THEMATIC RESEARCH · HYPERSCALERS

The $730 Billion Question: Big Tech's AI Capex and What It Means for Investors

Alphabet, Microsoft and Amazon reported in the same 30 hours. Cloud growth accelerated at all three, margins expanded and backlogs reached record levels. The market sold two of them anyway, because capital spending is now outrunning operating cash flow. This report examines the three sets of results, the funding of the build-out, the accounting behind the numbers and the scenarios for 2027.

Global Markets Research · Equity Strategy Desk Prepared by ANDRA MARKETS

~103%

growth up, cash down

Coverage summary. Google Cloud grew 103%, Azure 48% and AWS 39%, the fastest pace for each in years. Operating margins rose at the three companies and contracted backlogs now exceed $1.7 trillion. Yet Alphabet fell about 10% on 29 October, Amazon slid 6% to 7% after hours and only Microsoft rose, because the quarter also produced negative free cash flow at Alphabet (−$9.1 billion) and at Amazon (−$42.4 billion trailing) and a combined capital spending plan of roughly $730 billion for 2026, rising towards $1 trillion in 2027. The market's question has changed from whether AI demand is real, which the cloud numbers answer, to who can fund the build without debt, equity issuance or a squeeze on returns.

demand is not the issue

COMBINED 2026 CAPEX	GOOGLE CLOUD GROWTH	AMAZON FCF, TTM	CONTRACTED BACKLOG
~$730B	**+103%**	**−$42B**	**~$1.7T**
Amazon, Alphabet, Microsoft, Meta	*AWS +39%, Azure +48%*	*from +$15B a year ago*	*MSFT $677B, AWS $578B, GCloud $462B*

Exhibit A. The three quarters at a glance

Indicator	Alphabet (Q3)	Microsoft (Sep qtr)	Amazon (Q3)
Revenue (y/y)	$127.6B (+25%)	$92.3B (+19%)	$201.9B (+12%)
Operating margin	31.8%	49.8%	13.9% (record)
Cloud revenue (y/y)	$30.7B (+103%)	Azure $33.2B (+48%)	$46.0B (+39%)
Cloud operating margin	36.2%	n.d.	38.7%
Capex in the quarter	$51.4B (+114%)	$39.4B cash; $45.2B incl. leases	$77.3B (+120%)
Operating cash flow	$42.3B	$58.0B	$42.4B
Free cash flow	−$9.1B	+$18.6B	−$33.5B (quarter); −$42.4B TTM
2026 capex guidance	$195-205B	~$170B (CY2026)	~$220B
2027 signal	'significantly' higher	up year on year; FCF positive	'meaningfully more'
Backlog	$462B (Q1)	$677B RPO	$578B
First price reaction	−8% AH; −10% session	≈ +4% AH	−6% to −7% AH

three different cash stories

Sources: Alphabet, Microsoft and Amazon earnings releases and calls, 28-29 October 2026; CNBC; Investing.com; Fool.com; XTB; Yahoo Finance. Amazon quarterly FCF is an Andra Markets calculation from operating cash flow of $42.4B and net capex of $75.9B.

1.0 Executive Summary

Key takeaways

Demand is accelerating, not plateauing. Cloud growth rose for the fourth consecutive quarter at all three companies: Google Cloud from 82% to 103%, Azure from 43% to 48% and AWS from 37% to 39%. Microsoft guides Azure to 49% to 50% next quarter and Amazon expects AWS to grow more than 40% in both 2027 and 2028. Capacity, not demand, is the constraint.

Spending has crossed operating cash flow at two of the three. Alphabet spent $51.4 billion against $42.3 billion of operating cash flow; Amazon spent $77.3 billion against $42.4 billion. Only Microsoft covered its cash capex, with $58 billion of operating cash flow against $39.4 billion, helped by delayed GPU deliveries.

The funding model has changed. Alphabet has raised about $85 billion of debt, $43 billion of common equity and $19 billion of preferred stock this year and has suspended buybacks entirely. Amazon's long-term debt rose from $66 billion to $173 billion in nine months. Microsoft sold $25 billion of bonds on 29 October. Goldman Sachs expects debt to fund about 35% of hyperscaler capex in 2027.

The accounting bill comes later. Depreciation runs at a fourth to a sixth of current capex, because assets are new and useful lives are long. Microsoft extended data centre lives to 25 years and shifted leases to operating leases, which lowers reported capex; Amazon and Alphabet depreciate servers over five to six years. Margins today flatter the eventual cost.

The AI loop is visible in the accounts. OpenAI contributed about $10 billion of Microsoft's revenue in the quarter, 11% of the total, while Microsoft owns 24% of OpenAI. Amazon recorded $68 billion of non-operating gains on Anthropic this year; Alphabet booked $127 billion of gains on equity securities over nine months. Customers, suppliers and investees overlap.

