
Transcript – 01-29-2026

Beyond the Portfolio Podcast: Recent Developments from Heckerling

Welcome back to Beyond the Portfolio. I'm Mike Miranda, and to everyone listening, happy New Year. Today is Monday, January 12th. Over the past few episodes, we've been sharing our 2026 outlook, a forward-looking view on how we see the investment landscape unfolding and how we're positioning portfolios in response. These conversations are designed to give our listeners practical guidance on the forces that matter most as we head into the new year and beyond.

So far in this series, we've covered equities, how earnings, innovation, and valuations are shaping the stock market, fixed income, how rates, inflation, and credit are redefining portfolio construction, and private markets, how capital formation, exits, and liquidity are evolving. If you haven't listened to those episodes yet, I'd highly and strongly encourage you to go back and do so. They provide important context for what we'll talk about today.

This episode brings it all together. We're stepping back from the individual asset classes and focusing on the big structural forces, the deep currents underneath markets that don't change in months or quarters, but over years and decades. These are the forces that drive where capital flows, where growth comes from, and where risk hides. To help us unpack these forces, I'm joined by Dan Phillips, Chief Investment Officer for US Wealth Management and Carol Schleif, our chief market strategist. Dan, Carol, welcome back.

Carol Schleif:

Thanks for having us, Mike.

Mike Miranda:

Dan, before we get into the actual themes, let's spend a moment on why we do this. We invest a lot of time developing these long-term themes. How do they get used in our asset allocation process?

Dan Phillips:

Yeah, and thanks for having me as well, Mike. As far as the background for the capital market assumptions that we produce every year and the themes that we're going to talk about today, these themes really fit into what I would call the forward-looking part of our forward-looking, historically aware approach to formulating our capital market assumptions. And what I mean by that is when we go through this process every year to generate the expected returns over the next 10 years, we first want to understand the historical relationships between asset classes, the long-term average returns of these asset classes, any factors or variables that can help us get to a starting point expectation for returns. But that's inherently backward-looking. A lot of things that have had strong relationships in the past may not have those same strong relationships going forward, and perhaps in the current environment, this has never been more true, where we are going through a number of what investment professionals would call regime shifts whereby there's a break from the historical relationship between asset classes, given some very important changes and trends.

A couple of them in a more general sense would be the way in which for the last 40 years or so, we've seen interest rates gradually decline from the late 70s, early 80s, all the way to post-pandemic where the 10-year treasury got down to, I think, a low of 1.4%. From there and going forward, we're not in that regime anymore. We're more in a stable interest rate environment, perhaps a little bit higher interest rate environment, but certainly not moving back down to the 0% interest rate environment that we saw in the recent past. So that's one regime change, if you will.

Another one is the way in which valuations have been creeping higher over time, for a number of reasons, but one big one is just the size of the technology sector, notably in the US markets and the S&P 500, where if you take a broad definition of technology, you could argue that about half of the S&P 500 is either directly in that sector or is related to that sector in some way.

And so the themes here, specifically the themes of global pivot, Industrial Revolution 4.0 and capital market evolution, as we will walk through in more detail here, are designed to really capture where the historical relationships may no longer hold, and take our quantitative and historically aware foundation and adjust it, again, for the themes that we see playing out over the next 10 years.

Mike Miranda:

Thanks, Dan. Carol, you apply these themes in a more nuanced way in your role. How do they show up in your work?

Carol Schleif:

Quite a bit, Mike, from the aspect that context matters, and as Dan alluded to, even there can be frustration or consternation, if you will, about folks currently, for example, thinking that there's concentration in the indexes because technology plays such a key percentage in many of those indices, but it's important to dig into that, pull the storyline through and really examine it.

Because basically, when you look at 30 or 40 years ago, technology might have been mainframe companies or mid-range companies or PC companies more recently, but now, we are all technology companies, either users or manufacturers or communication companies as we have transitioned into this new environment. So it's really important to understand the context that we're talking about and be able to lend some guidance to our clients through a lot of the writings we do and the presentations we do and the media commentary we do, to help them think through what might be different this time than previous times and to try to break apart some of those knee-jerk assumptions about when XYZ happens, then ABC results. Because it's always important to keep in mind those big long-term themes and what direction they may be headed.

We've also seen a lot of shifts in various relationships caused by policy changes and new administrations and lots of different things going on this year that forced that conversation and that look at trends that were in place, and saying maybe they don't go in the same direction. Maybe that some of the changes that are going on are shifting the arc, either accelerating it or bending it in a new direction, and it's really important for us to look at those, and as we'll get into, there's a lot of arc bending going on and some very specific niches.

