Goldman Sachs forced to ax 3,200 jobs in wake of costly gamble on Marcus diversification

Article

The news: **Goldman Sachs** will reportedly begin cutting about 3,200 staff this week, embarking on extensive cost-cutting in response to disappointing results from multiple business areas amid continued market uncertainty.

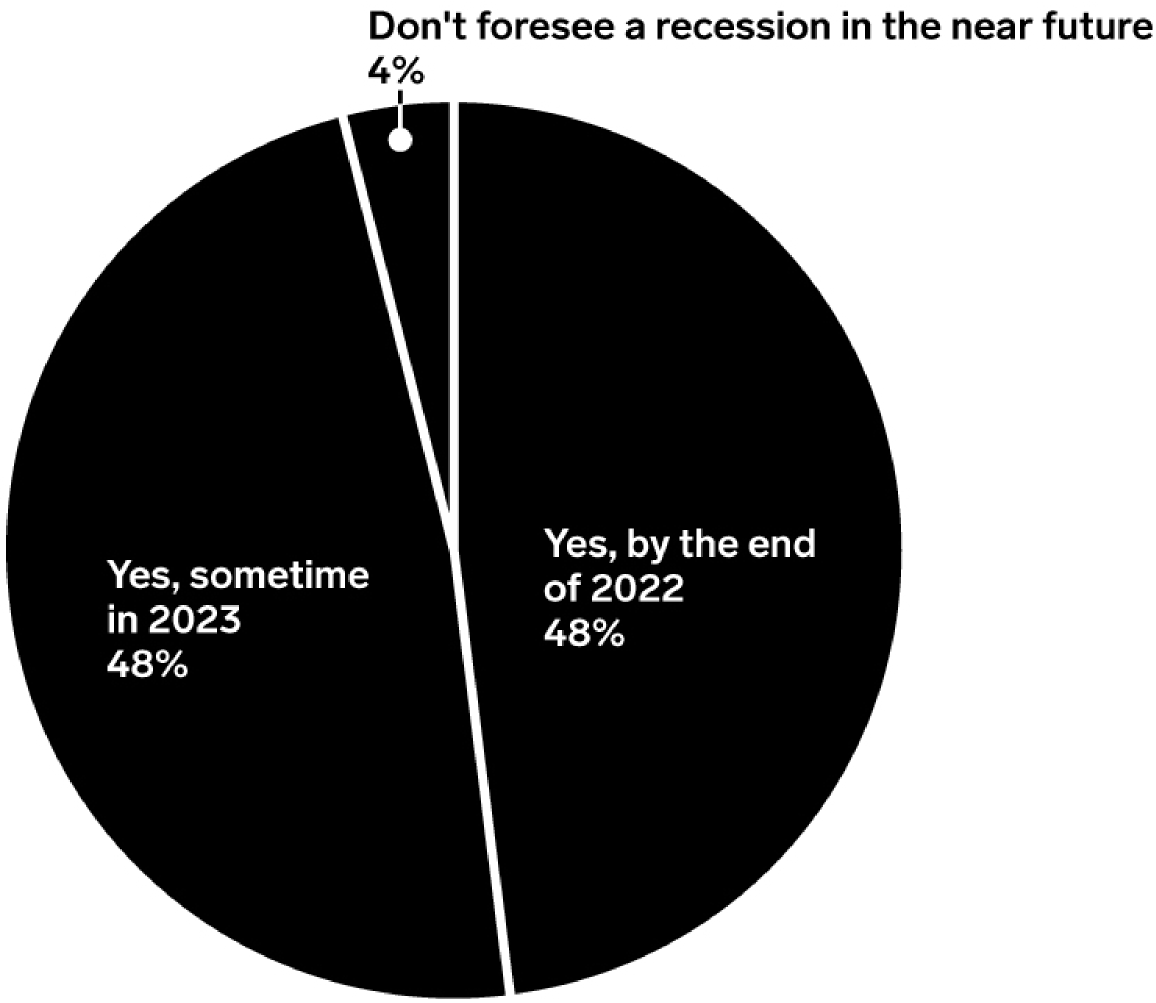
More than a third of layoffs will likely be from Goldman's core trading and banking units, according to Bloomberg, which cited a person with knowledge of the matter.

What's behind mass layoffs? Three main factors are behind one of the biggest rounds of redundancies ever for the Wall Street giant.

1. **Market slowdown.** Goldman's investment banking revenues have suffered alongside its rivals due to quieter M&A and IPO markets. As a relatively gloomy economic outlook shows few signs of improving, this looks set to continue and impact other business lines.
2. **Overgrown cost base.** Goldman's expensive and largely unsuccessful venture into consumer banking led to losses of $1.2 billion last year for **Marcus**. Growing pressure to cut costs helped force the bank to reorganize the unit. The lender also overstretched in growing headcount: It's expanded its workforce at roughly double the speed of rivals since the beginning of 2020 and dropped annual layoffs tied to underperformance, per Bloomberg.
3. **Profit squeeze.** In upcoming earnings results, the bank is reportedly set to reveal more than $2 billion in pretax losses for its new credit card and installment-lending business, according to Bloomberg. That, combined with mounting costs and tough market conditions, have impacted Goldman's bottom line: Analysts expect an estimated 46% decrease in profits.

Do US Banking Executives Believe There Will Be a Recession?

% of respondents, June 2022



Source: IntraFi, "Bank Executive Business Outlook Survey Q2 2022," July 25, 2022

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The industry picture: Goldman Sachs is not alone in culling staff, especially at this time of year. **Morgan Stanley** and Citi are also making job cuts in response to falling revenues and weak markets. But the scale of Goldman's layoffs highlights how the lender's ambition to generate more stable income through diversification into areas like consumer banking led it to overstretch. That and the resources it poured into Marcus has forced it to make more drastic cuts than rivals.

In coming months, recession fears will force other banks to ax employees in a bid to slash costs. Goldman's plans to offload more than 3,000 staff should serve as a warning to other lenders that overreaching can have costly repercussions if markets take a downturn.