DOW JONES

Goldman Seeks Wider Reach in Apple Tie-Up 2

Stock Picking Makes Comeback In Market Turmoil 4

Goldman Scouts Out Fintech Businesses 6

EXCHANGE --- Where Six Investors Think the Markets Are Going --- Amid high inflation, a crypto crash and stock swings, the pros outline... 7

Business News: Deal Creates New Investment Firm --- MSD Partners and BDT unite to serve family- and founder- led business owners 14

Goldman Pushes Engineers Into Light 16

Goldman To Reach Consumers Its Own Way 17

Goldman Profit Slides 43% As Bank Details Big Shake-Up 19

As Goldman Restructures, Profits Fall 22

Goldman to Combine Businesses Into 3 Units 24

Peloton Ex-CEO Faced Margin Calls 25

THE WALL STREET JOURNAL.

Goldman Seeks Wider Reach in Apple Tie-Up

By AnnaMaria Andriotis
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English

Goldman Sachs Group Inc. has scaled back plans to provide banking services for the masses. On its own, at least.

For years, Apple Inc. has been asking big U.S. banks to allow their customers to view deposit-account balances on its digital wallet, according to people familiar with the matter. The banks largely have declined, the people said, wary of ceding the customer experience to Apple and becoming simply the financial plumbing behind the scenes.

But Goldman has been happy to oblige.

A relative newcomer in consumer banking, the Wall Street giant has expanded and extended a partnership with Apple that began a few years ago with a credit card. Goldman is working on a high-yield savings account for Apple cardholders. It is also going to provide some of the back-end services that will allow Apple to offer "**buy now**, **pay later**" plans.

The partnership reflects Goldman's revamped approach to consumer banking, a business it launched a few years ago to great fanfare that has yet to turn a profit. The bank has abandoned plans to build a full-service consumer bank in favor of providing banking services to wealth-management customers and through partnerships with companies such as Apple.

Banks and **technology** companies have been in a heated race for years to build a financial super app -- one that offers banking, payment and investing services. Facebook, now known as Meta Platforms Inc., tried and failed to build a futuristic cryptocurrency network. Google last year abandoned a plan to pitch checking accounts to users of its digital wallet.

"There's absolutely an opportunity to reshape how people interact with financial institutions," said Bob O'Donnell, president at TECHnalysis Research, a market-research firm. "Everything is done on the phone, so why wouldn't the financial management piece also happen on the phone?"

Apple, piggybacking off its ultra-popular iPhone and Apple Pay service, is trying to pull ahead of the pack. The idea is to build a **technology** ecosystem that satisfies people's many daily financial needs all in one place.

"It's driving loyalty and engagement with the iPhone and maybe the iPad -- it's about the Apple ecosystem," said Ron Shevlin, chief research officer at Cornerstone Advisors, a banking and **fintech** advisory firm.

But Apple can't do much without the cooperation of banks like Goldman. In October, the companies unveiled plans for the high-yield savings account where Apple Card customers would be able to deposit funds and earn interest on their cash-back rewards. The account will be separate from Goldman's own high-yield savings account, known as Marcus.

Apple also sees big potential in **buy now**, **pay later** plans -- whose popularity has soared in recent years. Apple will connect to merchants through the Mastercard Inc. network. Goldman will serve as the sponsor, essentially issuing a card number that merchants will receive when consumers pay using the service.

The arrangement is in keeping with Goldman's broader plans to expand into payments. The bank has sought to position itself as a **technology** player behind the scenes, according to people familiar with the matter, rather than a brand in its own right.

That is just what Apple was looking for when it sought a bank partner for its credit-card program a few years ago. The tech giant wanted more control over certain aspects of the program than many issuers were willing to give, people familiar with the matter said. For example, people apply for the card through Apple; the application isn't available on Goldman's website, though the bank is responsible for evaluating potential borrowers.

Apple's insistence on controlling the customer experience has turned off other banks.

Apple Pay, for example, is the default tap-to-pay option for the iPhone. That has prevented banks from launching or growing their own payment wallets. JPMorgan Chase & Co. shut down its Chase Pay service last year, in part because of the iPhone limitations, people familiar with the matter said. Capital One Financial Corp., too, has pulled plans for its own wallet, in part because of Apple Pay, the people said.

A recent proposed class-action lawsuit brought by several credit unions accused Apple of violating antitrust law in restricting access to **technology** that could be used to enable other wallets on Apple devices.

Banks also have been trying to keep Apple Pay from becoming a bigger player in payments, including with the recent rollout of tap-to-pay debit and credit cards that compete directly with the service. The decision to introduce the **technology** was partly spurred by a desire to make it as easy to use cards in stores as it is to use Apple Pay, according to people familiar with the matter.

Some of the same banks that rushed to work with Apple Pay when it first rolled out in 2014 now regret that decision, The Wall Street Journal previously reported, because of the fees they pay on card purchases made using the wallet.

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THE WALL STREET JOURNAL.

Stock Picking Makes Comeback In Market Turmoil

By Hardika Singh
825 words
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B13
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It is finally a good time to be a stock picker.

About 55% of actively managed large-cap mutual funds are on pace to beat their benchmarks this year, according to an analysis by Goldman Sachs Group Inc. through Nov. 16. That would mark the largest share since 2007, when 71% of funds did so.

Stock pickers had a tough time during the decade after the 2008 financial crisis, as a monster run in big **technology** stocks powered a bull market that drove major indexes to dozens of highs.

Stocks such as Apple Inc., Amazon.com Inc. and Microsoft Corp. became so big that they dominated the S&P 500, which is weighted by market value. Investors poured money into passive investments that tracked the index, earning easy returns as those shares soared. Stock pickers who actively managed their funds struggled to compete.

Conditions have since changed.

Red-hot inflation, higher interest rates and worries about a potential recession have created new winners and losers in the stock market. Investors have bailed out of big tech stocks and instead snapped up shares of energy companies and other defensive stocks that stand to fare better in a downturn.

Those shares, however, have a much smaller influence on the direction of the broader market. With **technology** displaced from the market's leaderboard, the percentage of stocks outperforming the S&P 500 as of Monday was the highest in roughly two decades, according to Dow Jones Market Data.

That has opened a window for stock pickers, many of whom have still suffered losses, even if they squeaked past their benchmarks. Actively managed U.S. open-end funds had a negative total return of 5.8% through November, according to Morningstar Direct.

"Buy an exchange-traded fund and everything is going to go well -- that's not going to work anymore," said Justin Burgin, head of equity research at Ameriprise Financial. Mr. Burgin said investors have to find attractive stocks instead of just buying and holding an index fund.

