



GLOBAL INVESTMENT OUTLOOK: MARKETS, GEOPOLITICS, AND THE NEW CAPITAL CYCLE

Petra Freddi 00:08

Good morning, everyone, and welcome back to the third and final day of the 13th Milken Institute Asia Summit. By the time we close this afternoon, 320 leaders in business, government, and philanthropy will have participated in 90 sessions. They also came to us from 50 countries, and we hosted 1,500 people over the last three days. Still, the number is still only part of the story. What matters most, what happens beyond the summit. It's the introductions that became partnerships, the discussions that change minds, and the ideas that finally found capital to see it through. Our theme, *Leading with Intelligence*, has run through all of it. We've talked a great deal about artificial intelligence, and rightly so, because it's reshaping how we invest, govern, heal, and work. But the intelligence in this moment demands, is not only artificial, it's the judgment to weigh risk wisely, the courage to act amid uncertainty, and the resolve to make sure progress reaches more people across Asia and around the world. None of this happens without our 36 sponsors. Your support is what allows us to bring this community together. If we could play the sponsor reel.

[Video plays]

Petra Freddi 03:24

On behalf of all of us at the Institute, thank you. As we begin our last day together, I invite you to pause and consider what will you carry home from Singapore? Perhaps it's a new connection, a fresh perspective, or a fervent wish this summit could have lasted just a little bit longer. For myself, the true measure of the Asia Summit or any Milken conference lies in what it sets in motion long after silence has resumed. We have an outstanding program ahead and outstanding opportunities beyond. Thank you for your time, your ideas, and your generosity of spirit. I wish you all a rewarding day ahead.

Announcer 04:11

Please welcome the panel on "Global Investment Outlook: Markets, Geopolitics, and the New Capital Cycle," moderated by Haslinda Amin, TV anchor and editor-at-large, Bloomberg.

Jenny Johnson 04:37

Haslinda, is it girls against boys?

Haslinda Amin 04:40

It does seem like it, and let's see how it goes. Good morning.

Audience 04:46

Good morning.

Haslinda Amin 04:47

Oh, thank you. And thank you for being here so bright and early after that talk last night. This is the state of play. Capital is getting expensive, with global yields at multi-decade highs. 30-year yields inching towards six, 10-year yields at 5.3, depending on the day. In terms of fragmentation, it is happening, some say, faster than TikTok trends. The Iran war is into its eighth month. On the back of that, oil is at about, well, depends on the day as well, but in excess of \$100 a barrel, today at \$105. And when it comes to AI, it is eating up balance sheets. It's also eating up jobs. On the back of that, what does it all mean for the global capital cycle? But more importantly, can investors actually keep up without hurting a muscle? Well, today we have a rock star lineup, and we are in for a great perspective. I'm going to call on the girls first. Jenny. When you take a look at the yields hovering at such elevated levels, levels we've not seen in decades, what does it feel like? How are you interpreting that?

Jenny Johnson 06:07

Well, first of all, if you look in history, they're not totally out of line with sort of what the normal average yields have been. I think that anybody whose business model has been based on low yield—private equity's struggling a little bit—it's going to be very different when you have to carry it and you're trying to do things like buyouts. It's just going to be different returns and different business model a bit. I think it's going to be more of a struggle. On the other hand, you get paid for your fixed income. That's pretty good. Cash is actually a good alternative right now as well. So, I think we have to look at this and figure inflation's probably still pretty sticky. I think in the US economy, it's still—the consumer is very strong. And so they're going to be here for a while. And then when I think about it from an investment standpoint, I think the one lesson that is always true is diversification matters. And you should be thinking about making sure that your portfolio is built in a way that it is diversified, and the good news is you'll get paid for fixed income.

Haslinda Amin 07:17

Bill, Jenny talks about opportunities, but there are also risks and warning from the bond market. Should we be heeding that?

Bill Winters 07:27

Yeah, we should.

Haslinda Amin 07:28

How, Bill?

Bill Winters 07:29

Well, it's good to get to the source of why are yields drifting up. We've got huge budget deficits. We've got rising prices, most obviously for energy and food, but the whole supply chain is a bit discombobulated. And central banks have had a tough time bringing the inflation under control against those backdrops. So, obviously, if those trends go unchecked, then we'll have a problem. And, if they can be checked, then we can resolve the problem. Of course, I agree with Jenny. I don't think we're in a bad spot right now at all. Having grown up in markets where treasuries were yielding over 10 percent, we survived. But pretty ugly back in 1987 and a few of those periods along the way. So, hopefully, we can avoid that. But right now, it feels like there's a fair amount of pressure.

Haslinda Amin 08:13

It's not so bad, you say, but if you take a look at what's happening in France, there's risks of contagion. Surely, there are risks out there that perhaps we are over-complacent.

Bill Winters 08:24

I don't know if we're over-complacent, but there are real problems in France. There's real problems in a lot of places that are running 6 percent-plus budget deficits, and with debt-to-GDP over 100 percent. Standard Chartered, where I work, we're known as an emerging markets bank. Obviously, we're quite global, but emerging markets economies running over 100 percent debt-to-GDP, it never ends well. Well, here we are with most of the G7 now either at or above that level.

Haslinda Amin 08:52

And speaking of emerging markets, Pandu, how vulnerable are EMs, like Indonesia, to sustained yields of five percent?

