

The Wrap Up



Welcome to the Machine

This wasn't the best week for investors as volatility reigned due to a combination of factors: earnings targets were missed; risk of the debt ceiling not being raised in the United States cropped up; recessionary fears flared and interest rates went higher. There's nothing new at this point, other than Jerome Powell saying that he does not agree with the Federal Reserve Bank presidents' forecast of a mild recession or that the market is pricing in a 15% chance of a rate cut in June. I would argue that these are new expectations more than they are new facts. With the same narratives still playing off, this week we circle back to AI.

I apologise to anyone who has spoken with me in the last few weeks, as I can't stop talking about ChatGPT. I've been using the tool for analysis and problem solving in my every day life and I genuinely believe that within the next 12-18 months, tools like this will already become the norm. For those who haven't had the opportunity to play around with the chatbot, let me explain how it works: for starters the experience improves as the user becomes more accustomed to the tool. I refer to it as a tool because you need to know how to use it; simple things like restaurant recommendations are straightforward but analysis is different. For example, I have begun uploading pages of data and analysis of the companies we invest in. Asking it to summarize is one thing; having it build a Monte Carlo simulation is a much more difficult task.

The more we know what we're looking for, the more we can leverage the abilities of ChatGPT. At this point, I am not worried about AI replacing me in my job because you still need a strong understanding of the subject that you're researching. That being said, I do believe that AI will be deployed to resolve some of the labour shortages we face, simply by boosting productivity. Returning to how I use it for work, I am still very much part of the equation, however, I can research a company in a quarter of the time that it usually takes. Scale that example up and you can see a future where research teams of 20 people, could drop to 10 or 5. IBM, for example, has decided to pause hiring as CEO Arvind Krishna said this week that he expects 30% of back office functions to be replaced by AI over the next five years. For a company the size of

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IBM, that equates to 7800 jobs; if 100 similar sized firms do the same, that's 780,000 jobs that could disappear. As I write this, Canada announced the creation of 41k new jobs and the US announced 253k new jobs (vs an expected 20k and 179k) with unemployment sitting at 5% and 3.4% respectively.

Today, though the labour market is tight, we should not sleep on the potential disruptive effects of AI. People simply don't retrain themselves quickly enough to assume that the new jobs created by AI will immediately make up for the jobs that it is eliminating. Furthermore, students entering higher education today should really reflect on what the future holds for their profession; imagine entering a four year program today, only to find out your skill is no longer needed by the time you graduate. Politicians must prepare for disruption. One example would be to do as Bill Gates suggested: tax AI firms sufficiently to cover the unemployment costs of the jobs they will eliminate. Something that complicates the taxation idea is the difficulty in calculating the profit these AI firms generate, or even more difficult, generating a profit. ChatGPT costs \$700,000 per day to operate and it is estimated that to upgrade its functions further, Open AI will need another \$100 billion of capital. Another consideration for governments would be to speak to teenagers before they make commitments to higher education; make them understand the potential disruption ahead so that they can make career choices with clarity. For those who already work, we should use government resources to help train people to use AI tools. With a sufficient head start, we can minimize the impact of people losing their jobs and, perhaps more ambitiously, transform our society and labour market for the better. There was a time when people used to write their level of computer proficiency on their CVs and we will soon do the same with AI tools.

AI will not only change the way we live, it will change the way we invest as well. Most of the companies we own will benefit from lower costs, a more productive labour force and more efficient operations if AI tools are deployed as anticipated. However, some can see their business models at risk. Microsoft used the word 'AI' 50 times during its earnings call last week, compared to the 36 mentions of the word 'cloud' (their fastest growing segment). Alphabet mentioned AI 64 times while Meta mentioned it 47 times, with their commentary confirming the firms' commitments to spending and integrating AI into their business models. We have few doubts that big firms are already working with AI based tools in areas such as human resources, cyber security and even customer service, after all, AI tools are not new. Netflix's, Youtube's or Twitter's algorithms that push personalized content onto your feed is an example of an AI based tool that we've been using and interacting with for years. What my experience with ChatGPT suggests is that we are entering a new era of AI tools with greater sophistication and broader usage. Inside the mind of every striking Hollywood writer today, there exists a concern that studios turn to AI for future content. When writers went on strike for 100 days in 2007-2008, no one (other than the science fiction writers) had that same fear.

Every major change in society is usually met with skepticism and fear; AI will be no different. I am not convinced that we have to fear innovation as much as we need to prepare for it. The Internet did not destroy the world nor did it eliminate the labour force, however and for example, it did back the music industry into a corner. It also opened the door to cyber terrorism and sparked a divisive debate around censorship and hate speech; conversations that should have happened long ago. As investors, we continue to closely follow developments in the AI space and how we can use it to benefit our clients.

Healthy Distraction

After what felt like an eternity without sun, we are primed to have nice weather in Montreal this weekend. Keeping with the theme of the newsletter, I asked ChatGPT what it would recommend to do this weekend and it suggested the following: visit Old Montreal, go to Mount Royal Park, visit the Montreal Museum of

Fine Arts, visit the Montreal Botanical Garden or walk around the Plateau. While it would have been funny if it suggested biking around the Plateau (sorry Mayor Plante), the recommendations are good ones. It may not be able to pick up events happening specifically this weekend but it can direct you to websites that have this information.

I apologized at the beginning of this week's Wrap Up because I can't stop talking about ChatGPT. I also can't stop using it which begs the question: did I write this week's Wrap Up or did ChatGPT write it?



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