THE STATE OF THE GLOBAL ECONOMY: GLOBAL CAPITAL MARKETS

Announcer 00:00

For part two, please welcome the panel on global capital markets, moderated by journalist and anchor at CNBC David Faber.

David Faber 00:35

All right, good morning, everybody. Good morning, panel. Happy to be following the Treasury secretary. Jane, let's just get started, if I can, with you. There's been no shortage of tumult over the last—let's call it five, six weeks in terms of the global capital markets. I'm curious, from your vantage point at Citi, especially, given so many of the activities you undertake for corporations around the world, you know, what are you seeing? Four weeks ago, we were concerned about the bond market. We had the dollar falling for a bit. It's sort of seemingly stabilized as well. But, you know, no shortage of questions at this point. Can you give us any answers in terms of what you're seeing in terms of confidence, for example, in US assets?

Jane Fraser 01:20

Yeah, absolutely. Well, good morning everyone. It's wonderful to be back and great to follow on the conversation with Secretary Bessent. It's certainly been a fluid few weeks, and there's been a lot that's been coming at us pretty hard and fast in terms of announcements and changes. But I think we've got to recognize that this is going to play out slow, and the—we've got to keep a perspective and be very mindful about what the longer term looks like amidst all the announcements. So if we break it down—if we look at just the tariffs, I think we're going to see three different phases that are coming through from this. The first is the one we're seeing right now, where we're seeing the pull forward of some of the spending from the consumers and from corporates. We've certainly seen that in the April data, the hard data has been reasonably robust. Then you have the second phase that's coming through, which is going to be the fact that most companies are a bit in limbo land. There's a wait and see going on at the moment where everyone sees how this will all play through. And in that—investment spending, some of that's been suspended, some of the decisions on capex or in hiring has also been on hold, and that will have an impact on demand in the economy. And then finally, we'll find out exactly where the tariffs come into play and in that will have an impact on supply, as well as on pricing. And as all of these different pieces come together, I think one of the big questions for all of us in the room is going to be "What is the magnitude of the tariffs?" Because if it's 10 percent, most of the clients we talk to say, "Yeah, you know, we can absorb that." If it's 25 percent, not so much, and all higher than that. And that's going to catalyze a very different set of dynamics. So at the moment, it's worthwhile sitting there, observing what's going on calmly, but being very mindful about what the long term is going to be, and looking for the indicators of how that plays out. That's what we're seeing most of our clients do.

David Faber 03:39

Yeah, well right now, obviously China is far from 25 percent still on certain goods—145 percent there, obviously some exemptions. You know, each day that goes by creates at least the possibility of more tumult when it comes to imports and exports or the lack thereof. What are you hearing from your clients when it comes to specifically, the impact from China, as opposed to, obviously the rest of the world, where I think there's certainly a much more constructive hope that something gets done, at least in the near term, that that can continue to have that 90-day exemption in effect.

Jane Fraser 04:14

Well, what we what we're hearing from clients, is they're prepping for headwinds. So as they say, pulling—they're pulling some spending forward. They're holding off on investment spending. Some of them are also pretty active in the markets. The markets are open, so we're still seeing clients strengthening balance sheets or getting some of the big strategic actions taken while they wait and see as to how this will play out. And then but they're not—well, they may not be acting on the supply chains. We're very much engaged all around the world with our different clients on what does it mean for their supply chain configuration, and they're very much in the mode of being thoughtful about what does it mean in terms of their strategies. Which is the world going to move in a faster way to a multi-polar world, and therefore, what? What does that mean in terms of new partnerships, new opportunities, as well as where they need to play defense?

David Faber 05:11

Yeah, Waleed you allocate on long-term capital, typically. But I'm just curious—given the current environment and how you're approaching things—do you think of the US in the same way that you did six months ago, for example? Has your—has it sort of changed, in terms of the rigor you're giving your investment decisions?

Waleed Al Mokarrab Al Muhairi 05:28

Thanks for the question, David. First of all, I think it's great to be here—great to see so many familiar faces. I think the answer is in the question. So we are a long-term investor, and we've been allocating capital for a long time. Our horizons are generally not less than seven or eight or 10 years, and we've held investments for more than 20, especially those that we like, and that keep generating the types of returns that we like. And so, I think the word that I would use to describe what we're looking at today is deliberative. We're looking, we're assessing, we're figuring things out. We haven't stopped deploying capital, because at the end of the day, you know, I still believe that the US is still the best risk-reward, globally speaking, after having looked at the world. I do think that there might be a little bit more friction in terms of doing business, but I think that's going to be more of a short-term phenomenon as things settle down over time, as clarity and the new normal becomes more evident. And, you know, for those of you that don't know, 42 percent of our portfolios in the United States. So today, Mubadala is a $330 billion asset manager, and so that's over $100 billion that's here. I don't foresee that changing. Most of, I think, the best companies in the world are here in the US, and I think we're still going to keep investing in them. So since that general equation hasn't changed, I think right now we're just gonna just watch and see what other kind of interesting developments happen.

David Faber 06:57

Interesting developments? Well, we heard the treasury secretary. I'm curious, though, in terms of that—deploying that capital here, does it change at all your strategy in terms of either sectors or the way you're thinking about different asset classes?

