Goldman Sachs Exchanges

How Goldman Sachs' John Waldron is navigating "a more uncertain time"

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Date of recording: June 2, 2025

Allison Nathan: This may be one of the most difficult environments for corporate decision makers ever. So how are leaders navigating the uncertainty, and are opportunities arising out of the volatility? I'm Allison Nathan, and this is Goldman Sachs Exchanges.

Today I'm sitting down with John Waldron, the President and Chief Operating Officer of Goldman Sachs. He'll share how the firm's clients and Goldman Sachs are charting the path forward. John, welcome back to the program.

John Waldron: Thank you, Allison. Good to be here.

Allison Nathan: So John, to say this year has been marked by uncertainty would be a huge understatement.

So as we sit here today, what's your sense on where the economy is headed?

John Waldron: So I think that we are seeing tremendous resilience in the US economy, to start in the US. Lots of predictions about recession and you know, negative economic scenarios right on the back of the Liberation Day in early April.

And actually the data thus far has been pretty okay. So we've seen the economy kind of hang in there. The US consumer is still essentially healthy and spending Employment is strong. There's a lot of fiscal impulse. So the government continues to spend – even though we talk a lot about DOGE and other elements of reduction in spend, the reality is the hard data shows you that the government continues to spend.

So all those factors in the US to me lead to, still, I think, a likely scenario where we don't have a recession. The big question mark would be, to me, two pieces. One is tariffs. Where do tariffs ultimately end up? We've seen a journey from Liberation Day, a more maximalist approach, to something now that at least looks more targeted.

It's still a lot higher – if tariff rates end up at an effective rate of 13, 14, 15%, that's a lot higher than the 2% where we started. But nonetheless, I think it feels to me that we're heading towards something that's more manageable, that companies can adjust to.

And then the second big question mark in my mind, maybe the biggest question mark, at least in my view, is interest rates, particularly longer end interest rates. So we're seeing a lot of increase in duration in the rate curves in the United States and Japan and many other countries. And I think that could be a brake on economic growth. So those two to me are the two big unknowns, and I think we're going to learn a lot in the next few months in terms of how the data comes in as we see the factors of interest rates and tariffs become a little bit more pronounced.

Allison Nathan: Let's dig into both of those a little bit. So if we start with tariffs and trade, obviously, as you just said, very much in focus. There's been another round of headlines about US-China tensions. There's other developments even over this past weekend. You spent a lot of time meeting with clients around the world. How are CEOs thinking about global trade and all of this ever-changing tariff policy, and how is that really impacting how they're thinking about strategic investments?

John Waldron: So the, the best way I can characterize this is, I think about how we at Goldman Sachs have been spending our time advising our corporate clients – CEOs, CFOs, boards, et cetera. And I think Liberation Day was a big shock to the system. It was very, very disruptive. I don't think anybody really, in any board meeting ahead of Liberation Day, thought it would go to that extreme. And from that point forward, for the next several weeks, there were many board meetings, many management meetings of which we were fortunate to be a part of, that we're reevaluating business plans.

So you think about, if you're running a company, you come into the year, like at Goldman Sachs in my COO job, we have a business plan, we have a forecast. We are running towards a set of outcomes that we expect to deliver for the year.

We don't have manufacturing facilities. We don't have a big supply chain. If you're running a company that has a big supply chain, you've made a certain set of assumptions about what your cost of goods sold are going to be, how you're going to run your operation that year to deliver those financial results. And on Liberation Day, everything changed.

And so I would characterize a significant pause where most companies said, let's just take a step back. Let's first watch how this plays out. And then secondarily, let's start making contingency plans. Because if we see tariffs of that level in our supply chain, we will have to make some significant adjustments.

The second thing is, to your question, no new capital investment plans of any consequence, particularly if they have any duration to them, which most do, because we don't yet know what the state of play is going to be. And so let's kind of step back and not make any big strategic investments – capital, M&A, anything of consequence that would be a longer-term oriented investment spend, we're going to just take a step back.

I think we're now coming a little bit out of the pause period where people think, okay, effective tariff rates somewhere between 10, 15%, maybe not much more than that. We can navigate around that if that's going to be the new normal. And so I think we're seeing companies start to step out a little bit more and be willing to do some more things.

