

# The AI Inflection Point

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**ALEX BERNSTEIN:** Hello, I'm Alex Bernstein and you're listening to The Alger Podcast: Investing in Growth and Change. Artificial Intelligence or AI has been capturing headlines and investors' imaginations for months now, especially since OpenAI released ChatGPT3, and then later 4, to the general public. Adoption has already been widespread, and to this day, investors are wondering – what exactly are the implications? Here to take a deep dive with me into this topic is Head of Alger Capital Appreciation and Spectra Strategies, Patrick Kelly. Patrick, thanks so much for joining me this afternoon.

**PATRICK KELLY:** Thank you. Good to be here.

**ALEX:** Patrick, you've been talking quite aggressively about digital transformation and traditional AI for years now, but you really feel this moment – with Generative AI – is different?

**PATRICK:** Yes, we have been saying for some time that the impact of AI over the next decade is being completely underestimated. We think the recent advancements in AI have created yet another significant inflection point for the adoption of AI. Microsoft's vice chair, Brad Smith, recently called AI the most consequential technology advance of our lifetime and says it will change almost everything. We agree with that, and firmly believe that the recent advancements in AI will unlock a wave of innovation that will have a significant impact on companies across sectors in the global economy.

We think AI has the potential to significantly change the competitive landscape in various industries. It will transform many aspects of our lives. And it's almost difficult to put into words how much of an impact AI will have over the next decade.

**ALEX:** Are you calling this an "iPhone" moment?

**PATRICK:** So, some have compared it to the introduction of the iPhone, a comparison that many

people can relate to, although we do believe it is more significant than that. The iPhone moment, as we know, is a breakthrough technology that changed the way people use their phones, consume media, and access the internet. Similarly, some people are calling generative AI an iPhone moments because it represents a major breakthrough in the capabilities of artificial intelligence.

Traditional AI has been helpful in making predictions of outcomes. Generative AI allows machines to create entirely new content based on the user's text prompts, such as images, music, code, essays and even entire stories or conversations in a way that was previously impossible. And we believe this has the potential to transform many, many industries. Like the iPhone, Generative AI is expected to have a significant impact on society, on the way people interact with technology. I think it is likely to lead to new forms of creativity, entertainment, and communication. We think using Generative AI will be ingrained into our daily lives. And we will soon wonder how we lived without it, very similar to the iPhone.

**ALEX:** Patrick, OpenAI and ChatGPT have been a big part of this evolution. What's ChatGPT doing now?

**PATRICK:** Well, just another recent big development in AI was ChatGPT announced its initial support for plug-ins, which we think could represent a paradigm shift in how we use the internet. We believe the plug-ins will allow ChatGPT to connect to third party applications, which will enable them to get access to real time information on the internet. We think plug-ins will give ChatGPT much more data leading to a far more powerful tool and give it access to up to date, real time information. We think it will also enable third party innovators to ride on the power and popularity of the ChatGPT tool.

I think people are soon going to discover the power of ChatGPT plus plug-ins. They've already announced

**Patrick continued:** eleven plug-ins, including Expedia, Instacart, Wolfram, OpenTable, Klarna Shopping, Kayak.com, Shopify and several others. You can think of ChatGPT as the iPhone moment and the plug-ins as the app store moment. For example, you could look up recipes on ChatGPT, then you can leverage the plug-in with Instacart to order all the ingredients of that recipe without having to leave the ChatGPT search box.

ChatGPT could be your new intelligent shopping assistant, as you can search for products across the internet that you may want to buy with the plug-ins from Shopify and Klarna Shopping and many more to come. So, I think this is a very significant development. We think this is going to make the tool a lot more powerful, a lot more useful and can really change how we use the internet.

**ALEX:** And in general, you also believe this is going to have a significant impact on productivity across the board?

**PATRICK:** We think AI is going to have a significant impact on productivity. Microsoft said that AI should increase productivity for knowledge workers by 10X by 2030. It's difficult to quantify a number, but it should be significant. One example would be writing code. Microsoft's GitHub Copilot is an AI engine that basically sits on your shoulder, making recommendations to help you write code, which reduces the time to write code. The head of Computer Vision for Tesla's autopilot recently said that Copilot is already writing 80 percent of the Tesla code, which is a staggering number.

Software is basically writing software, which will increase the number of software applications, increase automation as a result and the time to write the software will be significantly diminished, all leading, we believe, to a significant boost in productivity. But again, that's just one example of AI increasing productivity. We believe there's going to be many more examples of how this technology will significantly improve productivity.

**ALEX:** Patrick, you also think this change in AI is going to have a major impact on the economy. Tell me about that.

**PATRICK:** Well, I think AI is going to have a significant impact on the global economy, but we do believe that it's going to be a big secular deflationary force. There's been

so much talk about inflation over the past several years, which has forced the Feds to raise rates and to slow the economy. Despite the recent inflation, we continue to believe that one of the most underappreciated aspects of innovation is that it will be a long term secular deflationary force. And given all the easy money over the past decade, we believe inflation would be significantly higher if it were not for all the tech and innovation in the economy.

