The Golden Age of AI

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ALEX BERNSTEIN: Hello, I'm Alex Bernstein and you're listening to the Alger Podcast, Investing in Growth and Change. It's always a pleasure to have Portfolio Manager Dr. Ankur Crawford on the podcast because she's someone who's truly passionate about investing, and you never know exactly where the conversation's going to go next. Ankur is a manager of multiple Alger strategies. She focuses on technology particularly in the large cap space. Ankur, welcome back to the podcast.

ANKUR CRAWFORD: Thanks, Alex.

ALEX: Well, let's dive right in. I know you and the team have been incredibly focused on artificial intelligence and where that may be heading. Tell me what you're currently thinking about in AI.

ANKUR: Look, I think we're in a really interesting point in time for not only AI, but the impact that AI is going to have on our economy. And I think this really could be a golden age for our markets and for our economy. And let me explain.

You think about what is happening for artificial intelligence, well, in order to serve up the intelligence, we need power, we need compute, we need people to build the powerplants and the datacenters. There's an entire supply chain. We think, for every dollar that goes into the ground for the capital, it has a six-fold effect on the economy. So, if you do the math around this, is there a period of time we can reach escape velocity in the economy and be growing three, four, five percent in terms of GDP growth? I think that would really qualify as a golden era.

And that touches everything. We believe it touches industrials that are not really "AI companies" and the more cyclical aspects of our economy. We think it touches really all aspects of our economy because we're going to need to employ more people, we're going to need to build, we're going to need to import, we're going to need to transport, we're going to need to trade. And so, there's just all of these dominoes that fall as you think through what needs to be built.

ALEX: With what's going on with positioning around AI in the U.S., in China and other countries, globally, do you think the U.S. is in an AI arms race right now?

ANKUR: Oh, for sure, we are definitively in an arms race. And I say that not with great fervor because I actually think that humanity wins if we weren't racing and we were collaborating. But definitively we are in a race to be the leaders in AI. It is existential that I think we hold that pole position because this is a technology that's going to drive not the next one decade, but probably the next five decades. As long as we can see, we think it's going to revolutionize our society.

ALEX: What do you think that means for investors? Do you think a high tide lifts all boats?

ANKUR: I think that the U.S. has always been a hotbed of innovation. And China aside, if you look at

the innovation that we've seen over the last 50 years, the U.S. has been a consistent hotbed of innovation.

I think that there is a kind of misunderstanding sometimes that China can't keep up. I think China has some of the most innovative engineers, software developers, and thinkers on this planet. They are going to give us a run for our money. And so, there are going to be many different ways by which to invest in AI. Some may be in China, but I think you'll see a lot of them, and you are seeing a lot of those opportunities here.

ALEX: You made the very intriguing comment recently that you think Apple should buy OpenAI. Tell me about that.

ANKUR: This is a time, Alex, for radical change. Right? We are going into a completely new world where the structure of companies and businesses of how they grew up over the last two decades, over the last two and a half decades, is no longer going to be relevant. And when you see a path to irrelevancy you have to make big, bold steps. I think what Apple needs to do right now is not incremental, it is radical. They're one of the few companies that will be able to afford a business as big as OpenAI.

My belief is they should simply bite the bullet, pay $800 billion to a trillion dollars for OpenAI. It's a third of their market cap. Let Sam Altman take over Apple and Jony Ive comes back home. Right? He's the main designer for Apple. And I think it could be a really fantastic product market fit. OpenAI has the large language model that could basically be propagated through every Apple consumer device. Their end market is a consumer. Apple's end market is a consumer. Highly synergistic end markets. Apple has hardware. OpenAI has the software. I think it is like the most obvious combination that should happen and it might not simply because I think why would OpenAI want to sell and why would the investors want to sell? But also, is Apple bold enough to do something this radical?

ALEX: And you say this as somebody who has had a pretty long-term interest in Apple.

ANKUR: Apple was a company that was heralded as being the innovator of our generation and I think they've become a follower. So, I would have wanted them to be not first, but definitively not last. And I think there's so much opportunity for this business here if they are simply able to kind of cross the chasm.

ALEX: How difficult do you think it's going to be for an average business to cross the chasm? Companies, for instance, that simply don't have the infrastructure for AI in place yet?

ANKUR: I think, Alex, we all have to zero base our thinking. Right? Because we are in a new world and that requires a completely different mindset. So, I've often said the winners of yesterday may not be the winners of tomorrow and our job is to try to identify who the winners of tomorrow are. And in times of great technological change, there is often not only a "disruptor," but a new leader emerges, and we hope that we're going to find that new leader. That said, I think everyone now is adopting AI. The question isn't if you're adopting now, it is the pace of adoption and how quickly can you actually cross this chasm. And there are going to be some companies that are more amenable to the change because of, perhaps, their tech infrastructure. There are other companies that are going to struggle and are going to need a lot of help.

So, now in this is the nuance of what we're trying to do., There have been wide discrepancies inside of industrials, semis, healthcare, software. I think every single sector has had their share of bifurcation in performance. There are these nuances that are now appearing and becoming more obvious that I think makes active management a lot more important and makes it harder to be just a regular investor in the market. Because we think it is important to understand the nuances of each business and how it may express itself in this new world.

ALEX: Ankur, you made a very interesting comment last year about one potential use of AI humanoids, and that was as healthcare aides for the aging and elderly. I'd love to hear more about that.

ANKUR: Honestly, I think that the tangibility of a humanoid brings a lot of this AI view into focus. Because humanoids are, we call them physical AI whether it's a humanoid or a robot. It is an object that can do things, but reason. And so, if you think about a robot and you bring a robot into this room, a robot will be able to recognize even today the components of this room and what pressure to use to pick something up.

