

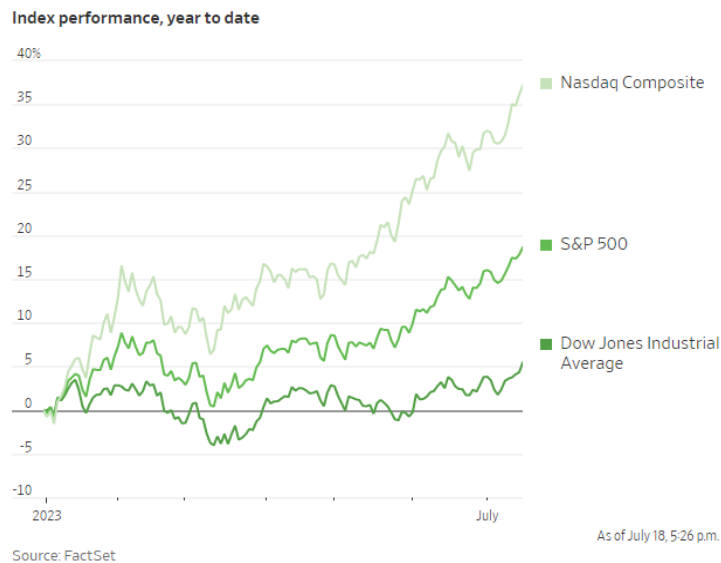
# "Tech"tonic Shift

**Hegemony-** the social, cultural, ideological, or economic influence exerted by a dominant group.

In terms of continuity, 2023 has not been an extension of 2022. The expectation was a litany of data points leading to a recession in the first half of the year. In theory, higher interest rates tend to erode growth equity valuations (Tech) more so than their value counterparts. Sectorial rallies have kept the capital markets chugging along and there has been no sign of a definitive recession within the North American borders. We are still dealing with the same stories of reining in core inflation, rate hikes (timing on cuts!), and their subsequent impacts on businesses and consumers. We are, however, starting to see cracks in the system as these measures are constraining general consumer spending habits. Once again, this is necessary to restore the cheques and balances of a well functioning economy.

## Some facts we do know:

- The Technology majority index NASDAQ has jumped over 30% since the start of 2023. For the first 6 months, that marks the index's best start in over 40 years. Notably, Apple hit a 3 trillion market valuation for the first time. <sup>1</sup>

