TRANSCRIPT

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Speaker
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PRESENTATION

JASON GOLDBERG: Wrapping up today's sessions, very pleased to have Citigroup. From the company, Gonzalo Luchetti, Chief Financial Officer for the past six months or so. Prior to that, he was Head of U.S. Personal Banking. Welcome.

GONZALO LUCHETTI: Thank you for having me. Thank you, Jason.

JASON GOLDBERG: Maybe the best place to start is big picture, sort of on the corporate side of the house, but we've seen a constructive backdrop of corporate activity for much of the year. Just maybe update us in terms of what you're currently hearing in terms of client sentiment and the like.

GONZALO LUCHETTI: Yeah. Thanks. We continue to see strong financing activity. Capital markets are broadly open across both equities and bonds. There's a bit of a bifurcation with certain industries like technology, AI, of course, shipping also on the back of some of the supply shortages, and energy, where you're seeing a fair bit of capital-intensive needs and projects that are coming up versus some other pockets like auto or consumer, where you see margin pressure. Of course, we're watching out for geopolitics and what role that can play, or AI as well. But it's also true, and we have to accept that the global economy and the U.S. economy, they both have navigated quite well so far in terms of adapting to some of the market dislocations to date.

JASON GOLDBERG: I guess maybe on the consumer side of the house, how would you gauge the health of the U.S. consumer at this point, and just what kind of activity levels are you seeing from that perspective?

GONZALO LUCHETTI: Put simply, resilience. Consumers continue to spend, consumers continue to pay their bills on time. That's the simplest version. If I talk about spend for a second, we are seeing around 6% year-on-year spend momentum, that's more or less in sync with what we saw in prior quarters. That I'm excluding from here the impact of our American Airlines Barclays portfolio purchase. You're seeing in that spend good trends, not only obviously picked up from the oil inflation pickup and gas prices, but even you see, you look at travel, you look at discretionary, it's relatively broad-based, and we continue to see that constructively.

The second piece, credit is stable. Delinquencies, losses, leading indicators, they're down year-on-year, so that continues to be stable. Obviously, as a reminder, 85%-plus of our portfolio is prime and above, right, so you decide how representative we are of the overall economy given our target market. But overall, we're seeing good stability in terms of credit, good performance in terms of the spend. Of course, we're watching out for the relationship between inflation and wages and whether there's any gaps there when you sub-clusterize it. We're looking for rates, we're looking out for the labor market, which appears to be in equilibrium so far.

JASON GOLDBERG: Okay. I want to dive into some of the bigger drivers of the company. But before I do that, maybe we could just talk in terms of what you're seeing kind of quarter-to-date in terms of investment banking fees, Markets activity, just anything else you want to call out as we kind of come towards the end of the third quarter.

GONZALO LUCHETTI: Yeah. Before I go into each of those couple of components, let me paint the broader picture for a second. I am very pleased with how our strategy is working in terms of the execution discipline and the results that we are seeing. When I put together the performance year-to-date, which has been pretty strong in the first couple of quarters, as well as the good momentum that we are seeing in the quarter now, I am confident that we are likely going to end up for the full year a little bit better than the top end of our range for our returns. We had talked about how our guidance for the year was 10% to 11% of RoTCE, and, at this point, I think it is likely that we are going to be a bit above our 11%, so the top end of that range.

Now, when I look at Markets and Banking, both of them, very strong performance year-to-date. We continue to see good momentum overall. Starting with Markets, I think consensus has it broadly right. We are seeing mid-single-digits year-on-year growth for our Markets business. Continued good momentum in equities. That is one of the key areas where we have been investing in, and so we are seeing good progress in prime. We are seeing also in derivatives, good momentum there. On FICC, our spread business with financing and securitization, which we focus on a lot because it drives the stable sources of revenues, doing very well in the same way that we are seeing good progress and momentum in our leading FX and currency franchise as well. Both of those things contributing to that kind of mid-single-digits picture for Markets.

For investment banking, we expect to see in the quarter performance around low-single-digits revenue growth year-on-year, with a bit of upside depending on the last few deals between now and the end of the quarter. True for both Markets and Banking, September is a key month, given how seasonally distributed usually this quarter is, right, with the holiday season in July and August. These few weeks are very meaningful, but overall, that low-single-digits with some upside is probably what we are looking at. ECM continues to be strong.

JASON GOLDBERG: Up low-single-digits?

