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First to Market

October 23, 2026

META'S CLASS C SHARES – A GENIUS MOVE OR A CONCERNING SIGN?



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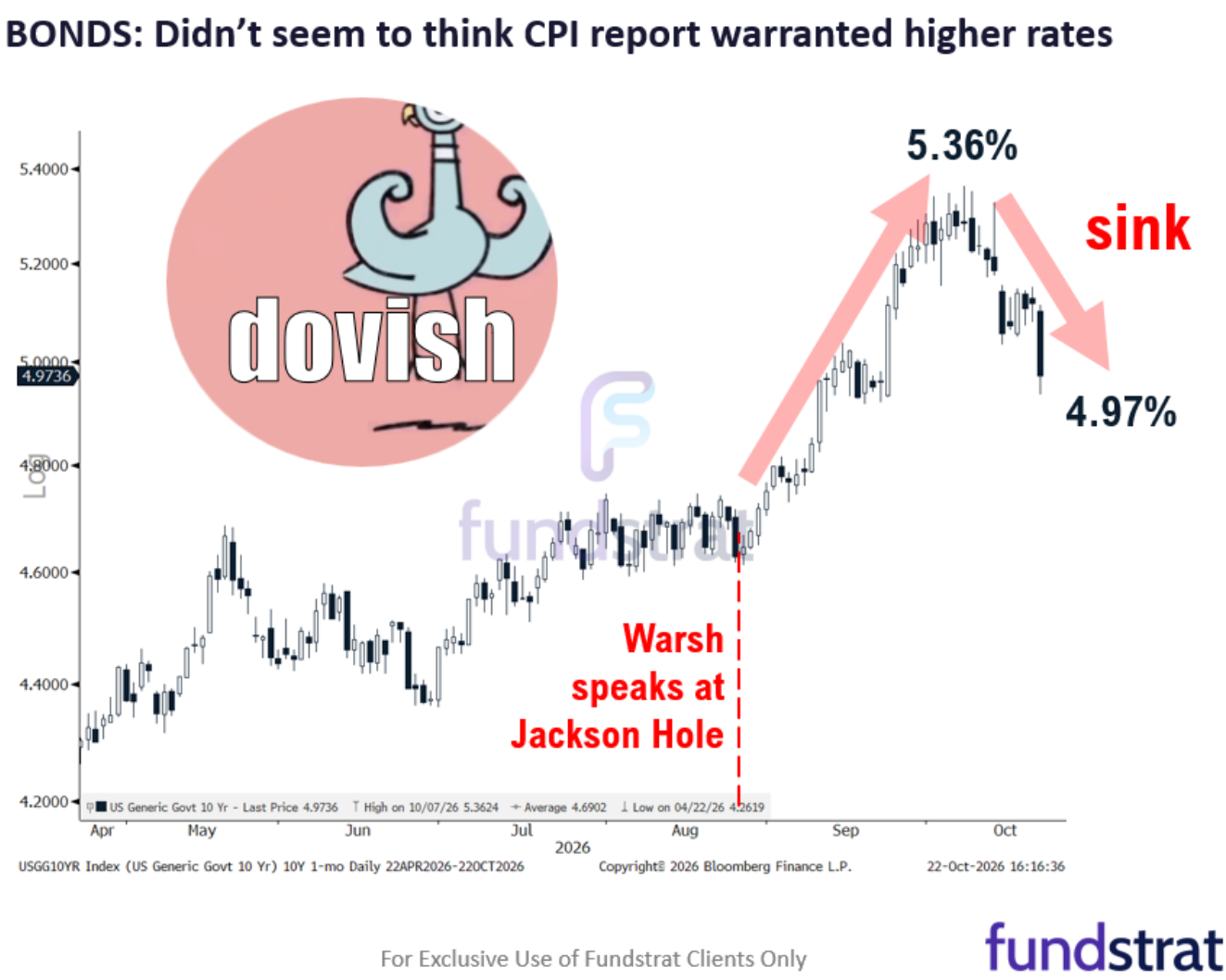
Chart of the Day



Good morning!

We're entering a new era of capital financing.

Meta Platforms is creating a new class of nonvoting shares, Class C. In the new year, shareholders will receive one Class C share for each Class A or Class B share they own, effectively functioning like a 2-for-1 stock split.

The stock dividend announcement is expected to aid the hyperscaler with AI buildout costs without diluting Chief Executive Mark Zuckerberg's majority voting power. Because there have been concerns all year long about the appetite for AI debt slowing down, some investors argue the move confirms how demand has dried up. I

don't believe that to be the case, but before I get into the why, let's do a quick review of Meta's share-price performance yesterday and then also an earnings recap.