The S&P 500 has fallen 20% in 2022 and is on pace for its worst year since 2008. (An equal-weighted version of the index that gives the same status to both the smallest and largest companies is down a more modest 14%.)

The outlook for next year remains murky as well. Although inflation has begun to cool, Federal Reserve Chair Jerome Powell reiterated last week that the central bank isn't done lifting rates and said he expects them to rise higher next year than previously forecast.

Higher rates have sapped the appeal of tech and other growth stocks because they lower the future value of their projected earnings. Apple shares have fallen about 26% in 2022, Amazon has lost 49% and Microsoft has slumped 28%.

Many investors say the tech industry's hardships often filter through the economy.

"This is the most expected recession I've ever seen in my career, and it's going to shock people when it actually happens," said Michael Kelly, global head of multiasset at PineBridge Investments. Mr. Kelly said investors should buy stocks, such as those of energy companies and long-duration growth stocks, that can power through a recessionary environment.

Some of the market's biggest winners in 2022 include Exxon Mobil Corp., up 74%; gas and power company PG&E Corp., up 31% and fertilizer manufacturer CF Industries Holdings Inc., up 32%.

Analysts say they expect active strategies to extend their dominance next year, largely because the S&P 500 is still top-heavy.

The five largest companies represent more than 20% of the index, above the peak levels during the tech bubble, according to Bank of America analysts.

Still, passive funds account for 55% of all assets under management at U.S. exchange-traded funds and mutual funds, Goldman Sachs data show. And investors have poured a net $520 billion in U.S.-based passively managed open-end funds and ETFs this year, while pulling $805 billion from actively managed funds, according to Morningstar Direct data through November.

"You need to check your weights, you need to better manage risk in the portfolio because all of that has mattered again," said Matt Orton, chief market strategist at Raymond James Investment Management. "You were able to just buy Apple or Amazon or Tesla [Inc.] and you know your risk-adjusted returns were great because the stocks only moved in one direction."

Despite their change in fortunes this year, many investors are hesitant to turn their back on **technology**.

Mr. Burgin from Ameriprise said he wouldn't bet against Microsoft and Apple because of the ubiquity of their products. His firm, for example, uses Microsoft Teams and other Microsoft products, and he said he doesn't expect that to change.

"I know a lot of people that would skip their rent payments to get a new iPhone," Mr. Burgin said.

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THE WALL STREET JOURNAL.

Goldman Scouts Out Fintech Businesses

By AnnaMaria Andriotis
418 words
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The Wall Street Journal
J
B12
English

Goldman Sachs Group Inc. has expressed interest in buying a payments-technology firm to further build out its credit-card capabilities, according to people familiar with the matter.

Goldman executives discussed acquiring Deserve, a fintech credit-card platform that the bank has close ties to, according to people familiar with the matter. Executives sounded out another fintech credit-card platform called Cardless and a payments company called CoreCard Corp., the people said.

Outreach from Goldman's executives to Deserve executives began last year, people familiar with the matter said. The most recent overture came last month, they said.

No official discussions are currently taking place between Goldman and the companies, the people said.

A Goldman spokesman said the bank has already built technology platforms that enable it to help card partners grow their businesses and serve their customers.

"We have the ability to scale these businesses with our existing technology and are not currently looking for acquisitions in the space," the spokesman said.

Long the epitome of high finance, Goldman has been trying to round out its investment-banking and trading units in part by growing its cards business. But progress has been slow.

Goldman previously bid to take over the credit-card programs of JetBlue Airways Corp. and Macy's Inc. but lost out. The bank successfully bid to take over the General Motors Co. credit-card program in 2020, but technology glitches delayed the rollout, the Journal previously reported.

In 2019, Goldman launched a credit card with Apple Inc., and Apple encourages cardholders to use the card with Apple Pay.

Goldman recently announced a broad restructuring that included moving its card partnerships with Apple and GM into a new unit called Platform Solutions.

Bulking up its payment technology could help Goldman better compete against bigger banks when bidding on credit-card partnerships, people familiar with the matter said. Executives wanted to better prepare for what they believed would be a string of tech companies that would want to quickly launch credit-card programs embedded within their apps, the people said.

Goldman is CoreCard's biggest customer by consolidated revenue, according to a recent regulatory filing by CoreCard.

Deserve currently powers credit cards for private student-loan lender Sallie Mae, financial-services startup GloriFi, BlockFi's crypto rewards credit card and others.

Goldman became an investor in Deserve in 2019, and a Goldman managing director is on Deserve's board. The bank recently facilitated a credit line for Deserve.

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THE WALL STREET JOURNAL.

EXCHANGE --- Where Six Investors Think the Markets Are Going --- Amid high inflation, a crypto crash and stock swings, the pros outline which indicators they're watching, the lessons they see, and how they're calling it

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The Wall Street Journal
J
B1
English

A massive selloff in bonds. A plunge in tech stocks. The implosion of cryptocurrencies. The highest inflation in four decades.

Amid a brutal and uncertain climate, we asked six heavyweights in the world of finance to share their thoughts on the state of the markets, how they have handled this year's carnage and what they anticipate in the future.

The market watchers disagreed on some fundamental issues. Jeremy Grantham, best known for predicting the market crashes of 2000 and 2008, gave many reasons to be pessimistic even after the initial bursting of what he called "a super bubble." Investing pioneer Rob Arnott, the founder of Research Affiliates, agrees the market hasn't yet hit bottom. Lloyd Blankfein, the former chief executive of Wall Street giant Goldman Sachs Group Inc., says things aren't as bad as they seem.

Most do agree this wild ride isn't going to smooth out anytime soon.

Wait for peak fear

Investors should wait until markets have hit their bottom to buy, says Mr. Arnott. And that hasn't happened yet, in his opinion.

Buy too early, and your investments will fall further. Buy too late, and you will have missed the best opportunity to make a profit.

U.S. stocks still look expensive to Mr. Arnott, the son of a pastor who turned a love of computers, math and research into investment advisory business Research Affiliates. He is known within his industry as the "godfather of smart beta," a reference to funds that allocate money based on factors like companies' dividend payments, sales, or volatility.

The problem is, identifying the moment of peak fear -- when investors have gotten so pessimistic there's nowhere for prices to go but up -- almost always boils down to guesswork, Mr. Arnott said.

