DOW JONES

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Not So Fast, a Wall Street Skeptic on A.I. Warns

By Tripp Mickle
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Jim Covello, Goldman Sachs's head of stock research, warned that building too much of what the world doesn't need ''typically ends badly.''

As Jim Covello's car barreled up Highway 101 from San Jose to San Francisco this month, he counted the billboards about artificial intelligence. The nearly 40 signs he passed, including one that promoted something called Writer Enterprise **AI** and another for Speech **AI**, were fresh evidence, he thought, of an economic bubble.

''Not that long ago, they were all crypto,'' Mr. Covello said of the billboards. ''And now they're all A.I.''

Mr. Covello, the head of stock research at Goldman Sachs, has become Wall Street's leading A.I. skeptic. Three months ago, he jolted markets with a research paper that challenged whether businesses would see a sufficient return on what by some estimates could be $1 trillion in A.I. spending in the coming years. He said generative artificial intelligence, which can summarize text and write software code, made so many mistakes that it was questionable whether it would ever reliably solve complex problems.

The Goldman paper landed days after a partner at Sequoia Capital, a venture firm, raised similar questions in a blog post about A.I. Their skepticism marked a turning point for A.I.-related stocks, leading to a reassessment of Wall Street's hottest trade.

Goldman's basket of A.I. stocks, which is managed by a separate arm of the firm and includes Nvidia, Microsoft, Apple, Alphabet, Amazon, Meta and Oracle, has declined 7 percent from its peak on July 10, as investors and business leaders debate whether A.I. can justify its staggering costs.

The pause has come early in the A.I. arms race. The tech industry has a history of spending big to deliver **technology** transitions, as it did during the personal computer and internet revolutions. Those build-outs spanned five years or more before there was a reckoning.

But Mr. Covello, 51, has experience with tech booms and busts. He followed the bursting of the dot-com bubble as a semiconductor analyst and was scarred by watching colleagues lose their jobs. More recently, the Goldman veteran joined an internal team that has been evaluating A.I. services for the firm to use. He said the services he reviewed were costly, cumbersome and not ''smart enough to make employees smarter.''

The industry's history has led some people to say Mr. Covello's call for caution is premature. Shortly after Goldman's paper was published, George Lee, co-head of the firm's geopolitical advisory business, challenged Mr. Covello in an email, saying A.I. was poised to save workers time and improve their productivity. Mr. Lee urged him to be patient.

''The long-term impact of platform shifts is that applications emerge over time as that **technology** is refined, made more readily available, made cheaper,'' Mr. Lee said in an interview, speaking about the email.

Goldman's clients asked to hear more. At their request, the firm began hosting private bull-and-bear debates with Mr. Lee, as the bull, outlining his optimism about A.I., and Mr. Covello, as the bear, explaining his pessimism.

The conversation was overdue, said Jim Morrow, chief executive of Callodine Group, a Boston-based client of Goldman. ''A.I. had captured the market zeitgeist,'' he said. ''Having someone from a firm like Goldman ring the bell and say, 'Hey, it won't become a reality the way everyone thinks' had people asking important questions about what was actually happening.''

Mr. Covello was born to be a skeptic. Before he left for Georgetown University, where he would become the first person from his Philadelphia family to go to college, his father questioned him about whether a four-year degree could ever justify its cost. Then, as a first baseman on the university's baseball team, he used that same skeptical eye in the batter's box while averaging a respectable .270.

In 2000, he joined Goldman Sachs as tech analyst. That summer, the firm gathered at a vineyard in Napa Valley for an enthusiastic company meeting about the tech industry. But the internet boom, which had already crested, began to crash in the months that followed.

A few companies like Google and Amazon survived and became fabulously wealthy, but Mr. Covello fixated on the carnage. "It was a very scary time," he said. "I didn't know if I was still going to have a job."

Mr. Covello kept his job. At the time, Goldman was reducing its costs by replacing experienced analysts with younger employees. It promoted Mr. Covello to be its lead semiconductor analyst in 2001 and elevated him to be the head of global equity research in 2021.

