



THE DANA VIEWPOINT

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Embrace Change

In our March Viewpoint, we wrote about uncertainty. That was within a week of the market bottom on March 30th. There was much to worry about then; the war with Iran was entering its second month, energy prices were spiking, and Kevin Warsh's approval as Fed Chairman was on hold.

Many market investors and professionals shared these fears. Most major market indexes declined about 10% in the first quarter of the year. These fears obviously affected earnings estimates for the quarter.

Many companies ultimately provided very positive earnings surprises when they announced their first quarter results. As a matter of fact, on average, companies beat their earnings expectations by more than double the amount that is typical. These positive surprises have driven market indexes to new highs, with individual market sectors up 15-50% from the lows.

Large upside surprises during earnings season are unabashed good news for the market. This belief is supported by the double digit percentage move up in the S&P 500 so far this quarter. The analyst community may be surprised that they undershot estimates by such a large amount, and may only grudgingly raise forward estimates, potentially leaving more room for the market to beat in future quarters and for a continued move up in prices.

Rates in the bond market have moved higher as the Iran conflict has taken hold. Most rates across maturities are in the 4% to 6% range. Rates aren't repressive, but they feel high after coming off a long period of sustained low rates. At least bond investors are receiving a decent return that helps temper any price movement in bond holdings. The FOMC does not look like they are in a hurry to cut rates, but it is Kevin Warsh's Fed now, and we should learn more about where he is going to steer rates at his press conference following his first meeting in charge this month. Many find higher rates worrisome, but our friend Don Luskin at TrendMacro has pointed out that rising rates usually precede a period of stronger economic growth.

The implementation of AI tools may result in disruption in some areas of the economy, but if the overall effect is positive for the economy and productivity growth, the stock market will reflect it in higher earnings and higher stock prices.

As we have said before, the most important benefit of AI is that it lowers the cost of cognition. It does this by allowing us to gather information appropriate to the task at hand, and helps us compile that information in a form that allows deduction and elucidation.

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AI will be subject to an economic principle called the Jevons paradox, which states that when a technological advancement increases efficiency and lowers cost, we find a new way to use that output, resulting in greater consumption. A good example of the Jevons paradox is fracking. As oil and gas became harder to find and more expensive to extract, many thought that it would make alternative sources of energy more viable. The technology of fracking allowed the United States to access great quantities of oil and gas that was previously unattainable. This held down the cost and increased the supply, allowing the United States to become the worlds largest oil and gas producer, currently producing about 40% more than Saudi Arabia.

Humans are still the largest input cost for our economy, making up approximately 50% of our GDP production cost. Lowering the cost of cognition will leverage that cost and drive it lower per unit of output. This is fabulous news for the U.S. economy.

We don't kid ourselves that these gains will take time to produce benefits. That's why the "picks and shovels" gold rush analogy applies. Semiconductors are the picks and shovels of the current economic evolution.

One common recent complaint is that programmers will lose jobs. This is not true. They will gain jobs as they are redeployed in occupations that may be titled AI Facilitation Managers. Programmers are the most direct example of this AI deployment, but it will happen in many different occupations. People will be upskilled, their value will increase, and their compensation will increase.

Embrace change. Don't run from it, face it, and strive to understand it.

We live in such exciting times. We will work to continue to understand the evolutionary effect of AI technology, and take advantage of the investment opportunities that arise.

This Viewpoint WAS NOT written using AI.

Random Thought: "I predict that... not only will we have a much wealthier civilization, but the quality of work will go up very significantly and a higher fraction of people will have callings and careers relative to today." - Jeff Bezos

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