Mike Miranda:

Well, let's go into those themes. Dan, you alluded to the three that we're going to be walking through today, global pivot, Industrial Revolution 4.0, and closing out with this capital market evolution notion. So let's start with the first thing, global pivot. Dan, give us the high-level view.

Dan Phillips:

Yeah, sure. So global pivot really comes down to the new world order that we are likely going into and have been moving towards really over the last few years. The post-World War II institutions such as the United Nations, you can talk about the WTO, the World Trade Organization, the International Monetary Fund, the World Bank, et cetera, a lot of these, all established coming out of World War II, had a really good run. They've been in place for 70 years, but they may not and probably aren't fit for purpose anymore, just given the changing dynamics in geopolitics with the rise of China now rivaling the US in terms of economic might, and increasingly, military might being probably the most important dynamic here.

At the same time, the US and other countries for that matter have been going through a bit of a populous shift. There's a louder voice, if you will, for America first policies, similarly in other countries, whether it be Italy first or what have you, whereby there's a real dissatisfaction among some parts of the populace around the never-ending wars that the US found themselves in in lieu of focusing on the US, on US manufacturing jobs, et cetera.

Now, some of this stuff will never come back. Manufacturing is different than what we had in, say, the 1950s, 60s. It's certainly more automated, et cetera, but there are reasonable arguments to be made that the US should be, one, bringing back certainly sensitive production like healthcare, pharmaceuticals, et cetera, back to the US, and also that the US should redefine what its focus on the world stage is, and that's what's been certainly going on more recently with respect to the US focused more on the Western hemisphere and in its approach to national security. You can, of course, throw into this also the technology impact of the way wars are fought today, including with drones and other new technologies, that really changes the battlefield in dramatic ways.

And so you roll all that together and what you have is a less globalist model for sure, partly because of the country first approach, but also because of the way in which technology, automation, robotics, et cetera, has really flattened what was the comparative advantage curve. It used to be that countries like China, for instance, had a comparative advantage in terms of the cost of labor to produce goods and the US benefited from that. Perhaps benefited is a loaded term, depending on the perspective, but certainly allowed for cheaper goods for quite some time.

Today, there's some argument that you can bring that production back and perhaps not lose too much of the cost advantages, again, just because of the automation, et cetera, that we are able to put forth here, and so that changes things. When you don't have as much of a desire for or maybe even a need for globalization, you lose in some ways the need for these post-World War II organizations and institutions that were there and established for a very globalist free trade type model. And so all said, we certainly see a shift here. We don't think that globalism or global free trade is completely being short-circuited, but it is certainly being rewired with new partners to interact with and transact with to fulfill the production needs of the US or China for that matter.

And the last thing I would say is this really does come down to the US and China as the representatives of East and West here with players like Europe struggling a bit in the sense of a few things. One, not really having a robust tech sector, two, really trying to rapidly catch up with respect to their military might, and they are making efforts of that, i.e. through things like increasing their defense budgets to 5% of GDP, et cetera. But also the way in which, back to the populism discussion for the US, it can be perhaps more constructive for economic development, et cetera. Within Europe, what you're dealing with, of course, is 27-ish nations all with individual country identities that when they say country first, it means perhaps something different or have a different impact than say America or China saying country first.

And so Europe is taking a bit more of a backseat in this new world, and again, it really does lead to a focus on the US and China with other countries being useful partners, et cetera, but really with the new world order likely being dictated mostly, again, by the US and China.

Mike Miranda:

Carol, what does this mean for markets?

Carol Schleif:

It's important to remember that for much of the time, markets do, especially stuck markets, have the capacity to look through geopolitical issues. Especially in the short run, they tend to ignore them and move on and focus on fundamentals, but what we're talking about here as we think through this geopolitical pivot and the global pivot is not just about the geopolitics of it. As Dan alluded to, it's also about the fact that you've got shifting supply chains, shifting trade relationships, you've got to focus on key players in different markets, different trade regimes in terms of where goods ship out of, through, and who they ship to and what the tax is in there. And so there's a lot of moving parts to consider, and markets will grapple with those. And as you look at the geopolitical shifts that have happened most recently from the United States with this desire to shift towards more of a hemispheric focus, that has implications for specific industries as well, whether it's energy or technology, rare earths, minerals, those industries that the US has chosen to focus on for security purposes.

So there's a lot of different moving parts there, and we really do think as it relates to our long-term themes, that it bears watching those as they play out in the context of our decade forward, because it will have implications as well for interest rates, for inflation, for do we endemically put a bit lower margins if each country or each segment is going to end up doing more manufacturing from a regional standpoint and take away some of the benefits that have come from producing where the cheapest labor was in the world to shifting it to other places?

