipeline and I think I heard you say the demand for committed acquisition financing is high. Does that infer anything about us being any closer to an inflection point in private equity-related M&A, sponsor-related M&A? And then how much of an advance think you have as being maybe the big -- the only big bank that has a full on private credit platform, obviously DCM platform and lending platform? Thank you.

### **David Solomon**

Sure. Good morning, Glenn, and thanks for the question. We're forward leaning in our comments, because we definitely see momentum pick up. But I just, again, want to highlight something that was definitely my part of the script. And I think Dennis amplified, which were still despite the pickup, we're still operating at levels that are still significantly below 10-year averages.

And so for example, I think we've got kind of another 20% to go to get to 10-year averages on M&A. One of the reasons that M&A activity, one of the reasons, not the only reason, but one of the reasons why M&A activity is running below those averages is because sponsor activity is just starting to accelerate.

And so I think, especially given the environment that we're in, that you're going to see over the next few quarters into 2025 kind of a reacceleration of that sponsor activity. We're seeing it in our dialogue with sponsors. And obviously, it's been way, way below the overall M&A activity as kind of another 20% to get to 10-year averages, but sponsor has been running below that and we're starting to see that increase.

Now, as that increases, I just think the firm's incredibly well positioned, given the breadth of both our leading position. We've been top kind of one, two, three in what I'll call leverage-financed activity from a league table perspective and with the sponsor community, but we combine it with a very, very powerful direct lending private credit platform. And so I just think we're in a very, very interesting position.

The size and the scope of the companies that are out there that have to be refinanced, recapitalized, sold, changed hands, the sponsors continue to look, distribute proceeds to their limited partners, I think, bodes well over the course of the next three to five years. Different environments, but the general trend will be more activity than we've seen in the last two, 2.5 years.

### **Glenn Schorr**

I appreciate that. Maybe one quickie follow-up on, you mentioned in the prepared remarks that - in your printed prepared remarks, that real estate gains helped drive the equity investment gains in the quarter? Can you talk about how material it was and what drove real estate gains during the quarter? Thanks.

### **Dennis Coleman**

Sure, Glenn, it's Dennis. I think the important to take away from the year-over-year performance in the equity investment line is that in the prior year period, we actually had significant markdowns as we were sort of an early mover in addressing some of the commercial real estate risk across our balance sheet. And the results that reflect in this most recent quarter do not have the same degree of markdowns as in the prior period. So that is, I think, a large explain of the delta.

### **Operator**

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

### **Ebrahim Poonawala**

Good morning. I just wanted to spend some time on capital, the post, the SCB increase. One, maybe just from a business standpoint, if you could update us whether the capital requirement changes anything in terms of how the firm has been leaning into the financing business. Do you need to moderate the appetite there or business as usual? So one, how does it impact the business?

And second, Dennis, your comments on buybacks moderating, should we think more like 1Q levels of buybacks going forward? Thanks.

### **Dennis Coleman**

Sure, Ibrahim. So a couple of comments. I guess first important to observe that the level of capital that we're operating with at the moment is reasonably consistent where we've been over the last several years. So we feel that at that level of capital and with the cushion that we have heading into the third quarter, which at 90 basis points is at the wider end of our historical operating range, we have lots of capacity both to continue to deploy into the client franchise.

And with what we're seeing across the client franchise with backlog up significantly, there could be attractive opportunities for us to deploy into the client franchise, whether that's new acquisition financing as David was referencing, or ongoing support of our clients across the financing businesses. We have the capacity to do that, as well as to continue to invest in return of capital to shareholders.

Given the \$3.5 billion number in the second quarter, we thought it was advisable to indicate we would be moderating our repurchases, but we still do have capital flexibility. And based on what we see developed from the client franchise, we will make that assessment, we'll manage our capital to an appropriate buffer, but we're still certainly in a position to continue to return capital to shareholders.

