Operator

Good morning. My name is Dennis and I will be your conference facilitator today. I would like to welcome everyone to the Goldman Sachs First Quarter 2020 Earnings Conference Call. This call is being recorded today, April 15, 2020. Thank you. Ms. Miner, you may begin your conference.

Heather Kennedy Miner

Good morning. This is Heather Kennedy Miner, Head of Investor Relations at Goldman Sachs. Welcome to our first quarter earnings conference call.

Today, we will reference our earnings presentation, which can be found on the Investor Relations page of our website at www.gs.com. No information on forward-looking statements and non-GAAP measures appear on the earnings release and presentation. This audiocast is copyrighted material of The Goldman Sachs Group, Inc. and may not be duplicated, reproduced or rebroadcast without our consent.

Today, I am joined by our Chairman and Chief Executive Officer, David Solomon and our Chief Financial Officer, Stephen Scherr. David will start with the firm's response to the COVID-19 pandemic, including our organizational resilience and business continuity and our efforts to support our communities around the world. Then he will speak to our results in the context of the recent market volatility and the broader operating environment. Stephen will then discuss our first quarter results in detail, including the firm's strong financial position and our execution priorities in the current environment. David and Stephen will be happy to take your questions following their remarks.

I will now pass the call over to David. David?

David Solomon

Thanks, Heather and thank you everyone for joining this morning. First and foremost, all of us at Goldman Sachs hope that you and your loved ones are safe and healthy. We are grappling with an unprecedented global crisis that is putting extraordinary pressure on all society, on families, on small business owners, on large companies, on non-profit organizations, on governments and economies around the world, and of course on the healthcare system. There is no doubt some segments of society, particular our most vulnerable communities and small businesses are suffering more than others. Thankfully there are areas of inspiration. To all of the frontline workers, including doctors, the nurses, the individuals showing up to work everyday to keep our supermarkets, our pharmacies, and our public transportation operating through this crisis, we are extremely grateful to you and we are in awe of your courage and dedication.

From where we sit today, it is too early to know the full impact or to predict the specific path to recovery. But I am confident, particularly in light of the decisive and thoughtful actions being taken around the world by the public and private sector that together we will overcome this adversity. Our people have demonstrated time and time again extraordinary resilience and the ability to grow and adapt to change. I am enormously proud of how our colleagues have risen to the occasion in recent weeks. They have been working tirelessly to help our clients navigate the challenging and volatile markets brought about by this pandemic. And as a leadership team, our first priority remains the safety and well-being of all of our Goldman Sachs teammates.

To do this, we activated a comprehensive global business continuity plan. This has been an extraordinary effort with exemplary performance from all involved, especially our engineering and operation teams admits the significant increase in market volatility. Over the past months now, we have been operating with approximately 98% of our global employees working remotely, while handling 2x to 3x the normal trading volumes and maintaining very high levels of engagement across all our stakeholders from corporations and institutions to individuals.

Across the globe, including our teams in Bengaluru, Warsaw, Dallas and Salt Lake City, we successfully outfitted employees with the necessary technology to work, communicate and engage without interruption. Our smooth transition is a testament to our forward planning, technology capabilities and business resiliency. At a time of reduced market liquidity, our people are working relentlessly to support our clients. This effort includes intensive engagement by our operations team who worked alongside their industry counterparts to clear the extraordinary volumes of trades, sales and margin activity. Throughout these events, the level of cooperation among financial institutions and the dedication and resiliency of our people is inspiring.

We are also staying very close to our corporate clients. Over the past few weeks, I have personally spoken to almost 100 CEOs to share best practices, offer advice and often to take advice from them. They face a variety of challenges, including distribution and supply chain disruptions and cash flow uncertainty. Many are working to keep their employees on the payroll despite a significant revenue headwind. I am broadly impressed by the private sector efforts to work together to help our communities navigate this crisis. For our part to help support corporate financing needs, we are proud that in recent weeks we have reopened markets and underwritten a record amount of U.S. dollar investment grade debt for clients. In addition, we have been an active participant in programs announced by the Federal Reserve to support the economy.

We are also supporting the flow of capital in international markets. This year, we have led over $15 billion of Fight COVID-19 bonds, including issuances for the African Development Bank, the Inter-American Development Bank, Austria, France and Indonesia, where proceeds will be used to alleviate the economic and social impacts of the pandemic. During this period, we have also been actively engaged with our individual customers across the wealth spectrum. This is included providing advice, financing, execution and investing opportunities for our PWM and high net worth clients. In consumer banking, it has been providing uninterrupted access to our digital deposits, lending and payments products and continuous service through our call centers, which are now operating virtually.

We have also taken important steps to support our consumer banking clients through this challenging time. We were early to announce the COVID-19 customer assistance program in March and we have now extended it to April giving our customers the flexibility to skip a monthly payment without penalty or interest.

More broadly over the past 6 weeks, John, Stephen and I have remained in active dialog with central banks, governments and regulators. We commend the rapid, forceful and unprecedented fiscal and regulatory responses designed to ensure liquid and well-functioning capital markets and to provide emerging fee financing to small businesses and individuals that need it most. These actions will undoubtedly help mitigate the demand shocks caused by the virus and speed the economic recovery. The Federal Reserve and the U.S. government along with the ECB, Bank of England and other global central banks have sent a clear message that they will decisively support the broader economy with the global banking system as an active partner.

Goldman Sachs, alongside many other financial institutions, is prepared to play our part to help communities and businesses, both small and large, suffering from the economic impact of this devastating health crisis. We are harnessing our resources, experience and network to help where we can. We are working with public and private sector clients to partner on new initiatives with a focus on community assistance and economic support for businesses and serving our clients and customers. For our part, we have taken a number of important steps, including making a $550 million commitment to COVID-19 relief efforts. We will help small business owners weather this challenging time to $500 million for small business loans and $25 million in grants to community development financial institutions who have a long track record of reaching underserved communities and businesses. We have worked with many of these mission-driven lenders for years through our 10,000 small business programs. In addition, we launched a COVID-19 relief fund with $30 million commitment through Goldman Sachs Gives, including a special employee matching grant program to help healthcare workers, families and the most vulnerable populations.

Lastly, in response to the well-publicized shortage of equipment for health professionals, we continued to donate supplies to frontline workers who need the most. Across the U.S. and Europe, we have donated 2.5 million surgical masks and 700,000 N95 masks, which we acquired over a number of years following prior epidemics like SARS as a part of our operational risk management efforts. As the situation rapidly evolves, we will continue to adapt our response for supporting the broader financial system, our clients, our people and our communities. More broadly, these are defining times for organizations. Adversity compels us to innovate, to leverage new technologies and to find new ways of thinking and interacting. At Goldman Sachs, we have always prided ourselves of doing that to help our clients succeed and we continue to execute on this commitment as we move forward.

With that context, I will turn to the quarter on Page 2 of the earnings presentation to discuss our financial results. In the first quarter, net revenues were $8.7 billion, roughly flat versus a year ago. Net earnings were $1.2 billion resulting in earnings per share of $3.11 and ROE of 5.7% and a return on tangible equity of 6%. The first quarter proved to be two very different operating periods with a solid January and February followed by a challenging and volatile backdrop in March. In both contexts, our franchise businesses performed well. From a client perspective, we maintained our leading position as a strategic advisor to our investment banking clients in period of stress. We delivered solid growth in FICC and equities on high levels of client engagement as we extended balance sheet liquidity to clients during the most volatile markets in March. We continue to advise our wealth management clients and accelerated deposit growth in our digital consumer banking business.

