While segments of the equity markets appear stretched, small caps and value equities remain undervalued. An increasing concentration in AI related names – primarily Microsoft, Apple, Alphabet, Nvidia and advanced specialized segments of the chip sector have carried index returns. Following a tremendous run higher, these momentum stocks remain in fair value territory, but at the top end of the fair value range. While the AI sector potentially may offer tremendous long term growth potential, it is probable much of the recent growth in the AI related stock prices are realized for the moment. A paring back with a rotation to value and select small cap stocks may be prudent. Incremental increases in allocation to small caps with a slight add to mid- cap stocks will be a focus over the upcoming quarter.

It seems to be a question of when, and at what pace the Fed will move toward its neutral rate – 2.5%. While the *current* Fed Funds rate is hovering at just over 5%, the fixed income market - as is the case with equities - is *forward thinking*. Treasury yields and longer duration bond rates will probably fall in anticipation of any Fed action, as well as a move lower following the beginning of an ease cycle. Investors have piled into money market funds as an allocation preference relative to longer dated fixed instruments. The utility of this strategy is flawed if employed when rates are projected to drop, creating reinvestment risk. As rates fall, CDs and money funds will yield a lower rate at renewal or daily interest rate crediting as the Fed eases. A bond rally (occurs when rates fall) is the opportunity cost associated with short term funds. A core bond ETF returned 8.53% during the last fixed income rally, November and December 2023. Money markets total return for the two month period: .85%. Will be suggesting a move out of money funds and into Core bond funds, along with Municipal bonds (suitable for taxable accounts) where there is a logical fit. The current interest rate cycle and path follow several years of rates falling precipitously during the early stages of the pandemic/ associated economic stall.

One investment thesis for AI investing: increased demand for electricity. AI semiconductors consume dramatically more electricity than traditional computing semiconductors. One example: a Chat GPT query requires 10 times the electricity relative to a Google search. A projected surge in electrical demand will result from an expansive build out of data centers. According to The Electric Power Research Institute (EPRI), the estimate for data center usage by 2030 will be 9% of total domestic demand, double the current consumption. Natural gas will play a role in powering this development, while copper will be a key commodity component required in the energy grid upgrade. Some regional utilities are undervalued. The sector as a whole has rallied with increasing usage and slightly lower rates, heightening the attractiveness of a relatively high dividend yield. There may be more upside in utilities. Will be buying the sector ETF on weakness and/ or undervalued regional utilities.

Please note a new reporting system. More robust reporting along with outsourcing the task of reconciling, updating accounts daily and quarterly reporting functions will allow focus on more important tasks. An insightful example of technological improvements and automation over the last few years eliminating the majority of administrative tasks, allowing more time for research and trading. It would have been impossible to comprehend such an environment in the early innings of the internet/ pre-cloud computing.

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