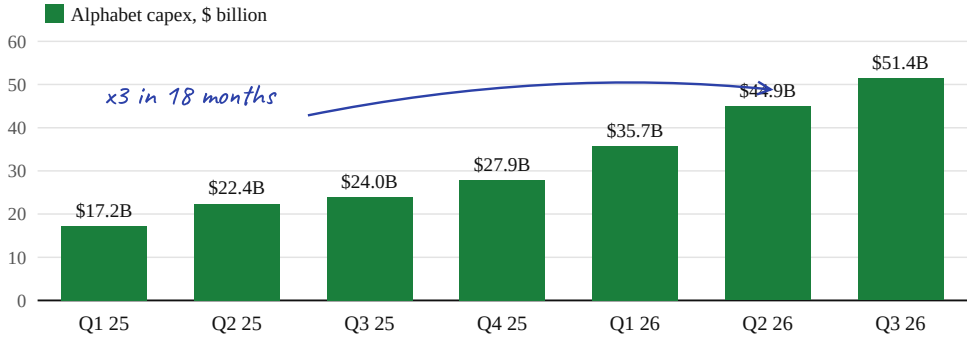
Our reading. The market now prices hyperscalers on cash coverage of capex, not on growth. Microsoft was rewarded for covering its spending; Alphabet and Amazon were punished despite better growth. For investors the questions for 2027 are the size of the capex guides, the pace of backlog conversion into revenue and whether the depreciation wave compresses margins before cloud revenue catches up.

2.0 The Three Quarters

What each company reported

Alphabet reported revenue of $127.6 billion, up 25%, its thirteenth consecutive quarter of double-digit growth and a half-trillion-dollar run rate. Google Cloud more than doubled to $30.7 billion, with operating income of $11.1 billion and a margin of 36.2%, up from 23.7% a year earlier; TPU system sales contributed meaningfully and inventory on the balance sheet jumped from $2.4 billion to $13.3 billion. Search grew 12% with the fastest query growth in five years. The miss was below the operating line: an $8.7 billion loss on equity securities cut EPS to $2.12 against a $3.02 consensus, and free cash flow was negative for a second consecutive quarter. Management kept 2026 capex at $195 to 205 billion, implying $63 to 73 billion in the fourth quarter alone, and repeated that 2027 will rise significantly.

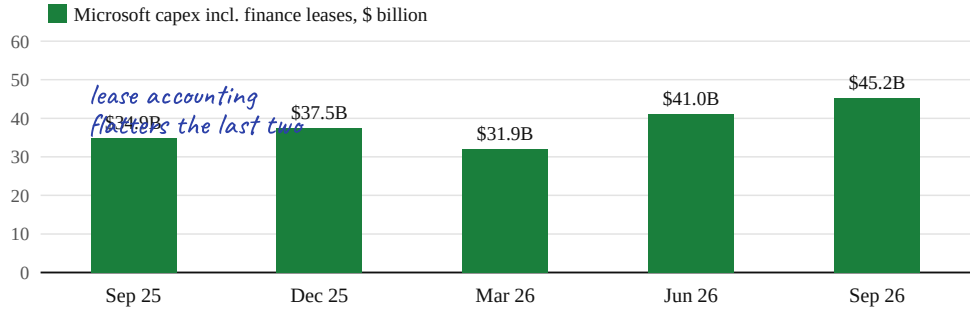
Exhibit 1. Alphabet quarterly capital expenditure ($ billion)



Sources: Alphabet earnings releases, Q1 2025 to Q3 2026.

Microsoft delivered revenue of $92.3 billion, up 19%, and operating income of $45.9 billion at a 49.8% margin. Azure grew 48% to $33.2 billion, the first time the company disclosed the dollar figure, ahead of its 45% guidance; Microsoft Cloud reached $63.9 billion, up 30%. Capex including finance leases was $45.2 billion, below the $50 billion guided because third-party capacity deliveries slipped into 2027; cash paid for property and equipment doubled to $39.4 billion. Operating cash flow of $58 billion left $18.6B of free cash flow, about $10 billion above expectations. Commercial bookings fell 12% against last year's large OpenAI commitments, and remaining performance obligation stood at $677 billion, below the $706 billion some analysts expected. Revenue from commercial arrangements with OpenAI was about $10 billion in the quarter.

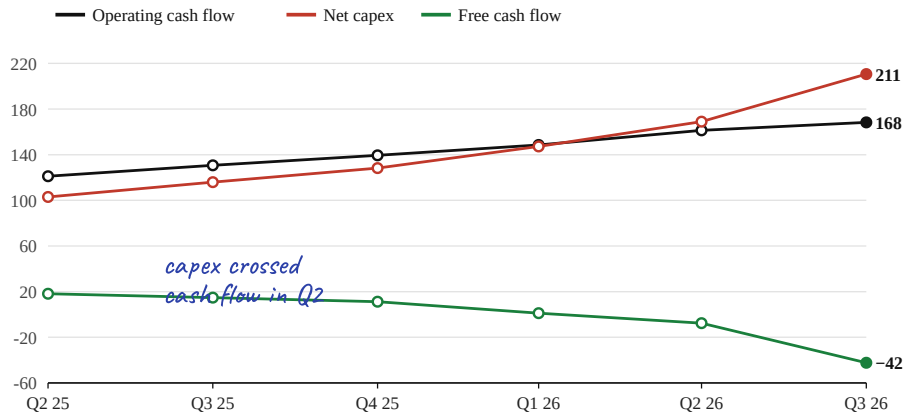
Exhibit 2. Microsoft quarterly capital expenditure including finance leases ($ billion)



