IA mania ? No only..

The tip of the iceberg is AI, led by Nvidia with its market capitalization having risen from $280 billion in October 2022 to $1'970 billion today - outstripping Amazon and Alphabet with their 1'800 billion, but still behind Microsoft ($3'050 billion) and Apple ($2'820 billion) - its strong quarterly revenue growth (+230% over the last 2 quarters and the next) and its profits multiplied by 8. The results exceeded estimates.

Forecasts for the next two years remain very strong, thanks to generative AI, demand from all business sectors, and the Nvidia Hopper architecture, a major technological breakthrough in accelerated computing, multiplying the workload on each data center, enterprise applications and supercomputers. EPS for fiscal year 2023-2024 is $12.4, with estimates of $24 and $30 for the next two years. This increase in profits , barring any black swan event (geopolitical, war etc.) should take the share price even higher.

The Magnificent 7 represent 30% of the S&P 500, a far cry from the historical average of 20% for the top seven market capitalizations. For the past two weeks, we've been feeling a whiff of the Internet bubble of 2000, because the general craze resembles it. But only a little, because the fundamentals are much stronger. Others are also tempted to draw comparisons with other exceptional periods that ended badly, such as the crash of 1929 or the gold rush to California in 1849 (until 1856) - the 49ers - where the population grew from 800 in 1848 to 100,000 by the end of 1849. But according to many experts, generative AI will bring productivity gains the likes of which have never been seen before. The market capitalization of the Magnificent 7 would be the world's 2nd largest stock market, double that of Japan and equivalent to France, Saudi Arabia and the UK combined. Deutsche Bank underlines the risk of such concentration, comparing it with 1929 and 2000.

Large-cap technology companies are driving the global stock markets as a whole. The US accounts for 70% of the MSCI World, the highest percentage since the index was created in 1986. Microsoft, Apple, Nvidia, Amazon and Meta account for 20% of the MSCI World. In the late 1980s, Japan accounted for 40% of the global index, and in the early 2000s, Europe accounted for over 30%. Today, the lack of regional diversification and dependence on a few specific companies increases risk. This degree of concentration has often coincided with market tops, but stock markets tend to rise during periods of concentration. So the risk is in anticipating the top too early. Beware of FOMO.

The submerged part of the iceberg, around 80%-90% of the mass, is the "war economy" due to a new global geopolitical situation and climate disruption: deglobalization, reindustrialization of Western countries - an economy of rearmament according to the French government - and a sharp acceleration in spending on defense and the energy transition. Despite rising interest rates and inflation, the strong resilience of corporate profits is explained by strict cost management and a shift in supply chains from just-in-time to just-in-case.

In 2024, the defense sector matched the performance of the Magnificent 7. The return of Japanese indices to the all-time highs of late 1989 and the clear outperformance of the Euro Stoxx versus the S&P 500 Equal Weighted show, in our view, that the rise in equities is broader than it appears. The anticipation of a more industrial economy in Western countries should also benefit South Korea, which is seeking to reduce the undervaluation of its stock market by introducing measures equivalent to those taken in Japan last year, particularly in the governance of the incestuous relations between the major shareholding families, the chaebols, and the government.

In conclusion, while in the medium-to-long term, fundamentals and statistics support a sustainable bull market, in the short term, technical analysis is making some investors nervous. But we're counting on a sector/regional rotation, which will result in consolidation rather than a sharp correction. Leaders will continue to be AI, industrial capital goods and defense. Technical analysis of the S&P 500 uptrend channel shows a target of 5,230 before consolidation.

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