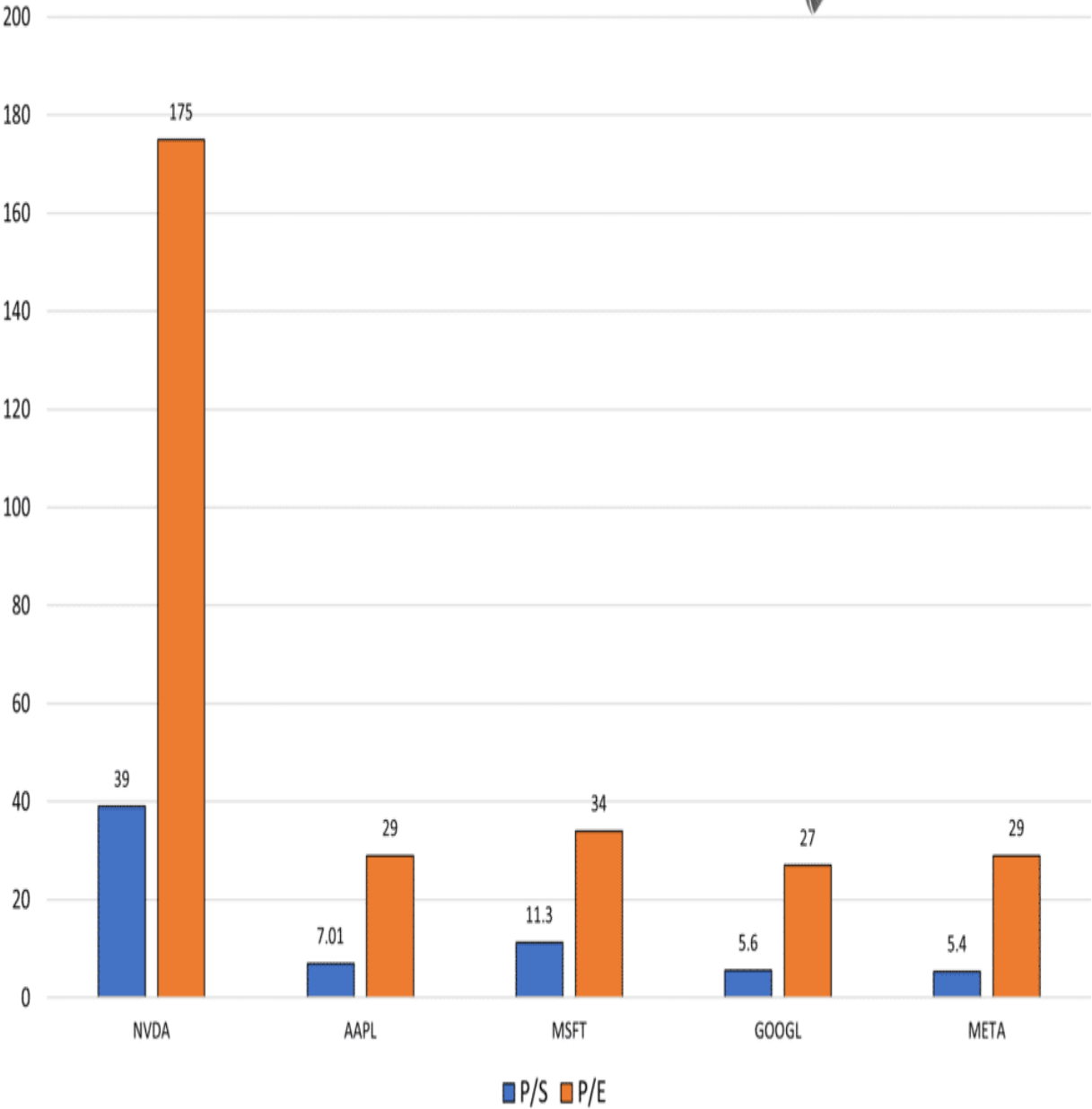


NVDA and AI Stocks Surge on Strong Guidance

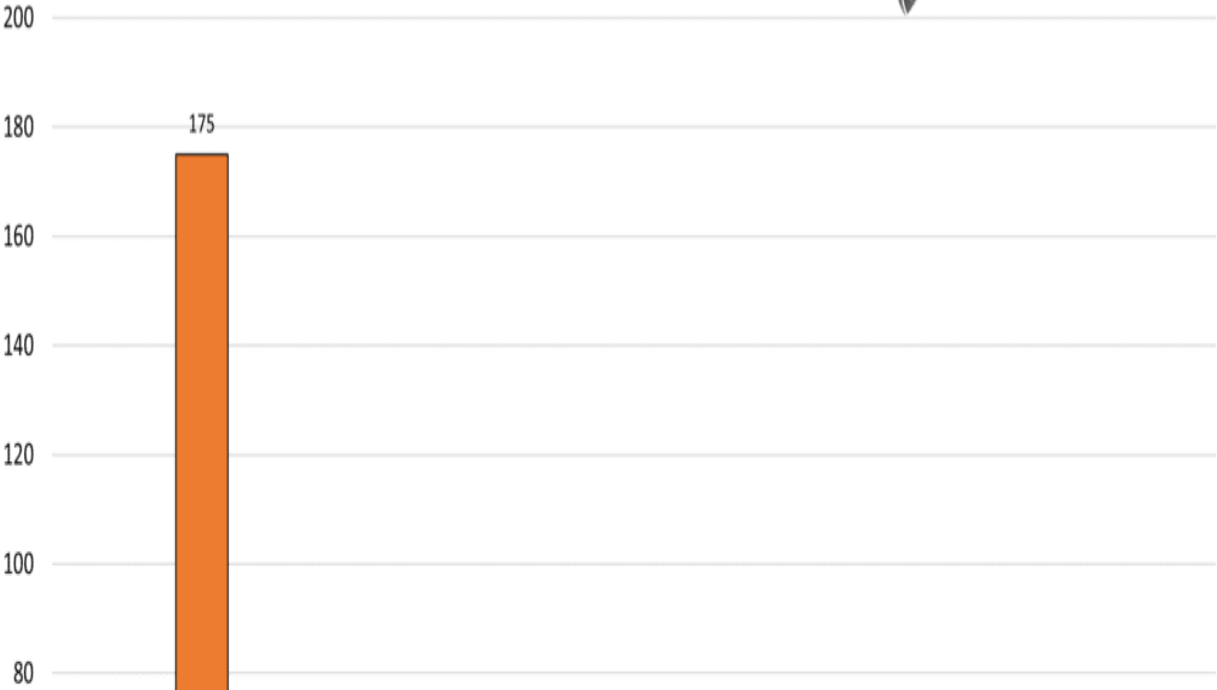
Chipmaker Nvidia (NVDA), one of the biggest beneficiaries of AI technologies, soared Thursday as its earnings and revenues beat expectations. However, what drove NVDA higher by over 25% was not its quarterly results, which incidentally showed negative earnings and revenue growth, but its outlook. NVDA's management stunned investors by forecasting \$11 billion in revenue for Q2, well above the prior \$7.18 Billion forecast. Such a sharp increase over a short period is nearly unprecedented. Wall Street analysts quickly raised their price targets for NVDA, as shown in the Tweet of the Day below. Many other AI-related stocks are following NVDA's lead higher.

With Thursday's price surge, NVDA gained over \$220 billion in market cap. To put that in context, an AI competitor of theirs, AMD, has a market cap of \$174 billion. Further, 473 S&P 500 stocks have a market cap below \$220 billion. NVDA will benefit greatly from AI. The question, however, for investors is whether the valuations for NVDA and some other AI companies are too high. To wit, at its current price-to-sales ratio of 39x, NVDA will have to own the entirety of the GPU chip space in ten years, the stock price can't change, and it will still be costly at 13x price to sales. NVDA's P/E and P/S dwarf other technology market cap giants like Apple, Microsoft, Google, and Meta.