In asset management, we saw direct impact from market dislocation as our on-balance sheet equity and debt investments experienced material mark-to-market losses from falling asset prices. We also recognized higher credit losses and bolstered our reserves. Challenges notwithstanding we maintained a strong and highly liquid balance sheet with capital ratios above our minimum and robust levels of liquidity. Importantly, our franchise remains strong and we feel well-positioned to deliver best-in-class advice, execution and risk expertise to every client engagement.

Turning to the operating environment on Page 3, the financial markets started the year on solid footing fueled by continued economic growth and strong consumer sentiment. Our business performed well in both January and February as markets notched new highs driven by client confidence in activity. This backdrop however deteriorated with unprecedented speed in early March as financial markets began to brisance [ph] of the severe risks from the spread of COVID-19 across the globe and the dramatic measures needed to contain it. We witnessed spikes and volatility across most financial assets and global markets. The S&P 500 declined sharply from all-time highs in February and the VIX hit new highs. We also witnessed significant widening of credit spreads in both investment grade and high yield and de-risking from clients across all asset classes.

Given our strong financial position, we were able to commit our balance sheet on behalf of clients and support strong volumes across our global market franchise as investors sought to reduce risk exposure. The very high levels of activity demonstrate the strength and scope of our franchise and our ability to serve clients as an important risk intermediary. Looking forward, our economists expect a very significant near-term decline in growth followed by a rebound in the second half of the year when they expect us to get back about 50% of the decline in output that we lose in the first two quarters.

More specifically, annualized U.S. GDP is forecasted to decline in excess of 30% in the second quarter before recovering in the third and fourth quarters resulting in an economic contraction of about 6% of the year. This compares to growth expectations of over 2% just a few months ago. There is obviously a wide range of uncertainty around forward projections given the unknown duration of the health crisis. The reality is that none of us know for sure. This is why it is critically important during this difficult period that we maintain a strong financial profile and remain agile and flexible in our service to our clients.

Lastly, I'll share a few comments on our Investor Day commitments. While January seems distant under these circumstances, more distant under these circumstances than the ten or so weeks that have passed, the strategic direction we laid out for the firm remains no less compelling. Strengthening our core businesses, expanding in new and adjacent businesses, and operating with greater efficiency, remain ever important to the firm. We established targets that contemplated in normal operating environment. And clearly, this is not a normal operating environment. Yet our targets represent medium and long-term goals, which we still aspire to. Interestingly, this environment has created opportunities for us to accelerate our strategic plans in certain areas. Our transaction banking rollout remains on track and our growth in corporate deposits has exceeded expectations. In our alternatives business, we have accelerated fundraising on a strategic solution fund of meaningful size to help clients take advantage of attractive investment opportunities.

In our high net worth business, we completed our re-branding of United Capital, the Goldman Sachs' personal financial management on schedule in March, and our strong growth in consumer deposits continues to underscore the strategic importance of that business. You should expect us to manage through the current environment dynamically with our priorities of serving clients and protecting the long-term value of our franchise. We will adjust our tactical response as appropriate, which may impact the timing, cadence of the size of certain investments. That says our strategic goals remain in place. As we execute, we look forward on updating you – to updating you on our progress.

With that, I will turn it over to Stephen.

Stephen Scherr

Thank you, David. Good morning to you all. Let me begin with our summary results on page 4. During the first quarter, three of our four business segments produced revenue growth in excess of 20% versus the year ago period reflecting the strength of our franchise and the elevated level of activity in March. These results were offset by losses in our asset management business due to the significant decline in the fair value of our long-term investments in equity, debt securities, and loans. We also took a material provision for credit losses in the quarter. Despite the difficult backdrop, our overall revenue levels remained relatively flat versus a year ago, reflecting the diversification of our businesses.

Before turning specifically to our results, I want to reflect for a moment on the financial strength of the firm and the U.S. banking system coming into this period of volatility, in terms of capital, liquidity and risk. I also want to provide insight into where Goldman Sachs stands on those metrics as we enter the second quarter. The industry came into this market dislocation with a robust financial position, as the capital levels for large banks, more than doubled over the past decade to approximately $1 trillion. Our capital stands above our minimums, with the reduction in our CET1 ratio during the quarter, a reflection of a very purposeful deployment of balance sheet on behalf of clients. As David noted, our liquidity is very strong, averaging over $240 billion during the quarter and remains at a level higher than that now. Our risk positions remain balanced, controlled, and adequately provisioned for, both in terms of counterparty risk and sector exposure. Our ability to serve as a principle intermediary of risk, the source of liquidity and a provider of balance sheet, on behalf of clients is rooted in the sound financial footing of the firm and our long history of being a firm that clients turn to in challenging moments.

Across Goldman Sachs, our forward planning and risk management practices enabled us to be well prepared. The liquidity and capital buffers we hold are intended for times like these, and we prudently deploy our financial resources to serve our clients during the first quarter. As a function of the regular stress testing that we and the industry have undertaken over the past decade, our liquidity and capital metrics are sized to withstand severely adverse scenarios. During the time of increased market volatility and disruption, our ability to seamlessly serve our clients, while the vast majority of our employees work remotely demonstrates the dedication of our people, the strength of our engineering and our business resiliency in addition to the financial standing of the organization. In short, Goldman Sachs is open for business.

Let’s turn to our business performance on Page 5 beginning with Investment Banking. Investment Banking produced first quarter net revenues of $2.2 billion, up 6% versus the fourth quarter and up 25% versus a year ago quarter. First quarter financial advisory revenues of $781 million were down 9% sequentially and down 11% versus last year amid fewer deal closings, consistent with lower industry volumes. During the quarter, we participated in nearly $250 billion of announced transactions and closed 68 deals for nearly $200 billion of deal volume. We maintained our number one position in both announced and completed M&A league table rankings. We continue to engage with clients about significant changes in the economic environment and the implications for the M&A business. Given the new set of challenges facing a variety of industries, we expect client demand to evolve as they seek our assistance, bolstering balance sheets, hedging market and financial risks, and capturing strategic opportunities. While there are clearly some industries that are more directly impacted than others, dialogs with clients are at elevated levels across all verticals, as this crisis impacts clients of all types and in all regions.

Moving to underwriting, equity underwriting net revenues of $378 million were flat versus the fourth quarter and up 44% versus a slow period for IPOs in the first quarter of last year. For the quarter, we ranked number two globally in equity underwriting, with $12 billion in volume across 80 transactions, as we executed a number of key IPOs during the first two months of the quarter. Additionally, following the market pullback, we helped a number of clients raise capital in the convertible market through public and private transactions. Notably, we led a number of high-profile-type issuances for a variety of companies, including Wayfair and Twitter.

Turning to debt underwriting, net revenues were $583 million, down 3% versus the fourth quarter and up 21% from a year ago. Activity this quarter reflected growth in asset-backed and leverage finance activity. Our franchise remains well positioned as evidenced by our Number 4 global debt underwriting league table ranking and our ability to provide clients access to the investment grade and below investment grade markets, even through the challenging environment in March. As David mentioned, in the last two full weeks of March, we saw record U.S. dollar investment grade issuance with over $170 billion of activity. Of that, Goldman Sachs helped raise nearly $75 billion of financing for clients, capturing over 13% share, roughly double versus last year, evidencing our client engagement and commitment to market access. Helping clients access public market financing windows also enabled us to better risk manage our portfolio of acquisition finance commitments, as certain bridge in other facilities were taken out in permanent financings in the capital markets.

