# Mizuho Brief: AI

**Economics & Strategy | Asia ex-Japan**

**23 November 2026 |**
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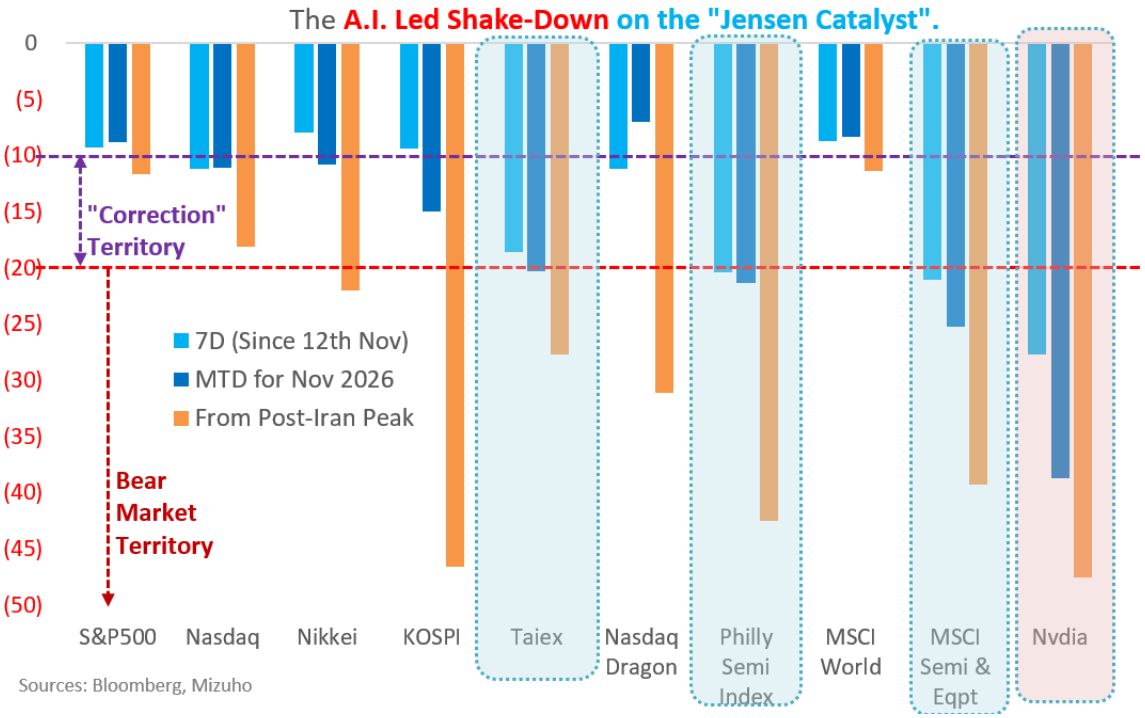
## Letting the Chips Fall

*"The things you own end up owning you."* – **Fight Club**

In a Nutshell:

- **Since the Jensen-Nvidia fiasco** broke, the **A.I. sector more broadly and chips have been in a tailspin**, by and large submerged in bear market territory – across various semiconductor and related indices.
- Notably, the **Taiwanese bouse has slumped emphatically**, reflecting **outsized, upstream impact on TSMC from Nvidia** (dominating Taiex) and Jensen's personally relations with TSMC.
- But *arguably,* **what's most worrying is the centrality of Nvidia in the "circular financing" within the wider A.I. eco-system**.
- Point being, ***without the "Bank of Jensen"*** there is a **non-negligible risk that cashflow crunch can hit valuations hard and fast**.
- What's more, the **resultant cashflow/funding gaps** may **send borrowing costs higher** across capital markets.
- Ironically, the **A.I. boom**, *with Nvidia at its epicenter,* **that had owned the bull market may get owned by further bearish shake-down**.
- Especially as the **deceleration in activity/cashflows may not** be sufficiently soon or emphatic to **deter a hawkish Fed**.




- "*Let the chips fall where they may*" takes on new meaning with the Jensen Huang fiasco that broke in November, sharpening with his effective ouster from Nvidia (12th Nov).
- The **S&P500 is nursing >9% dent after seven consecutive sessions of losses**, with the **Nasdaq down >11%** for the same period.
- And **nowhere is the hurt as acute as it is with the chips sector**.

- The *Philadelphia (Philly) Semiconductor index has slumped >20%* to enter proper bear market territory*.
- As is the case with the *MSCI ACWI Semiconductor & Semiconductor Equipment index* that *has tumbled 21%.*
- The **TSMC-dominated Taiex is deep in correction** (-18.6%) **over these 7 sessions** and properly in **bear market** territory (falling >20%) **for November**.
- The latter not only **reflects outsized upstream worries** (to TSMC foundries) **from Nvidia "AI indigestion"** but also **frets tight, personal Nvidia-TSMC ties/contracts that had hinged on Jensen Huang**.
- Arguably though, it is the **centrality of Nvidia in the "circular financing"** within the A.I. eco-system – *rather than as the key provider of "A.I. compute engines"* – that may be **triggering deeper spasms**.
- ***Without the* exceedingly generous financing** of the ***"Bank of Jensen"***, with an imaginably **more conservative CFO as interim CEO**, the **wider A.I ecosystem** (hyper-scalers, neo-cloud firms and data centers) **may find cashflows crimped**.
- The tail risk is involved here is an adverse cashflow-valuation spiral, which is **the anti-thesis of "multiplier effects"**.
- And if so, **bear market ripples** will likely translate into **a deceleration of growth alongside a tightening in cashflows**.
- But ***not fast or emphatically enough to deter the Fed from its hawkish posture*** for the next few months out.
- What's more, the **reflex to cover funding gaps** *from the wider impact of Nvidia*** could **inadvertently drive yields/rates higher** amid *compensatory supply* and *credit risk re-pricing.*
- Ironically, the **A.I. boom**, *with Nvidia at its epicenter*, **that had owned the bull market may get owned by further bearish shake-down**.

* On a stricter definition – based on the travel from recent peak, the bear market correction is far more prevalent, affecting Nikkei, Taiex, KOSPI, and with the Nasdaq <2% off a bear market.

** Includes not just the financing backstop/guarantees to buys Nvidia chips, but also hampered data center /neo cloud construction due to tighter Us chip regulations that delays revenue streams.

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