GONZALO LUCHETTI: Up low-single-digits. Thank you for clarifying the sign. In math, it's very important to know which signs you're pointing towards. ECM continues to be quite strong, the level of activity there. DCM is healthy, but it's more moderated versus what we saw in the first half. M&A continues to be active, led primarily by the big corporates there, of course, and with the sponsors a bit more muted. That's kind of what we're seeing there.

JASON GOLDBERG: That's good. Let's unpack some of that. If we think back to Investor Day, you talked about $5 billion of business investments that you plan to make. During second quarter earnings call in July, you talked about you wanting to pull forward some of those investments given this constructive backdrop we just talked about. Can you really just give us kind of more detail in terms of where those opportunities for investment are and just are there other further efficiencies we can see? And then in the context of the guidance, just are you still on track to deliver that efficiency ratio around 60%?

GONZALO LUCHETTI: So maybe a couple of thoughts. The first one is, to be very clear, we haven't moved an inch on any of our financial commitments for during Investor Day, whether it's returns near term or medium term. Or as you just mentioned, the level of investment that we intend to support the business with, which is the $5 billion over three years in incremental investments. That hasn't changed. It also hasn't changed the fact that we're going to self-fund those investments from structural efficiencies coupled with some of the temporary transformation costs coming down, as well as some of the stranded costs from our dispositions coming down as well.

Maybe going back to our second quarter remarks, I think what we were looking for is if we saw continued good momentum for the rest of the year, we wanted to take advantage of the option to pull forward some of those investments still within that same box of the $5 billion over three years with the objective of getting to our return objectives with certainty and faster hopefully over time. And that's exactly what we're going to do.

So now that we are in the quarter, now that we're seeing really good momentum in the business, we're looking into accelerating about $500 million for the rest of the year. A combination of severance, and some of it weighted towards severance, and also some other investments to support our franchises. For example, marketing in our credit card acquisitions or marketing dollars for our Wealth and retail franchise and the like. So that's what we're looking at.

Then back to your question around operating efficiency, as a reminder, what we're trying to achieve this year on our original guidance, which is around 60%, is basically to have a three-peat. For three years in a row, if we achieve it this year, it would be in each year, we're improving by about 300 basis points our operating efficiency or a bit more. So this year it's 300 basis points would be the improvement. At this point, including this pull forward, we're expecting to be a bit better than the 60%, so that's what we're looking at for the full year.

JASON GOLDBERG: Got it. Maybe go to NII ex-Markets. There you guided to 5% to 6% growth for the full year versus last year. Just maybe help us think about the puts and takes of that growth, particularly around your expectations for loan and deposit growth, given the strong performance in the first half of the year, and maybe also discuss just the impact of rates with the Fed potentially hiking Wednesday, and obviously, I think rates around the world having an upward bias.

GONZALO LUCHETTI: Yes, no, very good question. I think a couple of thoughts there. Let me start maybe at the top with what's the main driver for us. The main driver for us for that NII ex-Markets growth, which was about 6% in the second quarter, is primarily client-driven volumes. We really need to have our strategy working in order for us to deliver what we said we're going to do. That's coming on the back of our commercial intensity and also some of the investments from the past starting to pay off. So we're confident in what we're seeing there.

Maybe to piece out and to parse it out a little bit in terms of that volume, second quarter, as an example, we delivered 12% growth in deposits, 6% growth in loans ex-Markets, all of this is ex-Markets. That was in the second quarter. That 12% in deposits was a combination of 19% in Services and about 4% in our Wealth business. Now, we have talked about in the past, especially at Investor Day, we said that that 19% will likely normalize over time. That is not something that is long-term sustainable. But still, we feel very good about the momentum that we're seeing in our Services business, and we're very focused on driving operating deposits in that franchise and focused on the quality. And then if I look at the loan side, about 6%, that's a result of about 10% loan growth in Services and 5% loan growth in each of Cards and Wealth and Banking, they were all around that kind of 5% range.

When I look at the client momentum that we're seeing across each of those four businesses, very pleased with what we're seeing, and we have a good level of confidence. Even if the primary driver is volume, let me not be mute about pricing and spreads. What we're seeing there generally is first, we've been very disciplined on our pricing strategy, and the betas continue to behave in the level that we're expecting them to. We have been very thoughtful about quality too, and that's on both sides of the balance sheet. So if you think about deposits, and especially the biggest engine in this year has been Services, but this is true also in our Wealth business, a lot of discipline on the quality and making sure that we're attracting operating deposits and we're not chasing volume that is low value.

