De : Jabri, Imane
À : Jabri, Imane
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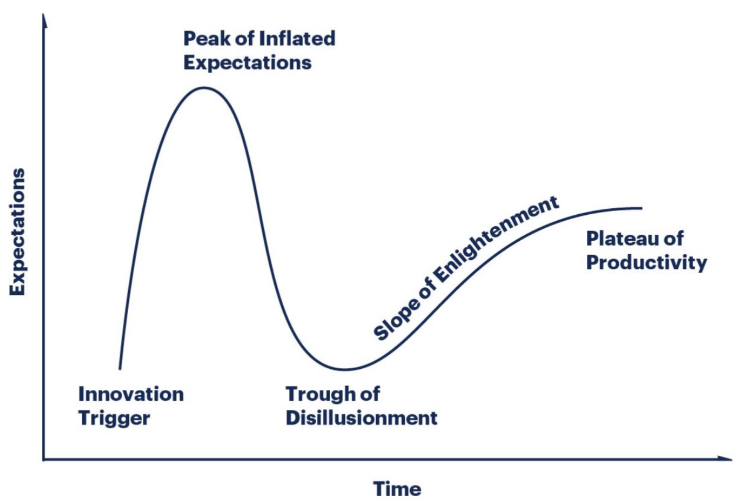
Third Quarter 2024 Comments

Last spring, the federal government announced spending of $2.4 billion on artificial intelligence in its 2024 budget. For several months, companies and governments everywhere have been devoting a considerable portion of their capital to a concept that was unknown just a few years ago.

Why is there so much excitement about AI today? Significant technological breakthroughs have enabled AI to advance dramatically. One of the major breakthroughs came in 2017, when Google researchers introduced the “transformer model,” an architecture that revolutionized natural language processing. This discovery has spawned powerful models such as OpenAI’s ChatGPT. Since then, AI development has accelerated, fueling optimism and excitement both within and outside the industry.

Gartner, an American technology research and advisory company, is credited with introducing the concept of the "hype cycle." According to this model, new technologies often go through a phase of inflated expectations before reality takes over, creating significant fluctuations. This phenomenon has been observed with many technologies over the years: blockchain, virtual reality, the Internet of Things, 3D printing, and of course, the Internet itself.



The Internet has caused one of the largest speculative bubbles in history, while also driving major technological transformations. While investors correctly perceived the magnitude of the changes to

come, poor market timing has led to many bad investments. In some ways, AI could be compared to this technology bubble: it is a massive innovation that promises to profoundly transform our world. However, a key difference is that this time, the companies associated with AI are “real” or profitable.
This suggests that the tech bubble companies were not, when many of them were, including Microsoft, Amazon, Intel, Adobe, Cisco, and many others. These companies are still thriving today, but it took them years to surpass the peaks they reached in the late 1990s and early 2000s.

Is “this time it’s different?” Hard to say.

What we do know is that except for Nvidia and a few other companies, the revenues and profits associated with AI's astronomical stock market valuations have yet to materialize.
One of the undeniable similarities to the 2000s bubble is market concentration. A very small number of stocks in the S&P 500 are outperforming the index, as was the case in 1998 and 1999. In fact, 2024 is on track to become the year with the fewest number of stocks beating the index in 50 years, dethroning 1998.
Only time will tell whether this bubble will dissipate on its own. In the meantime, we remain vigilant and maintain our diversification principles, which remain essential to ensure the stability and sustainability of our performance.

Happy autumn!

Marie-France and Charles

Marie-France Geoffroy, GPC
Senior Wealth Advisor & Portfolio Manager
514 879-2576
marie-france.geoffroy@bnc.ca

Charles Marcotte, CIM
Wealth Advisor & Portfolio Manager

514 871-3479
charles.marcotte@bnc.ca