

Q4 2023 Newsletter

Economy & Market Valuation

The US stock market as measured by the S&P 500 went up by approximately 11% in Q4 2023. The US economy, despite high interest rates, is growing at a healthy pace and shows no signs of a recession. In fact, GDP grew by 3.3% which is considered way higher than normal growth potential for US economy. In Q4 2023, the economy looks like it is in a goldilocks scenario. The US economy is growing at a very healthy pace and inflation is coming down. The big question is, why, with such high interest rates, the economy is not slowing down or going into recession. Conventional wisdom is that when interest rates are so high, the economy will slow down dramatically or even go into recession. There could be two potential reasons. First could be that US productivity is increasing. Higher productivity leads to an economy's ability to withstand higher GDP without increasing inflation. The second could be that it is too early to see the impact of higher rates in the economy.

We are almost fully invested in the market and even increased risk in the portfolio. We are sticking to our thesis that Artificial Intelligence (AI) is a very potent phenomenon, and it will take a long time to play out. There will be multiple winners of AI. We tend to divide the beneficiary companies into different buckets.

1. First bucket is the Chip companies whose chips are needed for AI. Examples are Nvidia, AMD etc.
2. The second bucket is the Cloud companies as Cloud is needed for AI to be operational. Examples are Amazon, MSFT etc.
3. Third bucket is the companies that will monetize SW applications built to use AI. Microsoft's Git Copilot is an example that

comes to my mind. It is already being used by millions of SW programmers to improve productivity. Microsoft is expected to launch Copilot for MS office users in 2024.

4. Fourth bucket is the companies that will build AI applications for other companies as every company will not have resources to do it on their own. One example is a company called Service Now.
5. Fifth bucket is the companies that will use AI to improve their own margins and earnings. We think META is already using AI very effectively to increase Ad targeting and their revenue and margins. According to analyst reports, META is the biggest purchaser of NVDA GPU chips in 2023. Companies like Uber, Bookings, Expedia etc. are also expected to use AI to improve their revenue growth rate and margins.

2024 investment strategy

As we said during our annual meeting in December, we will continue to use investment themes of AI, Cloud and E-commerce to find opportunities for investment. As you might have seen in your portfolio, our big bets on AMAZON, SMH and META are paying off with very handsome rewards. All these three names are linked to AI theme as discussed above. We will continue to find additional opportunities and companies for investment.