On the offset to that, the advent of artificial intelligence, robotics, things like that allow production to shift to other places, irrespective of what the labor cost is to the extent that you're deploying that. So there's a lot of interrelated parts and it gets into the macro issue of why we think themes are so important to begin with, because it's always a little bit different, even though you're not supposed to say it's different this time.

Mike Miranda:

All right, fantastic. Thank you both for going into detail on that first theme of the global pivot. Let's move to the second theme then, which is this notion of the Industrial Revolution 4.0, and it starts with AI. So Dan, what's the current backdrop there as you see this Industrial Revolution 4.0?

Dan Phillips:

Yeah, definitely. So it certainly has been a lot of focus around AI in specific, and even more specifically, the data center build-out, which has certainly been a robust growth area, a growth industry. But there are other technologies as well that are at play here, and also, importantly, there are bottlenecks or considerations that we need to think about as it relates to how all of this continues to roll out. It won't be a straight line by any means.

So for instance, with the data center build-out, the bottlenecks that are being encountered here, as many have likely read about, certainly if you're in a market where the AI center down the street is stealing all your electricity, is the

immense electricity needs to run these data centers as well as water for cooling, et cetera. And so it's more than just building data centers. It's really building the entire underlying infrastructure to support what will be a continuation of these data center build-outs, likely for certainly a good chunk of our 10-year horizon here.

And then there's other things to consider as well beyond those immediate bottlenecks or constraints. For instance, thinking about the advancement in the semiconductor chips themselves, these GPUs that the likes of NVIDIA creates. There's a lot of continued innovation there around making these chips cheaper, more efficient, less heat intensive, i.e. the amount of heat generated when these things are running, which is what requires the water to cool it down, et cetera, ways to create or construct these data centers, et cetera. So there's a lot of elements within that sphere, if you will, that we are also keeping an eye on.

And then there's also a number of applications for these different chips, et cetera. Within, for instance, the military, the likes of Palantir, for instance, and especially as we move to a new battlefield environment, the way in which these AI chips, et cetera, are put to work there. And not to dive too much into the actual applications, but rather just thinking more with respect to this around what that means for government involvement with these industries. We've, of course, seen direct investment from the US government into a number of technology companies, and so that's going to be an important aspect of this as well. A bit of a shift, if you will, of the US economic model, which was always a lot more laissez-faire free market capitalism, and perhaps taking on a few characteristics of what you could call state capitalism, which is something that, for instance, China has been employing. And so there's a lot of moving parts to this, not only in terms of the productivity that AI can bring us, but also the underlying infrastructure and funding structures necessary to get us to that point.

And so I think I'll leave it there, but certainly, this is a big theme that will continue to really direct the narrative for the markets for some time to come.

Mike Miranda:

Fantastic, Dan. Thanks for that. Carol, maybe a similar question to you. So as we look at this Industrial Revolution 4.0, how does this go beyond AI from your perspective?

Carol Schleif:

A big piece of it is not just the AI and the data centers and data center build in particular where a lot of the headlines in the last year have been, but it's to think through what the uses of it, how companies are deploying it. There's been a lot of consternation, for example, around employment, and are we losing opportunities for younger workers to enter the workforce because AI is taking a lot of those jobs? And I think it's really important as we think through this Industrial Revolution 4.0, it's not just data centers, it's not just AI. It's also the kinds of companies that are spending on and using artificial intelligence, and more importantly, a lot of those same companies that are labeled as AI companies are also spending pretty aggressively on other technologies such as quantum. NVIDIA in particular is busy developing QPUs, which are quantum processing units, for when we see breakthroughs in commercial viability for quantum technology. There's robotics being used. Amazon passed a million robots in warehouses as of last year, and they're also deploying driverless forklifts. And there's a big movement afoot to shift more people into more jobs, if you will, into people oriented sorts of jobs and the kinds of jobs and employment that necessitate asking good questions as opposed to just solving complex problems. There's huge applicability of AI and technologies in drug development in the pharma industry and radiological overview in logistics to tie into that global pivot. If you have to shift where your supply chain is coming

to or through, you have to shift and be cognizant of the tax implications of where you're shipping it out of and into, and AI can help in those opportunities.

So there's many different segments of this Industrial Revolution, and we really think it necessitates investors pulling back and reconsidering everything as they think through the implications and how companies are using it and benefiting from it, and what the competitive landscape looks like. So there'll be plenty of topics for us to cover on a variety of things moving forward on this topic.

