

Insight #1: Nvidia (NVDA) vs. Broadcom (AVGO) Earnings + Economic Dependency on Wealthy + Trump and his Tariffs

Justice Baoerjin and Austin Ku - BK Capital Management, LLC.

I. Weekly Highlight: Nvidia vs Broadcom Earnings Comparisons

A. Earnings and expectations

1. Short term

NVDA: Not enough

- Gross margin stings: Fall from high-70s to now low 70s (%).
 - Company claims Blackwell ramp costs factor in, and while they guide margins up 2H25, they ignore tariff scenarios.
 - Stock dipped back to flat immediately after the last analyst's question on tariffs, highlighting a major point of concern.
- Lack of backlog visibility: no comments or analyst questions were directed towards Blackwell backlog, even though it was a major talking point a quarter ago.
- Cost-effective solution: "performance per watt is anywhere from 2x to 4x to 8x, which...translates directly to revenues... the throughput of our architecture being so incredibly fast is just incredibly valuable to all of the companies that are building these things for revenue generation reasons and capturing the fast ROI."
- The GPU Technology Conference (GTC) could pose a short term growth catalyst as the company announces new advances.

AVGO: Relief rally

- Strong gross margins: pricing power remains strong w/ margins near 80%, beating street and company guides upwards.
- Revenue drivers include ASIC semiconductor business and the fact that infrastructure software continues to grow and surpass expectations.
 - Highlights VMWare's acquisition success in software portfolio.
- Anticipation building for 2H25 due to expected ramp.
 - Record high P/E multiple indicates investor expectations for upbeat AI revenues (*ASIC currently ~30% of total revenues).

2. Long term

- NVDA: fulfilling the need for compute through a unified architecture
- Upside could exist in an even larger TAM for general-purpose GPU.
 - Extremely bullish claim from Huang: "Next generation could have thousands of times...hundreds of thousands, millions of times more compute than today is in our future."

3. AVGO: Gap between ASIC and general GPU is closing
 - Long term SAM is growing at an unprecedented, exponential rate as the company guides \$60-90B by 2027, soaring past street expectations a few quarters ago. CAGR roughly 30%.
 - NVDA currently maintains competitiveness in TCO and performance due to maturity of their flexible ecosystem, but this is only because AI end-applications have not materialized.
 - Long term, TCO could benefit ASIC.
- B. Positioning
 1. Hyperscaler capex is not slowing
 - Demand and TAM will continue to grow
 2. Recommend a 60/40 split B/W Nvidia and Broadcom

II. WSJ Article Commentary: The U.S. Economy Depends More Than Ever on Rich People

- A. Top 50% of consumer spending in US is now accounted for by top 10% of earners (Moody's)
- B. Not only illuminates the degree of wealth inequality in the US, but also demonstrates the power of the rich driving the economy; they are saving more, yet commanding the current economy.
- C. In addition to controlling all assets, they also control the economy as a whole. This lead
 1. Introduces second order effects such as more social disruption/disagreement/distrust + economic instability.
 2. May cause more public scrutiny on government policies and create outsized ripples in the stock market if negative news appears.
- D. (The Economist weekly business section): "American consumer confidence fell sharply in February, in part because of expectations that inflation will rise over the coming months and increasing pessimism about the economy. The data suggest that Donald Trump's trade war and his imposition of tariffs on even friendly trading partners is starting to worry consumers."
- E. **Investment ideas:** Sectors in luxurious assets/goods (real estate, private healthcare) may benefit from this economy.

III. Side Note: Trump and His Tariffs

- A. Technological sovereignty as a long-term catalyst
 1. Trump's tariff onslaught creates potential for overregulation concerns
 2. May create added risk to semi sector outlook as this will only spur alienated countries to ally with Chinese companies and develop their AI chips
 3. NVIDIA publicly condemned Biden administration's "Framework for Artificial Intelligence Diffusion"
 4. But, Trump equates Economics performance with Stock Market performance, so we'll have to wait and see how the economy reacts from Q2-Q3.

