THE IMPORTANT THING IS TO TELL THE STORY

It happens that terms that belong to specific cultural or professional registers are borrowed from other worlds that have little to do with the field of application and explanation in which they originated. One of these intriguing nouns is 'narrative', which has accompanied the analyses of historians and literati over the centuries. Karen Blixen, the author of 'My Africa', said that 'all sorrows are bearable if you put them in a story or tell a story about them'. While for philosopher Hannah Arendt, 'history reveals the meaning of what would otherwise remain an intolerable sequence of events'. [1] But what happens if ideas are told rationally through a logical construct that seeks their coherence? Well, these stop being ideas and become ideology. If it is easy to change one's mind, it is much more difficult to get out of an ideological framework, because it feeds on itself, incorporating and amalgamating even the novelties swallowed up by the narrative itself. This premise is necessary to understand why the term 'narrative' has become popular in financial commentaries in recent years and especially what it means for the markets themselves. Robert J. Shiller, Nobel laureate in economics in 2013, contributed in no small measure to clearing the term through customs in the economic and financial context. [2] Shiller's approach to narrative economics emphasises the profound influence that stories and collective perceptions can have on financial markets and the economy in general. This perspective invites us to go beyond traditional economic and financial models, recognising the power of narratives in the form of shared stories that can explain, justify or predict market and investment behaviour.

Stock exchanges are telling themselves, with deep conviction, the story of generative artificial intelligence. The attention of everyone, professional

[1] Renata Laserra, “Le mille e una storia: filosofia della narrazione”, www.santippe.it/le-mille-e-una-storia-filosofia-della-narrazione/.

[2] Robert J. Shiller, *Narrative Economics, How Stories Go Viral & Drive Major Economic Events*, Princeton University Press, Princeton & Oxford, 2019, 351 p.

traders, but also simple investors or savers, is focused on any element capable of reinforcing the ongoing narrative. There is a spasmodic search for information, but also for ideas capable of fuelling the vision of a new digital world. Of course, this story has already been partly written at the beginning of the millennium with what turned out to be the *dot.com* bubble, of stocks related to the spread of the internet. Precisely because the markets have already experienced this first chapter, the search for confirmation of the ongoing narrative is more factual, but also inherently more insidious. In February, one piece of news galvanised enthusiasm about the rapid commercialisation of artificial intelligence: the fabulous and unexpected fourth-quarter results of chipmaker NVIDIA, up 265% year-on-year. The company's executive director, Jensen Huang, fueled the spasmodic narrative: 'We have reached a point of no return,' he said, 'with demand simultaneously affecting companies, industries and countries. Market capitalisation exploded by $280 billion after the results were announced, exceeding two trillion dollars.

The reported optimism is contagious, especially if it also rests on other supports. Strengthening S&P earnings drove the stock market rally that began in October last year. At the centre were the successes of stocks such as Meta, Amazon and, globally, the index of new technology companies (NYSE FANG+), which rose in February by almost 10%. The S&P, in particular, was dragged along by an unexpectedly robust 7% growth in earnings per share, while the market had not expected more than 5%. And it was not just the successes of the big technology companies. The S&P, which best represents them because it is weighted by weight, posted +5.3% in February, but the same index weighted equally still increased 4.3% for the month. Virtually all major world indices participated in the growth narrative. Even China, which has still been in negative territory since the start of the year, rose 8.6% in February, thanks to government attempts to stimulate a market now convinced that state capitalism only works if it is supported by freedom of initiative, which Xi Jinping has long been trying to discourage and cage. Japan, which, after decades of somnolence, is espousing a new governance that attracts the liquidity of those who no longer believe in the fable of Chinese development, was perhaps the best market ever (+5.5% in February, +14.4% since the beginning of the year), helped by the weak yen. Europe also rose (3.3%, 5.6%). Lagging behind was the Swiss market plunged by solid stocks in which people take refuge in uncertainty rather than euphoria (+0.4%, +2%) and the UK market in search of a new post-Brexit identity (+0.7%, -0.5%).

That the markets' narrative is stronger than the markets themselves, the bond market tells us. The yield on the US ten-year treasury bond rose in February from 3.93% to 4.26%. That of the Bund rose from 2.19% to 2.41%. The yield curves remain inverted: short-term bonds generate higher yields than long-term ones. Expectations in the US of six rate cuts, the first already in March, which galvanised the markets in recent months, have receded. Now it is back to believing the Federal Reserve and therefore considering three rate cuts, the first in June. Indeed, the last mile of inflation reduction is more complicated. In the eurozone consumer prices rose 2.6% in February (2.8% in January), while the core rate, which excludes volatile food and energy prices, fell from 3.3% to 3.1%. But analysts had expected inflation to fall more sharply. In the US, the overall consumer spending index (PCE) fell from 2.6% to 2.4%. But inflation remains 'sticky' in the services sector, which went from a 0.3 % increase in December to a 0.6 % growth in January while on an annual basis it rose by 3.9 %. Monetary authorities across the Atlantic fear that many small and medium-sized companies are planning new price increases, while the price of oil has started to rise again (Brent crude currently costs USD 83 per barrel). In such a scenario it is therefore likely that central banks will choose to keep rates high for longer.

But all this does not scare the markets' narrative. Artificial intelligence, they say, will bring such productivity improvements that any structural attempt to raise prices will be contained. Also in this narrative is Joe Biden's geopolitical decision to use all the relative power of the United States. Whereas, in the field of digitalisation, with the likes of Nvidia and Microsoft, the power of Washington and Wall Street is currently almost absolute. The terms of the story, as far as rates are concerned, have not changed: they will probably fall later than expected, but their trajectory remains downward. The stock market rally is still supported by solid earnings and extraordinary free cash flow generation. Nothing to do with the exasperations of the *dot.com* at the beginning of the millennium, which, back then, cost more than twice as much in terms of price/earnings ratios as the Magnificent 7 do today. If one then decides to dust off the indicator invented by Robert Shiller, which cyclically calibrates the price/earnings ratio (CAPE), one discovers that this peaked in 1999, with the Internet bubble at 44.2, was at 31.5 in 1929 and is now at 34.3. These are all elements of a narrative that still manages to absorb ideas into a rational framework from which it is difficult to detach oneself, as Bitcoin near all-time highs also demonstrates.

True, many wish for a correction, but to buy! No intrinsic elements currently appear capable of changing the current narrative. But surprises can come from where one does not expect them. In early August 2023, indices started to fall because Fitch had revised downwards the soundness of US debt. Perhaps this is the clue: any sign of a weakening of the US position, geopolitical, economic, financial, can lead to a change in the foundations of the narrative, putting even AI's dragging optimism in second place. For the time being, the market continues to wait for confirmation from Q1 2024 earnings.

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