

# Perspectives Podcast

## “Investment Trends in Focus: Two Views on Public and Private Markets”

Transcript, 17 July, 2025

Adam Bass ([00:08](#)):

Welcome to MSCI Perspectives. I'm your host, Adam Bass, and today is July 17th, 2025. The year so far has not delivered on the promise it offered us on New Year's Day. In fact, as the second half begins, the uncertainty that defined the first and second quarters seems likely to continue. What are investors telling us about this? Perhaps more importantly, what are the markets both public and private, what are they telling us about investors? To find out, we spoke with MSCI's Chief Research Officer, Ashley Lester, and Axel Killian MSCI's Chief Client Officer. Here's that conversation.

Ashley Lester ([00:56](#)):

Hello, listeners. I'm Ashley Lester, the Chief Research and Development Officer at MSCI. Welcome to our quarterly podcast on investment trends in focus where this quarter we'll be doing a mid-year review of all that's gone on over the past six months. In fact, we're trying something a bit new this quarter, we're having a discussion between myself and Axel Kilian, our Chief Client Officer.

Axel Kilian ([01:18](#)):

It's a great pleasure being here, Ashley.

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

Now, Axel, today we're going to discuss the extraordinary changes we've seen in financial markets over the last six months and what we think they might portend for the future. But I thought we might start just by describing a little for our listeners where our perspectives on this come from. I'll go first and then you tell our listeners as well. For myself, I've done about 50 client meetings this quarter. Most of my client meetings have been with CIOs, heads of equity or fixed income investment, heads of allocation, occasionally heads of research.

([01:57](#)):

This quarter for various reasons, I've been having an extra focus on some of the world's largest multi-strats, which increasingly dominate the world of hedge funds. But I've also spoken to some very large sovereign wealth funds, some great big pension funds and asset managers, and indeed some private asset managers who occasionally we will slip into the jargon of calling GPs. In this past quarter, I've met investors in Australia, the States, France, the Netherlands, Norway, Germany, and Switzerland. That's the perspective I guess I'm bringing to this, in addition to the data that we have here at MSCI. Axel, what are our clients telling us about the world of investments?

Axel Kilian (02:44):

Okay. I haven't counted the number of client meetings, but I guess I had probably a few more. I was in the US. I was traveling on the East Coast. I was in Boston. I spent time in Singapore. We had an asset owner conference in Tokyo. In fact, the first asset owner-focused conference in the APAC region was in Singapore. Then I traveled across Europe. I probably have seen asset owners, asset managers, some CIOs at wealth management firms, hedge funds. But I think the key observation, it really depends where you go. In the Americas, I have to say, people were in general in a very good mood, especially after markets recovered after the sell-off at the beginning of April. I think we have seen some reallocations into more international markets from US-based investors, and they have seen very strong performance off the back of a weaker dollar and strong performance in these markets.

(04:03):

Now, the picture changes completely. I had meetings in Japan with asset owners and with asset managers, and they raised significant concerns. Concerns on one end, the equity benchmark tends to be the MSCI, All-Country World Index, with a 70% weighting in the Americas. There was of course a lot of uncertainty on the back of events post-Liberation Day, but then of course the impact of the US dollar, having a multi-asset portfolio where there tend to be a fairly significant allocation also in US dollar-denominated assets. Here I noticed big concerns and question marks on whether they should maintain the current asset allocation. The most interesting idea I heard was in Singapore from one of the sovereign wealth funds, he questioned whether they should keep a market cap-based equity benchmark, and he brought up the GDP-weighted benchmark, and an interesting concept. I don't know what your view is on GDP-weighted benchmarks, but maybe you have a view. I was surprised, but I'm sure you have some idea around that.

Ashley Lester (05:43):

I do have some views on GDP-weighted benchmarks. I've got to say that my meetings especially with asset owners and sovereign wealth funds and pension funds, those big long-term pools of capital that really drive where money goes in the world, those have had a very similar tenor, I think to the meetings that you are having. Maybe what we should do is just lay out for our listeners first just some of the unusual things which we observe this quarter. I've got a couple of ways of summarizing that for them. Then we can talk about the extremely interesting question you raised, which is if we're potentially seeing the end of an era, and I think we might be in more ways than one, what do we do next? A new paradigm generally takes a while to emerge. It's not fully born the second a crisis emerges.

