

## Thematic Innovation Fund

# MONTHLY COMMENTARY

May 2023



## Concerns over high inflation, a potential recession and the U.S regional bank crisis persist

### Focus on the U.S debt ceiling

Earlier in the year, discussions centred on the potential impact of a U.S. regional bank meltdown on the economy, credit conditions and earnings of exposed companies. Investors were also monitoring the impending cash disbursements from government programs, such as the Inflation Reduction Act, the Infrastructure Investment and Jobs Act, and the CHIPS Act. The intertwining narratives raised questions about how soon these programs will affect company earnings and whether they can offset credit tightening risks.

As concerns over high inflation, a potential recession in 2023 and the regional bank crisis persisted, the focus shifted to the U.S. debt ceiling negotiations in May. A bipartisan agreement was reached, avoiding the risk of government default.

### Nvidia and AI evolution

In late May, Nvidia briefly entered the trillion-dollar market capitalization club, joining esteemed peers such as Apple, Meta, Amazon and Microsoft. This remarkable surge in valuation, with Nvidia's value increasing nearly 200% since October 2022, can be attributed to revenue projections surpassing analyst estimates by more than 50%. This unexpected growth stems primarily from the company's data centre GPU products, which hold a significant market share for AI workloads.

As AI adoption accelerates, data centres are going through a transformative period, with some CPU architectures being replaced by GPUs. This rapid uptake has elevated the entire data centre ecosystem, including chip manufacturers and electric equipment providers.

We think this shift will yield robust earnings for exposed businesses, and our investment approach remains focused on identifying long-term winners with a competitive edge and a reasonable valuation.

### Performance Analysis

During May, our performance was boosted by overweight positions in the communication services and information technology sectors. Stock selection also contributed, mainly because of outstanding quarterly earnings from Uber Technologies and Datadog, both of which recorded robust growth and profitability.

Our exposure to semiconductors through investments in Advanced Micro Devices and Broadcom also proved beneficial; both companies experienced substantial rallies in the wake of Nvidia's exceptional quarterly results, which highlighted the potential impact of AI adoption on these companies.



## Maxime Houde, CFA

Associate Director and Associate Portfolio Manager,  
North American Equities and Thematic Investing

- Joined iAGAM in 2015
- Close to 10 years of investment experience
- Bachelor's degree in Finance, Université Laval

## We see opportunities in smid cap innovators

In the second half of the year, we expect further market fluctuations and plan to capitalize on opportunities to enhance our fund's risk-return profile.

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*"In the impending low-to-negative GDP growth climate, we think structural growth stocks will most likely be preferred."*

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A useful guideline is that investments in structural growth and the innovation economy are best made after the low point of a cycle when growth is scarce. Consequently, we expect themes such as AI hardware, secular industrials, energy transition and automation to remain relatively insulated from market deceleration.

We have identified potential in small-to-mid cap innovators and are adjusting our positions accordingly. U.S. small-to-mid cap stocks are trading at historically low valuations, ranking in the single-digit percentile.

Nvidia's earnings exemplify the early influence of rapidly adopted large language models such as ChatGPT. We view this development as the new tech cycle's iPhone moment, with significant implications for the technology ecosystem and the economy. As this technology advances and use cases emerge, we aim to invest in companies poised to benefit from the widespread adoption of these models, while steering clear of those at risk of falling behind.

## Key Takeaways

- NVIDIA's earnings exemplify the early influence of rapidly adopted AI technology.
  - The fund's performance was driven mainly by the communication and technology sectors.
  - We see opportunities in smid cap innovators.
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## About iAGAM

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