We've seen actually some M&A over the last handful of weeks, not large industry-defining M&A, but M&A nonetheless. And so I think the pause is ending and we're moving into now an adjustment phase, and you'll see, I think, some more decision making on capital spend, M&A transactions, capital return, stock buyback, et cetera, et cetera.

So I think we're getting to a second order in the process of kind of redefining and re-underwriting what your business plan is going to be for 2025 and beyond. Now that we have a little bit more of a sense for the direction of travel.

Allison Nathan: If you think about this globally, are managements in different countries responding differently to some of these factors?

John Waldron: I think the more US- dependent you are, the more pronounced your pause and your reevaluation becomes. And likewise, the more you're dependent on China for your sourcing and your supply chain, the more you're likely to be in a mode of pause. If you've already moved your supply chain to some of the countries that were less affected, you can be a little bit more forward.

But one of the things I think is interesting is we talked to a number of companies who had heretofore been much more China-sourced, and over the first Trump administration moved their supply chain into places like Vietnam, Mexico, and otherwise, because they were, essentially, following the direction of the US policy, which was, move away from China.

They did so, and then they look at the Liberation Day tariffs and they realize, the tariffs are high in those countries too. So I think that there's so much uncertainty in terms of the direction of the forward tariff rate and also what the supply chains are supposed to look like, that I still think it's very unsettled in the context of making long-term decisions around supply chain.

So I still think there's a lot more to come in that area.

Allison Nathan: And as you said, the second major factor here weighing on the outlook is where bond yields go. A lot of fiscal concerns in the US and in some other parts of the world as well. So talk to us a little bit more about that. How concerned are you?

John Waldron: I'm concerned. I've said this publicly, I think a number of us at Goldman Sachs have said this publicly, others have said it publicly. I think you run six plus percent deficits in relatively good economic times when you don't really need to stimulate to the same level, we're not leaving ourselves a lot of room if we in fact have a tougher economic backdrop.

It seems unsustainable. There doesn't seem to be particular will in either political party to reduce the spending and narrow those deficits. We commend Secretary Bessant and others in the Trump administration for speaking about getting the deficits down. I guess the question is, will we be successful in getting the deficits down?

It seems to us an imperative to get the deficits down. I think the United States has benefited from an exorbitant privilege of borrowing and being able to access capital and still run deficits in this country. But the deficits are getting pretty large, and I would say unsustainable if you're going to try to run at this pace for the foreseeable future.

So I think we have to be concerned about it. I do think the bond market is concerned about it. I don't think these rates are rising because people aren't concerned about it. So I think the bond market is starting to be heard, and I hope that that gets some attention in the halls of Congress, because I think it needs to be a major focus for people in terms of looking at what's the sustainable level of spending in the country going forward.

Allison Nathan: Yes, the bond vigilantes are beginning to rear their head again. At the start of the year, John, you know this better than anyone, the market consensus was that US exceptionalism was set to continue. Everyone was very bullish on the US economy, on US assets. Obviously, that enthusiasm has faded dramatically amid all of this policy uncertainty.

Are you observing clients increasingly looking outside of the US for opportunities?

John Waldron: So, I may have a different take on this than some. I read all the press and I understand this US exceptionalism argument, or decline in the US exceptionalism. And I think about it the following way.

I think there were excess dollar holdings for almost everybody because people were really plowing into US assets and therefore the dollar based on the fact that the US was meant to outperform. But it was pretty over-allocated all over the world, well beyond normalcy, for the reasons we talked about.

I think when Liberation Day happened and people kind of looked at that and said, whoa, that's not what we thought we were signing up for, really a little bit about the disruption in US policy, but a lot about a question about the forward growth curve in the United States and the veracity of holding that amount of excess dollar holdings.

I think we've seen that excess start to come out, probably not completely out, but start to come out. And I do think, to your question, that global asset allocators are reevaluating: A, do I want to be that excessively oriented towards dollars and B, do I want to be unhedged? And so I would characterize what we see from clients, global asset allocators that are looking at currency and global investment dollars or other currencies, would be, let's think about a little less over allocation and let's start to think about whether we want to hedge ourselves.