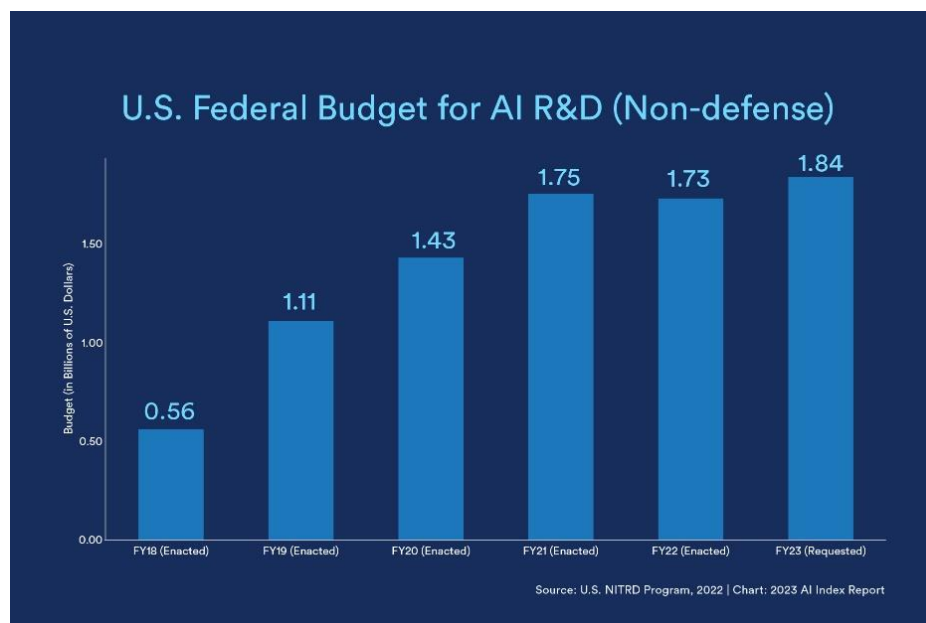


<sup>1</sup>

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- Retail and Institutional investors have been deploying overwhelming amounts of capital into Artificial Intelligence (“AI”) start-ups. The global AI market is valued at over US\$136B and is expected to 13x in under a decade.<sup>3</sup> This disruptive technology “trend” has cemented technology’s largest innovation driver to date. Notice I have trend in quotations because any other term could be misconstrued as a bubble. While some may believe it will be short lived, Artificial Intelligence from a business application is here to stay. US Federal funding towards AI has also continuously grown each year. Typically, an uptick in government funding from a research and development perspective is generally perceived to be positive foresight to lasting economic and social change.



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- There has been a concentrated group of stocks that have generated the lion’s share of market returns in 2023. Leading the charge are chipmaker Nvidia, EV manufacturer Tesla, and social media empire META all posting triple digit returns year to date. Joining them are major players Apple, Microsoft, Google Parent Alphabet, and Amazon as they are all deploying significant amounts of R&D to AI and continuing their oligopoly structure in the technology and consumer goods space. Even on the Canadian side and our less than satisfactory technology exposure, there is life in Shopify again.

## AI Overview

Broadly speaking, Artificial Intelligence is guided by machine learning, which directs systems to synthesize vast amounts of data. These systems are then used to exploit and establish applications across verticals and industries to heighten business production and

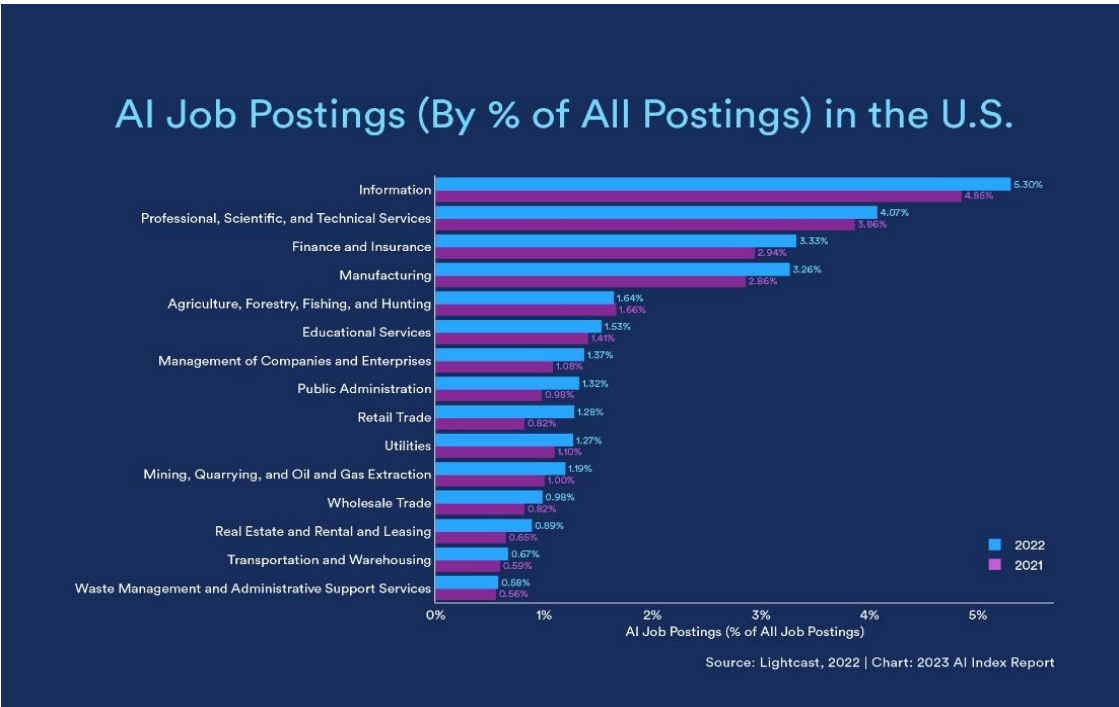
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consumerism. In other words, they simulate human intelligence to reason, problem solve, and make decisions. If it sounds unsettling to you, you are not alone. I was immediately in opposition of its use in the working world. I was specifically worried how it might displace jobs and challenge the unemployment rate, which in turn would create economic strife and disparity between the 1% and middle class. In terms of ethical concerns, the list goes on. However, the more I investigated, the more I realized technology advancement is here to compliment the human touch and there is real upside to this dynamism. I have faith that in the capitalistic system we abide by this disruptive catalyst to change could augment how we work, interact, and make decisions. **AI is not a self-fulfilling prophecy for wallet share by big tech, but to enhance the world we live in.**

