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# “America, you’ve got it better”

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**US tech firms are leading the way in the development of artificial intelligence, which is likely to be the big growth theme over the next decade. The advances in productivity that it will trigger may also be beneficial to small- and mid-caps.**

Whether the German poet Johann Wolfgang von Goethe would feel the kind of longing for the New World today that he expressed in the poem he addressed to the United States in 1827 is difficult to say. However, from an investor’s perspective, the attraction would probably be the same. The US and its financial market still boast those same attributes that Goethe admired so much. The opportunities that exist for anyone and everyone to become an entrepreneur, by dint of new ideas combined with hard work and a degree of courage, are probably still more characteristic of the United States than anywhere else. Starting out in your garage and building an international company that spans the globe is something you can achieve in the US in particular for two reasons. Firstly, a budding entrepreneur has the world’s largest market for consumer goods practically on their doorstep. Secondly, probably the most effective ecosystem in the world for financing start-ups and growing companies has developed out of Silicon Valley.

No wonder then that it is US tech firms, once again, that are leading the revolution in artificial intelligence (AI). We regard AI as the big growth theme for the coming decade, and we estimate that revenue associated with AI will increase by about 70% a year up to 2027. Accordingly, valuations of US stocks are now higher than in other regions. The S&P 500 is trading at a forward price-earnings (PE) ratio of 20x. Part of this premium is driven by the tech sector, which accounts for 30% of US market capitalization (compared with 13% on the global market, excluding the US) and is trading at a PE ratio of 28x. Nonetheless, in view of the sharp growth in earnings expected over the next few years, tech stocks seem to us to be fairly valued. Meanwhile, not only does a soft landing for the US economy now appear to be a foregone conclusion, there is talk of even more positive scenarios. Whether we call it Goldilocks or the Roaring Twenties—in essence, high productivity growth driven by innovation is expected to facilitate a high level of economic growth along with falling or low inflation. For a scenario like this, we recommend adding small- and mid-caps to the portfolio mix, as these are likely to close the gap in valuations against large-caps in such a case.

So far, so good. Looking at political developments in the US, however, it is debatable whether Goethe would gaze with such enthusiasm across the Atlantic as he did in his lifetime. The lack of being burdened by historical memory that the poet found so attractive at the beginning of the 19th century is not something that this erstwhile pioneer of democracy enjoys today. Perhaps it's the institutional entrenchment of a pure two-party system, combined with the receptiveness of large swathes of the population for populists, fueled by immigration and competition from Asia, that has ruptured and polarized US society. It is hoped that the checks and balances that are integral to US institutions will weather any political storm that may arise in the event of a contested presidential election this coming fall. At any rate, from an investor's perspective, we remain moderately optimistic for the next few months, and we believe—entirely in keeping with the first line of Goethe's poem—that America has got it better.

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