2026 Best Ideas Illuminate Transcript

This audio conversation and its speakers are AI-generated, drawing on key insights from PGIM's paper. Enjoy!

TRANSCRIPT

Host: Today, we're diving into 2026 Best Ideas, a paper that explores key investment themes and opportunities across various asset classes. It's a broad scope, but incredibly relevant for anyone looking to understand the future of investing.

Guest: Absolutely. It's not just about predicting the future, but understanding the underlying forces that are shaping the investment landscape.

Host: One of the most intriguing aspects is the convergence of public and private markets. What exactly does that mean for investors?

Guest: It means the lines are blurring. The traditional distinctions between these markets are fading, creating new opportunities and challenges.

Host: Challenges, how so?

Guest: Well, it requires a more holistic approach to portfolio construction and risk management. You can't just silo your public and private investments anymore.

Host: So, let's unpack these "best ideas" and see how they can inform our investment strategies. The paper kicks off with some key themes, including fiscal dominance, structural growth, AI-driven productivity gains, and this convergence of public and private markets we just mentioned. Let's start with fiscal dominance. What's the core idea here?

Guest: Fiscal dominance essentially means that government spending and debt levels are exerting a greater influence on the economy and monetary policy than in the past. Geopolitical tensions, industrial policy, and rising populism are all contributing to this.

Host: And how does that impact investors?

Guest: It leads to higher deficits, potentially eroding central bank credibility and causing a repricing of term premia, which ultimately affects long-term interest rates. Investors need to be prepared for a higher interest rate environment and potentially higher inflation.

Host: The paper also mentions "structural growth." What sectors or areas are poised for this kind of growth?

Guest: We're talking about areas like technology, healthcare, and infrastructure – sectors driven by long-term demographic and societal trends. Investing in these areas can provide a buffer against economic cycles.

Host: And then there's AI, which is hard to ignore these days. The paper talks about a potential $7 trillion global AI buildout. Is that realistic?

Guest: It might sound like a huge number, but consider the potential impact of AI on productivity and economic growth. The buildout will be massive, but the returns could be even greater.

Host: But the paper also mentions near-term over-investment risks. How do we navigate that?

Guest: It's about being selective and focusing on companies with strong fundamentals and clear monetization strategies. Not every AI company will be a winner.

Host: The paper mentions that the global public credit markets represent a $31 trillion opportunity, while private credit is expected to double by 2030. That's a lot of potential.

Guest: It is, and it highlights the importance of having a manager who can navigate both spaces and identify the best relative value.

Host: The paper also points out that public credit spreads exceeded private credit spreads during the COVID aftermath. How does that influence allocation decisions?

Guest: It demonstrates that relative value can shift over time. A flexible approach allows you to overweight public credit when it's more attractive and then shift back to private credit when the pendulum swings the other way.

Host: The paper highlights private credit secondaries as a growing opportunity. For those unfamiliar, what exactly are private credit secondaries?

Guest: Think of it as a secondary market for private credit funds. Investors can buy and sell existing commitments to these funds, providing liquidity and portfolio management options.

Host: And why is this market gaining traction?

Guest: As private credit allocations grow and funds mature, investors are looking for ways to manage their exposures, rebalance their portfolios, or generate liquidity.

Host: The paper mentions a CAGR of 46% between 2020 and 2024, outpacing private equity secondaries. That's impressive growth.

Guest: It is, and it suggests that credit secondaries have plenty of room to grow as adoption increases.

Host: Let's shift gears and talk about global living. The paper highlights the structural growth in this sector. What's driving that growth?

Guest: Aging demographics are the primary driver. The global population is aging rapidly, creating a growing need for age-restricted and senior-living products.

Host: And how does this translate into investment opportunities?

Guest: It creates demand for specialized housing, healthcare facilities, and related services. Real estate investors can capitalize on this trend by developing or acquiring senior living properties.

Host: The paper mentions that region dynamics differ. How do the opportunities vary across the US, Europe, and Asia-Pacific?

Guest: In the US, suburban locations and Sunbelt markets are particularly attractive. Europe offers opportunities in high-density living concepts, while Asia-Pacific is seeing growth in international student numbers and senior populations.

Host: The paper also distinguishes between traditional and operational investment models. What's the difference?

Guest: Traditional models focus on rental income, while operational models involve active management of the property and tenant services. Operational models can drive higher rents and occupancy rates, but they also require more expertise.

Host: Let's circle back to AI. The paper argues that AI is achieving scale and shifting investor focus to monetization. How are companies actually making money from AI?

Guest: Initially, it was the companies building the AI infrastructure, like Nvidia. Now, hyperscalers are renting out increased compute capacity, and companies developing AI applications are generating significant recurring revenue.

Host: The paper mentions that more than a dozen AI companies have gone from zero to a billion dollars in annual recurring revenue in the last 18 months. That's incredible.

Guest: It is, and it demonstrates the rapid pace of adoption and monetization in the AI space.

Host: The paper also cautions about potential risks, such as AI models becoming more efficient or open-source models becoming more competitive. How do these factors impact the investment landscape?

Guest: They could lower demand for AI infrastructure and potentially drive a revaluation of AI investments. It's important to stay informed and adapt your strategy as the technology evolves.

Host: The paper makes a case for emerging markets, arguing that they are significantly undervalued. What are the key pillars underpinning this opportunity?

Guest: A constructive macroeconomic backdrop, historically wide valuation discounts, and a maturing corporate and policy landscape.

Host: The paper highlights a weakening dollar as a tailwind for emerging markets. Why is that?

Guest: A weaker dollar eases the debt burden for emerging economies, creates room for fiscal stimulus, and makes EM currencies more attractive.

Host: The paper also mentions that EM equities are trading at more than one standard deviation below DMs. How significant is that?

Guest: It's a valuation gap not seen since the dot-com era, and it suggests that EMs are poised for a period of outperformance.

Host: So, what's the overarching message of this paper?

Guest: It's about embracing change and adapting your investment strategy to the evolving landscape. The convergence of public and private markets, the growth of alternative assets, and the potential of emerging markets all present compelling opportunities for investors who are willing to be flexible and innovative.

Host: It sounds like a call to action for investors to be more proactive and strategic in their approach. That was a great discussion.

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