



Is Nvidia Recycling Profits? - RIA

Several articles and social media posts have recently discussed the irregular partnerships that Nvidia is forming with some of its clients. The gist of the story is that Nvidia is investing in its clients, who then use the funds to buy Nvidia chips. This is what CNBC stated in a headline on Wednesday.



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TECH

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This is similar to trade financing, except that Nvidia is investing, rather than lending, to its customers. Consider its most recent partnership, in which Nvidia announced its intention to invest up to \$100 billion in OpenAI. They deem it a strategic partnership to deploy at least 10 gigawatts of Nvidia systems for OpenAI's infrastructure. OpenAI intends to use the investment funds to buy Nvidia chips and systems.

The deal creates a mutual dependency. If OpenAI is successful, it will drive greater demand for Nvidia's chips. At the same time, Nvidia's hardware increases the odds of OpenAI's success.

OpenAI has similar circular partnerships with Microsoft, Amazon, and Google.

Such mutual dependency can be a winning plan if OpenAI is successful. However, the investment could prove damaging if OpenAI fails to produce profits; thus, it doesn't need as many Nvidia chips as was initially expected. Furthermore, the deal questions the sustainability of Nvidia's growth potential. Per Bespoke Investments:

You don't have to be a skeptic about AI technology's promise in general to see this announcement as a troubling signal about how self-referential the entire space has become. If NVDA has to provide the capital that becomes its revenues in order to maintain growth, the whole ecosystem may be unsustainable:





What To Watch Today

Earnings

- *No earnings releases today.*

Economy

Friday September 26 2025			Actual	Previous	Consensus	Forecast
07:00 AM	US	Fed Hammack Speech				
07:30 AM	US	Core PCE Price Index MoM AUG		0.3%	0.2%	0.3%
07:30 AM	US	Personal Income MoM AUG		0.4%	0.3%	0.3%
07:30 AM	US	Personal Spending MoM AUG		0.5%	0.5%	0.3%
07:30 AM	US	PCE Price Index MoM AUG		0.2%		0.3%
07:30 AM	US	PCE Price Index YoY AUG		2.6%		2.8%
07:30 AM	US	Core PCE Price Index YoY AUG		2.9%		3.0%
08:00 AM	US	Fed Barkin Speech				
09:00 AM	US	Michigan Consumer Sentiment Final SEP		58.2	55.9	55.4
09:00 AM	US	Michigan 5 Year Inflation Expectations Final SEP		3.5%	3.9%	3.9%
09:00 AM	US	Michigan Consumer Expectations Final SEP		55.9		51.8
09:00 AM	US	Michigan Current Conditions Final SEP		61.7		61.2
09:00 AM	US	Michigan Inflation Expectations Final SEP		4.8%	4.8%	4.8%
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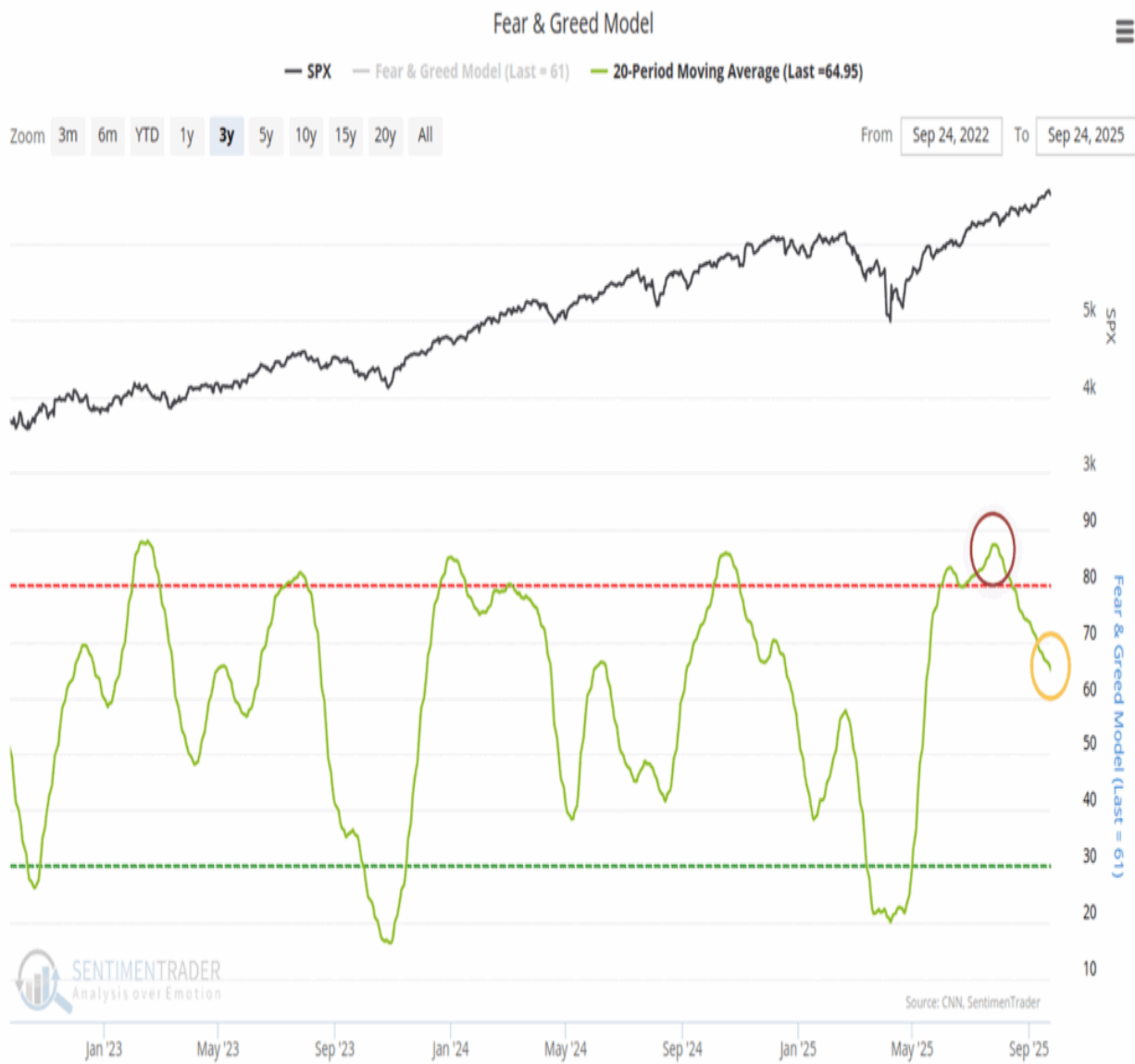
Market Trading Update

Yesterday, we discussed some of the speculative excess in the market, which is reflected in new instruments like Perpetual Options contracts or PERPS. When the market begins to develop these types of instruments to meet investor demand, it is a sign of increased speculative sentiment. Notably, increases in speculative sentiment are needed to keep market prices elevated. Therefore, when sentiment shifts, it tends to be a notable event worth attention.

Sentiment Trader made a great note of this yesterday. To wit:

*?A significant change has occurred in the market's underlying sentiment trend. We are now focusing on the 20-day moving average (20DMA) of the **Fear & Greed Model**. For this smoother, slower-moving indicator to fall from above 85 to below 65, it requires a **prolonged period of extreme greed to be followed by a sustained and significant deterioration in sentiment.** This is not a short-term fluctuation; it's the turning of a larger tide, representing a fundamental breakdown of a prolonged period of optimism.?*





?From the broadest historical data, **this major trend shift is itself a mixed signal with poor short-term returns**. As shown in the table below, across all historical cases that meet this condition, the market's median 1-month forward return was +1.4% but the average was -0.7%.
This indicates that when the market's underlying sentiment trend breaks down so significantly, it has often led to immediate weakness before a longer-term recovery.?

