Market commentary 6th March 2023

February was generally not a good month for financial **assets**. World equities were down more than 2%, with the US and Emerging Markets leading the pack on the way down. Europe held up well and finished the month with a close to 2% gain. Bonds were universally weak, falling between 1.5% and 3.5% across the board. Commodities fell almost 3% on aggregate, dragged down by energy and precious metals, and the USD staged a meaningful comeback and gained almost 3% on a trade-weighted basis. Bitcoin was flat.

Has Artificial Intelligence (AI) finally arrived?

Back in December, hardly a month after its launch, ChatGPT was hardly known to anyone. A few months on and it is a household word and almost everyone is talking about it and using it. Corporations are rushing to communicate to their shareholders that they are vested in AI, lest they be seen as being behind the curve.

Is all this attention merited? In our opinion, yes. A recent research paper by Bank of America highlights the key transformational opportunities driving investment flows into the sector.

Among their findings:

1) Today only 1% of global data is being captured, stored, and used, but this is about to change as AI is moving towards mass adoption, with large language models like ChatGPT finally enabling us to fully capitalize on the data revolution.

2) Until now AI could only read and write but could not understand content. Generative AI models have changed this, enabling machines to understand natural language, and produce human-like dialogue and content.

3) By better capitalizing on data, AI could boost the world economy by up to $15.7tn by 2030 (PwC) with the global AI market (including software, hardware and services) reaching $900bn by 2026E (IDC).

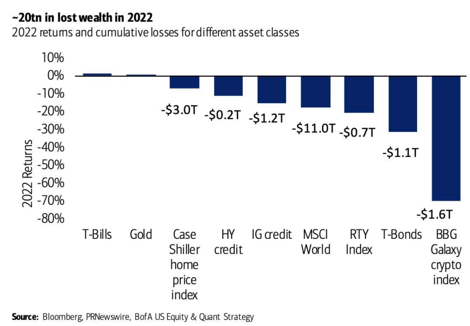
However, there are risks: the cost of a ChatGPT query is up to 300x higher than a Google search and training a single AI model could emit as much as 5x the lifetime emissions of an average car. Concerns also remain on ethics, copyright and related unemployment increasing inequality.

This is all quite exciting, and perhaps a bit scary. We are certain a lot of investment opportunities are there for the taking. How many will pan out is another thing. There are always many more losers than winners. Our analysts are currently researching ways in which our client portfolios can benefit, and I am sure we'll focus on the highest quality and not only what might appear as the most promising.

Bits and pieces of useful information in graphic form

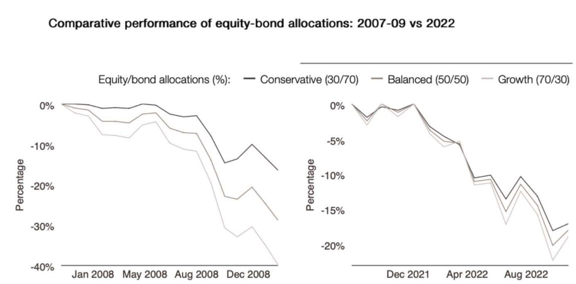
1. The losses in financial assets in 2022

As the below from Bank of America shows, there was serious loss of wealth last year. At about $20 trillion, it equates roughly the the size of the US economy! While equities accounted for about half of that loss, other asset classes participated. The hardest hit was crypto, that fell about 70%. Let's see what happens to global property in 2023.



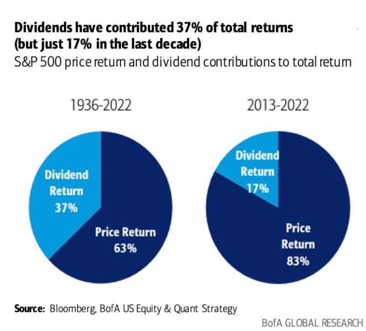
2. Nowhere to hide.

The below from Lombard Odier shows that a diversified portfolio of equities and bonds, that served conservative investors well during the global financial crisis, did not help much in the rout of 2022.



