Goldman Sachs Exchanges: Great Investors

How to find alpha: Bridgewater Associates' Co-CIO Karen Karniol-Tambour

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Tony Pasquariello: Welcome back to another episode of Goldman Sachs Exchanges - Great Investors. I'm your host Tony Pasquariello, global head of hedge fund coverage for our Global Banking & Markets business.

And today, I'm thrilled to be joined by my friend Karen Karniol-Tambour, who is co-chief investment officer at Bridgewater Associates, the world's largest hedge fund. At Bridgewater, Karen oversees the systemization of the research into trading strategies, manages the development of proprietary investment models, and directs the design and the implementation of client investment strategies. Karen also co-leads the firm's sustainable investing efforts. We'll be talking with Karen about her decades long career at Bridgewater, how she's thinking about the macro factors shaping investing today, and her lessons for creating strong investment cultures and strong teams. Karen, welcome to the program.

Karen Karniol-Tambour: Great to be here, Tony.

Tony Pasquariello: I want to talk a little bit about the US macro landscape. As we sit here today, things are in a friendly place. US GDP growth is tracking around 3 percent. The Fed, obviously, just cut rates by 50 basis points. So, let's start with your outlook for the economy. Can the US sustain this level of growth?

Karen Karniol-Tambour: I actually think it can. It's a very unique spot to be in so late into an expansion. But you have this expansion where, you know, the Fed already raised rates, right? So, it's cut off all the borrowing by anyone in the private sector. And typically, obviously, that causes a recession. This time around, it was offset by kind of the tail of the fiscal coming out of COVID, plus the fact that that was kind of the time where the income cycle took off and you started getting this self-reinforcing cycle where spending leads to more income leads to more spending. That's a much more sustainable way to have an expansion.

It runs out of steam, but a lot more slowly. And while the employment market's weakened, a lot of the weakening is really from the supply side. It's not really weakening coming from the demand side. And so, you add that up. And then you have the Fed easing into that, what the Fed's going to do through the easing is it's actually going to try to restart the private sector borrowing. So, that's a pretty good tailwind that's coming in. That's all really on the household side.

Then you add the business side where I think the capex cycle is just starting out. Could get bigger. And you hear the Mag 7s talking about how they feel like the risk of not investing is a lot greater than the risk of investing too much. That it's existential. That they've got to do more. And that's just the couple big Mag 7. Of course, they are large. And they have a lot of money. But you could easily imagine a world where that spreads. And, you know, all it will take is one AI-powered startup in your industry to say, wait a minute, I better go invest a lot in AI as well.

We can look back at the 1990s and that midcycle easing and how big the capex cycle in the internet boom was to powering the next leg, I think this is about as good of a backdrop as you could get so long into an expansion to be able to sustain growth. And you have a Fed that, with inflation where it is, is both willing and able to do more if it needs to.

Tony Pasquariello: And so, let's spend a minute on that piece on the Fed. Again, we've entered kind of the next stage of the game in monetary cycle. So, where do you see this ending up? I.e. where do you see the terminal funds rate? And then how do you think we get there in terms of clip size and duration?

Karen Karniol-Tambour: So, what is the right level of interest rate is a very, almost philosophical question, right? And what I think everybody knows is that it's definitely very different than the right level of rates was some number of years ago.

Tony Pasquariello: Pre COVID, post GFC.

Karen Karniol-Tambour: Yeah, so post GFC. I mean, that's more than a decade where we had negative real rates. Very unusual. Clearly, that's not the right level of rates anymore. You don't need to have the deleveraging happen anymore. And some of these structural spending pressures that I talked about before, whether it's businesses that need to invest for AI. Or we haven't talked yet about government and all their need to do industrial policy. There are real needs to spend. So, the right level of interest rate is definitely not zero or negative.

If you look at the Fed, the Fed thinks it's about three, made up of about 2-ish percent inflation. Two and change. And 75 basis points to 1 percent of real rate. And I think that sounds like about right. But you're not really going to know until you're really in it.

And so, what I think the Fed is going to do is their plan seems to be something like get to 3 percent at 25 basis point clips. I think that's a very reasonable plan. But if anything, the risk is that they'll need to do less than that or slower than that. That a pretty strong economy will be self sustaining and maybe the right neutral rate for now is 3 percent. Maybe it's even higher. Or maybe we'll be so far into a cycle that even if the neutral rate is 3 percent, we'll need rates a little bit higher than that because we'll need to be a little bit, quote/unquote, "tight" or we'll get inflation that's just a little more buoyant. And so, you want to be, you know, keeping the real rate not lower than that, a little bit under 1 percent.

And so, I think the risks are to a little bit less easing this priced in. But that 25-ish clips to get to 3 seems, yeah, roughly right. You want to feel it out.

Tony Pasquariello: Right. And so, if I said we think they end up around 3 and 3/8ths come June, which would require, basically, 25 basis points every meeting from here to there, does that sound about right to you?

Karen Karniol-Tambour: I think it's about right. As I said, I think the risk is more on the they'll do less than they'll do more, barring a very big surprise. But I think that gets into a spot where they say, okay, now I'm sitting here. It's the middle of 2025. And my best assessment is that we're like a little tighter than neutral. How tight relative to neutral will depend on is the inflation rate really a 2 or is it a little bit above 2? That feels about right.

But you could easily imagine saying, actually, we're so far into an expansion, maybe the neutral rate is 3, but we should be tighter than that. We should be at 4.