The same is true on the asset side. When we are issuing loans and when we deploy the balance sheet, we want to make sure that it is recognizing the full breadth of the relationship and that we have a good degree of certainty. So that quality, that discipline to us is what anchors a lot of what we are seeing in terms of the momentum. When you bring it all together, that picture of volume, the momentum that we are seeing with clients, and also assuming that we continue to be very disciplined on pricing management and mix management, what we are expecting now is to be able to be within the 5% to 6%, we are probably expecting to be on the top end of that range or a bit better than the 6%. That is what we are looking at now for the full year.

JASON GOLDBERG: Okay. Maybe continuing down the income statement. Fee income ex-Markets, you talked about growth. Just maybe a little more granular and just walk us through the drivers you see across the businesses for the year.

GONZALO LUCHETTI: NIR ex-Markets, or fee income, key focus for us, key part of our strategy, and I am pleased to see it working. So the second quarter, we had about 18% year-on-year growth [excluding Markets and All Other]. A lot of it was supported with a great performance in investment banking on the back of a constructive wallet, as well as the investments that we have been making in talent with Vis and the team driving that. So we are pleased to see that momentum. I just spoke a minute ago about what we are seeing for the third quarter in terms of that positive low-single-digits trajectory with probably a bit of upside, depending on what happens between now and September 30th.

And then when you look at the rest of the three other businesses, you look at Services, that was up 16% year-on-year. Look at the drivers there, assets under custody [and/or] administration was up 22%. Now, yes, there is a portion of beta there, but there is a lot of alpha because when I look at that business, I am seeing a lot of good client momentum, both in deepening relationships as well as gaining new mandates at a faster clip than we were a year ago. Also, cross border volumes up 13%. So I think some of the investments we have been making in the platform and also how Shahmir and the team are driving that dialogue with clients, to me, is playing through and has sustainability.

Another piece of it is also Wealth. Now, Wealth in the second quarter was 4% year-on-year. Now, we had some gains on sale a year ago from some strategic decisions, so if you actually look at the bigger driver under the 4%, there was a 20% improvement in investment revenue fees. That is really driven by the focus that Andy and the team have very sharply on net new investment assets. Growing that is really what underpins the momentum in the business there. That grew about 9% organically. Our target is to be in the high-single-digits, so we are well on track in terms of that performance and what we are seeing there, and we think the team is very focused on that.

The last piece is Cards. Cards NIR is, we said in the second quarter that it would be consistently around the similar range for the third and the fourth quarter because a lot of the investments that we are making in Cards are contra revenue as well as the relationship with the partners, some of the profit shares fall through that as well. As you are seeing us grow, you see some of that coming through in NIR.

JASON GOLDBERG: All right. Maybe we could double click into some of those areas. Maybe we will just start with where you kind of finished on Card. Maybe just talk about where you are investing, what opportunities you are seeing. I know you announced a small acquisition of Kard with a K, earlier in the quarter, just how that fits into the strategy. I guess while we are on the subject of U.S. cards, maybe talk about M&A more broadly, I have to ask.

GONZALO LUCHETTI: Because we have not been clear enough, I think, there.

JASON GOLDBERG: Got to ask.

GONZALO LUCHETTI: Of course. Let me start with our Cards franchise. The first thing I would say maybe to baseline is our target that we provided at Investor Day for returns for our Card business is low 20% for RoTCE as a through-the-cycle return profile. When you look at the second quarter, we were at 22%, and we expect to be broadly in line. It's good that the business is already operating at where we want it to be. When you look at our strategy, in particular, we're very focused on driving growth in general purpose cards versus private label cards. The reason for that is the customers are taking us there. That's the preference that the customers show us with their wallet every day.

