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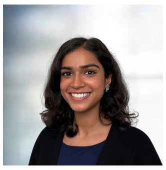
First to Market

July 28, 2026

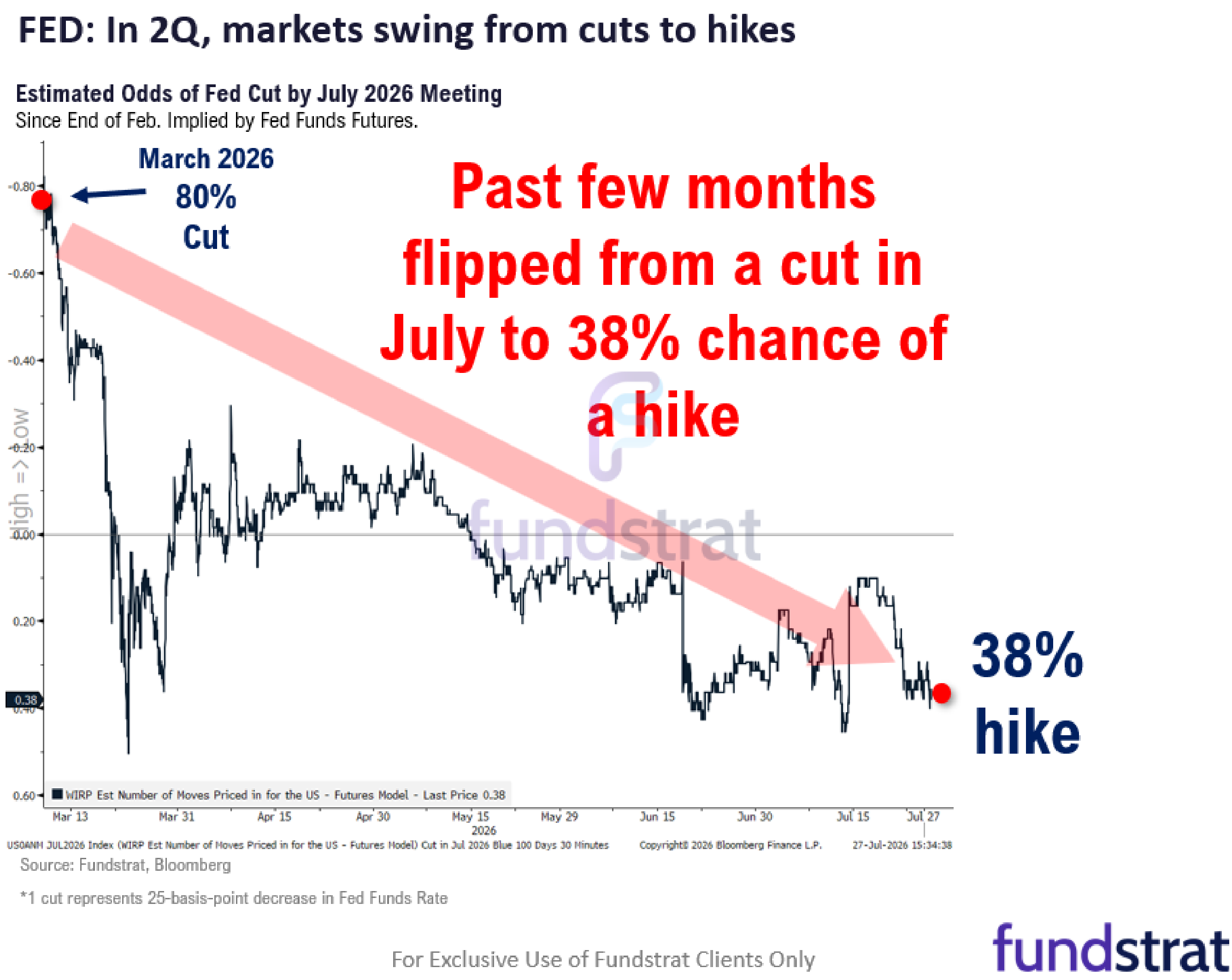
WHO ARE BIG TECH COMPANIES WITHOUT THEIR FORTRESS-LIKE BALANCE SHEETS?



Hardika Singh

ECONOMIC STRATEGIST, MARKET INTELLIGENCE

Chart of the Day



Good morning!

Big Tech's extravagant spending on AI is dismantling long-held beliefs about their supremacy.

Earnings from Alphabet-parent Google last week showed that overall revenue beat, as did sales in its cloud-computing unit, but an increase in the capex range for this year sent its stock stumbling. Alphabet posted its first ever quarterly negative free cash flow. A similar story played out with Tesla, which beat on revenue but missed on the bottom line. The futuristic company logged its first negative free cash flow since the first quarter of 2024.

