

# PALOS

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## The Palos Perspective

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*A Macro Market View by Hubert Marleau*

## Nvidia's Moment: The Most Important Stock on Planet Earth Says Goldman Sachs

The Wednesday release of the January FOMC minutes was not on the top of my mind because I was pretty sure that the policymakers were not about to offer bond traders new clues on where they stand on a rate-cut timeline. They confirmed that they may not begin cutting rates as soon or as much as previously believed, thinking about the risk of easing too early. Yet, there were no signs that they may raise interest rates. On the contrary, many officials believe that the time has come to have a discussion about relaxing the stance of quantitative tightening.

The main occurrence of the week was Nvidia's quarterly results. It's not only part of the earnings calendar, but truly a macroeconomic event. Indeed, all eyes turned on Nvidia for it has the earmarks of a buying climax, of an AI frenzy.

Stock operators were focused on whether earnings were going to be supportive of Nvidia's valuation and justify blistering performance of the past because it has become the favourite holding of the hedge fund industry, the most traded stock by value and the main reason for the rise in the broad benchmark. Indeed, its performance has been so spectacular that it has overtaken the market capitalization of Amazon and Alphabet to become the 3rd most valuable company on Wall Street and fourth in the world just behind Aramco. The stock market believed that if Nvidia somehow managed to clear a very high bar, the release would likely propel S&P to new all time highs. It did on Thursday when the S&P 500 closed at 5087 - a new all-time high.

On this question, opinions were divided as option traders piled into both put and call options, suggesting that the price for NVDA could swing as much as 10% in either direction. After the bell Wednesday, the stock price popped 12% in the after-market because the company, once again, surpassed expectations by a handsome margin. It not only showed no signs of letting up, giving guidance ahead of consensus, clearing what could have been an event risk and, in turn, forcing traders who were shorts to cover and those who were long to ride the wave longer. The party may not be over, some optimistic options traders are betting on the stock reaching \$1300. That is almost double its current price.

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While I was exalted with the earning results, as an economist, I was more focused on total sales because they are the clearest near-term and long term leading indicator of whether the ongoing plans by companies to enhance productivity and efficiencies have legs. Nvidia has around a 98% market share in graphics processing units or GPUs used for AI - chips that accelerate servers, which is a must-have for AI applications. These are steadily creeping into software and services because one of the things AI can do is chomp through vast oceans of data to figure out new ways to raise productivity. All servers will need to be accelerated now and in the future to stay

competitive. The total addressable market for AI accelerators, including memory, will reach \$400 billion by 2027 - up from \$140 billion in 2024.

In this connection, Nvidia's total revenue totaled \$22.1 billion in the January 2024 quarter, up 22% from the previous one and 266% from a year ago, meanwhile the CFO predicted another massive sales gain in the forthcoming April quarter, thanks to insatiable demand for its artificial intelligence accelerators. The President of the company said: "Accelerated computing and generative AI have hit a tipping point, demand is surging across companies, industries and nations." This can only mean that recent productivity trends will continue in a sustainable fashion. We've been on this kick for two years and we are not about to change our mind. Not with these kinds of results. It's all about productivity and we are getting it, right now. to 6250.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.41	2.34%
Palos Equity Income Fund - RRSP	PAL101	\$6.89	2.27%
Palos WP Growth Fund - RRSP	PAL213	\$9.21	-3.18%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$10.51	2.98%
S&P TSX Composite (Total Return with dividends reinvested)			2.11%
S&P 500 (Total Return with dividends reinvested)			6.70%
S&P TSX Venture (Total Return with dividends reinvested)			0.53%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			4.30%
Canadian Government 10-Year			3.55%
Crude Oil Spot			US \$78.87
Gold Spot			US \$2,044.10
US Gov't10-Year/Moody BAA Corp. Spread			153 bps
USD/CAD Exchange Rate Spot			US \$0.7392

<sup>1</sup> Period ending February 27th, 2023. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays



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