Tony Pasquariello: Right. Okay. Let's pivot and speak about China for a minute. The past few weeks have seen a pretty forceful set of policy declarations and, I think, some high hopes within the market. How do you view these announcements?

Karen Karniol-Tambour: I think that the Chinese, my hope is that this is kind of their whatever-it-takes moment. But really more likely is that what they've really done is put down their foot and says, "We're going to do whatever it takes not to crash the car." That's not the same as "whatever it takes to get things to be great." But it is, "We're not going to let the car crash."

I think it is a fundamentally different China than it was when we saw previous rounds of stimulus, right, like coming out of the great financial crisis. You had this leadership that really felt that getting growth to work was the single most important goal. And they would do whatever it takes to make that happen. They're not there anymore.

They now believe their most important goal is fundamentally security, national security, economic security. They believe they have to gird the economy, both to win against a United States and the rest of the world that's kind of turning against it. And to get over the middle-income trap by having kind of the advanced technologies that you need to be productive enough. And growth is a piece. And it's just a piece.

“You know, you've got to be tough during a war." To now saying, "Okay, maybe this is going too far. It's getting too weak. It's too much. We can't let it get this bad." And that's a very important shift. It's very important to say, no, no, this is too much. We need to be there. We need to be stimulating.

The other piece there is that they suddenly, you know, have a lot of ideological opposition to many different types of stimulus they might need, whether it is all the moral hazard issues that come with handling as tough as a deleveraging as they do, or issues of stimulation where they really feel the kind of stimulation the United States did, of like giving everyone a check, as ideologically not okay.

And so, I think you're seeing a really important turning point towards experimenting with new things. It's still small experimentation. But at least they're experimenting and they're saying things, like, "You know, we're going to do stimulus we’re comfortable it's targeted enough." So, it's targeted at poor people. Or it's targeted at, like, they have like a cash-for-clunkers type idea. So, there’s a certain kind of spending they're trying to incentivize, or they're targeted at people to have children. So, you know, child credits. But they're experimenting. They're going to do things that they feel comfortable with, kind of ideologically. And I think that it's a pretty good commitment to say it's gone too far, we're not going to let this car crash.

How strong things will be? We'll see. What I know is deleveragings take time. Just think what it was like in Europe or in Japan. And I'd say everyone talks about Mario Draghi's "whatever it takes" moment. It still took a long time with a lot of ups and downs. They have a lot more to deliver to do this deleveraging well. A lot more to deliver.

But the confidence that there's a higher likelihood they won't let it get really bad and very deflationary is certainly higher.

Tony Pasquariello: Does it leave you, in the context of Chinese asset markets, does it leave you with any high conviction trade, necessarily?

Karen Karniol-Tambour: Look, it's interesting. But across the different outcomes of deleveraging, I think a mix of Chinese assets is incredibly well poised because pricing, valuation on stocks is so low. There's still room to ease. There's still a lot of things policymakers can do. And you definitely have a degree of conviction that says we won't crash the car.

And so, I still like holding a balanced mix. I would skew more to stocks today than I would have, you know, a couple weeks ago. But I think you're still in a spot where you basically say, look, if they disappoint somewhat, I don't think the stock market has a lot more to fall. And you could still do decently in bonds or shorting of currency, holding real assets like commodities in that currency.

Tony Pasquariello: Okay. And then sticking on the pan Asia front, it's been a wild ride in Japan for the past couple of months. And now we have a newly elected prime minister. How do you view the opportunity set now in Japanese asset markets?

Karen Karniol-Tambour: You know, I think the bottom line is that Japan, this is an economy that has to figure out a way to tighten monetary policy. Right? Like, they were in a world where it made sense to have zero rates for many years. That was a long deleveraging to work through.

I mean, just look at the reality on the ground today and, like, you have 2 percent inflation. It looks like it's relatively comfortably at 2 percent. You have very good labor market. You have good labor force participation. You don't need to be at these levels of rates. You don't need negative 2 percent real rates. It just doesn't make sense. They know that.

I get that there's a great fear of doing it too fast. And what happened in late July left a real scar of don't do it too fast. But, obviously, part of what happened in late July, early August had a lot to do with investor positioning and so many people being positioned having done carry trades in the end.

And so, while they're going to be cautious and the risk of doing it too fast is real, they're going to have to normalize policy. It just doesn't make sense to be where they are. I think the new prime minister feels it in his bones. You hear it in everything he said that he gets that.

So, my favorite position there is definitely still being short the rates. I think that's, you know, kind of the most sensible way to be positioned in Japan. I still think the equities are moderately attractive. There's good corporate governance. Things are happening there. And I think the yen's roughly balanced.

Tony Pasquariello: Okay. So, you just touched on it there, but let's talk a little bit more comprehensively about the opportunity set in global currencies, which I think is a significant arrow in your quiver typically. Is this still an asset class where you have a lot of conviction? And if so, where would that be?

Karen Karniol-Tambour: I think it's a great asset class. It's been underutilized because it just hasn't been moving that much because you came out of COVID and the whole world was just so synchronized. So, for many years it was synchronized with zero rates. Then it was all synchronized, you know, easing together then tightening together. And finally, you're in a world where the world's not as synchronized. And there's actually things going on. Inflation is different in different countries. You're getting policy normalization differently in different countries. And that's really what drives currency moves, right? You need to have differentials between countries in order to get that. Everyone being stuck at zero with zero inflation, zero rates, you're not going to get currency moves.

And so, I do think there are bigger alpha opportunities than there have been in a long time. And it's also a really important time to kind of structural reconsider what am I doing with currencies in my portfolio? Am I hedging my assets? Am I not? And you get to interesting conversations, like, what are the structural characteristics of the dollar? Do I want to hold that as a risk off asset? Why would that exist or not?

