Goldman Sachs Exchanges

Goldman Sachs Chairman and CEO David Solomon on the global business environment, AI, and the rise of private credit

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Allison Nathan: The global economy has shown impressive resilience over the past year. But questions about economic policy and technological innovation are becoming increasingly urgent. So where are the risks and the opportunities in this environment? I'm Allison Nathan and this is Goldman Sachs Exchanges. Today I'm again sitting down with a very special guest, David Solomon, the Chairman and CEO of Goldman Sachs.

We'll talk about his views on economic growth and markets, the firm's strategic priorities, and what he's most focused on in the year ahead. David, welcome back to the program.

David Solomon: Thank you. Glad to be here with you.

Allison Nathan: So, David, we have had this annual conversation for several years running now, but I must say this seems like a particularly interesting time to be the CEO of Goldman Sachs. There are what looks to be a lot of tailwinds to the economy and markets and substantial optimism, of course, with the new Trump administration coming in and there seems to be a lot of optimism that he's going to usher in a friendlier environment for businesses. But the unknowns also seem unusually large. So let me first ask how you would characterize this business environment?

David Solomon: Well, I think you did a pretty good job characterizing this business environment. It's going to be more constructive than it has been the last few years, particularly on the regulatory front. But there are a range of significant policy areas where this administration is ushering in change.

And whenever you have change, that creates uncertainty. And so, until we have a clearer view of the policy trajectory, I think that it's a moment to kind of take stock of where we are. It's great that there are clearly some tailwinds. There's obviously a lot of optimism. But at the same point, the ultimate implementation of the different policy focuses will be important.

And so, we have to step back and realize people are obviously very focused on immigration policy. And when you look at the executive orders that have come out so far, that's where the primary focus has been. That can have an impact on labor supply, which ultimately can filter through into the economy.

I'm not saying it will, that's something to watch. People have been very focused on trade. We still don't have answers, but at the moment, the market's perception is that the direction of travel on trade will be more as a tool of negotiation in the short term than the breadth of tariffs that have been talked about.

You have tax policy, which is obviously important. You have energy policy, which is also important. So these are big, complicated areas that the combination of the policy implementation will have an implication for growth. But as I talk to CEOs, CEOs are optimistic because the regulatory burden and the former administration's approach to the business community was quite impactful. And people are excited about the fact that it feels like there's going to be more collaboration toward driving investment and therefore driving growth. It will be a more growth-oriented agenda.

Allison Nathan: Let me just follow up on some of those comments you made about the macro environment because as you said, some of these policies may create inflation.

There are concerns about that when it comes to tariffs, when it comes to the immigration policy you mentioned. We've obviously already seen a lot of volatility in the bond markets year to date. I think volatility that no one really expected, at least the extent of which I mean they're down today, but generally have been quite volatile. What are you thinking in terms of the trajectory of inflation and interest rates from here, and are you concerned at all that both or either could dent the outlook for markets?

David Solomon: Well, significant changes in rates and more importantly, a change in the expectation on rates can have an impact on markets. I've been cautious around this topic, particularly around inflation. There's no question that durable goods have been soft in terms of the inflation rate around durable goods but services and now food, you know, are big headwinds. And those things ultimately matter and filter through into the economy. I think that we will see the Fed take no action at this meeting. As you look out through 2025, I think the range of outcomes is a pretty narrow position on policy. Unless we get some policy action that really changes the trajectory of inflation, I think we'll be in a narrow band with the policy rate. We could see some cuts, we might not, but that's my base case assumption. And so, you've got to watch this closely. I think you should take it meeting to meeting and evaluate the data as we go. But going back to where we were in the previous question, if some of these policy implications and discussions get put in place in a way that is more inflationary, that will change the trajectory of this discussion around rates.

Allison Nathan: There's a lot of enthusiasm, though, about capital markets activity.

David Solomon: Mm hmm.

