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The Mag Seven

Big Earnings, Bigger Capex

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For investors, the AI spending boom is becoming more of a portfolio question, not just a technology story. The Magnificent Seven are driving much of the market's earnings growth and they are also committing extraordinary amounts of capital to infrastructure, changing the cash flow, financing, and return profiles investors have grown accustomed to. As that shift accelerates, the question is increasingly not whether AI will matter, but how much capital companies will need to deploy to capture its value and whether the returns will justify the investment.

That tension is becoming more visible as investors assess a remarkably strong earnings environment. The S&P 500 Index is on track for the fastest pace of earnings growth since 2021.[1] And while this earnings growth is widespread with eight out of eleven sectors delivering double digit earnings growth and ten out of eleven beating estimates,[2] all eyes have been on the Magnificent Seven stocks whose massive scale and exposure to all things AI have prompted concerns about a looming bubble. For equity investors in particular, the AI infrastructure boom has transformed their perception of the Magnificent Seven from money printing, low capital expenditure companies into companies racing to invest in physical infrastructure projects that threaten to consume nearly all of their future free cash flows.[3] Earnings have been strong, but current and planned capital expenditures have started eroding cash and demanding more debt issuance.[4] In late July and early August, Alphabet (Google), Microsoft, Amazon, and Meta all reported better than expected earnings. But while Microsoft and Amazon shares rose sharply, Meta and Alphabet shares sank.[5]

For Microsoft and Amazon, investors appeared willing to look through the scale of planned capital spending because growth in their cloud businesses continued to reinforce the case for that investment. Microsoft was a clear winner with a one-day gain of 15%. Its revenue increased 18% year over year to $90 billion, and its Azure/Intelligent cloud business grew 32% year over year.[6] Microsoft's cloud business has for the moment appeared to benefit the most from the AI boom with new data center leases up $130 billion in the second quarter. And while the company continues its capex investment pace of approximately $175 billion for 2026, part of its investment activities may give the company further upside in the near term with a $3.2 billion stake in Anthropic.[7] Amazon benefited from a similar tailwind with its Amazon Web Services cloud business, which grew 37% year over year.[8] With demand for AI computing growing more quickly than AI computing capacity, investors discounted the $200 billion capex spend Amazon planned for 2026 and its shares rallied by 15%.[9]

But markets were not so kind to Google and Meta, despite them also delivering strong earnings.

Why is the market now pricing in different valuations for a group of mega-cap stocks that have appeared to move in lockstep for the past five years? Perhaps some might point to the difficulties of transforming companies that have been around for decades into AI growth companies. Perhaps markets lack confidence in the AI plans and vision communicated by the leadership of Google and Meta? But it is far more likely that many investors decided the sheer scale of capital investment currently underway may be too much for markets to ignore. And they are being selective about which companies they perceive are handling the capex cycle well and which are not.

Google's free cash flow turned negative for the first time despite revenues of $120 billion exceeding analyst expectations. The company increased its expected 2026 capex from $190 billion to over $205 billion, with the company spending $44.9 billion in the second quarter alone.[10] Google's balance sheet is now encumbered with long-term debt of around $100 billion. The company also issued new shares in the second quarter, adding $85 billion in new equity – a sharp reversal of share buybacks in previous years.[11] Alphabet's shares declined 7.0%.[12]

Meta's free cash flow was still positive but is falling rapidly, down 91% year over year as the company races to build out AI data centers like the joint venture formed with Blue Owl called Beignet worth $500 billion. Beignet is building a data center complex in Louisiana called Hyperion. Meta owns 20% of Beignet and has agreed to a 20-year lease of Hyperion computing. The lease commitment has not yet hit Meta's balance sheet as GAAP accounting rules demand only current and active lease commitments, not future commitments.[13] Markets may well be more likely

to price these sorts of off-balance sheet investments with a skeptical eye. Meta shares fell approximately 8 percent.[14]

Have markets shifted from AI bullishness to a more disciplined approach of valuing AI-related stocks with greater caution? Perhaps, but the recent divergence on AI stocks could indicate more challenges ahead. Particularly for those legacy companies playing catch-up, the amount of leverage for the Magnificent Seven companies remains within healthy levels when compared to other sectors (see "hyperscalers" in Figure 1).