Our investment banking backlog decreased versus the fourth quarter but rose versus a year ago. Given the environment, we expect announcement timelines on several larger transactions in our backlog to be delayed. That said, we maintain active dialogs with clients across our global franchise and know that market conditions can evolve quickly. Revenues from corporate lending were $442 million, nearly double the fourth quarter and up over three-fold versus a year ago, driven by approximately $375 million of hedge gains relating to our relationship lending book on wider credit spreads during the quarter. We maintain single-name hedges on certain larger commitments as a prudent risk management tool. The hedge gains could, of course, reverse in future quarters should credit spreads tighten. As a reminder, corporate lending includes middle-market lending, relationship lending and acquisition financing. In the quarter, gains on single-name and index hedges as well as net interest income on the portfolio more than offset fair value marks on our acquisition financing commitments.

During the quarter, we saw approximately $19 billion of corporate commitment draw-downs in relationship lending as we supported our clients' liquidity needs during this difficult time. While we saw a higher percentage of draw-downs from our non-investment grade clients, given the larger size of our investment grade book, the $19 billion was roughly evenly split on a notional basis between investment grade and non-investment grade. These draws were within our expectations for a stress scenario and were below the amount pre-funded in our liquidity pool. During this period, we also saw significant inflows in commercial deposit accounts tied to our new transaction banking platform. These deposit balances totaled $9 billion and we're now serving over 80 clients, reflecting the early diversification benefits of our new business growth strategy.

Moving to Global Markets on Page 6, net revenues were $5.2 billion in the first quarter, up 48% sequentially and up 28% versus last year. Growth was driven by significantly higher client activity amid wider bid-ask spreads and solid risk management in a challenging market. As we noted at our Investor Day, our results in global markets, like all segments, include fully allocated costs. As such, our reported quarterly results in global markets were burdened by a charge of approximately $500 million related to valuation adjustments on derivatives associated with widening of credit and funding spreads. FICC net revenues were $3 billion, up 68% sequentially and up 33% year-over-year. Growth versus last year was driven by an 18% increase in financing and 36% growth in intermediation revenues.

Within FICC intermediation, we saw elevated client flows across all of our businesses, with four out of five business lines posting higher first quarter net revenues versus last year; again, reflecting the value of our standing commitment to a diversified FICC franchise. In currencies, we saw a very active quarter with meaningful revenue improvement as higher volatility drove significantly higher client volume and strong performance in the Americas and Asia. We continued to on-board new clients to our Marquee and eFX platforms during the quarter, and produced record results in this business, reflecting our significant investments in recent years, changing client workflows, and our willingness to provide liquidity during market stress.

Our rates franchise also performed well, given high levels of client intermediation and despite the challenge of managing risk positions through a significant jump in volatility as central banks around the world cut rates and the Fed and ECB launched significant quantitative easing programs. In commodities, our business delivered strong results in oil, as we worked with our clients to manage extraordinary price volatility. We also generated solid performance in metals. These positive results were partly offset by CVA from wider counterparty credit spreads.

In credit, our performance was solid across our global franchise. We benefited from significantly higher client activity in more liquid index CDS products and notably in client portfolio trades, which more than offset the impact of wider credit spreads amid lower liquidity in cash product trading inventory. Like in our currencies business, our technology platforms in credit enabled us to serve clients in period of market dislocation with both buyers and sellers benefiting from our global franchise, capital commitment, and the efficiency of our digital platforms. In mortgages, net revenues fell, as significantly higher client activity was offset by wider spreads impacting our inventory, particularly in agencies, as we saw de-leveraging across the market. Importantly, our performance was cushioned by the capital and risk reduction measures we executed over the past several years. Lastly in FICC financing, we saw a considerable strength in our repo business as we helped clients navigate dislocated funding markets, which have begun to normalize in recent weeks.

Turning to equities, on Page 7, net revenues for the first quarter were $2.2 billion, up 28% versus the fourth quarter and up 22% versus a year ago. Equities intermediation net revenues of $1.5 billion rose 32% versus a year ago aided by derivatives given higher equity market volatility and significantly higher client volumes. This was partially offset by a more difficult market making backdrop in Europe, given unexpected dividend cuts. Equities financing revenues of $666 million rose 4% year-over-year, driven by higher average quarterly, prime client balances.

Moving to asset management on Page 8, collectively, our asset management activities produced negative net revenues of $96 million in the first quarter, first quarter management and other fees totaled $640 million, up 5% versus a year ago, driven by higher client assets under supervision. Incentive fees increased to $154 million driven primarily by asset harvesting, including closing a key Special Purpose Acquisition Company or SPAC transaction. Growth in management and incentive fees was more than offset by marks on our on-balance sheet investment portfolio. Losses here reflect the sharp market declines during the quarter, given the majority of our assets in this segment are accounted for at fair value.

Our equity investments produced $22 million of net losses in the first quarter as material gains generated on the pending or close sale of certain investments in January and February were more than offset by broader markdowns on our public and private equity holdings in March. More specifically on our $19 billion private equity portfolio, we generated gains of approximately $775 million from event driven items including agreements to sell our investment in a UK student housing portfolio and our investment in AirTrunk, a datacenter in Australia.

Gains from these dispositions were offset by approximately $500 million of marks on our private equity positions, reflecting the underlying operating performance of the businesses and roughly $500 million of marks on our $2 billion public equity portfolio including $180 million loss on Avantor and significantly smaller losses across the broader portfolio. Net revenues from lending and debt investment activities in Asset Management were a negative $868 million attributable to mark to market losses on debt securities and fair value loans.

As shown on Page 9, this segment houses a $29 billion credit portfolio including $13 billion of fair value debt securities and $16 billion of corporate and real estate loans, of which $4 billion are held at fair value. This portfolio includes a range of investing activities executed by our private credit group and multi-strategy investing teams, which have historically generated solid contributions to firm performance over many years. That said, in the first quarter, the fair market value component of the portfolio managed by these teams incurred significant credit spread widening which more than offset the ongoing net interest income from the portfolio itself. This drove significant losses across the portfolio of senior and mezzanine corporate loans and our broader portfolio of liquid corporate debt securities. As we go forward, we will continue to risk manage the credit portfolio, prudently. With respect to loans, while the majority of the portfolio is non-investment grade by design, it is well structured and over 85% is secured. We also would note that if spreads retrace, as they have in the first part of the second quarter, we could recoup a portion of the first quarter's losses. But of course, there is no assurance of that outcome.

Turning to Consumer and Wealth Management on Page 10, we produced $1.5 billion of revenues in the first quarter, up 6% versus the fourth quarter and up 21% versus a year ago, driven by higher average assets under supervision, increased transaction volumes and incentive fees and higher consumer banking revenues from deposits and lending products. For the quarter, wealth management and other fees of $959 million rose 21% versus last year, reflecting both organic growth and the United Capital acquisition. Assets under supervision rose 6% versus the prior year to $509 billion. We also saw higher incentive fees, while private banking and lending revenues declined. Consumer banking revenues were $282 million in the first quarter, rising nearly 40% versus last year, reflecting higher net interest income from strong growth in deposits and credit card loan balances.

