THE EMPTY THRONE OF AI BOOM

EPISODE 439



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Issues:

1. I don't think you can "prove" that the AI capex is fine using this result - it is too close to Jensen leaving. It was possible (albeit highly unlikely in my view) that you could have disproved that theory if NVIDIA reported a rash of cancelled orders or that NVIDIA would no longer support partners who want to buy chips with financing. But it is simply too early for either cancelled orders (which I don't think are coming) or wholesale changes from an interim CEO (which I don't think are coming either).
2. NVIDIA is cheap, question is about maintainability of earnings and how much Jensen leaving affects this. Bull case is Apple. Bear case is losing leadership much faster. NVDA seems to be very much a major company run like a startup. Look at Micron/Samsung/SK Hynix as possible outcomes. Talk about leadership, 60 reports, memory issues
3. This is a political issue. Trump is big on tariffs/bans, doesn't seem to care about minor enforcement - i.e. leaving a release valve which is what this looks like. Leak coming from security appartus in the US. The question is it a) political hit job aimed at Republicans b) genuine attempt by China hawks which will lead to much stricter sanctions c) genuine attempt by China hawks which won't go far
4. Talk about neocloud financing, china substitutions, open source.
5. Talk about Apple.
6. Lessons for AI boom

Lessons for the AI Boom:

There are four major issues that we are monitoring:
1. Will political forces slow the AI capex? Think state legislatures, Texas at the top of the list.
2. Will capital markets slow AI capex? Debt markets to Neoclouds, debt markets to hyperscalers, equity markets to Anthropic and OpenAI.

Slowing capex is a bad thing for NVIDIA, but a good thing for hyperscalers. If no one can build then existing players get outsized profits. So we are taking an each way bet there.

Politically, I'm not sure, but leaning towards the view that it will mostly be political posturing with a few high profile capex scalps but the broader capex regime will be fine. Capital markets I think will be fine while profits are growing - but remain a risk.

3. Will demand for AI training slow down? Forget token prices. $ per GPU hour for 1yr+ contracts is where we are watching.

This is an arms race if capital markets remain open to Anthropic/Open AI then that underpins a lot of demand. And all the other big players have to keep spending to keep up. Weakness here is bad, but if inference remains strong then the cycle can continue with weaker training demand.

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What the demand is for AI from the rest of the economy? If there is real weakness (prices would have to more than halve) then the AI trade is over. No real signs of much weakness there. But this is the real key to the end of the cycle.

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