

Goldman Sachs Exchanges

**Goldman Sachs Chairman and CEO David Solomon on
the global economy, the deal-making environment, and
the firm's strategic priorities**

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Allison Nathan: While the growth outlook looks to be relatively benign, the global economy is still grappling with two brutal conflicts, high borrowing costs, and stubbornly high inflation. So what are business leaders most focused on in 2024?

David Solomon: I think we're at a moment in time where the world is a little bit more fragile, and that's a headwind to growth. Combined impact is bringing another factor into economic growth that CEOs and business leaders around the world are spending more time trying to understand because it affects strategic decisions, capital investment, supply chains, and other things that are certainly important to the execution of their business.

Allison Nathan: I'm Allison Nathan, and this is Goldman Sachs Exchanges.

Today, I'm again sitting down with a very special guest, David Solomon, the CEO and chairman of Goldman Sachs. We'll talk about his views on economic growth and markets, rising geopolitical tensions, 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, Allison. It's good to be with you. Happy new year.

Allison Nathan: Happy new year. David, the last time we spoke, which was around this time last year, the market and investors seemed fairly convinced that the US economy was heading into a recession, and you seemed fairly concerned about that. But we've so far avoided one. So my first question to you as we kick off 2024 is: Have we actually achieved a soft landing? Can we confidentially put recession concerns to rest? And what comes next?

David Solomon: So I appreciate the question, and it's certainly a question that's on everybody's mind. Certainly,

we navigated 2023 with a much more benign economic environment than we anticipated, given the level of monetary tightening that we experienced and we knew we were going to experience given where inflation was when we started the year. I certainly expected, given the level of monetary tightening that I expected to see, that the economy would slow down and we'd probably have a recession during 2023. But the economy proved more resilient. I think there are a number of factors for that.

We obviously had a very big disruption coming out of the pandemic, and there were a number of counterbalances, including an enormous amount of government spending, that actually I think provided more durability to the economy for some period of time. We'll now have to deal with the consequences over a longer period of time of that spending, but I think we find ourselves entering 2024 in a more constructive environment.

That does not mean that we've absolutely landed the plane and there's no chance of a recession in 2024, but I do think in the distribution of outcomes the chance of a recession has materially decreased. And there's a reasonable chance that we can get through the year and make more progress

without an economic slowdown. Inflation has definitely abated meaningfully, but I still think that there are headwinds when you look at housing, for example, and you look at some of the geopolitical dynamics that can affect energy, etc. I do think that inflation has the potential to be a little stickier than the market currently thinks. And so I think central banks will be very dependent on economic data as they look to 2024, but it certainly feels like we're entering with a more constructive bias in 2024 than we entered 2023 with.

Allison Nathan: And you always have to look out for that bias, right? So you still think there's more of a risk that the Fed is still concerned about inflation than maybe the market is expecting right now.

David Solomon: Yes, I think that's fair. The Fed and other central banks will be very data dependent. I think one of the things I'd highlight is that there are elections going on all over the world, and central banks can be impacted by a political environment. But I think the Fed will watch the data and, to the degree that the data warrants, you'll see appropriate actions. But I'm not quite as bullish as everyone else that we're going to see a series

of cuts this year and we're going back to an environment of much, much lower interest rates. I think we have a significant number of headwinds to are going to still keep interest rates higher for longer.

Allison Nathan: Let's shift gears to something I know you've been increasingly focused on: geopolitics. It's just not a topic that C-suite and boardrooms can ignore at this point, given the conflicts that are ongoing in the Middle East, still in Russia-Ukraine, and of course tense US-China relations continue. We recently had Jared Cohen, our president of global affairs, and Ian Bremmer of Eurasia Group on this podcast to talk us through the complex geopolitical situation right now. How are clients managing the increase in geopolitical risks?

