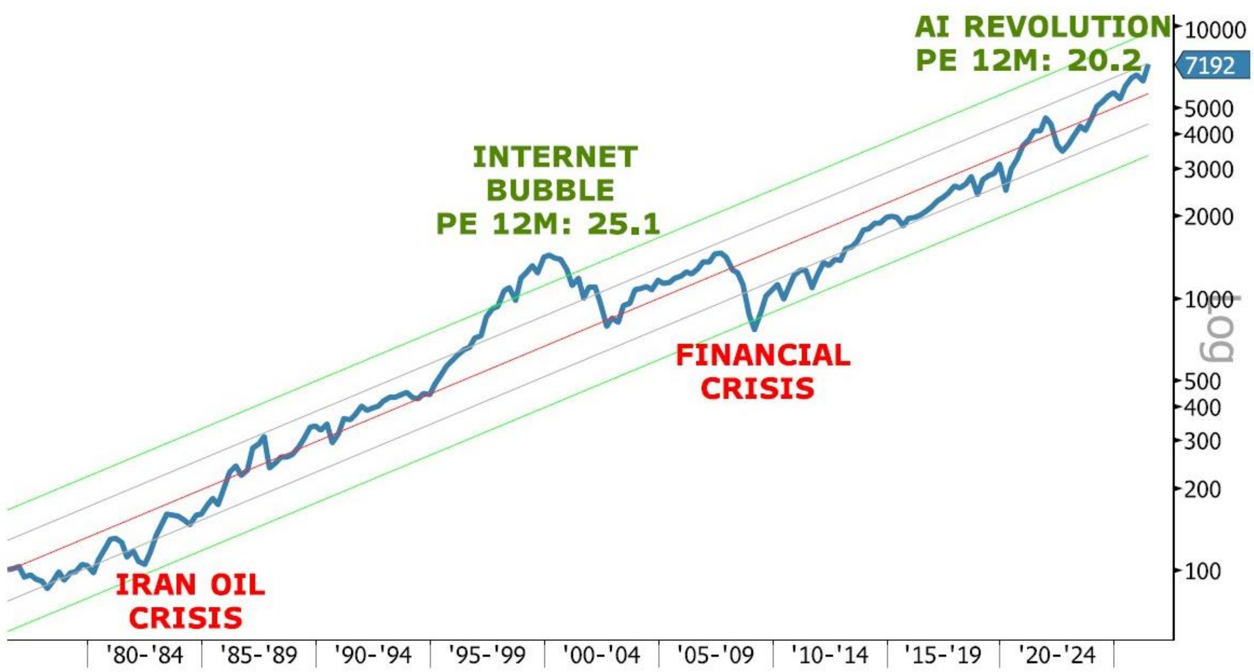
CHART OF THE MONTH

AI IS CHANGING EVERYTHING, BUT IT MAY NOT CHANGE THE LONG-TERM RETURN OF THE EQUITY MARKET

S&P500 LONG-TERM TREND LINE



Source : NS Partners, Bloomberg.

AI IS CHANGING EVERYTHING, BUT IT MAY NOT CHANGE THE LONG-TERM RETURN OF THE EQUITY MARKET

Since 1976, the S&P 500 has lived through the personal computer (1981), the World Wide Web (1991), the Internet boom (1995), cloud computing (2006), the smartphone revolution (2007), and now Artificial Intelligence (2022).

Each of these innovations changed the world. Consumers benefited enormously. Productivity increased. Entire industries emerged while others disappeared. Joseph Schumpeter described this process as *creative destruction*: old technologies and business models fade away, new ones take their place, and living standards improve. AI may prove no different.

The late 1990s provide a useful reminder. During the dot-com bubble, many investors believed the Internet had permanently changed the rules of investing. In many ways, it did change the economy. The Internet transformed commerce, communication and productivity. Yet after the bubble burst, the S&P 500 gradually returned to its long-term trend, as illustrated in the chart. Few investors would have predicted this outcome in 1999.

At first glance, this may seem counterintuitive. If technological revolutions reshape the economy, why don't they permanently change the long-term return of the equity market?

The answer is simply Economics 101. A technological advantage attracts competition. Competitors adopt the innovation, barriers to entry gradually decline, and profit margins normalize over time. While a handful of companies may generate extraordinary returns, much of the economic value created by innovation ultimately accrues to consumers through better products, lower prices and higher productivity, rather than to shareholders.

Artificial Intelligence is today's great technological revolution. It will undoubtedly create winners and losers, disrupt industries and transform the way businesses operate. But for the overall market, history suggests that this time may not be different. The long-term trend of the S&P 500, around 10.5% per year, is already remarkable. Investors should not assume that AI will permanently change the slope of that trend.

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