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AI Investing: Beyond Nvidia and into the Unknown

Over the last 18 months, investors have been closely focused on two main topics: inflation and AI (artificial intelligence). The widespread discussion of AI by CEOs worldwide reminds us of the excitement surrounding the internet 25 years ago. Back then, companies like Cisco Systems saw their values skyrocket as they played vital roles in the internet's development, though they later experienced significant drops in value. However, this doesn't mean AI lacks potential. As we move past Nvidia, the current top player in AI infrastructure, it's important to learn from past investment booms and consider the new opportunities ahead.

Beyond Nvidia's Reign

Nvidia, the market leader in GPUs used in AI infrastructure, has surged by +400% since June 2022, fuelled by the excitement surrounding AI. But is Nvidia overvalued? Not necessarily. Last quarter saw a staggering +265% increase in revenue, with quarterly profits quadrupling over two years. AI isn't a mere marketing ploy akin to miraculous weight loss pills; it stands as the most significant technological revolution since the advent of the internet, smartphones, and WhatsApp. However, is Nvidia the sole player in the realm of lucrative AI investments? Far from it. The cautionary tale of Cisco highlights two crucial lessons: technological advancements, be it railroads or the internet, move in waves, and this is merely the infancy of the AI narrative. Secondly, the performance of a single company hinges greatly on expectations.

Navigating Long-Term Realities in the Age of Short-Term Optimism

While we refrain from sounding overly pessimistic or spreading fear, sustaining such elevated multiples demands at least the same level of growth in the foreseeable future—a rarity in history. Consideration must be given to potential double ordering of chips by clients wary of falling behind in the AI race, alongside factors such as limited competition, absence of supply gluts, and continuous price and margin expansion. Even amidst an ideal scenario for AI chipmakers like Nvidia or AMD, it's crucial to recognize that it's the subsequent waves of technological development that truly shape the narrative, making the investment landscape all the more intriguing.

AI's Impact on Everyday Life and Industry Titans

AI will soon become an integral part of our daily lives, akin to the internet's impact. Just as Microsoft, Amazon, Apple, and Netflix rose after the internet's initial wave, new giants like Meta are investing billions in AI. A study by Microsoft and MIT shows that many executives plan to significantly increase AI spending. However, not all of this investment will go to GPU producers. We expect a shift towards software companies like Microsoft, Google, Palantir, and Meta, as well as infrastructure providers such as data centers and cloud computing."

Finally, AI will greatly benefit end users especially in the healthcare, biotech, financial and consumer cyclicals to increase productivity, efficiency, and end sales. In our view two of the most promising areas in the future of AI are electric grids and IT professional services. AI is such a complicated task that every organization will demand experts to implement their AI projects with a very limited supply of them. It is probably not well understood, moreover, that a single Chat GPT query consumes no less than 15x more energy than a traditional Google query. If we assume that at least half of future Internet searches will go to AI natural language processing, we can imagine the power necessary to performs such task. Will the future of AI investing go back then to an old school boring utility company? Maybe not, however it is sometimes helpful to spread your horizon in order not to neglect the trend but to go somehow beyond the obvious and avoiding the hype. By the way, this article was not written by Chat GPT.



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