

2H 2023 Market Outlook

Part 1: The AI Rally

Interview with Lim Yuin

Lim Yuin is our Chief Investment Strategist at Lion Global Investors with 17 years of financial industry experience specialising in asset management and securities. He was previously the Portfolio Manager of the LionGlobal Disruptive Innovation Fund and a Japan Equities Analyst at the firm before moving into his current role.



Dawn Leong: Since last summer, markets have been expecting the US to enter a recession. Naturally, because the Fed has hiked interest rates so aggressively, 500 basis points in 14 months, that should have cooled demand. On top of that, in the 1H this year, we have witnessed a debt crisis as well as a banking crisis. That said, the US economy has held up pretty well, not to mention with remarkable health in the labour market.

The key point of this discussion today is the roaring enthusiasm among investors on the Generative Artificial Intelligence (AI) theme. The hype started when ChatGPT, the biggest buzzword this year, took the world by storm. It only took 5 days for them to hit one million users.

What exactly is Generative AI?

Lim Yuin: Generative AI is machine learning models that can be trained to create new content in many formats such as text, audio or video. It is particularly useful as it is easily accessible for work such as content creation, research and data analysis. It can even help a novice to code.

Dawn Leong: Sounds like it is meant to mimic a human generated content. Well, numbers speak for themselves. We have the “surging seven” US mega cap tech stocks that account for around 80% of the S&P 500 gains so far. We have seen Nvidia’s blow out numbers sending the share price to an all-time high in May this year, up 190% in 1H.

Dawn Leong: Perhaps we are seeing the “Fear-of-missing-out” or FOMO as we call it, as investors scramble to put some exposure on. Now the trillion-dollar question to you is - **How sustainable is this rally? Is any part of it speculative or as we said, FOMO kicking in?**

Lim Yuin: The AI theme is currently dominating markets and driving a rally in related stocks, especially large cap technology stocks. Some have described Generative AI to be as transformative as the “industrial revolution” with huge productivity gains possible in the near future.

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Dawn Leong: So far, the AI infrastructure side of things have done very well like Nvidia, Alphabet and Microsoft, as well as the semiconductor names because processing demand has definitely increased. Indeed, the rally we spoke of is largely concentrated in the large cap names. **Are there any other winners you see in this game?**

Lim Yuin: The large cap names that have rallied are direct beneficiaries of the AI trend. Nvidia provides the chips necessary for servers. Microsoft and Alphabet have the most advanced AI chatbots which future applications can be built on. That said, companies are probably at the early stages in adopting this new technology.

Companies from different industries are currently experimenting and implementing new ways to adopt this technology to gain a competitive edge over their peers. As such, new investment opportunities are present when new winners emerge over time.

Dawn Leong: **What do you think are the key risks investors should be looking out for?**

Lim Yuin: There is always uncertainty on results from adopting a new technology. Some stocks may rally on high expectations only to be disappointed when results do not match expectations.

Dawn Leong: Definitely, always proceed with caution when investing. Thank you so much Lim Yuin for joining us today. Please stay tuned for part 2 of our 2H Outlook series, during which we will discuss asset allocation views for the rest of this year.

*All data are sourced from Lion Global Investors and Bloomberg as at June 2023 unless otherwise stated.



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