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2023 Global AI Outlook

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Global AI outlook 2023



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After a year to forget for both bond and equity investors, investors' attentions will inevitably turn to 2023. We aren't macro experts, and consequently we leave the big macro calls and insights to others, but there are some key trends that we can discern already.

The first is that the layoffs we have seen recently in the technology space are unlikely to be done – from where we are sat, the outlook in IT services (and particularly software) is not rosy. Some technology companies (such as Google) are holding out in terms of making large layoffs, but we wonder how much longer that can continue. A recession will feel alien to a lot of technology businesses because many of them have only ever known growth.

The second is that the equity market has turned more positive on some of the early cyclicals – admittedly, there has been a lot of pain seen here in 2022, but expectations have been reset and the market has gained some confidence that the revised levels of guidance could be met in 2023. At any rate, early cycle bellwethers in, for example, the semiconductor space (such as Advantest) are no longer trading anywhere near trough valuation multiples.

The third is that the relationship between the US and China continues to deteriorate, with Activision Blizzard severing ties with NetEase. This is just another example of the West abandoning its commercial links to China; practically it means that popular franchises such as *World of Warcraft* will not be playable in the country. Increasingly we expect China to forge its own (separate) path in years to come, even if that means duplicating technology manufacturing systems (e.g. in microchips) that already exist and work at a global level. The fourth is that monetary policy operates with a lag and as a result 2023 might be a challenging one as far as the 'real' economy is concerned; inflation should begin to roll over

(thanks to the anniversary effects) but for consumers and businesses there will be the chastening experience of having to re-finance debt at materially higher 'risk-free' rates. However, a tough year for the 'real' economy doesn't preclude a better year for stocks if markets begin to think earnings expectations have re-set to more realistic levels and the bulk of the Fed's tightening is out of the way. Those expecting a rapid reduction in US rates may be disappointed, but clearly the Fed will tread more softly in 2023 than it did in 2022.

For AI as a theme, we remain highly constructive on the short-, medium- and long-term outlook. We have always regarded AI as a transformational investment theme and, even with the turmoil in markets this year, there has been nothing we have seen in 2022 that has led us to question the durability or relevance of AI. More and more companies are engaging with AI and we are rapidly approaching the point where the vast majority company management teams will have a basic responsibility to consider the impact of AI and automation in order to be regarded as responsible and credible custodians of their shareholders' capital.

We also continue to think that the world faces profound economic, social and environmental challenges, and that waiting for significant changes in human nature to alleviate some of the worst problems is perhaps unrealistic – climate change conferences like COP27 have been long on rhetoric but short on delivery and it is clear to us that time is beginning to run out. Like DeepMind's co-founder Demis Hassabis, we think it makes sense to focus on the quantum leap that can be provided by AI, rather than waiting for exponential improvements in human behaviour that in reality may never transpire, even with politicians' best efforts.

Lastly, AI continues to make inroads in the most unexpected areas – humans have been the only art



creators on Earth for tens of thousands of years, but AI art produced by the likes of Stable Diffusion and DALL-E 2 has started to change the parameters of what is possible in the art world. If you have ever wanted a picture of a slightly depressed cat in a mountain landscape in the style of JMW Turner, there is an AI out there that can cater for your needs: [Incoherent, creepy and gorgeous: we asked six leading artists to make work using AI - and here are the results.](#)

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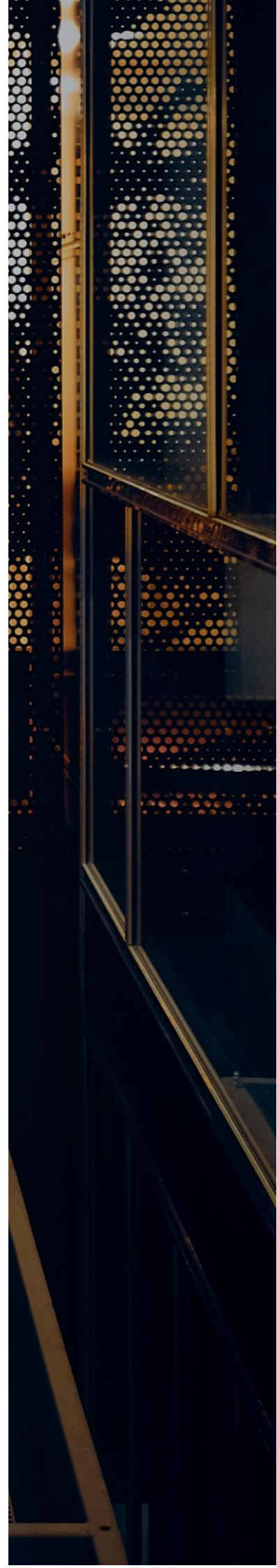
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