Mike Miranda:

All right, great. Carol, we're going to stay with you for the last theme. So we've touched obviously on the global pivot, which I think was certainly informative, and then this notion of the Industrial Revolution 4.0, of which AI certainly is a key component there. The last theme that we identified here, you outlined it earlier, is this notion of the capital market evolution. So what are we capturing here with this last theme, Carol?

Carol Schleif:

The great part about this is a lot of these emerging technologies are allowing us to think through and slice and dice, if you will, markets and risk and opportunity in different and unique ways, and so we thought there was enough moving parts here and enough going on that it behooved pulling it out as its own macro theme. Some of this specific example you have seen are, for example, the evolution of the prediction markets, which you're hearing more and more about them. You've seen major market players, from the owner of the NYSC to this CBOE, take ownership positions in some of the prediction markets, and this is where you have the capacity to be able to go out there and basically wager on will the Fed lower rates next month or not? And so there might be a bet up there where you can put money on that.

And those sorts of evolutions, you've also got many evolutions going on in the exchange traded fund markets where you actually have more, the acronym is ETF, and you have more ETFs out there now than you have individual stocks, because every individual stock can have multiple ETFs affiliated with it, both leveraged on will it do better or worse than the actual stock price in the coming period? And there's an ETF for that. There's an active ETF for a lot of different activities as well as passive ETFs on things. You've got movement afoot under the current administration to change regulations or put framework and regulations around such activities as stablecoin and movement afoot to regulate artificial intelligence at the macro level, at the federal level, if you will, rather than at the state level, which creates new opportunities for investment vehicles based on those sorts of outcomes.

So the interesting thing that we watched from a pure investment standpoint, as opposed to the old days when it was basically stocks, bonds, and cash, is what does it do to the risk profile and your ability to offload some of that risk of those core holdings in terms of how you manage your portfolio? What sort of risk as an individual investor are you looking to off-lay? And there's probably some vehicle or shortly will be some vehicle to help allay some of those risks on an individual basis, and it allows different users to engage in different ways as well. You've got a lot of non-bank banks, you've got a lot of disintermediation of traditional lending that got pushed out of the traditional banks into private credit, into hedge funds, directly into sovereign wealth funds and pension funds. So there's a lot of moving parts, and we really thought it was worthwhile putting a framework and a context around those so we could discuss those in much more detail in the coming year.

Mike Miranda:

That's great. Dan, Carol mentioned a bit this notion of the prediction markets. What are they from your perspective, and how are you thinking about that as we talk about the capital market evolution?

Dan Phillips:

Yeah, definitely. So the prediction markets are really interesting. For one, they are the epitome of how many argue that the financial markets have turned into one big casino, because anything you want to bet on, you can. For instance, there's the ability to bet on whether or not the US will confirm that aliens exist before 2027. That sits at 7% right now. The chance of Jesus Christ coming back to Earth sometime this year currently sits at 3%, so for those interested, you can certainly make some speculative bets out there. But as Carol alluded to, there's more serious ways to leverage the prediction markets that we think may occur over time.

Right now, the size in terms of the volume of these markets is still somewhat small, much smaller than, for instance, the volume of US treasuries or some of the most traded stocks, et cetera, but it is growing rapidly. And over time, you could envision the ability to use the prediction markets for hedging your bets on certain events happening that have specific risk for you individually. An example that Carol threw out was around will the Fed increase rates? That would be a very direct hedge for some people on different things related to that, and in fact, I would argue that likely, there's a number of hedge fund categories as determined by HFRI, the hedge fund index leader out there in terms of creating indices.

I could certainly see an index and a percentage of a portfolio dedicated to a hedge fund type strategy where they look to exploit any inefficiencies that are in the prediction markets, which would be an interesting... If you think about it from a portfolio perspective and a diversification perspective, it would certainly be returns that would be uncorrelated to the rest of your portfolio. It would be very dictated by the skill of the people making the forecast.

There's a book out there called Super Forecasters where some people just are inherently better at making forecasts than others. That could potentially come into play here, and it's not that you need to bet on something and wait for the result. You can actually bet on the likelihood of something happening as it is priced today, and because of some events, that likelihood moves up, say, from a 5% possibility to a 20% possibility. You can actually sell out at that point. So it's not like a sports bet situation where you don't really have the ability to directly sell out, so it's an exchange in the truest sense of the term. And so it can be not only just hedging against something, but also saying that these odds are way too low, that it should be higher, so that's one way.

