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PHILEQUITY CORNER

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AI era: A whole new world

In a piece published last year, we explored the rise of the AI era and its potential to reshape global stock markets and the world economy (refer to “Conversing with an AI Chatbot,” June 12, 2023). We noted that the surge in corporate investments in AI has propelled the US stock market from bear to bull, establishing AI as a “technological leap and transformational catalyst” with far-reaching implications.

Insights from influential leaders

Renowned figures, including Warren Buffett, Bill Gates, Sundar Pichai, Satya Nadella, Mark Zuckerberg and Jensen Huang, have emphasized the profound impact of AI. From Buffett’s assertion that “AI can change everything in the world” to Gates envisioning its importance as crucial as the PC or the internet, AI’s significance is clear.

Jensen Huang, the visionary founder and CEO of Nvidia encapsulates this sentiment, stating, “In 40 years, we created the PC, internet, mobile, cloud, and now the AI era.”

Tipping point

Last week, Huang declared a “tipping point” in accelerated computing and generative AI, emphasizing a surge in global demand across companies, industries and nations. Merriam Webster defines “tipping point” as “the critical point in a situation, process or system beyond which a significant and often unstoppable effect or change takes place.”

This pivotal moment underscores Nvidia’s outstanding role, heralding a new era where the influence of AI is now unstoppable, propelling global stock markets to new heights.

Financial success

Nvidia’s latest earnings report reveals quarterly revenues reaching \$22.1bn, up 22% from 3Q and 265% from a year ago, solidifying its dominant market position. Full-year 2023 revenues soar 126% to \$60.1bn, with an impressive gross margin of 76%. Adjusted EPS surpasses expectations at \$5.16, exceeding estimates by \$0.52.

Data Center dominance

Nvidia’s Data Center division takes center stage, experiencing a phenomenal 409% sales surge in 4Q2023, reaching \$18.4 billion. This remarkable achievement underscores the company’s pivotal role as the majority of AI chips are sold in this market. Meanwhile, the Gaming division contributes \$2.9 billion in sales, accounting for 13% of Nvidia’s overall revenues.

A new computing paradigm

Huang said generative AI is initiating a new wave of investment worth trillions of dollars, expecting to double the amount of global data centers in the next five years. “Nvidia has enabled a whole new computing paradigm called generative AI,” Huang said. Its highly prized chips serve as “AI-generation factories” of a new industrial revolution.

AI investment frenzy

Big Tech intensifies the AI race, investing tens of billions in AI GPUs to build massive computing infrastructure. META CEO Mark Zuckerberg highlights AI as a top investment priority in 2024, with plans to amass 350,000 Nvidia H100 chips. These high-value chips, each worth tens of thousands of dollars, have become a scarce and treasured commodity, with Nvidia estimated to hold over 80% of the market.

Diversified clientele

While Big Tech accounts for nearly 40% of Nvidia’s revenue stream, the company’s clientele diversifies as various industries invest in AI computing hardware. Sectors like automotive, financial services and healthcare are making multi-billion-dollar investments. Sovereign nations like Japan, Canada and France emerge as significant Nvidia clients, reflecting the growing prevalence of Nvidia’s advanced AI hardware.

\$2 trillion market cap

Nvidia’s shares surged 16.4% on Thursday, propelling the company to become the third most valuable US-listed company behind Microsoft and Apple. Its market capitalization briefly topped \$2 trillion in Friday trading before settling slightly below by Friday’s close. Nvidia’s 59.16% surge this year contributes to 25% of the S&P 500 gains.

Market impact and record highs

US markets responded to Nvidia’s record earnings with Nasdaq 100 recording its largest one-day gain in over a year. The S&P 500 reached a new record high and firmly secured the key 5,000 level. The Dow Jones Industrial Average hovered just below the coveted 40,000 mark. European markets posted all-time highs, with the European Stoxx 600, German DAX and French CAC 40 indices closing at record levels. Japan’s Nikkei hits 39,156.97 on Thursday, surpassing the 1989 record.

PSE index advances for 5th week

Bolstered by Nvidia’s results and the strength of the US markets, the PSE index advances for the fifth consecutive week. Year-to-date, the PSE index shows a noteworthy 7.18% increase, outperforming the MSCI emerging market index, which recorded a more modest gain of 0.97%.

AI’s transformative power

As markets surge to unprecedented heights, propelled by this technological leap, AI emerges as a transformational force. Nvidia plays a pivotal role, heralding a whole new world where AI redefines the landscape of computing and economic potential. Alongside the Fed’s interest rate pause, the tipping point of AI stands as the most important catalyst for the ongoing bull run in global stock markets.