

# Perspectives podcast

## “Investment Trends in Focus: Bonds, Bots and Big IPOs”

Transcript, 15 October 2026

### **Ashley Lester**

Welcome listeners, wherever you may be, to MSCI's quarterly Investment Trends in Focus podcast. I'm Ashley Lester, the chief research and development officer at MSCI, and I'm joined as usual by my partner in crime, Axel Kilian, chief client officer. Axel, welcome.

### **Axel Kilian**

Thank you very much, Ashley. Great to be here again.

### **Ashley Lester**

You and I have often discussed on these podcasts how markets these days revolve around this basic conflict that we've framed between technology on the one hand, and we can think of technology as a bottom-up force that equity markets really focus on, and institutions on the other. And we can think of those as kind of a top-down force that fixed income markets are paid to worry about. When we last caught up three months ago, technology was clearly in the ascendant, but definitely the third quarter was the revenge of the institutions. But despite that, the long bull market in equities continues. So we're at a strange juncture, Axel. What do you find investors are thinking about most these days? Is AI still their number one concern? Is it rates or is there something else entirely?

### **Axel Kilian**

Two kinds of feelings from clients right now. There's a first group that moved early for a ceasefire in the Middle East. They cut their energy hedges, they added duration and bought back into beaten down emerging markets. Now they're sitting with an awkward unwind. The second group stayed put. They feel vindicated, but they're not sure what to do next. Neither group feels confident at this point in time.

### **Ashley Lester**

Uncomfortable then.

### **Axel Kilian**

Yes.

### **Ashley Lester**

Discomfort?

### **Axel Kilian**

I would say so.

### **Ashley Lester**

Yeah. I mean valuations, actually secretly valuations have come off a little in equity markets obviously because earnings have been going so strongly, but I agree that overall equity markets still seemed almost priced for perfection, to quote you from a while back. Why don't we start by thinking about the bond market where things really changed? My interpretation of what happened to bond markets during the second half of last quarter is that really they got quite concerned about the institutional trajectory of some of the world's largest developed country markets or bond markets. The changes in bond markets that we saw, the big run up in rates, which in the US pushed rates to somewhere around five and a half percent at 10 years, that big run up that we saw can be interpreted in a number of ways. First, the obvious explanation is that the bond market got worried about growth in inflation, particularly associated with the ongoing high oil prices associated with the Iran conflict.

And to some extent also with the shutdown in diesel production coming not only out of the Gulf, but also out of the Russia-Ukraine conflict. But the fact is that when you look at the market's inflation expectations, they have been remarkably stable through this period. And so all of the run up in rates effectively, except right at the very short end, all of the run up in rates that we saw in the US was coming from an increase in real rates. So that's why I don't think this is really a story about inflation. I also don't think bond markets are kind of silly and bond markets are perfectly well aware that the US can ultimately print more US dollars and so it would be extremely perverse for the US ever to default. So that means it's about institutions and in particular, even if the US never needs to default, a country that goes on running 6% of GDP budget deficits while the economy's in booming with relatively small wartime expenditures and showing absolutely no interest in fixing its fiscal problem is an economy where maybe you start to wonder a bit about institutional strength. And we saw this play out earlier in much more dramatic fashion in the short-lived and very unfortunate premiership of Liz Truss in the UK where even though the UK can issue pounds, bond markets revolted against her fiscal plans. We're now seeing this in France where actually there is a bit of a concern because of course the French can't issue euros. So my view is that overall we're facing an institutional nervousness in fixed income markets and that is reflected in the kind of discomfort that you are describing, Axel. Does that make sense to you?

### **Axel Kilian**

Oh, absolutely. Absolutely. I am stunned. The US is running a 6% GDP deficit. It's definitely extraordinary in peace time. But what people are most surprised about, people are saying government is borrowing most of it at very short maturities. So I think that's the change that we have observed during the course of the year. So what does this mean when that debt needs to be rolled over?

### **Ashley Lester**

That's a great point, Axel, because the other big sort of candid explanation here is that the absolute splurge of CapEx by the AI companies and the associated debt issuance might be what's driving the increase in rates. Now there is some evidence to me that this might be true because what we've seen in the US in particular is kind of a hump-shaped increase in rates where the largest increase in rates is clustered around say the five to eight year point. And interestingly, that's where the AI companies are kind of borrowing. They're issuing say 5 to 10 year debt. The US government by contrast is borrowing an extraordinary amount right at the short end

of the curve, which is kind of a risky sort of behavior if the short end were to continue to increase and they would need it to continue to roll over debt kind of rapidly.