Entry Date	1 Month Later [%]	2 Months Later [%]	3 Months Later [%]	4 Months Later [%]	5 Months Later [%]	6 Months Later [%]	1 Year Later [%]
2003-07-30	1.6	1.9	6.0	7.2	12.3	14.8	11.6
2004-02-19	-3.3	-2.5	-5.1	-1.5	-4.6	-4.9	4.7
2005-01-19	1.4	-0.1	-4.0	0.5	2.7	4.3	8.5
2008-06-26	-3.8	-0.9	-5.8	-31.7	-33.6	-32.3	-28.4
2010-05-13	-5.9	-5.4	-6.4	-3.1	1.1	5.3	16.5
2010-12-09	3.0	7.1	5.8	7.4	8.8	3.1	0.1
2012-04-13	-2.3	-4.0	-1.0	2.5	4.8	4.6	13.3
2012-10-31	0.3	3.6	7.2	9.0	10.5	14.3	24.4
2013-04-19	7.1	4.7	8.8	5.8	10.9	11.4	20.4
2016-09-12	-1.0	0.2	4.7	5.4	7.3	9.6	15.6
2017-11-22	3.3	9.3	7.0	0.6	2.7	4.8	1.4
2019-05-24	3.2	6.3	0.7	5.0	6.3	9.8	5.9

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2019-05-24	3.2	6.3	0.7	5.0	6.3	9.8	5.9
2020-02-14	-25.2	-17.2	-15.3	-7.6	-4.9	-0.2	16.3
2020-09-21	4.9	8.7	13.1	17.4	18.1	19.2	32.7
2023-03-15	6.3	6.3	12.3	16.2	14.0	15.8	31.5
Mean	-0.7	1.2	1.9	2.2	3.8	5.3	11.6
Median	1.4	1.9	4.7	5.0	6.3	5.3	13.3
% Positive	60%	60%	60%	73%	80%	80%	93%
Avg Max Loss	-1.8	-2.9	-3.4	-3.4	-3.4	-3.4	-4.2
Avg Max Gain	2.2	3.4	6.3	7.1	7.1	10.6	16.4
Z-Score	1.0	0.4	1.4	0.9	0.8	0.0	0.4

Read that paragraph again carefully. While the decline in sentiment indicates poor short-term returns, the longer-term returns of the market tend to be favorable unless there is a recessionary or credit-related event, as in 2008. As Sentiment Trader notes:

***?The market?s background and environment are crucial.** If we narrow the screening criteria only to include signals that occur when the S&P 500 Index is above its 200-day moving average (i.e., in an established long-term bull market), historical returns become more encouraging in the long run, but still show significant short-term pain. In such **?correction within a bull market?** scenarios, the market?s median 1-year forward return is a strong +14.4%, but the median 1-month return is only +1.5% and the average return is negative. This strongly suggests that this major sentiment breakdown often triggers a significant pullback before the primary trend resumes, even within an uptrend.?*

We are in a strongly trending bull market advance, and credit and economic recession risks are not elevated. Therefore, after the recent *?buying frenzy?* in the market, a *?pause?* should be expected before heading into the stronger end-of-year market dynamics of earnings, year-end performance chasing, and increased corporate share buybacks. As such, we agree with Sentiment Trader?s conclusion:

?In summary, the market is likely facing a more challenging period of correction or extended consolidation. Historical data points to a high probability of negative returns in the immediate month ahead, even if the one-year outlook may remain promising. Investors should be cautious of the significant short-term risks and monitor credit and small-cap trends; HYG breaking support or worse small-cap weakness signals higher risks?



