

NVIDIA's MARKETS

June Comment 2024

NVIDIA has once again managed to surprise the markets. In the first quarter, the flagship stock of artificial intelligence posted sales of more than \$26 billion, up 263% compared to twelve months ago, while net profit soared 628%. The markets knew the figures would be great. But they did not expect such swaggering optimism even on the forecasts for the second quarter in which the company expects to turnover around \$28 billion. Yet it could not have been otherwise. NVIDIA is the beating heart of the 'new industrial revolution', as its chairman and CEO Jensen Huang puts it. In particular, it marks the transition from the massive use of CPUs (Central Processing Units), which currently run our computers and iPhones, to GPUs (Graphics Processing Units), which originated in the 1990s in the video game industry, to handle complex graphics tasks. NVIDIA, better than others like AMD, realised that GPUs could be used not only for graphics, but also for massive parallel computing.

In 2006, the company created the CUDA (Compute Unified Device Architecture) platform, which allowed developers to use GPUs for a wide range of non-graphics applications, such as scientific simulations and machine learning, where the ability to process large amounts of data in parallel is crucial. Clouds, data centres, powered by GPUs, such as those provided by Amazon's AWS, Google Cloud and Microsoft Azure, have become nerve centres of artificial intelligence, where the models that are defining the new industrial revolution are being trained. For Jensen Huang, we are only at the beginning of an immense technological transformation: "Companies and countries - says the president of the Californian group - are collaborating with NVIDIA to move trillions of dollars of investments away from traditional data centres and towards accelerated processing in new factories

for the production of a new commodity: Artificial Intelligence.”¹

These words immediately heated up the markets: NVIDIA's share price soared 9.3% the day after the results: an impressive leap for a company valued at more than two trillion dollars. The euphoria dragged with it other companies directly or indirectly related to artificial intelligence such as ASML, Broadcom, Marvell Technology, Taiwan Semiconductor Manufacturing, as well as industrial companies such as Eaton, TransDigm Group, Johnson Controls International, and even utilities (Constellation Energy and Vistra).

The S&P, however, closed lower the day after NVIDIA's results. Despite strong momentum, artificial intelligence failed to engage the market as a whole. One wonders if this is questioning the effects of Amara's Law: ‘We tend to overestimate the effect of a technology in the short term and underestimate its effect in the long term’.²

A good chunk of traders active in the market today, over 50 years old, experienced the Internet bubble at the turn of the millennium. At that time, the headlines were all about the transformative and revolutionary role of the Net. The hype was so powerful that even companies that structurally would never have made a penny were flying on the stock market: it was enough to add the word ‘internet’ or ‘web’ to their name to attract investors' interest. But then it was realised that the technology was certainly impressive, but people were not ready to use it. The bursting of the bubble shifted the popularisation of the web in time, at least until Steve Jobs put it in everyone's hands with the iPhone.

On artificial intelligence, however, there seems to be an operational maturity ready to be carried away by the euphoria of the short term, but also capable of selecting the stories that can generate profits. For every C3.ai Inc., which rose 19% after announcing a lower-than-expected loss, there is Ui-Path, which plummeted 34% because it gave a lower-than-expected

¹ Q1 2025 earnings conference call, 22nd May 2024.

² Amara's law was formulated in the 1970s by Roy Amara, a futurist researcher at the Institute for the

Future (ITFF), a think tank focusing on technology-centred long-term predictions.

consensus on future prospects, even announcing the resignation of its CEO. Next to HP Inc., up 17% after beating profit forecasts and unveiling innovative solutions designed for artificial intelligence, there is Dell Technology, down 18% because it beat profits by a single penny; admittedly, after having going up 80% in the last three months.

It is therefore understandable that the Nasdaq, after touching an all-time high above 17,000 points, rising 3.6% in May (+11.5% since the beginning of the year), decided to at least take a breather.

Is it the Law of Amara? Probably not. The market seems to have the maturity to also become aware of the long-term implications of Artificial Intelligence. It is now sifting through, punishing, the realities that got out of hand and re-evaluating those that lagged behind because they were apparently too far removed from the 'new industrial revolution' with which they will have to deal anyway. In such a context, it is possible that the markets, already generously valued, will enter a phase of laterality: too many are waiting for downturns in important stocks, such as

NVIDIA or Microsoft, in order to buy them or at least increase them.

The real problem is to understand how deep the corrections may be and, above all, how wide the trading range will be. Global stock exchanges are at an all-time high having reached 120 trillion in capitalisation: 20 trillion more than the global Gross Domestic Product (GDP). According to Warren Buffet, one of the greatest investors of all time, when indices exceed the value of the real economy it is time to sell. And indeed his company, Berkshire Hathaway, lightened its positions in the first quarter and now sits on a mountain of cash, however well remunerated because it is parked on three-month US government bonds. And he is not the only one who has decided to take partial profits: among them is also Amazon founder Jeff Bezos, who has sold two billion dollars worth of shares in his company, which nevertheless capitalises at 1.86 trillion.

While the shrewd ones seem to have smelled the danger, the big funds continue to remain invested, holding less than 4% liquidity. The US deficit this year is around USD 1.5 trillion, or 6% of GDP: for the next

few months this represents a nice boost to growth. Of course, the slowdown is there. In the world's largest economy, growth in the first quarter was revised to 1.3% (from an estimated 1.6%); whereas it was 3.4% in the previous quarter. And consumption has also declined and inflation is struggling to keep its head down in its final decisive mile. But despite rates hovering between 5.25% and 5.50% since July 2023, the economy is holding up and unemployment remains around historic lows: the Federal Reserve has the luxury of waiting to cut interest rates. The markets, for their part, seem convinced that Jerome Powell and the majority of those who determine the Federal Reserve's decisions are in any case prepared for one, two rate cuts this year, perhaps in September. This conviction seems to be enough for now.

Is the US economy doped? Possibly; looking at the budget deficits, it is also probable. But Washington has a monopoly on the dollar, which it intends to support with the strength of technology, which is also the basis of the power of its military apparatus. A context that is unlikely to change in the coming months. And which will lead financial flows to revolve around cheaper securities and cheaper markets

such as Europe, including the British and Swiss stock exchanges.

Of course, there is no shortage of dangers, from the difficult presidential election to complex geopolitics. But for now, markets are focusing on macroeconomic variables. As long as the slowdown does not turn into recession and inflation at least stabilises, investors will take advantage of the corrections, which will not be lacking over the summer, to buy. But at what level? The inflation data will tell: with rates above 5%, the Federal Reserve has good room for manoeuvre. But the markets must continue to imagine a near and distant future in which artificial intelligence will succeed in lowering production costs without crippling the labour market. It probably won't be able to do so without first seeing more significant lows than we might expect in the coming months.

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