(06:38):

Let's dig in first to what we saw in this first six months. Over the 15 years, 2009 to 2024, US equity markets outperformed on average about 7% per annum, the rest of the world. It was just an incredible era of dominance, which as you mentioned got us to about 70% of global listed market cap being in the US. All investors, if you're an Australian super fund or a Singaporean government sovereign wealth fund or whatever, 70% of your growth portfolio is sitting in one country and that country is the US. By the way, a lot of these very sophisticated investors also have big private capital portfolios, and at least 60% of the private capital is also sitting in the US along with about 40% of the world's bonds, including a very

significant chunk of what has always historically been the world's, or for a long time historically have been the world's safest asset, US treasury bonds.

(07:41):

Your portfolio is dominated by the US, and what we saw in the first six months was a really historic reversal of that dominance of the US. Now, 7% annualized over 15 years is a lot of outperformance. There's a long way to go before US markets are back to their relative standing in 2008 or 2009. But the first quarter in particular was the worst relative return for US stocks since 1986. Actually we run an econometric model, which is not subject to our judgment, but does feed in fundamental terms like GDP growth, inflation, real interest rates. That model says that US equities could still easily look very richly valued by say nearly 20%. If there were a bit of a slowdown in the states, you could easily add another 15% or so to that. US equities, despite this relative turnaround on the order of about 10 or 15%, still have a long way to go to be valued at a similar level to the rest of the world.

(08:51):

As you mentioned, currency's a big deal as well. Here it takes less to turn around what happened in the last 15 years. The US dollar appreciated about 15% against other developed market currencies over the last 15 years. It lost about two-thirds of that over the first half of this year, and it's also down about 7%, less interestingly, against emerging markets. If you're a Japanese investor invested in the US, a third of your risk now comes from currency risk. There was really a amazing turnaround and set of events here. I'll give you one more way, which I think this is a bit historic, and then I know you all have some thoughts about these historical episodes that I'm going to refer to as well. I'll pass the baton to you.

Axel Kilian (09:42):

Thank you. Please carry on.

Ashley Lester (09:46):

Yeah. Some of the researchers on the team have come up with a way of characterizing markets that are very unusual and we've called this a triple-red moment. A triple-red moment is when US equities fall a lot, US bonds fall a lot and the US dollar falls a lot. Historically that's happened extremely rarely, but it happened just after Liberation Day. Now, as you mentioned, Axel, US equities have come back so we're not still in a triple-red moment. But the fact that it happened at all is itself I think really notable because the first time it's happened at all since 2000, and before that there was a very brief outbreak in '87 and 1990, but before that it was really about the '70s.

(10:31):

To me this is like the canary in the coal mine of a fundamental regime shift. What it reminds me of... I know you had an interesting financial crisis. What it reminds me of is just as I was getting ready to go into financial markets in July 2007, the ABS market, the asset-backed security market seized up in the US, and then things started going again. Everyone was like, "No problems here. Nothing to see here. Move along." We all know what happened after that. I don't have a crystal ball. I'm not saying there's going to be a crisis like that coming, but that's what a very unusual moment like that reminds me of. What do you think?

Axel Kilian ([11:11](#)):

Well, look, for the older listeners, we've all been there. I had a lot of discussions with people who have been in markets for a longer period of time who have experienced a global financial crisis, who have experienced dot-com bubble bursting, the LTCM, the sovereign crisis in Europe. A lot of them are asking the question, some people see the signs. I think the triple-red moment was definitely a sign, it's something in the market might not be in the right place. The movement that we have seen in US Treasury yields, there was a lot of stress in the system. Now of course a lot has changed and in terms of what initially has been announced around Liberation Day, and we have seen the relief rally. What I noticed is that people who have the memory are taking this into account in how they think about how to position their portfolio going forward. There is one that I think is the easiest one to make a broader diversification.

([12:40](#)):

We have, of course, the stimulus that is taking place in Europe also on the back of the increased defense spending. This is mainly outside the Americas. A lot of people are like, "Okay. Europe, there is a embedded floor on the back of all this infrastructure investment. Similar, Japan seems to be a relatively safe bet." This is, I think, and what also explains a bit the performance that we have seen in equity markets. But then the fact that the US market is up again is also a testament of people are not giving up on the US and on the productivity engine that kept US equities going, as you described, over the last 15 years. I think it's unclear, and it will all depend on more policy decisions. Look, we have done scenario analysis with our macrofinance analyzer post the tariff announcements. I think people are looking at various macro scenarios and how to position themselves. Maybe I give that one back to you, on the back of the various scenarios, what should the investors do for the second half?

Ashley Lester ([14:20](#)):

That's not a fair question, Axel.

Axel Kilian ([14:22](#)):

I know. I know, but-

Ashley Lester ([14:23](#)):

[inaudible 00:14:27]-

Axel Kilian ([14:28](#)):

You give us your scenario, we put it into the macrofinance analyzer and we tell you how to potentially reposition your portfolio.

