



2026 GLOBAL CONFERENCE

LEADING IN A NEW ERA



MACRO MEETS THE REAL ECONOMY: CREDIT, PRIVATE EQUITY, AND THE NEXT INVESTMENT CYCLE

Announcer 00:00

Please welcome the panel on "Macro Meets the Real Economy: Credit, Private Equity, and the Next Investment Cycle," moderated by Dani Burger, anchor, Bloomberg.

Dani Burger 00:31

Thank you all so much for joining this panel. I have an all-star lineup over here, so I'm quite thrilled. And look, this is a big heady topic to discuss, "Macro Meets the Real Economy." There's so many things changing, and it feels like nothing has changed at all. And Kim, I'm actually going to start with you on this point. We've gone through complete trade disruptions. Crude is still near \$100 a barrel. The Strait of Hormuz is still closed. We've freaked out about AI and realized its promise and decided that it's going to eat the world and software is doomed. Yet, stocks are trading at all-time highs and credit spreads are incredibly tight. Is there a mismatch here? Are we missing something?

Kim Lew 01:10

Well, first, thanks for being here. Thanks for the question. I think that we have raised a bunch of young investors who have been taught to buy on a dip and also taught to look through to the other side of things that they think are temporary as long-term investors. I think that this time there's a chance that what has changed is structural, and not cyclical. And so people are going to have to make a reset, and adjust for that. So it's going to be interesting to watch how it happens, because we are spending a lot of time in my office

thinking about how many of these things actually influence how we should think about portfolio construction. I think we've often thought that there are certain rules that we think and we follow as we put our portfolios together. I think they're based on assumptions about the fact that we have a peace dividend. There's things like—interest rates are falling. There's all these assumptions that we've made as we thought about constructing a portfolio which don't exist now and probably won't exist for a number of years, and we're going to have to think differently about that. I think we're thinking differently about the mix of international versus domestic and what that means if we're moving away from a global to a de-globalized and regional alliances. And I think it's going to be an interesting opportunity. I say all the time to my team, this is the moment where great investors are made. When the answer isn't just buy on the dip, when the answer is not just—continue to do the same thing that you've been doing, but you actually have to think strategically about what is different and how we should be rethinking and replanning. So I think it's going to be a fabulous time. I worry a little bit about whether beta is going to be less. But alpha, I think, is going to be much greater in this moment. So I think there's lots of opportunities.

Dani Burger 02:55

Well, Steve, if I can bring that point to you—because one would say if there's a lot of disruption, what a great time for you? What a great time to find distressed companies. And then you look around and it's like, where is the distress? So what are the opportunities right now in this world?

Steven Tananbaum 03:08

Sure. So, I don't think greatness from the total return standpoint on investing in credit is going to be made in this environment, so I think this is an environment to be careful. If you look at the performance of credit during mid-cycle when valuations are stretched, and in fact, I have a slide on this, then when you have growth that's going to be on two percent, valuations are called in the bottom of the third quartile, fourth quartile, how do they do? Oh, and growth is expected to be good. It's poor. You do not earn your coupon. Contrast that with equities. Usually, a really good environment for equities, so much better for equity investing than debt investing. So what happens if growth actually isn't that two percent or greater? It actually goes down to one percent or less. There's a slide. Here we go. Yes, here we go. So you see how equities do a lot better here. It's about 3.7 percent, so we do less than the coupon for debt, and equities is clearly above trend. Contrast that to a declining environment, and the declining environment where growth is one percent or less. Timber. High yield does poor. And it's down in the double digits. And certainly, we think is going to be negative. Now, we start up the year, growth was supposed to be, call it 2.5 percent, and inflation was probably going to be the same, depending upon who you spoke to. Growth is notched a little bit lower, closer to two percent, and inflation higher, closer to three percent, as you were talking about what's happened since the beginning of the year on the war. So we think the environment has gotten worse. The valuations haven't kept pace, and so we think the risk/reward's pretty mediocre. Now, there certainly are things to do. There's always things to do that we'll get into later in the conversation—whether it's private credit, software, et cetera, because there's always something to do, but just the universe is tricky at this point.

Dani Burger 05:30

Dan, is that fair for you as well that the risk/reward profile of this market is less than satisfactory, less opportunities at this moment?

Daniel Loeb 05:39

I think about it less top-down than bottom-up and we're talking about credit markets here. We have an equity hedge fund, but we also do structured credit, private credit. We have a CLO business. The CLO business is pretty tight right now. There's not a lot to do on the primary side. We're kind of waiting for something to do. But on private credit, we have a newly launched business. We just got into it last August. We've seen spreads widen out. We've seen underwriting standards improve dramatically. LTVs are better. So I think on a kind of an on-the-run basis, it's good. And we're also seeing really interesting things to do with—we're focusing more on the core middle market, lower end of the middle market, and there are small businesses, pools of loans. I'm seeing a lot of interesting stuff to do. And loans, for example, even bigger stuff that would've been SOFR plus 450 are back to five and a quarter, five and a half. So I think it's a good time right now for on-the-run stuff. But I also think we're teeing things up for a lot more, which plays to our strength, which is seeing restructuring opportunities—capital solutions, and restructurings in that area, too.

Dani Burger 07:08

So, I would love, again, to get this idea of where we actually stand, where there's resiliency, where there's not. I would love to contrast Barry and Lawrence, what you're seeing. Because you're coming from two very good indicators of the economy. One, sort of this mid-market businesses, and two, Barry, you have this great view into the housing market. Barry, I'd love to start with you. What do you see as resiliency or not of this moment?

Barry Sternlicht 07:27

First of all, it's 12 degrees up here.

Dani Burger 07:33

Barry, it's so we're all awake!

Barry Sternlicht 07:35

The warmth has not hit this stage. No one's allowed to fall asleep up here. I'm shivering! I'm not nervous, I'm just shivering. I'm so cold. They're keeping us awake, at least. I hope you guys are getting chilled too.

Audience member 07:46

Freezing down here as well!

Dani Burger 07:48

For those who couldn't hear, we've had confirmation from the audience that you're also cold. So thank you for staying with us!