Allison Nathan: What are you seeing from your seat?

David Solomon: Well, capital markets activity has run really below trend for the last few years. We had an extraordinary period, obviously, in 2020 and 2021. A lot of things got pulled forward, and then we had a rebalancing in 2022, and that brought capital markets activity, and M&A activity for that matter, meaningfully below 10-year averages.

With the change in the regulatory environment and the business environment, confidence has improved, and that confidence generally opens up the capital markets a little bit more. I think there are a couple of things that are clearly obvious. Less M&A activity hampers capital markets activity. Secondarily, the financial sponsors, the private equity firms, have really been on the sidelines. We're hearing more and more and seeing more indications of them pulling stuff forward now. So, I think there's going to be a meaningfully improved environment of capital markets activity in 2025. It improved in 2024, but it still ran below 10-year averages. We'll get back to 10-year averages or better in 2025, and we'll see how the year plays out.

Allison Nathan: We've talked a little bit about the macro risks, but of course geopolitical risks are always front and center as we enter Trump 2.0, certainly still front and center. How is the firm navigating that risk and how are clients thinking about geopolitical risk at this point?

David Solomon: Well, there are three principal geopolitical hotspots. The bilateral relationship between the U.S. and China being one, the situation in Ukraine being a second, and the situation in the Middle East being a third.

All of these, you know, have the potential to create more volatility in markets. But at the same point, you know, I think the market's view is that there will be more progress made, you know, certainly on our relationship with China under this administration. I think the President is looking to kind of restrike the balance in that relationship.

And I'm hopeful that he will make some progress. I think that would be very good for the U. S. It would be very good for the world, and it would be very, very good and well received for markets. In the Middle East, I think the President views that as an opportunity to continue some of the work he did in his first administration. Obviously, given where we are right now, there's some progress in stabilizing that region. But my hope would be that more progress could be made around a longer term solution, normalization around relationships, and more stability with respect to the region broadly. And so that's something certainly to watch.

A resolution in Ukraine is much more complicated. And so I think it'll be interesting to see whether or not progress can be made, but that to me seems to be the one that's a little bit tougher to see an obvious path towards a resolution of progress. All these things create risk. All these things, if they go the wrong way, can upset markets.

But for the moment, I think there's a lot of focus on these three hot spots, and it will be interesting to see how the new administration tries to move these forward.

Allison Nathan: And how are you viewing growth in economies outside of the US, many of which seem to be the crosshairs of potential shifts in US policy and the geopolitical risks you just mentioned?

David Solomon: Well, global growth has been okay, but it's really been driven by better growth in the US and weaker performance in, across Europe and China. And, you know, those things make up a significant portion of global economic activity.

For all the optimism with respect to the US, I think there is much more caution and pessimism with respect to Europe and a real questioning of whether or not the nations in the European Union feel enough pressure at this point to finally act on some of the policy things they need to act on to strengthen the European Union as an economic competitor more broadly.

I think that's a big question. You know, I was just in Davos and there was a lot of discussion on this topic and I think people would like to be optimistic that there's been enough pressure, and an underperformance on a relative basis of the European economic system. that there will be more aggressive policy action to try to improve growth.

But my own view is until the nations of Europe start thinking about really trying to create national champions and really think about how they make Europe a better economic competitor, it's hard to see that movement. We need the Netherlands to work with France as opposed to compete with France.

And ultimately, if you can't drive national champions across Europe and really create the power of the economic union in Europe, the relative growth trajectory will be lower. And that's kind of what we see based on the policy implementation of the last, you know, 10 to 20 years.

Allison Nathan: Let's shift gears and dig into some developments in finance in the coming years. You've already mentioned the regulatory landscape near and dear to our hearts. What are you expecting for financial regulatory shifts in 2025?

