

## Talbot Financial – First Quarter 2024 Review

Please find attached your Talbot Financial first quarter 2024 portfolio review to supplement your monthly account statements available from Schwab. The report provides a performance summary of your investment portfolio compared to the S&P 500 Total Return Index (“Index”), Talbot Financial’s benchmark, and lists your investment portfolio holdings by industry sector.

### Investment Review

In our review last quarter, we discussed some investment themes for 2024. The list included higher corporate earnings, lower inflation and interest rates, a strong labor force, and significant investments in Artificial Intelligence (AI). The growth in the financial markets during the first quarter was driven by these favorable economic conditions.

The Index increased 10.6% for the quarter, representing its best first quarter return since 2019. It was a broad-based rally with 11 of the 12 industry sectors posting positive returns. The top performing sectors included Communications, Energy, Technology, and Financials. The only sector with a negative return for the quarter was Real Estate.

Looking forward, we believe inflation remains subdued and interest rate cuts by the Federal Reserve by year-end are likely. We view the underlying strength of the labor market as remarkable given the current interest rate environment. Historically, large increases in interest rates have led to higher unemployment. However, unemployment is currently under 4%. An important data point because roughly two-thirds of the U.S. economy is driven by the consumer.

The buzz surrounding Generative Artificial Intelligence (Gen AI) is significant, yet still in its infancy stage. Accenture, a leading technology consultant, recently surveyed 1,200 of its largest clients regarding their use of Gen AI. The survey found that only 12% of companies are currently using Gen AI to drive growth and improve business productivity. An analysis conducted by Goldman Sachs further supports the survey as it concluded only 5% of U.S. companies are currently using Gen AI to produce goods and services.

We see Gen AI evolving through four stages, as depicted in the following chart from CFRA Research:

#### FOUR PHASES OF GENERATIVE AI SOFTWARE ADOPTION



In the first two stages, the enablers of Gen AI technology build out the infrastructure.

- **Today:** Initial AI framework and models established, enterprises begin exploring the use of Gen AI, and initial infrastructure is developed. During this stage, heavy investment is made in advanced semiconductors.
- **Phase 1:** Large technology companies build out additional infrastructure, cloud computing and software firms provide new solutions. Enterprises begin testing software solutions.

In the first two stages, the enablers of the infrastructure build out are the winners. These companies are predominantly technology-oriented companies, which are well represented across Talbot Financial client portfolios.

In the latter two stages, Gen AI moves into the mainstream and the beneficiaries leverage the technology to drive growth and business transformation.

- **Phase 2** – Gen AI moves into the mainstream as large companies have created their own proprietary models to be used across the enterprise to drive sales and improve efficiencies and margins.
- **Phase 3** – Broad based use of Gen AI across the enterprise with most organizations having strategies in place and resources backing those strategies.

In these stages, companies across all industries benefit as Gen AI drives revenue growth and enhances productivity. We expect the development and implementation to occur over the next three-to-five years. We anticipate all companies in Talbot Financial client portfolios to significantly leverage the use of Gen AI in the coming years.

We welcome the opportunity to review your portfolio in person, by phone or on a Zoom conference. Please feel free to contact us for a review, or to answer any questions you may have about your portfolio.

Sincerely,

Talbot Financial, LLC

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