

JAKE SIEWERT

Welcome to our *Exchange at Goldman Sachs* markets update for March 20th. Every week we sit down with leaders across the firm to get their quick take on what they're watching in markets, and it's been an interesting week. We're recording under slightly different circumstances. A lot of us are in work-from-home mode, and I'm Jake Siewert, and today's guest is Joe Montesano of our Global Markets Division. Welcome, Joe.

JOE MONTESANO

Thank you. Thanks for having me.

JAKE SIEWERT

So before we dive into the analysis, just give us a quick intro explaining what you do here at Goldman.

JOE MONTESANO

Sure. I run our Americas equities trading as well as I have a bit of a global role in our global program

trading. I've been here for 21 years. I've probably done just about everything across the equities trading landscape in my career or some version of it, and I'm a Goldman lifer.

JAKE SIEWERT

All right, so let's talk about the week, another week of extreme volatility in equity markets. The Fed cut rates to nearly zero over the weekend. A lot of times people expect that they have a big impact on equity markets, but how's the equity market responded to that so far?

JOE MONTESANO

I think the first reaction from a lot of our clients and from the marketplace was that a similar reaction to the crisis when maybe participants thought that the Fed didn't really get the severity of the current crisis. I think that was a misinterpretation, and I think the market is starting to figure that out. I think that, you know, the Fed is doing basically all that it can do, and that market participants are now fairly

satisfied.

The market often wants the Fed to be quicker than they're probably likely to do, or they want them to go outside of their remit, but if you look back at it, and you look at what Powell has been doing, it is very aggressive by historic standards. He's certainly in crisis management mode, but he's following the right protocols. I think what the market was looking for was some sort of fiscal response which of course is not the Fed's duty. So we're getting an unprecedented response for an unprecedented crisis, and it's interesting to watch this unfold. I think after 21 years in the market, I've seen a lot of crisis and none quite like this one. It's interesting to say the least.

JAKE SIEWERT

So beyond the Fed policy response, what's driving the day-to-day volatility?

JOE MONTESANO

There's this term in finance and economics, this Minsky moment where after very long periods of low volatility, they're followed by periods of extreme high volatility, and if you look past this past really since 2011, so nine years now, there really hasn't been much volatility in asset prices. There's been the occasional, whether they're flash crashes or whether they're the February 18th incident of volatility in the equity marketplace. There is discrete periods of them, but in general it was a very, very nonvolatile period.

So now we get to something that's an exogenous shock, this virus, and the marketplace was largely predicated upon positions and assumptions about those positions and when one can get out of them that were not set up for this particular moment. So we certainly have seen a lack of liquidity which is a natural, prudent response by market participants, so we're

seeing increased volatility. We obviously are subject to that as well. We can't get out of positions quite as easy.

But as our duty as liquidity providers, hopefully the liquidity provider of choice for our clients, it's been an environment where we traditionally at Goldman Sachs have thrived.

JAKE SIEWERT

So obviously there have been a number of automatic trading halts to prevent too dramatic a decline in a single moment. How's that policy lever working for the markets, and what kind of signal does it send to market participants?

JOE MONTESANO

So these really date back to 1987, I think it was 23 percent crash that we had in one day in 1987, and I believe it was the Brady Commission that was put in charge of finding what actually happened on the '87 crash,

and one of the things that came out of that was that they created these trading halts or curbs that would at least give pause and let people realize and think about what's actually happening hopefully to get more rational players involved.

Over the years and since the past financial crisis in 2008 and '09, the regulators in a more cogent fashion of this happening whereas the market was a little more fragmented back in 1987, so we created these new circuit breakers that are more market-wide than I think originally they were relative to the New York Exchange, and they're not necessarily designed to stop prices from going to their natural places. This is America. The exchanges are supposed to be places that are finding price discovery, but it's just supposed to create pauses, and I think one thing that you'll find is that with so much computerized trading now, that it's a pretty good

idea to have these in place.

Now again, we've hit them several times over the last two weeks, and it doesn't necessarily mean that they've kept the markets from going down, but we can certainly take a pause and to realize whether these are intended consequences or just a figment of increased electronic trading.

JAKE SIEWERT

So you mentioned a couple times parallels to '08. What are some of the parallels and what are some of the real differences between the market response in the global financial crisis and today's coronavirus markets?

JOE MONTESANO

It's funny you say that because when I talk to a lot of market participants today, a lot of clients, a lot of colleagues, well, in '08 we knew what needed to be done. It was a banking and mortgage liquidity crisis, and it needed to be fixed and, oh, it

was just a matter of having the gumption to actually do it which of course living through that at the time didn't seem as if it were very obvious what needed to be done and if it could be done.

So in this example, though, a couple things are different, that like I said before. It is an exogenous shock. This isn't like just over-levering the system and a time for it to come out, but what also is different is just the ability for policy response when we were almost at almost at close to zero interest rates and even negative interest rates around the globe. So there's less of a cushion for the central banks around the globe to add liquidity to the system.