David Solomon: It's certainly a topic that I'm finding, as I dialogue with CEOs, is getting a lot more attention. And one of the reasons that we had reinvigorated our Global Institute and brought Jared to the firm is we thought this was a topic that was going to be very important to our clients. And I think it's one, given the fact that we have three very hot spots from a geopolitical perspective in the world right now, it's something that's getting a lot of

attention.

Whenever you have conflict or friction, that's a headwind to economic growth. And so whether it's the complexity of the bilateral relationship between the US and China or the war in Ukraine that continues or the conflict in the Middle East, all these things create a dynamic that create headwinds for growth on a global basis. And so certainly, if you're running big global businesses, you're very focused on these issues.

I think we're at a moment in time where the world is a little bit more fragile, and that's a headwind to growth. We can talk about each of these individual situations more specifically, but combined impact is bringing another factor into economic growth that CEOs and business leaders around the world are spending more time trying to understand because it affects strategic decisions, capital investment, supply chains, and other things that are certainly important to the execution of their business.

Allison Nathan: And as you mentioned, 2024 is going to be a packed election year. More than half of the world's population will be heading to the polls. And of course we're

going to have a very consequential election here in the US. That seems to raise the stakes that we could see even more geopolitical volatility and political polarization. What are you watching most closely in the months ahead on that front?

David Solomon: I'm not a political pundit, and so I'm watching as everybody else does. And I'd also highlight that one of the things that I think anyone would observe that looks back at history and follows elections very closely, there are always perspectives in advance of elections as to how they're going to work out. And generally speaking, whatever people expect, there's often something different that occurs as you get into campaigns. Campaigns are long, they're tough, they're complex.

And so here in the US, for example, we're at the very beginning. And so I know there's a sense that we're heading down a road to certain conclusions that people have depending on how they look at it. But I'd still say there's lots of rooms for other things to happen and for surprises to happen along the way. And certainly, if you go back and you look at recent elections in this country and many others, there are plenty of surprises that pop in as

campaigns play out.

So elections, I think, at a high level, as you're in an election year with lots of elections and you appropriately point out kind of four billion in the world are living in places where there will be elections this year, I think one of the good things is that four billion people are selecting their leaders. We might not all love the choices that are made in every single jurisdiction, but four billion people are selecting their leaders. That's good. Democracy is strong around the world, and I think it's going to be an interesting year in that context. But those elections also can breed uncertainty, and uncertainty delays investment decisions or causes people to wait. It creates volatility in policy when there's flip-flops, you know, in different leadership. You can see policy changes. And so these are all things that have to factor into people's economic analysis.

And until we get more certainty -- in other words, until you get to the result -- I think it's hard to speculate as to how all that plays out and how it all impacts economic activity more broadly.

Allison Nathan: We absolutely learned our lesson with

that in 2016, for sure.

David Solomon: Absolutely. Yeah, absolutely.

Allison Nathan: So let's discuss an area that you are very familiar with, the deal-making environment. We saw a bit of a pickup in M&A at the end of the third quarter of last year. What do you think the prospects are now at the start of 2024?

David Solomon: I think the environment is going to be more conducive for investment banking activity in 2024, but I say that only because I've been around the investment banking business for a long time. I was in the investment banking business here at the firm for quite some time. And just as a student in that business over a long period of time, you go through periods where activity slows. But generally, those periods last for a period of time, and then activity picks up again.

Companies want to move forward. They want to invest. They want to make strategic decisions. Companies need to raise capital, they need to finance, etc. We had an extraordinary volatile period in 2022. Well, actually

coming out of the pandemic and into 2022 and 2023. Enormous government spending that really accelerated activity in 2021. A war that started in Ukraine in 2022 that disrupted supply chains, energy supplies, etc., and also created a very significant correction in markets in 2022. If you remember, the equity markets and the fixed income markets were both down in 2022 for the year for the first time in over 50 years. So we've certainly had a significant amount of volatility.

