

Business - Schumpeter

Meet the ambitious wolf cubs of Wall Street

A duo of whippersnappers is taking on Goldman Sachs

THE MASTERS of the universe will have hoped for some peace and quiet over Christmas. The holiday period was the last time for Wall Street financiers to catch a breath before Donald Trump is handed the keys to the White House on January 20th. Even if he does not make Canada the 51st state or annex Greenland, his second term promises lots of excitement. Currency traders are watching the Canadian dollar, Danish krone and other monies—though this has less to do with Mr Trump’s territorial ambitions and more with the tariffs he has vowed to slap on allies and foes alike. Stockpickers are waiting to see which firms find favour with the mercurial president and which fall foul.

Yet it is investment banks’ rainmakers who expect to be the most hyper-caFFEinated. President Joe Biden’s zealous trust-busters, with their mantra that “big is bad” and novel ideas about what mergers and acquisitions (M&A) count as anticompetitive, are out. Their Trumpian replacements, though as leery of big tech, look more relaxed about most other transactions, so long as these do not raise prices for consumers. Mr Trump himself has declared he wants “clear rules that facilitate, rather than stifle, the ingenuity of our greatest companies”. Translation: deals, deals, deals.

With rising corporate profits (which fill prospective buyers’ coffers with cash), easing monetary policy (which makes it cheaper for them to borrow more) plus high stockmarket valuations (which strengthen the currency of their shares), before long boards will be asking CEOs, “What’s your M&A strategy?” sums up Ryan Kenny, a banking analyst at Morgan Stanley. Mr Kenny’s employer and its investment-banking arch-rival, Goldman Sachs, stand to benefit



ILLUSTRATION: MARI FOUZ

from this dealmaking FOMO. Their market values hit records in late November, each surpassing \$200bn (if briefly, in Goldman Sachs’s case).

Impressive. But look at growth and it is two independent competitors, Evercore and Jefferies, that have really set investors’ pulses racing. Their share prices have more than doubled in the past two years, roughly twice the gains of the industry giants. Evercore is now worth over \$10bn. Jefferies is closing in on \$17bn.

Both are rising up various league tables. Last year Jefferies came seventh in Dealogic’s latest ranking of banks by investment-banking revenue, up from tenth in 2023. On January 8th it reported total revenues of \$7bn in the 12 months to November, compared with \$4.7bn the year before. Net profit more than doubled to \$669m. If analysts are right, in 2024 Evercore surpassed Morgan Stanley in terms of global advisory revenues, behind only JPMorgan Chase

and Goldman Sachs.

The two firms, with headquarters on opposite sides of the intersection of 53rd Street and Madison Avenue, represent distinct visions of high finance. Evercore makes little use of its balance-sheet and earns most of its money from fees clients pay it to advise on transactions. Its founder, Roger Altman, a former Treasury official, created it in 1995, when standards on Wall Street in matters such as treatment of confidential information and conflicts of interest were slipping. Mr Altman stresses his firm’s “factual commitment to quality and integrity”. Corny? Sure, he concedes. But also good business.

Where Evercore is genteel, Jefferies looks, in the words of a hedge-fund admirer, “swashbuckling”. Its CEO of 24 years, Rich Handler, posts photos on Instagram of himself wielding a laser-tag gun. Its \$64bn in assets is wee and unleveraged next to Goldman Sachs’s and Morgan Stanley’s tril-

lion-dollar balance-sheets, and it relies on a joint-venture with SMBC, a giant Japanese bank, to fund some of its activities. But it seems risk-tolerant in other ways. In 2009 aggressive recruitment tactics led UBS, a Swiss lender, to sue it for poaching a star rainmaker. After the Adani Group, an Indian conglomerate, was attacked by a short-seller in 2023 over alleged fraud, Jefferies stood by its client as others steered clear. It reportedly began reviewing its ties only once American prosecutors charged the founder, Gautam Adani, with bribery in November. (The Adani Group and Mr Adani deny all charges.)

Yet Evercore and Jefferies share commonalities, too, and not just their address. Both fetishise talent even more than their industry as a whole. “I spend a tremendous amount of time recruiting,” says John Wein-

berg, Evercore’s chief executive. Its ranks of senior investment bankers rose by 27% in the past three years. Relative to size, it was out-hired only by Jefferies, whose equivalent head count rose by 46% in the period.

Both display an aversion to middle management. Just two layers separate a managing director from Mr Handler and Brian Friedman, Jefferies’ president. “Managers are player-coaches,” explains Mr Friedman. “Everyone is on the field and leading by example.” Evercore is similarly flat. Goldman Sachs and Morgan Stanley have at least one more layer.

Spot the next Goldman

In some ways the two starlets are becoming more alike. Jefferies is raising its advisory revenues, paring back some capital-in-

tensive activities such as buying stakes in companies, and wants a bigger slice of the company mega-mergers that are Evercore’s forte. Evercore, for its part, is increasingly helping clients raise capital, on top of offering deal counsel, and is eyeing the not-so-mega-deals involving private-equity investors, which Jefferies dominates. Both are sizing up advisory opportunities in private credit, which is replacing bank lending in many mergers and buy-outs.

Both must also prove they can put their highly paid hires to work. Their dealmakers are the most productive among listed rivals, last year bringing in an estimated \$10m each in fees at Jefferies and \$18m at Evercore. To ensure this continues, Messrs Handler and Weinberg had better keep those coffee cupboards full. ■