

# Perspectives Podcast

## “Investment Trends in Focus: Rebalancing Portfolios in an Unbalanced World”

Transcript, 22 January, 2026

Adam Bass ([00:03](#)):

This is MSCI Perspectives. I'm your host, Adam Bass, and today is January 21st, 2026. Happy New Year. Today's episode marks the first of our regular quarterly conversations between Ashley Lester, MSCI's Chief Research and Development Officer, and Axel Killian, who's our chief client officer. And it comes at what feels like a particularly pivotal moment for markets and investors. Just last week, concerns around Federal Reserve Independence resurfaced, followed by news of a criminal investigation involving Fed Chair Jerome Powell. It was a timely reminder of just how closely markets are watching institutions and how quickly political as well as legal developments can influence market behavior. Against that backdrop, Ashley and Axel drew on MSCI's latest investment trends in focus research to explore the forces shaping markets in 2026. Here's that conversation.

Ashley Lester ([01:05](#)):

Hello, listeners, and welcome again to MSCI's Investment Trends in Focus Quarterly Discussion. I'm Ashley Lester, the Chief Research and Development Officer of MSCI, and I'm joined today by Axel Killian, the Chief Client Officer of MSCI. Axel, happy new year. What were you thinking about over the break?

Axel Kilian ([01:25](#)):

Ashley, first of all, great to see you. Happy new year to you too. I had a great time off. I hope you as well. So one of the things I looked at over the holiday season were the equity forecasts of the sell side. And it was amazing because there was no differentiation between all the reports. The consensus is equity markets will go up this year, between seven to 8% on average. So it will be an easy year for all our investors.

Ashley Lester ([01:59](#)):

For sure, it'll be an easy year. It'll be all smooth sailing and markets will go up in a straight line. No, I don't think so. So actually, it being the start of the year, I thought I'd do a little bit of background research into the behavior of equity markets and how it relates to consensus expectations each year. And if I'm going to be a little bit controversial, I would say that the main thing to know about market expectations, at least on a consensus basis, I'm sure individuals are much better, but on a consensus basis, market expectations are pretty much literally right about as often as a stop clock is right. So let me put some numbers to that. Most of the time, quite frankly, the consensus is pretty close to the trailing average return for equities, maybe plus or minus a little bit.

(02:55):

So just to take your example, the consensus is seven or 8%. Over the last 20 years, equities, most of the major equity indices have recorded average annual returns of about 10% per year, a bit more in the stakes, bit less elsewhere, but about 10% a year, close enough. But the really meaningful thing to know about annual returns is that the standard deviation of those returns is nearly 20%. Actually, it's typically about 18%, which means that it's reasonable to assume that about 2/3 of the time, the actual return is not going to be the mean plus or minus a little bit, which is what the forecasters tend to say, at least in consensus terms. It means it's anywhere between minus 10 and plus 30. And in fact, I can tell you that in most major markets over the last 20 years, only three years have recorded returns between five and 15%. So basically I'm saying it's pretty unlikely that the consensus will be right.

Axel Kilian (04:04):

Let's also look from a client perspective, they do not expect from us to tell them where markets are going. So what they look for are really frameworks. The repeated ask we are hearing is help us structure uncertainty. Their main interests are insights in scenarios, stress tests, and not bold directional calls. So from that perspective, I think we are addressing some of them in our latest research. So maybe I hand back over to you, what are the key trends that we are seeing for 2026?

Ashley Lester (04:45):

Thank you, Axel. Well, we did indeed do some thinking about the key trends in our annual investment trends and focus piece. In that piece, we highlighted three or four key trends, probably three key trends. And actually one of the interesting features of those trends was just how interconnected they look like being in 2026 and indeed were in 2025. And those three key trends are really, one, geopolitics or what in fact more people are starting to come to call geoeconomics, but this intrusion of political forces into the economic and financial system as something which investors really need to think about actively, certainly in terms of their scenario planning. I think this is really relatively new. We've talked about it for the last couple of years, but 2025 was the year when it really made the headlines. We're a little over two weeks as we speak into 2026 and already we've seen some fascinating instances of this, which perhaps we'll talk about, but geopolitics and its relevance to markets is one of the big trends.

