

New Opportunities

*By Jeff Otto, CFA, Senior Vice President,
Co-Chief Investment Officer - Select Growth*

Early in my career, I worked as an investment analyst on a domestic small-cap growth mutual fund called New Opportunities. Our mandate was to identify, research and invest in companies with outsized growth opportunities and potential for strong share price appreciation. Fortunately for me, I began my career a few years after the internet bubble burst and just as many of the surviving technology companies with venture capital funding were launching initial public offerings (IPO's), providing investors with a chance to ride a wave of new opportunities. Several of the largest stocks in the S&P 500 Index today including Alphabet, Meta, and Tesla began trading publicly shortly after the year 2004.

For the better part of the last decade market returns have been increasingly concentrated around a handful of existing public companies – including all of the stocks previously mentioned. The response to the global financial crisis, quantitative easing and near zero interest rates, narrowed the gap between public and private company valuations. This resulted in fewer IPO's and therefore the supply of public companies available to deploy investable assets.

A New Wave

The emergence of AI is creating new markets and investment opportunities similar to the PC, internet and mobile eras. The pace of investment is staggering with AI capital expenditures expected to reach \$850 billion in 2026, up from just under \$200 billion in 2022, the year Chat GPT launched. Anthropic, the AI developer of Claude, is considering a fourth quarter 2026 IPO that could raise \$60 billion dollars. Amazingly, founded in 2021, the young company privately raised capital at a \$380 billion valuation. OpenAI, SpaceX and Anduril Industries

are other large private companies expected to go public as soon as this year. Typically, successful IPO's are a positive signal for other private companies to test the public markets. As these companies enter the investable universe, our equity strategy teams will thoroughly examine their merits as potential additions to client portfolios.

It is not just these companies that will shape the investing landscape over the next decade. Currently new business formation is running above levels seen during the post-COVID high point. Previously unimaginable business models are being cultivated today that may become future

stock market winners. Just looking back to the iPhone's launch in 2007, who could have predicted that companies like Uber, Doordash and Airbnb would become so successful running a business leveraging the iPhone's mobile app marketplace?

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Productivity Boost

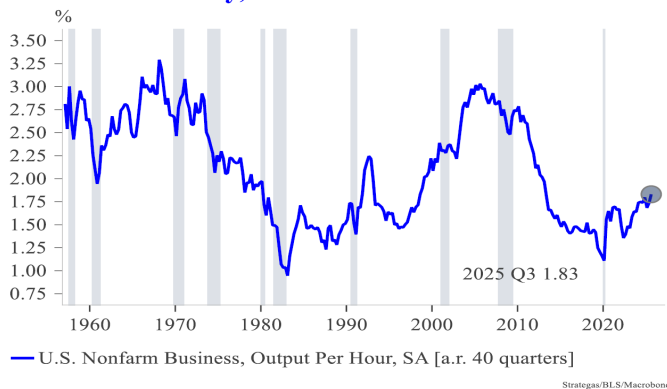
The impact of AI on the economy is hotly debated, but we can take clues from previous technological revolutions. Many skeptics are predicting AI will expand economic output while displacing a significant amount of white collar jobs, leading to phantom economic growth. While certain roles may be eliminated or altered, others will be enhanced while entirely new job functions will be created. The rise of Microsoft Office did not eliminate office jobs but instead complemented them. An area of concern in the market lately has been the ability



of Anthropic’s Claude Code to successfully write software code. Yet, over the last year, there has been an increase in job postings for software engineers according to Indeed! Most economists can’t accurately predict GDP growth or payroll employment three months into the future but somehow speak with certainty that AI will displace a large chunk of the workforce. We expect the more optimistic scenario will prevail.

If AI turns out to be a complement to jobs and a productivity boost, then we will likely work more, not less. In 1930, John Maynard Keynes wrote “Economic Possibilities for our Grandchildren,” where he predicted that by 2030 technological progress would be so powerful that it would allow people to only work 15 hours a week. Of course, that prediction has not panned out. Ironically, JPMorgan CEO, Jamie Dimon, was recently interviewed and predicted that AI, in the long run, will be so unbelievable that our grandkids will be working three-and-a-half days a week. Both are correct in their prediction about productivity growth due to a technological revolution, as shown in the graph below. Yet history shows that as productivity and real incomes grow, hours worked remains strong as our preference for consumption increases towards higher-end goods and services.

U.S. Productivity, Smoothed 10Yr Annual Growth



Always Adapt

Over the course of history, the S&P 500 has weathered impacts from wars, recessions and technological revolutions. The magic of the stock market is that it is constantly adapting to changes

in the composition of the economy. Fifty years from now, today’s top stock market performers may be relegated to the dustbin of history. We are confident if that were to occur, other stocks would rise and take their place. New businesses are being created every day, many positioned well for advancements in AI, and it is likely some of them will propel the stock market higher over the next decade and beyond.

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The current AI revolution is aligned with our investment philosophy, as growth in productivity is a long-term tailwind that should benefit stocks for years to come. However, as the composition of the market changes shifts in client portfolios may be necessary to gain exposure to new secular trends, either through individual stocks or different asset classes. It has been just over 20 years since Alphabet became a publicly traded stock, soaring to one of the most valuable companies in the world. This year as new companies issue stock to the public we are eager to identify the next wave of opportunities for the coming 20 years and beyond. We remain well positioned to take advantage of this changing landscape.

CURRENT DISCLOSURES

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