Ashley Lester ([14:38](#)):

All right. All sorts of things are changing. Before we go to the tactical asset allocation, which is investment speak for some of our listeners for what you do right now, let's stick with the strategic asset allocation, which is these conversations that Axel and I have been having with the big asset owners about where should their assets be on the whole. What seems to me to be happening is that there's a wave of economic nationalism or possibly regionalism sweeping the world. You can see this pretty much

everywhere. Sometimes it's very benign or moderate and sometimes it takes stronger form, but it's there everywhere. In Australia for example, the Future Fund, which is the Australian sovereign wealth fund, just had its instructions changed just ever so slightly.

(15:32):

But to paraphrase, if they've got similar investments that they can make, a range of similar investments, they should just put their fingers on the scale of investments that favor certain characteristics of Australian economic development rather than purely a focus on risk and return. That's absolutely what you hear all the time when you're talking to Europeans up and down and left and right on the continent. Then the question is I think what's a framework for thinking about this allocation? You mentioned GDP weights. Personally, I'm a little bit anxious about country-based GDP weights because more and more many of the publicly listed companies in the world have economic exposures to countries very different from the country in which they're listed.

(16:30):

In the sense that we're talking about here, I don't necessarily see a rise of that type of financial nationalism. More I see a rise of regionalism. I think the Europeans are very aware that they're in Europe, and it's striking actually how little interest I see in Europeans in taking money from their America's allocation and sending it to APAC for instance. They really want to think about how can we invest it in Europe? I'm starting to think whether it's GDP weights or revenue weights or something else is one of the next competitors to cap weights going to be some set of regional allocation decisions across these broad markets. Maybe you've got a decision about the US, one about China and one about EMEA and APAC.

Axel Kilian (17:22):

I think that's probably a far more sophisticated way of looking at it. Also, what drives GDP, it very often is international exposure. I'm from Germany, of course, world GDP drives the performance of the large German-listed companies. From that perspective, that's one we probably need to put a lot more thoughts in. One thing where we have observed investors finding a way to diversify their portfolios was of course into private markets. Okay. Maybe you don't only have investments in public equities, the allocation going into private equities.

(18:18):

One key thing at our asset [inaudible 00:18:21] conference last year was the total portfolio approach. Now, we have seen with rising interest rates of course a bit of stress. The ability to monetize holdings and on the back of that providing back liquidity to investors. I think this has changed dramatically with some impact for some asset owner clients. I observed some concern. My view is they will not divest unless there is really an urgent need from a liability perspective. However, I've taken away that probably new allocations will be less. What is your view on the broad topic of probably private markets but also private equity in particular?

Ashley Lester (19:26):

Yeah. I was thinking about this, Axel, because I was pretty sure we'd get to private equity and private markets at some stage that there's some words from a great song that some of our listeners may know.

See if you can pick the song. I'm thinking private assets are, here are the words. I'll just give you a clue. The night man says this in the song, "Program to receive. You can check out anytime you like, but you can never leave."

Axel Kilian ([19:55](#)):

Okay.

Ashley Lester ([19:57](#)):

You know it? You're not an Eagles fan? Hotel California. Come on, Axel.

Axel Kilian ([20:01](#)):

[inaudible 00:20:01] Hotel California. Okay. Okay. Okay. Of course, Hotel California.

Ashley Lester ([20:10](#)):

I think private assets are a little bit in danger of being the Hotel California of assets at the moment. They're very keen to receive, and of course you can stop investing, but you can't leave. Distribution rates are pretty much at their all time lows across most categories of private assets. Not quite so bad in private credit as in private equity, but private equity distribution rates close to all time lows for an extended period. Venture capital rates close to all time lows for an extended period. Now, look, the returns to some extent do keep coming here. In 2024, returns in private equity were positive as reported. They were about 5.1% for venture capital and five point a half percent for buy up. But, of course, you haven't realized any of those returns if you're an investor in the fund, and you might be sitting there thinking, well, what about the 17% return I could have got in [inaudible 00:21:08] that year?

([21:09](#)):

Especially after there was a big lag in private assets in '23 as well. Now to be fair, private assets, investors will want to remind you that they have a long track record and well established actually of delivering massive outperformance over a longer period compared to public markets, including 2020, '21, '22, but two years which have been a real challenge for the industry and two years of a lack of distributions. I'm starting to sense some real nervousness here. Something which strikes me about these valuations. Here's an observation for you, Axel. When we look at our data on private assets, private equity specifically, we know that a stylized factor of what GPs do is that they sell their best companies fastest. Here's something very attractive. It's doing really well. It's likely to get an offer. Let's sell it now.