- Meta's stock lost 7% on Thursday, underperforming the broader S&P 500's 1.2% loss. The declines were a bit surprising to see as the 10-year Treasury yield settled below 5% for the first time since Sept. 22.
- Overall, Meta's quarterly earnings showed that revenue beat expectations, increasing to a record of $64.6 billion. But net income came in considerably lower than projected due to a legal charge. No capex estimate was provided for 2027, but for 2026, Meta raised the low end of its capex range to $135 billion from $130 billion and left its high end unchanged at $145 billion. And Muse's adoption and outlook numbers impressed, too.

Now, back to our scheduled programming:

The earnings release said that the Class C shares are in the best interests of Meta and its shareholders for many reasons, including "creating a new class of shares for capital raising, employee compensation, potential acquisitions, and other general corporate purposes."

If Meta indeed is going all in on Muse, given that it rebooted the division to Meta Superintelligence Labs, then it needs to raise a lot more money than it has. Because funding AI isn't cheap and there's also tons of competition, it makes sense to lean into equity now over debt. (Meta has a lower credit rating than Alphabet, Amazon, or Microsoft.)

It highlighted those challenges in the filing: "Recent significant capital raises at other notable companies, and others soon anticipated to take place, to fund the same AI growth—for example, Alphabet, SpaceX, Anthropic, and OpenAI—have resulted in an increasingly challenging environment for raising capital."

Indeed, investors can only absorb so much of the deluge of AI debt. Some are already dumping data-center bonds, according to reporting by the *Financial Times.* Credit-default swaps, which measure the probability of a company defaulting on its debt, have risen rapidly in the past year for Alphabet, Meta, and Nvidia. Neoclouds

have come under pressure from similar worries. CoreWeave shares are down 36% in the past month, underperforming the S&P 500's 0.6% gain.

My take is that the strategy of creating nonvoting Class C shares by Meta will soon be copied by other hyperscalers, as well.

In a way, it's strange because it's typically more expensive to raise equity than debt because with debt, a company gets interest tax shields and there's lower investor return requirements. Whether a company chooses to raise money through stocks or bonds also offers insight into how they're viewing the macro environment, which is why there's some validity to those taking the Class C shares as a concerning sign for the AI bull run.

According to the filing, the company understood that, but it still made sense for it to raise via equity than debt at this juncture. Here's why: "The Special Committee also considered whether debt financing could be an alternative for the financing needs of the Company but recognized that debt financing alternatives of the magnitude that Company management was considering could have an adverse effect on the Company's credit ratings and would be a less attractive alternative for the Company."

That principle can apply to other hyperscalers, too. In Meta's case, there's another factor at play, which helps me overlook the conventional wisdom.

It seems like the Class C shares are more so a reflection of an agreement struck between Zuckerberg and the board for the founder to stay in California despite a proposed billionaire wealth tax. This move would allow him to immediately sell 20% of his new nonvoting shares to pay the tax if it passes while still preserving his voting interest. A special committee of Meta's board entered into a Founder Alignment Agreement with Zuckerberg, according to which he will continue to live in the same state as Meta's headquarters for at least eight years assuming nothing crazy happens.

Of course, there's no way to know what the exact breakdown of the reasoning is, but it doesn't matter as much as investors may think because at the end of the day, Zuckerberg is creating value for shareholders, and that's all that matters.

Share your thoughts

Are you buying Meta at this price? Click here to send us your response.

✍Here's what a reader commented ✍

Q: Do you think it's better for the stock market to be correlated with yields or oil?

A: The stock market should be correlated with earnings of course, which it is over the long run. Oil and yields are both somewhat orthogonal sub markets, for energy and for money respectively.

Catch up with Fundstrat

Investors are overly bearish on the future growth prospects of AI, and we see the funding concerns and even political risks as overblown. The two dovish developments are that yields are falling and Fed fund futures show declining odds of a Dec hike.

Technical

A rather unusual session seems to have caught many investors off guard, given that rates have pulled back very sharply today, ranging from 2-year up to 30-year Treasuries, causing a dip in the MOVE index along with credit spreads in recent days.

Crypto

The takeaway is that demand for compute continues to rise, while the economics of compute rental remain attractive for operators with a reasonable cost of capital. That

caveat matters, particularly given the financing concerns we have been discussing over the past couple of weeks.