Pandu Sjahrir 09:03

Yeah, if you look at Indonesia, I think the next one year, 12 months, the way we look at this valuation today is very uncompromising if you look at the public equity. So, we think it's very attractive. A lot of the news, including the yield, etc., I think is already priced in. A lot of the question is how sustainable is the growth, and we think it's actually very attractive. And the way we posture, I think, for next year too, is probably more focused now more on domestic. We look at domestic investment to be very interesting. There's now a lot of inflow coming, and we can talk about digital infrastructure, especially all the potential downside risks related to it. But if you look at it from a project level, the way it stands, they still post double-digit return on a US dollar basis. And for Indonesia, obviously, energy has been key. I think next year it's going to be more valuable, this unit of energy. So, I've become far more constructive, and we are all becoming far more constructive, looking at very uncompromising valuation now in Indonesia.

Haslinda Amin 10:02

How are you assessing the risk, though, if yields remain elevated?

Pandu Sjahrir 10:06

And risks will remain elevated. The way we look at it, all the pundits are saying that risks will remain this way, maybe even increase a little bit. But, at risk-reward, there's enough of a risk premium coming into these projects out of the emerging markets. We think now it's becoming very attractive.

Haslinda Amin 10:22

Tony, sustained returns, where do you find them?

Tony Minella 10:26

Sustained returns we find in credit in the US, which we can get 9 to 11 percent in right now. You put a little bit of leverage on that and you can get up into the 15 to 20 percent range, depending upon the structure. I think if we move out the risk spectrum into some tech and some equities, I think you can do a lot better than that. But right now, the AI environment and the push of capital there feels a little bit like 2020, 2021. We've invested in services really, and building AI, I'm calling it SI now. Our president told us to call it SI, and so we're going to call it SI. And the big tech titans are all SI fans right now. So, I think you need to lean into it, and SI services is really where we're spending a lot of time.

Haslinda Amin 11:24

Where are you staying away from? What are you staying away from?

Tony Minella 11:28

You can't chase fads, right? And if you chase a fad, and you feel a little bit of FOMO, that's when you've really got to call a timeout and say, "Okay, here, what's my motivation for being involved in this trade?" And if your motivation's for fear of losing out and not capturing the upside, and it's greed, then I think you've got to pause.

Haslinda Amin 11:53

And Adena, of course, it's quite an uncertain environment, and it is impacting the appetite for IPOs. We've seen that already. How are you assessing that, and how do you counter that?

Adena Friedman 12:03

Yeah. First of all, there remains a very healthy pipeline of companies that are ready to come out. But the environment really matters. And investor appetite is going to be the key to all of that. And when we look at it, this technology, called SI or AI, is kind of a new economy. It's going to continue to drive a massive transformation of the economy. It is a long-term trend. But you've got to look at what are the components that are of durable demand, that will drive the returns across the entire infrastructure that AI's going to create. So, where we've seen the most activity in the IPO market this year, there was a fair amount of interest early in the year in the digital asset space, but that's cooled a bit. Then there's also been a nice resurgence, actually, in interest in the biotech sector because of the fact that AI's going to be an amplifier of drug discovery and other capabilities. And I think there's so much excitement about what's going to happen in the health-care space, related to this new technology. I think that there's also then the AI build-out itself. And there's going to be a massive demand for energy for a very long time. There's going to be a massive demand for different types of chips across the spectrum for a long time. And then there's going to be the ability for—whether it's the model companies or the application companies—to build an economic umbrella of new capabilities that will drive a lot of industries forward. In terms of companies that are in the space already that provide capabilities to their clientele, I think we all are going through a period of transformation to say, how is the client experience going to transform? How are we deploying this technology to make sure that we can help our clients transform? And how are we doing that safely and securely? So, those are the things that are also really, really important in terms of IT security and managing that risk, making sure that we

can actually deploy this technology at scale across the world globally to drive a new client experience that makes them more efficient and effective, which then drives their valuations up. So, there's a whole range of opportunities across the equity spectrum that comes from AI. But I think, as Tony said, you have to think about it as what's durable, what's long-term, and where might there be a calibration of supply and demand over time.

Haslinda Amin 14:20

Before I pick up on AI, I just want to finish our conversation on yields. We talked about how yields will remain elevated. The question is whether it's headed higher. Jenny, to your point, you said it's not as high as it could be. We're seeing 6.5 percent yield. Where do you see yields headed, and at what point will we start worrying?

Jenny Johnson 14:40

Look, I think most people think there's probably—well, I guess it just adjusted. But we think there'll still be, based on today's data, a hike again in December. The jobs report cooled off a bit, but then the unemployment—you look at it, it feels like a—there's not a lot of jobs being created. Remember, the US doesn't have as much immigration either that's needed to absorb those, but you're not seeing people laid off. And then therefore, you have companies with a two percent productivity, with record earnings. Something like 70 percent of companies are outperforming their stated earnings projections. So, all of that bodes to the wage side being pretty flat or up, but the input side of materials and others—because of all the things we talked about with oil being more expensive on the supply side and the complexities of supply-side management—so those are all inflationary. So, I think you're going to see a Fed who—Kevin Warsh is always a very hawkish—I think many people wondered when he was brought in, he wasn't picked the first round because he was hawkish, and they thought maybe he cut a deal this time. But I think he sent a message to the market: we're going to be data-driven. So, I think we can expect a bit of higher rates. And the 10-year right now, you have the Fed issuing short-term paper and buying the 10-year. So, it's trying to get—and even with that, you're seeing the 10-year go up.

