



EQUITY & FIXED INCOME MARKETS COMMENTARY

Equity markets were up in September, led by the resumption of the mega-cap technology trade tied to Artificial Intelligence (AI). The S&P 500 Large-Cap Index, the S&P 400 Mid-Cap Index and the S&P 600 Small-Cap Index rose by 3.6%, 0.5% and 1%, respectively. The Goodman Blended Equity Benchmark gained 2.2% for the month. The Dow Jones Industrial Average Index rose 2% while the technology-heavy NASDAQ Composite was up 5.7%. International stock indices also had a good month as developed markets ex U.S. were up 1.6%.

Note: We have been transitioning Chief Investment Officers over the past month. Chris Matlock will be retiring on October 1st, and Robin Kollannur will be fully assuming the CIO role going forward.

CIRCULAR LOGIC

Mark Twain famously said, “History doesn’t repeat itself, but it often rhymes.” Having managed money during the dot.com boom and bust of the late 1990s, my ears have been especially attuned to recent events in the AI space. Earlier in the month, Oracle announced that it signed a \$300 billion contract to provide cloud computing services to OpenAI, the creator of ChatGPT. This deal raised red flags with credit ratings agency Moody’s, who warned of [“counterparty risk”](#) with worries around OpenAI potentially not having the cash to pay Oracle in the future. Then later in the month, Nvidia announced it will be investing \$100 billion in OpenAI, also one of its largest customers. Note that Oracle had announced earlier in the year a \$40 billion investment in Nvidia’s AI chips. While this news helped allay some of the market fears around OpenAI’s cash position, tech entrepreneur Chris Bakke summarized it best by posting this meme on [Twitter](#):



While the meme is hilarious, it also makes a serious point about the circular logic surrounding the recent market euphoria. In September alone, Nvidia was up +7% and Oracle was up 24% (OpenAI is a private company). Nvidia’s market cap of \$4.3 trillion is larger than the GDP of [all but five countries](#) (the U.S., China, Germany, India, and Japan).

In the late 1990s, the last wave of [the dot.com bubble](#) was when telecom equipment makers such as Lucent Technologies, Cisco Systems, and Motorola extended loans to their customers. This had the short-term benefit of increasing their sales growth and giving investors hope that another leg of the already strong dot.com rally was about to commence.

But when their customers started defaulting on these loans and these companies had to take large losses, the downturn was brutal. Lucent’s IPO in 1996 was the [largest in history](#) at the time, and the stock shot up to near \$80/share at the height of the dot.com boom in 1999. When they started taking write-downs on these customer loans in 2000, the stock plummeted to under \$1/share. Cisco stock, which had gone from roughly \$10/share in 1998 to near \$80/share in 2000, subsequently went back down to \$10/share by 2002. Motorola and many other tech darlings of that era had similar fates: the technology-heavy NASDAQ

Index took over fifteen years to reach the prior peak it achieved at the height of the boom in March 2000.

It may be the case that OpenAI and other new companies prove to be hugely profitable over time, and these “closed-loop” investments may be prescient given the strong growth we are seeing globally in AI. Alan Greenspan famously said the dot.com bubble was fueled by [“irrational exuberance”](#) in December 1996. The bubble only started bursting in March of 2000, which reminds us of the famous quote by John Maynard Keynes that the “markets can remain irrational longer than you can remain solvent.” Note that Oracle was one of the survivors of the dot.com bust in the 1990s, as were current technology giants Apple, Microsoft, and Amazon. But it was a long and painful journey to get back to even for those investors that got in near the top.

Two recent articles may also prove to be prescient: a report from [Bain and Company](#) cautioned AI computing demand is outstripping power supply, and revenues may fall short of needs. [Harvard Business Review](#) also cautioned that “workslop” (low-quality AI output that is confusing) is impacting productivity gains which in turn may impact profitability. The latter point is most important to us: top-line sales growth must eventually lead to bottom-line profitability. We believe the hope of future AI profitability is currently being extremely overvalued by investors. If these companies have to extend cash to customers to keep top-line growth going, we will quote another famous Twain (Shania): “That don’t impress me much”!

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REFERENCED INDICES

It is not possible to invest directly in an index. Indices are unmanaged and their returns assume reinvestment of dividends and do not reflect any fees or expenses.

- **S&P 500® Index** – a market-cap weighted index composed of the common stock of 500 leading companies in leading industries of the U.S. economy.
- **S&P 500® Equal Weight Index (EWI)** – the equal-weight version of the S&P 500® Index. The index includes the same constituents as the capitalization-weighted S&P 500® Index, but each company in the S&P 500 EWI is allocated a fixed weight – or 0.2% – of the index total at each quarterly rebalance.
- **S&P MidCap 400® Index** – a market-cap weighted index composed of the common stock of 400 mid-sized companies reflecting the distinctive risk and return characteristics of the U.S. mid-cap equities sector.
- **S&P SmallCap 600® Index** – a market-cap weighted index composed of the common stock of 600 small-sized companies reflecting the distinctive risk and return characteristics of the U.S. small-cap equities sector.
- **Blended Equity Benchmark** – a customized index comprised of a blend of a 50% weight to the S&P 500® Index, 30% to the S&P MidCap 400® Index and 20% to the S&P SmallCap 600® index.
- **Dow Jones Industrial Average® (The Dow®)** – a price-weighted index composed of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.
- **Nasdaq Composite Index** – an index that measures all Nasdaq domestic and international based stocks listed on the Nasdaq Stock Market.
- **Bloomberg Intermediate US Govt/Credit TR Index Value Unhedged** – the index includes investment grade, US dollar-denominated, fixed-rate treasuries, government-related and corporate securities with a maturity greater than 1 year but less than 10 years.