Waleed Al Mokarrab Al Muhairi 07:11

So all the sectors that we look at, we essentially look at it a three- to five-year perspective. And so like I said, you know, we're deliberative. So what that means is, every year we will sit down and decide what the big themes are going to be for the upcoming year. Remember what Mubadala is, David, and I think I'll just describe it for a few minutes for those that don't know us well. Mubadala is really three things. So first is the part that most of you know about, which is the direct investor. So we are like a private equity firm and that is not just direct investments in private equity and non-listed companies, but it's also a large private credit business. It's also a real estate and infrastructure business. And so that, together is is a big part of Mubadala's portfolio. But Mubadala also has an endowment portfolio. So what I call our endowment portfolio—think Stanford or Harvard or MIT—and so we allocate capital to managers to obviously maximize medium- to long-term return in that way, and we're quite competitive. And then the third part of Mubadala that people know less well is our GP-led business. So most of the time people think of us as capital allocators, but the truth is in our GP-led businesses, and we have two at the moment. We're the managers: Mubadala Capital, which is an up-and-coming alternative asset manager headquartered in Abu Dhabi, and MGX, which is our tip of the spear from an AI and technology investing perspective.

David Faber 08:39

One of the investors in Starz Cap, I believe as well. I want to talk more about AI. Let me come to the other end there, Andy, and just get your perspective on the current state of things and what you're seeing from Prudential.

Andrew Sullivan 08:51

So thank you, David and good morning everybody. So I'm the new kid on the block—one month in. So it's been an interesting month to say the least. You know, my perspective is, obviously policy uncertainty is driving volatility, but I'm more focused on how that does impact both our institutional customers and our end consumers. And we're seeing evidence of slowing down. We're seeing the level of investment, the hiring, coming to a slow, the number of transactions—probably the best example we've seen is in our real estate business. Obviously, real estate went through a trough, and we were coming out the other side and seeing the market really, really pick up. But I will say, you know, given the level of uncertainty in March and April, we definitely saw, you know, fundings pulling back a bit, and transactions slowing down a bit. So, you know, I think the sooner that we could get the policy certainty, I think that would be better for the economy.

David Faber 09:48

Harvey, you agree with that?

Harvey Schwartz 09:50

Yeah, I'm not generally. Well, first of all, it's great to be back everyone. David, good to see you. I think it's the 30th panel I've been on with Jane and Jenny. Good to be back with my friends. I think it's worth taking a step back for a second. I generally agree with what people have said on the panel. I think when we came into the year, David, there was this extraordinarily high expectation, and momentum, and everything was sort of pro-growth. And I think with the tariff policy, people were just left a bit confused and uncertain because it felt like such a shift dramatically in policy. And you know, at times this was compared to other financial stress periods, 2008, 2000, 1940s, and I think this is wholly different. I think there's moments where the market seemed a little bit fragile. But if you look today, the S&P is down a couple of percent. And so I think this is wholly different, because this is a policy initiative that we've never seen. I actually thought the Treasury secretary's articulation of how the administration are looking at this was actually one of the best I've heard, personally, in terms of how they think all this will knit together. But I will say so at Carlyle, we're about $450+ billion in assets. We have 23 employees—we have 700,000 employees in portfolio companies around the world. And what's happened there—and I think that's where we get our best information, because we have these proprietary KPIs—is at the ground level, it's very tactical and hyper strategic right now. So if you're in an industry that was, let's say highly impacted by tariff, then it doesn't necessarily mean that you stop importing, you shut down, you immediately move to a conservative posture. It really is about what's your relative competitive position. So if you have scale, if you have financial flexibility, you may choose, actually—even though, if you're in a tariff impacted part of the market—you may choose to lean in and be very competitive and by market share if you're more financially fragile. So what we're seeing on sort of the portfolio side is definitively leaning towards protecting capital, making sure there's maximum financial flexibility. Not because people think we won't get to the other side of this, but it's a question of how long. And so, how do you manage inventory? How do you manage your client relationships? But people aren't disrupting client relationships immediately. They want to make sure they protect those. And so I would say, it's very much a period of uncertainty, and wait-and-see. The flip side, I would say—I probably talked to more CEOs and more CIOs in the past two months, maybe in my entire life—I would say virtually all of them have finished the conversation with, "Hey, don't forget about us. We're open for business." We're not looking to rush to deploy capital. Very similar to what Waleed was saying, there's a hesitation. The risk premium's definitely higher, but people want to engage, and they want to put capital to work. And at Carlyle, for example, we have over 80 billion of dry powder, so we are actively looking for opportunities. But again, risk premium's higher because uncertainty is higher.

David Faber 12:56

Right—I mean, of course, it's an impossible question to answer, I guess, in some ways, but I'll ask it nonetheless. Harvey, when are you going to know? What would be a sign to you, and to all of those portfolio companies you're referring to, that I can feel much more comfortable about my long-term plan and deploying capital against it.

