First to Market

July 8, 2026

WHAT TO MAKE OF META'S PLANS TO POTENTIALLY RENT ITS AI?

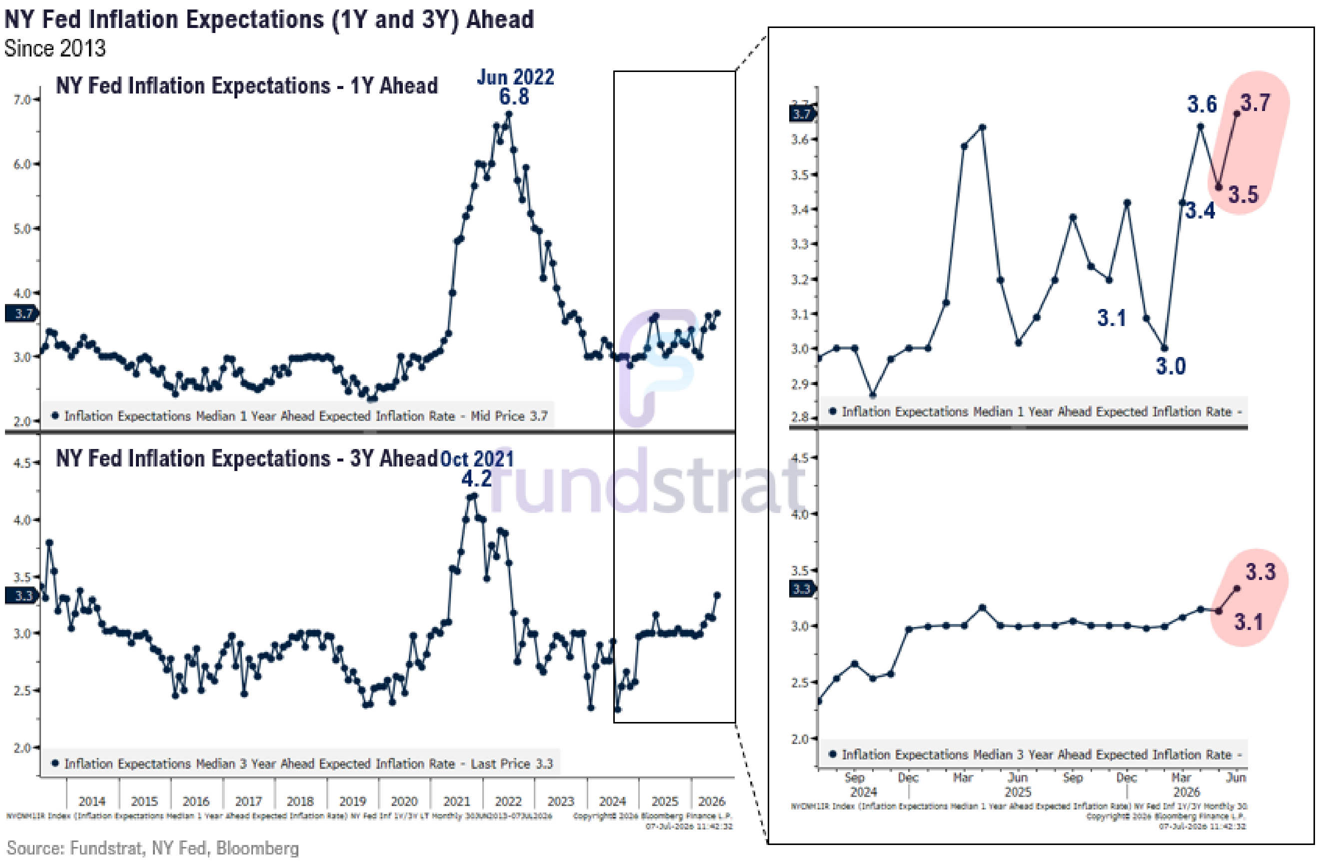
Hardika Singh

ECONOMIC STRATEGIST, MARKET INTELLIGENCE

"Doubt kills more dreams than failure ever will." – Suzy Kassem

Chart of the Day

NY FED: 1Y Inflation Expectation Higher



fundstrat

Good morning!

Meta is working on a plan for a cloud infrastructure business that will allow it to rent out its AI computing power and models.

