

Exchanges at Goldman Sachs

Goldman Sachs' David Solomon on the firm's performance, the global economy and what to expect in 2022

David Solomon, CEO, Goldman Sachs

Allison Nathan, Host

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Allison Nathan: This is Exchanges at Goldman Sachs and I'm Allison Nathan, a senior strategist in Goldman Sachs Research. Today, we're sitting down with a very special guest, David Solomon, Chairman and CEO of Goldman Sachs.

David has been CEO for more than three years and has led the firm through a global pandemic, a stock market that's continued to defy expectations, and a global economic expansion. We'll talk about what David's focused on, his views on economic growth in the markets, as well as what he's hearing from CEOs.

We'll also ask him about the role that companies can play in accelerating the climate transition and raising their own diversity

standards and his advice for people just starting out on their careers. So lots to look forward to in this conversation. David, welcome back to the program and happy new year.

David Solomon: Thank you for having me and happy new year. It's good to be with you, Allison.

Allison Nathan: Let's start out with a bit of a look back. The firm had a very strong 2021. Talk about the drivers behind that performance.

David Solomon: Well, it's been a very, very interesting period. And you highlighted it in your open remarks. The pandemic has certainly been dominant, but the pandemic has created an economic structure that really benefited our clients and our business. And so client activity was extremely high, and our business was quite robust.

We saw record levels of activity across our investment banking business and across our markets business. We obviously saw strong investment performance in our asset management business.

Good inflows in both our asset management business and our wealth business. And so the combination of the macro environment and this level of client activity has really led to an extraordinary year.

It was just a tremendous year. We had record revenue, record EPS. And really just an extraordinary performance by our people in what's been a very, very complex environment. But our clients have been active, and we've been lucky enough to be in a position to serve them.

Allison Nathan: You laid out in 2020, at the start of 2020 at our Investor Day, a series of strategic objectives. How is the firm tracking against those objectives?

David Solomon: Well, we're tracking very well. The leadership team, we thought it was very, very important to be much more transparent and clear about our vision for how we could grow the firm and drive the firm forward. I'm a big believer that investors really want to understand. They want a path.

We laid out in our Investor Day -- and this was right at the beginning of the pandemic, and it's hard to imagine in some ways it was two years ago in just a couple of weeks. It feels like in some ways five minutes ago. In other ways it feels like ten years ago given what's happened since the end of January 2020.

But we laid out very clearly a very simple plan to strengthen and invest in our core businesses, to invest and build four key growth platforms, and to run the firm more efficiently. And in doing so, we thought that we could significantly increase returns and really grow the platform in a meaningful way.

And so we set up about 35 KPIs to track progress against both the investment in core businesses, increasing our market share in those core businesses, but also our big growth platforms, which includes the development of the transaction banking platform that we launched in the last two years to serve corporate clients, the growth of our asset management business and in particular the expansion of our alternatives business, the growth of our wealth management platform, and the growth of our digital consumer bank.

And we are tracking ahead on nearly all of those KPIs. And so we feel like we've made very, very good progress. There are certainly some places where the environment was different than we expected it to be. We didn't expect the pandemic, and therefore we didn't expect low rates over a period of time.

But generally speaking, on most of the metrics, we can track against growth in the business, performance in the business, we're tracking ahead. And we feel very, very good about the plan. And we're going to update. Actually, we're going to talk to investors in February just to give investors more of a forward view at this point and how we're thinking about the next few years.

Allison Nathan: Right. Of course, the macro economy has shocked all of us in conjunction with the global pandemic. And we continue to face a number of challenges. We've got Omicron. We've got inflation. We've got a hawkish Fed pivot. What issues and concerns that could economic growth and markets are you most focused on?

David Solomon: Well, I think the big one is inflation. And I'm

watching very closely what's happening here based on the response to the pandemic. I said this a handful of weeks ago when I was on CNBC, that I thought in 2022 we would be much, much more focused on macroeconomics, economic growth, and inflation than we would be on the pandemic.

I certainly got it wrong the first week in January because I didn't see the acceleration in Omicron. But at the same point, I think that COVID is very quickly becoming endemic in society, and we have to learn to live with it. And the good news is we've made a lot of progress. We have great tools.

The vaccines really work. They're very, very effective. We have other treatments that are being developed, etc., and I think we can live with this. And it's going to be endemic in society, and we're going to have to learn to live with this.