Harvey Schwartz 13:12

You directed the impossible question to me? Okay, and I just want to make sure, because I thought you asked Andy. So again, I think that all of it depends on how quickly the administration can walk through these negotiations. It's an extraordinary task, but my best guess is that over the next three weeks, to call it four months coming into the end of the year, we start to get significantly increased clarity. I do think, generally speaking, in our businesses, we feel confident—and the bulk of our portfolio really is services so less impacted by this—but we feel quite confident that we'll come to a point of equilibrium as quickly as the administration can get there. I think the big question for all of us is just what happens with China, and personally, I think we would all agree it is not a great outcome for the two biggest economies in the world to be in any sort of trade war. I think that would be pressure for both economies, and obviously that would bleed into the global economy. So it would be great to see progress, and that's why every time you see a headline in this uncertain time, that's why the markets respond so quickly.

David Faber 13:14

Sure. Yeah, Jenny, give me your perspective from Franklin Templeton as well.

Jenny Johnson 14:21

So I think—I completely agree with Harvey on the administration's doing a better job at articulating kind of what the plan is. Right? You heard it's the interactive engine, trade tariffs, and deregulation. I think that it is—what we need to see is—well, let me step back for a second. One of the challenges of the US geopolitical system is when you're elected as a president, you have about two years, really, 18 months, to get your legislation through. Because the midterms come, you usually, it flips and you don't have control of the Congress any longer. And so what feels like chaos is really a push to get a lot done in a very short amount of time, and so—and that's a little bit scary to people. But if you think about it, right—first of all, the tax cuts are not tax cuts. They're an extension of existing tax plans, but they have to be funded. So how do you fund them? Well, ideally you fund them by cutting some government spending. We're on an unsustainable path as far as the deficits and so—and that's hard to do, really hard to do in a two-year period. The other way to do it is you fund it with things like tariffs, so tax increases, and so you go out and you say—and by the way, President Trump said these tariffs will generate $600 billion in tax revenues. Now, whether the CBO prices it that way, he needs about $400 to $450 billion a year to fund the tax extensions, right? So it's a great way, wherever that comes out. So he can't cut too many deals until he gets the tax legislation through. And so I think that that will—those two things now that they're articulating and are interconnected, is really important. And so what do we need to see? The market would like to see a couple of deals cut, right? To know that the US really intends to play ball. So I think that's important. The second thing is, we need to see meaningful progress on the extension of the tax cuts, or the existing tax system with a couple of additional cuts in there. And if you get those two things, I think it's going to calm the market a lot. And I think that's that's what folks are looking for.

David Faber 14:44

The Treasury secretary did raise—as he has before, of course—unsustainable deficits. He mentioned 6.7percent of GDP. Do you share that concern? And do you think that this three-point plan that was outlined is going to address that?

Jenny Johnson 16:40

Well, it's interesting, because I think—you know what, just because the US has the biggest current account deficit, you know, people talk about—again, I'm not one to say I'm too worried about us importing too much. Our bigger issue is the $33 trillion in debt that has to be financed. And so, yeah, I think we are absolutely on an unsustainable path, and what's scary, and the Treasury secretary has mentioned it, is we actually incurred that during great economic times. Right? What you need is the ability for the government, when things aren't going well, to step up spending, and you need them to be much more conservative in good economic times. So I do think we're on a concerning path, and I think that the president understands that we have to address this. But it's hard, right? Because, let's face it, it's fun to be on the other side of getting all those benefits, and so being the—it's like the parent who's going to be tough, right? You know, to be the one to say we can't sustain these—this kind of spending from the government—that's a hard message.

David Faber 17:39

Yeah. Jane, do you shared the concern? I mean, it was only a handful of weeks ago—of course, there was tumult in the bond market. Not specific to this issue as much as sort of overall concerns, but it may have, in fact, even pressured or given Secretary Bessent an opportunity to say to the president, hey, maybe we need to take a pause here. How concerned are you, for example, about the bond market in this scenario that we're talking about of large deficits.

Jane Fraser 18:03

Look, I think when we're all said and done, and some of the structural imbalances, other changes get addressed, the US is still the world's leading economy. And this is the greatest capital market in the world, and that's in our own right. It's got the breadth, it's got the depth of the capital market here. But there's also the other pieces. Show me the alternatives. If you look at Europe at the moment, they've probably got much more urgency around much needed push for a savings and investment union. Europe has $11 trillion of savings sitting in deposit accounts at banks that could get deployed and isn't because they don't have the capital market that the US has, and they could have a much stronger one will this catalyze that happening. One would hope so. I am a bit dubious about it. So the US has got this, has the exorbitant privilege; the dollar is still the reserve currency of the world. And do we think this is going to catalyze moving to a multi-polar world faster? Yes, but right now, the alternatives are not that strong, and we shouldn't be talking down the economic advantages that, back in January, as we're talking about and we were feeling great about the world, felt like all roads were leading to the US. Now, some of that's more in question. Those advantages are unchanged, and I think that's the dose of reality when people are feeling fearful about the bond market that you'd sit when you sit back and say, "Where else does it go?" And thank goodness there's not what many—

David Faber 18:08

Explain to me, the multi-polar world you're talking about. Just give us a little more sense as to what you mean.