Haslinda Amin 16:16

Pandu?

Pandu Sjahrir 16:18

Yeah, I think similar to Jenny there.

Haslinda Amin 16:19

You're not allowed to agree.

Pandu Sjahrir 16:20

There's nothing controversial about this question. This is more about us pricing 2027, what it will look like. I think risk premium, I think, remains. That's why when we look at this, what's interesting—this is an observation more—now in the US, there's already talk about securitizing a lot of this chip-based financing. And essentially, there's a lot of developed market loan book and bonds, etc., going to developing markets. So, essentially, you look at developed market producer, the offtake is developed market as well, and being financed by developed market for the world. So, what's interesting is that we're taking developed market risks, essentially, but in a developing market context. That's why we're becoming more constructive looking how our energy being priced in a developed market way.

And that's why I think this is so interesting. Where this valuation spillover will come through. Because at the end of the day, for this digital infra to work, you still need energy, and that has become a bigger and bigger version. I know you just talked about inflation to respect the consumer, but I feel personally, there's a bifurcated world between the consumer itself and the super intelligence world. So, it's interesting, and that's probably one of the uncertainties. Hopefully it turns into risks the next six to 12 months.

Tony Minella 17:36

I think the thing that not a lot of people are talking about is in the 21st century, in the first 20 years of the 21st century, we've spent really integrating in a global supply chain, and we've come to find out that that's not a great idea. And so, as you integrate the global supply chain, you drive down costs. And when I was in school, we were all about the comparative advantage of production, you go to where you can produce the good the cheapest and then trade on the open market. And that's completely out the window now. And so, we need to build a supply chain that supports domestic economies, that we had thrown out the window over the course of the first 20 years of the 21st century here. And that's all inflationary. Rebuilding that supply chain is going to be inflationary. And for the first 20 years, we saw a lot of—interest rates were low, only ground lower.

Bill Winters 18:30

I'm going to, just for the sake of a bit of debate, I agree with everything both Jenny and Tony just said. But I'll put a little bit different spin on it. Jenny, you said, despite that we're buying short and buying the long—we're borrowing short and buying long bonds in the US, and even despite that, rates are going up. I say because of that rates are going up. This is emerging market stuff, right? Trying to shape the yield curve that way. And it backfired, as we've seen. And Tony, of course, I understand the resilience of supply chains is a huge focus. But we do a Future of Trade report that we come out with every year, that we put out about a month ago. Trade volumes are at record highs. Supply chains are more complicated than they've ever been. The competitive advantage arguments are greater than they've ever been. But there's a huge shift in the corridors of trade. So, in this region right here—and Singapore is a fabulous hub for that—there is a dramatic increase in intra-Asian trade. And so, a lot of this stuff that—of course, there's a big decrease in Chinese exports to the United States. And there's a more than offsetting increase in Chinese exports to mostly Asia, South Asia, a bit Middle East and Africa. And that reflects a different configuration for supply chains, but not a reversal of globalization or a reduction in trade.

Haslinda Amin 19:50

Might all of that impact your pipeline?

Adena Friedman 19:53

Well, I think that a different way to think about it is, what are the macroeconomic signal, or kind of characteristics, that are going to come from all of the things that we're talking about here. And I'll introduce the—what are the benefits that SI—I'll use that term—SI is going to bring to the economy as well? Because one of the issues that we have is we have a huge deficit and a debt issue across the world. So, the question is, can we outgrow that? Can SI really create the productivity gains that kind of, there's that promise of that. And we are at the very beginning of time as to understanding what kind of productivity gains can come from the use of super intelligence across every institution, every organization. I could say that we're three years into a trend that could be a 20-year capability that's going to grow and expand, and frankly, it's exponentially going to get better for a long time. So, that productivity gain. And we're seeing it just, let's say, in the financial industry, for instance, just on playing defense, being able to automate a lot of your defensive capabilities allows you to be much more productive in creating

value. So, focusing your capital and your time and attention, your resources on creating value, growing faster. We're going to be able to build faster, better. We expect to be able to grow faster as a business. That level of productivity gain, I think, as you filter that through the macroeconomy, can be a way, a source of revenue, tax revenue, of course, to be able to offset some of the deficit spending. And I do want to say, I don't think that's really—it's not something you can kind of factor into 2027, 2028, but I think you can see that as a long-term promise of this technology. In the meantime, absolutely, the cost of capital matters. We saw that in 2022. When we had a fast rise in interest rates on the back of, at the end of COVID, you saw the IPO market became more challenging. You saw valuations change because cost of capital matters for the ability to fund innovation, the ability to fund every business, and certainly the ability to fund the build-out of AI or SI for the next five years. So, that's going to matter. But I also would say that the most important thing you can deliver is this unknown environment. Investors can adapt to pretty much anything if they know how to factor that into their models. It's when it changes all the time that it makes it really hard for investors to have conviction. So, it would be nice to have a sense of, let's get to a point of stability here so that we can understand how to model that into your investment thesis.