Barry Sternlicht 07:54

I guess the only good news about getting old is you have experience. And I've been through so many cycles, and I remember in 2000, 2001, my tech friends calling to push their way into deals in all the internet boom companies that blew up in 2001. Real estate—I do global real estate, but I have some significant family office investments. The world is melting up. There are so many things we don't know. I've never been more excited about opportunities and more scared and terrified. And I don't think anyone knows. We've been here and listening to the foreign ministers of some of the Middle Eastern countries. Most of us have met the president, and I don't think anyone exactly knows what's going to happen. There isn't anyone in this room who can tell us when the Strait of Hormuz will open. Will we go back to war, not have war? We know that oil prices probably could go up or they could go down. And so you have to think about being defensive. On the surface, the equity markets are not that expensive on a multiple basis, but there are companies, every time we value companies solely on revenue production without worrying about 30 times revenue, 80 times revenue, 232 times revenue. Value guys get nervous. And I go back to the property markets. We've been in a frozen tundra for three years. We endured a 500-basis point increase in rates, which we didn't expect because he told us lower, longer in December of '21. May of '22, rates go up 500 basis points. We were all kind of shocked. And then we had all the supply that came into real estate based on zero interest rates that was also headed north and up.

I'll show you two slides. So we've endured subpar performance for three years across most major asset classes, with the exception of data centers, which all of us are doing in some significant scale. But that's turning, the tide is turning. Rates will come down either because there's a global recession or because Trump will have his way with Warsh, or Warsh will get a new haircut courtesy of Trump if he doesn't cut rates. So I think rates will come down, and supply is definitely coming down. And I think you mentioned the housing market. There's a lot of impact of AI on people's thinking, and you may think the housing market is really tied to interest rates and when they—where's this thing to lower the—here it is. It isn't really exactly interest rates. People are nervous about their jobs and if they're going to lose their job. And actually, the housing market—if I can get into the next slide—is actually tied more to consumer sentiment. And consumer sentiment's the lowest it's been, I think, since the end of World War II or something like that—or even the Great Recession, probably, way back when, in '87, '88. This slide was surprising in talking

to the home builders, my friends at Pulte. It really is sentiment. People are nervous about buying a house because they think they may lose their job. And that's going to take a while to clear because people still expect to lose their job, and McKinsey says like 57 percent of white-collar work hours will be gone by 2030. Now, there'll be some new jobs and there'll be layoffs, and we all know they're coming. So that's affecting sentiment almost more than interest rates. And the buyers are older because they have more wealth, and the young people can't afford anything. And this just shows you that we'll be headed to better times, and this is supply of multifamily and industrial in this country. And you can see when interest rates were zero, every pro forma worked. And in fact, when rental rates were going up 20 percent a year in 2020 in the middle of the pandemic, people—they call them—trended. They took the rents and they went up for the next five years, and instead they went down. So we're going to see a lot of distress. We're beginning to see it now because we had to stay alive to '25. And then Trump basically put the tariffs in place, and all of a sudden interest rates stopped falling. The Fed said, "Wait, we got to see the impact." At the same time, he came after—a lot of the growth in this country was immigration, legal or not legal—and now you had deportations and you had voluntary emigration. Some people say last year was the first time in history the US population—the aggregate—slid, it went down. And we have an underlying birthrate the same as the Europeans now, 1.7 times. So we're not making as many babies, and we kicked out the immigrants, and they're not coming back in. We don't let their qualified people we teach in our schools stay here. We even can't get our own employees back in the country.

So we have a lot of problems. I mean, the markets are too sanguine. I think you still see so much money chasing everything. All the money printed in the pandemic, \$12 trillion globally, just doesn't have a place to go. And so I think you see some bubbles, and you see the ETFs, companies are bought based on their market cap, not based on their results. So I think you should be super cautious, but as Dan said, I think it's a total bottom-up market. I think we can talk because we have to talk macro, but there's always something to do. You've just got to figure out where to do it. And we do it all over the world. We're investing in data centers in Australia. We're doing residential deals in Sweden. I mean, we don't care. So we're agnostic. But we try to be very flexible, and today I think you better be super flexible and fleet of foot, and really do your work. And then have conviction, because I think you're going to see great opportunities, but you're going to have to comb through a lot of stuff. And don't be fooled by this irrational exuberance. There is too much exuberance in the market. Trillion-dollar companies moving \$80, \$100 a day is not a normal environment. We used to have to get taken over to move a stock \$50. Now it's a daily occurrence in the stock market.

Dani Burger 14:02

I want to get more into that, but just before I do, Lawrence, I could look at this and say sentiment is really bad. People are worried about losing their jobs. Surely this is hitting mid-market companies more than anyone. What are you seeing? You're on the ground level with these companies. Is any of that stress appearing, or have you just found the opportunities, the gem in roughage, and you're not seeing that?

Lawrence Golub 14:22

People talk like these slides. People act like the economy's growing. Unemployment is contained. Wage growth is significant. We hear about what used to be inflation concerns, now it's called affordability. And it's true that wages are not growing a lot faster than prices. But the fact is, for probably nine out of the ten cohorts by income, everything's pretty good. Bottom cohort is supported. Maybe the second to the bottom is struggling. The top couple are doing terrific, and the people who are worried about their jobs have jobs and are getting paid pretty well. I think that we've been taught a lot of modesty in the past seven years because I have felt as though the consensus for the past seven years has been wrong almost every single time. So I think the take home value for the audience today is if there's anything we all agree about, it's wrong. But think back to 2019 –

Barry Sternlicht 15:24

What do you think consensus is today?

Lawrence Golub 15:26

Yeah, I don't know. I'm going to help us all by disagreeing with you on what I think.

Barry Sternlicht 15:29

I want to know what I'm saying against.

Dani Burger 15:32

What to bet against.

