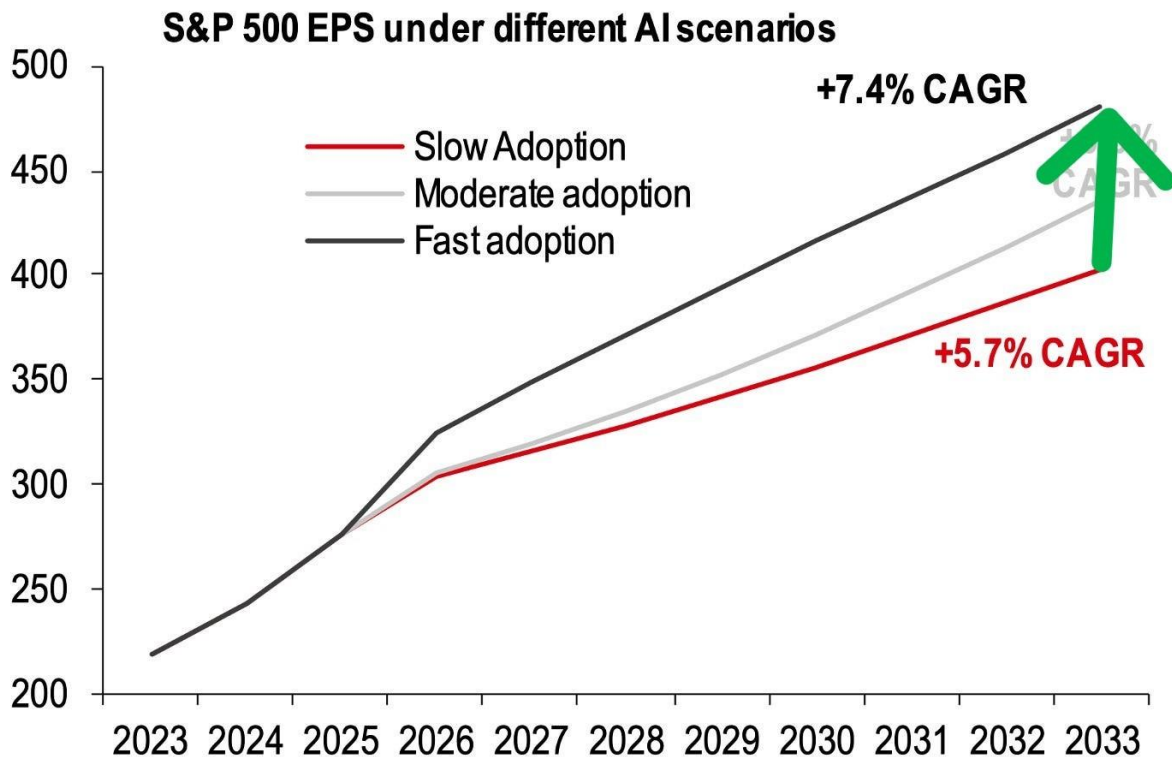
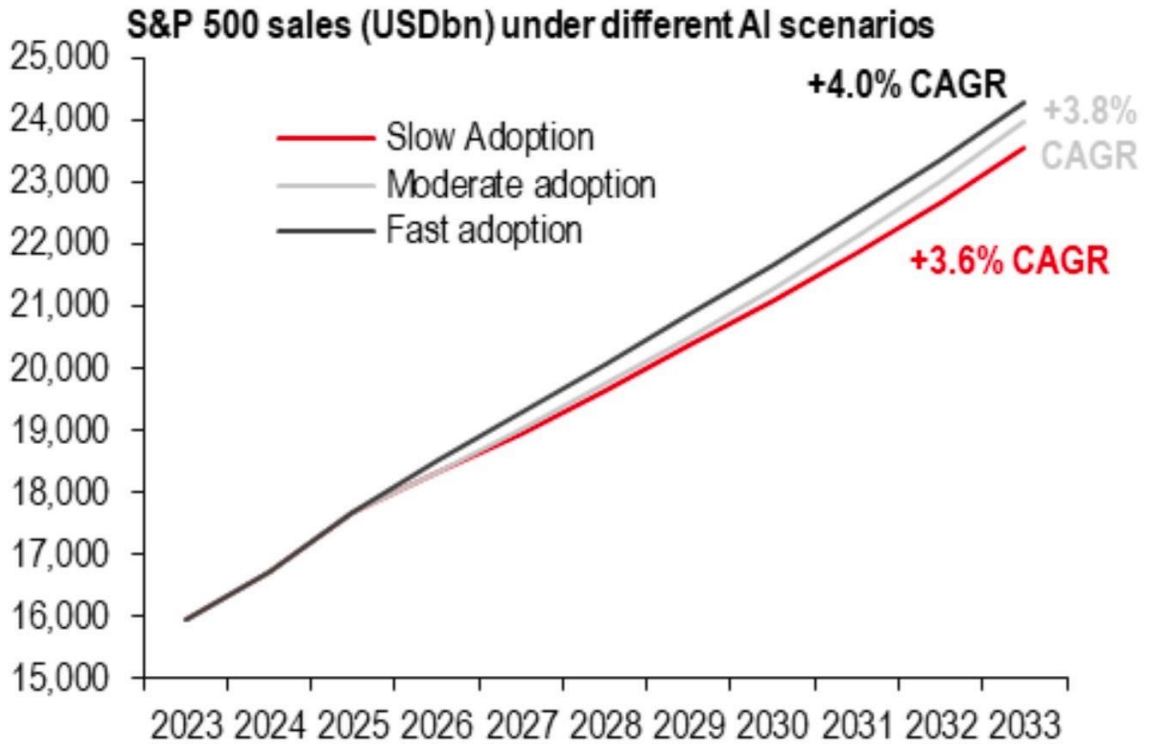