Corporate Bond Investors Have No Fear

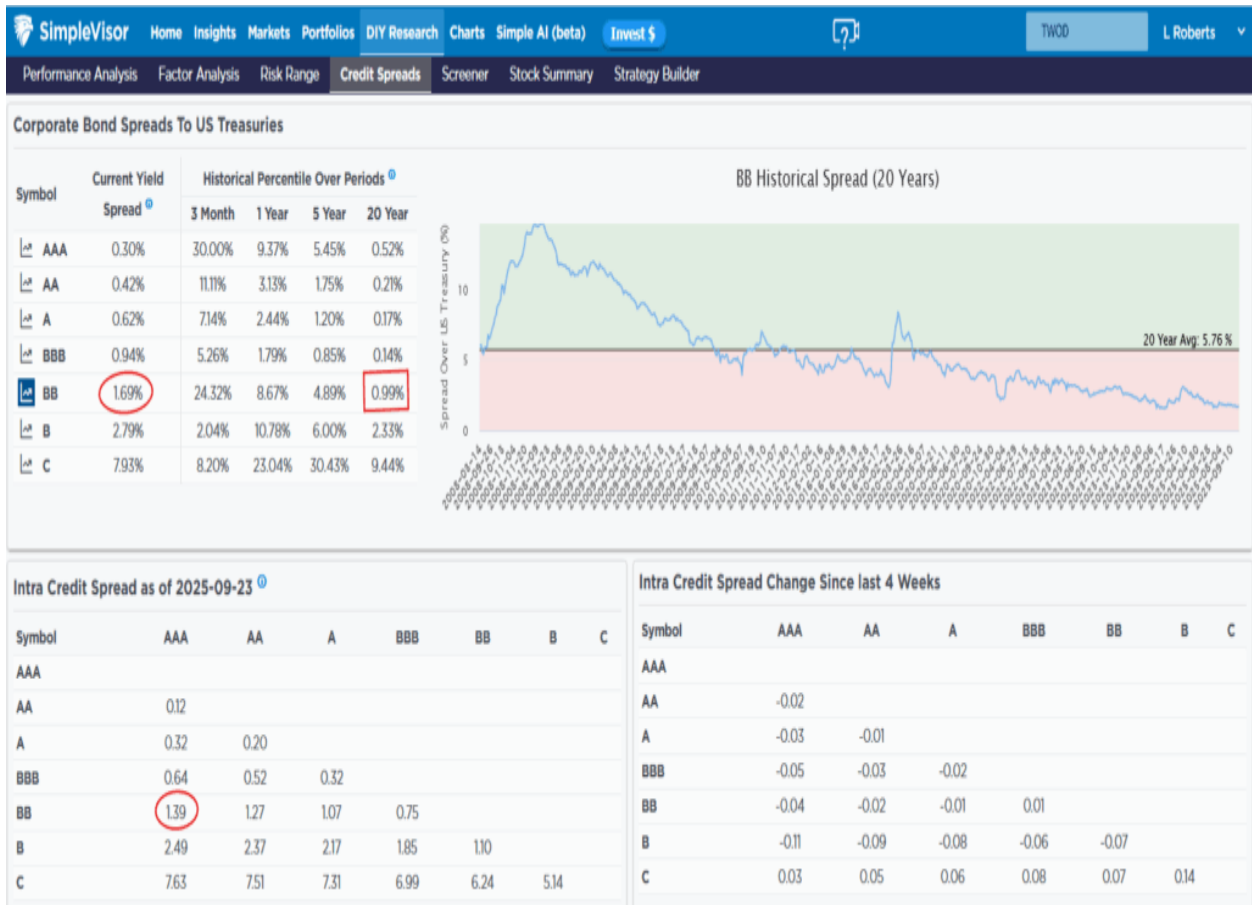
Unlike US Treasury bonds, Corporate bonds have credit risk, or the possibility that the bond issuer defaults. Accordingly, investors willing to take on default risk earn additional yield compared to the risk-free yield of U.S. Treasury bonds. Thus, a fair yield calculation for a corporate bond should incorporate historical and expected default rates.

Today's speculative investment environment is also present in the corporate bond market. To illustrate this, we examine the yield premium, or yield spread, of BB-rated corporate bonds compared to the yield of similar-maturity US Treasuries. The graphic below, courtesy of [SimpleVisor](#), shows that BB-rated bonds yield 1.69% more than US Treasuries. Based on the graph of the yield spread and its historical percentile over the last 20 years, this spread is extremely low. The bottom left table shows that BB investors are only earning 1.39% more than AAA corporate bond investors. To make sense of the extremely tight spreads, we need to quantify default risk. For this, we lean on S&P Global, one of the prominent bond rating agencies. Per their analysis:

For example, our historical statistics show a 3-year cumulative default rate for a ?BBB? rated company of 0.91%, vs 4.17% for a ?BB? rated one, 12.41% for a ?B? rated one, and 45.67% for a ?CCC/CC? rated one.

