Nvidia and AI fuel market frenzy

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The stock market surge, powered by the US chip designer Nvidia, which has sent Wall Street and other markets, including Tokyo, to new record highs, expresses some of the essential contradictions of the capitalist profit system.

There is no question that artificial intelligence (AI), for which Nvidia is the main supplier of computer chips with about 80 percent of the market, is a powerful development of the productive forces, laying the foundation for major economic advances.

But at the same time, the market frenzy it has set off underscores the central role which unproductive speculation and parasitism now plays as a driving force of profit and wealth accumulation. The tens, even hundreds, of billions of dollars being raked in by hedge funds, speculators and corporate CEOs on the rise of its share price do not contain an atom of real value. They have only added another storey to the house of cards which is the global financial system.

Nvidia started in 1993 as a chipmaker for computer video games producing graphic producing units (GPUs) to run them. As the *Financial Times* reported: “Two years ago, Nvidia made most of its money selling graphics cards. It was a household name only to the most dedicated PC gamers.”

But it was discovered that its GPUs, which functioned somewhat differently from other chips, enabling more rapid multiple calculations, had applications which were necessary for the development of AI.

Its big break came at the end of 2022 when OpenAI made its ChatGPT tool publicly available, and it became clear the enormous potential which AI had across the board.

This led to a flood of investment in OpenAI because of the capacity of ChatGPT to generate human-like language and to provide answers to a range of questions.

The major high-tech companies moved into the development of AI and became big buyers of Nvidia’s chips while at the same time seeking to develop their own.

Last year saw a spectacular rise in the sales, profit and share price of Nvidia, capped off by the announcement of its results for the fourth quarter released last Wednesday.

It posted $22.1 billion in revenue, well above forecasts by analysts of $20.4 billion, with net profit coming in at $12.29 billion, compared to $1.49 billion a year earlier. It forecast sales of around $24 billion for the current quarter declaring the demand was not the issue but the ability of the company to meet it.

The profit and revenue results were released after the market had closed for the day, with Nvidia shares falling 2.9 percent in regular trading. But in after-hours trading the stock price surged by 10 percent to hit $741 withing 30 minutes of its results being released. This was a surge of $250 billion market value in less than a hour after the company’s shares had already tripled in price over the past 12 months.

There have even been projections that its shares could go to $1,300 which would transform Nvidia into a $3 trillion company. It is already surged past a market valuation of $2 trillion and is now the world’s third most valuable company after Apple and Microsoft.

In the wake of the Nvidia result, European markets rose with the Stoxx Europe 600 index reaching a record high. Japan’s Nikkei 225 index also hit a record eclipsing the level it reached 34 years ago before the share market and real estate bubble collapsed in the early 1990s.

The rise in Nvidia shares has been responsible for a quarter of the rise in the benchmark S&P 500 index in the year to date. So great has been its influence that some market analysts claimed that the release of its revenue and profit figures was a more important event than the release of inflation data.

In the event, Wall Street ignored the release of minutes from the meeting of the Federal Reserve which showed that members of its policymaking body were cautious on a round of interest rate cuts on which it has been banking.

As is always the case when what is regarded as the “next big thing” arrives there were plenty of boosters on hand with Nvidia founder and chief executive Jensen Huang occupying first place.

"Accelerated computing and generative AI have hit the tipping point. Demand is surging worldwide across companies, industries and nations," he said.

In a call with investors, he said Nvidia had enabled "a whole new computing paradigm called generative AI." Nvidia's chips were "essentially AI-generation factories" of the new industrial revolution.

The trading desk at Goldman Sachs chimed in calling the company "the most important stock on planet earth."

Last week Huang's personal wealth jumped by $9.6 billion in a single day. As recently as last year Nvidia's market value was $13.5 billion, Now it is over $2 trillion.

Soaring Nvidia shares have boosted the wealth of the 30 billionaires who appear on Bloomberg's wealth list and attribute some of their wealth to AI by a combined total of $42.8 billion.

Two small companies connected to Nvidia, Nano-X Imaging and SoundHound AI also jumped after Nvidia detailed its connection with them. Nano-X shares doubled while those of SoundHound AI increased by 69 percent. Someone was either "in the know" or made an educated guess.

Large amounts of money were made following a massive increase in short-term call options on Nano-X that would only pay if there was a sharp rally. And there was, with the result that a contracted trade that sold for just $0.04 on Monday rose by almost 16,000 percent.

Hedge funds have been among the major beneficiaries. Arrow Street Capital, according to the FT, bought almost four million Nvidia shares in the fourth quarter of last year, lifting the value of its holdings to $2.1 billion and stood to make a profit of $1 billion so far this year.

The Bridgewater hedge fund stood to make $65 million so far this year after quadrupling its holdings of Nvidia stock and the gains on the stocks held by the hedge fund Renaissance Technologies are likely to come in at more than $375 million.

Amid the hype surrounding AI and Nvidia, recalling that of the dotcom bubble at the beginning of this century, some cautionary notes are being sounded.

FT columnist John Thornhill commented that it could well be the case that "investors are getting way ahead of themselves in their enthusiasm for AI-related hardware companies. … There is overcapacity in several segments of the notoriously cyclical semiconductor industry. There is geopolitical risk associated with China, one of the world's biggest chip markets, which is being squeezed by US export restrictions. A salutary market correction is probably heading our way."

Thornhill referred to an article by fellow FT journalist June Yoon in which she recalled the telecoms bust at the beginning of the 2000.

"The biggest risk of throwing too much cash, too fast, at AI chips is overcapacity," she wrote. "That is already a problem for older-generation chips. With the current sector downturn lasting longer than expected, Samsung had to slash production last year to deal with a deepening chip glut."

She concluded that broader adoption of AI may take time, "longer than today's stock prices and funding expectations suggest" and that "hype and overinvestment are a dangerous combination."

For all the billions being generated on the stock market, none of this represents real value. AI certainly contains the prospect of real advances. But it is being developed in the world of deepening recessionary trends where the only "growth" areas are financial speculation and military budgets.

Under these conditions, the marker frenzy is not a sign of health but is rather creating the conditions for a crisis. The contradiction between the possibilities of AI and the feverish speculation it has produced, recalls the analysis of Marx that an era of social revolution is ushered in by the conflict between the growth of the productive forces and the social relations in which they are encased.