The Jensen effect



Image source: AI generated

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Eleven days after resigning, Jensen Huang has been reinstated as CEO of NVIDIA. The return closes the leadership vacuum, and the market cheered. But it also shows how much the company depends on one person, how quickly its board changed its mind, and how closely its fate is now tied to Washington. Monday's announcement settles the leadership question. It does not settle the governance and political ones.

What happened:

- **The reversal:** on Monday 23 November, NVIDIA's board voted unanimously to reinstate Jensen Huang as President, CEO and board member, effective immediately. The board said it was satisfied with his candour and ability to lead, and that, based on input from senior levels of the US government, it is confident his return poses no national security risk.
- **Six days earlier, the opposite message:** in the Q3 earnings call on 17 November, Chair Harvey Jones said the board had unanimously accepted Huang's resignation and did not intend to reinstate him.
- **Who does what now:** Colette Kress returns to her role as CFO and Harvey Jones remains Chair.
- **New safeguards:** the board created a National Security and Export Control Committee made up only of independent directors and is hiring a Chief Compliance Officer reporting to the Nominating and Corporate Governance Committee.
- **What is still unresolved**: the board's independent investigation into reports that Huang was the target of a foreign intelligence effort is still running, as is the SEC review of NVIDIA's disclosures and accounting reported by the press last week.
- **The market reaction:** the shares closed at USD 165.05 on Monday, up 31.48% in a single session, following a 23% fall last week, their worst weekly performance since October 2008, and a 47.5% decline from their 6 October record high to the 20 November close.

Four concepts to understand this news

1. Key-man risk: the market just put a price on it

Key-man risk is the notion that a company's value depends heavily on one individual, so that losing that person damages the business or its valuation. Analysts usually treat it as a qualitative concern, hard to measure.

NVIDIA has given us a rare live measurement. Huang co-founded the company, ran it for 33 years, set its strategy, owned its key customer relationships and was its voice in Washington. When he left, the stock lost almost a quarter of its value in a week, although revenue had just grown 103%. When he came back, a large part of that loss was recovered in a single session.

The lesson is that key-man risk does not disappear when the key man returns. If anything, it is reinforced. The board's search for a permanent successor lasted eleven days and no succession plan has been made public. The dependence on one person is now higher than before, not lower.

2. Governance credibility: why a board's consistency matters

A board of directors exists to oversee management independently. Its most important responsibility is appointing and, when necessary, replacing the CEO. Investors trust a board when its decisions follow a clear process and remain consistent, rather than shifting in response to outside pressure.

Within eleven days, NVIDIA's board accepted the CEO's resignation, ruled out his return, then reinstated him, while its own independent investigation into the circumstances of his departure has not yet concluded. The new committees and the compliance hire are sound steps, and they strengthen the oversight structure on paper. But credibility is built over time, and these events will cause investors to question how much weight the board's next statement will carry.

3. Politics: supportive for AI, but scrutiny remains

Politics has always been part of the AI trade. Winning the AI race is a bipartisan priority in the US, and public policy supports the build-out through data centres, fiscal measures and, indirectly, monetary policy. For the AI cycle, this remains a tailwind. What is new is how directly politics now reaches into a single company's governance. It is very unusual for a listed company to state that input from senior government officials informed the reinstatement of its CEO. President Trump said he had personally spoken with NVIDIA's board and convinced it to reinstate Huang. He also stated that Attorney General Todd Blanche had confirmed that the US government held no evidence of unlawful conduct by Huang. However, bipartisan support for winning the AI race does not translate into consensus over Huang's return. Several Democratic lawmakers, alongside some Republicans, have raised national security concerns and called for further scrutiny. With Democrats taking control of Congress in January, political pressure to pursue these investigations will continue.

This backing confirms how much Washington values its AI champions. But political support does not end regulatory scrutiny. The Commerce and Justice Departments have confirmed a criminal investigation into Megaspeed, the Singapore-based NVIDIA customer at the centre of the case, which was added to the US export blacklist on Monday. Until these are resolved, or the company discloses more, they are likely to weigh on the stock. Such overhangs cannot be captured in earnings models. They show up instead in the valuation multiple investors are willing to pay: NVIDIA traded at about 12x forward earnings on 11 November, the day before Huang's resignation. The multiple fell to 8.2x at the low, while earnings expectations kept rising, and is back to about 11x after Monday's rebound. The gap that remains is what the market still charges for governance and regulatory uncertainty.

4. Beyond NVIDIA: the case for a barbell

This is not only an NVIDIA story. On the way down, the shock spread to the whole AI trade: NVIDIA weighs about 7% of both the SOX and the Nasdaq 100, so index flows carried the move to the rest of the sector. Last week, MSCI World technology lost 12.1%. On Monday, the same names are rebounding together with NVIDIA.

When a board decision taken over a weekend can move an entire sector by double digits, in either direction, neither a concentrated bet nor a full exit is a comfortable stance. This is where a barbell exposure helps. The idea is to hold the two ends of a spectrum rather than the middle: on one side, the structural growth drivers such as AI; on the other, businesses with little sensitivity to them, such as defensive sectors. Last week illustrated it well: consumer staples lost 2.4% against 12.1% for technology, and the SMI lost 3.5% against 8.6% for the S&P 500. Monday's rebound validates the other end of the barbell.

What has not changed:

- **Demand is strong:** Q3 FY2027 revenue grew 103% year on year and beat consensus by 6.1% and EPS by 8.5%, with Q4 guidance about 4% above expectations, at roughly USD 130bn and with no China data-centre revenue assumed.
- **Cash generation is unique, but it takes longer to collect:** Q3 free cash flow reached USD 43.8bn, a level very few companies can match. It still came in 23% below expectations, partly because customers are taking longer to pay: receivables, meaning sales already booked but not yet collected in cash, rose from USD 63bn to USD 81bn in one quarter. Two customers account for roughly 35% of them and guarantees reached USD 118bn. NVIDIA also helps finance some of its own customers, which makes it harder to judge how much of its demand sustains itself. Huang's return does not answer any of these questions.
- **The technical picture is not repaired yet:** last week the stock broke its key support at USD 164 and moved below its major moving averages. Monday's rebound brought the shares back above that level, closing at USD 165.05. This marks a first sign of recovery, although a sustained move above USD 164 would be needed to confirm it.

Our view

We welcome the improvement in market sentiment. Our reading of the Q3 results has not changed: strong demand and unique free cash flow generation, somewhat blurred by longer delays in collecting it.

Jensen Huang's return removes the most immediate uncertainty: the absence of a permanent leader at a critical stage of the AI cycle. It does not remove the others.

The governance questions behind his departure stay open until the independent investigation concludes. The US government's role in the company's leadership is now explicit, which is supportive for the AI cycle. It does not, however, end the regulatory scrutiny: the DOJ and SEC investigations reported in the press remain open, and a 30% move in one session on a leadership headline shows how far non-fundamental factors now drive the share price.

The structural case for AI investment remains intact, with NVIDIA among its main beneficiaries. However, Washington's backing for Huang does not eliminate regulatory scrutiny. The reported DOJ and SEC investigations, alongside the newly highlighted key man risk, could continue to weigh on the stock's valuation multiple.

What we will be watching:

- The conclusions of the board's independent investigation;
- Clarity on the reported DOJ and SEC investigations;
- Jensen Huang's closed-door hearings before House committees on the national security questions;
- A formal succession plan and evidence that the new committees work in practice;
- A sustained technical recovery above USD 164.

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