

ASHOK VARADHAN EXCHANGES AT GOLDMAN SACHS PODCAST

Jake Siewert: This is Exchanges at Goldman Sachs, where we discuss developments currently shaping markets, industries and the global economy. I'm Jake Siewert, Global Head of Corporate Communications here at the firm.

Our guest today is Ashok Varadhan, global co-head of our Global Markets Division. We'll be talking about the big shift in the financial services industry over the past month – particularly in trading -- as well as takeaways from Global Markets division's performance over the past quarter and what trends that signals. Goldman Sachs earnings were released this morning, so it's been a busy day here at the firm, and thank you for making the time Ashok. Welcome to the program.

Ashok Varadhan: Thanks, Jake. Honor and privilege to be joining all of you.

Jake Siewert: So before we get into everything that's going on today. You've obviously seen your fair share of economic crises and financial market meltdowns. Characterize for us what you're seeing this time. What's the same, and what's a little different?

Ashok Varadhan: So I would say certainly with respect to the increase in volatility, I think those are things that we've seen before. That happens any time you end up getting sort of volatility in the economic cycle, you'll end up getting sort of corresponding volatility and asset prices.

I think what's markedly different about this is just the rapidity with which the onset of this pandemic basically spread and became so immediately everyone's central thinking and central economic behavior coupled with the rapidity with which asset prices fell. So I think if you were to go back and make comparisons to the financial crisis, I think something from the end of '07 to the low that we got in March '09, you're talking about basically 14-15 months in which the market went from went from its high to its low. In this go round, I think it was 14 to 15 trading days in which the market went from its high to its low.

I would say also then when you think about sort of the velocity and the magnitude of the public response took quite a bit of time for the Federal Reserve to cut interest rates and implement a lot of different types of policies to support credit and get credit flowing to the economy that took a lot of time subsequent to the

financial crisis, but because they had that playbook and they were familiar with it and because there was sort of continuity on that committee, they were able to respond very quickly. And so I'd say sort of the onset of the crisis, the decline in asset prices subsequent to the crisis, and then the response to the crisis is all basically instead of it being like a two hour movie. It's been like a 30-second reel. And so that's the real difference, I mean, there are obviously other differences too. I'd say from a human perspective, going through the crisis, having gone through 9/11 which was something sort of professional and obviously very personal for me, there was comfort in the camaraderie that you got from coming to the office and working with other people. That was uplifting being able to come in and collaborate intellectually with people in a conference room on a trading floor to come up with best ideas.

Now, you kind of have to do it like this. And that's a little bit weird too. So at a time in which you're feeling all of the things that you feel when there's a lot of volatility and there's a change in the economic cycle which could be anxiety, fear, uncertainty all of those types of things. Now you have to kind of deal with it alone. That's the part that's very unprecedented and people won't write about it because it's not necessarily economic but let me tell you, it's very psychological with respect to how it impacts how it's impacting all of us.

Jake Siewert: So obviously you talked about this, but it's a huge shift in the past month to go from that pretty densely packed trading floor to basically a remote workforce that's working still by computer and still electronically and it's all digitized, but everyone's remote. So what's that been like for your business where you used to be standing and sitting right next to each other?

Ashok Varadhan: So I'd say we're learning a lot I think experience is the best teacher. And I think one of the things that we're learning is if you had asked me six weeks ago, seven weeks ago if work from home would work as well as it has for sales and trading business, which obviously create some logistical challenges from work from home, it's gone remarkably better than I think I could have ever forecasted. And having been a 25 year professional and sales and trading business. It's gone way better than what I would have forecasted. Also what I would say is you know, people are really working their tails off even though people are working from home, I have found that as a consequence of that people are available

24/7, people over communicating certainly relative to how much they've communicated in the past. We have global connectivity. People are trying to make sure that they're connecting with people globally.

I would say, certainly with respect to clients, there's a lot of Zoom calls, conference calls, things like that to make sure that we're connecting with clients and then obviously doing the best to stay connected with our people. And so in some sense, on a trading floor you sort of take for granted that you can see Peter Jane Bob and Billy. Now you sort of can't take that for granted. And so you're actually reaching out more. It's causing you to explicitly reach out more and that's been one of the one of the consequences of this.

Jake Siewert: So you're business is super modern and high tech but why do you think there's so much doubt that this industry could function with remote work for some. What technology helped it be more seamless that you would have thought?