Valuation Comparison- Tech Giants



Valuation Comparison- Tech Giants











































What To Watch Today




Earnings

Company		Time	Estimate		<div><div>✓</div>Growth</div> <div>Show only confirmed?</div>	Surprise		
KT	KT Corporation	BMO	-	-	-	<div>+</div>	<div>=</div>	<div>-</div>
✓ BAH	Booz Allen Hamilton ...	6:45 AM ET	\$0.92	\$2.39 B	6.8%	<div>+</div>	<div>=</div>	<div>-</div>
✓ BIG	Big Lots Inc.	6:00 AM ET	(\$1.87)	\$1.19 B	-13.4%	<div>+</div>	<div>=</div>	<div>-</div>
✓ HIBB	Hibbett Sports Inc.	6:30 AM ET	\$3.07	\$470.57 M	11.0%	<div>+</div>	<div>=</div>	<div>-</div>
BTCM	BIT Mining Ltd	6:00 AM ET	-	-	-	<div>+</div>	<div>=</div>	<div>-</div>
✓ CAN	Canaan Inc.	BMO	(\$0.15)	\$62.04 M	-71.0%	<div>+</div>	<div>=</div>	<div>-</div>
CGC	Canopy Growth Corp...	7:00 AM ET	(\$0.12)	\$73.01 M	-17.3%	<div>+</div>	<div>=</div>	<div>-</div>

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Economy

Time	Event	Impact	Actual	Dev 	Consensus	Previous
FRIDAY, MAY 26						
12:30	 USD Core Personal Consumption Expenditures - Price Index (MoM)(Apr)	<div><div></div></div>	-	-	0.3%	0.3% 
12:30	 USD Core Personal Consumption Expenditures - Price Index (YoY)(Apr)	<div><div></div></div>	-	-	4.6%	4.6% 
12:30	 USD Durable Goods Orders(Apr)	<div><div></div></div>	-	-	-1%	3.2% 
12:30	 USD Durable Goods Orders ex Defense(Apr)	<div><div></div></div>	-	-	0.1%	3.4%  
12:30	 USD Durable Goods Orders ex Transportation(Apr)	<div><div></div></div>	-	-	-0.1%	0.2%  
12:30	 USD Goods Trade Balance(Apr) PREL	<div><div></div></div>	-	-	\$-85.7B	\$-86.6B 
12:30	 USD Nondefense Capital Goods Orders ex Aircraft(Apr)	<div><div></div></div>	-	-	-0.2%	-0.6%  
12:30	 USD Personal Consumption Expenditures - Price Index (MoM)(Apr)	<div><div></div></div>	-	-	0.4%	0.1% 
12:30	 USD Personal Consumption Expenditures - Price Index (YoY)(Apr)	<div><div></div></div>	-	-	3.9%	4.2% 
12:30	 USD Personal Income (MoM)(Apr)	<div><div></div></div>	-	-	0.4%	0.3% 
12:30	 USD Personal Spending(Apr)	<div><div></div></div>	-	-	0.4%	0% 
12:30	 USD Wholesale Inventories(Apr) PREL	<div><div></div></div>	-	-	0%	0% 
14:00	 USD Michigan Consumer Sentiment Index(May)	<div><div></div></div>	-	-	57.7	57.7 
14:00	 USD UoM 5-year Consumer Inflation Expectation(May)	<div><div></div></div>	-	-	-	3.2% 
17:00	 USD Baker Hughes US Oil Rig Count	<div><div></div></div>	-	-	-	575 
20:30	 USD CFTC Gold NC Net Positions	<div><div></div></div>	-	-	-	\$179.8K 
20:30	 USD CFTC Oil NC Net Positions	<div><div></div></div>	-	-	-	191.5K 
20:30	 USD CFTC S&P 500 NC Net Positions	<div><div></div></div>	-	-	-	\$-388.7K 