He is convinced U.S. stocks haven't hit their trough. Why? The Shiller price-to-earnings ratio -- a measure of the market's overall valuation named after Nobel Prize-winning Yale economist Robert Shiller -- shows that equities are still relatively pricey. The S&P 500 is trading well below its peaks during the dot-com bust and post-pandemic rally but far above the range reached during the worst of the 2008-09 financial crisis. That doesn't seem to suggest that investors have reached the point of capitulation.

"I've been called a permabear," he said. "But I'm a bear on things that are expensive. I don't want to bother buying them, even if they could go higher."

-- Akane Otani

Things aren't as bad as they seem

Mr. Blankfein, who steered Goldman Sachs through the brutal 2008-09 financial crisis, said the market's outlook may not be as dire as many believe.

"The bad news is so stacked up that people are under-appreciating the fact that there are several plausible pieces of good news that could affect the market positively," he said, citing a change in Russia's approach to the war in Ukraine, the release of more oil by Saudi Arabia and a pause in rate hikes by the Fed. "Markets are not just the current economy, they look ahead."

This year's selloff has been equally punishing for many stocks, he said. "Move into those you wished you owned but were too expensive."

Mr. Blankfein said it's worth remembering the challenges of the moment always seem worse than those of the past, if only because the past is resolved. And history, like the markets, has cycles.

"You think things have never been scarier?" said Mr. Blankfein, who retired from Goldman in 2018. "Really? We lived through the Cuban missile crisis when we were stopping Soviet ships in international waters. These are really the most polarized times? I was around in 1968 when there were assassinations of public figures, when kids were blowing up draft centers, and the National Guard was shooting on campuses. We got through that, we'll get through this.

"It's never as bad as your worst fears or as good as your best hopes," he added.

-- Justin Baer

Prepare for more chaos

Volatility is here to stay. That's the view of Paul Britton, founder of investment firm Capstone Investment Advisors and someone who bets on haywire swings across global markets.

He expects rising interest rates to keep stoking turmoil, with few corners of the markets sheltered from the pain. Even bonds, typically thought of as a safer investment than stocks, have grown more volatile.

That makes many investors' portfolios riskier than they appear, Mr. Britton says. The yield on the 10-year Treasury note, typically thought of as ultrasafe, has recorded some of its largest one-day moves of the past decade in recent months.

This turbulence, he said, means investors need to rethink what will buffer their portfolios and consider holdings beyond stocks and bonds. "The strategies that have worked best the past 15 years are not necessarily the strategies that are going to perform the next 15 years," Mr. Britton said. "There is a structural shift that we haven't seen in decades."

At his firm, which oversees roughly $8.9 billion in assets and manages money for pension funds and endowments, Mr. Britton says he is particularly optimistic about a so-called dispersion strategy designed to profit from volatility. The complex tactic uses options to wager on how tightly stocks will rise and fall together.

"This is one of those moments in time where I think it's crucial to be brave in your decision making," Mr. Britton said.

-- Gunjan Banerji

Inflation isn't going away

Investors are clinging to the belief that inflation will dissipate soon, says Nancy Davis, founder of asset management firm Quadratic Capital Management LLC, which oversees roughly $1.2 billion. They shouldn't, in her view.

Inflation reached a four-decade high this year as the price of everything from groceries to gas soared. Federal Reserve Chairman Jerome Powell has made it clear he doesn't expect that situation to change. He even abandoned the use of "transitory" when discussing the subject, saying roughly 11 months ago that "it's probably a good time to retire that word."

"The Fed retired it, but the market is still pricing for transitory," said Ms. Davis, who warned about the dangers of inflation in early 2021. "That to me is where there's an opportunity."

She cited the fact that inflation expectations among investors have been falling this year, even as data on consumer prices has shown continued gains. A widely-followed measure of investors' annual inflation expectations over the next half-decade -- the five-year break-even inflation rate -- stood recently at around 2.6%, according to Tradeweb. Year-over-year inflation is currently more than 8%, far above the Fed's 2% target. This means investors expect inflation to tumble over the next five years, she said, and that bond-market investors may be too confident the Fed's rate hikes will eventually bring inflation down.

She is preparing by holding mostly inflation-protected bonds and options tied to interest rates in the $1.1 billion Quadratic Interest Rate Volatility and Inflation Hedge Exchange-Traded Fund, where she is portfolio manager. These positions would serve as a hedge if inflation doesn't subside, she said.

-- Gunjan Banerji

The 'super bubble' is still bursting

Mr. Grantham is legendary for spotting bubbles before markets crash. He did so in the lead-up to the tech-stock implosion of 2000, and before the financial crisis that began in 2008.

The co-founder of investment firm Grantham Mayo Van Otterloo & Co. gained renewed attention this year when he said U.S. markets were experiencing a "super bubble" in the very early stages of an ugly deflation. Nine months after that statement, Mr. Grantham remains deeply pessimistic.

"This is about as bad a package [of fundamentals] as we have ever seen," says Mr. Grantham, who is board chairman and long-term investment strategist for his firm, which managed $59 billion as of June 30. Stock valuations, he says, remain well above their long-term averages. This is true even though economic growth has slowed, inflation has returned and interest rates have reversed after a long decline that had helped lift stocks for decades.

Mr. Grantham has put his own money in a family foundation that has allocated about half of its assets to young companies developing green **technology**, another 25% to other early-stage businesses and the remaining 25% to a few different investments, including one that benefits when the Nasdaq Composite falls in value and another that profits when investors see rising risk of corporate defaults.

For average investors, he says, holding cash is among the best options. He rejects the mantra that you shouldn't try to time the market, pointing out several examples from history when it took years, or even decades, for markets to recover from crashes.

-- Sam Goldfarb

Bonds should bounce back

Bonds have had their worst year on record. That is one reason to be optimistic about next year, according to the man responsible for overseeing roughly $2.3 trillion in assets for the world's largest money manager.

"I'm more excited going into 2023 than I've been in a really long time because we're going to have so many different opportunities," says Rick Rieder, BlackRock Inc.'s chief investment officer of global fixed income.

Investors typically value bonds with good credit ratings for their safe returns. Yet the Bloomberg U.S. Aggregate bond index has returned minus 16% this year -- its worst-ever performance by far.

The problem: To fight inflation, the Federal Reserve has been raising interest rates at a historic pace and kept promising more ahead. That reduces the value of bonds issued when rates were lower.

