Three Big Reasons to be Long-Term Bullish on US Stocks

Today the US economy is experiencing a profound transformation, driven by three major trends that are fundamentally reshaping its landscape and propelling a sustained rally in US equities. The magnitude and interplay of these trends are reminiscent of the historical booms of the 1920s and 1950s, yet distinctively modern in their scope.

For the first time in decades, the United States is enacting a comprehensive industrial policy, underpinned by significant fiscal stimulus to support the decarbonization of its energy grid. This policy is not merely an abstract commitment but a tangible, multi-trillion-dollar investment in sustainable infrastructure. The Biden administration's Inflation Reduction Act (IRA) exemplifies this commitment, allocating hundreds of billions of dollars towards energy security and climate change initiatives over the next decade. This act aims to catalyse private investment, potentially driving $1.2 trillion in total investment in clean energy and related sectors by 2030. The US Energy Information Administration (EIA) projects that renewable energy will account for 42% of US electricity generation by 2050, up from 21% in 2020. This transition necessitates substantial capital inflows into energy technologies, grid modernization, and energy storage solutions.

Meanwhile, the technological innovation renaissance spearheaded by artificial intelligence and large language models is reshaping the investment landscape too. AI and LLMs are not mere buzzwords but are driving tangible economic value through unprecedented advancements in computing and automation.

The surge in demand for AI capabilities is precipitating a boom in the physical infrastructure needed to support these technologies, notably in data centres and semiconductor manufacturing. According to a report by McKinsey, the AI industry could deliver an additional 1.2% in annual GDP growth rates for the next decade in the US (remember trend growth has been 2-3% for decades, so an increase of 1.2% points is equivalent to a doubling of the trend rate of growth).

The semiconductor industry, a critical enabler of AI, is projected to double in size by 2028, according to Fortune Business Insights. Tech giants like Google, Amazon, and Microsoft are investing billions in expanding their data centre capacities. These investments are creating ripple effects throughout the supply chain, boosting sectors from real estate to advanced manufacturing.

The third major trend is the strategic re-shoring and near-shoring of manufacturing, a trend accelerated by the disruptions of the COVID-19 pandemic. The vulnerabilities exposed by the pandemic have prompted US firms to reduce their reliance on distant, fragile supply chains by bringing manufacturing closer to home. This shift is manifesting in increased capital investment within the United States and its neighbour to the south, Mexico, which is itself experiencing an economic boom. Mexico's stock market, the Bolsa Mexicana de Valores, has outperformed many global indices over the past three years.

These three transformative trends; the implementation of a serious US industrial policy, the technological leap forward with AI and LLMs, and the reconfiguration of global supply chains, are collectively driving a powerful economic revival in the US and driving a bull market in equities. The parallels to past investment booms, such as the Roaring Twenties and the post-war boom of the 1950s, are striking.

As these trends continue to power ahead, the case for long-term investment in US equities is compelling. The structural changes underway promise sustained economic expansion, enhanced corporate profitability, and robust market performance. For investors, the opportunity to participate in this transformative era is unparalleled. Investors should own and continue to hold US equities for the long-term!