Ashok Varadhan: In particular, sort of quoting prices being able to quote prices electronically have those prices be transmitted to clients, clients being able to basically execute you know on those prices fairly quickly and then having those traits consummated and booked and making their way into the books and records of us in the books and records of the clients that were trading with. Obviously some subsets of our products have always had that, like foreign exchange is largely you know 100 sent electronically traded equities 100% electronically traded, certain parts of the government bond market. And so we've dealt with that and I'm not surprised that those verticals basically moved pretty seamlessly, but sort of the other verticals, which historically have been more voice traded like certain parts of the corporate bond market certain parts of the derivatives market. You know, we've been able to essentially trade those things verbally with voice and then immediately have them electronically booked on both sides and matched. And I would say that this is, we talk about this a lot, there's a lot of lip service kind of put out to it, when you think about whatever you want to call it front to back, or people in front office working closely but the Federation to sort of make these things happen.

That's really been on display, I'd say there's been real display of excellence by people in the front office by going out and pursuing and getting the business done and real execution excellence, on behalf of people in the Federation, making sure that business gets done in the right and compliant way.

Jake Siewert: So one of the one of the biggest challenges that came up during this transition as quickly as it came about and it's hard to talk about good things when people are sick and people are dying but is there anything good. This come of it from your perspective in your in your business.

Ashok Varadhan: Well, I would say, I think you only sort of learn things about your business when it's stress tested. And I would say sort of the stress test of our business, both in terms of economic performance, in terms of how our clients viewed us, and then in terms of the things that I was just talking about, some of the logistical things, I think I think we have been kind of surprised to the upside that all of those things sort of revealed themselves to be very, very satisfying. The other thing I would say, and again this isn't lip service, I really give credit to the Executive Office that our health and safety was always prioritized. So anytime you know had a conversation with David or John or Stephen or my co-heads, it started 'How are you feeling? Are healthy, is your family healthy?' That's how we started every conversation with a high degree of sincerity before then we got into the nitty gritty of, okay, what's the transaction that you're working on or. What's our risk or something like that, every conversation started that way. Even at a time in which there was urgency around other things. And that tells you a lot.

Jake Siewert: So we reported earnings this morning, obviously impacted by the by the crisis, particularly on our marks in our equity book and provisions for credit losses, but about maybe six, seven weeks ago you stood on a stage at 200 West and talked about getting to an 11% return threshold for your business cost of capital threshold and printed 19.7%. How do you feel about the performance of the division, and what did it teach you about the earning power of the Global Markets division?

Ashok Varadhan: I've been in the Global Markets division are various different iterations of it for a long period of time. And I'm pretty well aware of kind of what its earnings capability is and sort of this scale that exists in the business. What I would say is one quarter is just a quarter. And this was kind of an extraordinary period. You know, regime shift. And I do think we still have a lot of things that we need to execute on. So we're still committed to our strategy. Obviously things have gotten a little bit discombobulated and we've sort of had to deal with the crisis at hand. But you know when there's a resumption to normal, whatever that new normal will be, we're going to evaluate our strategies and continue to sort of execute on the things that we laid out at our investor day. What I would say is, while it's

satisfying to contribute to the firm and be one of those one of those portfolio diversified businesses that exists in the firm that can contribute to the firm at a time in which you know our sister and brother businesses are having maybe a little bit of a of a tougher go as a consequence of the climate.

What I would say is it's just a quarter. I think we have the appropriate amount of humility around our business and I think it's incumbent upon us. I think the thing that we're incredibly focused on is how do we help our clients navigate what return to work will look like -- what are the asset classes that will perform better, sort of in new economy in which more people are working remotely and all of this sort of first and second order effects associated with that. Which products are systemically seen is very important and will get a lot of governmental support, whether it's in this country or in countries abroad. Those are the types of things that we're very focused on and on some sense, returns will be an output, not an input. You know, we kind of come in, we try to do the job as best we can work with our clients work with our people and returns will be what it is, but certainly it's nice to see that there's some elasticity to the upside.

Jake Siewert: Well, there's certainly a lot of doubters who thought really that business had fundamentally changed. But it was interesting to see at least when there is you know dislocations a business and in people turn to Goldman, you can deliver, but you're delivering because your clients, as you said, were active and there was a lot of volume.

Ashok Varadhan: Lot of client activity. The one thing that I would say is I know there's been a lot of sort of external perception, a lot of stuff that you know every time a partner leaves, there's a there's news article and it gets a lot of hits and all of that sort of stuff. We have extraordinary people in the business.

Extraordinary people in rates, extraordinary people in commodities, in credit and emerging markets and foreign exchange and equities around the globe -- top notch collection of talent. You know, they don't get as much notoriety because they're not as long tenured as the people who have been here for decades and then left. And so there's always a newspaper article about the person that left not a newspaper article about the quality of the team that stays behind.

I said this on stage too, I've never felt better about the quality of trading talent that we have in the business. And in some sense, I think amongst all of this, when you think about how this virus impacts sort

of every product -- rates because of monetary policy credit because of forbearance and credit policy commodities, because of the price of oil, you know, I could go on and on equities because of the suspension of dividends. Global Markets is the transmission mechanism for all of these things. And so the fact that we have such a high degree of confidence of all in all of the people that we have running those verticals, that's the part that's been pretty satisfying in the first quarter.