(05:54):

I'll just mention the other two quickly. Second, no prizes for guessing, AI, but some of the stuff we wanted to highlight and perhaps we'll talk about is just how enormous the scale of AI investment is and how intensely consequential that is for financial market participants, not only in the Mag 7 or the hyperscalers, but much more broadly across equity markets than that. And lastly, the continued growth of private credit. And the reason that that's linked to these other themes, of course, is that someone has to fund the enormous investment which is being undertaken by the hyperscalers and others, particularly in data centers, and a significant part of that investment is coming from private credit. So those were our three big trends that we thought we should highlight from 2025 that we expect to illuminate 2026.

Axel Kilian (06:47):

So yes, look, Ashley, what we are hearing from clients, geopolitics is a very, very top of mind, but clients do not want to make any directional bets, so they're not trying to trade on headlines. So portfolio construction is top of mind with a focus on where are the concentration risks, how do we diversify better? And the theme you've just brought up on institutional credibility. So currency is a key signal. So the US dollar versus rest of world is seen as a better indicator than equity volatility or equity noise. And currency hedging is a topic that we hear a lot, in particular in APAC on the asset owner side where people are reviewing their benchmark allocations and also their default US dollar exposures. So question for you, Ashley, are markets telling us that this is a temporary dislocation or is there something more durable going on how the US dollar behaves as a risk barometer?

Ashley Lester ([08:18](#)):

So you've raised so many interesting questions and so many of them highlight that the interesting linkages across these themes that we've talked about. So one of the statements you've made about what our clients want to do, and I agree with you, is that they're very reluctant to see themselves as taking directional or geopolitical bets, and certainly they don't want to trade it, but in a world where 2/3-ish of global equity is a US, of course, it's hard to avoid taking some sort of view implicit or otherwise on the fate of US markets. But of course, at the same time, about 40% of the US equity market in turn is in the top 10 stocks, which are virtually all technological. And so a view on the US is very significantly a view on AI and vice versa, given the lack of material exposure to AI elsewhere. And so investors are faced with having to make these very difficult, but also highly co-linear decisions. So it's very difficult to hedge.

Axel Kilian ([09:30](#)):

So I want to build on this theme on actions, but we had some policy rhetoric affecting markets. So the restrictions on defense sector buybacks, some executive compensation discussions on building up caps if people are not complying. The other one was the limitation on institutional home buying for institutional investors. So two questions for you. Does this political instability and the other example you just made, equal economic instability, and do you see a lasting impact on investor positioning on the back of that?

Ashley Lester ([10:27](#)):

Okay. Wow, we are getting to the meat of things today, aren't we? So yes, the short answer I think is yes, quite frankly. So we saw in response to each of those policy announcements and policy actions, real market reactions in terms of, in the case of the credit card rate limit, for instance, that the market was quickly and clearly able to differentiate its response across different US financial institutions, depending on how much of their income came from credit cards broadly and from credit card interest charges more specifically. So markets clearly are working quickly to price this stuff, and for as long as there is policy instability, there will be corresponding knock-ons into the financial world. One of the lead stories of last year actually, which we highlighted in our investment trends in focus piece, and that data ran up through the end of November.

([11:39](#)):

One of the best investments you could possibly have made last year was European aerospace and defense. And so in a year where the ACWI was... It was a good year for the ACWI, it was up about 23%,

world was up about 22%, European aerospace and defense was up 77% in 2025. And just by comparison, American aerospace and defense was only up about 40%. There's companies in basically the same sector doing more or less the same thing, but European defense companies largely sell to European governments. American defense companies very much have global business, but proportionately so more to the American government. European aerospace and defense continues to outperform American aerospace and defense by about 1.5% just since the start of the year. And so again, we've got very unusual and very abrupt and unusual changes in relative valuation that are being driven largely, frankly, by abrupt and unusual changes in the policy framework, which markets are trying to price.

Axel Kilian ([12:49](#)):

We should probably move to AI.

Ashley Lester ([12:53](#)):

At MSCI, we've got the capacity to create baskets of exposures on the fly to any given theme which we specify. And so actually we use AI to do this. It's an AI tool that we've developed. So what we did was define nine layers of the AI value chain. So in other words, it's not all about Google and OpenAI and Anthropic. We actually taxonomized nine layers of the AI value chain. So you've got AI hardware providers, NVIDIA, but also others. You've got energy providers because we all know AI is very energy intensive. You've got early adopters of AI. So we defined those nine layers. When you add up those nine layers of the AI value chain, you get to about a third of global market cap. So 1/3 of investors' equity portfolios is already resting very heavily on what you think about AI. That 1/2 of global market cap also represents about a quarter of earnings of the companies in the universe, and therefore the index, rather less than that actually of revenue, about 16% of revenue.

