WHAT LEADERSHIP CHANGES AT NVIDIA MEAN FOR AI TRENDS

Recent events at Nvidia have raised questions about AI trends. What do investors need to know about corporate governance and circular deals in order to maintain a long-term perspective?

Tech and AI-related stocks have been volatile since the Nasdaq's all-time high in early October. The midterm election first raised questions about the pace of data center construction. Now investors are digesting news about Jensen Huang, the co-founder who has led Nvidia since 1993, including leadership changes, espionage tied to the U.S.-China AI race, and how Nvidia will navigate the period ahead. Given Nvidia's central role supplying AI chips, the story has captured investor attention.

For long-term investors, the key is how stock-specific events affect broader market risks and opportunities. These events highlight often-overlooked topics like corporate governance, succession planning, and transparency, which matter as much as performance and valuations. Corporate governance, the rules and oversight that direct a company and hold it accountable, matters even more when one company plays an outsized role in the market and economy. How can investors make sense of this with a long-term perspective?

Leadership changes can create short-term uncertainty

As the accompanying chart shows, tech stocks have pulled back since their October 6 peak. Such declines are not unusual, even in strong long-term cycles, because tech valuations depend on growth expectations that can shift quickly with sentiment and interest rates. When a long-serving leader departs unexpectedly, investors may have to reassess everything from strategy to execution, creating uncertainty even when fundamentals remain strong.

Stock Market Cycles

NASDAQ Composite since 1995



Sources: Clearnomics, Nasdaq. Latest data point is November 18, 2026.

The Magnificent 7 accounts for over one-third of the S&P 500, so swings in a small group of stocks can affect the overall index. Nvidia also sits at the center of the AI supply chain, so its news can ripple through chipmakers, cloud providers, and beyond.

Founder and CEO questions are not new. In 1985, Apple's board had not set clear boundaries between co-founder Steve Jobs and CEO John Sculley, and the resulting conflict led to Jobs' removal. Later, when Jobs faced health issues, Apple built a formal succession plan that moved Tim Cook into the CEO role in 2011. A more recent parallel comes from the AI industry itself: in 2023, OpenAI's board removed CEO Sam Altman, who returned four days later.

Governance standards for public companies have evolved significantly over the last century, often in response to crises that drove board independence and regulation. Whether or not they measurably affect performance, these rules exist to protect investors.

Circular deals have raised questions among investors

One investor concern is the rise of so-called “circular deals” in the AI industry, where Nvidia finances, invests in, or guarantees obligations for customers and partners, such as AI model developers and cloud providers, that in turn buy its chips.

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Whether it is truly circular depends on the customer's economic viability. A more traditional view is “vendor financing,” where a supplier helps customers pay for its products. This can help the industry scale, but if demand slows or was never there, risks can compound, since the same companies are both customers and investments.

Nvidia's most recent quarterly filing disclosed about $530 billion in off-balance sheet commitments and guarantees, up from $184 billion the prior quarter and far larger than the roughly $91 billion in debt and obligations on its balance sheet. Its investment portfolio has grown to about $128 billion, largely in illiquid private AI stakes.

Meanwhile, Nvidia generated about $127 billion in free cash flow over the past twelve months and holds about $22 billion in cash against $33 billion in total debt. Traditional leverage measures like debt-to-equity only capture the balance sheet, so both sides of the ledger matter. Leverage ratios remain reasonable by historical standards.

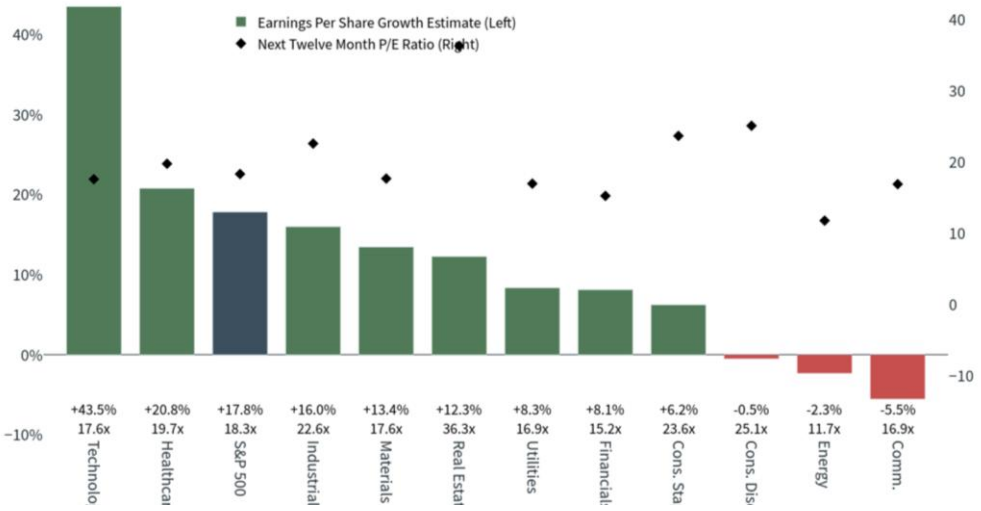
Today's compliance rules stem from past failures. Enron used special purpose vehicles to hide billions in debt and create the appearance of revenue. Its 2001 bankruptcy wiped out over $60 billion in shareholder value along with employee retirement savings. Congress responded with the Sarbanes-Oxley Act of 2002, which requires strict internal controls and public disclosure. Lehman Brothers similarly concealed billions in off-balance sheet debt before its 2008 bankruptcy. The key difference today is transparency: Nvidia discloses its commitments publicly, and disclosed risk, while real, is very different from hidden risk.

Valuations reflect high expectations

Data center buildouts and other AI developments have pushed earnings higher. Unlike the dot-com bubble, which created many loss-making companies at euphoric valuations, today's expansion is supported by earnings growth. Valuations remain elevated but have improved on many measures, as the accompanying chart shows. Enthusiasm is also visible in new offerings: Anthropic's initial public offering is expected to begin trading on November 19 and is reportedly about six times oversubscribed, reflecting strong demand and high industry expectations.

Sector Earnings and Valuations

Earnings Growth and P/E Ratios, Next 12-Month Estimates



Sources: Clearnomics, LSEG, Standard & Poor's.

Valuations are not a timing tool, but they matter for a portfolio's asset mix. AI may well be transformational, but portfolios should not depend on any single company, theme, or leader, which is why balance across sectors, styles, and asset classes matters.

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