Consumer deposits at quarter end totaled $72 billion across the U.S. and UK reflecting a record $12 billion of quarterly growth in the consumer platform. Performance in March was solid with $4 billion of monthly growth, providing a valuable source of funding to the firm. Funded consumer loan balances remained stable at $7 billion of which $5 billion were from Marcus consumer loans and $2 billion from credit card. Going forward, we expect to see a more modest level of growth in both Marcus unsecured loans and Apple Card as we seek to manage our risk profile and reduce the pace of origination during this period of market and economic dislocation.

Now let's turn to Page 11 for our firm-wide assets under supervision. Total client assets for which we earn a management fee, including those in asset management and consumer and wealth management, totaled $1.8 trillion in the first quarter, down $41 billion versus the fourth quarter, but up $219 billion versus a year ago. Our sequential decline was driven by $114 billion of market depreciation offset by $72 billion of liquidity and $1 billion of long-term inflows.

Switching gears on Page 12, let's address net interest income and our lending portfolio. Total firm-wide net interest income was $1.3 billion for the first quarter, up 23% sequentially, reflected in global markets and consumer given the impact of lower funding costs and continued deposit growth.

Next, let's review loan growth and credit performance. Our total loan portfolio at quarter end was $128 billion, up $19 billion sequentially driven primarily by funded commercial revolvers in investment banking as I noted earlier. Our provision for credit losses in the first quarter was $937 million, up $600 million versus last quarter. During the quarter, we recognized firm-wide net charge-offs of $131 million resulting in a net charge-off ratio of 0.5%. On the wholesale portfolio, we took impairments and bolstered our reserves, particularly for loans in the oil and gas sector given recent price declines. In our consumer portfolio, provisions related to markets were higher versus last quarter due primarily to CECL reserve rates even though realized net charge-offs declined. Additionally, we note out provisions during the quarter were impacted by higher levels of reserving for new loan growth under CECL which we adopted as planned.

At quarter end, our allowance for credit losses stood at $3.2 billion. Our allowance for funded loans under accrual accounting was 2.5%. Overall, our credit performance remains in line with our expectations given the recent economic deterioration. That said we continued to monitor the portfolio and brought our risk factors closely and will take any and all mitigating actions as appropriate. One area of particular focus is our lending and counterparty exposure to the oil and gas sector. At the end of March, we had approximately $14 billion of total lending and counterparty exposure to the oil and gas sector, net of roughly $600 million of hedges. Approximately $4 billion were funded loans. Our total exposure is diversified, with no single counterparty over $500 million before hedges just over half is non-investment grade of which over 70% is secured. And as a proportion of our overall wholesale credit book, our oil and gas exposure remains very manageable.

Now, let's turn to expenses on Page 13. Our total quarterly operating expenses of $6.5 billion increased 10% versus last year driven by significantly higher brokerage clearing and exchange fees attributable to higher client activity. Higher provisions for litigation and an increase in expenses related to real estate consolidated investments, including impairments. Given the challenging operating environment, we are closely reexamining all of our forward spending and investment plans to ensure the best use of our resources consistent with our historical focus on expense discipline and the emphasis on cost control at Investor Day we will assess the timing, magnitude and pace of certain expenses and investments.

Importantly, we continue to pursue our medium-term efficiency target. To that end, we expect to realize the effect of planned reductions in non-compensation expenses more significantly through the back half of the year. Finally on taxes, our reported tax rate was 10% for the first quarter. Our lower rate reflected the impact of share-based compensation awards and the lower impact or – and the impact of lower pre-tax earnings on permanent benefits. As noted previously, we expect our tax rate over the next few years to be approximately 21%.

Turning to select balance sheet data, on Slide 14, let me begin with capital. Our common equity Tier 1 ratio was 12.5% at the end of the first quarter under the standardized approach, down 80 basis points sequentially driven by balance sheet and RWA growth in light of our meaningful client engagement during the quarter. Our ratio under the advanced approach decreased by 140 basis points to 12.3%, with the incremental decline versus standardized due to higher credit spread volatility. Our SLR was 5.9%, down 30 basis points sequentially also on balance sheet deployment to clients. This quarter, we returned a total of $2.4 billion of capital to shareholders through share repurchases notably at the beginning of the quarter and common stock dividends. Our basic share count ended the quarter at another record low of 356 million shares.

As you will recall, Goldman Sachs and members of the Financial Services Forum voluntarily decided to temporarily suspend buybacks through the second quarter of 2020. This pause allows us to continue to deploy our resources to support our clients in the context of the current operating environment. We remain committed to allocating capital to accretive high return opportunities and when not deployed returning excess to shareholders. As it relates to our dividend, given our continued earnings generation and solid capital position, we feel comfortable maintaining our dividend.

Further to the balance sheet, total assets ended the quarter at $1.1 trillion, up 10% versus last quarter. We maintained strong liquidity levels. As referenced earlier, our global core liquid assets averaged a record $243 billion, up $6 billion versus the fourth quarter. On the liability side, our total deposits increased to $220 billion, up $30 billion versus last quarter with strong flows through our Marcus and transaction banking channels. As we continue to execute on our long-term strategy to remix our liabilities to our deposits. Our total unsecured long-term borrowings were $226 billion driven by $15.7 billion of vanilla debt issuance during the quarter as we accelerated issuance into the first quarter from what was intended for the back part of this year to better position ourselves to be in the service of our clients.

In conclusion, our first quarter results reflected the volatile operating environment and our ability to navigate turbulent markets and support our client franchise. As we look toward the balance of the year, we take strength from our robust financial position, including capital and liquidity. Our client franchise remains strong and with the ongoing dedication of the talented professionals of Goldman Sachs, we will marshal the full resources of the firm to serve our clients during this unprecedented time.

With that, thank you again for dialing in and we will now open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] And your first question is from the line of Glenn Schorr with Evercore ISI. Please go ahead.

Glenn Schorr

Hi, thanks very much. Appreciate it. I guess the tough one on getting you to talk about the linearity of reserves as possible, meaning you laid out the macro backdrop that you have taken reserves under if we roll forward a quarter, the world is a little worse or just delayed. Could you talk about how reserves shift as we shift out a quarter meaning if you – if we start thinking that the economic recovery is more like a 2021 event instead of second half event? Could you talk about the $937 million provision taken relative to how that changes with the pushing out of a recovery? I know that's a hard one.

Stephen Scherr

Sure, Glenn. Thank you. So as you know, the provision for credit loss we took was $937 million, about $686 million of that were in provisions and about $200 million of that related to the relationship loan book with the balance really guided by the crisis relating to COVID and growth in the overall portfolio. In answering your question, I will point out what we did in this quarter, because I think it will reflect a process that we will continue to look at which is we weigh a variety of macroeconomic scenarios, one that's optimistic, a base case and one that's downside in a quarter in which we sat and if circumstances played we heavily weighted a downside scenario that doesn't rely exclusively on our economist, but takes a broad look. And obviously, we don't know what the forward holds in the quarter. And so I think we will hone to the very same process we did, which is looking at a variety of scenarios, putting enough weight on a downside or a base case, or for that matter, one that's marginally more optimistic. It's worth pointing out that in these scenarios we take a look at what the contraction of GDP is. We look at unemployment, but we don't ignore the fact that there are a number of programs in place across a range of countries notably the U.S. where central banks and treasuries have put in place monitoring fiscal stimulus that has the potential to serve as some counterbalance, if you will, to what may play to the extent that holds and that accelerates a recovery. I have every expectation that reserves would reflect it if this continued on and that didn't have the efficacy that is otherwise intended one could imagine a scenario that plays more to the downside and I would expect provisions and losses to reflect the same. And so again hard to predict what the next quarter or subsequent quarters hold, but I think will rely and you should know that will rely on a pretty robust modeling exercise that will reflect to circumstances that we see in front of us.