Sources: Microsoft earnings calls; Directions on Microsoft; The Edge; Folio3 (Sep 2025). Fiscal quarters labelled by calendar month-end.

Amazon posted revenue of $201.9 billion, up 12% (16% excluding the Prime Day shift), and operating income of $28.1 billion, a record 13.9% margin. AWS grew 39% to $46.0 billion, its fastest since 2021, with operating income of $17.8 billion at a 38.7% margin and a contracted backlog of $578 billion, more than double a year earlier. EPS of $1.89 missed the $1.97 consensus because last year's quarter included $9.5 billion of gains on Anthropic. The cash flow statement carried the headline: purchases of property and equipment reached $77.3 billion in the quarter, trailing net capex $210.7 billion and trailing free cash flow −$42.4 billion. Amazon kept 2026 capex at about $220 billion and said 2027 will be meaningfully higher. Fourth-quarter guidance of $240 to 247 billion in sales and $28.5 to 33.5 billion in operating income was read as conservative.

Exhibit 3. Amazon trailing-twelve-month cash flows ($ billion)



Source: Amazon Q3 2026 earnings release, supplemental financial information. Net capex is purchases of property and equipment net of proceeds and incentives.

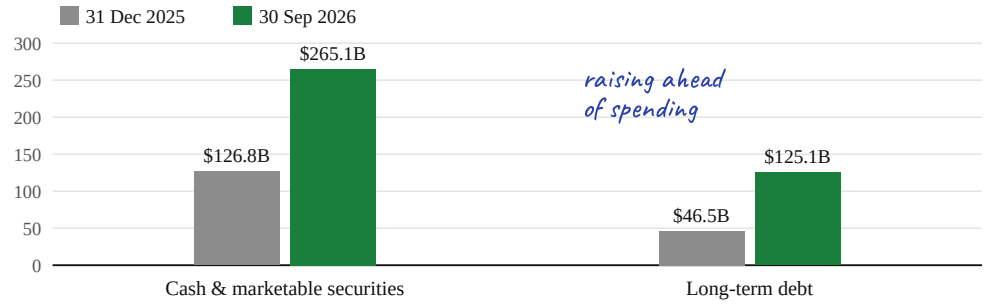
2.5 Beneath the Headlines

Three balance sheets, three strategies

Alphabet is pre-funding. Its cash and marketable securities doubled from $126.8 billion to $265.1 billion in nine months even as it spent $132 billion on capex, because it raised $147 billion of debt, equity and preferred stock and sold $4 billion of stakes in consolidated entities. In other words, Alphabet has borrowed and issued ahead of a 2027 capex bill that consensus puts near $285 billion. The equity side matters: 12 million Class A and 24 million Class C shares were sold in the quarter

alone, with $27.6 billion still available under the programme. The company also added a mandatory convertible preferred that pays 6.25%, an instrument more often seen at utilities than at technology companies.

Exhibit 4. Alphabet: cash and debt, 31 December 2025 vs 30 September 2026 ($ billion)



$147B raised in 9 months

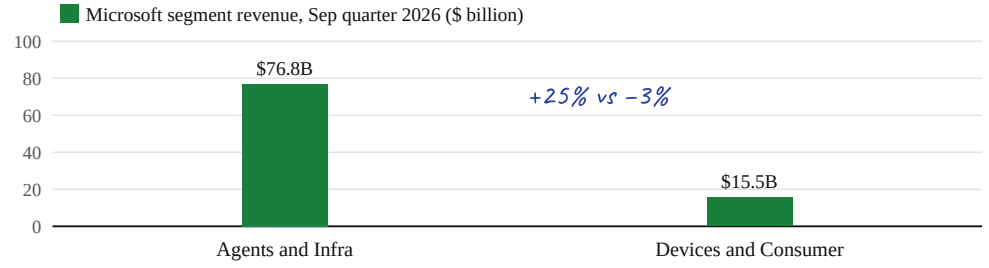
Source: Alphabet Q3 2026 balance sheet.

