

Tip of the AI Iceberg

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Alfred Lam, CFA, Senior Vice-President, and Co-Head of Multi Asset
CI Global Asset Management

If you wake up tomorrow morning believing the world is about the same as today, you are probably missing something. We are seeing dramatic changes led by technological advancements, and the latest is artificial intelligence (AI). A year ago, we were all excited about ChatGPT, which answers questions, translates languages and turns text into a full presentation. A year later, Sora is about to be launched with the ability to turn text into video. For decades before the internet, we went to shopping malls and department stores to **shop**; a decade ago, we started to **search** online platforms for products; and in the latest development, what we want actually **shows up** on our social media! Yes, your social media knows what you want to buy and bombards you with pictures of celebrities and your friends using those products. To the seller, it is highly efficient as it doesn't cost a lot to cater to you and, as a result, the hit rate is very high.

We have talked about artificial intelligence being a multi-decade trend. The leading hardware provider of that trend, Nvidia, has seen its market capitalization doubled in less than a year following a few quarters of blockbuster earnings. When the CEO says they have more demand than supply, we are confident this AI trend is moving forward faster than anyone had imagined. Does that mean the investment opportunity has been exhausted? The short answer is no. Hardware is only the beginning of the trend. Companies need to acquire hardware to develop software, and software needs to be integrated into business models. We are in the early phase of that trend and the breadth of opportunity is expanding as AI is being applied to (eventually) every business. Conservatively, if 20% of the market capitalization of the S&P 500 Index is AI enablers and adopters, the potential value is over \$10 trillion. With the recent growth of Nvidia, Microsoft and Meta, for example, the markets have probably only exhausted \$2 of the \$10 trillion opportunity.

JP Morgan recently conducted a survey with almost three thousand researchers and authors of AI; they concluded the following:

By 2028, there is at least a 50% chance that AI systems will be capable of autonomously constructing a payment processing site from scratch, creating a song indistinguishable from one by a popular musician, and autonomously downloading and fine-tuning a large language model.

By 2037, there is a 10% chance that machines will outperform humans in every possible task, and by 2047, this likelihood increases to 50%.

JP Morgan's CEO, Jamie Dimon, has also embraced AI initiatives at his firm. He has predicted business value generated by AI could be over \$1.5 billion a year for JP Morgan. Dimon has said the technology could eventually allow employers to shrink the workweek to just 3.5 days.

What is more interesting is the timeline of advancement compared to predictions made just one year earlier. The good news is AI is not just replacing jobs. With technology and AI, patients with life-threatening conditions are closer to getting a cure. We anticipate the biotech sector will be the natural beneficiary of AI and there will be a leap forward in drug development. The GLP-1 therapy, for example, is effective in addressing obesity.

Who's going to win this revolution? Without a doubt, it will be the users and shareholders of companies that enable and use AI. Investors should also be mindful that even a solid trend will have its moment of volatility. It is always important to actively manage your investments and emotions.

Combined top 15 equity holdings as of February 29th, 2024 of the Assante Private Portfolios 40i60e Standard portfolio with Alphastyle exposure:

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