After the release of ChatGPT in 2022, the tech industry started comparing A.I.'s arrival to the dawn of the public internet. The comparison caught Mr. Covello's attention. "That's not what anybody should be rooting for," he said, recalling the millions of jobs that were lost.

To create A.I. businesses, experts predicted, $1 trillion would be spent on data centers, utilities and applications. Mr. Covello thought those costs made it impossible for the industry to inexpensively solve real-world problems, which is what internet companies did decades ago.

As a member of Goldman's working group on A.I., he reviewed a service that used generative A.I. to automatically update analysts' spreadsheets with companies' financial results. He said it saved his analysts about 20 minutes of time per company but cost six times as much money.

Word of Mr. Covello's skepticism spread at the firm. Allison Nathan, who edits a monthly research report called "Top of Mind," was planning an issue on A.I. On a colleague's recommendation, she met with Mr. Covello.

"For about 35 minutes, I was transfixed with his narrative and his views," she said.

Ms. Nathan decided to interview Mr. Covello for the report. The conversation helped frame the 31-page report's title, "Gen **AI**: Too Much Spend, Too Little Benefit?"

Mr. Covello challenged the notion that the costs of A.I. would decline, noting that costs have risen for some sophisticated technologies like the machines that make semiconductors. He also criticized A.I.'s capabilities.

"Overbuilding things the world doesn't have use for, or is not ready for, typically ends badly," he said.

It was one of the most well-read reports in the publication's 12-year history.

At Goldman's annual tech conference this month in San Francisco, the firm put Mr. Covello and Mr. Lee before a few hundred people to explain their diverging views on A.I. Mr. Covello focused on the **technology**'s shortcomings, citing a Business Insider article about a pharmaceutical company that canceled its Microsoft A.I. services after finding the capabilities on a par with "middle school presentations."

Mr. Lee shook his head. He highlighted a Princeton University paper that found that A.I. helped 5,000 developers across 100 companies achieve a 20 percent productivity increase.

"It's not perfect," Mr. Lee said. But he added, "People are picking up dimes of productivity savings."

Some people in the audience questioned whether Goldman was covering its bases by spotlighting its in-house A.I. pessimist at a conference headlined by A.I. evangelists like Jensen Huang, the chief executive of Nvidia, the world's leading maker of A.I. chips. But many people considered the debate constructive.

"It was an updated version of the question: 'If you build it, will they come?'" said David Readerman, a portfolio manager at Endurance Capital Partners.

Mr. Covello predicts that the A.I. boom will lose steam when the companies that are adopting the **technology** cut spending after their profits dip. He doesn't think that will set off another dot-com recession. But each day, he is reassessing his position.

"When you have a view that's sort of out on a limb, you live in this kind of constant state of paranoia that A.I. is going to be as big as everybody thinks it is," he said. "So I am genuinely on the lookout every single day for my blind spots. Where could I be wrong?"

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THE WALL STREET JOURNAL.

EXCHANGE --- The Score / The Business Week in 6 Stocks: Goldman Comes Back, Trump Media Surges

By Francesca Fontana
520 words
20 July 2024
The Wall Street Journal
J
B2
English

TAIWAN SEMICONDUCTOR MANUFACTURING CO.

TSM -8%

Former President Donald Trump took aim at Taiwan's dominance in semiconductors, which weighed on chip stocks Wednesday. In a Bloomberg Businessweek interview published Tuesday, the Republican presidential nominee said Taiwan should pay for U.S. military support and questioned U.S. subsidies for a TSMC factory. He said the country took "about 100% of our chip business." The comments sparked a selloff in shares of Taiwan's TSMC, the biggest contract chip maker in the world. The following day, TSMC raised its sales outlook and posted better-than-expected quarterly profit, as demand for its advanced chips continued to surge amid enthusiasm for artificial intelligence. American depositary shares of TSMC sank 8% Wednesday.

