

INSIGHT

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PERSPECTIVES FOR THE GOAL-BASED INVESTOR

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Loss of Confidence in the Dollar

The strength of a nation's currency plays a crucial role in its economic stability and global standing. For decades, the United States dollar (USD) has been the dominant global reserve currency, bolstering America's economic might. However, in recent times, the dollar's value has faced a downward trend, leading to long-term economic concerns for the US.

A declining currency is primarily a result of various economic factors. One crucial factor is the persistent trade deficit experienced by the US. The nation's voracious appetite for imports, coupled with a lackluster export performance, has contributed to an imbalance in its current account, leading to a depreciation of the dollar. Additionally, fiscal and monetary policies, external political factors, and shifts in investor sentiment can also influence the dollar's trajectory.

As the dollar weakens, the cost of imported goods rises, fueling inflationary pressures in the domestic market. American consumers feel the pinch as they experience a decrease in purchasing power. Essential goods like oil, electronics, and automobiles become more expensive, burdening households and hindering consumer spending. This can potentially lead to reduced economic growth and a dent in the standard of living for the average American.

A weaker dollar can also have serious implications for the US's foreign debt. Since the dollar is the primary global reserve currency, foreign governments and

institutions hold significant amounts of dollar denominated assets. As the dollar declines, the real value of this debt diminishes for creditors. However, it also becomes more challenging for the US government to service its obligations effectively. To attract foreign investors and maintain confidence, the US may have to offer higher interest rates, exacerbating the cost of debt and impacting budgetary constraints.

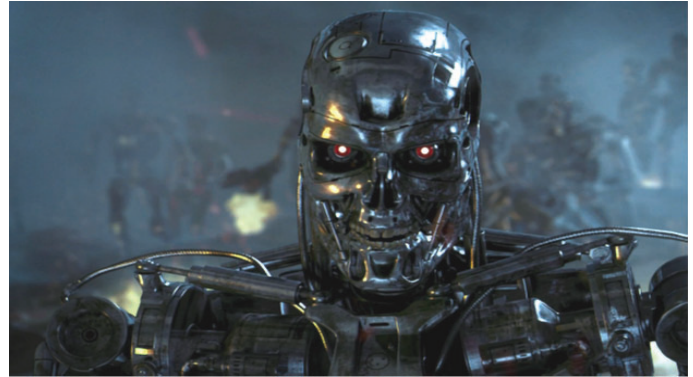
A declining dollar could result in a loss of the US's traditional economic influence on the global stage. As other nations seek alternatives to the dollar as a reserve currency, they may diversify their holdings into other currencies, like the euro, yuan, or even cryptocurrencies. This shift can weaken the US's ability to leverage its currency for geopolitical purposes, potentially reducing its diplomatic sway and capacity to impose sanctions effectively. The dollar's diminishing dominance may also erode the US's ability to negotiate favorable trade agreements and exert influence over international financial institutions.

While a weaker dollar can boost American exports by making them relatively cheaper for foreign buyers, the effect may not be immediate or proportional. Many US manufacturers rely on imported raw materials and components, which become more expensive with a declining dollar. Consequently, the benefits of increased exports might be partially offset by higher production costs, leading to potential job losses in export-dependent industries. Moreover, if the dollar's decline is seen as a sign of economic weakness, it may undermine the perception of American goods and reduce demand in international markets.

The declining value of the US dollar presents a complex set of long-term economic challenges for the nation. A weakened dollar can lead to increased inflation, reduced purchasing power, and an impediment to economic growth. It can also exacerbate foreign debt and interest rates while potentially undermining the US's global economic influence. Moreover, the impact on export competitiveness and job loss, as well as reduced foreign investments, further add to the nation's economic woes.

Addressing these issues requires a coordinated effort by policymakers, focusing on promoting exports, reducing the trade deficit, and enhancing domestic productivity. Striking a balance between fiscal and monetary policies to maintain price stability while stimulating economic growth becomes crucial. Additionally, proactive measures to attract foreign investments, such as creating a favorable business environment and ensuring currency stability, can help mitigate the negative effects of a declining dollar.

The US must also recognize the changing dynamics of the global economic landscape and work towards strengthening its economic fundamentals to maintain its position as a leading economic power. By diversifying its export markets, investing in research and development, and fostering innovation, the US can enhance its competitiveness and reduce reliance on a strong dollar.



The Rise of the Machines

The biggest market story of 2023 has been the emergence of artificial intelligence. While AI has been around for some time, the advancement in the technology behind AI applications has now started to offer numerous advantages for businesses, enabling them to streamline operations, improve decision-making, enhance customer experiences, and gain a competitive edge. While there has been a lot of hype about the benefits of AI, it is instructive to understand how these benefits will actually help business operations.

Automation and Efficiency: AI can automate repetitive tasks, saving time and resources. It can perform data analysis, generate reports, process transactions, and handle customer inquiries, allowing employees to focus on more strategic and complex activities.

Enhanced Decision-Making: AI algorithms can analyze vast amounts of data and extract valuable insights. By leveraging machine learning and predictive analytics, businesses can make data-driven decisions, identify trends, detect patterns, and anticipate future outcomes with greater accuracy.

Improved Customer Service: AI-powered chatbots and virtual assistants can provide 24/7 customer support, promptly address inquiries, and offer personalized recommendations. Natural language processing allows these systems to understand and respond to customer queries, enhancing overall customer satisfaction.

Fraud Detection and Risk Management: AI algorithms can detect fraudulent activities by analyzing patterns, anomalies, and historical data. Businesses can leverage AI to identify potential risks, prevent fraud, and strengthen security measures.