Jane Fraser 19:50

So the rest of the world isn't sitting still at the moment. If you look out in Asia, at the moment, many of the Asian economies are rethinking their relationship with China versus the US. We're seeing India, where there's tremendous dynamism that's happening there, and they're looking at certainly the beneficiary of some of the China-plus strategies that have been going on. But that's the icing to the cake. The cake is India itself and the domestic economy. You look at the Middle East, which is a—really exciting in terms of the dynamism that's happening there, the convergence of AI, the convergence of energy, and the opportunities there. Those are really being seized. So that's taking over from Europe, in many ways, as one of the dominant parts of the new world order. So all of these different dynamics, capital flows, financial flows, technology, energy flows, are changing. US still plays, as Waleed said, a very, very important role in all of this, but the rest of the world isn't standing still. It's moving forward and changing some of the partnerships.

David Faber 21:07

Right. But does the US then lose out in part, just simply because the others are rising more quickly?

Jane Fraser 21:13

It's inevitable gradually. But again, this won't be happening in a one- to two-year time frame. This is more over the balance of a five-plus year time frame.

David Faber 21:23

That change your opinion at all about having 42 percent of your assets in the US?

Waleed Al Mokarrab Al Muhairi 21:27

No, it doesn't. But I will tell you something that I want to build on, that I think Jane just said. And so look, at the end of the day, one of the things that people realize is that there is growth in other parts of the world, right? Talk about the Middle East for just a second, and I'm so happy that you brought it up. I think—look at what's happening in Abu Dhabi and the UAE right now. You're seeing capital flows coming in at a pace and rate that we have never seen before. You're seeing the formation of and relocation of new hedge funds, new PE funds, those that are opening up new offices, the movement of wealth away from Europe, and to a lesser extent, from places like India into Abu Dhabi. So we've had more high-net-worth individuals open up family offices in Abu Dhabi. And I'll tell you what's really telling—so when you sit in the lobby of a hotel like this one in Abu Dhabi, five or 10 years ago in the past, most of the conversations were with asset allocators and sovereign funds like us. Meaning people will come and talk to us and say, "Hey, I'd love to invest some of your money," which is great, and that's going to keep going. And I don't think that that's going to stop. But what's really interesting is that now you're seeing a huge percentage of those conversations not involving us. And so you're seeing these positive virtuous cycles happening because this particular hedge fund is there, because somebody just opened up a new office in Abu Dhabi. And so at the end of the day, you are seeing an economy that is really emerging from an asset management perspective. We're forecasting growth north of 5 percent next year. So it really is a bright spot, both from an asset allocation perspective, growth, and also innovation and productivity,

David Faber 23:10

Right. As a percent overall, though, I mean of global GDP, it's still small.

Waleed Al Mokarrab Al Muhairi 23:16

It is, but we are growing.

David Faber 23:18

Yes.

Andrew Sullivan 23:19

So David—

Waleed Al Mokarrab Al Muhairi 23:20

Go ahead, Andy.

Andrew Sullivan 23:21

On that point—I think it's also important as capital flows differently. We run global companies that are represented here, and it's important that we have local teams that do business in the local geographies, in local currencies, and that provides a diversification effect for our businesses. So as we talk about how things shift and morph—you know, it's important that we have strength all around the world.

Harvey Schwartz 23:44

Yeah, can I say David—on the back of this—you know, if you step back again, a lot of the trends that drove the last 50 years, declining interest rates, deflation, globalization, a lot of that was basically—and even though there were disturbances, capital was increasingly becoming more frictionless and getting deployed more easily around the world—but a lot of that coming to the United States. And I think that all the trends, which Jane just pointed out, really are maybe the next five, 10, 15, 20, years, and we deploy capital over seven and 10 years for all of our clients, and those trends are only going to increase the demand for capital. And so if we were sitting here seven–eight months ago, we wouldn't have been having a conversation about Europe spending well over a trillion dollars of defense. We wouldn't have had a conversation about the rebuilding of the Ukraine. We wouldn't have a conversation about onshoring, which may happen almost everywhere. But as we go through this rebalancing period, I see only capital demands going up. I don't know necessarily, if that means the capital on a relative basis, less comes the United States. I think the question is, where does all that capital come from? And that's why I said the marginal cost of capital will likely trend higher for the next 10 or 15 years, but the demands for capital will be extraordinary. Obviously, we will all play a very, very meaningful role in that, as capital providers, but I think the capital demands are going to just go up significantly, and it's hard to say they won't come explicitly from sovereigns, who mostly have deficit issues to deal with. The banks hopefully will get some regulatory relief and be able to provide it. But as Jane points out, capital will mobilize, but there's gonna be huge demand for capital, I think, everywhere in the world.

Jenny Johnson 25:32

I'm just gonna add—you know, it's important to remember, it's not a zero sum game. Right? So the US being successful, and if you say, well, some of that shifts to other places. Is that bad for the US? No, the reality is—and I was talking earlier—like, if you think about the iPhone. Ninety percent of iPhones are assembled in China. If you think about PCs, TVs, iPhones, the fact that these are cheap—although that's not that cheap—but imagine three times that expensive. How much ancillary businesses have been created? How many apps here do small and large businesses now have because of the proliferation of these? H much content is now available in streaming services because we've put all these PCs and televisions in people's homes? So when I come back on the zero sum game. Think about if we can unlock these economies, India, 1.4 trillion people, 56 percent of it under the age of 25 and start to get more consumers. China, starting to get more consumers. How much the pie grows for everybody, including in the US. And the US is a big services exporter. So we actually really benefit from that. If we can ignite those, Africa is another massive opportunity to ignite those economies, to start to get more consumer spending.