That's also what you see if you look at our business mix from the end of last year to the middle of this year, we already shifted from 82% to 84% the mix into favor of general purpose cards, and you're seeing that grow faster. The strategy of leaning into that, I see it in my evaluation, that's working. Again, let me take to the side so that I don't take credit for the inorganic part of taking the portfolio of American Airlines from Barclays, no offense. If you take those numbers to the side and you look at the three typical engines for the Cards franchise, are customer spending with you, are customers giving you their new card, and are customers borrowing from you, those three engines are growing at about 8%, 11%, and 4%, respectively in the last quarter. We're seeing good momentum. So the investments that we have been making in the business and we'll continue to make, as we talked about on Investor Day, that have to do with digital marketing, with account acquisitions, expanding the partnership with American Airlines, driving our proprietary portfolio with product innovation, customer loyalty capabilities, our Costco portfolio, all of those are playing through. Even the Kard acquisition with a K, that's related to personalizing rewards and offers so that we can apply that into our proprietary portfolio as well as into our co-branded cards. We think that as a key ingredient of driving our commerce ecosystem and the loyalty from clients into the cards.

Now, to your question on the broader M&A, I think we've been super clear that we're sharply focused on execution and very focused on the organic opportunities that we have in front of us. So don't expect anything transformative. From time to time, you may see some of these small acquisitions that are add-ons in order to round up our offer and value proposition and capabilities, but nothing transformative, I think. Jane has been super clear. Thank you.

JASON GOLDBERG: Thank you. On Services, we've seen pretty strong performance in the year. You talked about double-digit year-over-year growth. Maybe just talk about some of the drivers there and just your expectations for growth going forward.

GONZALO LUCHETTI: Yes, no, very pleased. I think Shahmir and the team are doing a terrific job. I'm quoting the second quarter because it's the most recent, but the business for several quarters, not just in the second quarter, they have been performing very well. NII up 18%, NIR up 16% for the quarter. I attach that to two or three key drivers. The first one is that this is our moat. Where we have a global network, it's the rails of most of the global corporates around the world. We're highly embedded, and that's a critical capability that gives us the ability to drive these results. The second piece is the commercial intensity, how focused Shahmir and the team are on gaining new business and the mandates that we're winning. The win rate is up more than 30% year-on-year. We're seeing market share gains, that commercial customer intensity is really key.

And the third piece is investing in that first moat and making sure that we're not asleep in terms of ensuring that we put the right investments behind it. When you look at our technology platforms, we invest about $2 billion every year in our platform. And just to make it more tangible, let me give you a couple of examples and these investments, by the way, they run in parallel between investing in our core to protect our moat and our position and at the same time offensively innovate, right, in terms of new capabilities so that when customers or the market is ready, we are the first port of call.

So in terms of core capabilities, as an example, we continue to invest in 24/7 U.S. dollar clearing. We just announced in the last couple of weeks, Custody+, which is a capability to move a lot of the asset manager custody capabilities from the batch processing into near or real time for events and other pieces across 62 markets, nobody has that across that many markets. So these are a couple of examples of investment. Also, deploying AI for CitiDirect Assist so that we can be more responsive to customers on a faster clip. So all of these are things that continue to propel and augment the core.

And then in addition, you've probably seen us, I think this year, we've made a number of announcements and investments on our digital asset capabilities, whether it's Citi Token Services, which is now in five countries and a couple of currencies, and we're seeing good volume pickups year-on-year. We announced a little bit earlier capabilities too for private companies to drive digital depository receipts. We just tested as a pilot the first U.S. bank that did a transaction with OCBC and Abu Dhabi Bank for the SWIFT blockchain ledger. So you're seeing us really lean into digital assets too, so that when the market and when the customers are ready, also we're there to support them. So far, obviously, we're investing a lot in the core as well at the same time. Those things really anchor it, the customer intensity, the investments we're making in the platform in order to make sure that there's perpetuity to our moat.

JASON GOLDBERG: Before you talked about the Wealth business and we've seen significant progress, returns now over 14% in the second quarter. Maybe just talk to some of the drivers of continued revenue growth and improved performance.

GONZALO LUCHETTI: Yes, maybe to recap for everyone's benefit, our near-term target of returns, the RoTCE for our Wealth franchise is 15% to 20%. And it's one of our businesses where we know we need to show that return improvement, so Andy and the team very focused on that.

Just to play back kind of the sequential journey for everyone, you look at the returns in this business a year ago in 2025, 7.6% RoTCE against that goal of 15% to 20%. The first quarter, 10.8%, the second quarter 14.4%. So you're seeing sequentially that we're making that progress. And that's on the back of seeing double-digit revenue growth with a good degree of consistency through several quarters and at the same time a lot of expense rigor that Andy and the team are bringing. Second quarter is a good example. That 14.4% return came on the back of 13% revenue growth coupled with a 3% expense growth. So the more quarters that we can string together, the much easier you can see the path to getting within the 15% to 20% real soon.