([14:10](#)):

So these companies are actually pretty highly profitable on average. So a disproportionate share of the world's profits or corporate earnings and a very large share of investor portfolios are already tied even outside the companies that you can think of immediately to AI. Those companies in turn do about a fifth of global CapEx, but nearly half 40% of global R&D. So this is a huge deal that the whole capitalist system is shifting itself in pursuit of not only of CapEx, but much more intensively of R&D looking forward to exploiting AI. And that's the bet which global markets are taking at the moment. And those companies have seen huge increases in labor productivity as well over the period, frankly, since ChatGPT was launched. So these companies are very unusual. They're very profitable still despite their big CapEx run up and they're doing a vast amount of the world's R&D.

Axel Kilian ([15:18](#)):

From a client perspective, definitely the conversation has matured. So clients are moving away from AI is real to where is the risk actually sitting in our portfolio. You mentioned the value chain clarity, this is top of mind, but also benchmark considerations, concentration analysis. I have to say the pricing concern is rising. We're hearing more, our expectations too tight, our markets may be pricing near perfection on AI growth and margins, even if productivity upside remains. Only on a side note, 75% of US GDP is coming from the consumer. So I don't know where this really fits into this AI discussion, but

the consumer and AI, I cannot reconcile the two, but probably you have an answer to that, but I want to finish on my point on clients.

(16:24):

On the back of what we see is a portfolio implementation shift. So many of our clients are considering broadening their EI exposure beyond the mega caps, the large scalers into the enabling stack. So the data centers, the power grid, the infrastructure. A question for you, Ashley, on this. If AI remains the center of gravity, how should investors think about the enablers? Power, grid, geography, China.

Ashley Lester (17:05):

Okay, let's work through... I want to make sure we come to that, but let's work through a couple of the other super interesting topics you raised first, just to highlight the scale of the challenge that investors face perhaps in thinking about AI beyond the drivers of AI value or the AI value chain beyond AI. I think for us, when we looked at where markets were really pricing AI last year, in many ways, the most interesting single story that we found was in the pricing of energy. And so utilities were well up actually. Utilities were up about 30% or so last year, which is pretty good for what's often regarded as a pretty boring, almost bond-like sector. So you're pretty happy if you're utilities investor who got 30%. But beyond utilities, the other really big gainer last year was clean energy infrastructure. So our clean energy infrastructure index was up more than a third last year.

(18:19):

I found this really intriguing because this was a little bit of a test, at least in this particular market, of the power of technology versus the power of policy because technology was... Well, policy, especially in the world's largest equity market, was saying renewable energy is for wimps. It's all about oil, even coal, but in fact, policy didn't win that particular argument. So the oil and gas index was only up about 12% last year, way below the overall market gains. So the whole world was talking about the energy demands which were going to be placed upon the world as a result of AI. Everyone knew that, and where did investors put their money? Overwhelmingly, they put their money to satisfy that energy demand in companies that were focused on clean energy rather than companies that were focused on oil and gas, despite the policy headwinds. So I thought that was really a fascinating shift in relative pricing that we saw last year. There was an implication of the AI revolution.

Axel Kilian (19:29):

I heard from some investors that actually have picked up on that theme and they're repositioning their portfolio and they're putting an overweight on the laggards from last year. But maybe I move because I'm really curious on your view on this topic, especially related to China. So if we look at the developing a sustainable infrastructure, energy infrastructure, China is definitely leading the way. So what are the implications if ultimately sustainable energy or energy is the key theme in winning the AI race? So could this coupled with the Chinese skills in AI accelerate the transition potentially away from the US? And is this potentially the end of the US exceptionalism?

Ashley Lester (20:35):

There are some real risks in the course that the US is pursuing at the moment. Let's face it. When you look at micro cap or revenues or R&D, any of these measures that relate to technologies as the future

outside of AI, I mean, the Chinese dominate. EVs, solar, other sources of clean energy, the Chinese dominate.

Axel Kilian ([21:00](#)):

Nuclear.

Ashley Lester ([21:01](#)):

Nuclear. As indeed do Chinese universities increasingly dominate world rankings of research citations and publications. Political issues aside, if you were looking to pursue a diversified basket of technologies, you'd be looking rather heavily at China. Now, then we come to AI. So what are the two countries doing in AI? They're pursuing very different strategies. The US, of course, is now the land of enormous companies, which is much of what we've been talking about today. And the AI strategy of the US is to rely on those huge companies to really push the frontier of AI and I guess to win the AI race.