### **Ebrahim Poonawala**

Got it. So assume no change in terms of how we're thinking about the financing business. And just separately in terms of sponsor-led activity, we waited all year for things to pick up. Is it a troubling sign that the sponsors are not able to monetize assets? Does it speak to inflated valuations that they're carrying these assets on? Just would love any context there, David, if you could? Thank you.

### **David Solomon**

Sure. I mean, I appreciate that. I don't think it's troubling. I wouldn't use the word troubling. But I do think that there are places where sponsors hold assets and their ability to monetize them at the value that they currently hold them leads them to wait longer and keep the optionality to have that value compound. At the same point, there's pressure from LPs to continue to turn over funds, especially longer-dated funds. And as they take that optionality to wait, the pressure just builds.

And so I think we're starting to see a bit of an unlock and more of a forward perspective to start to move forward, accept the evaluation parameters, and move forward. But I just think this is natural cycle and you're going to see a pickup in that activity for sure. I'm just not smart enough to tell you exactly which quarter and how quickly, but we are going to go back to more normalized levels.

**Ebrahim Poonawala**

Thank you.

**Operator**

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

**Betsy Graseck**

Hi, good morning.

**David Solomon**

Good morning, Betsy.

**Betsy Graseck**

Hi, can you hear me okay? Oh, okay. Sorry, [Multiple Speakers] All right. Well, thanks very much. I did just want to lean in on one question regarding how you're managing the expense line as we're going through this environment because, we've had this very nice pickup in revenues and comp ratio is going up a little bit, but I'm just wondering is this a signaling to hold for the rest of this year? Or is this just a one-off given that some of the puts and takes you mentioned on deal activity earlier on the call?

**David Solomon**

Sure, Betsy. So if you look at year-to-date change in our reviews net of provision, that is tracking ahead of the year-to-date change in our compensation and benefit expense. We are sort of following the same protocol that we always do which is making our best estimate for what you know we expect to pay for on a full-year basis and doing that in a manner that reflects the performance of the firm, as well as the overall competitive market for talent. So based on what we see we think this is the appropriate place to accrue compensation, but we'll obviously monitor that closely as the balance of the year evolves.

**Betsy Graseck**

Okay and as we anticipate a continued pick up here in M&A, given everything you mentioned earlier, I would think that, that's positive operating leverage that should be coming your way. Would you agree with that or do I have something wrong there? Thanks.

**Dennis Coleman**

No, so we are certainly hopeful that the business will continue to perform and that we will grow our revenues in line with what the current expectation is based on backlog. And we would love to generate incremental operating leverage if we perform in line with our expectations.

**Betsy Graseck**

All right. Thank you.

**Operator**

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

**Brennan Hawken**

Good morning. Thanks for taking my questions. You flagged, Dennis, the record financing revenue, which clearly shows momentum behind the business. And it would be my assumption that given rates have been more stable for quite some time now, it seems to reflect balance growth. So one, I want to confirm that that's fair? And could you help us understand how we should be thinking about rate sensitivity as it seems as though maybe a few rate cuts might be on the horizon?

**Dennis Coleman**

Sure. Thank you, Brendan. So we have been on a journey for several quarters and years in terms of committing ourselves to the growth of the more durable revenue streams within global banking and markets. We have our human capital and underwriting infrastructure set up in place. We have relationships with a large suite of clients that are frequent users of these products. The business is very diversified by sub-asset class, and it's a business that we are looking to grow on a disciplined basis. We've had an opportunity to deploy capital in a manner that is generating attractive, risk-adjusted returns. That's something that we're going to remain mindful of.

But we believe, given the breadth of that franchise, that we should be able to continue to support the secular growth that our clients are witnessing, even as various rate environments should moderate.

### **Brennan Hawken**

Okay. And then next question is really sort of a follow on from Betsy's line of questioning. So year-to-date you've got a 64% efficiency ratio. You know, when we take a step back and think about your targets and aspirations for that metric and an environment, consider an environment that seems to be improving steadily, you know, how should we be thinking about margins on incremental revenue? You know, could you help us understand how revenue growth will continue to drive improvement in that efficiency ratio?