Jake Siewert: So you obviously are super engaged with clients. What were some of the biggest themes you saw from clients navigating the volatility?

Ashok Varadhan: I think what was the biggest and obviously you can't get a market that goes from its all-time high right to down 30% in 14 days if you just don't get a massive shift in sentiment, and what I would say the most prevailing thing, Jake, is that in February even towards the latter part of February, people thought, 'Oh, come on. This is a flu. A flu with a death rate you know of, sort of, in and around 100 basis points. And that will happen. And there's always a flu during the flu season and you can document, the number of deaths, and you know the whole world doesn't shut down as a consequence of that, so this will come and go.'

There was a high degree. I don't want to call it complacency, but sort of a real high degree of conviction around containment, and then all of a sudden it completely flipped.

And so people really had to adjust their portfolios, their way of thinking, where value was, how they basically wanted to immunize themselves from a global economy that could shut down, not for a week or two weeks, but for a quarter or two quarters.

And you're talking about literally a shutdown of everything and so I think helping our clients sort of navigate that reposition understand the implications of it. Even now, I'd say the vast majority of sort of client calls that I do is now sort of getting into Q3, Q4, what does normalcy look like, what industries, come back. How do they change?

All of that sort of thing. I think even now people are trying to navigate three months and six months forward now in people's stream of consciousness. People say, okay, something is basically changed quote unquote forever in terms of personal health and all of that sort of stuff and contagion being part of

the new culture of how people will return to the workplace and everybody's trying to figure out what the medium and long run implications are for that.

And one, our opinions on how we're going to run our business, which should there therefore maybe help them for them, how they should run theirs. But then also whether it's asset classes or companies, who are going to be the winners and losers that emerge from this? And so there's a lot of dialogue around that.

Jake Siewert: So as you help clients, think about the future on you reference, some of the questions are some of the advice that you and your team are giving to those clients as they're thinking about the future, the next six months, nine months 12 months, and years.

Ashok Varadhan: Again, this is just an opinion, not the opinion, I think the opportunities right now are going to be sort of in and around credit. Generally higher quality on the spectrum, because I think when you have an economy they're again, I can quote our economists other comment, we're talking about an annualized contraction in the second quarter that could be in the arena of 25% you know, that's a pretty big. That's a pretty. That's a pretty big GDP contraction. You know, you could get unemployment temporary in this country above 20% when we had basically hit a 50 year all time low not just six weeks ago, three and a half percent.

And so I think when you think through that, how should I say negative consequence or kind of poor output, I think the most important thing is you have to make sure that credit doesn't freeze. You have to make sure that people can pay what they owe and if they don't pay what they owe there's forbearance. And so I think that that I would really focus on high quality credit because I think that's going to have to be buttressed so that things don't spiral from there.

And so that's in the very near term where I'd be very focused, because if you don't get reparation there, you can't get reparation anywhere else. And so I'd say that's where a lot of the near term dialogue is focused.

Jake Siewert: Beyond, beyond business planning and in thinking through these kinds of questions, what are you most focused on over the second quarter?

Ashok Varadhan: Yeah, I'd say working really closely with the Executive Office on back to work. What does back to work look like, do people get tested to get antibodies when we go back to work will everyone be wearing masks. Will we be taking people's temperature when they come in?

The trading floor, we've historically been packed in pretty tight, call it three feet between people. Do we need to kind of make it six feet or maybe more distance between people. So very focused on one, the first and foremost priority is we want people to come back and feel like their work environment is safe. And so that's very important to the three of us. I would also say we have to think through sort of which markets will start to see reparation first and making sure we help you know our clients get exposure to those markets, get active in those markets, see that those markets start to get more liquid and more reliable and so that people feel confident expressing themselves in those markets to the fullest extent.

And so again, markets are open for sure all markets are open, but I think there'll be just like there'll be sort of a reopening of business, I think there's also going to be sort of a further reopening of markets. Even though markets have been open as you get people coming in and trading, not necessarily what they have to trade, Jake, but maybe what they want to trade, maybe you know a little bit more have the marginal propensity to trade things go up a little bit and we have to make sure that we're right along our clients' side for that.

Jake Siewert: Great to talk to you today. I know it's been super busy. Thanks for joining us today. That concludes this episode of exchanges Goldman Sachs. Thanks for listening and if you enjoyed the show we hope you subscribe to Apple podcasts and leave a rating or comment.

And tune in for our weekly market update Friday morning where leaders around the firm provide their quick take on what's going on in the markets and what's driving the volatility.

This podcast was recorded on Wednesday, April 15 2020.