I still think the most attractive currency is the euro because the backdrop to just the size of surplus that they have is so massive. So much money would need to circulate for the euro not to keep appreciating. And even though prospects for Europe are definitely weaker than the United States, weaker than a lot of places, that is so much in the price. And the structural surplus is so big, I still think it's the most attractive currency. And you compare that to, you know, places like Australia or Canada that have much weaker structural surpluses, deteriorating, and Canada's been weak relative to the US. It eased before the US. So, you're really starting to get differentials and a wide range of attractiveness.

Tony Pasquariello: Aside from the euro, do you have a broad dollar bias?

Karen Karniol-Tambour: I am tilted to be somewhat bullish the dollar. The euro is more attractive than it. But I think the dollar is more attractive than a lot of other currencies. You're still in a world where just most of the asset markets, financial assets, are in the United States. So, anybody who is saving abroad really means saving United States. It's almost like when you buy oil, you're not thinking I just love Saudi Arabia. You're thinking, I'm going to go whatever at the pump.

If you're buying financial assets, you're buying American assets. It's 2/3 of global market indices, etcetera. So, that's a lot of structural money just gets recycled into the US almost no matter what. While the US doesn't have tremendous trade deficit, and if you look at the type of protectionism that's rising and desire to close that trade deficit, especially if Trump is president, that means that you put pressure on the trade side. But you're not mitigating at all how much money wants to come into the United States. And so, that just keeps pushing the dollar up.

There's not a lot of choices in terms of diversification of where reserves are. And the structural properties of the dollar have proven over and over, for I think relatively good reason, to be somewhat risk reducing. So, it's a lot of dollar exposure. Just makes sense for people to have.

Tony Pasquariello: Okay. And then you just nodded to this, but the US election is one month ahead of us. How are you thinking about the market implications?

Karen Karniol-Tambour: So, let me start with, I don't know if unpopular, but maybe an unpopular answer. I think there's more commonality than is often kind of acknowledged.

Tony Pasquariello: In the two candidates?

Karen Karniol-Tambour: Yeah. I mean, in terms of market implications, first of all, you have two candidates that neither one of them really believes in closing the deficit. So, neither one of them is really pushing what we need to do is go for these historical high deficit levels down.

If you look at what they really want to do, yes, Kamala's plans, fiscally, are more for a little bit, a tiny bit of being careful on deficit. If you take her plans as literally as you can, and who knows exactly, they would end up closing deficit, I don't know, 1 percent of GDP a year. That's not nothing. But the makeup of that is a bunch of new spending. Extending the tax credits on anybody below 400K. But also, a lot of new tax credits. So, things like the child tax credit, earned income tax credit. She wants to help businesses, first time homeowners, etcetera.

And then on the other side, there is a desire to raise taxes to pay for some of that. Whether that's raising taxes on the wealthiest individuals by not extending the tax cuts or on corporations, generally raising taxes. And then some of these issues around unrealized capital gains.

So, you take all that and you say, yeah, you could say that's a little bit of cutting the deficit. But if you look at the betting markets, I think they're realistically saying the election's 50/50. But if Kamala wins, it's much more likely she has divided government.

What that means is that she's not likely to get all of that done. Much more likely what's going to be challenging for her to get done is some of these tax raises. Things that are really big breaks, and what's happened before, like unrealized capital gains, very unlikely. Really actually raising taxes on corporations, less likely there'll be consensus on that.

So, probably, if she ends up getting elected and having more a divided Congress, she still gets something done that either keeps the deficit where it is, or expands it.

Trump's plans, clearly wants to expand the deficit further because there's no world in which all of these tariffs are enough to offset extending all of the tax cuts, maybe even reducing tax rates on corporations.

So, they actually have more commonality than not. Now, of course, there are differences. It does matter somewhat whether the deficit spending is going towards corporate tax cuts or lower income households. Lower income households tend to spend more in the economy. So, that supports the economy more. But if you go to the business side, you are talking about something that directly supports the stock market, right? Like, literally all these companies, they don't pay as much tax. We saw that in, you know, Trump one.

Tony Pasquariello: That's math.

Karen Karniol-Tambour: Simple math. Definitely supports it. So, you net those two things though and you say what's going to be better or worse for the stock market? It's close. It's not that far. And then if you go to things like trade and protectionism, look, no doubt Trump's rhetoric is stronger. But there's a lot of commonality. You have a lot of bipartisan consensus that China is the big strategic challenge. That we need to be able to use protectionish measures. And so, yes, the Democrats are more limited.

They talk about, you know, the small yard/high fence. And that yard's getting bigger and bigger. And a lot of consensus that we want to use industrial policy in protectionist ways because we need to do that against China.

So, will Trump be more aggressive than Kamala? Probably. But you're still talking about the same multiyear, multidecade, I'd say, move that you have ahead of us away from this sort of free trade, industrial policy bad world to one where we're putting up the walls, we're doing it in certain ways. And that's the important thing for investors.

There are tail risks to that. You know, Trump could really accelerate something more extreme than that. But I see more commonalities than, you know, most people talk about.

Tony Pasquariello: Sure. It's interesting because it probably would have felt like a spicy view this summer, but I think in a way the markets, judging from price action, have kind of arrived at a similar conclusion as you just asserted. And I find for all the ebb and flow in the betting markets, with the exception of a couple very discreet things, say like green versus presumed dereg plays, or whatever, the markets just kind of seemingly not had it on the front burner.

