Equities have broken out of the ferocious bear territory with a year to date Nasdaq rally exceeding levels not witnessed since 1983. Much of the gain has been generated with a strong conviction that AI will dominate economic developments and create growth through productivity gains over the next decade. A fascinating development, with adoption of Chat CPT hitting an astounding 100 million users in the first two months. Instagram took 30 months to reach the same milestone. The primary index beneficiary at the moment: the NASDAQ and high performance chip semiconductor sector. Generative AI is projected to create up to $4.4 Trillion in realized benefits annually if utilized across 16 business functions, according to McKinsey & Co. A 7% increase in global GDP, approximately 7 trillion incrementally, might be the end result. The gains from AI will ultimately spread far beyond the providers of AI technology. Projections are often optimistic when a technology has as much momentum as generative AI. Time will be the ultimate arbitrator. The .com frenzy of the late 90's/ early 2000's is a grim reminder of what can go wrong with valuations.

There are continuing positive developments on the inflation front. The Fed will extend its focus to extinguish the current round of price instability, perhaps for years. Numbers are trending in the right direction overall. Unfortunately, inflationary spirals tend to be sticky with lasting impacts over long periods if not indefinitely. For the good news: The Port of LA has not witnessed congestion over the last few months. Vessel wait times or on dock takeaway (rail/truck) are almost back to pre-pandemic levels. Labor shortages continue to add to supply chain delays, but all indicators are generally trending in the right direction. Consumer spending, a primary inflationary input, should ease in the months ahead. Higher interest rates and the resumption of student debt payments initiating October 1st will ease some of the pressure. From a debt and equity market perspective, inflation is on the decline, with further rate increases (2 more by the Fed likely during 2023), .25% each - fully anticipated. Numerous and unpredictable inputs ultimately will determine how long/ what measures need to be taken in obtaining the stated 2% target inflation rate. A current assessment indicates a low probability of recession this year. While a soft landing would be an ideal outcome - weaker consumer spending will lower earnings for certain sectors, if not all. Some companies are already starting to pre-announce/ project lower earnings on soft consumer spending in the 3rd quarter. It is interesting to note that the current cycle of tightening is the most aggressive by far, relative to previous cycles. The pandemic related fiscal stimulus and several years of monetary (abnormally low rates) stimulus call for a strong response, particularly with the Fed behind the curve for so long with the "inflation appears transitory" error.

For the second half of 2023, the concerns will be centered on the probability of recession, along with what is the primary driver for equity prices: earnings/ potential for future earnings. The gradual drift in spending from goods to services is gaining momentum, with the primary beneficiaries being travel related/ entertainment and dining. The shift is likely to shift back to goods once the summer travel season is over. The thrill of resuming travel post pandemic is being darkened by the ongoing travel delays and associated inconveniences at the airports.

Yields on long duration fixed income have not reached the level where a lock in rates makes sense. The short maturities are currently yielding considerably more than the long end. With labor markets remaining strong, regional banking collapses with luck in the rear view mirror, and a debt ceiling standoff that was resolved, yields have powered higher. Higher yields = lower price with longer dated maturities. Will be reviewing investment grade corporate bond yields throughout the cycle.

Notes:

Ramsdell Capital Management . 580 California Street. Suite 1200. San Francisco, Ca 94104
415.568.2200 / 800.959.9950 / will@ramsdellcapital.com