~$77B

Microsoft is monetising faster than it is building. Its new segment structure shows where the company now lives: Agents and Infra, which houses Azure, Microsoft 365 and the AI products, generated $76.8 billion, up 25%, while Devices and Consumer, with Windows, Xbox and search, shrank 3% to $15.5 billion. Microsoft 365 commercial cloud revenue grew 17% with seats up only 5%, which means price and mix are doing the work; paid Copilot seats passed 30 million in June and the $99-a-month E7 bundle is selling in millions of seats. The vulnerability is concentration: OpenAI is about 11% of revenue and the largest counterparty in a $677 billion backlog whose composition Microsoft does not disclose. Capacity delays from third-party chip providers pushed some supply into the first half of 2027, which is why capex undershot and free cash flow beat.

Copilot: 30M paid seats

Exhibit 5. Microsoft revenue by new segment, September 2026 quarter ($ billion)



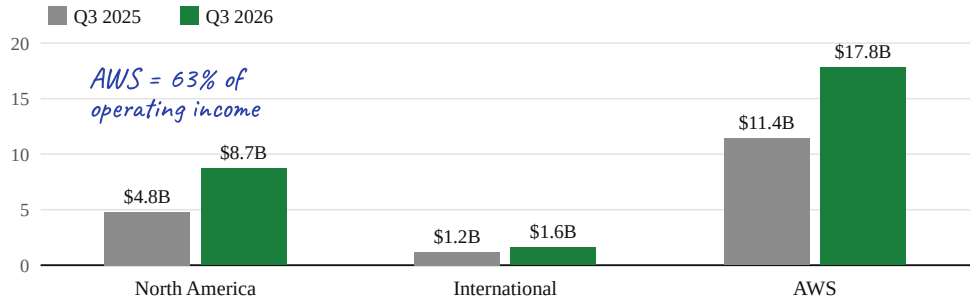
Source: Microsoft FY27 Q1 results; TechTimes; Rens Stocks.

AWS carries the group

Amazon is becoming an AWS company with a retailer attached. AWS generated $17.8 billion of the group's $28.1 billion of operating income and reached a record 22.8% of revenue. North America's margin improved to 7.7% as fulfilment efficiency rose and units grew 12%, but online store sales grew only 2% after the Prime Day shift, and advertising slowed to 12% on timing effects, with high-teens growth guided for the fourth quarter. The $220 billion capex plan was raised from $200 billion in July because of memory costs, and Amazon is funding it with $115 billion of long-term debt issued this year while its cash and securities fell from $123 billion to $114 billion. Long-term lease liabilities and other long-term liabilities also rose sharply, which points to further off-balance-sheet capacity commitments that the 10-Q will detail.

~$18B

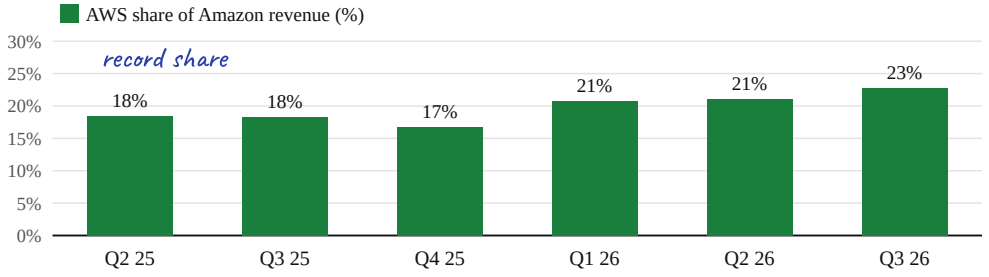
Exhibit 6. Amazon operating income by segment, Q3 2025 vs Q3 2026 ($ billion)



63% of profit from AWS

Source: Amazon Q3 2026 earnings release, segment information.

Exhibit 7. AWS as a share of Amazon net sales (%)



Source: Amazon supplemental financial information, Q2 2025 to Q3 2026.

3.0 Cloud: The Returns Are Arriving

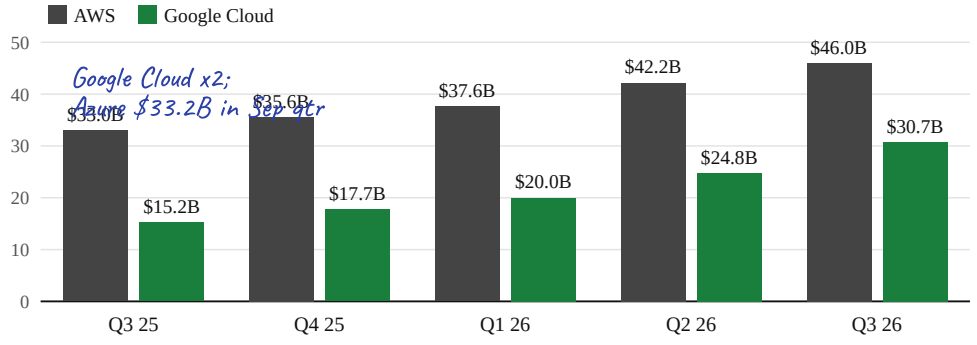
Growth, share and margins

4 quarters of acceleration

The strongest argument for the spending is in the cloud segments. Three years ago AWS grew 12%, Azure in the high 20s and Google Cloud in the 20s; all three have now accelerated for at least four consecutive quarters. Google Cloud's growth has gone from 28% in the first quarter of 2025 to 103%, with revenue from products built on Gemini up nearly 800% earlier this year. AWS's $184 billion run rate makes it the largest, but Google Cloud, at $30.7 billion a quarter, has closed most of the gap with Azure's $33.2 billion. The three cloud units together generated about $110 billion of revenue in the September quarter, roughly twice the level of two years ago.