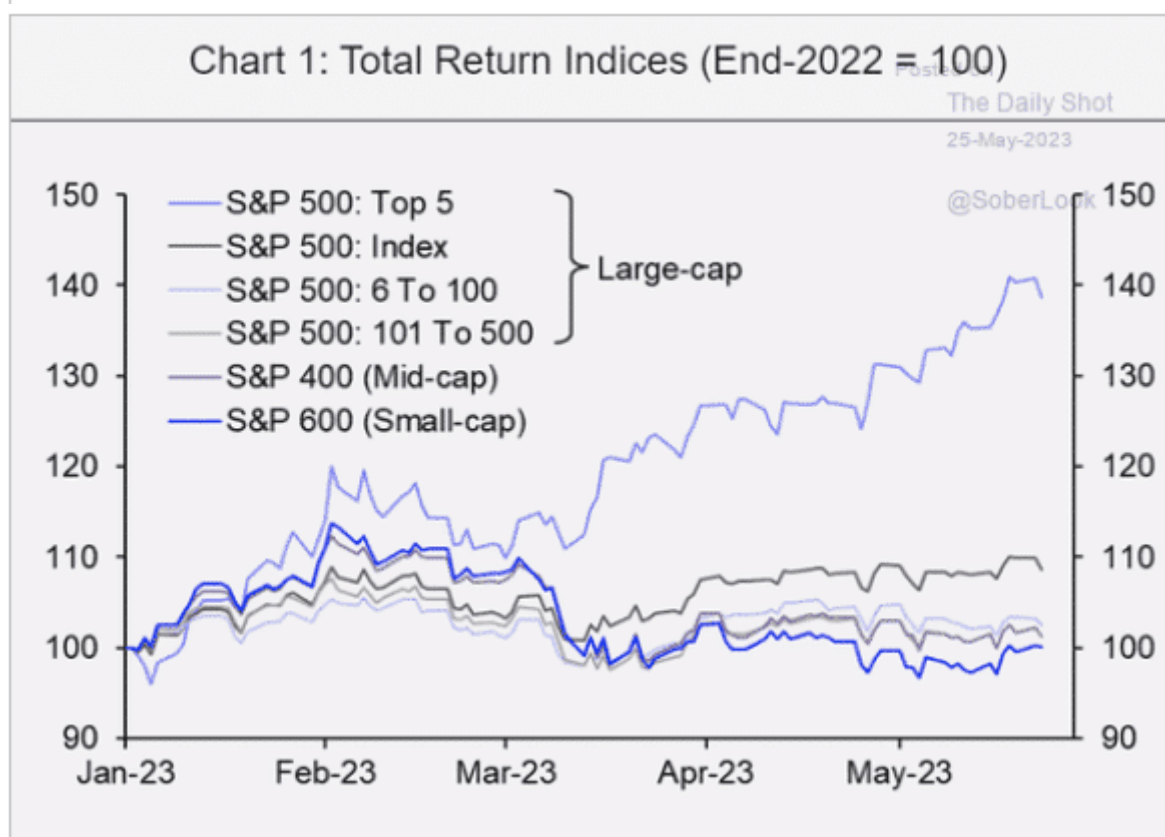
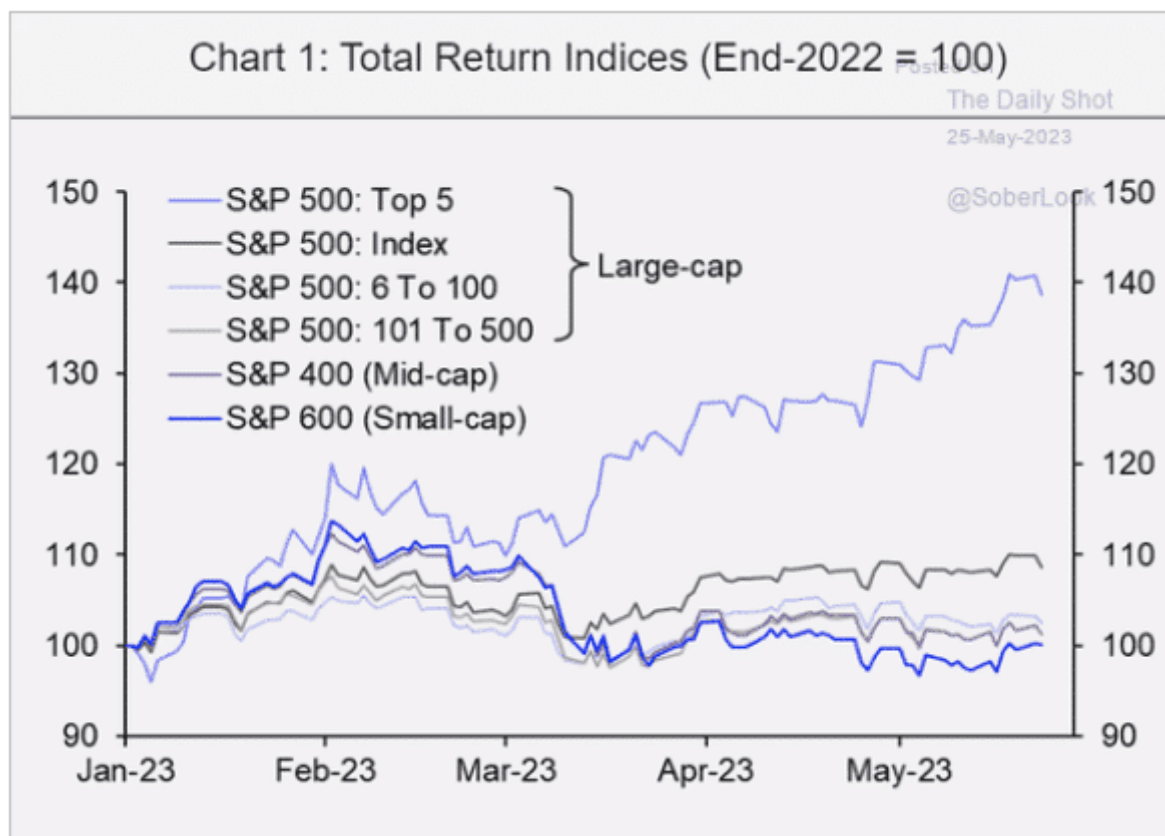
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How Long Can A 5-Stock Rally Last