I think AI, and all the innovation that it will bring, will be massively deflationary over the long term. It will increase productivity and efficiency in many industries, which will lead to lower costs and prices over time. There is a lot of uncertainty around how AI is going to impact different sectors in different companies, but we think that it's going to be a significant deflationary force longer term.

One example is AI is behind all the autonomy advancements at Tesla. Tesla is leveraging computer vision AI that they're developing for autonomous vehicles to develop autonomous robots, which they call their humanoids, a robot on legs versus a robot on wheels. Elon Musk recently stated that he could envision a world where we have more robots than people. That is a longer term vision. The time period for autonomous driving where a driver can be removed or further development of humanoids that are replacing labor remains uncertain. But we do believe autonomy is going to be very deflationary longer term.

Another example would be that there's already more AI digital voice assistants than people. A more immediate example is BuzzFeed, who recently cut 12 percent of their workforce. They're now using Generative AI and Traditional AI to create content, target advertisers, produce videos and analyze data. BuzzFeed is leveraging AI to increase efficiency and reduce costs in several areas of its media operations.

So, over the long term, we continue to believe that many economists completely underestimate the impact of innovation on inflation. We think AI is going to unlock a wave of innovation, which we believe will be deflationary longer term. Again, this is not something that's necessarily over the next six months or a year, but over the next three, five, ten years, we think it's going to have a significant impact on inflation.

**ALEX:** Patrick, you've already named a few names, but I wanted to shift the conversation over to some specific holdings of yours that you're excited about, as beneficiaries of Generative AI. Can you talk about some of those beneficiaries?

**PATRICK:** So, NVIDIA. NVIDIA is, you can call them the picks and shovels of the AI industry, providing the software and hardware to enable AI. We think NVIDIA is not only a major beneficiary of the significant inflection in AI, but they're also in the midst of launching a number of new product cycles, which enable companies to leverage AI and make it easier to consume.

We think Microsoft may be a clear beneficiary of AI with their open AI investment. They're infusing AI across their entire platform and through all of their products which we believe may enhance their competitive position.

Intuit is another example that we've talked about in the past. I still remember the CEO coming into our offices almost five years ago, and the entire conversation was based on AI and data and how he wanted to transform the company into an AI driven platform. Intuit has invested heavily in AI data and the cloud over the past five years to accelerate their innovation. They've talked about having more innovation in the past couple of years than they've had in the past 20 years.

They're now running 60 billion machine learning predictions per day. And recently, the CEO said that the opportunity from the exponential impact of data and AI is yet to come, which I thought was a powerful statement. And one thing to note, AI can significantly enhance many aspects of Intuit's business, but AI does present both opportunities and risks to its tax business.

Another example would be a company like Standard & Poor's. They're the provider of credit ratings and investment research. And we believe that they're well positioned to leverage AI over the medium term. They actually acquired an AI research lab named Kensho five years ago. S&P uses AI to analyze large volumes of financial data and identify trends and patterns, which can inform investment research and analysis. The company is already reaping productivity gains on data entry and distribution. And one of their ultimate goals is to build a large language model exclusively on financial data in the coming years and they effectively want to be the ChatGPT of the financial services sector, which I think is an interesting opportunity for them.

**ALEX:** And Patrick, what do you see as the timeframe for all these changes?

**PATRICK:** I think we're in basically inning zero or inning

one of AI. AI is advancing at an unprecedented rate, but this is not going to all happen overnight. Microsoft recently made a comment just within their own business, they said don't overestimate the impact in the near term, but don't underestimate the impact over the longer term.

Open AI and ChatGPT have democratized AI, meaning that it is becoming more accessible and available to a wider range of people and/or organizations. This is an extremely important point in development. We think the democratization of AI will unleash a wave of innovation. Companies such as Open AI and Hugging Face have created AI as service platforms that allowed developers to access pre-trained AI models such as large language models for a wide range of use cases. These platforms democratize access to these very sophisticated AI capabilities and help lower the barrier to entry for companies and developers who may not have deep expertise in AI.

In addition, the major cloud platforms as well as NVIDIA, are offering AI as a service available on their platforms, making it easier and more cost effective for organizations of all sizes to access AI capabilities without having to make large upfront investments in hardware or infrastructure.

So, there will be productivity improvements over the next year, but we think it's going to have a significant impact over the next three, five or ten years.

**ALEX:** Patrick, what's the one message you think investors should take away from this conversation?

**PATRICK:** We think AI and Generative AI is one of the biggest technology shifts in history. I do believe it's going to unleash an explosion of innovation and I think we've been saying for some time that innovation is accelerating. And I think this is going to turbo charge that innovation. I think it will transform many aspects of our lives. It will create winners and losers across sectors, become table stakes in many sectors in order to successfully compete. Our investment philosophy revolves around change and I think AI is going to create massive change over the next three, five, ten years. And we want to position our portfolio around companies that will be beneficiaries of this change and AI.

**ALEX:** Patrick, thanks so much for talking with me this afternoon.

**PATRICK:** Thanks, Alex. Great talking with you.

**ALEX:** And thank you for listening. For more information on artificial intelligence and investing, and for more of our latest insights, please visit [www.alger.com](http://www.alger.com).

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