Haslinda Amin 22:26

And Jenny, to Adena's point, I mean, AI is not fully factored into the system yet. Yet when you take a look at pricing valuation, it's fully priced in.

Jenny Johnson 22:36

First of all, I don't agree it's priced in. Second of all, I don't even think it's started in the system. The two percent productivity has nothing to do with AI. Other than the hyperscalers, any company you talk to—I ran technology—your two biggest problems when you run technology is, number one, do you have good data? And most people are still cleaning that up internally. It's really hard to do. And number two, change management, because your people, they don't like change, no matter how much. System integration, all that stuff is complicated. No, those two things are forces.

Adena Friedman 23:04

I totally agree with her. It just takes time for this to diffuse effectively. There's no doubt.

Jenny Johnson 23:08

And where we are, think about your iPhone. When you got that iPhone, it had a telephone, it had a camera, it had music, and you thought, "That is so cool," and you never had the vision of all the apps that we now rely on every day. We are at that stage with AI. And so the first thing—anytime there's a breakthrough in technology, the first thing you do is you make more efficient what you do today. I'll pick this process, and I'll clean it up, and I'll make it more efficient. We're all doing that. And we all can be on those earnings call and tell exactly our stories of it. But what happens over time when you get the tools in your people's hands, you'll find a subsection of your employees who are excited about that change, and they start to create those apps that you never thought of. They start to think about ways that you could generate more revenue, make things more efficient. And we haven't even begun to do that, and that'll take time to do.

Adena Friedman 23:58

Yeah. And it's amazing, honestly. When you put the technology in the hands of the great engineers you have inside your organization, what they can build in such a short period of time. And we're opening up new markets within some of our products that we thought, "Oh, that will take two years to get into. Maybe we should buy our way in." But now we're building it because we can build it in three months and deploy it. Now it's a matter of how do you then get it into the hands of the clients, and of course, banks aren't the easiest companies to contract with, Bill. It takes a little time to get them to agree.

[Laughter]

Jenny Johnson 24:30

Speaking of not liking banks...

Adena Friedman 24:31

Maybe do a few *[crosstalk]* security reviews. But it is really an incredible thing when you think about what's possible here. But I agree. I don't think it's fully—for certain sectors, I think that people understand the promise of it and are definitely projecting out that promise.

Jenny Johnson 24:45

Health sciences, we're starting to understand.

Adena Friedman 24:47

That's right. But for other parts of the economy, I think it's just beginning. I think that there's just a massive opportunity.

Haslinda Amin 24:51

So far, the girls are winning. Let's get Bill into the conversation, otherwise... AI transforming banks—where are you seeing productivity gains? Are you where you thought you were going to be at this stage?

Bill Winters 25:03

I'm not sure we knew where we thought we were going to be at this stage. But we've all been using large language models for a long time. The initial applications were all around fraud detection and prevention, anti-money laundering, and other large data analytical tools. The migration into generative AI has been extremely powerful for all the reasons that Adena and Jenny were just talking about, and I think banks are pretty well down that curve. In terms of agentic AI, I think banks are just getting started. And we all talk about it a lot, and we have 1,000 agents in the bank, and we have 100,000 employees. Every one of those agents is an employee, right? They have a corporate ID. I mean, not actually, but they have a reporting line. They have designated authorizations. I guess that 1,000 is going to go to 100,000 in a couple of years, just the way these things work. So, I think we're just getting started in agentic AI, and I think that's where you make a real difference in terms of offense. The way that we interact with customers, to make sure that we've got the best possible advice and the best possible execution and the best possible customer service. I think we're just beginning that wave, and I imagine we'll be doing things two years from now that we really can't even imagine today.

Haslinda Amin 26:15

The thing is, everybody jumped in on everything AI. What are you doubling down on? What are you pulling back from, from the experience you've had so far?

Bill Winters 26:26

I'm not sure we're pulling back from anything, but we're definitely doubling down on the customer-facing applications. You can start with the easy stuff like contact centers. But that was very straightforward, is very straightforward. The key there is to make sure that we're giving our employees the chance to reskill. Because we actually need the people, we just need them doing different things. And so, we've got a huge training undertaking. I think we have a big wealth management business, and getting the agentic AI skills in place to, in the first instance, help our relationship managers give much better advice to their customers. Because somebody else is going to come from the side, Adena or somebody's going to come from the side and say, "We don't need the relationship managers at all. We'll just go straight with a machine into the advice engines." And we want to make sure that we're ahead of that curve, while maintaining that very strong relationship of trust that we have with the human interface today.

Haslinda Amin 27:19

Jenny?

Jenny Johnson 27:19

I was just going to say, when you ask the question of what are you cutting back, I think what will happen in the next phase—first phase is, get this tool in people's hands, get them using it. But then you realize—years ago when we were doing a cost-cutting exercise, I said, "You know what? Let's turn off all the printed reports, and let's just wait till people ask." You'd be shocked by how many people received a printed report and never looked at it. Same thing's going to happen with AI agents. We've encouraged our teams to do it. They'll say, "I run this daily. I run it weekly." And by the way, it's using compute dollars. And then what will happen is you'll start to say, "We're going to turn off those and make sure that you have value to that." And then the second piece I think will be that governance layer where you say, "You know what? We don't need that really expensive LLM. Let's send it to the free model over here. And let's..." And by the way, the big hyperscalers don't want you, or those who have the models don't want you to do that. But that's going to become very important, that layer of governance of saying, "Which model do I use for this query?"