GOLDMAN SACHS

GS +2.6%

Goldman Sachs on Monday posted a 21% increase in investment-banking revenue in the second quarter, joining many of its peers with double-digit gains as dealmaking recovers. Since the firm decided to wind down its consumer-lending business, Goldman has refocused on its Wall Street operations. The bank's overall profit increased 150% from a year ago -- when it took losses from its consumer-lending exit -- to $3.04 billion. Goldman shares advanced 2.6% Monday.

CROWDSTRIKE

CRWD -11%

A massive tech outage swept the globe Friday. A software update from **cybersecurity** firm CrowdStrike disrupted millions of users of Microsoft Windows devices, with the widespread outages affecting financial firms, media companies, airlines and other businesses globally. In the U.S., many 911 and nonemergency call centers were affected by the outages. CrowdStrike Chief Executive George Kurtz said that a fix had been deployed. CrowdStrike shares declined 11% Friday.

TRUMP MEDIA & **TECHNOLOGY**

DJT +31%

Donald Trump's social-media company rallied during the first trading session that followed the July 13 assassination attempt on the former president. Trump Media & **Technology** shares surged roughly 31% Monday. The rally was part of a resurgence of the so-called "Trump trade," affecting assets linked to the former president as investors digest the odds of a Trump victory in the November presidential election.