Investors are widely interpreting it as a sign that Meta's throwing in the towel on AI. While that could definitely be true, this still might be the best outcome, because what other choice does Meta ($META) have?

Tech behemoths have spent so aggressively on AI in the past few years, arguing that slowing down to figure out how to monetize it would mean you might as well not participate in the AI race. This year alone, the Magnificent Seven stocks, excluding Tesla, are expected to spend $654 billion on capex. Meta is projected to be $132 billion of that. But at the same time, if Meta is indeed admitting that it has overbuilt, then renting out its AI access is a way to recoup some of the investments, which is better than the alternative of never making any of it back.

Depending on the strategy Meta ends up taking, it's also a chance for the company to expand into a space that has long been dominated by its competitors like Amazon's Web Services, Microsoft Azure and Google Cloud. They rake in billions of dollars every quarter in revenue because of those cloud businesses. Meta could also choose a simpler route and sell its excess computing infrastructure, or even an API service of sorts. And that's all a part of the moonshot goals that Chief Executive Mark Zuckerberg is known for.

Of course, there's bigger repercussions, as well. Since *Bloomberg* reported the Meta news on July 1, tech stocks like CoreWeave ($CRWV) and Oracle ($ORCL) have been hurt because the same concerns apply to them. In a way, the Meta news seems to have validated all the fears investors have had recently about overspending on AI.

Amazon on Tuesday further rationalized those fears. According to *CNBC's* exclusive reporting, it's planning to raise at least $25 billion via bonds to further fund its AI buildout, but the company also said it won't issue anymore debt this year.

The pause would be a stark contrast compared to the hot bond offerings made by tech titans within the past year, where they've realized that tapping into capital markets is better than dipping into their quickly depleting free cash flow. In Meta's case, this latest move is expected to result in a negative free cash flow for the first time ever as a public company, to the tune of $460 million in 2026. And that's when its market cap is $1.57 trillion.

While these are concerning signs, investors would do well to remember that this is not the first time that Meta has spent huge sums of money only for it to not pay off later. Chief Executive Mark Zuckerberg was hooked on the Metaverse and spent around $80 billion on it. Reality Labs, which works on products including the metaverse, still exists, but it represented just 1.2% of the company's total revenue in the latest quarter.

With Meta renting out its AI, at least it won't lose all of its investment.

Economic data summary: The U.S. trade balance — the difference between imports and exports — expanded to a $77.6 billion deficit in May 2026, hitting the highest level since March 2025. The May number was in line with the forecasted $78.4 billion. The value is up from the revised April deficit of $54.6 billion. Compared to April, May imports jumped $12.5 billion to $395.3 billion, as exports fell $10.5 billion to $317.7 billion, widening the rift.

Despite this month's setback, the gap has narrowed by $203.9 billion year-to-date, compared with the same period in 2025. This reversal was solely driven by a $23.6 billion increase in the goods deficit, as services noted a surplus increase of $0.6 billion.

Elevated oil prices and shipping costs tied to the U.S. Iran conflict contributed slightly, but the bulk of May's imported goods growth came from broadly consumer goods, automotive, and tech-related products. Due to the war and in anticipation of tariff escalation, many businesses tried to frontload and boost imports.

The decrease in exported goods can be mainly attributed to lower non-monetary gold and computer exports, both of which appear to be reverting after unusually strong activity earlier in the year. — *Mason Yuh*

Share your thoughts

What do you make of Meta's potential plans? Click here to send us your response.

✍Here's what a reader commented ✍

Q: What do you make of the small-cap outperformance?

A: The last time this happened was in 2021, and we all know what happened then. The stock market did poorly after that. NOT good!

Catch up with Fundstrat

In the near-term, we continue to be constructive and expect S&P 500 to reach 7,700 near-term, but the wall of worry continues to grow. The market reaction to Samsung results and the reports Amazon will not issue more debt after this recent sale raise concerns about AI visibility. But we see this largely as a ‘buy the dip’ moment

Technical

The US stock market looks capable of absorbing the rotation in Technology, as eight of the eleven major equal-weighted sector ETFs finished positive Tuesday despite the sharp pullback in Semiconductor and Memory names.

