

AI Ambitions and Economic Realities

Hyperscalers are investing in artificial intelligence (AI) and infrastructure to drive innovation while navigating challenges—balancing short-term demands with long-term growth opportunities.

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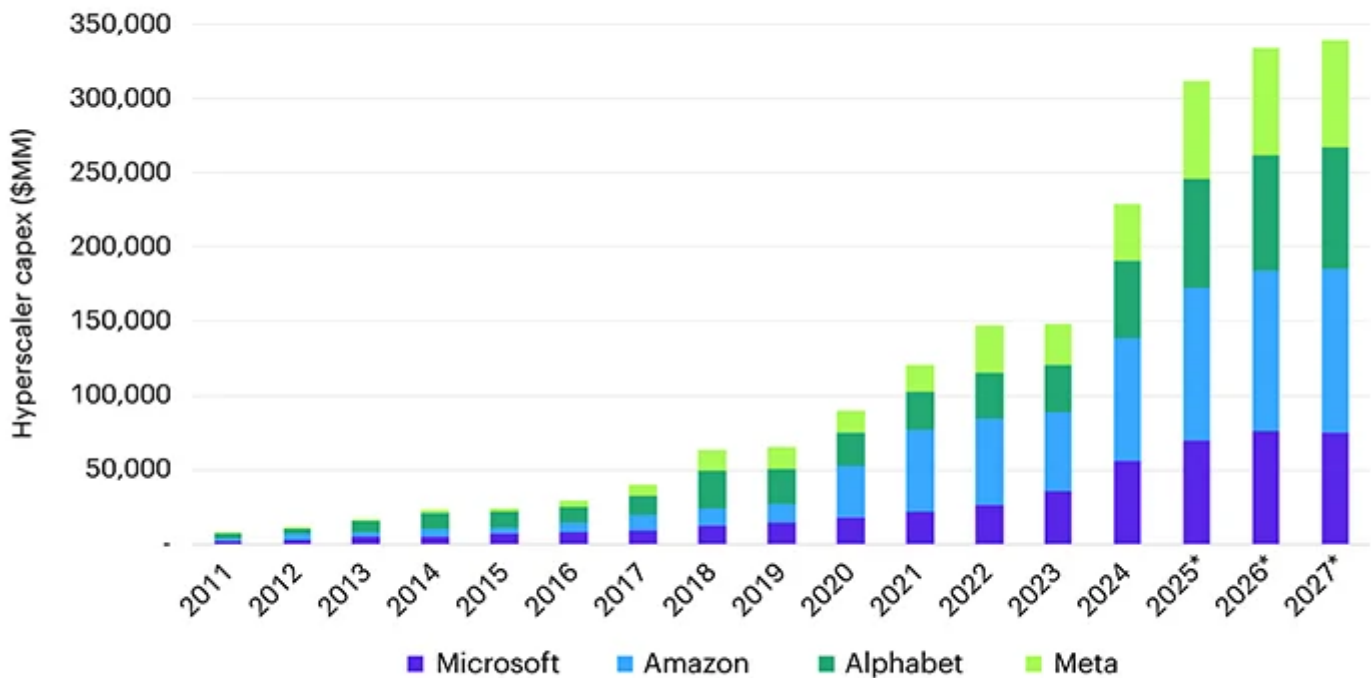
Key takeaways

- The “big 4” hyperscalers—Microsoft, Amazon, Alphabet, and Meta Platforms—increased spending by 54% in 2024, focusing on generative AI as well as other strategic priorities.
- Despite concern of an AI bubble, the hyperscalers’ valuations remain reasonable, and their competitiveness may be retained given strong financials and strategic investing.
- AI infrastructure spending is anticipated to expand beyond hyperscalers to enterprises and governments as AI adoption becomes a global strategic priority.

Growing concern around AI and hyperscaler* capex

AI’s rapid advance has driven a surge in hyperscalers’ capital expenditures (capex), especially among the “big 4”—Microsoft Corp.; Amazon.com, Inc.; Alphabet Inc.; and Meta Platform, Inc. This spending reached unprecedented levels in 2024, increasing by nearly \$80 billion, or 54% year over year (chart below). While much of the narrative has centered on generative AI, the focus of these investments is more diversified than public perception might suggest.