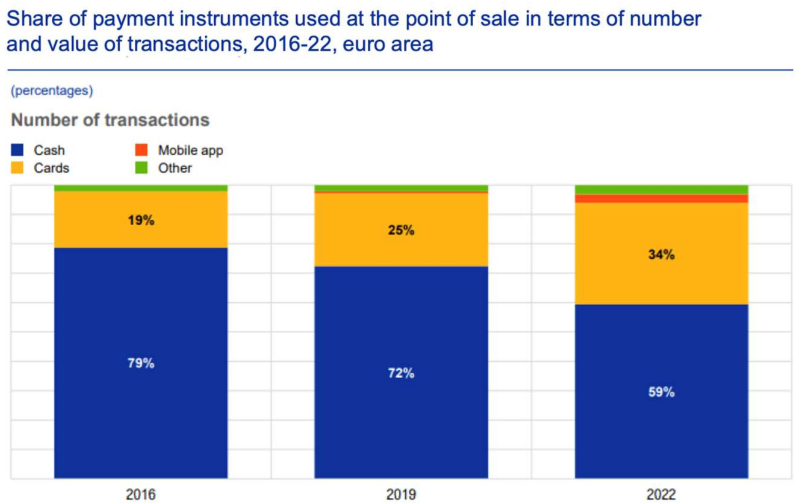
3. The diminishing power of dividends

In the last 10 years, dividends as a percentage of total return from equities, have fallen dramatically to only 13% (from Bank of America research). This is explained by the popularity of growth investing. Is the tide turning in 2023?



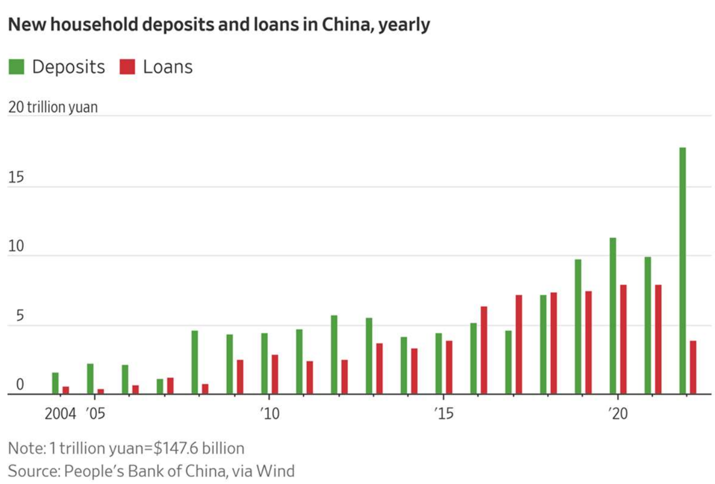
4. Why we invest in Visa and Mastercard

Both companies have featured prominently in our Best Ideas portfolios for many years, and they are still in our top-10 holdings in most such portfolios. There are many reasons we like them, and below is one. Cards still accounted for only about a third of all payments in Europe last year, though the trend is clear. If you think of much larger populations where cards are used even less, the runway is very long for future growth. There's no going back.



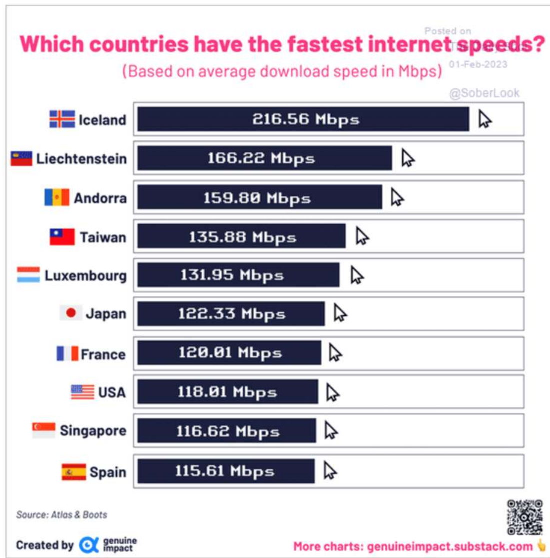
5. China cash on the sidelines

As in western countries, one of the pandemic's effects was that households hoarded cash and reduced their appetite for loans. It is no wonder that US retail sales have been very strong lately. Now it is China's turn. We cannot underestimate the benefits to the world economy as these cash piles start being put to work since the government's abandonment of Covid measures.



6. Internet speeds

In case you want to be working from home, you might consider living in any one of the countries that have the fastest internet speeds.



Source: @genuine_impact

Have a good month!

The Elgin Analysts Team

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