Lawrence Golub 15:32

I disagree with you on interest rates. The SOFR is 3.6, 3.7. A few months ago, the forward curve showed it dropping down to three. Now the forward curve shows it going up to four. The 30-year bond is flirting with 5 percent. And even that doesn't really mean anything because I don't know what inflation rate to measure the real interest rate against. I love looking at the monthly CPI print a year ago. And everyone acts surprised when the Bureau of Labor Statistics announces inflation and say, "Oh, wow, that's a big increase or a small increase." 80 percent of the time you just look at the same month a year ago, and if the number was big, it's going to miss expectations. If the number was small, it's going to beat expectations. In the next six months, we've got three months that were either zero or 0.1 percent, and reported CPI is likely to go up—setting apart whatever's happening with oil. I do think, coming back to your first question, the fundamental US middle market economy is humming along okay, consistent with about a three percent GDP growth. Even software, even SaaS software. We have a decent-sized portfolio of SaaS software. In

Q1 of this year, EBITDA grew four percent same period over a year ago. Now, who knows where AI is going to go. We've seen headwinds in SaaS software for a long time. At our investor conference last year, we spent an hour talking about increased cost to customer acquisition, pricing issues. I think in software, if you're a platform of record and you have pricing power, the thing as a lender to focus on is the pricing power, not the growth rate. So three-quarters of people in this room probably disagree with me about that. That's okay.

Dani Burger 17:25

Do a survey of the room? No, we don't have to do that! Again, with all of this, Steve, I would love to get your take on where we stand and how you're seeing rates and how you're seeing CPI affecting things in this.

Steven Tananbaum 17:36

Sure. Probably on rates I don't have a strong view. Just on software, I think it's had a real interesting fork in the road because you certainly have a bull case where you have high retention on certain companies, this is on the debt side, that have growing revenue, growing EBITDA, and you can create these companies at 75 percent discounts to where they were taken private, call it three, four years ago. On the other hand, when you look at previous disruptions in industries, they've basically widened, call it eight to nine hundred basis points, and as a result, we're only in inning 4 or 5. So there's the bull case that, hey, this is really cheap, and historically, there's no precedent. And so how I net out is you certainly want to be nibbling here. Particularly on the companies that are doing well. One of the—

Dani Burger 18:37

Have you started to buy some of this, some of these software companies you see at a discount?

Steven Tananbaum 18:40

Yeah. Absolutely. We fortunately weren't that heavy about a year ago or six months ago and have been nibbling here.

Barry Sternlicht 18:48

Are you investing or trading?

Steven Tananbaum 18:52

So I would trade—

Barry Sternlicht 18:52

What would be your average hold time for some of these positions you're buying today?

Steven Tananbaum 18:56

So if you were to look at, for instance, in telecom and "energy", it would be three to five years on the ones we make big investments. And on the ones, for instance, European banks would be five to ten years, where we've made multiples of our money. And on the ones that either worked quickly or we got the premise wrong, and I'm sure there'll be some software companies that look great today and not so great tomorrow. That's just the nature, and we have to accept that. So we want to not have too much. But to not have too much—one of the interesting things is if you look in the equity market in this earnings season, if the companies did well, the stocks flew. In contrast, in the credit markets, if the companies met expectations or beat expectations, broadly speaking, they're at the same level as before the earnings. And if they missed earnings, watch out.

Dani Burger 19:53

By the way, this gets back to what you were talking about, Barry. These huge swings we're seeing in equity markets. So these big macro, mega-cap stocks that are trading like penny stocks. I mean, what do you think is going on that this is happening, that we're getting such big reactions?

Barry Sternlicht 20:07

A lot of it's passive trading in the index funds and you can get an ETF for anything. Like today, I was thinking about shorting the airline stocks. There's an ETF for airline stocks. And so you don't really care. You're just making a bet on shorting or going long, and you do it in scale, and there's a lot of computer trading. And it's not the market I grew up with, where you could pair trade good companies against bad companies. Since the ETFs buy based on market caps and market weightings, they don't really care if one's at 25 earnings and going to zero, and the other one's going 14 on its way to a higher multiple. I do think you should not underestimate the pace of change today. I talk about hotels because I've made a living in hotels, and we always look at the past performance as no indicator of future performance. It's a daily price product, right? I think you have to look at the markets similarly today. I mean, the past is interesting, but it's this AI wave. 1776, 97 percent of Americans worked in agriculture. In 1865, 65 percent of Americans worked in agriculture, and today, three percent of Americans work in agriculture. Those were 100-year periods of dislocations and us getting used to new industries. AI, from everything I see, is going to do it in

10 years, and you're not going to recognize the past. And I see companies, because I have a portfolio, you see a company like CrowdStrike, which does cybersecurity, and then Anthropic, out of nowhere, announces a company that can remove CrowdStrike. Right? Now, we all have CrowdStrike. We all have layers of protection or security. All of us are using them, cybersecurity, on our own infrastructure. But it's inconceivable the pace of change that's coming at us, and I really think you shouldn't underestimate it. It's creating these amazing companies who are going to have IPOs of trillion-dollar companies. Trillion. That aren't making any money. They have to decide to redo the indexes because they've never had a company worth a trillion dollars, SpaceX, that's losing money. And it's going to be wild. And don't underestimate how crazy this is. I mean, you've seen these technologies, and coding—I can code! I don't even know how to turn on a computer—I mean, I'm not that bad.

Dani Burger 22:26

It's a brave new world.

Steven Tananbaum 22:27

If you look at other industries during the internet and how quick it took for them to be displaced. You take, for instance, in media. You look at newspapers. And the one prism to look at disruption is in industry newspapers, TV, radio, or TV programmers, and they all had different lives. But even newspapers, five years after the internet and classifieds were getting momentum, that's where it peaked. You had the Tribune deal in 2007, which was a disaster, and then pretty much, except for very few papers—that industry didn't make it. On the other hand, if you look at TV, if you look at TV programmers, did quite well and still nominally have done well pretty much, call it 15, 20 years later. If you look at retail, I thought that when I first looked at this, I thought department stores were impacted by Amazon, but it was really TJ Maxx who impacted department stores, where it was much more the hardline retailers like Bed Bath & Beyond, where it's like, you don't really need to go there. It wasn't that fun anyway, and so I could just shop online. So the impact, and that was relatively quick. But it wasn't as instantaneous, and there were certainly, to use the example back in media with TV, there are certain industries that did very well for long periods of time.

Dani Burger 24:07

I mean, it is really fast pace of change, Kim.

Kim Lew 24:09

The only thing I would add to that is that the structure of the public equity markets is so different than it was in 2000. There's half the number of public companies. There's a lot of concern about what it means to be a small cap company in this environment. Is that a negative indicator that you aren't able to grow to be

a larger company, or you're not being acquired by the larger companies because they're buying up everything? And I've often heard from a lot of our managers, if they're a middle market company, it's such a tough space to go public in. So if people aren't going public in the middle market, the small is kind of a wasteland, then all that's left is the large and mega cap. And there's so much capital flowing in that wasn't there before, right? So the international market's coming in, too. So just the structure with the passives, like you talk about, is so different than it was 20 years ago, that I think that is also contributing to the fact that these markets are not behaving the same way they would have even behaved 20 years ago.

