

## Perspectives – A conversation with Rich Kushel

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Walking onto the main stage to 'The Man' by The Killers, BlackRock's Senior Managing Director and Head of Portfolio Management Group, Rich Kushel strode to the podium a man who has seen it all in markets, and has seen it from the vantage point of the world's largest fund manager. In conversation with Frontier's Director of Consulting Kim Bowater, Kushel discussed everything from his keys to success; blurred lines between public and private markets; impact of AI on industry; importance of infrastructure; and even Bitcoin.

### Keys to success

The conversation kicked off with a general question on keys to success. An important factor is knowing one's strengths – in order to maximise them – and one's weaknesses – in order to minimise them. "I am a big believer in comparative advantage and knowing what you're good at and what you're not," said Kushel, who "stays away from what he's bad at" as much as possible. When he was handpicked by Larry Fink to run BlackRock's portfolio management – a role requiring experience Kushel then lacked – he asked himself where his comparative advantage lay. It was not "picking the next great bond or the next great stock" but being an avid "student of risk and investment processes".

A second factor for success can at times be in tension with the first but is nonetheless essential. Kushel talked up the need to constantly evolve. This isn't unique to him and is embedded in BlackRock's culture. Earlier this year, the firm's Chief Operating Officer Rob Goldstein described BlackRock as a "perpetual reinvention machine, evolving continuously to stay ahead of our clients' rapidly changing needs." Sometimes that may require dropping what you're good at, if that aptitude is no longer relevant or effective. In a world of cars, it doesn't pay to be an excellent horse buggy. Kushel advised: "don't fall for the trap of thinking that what worked for you yesterday will work for you today".

### The US and the current environment

Kushel was prepared and was not surprised that, as an American in a senior role at a US company, he'll field questions on Trump and the US.

Kushel admitted Trump's approach is "very different to what we have seen in the past and is certainly shocking". He offered a psychological appraisal of the US president that argued Trump has a zero-sum view of the world. For him to win, someone else must lose. Winning together is often not in the frame. Kushel thinks seeing Trump from that lens makes him "easier to understand" – and predictable. What deals and outcomes will Trump favour and lean toward? Under Kushel's lens, those outcomes whose optics suggest the US comes out the big winner.

However, the BlackRock executive also made a general comment about the uncertainty Trump has whipped up. Kushel agreed the "level of uncertainty is incredibly high". But this is not inherently negative. It is a "human trait to assume uncertainty equates to risk" and is therefore "bad". However, this trait is really a "bias". Uncertainty, for Kushel, is all about opportunity.

So, does the US remain an attractive destination for investment? For Kushel, it's nuanced. It is "possible and in fact likely" that American financial and capital markets can be exceptional and attract premium valuations while at the same time other parts of the world present "better relative value". Capital moving away from the US does not mean the end of US exceptionalism so much as an

indication of investors seeing better relative opportunities beyond the richly priced US market. Kushel said BlackRock is “still short the US dollar; we still love that trade very much” along with a preference for Japanese and European equities.

## Importance of infrastructure in structurally inflationary times

For Kushel, “there are a number of things in the market that are structurally inflationary”, including deglobalisation, aging demographics and prevailing fiscal and trade policies worldwide. What can offset that? Technology, an obvious inflation buster. But he also identified a second factor, one less common in many US investor portfolios – infrastructure.

In Kushel's, and BlackRock's view, the only other levers at economies' disposal to dispel inflation besides technology is real assets. You can't have technology's productivity gains on a large scale without the right infrastructure. This long-held view influenced BlackRock's [acquisition of Global Infrastructure Partners](#), said Kushel.

## Kushel's big prediction for AI and private markets

At last year's annual conference, US Army General and former Director of the CIA, David Petraeus – now a partner at KKR – left the audience with a very prescient prediction. Drones will change warfare. A year later, drones have [indeed changed warfare](#). And will continue to change it as AI and autonomous weapons advance. A question lobbed from the crowd asked Kushel to come up with *his* prediction. Put on the spot, Kushel nonetheless offered two. One near-term and one medium-term.

In the short run, he thinks there will be a blurring between private and public credit. Kushel has noticed a “fundamental change in the way that capital is transmitted in the real economy”. What used to be the domain of banks and finance companies is now being superseded by capital markets. The model where banks are funded by short-term liabilities like deposits and commercial paper is being replaced by capital markets via private credit, “funded with insurance liabilities, pension liabilities, sovereign and individual wealth ... by much more longer-dated liabilities.”

Kushel thinks this is a “significant change in the way markets will develop and evolve”. His view is that the line between public and private markets has blurred and is “getting blurrier” still. So if private markets are to play a bigger role in portfolios, you “better be able to analyse the portfolio risk” and to do that “you better have data”. That's why BlackRock recently [acquired private markets data provider Preqin](#). While BlackRock paid up for Preqin, Kushel thinks it was nonetheless a great deal because the value of that data may prove far greater than the initial purchase price as private markets continue to grow and with it demand for accurate data.

And in the long-run, he thinks AI will greatly disrupt the finance and investment industry in three-to-five years. Everything from portfolio construction and research tools to client interaction. AI is already worming its way to the latter. In January, UBS rolled out '[AI analyst clones](#)', using artificial intelligence to generate video scripts read out by avatars of its analysts and sent to clients. While Kushel did not sketch the specifics of the change wrought by AI, he was unambivalent that, whatever form it takes, the change is coming.