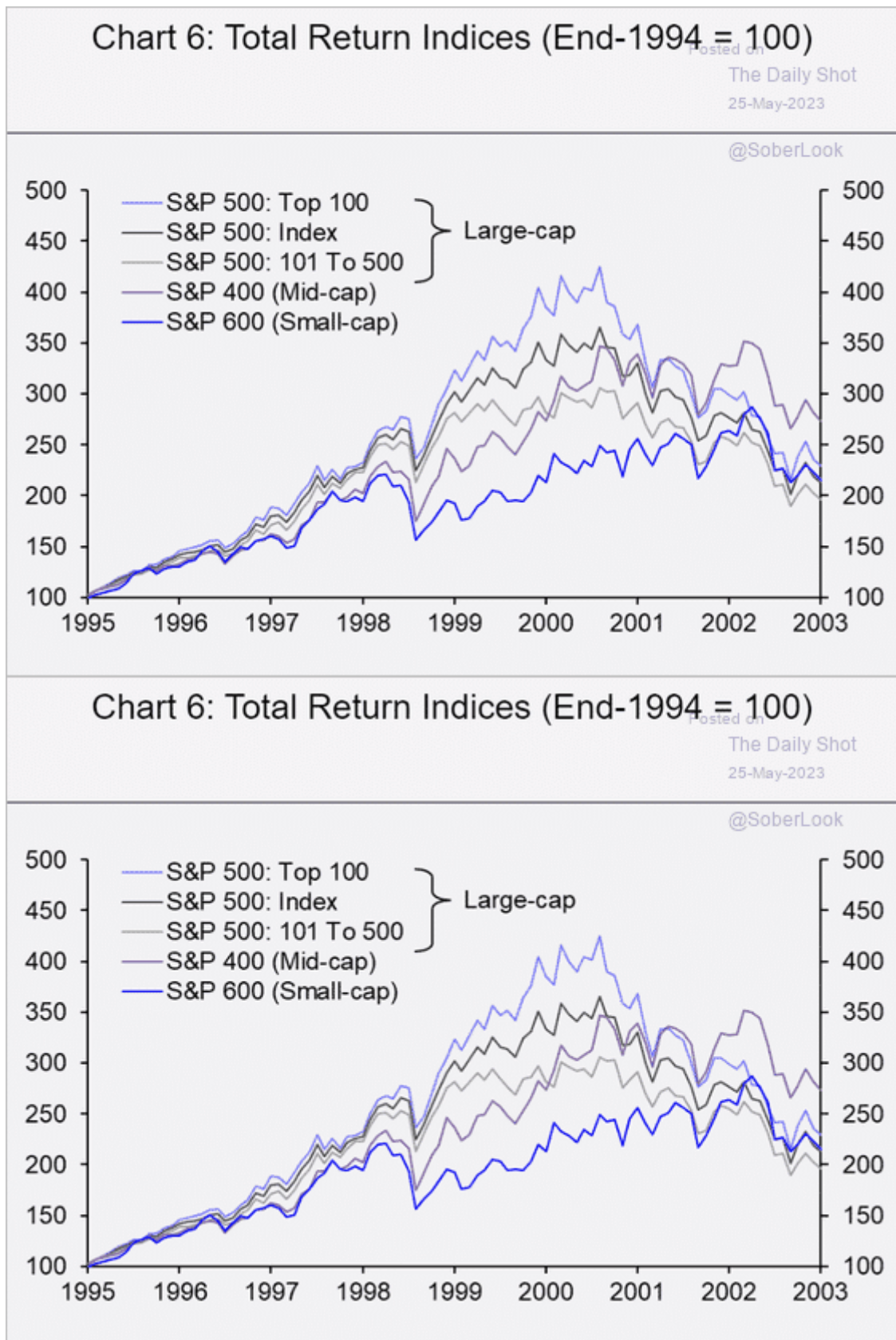
The heat map below shows the year-to-date performance of the stocks that comprise the S&P 500. It isn't difficult to understand why the market has been doing so well this year, despite concerns about recession, Fed rate hikes, and inflation.