Haslinda Amin 28:15

Yeah.

Tony Minella 28:15

And they're trying to push into services right now.

Jenny Johnson 28:18

Yeah.

Tony Minella 28:19

And so as they push into services, we've been resisting that. We're building our own environment. You create a harness layer, and then you can point that harness, which is really just a bunch of context. And so as you rethink your organizational processes, you put it into a harness layer, and then you can point it at any one of the models. And so if you look at Anthropic, is a great product, we've leaned in on it significantly. I don't know about people in this room, but in times of change, I've learned the most in my career. And I think every single person at the Eldridge organization is leveraging Anthropic's product. But over time, we'd like to create that context layer, the output out of models and that dialogue in our own environment. And then we can then look at it and ping it against a different model. And we have about 36 agents right now running in an acquisition that we're looking at, and a business called Sudolabs that we bought is leading that diligence process for us. They've got about 80 people, engineers, really know the technology and are educating everyone in our organization. And if at the end of the day, we're investing in debt and equity securities today, and if I can have a bunch of people that are analysts that know how to rethink workflows and have a dialogue with management teams, then they can help deploy AI at those companies. Ideally, I'd like to take an equity position in that business or create an option. But if we can generate revenue by helping companies deploy AI, then I think that's something that we'd be all in.

Haslinda Amin 29:56

And Pandu, how would you—

Pandu Sjahrir 29:57

This is actually interesting because when I mentioned earlier developed market context in emerging market, the same can be said about us as paying for these services. So, price has also become something more sensitive for all of us here. We use AI in Danantara, but obviously now we're thinking—because we use so much of Anthropic, for example—every single token become far more expensive, and that's also happening with respect to ChatGPT. So, our job is to find, "Hey, why don't we think about DeepSeek? Why don't you think about Kimi?" Because the prices can be 70 percent to 90 percent cheaper. Maybe the result maybe is 10 percent less, but it has become an economical decision. Because all our guys are using it, creating agentics, right? If we can find that 80 percent, 90 percent as good as, this is a question that we're asking, because we're going to use more of AI. But soon, I think soon, costs will become creeping in. And if you look at the cost advantage, it's quite significant what DeepSeek and Kimi has been doing. And this is a trade-off. That's what's happening. Because if you look at both the top two in the US, every three to six months, they're developing new models. That is a new moat, essentially. But the moat is also spent with CapEx to get that. So, for us, the way we look at it—who can create the most efficient outcome for our needs? So, more and more, we're probably going to create results based on maybe five or six LLMs that can give the best, most efficient output.

Haslinda Amin 31:20

How are we looking at who the winners and laggards would be?

Adena Friedman 31:28

Well, I would look at it—from an investment point of view, I'll leave it over there—but from our point of view, I think that the way that I look at it is every company is going to need to have a core foundational gen AI platform that allows them to be able to access their data. So, data cleanup and data management, critically important. So, who's going to be able to provide that and manage that in a very modern way. Also making sure that you have the

core infrastructure that supports everything you're doing across gen AI. There's so many non-functional layers that you have to make sure you have inside and you protect within your organization. We rely very heavily on AWS for that, AWS Bedrock, and I think that's become a huge growth area for them. So, even before you're choosing to use a model, you have to have that entire foundation in place and have the proper security around it. Then to have the ability to have complete flexibility in which models you use. And I do agree that we've built a platform that allows us to use the right model for the right context. We're much more conservative on which models we're using today. We tend to focus on the models that are based in the United States, just in terms of some of the challenges that we have to manage. But we do allow—we don't need the best model ever for every single use case. We can definitely, and we have a whole team that looks at model optimization as we think about the use cases. So, that, I think—and then you've got the whole application layer on top of that, and you can see every company, whether it's AWS or Microsoft or Gemini or Google, as well as the new model companies coming out with applications that sit on top of that. And you asked how are we thinking about prioritization. We started with let's just get everyone using it. Like, five percent improvement in productivity of everyone in the group is just not going to do much for us. So, we actually went very top-down and said we are going to focus on building very defined harnesses to automate the PDLC—the product development life cycle. We're going to focus on very defined harnesses to automate the client experience. And then we'll start to think more general purpose, because that's where the token costs could really, really come out. So, the leaders and the laggards are going to be those that provide that security, provide the flexibility, create the foundation. And then the model companies are going to have to compete on the best use case for their models.

Jenny Johnson 33:54

Well, I think what Adena described is the surrounding picks and shovels, right? We were focused on the hyperscalers but, to your point, it's the people that help you organize your data. It's the cyber guys who are helping you protect it. It's the memory chips, not just the semiconductors, right? So, there's a bunch of opportunities, and you have to decide who the winners are in the picks and shovels. And then I think the next phase ends up being those—I think AI is going to affect every sector. What's happening is initially, for example, people said health sciences, "Oh, that's going to be totally disrupted." Now they're realizing, "Wait a second. Look at the drug pipeline. It's much greater. Oh, and by the way, you can have higher efficacy with clinical trials because you can do better selection of the participants." So, then the companies within health sciences that are good at it, I think will leave behind the others in the sector, and I think you will see that in every sector. We're active managers. I believe that active management's going to be really important here because you're going to have to understand which companies have the culture, the management team, and the expertise to actually be the winners in their sector.