Glenn Schorr

I appreciate that. Maybe one follow-up on the investment portfolios within asset management and I appreciate the detail you gave. Maybe you could help one on Part A and Part B one on equity, one on debt, on the equity side public are the publics and were down about in line with what the markets were. The private side is only a few percent so if you could talk to what differentiated about the portfolio and cash flow and composition and the diversity of it and why would warrant a lesser mark. And the different question on the debt side, debt lending side, the marks were pretty robust there given the spread widening, just curious if all of that was mark-to-market and nothing sold because spreads have obviously improved so far in April? Thank you.

Stephen Scherr

No, not a problem. So, let me give you kind of quick decomposition and I will start with equity. So we have a $21 billion equity portfolio, $19 billion of that is in private, $2 billion of that is in the public space. When you look at the P&L around it, I would say that on the positive side we realized about $775 million of gain principally generated around the harvesting of assets one as I mentioned being the UK housing platform and the other being the AirTrunk asset in Australia. So that generated positive revenues of $775 million. Also embedded in this was a $200 million revenue pickup in the context of CIEs that we keep independent of the equity portfolio. So think of that portfolio generating positive $1 billion or so. That was offset by both public and private mark. So in the public realm, we took down about $500 million of loss most notable within that was a $180 million of Avantor. On the $500 million of losses in the balance of the private portfolio that was spread across about 280 names. And so it's important just to understand that dispersion. I would also say that when you look at the private portfolio, you don't hone exclusively to kind of public market comparables, you look at the underlying performance of those businesses. And just to give you a little bit of insight into that, of that private portfolio, I would say 65% of it continued to perform well in the context of operating performance in the business, about 20% of that portfolio was impacted by COVID and was the source of a considerable number of the private marks taken and then 15% of portfolio was what's on positive gains in the harvesting that was there. Just to give you a breakdown and the reliance on underlying performance and/or events and not the exclusive reliance on a public sort of analog in terms of looking at that private portfolio.

Let me turn now to answer your question on the debt side. So there it's a $29 billion portfolio, about $17 billion of that is fair value. So debt securities about $13 billion, loans about $4 billion, the balance of $12 billion are loans on an accrual basis. And so as you can imagine, the mark-to-market on the fair value was largely influenced by dramatic spread widening that was experienced in the quarter. We saw high yield spreads in the U.S. gap out by about 375 basis points, the same in Europe gapped out by about 435 basis points. Now as I noted, we have seen some retrenchment of that in the beginning part of the second quarter that doesn't do anybody any good as it related to marks taken in the first quarter, but just to give you a sense of the markets retrenchment as we began early. Now we will see what the rest of the quarter holds, but that just gives you a sense of balance in the context of both the acuity and the credit portfolio.

Operator

Your next question is from the line of Christian Bolu with Autonomous. Please go ahead sir.

Christian Bolu

Good morning, David and Stephen. Maybe first on sustainability of FICC strength, I think a sequential quarter performance of up 68% is probably the best of all banks that reported so far. So are you finally seeing payoff from your growth initiatives and feel actual share gains in this business? And then just given the strength of performance and more importantly the countercyclical nature of the business, does it change how you think about allocating capital to FICC over time?

David Solomon

Sure. Thanks, Christian. I will start and Stephen might jump in. We have been – two parts of your question in my mind, the first is we have been very committed, this management team over the last 18 months, to running the diversified fixed income business at a point in time where the ability to differentiate in the intermediation part of that business was harder. We were in a very low volatility environment for a long period of time. You have seen us stay committed to a diverse business, where in some years some businesses do well, some businesses do poorly, but we really as we have reoriented the client focus of the organization, we believe that a full service platform would, through cycles, payoff for us. We have spent a lot of time really thinking about the way we connect with clients and the way we are servicing clients and trying to make that business over the last year less transaction-oriented and more client-oriented. Those investments based on the feedback we have and data we have having nothing to do with COVID have borne progress over the course of the last year, from a market share perspective both on an objective basis and also from a subjective feedback we are getting from our clients. In this quarter, you saw all people that operate the intermediation businesses benefit from higher volatility and more client activity. I am watching all the reporting of the other banks as you are. We think we benefited meaningfully from that because of the way we have invested in that business and we are well-positioned. How it continues going forward will depend on the environment and what the environment brings. In an environment that continues to have more elevated volatility and more changes in risk patterns for our clients, I think our franchise will continue to benefit.

In terms of capital allocation, I think we have got the right amount of capital in that business, but look, you saw the operating leverage in that business when you look at the returns in that business based on how we are operating now. So again, we have always thought about through the cycle. I think our team performed very, very well in this business. I am glad we have stayed in the broad array of businesses given the environment that we are now in, but you will only be able to judge whether we have got the capital right and we stay zealously focused on this as we continue to run through the cycle. But we have no plans to change the capital allocation at the moment, other than to try to accommodate clients we grew risk weighted assets in the business which obviously attracts capital. We will continue to do that if it’s attractive and it supports our clients.

Stephen Scherr

Christian, good morning. Couple of things I would add to David’s answer, first to his point on capital allocation, it’s bearing note as we report now in ways we hadn’t before that FICC produced an ROE of 19.7%. And the reflection of the nimbleness and agility of capital, which was a topic discussed at our Investor Day is the ability to deploy capital where it’s required and needed by our clients. And that’s the way balance sheet flows in and around the firm and within the firm in terms of capital allocation. I'd also point out that I think this business benefited and you heard us talk about this over the preceding one or two earnings calls where we took risk down generally speaking within this business. And so as a consequence, we came into this crisis with a more manageable risk profile and we are able to manage flows and be in the service of intermediating clients more thoroughly. I should point out as I may have misspoken, but growth markets producing ROE as a segment of 19.7%, but obviously FICC a big contributor to it in the context of our overall performance.

David Solomon

The only other thing Christian I would add is that we have also been making significant investments in technology platforms to better serve our clients in this business and we saw a real benefit especially with everybody working remote on our technology connectivity and our platforms. And we think that's an investment that has paid off.

Christian Bolu

Great. Thank you for the color. Maybe switching to the loan book I think the loan book has more than doubled over the last 3 years and has been a real source of revenue growth for the firm. I am just looking forward how are you thinking about loan growth both in terms of customer demand and your risk appetite to lend into global recession?

Stephen Scherr

So Christian, I will take that question. Look the abiding proposition for us obviously is to maintain appropriate risk management and equally be mindful of capital and liquidity and so taking those three as kind of the abiding governors. I have every expectation that the firm will continue both aggressively and offensively to extend credit in the interest of clients across a range of our businesses and equally to meet our client needs in the context of corporate draw-downs or other liquidity needs of the client itself. The book obviously stands at $128 billion. There was meaningful growth in the quarter occasioned by the relationship loan book being drawn by about $19 billion. But I think risk is obviously an important governor. And so I would just point out as an example in the context of the consumer book wherever committed to that business, but at this moment, in this environment we will be quite cautious in terms of credit extension and growing that book and will return to grow that book once this sort of circumstance and market volatility passes just as an example of how risk needs to be the governor in the context of managing this profile and the loan book overall.

Operator

Your next question is from the line of Michael Carrier with Bank of America. Please go ahead.

