بنك الإمارات دبي الوطني
Emirates NBD

CIO Office Morning Notes

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It was a volatile week for equities, dominated by the AI theme and heightened expectations for Nvidia's earnings. Despite some good corporate news and decent economic datapoints markets closed lower in the five days through Friday with stocks taking a plunge on Thursday. The Nasdaq 100 sank almost 5% from its intraday peak, and Nvidia finished 3% lower for the day reversing an initial rally driven by solid earnings on the previous session. Lofty AI valuations and massive outlays for data centers stoked concerns about a possible AI bubble amongst investors. Uncertainty about a December rate cut emanating from the October FOMC minutes did not help either although influential NY Fed Governor Williams sparked a broad rally on Friday saying he sees room for lower interest rates "in the near term". Trader bets on a December cut swung back above 70% from lows between 30 and 40% during the week. Losses were broad across indices, led lower by technology stocks. The S&P 500 fell by 2%, the Nasdaq 100 by 3.1%, while US tech lost almost 5%. It was no utter capitulation either, as the equal-weighted S&P 500 and small caps both ended less than 1% lower. Bitcoin lost almost 6% with a drawdown of over 35% from the October highs to the week's lows that reached close to the 80,000 mark. Overseas markets underperformed with DMxUS and EM both dropping by at least 3.4%. Treasuries gained in a flight to quality and the yield on the 10-year note finished over 8bps lower at 4.06%. The US dollar rose 0.9%, while gold slipped.

AI chipmaker Nvidia, the largest stock by market cap in the S&P 500, reported record revenue on Wednesday after-hours beating both on top and bottom line growth and delivering guidance ahead of expectations. According to some analysts its valuation remains compelling with the potential for 40% earnings growth rates going forward and the company positioned to capture a significant share of AI infrastructure investments. While this should help minimise concerns about an AI bubble, much more must be factored in to reach that conclusion with some margin of comfort. Indeed, it is a good sign that despite massive capex commitments by the so-called hyperscalers their return on invested capital is still rising, and that their demand for funding is being met with ample supply. Very low vacancy rates for data centers point to high demand for compute, with most of them being preleased. Also, although IT megacaps are moving fast to the leverage part of the cycle, with the exception of Oracle their operational cash flows are still large enough to cover the bulk of their current stock of debt. Walmart, the world's biggest retailer, allayed concerns about consumer health by boosting its annual sales and profit outlook, winning over price-conscious buyers while absorbing rising costs. Shares rose 6.5% on Thursday. Home-improvement retailer Home Depot received a very different reaction to its results on Tuesday. It closed down 6% for the day as it cut its full-year sales guidance. Ely Lilly, the largest drugmaker in the world, was the first healthcare company to cross the $1tn threshold as it closed +1.6% on Friday.

K-shaped recovery remains an appropriate description for the current economic situation in the United States. Main Street has continued to trudge along, as indicated by low levels of consumer confidence, negative payroll changes as per early November ADP data, and rising unemployment as of the September official release published with a delay. Wall street on the other hand has been doing well. There was not much evidence from the advance business confidence release that the economy is suffering or that rates are very restrictive. The US PMI Composite printed 54.8, well in expansion territory. In Europe and Japan, the gap between manufacturing, in contraction, and services, that lifted the economy, continued. The composite PMI printed 52.4 in Europe, 52.0 in Japan. The UK was surprisingly weak, with business confidence just above the contraction threshold as sentiment was dented by the prospect for higher taxes. In Japan 3Q GDP was negative (-1.8%), providing new PM Takaichi with reason for additional fiscal stimulus and the slowing down of policy normalisation by the BOJ.

Markets this morning:

Markets rose in the Asian session on optimism over potential Federal Reserve interest-rate cuts and reports that US officials were holding early talks on whether to allow Nvidia to sell its H200 artificial intelligence chips to China. Futures on the S&P 500 advanced 0.4% and contracts for the Nasdaq 100 rose 0.6%. Shares in Hong Kong, Australia, and South Korea advanced, while mainland China was flat. Japan is closed for a holiday. Oil dropped after posting the largest weekly loss since early October with rising odds of a Russia-Ukraine peace deal pushed by Washington. President Trump's proposed Nov. 27 deadline to secure Ukraine's support for the peace plan could drift into the following week, as mentioned by Secretary of State Marco Rubio.

Upcoming key events/data:

The US shopping holiday season starts with Black Friday. UK's high-stakes budget to be delivered by Chancellor Reeves on Wednesday. Tuesday: US consumer confidence. Thursday: China industrial profits. Key earnings: Alibaba Group, Dell Technologies.

Have a good day!

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