I'm surprised in my client travels how little it comes up. It kind of tends to come up late, as it did in this, late in the conversation. Now, who knows exactly how it feels a week or two into the binary event. But I think I share your sentiment, which is in a way the equity markets are kind of looking at the betting odds and saying, well, if the two most likely outcomes are a Republican sweep or Harris plus divided Congress, through the prism of risk, I'm okay with those outcomes.

Karen Karniol-Tambour: Totally. And I think that just going to how to think about risk management in these cases, there is a huge difference for investors between discreet events and kind of multiyear dynamics that end up weighing on markets. And when you have a discreet event, I think the right lens, just as you're saying, is to basically say is there something that is really like it's A or B? Like Brexit is like a classic example of this. And that's mostly a risk controls issue. How do I want to protect my risk?

And to have a strong view that it's a risk controls issue like a Brexit, you need to have the market action show you that as the odds shift, something meaningful would happen if A happens versus B. For more multiyear events, these dynamics that weigh on the markets, you can't ignore them. You can't treat it as a risk control. It's going to show up in your investing in lots of different ways. And I see the same as you, what you see in the election right now, which is that discreet event is not showing up to be so big that it feels like you need massive risk controls to deal with it. I think basically no one should try to predict this election. It's probably very close to 50/50 and very few people are going to have the edge. But it doesn't seem like a very clear, okay, do X to protect your downside on what that's going to happen there.

What it really highlights is just how important these big multiyear events are, which is a much bigger government role. Much bigger deficit spending. More industrial policy. More protectionism. These things are going to be with us no matter who wins.

Tony Pasquariello: Yes. Got it. I've read a lot of the work Bridgewater's authored in the past year or so on AI.

So, I want to talk about two items in this context. One is, how do you see it impacting the economy and the labor market in some forward state? I know that is a hard exercise. But it's one you spend a lot of time on. We spend a lot of time on. And then the second is how do you think about expressing some of those views in the market today?

Karen Karniol-Tambour: Well, the first thing I'll say, which I think you always have to say when you're talking about AI is if you hear too much confidence, that should make you suspicious because inherently there's a lot of uncertainty. But, you know, in the near term, AI's been very inflationary pressure because of what I talked about before, which is this desire to invest ahead of seeing any demand. And all the monies going into AI today is clearly not leading to any productivity right now, this second.

But when you look ahead, I think the best analogy is really what happened in places like the United States, particularly in the United States over the '90s, the 2000s in the manufacturing sector where over a period of a few decades you took something like 10 percent of the labor market and kind of cut it out. Whether it's because you sent it to cheaper places abroad. Globalization. Or because automation, you actually got, you know, robots and so on to be on factory floors.

So, today when you go anywhere to a manufacturing plant in the US, you see fewer workers. And the workers you have left are very productive. And that 10 percent of the workforce that you took out, there's no one day where you said this is a market event. But over a few decades, this was a huge event that had, not only social and political consequences, but it's one of the big deflationary forces that let us have the world we did in those years. And really set the cost of capital, set what competitiveness was like, level of profits.

There's a decent chance that AI is at least that event again. It could be bigger. It might hit a bigger share than 10 percent of the workforce. It could take time, more than that. It could take less time. There are a lot of arguments I could make on either side of slower, faster. But at least that template of what it means to have something like that happen that's so structural, I think, is roughly the right one.

And then as an investor today, I would say there's a couple of main implications I'd be looking at. One is this big question of, like, when does this period of pressure on the cost of capital go up end? How big of a pressure does this come behind us to become deflationary? When does it start popping up to actually matter? Is this the deflationary impact? We're not there yet. It has to be watched and monitored and one of the ways I do that, really, is kind of sector by sector who's incorporating it?

The other is kind of not living with equity indices the way they are because your neutral view, not knowing where AI is going to go, is probably not just holding market cap the way it is. You look at the range--

Tony Pasquariello: Because you're going to get a huge amount of exposure and leverage to the theme, whether you want it or not.

Karen Karniol-Tambour: And a very particular set of exposures that may or may not be-- if you start staying what are all the ways that profitability might get created from AI? And so, I'm not saying you shouldn't hold market. I'm saying at least that question should be there and you should be saying, what is my neutral position here? And how do I want this to be set up?

People also have different set ups, right? Some people have lots of private exposure that has no AI in there. So, when they actually step back and they say, "I don't have any exposure to AI." So, it's just a question that needs to be asked proactively and not just take the assumption that whatever I have in my private that has no index. Whatever I have in my publics, I just use the index and that's it. You really want to push back against those assumptions.

Tony Pasquariello: Yes, I agree with that. The first part, and I know you reference this in some of your benchmark work on this, but I sometimes wonder, are we in the moment right now, is this the happiest possible moment of the cycle in that every company's spending more and more money, which has created an incredible opportunity set in the public market. It was very accessible for everyone. But we haven't rendered many, if any jobs, obsolete just yet. But if you were to use that analog, and if anyone grew up in the parts of the US that I spend time in, which is like the northeast, kind of a different but a traditional industrial area, all those jobs were hollowed out. And that 10 percent metric that you mentioned had huge societal impact in localized areas.

And so, if we're talking about something that could be multiples of that, you know, your mind can run pretty wild with what the forward state of that is. As you say though, in the moment, it's very exciting. It has created an enormous amount of, I would say, home field advantage for the US. We'll see how that plays out in the next phase of the game.