And so we're seeing that. But I would still characterize it more at the margin. Put aside the press, but if you actually look at the fundamental asset allocation, I think it's a marginal change in behavior. I don't think it's more than that. I do think the more disruptive the policy is for longer, the more likely you're going to see a more pronounced move.

But thus far I still think it's at the margin.

Allison Nathan: Well, one of the major beneficiaries of that has been Europe. It does seem like interest is picking up in Europe. I mean, what are the implications of that for companies and investors.

John Waldron: I agree with you. I think Europe is the prime beneficiary of that incremental amount of hedging around us over-allocation.

But remember, Europe as a region, and we could debate whether Europe is actually operating as Europe, still grows less fast than the United States. So if you're thinking about where am I really going to allocate a lot of incremental capital, you're making a bet that Europe is going to start to grow faster and you're going to get higher returns on your investment in the European economy, which I still think is a bet.

I don't think there's any evidence that that's going to happen. Now, what everybody will point to, and I certainly would agree with is Germany is on the precipice of potentially having a very interesting run in terms of its fiscal spend, Germany has always been the country that has the most fiscal headroom and the least willingness to use it. And now that's starting to change.

This could be quite important in the context of Germany, obviously, but also broadly the impact it can have around the European economic theater.

So I think that there's reasons for optimism, but I'd prefer to see some hard data coming out of Europe that gives you more reason to over-allocate into Europe than where people, I think, sit today.

Allison Nathan: Let's dig into a little bit more on capital markets activity as well as IPOs. You started talking about this, that there's, some signs of a pickup, but, as we said, uncertainty in terms of trade policy and other policies is far from resolved. And you've clearly mentioned, this bond yield increase, they are moving in the wrong direction as of now. So, what do you really think about in terms of the pipeline? Give us a little bit more detail on where you see activity coming from.

John Waldron: So we had a really good start to the year first quarter, capital market volumes were up considerably, you know, 30, 40, 50% depending on what area you want to point to. And then obviously we had, in the beginning of the second quarter, we had this tariff announcement, which has really chilled the volumes quite a bit.

So the second quarter versus the first quarter are down considerably. Not surprising, that's consistent with people pausing and taking a step back. Last seven or 10 business days, we've priced 10 or so IPOs. So we've actually started to see some thawing in the markets and a little bit of risk appetite coming back.

That's a very good sign. And interestingly, they've all, generally speaking, priced well, traded well. Stocks have performed. People are making money by virtue of allocating into those IPOs. That can become quite virtuous. So you certainly don't want to sit here and call a massive turn in the capital markets volumes. But the early signs as the markets have started to repair themselves and as the tariff policy has come back in to a more reasonable place, I think the signs are good.

There's a lot of pipeline. So I could get myself very optimistic about the pipeline, but I've often said, pipeline does not come to fruition in uncertain moments. And so I still think we've got enough uncertainty in the markets that we should be cautious. But the early signs in the last 10 days or so are that the marketplace wants to see more product.

I think you're going to see more product come in over the next several weeks, and I expect the summer to be busier than what the conventional wisdom would suggest. As long as we don't have any more exogenous shocks, or more disruptive policy, which is maybe a big if, but I think that we're set up for a better period here for the next several weeks than we've had for the prior 6, 8, 10 weeks.

Allison Nathan: Let's pivot from the markets and talk a little bit about your role as president and COO. In that role you deal with operational risk for Goldman Sachs. So we've talked about all of these risks, all this volatility. Tell us how Goldman Sachs is navigating that volatility. What are we doing?

John Waldron: Sure. So we think about risk on a very holistic basis. You asked about operational risk.

Operational risk is a big and important component, but we think about all kinds of financial risk, reputational risk, market risk, credit risk, et cetera, et cetera. So there's a lot of components of risk. A couple things to say.

Goldman Sachs is, fortunately, 156 years old. We intend to be here for quite a lot longer and I think risk management as a core competency is one of the fundamental reasons why we've been able to last for that long a period of time.

I've learned a lot in my job about how extensive and how thorough the firm's risk management culture is and how deep it goes. We think about risk as being prepared for the event well before the event occurs. If you're only preparing for the event right when it's happening, you're not going to be a very good risk manager.