David Faber 26:25

Yeah, Jenny? Yeah, I thought it was interesting. The Treasury secretary gave us a slide. We were backstage for a bit. We may have missed another but the one slide I saw was, of course, on private credit. Having just come off air, having interviewed both Marc Rowan from Apollo and Jonathan Gray from Blackstone—might imagine, I'm also sort of thinking about it as well. Andy, how do you think about it, the rise of private credit? It's something we could easily and probably would have been talking about last year, but given this is a global capital markets panel, it certainly seems appropriate to discuss it. Now, you know, Rowan will tell you that liquidity is overstated in terms of public debt and understated in terms of private. I'm curious, from your perspective, as an allocator, especially as well at Prudential, how you're thinking about it and how you're allocating towards it.

Andrew Sullivan 27:37

Yeah. So, a couple comments. One, I completely agree with Harvey that there's a generational opportunity that's in front of us to rebuild infrastructure, to rebuild industrial capacity, and it's not going to be one spot that that solves it. You're going to need, you know, government, you're going to need public, you're going to need private. I always bristle a little bit candidly, as a 150-year-old insurance company, about the rise or the discovery of private credit. You know we, candidly, have been doing private credit for a century and have funded many, many things in the country, you know, but we think it's a very positive trend. You know, candidly, a lot of the things we try and accomplish as an insurance company—helping people with their retirements, helping people with protected income—you know you need the appropriate types of assets and capital coming into the system. So the more that, candidly, new competitors have come to space, new capital, and the more origination that's being done on the private credit side. That's a very positive, positive thing overall, for the business.

David Faber 28:41

Harvey?

Harvey Schwartz 28:43

Yeah, I think these debates around the degree of systemically riskiness or marginal liquidity, I think they're kind of misplaced. I understand they're interesting, and maybe they get some headlines.

David Faber 28:56

Why?

Harvey Schwartz 28:57

I think that—we'll come back to that in a second—but I think the real issue is business operators are quite smart about how they source their capital. They are expert at this. And so anyone who decides whether to—for example, take a company public. We took three companies public in the last nine months, David, third-largest IPO in the US, largest privately owned business in India, largest privately owned business in Japan. People say, "Well, companies don't go public anymore." It's just not really true. But when you're making the decision about how you want to source your capital, you're basically just looking at the efficient front tier of capital and saying, "Where is the most, where's the most effective marginal cost of that capital, what's in the most durable form of that capital, and who's the best partner?" And I think that is what's given rise to private credit. Now, of course, we've seen this evolution over 40 years—when Carlyle has founded in '87, it was really just buyout and VC, and now the whole cap stack has been filled out. But I think again, this is about business owners, CEOs, treasurers, CFOs, making the best choice they can about how they source their capital. Now, in terms of the points before, I don't know necessarily whether the debate around whether it's marginally less liquidity or marginally more liquid—that's really about the convergence, I think, of the evolution of the industry going forward. But I also think that, you know, the systemic discussion got a lot of eyes until, you know, we went through the period where we lost a couple of banks, but all the private credit vehicles, which are funded long term, actually performed quite well. So again, I think that's really more about a liability issue. And we have very long-tailed liabilities, as Waleed and everyone has pointed out.

David Faber 30:35

Yeah, I want to stay on private credit, but let me just come back to you on IPO activity, because you point out you're able to do them. But that said, I am curious as to how you think—I mean, we constantly talk about, "oh, the return of the big IPO," and yet it doesn't ever seem to be here, at least in size and in activity. Is that day ever going to come back? Or given what you just described, the opportunity to avail yourself of all sorts of different capital sources that can allow you to stay private, certainly.

Harvey Schwartz 31:02

So we've all seen these charts in 2000 there were, you know, twice as many public companies as there are today. There's only 3,000 plus in the Wilshire 5000—we should probably rename it. I think that my own personal view was, I kind of felt we have hit a bottom. We obviously have a reasonably big backlog of companies that would like to go public. There was a big wave after the SPAC bubble came through. I think the market needed to digest that. But I think I felt—I sort of felt like we were at a bottom and that we'd hit a new equilibrium. But again, I think that the demand for marginal capital will be so high over the next five or 10 years, if the public market exit is the most attractive, people will take it. If the private market exit is the most attractive, people will take it. And by attractive, it means all things. It means: How regulated are the public markets? Is the burden of being a public company too high? All these things are in the equation. It is much more difficult for small companies—and maybe that'll change. It's really not the companies we deal with at Carlyle, but I do think those companies much—the mid-market companies—it's much more difficult for them to go public, but I'm more optimistic, or I was. I think in the near term—very difficult, because you can't answer basic questions about the IPO like, "Okay, what do you think about inventory management for the next four months?"