~12%

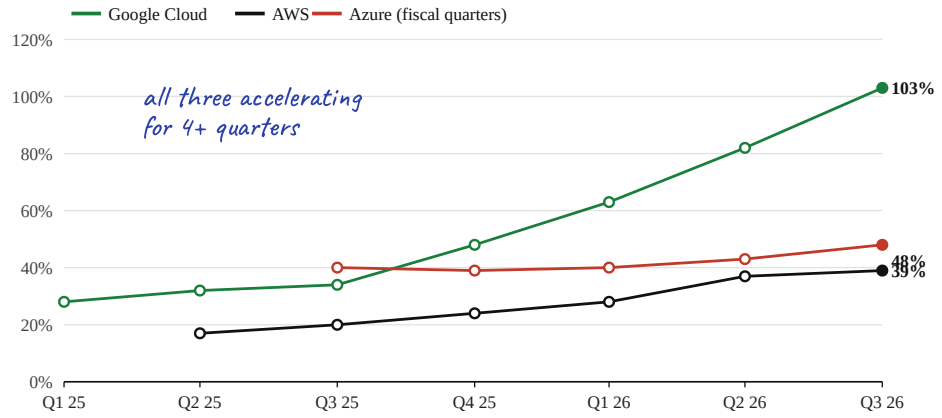
Exhibit 8. Cloud revenue by quarter ($ billion)



Google Cloud x2 in a year

Sources: Amazon and Alphabet earnings releases. Microsoft disclosed Azure revenue in dollars for the first time this quarter ($33.2B, Sep 2026) and is not shown as a series.

Exhibit 9. Cloud revenue growth, year on year (%)



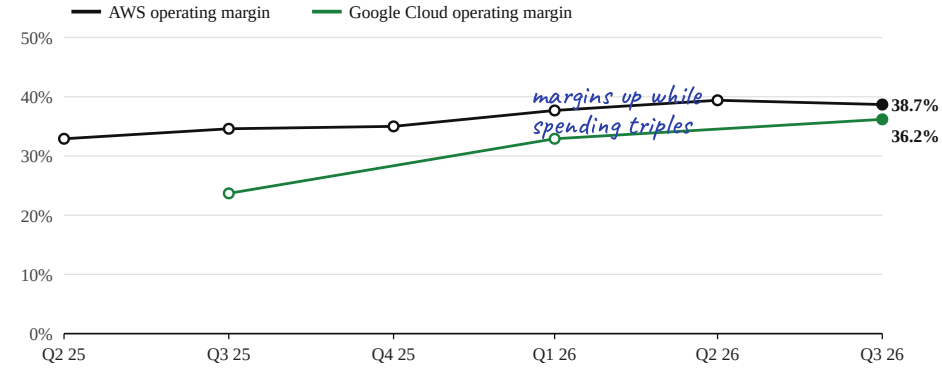
Sources: company earnings releases and calls. Azure growth in constant currency; Microsoft fiscal quarters plotted at calendar quarter-ends.

~33%

Margins have risen while spending tripled, which is the opposite of what the bear case predicted. AWS's operating margin moved from 32.9% to 38.7% in five quarters, and Google Cloud's from 23.7% to 36.2% in a year. Part of this is scale and part is pricing power while capacity is short: Microsoft's finance chief described a situation in which demand exceeds supply in a relatively extreme way. The question is what happens to these margins when depreciation on the new assets arrives in full and when capacity catches up with demand.

margins rising into the build

Exhibit 10. Cloud operating margins (%)



+6 pts and +12 pts

Sources: Amazon supplemental data; Alphabet segment results (Q3 2025, Q1 2026 via TIKR, Q3 2026).

