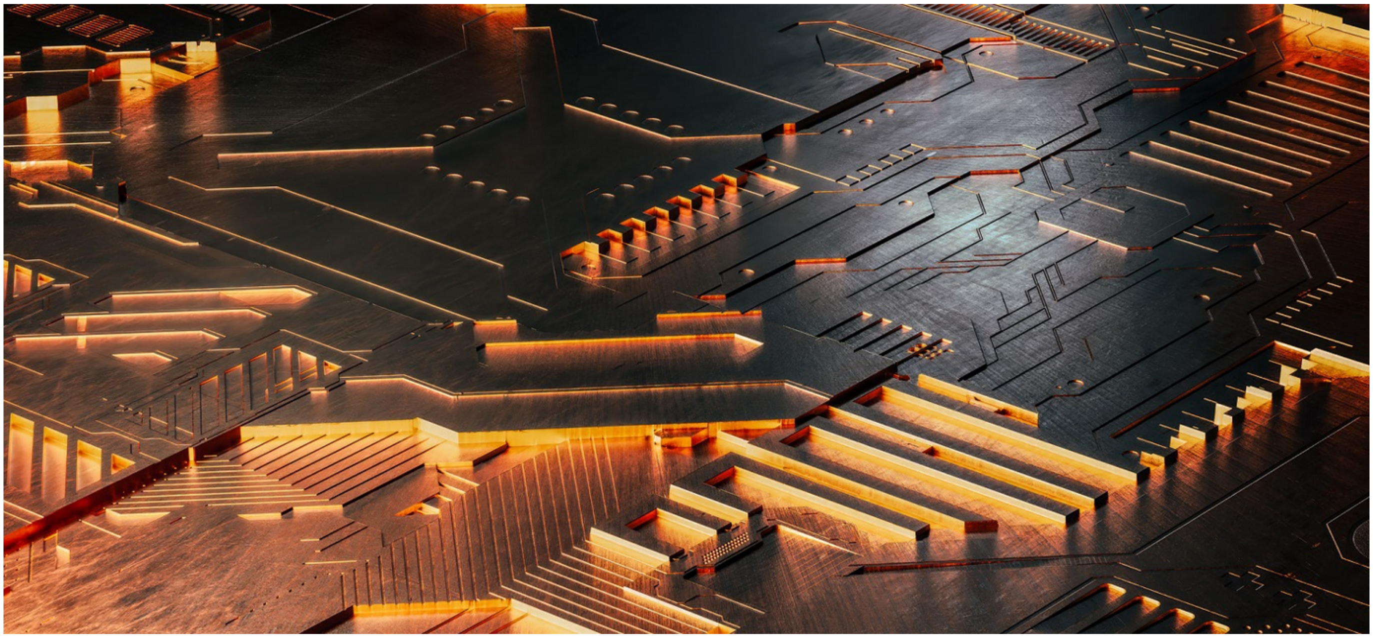

With solid fundamentals and a relatively manageable impact on the AI supply chain from potential tariffs, CIO believes the risk-reward remains favorable for the investment theme. (UBS)

NVIDIA’s forward guidance points to strong demand for AI chips

22 November 2024, 2:58 pm CET, written by UBS Editorial Team US Editorial Team

NVIDIA's quarterly revenue and earnings per share both beat consensus estimates—by 6% and USD 0.06, respectively—while the fourth-quarter revenue guidance came in only slightly above average analyst estimates.

The rather muted market reaction to the results of the world’s largest company by market capitalization came after the broader tech sector has had two years of solid returns driven by the growth story of artificial intelligence (AI). With the Nasdaq near record highs, we believe volatility in the sector is likely to increase as near-term risks loom, including US export controls, US tariff policy under President-elect Donald Trump’s second term, and the transition to a new generation of AI chips toward the end of 2025.

But we maintain our confidence and positive outlook on the technology and expect earnings for our preferred AI companies to increase 25% in 2025 compared with the broader tech sector’s 18% growth.

NVIDIA’s forward guidance points to strong demand for AI chips. While the chipmaker's revenue guidance for the January 2025 quarter may have disappointed the loftiest of expectations ahead of the results, CEO Jensen Huang continued to highlight strong demand from its customers. This is consistent with the strong spending commitments from Microsoft, Alphabet, Amazon, and Meta in recent quarters. We now expect the combined capex of these big tech companies to grow 50% to USD 222bn in 2024, and another 20% to USD 267bn in 2025. Assuming peak capex intensity (capex divided by sales) for each company, the combined capex could potentially reach USD 280bn. Their willingness to invest will likely continue to support strong growth in AI semis, especially in the segments of GPUs, custom chips, and high-bandwidth memory chips.

Trump's tariffs should have limited impact on AI's growth story. We expect new US tariff policies to be unveiled in the first 100 days of Trump's second term and likely take effect in the second half of 2025. Should the effective US tariff rate on Chinese imports be raised substantially and some universal tariffs be introduced on tech imports, the sector is not immune. Tariff and export control-related uncertainty could drive volatility—in 2018, tech stocks saw a roughly 25% correction from peak to trough amid trade worries. However, we think several tech segments may get tariff reliefs or exemptions, and the AI supply chain has the lowest dependency on China at around just 5%. Most of the chip manufacturing and final assembly is done globally, including some domestically in the US.

So, with solid fundamentals and a relatively manageable impact on the AI supply chain from potential tariffs, we believe the risk-reward remains favorable for the investment theme.

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Original report - **NVIDIA results support positive AI growth outlook, 22 November 2024.**