David Faber 32:15

Yeah, Jenny or Jane?

Jenny Johnson 32:17

Look, I think that there's no question that it is more difficult to be a public company CEO than a private company CEO. And I think that there are—and this is where I think the administration's view on opportunities, on deregulation, that it actually will help the public markets. So you know, number one, there's tremendous pressure on quarterly earnings that probably doesn't change that much. And so in a time of great economic advances, it can mean that companies hesitate more to invest in R&D. That may not really impact the company. You hope that they're thinking longer term, but may not ultimately meaningful to earnings for five plus years or something. So that's always a little bit of a risk for a public company. The second is the amount of regulatory, just cost of being public—they estimate it's like 3 percent or something. I don't know exactly what the number of your operating expenses. Well, that's a lot in a public company, as far as a drag. And so I think that until there's a little bit more of a level playing field on being private and public, that you're not going to have that IPO market kind of light back up.

Harvey Schwartz 32:17

Well, that's why I was saying I think it might have flattened out. Yes, I don't think rebounding until some of these issues resolve.

David Faber 33:27

Jenny, from your perspective, does it matter anymore? I mean, do you you know, private versus public and the opportunities?

Jenny Johnson 33:32

That absolutely matters, because the average investor cannot get access to the private markets. And if you you know the average company is going public now, year 10–12, even in some cases, 15 years. If you have that early growth, that multiplier effect early on, and that's only captured in the private markets. It means the average American doesn't have access to it, which is why there's so much effort going in and trying to figure out responsible ways to bring it. But remember, you know, if you're just living there with, you know, marginally—having a few, maybe a year's worth of your income and savings that you're saving for retirement, and you suddenly have a crisis, you need to get access to it. And if that's locked up in a 7–10 year, that's a problem.

David Faber 34:13

Yeah, the effort is underway. ETFs both for private credit and private equity, to some—I mean, are there potentially, but daily liquidity, certainly, when it comes to private credit is an issue. I'm sorry, Jane. I know—

Jane Fraser 34:22

I wanted to build on what Jenny is saying, because obviously I very much appreciate Secretary Bessent's comments about helping banks be able to do their day job, which is be freed up to be able to do more lending, to be able to participate in areas that have been more constrained of late. But, we've got to focus on the win-win, and that win-win isn't just in terms of private credit and bank lending for companies. It's also on the savings side, as we talked about, it's also making sure that the consumers and the smaller businesses, the medium-size enterprises, who are probably the ones that are going to be hit hardest in the short term by the changes that are going on, are also taken care of. So as we think about savings investment, we're thinking about private credit. How do we make sure that you have got these democratization of private equity? How do we make sure that we're providing enough of the depth and breadth of liquidity so savings can be turned into wealth creation for the affluent, and not just the big—

David Faber 35:29

How do you view the effort underway? Apollo's got an ETF now. It's small. Blackstone certainly may be, a BlackRock, one would imagine, is definitely focused on it, in terms of allowing for some access for the retail investor into the private credit markets. Without great liquidity potentially, which seems to be at least some issue.

Jane Fraser 35:50

I think there's going to be a lot of focus and different alliances as different groups get together to look at, "How do you provide more of that liquidity, how do you provide the appropriate transparency, and how does this then become the vehicles?" So I expect there to be a flurry of activity in the next year of different firms getting together and looking at, "How do we provide and serve this need, sitting in for the affluent and the regular person savings so they can tap into it?"

David Faber 36:22

Do you see private credit as a threat at all to your business?

Jane Fraser 36:25

No, for us, it's—I mean, again, it comes back. There's a win-win here. It's not a zero sum game. We've just been involved in the very big restructuring at Boeing, for example, and we put 800 million into the Apollo vehicle that we have a $25 billion partnership with. That's been a very important part of the toolkit at a point in the market where the public side wasn't going to be as available. So the more diversity of responsible tools and responsible options out there, the better for all of us.

David Faber 37:00

Jenny, did you have—

Jenny Johnson 37:01

Yeah, I was just going to comment on the convergence or the ability to deliver, because you mentioned there are quite a few asset managers that have the combined private and public in ETFs and mutual funds. So at Franklin Templeton, we've been putting late stage venture in our growth equity funds, because we're headquartered in Silicon Valley for over a decade. And it was really because the team said, "Gosh, we're missing the performance kicker of those old IPOs. Can we do late-stage venture?" It took a lot to try to figure out how to do the daily valuations.

David Faber 37:31

Yeah, mark that.

Jenny Johnson 37:31

And so the vehicles allow for it up to 15 percent—now, you can't really be at 15 percent in case you get a soft breach, so you can kind of put in there 10 percent or something. And so I think you're going to see more. Going to see more of those happening. We actually—with Apollo, our real estate group and Apollo, worked on a product in the 401(k), where we provide real estate. They provide the private credit for the retirement channel. You're going to see more of those, but you can't forget. And this is where I think it's really important to understand illiquid is illiquid. Okay, so you, I don't agree with the "private credit is as liquid and people underestimate" because you have to go sell it. You're going to go sell it at whatever the market is. By the way, it's probably going to be—if you had to sell it right then, probably at a similar discount as the equivalent kind of bond trading. The reality is you have permanent capital. And so permanent capital doesn't force you to sell it at that point, but that doesn't mean it suddenly becomes liquid.

