

Think Wealth Client Connect

Navigating Changing Landscape in Public and Private Markets –
Mike Gitlin & Henry McVey

Lavanya Chari:

Mike, Henry, thank you very much for joining us. Absolute pleasure to be here with you. Now, let's start with where everyone's interested in, attention is on right now, which is geopolitics. This has created a cocktail of uncertainty that markets typically don't tend to like.

So, Mike, I want to start with you. How should we think about investing in this backdrop?

Mike Gitlin:

Thank you, Lavanya. We have a strategy that we've been managing for 92 years. During that time, there were 15 different recessions. The Cold War, World War II, the Vietnam War, the Global Financial Crisis, Covid, a ton of different things that are occurring.

And what happened throughout that period of time is the value of assets went up. So, I think from a portfolio construction perspective, don't try to figure out whether crude is going to 95 or 75 next week. Try to figure out what's the balance in my portfolio. We're trying to stay out of cash, stay invested.

Lavanya Chari:

Excellent. Henry, I do want to come to you. Given this environment and the potential challenges, how do you think about private markets, which is a slightly different animal from the public markets?

Henry McVey:

It's a little bit different than the public markets. And when we think about what's going on right now, we've viewed since Covid that this time was different, a little bit of a regime change where you have bigger deficits, you have a messy energy transition, you have heightened geopolitics, and you've got more commodity volatility. And in that world, I think you have to stay nimble.

The second thing is, we've been using our view is that Asia, because of the price of commodities, will be most impacted. So, we were very active. When the markets are dislocated like they were here in 2020.

We try to keep calm when others are not, and we try to invest. And when you have like a year, like 2021, when everything is going right, you actually want to pull back in the private markets.

Lavanya Chari:

So don't panic, stay calm and continue to invest. I'm going to come back to you, Mike, for the cash part that you mentioned. Is cash an effective defensive position? Should clients consider holding cash at all or should they deploy?

Mike Gitlin:

Cash has been the worst performing asset class for the last 30 years. I look at a balanced strategy, and I think the death of 60-40 is greatly exaggerated. You look at that 60-40 strategy over 30 years has done 8.7% after fees. Focus on long term value creation, long-term investing. Try to stay away from managing too much cash.

Lavanya Chari:

And that is the message that we give all our clients as well, which is stay invested and stay invested in a diversified portfolio.

I do want to talk about the current private markets news and headlines, because there's not a day that goes by without a headline on private markets, particularly on private credit. And so maybe, Henry, your views on the actual investments can help us right size the risks, should we be concerned? Are the risks systemic? Are they overblown? What do you think?

Henry McVey:

So, I'll start with the systemic question first. In 2007 the top five investment banks delevered. They were 30 times levered then they delevered from 5 trillion to 3.5 trillion in seven months. That's systemic. The private credit industry direct lending is 1.8 trillion. So that's the entire industry. And it's levered somewhere between 0.5x and 1x. So, I'm not sure I would view that as systemic.

Lavanya Chari:

And maybe before we jump to AI, which I want to talk about. Very quickly, disruptive sectors software and Henry and also maybe Mike?

Henry McVey:

On the AI, I would just say real quickly and then turn it to Mike. I actually think it's going to be as important as the mainframe going to the PC, the internet, cloud. I think it's going to be more powerful than that. I just don't think we have visibility and that creates uncertainty. And uncertainty makes people want to sit in cash. And I'm with Mike. I don't think that's the way that you compound your capital on a long-term basis.

Lavanya Chari:

So, in that context, what excites you the most and what concerns you the most? Mike, about AI, both as an investment opportunity and also as tools in your organisation and the other companies that you invest in.

Mike Gitlin:

What excites me the most is when I sit in a call with our analysts and portfolio managers, and I hear them talking about actual companies, not thematic, not generalisation, but much more about how is AI going to make this company more profitable. And you don't want to miss out on that growth by the fear of what AI may do or the fear of what geopolitics may be.

Lavanya Chari:

That's a wonderful answer and also a very optimistic one. On that note, we have to wrap up, I'm afraid. A huge thank you, Mike and Henry. Ladies and Gentle, a huge round of applause.