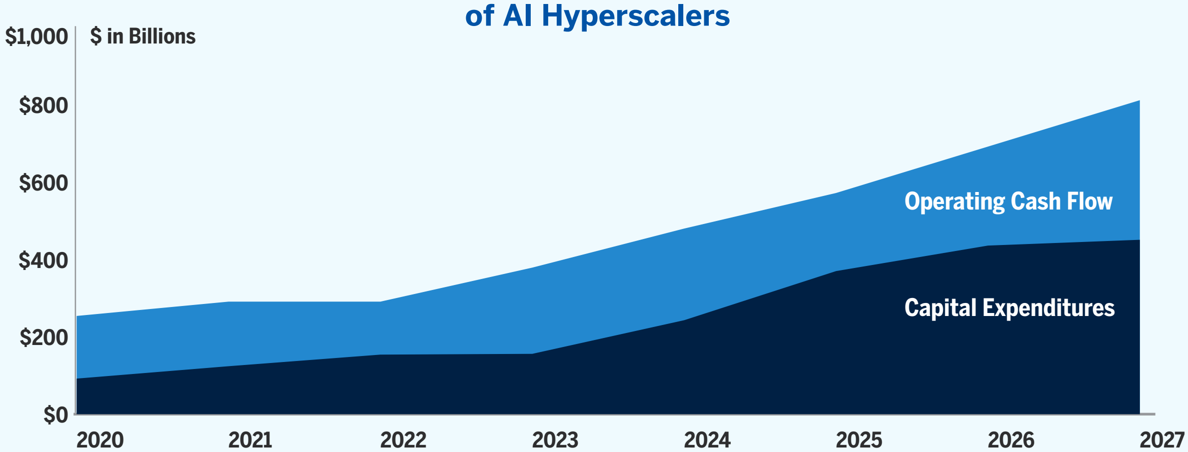
AI Spend and Deliver?

Business spending on artificial intelligence (AI) infrastructure has been a key equity market driver since the launch of ChatGPT in late 2022. As a result, many investors are focused on the sustainability of this growth. We believe today's AI boom echoes the rise of cloud computing in the 2010s: strong upfront investment in compute capacity and data center infrastructure that ultimately unlocked hundreds of billions of dollars in incremental revenue and catalyzed new enterprises, platforms, and application ecosystems. Today, capital expenditure (CapEx) commitments to AI already far exceed the cloud buildout, but are we beginning to see similar signs of traction in the returns on AI investments?

Combined Annual CapEx and Operating Cash Flow of AI Hyperscalers



Source: FactSet; combined AI hyperscaler actual and consensus estimates (2025 through 2027) for Microsoft, Amazon, Meta, Alphabet and Oracle operating cash flow and capital expenditures (CapEx) as of 8/1/25.

- The chart above tracks aggregate capital expenditure and operating cash flow for the five largest AI hyperscalers (i.e., major cloud service providers), Microsoft, Amazon, Meta, Alphabet and Oracle. According to consensus estimates, annual CapEx is projected to increase through 2027, as the hyperscalers plan to deploy a large portion to AI infrastructure such as building out data centers, which require numerous GPU clusters and significant power generation. Importantly, aggregate operating cash flow to fund these capital expenditures is also projected to increase steadily.
- AI hyperscalers are beginning to deliver encouraging results from their sizable AI investments, potentially driving higher cash flow generation going forward and creating a flywheel to sustain growth in CapEx. For instance, in its June 2025 quarter earnings report, Microsoft reported that Azure cloud revenue growth had accelerated due in part to increased AI-specific workloads, whose contribution has more than doubled over the past year. Meta offered a similar message during its June 2025 quarter earnings call: ongoing AI enhancements to its ad-ranking and creative tools are delivering strong returns, improving targeting accuracy and conversion rates across its core advertising business.
- In our view, the projected increase in AI infrastructure spending should be sustained through strong cash flow generation going forward, potentially benefiting AI enablers that provide GPUs, networking, cooling, and power generation. Moreover, as AI infrastructure develops, we believe that AI adopters, such as e-commerce and digital consumer services companies, may be well positioned to benefit from widespread AI implementation over the long run.

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