Over three years, a BB-rated bond has, on average, a 4.17% chance of defaulting. At current yields, investors can earn an additional yield spread of 5.07% (1.69% + 3) over Treasuries over three years. That may seem like a good deal. However, the default analysis is not steady. When the economy is strong, it runs below average, and when it's poor, it runs well above average.



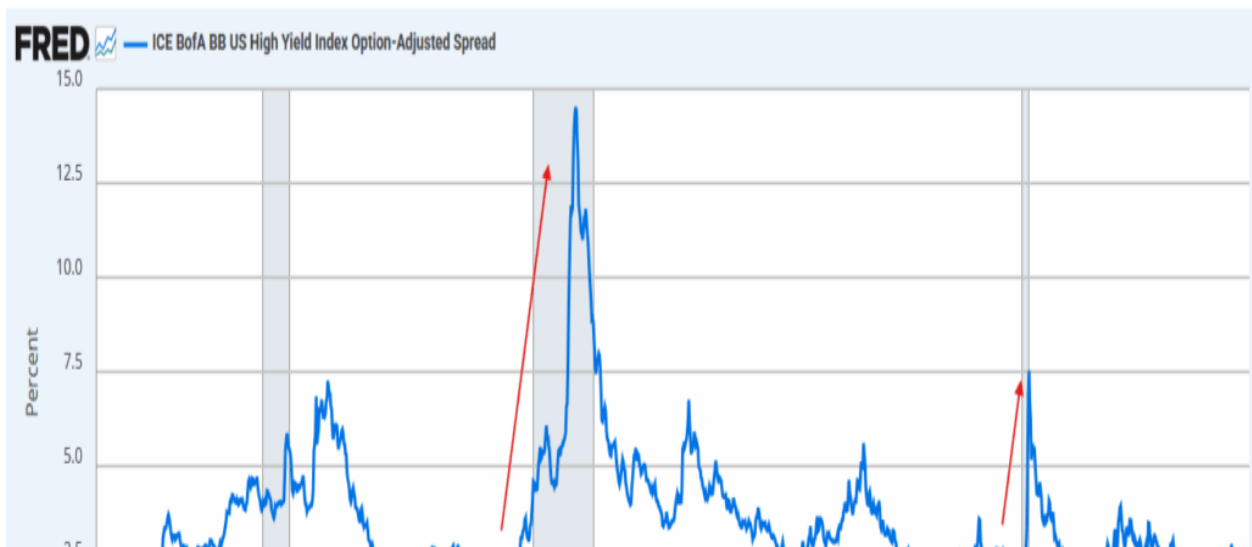


Quantifying BB-Rated Bond Price Risk

With an appreciation for the current status of BB-rated corporate bonds and historical default rates, let's assess the risk that investor perceptions of risk change. Or more simply, what if yield spreads widen? The graph below shows the two largest episodes of spread widening, both of which occurred from yield spreads similar to today's levels.

During the 2008 financial crisis, BB-rated yield spreads increased from 1.73% to 14.34%. BB-rated bond investors would have incurred a 63% loss in price from the trough to the peak in yield spread. When the COVID-19 pandemic shut down the global economy, BB-rated bond spreads rose from 1.90% to 7.52%. These investors would have incurred a 28% loss from trough to peak. The point is that the mere yield premium of 1.69% can be easily erased if investors sense that the economy is at risk and defaults may uptick.

Like high stock valuations, corporate bond spreads will eventually revert to more normal levels. A weakening economy should be a warning that default risks are rising, but corporate bond investors appear to be unconcerned.