So I do think the focus is going to pivot and shift to what's going on from an economic perspective. And I think because of the monetary and fiscal policy actions that have really come out of the pandemic, we've set the table for a different environment than the environment

we've operated in for quite some time.

And so you do have a Fed pivot. We are going to see higher rates. We definitely have inflation. It's real and it's in the economy. If you are a CEO and the average CEO runs a business for four and a half years -- that's the average tenure of a public company CEO is four and a half years -- then if you have inflation for a couple of years, it sure doesn't feel transitory. It's, like, dominating everything you're doing in your business.

If you're an academic and you're thinking about the next decade, well, maybe it is transitory because maybe it's not going to last for a decade. But it's real and it's going to have an impact on growth. And so I think we're setting the table for a period of time with above-trend inflation and slower, more sluggish growth once we come out of the pandemic. And that's something that we'll all have to adjust to.

And I think people have forgotten how much low rates, free money, you know, all of this affects asset prices. And, you know, you've got to be a good student of history. It's not different this time. It's just

kind of the journey that we'll weave through based on what we've put into markets, what we've put into the macro environment.

Allison Nathan: You mentioned the CEO perspective, and you spend a lot of time speaking with CEOs across the US and around the world. What are you hearing from them about the 2022 outlook in general?

David Solomon: Well, I think there are a couple of things that you're hearing universally from CEOs. When you go talk to CEOs, there are a handful of topics that CEOs want to talk about in every meeting. The first is they want to talk about the pandemic and the journey of the pandemic and what's going on currently and what the road map is out.

They want to talk about workforce and return-to-office and employee retention and all the issues that are a product of the pandemic and the inflationary environment that we're in. They want to talk about inflation and macro policy. They want to talk about economic growth.

And interestingly, they're also very interested in technology, crypto, and kind of what I'll call new innovations. So those are all big picture topics. And then China would be another topic that gets a lot of attention in those CEO discussions. And the US-China bilateral relationship.

And so all CEOs are thinking about those things. And if you step back, those are the big issues that are affecting the macro environment that they're operating in. I think most CEOs are dealing with supply chain issues and bottlenecks and constraints and they're trying to work through those issues.

They're dealing with employee and labor issues, both in terms of getting people back into workspace or workforce, whether it's even in manufacturing facilities. You know, what is the right operating mode? There's a lot of wage pressure. And so those issues are all things that people are grappling with.

I'd say that CEOs are concerned about the trajectory of economic growth given the macro landscape. And they're trying to adjust, position themselves as competitively as possible. And that's one of

the reasons you see this acceleration of M&A. The strong are getting stronger. The leaders are leading more.

And so if you feel like you don't have a very strong hand, you really have to do something about that. And so that's leading to more consolidation across a variety of industries.

Allison Nathan: And how are CEOs feeling about the current elevated market valuations?

David Solomon: In terms of valuations, you know, it depends where you go. And, you know, my guess is if we were having the conversation four weeks ago, I'd be more concerned or hawkish on valuations, but a lot are there. If you look at a lot of the growthy stuff that was so aggressively valued, you know it's off about 30-plus percent. And it's happened in a relatively swift but I think healthy way. I think that's a healthy correction.

And so by any scope, if you look at the market overall, we're still on the high end of the spectrum in terms of valuing the market on a basis of earnings. But it doesn't look as robust as it looked, you

know, 30 to 45 days ago. And to the degree that we do have inflation really embedded and we do have slower growth, I think there's more downside in equity valuations. And higher interest rates will affect equity valuations.

Allison Nathan: You touched on M&A. 2021 was a record year for M&A. Companies looked for growth. They looked for strategic transformation, as you mentioned. What's boardroom sentiment like around M&A activity at this point?

David Solomon: Well, the strong companies that are well positioned are looking to add to that position of strength. And so they're looking to consolidate, to enhance, to extend, and they're actually being quite aggressive in that context. You know, if you get into a boardroom, what are boards thinking about? The big thing that boards are really thinking about is, if we're going to go down the road and we're going to do something, can we get it done?

And so certainly from a regulatory perspective, especially on large transformative deals, I think the regulatory environment has gotten a little bit more difficult. So, in some board discussions, when

you're thinking about transformative M&A, that's playing a role.