### **Dennis Coleman**

Sure. So, thank you for that question and thank you for observing the improvement that we're seeing. Obviously, our year-to-date efficiency ratio at 63.8% is nearly 10 points better on a year-over-year basis. Still not at our target of 60%, but we are making progress. As we continue to grow our revenues, we should be able to deliver better and better efficiency. But ultimately, the type of revenues that we grow and the extent to which they attract variable or volume-based expenses is a contributing factor. But we do have visibility, for example, as we continue to move out of some of our CIE exposures that we should be able to reduce some of the operating expenses associated with that. And we do have a very granular process internally, looking at each of our expense categories on a granular basis and trying to make structural improvements to drive efficiencies over time, while we at the same time look to drive top line revenues.

### **Operator**

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

### **Mike Mayo**

Hi. I'm just trying to reconcile all the positive comments with returns that are still quite below your target. I mean, you highlight revenue growth in global banking markets and wealth and asset management. You have record financing for equities and FIC combined. You're number one in M&A. You have record management fees and record assets under supervision. Your efficiency has gone from 74% to 64%. Increase your dividend by 9% to signal your confidence, your CET1 ratios, 90 basis points above even the higher Fed requirements. David, you start off the call saying the results are solid, but then you look at the returns and you say 11% ROE in the second quarter, that's not quite the 15% where you want it to be. So where's the disconnect from what you're generating in terms of returns and where you'd like to be? Thanks.

### **David Solomon**

Yes, thanks Mike. Appreciate the question. Look, we're on a journey. And, you know, the way I look at it, our returns for the first-half of the year at 12.8%. There are, you know, I think there are a couple of things, give gets in that. One, for sure, we still have a little bit of drag from the enterprise platforms which we're working through. And so that will come out. And at some point as we work through that, over the next 12 to 24 months, we'll continue to make progress on that for the returns in the first-half of the year would be a little higher exit.

And then on top of that, as we've said repeatedly on the call and have given a bunch of information, we're still operating meaningfully below 10-year averages in terms of investment banking activity. And I think that'll come back. I obviously can't predict. But if you look at the returns of the firm, we have materially uplifted the returns of the firm. And we're going to continue to focus on that.

Now the next step to the puzzle is our continued progress in AWM. So you know and you can see the performance over the course of the last few years of global banking and markets, but we've said the AWM, ROE is not where it needs to be. You heard our comments about the fact that we've gotten the margin up to 23%, but the ROE is still around 10%. We think we can continue to grow the business. As we've said, high-single-digits, we can continue to improve the margin and ultimately bring up that AWM, ROE. And then you look across the firm and you have a stronger return profile. So I think we're making good progress. We didn't say and have not worked to do for sure. But we feel good about the progress.

### **Mike Mayo**

And I assume part of your expectation is a sort of multiplier effect when mergers really kick in. Can you just describe what that multiplier effect could potentially look like based on past cycles?

### **David Solomon**

What I would say is one of the things that should be a tailwind for further momentum in our business is a return to average levels. I'm not sitting here saying we're going to go back to periods of time where we went well above 10-year averages, but there's obviously, if we did get back to that period, and there will be some point in the future where we run above average too, and not just below average, we have a tailwind for that. But as a general matter, when there are more M&A transactions, whether with financial sponsors or big corporates, there is more financing attached to that. People need to raise capital to finance those transactions. They need to reposition balance sheets. They need to manage risks through structured transactions. And so there's a multiplier effect as those activities increase. We don't put a multiplier on it, but our whole ecosystem gets more active as transaction volumes increase on the M&A side.

