

The market seems to be in a grouchy mood this holiday season. Case in point – Broadcom, one of the megacap technology companies leading the AI revolution (with the sixth largest weighting in the S&P 500), reported stellar earnings and forward guidance during its quarterly earnings release last week. The market rewarded the company's performance by subsequently pummeling the stock, which is now down 16% following the earnings report. While the market overall has been stable (i.e. the S&P 500 has been in a relatively tight range between 6800-6900 during December), beneath the surface some high-performing businesses have seen their stock prices take a recent beating due to souring sentiment.

I believe this is largely driven by profit-taking; investors are choosing to sell some high-performers and take some chips off the table ahead of year end. Renewed skepticism regarding the AI trade has been front and center since mid-November despite strength across the underlying fundamentals. While all of the metrics I have seen remain positive - further growth across capital investment, revenue acceleration, and margin expansion – that hasn't discouraged selling pressure across certain names. In essence, the "Wall of Worry" has continued to rise.

I certainly understand the investor caution – many recall what happened following the dot-com boom and want to avoid being on the wrong side of that trade again. However, in this case, I also believe many investors are currently far too pessimistic, overly discounting the bullish data that is being affirmed in real-time with each major earnings release and forward guidance. And that's just fine – it's precisely this level of market skepticism that prevents speculative excesses from forming. As long as the underlying fundamentals remain strong, the market will eventually follow suit as earnings growth should fuel the next leg of this secular bull market.

This week, I'd like to draw a historical parallel to the period between 1929 and the early 1970s which I believe illustrates where we are in this long-term cycle. The time just before the market crashed in October 1929 was a key data point given it represented a long-term market top and immediately preceded the Great Depression. Investors suffered a more than lost decade following the crash along with a sharp rise in unemployment, negative economic growth, and deflation. In fact, those that invested in stocks just before the 1929 crash would suffer negative returns until 1942! As World War II came to a close, and the economy started to regain its footing given the massive wartime spending which boosted domestic production, this ignited a boom cycle that carried through the early 1970s. This post-war U.S. economy drove better prospects for American companies, expanding profits, and innovation, which began to really accelerate during the 1950s.

I believe the same story is playing out at present. 1999 was another long-term market top, just before the dot-com crash of the early 2000s. Stock investors again suffered more than a decade of negative returns, we had a "double-dip" severe recession when the 2008 Financial Crisis hit, and government stimulus was needed to pull the economy out of the black hole. Eventually, the prospects for American companies began to brighten, a new secular bull market emerged, and transformative technological innovation started fueling productivity gains and profit expansion.

Comparisons Between 1929-1927 and 1999-Present

	<u>1929 (Pre-Crash) - 1972</u>	<u>1999 (Pre-Crash) - Present</u>
Early Negative Catalyst	October 1929 Market Crash	Early 2000s Dot-Com Collapse
What Followed Early Crash	13 Years of Negative Returns; Skyrocketing Unemployment; Negative Economic Growth; Deflation; "Double- Dip" Crash in 1937	Flat Returns Over 12 Years (Negative First 10); "Double-Dip" Crash in 2008; High Unemployment; Profit Collapse; Near 0 Inflation / Deflation Concerns
What Followed	Wartime Spending During WWII Stimulates Economy; Corporate Prospects Brighten, Innovation Fuels Productivity Gains & Accelerating Profit Growth During 1950s; Secular Bull Market From 1942-1972	Government Stimulus Following 2008 Financial Crisis; Corporate Prospects Brighten; Innovation Fuels Productivity Gains & Accelerating Profit Growth During AI Revolution; Secular Bull Market From 2009- Present

I believe we are in a similar position to where the market was in the mid-1950s. The painful shock event (the Great Depression during the 1930s then and the Dot-Com Bust + 2008 Financial Crisis combo more recently) is in the rear-view mirror, and investors have enjoyed gains following the last secular bear market (ending in the early 1940s and 2009), but the scars remain. In each scenario, the painful memories drive skepticism as the bull market charges forward, which prevents “irrational exuberance” from taking hold. However, it is at this stage (the 1950s then or our present moment now) where we begin to see the private sector drive transformational innovation which fuels profit growth, margin expansion, and enhanced productivity which also lifts the broader economy. In my view, this is exactly where we are in the current super-cycle.

Given the magnitude of capital investment that is being unleashed across the AI landscape, which is expected to grow to roughly 3% of GDP by 2030, I’m very bullish regarding the outlook for corporate profits over the coming years. As long as that comes to fruition, stocks prices are likely to resume their march higher as earnings growth materializes. While it can be frustrating to see pullbacks across certain stocks over the short-term, this market behavior encourages disciplined capital allocation and rationality while providing a strong base of support for healthy, sustainable long bull markets.

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