When you have that volatility, it affects confidence. And when it affects confidence, investment banking activity slows. We've now gotten through that. As we talked at the beginning of the discussion, we had a much more benign economic environment than we expected. We haven't seen a recession. There's a higher probability of a softer landing. And so naturally, people are regaining confidence and, therefore, the transaction activity, the financing, the investment, the deal-making activity is starting to pick up.

And so we have been operating for the last 18 months at what I'd call decade-low transaction volume across investment banking. And I just don't think that sustains. I think you get back to kind of 10-year averages over the

next 12 to 24 months, and therefore you see a pickup in that.

And one of the places where we're starting to see that is in M&A activity. We've seen a handful of big deals in the energy space. We certainly see more dialogue. And I also think the financial sponsors, the private equity players, who have really been shut down from an activity perspective, are starting to get more active, and I would expect that to pick up in 2024 and into 2025.

Allison Nathan: And there is some sense of this is about the macro backdrop, but there's also ultimately going to be more pent-up demand. I mean, you can't have these low levels of activity indefinitely because companies actually need to get onto the work of doing their business.

David Solomon: Absolutely. And ultimately, companies finance. That financing has duration. But ultimately, if you don't finance for a couple of years, you have to refinance no matter what the environment is. So companies entered this period very well capitalized because interest rates have been low for a long period of time, and they had turned out their financing and their capital

structures very constructively. But you see a big change in that as you get to 2026 and 2027. And companies are starting to think about how they're going to have to remake their capital structures, and they have to make an assumption about the interest rate environment and the market environment broadly and they have to act.

And so you can't turn these things off for extended periods of time. Companies have to invest, they have to finance, they have to act, and they have to be strategically competitive. And I do think you're going to see a pickup in that activity.

Allison Nathan: We talked in the past about how sustainability has been a rising priority among companies as well as investors. But with the ongoing conflicts in energy-rich parts of the world that we've been discussing -- Middle East, Russia-Ukraine -- there's also more focus on energy security, and ESG strategies have also been somewhat under scrutiny. How are companies and clients trying to balance these objectives in terms of sustainability, energy security, and ultimately returns?

David Solomon: Well, I think the important word that

you strike there is "balance." And whether it's governments and the policy they implement, whether it's investors and the decisions they make, whether it's companies and the investments or decisions they make around transition, "balance" is the important word.

I think when we think about energy transition, I think energy transition is a very important thing but it is a transition and it's going to take a period of time. And that period of time isn't the next year or two. That period of time is decades. And I think that we have to be extremely thoughtful in both how we invest and how we transition. And traditional energy sources are an important part of the transition.

And so there aren't absolutes on either end here. We have to make investments in new technologies that can allow us to create more energy in a carbon-free world. We have to continue to use traditional energy sources to make sure that we have energy security and we have reasonable supplies of energy. If you don't have reasonable supplies of energy, the whole system breaks down.

And so there's no question that all this is balanced. It's

long-term thinking. It's appropriate policies. One of the things we have to deal with, people are very, very focused on AI. My guess is that'll come up at some point in our conversation here.

Allison Nathan: Yes, yes, it will.

David Solomon: People are very, very focused on AI. These large language models require chips that require an enormous amount of energy. And so the energy demand as we continue to build the technology to drive our society is also going to pull on our energy needs in a very significant way. So this is a long-term game. It's very important that we're focused on it. It's very important for the world. But we have to have honest discussion, thoughtful discussion. We have to ensure that we have a secure energy supply. We've got to be working to create technologies that allow us to decarbonize the world over time. We've got to do all those things, and it's going to take time and we've got to be very thoughtful about it.

Allison Nathan: So generative AI. You just mentioned it. Of course, we cannot have a podcast without talking about generative AI. It doesn't matter what the topic is. Do you

expect the momentum that really took hold of the markets and the imagination of companies, investors, people broadly to continue in 2024? Or do you think we're going to see a bit of a cooling off in terms of that interest?