The Outlook: March 27, 2024

McKinsey borrows our watch and tells us what time it'll be.

Consulting firms are in the business—among other things—of writing deep, searching analyses of “the future,” so their business customers will know what to do in the face of earth-shattering events and trends. Now, long-time Outlook clients and friends will know perfectly well that those words bubbled up from a well of sarcasm. A very long time ago, a boss told a young staff member that what consultants usually do is “Borrow your watch to tell you what time it is.” Four decades later, the now-old analyst tells his young staff member that “Yup . . . that’s about the size of it, most of the time.”

Still, making profound forecasts about the long-term future may be an ugly job, but someone has to do it—and consulting firms often give us some interesting facts along with the forecasts which mostly turn out to be wrong. That’s how this forecast struck us, below.



Source: Factset, McKinsey, HSBC

The top chart is McKinsey's prediction about how much Artificial Intelligence will boost the next ten years of sales, among the 500 Big Companies of America. Not too much, is it? To be sure, an increase in annual sales growth from 3.6% to 4.0% is more powerful than it might look. Total S&P 500 sales is a fantastically

large number . . . and such numbers just don't grow that fast, just as the entire U.S. economy doesn't grow that fast. So for the economy, and for total sales, a half-point of faster growth is actually kind of a big deal.

The eyebrow-raising item comes in the bottom chart, at our green arrow. That's not the 500's sales growth, but its earnings-per-share growth . . . over the next decade, depending on how fast everyone adapts Artificial Intelligence to their business needs. A boost in EPS growth from 5.7% to 7.4% is a Big Deal indeed. Let's sum up the two foundations of McKinsey's deep-thinking exercise:

- Artificial Intelligence will help Main Street make better products and sell more of them.
- But mostly, Artificial Intelligence will help Main Street make its products cheaper and faster, and make more profits on each dollar of sales.

And what does Outlook think of McKinsey's gaze into its crystal ball, and skip the sarcasm, please? At Outlook we think both forecasts will be right: sales and profits will grow faster, especially profits, because Main Street is convinced, already, that Artificial Intelligence is going to boost productivity in a big way. "Productivity" means "doing more with less," and most of the inventive miracles of the century hit home runs in the Productivity Game. But we would add a third bullet point to the forecast.

- Artificial Intelligence is pretty sure to create new products and services, somewhat unimagined today. Genuinely new things are always hard to imagine until they show up. Then we find that the "New Things" make sense, and, well, were kind of obvious once we got a good look at them. After Sherlock Holmes explained to Dr. Watson exactly how he'd figured out that the murderer was a cannibal pygmy from Borneo who shot poisoned darts from a blowgun, Dr. Watson exclaimed "Oh! Well, now I see it was all perfectly obvious after all, Holmes! Anybody could have seen it!" which naturally made Holmes grind his teeth.

One miracle Artificial Intelligence will not perform is the elimination of the business cycle and the market roller coaster. They'll always be with us . . . and they'll make the betting mob drop its current giddy good feelings, one day, and swing back to its sour normalcy: "Things look bad! Hah! They'll get worse, just wait and see!" But the feelings of the betting crowd are like the weather: rain today, sun tomorrow or the next day. They make things unpleasant for a time; or they make things even more pleasant, for a time . . . but they have nothing to do with the strength and height of the many buildings on Main Street, which just keep getting higher and stronger over time.

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