### **Mike Mayo**

And then lastly, for your returns, the denominator is a big factor. How does that work with the Fed? I know you can't say too much and regional people can disagree, but your whole point is that you've de-risked the balance sheet and the company and then here we have the Fed saying that maybe you haven't done so. So how does this process work from here? Will we hear results about the SEB ahead, or is this something that's just behind closed doors?

## **David Solomon**

Look, as a general matter, what I'd say, Mike, as a general matter, we're supporters of stress testing. We believe it's an important component of the Fed's mandate to really ensure the safety and soundness of the banking system. However, we've maintained for some time that there are elements of this process that may be distracting from these goals of safety and soundness. The stress test process, as you just highlighted, is opaque. It lacks transparency. It contributes to excess volatility and the stress capital buffer requirements, which obviously makes prudent capital management difficult for us and all of our peers. We don't believe that the results reflect the significant changes we've made in our business. They're not in line with our own calculations, despite the fact that the scenarios are consistent year-over-year.

Now, despite all that, you know, we've got the capital flexibility to serve our clients. We'll continue to work with that capital flexibility and we'll also continue to engage around this process to ensure that over time we can drive the level of capital that we have to hold in our business mix down. But obviously we have more work to do given this result.

## **Mike Mayo**

All right, thank you.

## **Operator**

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

## **Steven Chubak**

Hi, Good morning. So I wanted to start off with a question. Just want to start with a question on the consumer platform fees. They were down only modestly despite the absence of the Green Sky contribution. Just wanted to better understand what drove the resiliency in consumer revenues, whether the quarterly run rate of \$600 million is a reasonable jumping off point as we look at the next quarter?

## **Dennis Coleman**

So, Steve, thank you for the question. I mean on a sequential basis, they're down, but that's because we have the absence of the Green Sky contribution. There actually is growth across the card portfolio. I think you've seen that the level of growth has slowed as we have sort of implemented several rounds of underwriting adjustments to the card originations and so our expectation is that on the forward you know the period-over-period growth should be more muted.

**Steven Chubak**

Understood and maybe just one more clarifying question. I know there's been a lot asked about the SEB. Really just wanted to better understand, Dennis, since you noted that you're running with 90 bps of cushion, which is actually above normal. Just how you're handicapping the additional uncertainty related to Basel III endgame. There's certainly been some favorable momentum per the press reports and even some public comments from regulators? But just want to better understand, given the uncertainty around both the SEB and Basel III endgame, where you're comfortable running on a CET1 basis over the near to medium term?

**Dennis Coleman**

Sure, thanks and I appreciate that question. I think obviously there's been a lot of changes, there's been some changes and expectations. And I think in highlighting that we are operating at the wider end of our range, it is to signal flexibility. And certainly embedded in that is to address some of the uncertainty which does remain with respect to Basel III endgame, both the quantum and timing of its resolution. It sounds from some of Powell's latest comments that, that may not be something that comes into effect until perhaps into 2025, but we are sort of maintaining a level of cushion that think is appropriate in light of what we know and we don't know about the future opportunity set for Goldman Sachs, but that buffer is designed to support clients return capital shareholders, while maintaining a prudent buffer with some of the lingering uncertainty with respect to future regulatory input.

**Steven Chubak**

Helpful color. Thanks for taking my questions.

**Dennis Coleman**

Thank you.

**Operator**

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

### **Devin Ryan**

All right, great. Good morning, David and Dennis. A couple questions on AWM progress. So the first one is on the alts business specifically, and you're tracking obviously well ahead of the fundraising targets relative to when you set the \$1 billion medium term target for annual incentive fees? And now with over \$500 billion in alts AUM and obviously growing, that would seem pretty conservative. So I appreciate there's a lot of work to do to generate the returns ahead here, but how should we think about the underlying assumptions for incentive fees in a more normal harvesting environment, just given the mixed shift and the growth that you're seeing in AUM there?