Dani Burger 25:12

Right. I mean, and to the point you all are making, we're about to get these huge IPOs. It just kind of feeds into what you're saying, Kim, that it's not the small companies. I mean, Dan, is this a market that we're going to experience this volatility because of these huge tail risks around AI, because of the structural changes? Is this just the new normal, if we should be getting used to swings and oddities, and maybe we stay at all-time highs in the meantime?

Daniel Loeb 25:36

Yeah, look, I think what both of you said, I think points to a couple things. First, the middle market, a couple things were said. First, we're talking about valuations of software companies, and fortunately, we can pick our spots. We're not long or short any software right now because it's just—

Dani Burger 25:53

So you haven't been adding like Steve?

Daniel Loeb 25:55

No. Well, we're talking about equities and credit. It's much harder to figure out what the right multiple is and what the right terminal value is for a software company than it is to figure out whether you want to make a loan in the top 30 or 40 percent of the capital structure with a three to five-year duration if you're going to get your coupon and your money back. I think that's a reasonable bet to make, especially if you're able to buy that at 50, 60, 70 cents on the dollar. That's a different kind of a bet than where's Workday or Salesforce or something in a trade. My friend Shamath talks about—some people talk about terminal value, he says the time-bounded value of the enterprise, which I think sounds more poetic, but it's the same thing. We don't know what that time-bounded value is at the end of five or seven years, or maybe it's 10 years. Maybe there's a shorter term. As far as the middle market goes, not only do you have this sort of middle market public company wasteland, but you have, I don't know—I may speak orders of magnitude—10,000 private equity firms, and you could maybe say the same thing about hedge funds. There should probably only be 700 or 800 or 1,000 or whatever. It's probably somewhere between 60 and 80 percent

too many—with a lot of portfolios being managed by firms that won't have a Fund VIII after their Fund VII, and you're seeing this. But the beauty of our capitalist system is that cash and liquidity is kind of filling the gaps. You have continuation vehicles. You have LP funds. So, they're consolidating. It reminds me a lot of what the public markets felt like when I got into the business in 1991, and there was no regular way buyer for high-yield debt, but distressed funds—Steve and I were in the business then—I don't know if we'll ever have the sort of a heyday again, but that's what's happening right now, so I think—

Dani Burger 27:54

But Dan, isn't that an issue because then you don't get true price discovery because of all the money that keeps getting put into markets, that gravity doesn't apply anymore?

Daniel Loeb 28:02

Well, you do because the price discovery is happening when you try to sell a single asset in your fund because your LPs are clamoring for the cash back, and you have to go out in the market and test it with a continuation vehicle. And you may not like the price. The people buying it are getting a very attractive yield, but there's those sorts of things that I think are very appealing. I think those of us who are on this panel have the ability to participate in the private markets, which is why years ago I wanted to have a CLO and a private credit business, and the ability to do solutions because there will be an opportunity for people to structure hybrid securities to go in and provide that liquidity. That will be the ultimate price discovery in a competitive situation. The sellers may or may not like it, and they can either choose to do those deals, or they can let their funds run out to maturity and see what happens then.

Dani Burger 29:00

Lawrence, are there too many private credit funds, too? So there need to be some consolidation there as well?

Lawrence Golub 29:02

So, it's not about the quantity. A lot of what we're talking about, I think, can be explained with flows of funds. So, flows of funds and what period of time you're measuring something on. If we go back to Steve's first slide, and he was showing the returns on high yield based on different environments. If you think about it, those high-yield bonds all had the same coupon rate. The difference was credit losses, not—maybe a little on the coupon. But mostly it's credit losses. When Dan is talking about a lot of private equity firms and continuation vehicles, and you may not like the price, it's about when you have to actually do the market test. I don't understand trillion-dollar public companies, but I do know that what's embedded in those valuations is they're not really called to account for a long, long time. So, in private credit, until recently, there was too much money. And I think right now, as Dan said, there's been a surprisingly swift

change, from favoring the borrower to favoring the lender. We've got base rates that instead of coming down from 500 to 300, now are going to go back up from 300 to 375. We've got spreads, which are not the most important thing, but you have spreads going up. What matters is the net returns, which depends on your documents and covenants. Look, nobody has said the R word. There will be another recession. Nobody has talked about the flows of funds from the GCC—

Barry Sternlicht 30:38

That would be a contrarian view, Larry.

Dani Burger 30:40

That there will—at some point, there's going to be a recession, right?

Lawrence Golub 30:43

There will.

Dani Burger 30:44

That's not that contrarian, Barry, that at some point there's a recession.

Lawrence Golub 30:47

I will take all wagers from somebody—anybody who wants to say there will never be another recession. Anyone? I'm open—

Dani Burger 30:53

Anyone?

Barry Sternlicht 30:54

We wouldn't be on the panel if we said that.

Daniel Loeb 30:57

I'll give you the same odds.

Dani Burger 30:57

Yeah, fair enough.

Barry Sternlicht 30:58

But let me—can I throw a wrench into the whole thing?

Dani Burger 31:01

Please.

Barry Sternlicht 31:02

So, I think one thing we don't appreciate that has happened is for years the Democrats have been running on the haves and the have-nots, and the millionaires and the billionaires are taking your money. This is the widest spread in recorded history of the wealth of the top one percent. 32 percent of the wealth of the country is owned by one percent of the nation. And they have an argument today. The Pope comes out, the church comes out, no man should be worth a trillion dollars. And you're going to have maybe more than one man worth a trillion dollars. I think it's interesting. Don't forget how politics can screw things up. And we're going to have an election in November and another one in two years. We assume there'll be a new president.

Dani Burger 31:46

Another contrarian take, Barry.