Haslinda Amin 34:59

Mm-hmm. Tony?

Tony Minella 35:01

I think it's the institutions that are adopting technology that are going to win. And I don't know that there's going to be necessarily an application that we're used to from a software perspective that you just buy off the shelf. And so that's why I think you need the services layer. You need people within your organization to rethink every single workflow, and you need to leverage the technology, and then you need to own that and make sure it's in your own environment. As far as who's going to win within the super intelligence race, you've got OpenAI looking to raise money at a \$1.4 trillion valuation. You've got Tesla trading at a \$1.5 [t]rillion valuation, controlled by the same guy that controls SpaceX and has a massive total addressable market opportunity, bigger than any single business in

the history of mankind. And he just went and bought a bunch of spectrum. And AT&T, Verizon, all of the wireless carriers could prospectively—if SpaceX wanted to focus on this—could be effectively out of business overnight, given the infrastructure that he's built—from robots to robo taxis. I was in Austin this last week. I rode in the robo taxi. It's incredible. And X Money now, you can move money with—

Jenny Johnson 36:25

Would you ride in the robo airplane?

Tony Minella 36:28

I would not. I would ride in the robo taxi. The robo airplane—we ride in robo airplanes right now, right?

[Crosstalk]

Adena Friedman 36:37

You think the pilot's flying?

Jenny Johnson 36:38

In turbulence, the pilot takes over.

Tony Minella 36:40

Or he just lands it, right? He just comes on at the end. So, I don't know. I think there's just a huge market opportunity there, and I would not bet on OpenAI over Tesla or SpaceX.

Haslinda Amin 36:53

Pandu.

Pandu Sjahrir 36:53

Well, for us, obviously, we're users who are looking at all these companies. And obviously what matters is what's best for our usage. That's probably the most important. In terms of who wins, obviously, there's a lot of things that will get involved. You mentioned a bit about what's going on in SpaceX now. A lot of countries are also fighting back, looking at that. I understand the infra build. What's happening in India is a good case. Energy too, I think there will be a good case where essentially government want to have more control over sources of energy. They want to have a say about sources of energy because that becomes more important. And this is also important with respect to total addressable market. When you talk about them, you're positioning the entire world. You're assuming the entire world will agree with you. That's also something that we all have to think about when you think about all this market cap valuation. Just also please don't forget what's going on in China. There's a lot of innovation happening in China. The only difference is they don't talk about it. So, there's a lot of innovation, evolution happening, which is quite significant. If we are doing this today, maybe in Shanghai, it's a different discussion. Because what's going on with—you talk about flying planes, robotics—I would say the innovation there is amazing. Full stop.

[Crosstalk]

Pandu Sjahrir 38:11

Yeah. The only difference is, there's no valuation. So, what you'll see is that when you talk about the capital market today, if you look at in our part of the world, it's still priced on a free cash flow basis. It's priced on a price to earning. All the deals that we've done the past 12 months is based on price to earning, dividend yield, free cash flow. It's just talking about business mode. Super intelligence will come in, hopefully then it re-rates it. So, I'm going to step away from valuation talk because that's not my forte. I think Jenny is probably the expert at it. But what you're seeing today, value is being created. What we're doing in Danantara, we just focus on things that make sense for us. And we talk about super intelligence, we all benefit. The question is how much.

Haslinda Amin 38:54

Bill?

Bill Winters 38:56

I think picking the winners and losers, you kind of have to start with what you think the world's going to be like. And, I don't know what the world's going to be like, but I make a few bets. We certainly made a few bets in our bank. One is that most things will settle on blockchain, and that money will be digital. Just start with those two simple assumptions, everything about banking changes. Everything. Banks actually don't need to exist for a lot of what we're doing today now. I can tell you—

Jenny Johnson 39:22

Do you want that quote on—

Bill Winters 39:25

Yeah. As long as you have the second part of the quote, which is—

[Laughter]

Bill Winters 39:31

For those banks—

Jenny Johnson 39:31

I just want to make sure you finish that sentence.

Bill Winters 39:33

For those banks that had that view—and we have had that view for the better part of a decade, and we built an entire infrastructure that is supporting a world where everything settles on blockchains and money is digital. What's our job in that? Our job as a bank, as a financial services company, is to help our clients solve complicated problems. And our clients are really confused right now, because they don't know where their own money is. They hear about stable coins. They don't know whether they're supposed to adopt them, how they're supposed to use them. Does that need a new infrastructure? Are there new risk *[inaudible]*? Do I know my counterparty? Do I trust a bank more than I trust a crypto guy? These are the kinds of questions people ask. And I think the winners will be

the ones that broadly assess the future state of the world correctly and then build for that. Rather than sitting here today and saying, "I'm just going to do a little bit more each year and see if I can keep pace with this other guy that's coming from the side, who may have a very low cost of capital as well, as we know, who is defining the world in which I'm going to have to live today." That we have to define that ourselves. And I think do that right, you're a winner. Do that wrong, and you're gone. So, your Tesla, or your OpenAI versus SpaceX, both are disruptors. Different models. And probably only one will be the big winner, right?