David Solomon: So people are policy, and one of the most important things to watch here as we go into the new administration is, you know, we obviously have a new head coming into the SEC, but there are some important positions that affect the regulatory environment for the financial system, the vice chair of supervision for the Fed, the head of the OCC, the head of the CFTC, the head of the Consumer Financial Protection Bureau, so the CFPB, so, you know, all of those appointments are important and I think it's very important that the administration moves forward and gets people into these jobs so that the policy discussion around the regulatory environment for the financial system can move forward.

I expect and I hope and expect that they will, and once they do I think the industry will continue to be very engaged to try to create a little bit more balance around the regulatory environment to try to free up capital that can be reinvested in the system. One of the things that's going on in the large financial institutions is there's been uncertainty around CCAR, because there's litigation now around CCAR, stress testing, there's been uncertainty around Basel III, there's uncertainty around G-SIB, that's leaving all the large banks to hold extra large buffers of capital. We want to get policy in place so we know and can plan around capital and that excess capital that's being held because of the uncertainty can be released into the system.

That drives more investment, loans, growth, etcetera. And so I'm hopeful that people will get appointed quickly. That dialogue can continue and we'll see a clearer understanding, clear transparency around some of the principal regulatory areas that I think are important to keep the economy moving forward.

Allison Nathan: Let's dig into another big trend in the broader industry, which is that growth in private credit. How is Goldman Sachs navigating that growth and how is it navigating it for its clients?

David Solomon: Sure. So, Goldman Sachs has been in the private credit business for a long time. We started in the private credit business 30 years ago in the 1990s, and we manage $140 billion of private credit for our clients.

But I think what's interesting about Goldman Sachs is we sit at the center of the ecosystem between public markets and private markets. We have an enormous origination engine, and while there's a lot of capital in the world to manage in the private credit space, the real value add to the private credit deployers is origination, interesting investment opportunities.

So, I think we sit in a very interesting place in the middle of that ecosystem. We have the ability to distribute credit and interesting investment opportunities to our clients through the typical originate and syndicate process. We have the ability to originate and use our balance sheet. We have the ability to originate and direct to our asset management franchise. And so, the formation of our capital solutions business that we put forward is a way for us to take some of the advantages we have as a firm sitting in the middle of this ecosystem. I think you're going to see good secular growth in private credit lending and we're certainly in a very, very interesting position to participate in that, both for our investing clients and for our trading or markets clients. And we have an incredible set of corporate relationships, really unprecedented, to drive origination of product that can be interesting for those markets.

Allison Nathan: Interesting. It's been about 15 minutes in this interview, and we have not yet asked about AI, which obviously, it's a huge focus for financial markets. It's really driven the market over the last couple of years, and yet we have seen news over the weekend about low-cost competitors potentially disrupting the space, generating a lot of volatility. What's your take in all of that, and where you see AI from here?

David Solomon: Well, wherever this changes, there's always going to be volatility, and people tend to, to run ahead and then pull back and adjust, but the broad trend of the power of this compute and the ability to leverage it to create productivity gains and efficiency – we're early, you know, in the ramp up of that.

And I think one of the ways to think about it, and I've heard this from big tech leaders is the cost of this compute is going to come down or the, the power of the compute at the same cost is going to go up, and you're going see meaningful shifts in that every three months. So, this is happening, it's happening quickly, and the power of that to generate productivity gains is real.

And so, take away the short term noise, the short term volatility, this is another example of technology continuing to drive growth and productivity, and also, interestingly, you know, we sit in the middle of a lot of this here in the United States, although there's obviously competition around the world, but I just think the direction of travel. with respect to the ability to load this technology into the enterprise and make people more productive. We're very early in that cycle and I'm quite optimistic about it.

Allison Nathan: And how is Goldman Sachs thinking about harnessing AI for its own businesses and what are you advising clients in terms of using it for their businesses?