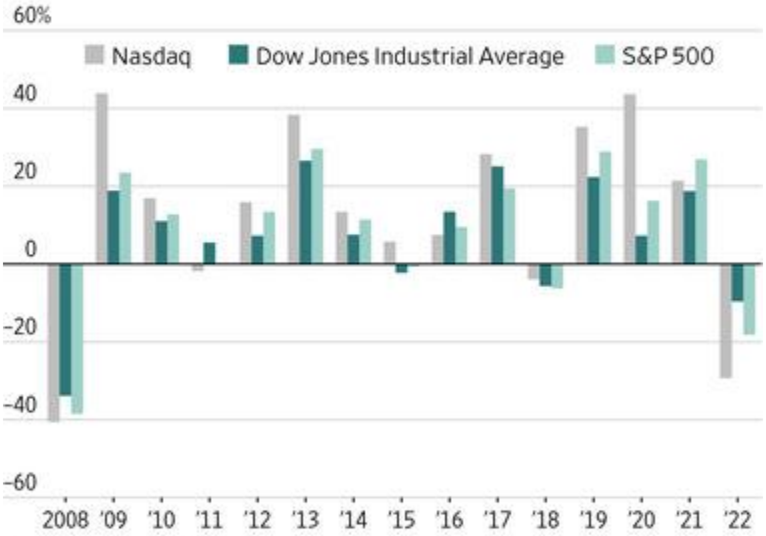
Bond investors, Mr. Rieder acknowledges, have been hopeful before, only for more dismal inflation reports to further damage their portfolios. But he now sees clear signs that higher rates are starting to have their intended effect of slowing down the economy. That means that the Fed may not need to raise rates much higher than it is already projecting.

The good news for investors is that lower bond prices mean higher yields, or better forward-looking returns. That is true for old bonds that have dropped below face value and new bonds issued at higher interest rates.

With prices unlikely to keep falling like they have been, "you can feel pretty good about buying literally triple-A assets at these sort of yields," Mr. Rieder says.

-- Sam Goldfarb

Annual returns for major indexes

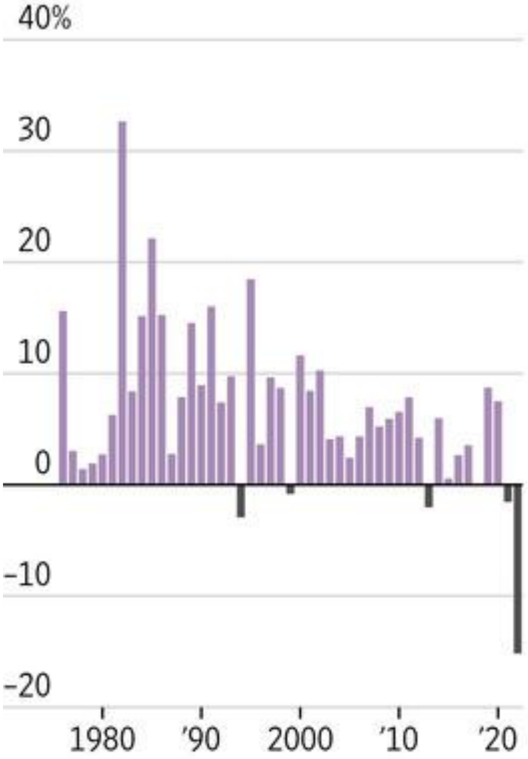


Note: 2022 data through Oct. 28
Source: Dow Jones Market Data

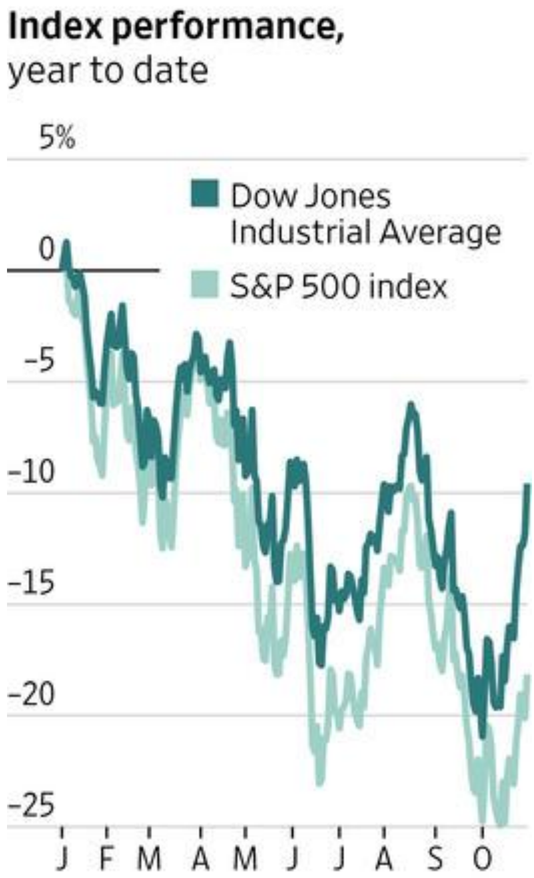
S&P 500's cyclically-adjusted price-to-earnings ratio*

*Shiller PE
Source: Prof. Robert Shiller, Yale University

Bloomberg U.S. Aggregate bond index total return

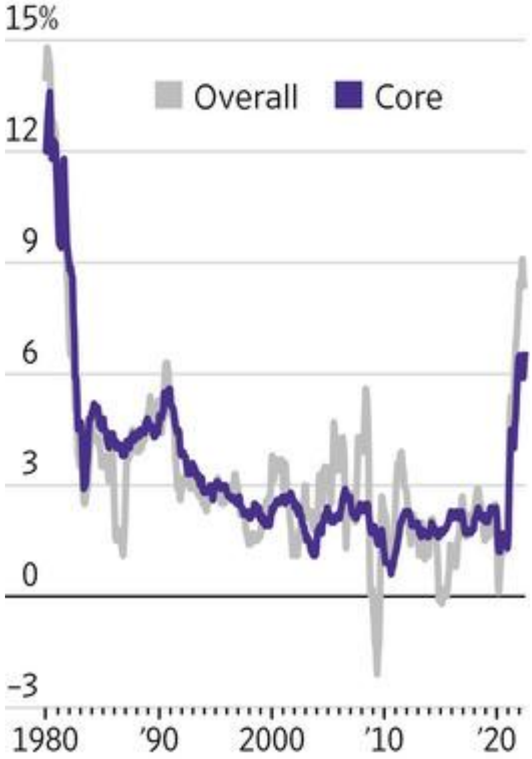


Note: 2022 data through Oct. 27
Source: FactSet



Source: FactSet

U.S. consumer-price index,
change from a year earlier



Source: Labor Department

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THE WALL STREET JOURNAL.

