

AI, Deflation, and the Next Economic Chapter

David Choe, CFA
Portfolio Manager,
Equity Investments

Periods of economic anxiety almost always arrive alongside periods of rapid technological change. Every major advance that ultimately made society wealthier first appeared as a threat: to jobs, to stability, to the familiar order of things. Yet since the dawn of capitalism, the pattern has been remarkably consistent: innovation removes costs, capital is freed, productivity rises, and growth emerges in places that were previously unimaginable. In our view, artificial intelligence is not a break from this history—it is the next chapter in it.

To understand where we are going, it helps to understand where we have been. Over the past 400 years, capitalism has repeatedly advanced by removing costs from the system—often by an order of magnitude—and redeploying capital toward higher-value uses.

Artificial intelligence is not a break from history, it is the next chapter in it.

In the 1600s, the Dutch East India Company revolutionized shipbuilding, cutting costs dramatically and unlocking global trade. In the mid-1800s, Cyrus McCormick's mechanical reaper reduced the cost of harvesting grain by roughly 90%. For thousands of years, humans had harvested crops by hand; almost overnight, productivity exploded. Before McCormick, roughly 85% of Americans worked in agriculture. Today, it is under 4%.

More recently, globalization—particularly China's entry into the global manufacturing system—acted as a massive deflationary force. Thirty years ago, a 60-inch television cost over \$5,000. Today, it costs a few hundred dollars. That is not incremental progress; it is an order-of-magnitude efficiency gain.

In each of these instances, the initial fear was the same: jobs will disappear. Instead, each advancement created more jobs than it displaced in categories previously unimaginable. Before the reaper, Americans spent half their money on basic food consumption. Today that figure is under 10%, and with the freed-up 40% we have created a previously non-existent economy of leisure, travel, entertainment, and self-actualization.

We believe AI fits squarely into this historical pattern. What makes this moment different is not the technology—it is the demographic backdrop. The U.S. workforce is shrinking. Roughly 10,000 Baby Boomers are retiring every day. Between 2026 and 2030, approximately 13 million workers will exit the labor force. The U.S. birth rate is below replacement, and immigration alone is unlikely to close the gap.

Without intervention, this is a recipe for economic stagnation or worse. To keep the U.S. economic engine functional through the 2030s, we will need the equivalent of 50-100 million net new workers between 2030 and 2040. Those workers will not come solely in human form. They will be a combination of humans, robots, and AI agents.

This is why the question is not whether AI will take jobs, but whether AI can help replace missing workers while allowing the economy to grow. In this context, AI is not a threat, but a necessity.

The question is not whether AI will take jobs, but whether AI can help replace missing workers while allowing the economy to grow.

While AI's first visible use cases are in software and IT, the true opportunity lies far beyond the \$2 trillion technology sector. The real prize is the \$70 trillion "real economy."

In the foreseeable future, we expect AI to primarily displace work characterized by the "three Ds": Drudgery, Duplicative, and Dangerous. Think of high-turnover long-haul trucking, repetitive data entry in healthcare, or hazardous inspections of bridges and towers. These are not aspirational jobs, and in many cases, we already struggle to staff them. As costs fall and productivity rises, human effort can move toward higher-value, more meaningful work.

Freed up capital will be redeployed into robotics, automation, manufacturing, logistics, and physical infrastructure. Imagine freight moving autonomously overnight while humans sleep. Imagine congestion removed from highways, warehouses operating

Continued on next page.

AI, Deflation, and the Next Economic Chapter

David Choe, CFA
Portfolio Manager,
Equity Investments

continuously, and travel reimagined entirely. These are not 10-20 year projections; they may be emerging realities over the next several years.

From an investment perspective, this means looking beyond the AI headlines. Chips and hyperscalers form the foundation, but the next phase belongs to visionary companies in every industry that aggressively deploy AI to reduce costs and boost productivity. Taken from our historical examples, we are looking for order of magnitude reductions in non-value-added costs. And when costs fall, capital doesn't disappear—it flows. Some will necessarily be redeployed toward basics like physical security, cybersecurity, and defense, but like the mechanical reaper before it, we believe AI will free up time and capital for humans to pursue meaning, relationships, experiences, and leisure.

As AI removes low-value tasks, the premium on judgment, creativity, empathy, and service will rise. Instead of making us less human, it will free us to be more so.

This is why, if we were to counsel our constituents about how to thrive in an AI world, our answer is not to obsess over mastering every new tool. Instead, focus on what is uniquely human. As AI removes low-value tasks, the premium on judgment, creativity, empathy, and service will rise. Instead of making us less human, it will free us to be more so. And unlike some doomsayers would suggest, AI is not the end of work—it is the next chapter in a very old story.

Information in this newsletter is not intended to be used as investment advice. Mention of companies/stocks herein is for illustrative purposes only and should not be interpreted as investment advice or recommended securities. The securities identified do not represent all of the securities purchased, sold or recommended and the reader should not assume that any listed security was or will be profitable. Past performance is not indicative of future results.