Although in the early days, the momentous shift in this space has industry practitioners of all facets chronicling ways that more intelligence will lead to a better everything. AI Job postings have continuously increased throughout all sectors as corporations are dropping the “us vs them” frame of mind to a more synchronous merger of human and machine interaction. This interaction could open a lot of doors. For example, AI could play a major role in climate change with its ability to decipher and distill raw data; taking satellite imagery and picking out where deforestation is happening to help aid human decision on policy or private sector accountability.<sup>5</sup> Or in biotechnology space, where AI could collect massive amounts of data to measure how genes interact with each other and how they can change under different diseases or circumstances.<sup>6</sup> Once again, we see that simplifying large data aids in guiding human decisions.



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### **So, what does this all mean from an investor lens?**

Firstly, I am pinpointing technology because it is a relevant example of how sectors can oscillate in and out of favour. From a capital markets perspective, the tech sector took a bearish turn amid rising interest rates and inflation in 2022, followed by a resurgence this year. Multiple expansions in technology can signal that peak to trough framework in prices, given that a lot of their returns are based on future cash flows. There will always be companies in Silicon Valley and elsewhere opportunistically chasing the next revolutionary transformation. Whether its media consumption, climate change and green technology, biotech and healthcare, there is always a battle for profit. Right now, we are seeing the largest technology and telecommunications players deploy capital to drive exponential change in how “blue” and “white” collar individuals work. **Do I think the 200+% year to date returns by Nvidia is sustainable? No. Do I think there will be some cooling? Yes. Do I also think other sectors will be in favour as investors take some cash off the table in the technology space? Yes, always.**

### **Why Diversification works**

Although these rallies in the technology space are incredibly enticing, it is essential to remember not to throw all your eggs in the same machine learning basket. In 2022, Canada’s market composition and relative overweight to the energy sector and insignificant technology exposure allowed for an outperformance to the US. As a resource dominant market, Canadian energy companies added to their bottom lines from the surging prices of oil and other commodities. The US being a global leader in the technology space came into the year with overvalued tech companies that saw drawdowns through the board as the NASDAQ returned -33%. Now, past the midpoint of 2023, the roles have reversed. Canada’s returns have been relatively stable as the financial sector has felt some recent volatility and energy has cooled off. There has been an uproar in the technology space, led by 7 major players. This is just one example of when one market or sector is experiencing significant upside, others could be stagnant or at a down point in their business or macrocycle. The deviation in performance between markets demonstrates the importance of having a broadly diversified portfolio of stocks, bonds and real assets. This will limit portfolio volatility and allow one to participate in some meaningful upside over the long-run.

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- 1) [Wall St rallies; Nasdaq hits 40-year milestone, Apple scales \\$3 trillion | Reuters](#)
- 2) [Markets Appear Convinced the Fed Can Pull Off a Soft Landing - WSJ](#)
- 3) [57+ Amazing Artificial Intelligence Statistics \(2023\) \(explodingtopics.com\)](#)
- 4) [2023 State of AI in 14 Charts \(stanford.edu\)](#)
- 5) [Five ways AI could improve the world: 'We can cure all diseases, stabilise our climate, halt poverty' | Artificial intelligence \(AI\) | The Guardian](#)
- 6) [Five ways AI could improve the world: 'We can cure all diseases, stabilise our climate, halt poverty' | Artificial intelligence \(AI\) | The Guardian](#)
- 7) [2023 State of AI in 14 Charts \(stanford.edu\)](#)

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