But overall, my problem here is that although the AI boom is enormous, it's very hard for people to get their head around, I think, just how huge the US government budget deficit is at 6% of GDP. So the latest numbers are that the whole of the CapEx build out for AI might be on the order of about 3% of GDP, which would make it a historically enormous CapEx build out. But on a flow basis, not quite an order of magnitude smaller than government borrowing, but kind of close to it. So far on some estimates at least so far, the whole amount of borrowing for the CapEx boom is less than the rate at which the US is making interest payments on its accrued debt. And so huge as AI is, we have to put it in the context of much more enormous US government borrowing.

### **Axel Kilian**

So I think this is what clients are trying to reconcile. They have the signals from the bond markets and then they have this AI boom that is mainly at this point in time happening in the equity portfolios. So they're trying to reconcile, but they're still running the two in a separate way. So the equity book on the AI thesis, the fixed income book, they try to manage duration and they hope that these two stories do not collide in the same quarter. And then there is the other one, this is the generational angle. The clients who started their careers in the '90s have an entirely different intuition about what rate normalization means than those who came up in 2010 to 2020. So the vocabulary is different, the emotional response is different. So yeah, it will be interesting to see how it all plays out.

### **Ashley Lester**

Indeed, Axel. You and I are old enough to remember when rates were this high or indeed higher last time around, but there are plenty of markets participants who don't remember that. To my mind, the real threat that rates pose to public equity markets is that at the margin, investors, whether they're institutional or wealth, just start thinking, "Well, if I can get five and a half percent say or 6% in some markets, if I can get that totally safe in a cash flow sense, why am I going to bother with the risks of all of these equity markets that there's so much uncertainty around?" And at the margin, as rates go on creeping up and up and up, investors start to think that more and more. Also at the margin, although the AI boom is going to produce, I think, enormous productivity effects and that's going to make many people very rich, there's always a marginal data center or a marginal investment in chips where at some point the present value calculation just doesn't quite work out for you as rates go higher and higher and higher.

So I think for me, my expectation is that this climb in rates is more sort of a gentle exploration of air from the tires rather than a sudden pop. But maybe that's a good segue to public equity markets, Axel. You said that clients are pretty uncomfortable in public equity markets. Any specific areas of discomfort that you're noting?

### **Axel Kilian**

Well, we had of course the inclusion of SpaceX coming to the market. So Anthropic could be the next at scale, but very different companies, different business models, and Anthropic is spending at this point in time significantly more than it earns. So if we look at it from an index methodology perspective, what does the MSCI

methodology say about when and how something like Anthropic Industry Index? And do listeners need to worry about being forced by us at a peak valuation?

### **Ashley Lester**

As you and I discussed last time, Axel, but it's worth reminding listeners. MSCI has had a consistent set of rules for the inclusion of mega cap IPOs and its indices going back nearly 20 years. We didn't change anything for SpaceX. I see no reason why we would change anything for Anthropic. The rules are that roughly speaking, 10 days after the listing for a mega cap company, 10 days after the listing, the mega cap company is included out in our indexes at its free float index weight. And the free float part is very important. Remember that at an IPO, generally only a small percentage of a company's overall equity is actually released to markets. And so although SpaceX, for instance, was priced at around say \$2 trillion, something closer to around 5% of that was released to the market and is now publicly traded, and it's that 5% which is reflected in the MSCI indexes.

Bear in mind in terms of buying though that the change in free float can actually be the larger story for index investors. So now the stock is trading reasonably broadly, but progressively what will happen over whatever schedule that the companies have established, more and more existing private holders of SpaceX and eventually of Anthropic will have their lockups lifted and they will be able to trade into the market. And MSCI will review information about that at each quarterly rebalance and we will progressively shift our free float estimates to reflect changes in holdings of stocks as some of those lockups expire and importantly, as some of those expired lockups actually trade into the market.