Business News: Deal Creates New Investment Firm --- MSD Partners and BDT unite to serve family- and founder- led business owners

By Miriam Gottfried
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21 October 2022
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B3
English

An investment firm born out of Michael Dell's family office is merging with a merchant bank run by a former senior Goldman Sachs Group Inc. deal maker to form a new investment and advisory firm that will cater to family- and founder-led business owners.

Byron Trott's BDT & Co. is joining with MSD Partners LP, the Dell-backed investment firm that is run by another Goldman alum, Gregg Lemkau, executives from both firms said. Messrs. Trott and Lemkau will be co-chief executives of the combined firm, with Mr. Trott also serving as its chairman.

Mr. Dell, whose family office, MSD Capital, was the genesis of MSD Partners and remains the largest investor in its funds, will chair the new firm's advisory board. Mr. Trott will be the largest single shareholder of the merged entity, people familiar with the matter said.

Mr. Trott spent roughly a quarter-century at Goldman before founding BDT in 2009. At Goldman, he earned plaudits from Warren Buffett, advising on some of the famed investor's biggest deals and helping to secure his 2008 investment in Goldman.

Based in Chicago, BDT specializes in advising founder- and family-owned businesses in areas including deals, succession and estate planning. It also invests in them through more than $33 billion in funds it manages, the majority of which has been raised from investors who are business owners themselves. The firm recently disclosed that it has raised $10.4 billion of what is expected to be a new $12 billion-to-$13 billion vehicle.

In a recent example of the kind of deal BDT advises on, it counseled the family of Patagonia founder Yvon Chouinard on its move to transfer ownership of the outdoor clothing company to a trust and a nonprofit organization.

MSD Partners was founded in 2009 when the investors running Mr. Dell's family office realized that others might want to invest alongside him. The firm manages more than $20 billion across private equity, private credit, real estate and growth equity.

When Mr. Lemkau left his role as co-head of investment banking at Goldman to become CEO of MSD Partners around the end of 2020 -- having also spent more than 25 years there -- Mr. Trott was one of the people he turned to for advice.

"The more I talked with Byron about MSD and what it could become, the more I saw elements that fit with that vision in BDT," Mr. Lemkau said.

After he joined, he asked Mr. Trott to speak to MSD employees about how BDT cultivates relationships with the families in its network, which include the Walton, Pritzker and Mars families. Mr. Trott, who had been seeking to add credit and real-estate investing to his firm's offerings, asked Mr. Lemkau to talk to people at BDT about MSD's businesses in those areas.

The two leaders realized that their businesses were complementary. MSD has traditional credit funds, and its real-estate investments, including the Four Seasons Maui and the Four Seasons Hualalai in Hawaii, are part of a permanent-capital vehicle that allows them to be held in perpetuity. Its private-equity and growth-equity investments, by contrast, aren't housed in a fund structure, allowing them to combine with BDT's investment business without the new firm needing to maintain competing funds.

"Where they were, we weren't, and they have what our clients want" in terms of credit and real-estate offerings, Mr. Trott said.

He said MSD's **technology**-investing expertise and Mr. Dell's deep ties to other **technology** founders will bring a new dimension to BDT's investing and the next generation of wealth into the combined firm's network.

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THE WALL STREET JOURNAL.

Technology
Goldman Pushes Engineers Into Light

By Katie Deighton
263 words
20 October 2022
The Wall Street Journal
J
B4
English

Goldman Sachs Group Inc. wants to bring more software developers and engineers out of backrooms and deeper into the business as the bank embarks on a sweeping reorganization to place greater weight on its client services offerings.

The bank is trying to improve the developer experience for both internal and external workers and is rewriting processes so that developers are more engaged with business goals from the beginning of projects, said Marco Argenti, Goldman's chief information officer.

Historically, developers were asking "how" questions, Mr. Argenti said Wednesday during an online Wall Street Journal CIO Network members event.

"Now, we want them to answer the 'why' questions" that get to the business purpose behind their work, he said. "That is a big change."

Mr. Argenti became Goldman's sole chief information officer this month in a move that also saw the creation of an Office of Applied Innovation run by former co-CIO George Lee and Jared Cohen, the former CEO of tech incubator Jigsaw, a unit of Alphabet Inc.'s Google.

Mr. Argenti joined Goldman in 2019 as co-CIO after serving as vice president of **technology** at Amazon Web Services. Now, as sole CIO at Goldman, he takes on a role overseeing around 12,000-plus engineers, or one in four people who work at Goldman, according to the company. He also serves on the bank's management committee.

Goldman in recent years has begun to focus more on steady, income-generating client services to complement its trading and investment-banking operations.

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THE WALL STREET JOURNAL.

Heard on the Street
Goldman To Reach Consumers Its Own Way

By Telis Demos
564 words
19 October 2022
The Wall Street Journal
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B14
English

[Financial Analysis and Commentary]

Goldman Sachs still wants to take deposits and lend money. But it doesn't want to play the game the same way.

On its Tuesday earnings call, Chief Executive David Solomon detailed an anticipated change in how Goldman reports its business: It will combine investment banking with its global markets unit, and it will combine asset management with wealth management, which will include its Marcus products. Such a reporting structure will be familiar to anyone who follows other big banks. But Goldman will create a unit called Platform Solutions. This combines corporate-transaction banking with its credit-card partnerships with Apple and General Motors, and its acquired GreenSky home-improvement loan business. That is the part that may require some explanation.

Goldman's aim is to take advantage of its Wall Street business to generate strong returns in other businesses, including in lending. In asset- and wealth-management, it can take the pressure off its own capital by moving away from direct investments and toward raising money from outside investors. It can use its banking license to replace pricey wholesale funding with lower-cost deposits, and add high-return assets such as credit-card loans.

These are the kinds of banking and investing businesses that generally win higher earnings multiples from the street. Goldman's forward price/earnings multiple has averaged over nine times over the past five years, versus 12 times for JPMorgan Chase, and just under 11 times for Morgan Stanley, according to FactSet. BlackRock averaged closer to 18 times.

A lot about this strategy is already working. Goldman has nearly $400 billion of total deposits. Net interest income in the third quarter was over $2 billion, up almost 18% from the second to third quarter. The firm raised over $160 billion for alternative assets toward its $225 billion goal.

What wasn't working as well was trying to go directly to the consumer. Acquiring customers by marketing Marcus savings accounts broadly is expensive. Gathering loans via cards was proving tricky: With the Apple Card, Goldman said it was seeing more customers than anticipated who use cards mainly to transact and pay down debts quickly, meaning loan balances weren't reaching the levels envisioned.