But the deals keep coming and the landscape that equity and credit investors are navigating is changing almost as fast as new frontier AI models are being released. Perhaps we will be revising 2027 capex expenditures even higher from the $1.4 trillion now estimated.[15]

The implications extend well beyond the relative performance of a handful of mega-cap stocks. The scale of AI investment is beginning to affect equity valuations, corporate borrowing, infrastructure demand, power markets, and capital allocation across asset classes. As spending continues, the more important question may be less about the size of the AI opportunity itself and more about which companies can convert that investment into durable cash flow and attractive returns on capital.

Figure 1
Gross and Net Leverage By Sector

Sector	Gross Leverage	Net Leverage	Cash/Debt	Median Rating
Communication Services	2.1x	0.8x	55%	BBB+
Consumer	2.4x	1.8x	23%	BBB
Energy	1.6x	1.2x	12%	BBB
Health Care	2.4x	1.8x	21%	BBB+
Information Technology	1.6x	0.8x	55%	BBB
Hyperscalers	1.3x	0.5x	128%	AA-
Materials	2.1x	2.0x	15%	BBB
Utilities	5.7x	5.6x	1%	BBB
Non-Financial Investment Grade Average	2.4x	1.8x	18%	BBB

Source: Financial Times, R. Wigglesworth, "Just How Big Is the Hidden Leverage of AI Hyperscalers?" August 10, 2026. Original analysis done by Morgan Stanley based on first quarter 2026.

For more on AI exposure and its implications across asset classes, market concentration and the case for deliberate exposure, or investing in data centers, visit Meketa.com/thought-leadership.

AI Exposure

https://meketa.com/wp-content/uploads/2026/05/MEKETA_AI-Exposure.pdf

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A Primer on Investing in Data Centers

https://meketa.com/wp-content/uploads/2026/02/MEKETA_Investing-in-Data-Centers.pdf

End Notes

1 Source: Financial Times, G. Meyer et al "Americans Biggest Companies Report 'Rock Solid' Profits as Consumers Face Higher Costs," August 8, 2026.

2 Source: Financial Times, G. Meyer et al "Americans Biggest Companies Report 'Rock Solid' Profits as Consumers Face Higher Costs," August 8, 2026.

3 Source: Bridgewater, G. Jensen et al., "Assessing the Risk of an AI Air Pocket," July 24, 2026.

4 Source: The Economist, "AI Revenues Are Growing Fast, But Not Fast Enough," July 28, 2026.

5 Apollo, T. Slok, "Monitoring the AI Trade: How Growing Debt Issuance Is Reshaping the Landscape," July 11, 2026.

6 Source: Financial Times, "Microsoft Adds Record $450 billion in Market Cap As Results Cheer Investors," July 29, 2026.

7 Source: Financial Times, "Amazon Increases AI Infrastructure Spending to $220 Billion this Year," July 30, 2026.

8 Source: Financial Times, "Amazon Increases AI Infrastructure Spending to $220 Billion this Year," July 30, 2026.

9 Source: Financial Times, "Amazon Increases AI Infrastructure Spending to $220 Billion this Year," July 30, 2026. Financial Times, G. Meyer, et al "Americans Biggest Companies Report 'Rock Solid' Profits as Consumers Face Higher Costs," August 8, 2026.

10 Source: Financial Times, "Google Burns Through $6 billion in Cash as AI Spending Climbs Again," July 23, 2026.

11 Source: Financial Times, "Google Burns Through $6 billion in Cash as AI Spending Climbs Again," July 23, 2026. Source: Financial Times, "Big Tech Credit Risks Rise Sharply as AI Spending Soars," July 27, 2026. Between 2015 and 2025, the company's share buyback program purchased approximately $348 billion worth of shares. The company bought no shares in Q1 2026, breaking a 33-quarter streak of share buybacks. Source: The Street, "Alphabet's Stock Buybacks: History & Investor Impact Explained," August 6, 2026.

12 Source: CNBC, "Alphabet Earnings Takeaways: Q2 Revenue Beats, GOOGL Stock Sinks on 2026 Capex Hike," July 22, 2026.

13 Source: Financial Times, R. Wigglesworth, "Just How Big Is the Hidden Leverage of AI Hyperscalers?" August 10, 2026.

14 Source: Financial Times, R. Wigglesworth, "Just How Big Is the Hidden Leverage of AI Hyperscalers?" August 10, 2026.

15 Source: Financial Times, R. Wigglesworth, "Just How Big Is the Hidden Leverage of AI Hyperscalers?" August 10, 2026. Original analysis done by Morgan Stanley based on first quarter 2026.

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