On Wednesday, Google and Tesla likely expect to see Meta Platforms join them in that negative free cash flow club for the first time since the second quarter of 2012. Amazon's earnings, too, are projected to paint a worrying picture, on pace to post two straight quarters of negative free cash flow. That hasn't happened since the third quarter of 2022. Meta shares are down 10.0% this year, while Amazon's are roughly flat, up 0.25%.

The loss of fun money is throwing a wrench in hyperscalers' ability to spend obscenely on capex without having to worry about a payoff. Over the past three years, bears have repeatedly called their spending reckless, only to have bulls quickly jump in and argue that in the AI race, speed matters above all else. That argument made sense to me at the time. Since these Big Tech companies had billions in free cash flow—also lovingly called their "fortress-like balance sheets"—why not? Hyperscalers aggressively tapped into debt markets, too, because again why spend cash when you can borrow money at barely a nick higher than the risk-free rate.

That level of worship only made these hyperscalers bigger, even if their share-price performance hasn't reflected that in recent months. For example, Alphabet's 300% earnings-per-share growth from a year ago is a big reason why the S&P 500's blended earnings growth rate for the second quarter is expected to be 38%, rather than 26%.

Despite those gangbusters numbers, investors are increasingly worried that the capex boom is overdone and can't exactly slow down without hurting the picks and shovels it propped up along the way, leaving hyperscalers in a catch 22 — with none of that expendable cash. Yields on hyperscalers' 10-year plus corporate bonds over the risk-free rate have risen to their highest level since March 2023, showing that investors are demanding a higher risk premium for holding bonds of Google, Amazon, Oracle, SpaceX, and Meta.

Adding further pressure on tech stocks in recent weeks: Higher energy prices have contributed to inflation, pushing up yields on the 10-year Treasury bond to 4.645% this year from 4.195%. The 2-year yield, which is particularly sensitive to the outlook for short-term rates, has climbed to 4.32% from 3.488%. The Federal Reserve is expected to largely hold interest rates steady at its meeting, but increasingly there are signs that the lack of forward guidance means that investors have to be prepared for the other outcome of a hike, as well. Odds of a quarter-percentage point increase have risen to 38% from 30% a month ago.

For the tide to reverse on capex spenders, Meta will need to show how it is finalizing plans to rent out its spare compute. Amazon’s AWS, meanwhile, will need to show banger levels of growth in order for investors to reward the stock.

Microsoft is also reporting on Wednesday. Unlike the others, it’s not expected to post a negative free cash flow. Investors will be keeping a close eye on whether its software is able to hold its own as AI adoption grows.

Economic Data Report:

The Dallas Fed Manufacturing Outlook Survey is a monthly survey of ~100 Texas manufacturers. The general business activity index edged up from 0.0 in June to 1.3 in July, falling short of the expected 2.0. Overall, several manufacturing indicators displayed solid growth. The production index increased 6.0 points to 10.1, the new orders index rose 4.1 points to 2, and the company outlook index jumped 11.0 points to 13.4. However, the employment index dropped 2.0 points to 12.2, while prices for finished goods and wage pressures remained elevated at 25.6 and 30.8, respectively. The future production index and the future general business activity index remained relatively unchanged at 34.6 and 26.5, reflecting continued near-term optimism. The AI-driven demand for electrical equipment likely promotes the Texas data center buildout, contributing to production and new orders. The employment dip looks more like a skills mismatch than weakening demand, consistent with the Dallas Fed’s supplemental data on hiring difficulty. – *Mason Yuh*

Share your thoughts

What are your expectations for this Big Tech earnings season? Click here to send us your response.

✍Here's what a reader commented ✍

Q: Are you concerned about whether humans can exert sufficient control over AI?

A: There is no way humans will be able to keep a lid on this. Add in the fear, the negativity and the "dark side" and that's what we're left with. How disturbing!

Catch up with Fundstrat

Equities are entering the final week of July. And there has been weakness in the past week or so. We think the market has become too risk averse, and we believe the near-term risk/reward is improving. We believe investors are assigning too high a probability of a Fed hike and also too high odds of a rise in inflation.

Technical

Fundstrat Head of Technical Strategy Mark Newton is off, so no published note.

Crypto

Strategy's latest 8-K reinforced the company's revised capital allocation framework. The company raised approximately $540 million through common stock issuance last week, allocating the vast majority of proceeds to its U.S. dollar reserve while opportunistically repurchasing STRC below par.

