

JEFF'S MARKET UPDATE

3rd Quarter 2024 Market Commentary (as of 7/02/2024)

KEY POINT: Can artificial intelligence continue to help the markets reach new highs.

With earnings growth accelerating and interest rates being cut in the foreseeable future, the question is can the markets continue to make new highs or will economic weakness derail the rally? It's a perplexing question given that we are in the middle of this "artificial intelligence" theme and rally.

The timing of the potential FED interest-rate cuts most definitely will play a role. In March, the Fed was expecting three cuts this year, but with inflation still sticky, especially in the service sector, the FED, in last months meeting, lowered their expectations to one or maybe two rate cuts in 2024. The FED has said it needs to be convinced that both inflation and the labor markets are cooling and right now we are only seeing tentative signs of that.

Despite the sticky inflation and higher for longer interest rates, the stock market continues to climb to fresh all-time highs on the back of solid earnings growth and this artificial intelligence theme. And the A.I. impact has not only been felt in the tech sector but across many other sectors. The thought is that those companies that can adopt and implement artificial intelligence into their processes will become more efficient which will lead to more profits, better earnings and better stock prices.

Throughout history new ideas and new technology have pushed corporate America to become more efficient and produce record earnings. Whether you start with the wheel, printing press or steam engine and go to the telephone, transportation revolution with railroads, cars and airplanes, to the most recent revolution, the internet, it all starts with an idea. And I have to believe this current A.I. revolution will be best compared to the beginning of the internet.

When the internet was in it's infancy, there was a big argument that the old economy stocks will be replaced by the new economy stocks and to be a new economy stock you just had to add a .com to your name. However, as we know, many of the .coms are out of business. Turns out the old economy stocks that adopted and used the internet to their advantage became more efficient which led to higher profits, higher earnings and higher stock prices. I have to believe this current A.I. situation will be similar to the start of the internet. And make no mistake about it, it too is in it's infancy.

So yes, I believe artificial intelligence will ultimately help companies to reach new earnings levels but it's not going to happen overnight. And unlike the internet, where everyone with a computer and now phone can jump on it, the A.I. learning curve is going to be much steeper and longer. So, like I've always said....earnings drive stock prices.....just don't expect earnings to change for the better overnight.