([22:06](#)):

On average, the valuation is at companies which private equity managers sell, measured as like a multiple of EBITDA, tends to be higher on sold companies than held companies. That has not been true for the last couple of years. Now you might want to ask, okay, maybe now GPs are selling their worst companies just to raise a bit of cash, but they want to hold onto the good ones until the good times come again. But we can check that because we can ask, are the sold companies more leveraged or do they have lower margins or less growth? Do they, in fact, observably look like worse companies now? Absolutely not. In fact, if anything they look like they're even more the pick of the crop. I just wonder, Axel, that does open the question, what is one to make of private asset valuations? What do you think?

Axel Kilian ([23:10](#)):

Okay. Of course I also have observed feedback from people who are becoming a bit more concerned about private equity and probably private markets in general. One of the points that they made was around, okay, in a very low interest rate environment, the impact of financial optimization where you put leverage on companies or where you use other vehicles for cheap financing, that obviously... This has changed. Now, with a large proportion of potential equity investments being in private markets. I think for investors it's something they cannot ignore. Then we come back to how to find the winners, and we have a lot of data around that. There are firms that over the cycle have been in the top quartile, in the top decile.

Ashley Lester ([24:28](#)):

[inaudible 00:24:30]-

Axel Kilian ([24:29](#)):

I think this will become a lot more important. We are a way from a beta market in private markets. We need to go into an alpha market. It's a lot more important to do a proper due diligence in who do you give your money to and what their investment strategy is and to analyze what was the driver of the past performance. Was it really sophisticated investment? Or was it in parts using financial leverage and doing it more with the means of not helping and identifying the core of good companies, but helping them to have a more efficient capital structure?

Ashley Lester ([25:20](#)):

I think you're so right. There's so much to learn about private markets investment. The first question, which I think both an LP, so for our listeners, those are the investors in the funds, and the GP, the asset manager of the funds. There's so much for both of them to learn through really systematically analyzing their investments and using the types of data and models and AI-driven tools that we collectively have nowadays that can help those investors break down and understand those sources of performance.

([25:54](#)):

As you say, is a particular manager's return driven by financial leverage? Is it driven by its ability to select great companies going in? As many GPs would argue, is it driven by their ability to drive real operational or managerial improvements in the companies they invest in? We absolutely shouldn't discount that as a driver of private equity returns, but for every time someone wants to make a claim, whether you're on the side that says PE is all about leverage or whether you're on the side that says PE is all about value creation, but every time someone wants to make a claim, I feel a lot more comfortable if instead we can examine the data and bring a framework to it.

Axel Kilian ([26:41](#)):

Okay. Now, I am a very active podcast listener. If I've listened to a podcast at one stage, I also want to make sure that I get something out of it. I know this was the question that you wanted to ask me, Ashley, but I thought it's probably better if I ask you the question. What should investors look at for the second half of the year?

Ashley Lester ([27:08](#)):

All right. I see there's no running away from your earlier question, Axel, so I'll have to answer it this time. First off, on the strategic asset allocation side, as I mentioned earlier, I think that there's more and more evidence that the way to think about the world is that there's a superpower over here in the States and it's doing its own thing, and there's a superpower over here in China and it's doing its own thing. Chinese markets now, by the way, are very decoupled from the rest of emerging markets. They used to be 70 or 80% correlated, and now they're down to 35% August. It's a bit the same with US markets and other developed markets. There's the states, there's China, there's EMEA, APAC. I'd be thinking first, what's my long run outlook for each of these sorts of regions or powers in the world?

(28:02):

Just because a lot of investors are now more negative on the States, does that necessarily mean that I'm a lot more bullish about EMEA, where frankly most publicly listed companies have struggled to generate across the market as a whole positive revenue per share growth over the last 15 years? It doesn't unfortunately automatically follow that just because... Your view might be that the US is not going to do so well, it doesn't follow that EMEA is suddenly going to get its act together on growth. You have to form a view on whether you're going to back EMEA to grow. What I would be keeping an eye on there, I'll be a little bit controversial here, is less the defense spending and more what signs does the EU show that it's willing to undertake the regulatory and other reforms that it needs in order get serious about growth like the Draghi stuff?

(28:54):

The EU is not primarily a demand-determined economy. What I mean by that is wind the clock back to before the Russian invasion of Ukraine, no one was sitting around saying, "I know what we should do to really stimulate European growth, we should build a whole lot of tanks and missiles." They would've been an absurd thing to say. They would've said, "We should build roads and better trains in Germany and better universities." I'm a little bit skeptical about this argument that defense will necessarily be a great investment for growth. What are the Europeans actually going to get their act together to do about growth? What's your view about their evolving power dynamics in APAC? That would be my set of questions on my strategic asset allocation. On my tactical asset allocation, I would be quite careful about watching movements in markets. Now, look, you've got to decide are you going to do tactical asset allocation or not?