Tweet of the Day

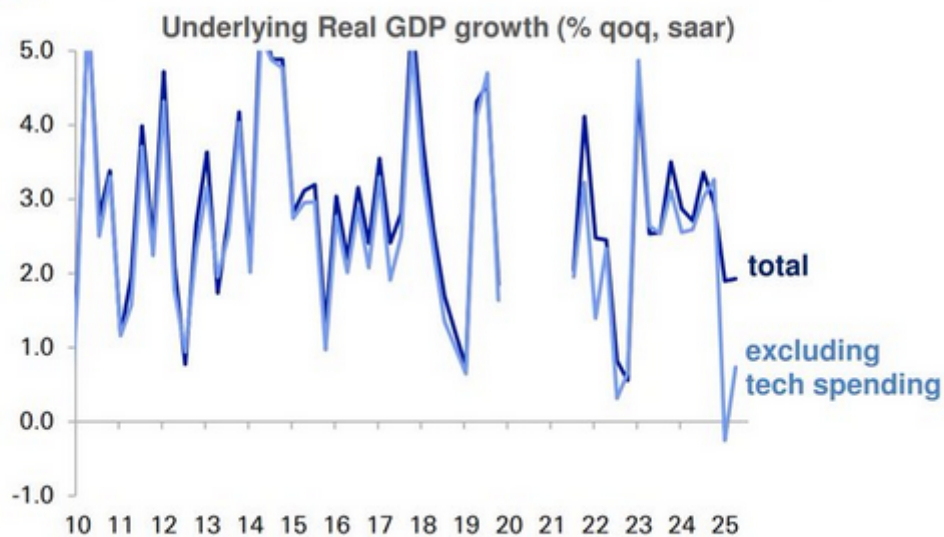


Lisa Abramowicz @lisaabramowicz1 · 2h



Without tech spending, the US would have been close to, or in, a recession earlier this year: DB's Saravelos. "Perhaps Nvidia, which employed only 36,000 people at the last update earlier this year, holds the keys to all global macro in 2026:" DB

Figure 1: Without tech, the US economy would have been close to a recession



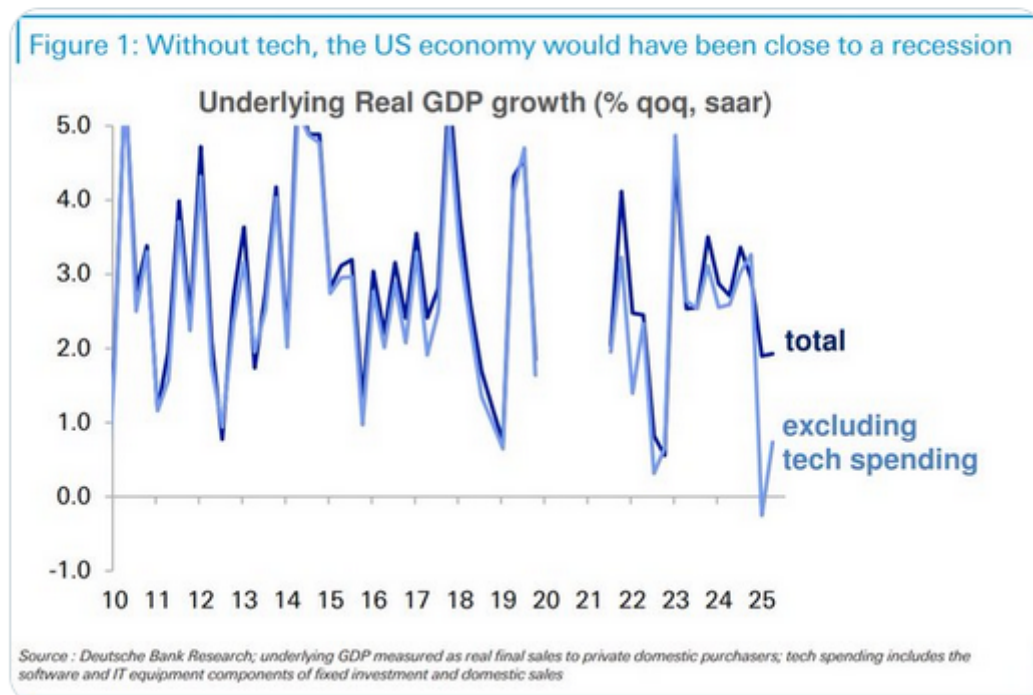
Source : Deutsche Bank Research; underlying GDP measured as real final sales to private domestic purchasers; tech spending includes the software and IT equipment components of fixed investment and domestic sales



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