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PHILEQUITY CORNER

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Stocks plunge amidst biggest IPO

Last Thursday, Anthropic, the company behind the Claude AI models, made its long-awaited debut on the Nasdaq under the ticker ANT. It was the largest initial public offering (IPO) in history. On the same day, the Nasdaq Composite fell 2.3 percent, then plunged another 5.3 percent last Friday. The index lost about 10 percent for the week, recording its biggest weekly drop in more than six years.

Strong open, weak finish

Anthropic priced its shares at $83, above its original $70 to $78 range. It also increased the number of shares on offer to 980 million, raising a record $81.3 billion, plus a $26 billion private placement. ANT opened 34 percent above its IPO price, briefly valuing the company at nearly $2 trillion. But it slid throughout the day, closing with a 17 percent gain. Last Friday, it fell another 8.5 percent. ANT has given back most of its debut gains. It now trades at only 7 percent above its IPO price.

Blame the IPO or market?

Did the Anthropic IPO drag the market down? Or did it simply fail to lift it, as many had hoped? Was the market so weak that it pulled ANT down with it? What is clear is that the two moved down together and selling in the broader market picked up. The historic IPO that should have revived the AI trade became another occasion to sell.

Semis topped out in June

For us, the AI market peaked earlier than most realize. The iShares Semiconductor Sector Index Fund (SOXX) hit an all-time high of 218.65 on June 22. As of Friday, it had fallen to 123.40, a 44 percent drop from the peak. The smaller AI and chip stocks led the decline.

As funds moved out of the chipmakers, itsought shelter inmega caps like Microsoft, Apple, Amazon, Meta and Nvidia. That rotation fueled one last rally. The S&P 500 and Nasdaq Composite reached new all-time highs on October 6. But breadth told a different story. Most stocks did not join the October rally to new highs. The Dow never confirmed, staying 5 percent below its August 5 record. The October breakout proved false and a double top has formed.

Headwinds pile up

There were many reasons behind the decline. Valuations had become lofty after the April-June rally. Investors began questioning whether the massive spending on AI would earn an adequate return. MegaIPOs also drained liquidity, as investors sold existing tech holdings to make room for SpaceX in June and Anthropic last week. Inflation remains highly elevated and the Federal Reserve has turned hawkish. Longterm rates climbed as well with the 10-year US Treasury yield reaching levels last seen in 2007. The US war with Iran disrupted oil supplies and sent crude prices soaring. Even when oil prices began to ease, the damage was done. The market had already lost its momentum.

The blue wave

A massive blow to the market came after a Blue Wave swept the US midterm elections. With Democrats winning control of both the House and the Senate, investors feared tougher AI regulation and slower data center growth. On November 5, the Nasdaq Composite plunged 1,421.52 points, or 5.5 percent, its biggest single-day point loss on record.

The Jensen black swan

Then came the big shock. On November 12, Jensen Huang resigned as Nvidia CEO and left its board. He had admitted an affair with a woman whom US intelligence suspects of spying for China (see The rise and fall of Jensen Huang, November 16). Few could have imagined the man who built and led the AI boom being forced out of the company he co-founded 33 years ago. By the day he resigned, Nvidia was down 33 percent from its October 6 peak. By last Friday, it was down 48 percent, erasing nearly $3 trillion in market value. The worse-than-expected Blue Wave and Jensen black swan have left the market black and blue.

Nvidia's woes deepen

Nvidia's troubles did not end with Huang's exit. On November 17, it beat earnings estimates and raised guidance, projecting a fourth quarter revenue of $130 billion. But Nvidia's stock and the market kept falling. Interim CEO Colette Kress disclosed that the company has stopped shipping licensed chips to China and will be "disciplined and selective" in financing its customers.

The investigations are also piling up. Both the Senate and the House have called Huang to testify, while California's attorney general has subpoenaed Nvidia. Then came reports that the US Securities and Exchange Commission (SEC) is examining potential accounting issues at Nvidia. Authorities want to know whether Nvidia's advanced chips reached China in violation of US export rules, and whether the company misled investors. Last Friday, Nvidia plunged 14 percent to cap a 23 percent weekly loss, its worst since October 2008.

Bank of Nvidia

Nvidia acted as the "central bank of AI," investing in and guaranteeing the financing of its own customers. Critics call these circular investments. Nomura strategist Charlie McElligott noted that investors once saw Nvidia as a backstop for the AI ecosystem. Now they see it as a source of market risk.

From rotation to de-risking

The selloff is no longer just about tech. Two weeks ago, money was rotating into defensive sectors like consumer staples, utilities and healthcare (see Tech stocks crash as Blue wins, November 9). Last week, all 11 sectors of the S&P 500 fell. Investors are no longer switching sectors. They are cutting risk and fleeing to the safety of bonds and the US dollar, which hit a 19-month high. The pain spread to Asia. Taiwan's TAIEX capped its worst week since 1991, while South Korea's KOSPI has suffered its third-deepest drop since 2000, behind only the dotcom bust and the global financial crisis. The PSEi closed at 5,306.98 last Friday, its lowest close since March 2020.

When bubbles burst

With the Nasdaq, S&P 500 and the Dow all now below their 200-day moving averages and Jensen Huang gone, the odds have risen that the AI stock bubble has burst. But a bursting bubble is not the end of technology. When the dot-com bubble popped, hundreds of internet companies disappeared. Yet Amazon survived, and newcomers like Google, Facebook, and Netflix emerged from the wreckage. They went on to become some of the world's greatest companies. AI will produce its own winners and losers. The winners will be companies that turn AI into real profits. Anthropic, now a public company, will have to prove it belongs among them.



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