With that being said, this is also very different because liquidity is not something that is going to solve people that are living paycheck to paycheck that now aren't going to be paid for a while. These

are real economic problems that we have and we're going to have for the next couple of months. So I think the politicians and regulators are actually, from America's perspective, surprisingly getting their act together and being very aggressive which I think is all you can ask for. Now they're not going to just create a couple months of GDP out of nowhere, but as far as the responses, it's as good as it can be.

JAKE SIEWERT

So Joe, you talk to a lot of different clients. How are clients positioning themselves right now, and are there any bright spots across all the asset classes?

JOE MONTESANO

Yeah. I think there are bright spots. I think that any time that we go through one of these bear markets and recession, which is looking more and more likely, that there are positions that need to be

either unwind or moved that our clients have to do. Those obviously come at sometimes distressed times. So we feel pretty good about our ability to help clients mitigate those difficult circumstances as well and navigate those as well as can be hoped.

The thing I'd say is that, you know, if you asked me this question even just a week ago, I would have said that clients have not really come to the realization what was happening, and granted markets were higher then, but this week was one of the busiest weeks that I've really ever been associated with in the first three days of the week, and we definitely saw some of the processes that you would like to see that need to happen in order to form a less volatile period. I'm not going to make any opinions on whether the market goes higher or lower from here, but you're certainly seeing some evidence of getting

positions in better shape.

So if had to say what are the things that you're probably most excited about is the fact that there has been a lot of cash raised, and that many of our clients, especially some of the people with longer-term money are in a very good position to be investing right now, to be aggressive, and we feel pretty good about our position to help them do that too.

So looking at some of the things that we have invested in over the last couple of years, especially the human aspect of the business where we pride ourselves on the relationships that we have with our clients, and that's something the clients are really appreciating during these difficult times, and we're getting the first call.

JAKE SIEWERT

So next week sort of one of the primary symbols of

capitalism in markets, the New York Stock Exchange will be closed. They don't want to put their employees at risk, and so they will be moving to full electronic trading. Obviously we've seen that on other exchanges. What's going to be interesting there? What are you going to watch for?

JOE MONTESANO

Yeah. There's a couple of exchanges that have -- there's different arguments for plus and minus but have kept some of the legacy floor operations, CBOE, CME, NYFE very publicly. We see it all the time on CNBC, but largely you have to remember that the New York Stock Exchange is really in Mahwah, Mahwah, New Jersey, where there where the actual trades are happening. The floor is largely for opens and closes of the marketplace. That's done. That's handled by humans and has human intervention that one can make an

argument that that does create a bit more of an orderly open and closes, but I wouldn't against it, by the way.

But largely they seem to have very good backup plans in place. We'll know next week, but there are plenty of markets and exchanges which operate solely electronically now. So I think any time there's any changes, we always have to be cognizant of operational risk. Any time people aren't used to sending orders a specific way, you have to be careful, but in general this is probably more in line with more electronic markets, so we feel okay about it.

JAKE SIEWERT

Okay, well, so amidst all the drama and the negative news and understandable concern about the health of our country, any positives that you saw this week, something you saw at the office or at home?

JOE MONTESANO

Yeah. There's a lot of positives. For one, there's watching some of our employees that probably have been remotely working for a while now, some of whom were either in compromised situations or felt like they wanted to be at home. We're very supportive. There is a couple of people that work for me that have been highly engaged while they're at home, and that's been a really pleasant surprise just to see how much people that are in personal risky situations are really engaged, and they're obviously putting their health first, and that's what we want them to do, but just how much being a part of Goldman Sachs means to them, and it's really an outlet and a fun thing for them to do while I think we all have a bit of cabin fever these days.

Another thing that comes to mind, I was really pleased about the Executive Office's approach to helping the community, especially in small

businesses. I think I personally live in New York City and see a ton of small businesses, whether it's the local restaurant or the local gym or drycleaner. Those are things that I think we all as not only Goldman Sachs partners but members of the community that we want to make sure that we're putting the community really in top of mind for that, and that's something that I think every partner that I've talked to is really excited about actually giving money towards the cause and to fortify the community. So it's really been a pleasant thing for us to talk about.

JAKE SIEWERT

All right. Well, Joe, thanks for joining us this week. I know you've been super busy, so we appreciate you taking the time.

JOE MONTESANO

You bet. Thanks, Jake.

JAKE SIEWERT

That's all for this week's markets update on *Exchanges at Goldman Sachs* and, in case you missed it, check out our other episode this week with Goldman Sachs' global medical director, Dr. Michael Rendel who talks about what employees and managers can be doing to stay healthy and productive while working remotely during this pandemic. Thanks for listening and hope everyone's staying healthy and well during this challenging time.

This podcast was recorded on March 19, 2020.