### **Dennis Coleman**

So Devin, I think it's a good question, and I think we share your expectation that, that's going to be a more meaningful contributor on the forward. We laid it out as one of the building blocks at our Investor Day. The contribution coming through that line since then has been not as high as we have modeled from an internal medium to longer term perspective. We do give good disclosure that the balance of unrealized incentive fees at the end of the last quarter were \$3.8 billion, so you can make you know various assumptions as to what the timing of the recognition of those fees are they can obviously you know bounce around from time-to-time it is a granular you know vehicle-by-vehicle build-up, but you know given the current outlook and status of those funds that our best expectation of what level of fees could be coming through that line over the next several years.

So I think it is an important incremental contributor and should be, you know, should help the return profile of asset wealth management on the forward, couple that with the success that we're having with ongoing alts fundraising and that will help to feed future investments and funds, which in turn will generate some backlog of potential incentive fees above and beyond what's already in the unrealized disclosures.

### **Devin Ryan**

Yes, okay, thanks, Dennis. And then follow-up, this is also kind of connected, but at a recent conference, you highlighted the margin profile of all the standalone businesses and asset and wealth management of public peers so kind of as a comparison and highlighted 35% plus for alts and some of the public firms we know are obviously well above that. So I appreciate you're running the AWM segment is kind of one segment, but if alts does accelerate and we're looking at 60% of alts AUM isn't even the fee earning yet, what does that mean for segment margins relative to kind of that mid-20% target, because you're already at 23% thus far in '24. So just trying to think about the incremental margins coming from the acceleration in growth, particularly from the alts segment as well?

**Dennis Coleman**

So that's a good question, Devin. I mean, it should be a significant unlock for us, because despite the breadth and the longevity with which we've been running our alts businesses, there is significant opportunity for us to actually improve the margin profile of the alts activities in particular relative to the overall AWM margin, particularly as we develop incremental scale by strategy. And so in addition to just overall growth in the segment, which should unlock margin improvements, actually within our portfolio of activities, the alts business, again, despite its current scale, presents a big opportunity for incremental margin contribution.

**Devin Ryan**

Great. Thank you.

**Operator**

We'll go next to Dan Fannon with Jefferies.

**Dan Fannon**

Thanks, good morning. In terms of your on-balance sheet investments, you continue to make progress in reducing that this quarter. Can you talk about the outlook for this year or any line of sight in terms of exits that we can think about?

**Dennis Coleman**

Sure. Thank you. Obviously, an ongoing commitment of ours to move down those on balance sheet exposures, also part of the equity and capital story and returns in the segment at \$2.2 billion for the quarter, that was a decent reduction. We obviously have a target out there to sell down the vast majority of that balance, which is now at \$12.6 billion by the end of next year. But our expectation is that we will continue to chip away at it across both the third and the fourth quarter of this year and then on into 2025. There's really no change on our commitment to sell down the vast majority of that by the end of next year.

**Dan Fannon**

Understood. And as a follow-up, just within asset and wealth, particularly on the alts side, the fundraising target raised for the full-year given the success you've had. The private credit fund closing here in the first-half was big. Can you talk to some of the other strategies that have the potential to scale as you mentioned earlier and/or maybe are a little bit smaller that have really large or increasing momentum as you think about second-half, but also as we even into next year?

**Dennis Coleman**

Sure. So, you know, obviously taking a step back, you're talking about the targets that we set, you know, once upon a time it was \$150 billion, we moved it to \$225 billion. It's now at \$287 billion and with \$36 billion raised through the first-half and us expecting to surpass \$50 billion, that means we should be north of \$300 billion by the end of this year. And I think one of the things that we find attractive about our platform is that we have opportunities to scale across multiple asset classes within alternatives, equity, credit, real estate, infrastructure. We had notable fundraisings in private credit and real estate this quarter, but you can see contribution from other strategies like equity on the forward and a number of different strategies, both by asset class and by region. So we think we have a diversified opportunity set to continue to scale the alts platform.

**Operator**

Thank you. We'll go next to Matt O'Connor with Deutsche Bank.

