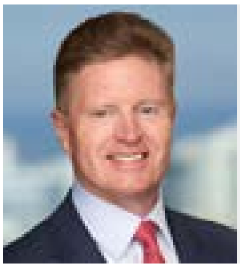
CRI Quarterly Review

Q4 2024

A Conversation with CBIS Co-Chief Investment Officers Thomas Digenan, CFA, CPA, and John W. Geissinger, CFA



Thomas Digenan, CFA, CPA
Co-Chief Investment Officer

John W. Geissinger, CFA
Co-Chief Investment Officer

What surprised you most about the markets across the last 12 months?

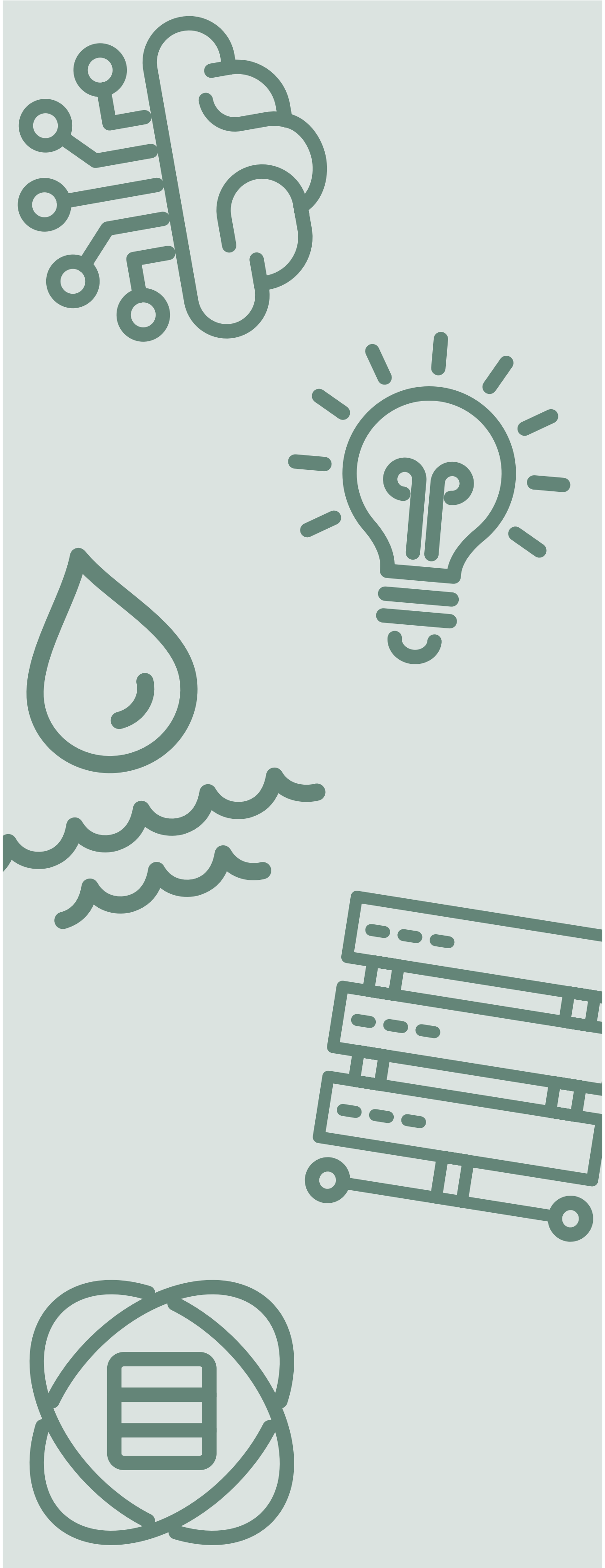
Mr. Digenan: If there was a surprise, it was the solid equity performance of sectors outside the technology space. While everyone was talking about artificial intelligence (AI) stocks, utilities were actually the best performing sector for the period, in large part due to AI's growing demand for electricity.

> **"Artificial Intelligence companies are making tremendous amounts of money. And they're changing the world."**
>
> **— Tom Digenan**

Mr. Geissinger: We were also a little surprised that the concentration in the equity markets continued to be as strong as it did for the better part of the year. I was encouraged to see the markets broaden out a bit toward year-end.

You mentioned AI. What's your high-level view on AI and what it means to the marketplace?

Mr. Digenan: The beneficiaries so far have been the companies that produce semiconductors that help generate AI. The runup in those stocks is analogous to the tech bubble 25 years ago. But unlike those tech companies of the late nineties, AI companies are making tremendous amounts of money. And they're changing the world. I'd say we're still in the early stages of the AI revolution.



Mr. Geissinger: On a different note, AI server centers, in addition to their staggering electricity demands, also need an enormous amount of water for cooling. I anticipate we're going to be quickly pivoting to how companies will manage water as it relates to cooling the AI computer centers.

Is it fair to think that the developed markets have enjoyed a relative advantage over emerging markets in this technology rich environment?

Mr. Geissinger: With regard to AI, sure. But remember, the world is also moving towards full electrification. A large number of raw materials are required for this development, and those raw materials tend to be in emerging economies.

Mr. Digenan: Over time, market leadership inevitably swings back and forth, which is why you always want to have exposure to emerging markets, whether equity or fixed income, in your portfolio.

What, exactly, is an emerging economy?

Mr. Geissinger: We think of an emerging economy as one that's moving towards the path of industrialization and further development of its financial market and legal system.

Mr. Digenan: I'll add that since these economies are earlier in their path, they have a much steeper slope in terms of growth rate. So therein lies the opportunity. There is risk there, but there's great reward potential as well.

> **"I would expect to see the benefits of diversification continue to emerge in 2025."**
>
> **— John Geissinger**

Sounds like something that might favor good money managers that pick stocks around the world.

Mr. Geissinger: As returns from the interest rate market and the equity market begin to normalize, I would expect to see the benefits of diversification continue to emerge in 2025. And not only between equity, fixed income, convertible bonds, and infrastructure investments but also diversification within an equity portfolio to begin with.

Mr. Digenan: That's where the opportunity for active managers that have a well-defined process comes in. I'd rather someone be disciplined than occasionally clever.

What are your thoughts on 2025?

Mr. Digenan: We're looking at strong global economic trends and a favorable interest rate environment going into the new year. I think the change in 2025 will not be in size, but in shape. Single-digit returns in a low-inflation environment will really be good for a long-term investor.

Mr. Geissinger: I couldn't agree more. It sounds somewhat boring, but let's remember that a bullish year is high single-digit market returns and mid-single-digit fixed income returns.

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We want to hear from you!

If you have any questions, please reach out to your CBIS representative:

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