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summaries

SIGMA INVESTMENT COUNSELORS

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MARKET COMMENTARY

My husband, a software engineer, can easily write code in a variety of programming languages, can develop and run tests to find bugs in software, and is extremely adept at helping me with various tech issues I encounter (usually solved by turning off and turning back on a machine). However, ask him to write a job listing to hire another software engineer, and he short circuits.

A friend at an automotive supplier noted that one of their engine components kept coming off the assembly line missing a critical bolt. His firm hired an employee to stand with a green paint marker, monitor that the bolt was in place, and mark the bolt with paint. At the end of the line, they were still finding engine components missing the bolt – but now the area was marked with green paint. As humans, our eyes and brain can sometimes trick us into seeing what we expect to see, even when those things aren't there.

These are two problems from two different industries that have recently been solved by Artificial Intelligence (AI). My husband asked ChatGPT to write him a job listing, and with a few tweaks (compensation, programming languages needed), he had the listing in 15 minutes. The automotive supplier purchased a machine that could monitor the engine component to ensure the bolt was attached – a machine that didn't experience vision fatigue, or get tricked into seeing something that wasn't there.

It seems I'm not the only one witnessing these use cases and getting excited about the potential for AI to improve productivity and drive economic growth – the second quarter stock market rally has been largely driven by companies with heavy exposure to Artificial Intelligence. Apple, Microsoft, Alphabet (Google's parent company), Meta (formerly Facebook), Amazon, Nvidia and Tesla have been responsible for much of the S&P 500's 16% return through the end of June.

The AI boom was not the only driver of healthy financial market returns in the second quarter. Consumer retail spending remained strong, with brands such as Unilever reporting that not only are consumers continuing to spend, but many are purchasing premium products. Spending has even continued to remain strong on big ticket items, such as automobiles and home renovations, that typically would have been reduced by higher interest rates. This has likely been driven by a strong labor market, evidenced by both new jobs added and a falling number of unemployment claims, with rising wages particularly for lower income workers. Combined with lowered prices at the gasoline pump, consumers have been left with additional dollars to spend.

A strong jobs market is a double-edged sword – good for the consumer, but bad for the Federal Reserve board as they try to tamp down inflation. Looking forward, another interest rate hike (or two) seems likely, as economic activity has remained high, and inflation (as measured by the personal consumption expenditures price index) has yet to show signs of approaching the Fed's stated 2% target.

As we look forward to the second half of the year, we thank you for your confidence in Sigma.

Amanda E. Lehnert, CFP®

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