(29:47):

I have to say that lots of evidence is that tactical asset allocation's a really bad idea and that you should just set your SAA and keep on going. But if you're going to do a tactical asset allocation, the mark has come down to those covariance factors that we were talking about before. To put [inaudible 00:30:06] slightly less technically, do we see more evidence of the regime shift, more stuff that looks like triple red? Or even without triple red, do we see the US dollar continuing to slide and a relatively strong forward-looking rates environment? Because even if the Fed feels like it's free to start reducing rates at the near end of the curve, the real question is how is the market assessing the US' longer term fiscal and institutional credibility? You'll see that at the long end of the curve where the Fed has less direct influence. I'd be looking at the long end of the US curve. I'd be looking at the US dollar, and I'd be looking a lot at stress indicators like triple reds. What are you keeping an eye on?



Axel Kilian (30:57):

Well, let me just react to the last comment you made. Yesterday I saw an anchor, I think it was in CNBC, talking about how amazing it is and there are \$120 billion now coming into the United States on the back of the tariffs. Inflation is at a controlled low level and keeps staying low. Of course the point the anchor made was, okay, maybe all these economists were wrong. Now, I'm struggling. We might see a situation where in the short term we get tricked, as we get sometimes tricked by financial markets. But I would be very concerned, and I look at also the US dollar and it was really... This came up in almost all meetings, the fact that this is really hurting the performance of investors in their local currency. Then people also realize our liabilities are not in US dollars.

(32:27):

This is also where I think we might see a shift towards more also... This is in effect if it's 15% in a year, that's significant. Could be that it becomes a lot more. This is in effect, if an investment committee comes together, they say, "Okay. We don't want to see that anymore. What can we do about it?" Edging is probably too expensive, so you diversify away. This is why I think if we look at the flows of capital, I wouldn't be surprised if the small shifts lead to more money going into international markets outside the Americas. From that perspective, probably it's fair to assume that the trend we have seen in the first half of the year that this will continue. But we're not giving any investment recommendations here, and we don't have a crystal ball. This is not who we are.

Ashley Lester (33:31):

Certainly not. But I think you're absolutely right. How could I have told you what my markers were and omitted whatever the tariff news is? Your discussion of inflation prospects reminds me, so I'm an economist by training. I started my career at Central Bank, and we used to spend a lot of time thinking about import price pass-through, which is a long, boring economist way of saying if prices should go up in your home market because your currency is depreciated or you've got a tax on imports or whatever, then how long does it take them to go up and by how much do they go up? I think the theoretical answer for the States is it doesn't all happen right away, and it probably doesn't happen one for one, but it's almost impossible to believe, I have never read any econometric evidence that says the import price pass-through coefficient is zero.

(34:29):

It's somewhere between zero and one, and probably quite a bit closer to one is my reading of the evidence, which means inflation is going to come. Again, therefore maybe that suggests keeping an eye on the inflation numbers or the inflation protected number, the tips market. Five year, five year securities. Some of these might be good places to keep an eye out for changes. Then your other point is great, so we've seen all this fast money moving or the faster money moving in these ETF flows already towards international stocks, i.e., non-US stocks.

(35:05):

But for some of the reasons that we've discussed, big asset owners can't just wake up one morning and say, "I'm going to change 30% of my portfolio to outside the US." If these conversations go somewhere, you might find a steady drumbeat of stories about how big asset owners are shifting their strategic asset

allocation, they've changed their benchmark or they've changed their benchmark weights. That would be another one that's under the cover, but that would indicate an enduring shift in money. Axel, I've tremendously enjoyed this conversation with you this afternoon, our time, and I'm hoping that we can get together again in a few months time and review what's been going on and what's happening in the world as more of the tariff action gets revealed to us.

Axel Kilian (35:56):

Likewise. Always a pleasure, Ashley. Always very insightful to listen to you. Thank you very much, and I talk to you soon.

Adam Bass (36:06):

That's all for this week. Our thanks to Ashley and Axel and of course to all of you, whether you're watching or listening. Remember, you can find more from our quarterly in focus series on MSCI.com. Next up on the program, if you were listening very closely, you may have heard Axel when he mentioned a recent asset owners conference that took place in Tokyo. We'll be speaking with some of the attendees from that conference about what this important slice of the investment ecosystem is thinking as they move into the second half of the year. Until then, I'm your host Adam Bass, and this is MSCI Perspectives.

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