Now, maybe to speak for a second about that revenue growth, and that really is anchored on two primary vectors that Andy is focused on. The first one I mentioned a little bit earlier, which is really driving the net new investment asset momentum, that's growing at about 9%, the client investment assets, which are kind of the denominator, those are growing at 14%, so we're seeing a lot of focus from Andy very much weekly. And that's what anchors the NIR growth.

And then on the deposit side, maintaining the discipline, number one, and offensively trying to grow volumes in deposits, which we're seeing about 4%, but also very importantly, managing the mix and managing the pricing and doing that with a lot of discipline. And that's why you're seeing a lot of the uptick in the NII that we saw in the Wealth business over the last few quarters.

JASON GOLDBERG: And maybe turning to Markets, that's been another area you talked about investing, particularly on the equities side, maybe just talk about where you're investing and just the progress you've seen.

GONZALO LUCHETTI: Yes, obviously in a constructive market we're seeing very good performance, but just to go back to what we talked about at Investor Day, two big vectors anchor our strategy in our Markets business. The first one is around, number one, maintaining our leadership position in FICC. And at the same time, scaling equities and that's what we spoke about at Investor Day and Andy was very clear on how we are really investing in that business for growth because we're starting a little bit later and so making sure that we're driving that scale in the business and that's why we're pleased with the momentum that we're seeing so far in the year and into the quarter as well.

The second big vector of our strategy is continuing to leverage the diversification benefit that we get from the franchise that we have. And you actually saw proof of that in Q1 and in Q2, right, where you had strong equity performance, good spread performance in the second quarter especially, not as great performance in rates in the first and second quarter and still we were able to produce record performance in the business and record momentum. So it's good to see how that diversification allows us to not necessarily have to have every single engine performing at full speed in order to drive good performance. So that's the second vector. And as part of that, we're also very focused on driving stable sources of revenues more and more as time goes by. So in the equity space, it's prime. In the spread space, what we're seeing with financing and what we're driving with financing and securitization.

And the same thing in our leading FX and currency franchise as it relates to the corporate flows. So as you see those three engines come together, you're seeing more and more annuity-like behavior in some of our revenue profile.

JASON GOLDBERG: Helpful. And then maybe shifting gears to capital, you're going to buy back more stock this year than last year. Can we talk to kind of your framework for capital deployment, just expectations for share buybacks go forward?

GONZALO LUCHETTI: Yes, our capital framework just to play back for a minute is priority number one, obviously continuing to be the source of resilience that we have been for our clients and for the system over the last several years in terms of any disruption and dislocation that you can think of, that's our number one priority. And once you get past that, it's for us finding the constant balance between ensuring that we're supporting our clients and our business with accretive return opportunities and at the same time returning capital to shareholders.

And hopefully, if you look closely at our first and second quarter, you can see us managing that balance, right, where we were able to support record performance in Markets, in Banking, in Services by deploying balance sheet for our customers in those two quarters. And at the same time, we bought back about $10.3 billion across both quarters of our stock. Hopefully you are seeing us manage that principle in real life. As it relates to buybacks, we are pleased that we announced our $30 billion new program at Investor Day a couple of months ago and also pleased that we closed the prior program of about $20 billion, so that is good.

To your point, we are expecting this year in 2026 to be ahead of what we did last year, which was about $13 billion for all of that year. And maybe the last piece I'll mention is, as it relates to our CET1 ratio, we broadly have been operating within the range of our targets, so we don't expect to make very sharp movements over the next couple of quarters. We expect to be more or less around where we are.

JASON GOLDBERG: I guess on the capital front, just maybe give us a brief update on where you are with the Banamex and just remind us the expected timing and impacts and kind of just think about that.

GONZALO LUCHETTI: So Banamex, I'm glad with the speed of execution that the team has shown us. Just to recap for everyone, we have just in the last few weeks, we closed the last 1.4% of the second tranche of the sell-down that we have spoken about externally. That puts us today as owners of about 51% of Banamex, and so 49% we've already dispositioned.

We've said before that for the remainder of this year, we're not going to have any more transactions because we want to make sure that we give our partner investors enough time to continue to drive value creation.

When I look at the second quarter Banamex results and I strip out the FX impact, the revenues have been growing 19%, so really good growth in revenues, really good momentum in deposits and loans, and so we think that time is worth it for us.

