

Jennison Associates

Expect the Unexpected

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Audio Starts

Alex: [00:00:00] Alright everyone, welcome back to Clipping Coupons with Jennison Associates! Today I have with me Jen Karpinski, who's a client portfolio manager for the Fixed Income team. Jen, how are you doing today?

Jen: I'm well, thanks so much for having me on, Alex!

Alex: Perfect. Alright, so I'll just jump right into it then. Uh, first question I have on the list for you here today. What was your biggest surprise of 2025?

Jen: Yeah, so for me the biggest surprise was really the resiliency of the market. Especially considering all the uncertainty heading into the year, coupled with all the aggressive fiscal changes and really tight valuations already.

Also, the fact that any period of market volatility that we saw last year was super short-lived, and then the market would rebound even stronger. What was also interesting is 2025 was actually one of the best years for the investment grade bond market. It posted a total return close to 8%. This was actually one of the best performances since 2000.

So I also think this is rather remarkable considering some of the market dynamics. As I said, credit spreads were already near all-time tights to start the year, yet they still moved tighter. The US government lost their AAA credit rating by Moody's and was also shut down for 43 days, and there was vast political changes coupled with, as we all know too well, sometimes spur of the moment notice.

Alex: Yeah, so then tell me a little bit about what you in the rest of the portfolio managers -- and really just the rest of the investment team -- what is everyone here at Jenison focused on for 2026?

Jen: A lot of firms will come out and make bold predictions and we would argue 2025 was a year that seemed to be more [00:02:00] unpredictable than many in recent memory, and we would anticipate that kind of similar environment.

This year, there are already a number of known events that could potentially lead to volatility. Just a few examples for you. The consumer is still facing lingering inflation and cost increases despite the potential offset of tax cuts. We are still waiting on the Supreme Court ruling on Trump's tariffs.

There will be a change of leadership at the Fed and potential volatility around that, and then also we're facing midterm elections in November. So one other thing we're focused on outside of that is AI and the implications for the markets. This growing demand for AI and data center infrastructure is expected to drive a massive wave of corporate debt issuance from the tech companies.

And we saw these hyperscalers already start to do that in fall of 2025, issuing close to a hundred billion in investment grade debt. So we think this ongoing increased supply could potentially weigh on the tech sector and result in wider credit spreads. So to really pull these things together, when we consider all these factors, we believe there will be more idiosyncratic events.

As we started to see a few Credit examples of that in 2025. So credit research and analysis is really going to be key to avoid those problem credit. Overall, we think that investors need to balance the excitement and euphoria around AI in the market with true disciplined analysis and risk management, which are really key tenets of our investment style and process.

Alex: So then tell me a little bit about what keeps you up at night. What do you view as one of the biggest market risks these days?

Jen: I'll spare you all the things that keep me up at night, but to focus on the market risks, I think there's a couple [00:04:00] big ones as we enter this year. The first being the ongoing geopolitical concerns and the potential rise of new ones.

The recent situation with Venezuela is a good example of that. Also on the credit side, we think it is really difficult to quantify the risks in the private market. And given the size and scale of those markets and growth over the past couple years, those could become more systematic or systemic.

Then finally, all the potential known and unknown policy changes I think are going to continue to breed a lot of surprises. So I'll kind of end with a whimsical note. 2026 is actually the year of the fire horse in the Chinese Zodiac, which I had to look it up. It signifies intense energy, independence, and transformative change.

But I actually think that's a good way to think about the market as we enter 2026. I think there's a lot of potential for, again, very rapid market movements with a lot of upside and downside, and that is going to require a cautious approach to really manage this potential instability and volatility throughout the year.

Alex: And then the last question I have for you here, do you have maybe a recent book or movie that you've watched recently that you wanna recommend to everyone?

Jen: Yeah, so I'm a big reader. I tend to gravitate towards psychological thrillers, completely different from finance in my every day.

But a recent one I read that's a little different than that is Dan Brown's new book, the Secret of Secrets, and I would definitely recommend it to anyone. He does a great job of taking really complex concepts and making them digestible and interesting.

Alex: Perfect. Ok, thank you so much, Jen! Anything else you wanna share with the people today?

Jen: That's all. Thanks so much for having me on!

Alex: Absolutely! Thanks again. [00:06:00]

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