So, in early '23 you were named co-CIO alongside Bob Prince and Greg Jensen. Can you tell us a little bit about what your role involves today and how you spend your time?

Karen Karniol-Tambour: Well, the first thing I'll say is just you have to kind of anchor yourself to our investment philosophy, which is we are fundamental and systemic. Which means that we take ideas and the kind of concepts you and I have been going back and forth on, and think really hard about how to go from idea to an algorithm, a system, something that reflects the conversation we just had by writing down our thoughts really rigorously that let's us both stress test the ideas, see how they have happened through time, make sure the ideas can then be kind of looked at by other people, examined from different perspectives, and have the idea live on beyond just, you know, I had it in my head, so I put it on a trade.

So, the role of the chief investment officers in that context is very much orchestrating that. Both generating ideas. But then also working with the research teams to basically do a great job to take those ideas all the way to what it means to really bring them to life, whether that's asking tough questions about them. Elevating them and thinking what are the most important things that we're missing? And it's an incredible role because you're kind of working off of 40 years of Bridgewater history that has everything we've thought about before, but trying to say what are we missing? And like, you know, kind of how do we innovate beyond that?

The other piece I would say importantly in the role is that we take really seriously being partners to our clients who are generally very large, sophisticated institutional investors. And thinking about what we would truly do in their shoes. And often that means working with them to build what's the right way to use our insight given their particular circumstances? Sometimes that becomes broad strategies. Sometimes not. But I think that's a really satisfying part of the role. A sense that we're kind of taking what we know about the economy and the markets, and using it to really actually make a difference in how endowments are managed or pensions are managed.

Tony Pasquariello: And with three CIOs, do you tend to split up duties in that one person, say, may kind of major more in equities and one person may major more in currencies, and then someone to rates? Or is that not division of labor kind of by asset class how it works, necessarily?

Karen Karniol-Tambour: Not necessarily. It comes and goes. I'd say that, you know, the three of us have known each other for so long, right? I've been there close to 20 years. And Bob and Greg, my two co-CIOs worked together for more than ten years before I joined. So, this is accumulative many decades. So, we know each other really well. We understand each other's strengths and weaknesses. We both like bringing in the others to look at our things and then we like picking the things that each one of us is really going to take on our own and drive.

Sometimes that really ends up down the line of an asset class or an area. But other times then you end up shifting because if you spend, you know, a decade really driving through new ideas on a certain topic, you may feel like all my ideas are already here. What I really should do is a different set of ideas somewhere else.

And so, it's been more fluid in that way. I'd say I have a lot of passion around this question of what's the right way to think about our partners' portfolios? And what's the best way to use our insight to do that? And so, I might end up taking a lead in something there because it's something where I really kind of see a path and get excited about, and vice versa.

Tony Pasquariello: Sure. And does that mean at the end of the assembly line you have a bunch of distinct client portfolios? Or does it mean all of that kind of bottoms up feeds into a portfolio to serve all?

Karen Karniol-Tambour: So, if you look at our offerings, we try not to do too much, right? And so, we have a core flagship, if you will, that's pure alpha that is just our best ideas. That's intended to be uncorrelated to anything and just good, consistent, uncorrelated returns.

But then there are a couple things we do that were really designed to meet a need that is different from that. The most obvious example is if you just look at someone's portfolio and say, "What's the best thing you can do for me?" Your answer is probably going to say, well, what's negatively correlated? What's actually going to go directly at my biases?

And so, we have a few things that we're doing that are really intended to say how do we go at your biases and poke at your biases and try to offset them? Not give you just an uncorrelated, regardless of what you hold this is the best answer. And so, that is very satisfying for both sides, to basically say, okay, you're with me on top of house. You're understanding my whole portfolio. And you're really building the right thing.

Now, that ends up, obviously, having applicability outside because you have similarities. The broadest, you know, kind of pictures I'd put around that are the biggest things that drive variability in most large institutional portfolios have to do with how the economic environment is going.

And one approach to that is find when in your alpha you have opposing views. For example, if you know that your stock's going to do really well if growth is strong, put on views that will do really well when growth is weak. So, you end up with something kind of misshaped, but specifically shaped to fit that purpose.

Another perspective is, well, can you just make investments somewhere that have different growth or inflation in monetary policies and have different exposures? So, we've offered kind of packages of things, like, here is an Asia exposure, sometimes without China for all the challenges with China, that are intended to say, again, this is misshaped. This isn't everything great in the world. But it's intended to kind of plug a hole that will help you shift from where you're concentrated.

Tony Pasquariello: Okay. Let's talk a little bit about your life before Bridgewater. You were born and raised in Israel. You are the grandchild of Holocaust survivors. Both of your parents are professors. So, can you tell us a little bit about the role your parents and your grandparents have played in shaping how you think about the world?

Karen Karniol-Tambour: Big question.

Tony Pasquariello: It is a big question.

Karen Karniol-Tambour: You know, I'd say that the arc of my parents and grandparents' life, they saw such tremendous change, right? I remember my grandmother talking to me about the first time she saw a train. And, like, what it was for her. She was like, "I saw houses moving on wheels." And the arc of her life going from literally, like, barely running water, seeing a train being a big deal, to then, like, surviving the Holocaust and various, you know, difficult ways of surviving it. And then ending her life in a world that's not that dissimilar from where you and I are today. Sure, there were no iPhones. But, you know, very similar in other ways. And it just gave me a lot of perspective about how much the world can change.

