

The Wrap Up



To the Moon and Back

While the investing world awaits Jerome Powell's Jackson Hole speech this morning, we turn our focus to the earnings heard 'round the world with Nvidia hitting a grand slam. After hours, the stock rose 10%, adding more than \$100 billion to its market cap before coming down to reality and finishing the day up 0.1%. What happened?

For the period ending July 31st, analysts were expecting the company to report \$7.98B of data center revenue, \$11.0B of total revenue, 70.1% gross earnings and \$2.09 of earnings per share. On Wednesday, after the market close, Nvidia recorded \$10.32B of data center revenue, \$13.51B of total revenue, 71.2% gross margins and an EPS of \$2.70. Their guidance for the quarter ahead was for revenue of \$16B (+/- 2%) vs the consensus of \$12.42B and they announced a \$25B share buyback plan. Even gaming revenues, which have taken a back seat to AI sensitive data center revenues, were above consensus for the quarter with \$2.49B of revenue (against a consensus of \$2.38B). To CEO Jensen Huang, please take a bow.

Reacquainting everyone with what exactly Nvidia does, the company grew over the last decade due to its reputation for designing market leading graphics-processing units (GPUs). The chips were featured in every premium gaming device and set the standard for the graphics industry. As it turns out, those chips were also great at completing complex calculations and were eventually tweaked for machine learning purposes. These modified GPUs expanded their potential use and they were eventually used in cars, supercomputers and data centers. During the post-Covid crypto boom, miners were using Nvidia's GPUs to validate transactions; an operation that required increasingly more processing power.

The growth of gaming caused by the pandemic, coupled with the crypto bubble, led Nvidia shares to new heights with a peak price of \$330 in September 2021. Rising rates and recession fears forced a repricing of risky assets and eventually the stock would correct to \$108 per share in October 2022. That 67% drop pushed out some investors who could not fully appreciate or understand what they were holding. AI focused companies have

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been gradually allocating more of their capital expenditures towards AI related infrastructure; Microsoft's already massive capital expenditures have grown from \$15.4B in fiscal year ending June 2020, to \$28.1B this year and have been forecasted to continue to grow at a rapid pace. The same applies to Meta, Google and Amazon, who have all committed to the AI race. As these tech giants are all Nvidia customers, it was likely to they were going to recover from their lows. The mammoth 330% rise from its low, surprising everyone including myself, has been one of the largest contributing factors to the S&P 500's and the Nasdaq's strong performance since bottoming out last year. It is estimated that Nvidia's performance this year is responsible for more than 45% of the S&P 500's gains this year and it is likely that you are underperforming the benchmark if you do not own this one stock.

In spite of this stellar quarter and helpful tailwinds, the stock barely held on to yesterday's gains, finishing the day up \$0.47 while the rest of the Nasdaq shed 257 points (or 1.87%). Other AI beneficiaries also suffered yesterday with Broadcom down 2.5%, Microsoft down 2.15%, Meta down 2.55%, Google down 2.09% and Nvidia rival AMD down 6.97%. What we believe has happened here is that investors are now expecting so much from Nvidia that it could risk disappointing in a future quarter even if it meets consensus expectations. Some of the smart money understands the risk of 'pricing for perfection' and started selling some of their positions which accelerated sell-offs in related firms. As we see it, the stock deserves a premium valuation because of the unique story that it is; however, no stock is impervious to macro-economic headwinds which is why we also feel that the current valuation may not be fully accounting for the slowing economy.

We are not shy to admit that we have trimmed our Nvidia holdings on multiple occasions this year. This approach is in line with our cautious outlook and commitment to disciplined investing. Our timing for adding to our Nvidia position helps; we bought more of the company last fall, very close to its lows. When a company you own rises 300% in less than 10 months, it is a healthy reflex to take some of the profits off the table, especially when economic uncertainty remains elevated. We also want to avoid concentration issues; we try avoid a single company exceeding 5% of the total portfolio. Had we never sold some of our shares, the company would easily account for more than 10% of our portfolio, something that we would feel uncomfortable with, especially when accounting for our dual mandate of producing healthy returns while managing overall risk.

Our selling a portion of our Nvidia shares does not change our outlook on this company; we expect more impressive results in the future. We are paying close attention to valuation and developments within the company in order to decide when to buy more, especially for our newer clients, for whom we haven't been able to initiate a position, yet. Rest assured, this is not the last you will hear about this company; the AI story is still in its early innings.

Healthy Distraction

The Indian Space Research Organization joined a small group of space faring nations this week with its Chandrayaan-3 lander successfully reaching the moon's surface. Along with Russia, the United States and China, it is one of the few countries to successfully land an object on the moon. While the fanfare around space exploration had faded from the highs achieved during the space race, accomplishments like this help keep the interest high amongst the general public.

The tremendous cost and difficulty involved in space exploration make advances difficult to achieve and many know very little about why we do this in the first place (yet, ironically, question our understanding of climate for example). As a self-professed 'space nerd', not only do I believe that the research we do has and will to continue to benefit us in our day to day lives, I also believe that there's intangible benefits that come from these

accomplishments. From our childhood, we are taught to dream and to imagine and from our history, it is evident that it is in our nature to explore. Our efforts in understanding the Universe and exploring our solar system fulfill both of those drives.

Most importantly, our advancements in space, beyond being just an impressive national achievement, are also a massive human achievement. Cheers to everyone involved! Keep aiming for the stars!



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