So there are three P's that we actually spend quite a lot of time on: people, preparation and process. And it sounds simple, but there's an enormous amount that goes behind that. There's a couple key elements I think, that are important to say. One, our risk management teams, particularly in the second line and even in the third line, are very focused on, thinking about scenario planning, stress testing, et cetera, et cetera. But they have equivalency to the first line business leaders. So many firms struggle to have risk management be equivalent to the business side. Goldman Sachs doesn't struggle with that. If you're a risk manager in this firm, you're every bit as equivalent and equal, standing-wise to the first line commercial producers. I think that's a really important element of our success.

The second thing is we have a mark to market culture. So we like to look at our balance sheet literally every day and try to figure out how we price every asset on that balance sheet and every liability on that balance sheet. Of course, it's very hard to do that every single day with precision, but we work hard to figure that out.

That gives you a sense for, where could I actually sell that position if I had to in some size and scale into the marketplace? What's the third-party bid for that asset? That tends to clarify your mind as, what do we really saying that that asset is worth and how does that square with how we feel about that risk position.

I think during the financial crisis, that was an enormously important for Goldman Sachs and, you know, whatever crisis we have in front of us, it'll be enormously important going forward.

So those are important elements. We have great collaboration around the firm. We spend a lot of time looking at risk, analyzing risk, stress testing our risk positions, and we realize that we're going to constantly be absorbing risk, and you just got to figure out what are you comfortable owning and what are you comfortable not owning, and we're pretty careful about that. We have moderated our risk positioning since April 2nd. I think that's a sensible thing for us to do.

It's a more uncertain time. We talked about that. And so we're definitely, we're absorbing a lot of risk from our clients. We want to continue to do that, but we also, where we can, we pare our risk and stay a little bit closer to home. Husband our liquidity a bit more, run a little bit more buffer. Just be a little bit more, kind of two footed about it, not, overly front footed about it.

And make sure that we're ready for, you know, continued uncertainty and what that may deliver, in the coming weeks and months. And so that's how I characterize where we are now in terms of our positioning.

And we'll continue to be heavily invested in the culture of risk management and make sure that we can navigate whatever's coming our way down the pike.

Allison Nathan: So when you think about the second half of the year, what are your strategic priorities in the face of all of this risk and beyond, have they shifted at all?

John Waldron: So we've had a very consistent strategy at the firm, really for the better part of six or seven years now, and it really has three core components.

One is to, as we say, harness one Goldman Sachs to deliver for our clients with excellence. What does that really mean? That really means using our one Goldman Sachs operating philosophy and infrastructure to serve our clients holistically. To be very client-centered, to think long-term for our clients, to not worry so much about how much money we're making along the way, but to assume if we're really valuable to them, we're doing everything we can at the highest possible standard of excellence, that we will get rewarded over time and we take a long-term view on that.

So we are going to continue to try to improve our ability to do that. We've made a lot of progress, but it's a sort of never ending journey. So that's the first key part of our strategy, and that ultimately comes to fruition in having higher share of wallet. So if you're doing a better and better job serving your clients, they will deliver you a higher share of their wallet because you become even more important to them.

And we, measure that by virtue of looking at our rankings with our clients. We kind of obsess over those rankings. We're not obsessing over revenue. We're obsessing over are we more and more important to the client, which really ultimately comes through and how they rank you because ultimately the dollars flow in terms of where they want the dollars to flow. The second major, element is to run durable, differentiated businesses that are resilient over time. What does that really mean in plain English? That really means we try to run businesses that are increasingly showing durable revenues through the cycle, so more management fees.

More financing revenues, more net interest margin, more revenues that are sticky and seem a little bit more predictable. Nothing that Goldman Sachs is going to do in a cyclical world is going to be completely predictable, but we can be a lot more predictable. In fact, we've measured the standard deviation of our risk, intermediation revenues in our global markets business, which people often think of as the riskiest thing we do.

In the last five years, the standard deviation of our results is 6%. In the prior 10 years, it was 24%. There's some reasons for that. We do have higher share of wallet, so therefore we have a stronger foundation and financial footing, and we're doing more financing, we're more important to our clients.