Barry Sternlicht 31:48

50/50. But it is—Mamdani, people look at as an isolated thing—just look at real estate markets. They've announced this non-dom tax. California's got your wealth tax, which will probably pass. Seattle,

Washington, the whole state's got kicked out. Starbucks just took their space in Nashville, and Howard Schultz moved to Miami Beach. This is new and it's big. It's going to impact a lot, and there are a lot of people who are believing that you don't have to work, right? You just have to vote with one party or the other, and maybe they can help you. And we don't talk about that enough. And I don't know exactly what to do about it. But you can invest behind it, luxury. The top one percent, they're buying everything. I live in Miami. My house has tripled in value, in five years, seven years. And I lived in Greenwich, Connecticut for 30 years. I think I sold the house for what I paid for it 30 years ago. It's just the flow of funds, taxes, what it means to the votes and the two states with huge surpluses, Florida and Texas, they're investing in improving their infrastructure. And yet these three giant blue states literally having going out of business sales. New York, Illinois, and California. And they're running massive deficits. And they continue to tax the rich, and there's a lot of people say that's a good idea, and with those guys will go their jobs—to states like Texas. The states are competing with each other, and as the governor of Florida said, and Rick Scott said before DeSantis, "I don't have to do anything. I just have to let the governors of New York and the mayors of New York City talk."—

Lawrence Golub 33:35

Sorry, one quick thing. If you roll the political clock forward to 2032 after the next redistricting, where 15 or 20 congressional seats are going to move from blue states to red states, that becomes even more striking.

Steven Tananbaum 33:48

I was going to echo what Lawrence was saying, but also, there's a—definitely the top one percent has done very, very well, and it just is what it is. But the story that's not told well or often is what AEI just published, which is the American dream is alive and well. People are doing better, and they may not feel better, it's not reported on, but they are objectively doing better, and it continues. And I think that's a story that—

Barry Sternlicht 34:18

There has been wage growth at the bottom—

Steven Tananbaum 34:21

And also in the middle, and in the middle to upper. Second is, I do think—and what you raised about the states is really important, this red versus blue state policy and embracement. It's kind of crazy that you look at Dallas, which has basically grown the size of Boston, and their cost of living—or, excuse me, their housing is pretty much flat compared to other northeastern states where it has shrunk, and the cost of living, we know what rents are in New York City, are through the roof. So that relationship is an interesting relationship that hasn't been dealt with well, and I think this red and blue state—

Barry Sternlicht 35:03

Well, and the other thing I think that people—we do data centers. We're all invested in some capacity in the AI revolution. But the politics that will come—and you're beginning to see it when people start losing jobs. And then Senator Warren, she's already after it—we do single family for rent, so—

Dani Burger 35:21

There's real pushback happening now with some of these AI data center build-outs around the politics.

Barry Sternlicht 35:26

Oh, it's not pushback, it's like—

Dani Burger 35:28

Halt.

Barry Sternlicht 35:28

Yeah.

Dani Burger 35:29

Don't build here.

Barry Sternlicht 35:29

But we're using—in some states, the data center's using half of the electricity. Half. And in the Midwest, we've increased electricity prices 20 percent. So there's enormous pushback against this. And the federal government's going to be in a fight with the states.

Dani Burger 35:45

Well, Kim, how do you think about making asset allocation decisions and allocating to managers who are doing these build-outs and these kinds of things, just given the political environment? How does it sort of register on your thinking and your due diligence?

Kim Lew 35:56

So, this concept, for sure—regardless of whether the poor, the middle class are doing better than they were 10 years ago, perception is reality. And if you feel like the situation is unfair, and if you feel like you're in a risky situation, you're going to buy less. This country doesn't operate if—

Barry Sternlicht 36:14

Your costs have gone up.

Kim Lew 35:15

The costs have gone up. And if people are feeling precarious and they're feeling like they're not feeling safe, they won't buy. This economy does not run on the wealthy buying. This economy runs on the poor and the middle class buying. And so we have to create a situation where everyone feels like they can participate in this. And saying that it's true doesn't make it true, because people have to feel that it's true. And that's it. So we're in this situation right now where we're thinking a lot about when the recession comes and what happens in the midst of that recession. But I'm not sure if anybody listened to the daily podcast this morning, but it was about the rise of populism and the rise of sort of political violence on both sides, which we're seeing a lot more of. And I think that's something to watch out for too, as we continue to see this. I think a lot of people are very annoyed by—who are the top one percent? And that also plays into this. So I think that for us at the university, as we're trying to figure out how we think about these things, we do think differently about what the risk to the economies are and whether that's something that we should be concerned about. We do think a lot about over the long term, what that means about relationships and how we should do things. We don't typically, as a practice, we haven't traditionally done a lot in private credit. We've done much more in equities because over the long term, equities outperform credit, and we don't need a lot of liquidity on any given year. So unlike many of our peers in the pension community, where they have a lot of outflows every year, we don't have the same situation.

And so we've typically tended towards equities. But in an environment like this where everything feels more precarious, equities is based on eventually what we think the economy is going to do. And if that feels less secure, then it makes us worried, which is why I made the point earlier that we're concerned about whether or not the beta opportunity is changing. Obviously, flows and all the capital coming in creates beta. But does that go away in a world where people are feeling less confident about the United States? We've not gotten there yet, obviously, because we're the tallest dwarf, arguably. But it is something that we spend a lot of time thinking about. And we know that right now the international flows continue, but it's much more in the equity markets than it is in the fixed income markets because people want to participate in the AI trend, which is very different than what it had been in the past. So all of those

things influence the way we think about constructing our portfolios, right? And whether or not we should be looking at different opportunities. We're very concerned about the level of concentration in both the public and the private markets, and how much dependencies we have on just a couple of small industries, and the precariousness around that because they are politicized. And it is hard to predict how that's going to play out over time. So I think there's a lot of things that are worrying for us, especially as long-term investors, because I don't know what it's going to look like in 10 years, but we all know that it's going to look a lot different than it does now. And I think what you said is exactly true. It's happening so much faster than the tech boom happened, and it's going to look tremendously different.

Barry Sternlicht 39:26

The four major AI companies just announced their capital spending for 2026. They're spending nearly \$800 billion. When they passed the trillion-dollar infrastructure bill, we were like, "Oh my god, that's so much money."

Dani Burger 39:40

Yeah.

Barry Sternlicht 39:40

That's one year's spending by four companies.