4.0 Cash Flow: Where the Pressure Shows

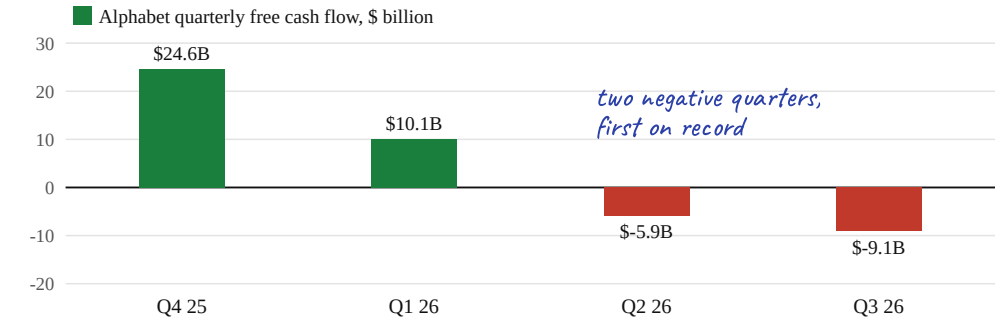
Free cash flow turns negative

~$73B

Free cash flow is the number that moved the shares. Alphabet generated $73 billion of free cash flow in 2025; in 2026 it produced $10 billion in the first quarter, then −$5.9 billion and −$9.1 billion. Amazon's trailing free cash flow has gone from +$18 billion in mid-2025 to −$42 billion, a swing of $60 billion in five quarters. Microsoft, whose fiscal year runs to June, remained positive at $18.6 billion but down 27% from a year earlier, and management expects to stay positive through fiscal 2027 only with a capex figure that excludes most data centre leases. Capex now absorbs 120% of operating cash flow at Alphabet and 180% at Amazon; PIMCO estimated in May that it would take about 94% across the group in 2026-27, up from 40% in 2023.

−$9B at Alphabet

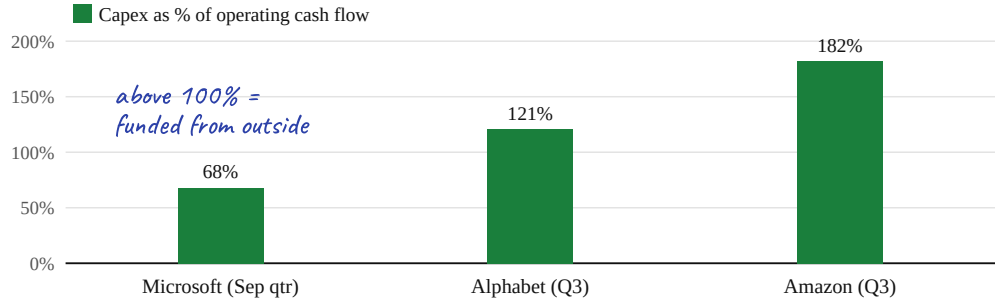
Exhibit 11. Alphabet quarterly free cash flow ($ billion)



first negative quarters ever

Source: Alphabet Q3 2026 earnings release, free cash flow reconciliation.

Exhibit 12. Capital expenditure as a share of operating cash flow, latest quarter (%)



Sources: company cash flow statements; Andra Markets calculations. Microsoft uses cash paid for property and equipment.

~32%

The contrast between income statements and cash flow statements is the defining feature of this earnings season. Amazon reported its highest operating margin ever in the same release as its largest cash outflow. Alphabet improved its operating margin to 31.8% while borrowing and issuing shares. This is not a contradiction: capital spending does not pass through the income statement until it is depreciated, so profits lead and cash lags. For investors it means the metrics that drove valuations for a decade, earnings per share and operating margin, no longer describe the economics of the business on their own.

record margin, negative FCF

5.0 Funding the Build

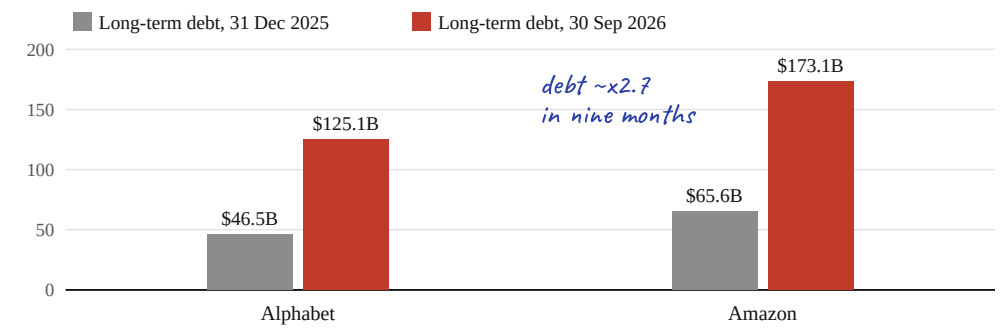
Debt, equity and the end of buybacks

$85B debt, $62B equity

Alphabet is the clearest case of a changed funding model. In the first nine months of 2026 it raised $85.2 billion of debt, $42.9 billion of common stock through an at-the-market programme, including a $10 billion placement with Berkshire Hathaway, and $19.1 billion of mandatory convertible preferred stock. It repurchased no shares, against $39.8 billion in the same period of 2025. Long-term debt rose from $46.5 billion to $125.1 billion. Amazon raised $115 billion of long-term debt in nine months and its long-term debt reached $173 billion; Microsoft completed a $25 billion bond sale the day after it reported. Goldman Sachs expects about $400 billion of hyperscaler investment-grade issuance in 2027 against $1.14 trillion of capex, and estimates $1.3 to 1.4 trillion of debt capacity at two times net leverage.