DOMINO'S PIZZA

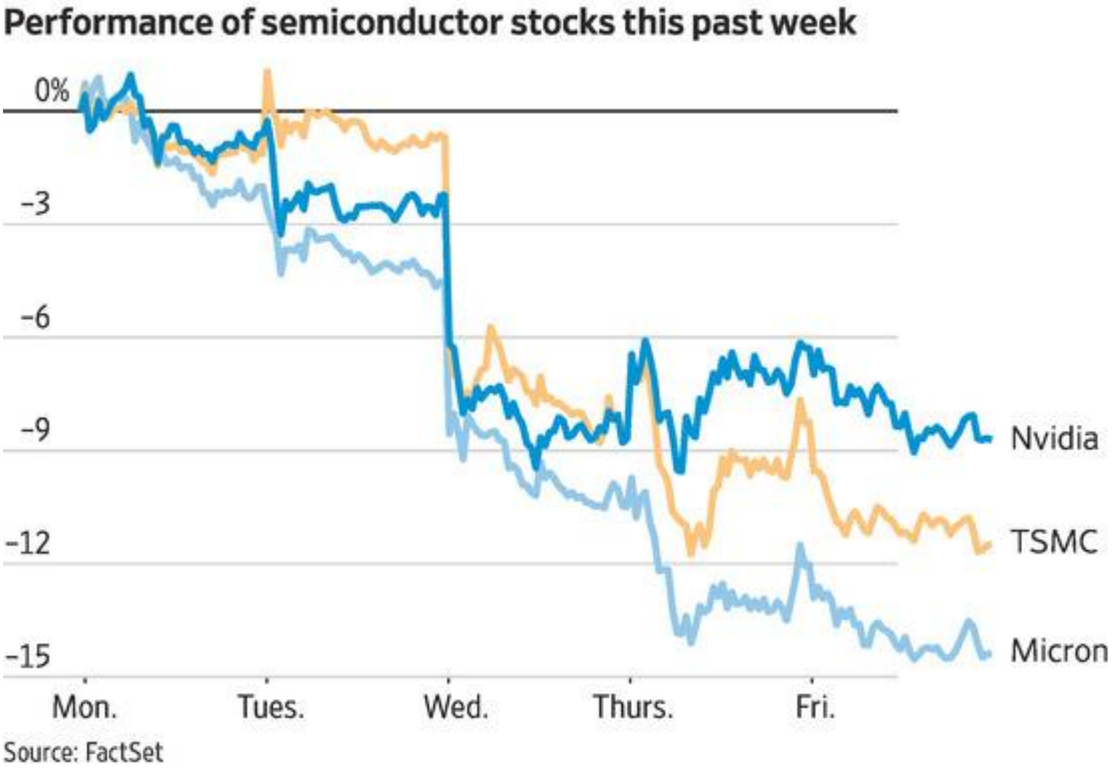
DPZ -14%

The world's biggest pizza chain warned that it would open substantially fewer new locations this year than previously anticipated, slashing its forecast for store openings worldwide by up to 25%. The Australia-based master franchisee Domino's Pizza Enterprises said Wednesday it was closing dozens of stores in Japan and France, as it reviews the performance of its entire business. Domino's shares plummeted 14% Thursday, and the stock was the worst performer in the S&P 500.

MACY'S

M -12%

Macy's ended months of discussions with Arkhouse Management and Brigade Capital Management, which had offered to take the company private for about $6.9 billion. Companies like Macy's and Nordstrom have been battling shrinking sales for years. Macy's said the investors' latest proposal "fails to provide compelling value" to its shareholders and distracts management from turning the company around. Macy's shares plummeted 12% Monday.



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THE WALL STREET JOURNAL.

Goldman Scores Lift From Revival in Deals

By AnnaMaria Andriotis and Justin Baer
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J
A1
English

Goldman Sachs posted a 21% increase in investment-banking revenue in the second quarter from a year ago, joining a slew of other big banks with double-digit gains as dealmaking on Wall Street accelerated.

JPMorgan Chase, Citigroup and Wells Fargo reported last week jumps in investment-banking revenue. More favorable economic conditions and booming markets gave corporate executives the confidence to pursue mergers, refinance debt and issue stock.

"From what we're seeing, we are in the early innings of a capital markets and M&A recovery," Goldman Chief Executive David Solomon said on a call with analysts on Monday.

Goldman's overall profit increased 150% from a year ago, when the bank took losses from its consumer-lending exit, to $3.04 billion.

The stock market, which touched records in June, helped the banks' trading desks and gave a lift to their asset- and wealth-management businesses, which handle investment funds and oversee accounts for institutions and wealthy individuals.

Goldman has refocused on its Wall Street operations after deciding to exit from consumer lending and reported a 27% revenue jump in its asset- and wealth-management business. Both JPMorgan and Wells Fargo posted 6% revenue increases in their asset- and wealth-management businesses, while Citi's wealth-unit revenue was up 2%. All four banks reported higher trading revenue.

A more stable outlook for interest rates is giving bankers renewed hope that dealmaking is emerging from a two-year drought.

Still, they remain hyper-aware that an economic setback or political upheaval could derail activity at any moment.

Global M&A volumes, while up about 8% in the second quarter from a year ago, are still below those of the deal boom coming out of the pandemic. Global M&A volume was about $800 billion in the second quarter, compared with $1.2 trillion and $1.5 trillion in the second quarters of 2022 and 2021, respectively, according to Dealogic.

The largest deal so far this year was Capital One's $35 billion agreement to buy Discover Financial, and a string of deals in the oil patch have kept bankers busy.

In a sign of companies' increasing appetite for deals, Google is in talks to purchase **cybersecurity** startup Wiz for around $23 billion, in what would be its largest acquisition ever, The Wall Street Journal reported on Sunday.

Also helping is the fact that private-equity firms that have been on the sidelines are starting to unload their investments, Solomon said, a trend he expects to continue.

JPMorgan, Citigroup and Wells Fargo reported increases in investment-banking revenue of 46%, 60% and 38%, respectively, in the second quarter from a year earlier.

Goldman's investment-banking revenue increased 21%, though it was down from the bank's first quarter this year, as were Citi's and Wells Fargo's. This marks the second consecutive quarter of year-over-year growth in Goldman's investment-banking fees following two years of mostly declines. Solomon said the firm's investment-banking backlog increased significantly.