News We're Following

Breaking News

- Iran Threatens Wider Strikes on Economic and Civilian Targets if U.S. Attacks WSJ

Markets and economy

- Airfares are way up compared to last year. Don’t expect it to change this holiday season CNN
- The Obscure Rule Helping to Supercharge Retail Trading BBG
- Treasury yields log biggest drop since the 2023 banking crisis. Here’s what’s going on. MW

Business

- Meta’s Muse Is Going Gangbusters. But Where Is the Payoff? WSJ
- Moderna shares plunge after cancer vaccine data leaks — despite positive results CNBC
- With earnings in rearview mirror, SpaceX-Tesla merger chatter takes center stage CNBC

Politics/U.S.

- Ukraine Says Starlink Isn’t Working, Despite Trump’s Promise to Restore It WSJ
- The Michigan Senate Race Keeps Getting Nastier NYT

Overseas

- Volvo Cars plunges 27% as CEO says China sales slump came ‘faster than we thought’ CNBC
- Brazil’s Most Divided Town Shows the Nation’s Shift to the Right NYT
- France is getting its credit rating reviewed. The French debt turmoil has helped turn U.S. Treasury yields around. What comes next? MW

Of Interest

- New York City Passes Horse Carriage Ban, Ending a Central Park Tradition NYT

Overnight

S&P Futures	-17 ▼ point(s) (-0.22% ▼)
overnight range:	-20 ▼ to +10 ▲ point(s)

APAC

Nikkei	-0.34% ▼
Topix	-0.79% ▼
China SHCOMP	+0.89% ▲
Hang Seng	+0.69% ▲
Korea	+0.30% ▲
Singapore	+0.13% ▲
Australia	+0.02% ▲
India	-0.90% ▼
Taiwan	-1.81% ▼

Europe

Stoxx 50	-0.65% ▼
Stoxx 600	-0.50% ▼
FTSE 100	-0.55% ▼
DAX	-0.84% ▼
CAC 40	-0.74% ▼
Italy	-0.38% ▼
IBEX	-0.27% ▼

FX

Dollar Index (DXY)	+0.12% ▲ to 101.73
EUR/USD	-0.15% ▼ to 1.1199
GBP/USD	-0.16% ▼ to 1.3380
USD/JPY	+0.11% ▲ to 156.60
USD/CNY	+0.07% ▲ to 6.6702
USD/CNH	+0.05% ▲ to 6.6694
USD/CHF	-0.21% ▼ to 0.8222
USD/CAD	+0.06% ▲ to 1.4002
AUD/USD	-0.06% ▼ to 0.7016

UST Term Structure

2Y-3M Spread widened	1.3bps to 50.7bps
10Y-2Y Spread widened	0.2bps to 31.1bps
30Y-10Y Spread narrowed	-0.3bps ▼ to 32.1bps

USD HY OaS

All Sectors	+14.7bps ▲ to 378bps
All Sectors ex-Energy	+15.2bps ▲ 343bps
Cons Disc	+26.4bps ▲ to 662bps
Indu	+12.3bps ▲ to 261bps
Tech	+11.1bps ▲ to 213bps
Comm Srvcs	+17.0bps ▲ to 356bps
Materials	+9.7bps ▲ to 284bps
Energy	+14.7bps ▲ to 281bps
Fin Snr	+12.6bps ▲ to 223bps

Fin Sub	+14.3bps ▲ to 314bps
Cons Staples	+20.1bps ▲ to 476bps
Healthcare	+16.2bps ▲ to 368bps
Utes	+12.8bps ▲ to 234bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
10/23	9:45 AM	Oct P S&P Srvcs PMI	58	58.8
10/23	9:45 AM	Oct P S&P Manu PMI	55.5	55.9
10/23	10:00 AM	Oct F UMich 1yr Inf Exp	4.7	4.7
10/23	10:00 AM	Oct F UMich Sentiment	46.3	46.3
10/27	8:30 AM	Sep P Durable Gds Orders	1.4	-0.1
10/27	9:00 AM	Aug S&P Cotality CS 20-City m/m	0.3	0.32
10/27	10:00 AM	Oct Conf Board Sentiment	80.4	81.9
10/27	10:00 AM	Sep New Home Sales	650	684
10/27	10:00 AM	Sep New Home Sales m/m	-6.4	6.4
10/28	2:00 PM	Oct 28 FOMC Decision	4	4
10/29	8:30 AM	Sep PCE m/m	0.5	0.3
10/29	8:30 AM	Sep Core PCE m/m	0.3	0.25
10/29	8:30 AM	Sep PCE y/y	3.6	3.4
10/29	8:30 AM	Sep Core PCE y/y	3.1	3.00759
10/29	8:30 AM	3Q A GDP QoQ	3	2.2

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