Michael Carrier

Good morning and thanks for taking the questions. First question just a follow-up on the asset management business and thanks for all the color so far. On the private equity portfolio versus the public equity portfolio, historically, how much of the valuations tend to be fairly close to the public markets versus what could we expect on a lag basis if the challenging backdrop ends up continuing?

Stephen Scherr

Sure. So the philosophy that we brought and the accounting rigor we brought to marking our private portfolio frankly has not at all changed this quarter relative to what it has been historically. Meaning, we always look at events that play out as a reference point against which names or companies in which there has been an event either a sale or another investment into that name we market in that context, where there is in an event, we look at the underlying performance in the business in just the way I described we did it this way. And so underlying – the underlying performance of those businesses is having the true north in the way in which we look to mark that portfolio. Now as we look forward to the extent that we come into a quarter or multiple quarters, which ultimately weigh on the underlying performance and the underlying profitability of that portfolio company or set of companies, you are obviously then could be further marks and loss occasion by that and that would therefore be a lag. But I just want to layout the methodology we use in the context of how we market and equally point out that this quarter is no different than any other in the way in which we mark that book.

Michael Carrier

Okay, that makes sense. That’s helpful. And then just as a follow-up, results in trading and banking held up well and I realized it’s impossible to predict or to have too much clarity, but can you help us out or provide some context or color on where you are continuing to see elevated activity versus the areas where we could expect some normalization or falloff just given some of the pockets that we have seen over the past 9 months?

David Solomon

Sure, Michael. I mean, I will take a stab at talking a little bit about that. First in the investment banking business, the advisory business is always a lag. So we have a backlog of M&A deals that were struck earlier. Many of them will continue to close. That will bring some revenue into the second quarter. But as we go longer and we continue to be in an environment where there is very, very low confidence obviously as you witnessed over the last few weeks, there has been very little new M&A activity that's been initiated. During the time of low confidence, I would expect that to continue. So over time, the velocity of revenue accrual on the M&A side will slow until we get to a period of higher confidence. With respect to the financing side of the investment banking business, you have obviously seen in the last few weeks record levels of investment grade issuance, one record week after another and so debt financing has been very strong. You have seen some equity issuance and certainly with more stability in equity markets or companies are trying to bolster their balance sheet, bolster their liquidity and position themselves to ride out what maybe a longer period of economic contraction. That actually should accrue to our benefit in that business, because I think we are well positioned to capture our fair share of providing that liquidity and financing support. In the trading businesses in the early part of the quarter, we have seen heightened level of activity in the early part of the quarter. There is no guarantee obviously that continues as we go through the quarter, but in the early part of the quarter, we have seen our investing clients continue to be very, very active. I think we are going through a period – we were going through March period of significant de-risking. We have now been going through a period of repositioning. So our clients have been active. As you point out, it's very hard to say what that's going to look like 2, 3 months from now, but that's the view I give you at the moment.

Operator

Your next question is from the line of Steven Chubak with Wolfe Research. Please go ahead.

Steven Chubak

Hi, good morning.

David Solomon

Good morning.

Steven Chubak

So wanted to start off with a question on funding, one of the biggest drivers of the ROTCE build you laid out at Investor Day was the $1 billion benefit from funding optimization and retracted deposit costs pretty closely. We have seen a lot of your competitors aggressively match the Fed rate cuts, but you maintained very competitive deposit payouts, certainly help contribute to strong deposit growth this quarter. I was just hoping if you could update us on how your deposit strategy is evolving in the low rate environment and whether the flat yield curve and still elevated deposit payouts could impact that $1 billion funding benefit you cited out yesterday?

Stephen Scherr

Sure. Thank you, Steve. So let me start with sort of strategy around rate. We took our rate down actually yesterday in the U.S. relative to where it had been. Our strategy remains unchanged in that regard, which is we aim to be certainly not the top rate payer, but somewhere in the 3 or 4 category and we will continue to do that with an eye towards building out greater product attributes and a more formidable relationship with depositors such that we rely less on rate in the context of both drawing and maintaining deposits, but it’s against that strategy that we saw at least for us record inflows on the deposit side. In terms of the medium-term target which we set out in Investor Day of achieving $1 billion of savings occasioned by the migration of our funding mix, that’s no less an imperative for us now than it was then. And I would simply point out that the market will pull some volatility into the measurement. So again, this is a medium-term target that we will achieve. We will move closer and closer to 50% of our funding in deposits, the amount or the delta of savings, if you will, will be both a function of where we take deposit rates and as much as where wholesale funding obviously takes itself. And I think particularly in this market and most notably in March, this was a really good very stable source of funding for us, but I think the forward trajectory both as a strategy and then equally as it relates to our ability to harvest the kind of savings that we have talked about over the medium term is one that we are going to continue to adhere to and watch and achieve.

Steven Chubak

Thanks for that. And just for my follow-up relating to expense management, I wanted to unpack some of your comments a bit more, you talked about savings initiatives helping reduce non-comps in the back half of this year, but just in terms of the near-term outlook, are you still comfortable with maintaining I believe the guidance was calling for flat non-comps, ex-litigation in 2020? And just given some of the recent disruption from COVID, whether that has informed or changed your strategy around executing on the long-term savings target of $1.3 billion?

Stephen Scherr

So there is no change relating to our medium-term target of achieving $1.3 billion. Now the early pace of that during this period of pandemic will obviously be slower, but this is a medium term or 3-year target and I think we will come out of this experience leaving clearer view as to sort of where changes can be made and where we can harvest expense reduction. In the near-term I am very much minded to achieve flat non-comp expense relative to where we were, but let me just be open and point to the variables. One is obviously, BC&E this is a variable expense that obviously plays in the context of market activity. We have seen more of it. And so as a consequence, we have seen more expense in that regard. On consolidated investments, it would have been my preference in a common market for us to have exited more of those consolidated investments and shed ourselves of some of those expenses whether the market permits that to happen over the balance of the year we will have to see. Obviously honing to flat non-comp was ex-litigation so I am just leaving that aside, but the two variables really just to be candid about it are BC&E relative to volumes and CIEs to the extent we can harvest it. Otherwise, we are quite focused on trying to sort of live to a flat non-comp expense year-over-year.

Operator

Your next question is from the line of Mike Mayo with Wells Fargo Securities. Please go ahead.

Mike Mayo

Hi, I just wanted to test your conviction on how much of a counterbalance, the economy should have for the monetary and fiscal actions and your conviction seems to be important, because it goes to your provisioning level which you said we had considered as part of that provision and the pace of additional financing for your clients and frankly for the advice that you give to your clients, I mean you are the biggest advisor to your corporations out there, I mean, what are you telling them as far as how they should proceed?

David Solomon

So, thanks, Mike. I will start, Stephen might join in, but you are asking a multi-layered question. So on the first part of the question, there is no question that the response, the fiscal and monetary response is going to have a simulative effect, there is no question. When we come out of this and I am not making a prediction of when we will come out of it, but when we come out of it, it will have a stimulative effect versus a scenario where it didn't exist. The question that's so hard to answer and in my conversations with clients on having it constantly, we have to rebuild confidence in people's security and safety around the virus. We can all have economic forecast and we can all talk about the economic consequence of this, but unless people feel safe and secured and confident around the virus, the economic impact will continue in some way, shape or form. That is a very, very hard thing to predict. So I tried to encourage companies that we have talked to and individuals for that matter to hope for the better, but plan for the worst. And so certainly I think if you are trying to prepare for an economic environment, you have to view something that is a slower economic recovery as you come out of this. And look even if you look at the Goldman Sachs scenario was a very steep decline with a sharp increase in the second and third quarter they are still only predicting a 50% recovery of the output that was lost. So, I think for anybody operating a business you have to be planning on an assumption that we are going to be operating in a recession through 2020 into 2021 and you have to plan accordingly.