~$85B

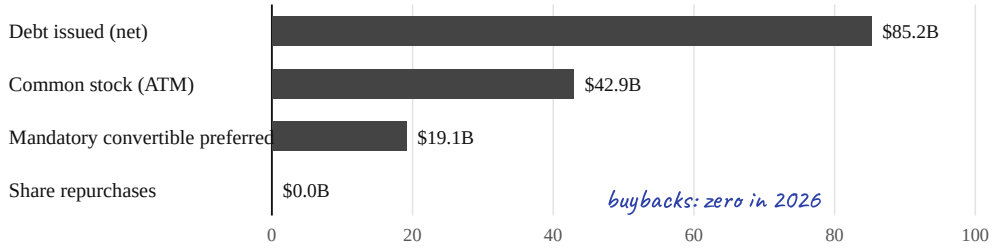
Exhibit 13. Long-term debt, 31 December 2025 vs 30 September 2026 ($ billion)



balance sheets re-levered

Sources: Alphabet and Amazon balance sheets, Q3 2026 earnings releases.

Exhibit 14. How Alphabet funded the first nine months of 2026 ($ billion)



Source: Alphabet Q3 2026 cash flow statement (proceeds from debt, common stock and preferred stock; repurchases).

The shift has consequences beyond the three companies. Barclays expects hyperscaler funding to make the group some of the largest issuers in the investment-grade index, and credit default swap spreads on hyperscaler debt have widened since mid-2025, most sharply for Oracle. CNBC reported that lenders are pulling back from the neocloud operators that rent capacity to the hyperscalers as their cost of capital rises. For equity holders the arithmetic is simple: every dollar of capex funded by new shares dilutes them, every dollar funded by debt adds interest cost, and every dollar diverted from buybacks removes a support that lifted per-share earnings for a decade. Alphabet's interest expense rose from $143 million to $967 million in a year; Amazon's from $538 million to $1.7 billion.

Exhibit B. Sources of funding, 2026 year to date

Company	Debt	Equity	Buybacks	Comment
Alphabet	$85.2B issued (9M)	$42.9B common + $19.1B preferred	$0 (vs $39.8B in 9M 2025)	dividend maintained at $0.22
Amazon	$115.1B long-term debt (9M)	none	none	long-term debt $66B → $173B
Microsoft	$25B bond sale, 29 Oct	none	$10.2B returned in the quarter	'will access funding when attractive'
Meta	$30B bond (Oct 2025); new Class C stock from Jan 2027	Class C distribution	n.d.	FCF −$2.1B in Q3

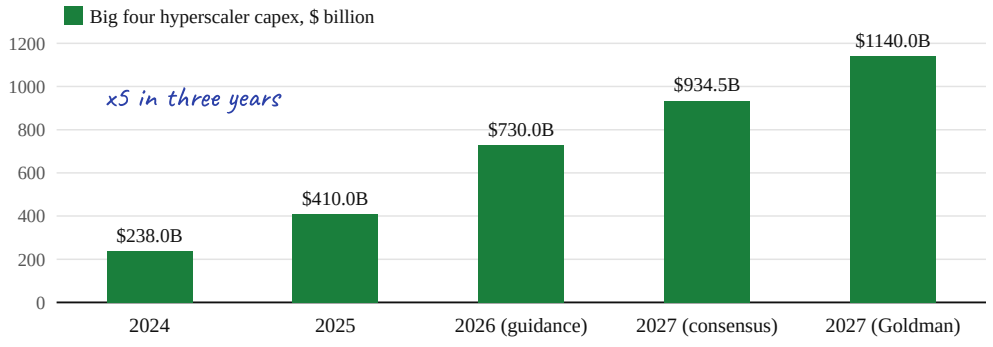
Sources: company filings; Reuters; MUFG; StockTitan; Andra Markets 2026-67.

6.0 The Scale of the Build

From $240 billion to a trillion

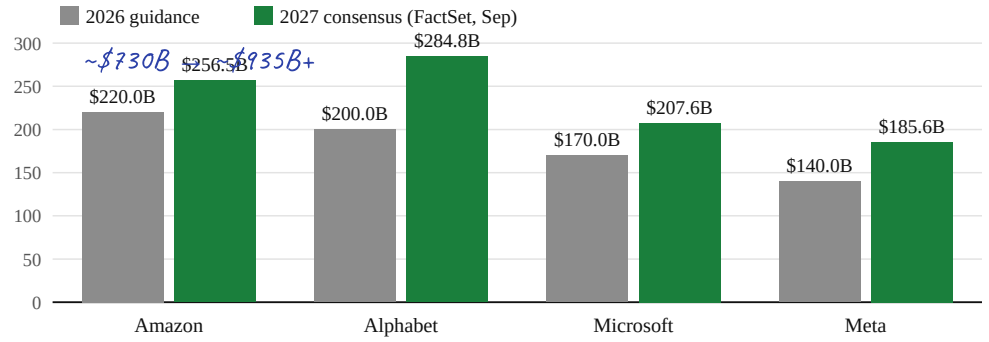
The four largest hyperscalers spent about $238 billion on capex in 2024 and $410 billion in 2025. Guidance for 2026 adds up to roughly $730 billion: Amazon about $220 billion, Alphabet $195 to 205 billion, Microsoft about $170 billion on its revised calendar-year measure, and Meta $135 to 145 billion. FactSet consensus for 2027, compiled in September, was $934.5 billion, with Alphabet at $284.8 billion and Amazon at $256.5 billion; Goldman Sachs puts 2027 at about $1.14 trillion. Estimates have been revised up every quarter for two years: Goldman's data show 2026 forecasts rising from about $284 billion to more than $525 billion before the companies themselves guided higher still. None of the three companies signalled a plateau this week.