Tony Minella 40:58

Yeah. I think that SpaceX has the same product that OpenAI is marketing themselves on with the Grok. And he started three years ago. Anthropic started six years ago. So, I don't know. I wouldn't bet against his ability to be able to drive outcomes.

Haslinda Amin 41:16

I think there is—

Jenny Johnson 41:17

Single man risk on that one.

Tony Minella 41:19

There's totally, yeah, massive single man risk. But to do what he's been able to do, I'm sure there's a lot of good people. Gwynne's pretty impressive there within that organization.

Haslinda Amin 41:30

I think there is agreement that it going to be an AI-driven world in the future. I want to take you back to the markets now, right? There's still that ongoing debate about whether or not there is an AI bubble. In my conversation recently with Ray Dalio, he talked about how that bubble is close to bursting, given that rates are going higher, and hyperscalers are just tapping the market too much. Jenny, you're the expert on valuation. So Pandu says.

Jenny Johnson 41:57

Ray made a really good point, which is this concept of wealth versus money. And his point is, there's a huge amount of wealth created. When SpaceX went public at, what, \$1.4 trillion or whatever? They actually floated about, I think, \$80 billion or something like that.

Tony Minella 42:14

He raised \$12 billion prior to going public. He put \$90 billion on his balance sheet when he went public.

Jenny Johnson 42:20

Yeah. So, my only point is, Ray's point is, \$90 billion is money, the rest is wealth, right? And in the crypto world, there are a number of billionaires. And by the way, I have to say, Bill Winters has led Standard Chartered in that space, building kind of the future of the bank, before anybody was even really talking about tokenization, and I

think saw around that corner so early. But there's a bunch of crypto billionaires who would say they're really wealthy. But in the end, can you convert it? Which is Ray's point. And any time you see these bubbles historically, it's because there's a bunch of balance sheet money that ultimately can burst. Now, I'm going to bring us back to the railroads in the US. Because incredibly disruptive, until in the US you had the transcontinental railroad, you hadn't changed the pace of travel for thousands of years. And there was a bust after the financing, which had a bunch of corruption and everything. The financing of the railroads happened, but the other side of it is, there was also a boom, right? So, I can't tell you whether I think there is any sort of bust on the financing on some of this, but there is no question that we are living in a time of some of the greatest technological advances. And all we do talk about is, say, super intelligence, but there's material sciences, 3D printing. There's a bunch of other technologies too that are coming along. And so, it'll be a volatile ride, but we're definitely heading up.

Haslinda Amin 43:49

Tony?

Tony Minella 43:51

I think we've invested in a number of data center build-out bonds. The difference between today and the fiber build-out in the early 2000s is that you've got the biggest market cap companies in the world that one way or another are procuring off-balance-sheet financing, and they're on the hook. Most of the structures out there, they're actually on the hook. They have to pick up the rent. There's no ability—it's a triple net lease kind of structure. You might have some delays in cash flows from time to time, and you might have some structures that have got holes in the documentation that are ultimately exploited. But I think Nvidia's doing the right thing with a \$5.8 trillion market cap, and using that to basically support data center build-out. And I don't know, I think these companies might end up competing in the future. They bought Hugging Face. He very well might end up competing with his biggest customers right now as you roll forward five years.

Jenny Johnson 45:00

Would you do 20-year paper to the big hyper?

Tony Minella 45:05

Yeah. There's a Beignet bond that was issued. I think it was issued like 250 basis points over the—and the weighted average I think was a 15-year fully amortizing based off of a Meta hell-or-high-water lease. Your Meta plus risk there, but it trades at a premium because of the complexity, and the illiquidity. And so if we can, given our capital base and the long-term nature of it, if we can pick up a premium for that complexity and that illiquidity, then we'll accept that risk.

Haslinda Amin 45:50

Adena?

Adena Friedman 45:52

Well, I also want to say that it is, what we're facing here, and I agree with what he said, which is we have some very, very large companies with very strong balance sheets that are underwriting and underpinning this massive build-out. In addition, by the way, to large energy companies, large infrastructure investment companies. Don't

forget, we've got massively large investment firms that have very large balance sheets and very great access to capital to drive it as well, which is different than the fiber build-out. And as you point out with the railroads, I mean, that—

Jenny Johnson 46:28

There was a lot of fraud.

Adena Friedman 46:28

Yeah, there was a lot of fraud. There wasn't as much oversight as to what was going on here, and there wasn't as much transparency into the documentation. And I think about it as, of course, not every company is likely to be a winner, but the amount of opportunity that we are facing here—because we've just talked about just what we can do within our own organizations. You touched on robotics, but you have to realize that this technology is going to go into the physical world, too. And this technology is going to go into—and then you bring quantum computing in too, and mix that up with AI. And you're creating a whole new nexus of opportunities and challenges that the economy is going to face. So, this build-out is probably the most important build-out that we have, and certainly in my lifetime, I would say that it's all on the back of the fact that the internet was built out. But this next generation of what's coming is so important, and the strength of the companies that are underwriting it, for the most part, are very, very strong. So it's different. And everyone says it's different this time. There are different characteristics to it that give me confidence that we're looking at something that's going to be massively disruptive, but also a huge opportunity to grow and expand the economy over the next 20 years.

Haslinda Amin 47:42

As we talk about deploying capital—and this is for Bill—people have talked about how we're seeing a reallocation of capital away from the West towards the East. Are you seeing that?