**Matt O'Connor**

Good morning. I was wondering if you could just elaborate a bit on the competitive landscape specifically in banking and markets. I know it's always competitive, but some of the really big bank peers, you know, are leaning in who haven't been a few years ago. And all these regional banks that I cover are also realizing that they need broader cap and market capabilities. So you're obviously an industry leader in a lot of the areas across banking and markets. And I'm just wondering how you're seeing the competition impact you at this point?

### **David Solomon**

Sure, Matt, and I appreciate the question. I just say, you know, investment banking and the markets business, the trading business, they've always been competitive businesses. I think our integrated One GS approach is a very, very competitive offering. I mean, we can have debates, but it's, I think, one of the top two offerings out there, depending on how you look at it what you look at. There's always going to be competition there are always going to be people that come in and make investments in niche areas, but broadly speaking you know we've had leading M&A share for 25-years. We have leading share in capital raising for an equivalent period of time. We've continued to invest in our debt franchises over the last more than decade. An then our trading businesses and our ability to intermediate risk I think have been second to none or viewed as second to none for a long, long time.

And so the combination of our focus on serving our clients, making sure we're giving them the right resources, both human capital and financial capital, to accomplish what they need to accomplish, the fact that we have global scale positions is very well. They'll always be competitors, but I like where our franchise sits. And I don't see any reason why we shouldn't be able to continue to invest in it, strengthen it, and continue to have it operating as a leader in what's always been and will continue to be a very competitive business.

### **Matt O'Connor**

Okay helpful, it's unagreed. And then just separately, I hate to ask you about activity levels and stuff like that since the debate three, four weeks ago, but maybe I'll frame it. From your experience in presidential election periods like this, where there's maybe just more uncertainty than normal, like how do both institutional and corporate clients react? Do they kind of say, well, let's wait and see the other side? Is it just noise, because we've been going through it for some time here, but what are your thoughts on that? Thank you.

## **David Solomon**

There are always exogenous factors that affect corporate activity and institutional client activity. I don't have a crystal ball, so I can't see what the next 100 days leading up to our election will bring, but I think we're well positioned to serve our clients, regardless of the environment. And clients are very active at the moment, and I think they're probably going to continue to be active.

## **Matt O'Connor**

Thank you.

## **Operator**

We'll take our next question from Gerard Cassidy with RBC.

## **Gerard Cassidy**

Thank you. Good morning, David. Good morning, Dennis. David, you said in your opening comments that you took the board out to Silicon Valley and you were impressed with the artificial intelligence and what we could expect in the future and the opportunities for Goldman to be able to finance some of the infrastructure needs that may come of that? Can you share with us the artificial intelligence that you guys are implementing within Goldman and how it's making you more productive, generating maybe greater revenues or even making it more efficient?

## **David Solomon**

Sure, I mean, at a high level, Gerard, we as most companies around the world are focused on how you can create use cases that increase your productivity. And if you think about our business as a professional service firm, a people business, where we have lots of very, very highly productive people creating tools that allow them to focus their productivity on things that advance their ability to serve clients or interact in markets is a very, very powerful tool. So, you know we you know if you look and you think across the scale of our business I think you can think of lots of places where the capacity to use these tools to take work that's always been done on a more manual basis and allow the very smart people to do that work to focus their attention on clients are quite obvious.

You can look at it in an area like the equity research area as every quarter. You're all analysts on the phone. There's lots of ways that these tools can leverage your capacity to spend more time with clients. You think about our investment banking business and the ability in our investment banking business to have what I'll call the factory of the business prepare information, thoughtful information for clients, the revolution's there. When you look at the data sets we have across the firm and our ability to get data and information to clients, so that they can make better decisions around the way they position in markets, that's another obvious use case. For our engineering stack and we have close to 11,000 engineers inside the firm, the ability to increase their coding productivity is meaningful.