Operational Optimization: AI can optimize various operational processes, such as supply chain management, inventory forecasting, production planning, and logistics optimization. This can lead to cost reductions, improved efficiency, and better resource utilization.

Enhanced Data Security: AI can help identify and mitigate potential cybersecurity threats. It can detect suspicious activities, identify vulnerabilities, and enhance data protection measures, safeguarding sensitive business and customer information.

Advanced Analytics and Insights: AI can analyze complex data sets quickly and accurately, uncovering hidden patterns and insights that humans might miss. This can lead to better market understanding, improved forecasting, and more effective business strategies. Even more importantly, AI systems can scale to handle large volumes of data and tasks without a significant increase in resources. They can adapt to changing business needs and evolving market conditions, ensuring continued effectiveness and relevance.

It's important to note that while AI offers significant advantages, businesses must also consider ethical implications, data privacy concerns, and potential biases that may arise when deploying AI applications. We are still in the early stages of the development and there will be undoubtedly be challenges ahead that we are not aware of today.

Is AI the Next Internet 2.0?

One of the dangers of a "new era" in investment is that the hype and enthusiasm associated with new technology often leads to over-enthusiastic behavior by investors. This was certainly true during the last such period in 2000 and there are several parallels between the internet bubble and the current technology rise driven by the AI hype:

Excessive Valuations:

Perhaps the biggest concern for most investors is what to pay for the growth potential. During the dot-com bubble, numerous internet companies were valued at astronomical levels despite having little or no revenue. One prominent example is Pets.com, an online pet supply retailer that went public in February 2000. Despite generating minimal revenue and facing significant operational challenges, its stock price soared. However, Pets.com eventually collapsed, and its shares became worthless.

In the current era, while we see companies in the AI space commanding high valuations based on their potential, there are other sources of revenue and cashflow that are supporting these valuations. rather than actual earnings. For instance, Facebook an has been considered a technology media company with AI capabilities. Its market capitalization has surged this year, largely on the basis of the increased presence of AI. However, Facebook has significant revenue and cashflow, away from any additional future benefit that AI will provide.

Investor Frenzy:

The dot-com bubble witnessed a frenzy among investors who rushed into the market to invest in internet-related companies. Many individuals and institutions invested in these companies, driven by fear of missing out on potential gains. This speculative buying led to significant volatility in stock prices.

Similarly, the current technology rise driven by AI has attracted substantial investor interest. The rush to invest can always skew expectations. One notable example is the Initial Public Offering (IPO) of AI-driven companies, such as Snowflake, an enterprise cloud data platform. This IPO generated substantial investor excitement and resulted in significant stock price gains, indicating a similar sense of investor frenzy. However, after the initial excitement wore off and the company was evaluated more on financial results than hype, the price dropped significantly to reflect the more realistic future earnings and growth potential. In fact, the

"early" investors who bought into the hype have suffered a 25% loss on their investment – even as the company has started to deliver on its promised growth.

Limited Profitability:

Many dot-com companies had promising ideas but struggled to translate them into sustainable business models. A prominent example is Webvan, an online grocery delivery company. Despite raising billions of dollars in funding, it faced logistical challenges and high operational costs. Eventually, Webvan filed for bankruptcy in 2001. Now we see the same concept expressed by companies such as Uber, DoorDash and others – the difference being that there is a level of profitability to the current financial situation.

Market Volatility:

As we all know in hindsight, the dot-com bubble ultimately burst, leading to a sharp decline in stock prices and a multi-year market correction. Even companies like Amazon that were previously highly valued saw their stock prices plummet. The NASDAQ Composite Index, which was heavily influenced by dot-com stocks, experienced a significant decline from its peak in March 2000. While the current technology rise driven by AI has not experienced a similar crash, there have been instances of market volatility. For example, the stock prices of AI-focused companies like Nvidia and AMD, which provide hardware for AI applications, have experienced significant fluctuations in response to market sentiment and macroeconomic factors.

The Future...

While there are certainly similarities between the two periods, there are also significant positive differences. Unlike the dot-com era, the current AI-driven technology rise is backed by significant technological advancements and practical applications. AI has

already shown immense potential in various fields, including healthcare, finance, transportation, and manufacturing. The transformative impact of AI is based on tangible developments, such as machine learning algorithms, natural language processing, and computer vision, which have already demonstrated value in real-world scenarios.

More importantly, many AI-driven companies today are not solely reliant on unproven business models or speculative future potential. Instead, several companies integrating AI technologies have established revenue streams and solid market positions. Companies like Amazon, Google, Microsoft, and Apple have successfully integrated AI into their products and services, generating substantial revenues from their AI-driven initiatives.

The dot-com bubble was fueled by a surge of inexperienced retail investors who jumped into the market without fully understanding the companies they were investing in. In contrast, having the benefit of hindsight, today's investors generally have a higher level of market maturity and are more discerning in their investment. Many AI-driven companies have learned from the mistakes of the dot-com era and have developed more robust and sustainable business models. They have identified practical ways to monetize their AI technologies, whether through software-as-a-service (SaaS) models, data analytics, or value-added services. This focus on monetization helps differentiate the current market from the dot-com bubble, where many companies struggled to translate their ideas into viable revenue-generating operations.

Overall, while there are similarities between the dot-com bubble and the current technology rise driven by AI, it is important to recognize the advancements and practical applications of AI technologies today. However, the cautionary lessons from the dot-com bubble serve as a reminder to approach investments in AI-driven companies with careful evaluation and consideration of underlying fundamentals.