

THE AI BOOM PASSED THE EARNINGS TEST. NOW COMES THE RATE TEST.

Nvidia confirmed extraordinary demand. Inflation, yields and the labor market may now determine what investors are willing to pay for that growth.

The Market Has Changed the Question

CENTRAL THESIS

Nvidia's results strengthened the fundamental case for the AI infrastructure cycle. The next market test is different: whether persistent inflation and higher interest rates compress the price investors will pay for long-duration growth.

\$96.2B

NVIDIA Q2 REVENUE

Up 106% from one year earlier.

\$108B

Q3 REVENUE OUTLOOK

Company guidance, plus or minus 2%.

3.7%

JULY PCE INFLATION

Year over year; above the 3.6% estimate.

WHAT THE EVIDENCE SAYS

- AI demand remains exceptionally strong: data-center revenue reached \$89.0 billion, up 117% year over year.
- Profitability held firm: Nvidia reported GAAP and non-GAAP gross margins of 75.0%.
- The market rewarded the earnings signal on Thursday, but technology weakened Friday as yields rose and inflation concerns returned.
- Next week shifts the focus from corporate execution to macro evidence, culminating in the August employment report on Friday, September 4.
- The most important September question is not whether AI is growing. It is whether earnings can outpace a higher valuation hurdle.

WATSON CAPITAL TAKEAWAY

Fundamentals passed the first test. Valuation discipline, breadth and risk control will determine who benefits from the next phase.

Sources: NVIDIA Investor Relations; Reuters, Aug. 26-28, 2026; BLS release calendar.

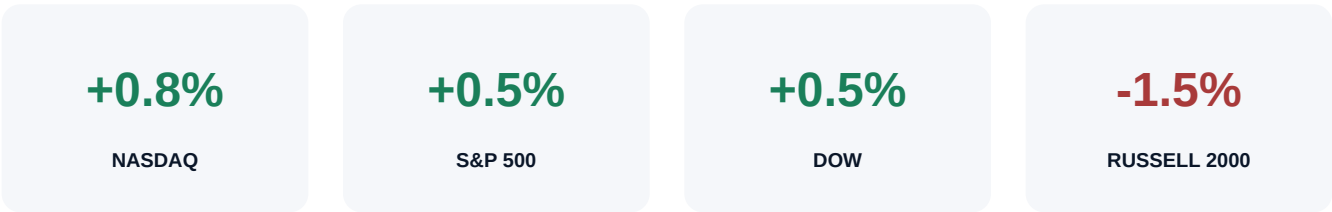
AI Passed the Demand Test

Nvidia did more than exceed expectations. Its results showed that the infrastructure buildout is still accelerating at a scale capable of influencing semiconductors, data centers, power demand and the broader equity market.

NVIDIA FISCAL Q2 2027 SNAPSHOT



THE MARKET WEEK



INTERPRETATION

The major indexes finished the week higher, but the Russell 2000 lagged sharply. That divergence matters. A durable bull market generally benefits from wider participation; narrow strength can leave index performance increasingly dependent on a small group of companies.

WHAT CHANGED AFTER EARNINGS

Before the report, investors needed confirmation that AI spending remained intact. After the report, the burden moves to valuation, monetization and market breadth.

Sources: NVIDIA Investor Relations, Aug. 26, 2026; Associated Press market recap, Aug. 28, 2026.

Now Comes the Rate Test

Powerful earnings do not eliminate valuation risk. When inflation stays elevated and Treasury yields rise, future cash flows are discounted more heavily. The strongest businesses can continue growing while their valuation multiples contract.

TWO FORCES NOW PULLING ON TECHNOLOGY

FUNDAMENTALS

AI demand, revenue growth, margins and forward guidance remain constructive.

DISCOUNT RATE

Inflation, bond yields and possible policy tightening raise the required return.

THE WEEK AHEAD

TUE SEP. 1 **Manufacturing PMI and ISM manufacturing**

WED SEP. 2 **ADP employment and additional labor-market evidence**

THU SEP. 3 **Services activity and weekly jobless claims**

FRI SEP. 4 **August Employment Situation at 8:30 a.m. ET**

THREE TRANSMISSION CHANNELS

- Yields: higher rates can compress long-duration equity multiples.
- Breadth: small-cap weakness can expose fragile participation beneath index gains.
- Expectations: strong earnings may already be embedded in prices, increasing sensitivity to macro surprises.

Sources: Reuters, Aug. 26-28, 2026; U.S. Bureau of Labor Statistics; MarketWatch economic calendar.

The September Playbook

SCENARIO FRAMEWORK

BULL	BASE	BEAR
SIGNAL Cooling inflation and balanced employment data stabilize yields.	SIGNAL Growth holds, inflation stays firm and rates remain elevated.	SIGNAL Hot labor or inflation data revive tightening expectations.
MARKET READ AI leadership broadens and cyclical participation improves.	MARKET READ Earnings matter, but returns become more selective.	MARKET READ Multiple compression outweighs near-term earnings strength.

WATSON CAPITAL RISK MONITOR

01 VALUATION

Strong fundamentals do not guarantee attractive forward returns.

02 BREADTH

Leadership concentrated in a few names increases index sensitivity.

03 INFLATION

Persistent price pressure can keep policy and yields restrictive.

04 CAPEX RETURNS

AI spending must increasingly demonstrate utilization and cash returns.

WATSON CAPITAL VIEW

The AI cycle remains intact. September should reward evidence, balance-sheet strength and valuation discipline more than indiscriminate exposure.

SELECTED SOURCES

NVIDIA, "Financial Results for Second Quarter Fiscal 2027" (Aug. 26); Reuters, U.S. market coverage (Aug. 26-28); Associated Press, "How major U.S. stock indexes fared Friday" (Aug. 28); U.S. Bureau of Labor Statistics, CES release calendar.

IMPORTANT INFORMATION

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