What the new reporting lines emphasize is that in banking, Goldman is going to focus more on relationships with its corporate and wealth clients. That includes its wealth relationship with big companies' employees. Along those same lines, the platform unit can be understood as a new vehicle for gathering deposits and assets. It can generate corporate deposits and financing via transaction-banking software. It can generate consumer loans or deposits by helping clients such as Apple or General Motors use its card **technology** to lure and retain customers.

Banks all have their own mix for the business of taking money in and lending it out. They are measured similarly: Goldman's deposits grew 1% from the second to third quarter, while many others saw theirs shrink. On the asset-and-wealth management side, it saw positive net inflows into assets under supervision. It will need to continue to show progress on those metrics, as well as its fundraising and fee goals. Goldman's success extending its core strengths in investment banking will be key to judging the success of its new strategy.

12-month forward price/earnings multiple

Source: FactSet

page,5043

Document J000000020221019eiaj0000u

THE WALL STREET JOURNAL.

Goldman Profit Slides 43% As Bank Details Big Shake-Up

By Charley Grant and Justin Baer
1,052 words
19 October 2022
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A1
English

Goldman Sachs Group's third-quarter profit fell 43% as executives outlined a sweeping shake-up of the bank's businesses designed to position the firm to generate steady fees no matter the economic environment.

Goldman suffered by far the steepest profit slide among its big-bank peers in the quarter because of a slump in deal making.

As part of the restructuring, Goldman plans to fold investment banking and trading into one unit and merge asset and wealth management into another -- giving it a higher profile at the same time.

For years, Goldman has wrestled with what it should be and how it should buffer itself against the sort of volatility that cropped up in the third quarter, keeping deal makers on the sidelines and drying up the market for initial public offerings.

The restructuring, reported late Sunday by The Wall Street Journal, reflects Chief Executive David Solomon's broader effort to shift Goldman's focus away from the high-risk, high-reward Wall Street units that have long defined it and toward businesses that generate consistent fees.

Mr. Solomon said that the new structure would strengthen the bank's core businesses, diversify its products and services and allow it to "operate more efficiently as we drive higher, more durable returns."

Investment banking and trading have long been Goldman's power centers, and those units generate huge profits in times when markets reward risk-taking. But the businesses are prone to big swings in choppy markets. Goldman's investment-banking revenue fell 57% in the third quarter; trading revenue rose 11%.

Building out the firm's wealth- and asset-management offerings is key to Mr. Solomon's strategy to smooth out the bumps. Managing wealthy people's money and overseeing funds for pensions and other deep-pocketed institutions is more profitable than other financial services, and it usually doesn't put the firm's balance sheet at risk.

Asset-management revenue fell 20% to $1.82 billion in the third quarter. Wealth-management revenue was flat at $1.63 billion.

The bank tapped Marc Nachmann, the firm's co-head of trading, to run the combined business.

Mr. Nachmann joined Goldman's investment-banking division in 1994. He later served as co-head of the financing group and then co-head of the whole division -- the two posts Mr. Solomon held before his ascent to president. Mr. Solomon appointed Mr. Nachmann to help run the bank's trading business in 2019.

Viewed internally as one of the firm's most-skilled operating executives and a favorite of Mr. Solomon's, Mr. Nachmann will now bring his talents to a third major business.

His new role will pose different challenges than his last two.

Goldman's asset- and wealth-management businesses haven't been viewed as the firm's core strengths and have grown in recent years in part through a string of acquisitions. The firm's senior executives have signaled they are open to more deals, bringing an element of complexity and operational risk.

At the same time, the firm is still working to translate its successes in investing its own balance sheet in private markets to investment funds that appeal to pensions and other outside clients.

Earlier this year, Goldman said it aimed to bring in more than $10 billion in management fees by 2024, with at least $2 billion coming from so-called alternative investments such as private equity and credit.

The shuffling marks a major shift for Marcus, Goldman's consumer business. Goldman created Marcus several years ago, offering savings accounts and loans to the masses. Uptake has been slow: The unit's revenue rose 95% in the third quarter to $744 million, but it accounted for just 6% of the bank's total revenue and has yet to turn a profit.

The consumer business will be parceled out, with much of it folded into the new asset- and wealth-management unit. Under Mr. Nachmann's direction, Goldman is planning to find new ways to deliver banking services to individuals through the firm's wealth advisers and its workplace platform, which manages corporate employees' investing and stock-planning services.

Some pieces of Marcus, such as its card partnerships with Apple Inc. and General Motors Co., will go into a third new unit called Platform Solutions. That unit will also house Goldman's financial-**technology** platforms and specialty lender GreenSky. Stephanie Cohen, who is the current co-head of consumer and wealth management, will run the business.

Dan Dees and Jim Esposito, the current co-heads of investment banking, will run the new banking and trading operation alongside Ashok Varadhan, who currently is co-head of the trading business. Julian Salisbury, the co-head of asset management, will serve as the unit's chief investment officer. Rich Friedman will continue to be the asset-management division's chairman.

They will all report to Goldman President John Waldron.

Goldman's new structure will more closely resemble that of big-bank peers like JPMorgan Chase & Co. and Morgan Stanley, which have combined trading and investment-banking businesses.

Profit fell at all of the big U.S. banks in the third quarter. While revenue declined at both Goldman and Morgan Stanley, it rose at JPMorgan, Citigroup, Bank of America and Wells Fargo & Co., all of which have closer ties to Main Street.

