The week in seven charts

Chart #2
A record quarter for Nvidia
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Image source: iStock/David Tran

Nvidia reports yet another exceptional quarter

Nvidia has reported a threefold increase in sales driven by the boom in AI chips, the Nasdaq 100 and S&P 500 ETFs are now within 2% of their all-time highs and watch out for OJ and Uranium, the two mega bull markets nobody's talking about! Each week, the Syz investment team takes you through the last seven days in seven charts.

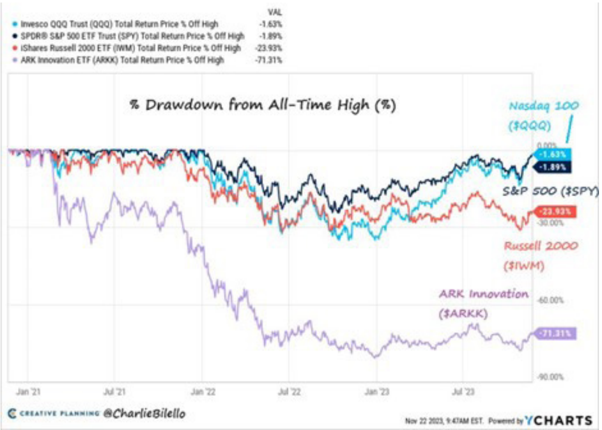
Charles-Henry Monchau
Chief Investment Officer

PRIVATE BANKING

Chart #1

A two-speed US equity market

The Nasdaq 100 and S&P 500 ETFs are now within 2% of their all-time highs, while the Russell 2000 ETF (small caps) is 24% off its high and the ARK Innovation ETF is 71% off its high. In 2024, will we see market segments lagging in performance catch up?



Source: CharlieBiello

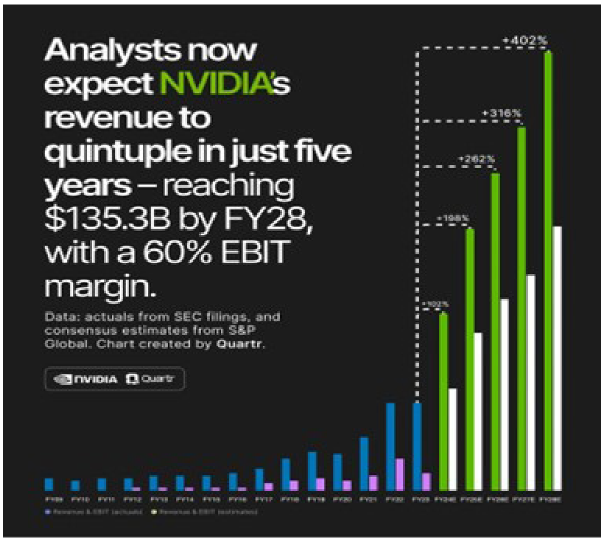
Chart #2

A record quarter for Nvidia

Nvidia has reported exceptional results for the third quarter, with a threefold increase in sales driven by the boom in artificial intelligence chips. Revenues from data centers were up 279%, while those generated by chips for electronic games were up 81%. Operating profit was up 1.633% year-on-year.

On the downside, the company warned analysts of a "significant" slowdown in demand from China. This news displeased the market, as the share price fell slightly after the results. This is the first time such an event has occurred since the ChatGPT buzz began.

Note that the market remains very optimistic about Nvidia's future growth. The consensus is for sales to quintuple over the next 5 years, and operating margin to reach 60%.



Source: Quartr

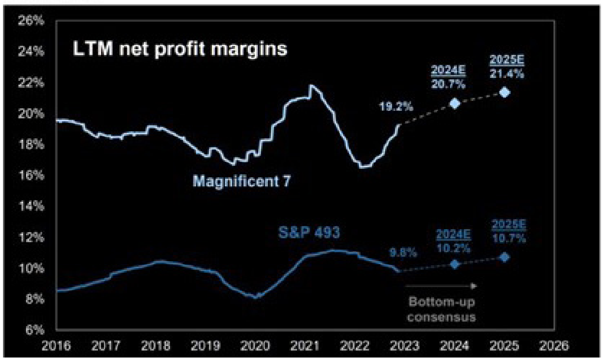
Chart #3

The dominance of the magnificent 7 is partly justified by the fundamentals

The "Magnificent 7" (Apple, Amazon, Alphabet, Meta, Microsoft, Nvidia, Tesla) alone have contributed 90% of the S&P 500's year-to-date performance. They now account for almost 50% of the Nasdaq 100's market capitalisation. Is this dominance justified by fundamentals? As a Goldman Sachs study shows, these companies are growing and making money well above the market average. Sales grew by 15% a year between 2013 and 2019, and by 18% annualised over the period 2021-2022. By way of comparison, that of other S&P 500 stocks was 2% and 15% respectively over the two aforementioned periods. The net margin of these companies is also well above that of the rest of the market. It currently stands at 19.2%, compared with 9.8% for the S&P 493. According to consensus expectations, this gap could continue to widen in the years ahead.

