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WEEKLY NEWSLETTER

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NVIDIA

AI

Musings

“The four most dangerous words in investing are: ‘This time it’s different.’”

-Sir John Templeton

Last week in the markets

Stocks rallied on rising optimism that D.C. lawmakers will reach a deal to raise the U.S. debt ceiling, led by the tech-heavy Nasdaq, which closed at its highest level since August. For the full week, the Dow Jones index lost 1%, but the S&P 500 edged up 0.3% and the Nasdaq jumped 2.5% for a fifth straight week of gains.

The rally in stocks was undeterred, with investors eager to add to positions ahead of the Memorial Day holiday weekend.

The big mover this week was Nvidia, whose shares did ‘one of the greatest moonshots in the annals of capital market history’ by closing up almost 25% - equivalent to a market value of ~ $ 184 Billion - after it announced results for the quarter ended April 30th 2023. The Company said it expects gigantic expansion ahead as data centres switch to its products incorporating AI.

Underlining the extreme narrowness of the market, America’s Magnificent Seven stocks ($AAPL, $MSFT; $GOOGL; $AMZN, $NVDA, $META, $TSLA) are up 70% YTD (equal-weighted), the other 493 stocks in S&P 500 up only 0.1%. In price terms, 228 issues of the SPX are up vs 275 down YTD.

Meanwhile on the U.S. Debt ceiling, Treasury Secretary Yellen announced June 5th as the ‘x-date’, while Speaker Mccarthy said that a deal was agreed “in principle” with still a “lot of work to do”.

Below is a summary of the deal as it stands now:

1. Debt ceiling to be raised for 2 years, by around $ 4 trillion
2. Cuts spending by $50 billion
3. $10 billion of new IRS funding clawed back
4. No budget caps after 2025
5. No new taxes or government programs
6. Boost in defense and VA spending
7. Domestic program spending frozen for one year

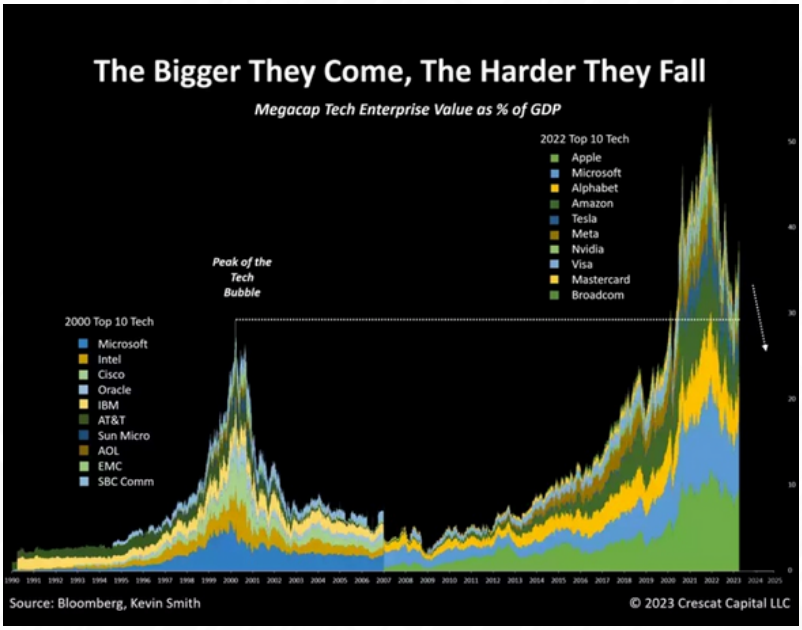
Just to highlight the political challenges around the issue, despite the political rhetoric about the need for being prudent spending “cuts” are just 0.2% of GDP.

Two-year U.S. Treasury yields rose for an 11th straight session after the latest government data showed inflation picking up more than expected, and Federal Reserve Bank President Loretta Mester said she would not rule out another rate hike next month.

The Fed's preferred measure of inflation (core PCE) came in above expectations (4.7% vs. 4.6% estimate) and remains well above the Fed's 2% target level. On a year-over-year basis, the PCE price index climbed 4.4%.The same report showed that personal income rose 0.4% compared to the previous month, while spending 0.8%.

The market is now pricing in a 65% probability of a rate hike at the June FOMC meeting and no rate cuts until November.
On the other side of the Atlantic, Germany is in a recession. The economy contracted by 0.3% in Q1, following a contraction of 0.5% in Q4 of last year. Inflation still remains high at 7.2%, while unemployment has increased to 5.6%. This is starting to feel like stagflation.

Chart of the week



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