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Will AI catapult international markets ahead of the U.S.?

A look into artificial intelligence's (AI) potential to revolutionize global markets and industries.

With the use of artificial intelligence (especially generative AI), exploding in recent years, it begs the question: Is the AI story only one for the United States, or does its expansion have potential to revolutionize international markets?

Though much of AI's publicity has revolved around its impact on mega-cap technology companies, we believe several factors point to long-term impacts felt around the world and across industries.

Below, we explore these factors, including:

- Productivity gains
- Unexpected AI impacts
- Sector opportunities

INSIGHTS

International markets poised for further productivity gains.

It isn't news that productivity internationally lags the U.S. for a variety of reasons. That translates into companies and countries that are well-positioned to take advantage of the productivity gains AI tools offer. By unlocking the potential of these economies there could be a significant global impact – and compelling investment opportunities.

Look beyond mega-cap tech companies for AI-related investment opportunities.

The axiom, "During a gold rush, sell shovels" harkens back to the time of the California Gold Rush when suppliers of mining tools like picks and shovels made more money than the gold prospectors themselves. While we certainly believe that mega-cap technology companies stand to gain from their AI investments, so do unexpected beneficiaries of AI – in this case, the financial and industrial sectors.

Financials : A frontrunner in AI adoption.

The International Monetary Fund (IMF) forecasts financial institutions will double their AI spending by 2027. While use cases in customer support and data analytics aren't surprising, AI is also being applied in areas including revenue forecasting, risk monitoring, fraud detection, and cybersecurity.

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Industrials: The AI generation of robotics.

The sector has a long-standing practice of using technology. AI can use machine learning to catapult this forward by automating decision-making on manufacturing lines and supply chains. While self-driving cars have room for improvement, more controlled environments like warehouses are much easier (and safer) for the implementation of technologies such as autonomous forklifts.

Larger weight of financials and industrials outside the US

◼ S&P 500 Index ◼ MSCI ACWI Ex-US

22%

13%

14%

8%

Financials **Industrials**
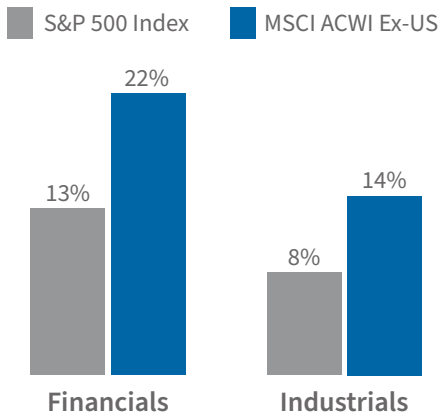
Source: Bloomberg, as of 7/31/24.

Industrial and financial sectors stand to gain significantly from AI adoption. It's important to note that both have a considerably larger weight in the MSCI ACWI Ex-US Index compared to the S&P 500 Index – making international markets more heavily weighted than the U.S. in two areas we think AI could be transformative.

One of the beauties of AI is that we don't yet have a clear picture of the areas that will be transformed, improved, or made obsolete. While AI's current focus has been on generative AI and large language models (LLMs), there are many other valuable techniques and applications that will impact our future.

BY 2027
The International Monetary Fund (IMF) forecasts financial institutions will **double** their AI spending.

FINAL LOOK

Of course, we are in the early innings of the AI theme and, almost certainly, the impact on various industries and countries will play out in surprising ways. However, we believe that plays to the strengths of the ClariVest process, which relies on a disciplined approach to scour the globe daily for unexpected opportunities to bring to investors.

LOOKING AHEAD

For more information on our thoughts on international investing or our investment strategies in general, please call 800.421.4184 or email info@carillontower.com.

Definitions

Generative artificial intelligence (GenAI) is a form of artificial intelligence that can create new content that includes text, audio, code, video, and images.

Large language models (LLMs) are artificial intelligence algorithms that can recognize, summarize, translate, predict, and generate text, as well as respond to questions in a conversational manner, by massively large sets of data. Large language models learn context and meaning by tracking relationships in sequential data, such as words in a sentence.

Mega-cap stocks are the largest publicly traded companies as measured by market capitalization. Generally, this refers to companies with market capitalizations over $200 billion.

Indices

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 75% of the investable U.S. equity market.

The MSCI ACWI Ex U.S. Index (All Country World Index Excluding United States) is a stock market index that represents the performance of non-U.S. stocks. It includes stocks from both developed and emerging markets.

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About ClariVest Asset Management

ClariVest applies a behavioral-based investment philosophy in seeking alpha for clients. Our time-tested investment process combines quantitative tools with qualitative work to capture the return potential created as investors react inefficiently to significant shifts in a company's fundamental growth cycle. Portfolio managers work as a cohesive team to manage multiple equity strategies across geographies and the market-cap spectrum.