November 2024

# Investment conference reflections 2024 & US election outcome

## Ian Quigley, Head of Investment Strategy shares his highlights from this year's investment conference, from extraordinary market trends to the artificial intelligence (AI) revolution.

This year's investment conference was held on 2 October, and we had the pleasure of welcoming to the stage our colleagues Davina Rich, RBC Brewin Dolphin's Head of Research, and Nishad Subramaniam, Senior Equity Analyst covering Semiconductors and Industrials.

### An exceptional time for the markets

The conference started with a discussion on how the last two-years have been an extraordinary period for markets, with the economy digesting a rapid rise in interest rates and the more recent excitement around AI.

We've seen a definite advantage in approaching markets from a position of 'pragmatic optimism', and the last couple of years, once again, reminded us of the benefits of such a disposition. While we'll inevitably have to endure difficult markets, over time there's undoubtedly a significant reward for being invested in equities that have good shareholder protection and alignment.

Looking back at late 2022 and early 2023, the financial media suggested the economy was most certainly going to experience a recession and I examined why this hasn't happened, at least thus far.

I also discussed the highly unusual economic cycle, which has been heavily impacted by the post-covid economic re-opening, and why the odds for a soft landing were always higher than most had thought. Historically central banks haven't been able to get inflation back to target from the elevated levels of 2022/23 without a recession, however it was too simplistic to apply historical analogues to this cycle.

Shutting down the global economy, while cutting interest rates to zero, supporting people via massive fiscal transfers, and then re-opening the economy within a two-year window is clearly without precedent. So, making definitive predictions was always folly.

Since peaking in early 2022, at around 3%, long-term inflation expectations in the U.S. had been trending lower, as the log jam caused by the post-covid supply chain was resolved. At no point did this cycle look like the historic periods of the runaway inflation we saw in the 1970s.

The good news is, it now looks like inflation is under control and the global economy is continuing to grow, at a slow but reasonable pace, i.e. a soft landing.

We don't like to play the guessing game of future predictions, however historically when the majority of central banks are cutting rates and the economy hasn't been in recession, we've seen pretty strong markets. Balancing against this supportive backdrop, overall market valuations aren't especially 'cheap', I described them as 'fair'.

We also discussed heightened political risk and the potential for market volatility. However, I emphasised that we don't believe in making material portfolio changes ahead of elections, as we don't know the outcome or, indeed, how markets will react to any given outcome.

The election has, of course, now happened and the market reaction has been quite strong, with some clear initial winners and losers from a Trump presidency.

Companies perceived to benefit from lower taxes and de-regulation have seen a very strong share price reaction. In contrast, the share prices of global multinationals that sell into the U.S. have been quite weak, as the market anticipates tariffs.

With the Republicans projected to win a majority in the House of Representatives, as well as the Senate, the U.S. electorate has given the Trump presidency a clear mandate.

In the short term, this outcome has led to a significant outperformance of U.S. equity markets relative to others, and this seems like a rational response.

Of course, much is to be determined, and we don't know at this stage what the ultimate impact will be and whether Trump will achieve his policy goals.

No doubt there will be plenty of volatility in the months ahead and we may return to the headline reactive environment we saw during Trump's first presidency.

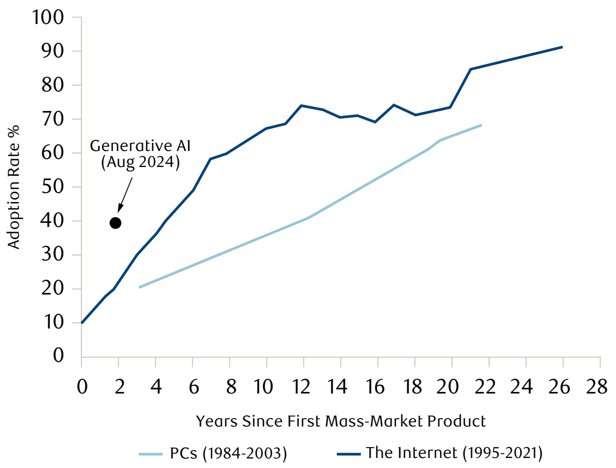
While it might sound trite, we genuinely believe that the best form of protection against market volatility is to own higher quality assets with a long-term time horizon and this will remain our focus.