We have also said that we expect early next year to trigger the deconsolidation, that is when we own a bit less than 50%, so that should happen early next year. And then depending on market conditions and timing and value, we will look for an IPO as the following step.

Now to recap for a second, upon the deconsolidation, and I know we've spoken about this before and we provide more updates and details during earnings. When that happens, we expect to see a currency translation adjustment flow through the P&L at a loss of about $9 billion. As we've also said before, that shouldn't have an impact neither on regulatory capital nor on TCE on a cumulative basis, given how things go. We're ahead of our schedule. We're making sure that we have discipline in terms of value creation and value capture, and we feel good about what's going to happen early next year.

JASON GOLDBERG: Maybe talk a little bit about your AI strategy and where you expect to see benefits going forward.

GONZALO LUCHETTI: Yes. So of course, with such a disruptive technology, I think you would expect us, and we are, very disciplined, very intentional, very strategic, and also very prudent. So those four things are key. Let me spend a second on the four pillars of our AI strategy. The first is going after client growth and revenue growth and really driving that.

The second piece is operating efficiency and being able to harp on some of those structural efficiencies that I was talking about that will help us self-fund those investments through automation and AI. That's the second pillar.

The third pillar is defensive capabilities. So when you think of cyber, when you think of fraud, threat vectors, when you think of risk management, being highly proactive there. It's very clearly a very sharp focus that we have on that.

The fourth piece is our workforce, making sure that we help our teams navigate the upgrade of knowledge that needs to happen and how do they leverage the tools so that we can get both the benefit bottom up of everybody's innovation coming to the fore. And at the same time, we are able to capture the value from some of the top-down capabilities that we are driving from the top of the house with full funding at full speed and through the model. So when I step back across each of those four pillars, we are starting to see really good benefits play through. So for example, on the client front, some of the client experience progress that we are seeing, whether it is in our Cards, our Wealth and retail capabilities or our Services franchise with CitiDirect Assist, where we are cutting down response times by more than 20%. We are seeing upside in terms of the client experience, and at the same time, you are seeing upside in terms of controls and in terms of efficiency. So you get a little bit of a triple win in some of these early innings for many of the benefits. So that is the focus for us. Top-down focus married with the bottom-up innovation that we want too as well.

JASON GOLDBERG: Got it. Maybe give us an update on where you are with the transformation programs at this point.

GONZALO LUCHETTI: Right now, we are at Citi's target state as it relates to our risk, our compliance, and our control programs. As we have said recently as well, we have a bit more work to do on our data program, especially as it relates to regulatory reporting. So that is the focus. Now, of course, the Consent Order and the timing of that being lifted, that is completely at the discretion of our regulators and their review protocols as well.

The other thing that I usually talk about for clarity is, as we complete those programs, we take out the temporary costs. Just to recap for everyone, we talked last year about how our transformation costs in totality were about $3.3 billion. Now about half of those are temporary in nature. The other half are more structural. For the temporary ones, those are the ones that as we complete programs, we don't wait right until the very end. As we reach program completion, we start taking those costs out. So you don't expect really any cliff effect of those expenses coming off because we have already started to do it along the way as we've completed some of our programs in risk, in compliance, in controls and so on. Now the other half of them, the structural ones, they become part of our functional fabric and as we go forward pursuing automation, AI initiatives across the whole set of those costs, those are going to be obviously looked after.

JASON GOLDBERG: Got it. You mentioned earlier that you're going to be above the 10% to 11% RoTCE target for this year. On the July call, you were very reluctant to make that statement. I guess two-fold, what makes you more comfortable today with that despite the pull forward of investments? And then given the fact that you pulled forward those investments, how does that impact the return trajectory going forward?

GONZALO LUCHETTI: So thank you for the question. And yes, the short answer is a couple of months have gone by, and now we can see the third quarter momentum. Which is always what we said by the way, we are doing exactly what we said we were going to do. We wanted to see what the next six months looked like and have a bit more proximity to that and keep that option to do some of the pull forward. So obviously, now that we're sitting here and we have seen really good momentum in the third quarter, we want to exercise that option.