Also, you know, across these folks, they had a lot of appreciation of how lucky they were to be alive and kind of making the most out of what life has to give, whether it was, obviously surviving World War II in the woods and the ways that they did, or even my father who had been in numerous wars and, you know, said to me, "I didn't think

I'd come out of the 1973 war alive." So, I think it gives you a lot of perspective about how much the world can change, how lucky we are to be alive.

And then both of my professor parents had a ton of passion for what they did. I remember, you know, being a little kid, my mom would, like, wake up at 6 in the morning because she had an idea and she'd want to be writing it up and, you know, finishing a paper. And it just gave me a sense that you want to do something you feel that way about. You know? It's a lot of what makes life worth living. And there are always going to be smart people around. If you're not excited about what you're doing, it's never worth it.

Tony Pasquariello: That's right. You attended Princeton. You studied under Nobel Laureates Daniel Kahneman, who's the author of *Thinking Fast and Slow*. He was your senior thesis advisor. And I think when you were at Princeton in '02 he won the Nobel Prize in economic sciences. How did your work with him influence you?

Karen Karniol-Tambour: Yeah, I think it's the classic, it's the beautiful thing that college campuses want to accomplish, which is that you're at the point of your life where you hear a new idea and it actually really makes you pause and shape your thinking and see the world differently.

I remember going to that first lecture that he gave and basically being really taken with this idea of reflecting on decision making and thinking about all the flaws in our decision making and how important that is in what we do day to day in life. And being able to study that and actually have a perspective on that. And it connected me immediately to Bridgewater, is the thing that immediately made me say, wow, these people are thinking really hard about making decisions well and what the human challenges are of making decisions well.

I also think that Danny Kahneman, he won the Nobel Prize because he really did create paradigm shift in economics. He thought about things that were assumptions people took for granted, people's rationality and so on, from a totally different perspective. And it kind of broke the paradigm.

And being exposed to that, it does make you sit back and think a lot about what other assumptions do I have that can be broken in that way? And realizing that that happens. That happens periodically. And the world and knowledge change and evolve all the time.

Tony Pasquariello: That loops back to the point you made earlier, which is we all have an anchoring bias to the present day and think the future probably won't look that much different than today. And then you flash forward 40 or 50 years, and the world looks dramatically different.

Karen Karniol-Tambour: I'll just say, in investments it's even more extreme because I think in investing people are anchored to what the last couple years' performance was like.

Tony Pasquariello: For sure.

Karen Karniol-Tambour: Because that's kind of what they intuitively felt most recently. And what they forget is that just because that was the last few years of performance, that must mean the prices already know that and are incorporating that and tend to extrapolate the same thing will happen again. Which by definition means it's harder to do next time because it's in the price. And so, it's almost like you need the opposite bias of what you psychologically want to feel, which is that the past will just continue.

Tony Pasquariello: Yes, well said. After graduating from Princeton, so you joined Bridgewater straightaway as an investment associate on the fixed income team. And then you progressed really rapidly within the company to become head of investment research, I think just seven years after joining, which is remarkable. And it made you, at 31 years young, one of the highest profile women in the industry. And so, I'm just kind of curious, how'd your role in managing the investment process evolve over that time?

Karen Karniol-Tambour: I was lucky to start at Bridgewater before the financial crisis. And then get to live through those pre financial crisis days where we were wrestling with can this be sustainable? What do you make of how much leverage is being built up? And wrestling with that at a time where the world wasn't so concerned about it, and we felt a little bit crazy for having these views. Then living through the financial crisis it was an amazing stress test of what we often talk about as money in credit, or the idea that literally how much money is printed and where it goes and how the debts are changing ends up being the driver of what is spent and what happens in the economy and markets.

And so, I kind of started as an analyst on the fixed income team. And then got the experience as we got thrown into the financial crisis to really be a part of almost the SWAT team that was, you know, in a safe place. We weren't under risk, you know, kind of as a firm. And really drinking from a fire hose because so many things that were theoretical, you know, this happened in the Great Depression kind of stories, were suddenly living in front of us and we got to live through those experiences and so on. And by definition, that experience was very cross cutting because you talk about all the money in credit in the economy and where it hit and why. And so, I think I came out of that well prepared to start overseeing with a wide aperture, different parts of our research process and bring new ideas in.

Tony Pasquariello: Sure. How early into your career was 2008?

Karen Karniol-Tambour: Two years in.

Tony Pasquariello: Two years in. So, I started in 1999. And then, of course, 2000 hit and from March of 2000 to October of 2002 it felt like the stock market went down every day. I do think having those experiences earlier in your career is a really valuable lesson. Now, you don't want to get overly programmed to those because it's not the natural arc of the economy or the markets. But to only know up and to the right early in one's career, I think, can probably form other bad habits that to have some of those scars and some of those ghosts is probably not the worst thing in the early part of one's career.

Karen Karniol-Tambour: Totally agree.

Tony Pasquariello: When you joined Bridgewater, you were the only woman in the investment department. And you were the first female CIO at Bridgewater. You're also an active angel investor focused specifically on technology startups led by women. I'm interested in this because I co-sponsor our Women's Network within my division, within the Global Banking & Markets division. And so, I'm just kind of curious, how do we collectively, how do we help put more women in leadership positions within our industry?

Karen Karniol-Tambour: I think that it is really hard to break the bias that people have that they just sort of have an intuitive feel of what a leader should look like based on what they've seen before. Because it's not mean spirited. No one's going around being, like, "I just don't like X, Y, Z women and minorities." It's just that the image they have just doesn't quite line up with that.