### **Axel Kilian**

Yeah. No, I just want to echo your comment first on SpaceX. It's been a real education because it was such a significant IPO. As you said, so client who bought in the very early inclusion logic from some other providers, they paid the peak price. The stock was trading I think up to \$230 in the first few days of trading and they've spent the rest of the quarter underwater. I think what we hear the most, it's what happens to the valuation if the open source models coming from China commoditize what Anthropic and others are able to charge. So that's probably the big concern going into the Anthropic IPO.

### **Ashley Lester**

I agree with you that the bigger and more structural question about valuation of foundation companies is really about what is the nature of their business model going forward. And so it's very clear that Anthropic and OpenAI have invested or are investing an enormous amount of money in continuing to rapidly push the frontier of AI modeling. That's why we saw, for instance, talk over the last couple of weeks that OpenAI had solved effectively all of the outstanding known mathematical problems causing a lot of distress amongst the mathematics profession. So there's an enormous amount of ongoing investment in making these models extremely, extremely smart. But the question is how smart do the models really need to be and how much of a market is there for that sort of extreme degree of smartness versus stuff which is quite a bit easier? If we think about some of the best established uses of AI so far in relatively straightforward areas like data extraction or client servicing, you're probably going to use a significantly simpler model.

In terms of the simpler models, it's actually been a very interesting few months because what we've seen is the foundation labs, the American companies really dramatically bringing down the prices of their smaller models, which are rapidly getting significantly more capable. And one has to read that as seeking to meet the challenge which has been laid down to them by the Chinese AI labs, which, if anything, seem to be a little bit further behind than they were when we last talked three months ago, but continue to push very cheap new models. By the way, I guess, ultimately a similar question can apply to how much is demand really going to grow out for data centers and similarly because if the smaller, cheaper models continue to become much more efficient, maybe that will somewhat reduce the demand for data centers and AI hardware.

### **Axel Kilian**

So look, Ashley, you mentioned China and the open source models also in the context of having potentially less energy needs, less computation needs and implications on data centers. So AI depends on hardware and energy infrastructure, and it seems that China is leading in both areas. So the Chinese hardware is developing fast. Of course, we have a difficult institutional relationship between the US and China when it comes to AI, but it sounds like the technology story and the geopolitic story are on a collision course. Is that also how you see it?

### **Ashley Lester**

Chinese equities are down 12% on the year to date, which makes them, I think, the fourth worst performing significant market in the world. And I mentioned that the Chinese collectively seem to have invested very heavily in cheaper, smaller models rather than putting their eggs in a couple of frontier baskets. Another thing that you can do with small, capable, open weight models is you can train them much more easily and transparently. And why would you want to train them? Well, Axel, I'm sure you saw, as did much of the rest of the world a few months ago, the Chinese robot Olympics, which featured that extremely impressive humanoid robot, which ran the hundred meters faster than Usain Bolt, and unfortunately then ran into the barriers and crashed and burned.

But I think there's a very serious message behind that robot Olympics, which was the Chinese illustrating that they are far out in front of the rest of the world in manufacturing, as we all know, and that they are going to make sure that they use the AI revolution to, if anything, extend that lead in the manufacturing complex and embed as much as they can of the value of AI in a whole range of robotic applications.

That has huge economic implications for the world if it plays out. An astonishingly high percentage of labor costs could be automated. We think something like up to about 40% of labor costs could be automated even if AI never improved beyond today. But if you add in very significant physical capabilities to AI, like those that the Chinese are working on, but the rest of the world is only just starting to pay small attention to, that number can go up to something like 70% of overall labor costs. We talk often as though technology and institutions are these two separate forces and they operate for now in two parallel markets. But I think when we get to these questions of what is the American capitalist model for exploitation of AI and what is the Chinese model for exploitation of AI, I think those models show real differences in the systems of the two countries in their respective comparative economic strengths.

And it's clear that the technology and institutions start to overlap at that point. And that's going to be the interesting question for us over the next two or three years. Axel, do you hear many clients talking about that link or thinking about it as a primary element in their investment thinking?

**Axel Kilian**

Not really. I don't think disconnection has been made. They talk about the supply chain. That's another topic where of course China dominates the physical part of the supply chain. And this is one problem we in particular see with European clients that sit. Initially they bought into the clean energy thesis and now the Chinese supply chain is a second order risk. They didn't price in at the time. They were investing in European domestic clean energy companies and have been overwhelmed now by the dominance from Chinese manufacturers.

