

EXCHANGES AT GOLDMAN SACHS PODCAST WITH ANNE MARIE DARLING

JAKE SIEWERT

Welcome to our Exchanges at Goldman Sachs markets update for April 3rd. Every week, we check in with leaders across the firm to get their quick take on what they're watching in markets. I'm Jake Siewert, global head of corporate communications here at the firm, and today's guest is Anne Marie Darling of our Global Markets Division. Welcome, Anne Marie,

ANNE MARIE

Thank you for having me.

JAKE SIEWERT

Before we jump in, give us a quick intro into what you've been doing and also how the work you've been doing on the digital transformation of the firm has evolved in the current context.

ANNE MARIE DARLING

Great, so I've been at the firm 20 years. I actually started my career on the floor of the American Stock Exchange. I currently manage multi-asset platform sales, our global fixed income execution services, and Marquee. And so that's a very interesting question. We've seen obviously with 98% of Goldman Sachs working from home with similar results from our clients all working from home.

The three areas we've really noticed increase digital connection is first in collaboration. All my teams globally are really interacting with videoconferencing tools, which has been fantastic, so they can see what's happening on the desk and with each other, and the global messaging between our clients has really skyrocketed. The second is around analytics, data, and content. So for Marquee, which is our digital storefront for institutional clients, the weekly active users have increased significantly, and our mobile app usage has really gone through the roof. GSNow, our mobile applications, is seeing a surge of up over 65% in terms of weekly usage.

And then the last area we're really seeing impact is in our systematic market-making business. And so our SMM business has really made the work-from-home transition quite seamless. First, for our clients they've been consistently open for business and streaming in all products with competitive spreads, so clients have been very appreciative of the liquidity. Secondly, they've provided deep content and markets-driven color. And lastly, they've created scale so as clients are all trying to come in at the same time during big gap moves, we've been able to handle that through scale.

JAKE SIEWERT

So volatility is the new normal in markets, what's the biggest story you're watching in these volatile markets right now?

ANNE MARIE DARLING

So if we put it in context, the S&P had one of its fastest bear markets on record, dropping 20% in 16 days. The only time that happened faster was back in 1933. If you think about 2019, it was a perfect year for risk parity plus. So investors were long equities, bonds, gold, and they made money in all three legs.

This year started pretty well in the equity market. Obviously we had an initial selloff in January, that was quickly erased in early February. And at the time most investors were still dismissing the overall epidemic, a trade war was abating as investors were really getting ready to position for a truce rebound, and even if you look at some of our polls, 37% of our clients expected in February for the S&P to end the year at 3490. So obviously all the volatility has taken investors by surprise.

We've seen countless measures to stabilize the financial markets, with markets finally bottoming on the 23rd and it's since rallied more than 15%. I think the overwhelming response from our franchise, clients, risk takers, has been 'Are we at the lows?' And so we just did a new survey on Marquee with 1,800 respondents, and it's worth noting 75% still believe we're in a bear market, and 50% believe the lows

have not yet been set. But on the positive side, a little over two-thirds expect the S&P to be back at current levels by year-end, and almost 37% believe it'll be above 2800.

JAKE SIEWERT

Given how quickly conditions have become bearish, and the sizable day-in-day-out volatility, how have your clients been responding?

ANNE MARIE DARLING

It's obviously been a very tough market backdrop. Overall hedge funds did a good job protecting capital although there will be wide dispersion with average hedge fund performance probably down single digits. On the one side with investors with significant market beta, so long only, passive, risk parity, they probably had a very difficult month given the enormous de-risking that happened.

And then on the other side, macro hedge funds have been able to perform much better, but that said, my guess is that most strategies and most clients I speak to had staged a pretty strong recovery through the last week in March, and as a result will hopefully post decent relative performance versus the market. In addition, after two weeks of a straight line down, the markets have really rebounded and we're starting to see investors rebalance their portfolios. For example, we believe we had the largest pension rebalance on record in the US with close to 100 billion of inflows into the equity bucket from pensions this week.

And then other significant shifts are happening, specifically in the corporate bond space. Our research department's estimated that roughly 550 billion of bonds may fall out of investment grade into high-yield, and the reason this matters is a lot of our investors are mandated to stay in investment grade so they might have to sell those bonds, and the high-yield bond universe is much smaller and more sensitive to sudden inflows.

But to end on a positive note, we did see our recent high-yield bond issuance which was well-received by the market, so hopefully there's hope the market will be able to digest this transition more smoothly.

JAKE SIEWERT

So looking ahead, things are obviously changing so fast, but what's one thing that's on your mind looking at the week ahead?

ANNE MARIE DARLING

Obviously we're all focused on the spread of the virus and importantly, the impact it's having on lives. So one number I'm watching is the day-over-day increase of new cases in each region, and when are we going to reach an inflection point. The other thing that's interesting to note is a lot of clients I speak to, and even in our most recent Marquee QuickPoll we asked what economic data folks were going to look at in April, and 45% responded that they don't think economic data will matter in April. And I think this is also playing out in markets. If you looked at the initial jobless claim numbers last week – more than 3 million – barely moved the markets, and it was quite surprising given it was the biggest number on record by a factor of 4 or 5X.

I think another thing that's important to watch is just what's happening in oil. The very inelastic oil market is going through sharp reduction in demand and price war between producers at this time. And even though a lot of investors are focused on the direct impact of the epidemic, I think what's happening in the oil market could have a very long-lasting impact on both markets and our economy.

JAKE SIEWERT

Thanks for joining us, Anne Marie.

ANNE MARIE DARLING

Thanks for having me, 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 Research's President and COO John Waldron, among other senior leaders here at the firm, for a deep dive into business conditions right now and potential economic impacts. Thanks for listening and hope everyone is staying healthy and safe.

This podcast was recorded on April 2, 2020.