Will the monetary policy and fiscal policy be a benefit to the positive of what that trajectory looks like in the third, fourth quarter and into the first half of next year? Yes, but it’s very hard to quantify what that will be, because the uncertainty around the course that the virus will take and how it will affect human behavior is still very uncertain and anyone who is telling you they are sure that it will look like this or they are sure that it will look that, I don’t think anybody is sure. And so I think this will be a gradual path. And as we have more information we will be able to better evaluate. What we are trying to do is ensure that in our organization where risk managing and provisioning appropriately as we can based on the information we can looking forward with that kind of a mindset.

Mike Mayo

Well, the other part of the question is given that how aggressively are you pursuing financing at this time to gain share by stepping in when others might not?

David Solomon

Look, we are actively – we are focused on helping our clients across the organization. If you look at investment grade, you take an investment grade which has been very, very obvious and transparent. We picked up significant share over the course of the last four weeks. And so we think we are well-positioned to capture share. We are going to do it with prudent and a long-term view of our client franchise. And so we are long-term investors on our client franchise we always have been. There isn’t an institution that does not have to make certain choices around how it allocates its capital at a time like this. We think we are good at that. We think we are nimble. But of course, we are going to lean into our client relationships and take a long-term view.

Stephen Scherr

Mike, I also would say that as a by-product of advice, if you look at the roster of corporations that have issued into both the investment grade and below investment grade markets what you will find are companies that are in certain industries that have been meaningfully impacted by the virus yet saw the utility of taking access in the market so that they can better weather the storm and the uncertainty that's in the market itself. You also saw issuers who are not impacted to the same extent, but they too saw the utility of tapping the market and looking to take themselves to the other side of this moment of volatility and sort of comport themselves and carry their business that way. And I think that's a reflection of advice we and certainly others have been giving to issuing clients.

Operator

Your next question is from the line of Kian Abouhossein with JPMorgan. Please go ahead.

Kian Abouhossein

Thanks for taking my question. The first question is related to your comments on your global market equities, you mentioned the dislocation in dividends and I was wondering if you could give quantify the impact that it had on your results? And in that context on equities also we clearly hear that a lot of investment banks have been having gamma positions. In that context, I was hoping if its material if you could indicate if that was a positive or negative impact on your results as well?

Stephen Scherr

Sure. So what we experienced in equities over the quarter was the negative consequence of the suspension by certain companies of dividends, mostly in Europe and so it had a European tilt to it relative to other geographies. I wouldn't call this out as being material. I am not in a position to callout the precision of its impact, but I would say that there were certain industries that were subject to kind of an outright suspension of dividends, there were others in the context of the circumstances of the virus that we are unable to convene AGMs and as a consequence could not declare dividend. Obviously, we facilitate client flows that trade and dividends, it's a bigger business in Europe than elsewhere and the consequence of those suspensions was a negative impact to overall revenue in that business, but nothing that I would call out as being material.

Kian Abouhossein

And in respect to looking at the trends through the quarter basically we are trying to understand a little bit, how is the sales and trading franchise impacted and you clearly mentioned at the beginning that the first half was excellent, the second half was dislocated, but clearly the trading revenues and volumes when you look at the volumes were holding up extremely well. And generally, in a downturn what we see is dry up of volumes which we haven't really seen. So just from your experience how should we think first of all about the trend line that we saw through the quarter if you can comment on that both on fixed income sales and trading equities? And secondly, how should we think about the trends generally for the industry when we compare to historic levels, where we really see a dry up post a material dislocation or decline in markets?

Stephen Scherr

Sure. Go ahead.

David Solomon

You go ahead.

Stephen Scherr

No, no, I was just going to comment that, I can speak to the trend that we saw in the quarter and David can offer some further comment of what we are seeing in the beginning of the second to the extent that sustains itself. But while David rightly pointed out that the quarter was on one hand January and February and then on the other hand March. In March, we saw very high volumes through our sales and trading businesses and took advantage of that at wider bid offer spreads. I would also point out that and particularly using marquee and some of our electronic platforms we were engaging in very large portfolio trades on behalf of clients. And I think those electronic platforms were busy and were useful, particularly because it's not just we who are at a work from home posture, but equally clients were. And so these digital platforms across geographies proved to be quite useful and it proved to be a positive consequence to the overall P&L and certainly to the business of sales and trading. To the extent that continues to play forward one could assume you would see the very same phenomenon, but that's difficult obviously to project.

David Solomon

I don't have anything really to add. I think we have kind of covered this. The first part of the quarter, things were going well on the trading business as the customer activity of the trading business has accelerated in March and it’s continued to remain just in the first 2 weeks higher than what we would have seen as an average level of activity before the crisis.

Operator

Your next question is from the line of Brennan Hawken with UBS. Please go ahead.

Brennan Hawken

Hi, good morning. Thanks for taking the questions. I am sorry I wanted to circle back on the provision assumptions, I know you have spoken about it a couple of times, but it’s just so little confusing to me because I am not – you have referenced sort of what the Goldman Sachs economists think, but it seemed as though you suggested that’s not what was necessarily an input into your own provision assumptions? And then I think David you referenced a recession when advising clients that a recession might go into 2021, but I am not sure whether or not that was the advice to clients or whether that was the input into provisioning? And I think Steven you referenced three scenarios, could you maybe give a little bit more clarity on what those assumptions are? And given that you have both debt securities and loans when we look at the debt securities, should we like add in the mark you took which looks like about a 7% mark on the $17 billion that you laid out as almost like a quasi provision and how we think about it holistically? Thank you.

David Solomon

Okay. So, Brennan, I am going to start and then I will pass to Steven to talk about the provision stuff, but first, we are mixing certain things. I was asked a question about advice to clients and I am going to be a little bit more specific in my words. We all understand that a recession is two quarters in a row of economic decline. Okay, and if we looked at the Goldman Sachs scenario that would say there would be a recession in the first and second quarter, but we would then have economic growth in the third and fourth quarter that wouldn’t technically be a recession. However, if you are advising clients and you took the Goldman Sachs economic model that said that you only recovered 50% of the output that you lost and the decline in output during the first and second quarter. And so if you are giving someone an advice about how to position the business even though technically we wouldn’t be in a recession as you got to the end of the year in early 2021, we would not have recovered the output that had decline. And so certainly if you are operating a lot of these businesses, it’s still going to feel like you are operating in recession. And so the advice to clients is to think about when you get your business back to where it was and that obviously takes a longer time. That's client advice. That has nothing to do at all with how we model or think about our provisioning. And I will let Stephen go talk about that a little bit more.