But a way for us more immediately to leverage these prediction markets is just really getting a good sense of what the market is pricing in for different things. When you're trying to assess the investment outlook, your actual view is only one part of the equation. It's also what are the markets pricing in and how do your views compare to that that's important. So any information we can get on how the markets are pricing specific events, to the extent that those markets are fairly efficient and reflect a true market determined probability, is helpful for us when we're trying to set our asset allocation policy, for instance. So a very interesting part of this theme, in some ways, perhaps a little whimsical, back to whether or not aliens are coming back, but also in some ways, very practical and useful for the investment process.

Mike Miranda:

All right, thanks for that, Dan, and thank you both for wrapping up that last theme. So we've gone through each of the three, and I failed to mention this before but for those that are interested in a deeper dive on these, we will have a piece coming out actually this week that goes into great detail on these themes and our broader capital market

assumption.,So feel free to reach out to the broader team as you so desire that. But let's talk about risks, because obviously, we've talked about these three longer term structural things that we think are going to drive the markets over With many years to come, but every structural ship does carry some risk. So Carol, what worries you most here as we sit here in early 2026?

Carol Schleif:

The several pronged piece that worried me the most is that so many things are moving so quickly, particularly as it relates to markets and the ability to invest in different vehicles. And quite frequently, you will see optimism, investor optimism, media optimism run far in advance, and things keep going up and up and everyone wants to jump in and you get some fear of missing out. And then all of a sudden, some intended consequence comes, some unforeseen thing that might wobble market liquidity. For example, you think you have liquidity until you try to get out and you can't, and things get worried. And so a piece of it is they're moving so fast, and the corollary that often goes with that is regulators have a difficult time keeping up.

And so as the government is moving, trying to put some framework around various industries, as I mentioned, there was a framework put around stablecoin last summer in the US. There's movement to put a framework around rules of the road and regulation for cryptocurrencies and things like that, but there's a lot of different markets, a lot of different things moving quickly. You've got state attorneys, generals looking at those prediction markets and saying, "Not in our state." And so there's a lot of that going on that could be disruptive to folks who are in those markets or investing in those markets. So it's one thing, I think, we have to keep a really keen eye tuned towards, even while we're trying to not necessarily sit on the sidelines with everything, but being watchful how it plays out.

Mike Miranda:

Great. Thanks, Carol. And what about from your perspective, Dan?

Dan Phillips:

Yeah. So for me, I'll go back to the geopolitics, and earlier, I had mentioned the way in which having a shared purpose or a goal can really motivate and influence economies in a constructive way through rapid development, et cetera. The examples I gave were, for instance, going into and coming out of World War II and the way in which that got us out of the Great Depression, and similarly, in the early '80s, the battle effectively with the USSR and how that got us out of economic malaise, and that could be the case in the most recent technology race with China.

But I'll use a hockey analogy here to get to the point, which is, as I mentioned, there's the ability to really get up for, for example, a big match against a hockey opponent, for instance, which is similar to the economy really firing at all cylinders, and you get some really classic hockey games as a result of those big match-ups because everyone's performing at their best, but you can also get emotions running a bit too high, and that's when you get the hockey fights breaking out.

Now, usually in really most of the last 70 years, we've had this where the ref steps in and stops the fight, but in today's geopolitical environment, the, quote-unquote, "ref" is less likely to be found. That is to say that we have less of the global police and international court apparatus, or certainly the existing structures have less teeth, so there may be less of a referee should things get, quote-unquote, "too out of hand" here. And so that's one thing that we'll be certainly

paying attention to is to see if we can stay at that happy medium of competition and the way in which that can push economies forward versus something that turns into something more than that and can have detrimental effects.

Mike Miranda:

Well, Dan and Carol, thank you for helping frame this so clearly. As we close out this final episode in our 2026 Outlook series of which there's been four, what stands out is how connected everything really is. Across our discussions on equities, fixed income and private markets, we focus on where returns and risks are coming from. Today's conversation brings those views together by looking at the deeper forces underneath them, geopolitics, technology, and capital markets. Themes like Global Pivot, Industrial Revolution 4.0, and the capital market evolution shape earnings growth, interest rates, and capital flows. They help explain not just what is happening in markets, but why.

To our listeners, if you haven't yet, as I said at the outset, I encourage you to go back and listen to the full series, our episodes on equities, fixed income and private markets, because together, they provide a comprehensive view on how we see 2026 unfolding and how we're positioning portfolios in response.

Thank you for listening to Beyond the Portfolio. You could follow us on Apple Podcasts, Spotify, or your favorite podcast app. Until next time, I'm Mike Miranda.

Speaker 4:

For BMO Disclosures, see episode description in your podcast player.