Dani Burger 39:43

Well, it does just bring me to—

Barry Sternlicht 39:45

It's ghost GDP. It doesn't affect anyone—

Dani Burger 39:46

—a post on X that you had, Dan, which was simply, "AI greater than oil". I mean, does any of this matter as long as we're spending nearly \$800 billion on the AI data center build-out?

Daniel Loeb 39:57

It was "AI greater than oil shock." It was more comment on the day because—

Dani Burger 40:03

I see. That could be every day though. Every day feels like that.

Daniel Loeb 40:05

The AI infrastructure stocks, chip stocks were going up in a day where oil was up. But I was saying about this earlier. I think we all think a lot about macro and rates, inflation, unemployment, growth, et cetera. Really, the two things that have trumped both of those things right now are where's the oil price going to be and what is the impact of AI going to be, both in terms of spending and demand on the economy, but also longer term in terms of what it could do with potential unemployment. And I'm not a doomsdayer on that front, but I think those are things to focus on.

Lawrence Golub 40:50

So, I think we're all in big trouble because I'm the optimist on the panel. And I don't think the glass is half empty. I think the glass is too big. The United States benefits, our economy benefits—if you look just domestically—from oil prices being higher right now. So we're really insulated on oil prices. The AI boom, infrastructure spending, technologists, good for the United States. Someday there'll be another recession, and it might be sooner. I've called ten of the last two recessions. But things are going pretty well right now. Yeah. I can't get my arms around the growth rate and the federal deficit, and yet it doesn't matter. Think about, from a different perspective, if you want to feel good about where we are, think about where the United Arab Emirates is. I think it's a great country. I love the people there. Six months ago, they agreed with President Trump to invest a trillion dollars in the United States. This week they're negotiating a swap line for currency to take care of the current crisis. I don't understand the valuations, but if you focus on cash flow, whether it's cash flow now or cash flow later, I think that's the way to be an investor.

Dani Burger 42:11

I thought we don't care about cash flow anymore. It's just all asset heavy and we don't care about high margins and asset light deals anymore.

Lawrence Golub 41:21

We will.

Dani Burger 41:21

Is that not true—is that not the new environment we're in? That we all just care about AI infrastructure build-out, Lawrence?

Lawrence Golub 42:26

Not me. I think AI infrastructure is great. It's great for the economy, it's great for me, and I worry—I think Barry said we're all investors in AI infrastructure. We're almost all. We get approached to lend to AI infrastructure projects all the time, and I just look at the history of the railroads. The railroads are great for the world, and there were four different railroad crises where lenders got practically wiped out every single time. And we'll have enough hyperscalers at some point.

Barry Sternlicht 43:01

Yeah, I wasn't talking about AI infrastructure—

Dani Burger 43:04

Oh, sure.

Barry Sternlicht 43:04

—Data centers. I'm talking about Google, Amazon, the equity stocks too, which are being carried. Amazon said their chip business would be the third-largest chip company in the world, and that's worth \$2 trillion based on their market share against Nvidia. My father said, "Worry about the downside. The upside will take care of itself." I think you can see some very obvious issues. If you told me the 10-year is 442, which it is today. It was four not so long ago. Oil's 113 on Brent and should be 150 in two weeks when the supply winds out, that is fully utilized, that's on the seas, in storage bins. Anyone in this room would've thought the equity markets would hit an all-time high? No. Talk about contrarian, right? But is it right, or is the rubber band stretched pretty far? What gives me some sleep is the credit markets are pretty good. And I always think the credit guys are much smarter than the equity guys because they're actually usually looking at cash flows—and we're making up multiples. And I think it's interesting to see, though. I think triple As for real estate are as tight as they've almost ever been now. So we have plenty of financing now. We just don't have positive leverage yet, although it's coming as rates come down. I think they'll still come down. I disagree with Lawrence, because I do think the underlying economy is not that strong. Somebody coined the word ghost GDP. So you're going to get three percent growth. It's not people don't feel it. This is AI productivity and data center spending. The average American doesn't know what a data center is,

right? Even if John Gray said this morning he's employing 40,000 people, it's irrelevant. Completely irrelevant. They're building—we build data centers. We have 6,000 people in Dulles building data centers. There'll be 30 people operating it when it's done. And we're stealing jobs from the housing industry. We're taking all the electricians. We're taking all the contractors. And we're paying them three times as much as they could make building a house. So we're moving labor around, but it's not real GDP. Americans don't feel that. So they're voting—Trump's saying, "My economy's great. The greatest economy on Earth," and they don't feel it in their wallets, and they're getting pinched. Their gas is going up, their labor rates have gone up.

Kim Lew 45:31

Their food has gone up.

Barry Sternlicht 45:32

They're flatlining, and they may lose their job. That's the negative side.

Steven Tananbaum 45:33

If you look at the hyperscaler results, what was clear—unbelievable, that their infrastructure, incredibly valuable. So what did I think of? I thought of Mississippi riverboats. I thought of undersea cable. Both industries I financed after they had these unbelievable returns. And also, simultaneously, you hear how the pitch for the customers, the LLMs, is to be more efficient with how they're doing their search. So the prospects, I can't tell you if it's a year from now, 10 years from now, financing it, the offtake agreements with high-quality credits is really important, and that's what a lot of us are doing here, if not all of us are doing. But when I look at what's historically happened, for instance, Merchant Energy just a cycle ago, it seems like at least the record, the one lost record of overbuilding is perfect in my career. So we'll see if it happens here, but there's a really high record of overbuilding, so it'll be kind of interesting to watch.

Barry Sternlicht 46:44

Were there too many boats? Mississippi riverboats?

Steven Tananbaum 46:47

Oh, yeah. And they went from literally you got your payback—I remember Biloxi, the first one, you got your payback in six months, second one in two years, and then it became like a never.

Barry Sternlicht 46:59

What is this? Casinos?

Steven Tananbaum 47:00

Yeah. It's just like never.

Dani Burger 47:01

Well, also this idea of overbuilding. There was a hedge fund last week that's never done AI energy infrastructure that announced a new strategy with that. Politicians, ex-politicians are raising funds to buy land in various places—

Barry Sternlicht 47:16

That didn't work out very good.

Dani Burger 47:18

Sorry?

Barry Sternlicht 47:19

That didn't work out so well.