And it shows up in all these subtle ways. I got a lot of feedback in my career that was kind of circling, like, you just don't feel like what an investor usually feels like to me because the image of, like, the hedge fund gambler was just not what sat in front of them, you know? And so, I think that you want to take the women that you have who are capable, and put them front and center partly to give people a sense that the image they have of what's required in these roles is not necessarily what the right image is. And that you kind of have to see a range.

And I think often when women make to the first time that position of leadership, they bring something a little bit different, partly because people for a while just didn't quite see that possibility that you could kind of get that in that role. And one of the reasons, you mentioned angel investing, that I like doing that is I think that is particularly hard when you're talking about, say, a new company and just an idea, right? People are really going from their gut feel. So, a lot of what they're imagining is, does that feel like a strong founder CEO to me?

And so, there's a great article from Harvard Business School about what questions women versus men founders get asked. And they ask completely different questions. Women founders get asked a lot more about risk management and, like, what if the company, this goes wrong? Versus vision and excitement. And so, they get put, and I think, again, I don't think it's mean spirited at all. I just think it comes from this idea that that's just the leaders I've seen. And so, you want to celebrate the cases where leaders look a little bit different, partly to change people's views about what that might look like.

Tony Pasquariello: Well said. As I mentioned in the intro, you co-lead Bridgewater's sustainable investment efforts. How do you see the ESG factors influencing investment strategies and market dynamics in the coming years?

Karen Karniol-Tambour: I think we've shifted from a world where people who talked about, quote/unquote, "ESG investing" were making sort of the argument that's, like, oh yeah, anything more sustainable will definitely win to one where people understand this is a real factor in the world. But, like, any other factor in the world, whether or not it wins depends on where the world will go, whether the world will prioritize these things. Not what regulation will do, etcetera. And what's already priced into the markets. If that's already expected or not.

And so, it's a real factor and something that as an investor you have to ask yourself that question. And it's intuitive in markets like, you know, I don't know, commodity markets that you want to basically say, well, is there going to be an energy transition? What are my assumptions about that? Is it going to happen faster or slower than what's already expected? And that's just a thing I need to know, just like I need to know other things about how the world will evolve to have good projections.

The other thing I'll say is that we've definitely gotten to the world where because a large number of investors around the world care about this topic and they want to use their capital to influence the world to move in a certain direction, particularly on climate, it is a factor that plays into decision making. So, you see it, for example, today with tech companies that they have tough choices to make if they want to kind of keep up with what they think AI capex should be. They've got to choose how much they care about their environmental commitments as well. And they have an ecosystem of investors, but also, you know, employees and all of these things around them to tell them, well, I do actually care about how I go about AI. So, having that ecosystem of investors that care about this topic has created some self-reinforcing mechanism where more players are considering that and making choices to tilt in one direction or another.

Tony Pasquariello: Excellent. I want to ask you one last question on the formal side. And then we'll have some informal questions. I'm sure people always ask you about Bridgewater's culture. What do you tell them?

Karen Karniol-Tambour: You know, honestly, what I tell them is you have to really be committed to what it's like to take hard feedback. And you have to know it's not easy. Right? People like their own ideas. They think they're great.

You have to actually be in that spot where it can feel overwhelming. Like, lots of people are going to come at you and say, "Let me tell you all the things I like and don't like." You have to really believe that it makes you better. That it really makes you better.

Because the most important thing about the culture is that we really believe in that. And so, there is a requirement for people to open themselves up to that. And people will say things to you. They'll say them to you straight. You'll do something that you really love. You'll have an investment idea. And people will say, "It's a stupid idea for these reasons." They don't hold back. And you kind of have to have the equanimity to be, like, this is what makes me great. Right? That, like, getting that feedback, at the end of the day, the markets decide if we're right or not, right? And so, it's not about proving yourself to your colleague. We're all here to be on one team and make each other better. So, you have to really be willing to be part of that.

And I think once you do it, you look back and you say, "Man, that really made me better." Right? All this set of feedback and what not. And I look back on my career and think if these guys had held back, if they had said, "Well, she's new. She's young. I'm going to embarrass. I'm going to-- you know, she's going to be upset about this, let me, like, really sugar coat it," I would never have gotten as far as I did. I needed all that fuel to figure out what to do next and how to get better and find the mistakes. You need it.

Tony Pasquariello: And does facing that criticism, does it get easier with time?

Karen Karniol-Tambour: You know, some elements of it are never easy, right? Like nobody likes hearing feedback. I think there is a breaking point a couple years in where people feel comfortable that this is their home. Where they've had enough rounds with the other people that they're sort of in the mentality of, like, we're really all on the same team here and this is meant to make me better. And that really helps.

On day one, you just can't expect someone to feel that, right? Like, they just walked in the door. Like, how could they have that? Over time, that is a core part of what makes it, it's like you have the relationships with people. You know they're really trying to push you to be great. That they want the firm to succeed. You know that's where they're coming from. So, you need to get to that spot. And that takes a little bit of time.

Tony Pasquariello: And there's no confusion about the mission. The mission is to do the best possible job by way of your clients.

Karen Karniol-Tambour: 100 percent. And not just that, there's a deep sense of insecurity and fear that if we don't do that, look, there've been tons of investment firms out there, right? Like, you fail. This is not a business for kind of resting on your laurels. We are not a tollbooth. Right? People will only keep coming to us if they get excellence. And so, you have to have that fear that if we let up on ourselves, if we're constantly, like, "Ah, it's good enough," that the firm just won't survive.

Tony Pasquariello: Right. Okay. We like to end these sessions with a lightning round. So, we're going to run through a couple quick questions. Couple quick answers. What's your greatest strength as an investor, Karen?