David Solomon: Well at the moment, you know, the compute's very expensive and so you really want to focus on use cases where you think you can move the needle and really drive productivity gains. The most obvious one for us, we're an organization of 46-47,000 people, and we have 12,000 engineers in our organization. We would have more if we weren't constrained by our desire to drive returns in our business. The ability to increase engineering productivity so that we can do more is hugely advantageous to us. So that's an obvious place where we've been very focused. And I tell you that from what I've seen and what I've been shown, that technology is really accelerating, which can allow us to do things that could take a handful of engineers weeks in very short periods of time. And so, we're very, very focused on that, but we're also focused, if you think about our business as a knowledge business, there are lots of places where putting these tools into the hands of very productive knowledge workers can accelerate their productivity and also where they focus their time to add value to their clients.

Allison Nathan: And you're seeing businesses that we talk to doing the same.

David Solomon: Absolutely. All businesses are wrestling with how these technologies can either improve the productivity of their people, or change processes in ways that drive efficiency. The first is easier than the second, but CEOs I talk to across all industries are thinking carefully about this, but also being slow and prudent and thoughtful, because you have to look at the costs, make sure it's going to work, you have to have good governance around this from a risk management perspective, and so a lot of focus, but I think you'll continue to see it accelerate.

Allison Nathan: So, David, as we're talking, I hear about plenty of opportunity, but also plenty of risk. I'm going to ask you a question you often get asked, which is, what keeps you up at night?

David Solomon: Oh, there are lots of things that keep me up at night, but generally speaking, I sleep well, and the glass is half full.

I think we're in an incredible position to continue to drive growth. I think the fact that in the US, where we really have had for a period of time, kind of preeminence from an investment perspective, preeminence from a technology and innovation perspective, preeminence from a financial system to capital formation perspective, leads me very, very optimistic about the US and our ability to navigate significant things that will come our way.

I worry about all the things that we worry about. I worry about geopolitics and instability in the world. I worry about cyber, you know, significantly. I think it's a real issue. There are lots of things to worry about, and look, one of the things that I think we should be thinking about at a time like this, when everything feels so optimistic to the forward, is what could go wrong.

If we woke up a year from now, and markets were 20 percent lower, why were they 20 percent lower, and what happened? And thinking about those things, and kind of looking around the corner, I always think is a helpful exercise in something we spend a lot of time doing at Goldman Sachs.

Allison Nathan: So, I'd just like to end with the fact that five years ago, the firm held its first Investor Day and you laid out the firm's strategic at that time, many of which we have achieved, if not exceeded in many cases. So, David, how are you thinking about setting up the firm for the next five years?

David Solomon: So, we are executing a plan that we really initiated five years ago to grow the firm, strengthen our core franchise, and really create value for shareholders. We're well on our way on that journey. I think the firm is very, very aligned and we have room to continue to execute on our growth plan, which is particularly centered around asset and wealth management.

I think we've done a great job strengthening our core business of banking and markets and capturing share. There's still more we can do there and as we generate capital as a firm we will continue with growth in the world to allocate more financial resources, so we can keep growing that client franchise.

I think we can grow our asset and wealth management business high single digits, continue to improve the margins and the returns in that business, which uplift the overall returns of the firm. And I think the firm is very well positioned for further growth in the future. So I feel very, very good about where we are.

We are hugely focused on productivity and efficiency, which I think is a very good thing to always be focused on in our business. And I'm excited about the opportunities that we have in front of us as a firm to serve our clients with distinction in an environment that I think is going to be a little bit more constructive for the business community broadly.

Allison Nathan: David, I'm glad to hear you're sleeping well at night. You know what? We need our rest to tackle the challenges in 2025.

David Solomon: We all need our rest to tackle these challenges.

Allison Nathan: Thanks again for joining us.

David Solomon: Absolutely. very much for having me. It's always good to talk to you.

Allison Nathan: This episode of Goldman Sachs Exchanges was recorded on Monday, January 27th, 2025. I'm your host, Allison Nathan. Thank you for listening.

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