HYPERSCALERS' CAPEX CLIMBED IN 2024



Sources: Allspring and FactSet
*Capex projections

Concerns about the potential formation of an AI bubble, akin to the dot-com era, have surfaced. The fears appear rooted in the idea that surging capex might create overcapacity—especially if AI applications fail to scale commercially as anticipated. However, a closer look at the strategic deployment of these investments reveals a more nuanced landscape, suggesting a potential buying opportunity rather than a reason to shy away.

Where are hyperscalers investing?

Hyperscalers are channeling their capex into various strategic priorities, showcasing commitments to both near-term demand and long-term innovation.

- **Meta** has concentrated on enhancing its core platforms, like Facebook and Instagram, bolstering AI-driven content feeds and recommendations that have significantly boosted user engagement.
- **Alphabet** has invested in long-term ventures—including Waymo, its autonomous driving enterprise—in its efforts to ensure a healthy pipeline of future innovations.
- **Microsoft** has been incrementally shifting from investing in long-term assets, such as data centers, to shorter-lived assets like graphics processing units (GPUs) that are capable of addressing immediate AI computing demand. In fact, the growth of Microsoft's Azure cloud computing platform accelerated by 35% year over year in constant currency during the first quarter of 2025.

These companies have been leveraging their robust financial positions to deepen their competitive moats, maintain AI leadership, and position themselves to address growing cloud and AI demands.

Anticipated trends in capex growth

While 2024 marked a record year for hyperscalers' capex growth, projections suggest a deceleration to 35% through 2025 and 7% in 2026 (source: FactSet). However, this slowdown won't necessarily lead to a pullback in AI infrastructure investment. Instead:

- We anticipate AI spending to broaden beyond the big 4 hyperscalers to include sovereign governments and enterprises globally.
- Industry feedback suggests AI remains a top strategic priority within organizations, even amid tighter technology budgets.

We believe hyperscalers remain pivotal in facilitating the broader adoption of AI—their investments drive infrastructure developments critical to supporting AI monetization.

Valuation and AI bubble concerns

Discussions surrounding bubbles inherently invoke fears of overvaluation, but such fears seem misplaced regarding the big 4, which have been trading at relatively grounded valuations. As of May 31, 2025 (sources: Allspring and FactSet):

- Microsoft, Amazon, Alphabet, and Meta were trading at 26.9x forward earnings—positioned between the S&P 500 Index (21.5x) and the Russell 1000 Growth Index (27.5x).
- Their valuations were notably below the average multiple of the Magnificent 7's** average (29.4x), which is skewed by outliers like Tesla (145.6x).

These data points highlight that despite hyperscalers' significant growth, they have remained attractively valued relative to historical averages and market indexes.

Why hyperscalers may be well positioned for long-term gains

We believe the current environment underscores hyperscalers' strength and strategic agility. Key factors contributing to their positioning include:

- **Strong financial health:** These companies have maintained net cash positions that can provide the flexibility to scale investments without unnecessary financial strain.
- **Continued innovation:** From generative AI to autonomous driving, hyperscalers have been deploying resources focused on both immediate and long-term opportunities.
- **Market leadership:** Hyperscalers' strategic investments have enabled them to continue expanding their competitive moats and maintain dominance in AI and cloud markets.

From our perspective, these factors underpin the long-term viability and attractiveness of hyperscalers as first movers within the AI revolution.

*Hyperscalers are large-scale data centers providing cloud computing and data solutions for businesses that need vast digital infrastructure, processing, and storage. Different from traditional data centers, hyperscalers can host millions of users with speed and efficiency and also have the capacity to dynamically scale on demand. Also, hyperscalers use *distributed* computer systems—teams of independent computers that split up tasks across multiple machines to process high volumes of data—which is called hyperscale computing. Traditional data centers, however, prioritize *centralized* computer systems, which often means fewer but more powerful computers. (Source: britannica.com)

**The term “Magnificent 7” refers to these seven companies: Alphabet Inc.; Amazon.com, Inc.; Apple Inc.; Meta Platform Inc.; Microsoft Corp.; NVIDIA Corp.; and Tesla Inc.

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