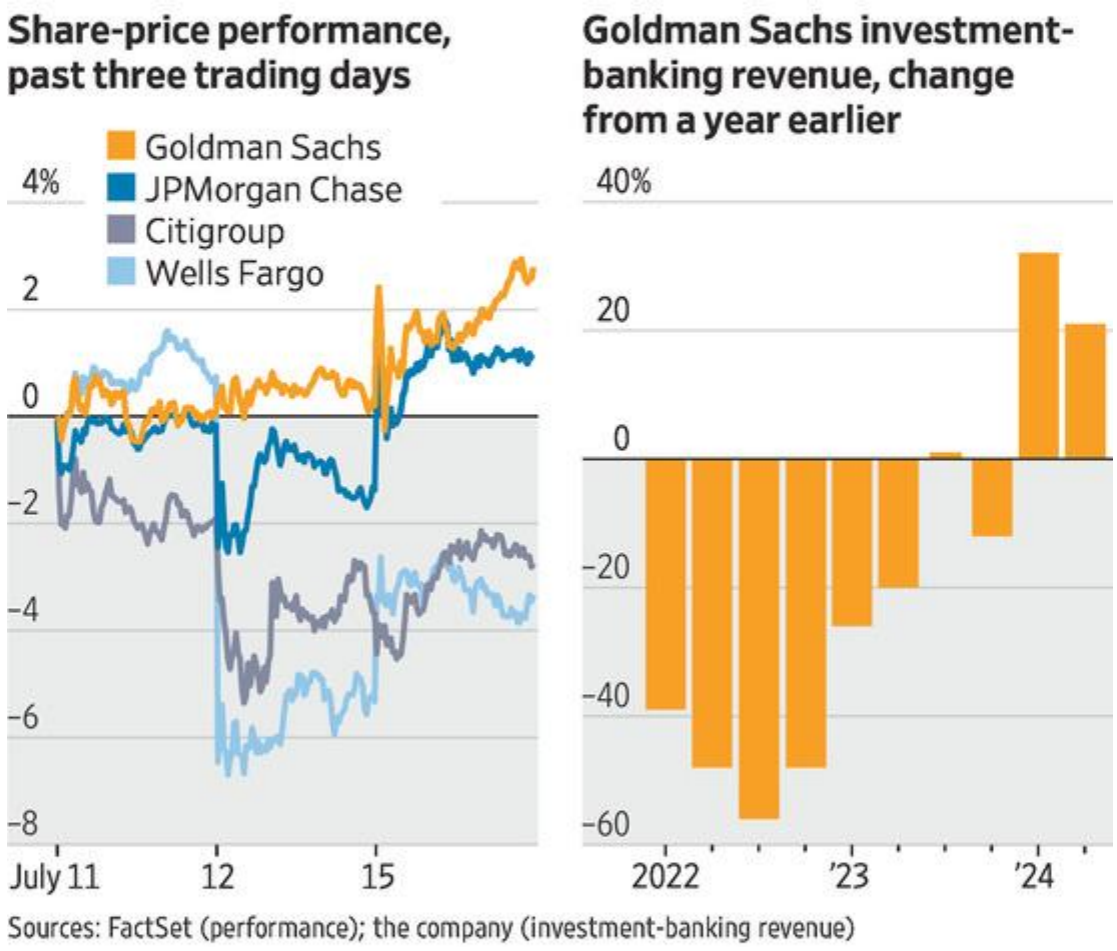
Still, JPMorgan finance chief Jeremy Barnum said Friday that part of the bank's jump in M&A fees was from some deals getting concluded earlier than expected. He cautioned against viewing the quarter's trend as an overall market dynamic. "We remain cautiously optimistic about the pipeline, although many of the same headwinds are still in effect," Barnum said.

Meanwhile, trading revenue at Goldman totaled $6.35 billion, up 12%, helped by lending to institutional clients. Goldman has been pushing into this type of lending, which offers more predictable revenue. The company views this as a way to get a bigger share of clients' overall business and create a stickier relationship with them.

