

OBSERVATIONS

- After the strongest Q1 since 2019 for the S&P 500, the index kicked off the first week of Q2 on a weaker note. The S&P 500 fell -0.9%, while small cap stocks (Russell 2000) declined -2.9% on the week. Stronger economic data pushed bond yields higher with the 10-Year US Treasury yield adding +20bps to close the week at 4.40%—the highest level since late November 2023.¹
- Manufacturing activity (ISM Manufacturing index) rose to 50.3 in March, beating expectations and showing economic expansion for the manufacturing sector for the first time since September 2022. Of note, the prices paid component of the ISM index rose to its highest level since July 2022.¹
- Meanwhile the services side of the economy continued to expand with the ISM Services index registering 51.4, and while below expectations marked the 15th consecutive month of economic expansion. Contrary to prices paid in manufacturing, the prices paid component of the services index fell significantly below expectations to a four-year low.¹
- Some signs of economic pickup in the Eurozone; The Eurozone composite PMI (purchasing manager index including services and manufacturing) rose to 50.3 in March (readings above 50 indicate economic expansion) showing a rebound in economic activity for the first time since May 2023.¹
- Construction spending fell to \$2.096 trillion (annualized rate) in February down -0.3% from January's figure—both public construction and non-residential construction fell modestly after hitting record highs in December-2023.¹
- The number of job openings were little changed in February as compared to January at 8.756 million openings—a touch below consensus expectations of 8.770 million. Meanwhile unemployment claims for the most recent week rose to 221k from the prior week's 212k, still weekly unemployment claims and the four-week moving average of claims remain low and consistent with a healthy labor market.¹
- Another strong jobs report for March with 303k new jobs created in the US economy. The unemployment rate fell to 3.8% in March—down from February's 3.9% unemployment rate—and previous month's employment figures were revised up a net +22k jobs.¹

EXPECTATIONS

- With Q1 earnings season about to kick-off, current estimates for the S&P 500 are for earnings to grow by +3.2% year-over-year (YoY) for Q1—down from expectations for +5.8% growth coming into 2024.²
- Core inflation in the Eurozone eased to 2.9% on a YoY basis in March, below expectations of 3.0% YoY and down from the previous month's 3.1% YoY reading. The new data supports current market expectations for the European Central Bank to begin lowering its main policy interest rate in June.¹

ONE MORE THOUGHT: *Revisiting the hype around AI in less than 350 words.*³

As the hype surrounding AI continues to be a theme for markets, we revisit some of the economic and market potential surrounding the technology. Broadly speaking, estimates for economic impact from AI vary widely but research points to \$5 trillion to \$15 trillion of additional global GDP by 2030—resulting from increases in

¹ Bloomberg LP

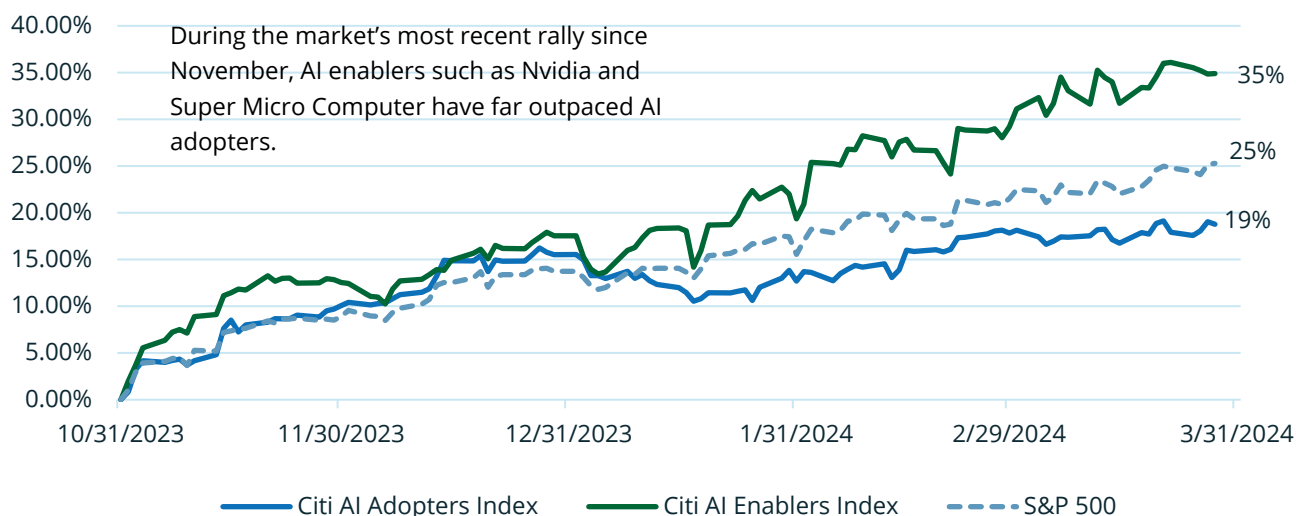
² Factset Earnings Insight 4/5/2024

³ Clearstead, Bloomberg LP Generative AI Market Opportunity, McKinsey & Co. *The Economic Potential of Generative AI, June 2023*, McKinsey estimates for 2022-2040, PWC, *Sizing the Prize: What's the real value of AI for your business and how can you capitalize?*; Goldman Sachs Economic Research, *The Potentially Large Effects of Artificial Intelligence on Economic Growth, March 26, 2023*, Pitchbook <https://pitchbook.com/blog/coming-to-an-industry-near-you-why-ai-should-be-at-the-center-of-your-corporate-strategy>

productivity. Specific to generative AI (e.g., ChatGPT), Bloomberg estimates that this particular tentacle of AI could itself become a \$1.3 trillion market over the next ten years with the hardware and software markets accounting for nearly \$1.0 trillion of that figure as companies are expected to continue investing in AI related infrastructure. Some evidence of more broad AI related investments from big corporations can be seen from the likes of Apple, Intel, and Microsoft which have made 27, 19, and 15 separate AI and machine learning related investments in recent years, respectively. So far, the overall long-term thesis for AI has been supported by the investments being made by not only venture capitalists but by large corporations in recent years. Venture capital (VC) alone accounts for nearly \$400 billion of capital raised since 2020 dedicated towards AI and machine learning, with over 25,000 VC deals in the same period. As we know, not everyone can win and so the process of separating the wheat from the chaff is likely to continue to evolve in coming years with a large number of failures expected among the venture backed cohort. Recently speaking, some separation (Chart of the Week) has shown itself in public markets between firms that enable AI (e.g., hardware and software providers) versus firms that are adopters of AI. Like the hype filled dot-com era, the path for AI is prone to be wildly volatile, though AI may well be the spark needed for the productivity miracle needed to keep GDP from falling below trend over the coming decade. Time will tell.

CHART OF THE WEEK

AI Enablers Outpace AI Adopters



Source: Clearstead, Bloomberg LP, Citigroup AI custom baskets, as of 3/31/2024

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