David Solomon: If imagination is euphoria for any company that in any way, shape, or form has AI in its heading or its business purpose, we've seen that before. Euphoria cools. But that has nothing to do with the efficacy of the technology and the journey we're on to allow these technologies to continue to advance and have a meaningful impact on business, the way we do business, the way we conduct business, etc.

We've been using different forms of artificial intelligence at Goldman Sachs for decades, and they play an important role in a number of our businesses.

I think one of the reasons there was so much euphoria over the course of the last year is these technologies advanced to a place where everyone could understand in a user-applicable way how this could really benefit them.

Allison Nathan: Right.

David Solomon: So ChatGPT became something that people could grab onto and say, "Wow, I really understand this in a different way and how this can benefit me." But as people absorbed that, businesses have to get into the mode of saying, "Okay, how do we want to use these tools, and what tools do we want to use? How do we make sure we use them in an appropriate way? How do we make sure we use them, if you're a regulated industry, in a way where you meet regulatory standards? How do we use them in a way where we protect people's information and data and privacy and that we control our ecosystem and our own data as a business?"

And these are all very complex questions that we're spending an enormous amount of time. We see a variety of use cases and tools that allow us, at Goldman Sachs, to better serve our clients, to provide information more quickly, more reliably, to make better decisions. And what we've done is we've tried to pick a narrow set of use cases that we can really execute on that advance our ability to serve our clients and give our people more leverage. And we'll continue to expand from there.

But all of this takes resources. It takes compute capacity. There are complicated issues to decide around your own data and models. And there's a lot of focus on it, and I think that's going to continue to get a lot of attention from business leaders as they continue to understand how these tools affect their business, both as an offensive tool for their business and playing defense to make sure they protect their positions in their business.

Allison Nathan: So amid all of this backdrop, 2023 was what I would call a year of execution for Goldman Sachs. You just used the word "execution" in the form of AI technologies, but broadly speaking, we have really focused on many of our strategic priorities. Talk us through some of the progress we've made on those priorities and on strengthening our core businesses.

David Solomon: So there's no question 2023 was a year of execution for Goldman Sachs, and it's something that I've said publicly and will continue to say publicly. We narrowed our focus to our two principal businesses where we have a significant right to win with leading franchises and well-established competitive platforms. That would be investment banking and markets, what we call Global

Banking & Markets, our preeminent investment banking business. Our leading FICC and equity businesses, where we intermediate for clients and finance clients that are big players in the institutional capital markets. And then our broad global asset and wealth management platform where we supervise \$2.8 trillion of assets, have a really preeminent ultra private wealth franchise that continues to grow very well. And we're growing aggressively our asset management platform, in particular, our alternatives platform. And we've raised over the last three and a half years over \$225 billion in alternatives in serving our clients.

We feel very good about the way those businesses are positioned, but we made a very conscious decision to narrow certain other activities. Our consumer ambitions we narrowed materially, and then we went and we executed on those decisions very effectively. So I think the firm is incredibly well positioned to continue to grow and support our clients through these two core businesses. We've made more progress where we've chosen to narrow some of the investments we've made. I think it's super important for companies to innovate and try new things, but I also think it's important for companies to be nimble. And if things

aren't working, to adjust.

And so I feel in 2023, we made a very successful pivot and executed against it, and we're very well positioned in 2024 for '24, '25, etc., to continue to strengthen our franchise, serve our clients with excellence, and deliver strong returns for our shareholders.

Allison Nathan: David, what are your strategic objectives and execution priorities for 2024?

David Solomon: Our emphasis continues to be on the things we've highlighted in our Investor Day. We continue to focus on our wallet shares in our core business. We continue to focus on our margins and return and the growth in our Asset & Wealth Management business. And we continue to focus on investing to operate the firm at scale. And so those are three things I just highlight that we continue to execute on as we work to serve our clients and grow the firm.

Allison Nathan: David, thanks so much for joining us and sharing your insights.

David Solomon: Thank you very much for having me, and have a good 2024.

Allison Nathan: You, too.

David Solomon: Thank you.

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