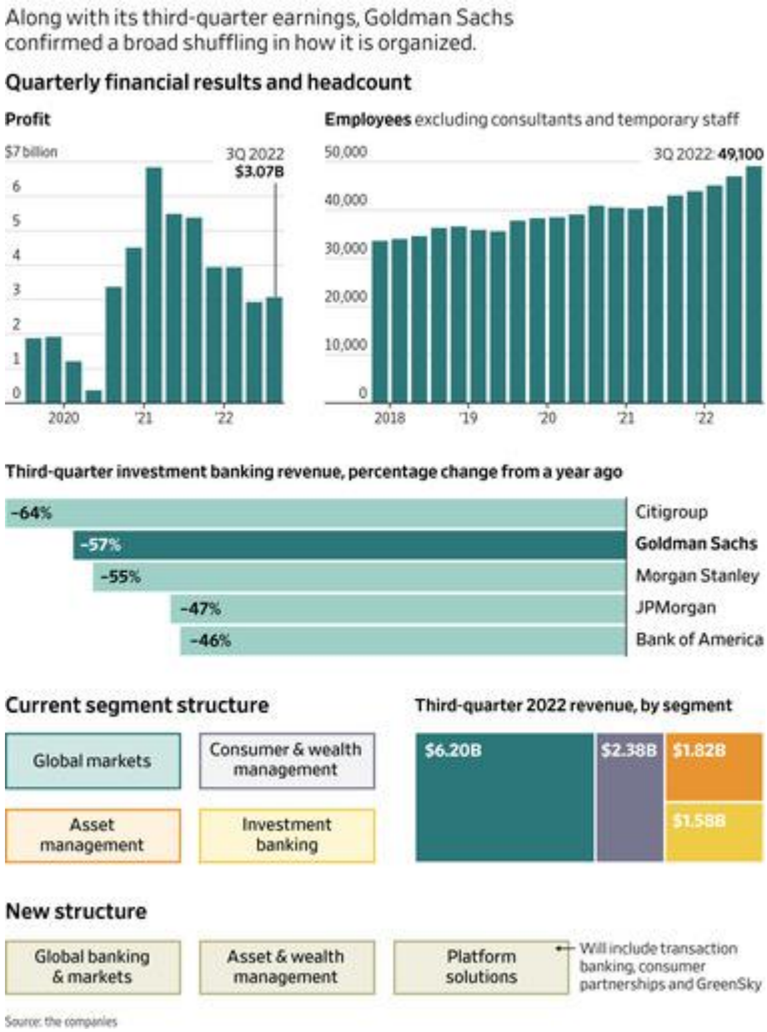
The majority of the banks -- including Goldman -- topped analysts' expectations for both earnings and revenue. And while executives sounded a warning about where the economy could be headed, their results confirmed that for now, individuals and businesses are still borrowing at a healthy rate.

Consumers increased their spending on credit cards in the third quarter, including on more discretionary items such as travel and leisure, though big-ticket loans such as mortgages and auto loans fell off a cliff.

Like everyone, the bank CEOs are parsing competing data about where the economy is headed next.

Mr. Solomon told analysts that the firm's client companies would like to see more economic certainty before committing to longer-term plans.

"The world is fragile at the moment," he said, citing high inflation and energy-price shocks. "It's uncertain, and we're operating through that lens."



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The New York Times

Business/Financial Desk; SECTB
As Goldman Restructures, Profits Fall

By Emily Flitter
849 words
19 October 2022
The New York Times
NYTF
Late Edition - Final
5
English

The bank will combine trading and investment banking into one unit; asset management, wealth management and consumer businesses into another; and its digital offerings in a third.

Goldman Sachs is taking another step away from its past as a clubby Wall Street partnership, adopting a new three-pronged structure that combines investment banking and trading into one unit; merges asset and wealth management into another; and elevates its digital offerings into a third unit, the bank announced on Tuesday.

The move is the latest in a mission that David Solomon, the bank's chief executive, has been blunt about: remaking Goldman's culture and practices into something more streamlined and better oriented toward a future in which **technology** is likely to sap big banks' ability to make money as intermediaries.

''Today, we enter the next phase of our growth, introducing a realignment of our businesses that will enable us to further capitalize on the predominant operating model of One Goldman Sachs as we better serve our clients,'' Mr. Solomon said in a news release accompanying the bank's latest earnings report, referring to an internal initiative that began in 2020 to create a ''client-centric organizational structure.''

In a call to discuss the company's earnings with Wall Street analysts, Mr. Solomon said the restructuring would help Goldman achieve three goals: increasing management fees, enlarging the share of Wall Street business it captures from rivals and expanding its digital platform offerings to serve the largest clients with the most complex needs.

In addition to a combined trading and investment banking unit that more closely resembles those at rivals like JPMorgan Chase and Morgan Stanley, Goldman will form a division that merges its asset and wealth management businesses. The bank's consumer banking business, which debuted under the name Marcus several years ago, will be folded into that unit, and the bank will shift focus to marketing those consumer services to employees of large companies that are already Goldman clients.

But other elements of Goldman's consumer offerings, including its credit card partnerships with Apple and General Motors that came under Marcus, will now be managed in a different business line called platform solutions. This unit will also house the cloud-based services that the bank offers to large companies, including ways to manage cash and send payments quickly around the world.

Tuesday's changes also seek to correct Marcus's wobbly course. Though it has been a reliable trading powerhouse for decades, Goldman has struggled to keep up with peers' moves in attracting new money from wealthy individual clients, and Marcus has not won the customer base that its creators expected when it was opened in 2016.

Mr. Solomon explained to analysts that targeting client companies' employees as customers would significantly reduce the cost of attracting new users. He admitted that the reorganization represented a retreat, in part, from the bank's apparent earlier goal of building a widely used consumer service that could compete with other large retail banks.

''We're pulling back on some of that,'' he said.

The people in charge of the new business units will largely remain the same. Ashok Varadhan, who led Goldman's trading business, and Dan Dees and Jim Esposito, its co-heads of investment banking, will lead the combined unit together. The erstwhile leaders of asset management and wealth management will assume various responsibilities atop their newly merged unit. Stephanie Cohen, once in charge of the consumer and wealth management businesses and the lone woman among the leaders in the newly announced structures, will be the global head of the bank's platform solutions unit.

Goldman's announcement accompanied its third-quarter earnings report, which beat analysts' expectations. The bank earned just over $3 billion in profit in the quarter, 43 percent less than in the same period last year but 5 percent more than in the previous quarter. The bank's shares rose more than 2 percent on Tuesday.

Goldman recently resumed the practice of regularly laying off underperforming employees, which was paused during the earlier stages of the pandemic, and is preparing to cut 1 to 5 percent of workers based on annual performance reviews. The bank said its head count overall grew 14 percent over the past year.

It was the last of the big six banks to report third-quarter earnings, and its profits fell more steeply, percentagewise, than those of rivals with bigger retail businesses, like JPMorgan and Bank of America, which were cushioned by consumer spending and the effects of higher interest rates on their loan books. But Goldman's leaders emphasized that, a year ago, the Wall Street giant had far out-earned its largest competitors. In other words, its profits had further to fall.

Mr. Solomon warned analysts on Tuesday that the short-term economic outlook would ''remain unsettled,'' and that many businesses appeared to be holding off on big decisions until they could make better guesses about what the future held.

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THE WALL STREET JOURNAL.

Goldman to Combine Businesses Into 3 Units

By Justin Baer
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The Wall Street Journal
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Goldman Sachs Group Inc. plans to fold its biggest businesses into three divisions, undertaking one of the biggest reshuffles in the Wall Street firm's history.