Bill Winters 47:55

I'm not sure I would—the massive AI investments are happening in the West.

Adena Friedman 47:59

Yeah, actually, if you look, the growth of foreign investment into the United States over the last 10 years, it's gone from about 14 percent to 19 percent of US equities is owned by the rest of the world. So, there's actually been an increase in foreign investment into the US.

Haslinda Amin 48:14

Would that change with China?

Bill Winters 48:16

I mean, China's not investing on the scale that the US is. And—

Haslinda Amin 48:20

Maybe not yet?

Bill Winters 48:21

Well, I think as Tony said, others have said, maybe they're getting to 90 or 95 or 98 percent efficacy of their models relative to the bleeding edge in the US, at a tiny fraction of the invested capital. But there's a huge investment in China in power, and they're quite good at doing that. But when I look at the overall equation, very few people disagree that there will be enormous value created and a good return on aggregate investment in things AI. The aggregate return versus the aggregate investment, I certainly think the productivity gains are so phenomenal that that'll be a good return. But there will be really big winners and losers inside that mix. And it's not clear whether it's the people who are providing the hardware versus the people who are building these frontier models at tremendous expense, versus the people that are building almost as good, but not quite as good models, but that are better integrated into all of our lives, versus the aggregators. Microsoft probably isn't going to have a frontier model, but they're sitting on most of our desks, most of our lives. And if it's not, then it's Google, who does have a frontier model. I just think, is there a bubble? Probably in pockets within that, depending on where the value ends up residing. But the aggregate value feels overwhelming to me.

Haslinda Amin 49:48

Tony.

Tony Minella 49:48

Well, I think we started the conversation talking about inflation and ran in the conversation talking about productivity gains. And inherently, productivity gains are going to be deflationary over time, and we'll be able to take costs out. It's just getting through the infrastructure, the build, the high cost that's associated with that, with an elevated interest rate environment right now, is inflationary. But I think over time, these technologies and super intelligence will revolutionize our lives and certainly our grandchildren's lives. And the interesting thing, I have a junior in college, and he's talking about, "Alright, well, what am I going to do when I graduate?" And a bunch of his friends are all focused on going to Wall Street and pipeline to Wall Street. "Let's go. Let's interview. Let's get a summer internship between my junior and senior year." And I tell him, "Jake, that's not even where the puck was." Going to Wall Street, sorry, is where the puck was. Go talk about going to work at an Anthropic or a Palantir, or get a good experience over the course of the next five years, and really then you can pivot and look at what the world looks like at that point in time. But the technology is changing so quickly that you need to embrace it.

Haslinda Amin 51:15

We have about—sorry, Pandu, I'm going to call on you—but we have about one and a half minutes. Just one final question for all the speakers here. I mean, we all seem to be optimistic about this AI-led future and the opportunities out there. What's the risk that could derail all of that? We'll start with Pandu.

Pandu Sjahrir 51:34

I guess I'll start with society potentially rejecting it, with all the potential negativity that comes. There's a bit disconnect to what's going on between Wall Street and Main Street, and this is something also that we have to recognize in any part of the world, not just in the United States. When you talk about digital infra coming, for example, to our part of the world, the first thing we talk about is what is the potential impact to the society that's there? Do we really benefit out of it? So, then the answer would be: Can there be other new industries that can come, that can develop? Because for other countries, the most important is about sustainable jobs. That's probably the far most important thing. That's probably on top of mind of every country where digital infrastructure is

coming in. And when you talk about—obviously, all of us here are the most sophisticated people, we're at that .001 perhaps of society—you have to think about the 99.99 percent, and you can't say this is what's good for the 99.9 percent. So, the level of empathy with what's going on with respect to AI and the discussion of AI is going to be open. And it's going to be very interesting during midterm in the US, the reaction of voters with respect to AI, because now it has become a hot button issue. And what's going on in the US is global. Voter sentiment is global. So, it'll be very interesting.

Adena Friedman 52:51

If I could go, Pandu's really right. It's really important to recognize the fact that this is such a societal change. And the AI industry has said flat out, we have done a terrible job of marketing and messaging.

Tony Minella 53:06

Super intelligence.

Adena Friedman 53:08

Yeah, sorry. But they know that, because I think we can only look at the world through the lens of what we understand today. And what we have to understand is the barrier to entry to creating a new company is going to come way down. That means the accessibility of the economy to more people. Just like the internet era drove a whole new economy in terms of the influencer economy and other areas. All of those types of jobs didn't even exist before. So, there is going to be a new economy that emerges. But this transitional period, we have to get society through it. If we can't, and it becomes a huge political issue, then that will be the biggest risk to this potential.

Haslinda Amin 53:50

Twenty seconds.

Jenny Johnson 53:51

Totally agree with those two. I'll just throw a different one in. I do think all the government debt that countries are taking on in a good economy, you usually need it for when things turn, and I think that could be a risk.

Tony Minella 54:07

Conflict, war, China and the United States not being on the same page, could be a big thing that could go wrong.

Bill Winters 54:16

Yeah. Government action or inaction. Lots of opportunities for government to help get things right. Lots of opportunities for governments to get things wrong. And to all those points.

Haslinda Amin 54:26

Bill, Pandu, Tony, of course, the two ladies. Please, a round of applause.

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