The strong fundamentals of the Magnificent 7 are also reflected in the valuation multiples. On the basis of expected 12-month earnings, these technology mega-caps have an average multiple of 29x, compared with 16x for the rest of the market.

Double margins



Source: Goldman Sachs

Chart #4

US banks at all-time low in relative terms

US bank stocks still haven't recovered from the regional banking crisis of March. In relative terms, US bank shares are at historically low levels compared to the S&P 500 index. According to Moody's, the major US banks currently have some $650 billion of unrealised losses on their bond portfolios on their balance sheets. The impending commercial real estate crisis poses a further threat to the US banking sector. This is particularly the case for small and medium-sized institutions, which currently hold around 70% of all commercial real estate loans in the US, including $1.5 trillion to be refinanced by 2025.

Chart #5

Two mega bull markets nobody's talking about

In the "post-covid" era, some active ingredients have outperformed even the Magnificent 7. This is particularly true of two raw materials: orange juice (+246%) and Uranium (+568%).

The tightness of the orange juice market in 2023 has led to record prices due to an imbalance between supply and demand. On the supply side, the global orange harvest has been declining for several years, due to several factors, including poor weather conditions, citrus greening disease and labour shortages. This decline in supply comes at a time when demand for orange juice has increased, due to its health benefits and popularity as a breakfast drink. The increase in demand has put additional pressure on the tight orange juice market.

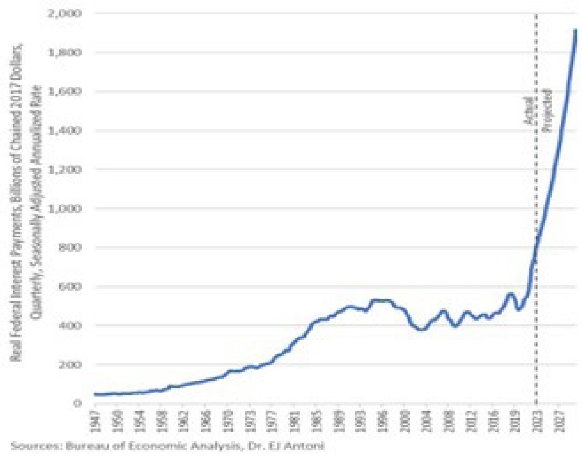
As for Uranium, it topped $80 for the first time in over 15 years, an increase of almost 60% since the start of the year. Prices are now back above the levels seen before the Fukushima incident in March 2011. Uranium prices are strongly supported by a supply deficit in the coming years, particularly in the USA. At the same time, a long list of countries see nuclear power as one of the only alternatives to fossil fuels, and are planning to build a large number of nuclear power plants, which will greatly increase Uranium requirements. By 2028, a 60% supply/demand imbalance is expected.

Source: Source: Macrobond, Sagar Singh Setia

Chart #6

40% of U.S. tax receipts (from physical persons) are now devoted to debt interest payments

The U.S. government collects around $2.5 trillion a year in personal income tax. Of this, around $1,000 billion (40%) is absorbed by interest on the national debt. Debt interest is rising as old, cheap debt matures and is refinanced at higher rates. In addition, new debt is added every year. Indeed, new issues of US Treasuries are expected to rise by almost 25% next year. At this rate, within a few years, 100% of personal income tax revenues will be used to pay interest on the US national debt. Amount paid in interest on US debt.

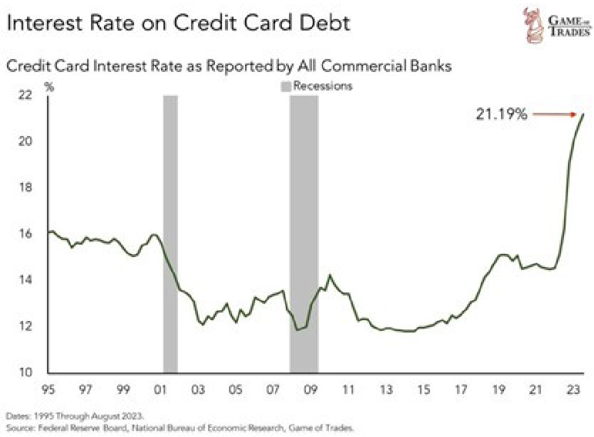


Source: BEA

Chart #7

Debit interest rates of 21% on credit cards in the US

In the US, the interest rate on credit cards has risen to 21.19%. To put this in perspective, the rate was 14.56% at the start of 2022. That's an increase of over 6% in less than two years. Current levels have not been reached for over 25 years. This comes at a time when credit card debt has crossed the $1 trillion threshold.



Source: Game of Trades

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