

Opportunities in Artificial Intelligence

With Memorial Day weekend and a quiet week of economic news ahead, the market is laser-focused on this week's earnings report from NVIDIA, considered by many to be the bellwether for all things AI.

The buildout of artificial intelligence remains strong, evidenced by companies' commentaries through this earnings season. For investors, cloud computing, chip manufacturers, and data center buildouts have been the preferred targets to capitalize on AI trends.

Less attention, however, has been given to how another economic sector supports the growth of AI: power generation. All these buildouts and technologies require copious amounts of power, which the current electric grid is not able to provide; nor can wind and solar producers bridge the difference. Given this constrained supply, electricity inflation is currently at historically high levels.

Traditional sectors such as commodities, mining, oil and gas, industrials, and utilities are set to benefit from fulfilling this increased demand while enjoying increased pricing power. Meaningfully cheaper than their technology counterparts, yet with an appealing potential top-line growth trajectory, these sectors offer potential opportunities to participate in a trend that has yet to show signs of moderating.

CHART OF THE WEEK

Electricity Inflation 3Y Annualized Change

Exhibit 1: Electricity inflation is the highest in 40 years, just as data center & AI demand surge
US electricity CPI component, 3-year annualized change



Source: Bank of America

Index Returns (%)

Equities	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.
S&P 500	5308	1.73	1.22	11.91	28.57	10.13
Russell 1000 Growth	3466	2.32	2.23	13.89	36.35	11.91
Russell 1000 Value	1754	0.99	-0.38	8.57	20.35	6.04
FTSE High Dividend Y	420	0.85	-0.15	8.95	20.32	7.58
S&P Small and Mid Cc	16753	0.97	-0.60	6.96	23.13	4.28
MSCI EAFE	2386	1.63	2.56	8.70	15.68	4.42
MSCI EM	1102	2.24	6.02	8.61	16.17	-3.25

* Bloomberg U.S Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Index Characteristics

	NTM P/E	NTM P/E (20Y med)	NTM P/S	NTM P/S (20Y med)	Div. Yld
S&P 500	21.9	16.7	2.8	1.6	1.4
Russell 1000 Growth	28.8	19.9	4.5	2.0	0.7
Russell 1000 Value	17.0	14.9	1.8	1.4	2.1
FTSE High Dividend Y	12.6	14.3	1.5	1.6	4.1
S&P Small and Mid Cc	17.2	19.1	1.2	1.2	1.7
MSCI EAFE	15.2	14.6	1.5	1.1	3.0
MSCI EM	13.2	12.6	1.4	1.3	2.6

Levels (%)

Fixed Income	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.
U.S. Aggregate	5.06	0.34	-0.74	-1.51	2.02	-2.94
U.S. Int. Gov/Credit	4.90	0.27	-0.16	-0.31	2.82	-1.34
U.S. Corporates	5.49	0.53	-0.62	-1.02	5.33	-2.50
High Yield	7.85	0.41	0.42	1.90	11.46	1.99
Municipals (1-10)	3.34	-0.24	-0.48	-0.85	2.73	-0.32

Levels

Currencies	Last	1 Wk Ago	Prev YE	3 Yrs Ago
DXY	104.63	105.01	101.33	90.02
\$ per €	1.09	1.08	1.10	1.22
\$ per £	1.27	1.26	1.27	1.42
¥ per \$	156.20	156.42	141.04	108.96

Levels

Commoditie	Last	1 Wk Ago	Prev YE	3 Yrs Ago
Oil (WTI)	79.00	78.02	72.12	54.02
Gasoline	3.59	3.61	3.12	3.04
Natural Gas	2.64	2.34	2.51	2.91
Gold	1924	2358	2063	1881
Copper	8350	10008	8464	9868
Wheat	604	657	628	674
BBG Index	251.36	241.51	226.43	194.07

LAST WEEK IN REVIEW

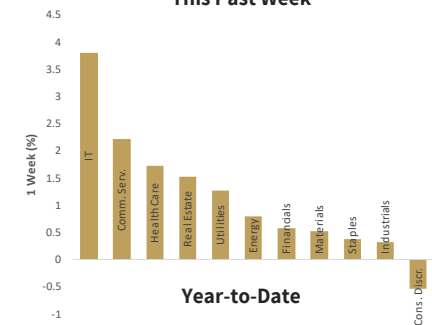
- **Producers Price Index (Apr):** MoM (+0.5% HL, 0.5% Core), YoY (2.2% HL, 2.3% Core). Downward revisions to March offset upside surprise in April.
- **Consumer Price Index:** MoM (+0.3% HL, 0.3% Core), YoY (3.4% HL, 3.6% Core). Deceleration in headline and core, yet YoY figures show more progress needed to bring inflation to target.
- **Retail Sales (Apr.):** MoM (+0.0% HL, -0.3% Control Group). February and March figures revised downward.

THIS WEEK

- **Existing Home Sales (Apr.):** 5/22
- **FOMC Meeting Minutes (May):** 5/23
- **S&P Flash PMIs (May):** 5/23
- **New Home Sales (Apr.):** 5/23
- **Durable Goods Orders (Apr.):** 5/24
- **U. of Mich. Consumer Sentiment (May):** 5/24

S & P SECTOR RETURNS

This Past Week



Year-to-Date