Stephen Scherr

Sure. So Brennan, let me just – let me directly address your question on kind of process and what we go through. So we obviously have an independent risk group that assigns and works with controllers to an economic scenario that serves as a backdrop that influences the direction they take as they look name by name through both the equity and the credit portfolio. And so it is an input it is not a formula if you will that sort of bleeds out a percentage that's applied to the whole. Each name is reviewed in the portfolio. It's done by an independent risk group and that independent risk group uses as an input a macroeconomic backdrop that they assemble. There is no question that the Goldman Sachs Research Group is an input to that, but what puts out is not the sole determination. The independent risk group goes about establishing their perspective, their backdrop with that as an input, but not exclusive. And so that gives rise obviously to an environment against which our controllers approach every position in the book and ascribe an appropriate mark or reserve against it. And that's the process that we take. And the question you asked about the mark on our fair value debt and lending portfolio, I would just draw very big distinction between marks taken on that versus provisions, obviously, very different accounting regime depending upon the nature of the portfolio itself. I would also be very reluctant to try to ascribe a single percentage to the entire book because the duration on that book is very different meaning it runs a gamut. And so you need to be quite careful in the context of how you market. And so I just offer you that detail just to be super clear about the process we run.

Brennan Hawken

Great. Thank you for all that color and clarification. Yes, that's helpful. Quick – my follow-up being I think can you guys in your discussion with the equities business you flagged growth and balances of equity financing, but I believe Stephen, it was average balance and so given what happened in the quarter, the number might have been skewed. Are you seeing sustained strength in that average balance on the PB side just given some of the de-grossing we hear from some large hedge funds, it seemed to run counter, now you guys might be picking up share in that business. So just hoping to understand how it's proceeding here in 2Q? Thank you.

Stephen Scherr

Sure. So, your observation was the right one, which is average balances were up, end of period was lower and so just to avoid any confusion than that.

I would say that there is nothing when we look out over the client base in prime that's to be called out as any particular category of client was challenged anymore than the other, meaning I think all of them whether it was quants, hedge funds and the like, all kind of were performing without any particular issue to be called out as against one or the other. I would say, it's a general observation that de-leveraging among that client base was less significant than perhaps one might imagine from the outside looking in, but again no particular issue and this is a business that remains strategically important to us as we continue to go forward.

Operator

Your next question comes from the line of Devin Ryan with JMP Securities. Please go ahead.

Devin Ryan

Thank you. Good morning, David and Stephen.

David Solomon

Good morning.

Stephen Scherr

Good morning.

Devin Ryan

I guess first question here on just some of the puts and takes of the move in interest rates and obviously Goldman is going to be less levered to interest rate movements in some of the large banks, but just with the dramatic shift across the curve in the back half of the quarter, just if you can maybe help us think about some of the implications of the move on the model going forward whether it be on funding or revenues and then any other second derivatives, sounds like debt issuance might be one area of the benefits, but anything else we should be thinking about?

Stephen Scherr

Sure. So as I've said in the past and I sense from your own question, net interest income is roughly 15% of the firm's overall revenues and so it's not near the driver that it is for some of the larger big commercial banks. I think that if you look at where rate moves are and where interest rates have come, it probably plays more favorably to us in the context of funding. And I would point out that again apropos the answer I gave to the question on deposits as we continue to shift our funding mix with greater proportionality given to retail deposits and a bigger broader consumer business that will build, it will become less rate reliance. Rates will come down in that regard. And so our expectation is that this will play favorably to us more from a funding point of view than anything else, but it is not a big driver in the overall composition of firm-wide revenue.

Devin Ryan

Sure. I appreciate that. And then just one on the investment banking outlook, obviously you heard the commentary on the backlog and debt issuance does not have the same lead time as M&A or IPOs for that matter. I am just curious if the expectation is that M&A and equity issuance are going to track the economic recovery, which obviously could be slower here or you are seeing signs of engagement with clients that could suggest maybe a more material snapback recovery as the economy opens back up?

David Solomon

Yes. So, Devin I would say a couple of things on that first the engagement level with clients is extremely high, extremely high across the organization. And this is a different kind of recession. We were operating in economy that was really operating quite well with functionally fine and we turned it off with a sudden demand shock and that's kind of unprecedented and it's also unprecedented in that or it's uncertain in exactly how it turns back on and what the path of that is. And so I can see a lot of scenarios as there is a clear understanding of the trajectory of the virus and how the virus is going to affect kind of the reengagement economically of businesses across the economy that there will be an opportunity for more consolidation or some activity in a whole variety of industries that probably wouldn't have been anticipated had the economy just kept chugging along. So I am not going to predict that. But I would say engagement is high and I could certainly see that if we got to a place where the virus seemed under control and confidence was building, I think that level of engagement could potentially pickup quite quickly.

Operator

Your next question is from the line of Gerard Cassidy with RBC. Please go ahead.

Gerard Cassidy

Thank you. Good morning. I had a question on the impairment coming back to that, I think you guys told us that we really shouldn't look from -- on the private equity side, the direction of the public markets they don't necessarily reflect what's going on fundamentally with those private equity companies that we will have investment in, can you share with us some metrics we can look to from the outside to take a look at how those marks may move going forward?

Stephen Scherr

Well, it would be hard to get, I mean shy of handing you a sheet which had every company and every industry. It would be hard to do that. I will just come back to the commentary I made before, which is $19 billion of private equity positions, two-thirds of that portfolio in the context of our look and evaluation of their operating performance continued to perform well. Now that doesn't necessarily lead to the conclusion that they will continue or that number doesn't come down, but in the quarter, they performed well. About 20% of them were directly impacted by the virus. We saw it in the operations of that business and then the balance obviously has been harvested roughly 15% producing the gains that we saw. And so it's the EBITDA performance of individual portfolio companies that really lays on and guides the direction that price action is allocated to those names. And so we think that we have invested in companies that have the capability as the going in investment thesis to sort of whether a variety of different economic environments. And I think the portfolio is obviously intended to hold up that well that way, but it's not immune by any means from broader macroeconomic circumstances and the marks will reflect the sort of assessment of performance as we move through uncertain quarters.

Operator

Your next question is from the line of Jeremy Sigee with Exane BNP Paribas. Please go ahead.

Jeremy Sigee

Good morning. Thank you. You talked about your willingness to deploy more balance sheets when you see opportunities. I just wondered if you could talk more about what your expectations are for total balance sheet assets expanding further in the next couple of quarters and also risk weighted assets. So I wondered if you could talk about both aspects of that, the volume trends that you expect to see in terms of overall assets, but also the risk weighting inflation that we have seen and whether we need to be ready for more of that looking forward?

Stephen Scherr

No, this is an excellent question. I appreciate you asking it. On one hand as David and I have said now many times on this call, part of the purposeful inflation of balance sheet and by extension risk weighted assets was in the utility of serving our clients and the history of this firm strategically has been for that to happen meaning balance sheet moves, because client demand is there. The counter to that is that from a prudent risk management prospective we set boundaries for ourselves as to sort of what the consequence and tolerable consequence of that should be on capital. And so we are obviously well north of where we would otherwise be invading buffers and so we have got flexibility in that regard and we equally need to be mindful of what the forward calendar maybe with respect to CCAR and SCB on the forward, but it's in the context of that, that we will be prudent in the expansion of balance sheet and risk-weighted assets mindful of where we think it's appropriate for us to be from a capital point of view again given the fluid and attending guidepost that the regulatory issues will have for us. And so that push and pull continues, but we feel quite comfortable with where we are and with our ability to continue to put balance sheet in deployment at the service of our clients.

Stephen Scherr

Okay. Since we – there are no further questions, I would like to take a moment just to thank everybody for joining the call. On behalf of our senior management team, we look forward to speaking with many of you in the coming weeks and months. We obviously wish you all well in the context of this environment. If there are any additional questions that arise in the meantime, please don't hesitate to reach out to Heather. Otherwise, please stay safe and we look forward to speaking with you on our second quarter call in July.