Dani Burger 47:20

Maybe not. We can go down the Allbirds route of becoming whatever AI company they are now. Kim, that feels very characteristic of when things have too much hype and have a lot of bubbles that tourists come in.

Kim Lew 47:34

Yes. We talk a lot about the fact that we think that AI is over-hyped in the near term and under-hyped probably in the long run. And much like when you think about the tech bubble, there's all these companies that went bust. There'll be a lot of companies that will go bust, and then companies that mimic them will be a great success. Because I was a tech analyst at the time. Pets.com went bust. I don't know a pet owner that doesn't buy their pet food online now. Right? And I think it's a similar thing. There's so much money rushing in, it's so concentrated into the AI, the infrastructure right now. And now we're going to see all the companies that come in to do apps which are going to quickly just obliterate money, right? Because there's going to be so many people tracing the same ideas. They're not all going to be able to get through the door. Some of them will. So we know that that's coming. We know that the moment is coming where a lot of money is going to be lost, the overbuilding is going to happen, and then we're going to settle in and we're going to absorb it, and it's going to be phenomenal for some players, but not before a lot of money is lost.

Dani Burger 48:46

Right. We only have about 10 minutes left, and I acknowledge that this is not enough time for as much as this topic needs, but I'd be remiss if we didn't have some conversation, and Dan, you brought this up earlier, this moment we're in, in private credit. And Dan, I think a lot of people would look at you launching in the midst of all the headlines of BDC—you mentioned this earlier—and would say, "There's been redemption requests, and now is not the time, and retail investors don't want this." So I ask you, Dan, why launch the strategy right now?

Daniel Loeb 49:14

Yes. First of all, we have a clean portfolio. We don't have any legacy positions to worry about. We can get started at a time where underwriting is better and it's a good return. We've been investing in credit for 30 years. Obviously, there's some nuances in this, but I've hired teams that have been doing it for multiple decades, so they bring the product expertise. So it's...

Dani Burger 49:45

So are you able to originate your own loans? Are you looking at things other BDCs are throwing off?

Daniel Loeb 49:49

Oh, yeah. We started originating loans last August. And we also have an insurance company. In fact, our insurance company's invested in one of Lawrence's funds.

Lawrence Golub 49:59

Very smart insurance company.

Daniel Loeb 50:02

And part of what we do is feed our insurance company and others with structured versions of our private credit strategy. 60 percent of our—we've already originated a couple hundred million loans. We have warehouse facilities, we have other pools of capital that have been buying them, and we have diversified. So when we launched our BDC, we already had a couple hundred million dollars of loans lined up waiting to go to fund it. 60 percent of the loans that we've funded, we've originated, and the other 40 percent we've worked with—The private credit business is very much a team sport where it's somewhat tribal. You have good cooperation. You have friends that you do—it's fiercely competitive, but at the same time, people want to split deals. So it's important to establish good relationships with your fellow issuers, and I think we have that, and...

Dani Burger 51:01

How's appetite looked among the investor base?

Daniel Loeb 51:03

How's the appetite? I'll let you know. We're not going to be a multi-billion-dollar launch, but luckily, we have firm capital that we're using. We've committed \$300 million just to the launch of the businesses so that we can scale them and get the diversification. But we're hopefully going to be, I say hopefully, but I think we're far along in approval to be on a couple of the platforms, and I'll let you know in about a year.

Dani Burger 51:31

You know I'm going to hold you to that. I'm going to mark my calendar as a reminder—and let you know. Lawrence, when it comes to your BDCs, how is this evolving? Are you still seeing elevated redemption requests? Are you trying to meet all of them? How are you thinking about this moment?

Lawrence Golub 51:45

So I'll answer your question, but first, I'll tell you the question you ought to be asking.

Dani Burger 51:51

Okay. I love this. All right?

Lawrence Golub 51:53

BDC is a structure, not an asset class. Yes. The asset class are loans. It could be middle market direct lending, it could be distressed lending, it could be larger deal direct lending that competes with the broadly syndicated loan market. The press about semi-liquid BDCs, which are either interval funds or semi-liquid BDCs where there are redemptions, the press is awful. Most of the people who bought these vehicles didn't understand what they were buying. They were oversold, under-explained, and that's no good. But the structure actually is working. If we roll the clock back, and as we're all talking about how different the world is and how different the world's going to be, I keep thinking about how the same the world is. This is like 1970s oil shortages, except we have more oil here. 2005, 2006, hedge funds that had been primarily equity oriented discovered second lien credits—and bought a bunch of illiquid second lien loans that they then leveraged, and they leveraged them with bank facilities that were total return swaps or seven 30-day rollovers. GFC hits, prices start to drop, banks are stuck with liquidity problems, start calling the loans or asking more collateral. The hedge funds had to dump things, and maybe the loans were worth 90 that they paid 100 for, but they were dumping them at 60, and those of us who had capital and bought some did very well. The equity holders in those hedge funds largely were wiped out because of the leverage and because of the forced sales. We have a lot—not we—the industry, particularly the folks who have built their businesses in the past six or seven years with oversold semi-liquid funds, have a lot of unhappy shareholders, and they're unhappy that they couldn't get out. But they're not getting destroyed. They'll get 5 percent this quarter, 5 percent next quarter, 5 percent next quarter. The bigger problem that they have is that firms that are overly dependent on the semi-liquid products, firms that have 40, 50, 70 percent of their capital, actually have created investment vehicles that have negative alpha. Because they're making loans, when funds flow in, they have to make the loans right away. Even if they're good at underwriting, they're investing in the wrong time of the cycle. So from our point of view, we have about 10, 11 percent of our capital is from semi-liquid products. Fundraising in those products has absolutely slowed down. But we're looking at the current environment as being very exciting. I think there's tremendous refi profit opportunity. Not so sure how happy I'd be if I were a private equity firm who had to do a lot of refis. But for those of us who have capital, good luck on your—I mean, sincerely—good luck on your raise. And if you have capital, we're all going to do very well on these refis. And we'll compete with you a lot on the way into a deal, and just as Dan says, if we're in a deal together, it's all about getting out together and cooperating on that.