David Faber 38:29

Yeah? Waleed, I think you'd want to make a point?

Waleed Al Mokarrab Al Muhairi 38:32

Yeah, I do want to jump in on private credit. I think to everybody's point, you know, again, as a large sovereign—as an allocator, private credit has been the fastest growing asset class from an allocation perspective for the last three years. It's also been one of the best performing that we've had. And again, it goes back to this point—because it's another kind of part of your tool set for essentially—how you both move up and down the capital structure and how you generate return. I think it's been incredibly successful for us, our largest partnership, just like Jane, is with Apollo as well. And so we formed this partnership six or seven years ago, and it's been incredible. It's interesting how it started. It started because we had this grand notion that we saw that there was this white space where we thought we could actually disintermediate some of the large banks. But to Jane's point, it turned out to be a complimentary kind of piece of paper, as opposed to saying, "Oh well, we're going to do something that the banks weren't doing." And so it's fantastic how these kind of synergistic elements came together to create a new business that I think supports so many companies globally speaking,

Andrew Sullivan 39:38

David, just jumping in—another major driver, obviously, that will drive the private credit growth is really protected income. So when we talk about savings investing, the country has done a lot on the retirement accumulation side, but we have 11,000 people turning 65 every day. The number of people over 65 is going to double in the globe in the next, you know—between now and 2050. So really leaning in on how to help in theincome phase of retirement, there is absolutely a role for the growth of private credit in that.

Harvey Schwartz 40:10

The reality is, David, that—you know, I'm sure it's the case for Jenny and for Andy—we've been managing money as a fiduciary on behalf of teachers, firemen, government employees, for almost 40 years. All the pension plans, they're already—all those retirees and potential retirees are already exposed to private markets. They're just being managed through their pension plans. So this is an inevitability, but I do agree with Jenny, the marginal liquidity demand for the user needs a very, very high level of care. Because, as she points out, when you have a long liability structure and there's no demand for marginal daily liquidity, it is very different than someone wanting daily liquidity, and that is an industry we just need to manage with a high level of care.

David Faber 40:10

Yeah, in the time we have left—Waleed, I want to start with you. I want to talk a bit about AI, and get each of you to sort of weigh in to a certain extent. But we were talking about, you know, pools of capital. I mean, back to the IPO discussion, and you were part of this, or at least in some way open, AI raised $40 billion in one at one time, largely from Softbank, from some others, and then the Stargate capital is—I don't even know the number, where that will end up. I mean, just talk a bit about that in terms of the opportunity set that you see there, why you're involved. And to put it in perspective, 40 billion, I think, is larger than any IPO that's ever taken place.

Waleed Al Mokarrab Al Muhairi 41:34

So we've taken a long-term view David, that AI is very simply going to be the biggest productivity booster that the world economies have seen and and for us, we wanted to get involved, really at the AI infrastructure level. We wanted to help be an enabler, because we identified—I think everybody knows this now—that there were going to be energy constraints, there were going to be transmission constraints, data center capacity constraints, in order to enable what we think is going to be revolutionary from a global perspective. So we created MGX not too long ago, and maybe just a couple of couple of points. Number one, I think we're probably the only sovereign investor that has positions from an LLM perspective in anthropic and open AI and in xAI. Okay?

David Faber 41:35

So they're okay with that?

Waleed Al Mokarrab Al Muhairi 41:56

Absolutely they are okay. They are completely okay with it.

David Faber 42:07

Capital is capital.

Waleed Al Mokarrab Al Muhairi 42:28

Capital is capital. But it's not just capital is capital, because we're doing something interesting with that capital. That capital is also going to build out the infrastructure that everybody needs. Right? Whether it's a Microsofts of the world or—and so developing this capability and unlocking part of the energy puzzle, unlocking some of the transmission constraints that we've seen globally, speaking and at home in the UAE, is really a key focus for us as we help kind of usher in this new era. We wouldn't have put as much capital as we have into MGX, and into AI, if we didn't think that this was going to be a long-term trend that was going to help kind of fuel growth globally speaking.

David Faber 43:09

Yeah, Jane—I mean, while he says a new era, do you agree with that? And I'm curious what you're seeing. You know now, it's been a bit of time in terms of at least, since the introduction of ChatGPT in the fall of 2022. How are you using it internally at Citi? And what are your views?

Jane Fraser 43:23

There's a huge amount going on around all of AI—the picks and shovels phase, the applications, the development. I would just make the side observation that this weekend's announcement reminded us—that with Warren Buffett—that wisdom, there's nothing artificial about wisdom. So as we look at how AI will get used, what we're seeing is, "How do you help people and train people how to use AI in order to do their jobs better? And how do we look at this in a very practical manner?" It's very easy with AI to have 1,000 flowers blooming all over your organization. So we're trying to get to fewer use cases where there's real scale. The first areas we're seeing in the agentic space is clearly with the coders, and I think many of us are, certainly on the panel, are we getting real productivity benefits from it? We're starting to see big benefits coming through in customer service, and AI can be relentlessly empathetic in a way that a human being somewhat finds that challenging by five o'clock in the afternoon, sometimes 10 a.m. so we're trying to hone in on where the scaled use cases that we can get benefit within the firm, and then also helping get the financings arranged for huge amounts of capital required in the grid, in energy, in the data centers, in all these areas. I stole your phrase picks and shovels, Jenny, by the way.