**Ashley Lester**

So data sovereignty is yet another area where we see this intersection of technology and institutions playing out particularly strongly in Europe. Just on that point though, even within the states, I find really interesting now, domestic institutional concerns are starting to impinge on the technological backdrop. This whole movement against the construction of data centers, which we see now even in the brightest red of red states. So in Texas, opposition to data centers has become sort of a bipartisan election issue. So even in the states now, we see populations who are concerned about what technological changes mean for them or what share of the capitalist pie they've been receiving over the last 10 or 15 years starting to push back against the technological horizons which have markets so excited. I think it's a really interesting time playing out that way as well in terms of the intersection of technology and institutions.

So we see this all over the place. I think to my mind, opposition to data centers and problems with connecting power, data centers to sufficient supplies of power, particularly when they might rely on grid power and finding also water, finding the intersection of those three requirements, lack of local opposition, enough water and enough power, that's quite a hefty set of requirements around data centers. And so to my mind, it seems to me that there's a reasonable chance that over the next few years what we'll see playing out is a shortage of data center capacity. And that has all sorts of implications also for likely investment returns across the range of sectors that are involved in that. So what are clients telling you they're thinking about for Q4, and what do you think we should be looking out for as we wrap 2026?

**Axel Kilian**

Okay, so top of mind, of course, geopolitics. We will have the midterm elections. I think it's very clear. The statement was clear there won't be any attacks before the midterm elections, which probably means expect some after the midterm elections. So we will probably have more of the same what we had during the course of the year. We see a slowdown in borrowing from the hyperscalers. So it's a question, is this a signal of less confidence or is this a signal of acknowledging that markets cannot digest more on the fixed income side? I think 50% of corporate issuance came from the hyperscalers this year. Also, I think the investor demand has slowed down. Now, financial markets like when we have healthy capital markets activity, so the Anthropic IPO will be an important test, whether it's actually happening in Q4 and then market might have another ability for a leg up.

But overall, I would say people look at, again, the concentration they have and they want to reduce it. And if you look at the value drivers of equity markets this year, what are the parts that are really non-AI related? I think it's 15 to 20% of the S&P 500 if you include energy companies there as well. So it's very hard to do that. So there's a lot on the plate for investors, and I think they hope to get through Q4 and see clearer at the end of the year. But what's your view?

### **Ashley Lester**

I think my view is that we're entering a period where some of these kind of inherent contradictions across markets are getting more likely to be resolved. I don't necessarily expect a rapid sort of resolution of some of the underlying international geopolitical tensions or indeed kind of the underlying institutional problems. But I do think that markets are now at a stage where they're taking stock and thinking, well, market participants are thinking a little more in depth perhaps about what AI investments are actually worth making. We're seeing that in our AI value chain indexes, which we released a month or two ago, which really highlight divergent performance across different aspects of the AI value chain, whether it be providing energy or building out data centers or estimating foundation models. So all of these types of aspects of AI which we've been discussing, I think investors are now ready to start addressing in a more detailed and granular way rather than just thinking AI is a single thing.

And so I think that will be the cause of further dispersion in equity market performance over the rest of the quarter. And what we'll see playing out over the rest of Q4 of course also is there going to be a continued run up in rates reflecting further institutional concerns or actually is some of what we saw over the end of summer a little bit of a liquidity phenomenon and some of the heat comes out of rates? If the heat comes out of rates, then obviously I fully expect equity markets to continue on. If we see a similar run up in rates to what we saw in the last six weeks of Q3, I think inevitably that's going to cause some issues, not only in public equities, but also in buyout, which continues to struggle to actually distribute and potentially even in venture. So I think we are going to pivot around, not only around this more nuanced understanding of AI, but also around the outlook for interest rates.

Axel, it's always great to talk. We've hopefully given listeners a few things to think about. We're not here to provide investment advice, but hopefully we've given you plenty of aspects of your portfolio to consider further. And Axel, I will look forward to catching up with you in the new year.

### **Axel Kilian**

Absolutely. No doubt about it. Thank you very much, Ashley. Always a pleasure. Look forward to catching up in Q1.

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