Crypto

Today’s price action was shaping up to be another encouraging session for crypto. Overnight weakness largely reflected a continuation of the selloff across technology, with memory, semiconductor, and data center names coming under renewed pressure.

News We're Following

Breaking News

- Trump Says Ceasefire With Iran Is Over After Latest Attacks WSJ

Markets and economy

- Oil Jumps After Trump Says Iran Ceasefire Is Over for Him WSJ
- Fed meeting minutes to show ‘family fight’ over rates. The squabble could drag on for a while CNBC

Business

- Anthropic’s Political Risks Are Real, but OpenAI’s Loom Even Larger WSJ
- Apple commits $30 billion to Broadcom for U.S. chipmaking push CNBC
- Walmart is hosting VIP tours for World Cup visitors CNN

- The price of Palantir's politics FT

Politics/U.S.

- Graham Platner Succession Crisis Lays Bare Democrats' Deep Divisions Ahead of Midterms WSJ
- Administration Demands States Change Voting Rules or Lose Antiterrorism Funds NYT

Overseas

- It was the world's hottest stock market. Now South Korea has entered bear territory. MW
- Work at Kushner-Linked Resort in Albania Could Affect Sensitive Landscape NYT

Of Interest

- Manhattan High-Rise Developer Says New Addition Caused Structural Problems WSJ

Overnight	
S&P Futures	-75 ▼ point(s) (-0.99% ▼)
overnight range:	-83 ▼ to +12 ▲ point(s)

APAC	
Nikkei	-2.11% ▼
Topix	-1.37% ▼
China SHCOMP	-0.49% ▼
Hang Seng	+2.99% ▲
Korea	-5.35% ▼
Singapore	+0.51% ▲
Australia	-0.21% ▼
India	-2.23% ▼
Taiwan	+0.56% ▲

Europe

Stoxx	50 -1.89% ▼
Stoxx	600 -1.66% ▼
FTSE	100 -1.43% ▼
DAX	-2.17% ▼
CAC	40 -2.00% ▼
Italy	-1.50% ▼
IBEX	-2.55% ▼

FX

Dollar Index (DXY)	+0.10% ▲ to 101.12
EUR/USD	-0.02% ▼ to 1.1410
GBP/USD	-0.08% ▼ to 1.3348
USD/JPY	-0.20% ▼ to 162.42
USD/CNY	-0.06% ▼ to 6.7996
USD/CNH	-0.01% ▼ to 6.8042
USD/CHF	+0.06% ▲ to 0.8077
USD/CAD	+0.30% ▲ to 1.4158
AUD/USD	-0.09% ▼ to 0.6922

UST Term Structure

2Y-3M Spread narrowed	-0.7bps ▼ to 37.6bps
10Y-2Y Spread narrowed	-0.5bps ▼ to 35.7bps
30Y-10Y Spread narrowed	-1.0bps ▼ to 49.3bps

USD HY OaS

All Sectors	-4.3bps ▼ to 290bps
All Sectors ex-Energy	-7.1bps ▼ 285bps
Cons Disc	-19.8bps ▼ to 414bps
Indu	-6.8bps ▼ to 220bps
Tech	-8.1bps ▼ to 222bps
Comm Srvcs	-5.4bps ▼ to 283bps
Materials	-4.6bps ▼ to 259bps
Energy	-6.5bps ▼ to 264bps
Fin Snr	-4.9bps ▼ to 193bps
Fin Sub	-4.8bps ▼ to 300bps
Cons Staples	-5.4bps ▼ to 450bps
Healthcare	-7.9bps ▼ to 297bps
Utes	-6.1bps ▼ to 201bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
7/8	2:00 PM	Jun 17 FOMC Minutes	n/a	0
7/9	10:00 AM	Jun Existing Home Sales	4.2	4.17
7/9	10:00 AM	Jun Existing Home Sales m/m	1	3.22
7/14	6:00 AM	Jun Small Biz Optimisum	95.5	95.3
7/14	8:30 AM	Jun CPI m/m	-0.1	0.5
7/14	8:30 AM	Jun Core CPI m/m	0.3	0.2
7/14	8:30 AM	Jun CPI y/y	3.9	4.2
7/14	8:30 AM	Jun Core CPI y/y	2.9	2.9
7/14	4:00 PM	May Net TIC Flows	n/a	26.08

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