So those are a handful. There are others. We have a broad group of people that are very focused on this. But again, I'd step back. Well, this will increase our productivity. The thing that we're most excited about is all businesses are looking at these things and are looking at ways that it adapts and changes their business. And that will create more activity in a tailwind broadly for our businesses. People will need to make investment, they'll need financing, they'll need to scale. And so we're excited about that broad opportunity.

### **Gerard Cassidy**

Very good. And then as a follow-up, Dennis, you talked about credit, and it was impressive that you didn't have any charge-offs in the wholesale book. Can you give us some color on what you're seeing there? It seems like there must be some improvement since obviously you didn't have any charge-offs in the wholesale book?

### **Dennis Coleman**

Sure. Thanks, Gerard. As you observe, the charge-off rate for us in the wholesale is approximately 0%. What we did see in this quarter was release, and we've been able to improve some of our models and be able as a consequence to release some of the provisions in the wholesale segment. So while that was a contributing benefit to sort of call it the net PCL of the quarter with consumer charge-offs offset by that wholesale release, that's not necessarily something that we would expect to repeat each quarter in the future. And although we manage our credit and our wholesale risk very, very diligently and consistently, it is more likely the case that we will have some degree of impairments given our size and scale and representation in the business. But we're pleased that the overall credit performance in terms of charge-offs is about 0%.

**Gerard Cassidy**

Thank you.

**Operator**

We'll go next to Saul Martinez with HSBC.

**Saul Martinez**

Hi, good morning. Thanks for taking my question. Just a follow-up on capital, I mean, it certainly is encouraging that your CET1 ratio rose 20 bps in a quarter where you bought back \$3.5 billion of stock and you did have a -- I think, a \$16 billion reduction in RWA as your presentation talks about credit RWA is falling this quarter? I guess, can you just give a little bit more color on what drove that reduction? And I guess more importantly, is there continued room for RWA optimization from here to help manage your capital levels?

**Dennis Coleman**

Sure, thanks, Saul. I appreciate that question. Capital optimization, RWA optimization, is something that we've been committed to for a very long period of time. On the quarter, there were reductions both in credit and market risk RWAs. Drivers included less derivative exposure, reduced equity investment exposure and in some places lower levels of volatility. We try to get the right balance between deploying on behalf of client activity, as well as being efficient and rotating out of less productive activities or following through on our strategic plan to narrow focus and reduce balance sheet exposure. So that is something that was contributed to quarter-over-quarter benefit despite the buyback activity we executed. And it's something we'll remain very focused on just given the multiplicity of binding constraints that we operate under.

**Saul Martinez**

Thank you, that's helpful. And maybe a follow-up on financing, FIC financing up 37% equities, the equity financing, now something close to 45% of all of your equity sales and trading revenues. I guess how much more room is there, or how should we think about sort of the size of the opportunity set, you know, to continue to grow from here? How much more space is there, you know, to use finding a thing as a mechanism to help deepen penetration with your top institutional clients?

**Dennis Coleman**

That's a good question, Saul. I think on the FIC financing side, as I indicated, we do think that we are helping clients participate in the overall level of growth that they're seeing in their businesses. And you know, we think based on what we see currently, that we can calibrate the extent of our growth based largely on how we assess the risk return opportunities that across the client portfolio. So we're being disciplined with respect to our growth, but trying also to support clients in their growth and drive a more durable characteristic across the GBM business.

In equities, the activity and the balances, et cetera, obviously have benefited from equity market inflation over the course of the year, but it's also an activity that we remain committed to in terms of supporting clients. And clients look to us on a holistic basis really across both FIC and equities to ensure that across all of the activities they're doing with us that we're finding some balance between helping them through financing activities, helping them with intermediation, helping them with human capital. So both of those activities are part of more interconnected activities with clients and something that we remain very focused on and think we can continue to grow.

### **Saul Martinez**

Okay, great, thank you.

### **Operator**

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

- Read more current GS analysis and news
- View all earnings call transcripts