## The rapid growth in AI's popularity

Returning to the conference, AI, with its technological advances and rapid pace of adoption, was another topic for discussion.

A recent research paper by the National Bureau of Economic Research in the U.S. showed that 39% of the U.S. population age 18-64 have used generative AI tools, like ChatGPT and Microsoft Copilot, with nearly a quarter of the population using these tools weekly. This pace of adoption is running significantly higher than the rate of adoption we saw with PCs in the late 1980s, and the internet in the late 1990s. AI has a far steeper initial adoption curve as illustrated opposite.

**Adoption rates of major technology innovations**




Source: Empirical Research Partners and Bick, A., Blandin A. and David J. Deming, 2024 – "The Rapid Adoption of Generative AI," NBER Working Paper 32966

This rapid pace of adoption is largely due to the fact we can all easily access generative AI tools, via our phones or PCs. It's much more accessible than the PC or internet were at the same stage of their development.

If we consider this alongside the massive amount of capital being invested by the large U.S. cloud computing giants, we may well be on the cusp of some pretty big changes right across industries, and we need to think about how our companies might adapt to this change in environment.

## How we're reacting

Davina discussed our focus on identifying and investing in high quality businesses that can prosper in differing economic environments.

Nishad then took the audience through advances in computing and AI, demystifying the AI value chain and discussing the companies that are central to the advances we are seeing today. These companies range from the leading semiconductor companies, supplying the 'picks and shovels' for the AI goldrush, to the software companies that are deploying AI tools in their businesses.

Nishad illustrated the truly gargantuan expenditure of the big cloud computing giants on building out their AI capabilities, with their prodigious cash flows funding their capital expenditure (CapEx) plans. It's quite clear that the leading U.S. technology companies have

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committed to investing in AI and while we might debate the ultimate return they'll generate on this investment, we shouldn't doubt their intent.

There's no doubt the sector has attracted some hype over the past year. Nishad discussed multiple use cases for AI technology and how many industries were still early in the adoption curve.

To conclude his presentation, he quoted Bill Gates, noting that *"we always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten."*

There is little doubt in our minds that we need to understand the ramifications of potentially profound changes in technology, and we are fortunate to have an equity team focussed on the right things, asking which companies can survive and prosper in a changing economy.

As an example, our increased emphasis on investing in companies that have proprietary datasets is a direct result of our debate over which businesses can best leverage and benefit from advances in AI.

## The importance of quality research

Davina talked in more detail about RBC Brewin Dolphin's approach to research, outlining the resources we have and the depth of experience within the team. She also spent some time discussing the key drivers of shareholder returns, how well-run businesses, in growth markets, outperform over time, and how important it is for the research team and the companies we invest in to have a growth mindset.

She expanded further on this topic by discussing the crucial role of capital deployment and how successful companies can invest capital at higher rates and deliver growing shareholder value.

Investing in high quality businesses is central to our approach and Davina expanded on what this means for RBC Brewin Dolphin, discussing how the team reviews external factors, like the industry the companies operate in, as well as internal factors, such as culture and management. Valuation and risk factors are considered as part of the process, as we endeavour to buy high quality businesses at reasonable prices.

## In conclusion...

I may be biased, but I think this year's conference was one of our most engaging yet, demonstrating the scale of resource we have.

With the U.S. election now passed, we're also thinking through the implications and while we don't envisage making major changes to portfolios as a result of the outcome, we are considering the potential longer term impacts.

Our goal, as ever, is to protect and grow clients' capital and we're convinced that having an optimistic lens on the world with a focus on ideas, and with an experienced research team asking the right questions is the right way to approach this challenge.

As ever, if you would like to discuss our views further, please do not hesitate to contact us.

Ian Quigley
T: +353 1 2600080
E: ian.quigley@brewin.ie
W: brewin.ie

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