The chart below shows the YTD performance of the top-5 stocks versus the S&P 500, Mid- and Small capitalization indices as well.



Of course, The question that arises is how long a very narrow rally can last. Given that the current ?A.I.? rally reminds us much of the ?Dot.com? bubble in the late 90s, we can see a similar performance skew. Assuming the 1998 ?Long-Term Capital Management? debacle was the 2022 correction, the current ?AI? chase could last between 18 and 24 months. Such would put us well into 2024 before valuation trouble potentially arises.



Of course, this time is not like last time, and analogs rarely track closely. However, the one truth is that the current 5-stock rally can last much longer than logic suggests. But, it will eventually end.

Don't forget to take profits.



Another Black Eye For Uncle Sam's Credit Rating

Fitch Ratings placed the United States credit rating on 'rating watch negative.' A ratings watch action often precedes the downgrading of a company or nation's credit rating. Currently, Fitch rates the US as AAA. They attribute the watch to a few factors. At the top are political partisanship and the possibility of a delay in interest or principal payments. Longer term, the implications of the current political climate also concern Fitch. To wit:

The brinkmanship over the debt ceiling, failure of the U.S. authorities to meaningfully tackle medium-term fiscal challenges that will lead to rising budget deficits and a growing debt burden signal downside risks to U.S. creditworthiness.

On August 5, 2011, S&P downgraded the US from AAA to AA+. The ten-year UST note closed the day before the downgrade at 2.46%. A week later, it fell to 2.23%. The ten-year closed 2011 at 1.87%. The downgrade had no negative consequences for the Treasury bond market. Over the last 12 years since the downgrade, the amount of federal debt has doubled. More concerning, the ratio of debt to GDP has grown from 90% to over 120%. The trend is problematic, as Fitch notes.