Goldman's results Monday showed how crucial its asset- and wealth-management business is to the firm's overall profit and revenue. Management and other fees from asset and wealth management hit a record for the firm in the second quarter, increasing 8% from a year earlier to $2.54 billion.

As part of its yearslong overhaul of this division, Goldman has been focused on generating a steady stream of fees off managing client investments and money. Goldman wants those fees to help offset lulls in investment banking and trading.

Goldman shares closed up 2.6% Monday. They've risen roughly 27% so far this year.



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THE WALL STREET JOURNAL.

Markets & Finance -- Tuesday's Markets: Goldman Sachs, ICE, Other Financials Spark S&P 500

By Ryan Dezember
464 words
10 July 2024
The Wall Street Journal
J
B11
English

Financial firms nudged the S&P 500 to a record, a rare day lately when a sector other than **technology** led the broad stock index higher.

Shares of Goldman Sachs Group and Intercontinental Exchange ended the session at records, while an additional six banks and finance companies in the S&P 500 closed at their highest prices in at least a year. JPMorgan, Citigroup, and Bank of America are among the big firms scheduled to disclose spring-quarter earnings on Friday.

The S&P 500 gained less than 0.1% to set its 36th record this year. The tech-heavy Nasdaq Composite added a little more than 0.1% to also notch a record. The Dow Jones Industrial Average declined 0.1%, or about 53 points.

Tuesday started out as another day with chip makers and other firms with an angle on the artificial-intelligence boom leading the way. **Technology** stocks turned lower, while Treasury yields and shares of banks rose following Federal Reserve Chairman Jerome Powell's midmorning remarks to Congress.

Powell told the Senate Banking Committee that recent employment data suggest the labor market has "cooled considerably." He said the central bank is weighing the potential that high rates wreck the economy and cause excessive unemployment against the risk of reigniting inflation with rates cut too soon.

Lindsay Rosner, head of multisector investing at Goldman Sachs Asset Management, said the Fed has successfully brought inflation down toward its targeted levels without too much damage to the economy. She said the central bank will likely cut rates in September, as the market has priced in.

"It is absolutely a soft landing," she said. "That may not have been something thought possible by many market participants in the beginning of the year, but as the data has come through that is absolutely what we're seeing."

Treasury yields rose following Powell's remarks but eased in afternoon trading. The yield on benchmark 10-year notes ended at 4.297%, up from 4.267% on Monday. Yields rise as prices fall.

Investors and central bankers will get the next read on inflation Thursday when the Labor Department is scheduled to publish consumer prices for June.

U.S.-listed shares of BP shed 4.8% after the U.K. energy giant warned that weak oil trading and lower refining margins would hurt earnings. CSX lost 2.7% after Wall Street analysts trimmed earnings estimates.

Overseas, Japan's Nikkei 225 closed 2% higher at a record Tuesday and added an additional 0.1% at midday Wednesday. France's CAC and Germany's Dax shed 1.6% and 1.3%, respectively, on Tuesday. S&P 500 futures were up 0.1% early Wednesday.

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THE WALL STREET JOURNAL.

Goldman Buys TAIT Stake

By Colin Kellaher
157 words
10 July 2024
The Wall Street Journal
J
B2
English

Goldman Sachs has struck a deal to acquire a majority stake in TAIT, the entertainment company that engineered the staging for Taylor Swift's blockbuster "Eras Tour."

TAIT on Tuesday said that the private-equity arm of Goldman Sachs Asset Management's alternative-investments platform is buying a majority stake in the Lititz, Pa., company from affiliates of Providence Equity Partners and other investors for an undisclosed amount.

Bloomberg last week reported that TAIT was exploring a potential sale that could value the company at about $1.3 billion.

TAIT, which designs and builds concert-touring infrastructure, said its management team would continue to lead the company and would remain significant shareholders.

Providence, which focuses on media, communications, education and **technology** companies across North America and Europe, invested in TAIT in 2019.

Goldman Sachs Alternatives' private-equity business, launched in 1986, has invested more than $75 billion since its inception.

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