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AI continues to Power the Stock Market

Stocks related to the theme of Artificial Intelligence continue to outperform the rest of the stock market. AI stocks are benefiting from both strong earnings from mostly non-AI revenue and a willingness of investors to pay for the promise that AI will boost these companies' future revenue. Since the S&P 500 index is currently dominated by AI related stocks, it comes as no surprise that this index is setting new records. During the first half of 2024, the S&P 500 index (including dividends) grew by 15.3%. (The index rose 26.3% during 2023.)

The Economics of AI Remain Unproven

The buzzword du jour for the past 20 months has been Generative AI aka "Generative Artificial Intelligence." As with any huge trend of this sort, Generative AI holds tremendous promise, but exactly how it will evolve is unclear. A lot of companies – including several that we own – have been spending significant amounts of their cash on Generative AI research and development yet few companies can point to major increases in their revenue due to Generative AI. While it is too early to draw any firm conclusions, I am watching these trends closely to see just how such AI investments pay off in the future.

What's Next?

The one constant with the stock market is that there is always something to worry about. Prognosticators love to tell us that the economy is too hot or too cold, valuations are too high or too low. Currently, there are many worries to keep us from sleeping: the stock market has risen too fast, the Fed hasn't cut interest rates fast enough, the results of the forthcoming elections will result in this or that policy that will have disastrous consequences, and that the stock market's excessive focus on AI is overblown. Despite all these concerns, the stock market has risen strongly, and volatility has been low by historical standards. In fact, according to CNBC, the stock market has gone 382 days without a drop of more than 2.05% in one day.

Regardless of the ways the winds are blowing, I remain focused on the long-term trends, which are positive in my view.

Thank you for your confidence.



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