

PALOS

CONTENTS

Blockbuster Results for IA Chip King Nvidia	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

Weekly Commentary

Issue No. 22 | May 29, 2023

By *Charles Marleau CIM[®]* and *William Mitchell CIM[®]*

Blockbuster Results for IA Chip King Nvidia

Nvidia (NVDA:NASDAQ) reported Q1/2024 earnings last Wednesday. Revenue for the quarter came in at US\$7.19 billion, up 19% from the previous quarter but down 13% from the same quarter in 2022. Gaming chips were weak and, despite lower revenues, a record performance in data center sales generated a huge beat compared to analysts' expectations. Following the results, NVDA shares rocketed higher by an incredible 24.4% on Thursday alone and added another 2.5% on Friday. Shares are up by 166.5% year-to-date and up by 225.6% since the October low. Nvidia's market capitalization is on the cusp of reaching \$1 trillion which would put Nvidia in the "trillion dollar" club along with Apple, Microsoft, Alphabet (Google) and Amazon.

Nvidia products are the clear leaders in the AI (artificial intelligence) race. The company's chips are considered best in class given their versatility, energy efficiency and cost. The company's three major customer categories are cloud service providers (CSPs), consumer internet companies and enterprises. CSPs around the globe are "racing to deploy" Nvidia's flagship architecture to meet surging demand from both consumer and enterprise customers which include Microsoft Azure, Google Cloud and Oracle. Consumer internet companies are driving strong demand as they expand generative AI, deep-learning systems, and language learning infrastructure. Demand for AI computing is strong and widespread with applications in the automotive, financial technology, medicine (drug development), healthcare, telecom, and gaming industries.

The catalyst for last week's surge in Investor enthusiasm was the outlook moving forward. Total revenue for the next quarter is expected to be roughly \$11 billion which equates to more than a 50% jump from Q1. The strong sequential growth will largely be driven by data center demand related to AI and large language models according to CFO Colette Kress. To prepare, Nvidia has been busy procuring higher supply for the second half of the year. Kress added that "you're seeing the beginning of a 10-year transition to basically recycle or reclaim the world's data centers and build it out as accelerated computing."

During the earnings call, Founder, President, and CEO Jensen Huang suggested the computer industry is undergoing "two simultaneous transitions": accelerated computing and generative AI. There is currently about \$1 trillion invested in global data center infrastructure. Most of this has become outdated and needs to be updated. Nvidia's ecosystem offers customers the most advanced "full stack" of AI capability. The explosion in demand for AI technology has driven many stocks in the sector higher. While some economists and strategists have warned that a "bubble" is developing, others are expressing their views that AI is destined to be a decades-long phenomenon that will boost the fortunes of the technology sector.

By Charles Marleau CIM[®] and William Mitchell CIM[®]

Last night during Huang's keynote address at the Computex conference being held in Taiwan, Nvidia announced a new class of large-memory AI supercomputers had been developed. The expanded lineup has products and services tied to robotics, gaming capabilities, advertising services and networking technology. Huang also revealed a new platform called DGX that will assist in creating new editions of Chat GPT with the likes of Microsoft, Meta (Facebook) and Alphabet expected to be among the first users. Huang further stated that traditional architecture is no longer improving fast enough to keep pace with computing tasks. Despite the naysayers and critics who warn that AI must be put "under wraps" given the uncertain and potentially negative impact it could have on society, it's clear to us that AI is here to stay. Nvidia is currently in a well-deserved leadership position but it's virtually a certainty that Nvidia's success will draw competition. There will be new investment opportunities moving forward and we have our collective eyes and ears on new developments and new opportunities. Many are equating AI to other historic technological advances like the steam engine, the automobile, personal computers, and wireless communications. Indeed, exciting times lie ahead.

Follow us on LinkedIn:



Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.32	3.21%
Palos Equity Income Fund - RRSP	PAL101	\$6.65	2.57%
Palos WP Growth Fund - RRSP	PAL213	\$11.44	-8.22%
Palos-Mitchell Alpha Fund ³	PAL300	\$9.31	17.13%
S&P TSX Composite (Total Return with dividends reinvested)			4.01%
S&P 500 (Total Return with dividends reinvested)			10.28%
S&P TSX Venture (Total Return with dividends reinvested)			6.00%
Chart 2: Market Data ¹			Value
US Government 10-Year			3.80%
Canadian Government 10-Year			3.33%
Crude Oil Spot			US \$72.67
Gold Spot			US \$1,944.30
US Gov't10-Year/Moody BAA Corp. Spread			211 bps
USD/CAD Exchange Rate Spot			US \$0.7345

¹ Period ending May 26th, 2023. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

Weekly Commentary

Issue No. 22 | May 29, 2023

Disclaimer:

This publication is proprietary to Palos Management Inc. (along with its affiliate Palos Wealth Management Inc., "Palos"). This publication may be copied, downloaded, stored in a retrieval system, further transmitted, reproduced, disseminated, and/or transferred, in any form or by any means, but only as long as it is unaltered and attributed to Palos. This publication and its contents may not be sold or licensed without Palos' written permission. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made or implied regarding accuracy or completeness. The information provided does not constitute investment advice and it should not be relied upon on as such. If you have received this communication in error, please notify us immediately by electronic mail or telephone. This document may contain certain forward-looking statements that are not guarantees of future performance and future results could be materially different. Past performance is not a guarantee of future performance. "S&P" is a registered trademark of The McGraw-Hill Companies, Inc. "TSX" is a registered trademark of TSX Inc. The Bloomberg USD High Yield Corporate Bond Index is a rules-based, market value weighted index engineered to measure publicly issued noninvestment grade USD fixed rate, taxable, corporate bonds. To be included in the index a security must have a minimum par amount of 250MM. Palos Funds are not available for non-Canadian residents.

PALOS

1 Place Ville Marie, Suite 1670
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188

F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110

F. +1 (647) 343-7772

www.palos.ca