Video Transcript

In conversation
HSBC's Annabel Spring talks investing with Stephen A. Schwarzman

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Annabel Spring
Hi, I'm Annabel Spring, CEO of Global Private Banking and Wealth at HSBC. And I'm joined today by Stephen Schwarzman, CEO, Chairman and Co-founder of Blackstone, one of the world's largest investment management firms.

Thank you so much for joining me, Steve.

Stephen A. Schwarzman
Well, thank you Annabel for inviting me.

Annabel
So the world at the moment is going through some troubling and some fairly turbulent times. Can you talk a little bit about how Blackstone is looking at the markets at the moment and how you're strategically positioning your firm?

Steve
Well, on the strategic positioning, it's pretty straightforward. We've raised a huge amount of capital. We have over $200 billion uninvested to be able to buy companies, to be able to buy real estate, to extend credit to companies and a whole variety of other things that we do.

We have 70 different strategies at Blackstone. The key is that each one has to work. We have a philosophy to minimise risk. If you really have a great record of preserving capital, the upside – it tends to take care of itself in a funny way.

The other thing is we have a whole data science group to take advantage of the coming breakthroughs in artificial intelligence.

You have to have a really strong culture of excellence, meritocracy, hard work, cooperation, high integrity. All of these type of things is what puts Blackstone in a position to keep growing. And the only way we do that is to do a great job for our customers.

**Annabel**
So as you look at your end customers and our end clients, and you look at these difficult markets we're in, what would your perspective be on how they should be investing or what they should be thinking about?

**Steve**
Well, I think in today's world, we certainly have almost every central bank having increased interest rates by a lot, you know, all over the world.

We're going to go into an economic cycle where the central banks want their economies to slow to reduce inflation. And usually what central banks want, that's what central banks get.

And so as investors, I think you have to be mindful of that. You have to be careful with certain types of equity exposures, with nontraditional measures. You have to take advantage of what the world is giving you.

So we find there's always something that you can invest in where there's outside opportunities for good profits with very little risk. That's what you try and do in our part of the world.

**Annabel**
Completely agree.

We also are looking that rates are likely to stay higher for longer. So we're really looking to sort of high-quality credit, investment grade and going into that medium duration given what we're expecting to see. And then defensive stocks, obviously, and the ESG opportunities; we think there are tremendous opportunities there as well.

So, Steve, back in the eighties, really alternatives only constituted a very small portion of institutional portfolios. But now we're seeing individual investors really consider alternatives as part of their portfolios.

Can you talk a little bit about how Blackstone's followed that trend, or indeed driven that trend, and what individual investors should be thinking about when they look at alternatives?

**Steve**
When I started our business in 1985, institutions, as you mentioned, only had 1 to 2% of their assets in alternatives. And as it's worked out, alternatives are a terrific asset class for individual investors as well as institutional investors.

A good alternative firm should be earning at least 500 basis points over the stock market over time. And the better ones do even better. And the downsides
historically have been very low, much lower than the stock market itself.

So I look at the evolution of now having institutions with an average 25% of alternatives. And it seems totally logical for me that with $80 trillion in the hands of individual investors, that they only have the same 1 to 2% that 40 years ago I saw with institutions.

**Annabel**
That's an extraordinary change, isn't it? And what should individual investors be thinking about when they're looking at alternative investments?

**Steve**
Well, I think there are different types of alternative investors. There's private equity, there's real estate, there's credit products. And I think for an individual investor, what you need is good advice from your financial adviser.

I think, from my experience, that if you invest with people who've been doing something for a long time, like we have, and have had great success over not just one market cycle – where almost anyone can be right once. The key is to pick managers who have shown that over decades, they always figure it out.

**Annabel**
But to take you back to AI. So for the world at large, AI has been a very hot story for the last year: ChatGPT, etc, etc.

But you've been talking about it almost for 10 years, and you've funded institutes, obviously at MIT and obviously at Oxford, to really invest in this.

So it'd be great to hear from you: the opportunities of AI, the risks of AI. But also, do we need some safeguards, or is that even possible?

**Steve**
The promise on the good side of AI is people talk about drug development at three times the rate that we have today; changes in education so people all over the world can have customised education – all you need is a smartphone.

There'll be changes in organisations in terms of what people do for work. And on the upside case, AI is meant to be a partner with people in the commercial world
where you can ask it to do things, and it'll do it in seconds compared to a human
who might have to do a research project for seven weeks.

So all of that is to come.

There are downsides, of course, and the need for safeguards. So virtually everyone I know in the AI world wants appropriate regulation to make sure that this technology doesn't end up being used as a force that could hurt society as opposed to help it.

**Annabel**
So one of the other things that's happening, Steve, at the moment is obviously we talked about higher for longer, and that's higher interest rates. That has quite an impact on private equity.

What are you seeing, and how are you dealing with that?

**Steve**
Well, we've been through a lot of periods over time where interest rates go up. Usually what happens is that growth generally slows, and the prices of assets go down.

So if you can buy a really wonderful company a lot cheaper as a result of high interest rates and a slowing economy, the way we make money in private equity is by improving a company, having it grow faster.

You know, when you make a company increase its growth rate very substantially, when it comes time to sell it, people pay you much, much more because you have higher earnings, and you get a higher multiple for it.

And so the key when you reach this point in the cycle is just to be calm, analyse what's available, stretch it a little bit to buy something of real quality, and then develop a plan to increase its growth rate with increased capital expenditures going into different areas. It's very exciting.

Annabel
At the moment, Steve, we're looking at India as one of the investment destinations of the decade: strong demographics, great digitisation and really improving infrastructure.

How are you thinking about India and, more generally, Asia?

Steve
Well, we love India. India is the best-performing market in the world for Blackstone in terms of its investment outcomes.

And that country is going to be a beneficiary of not just a large human growth rate in population, but also the switches that are coming as people are diversifying from other countries, and they view India as a preferred destination.

There are other parts of Asia; there's reforms going on now in Japan. Korea has a good growth rate. Australia is now coming back from its isolation during COVID. Singapore is developing and, you know, Hong Kong is starting to come back from its isolation.

So Asia remains a very interesting, very dynamic place. And, you know, I anticipate that we'll see continued growth in a very important way in Asia.

Annabel
We agree. We see tremendous Asian transformation, whether it's industrialisation, whether it's China in outsourcing or whether it's the digitisation,
or just the core development of many of the markets.

**Steve**
I agree.

**Annabel**
Well, it's been such a pleasure talking to you. Thank you so much.

**Steve**
Well, thanks Annabel.