And financing revenues tend to be stickier, so you don't have as much volatility in those results. So that's a pretty good demonstration of the fact that the business is more differentiated, has become more durable, and we've grown our management fees in our asset and wealth management business considerably to the tune of now having over $10 billion in management fees on a firm with $54 billion or so of revenues. So that's the second major thrust is differentiation, durability, resiliency over time. The third major area of our strategy is to invest, to operate at scale. And what that really means is let's have a better infrastructure inside the firm, a better foundation.

That we can scale on top of a lot of technology investment, a lot of focus on automation, a lot of focus on better risk infrastructure. a lot of focus on scale economies. We obviously want to grow. We're a public company. We are expected to grow. And there's lots of commercial rationale for how we grow, but if you don't have a foundation to grow upon, you're not going to be able to execute on that.

So there's a lot of investment that we're making that actually can be quite expensive along the way, but over time you generate real scale economies in doing that. So those are the three major areas of our focus, we'll continue to focus on those three key pillars. Firm is in a very good place right now.

I think we're serving our clients with distinction and with excellence, and as long as we do that and we keep that infrastructure in mind and we keep investing in it, we're going to be very, very successful over time.

Allison Nathan: John, let’s end with a question on leadership, you have been president and COO since 2018. How has your leadership approach evolved over that time? And what is it like being a leader of a large public traded organization like Goldman Sachs during such a period of volatility?

John Waldron: Well, the first thing I would say is it's a privilege. this is a wonderful organization, an extraordinary company. We have a great culture. We're constantly investing to improve it, but it's a privilege to steward and lead this firm.

I would say that I've managed in this job through some, extraordinary periods. COVID being, first among them we had the Silicon Valley Bank and First Republic Bank and kind of regional banking, crisis that we went through, and there've been many others. We've had lots of periods of market volatility and we had a hundred-year flood, you know, once in a hundred-year flood kind of health crisis. I communicate more and better now than I used to. I think that you realize when you're in this kind of a job that the more you say it, the more you have a chance for people to actually absorb it, listen to it, believe it, and want to execute upon it.

And so you think you communicate well. But until you get into a crisis period, you don't realize that you really have to communicate a lot more, a lot more effectively, different channels, podcasts. You know, email is not enough. It's got to be physical, it's got to be podcasts, got to be digital and it's got to be often.

The second thing is it's a very global firm and I think until you, again, spend time in this job for years and years, you don't realize how much of the firm it exists outside of New York City where we're headquartered. And so I travel a lot, I spend a lot of time out on the front lines, meeting clients with our people and I think that that's become more part of my brand of leadership is to really get out there. Don't do it from your office, do it, you know, as much as you can with people breaking bread where you can and spending real quality time. And so I think that's the second thing. And the third thing is realizing that there's a holistic aspect of Goldman Sachs.

You can tend to want to lean into the commercial part of the firm and where the revenue gets made, where the clients are at the point of impact. But as we talked about earlier, in terms of investing to operate at scale, I realize that there's so much complexity to the operational aspects of this firm.

That I'm over-indexing or trying to, anyway, to spend more time there. There's a lot of technology in this firm. I think the definitional success of our firm over time will be how well do we deploy technology to make us better. I. that's not my historical area of expertise. So there's a lot of learning and a lot of work to be done to understand that and figure out how to steward the firm in that direction.

Working closely with our technology leadership and our business leaders who we're going to have to continue to embrace technology. So those are areas that I'm working on and focusing on. I try to be very human as a leader. I try to be authentic. As I said, I try to spend a lot of time with people, small groups, large groups, a lot of town halls, some bilateral one-on-ones where necessary.

It's a people firm. It's a human capital driven firm. We don't have manufacturing facilities. Our manufacturing is our people. It's our culture, it's our time together. It's how we invest to make ourselves better and how we invest to serve our clients the best we can. And I think you can only do that by having a lot of interaction personally and a lot of personal trust.

And that's what I'm trying to do, every day as much as possible.

Allison Nathan: Thanks so much for joining us, John.

John Waldron: Appreciate the time. Thank you for having me.

Allison Nathan: This episode of Goldman Sachs exchanges was recorded on Monday, June 2nd. I'm Allison Nathan. Thanks for listening.

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