Jenny Johnson 45:04

Listen, I am—so first of all, I'm always wanting to believe that just the ingenuity of the human being, that these technologies somehow we always find more jobs. So remember, the Internet was going to displace a bunch of people, and who knew that Google was going to have on 300,000 employees like so. So first of all, it's going to change them a lot. And I'm reminded of a picture Wall Street around 1900 where it was all horse and buggies and one car, and then 10 years later, it was all cars and one horse and buggy. And I'm pretty sure that the people taking care of the horses didn't suddenly become mechanics. So there's a change in skill set. But I have to tell you, I spent some time this weekend playing around—I used to run the technology department, so I like this particular area—with an application where you just told it what to do—it's called Replit—and it writes the code and creates an application for you. Think about that. So I have, my daughters are a singer, an actress and a documentary filmmaker. So when my son became a computer programmer, I was like, "Oh, thank goodness somebody's gonna have a job." You know what, the jobs are gonna be the people who are creative, because they're gonna have a tool in their hand that they can take that creativity and actually have it programmed for them. So we have a partnership with Microsoft, where we're working on something for our distribution team. And so it's agentic AI, it starts out and it starts to say, "Okay, I want to go visit this client. What's the optimal set of clients that I should see?" And two, "What should I talk to them about?" It goes into your CRM system. It goes into comparing our products to others, so multiple different databases. And then the agentic component says, and let me go look about this, say this advisor and see what he's talking about on social media, right? So I can improve that. The reason that's important is because suddenly you've written the application layer, and you made all your enterprise software almost databases. So it's going to pretty dramatically change how we leverage an IT department. So I'm very optimistic about it.

David Faber 47:02

That's nice, nicer, a little bit of well, uplifting view in terms of AI. I don't know if you share that. Harvey?

Harvey Schwartz 47:08

Yeah, I would say it's very easy to get focused on a world like today. Very tick for tick, day to day headline, as I said before, I think three, five—I don't know if it is three, five, seven, 10 years from now. AI data science will have a much bigger impact than tax, quality, tariffs, and all the stuff we talked about earlier, and so keeping a very, very firm view on that. I mean, we might be sitting here in five years. You might send your agent. There might be avatars in the room. People might attend multiple sessions at a time, and the data might be processed for us. There's a lot of extraordinary things at Carlyle. It really is about use cases, and really identifying very specific use cases, whether it's in our portfolio companies, and how do we make them competitive? How do we work inside the firm—and inside the firm, it's really about what things can we source externally, off the shelf as applications are developed, and what things can we do internally to use our own data, your own proprietary data is really where the gold mine is, and we've been doing this for a long time. And so we have millions of data points on company, historicals, EBITDA, numbers, performance statistics, and how we use all that data is very front and center in how we're thinking.

David Faber 48:14

Do you share Jenny's optimism when it comes to actual employment? I mean, when you look at Carlyle and the things that can be replicated as a result of or with a machine, as opposed to a human being.

Harvey Schwartz 48:23

Generally, at large six, so I think employment will be better. Global peace will be better. Deficits will be better. I'm an optimist. I'm a glass half-full guy all the time. I think there's always transition, and transition can be challenging at times, and we won't know which parts of what industries get impacted negatively and what are impacted positively. But I think long term, I think very optimistically about it's very pro-growth.

David Faber 48:48

Andy, let me end with you on this subject.

Andrew Sullivan 48:51

So obviously, we're using it in many similar ways, across cogeneration and across becoming more productive. But I would agree with Harvey from the perspective, our most important use cases are where we have massive amounts of data and we can drive better decision making in the business. And our best example, obviously, as Prudential, would be the way that we're using our data in underwriting and in better predicting mortality outcomes, because that ultimately is about competitive advantage and driving a much better bottom line.

David Faber 49:20

Are you starting to see that already, or is it still too early days?

Andrew Sullivan 49:24

We obviously have seen all the productivity improvements in underwriting would be a great example, but we're seeing early evidence, is the way I would frame it.

Harvey Schwartz 49:31

We've taken processes that would take teams 10 days down to three hours.

Andrew Sullivan 49:36

It's amazing.

Harvey Schwartz 49:37

Head counts only going up, only going up.

David Faber 49:39

That's not going to result in a reduction in employment?

Harvey Schwartz 49:42

No because we're processing more opportunities. They're just doing them way more efficiently and more accurately with better precision, much better ROI.

David Faber 49:50

Well, that's a really nice place to end on an uplifting note, that perhaps in five years, I'll still be able to be here physically, instead of just some image of me.

Harvey Schwartz 49:57

Your job will always exist.

David Faber 49:59

That's a perfect place. Panel, thank you all so much for a great conversation. Thank you all. Thanks everyone.