Karen Karniol-Tambour: I think putting lots of disparate pieces together. Making connections across things. And probably just curiosity. You have to be interested in the world to invest money.

Tony Pasquariello: And is the first piece of that answer, is that just kind of the mosaic of how your mind works? Or the ability to put the mosaic together, I should say? Or is that the systemization part of the process? Or is it both?

Karen Karniol-Tambour: I think it is the thing that made me effective in going from kind of working on one piece where, for example, you could work on the copper markets and there's a limited number of things that matter for copper. And systemizing it well could be a lifetime. You could spend a lifetime following that.

It's a little of a different skill set to look at an entirely different market and say, you know, there's, like, kind of echoes of what I see in this other market that might give us insights. And I think that made me strong earlier on and kind of widening the aperture and moving between areas. But honestly, it's so hard to speak about your strength in the Bridgewater context. And easier to speak about where you need to get better.

Tony Pasquariello: And then on the point about intellectual curiosity, do you read? Away from work, do you read a ton?

Karen Karniol-Tambour: Yes. I mean, what I honestly, I miss most since having kids, how hard it is to get time to just sit and read uninterrupted. But yeah, there's just a lot of things that don't directly, super directly relate to literally my job where I can't make a linear connection of, I should read this because this will affect what I'm doing in the markets. But that I'm curious about and I get interested in. And then some period later starts really connecting for me.

And then similarly with markets. You kind of have to pick up and read and think about things that aren't, like, literally your priorities tomorrow to have ideas.

Tony Pasquariello: Sure. Yeah, I always find it interesting when you're reading something which may be, you know, far a field from what we do, but your mind stumbles into something more related to what we do do. I won't have it off the top of my head, but there is some quote from Churchill. You know, he read a lot, including during the war. And then kind of said, like, we have a job to do. How do you have this time? He said, "Because, you know, my reading time is my thinking time." And I think there's huge value, again, in terms of how you do connect it back to work, even if the subject matter is not entirely germane to what we do day to day.

What's the best piece of advice you've ever received?

Karen Karniol-Tambour: I think I would say from Ray Dalio, our founder, early on in my career he sort of said, look, you're overly trained the way a lot of college kids are trained, which is to answer questions based on the information you know is available to answer questions. You write book reports. You write papers. And actually, often, the right thing to do is to just ask the right question and realize you don't have the data to answer it. You have no idea how to answer it. And just sit and wrestle what the fact that that's the important question and you don't know how to answer it versus being drawn to where there's a question that you know how to answer because the data is there, and you see the path on the analysis. I think that was probably the best advice.

Tony Pasquariello: That's very interesting. Which investor do you admire most?

Karen Karniol-Tambour: I'm going to give you a little bit of a counter-intuitive answer, I think, which is when you look at the largest institutional investors out there, there are a few of them, and I'll name, I mean, GIC in Singapore. CPP in Canada. Future Fund, Australia. It's a different kind of investing than we do, right? But they've really admirably broken the box of kind of what was expected, what people thought was the right way to think about things. Whether it is not being stuck with market cap, not being stuck with asset classes, thinking of their goals in a different way. In an environment that's very different than Bridgewater, right, different set of stakeholders, different governance. But I really admire that because at the end of the day, what we do feeds in. Like, the whole point of investing money is making wealth for the next generations. And these big institutions are the ones at the forefront of actually delivering that. So, I really admire being able to really think creatively how to do that in the best way.

Tony Pasquariello: That's a great answer. How do you spend your time outside of the office?

Karen Karniol-Tambour: Mostly with my kids. I have two young girls. Three and a half, one and a half. And it is just joyous.

Tony Pasquariello: And then finally, what are you most excited about in the world right now?

Karen Karniol-Tambour: It is a really great time to be doing what we're doing because, back to that curiosity point, there are just so many things happening that feel unprecedented and different. And so, honestly, I feel lucky every day that thinking about those things and reading about those things and reflecting on those things is actually my job and not just what I choose to do on, you know, my own spare time.

So, if you look at, we talked a little bit about how AI is going to evolve, I mean, like, what could be more interesting than figuring that out? This might be the biggest event in the next couple decades. Clearly, geopolitical tensions constantly feel like at the edge of a knife. And it feels more like known unknowns than unknown unknowns. Meaning we know that there's a lot of dissatisfaction. We see incumbents being voted out everywhere. We see all these pressures building up. Where are they actually going to go? What are they going to build up to?

And so, being in a world where you can kind of take what everyone I'd say broadly agrees, which is we're in a different secular paradigm than we have been, but getting to actually break that down to what's this literally going to mean and when? Very excited about that.

Tony Pasquariello: I agree. I was thinking about this the other day, which is it's always interesting in the markets. And there's always things to work on. But if I think about the current environment, the past several years, call it the COVID/post COVID environment, and I compare that to the period, the kind of secular stagnation, new normal. So, let's call it the post Lehman/pre COVID period. Not that things didn't happen. We had the European crisis. We had an oil and gas boom and bust. You know, huge parts of what we're seeing blossom today were born in that era. But there were some very lean years, low velocity, low interest rate, low volatility. I don't think people necessarily, the younger, if you will, the younger generation probably appreciates how good and interesting things have been of late. And hopefully will continue to be relative to the cycle that preceded us.

Karen Karniol-Tambour: Totally. Man, we live in interesting times.

Tony Pasquariello: Bingo. Karen, thank you for doing this. Much appreciated.

Karen Karniol-Tambour: Thanks for having me.

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