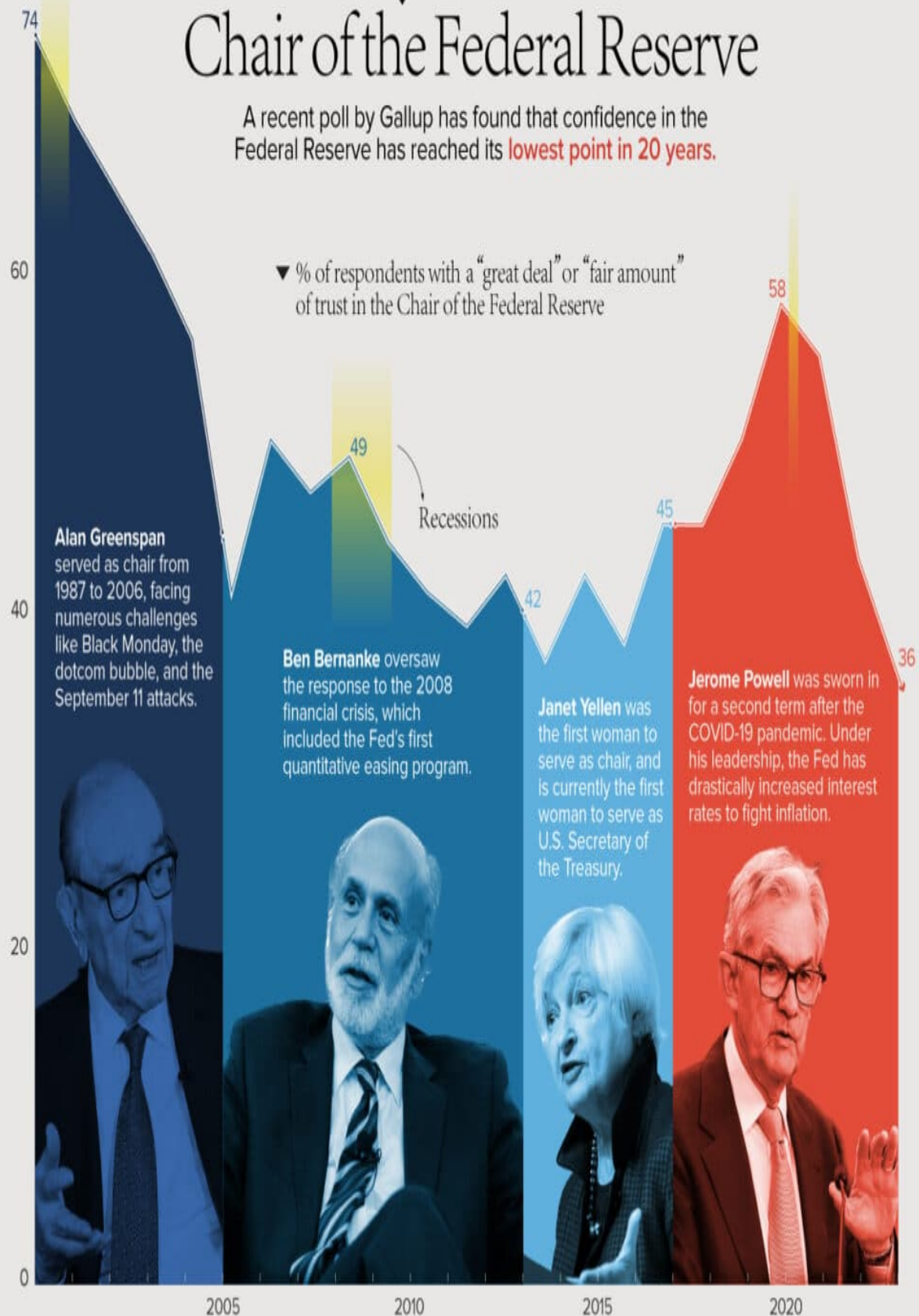


Confidence in the Fed Chairman

The graph below, courtesy of the [Visual Capitalist](#), shows that confidence in the Fed Chairman currently resides at a 23-year low. During the pandemic's peak, when the Fed was aggressively pumping the economy and financial markets with liquidity, confidence rose to the highest level since the Alan Greenspan era. Since the consequences of Powell's policy, high inflation, and interest rates are weighing significantly on confidence.

