Rumour Has It: Fact Versus Fiction in the Markets, AI, and Tech

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There were multiple factors which caused a meltdown in the Japanese stock markets and corrections everywhere since the beginning of August.

Following the Bank of Japan's decision to raise its policy interest rate to 0.25%, the Japanese stock markets (as measured by the Nikkei Index) lost 6668 points (-17.5%) in two days. Obviously, 0.25% is not a big move, but investors were speculating that the rates would jump from zero (which the bank has maintained for over two decades) in the coming months. That speculation was shot down quickly by the BOJ Deputy Governor, Shinichi Uchida, reaffirming the bank will not hike into an unstable market. The Nikkei Index rallied 3631 points in the following two days.

The U.S. reported weaker job gains, and unemployment rose to 4.3%. Since the rate hike cycle began two years ago, some Wall Street strategists have been calling for a recession and miscalculated (missing upside). They looked for every single sign of weakness to blow; this is the closest they have gotten. This weak job report created opportunity for strategists calling the Fed behind the curve and should initiate a 50-basis point emergency cut. Realistically, we have not seen a recession trend; in addition, 4.3% is still a very healthy employment condition. The latest corporate earnings show both top- and bottom-line growth along with margin expansion.

Berkshire Hathaway, as run by Warren Buffett, sold almost half of its stake in Apple Inc. The position has been owned for over two decades. At around the same time, Intel Corp announced big layoff plans and underwhelming results. In addition, Microsoft, Amazon, and Alphabet announced large capital expenditures on AI but gave very little guidance on payback. Meta was in a similar situation last quarter and saw their share price decline over 10% in a day. This quarter, they beat expectations, citing the benefits of AI. These news stories triggered concerns over valuations of AI and IT companies. Realistically, neither Apple nor Intel is the leader in AI. Their products are also behind the competition, causing investors to flee. Investors in AI need to be patient and understand they are investing to ride a mega-trend that will likely be transformational.

Speaking of leaders in AI, there was a rumour that Nvidia has to delay the launch of its Blackwell chip. We usually don't comment on rumour, but keep in mind the Blackwell chip has effectively no competition and the predecessor has been bought with months worth of orders in line.

Each of the above were insignificant events, as we explained, but together were enough to create a perfect storm in August when liquidity was generally poor, but rumours was hot and extreme. We expect the markets to filter through the facts and stabilize in the coming weeks.

Combined top 15 equity holdings as of July 31st, 2024 of the Assante Private Portfolios 40i60e Standard portfolio with Alphastyle exposure:

1. Microsoft Corporation 2. NVIDIA Corporation 3. Amazon.com, Inc. 4. Constellation Software Inc. 5. Hemnet Group AB	6. Schneider Electric SE 7. ServiceNow, Inc. 8. Constellation Energy Corporation 9. Novo Nordisk A/S Class B 10. ASML Holding NV	11. CRH public limited company 12. ASM International N.V. 13. Eli Lilly and Company 14. Rheinmetall AG 15. Safran SA

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