On the other hand, if you look at all the M&A activity last year, it was a record year for M&A activity. Broke the previous record which was 2007. A lot of it comes from what I'd call, you know, midsize deals. You know, one, three, five, ten billion dollar companies. Consolidating, being bought, buying other businesses. It really was that part of the world that drove all this M&A activity, not big, large, transformative deals.

I mean, the tech sector has been relatively constrained from doing big, large, transformative things. The banking sector has been relatively constrained from doing big, large, transformative things. And so you've got this mix and this match where the regulatory environment is tougher, but there's a lot of underlying consolidation going on in a lot of businesses.

Allison Nathan: The firm also made some strategic acquisitions of its own. The European asset manager and an investment partner, GreenSky. How is the integration of those businesses going?

David Solomon: It's going quite well. Neither one has closed yet, so we're in the early part of integration. But the integration plans and the execution or the beginnings of the execution of those plans is going well. GreenSky should close, you know, very, very shortly. NN should close around the end of the first quarter.

And we feel, you know, very, very good about both these acquisitions. NN is a much simpler integration in that we're really rolling into our asset management platform more assets, more capability in Europe, some new distribution channels. And obviously a significant portion of that business is a contract with a large insurer, the parent that sold NN Investment Partners.

That's something for us, you know, to look at integrating that we have a pretty straightforward plan to do it. On GreenSky, we're very excited about this. We looked at this merchant network that they have, and we thought that was very, very important for our digital consumer bank. We thought it would take us 7-10 years to build a comparable merchant network. It took GreenSky almost 15 years to build that network.

And so the ability to buy that network and integrate that network as a way to generate assets in our digital consumer bank we think is super attractive. Obviously here we're really expanding a business line as we're building out our digital consumer bank. And so the integration process there will go a little bit more slowly.

We'll run that as an independent platform for a period of time while we ultimately work toward integrating it fully into Goldman Sachs's digital banking platform.

Allison Nathan: Let's pivot a little bit and talk about social issues which are so in focus right now. And the firm has been very vocal and engaged on a lot of these issues. What role can corporate America play in solving some of society's biggest challenges? And how much of a role should it play?

David Solomon: All business plays a very, very important role into contributing to economic activity, prosperity, job security, you know, in our economic ecosystem. But when we talk about -- and the way you framed the question, you know, big problems in society -- private enterprise can't solve big problems in society.

The public sector and the private sector can work together to directionally improve things, but ultimately when you talk about big problems-- big problems have to be driven from a policy perspective. And corporations can't drive policy.

And so I always try to look at this -- I think my responsibility as a CEO, I've got a personal point of view about a lot of things. But when it comes to speaking publicly off the platform of Goldman Sachs, my responsibility is to the stakeholders of Goldman Sachs, to our employees, to our clients, to our shareholders first and foremost in terms of our performance.

And so there are things that I will speak on because I think they truly affect our ability to be Goldman Sachs and do what we do, and we have real broad expertise. And there are things where I might have a personal view where I shy away.

But it's our job to be a responsible citizen, to participate, you know, actively at making our society as strong and as fair and as participatory as it can be. But it can't be our job to set policy and

drive broad policy changes that really have to be driven, you know, by governments when you look at some of the serious issues that we have to deal with.

Allison Nathan: Goldman Sachs is taking steps, though, along these lines. We just updated our own sustainability targets. Talk to us a little bit about the progress that the firm has made to drive decarbonization in the real economy.

David Solomon: Well, we're big believers in the fact that the world's going through a transition. And we are an intermediary with companies both from the provision of capital and also as an advisor. But it's a transition. And so our clients are really interested in figuring out how they're going to transition their own businesses because they know that that's very, very important for them to strengthen their competitive position in the world.

And so our job is to help clients transition their businesses to a better, more sustainable future. And we think about sustainability very broadly. I mean, I know, you know, you know this. We talk about sustainability not just in climate but we talk about both, you

know, climate and also sustainable economic growth broadly. And we really look across a variety of sectors or thematic areas where we think we can be involved in making investments or allocating capital to try to make the world, you know, more sustainable.

And we think about things like affordable and accessible health care. We think about strong transportation infrastructure. These are all things that we can play a role in both making investments and supporting companies that really drive those things to help make our broad community a more sustainable one.

Allison Nathan: And of course you've been a consistent advocate of pushing companies, including Goldman Sachs, to raise their diversity standards. Talk about the impact that's having both internally at the firm and with clients.

