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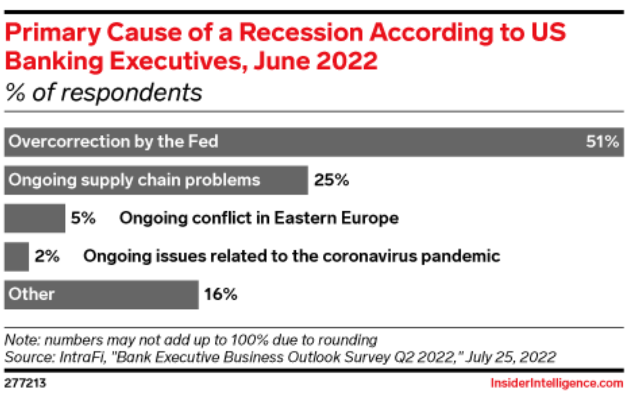
Goldman Sachs beats analysts' estimates, but feels pressure from the economy and its Marcus tribulations

Article

The news: Goldman Sachs' Q3 earnings topped analysts' estimates, thanks to strong fixed-income trading. The bank also announced a big overhaul that it hopes will staunch the bleeding from **Marcus**.

Earnings recap: Goldman's Q3 performance resembled that of the other major US banks, hitting on many of the earnings themes we highlighted earlier.

- The bank's profit fell a whopping 43%—**the largest drop of all the major banks.**
- It set aside $515 million for loan loss provisions in the quarter, reflecting consumer portfolio growth and the potential impact of broader concerns regarding the macroeconomic outlook.
- Goldman saw its consumer and wealth management revenue increase 18% YoY due to credit card balances and higher interest rates. Its investment banking division felt the same pain as its competitors, posting a 57% revenue drop YoY and citing a dry IPO market.
- Fixed-income trading revenue was up 41% YoY, driving the bank to beat analysts' $11.41 billion revenue expectation and post $11.98 billion for the quarter.



A welcomed shakeup: Goldman also formally announced **major changes to the bank's structure, including the unwinding of its consumer banking unit, Marcus.** The shake-up, which will result in three new divisions, has been rumored over the past few weeks.

- The consumer-focused areas of Marcus will move into Goldman's new Asset and Wealth Management business.
- Marcus' corporate client business will form a new division called Platform Solutions. This division will also include Goldman's installment lending business, **GreenSky**, along with its partnerships with Apple and General Motors.

- The bank will also combine its investment banking and trading operations to form its Global Banking & Markets division.

Goldman's decision to back away from the digital, consumer-focused Marcus will be a relief to investors and shareholders, who questioned its viability as losses mounted and the bank's share price fell. Marcus was a costly investment to stand up, and the high-yielding interest on savings accounts proved to be unsustainable.

What to watch: Marcus was cited as one of the major drivers behind Goldman's falling profits over the past 12 months. With this reorganization, Goldman will need to rebuild its investors' confidence and prove that it can recover from the billions of dollars in losses the digital bank generated. Here are a few things to keep an eye on:

- **New leadership:** David Solomon will remain at the helm of Goldman Sachs, but each of the newly formed divisions will see fresh faces in leadership. The pressure will be on these heads to get this round of organizational changes right.
- **Regulatory scrutiny:** The breakdown of Marcus will not get regulators off Goldman's back. Marcus' loss-making operations continue to be analyzed by US agencies, and Goldman's credit card business is still under investigation.
- **Enhanced partnerships:** The bank recently deepened its relationship with Apple by offering high-yield savings accounts. Look for more partnerships like this in the future.

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