Confidence in the Chair of the Federal Reserve

A recent poll by Gallup has found that confidence in the Federal Reserve has reached its **lowest point in 20 years**.



Based on the results of a telephone survey of 1,013 adults aged 18+, living in all 50 U.S. states and the District of Columbia. Samples were weighted to match the national demographics of gender, age, race, education, region, and population density.

visualcapitalist.com



Turkey Follows Saudi Arabia in Promoting Dollars

A week ago, in our Commentary entitled [Saudi Arabia Says Phooey to Dedollarization](#), we wrote the following:

Saudi Arabia has been vocal about replacing the dollar as the world's reserve currency. Yet their demand and use of dollars, as witnessed by the recent dollar debt issuance, say they want or need dollars. Further enlightening, Saudi Arabia pegs their currency to the dollar and has for over 70 years.

Saudi Arabia is not the only country speaking out of both sides of their mouth regarding de-dollarization. Another country recently engaged in de-dollarization talks, Turkey, has been asking its banks to buy US dollar bonds. Per Bloomberg, the purpose is to "keep its borrowing costs stable and fend off a spike in its credit default swaps." Like Saudi Arabia, Turkey must rely on the dollar for economic stability. As noted in the commentary, there is no large-scale viable alternative to replace the dollar. While de-dollarization is a nice talking point for some countries and may gain its leaders' popularity, the reality is the dollar's role as the world's reserve currency will not change in the foreseeable future.

Tweet of the Day



***Walter Bloomberg**

@DeItaone

...

\$NVDA

***Walter Bloomberg** Today at 9:39 AM

- **NVDA:** Baird Upgrades to Outperform from Neutral - PT \$475 (from \$300)
- **NVDA:** Rosenblatt Raises Target Price To **\$600** From \$320
- **NVDA:** KeyBanc Raises Target Price To **\$500** From \$375
- **NVDA:** JP Morgan Raises Target Price To **\$500** From \$250
- **NVDA:** Barclays Raises Target Price To **\$500** From \$275
- **NVDA:** Evercore ISI Raises Target Price To **\$500** From \$320
- **NVDA:** UBS Raises Target Price To **\$475** from \$315
- **NVDA:** Bernstein Raises Target Price To **\$475** from \$300
- **NVDA:** Jefferies Raises Target Price To **\$472** From \$300
- **NVDA:** Morgan Stanley Raises Target Price To **\$450** from \$304
- **NVDA:** Raymond James Raises Target Price To **\$450** from \$290
- **NVDA:** BofA Securities Raises Target Price To **\$450** from \$340
- **NVDA:** BMO Capital Raises Target Price To **\$450** From \$350
- **NVDA:** Wells Fargo Raises Target Price To \$450 From \$320
- **NVDA:** Susquehanna Raises Target Price To \$450 From \$350
- **NVDA:** Piper Sandler Raises Target Price To **\$440** From \$300
- **NVDA:** Goldman Sachs Raises Target Price To \$440 From \$375
- **NVDA:** Citi Raises Target Price To **\$420** from \$363
- **NVDA:** Oppenheimer Raises Target Price To \$420 From \$350
- **NVDA:** Deutsche Bank Raises Target Price To **\$390** From \$220
- **NVDA:** Stifel Raises Target Price To **\$370** from \$300



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Please [subscribe to the daily commentary](#) to receive these updates every morning before the opening bell.

If you found this blog useful, please send it to someone else, share it on social media, or contact us to set up a meeting.

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2023/05/26

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