

Investment Trends in Focus: AI, Asset Allocation and Adaptation

Transcript

Adam Bass:

Welcome to MSCI Perspectives. I'm your host, Adam Bass, and today is October 9th, 2025. While markets have recovered somewhat from last quarter's turbulence, challenges remain, whether it's questions around continued US dominance, the real impact of AI or the rise of private assets. To find out what's really on investors' minds, Chief Research and Development Officer, Ashley Lester, sat down with MSCI's Michelle Shanley, the Global Head of Strategic and Key Accounts. Here's that conversation.

Ashley Lester:

Hello, listeners, wherever you may be, and welcome to our quarterly investment trends update. I'm Ashley Lester, the Chief Research and Development Officer at MSCI. This quarter I'm joined by my good friend and one of our most senior client officers whose special mission is to know and serve our largest clients around the globe, Michelle Shanley. Michelle, welcome to the podcast. Perhaps you could introduce yourself to our listeners.

Michelle Shanley:

Thank you, Ashley. So happy to be here. I lead our global strategic account effort at MSCI, where we engage with our largest and most strategic clients around problems they're trying to solve, opportunities they're trying to monetize, and how MSCI's solutions can fit into that equation.

Ashley Lester:

Great. Our task today is to bring listeners up to date with the most important trends we've seen in the world of finance over the last three months. These months lacked the raw drama of the second quarter — with Liberation Day, the tariff-induced meltdown in markets, and the rapid bounce back — but they've had their own peculiar drama. Here's a pop quiz for you. Can you guess the world's best-performing major asset class last quarter, or alternatively, the best-performing stock market?

Michelle Shanley:

I'd guess the best-performing stock market would be the US, and the asset class, perhaps large-cap equities.

Ashley Lester:

Good guesses, but not quite. The top-performing asset class was gold, up over 13% in the quarter and 40% this year. The best-performing stock market was China, up more than 22% last quarter and 45% this year. The US recovery in Q3 was a bit over 8%. Strange times. Gold, a traditional "risk-off" asset, and China, definitely not one, both performing strongly. So, what are your clients talking about in these unusual times?

Michelle Shanley:

Clients are struggling with what to do about US exposure. There's risk around US institutions, but nobody

wants to give up exposure to technology and innovation led by the “Mag 7.” Private assets are another big theme, and of course AI, which ties into both.

Ashley Lester:

Yes, there’s definitely that divide. In Europe and Asia-Pacific, we see more willingness to question having 70% of growth assets in the US, but little actual movement away. Inside the US, is there the same unease?

Michelle Shanley:

A bit less unease, though some institutions are tactically reallocating to developed non-US markets. There’s also sensitivity around China and perhaps some regret about missing that upside. Canadian asset owners are looking at China opportunistically, considering earlier outflows. US institutions are mostly rebalancing around the edges and reassessing private asset allocations and valuations.

Ashley Lester:

Interesting. The US was up about 8%, Europe under 6%, and emerging markets 11%. But under the surface, US mega caps were up 12%, beating even emerging markets, while the rest of the US index rose just 3.5%. Flows into the US are mostly targeting those mega caps. Are your clients expressing concerns about valuations?

Michelle Shanley:

Yes, definitely. Valuations are a concern, which is why we’re seeing increased risk budgets and greater emphasis on liquidity management. And yes, your blog this morning on “The Price of US Exceptionalism” was very timely.

Ashley Lester:

Thank you! Along with my colleague Anil Rao, we’ve been examining why the US market has done so well since the financial crisis. Over that time, US equities outperformed the rest of the world by about seven percentage points per year, bringing US assets to over two-thirds of global equity value. The exceptional performance is driven largely by mega-cap companies — their sales per employee have doubled, while Europe’s have declined. R&D growth has been dominated by US firms, profitability has expanded, and unusually, their periods of exceptional growth are lasting twice as long as before. That’s the “price of growth” story we’re seeing.

Michelle Shanley:

Very interesting. How do US interest rates fit into this picture?

Ashley Lester:

Three months ago, I thought we might see a steepening of the yield curve and rising long-term rates, but that hasn’t happened. In fact, long-term US rates have fallen. It’s remarkable given attacks on the Fed’s independence, political turmoil, and a government shutdown. It’s hard to interpret. What’s the client view?

Michelle Shanley:

There’s paralysis mixed with FOMO — fear of missing out on this technology wave. Despite uncertainty, few are making big allocation changes.