David Solomon: Well, it's something that I've had great passion for for a long time. And, you know, candidly, I think it's the right thing to do. But putting aside the fact that it's the right thing, it makes good economic sense. The more we have people participating in our economy, the more we have people participating in the economic

ecosystem, the more we bring people along, the more we grow, the more we strengthen and sustain our society.

And so I think it's been very important to make our economic environment, both at the firm but outside the firm and the business world broadly, as diverse and inclusive as it can be because that breeds more participation. And that obviously drives more economic growth.

And we've tried to do it specifically at the firm, and we've been very purposeful and very focused. But we've also tried to build platforms externally that we think can really drive inclusive economic growth. And so, I look at programs like 10,000 Women, 10,000 Small Businesses, and now One Million Black Women, where we're really trying to find ways to increase the economic productivity and participation of different subgroups that haven't always had the same opportunity to participate.

And that participation drives economic growth, and that's obviously good for all of us.

Allison Nathan: David, you've been in the CEO seat for more than three years, as I said before, since October 2018. Two of those years, as we were discussing, have been dominated by a global pandemic. What are the top three lessons you've learned during this tumultuous period that you would share with other leaders?

David Solomon: Well, I've always been focused on the performance of our organization. And ultimately the right that you have to operate and to influence and to drive the things that you think are really important comes from performance. If you're not performing, you have a lot less latitude to accomplish the things as an organization you want the organization to accomplish.

And so performance for us has always been deeply rooted in our people and our clients. And really getting the connectivity between those working right. So the pandemic was not your typical run-of-the-mill environment. And so we worked very hard to figure out for Goldman Sachs how were we going to serve our clients in that environment to the best degree possible? How can we take care of our people? Make sure our people were safe but also make sure our people were productive in being able to do what we needed to at

Goldman Sachs.

And by doing those things, by taking care of our people, taking care of our clients, investing in the communities that we were operating in, it gave us an ability to really perform. And we've performed well in this environment. I really do not want to operate in a pandemic for the next two years. I'm hoping we're going to get past it.

It's not the easiest environment to operate any business in. And I think anybody that's operating a business large or small is struggling with all sorts of issues, and the pandemic has been particularly tough on small businesses. And we've tried to really provide support for small businesses because they're so vital for the economy here in the US.

But I think you've got to stay true to, you know, what drives your performance. And for us, that's taking care of our people, taking care of our clients, making sure we support the communities we operate in. And that's been kind of a north star for us as we've navigated through the pandemic.

Allison Nathan: And finally, what's your advice to young people today trying to navigate this somewhat unusual workplace? And what's the best advice you've ever received?

David Solomon: Well, I've talked often about how, when I was in my young 20s -- I mean, I've told this story often -- my grandmother, you know, at one point pulled me aside and said, "Don't be in a hurry." You know, it's a long road. Don't be in a hurry. Take the long view. Invest. Be patient. And it was very, very good advice.

One of the things that I find very interesting today talking to young people, they really want to know the destination. And certainly when I was in my 20s, I had no idea where my career would take me. I mean, the concept in my 20s that I was going to run Goldman Sachs, the concept in my 20s that I could work at Goldman Sachs -- I had been turned down twice in my 20s.

So, you know, even working at Goldman Sachs was something that certainly wouldn't have been in the plan. So it's a long road. Be patient. Invest in the long term. Don't be in a hurry. I think it's a very, very important piece of advice, but I'll give some others right

now.

I think one of the things that's very important for young people right now: Show up. Being present matters. And we're in a world where obviously technology gives us lots of tools to do things differently, and there's a great ability to leverage those tools and have more flexibility. And that's fantastic.

But as a young person that wants to learn and wants to grow in whatever your profession is or whatever your business is, showing up, building relationships, being purposeful, I think that stuff matters. And I don't think the world has changed. And I do think that will continue to matter.

And so make sure you're showing up. It makes a difference.

Allison Nathan: That's great advice, David. Thank you so much for joining us today and sharing all of your insights.

David Solomon: I appreciate it, Allison. Thank you for having me. And thanks for taking the time.

Allison Nathan: That concludes this episode of Exchanges at Goldman Sachs. Thanks for listening. And if you enjoyed this show, we hope you'll subscribe on Apple Podcasts and leave a rating and comment. This podcast was recorded on Thursday, January 6th, 2022.

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