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## 2024 and Q4 2024 Newsletter

### Economy & Market Valuation

The US stock market as measured by the S&P 500 went up by approximately 25% in 2024. The US economy and the stock market have performed exceptionally well in 2024. US stock market returns are greater than 20% for the second consecutive year i.e. 2023 and 2024. It is a rare occurrence. Last time there were two consecutive 20%+ years was in 1999. The stock market rally has been led by tech and *Mag 7* stocks in particular. One of the reasons for the outperformance is the huge CapEx (Capital Expenditure) spend on AI by big tech companies like Microsoft, Google, META and Amazon. Microsoft recently announced CapEx allocation of \$80B for 2025. The increased CapEx is going into Data centers and Cloud being built for AI. Companies like Microsoft and Amazon are already seeing an increase in revenue from hosting AI applications in their cloud data centers. It is a race which the big tech companies do not want to lose. A big chunk of CapEx is going to semiconductor chip companies like Nvidia. But there is a whole ecosystem of suppliers for data centers. Data centers need servers, routers for connectivity, cooling and electricity once deployed. Electricity demand is accelerating due to huge AI data center build outs. It helps companies like AVGO, VRT, VST, ANET etc. AI beneficiaries are not just limited to hardware suppliers. Somebody will have to develop, customize and deploy AI applications. Companies like Service Now and Palantir are likely to benefit by developing AI applications for enterprises. The ultimate goal of AI is to improve productivity of enterprises and human beings. The companies that are able to take a lead in adopting AI applications will see improved

productivity and profit margins. We believe that AI progress is not going to be a classic straight-line up. There will be disappointments that will cause volatility in AI stocks.

The risk to the stock market rally is a policy mistake by the US Federal Reserve (Fed). The Fed has indicated that it will cut rates only two times in 2025. The risk is that the Fed keeps interest rates too high for too long and causes a slowdown in the US economy.

### 2025 investment strategy

We are overweight on technology stocks with positions in AMZN, MSFT, GOOG, META, AVGO, NOW, PLTR, NVDA and others. We believe that these companies will benefit from deployment and adoption of AI.

We are maintaining a balance between technology and our long-term compounders like Auto Zone, Oreilly, Moody's and SPGI.

We will be watching the Fed's actions and the US macroeconomic trends and will take action accordingly.

We want to thank all of you who could attend our annual meeting on Dec 8. We want to remind you that an online version of our annual meeting will take place on Jan 12, 2025.