Now maybe to step back on the returns picture. We talked about the 10% to 11% for this year and where we expect to land, which is a bit north of 11%. When we look at the near-term target for us it's 11% to 13% near-term for us is 2027 and 2028, reminder in 2028, we expect to be in the top half of that range of 11% to 13% and thereafter in the medium term, 14% to 15% is our range. Now when you look at the drivers that will enable that journey from where we are to where we want to go.

Three things are the key drivers there. The first one is client-driven momentum. And that is us enabling, deploying the $5 billion of incremental investments in order to continue the momentum that I was just talking about going business by business, and make that stick and make that sustainable. So that is kind of the primary one of the three.

The second vector is not dropping the focus on structural efficiencies. For us and for me, financial discipline is super important. We spoke about at Investor Day how those investments on the first pillar are going to be self-funded via the second pillar, and that comes from three sources. The first one is that half of the transformation costs that I spoke about a minute ago, so those coming down. The second one is stranded costs. Stranded costs a year ago were $1.3 billion. If you look at our last quarter, those were about $200 million a quarter, so you can already see them in real life coming down. The third one are structural efficiencies that we expect to get from automation, digitization, and AI across our functional expenses and our operating expenses.

Because that sounds generic enough, I want to give you the comfort that our execution discipline is very sharp on this third pillar as well. This is something that a couple of our executive team leaders, our COO, Anand, and Tim Ryan, our Head of Technology, they meet every single week, and we look at each one of the 100-plus processes that we're mapping end to end. So these are processes that have been prioritized. They've been funded under technology. It's not just some PowerPoint thing that we're aspiring to. It really is something that we have rigor behind in terms of execution so that we can be very clear about that ability to self-fund the investments.

The third piece is capital optimization. As I think most of you know, we have a portion of disallowed DTA, which at the end of last year was about $13.9 billion. This is an area that I've been very clear, it's an area that we need to show you that we can make the progress. The first bite of that should come this year so that we don't have you waiting for very long, and that's about $800 million of burning down of disallowed DTA. We are on track for that. A lot of that comes primarily from being able to drive U.S. profitability, so it's a little bit of a positive double whammy of our strategy working. As we become more profitable, as we drive more returns across the whole company, a good portion of that happens in the U.S. as well, and you get the additional benefit of not only the bare returns, but in addition, the fact that you're burning down DTA. So we expect to make good progress in the near term, and that is the third leg that will anchor our progress towards that sequential improvement.

JASON GOLDBERG: I think it is important maybe, and to confirm this, the 14% to 15% you talked about, that is on the current capital regime. As we think out to the potential new capital regime, it is potentially on a lower CET1.

GONZALO LUCHETTI: Yes. Thank you for that clarification. Exactly, right. As we laid out the target for the near term and the medium term, both the 11% to 13% and the 14% to 15% thereafter, they are both based on current capital rules as they are. I have mentioned in the past, externally as well, that obviously we are expecting what the new rules will finally look like. But our expectation, with the ones that have been published so far, is a moderate tailwind in terms of the RWAs and the GSIB. Then we expect also, hopefully, some benefit from the SCB piece as well. We have been showing progress, but a lot of that progress has been on the back of our strategy working, and we continue to expect to see that. We have been able to reduce our SCB for the last three years in a row.

This current year, even though it does not count, we also see another 30-basis point improvement. But that, to me, is a good signal for me of whether our strategy is working because we are becoming more resilient given the fact that we are opening the aperture on our earnings power.

JASON GOLDBERG: As we come to a close here, just maybe, what are the key points you would like investors to take away from the session today, and what do you think is still underappreciated about Citi?

GONZALO LUCHETTI: Well, first, mission one. Mission one for us is driving sustainable, consistent return improvement on a long-term basis. We are not after short-cuts. Jane and I have been very clear, we're not after being a one-hit wonder. We really want that sustainability that comes from doing things right and thinking of the long term. When you look at the performance that we're having and the momentum that we have with our clients, we're very clear-eyed about where we are. We know we made progress, we know we have good momentum, and we're not satisfied. We're not done. There's no celebrations at 388 Greenwich, because we know we have more work to do, and we know we have this potential to unlock and really close the gap to peers in terms of returns. What I think you can all expect from us is you can expect us to be very prudent as it relates to risk, capital liquidity management, and at the same time, you can expect us to have a lot of execution urgency and execution discipline so that we can hold ourselves accountable to do exactly what we said we're going to do. Thank you.

JASON GOLDBERG: Great. On that note, please join me in thanking Gonzalo for his time today.

