FINANCIAL FOCUS

PETERSON FINANCIAL SERVICES

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ARTIFICAL INTELLIGENCE IS ALREADY BECOMING A GAME CHANGER, AND WE EXPECT THE DISRUPTION TO EXCEED THAT OF THE INDUSTRIAL REVOLUTION.

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- Quarterly Market Recap
- Workers must adapt to exploiting AI, because it isn't going away.

QUARTERLY MARKET RECAP

Historically, most people incorrectly think October is the worst month for the markets. Actually, it's September, but that wasn't the case this year. Markets across many asset classes surged ahead, in spite of stubborn inflation and weakening labor markets. Anticipation of interest rate reductions helped, and were confirmed a couple weeks ago, as the Fed agreed on a quarter-point drop in September and is widely expected to reduce rates again before the end of the year.

All the major equity indexes made gains, and a few hit new highs. The DJIA added 5.22%, while the S&P 500 picked up 7.79%, and the NASDAQ surged 11.24%. The small-cap Russell 2000 rose 12.02%. Global stocks ended up 6.96%. The bond market added to previous gains, with the Barklay's Aggregate Bond Index rising 2.12% last quarter.

The effects of tariffs on inflation remains to be seen as most of them only recently became effective. But many firms, having stated they would absorb these taxes early on, have said they will not be able to continue that, and will have to start passing these costs on to their customers. Inflation is still above the Fed's target. Corporate earnings have held up well so far, but economic growth and the labor market is showing weakness. Volatility related to geopolitical incidents has calmed down a bit.

THE ARTIFICIAL INTELLIGENCE GENIE HAS BEEN LET OUT OF THE BOTTLE - IT WILL IMPACT EVERYTHING

The stocks that have been driving the markets the most are those that are related to artificial intelligence and the infrastructure around it. What was just a few years ago an esoteric future phenomenon, is now not-so-subtly integrated into the ways we function. Its use will soon be as ubiquitous as the internet is today. And it will disrupt the workforce globally more than it already has started to.

For the last several months, jobs growth has been steadily lowering, and to be sure there are many causes – business planning uncertainty, tariffs, and late-cycle fatigue. But another key factor is job replacement by AI. Some jobs currently performed by tedious human input, will be entirely replaced, but much of this will happen in the highly-skilled end of the market.

Those who crunch numbers and analyze data, like consultants, actuaries, economists, writers, and accountants - just to name a few - will be particularly affected. Other at-risk careers include code writers, marketers, lawyers, real estate agents, and researchers. Those whose livelihoods may not be at risk, will have to adapt to the use of AI in their positions. This is not new, as this disruption happened during the Industrial Revolution and more recently the Information Technology Revolution. And, as with all disruptions, new opportunities emerge. Interestingly, the traditional hands-on trades, which are already short of workers (have you tried to find a good brick mason recently?), will be far less affected. Maybe guiding our young people to trade schools instead of debt-laden four-year college degrees, is the smarter move.

Factory manufacturing jobs, which of late has been a flashpoint for politicians wanting to build up our industrial base, will also increasingly be supplanted by AI-driven robots. It is great for productivity, and new jobs managing and repairing the robots will emerge. Sebastian Herrera of the Wall Street Journal recently reported, "The automation of Amazon.com facilities is approaching a new milestone: there will soon be as many robots as humans. The e-commerce giant, which has spent years auto-mating tasks previously done by humans in its facilities, has deployed more than one million robots in those workplaces, Amazon said. That is the most it has ever had and near the count of human workers at the facilities." The AI Futures Project, in its "AI 2027" report says that already this year AIs will be training other AIs.

This report further states that in early 2026 much of the coding will be automated and AI research will be sped up. We know this is coming. But are we prepared to deal with it?

Ironically, ask Chat GPT about this, and you'll find out that this is happening now because AI has become good enough to replace lots of the white-collar work. This will exponentially increase. This is a big leap from previous automations, which were more machine-driven than computing-driven. Generative AI has made routine knowledge work automatable.

And while we are optimistic that, like with previous technological advancements, for every job lost to AI, more opportunities to exploit it will emerge, there are other potential downsides in just our human intellectual development. Will reliance on having AI do for us what we used to do ourselves, make us dumber and lazier? And if so, how will that impact the future of innovation that can only be done by thinking human brains?

Just as excessive use of social media has eroded many peoples' ability to interact well in an in-person environment, many students and teachers are reporting that in relying on AI to draft papers and outlines, e-mails and other communications, their ability to write, speak, and conduct basic inquiry is slipping away.

Doing our own research the old-fashioned way expands our learning and knowledge. Having a bot do it for us has little lasting value and will not imprint on our memory. Traditional work in this area allows us to sift through detailed information, process and understand it, know who created it, organize it logically with reason and persuasion, and then teach it to others. We may be risking this altogether, just as we have with certain math functions. How many of us are so reliant on calculators, that we've forgotten how to perform even basic arithmetic functions like long division and square roots?

Could we be headed for a time when the tools we create have mastery over us? We do not mean in the sense that like a science fiction movie the robots take over the world. Rather, that we divide ourselves into those who program the tools, versus those who become so reliant on them that they cannot figure things out on their own anymore. It becomes a form of disempowerment.

Colin Powell said when he was Secretary of State, that he would wince at how people would choose words so poorly that they would convert an adversary into an enemy. His observation reflected the breadth and depth of intentionality that humans must have to do the careful work that can radically impact others. The human position of these skills can never become irrelevant. To have these skills we must develop them. We cannot surrender our humanity to applications and machines. In advancing the wonderful promises AI has the potential for, we must restrain it sufficiently to maintain human control over it. This will require a concerted effort on all our parts to constrain our inherent impulses to take the easy way out and develop shortcuts to expedite our desired results.

Along the way, this wave is roaring through society across the globe, and we'll continue to find ways to responsibly exploit the investment gains.

By the way, we don't use AI to write these newsletters. For better or worse, this all comes out of our careful research and our own mind!

"We may explain success mainly by one word and that word is work."

- Frederick Douglass

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As an aside, we wish to remind our clients of our various services. While we specialize in portfolio management, we continue to provide financial planning and insurance services. Longtime clients may have forgotten this, and newer clients may not be aware of this. Additionally, we build our business through referrals, and much appreciate them. Please keep us in mind as you come across friends, family and colleagues who might benefit from our financial services. We appreciate your business.

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