([21:50](#)):

The Chinese strategy is very different. At the start of last year, we saw what the Chinese strategy was, which was to have a lot of much smaller companies doing much cheaper research, but allowing them to be fast followers in the AI space. And in terms of the quality of models, at the start of last year, in the open source models, that is the stuff that's not from open AI or Anthropic or Google, but the stuff that anyone can access, the open source models were almost as much owned by the US or dominated by the US as those leading commercial models. By the second half of last year, that was no longer the case. Virtually all of the best ranked open source models were Chinese. So yes, the US might be a bit in front, but how far and to what extent is their energy policy handicapping their ability to expand further on their really relatively very expensive strategy around building out AI?

([22:54](#)):

Now, there are lots of problems for investors in investing in China. So this is neither a policy recommendation, an investment recommendation, a policy recommendation, or a relative judgment on the ethics or otherwise of either different government, but those are the facts in terms of the scientific progress and development, both in AI and in the other sectors of the future. There's a couple of key areas that if I were an investor, I would be keeping a very close eye on informationally, and they follow very naturally from the stuff that we've been talking about. In terms of AI, the big stuff to keep an eye on there obviously is not only market moves as they happen, but also the successor earnings reports of the hyperscalers. And I think one of the most interesting things to keep an eye on there is at the end of last year, there was quite a bit of concern about possible somewhat circular financing arrangements amongst the big AI companies.

([24:04](#)):

Again, without making any market return forecast, just based on our own work on AI, I'm very much of the view that 2026 will be a breakthrough year in how much of an impact AI has on rest of the world businesses. I think we're going to see big changes in a lot of companies' operations in 2026, because I think really literally just in the last six or eight weeks of 2025, in the first couple of weeks of this year, we have seen real breakthroughs in the leading AI models that take them from being really nice. And if only they were 20% better, they'd be really useful to really useful. But if I'm wrong,

if they're still only really nice and if only they were 10% better, then we won't see that big pickup in the xAI company spending on AI. And then that might cause some market disruptions along the lines of what you're suggesting might happen if really these companies are priced for perfection.

(25:12):

As I say, my personal view being very close to the use of AI is that 2026 is the year for primetime, but we'll find out how widespread that view is. So that's what I would be keeping an eye on in AI. I'm afraid in policy, it's just the nature of the beast that it's very unpredictable on the way it's evolving. So in the first two weeks of the year, we've had not only this unusual operation in Venezuela, but also that the pursuit of criminal charges against the chair of the Fed. It's pretty hard to hedge for that. You want to be pretty aware of it. I guess two things, coming right back to the start of our conversation, if you think that's a significant risk, but you are not prepared for whatever reason, either relative returns or belief to pull back significantly on your tech exposure, then is a time to think about what are the other ways in which you can hedge your exposure to the US, including US dollar exposure. So that's one way of thinking about it.

(26:22):

And the other way in which I would suggest people think about it is institutions are neither created overnight nor typically destroyed overnight. Given that they're slow moving, investors need to beware the boiled frog here. They need to keep an eye on what is the cumulative change in institutional quality or in international relations and what are their red lines in that cumulative change such that they're ready to take action when they see the cumulative change getting to a point where they're no longer comfortable. Because if they wait for the action itself, as we saw in Venezuela example, markets are very quick to price once something's actually happened.

Axel Kilian (27:13):

Ashley, as always, a great pleasure. Thank you very much for sharing your insights. I look forward to the next in a quarter when we review and where we see where we are. So thank you and all the best for 2026.

Ashley Lester (27:31):

Thank you, Axel. Always a pleasure to talk.

Adam Bass (27:36):

That's all for this week. Our thanks to Ashley and Axel and to all of you for watching or listening. Remember, you can find the full story of Investment Trends in Focus, that's key themes for 2026 on msci.com. You'll also find our full In Focus series, which includes scenario analysis, as well as a deeper dive into the trends driving sustainability and climate, private capital, and real assets in 2026. Next up on the program, we'll explore how climate investing is entering a new phase, one that's less driven by policy and more by economics and competitiveness. We hope you'll join us then. But until then, I remain your host, Adam Bass, and this is MSCI Perspectives.

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