Ashley Lester:

Yes, that “dance while the music plays” mentality, as Citigroup’s CEO famously said during the financial crisis, seems to have returned. Are clients worried about the government shutdown?

Michelle Shanley:

It’s early days. Many hope for a short-term resolution. The news cycle is short, and investors may be conditioned to expect rebounds after turmoil — as after Liberation Day. So people may still be “dancing,” despite uncertainty.

Ashley Lester:

Indeed. Economists like myself usually see predictability and institutional discipline as growth-supporting factors. The US now spends more on debt service than on defense — what Niall Ferguson calls “Ferguson’s Law,” a sign of potential decline. Yet interest rates are falling. Perhaps investors still see the US as the least-bad option, given Europe’s instability.

Michelle Shanley:

Agreed. But maybe it’s a good time to look at another major theme: AI. It dominated our recent investment summits and will do so again at upcoming forums. How do you see AI influencing valuations, especially for US mega caps?

Ashley Lester:

No doubt it’s a big driver. The global tech sector’s P/E ratio is over 40. Investors are betting that the US will not only lead AI innovation but also capture most of the early productivity gains. Even a modest productivity lift could significantly reduce long-run debt-to-GDP ratios. So expectations about AI have huge fiscal implications.

Michelle Shanley:

Our clients are focusing on making their data infrastructure “AI-ready.” Firms like Vanguard are revamping their systems, and we’re in many conversations about how MSCI fits in. They’re also looking at how AI changes investment processes, creates cost savings, and impacts talent development. If AI takes over entry-level tasks, how do we still train and develop young professionals? It’s a continuation of challenges we saw during the pandemic.

Ashley Lester:

I agree. It takes time for large firms to integrate AI. Many still see it as a way to make old processes faster, rather than enabling new ones. But AI, as a general-purpose technology, creates entirely new possibilities — for example, instantly linking massive supply chain datasets to uncover insights that used to take weeks. The data may not be 99.9% accurate yet, but the value lies in exploring previously inaccessible areas. That’s where innovation — and new work for young professionals — will emerge.

Michelle Shanley:

Absolutely. And younger generations see AI with optimism, not baggage. AI’s ability to handle unstructured data will help us make better decisions on complex themes like climate transition. Laura Nishikawa made that point well on our recent AI panel.

Ashley Lester:

Yes, and that connects to another hot topic: the democratization of private markets investing. We're seeing new products for retail investors and inclusion of private assets in retirement plans. What are you seeing in terms of flows and interest?

Michelle Shanley:

There's lots of excitement and collaboration — State Street and Apollo, Wellington, Blackstone, Vanguard, BlackRock, Voya, Blue Owl, and others. Early flows are modest, around \$100 million in some cases, but it's early days. It reminds me of the early ESG boom — lots of products, lots of confusion about purpose and evaluation. Education and transparency will be key, and MSCI can help.

Ashley Lester:

Exactly. It's like ESG's early days: are investors seeking impact, returns, or both? There needs to be clarity on the role of these assets. Let me tell you a story — imagine being told there's an investment where insiders are getting rich, but returns, methods, and redemption terms are opaque. That's the perception risk for private assets. Investors need to understand what drives returns, liquidity, and risks.

Michelle Shanley:

That's why our work with GPs is focused on transparency, education, and performance attribution. As wealth transfers to new generations, there's huge opportunity — but also the need for clarity, structure, and better modeling of returns and risks.

Ashley Lester:

We just released our Q2 private asset returns report. All major private asset classes posted positive returns, but private equity lagged public markets again. Realizations remain near record lows, and new investments are slow. These asset classes need greater transparency to support informed allocation decisions.

Michelle Shanley:

Agreed — and perhaps AI will help deliver that transparency faster.

Ashley Lester:

We do have some plans there, Michelle, but that will have to wait for another episode.

Michelle Shanley:

We're teeing up the year-end episode here. What a pleasure to talk with you today, Ashley.

Ashley Lester:

Thank you, Michelle. It was a great conversation.

Adam Bass:

That's all for this episode. Our thanks to Ashley and Michelle, and of course to all of you for listening — or watching. You can find more insights on MSCI.com. Next time, we'll explore how investors are navigating this evolving landscape with guests from Goldman Sachs Asset Management and MSCI. They'll discuss a new index designed to bridge the gap between public and private markets. We hope you'll join us. Until then, I'm your host, Adam Bass, and this is *MSCI Perspectives*.

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Canada	+ 1 416 687 6270
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