Daniel Loeb 55:05

One of the interesting things, we think about the way credit funds sort of look at the world. They look at sponsor financing, which is obviously financing private equity, LBOs, direct lending, which is loans sometimes with banks, and then what people call credit solutions, which is getting sort of tricky situations where they have to do some kind of hybrid solution. What we're seeing right now is sort of a convergence between sponsor financing and solutions. And that's where I think there's going to be big opportunities for

people like Lawrence and others who can offer solutions to people. The loans themselves will look just like the regular way, direct lending or sponsor financings, but they will be done in the context of solutions to people that are going through some sort of restructuring as opposed to a newly done LBO.

Steven Tananbaum 56:01

So, a couple things. First, I do think it's a good time to be raising a fund. So, I think this vintage should be good, and I think providing solution is not a bespoke, it's not an off-the-shelf strategy. So I think that's a great approach. I think when I was hearing Lawrence talking about BDCs, it reminded me, I ran a mutual fund, one of the largest mutual funds before I founded GoldenTree 26 years ago. And if we'd had inflows, we could buy what we wanted, and if we had outflows, we could sell what we wanted. What you had on some of the open BDCs is, for some of the managers, you had 15 percent per quarter inflows. And so what that means is you're diluting the other shareholders unless you put the money to work. And I think that that's once you got a critical mass, you had a different approach relative to the drawdown structure, which is probably a more natural private equity structure or a closed BDC structure. So I think that one of the upshots, I think in the environment, is you're going to have some sort of, probably change in how people are taking the money once they're mature, would be my guess.

Daniel Loeb 57:17

But I think that's the fault also of the manager for being undisciplined, and taking that money when it—

Barry Sternlicht 57:23

It's not so simple.

Dani Burger 57:23

Barry, I want you to weigh in on this because obviously Esri has been in the news recently about halting— you know I had to go there with our last final two minutes.

Barry Sternlicht 57:31

We're out of time. *[Laughter]*

Dani Burger 57:32

Yeah, thank you everybody. No.

Barry Sternlicht 57:40

Next time they should pass out blankets to your panelists, though. I think the structure—it's what the banks, the distribution partners for the people in the non-traded REIT business found out, or non-traded credit, didn't matter. The money was coming in, and as you point out, if you don't put it out, you can't pay the coupon. Right? So you can't pay eights or nines when you're taking in money and putting it in T-bills. So you have to put the money out. That leads to lack of discipline in any asset class. The thing happened in private credit, happened in—I wouldn't say—for the time, we were buying stuff in market. In 2022, '21, we were putting money out. It was coming in. If we gated on the way in, if we said, "We don't want you to give us \$800 million a month, we'll take \$250 million so we can put it out in an orderly fashion," the banks would've taken us and thrown us in the river. You could not do it. We actually asked them to do it.

Lawrence Golub 58:30

Barry's right. The banks would've thrown you off their platforms. They would've thrown you off their platform.

Barry Sternlicht 58:36

They would've thrown us off the platform. You didn't have a choice between \$200 and what they offered. You're exactly right, Lawrence. So, we actually thought, "Hey, this is an avalanche of capital." But we were told, "You shut, you gate, you're done." And so as a manager, you had an interesting dilemma, right? And—

Kim Lew 58:52

It's a misalignment.

Barry Sternlicht 58:54

Yes. Look, we did the best we could at the time, but again, interest rates were zero. If we didn't put the money out into something yielding 7, 8 percent, we couldn't cover the dividend. So, it was aggressive. We and Blackstone, we bought a lot of real estate.

Dani Burger 59:09

So what do you do now then, with that hindsight? Obviously there's only so much you can do, but—

Barry Sternlicht 59:12

Well, honestly, the key was we bought good assets. And the passage of time, and then it got overbuilt and rates went up 500 basis points, which we never expected. We had huge hedges in place. They were great, but they burn off. And so we capped SOFR at 1 percent. And so we had a billion-dollar hedge gain in our portfolio, so we could pay our dividend, but ultimately, four or five years later, the hedges have been gone. We're performing fine. We're paying our dividend. I just decided, since we own more than half a billion dollars of our own company, that we're going to treat it like it's our own money. Our shareholders have been very okay with it. We got a call from—

Dani Burger 59:49

Do you get like a cash infusion, kind of like what BREIT did? If the underlying assets are still really strong.

Barry Sternlicht 59:53

No, we're doing stuff. We're working on some really clever solutions. But the truth is, one of our largest LPs, who is a high net worth, who's not here, but he's in the vicinity, he has \$150 million in our company. He called us and said, "You're doing all the right stuff. Just keep doing it. I'm confident in you as a manager." We know what we're doing, and we're treating their capital like it's ours. We're paying a dividend. We were over-distributing, and I decided not to sell because I'm like, "Why am I selling these great assets?" And you can't sell your good assets. Also, 70 percent of the people that invested with us never redeemed. So I am just going to the guys who want to get out and taking hits to get them out. And I would give them all the losses. They want to get out, then you take the hit, but I can't do that. I have to spread it out with people who are staying. It just didn't seem like—the vehicle's sort of silly in a way. It's a very smart product, actually. It's not a bad concept to keep something at parity. And it trades, doesn't have the vol of the public markets, huge discounts to NAV, huge premiums to NAV. But we're all learning, and we're getting better, and I think people will be pretty happy three years from now. I bet you they'll be really happy.

Dani Burger 01:01:02

So we are out of time. Kim, I just want to give you a quick final word and just ask, does any part of you feel vindicated for your strategy that you don't do a lot of credit and you do more equity?

Kim Lew 01:01:11

Look, I will say that right now in this moment, as I sit here, I think to myself that the more capital that flows in, the more likely there's to be misalignment and people with different return hurdles, different obligations, different incentives that are going to cause problems. And because there's not been a recession, because there's not been a lot of dislocation, we don't have workout people anymore, and we don't have people who have learned to do that. And it's going to be challenging when the moment happens.

Dani Burger 01:01:39

So next year, are we getting Starwood-sponsored blankets, Barry?

Kim Lew 01:01:42

Yes.

Dani Burger 01:01:42

Is that what we're going to get for everyone in the crowd?

Barry Sternlicht 01:01:44

Yeah, we're going to bring blankets next year.

Dani Burger 01:01:45

Okay. I love it. Well, you heard the word from the man himself. Everyone, thank you so much for joining. Please join me in thanking my panel. Thank you so much.

Announcer 01:01:55

We hope you enjoyed the discussion. Please make your way to your next session.

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