News We're Following

Breaking News

- Iran and Oman Seek Agreement on Hormuz in Bid to Jumpstart Peace Talks WSJ
- China's reported chip breakthrough comes with some big caveats CNBC

Markets and economy

- Kevin Warsh Wanted a ‘Good Family Fight’ at the Fed. He’s Getting One. WSJ
- Big Tech Stocks Are Pricing In a Miracle on Costs WSJ
- Micron, Nvidia fall after SK Hynix plunges nearly 15% as chip sell-off deepens CNBC

Business

- Meta Is Fighting a Mountain of Social-Media Lawsuits—at Just the Wrong Time WSJ
- Western Powers Race to Bring the Production of Explosives Back Home WSJ
- Amazon seeks federal approval to launch 5,105 satellites for direct-to-device network CNBC
- Apple reclaims title of world’s largest company after historic stretch of outperformance MW

Politics/U.S.

- Sen. McConnell still not cleared to go back to work as he recovers from fall, doctors say CNBC
- Trump Backs New Iran Talks but It’s Unclear What He Hopes to Achieve This Time NYT
- Trump Asks Supreme Court to Allow Order Restricting Mail Voting NYT

Overseas

- 6.8-Magnitude Earthquake Strikes Japan NYT
- Zelenskyy returns to Oval Office as Trump shifts towards Ukraine FT

Of Interest

- From Cracker Barrel to Boeing, Companies Are Turning to Retired CEOs WSJ

Overnight	
S&P Futures	-6 ▼ point(s) (-0.07% ▼)
overnight range:	-29 ▼ to +8 ▲ point(s)

APAC	
[illegible]	[illegible]

Nikkei	-3.95% ▼
Topix	-2.52% ▼
China SHCOMP	-1.16% ▼
Hang Seng	+0.41% ▲
Korea	-10.84% ▼
Singapore	-0.07% ▼
Australia	+0.61% ▲
India	-0.12% ▼
Taiwan	-4.65% ▼

Europe

Stoxx	50 +0.36% ▲
Stoxx	600 +0.38% ▲
FTSE	100 +0.56% ▲
DAX	+0.63% ▲
CAC	40 +0.62% ▲
Italy	+0.30% ▲
IBEX	+0.64% ▲

FX

Dollar Index (DXY)	+0.01% ▲ to 101.55
EUR/USD	-0.08% ▼ to 1.1360
GBP/USD	-0.02% ▼ to 1.3286
USD/JPY	-0.06% ▼ to 163.85
USD/CNY	-0.09% ▼ to 6.7696
USD/CNH	-0.07% ▼ to 6.7701

USD/CNH	-0.07% ▼ to 6.7701
USD/CHF	-0.15% ▼ to 0.8201
USD/CAD	+0.09% ▲ to 1.4113
AUD/USD	-0.31% ▼ to 0.6970

UST Term Structure

2Y-3M Spread narrowed	-3.5bps ▼ to 38.4bps
10Y-2Y Spread narrowed	-0.3bps ▼ to 32.1bps
30Y-10Y Spread widened	0.3bps to 48.9bps

USD HY OaS

All Sectors	-6.2bps ▼ to 318bps
All Sectors ex-Energy	+0.5bps ▲ 306bps
Cons Disc	+8.4bps ▲ to 507bps
Indu	-1.1bps ▼ to 265bps
Tech	+6.4bps ▲ to 225bps
Comm Srvcs	-1.5bps ▼ to 288bps
Materials	+0.9bps ▲ to 264bps
Energy	+0.0bps ▲ to 291bps
Fin Snr	-0.5bps ▼ to 203bps
Fin Sub	-2.3bps ▼ to 287bps
Cons Staples	+1.0bps ▲ to 464bps
Healthcare	+0.1bps ▲ to 325bps
Utes	+0.5bps ▲ to 217bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
7/28	9:00 AM	May S&P Cotality CS 20-City m/m	0	-0.04
7/28	10:00 AM	Jul Conf Board Sentiment	92.4	91.2
7/29	2:00 PM	Jul 29 FOMC Decision	3.75	3.75
7/30	8:30 AM	Jun PCE m/m	-0.1	0.4
7/30	8:30 AM	Jun Core PCE m/m	0.2	0.32
7/30	8:30 AM	Jun PCE y/y	3.7	4.1
7/30	8:30 AM	Jun Core PCE y/y	3.3	3.41204
7/30	8:30 AM	2Q A GDP QoQ	2	2.1
7/31	8:30 AM	2Q ECI QoQ	0.8	0.9
7/31	10:00 AM	Jul F UMich 1yr Inf Exp	4.3	4.2
7/31	10:00 AM	Jul F UMich Sentiment	54	54.4
8/3	9:45 AM	Jul F S&P Manu PMI	n/a	53.8

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