Goldman will combine its flagship investment-banking and trading businesses into one unit, while merging asset and wealth management into another, people familiar with the matter said. Marcus, Goldman's consumer-banking arm, will be part of the asset- and wealth-management unit, the people said.

A third division will house transaction banking, the bank's portfolio of financial-**technology** platforms, specialty lender GreenSky, and its ventures with Apple Inc. and General Motors Co., the people said.

The reorganization could be announced within days, the people said. Goldman is scheduled to report third-quarter earnings Tuesday.

It is unclear how the makeover will shake up Goldman's senior leadership team, though at least a few executives will have new roles, the people said. Marc Nachmann, the firm's co-head of trading, will slide over to help run the combined asset- and wealth-management arm, they said.

The reorganization is the latest step in Chief Executive David Solomon's push to shift Goldman's center of gravity toward businesses that generate steady fees in any environment. It also reflects the firm's struggle to overcome skepticism, from investors and even among some of its own executives, over its ambitions for consumer banking.

The firm's trading and investment-banking acumen has been Goldman's calling card for decades, churning out massive profits when the markets favored risk takers and bold deals. But investors often discounted those successes, reasoning that they are harder to sustain when market conditions turn. And in recent years, Goldman has sought to sharpen its trading arm's focus on client service.

Following the changes, Goldman's organizational chart will look more like its peers.

A slide presentation from Goldman's 2020 investor day offered a glimpse of what a combined banking-and-trading business would look relative to peers. At Goldman, the merged group would have delivered a return on equity of 9.2% in 2019, besting Morgan Stanley and Bank of America Corp. but below what JPMorgan Chase & Co. and Citigroup Inc. earned that year.

Bloomberg News earlier reported that Goldman had planned to restructure its consumer-banking arm and was considering combining its asset- and wealth-management businesses.

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THE WALL STREET JOURNAL.

Peloton Ex-CEO Faced Margin Calls

By Sharon Terlep and Suzanne Vranica
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12 October 2022
The Wall Street Journal
J
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English

John Foley, the co-founder and former chief executive of Peloton Interactive Inc., faced repeated margin calls on money he borrowed against his Peloton holdings before he left the fitness company's board last month, according to people familiar with the situation.

As Peloton's shares slumped over the past year, Goldman Sachs Group Inc. asked Mr. Foley several times to provide fresh funds or additional collateral for personal loans the bank had extended to him, the people said. The company's share price has fallen nearly 95% from its $160 peak in December 2020.

Resigning from the board gave Mr. Foley flexibility to sell or pledge more Peloton shares, though he said the margin calls weren't the reason he left the company.

"I didn't resign from the board because I was underwater," he said. "To the extent that I took on debt through Goldman, it was because I am bullish on Peloton and still am. It was and is a great company."

The former chairman and CEO had pledged as collateral about 3.5 million Peloton shares as of the end of September 2021, or about 20% of his stake at the time, securities filings show. The pledged shares were worth more than $300 million a year ago. At current prices, they are worth roughly $30 million.

Mr. Foley was able to secure private financing and avoid stock sales by Goldman, the people said. He declined to say on Monday how much of his current stake had been pledged or how much he had borrowed against his holdings.

His seat on the board limited his ability to raise additional funds because most public companies prohibit directors and executives from selling their shares during certain trading periods. In addition, Peloton's policy limits pledges for margin loans by directors or executives to 40% of the value of an individual's shares or vested options.

Mr. Foley's decision to leave the board on Sept. 12 followed a tumultuous several months at the company he co-founded a decade ago, as well as a sharp decline in his personal wealth as Peloton's sagging fortunes diminished the value of his holdings. His stake in the company, worth $1.5 billion a year ago, is currently worth less than $100 million.

"Everyone can see I had a rocky year," Mr. Foley said. "This was not a fun personal balance-sheet reset."

In February, Mr. Foley stepped down as Peloton's CEO and was succeeded by Barry McCarthy, a former Netflix Inc. and Spotify Technology SA executive. Mr. Foley kept his position as Peloton's executive chairman and continued to hold a controlling stake in the company through Class B shares with 20 votes apiece.

A few weeks later, Mr. Foley reported selling $50 million worth of Peloton shares in a private transaction. At the time, Peloton said the sale was part of the executive's personal financial planning. The sale left him and his wife, Jill Foley, a former Peloton executive, with 6.6 million shares and options on another 8.4 million, according to securities filings, which combined are currently worth less than $100 million. He hasn't reported any stock or option sales since March. Business Insider reported in March that Mr. Foley was in discussions with Goldman about restructuring his personal loans.

Peloton's business deteriorated throughout the spring and summer, with the company in August reporting a $1.2 billion loss and the first ever quarter in which its subscriber numbers failed to grow. The company has cut thousands of jobs this year to stem its losses, including a round of layoffs unveiled last week.

Mr. Foley's 10-year tenure as CEO was marked by rapid growth and sometimes lavish spending. He took heat from Peloton employees last December for hosting a black-tie holiday party that included some of the company's celebrity instructors weeks after implementing a hiring freeze. Pictures circulated on Instagram of gown-clad instructors dancing at New York's luxury Plaza Hotel. Mr. Foley acknowledged on social media that the event caused "frustration and angst" among employees.

That same month, Mr. Foley paid $55 million to purchase an oceanfront mansion in East Hampton, N.Y., according to real-estate records and people familiar with the transaction. He and Ms. Foley in September put their Manhattan penthouse up for sale. The property, last priced at $6.5 million, is in contract to be sold, according to listings website StreetEasy.

Margin loans, or borrowing against portfolios of stocks and bonds, come with the risk that a broker can call for additional cash or collateral to meet the minimum equity required if a security's price drops too low. Sharp drops in stock prices during the 2000 dot-com burst and the 2008 financial crisis generated margin calls for executives at well-known companies.

Peloton requires directors, executives and employees to get approval for pledging their shares as collateral for margin loans. Other Peloton executives also have pledged some of their Class B holdings, and in the annual report Peloton filed last month, the company warned that investors could be harmed if its stock fell and executives were forced to sell shares.

Goldman has worked closely with Peloton, including when Mr. Foley was the CEO. The investment bank was one of the lead underwriters of the company's initial public offering in 2019. Goldman bankers also co-led a $1 billion stock offering in November 2021.

Investors initially soured on Peloton -- its shares fell 11% the day they made their debut at $29. The stock surged in 2020 during the onset of the Covid-19 pandemic, giving the company a peak market value of $50 billion and making Mr. Foley a billionaire on paper. The shares closed down 3.4% Tuesday at $8.78.

Theo Francis and Katherine Clarke contributed to this article.

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