We're at the very early stages of this. If you think about the use cases for a robot, yes, we can talk about factories and the impact it will have on factories. One of the most compelling ones is, and I actually learned this from Brett Adcock, who is the CEO of Figure AI, his motivation is his parents run nursing homes and he, himself, is an incredibly fascinating human being. You think about how underserved some of our nursing homes are, rehab centers are, and think about is it possible for every patient to have their own robot to help them to the bathroom, to measure their blood pressure or to scream for help or to walk over for help if needed, to give medications or at least to walk medications over? So, it alleviates the humans having to do it.

Well, we think this is a fantastic alternative. You can talk to a robot and it can become your therapist, your friend, and your helper. So, I mean, even my own parents, I would love to have a robot that lives in our house, that I can check in on them and make sure they are okay. Not that they need it, but it would be nice for me to just feel that security, to know that there is something there helping them at odd hours if they needed it.

Look, I know it sounds really like sci-fi right now, but it's not. We are incredibly close to that point in time. I think inside of five years we will experience a robot of some sort, a humanoid of some sort that is taking on tasks in healthcare.

ALEX: I actually wanted to swing back to a conversation we had a couple years ago, where you were extremely excited about efforts revolving around the metaverse. But that didn't quite happen as expected, did it?

ANKUR: No, but when we did it, what did I say? It's not tomorrow...it's ten years from now.

ALEX: I think we had the conversation back in 2022.

ANKUR: So, ten years from now is 2032. So, check back with me then. But honestly, one of the reasons that I had put it ten years out is because the cost of that computation was so enormous that it was very difficult to adopt that idea of the metaverse. We are now in an era of democratized compute. And you think about what that means.

Concepts like the metaverse where we could be having this conversation in 3D without actually sitting across from one another. I could be speaking a different language. Right? That concept is closer today than it has been any time in our past and it has accelerated. If I thought it was ten years out and if I would have made the statement today, now I think it's probably only five years out. So, it has kind of pulled on the timeline. So, I think the concept of the metaverse is not gone, it just had to wait for the technological evolution or revolution of what's happening in compute.

I remember back then I'd said something to you about why should we learn about the building of Rome from a textbook? Right? We should really send our kids into the metaverse and have them watch. Well, at that point I was thinking just have them watch. Now they can interact. They can reason with the farmer. They can go watch what's happening at the Coliseum and understand perhaps the viewpoint of a noble versus a villager might be and have conversations with them. Because each of these entities can now reason. If you watch what your AI does, you can see it thinking in a logical framework. And that ability to reason also changes what happens in the metaverse and how we can interact in the metaverse.

ALEX: Ankur, I also wanted to ask you about blockchain and stablecoin. I know you have some compelling thoughts on this.

ANKUR: I would say bitcoin, maybe was it five years ago, was all the rage. And at that point we had done a lot of thinking through, well, what does it mean if we can transact in bitcoin? At that point we had learned

about what is a blockchain network, what are the benefits of the blockchain network? I'll just name some of them – we think it's faster, it's cheaper, difficult to hack, there's no intermediary which makes it cheaper.

But at that time bitcoin, Ethereum, Solana or blockchains were a bit more speculative. So, if I wanted to send you $100 what would I do? I'd have to take on the blockchain. I'd have to take fiat currency and pay a 2% or a 3% fee to get my fiat onto the blockchain. I would send it to you and then you'd have to convert it from whatever blockchain currency into fiat again. So, the efficacy and efficiency of the blockchain, in fact, wasn't necessarily appreciated because on both sides of the transaction there were intermediaries. Well, what happens with stablecoin and the Genius Act is the U.S. Government is now backing certain stablecoins to be representatives of paper money. And the way they're guaranteeing it is for every dollar of stablecoin, USDC, USDT, it must be backed by a dollar of paper money. And so, you have to go out and buy treasuries. If I want to send a thousand dollars, whatever USD currency I use in terms of digital currency must now be backed by a treasury bill, and that treasury bill must be on the balance sheet of the issuing company.

So, by the time I upload it, it doesn't move 10%, so I have to upload another 10% to you. So, it stabilizes the value of the currency. It's effectively taking the middlemen that were charging 2% and 3%, and it's collapsing the margins in part because of scale, but also because there is now volume. It's basically collapsing the cost of going from fiat into a stablecoin. It can be transacted to any different country. Right? Just like any bitcoin. So, we think you get all the benefits of having a blockchain network, but with a stabilized currency that represents fiat.

But I think what's even more interesting is that it could change the entire financial system. So, think about a company that wants to IPO. Could a company now tokenize themselves an IPO through the blockchain/stablecoin markets? Potentially. Suppose a company wants to take out debt. Can you effectively crowdsource debt? So, I think stablecoin could really begin to radically change our financial system.

ALEX: And is this investable now? Or something you're just beginning to look ahead at?

ANKUR: I think there are not that many ways to invest in it. There's Robinhood. Patrick found that one. I think it's happening now. I feel like we live in this world that's two years ahead as investors. So, we're always thinking two years ahead and we're like, come on, why isn't it here already? But we can see, and we can dream about where we're going. And we still have to build some of the infrastructure that goes and supports the dream of where we're going.

ALEX: Ankur, thanks so much for your time this afternoon.

ANKUR: Thanks, Alex. Great talking to you.

ALEX: And thank you for listening. For more information on Dr. Ankur Crawford and her strategies, and for more of our latest insights, please visit https://www.alger.com/Pages/Home.aspx.

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