Exhibit 15. Big four hyperscaler capital expenditure ($ billion)



Sources: Forbes and ValueAdd VC (2024, 2025, 2026 guidance); FactSet via IO Fund (2027 consensus, September 2026); Goldman Sachs via Yahoo Finance (2027 estimate). Microsoft 2026 on its calendar-year measure.

Exhibit 16. Capex guidance for 2026 and consensus for 2027, by company ($ billion)



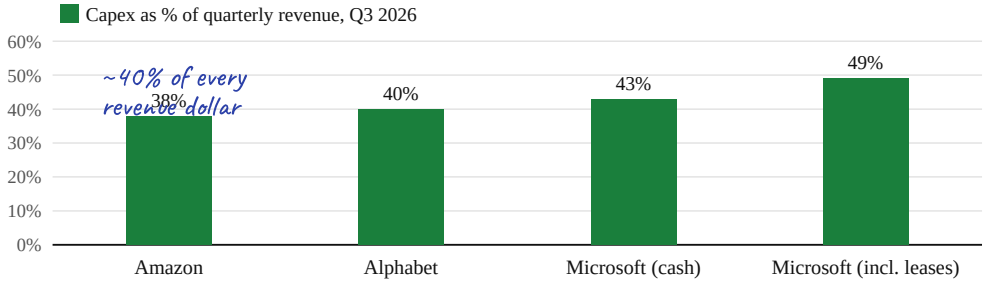
Sources: company guidance (October 2026); FactSet consensus via IO Fund (September 2026). Alphabet and Meta shown at range midpoints.

40% of revenue

Measured against revenue, the three companies now spend between 38% and 49% of quarterly sales on capital equipment, levels associated with utilities and telecom operators rather than software companies. Roughly three quarters of the spending goes to short-lived assets, chiefly GPUs and CPUs, according to Microsoft; Alphabet said about 60% of its first-quarter capex went to servers. CreditSights estimates that about three quarters of hyperscaler capex is AI-specific.

~38%

Exhibit 17. Capital expenditure as a share of revenue, latest quarter (%)



Sources: company earnings releases; Andra Markets calculations.

6.5 What the Fourth Quarter Implies

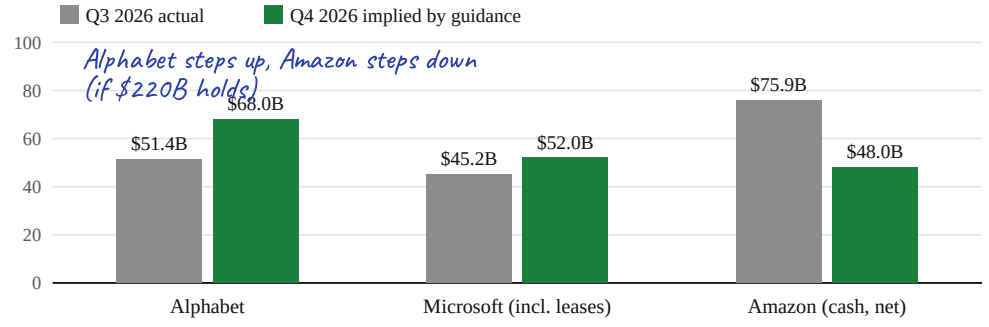
Reading the guides

$63-73B in one quarter

The full-year guides contain information about the next three months. Alphabet has spent $132 billion in nine months against a $195 to 205 billion range, so the fourth quarter implies $63-73B, a third more than the third quarter and more than the company spent in all of 2023. Microsoft guides to more than $50 billion for the December quarter as delayed deliveries arrive. Amazon is the exception: it has spent $172 billion net in nine months against a $220 billion plan, which implies a fourth quarter near $48 billion, well below the $76 billion just reported. Either Amazon's third quarter was front-loaded, or the $220 billion figure will move again, as it did in July. Jassy's 'meaningfully more' for 2027 suggests the latter is the base case.

~$132B

Exhibit 18. Capital expenditure: Q3 2026 actual vs Q4 2026 implied by full-year guidance ($ billion)



Q4: up at two, down at one

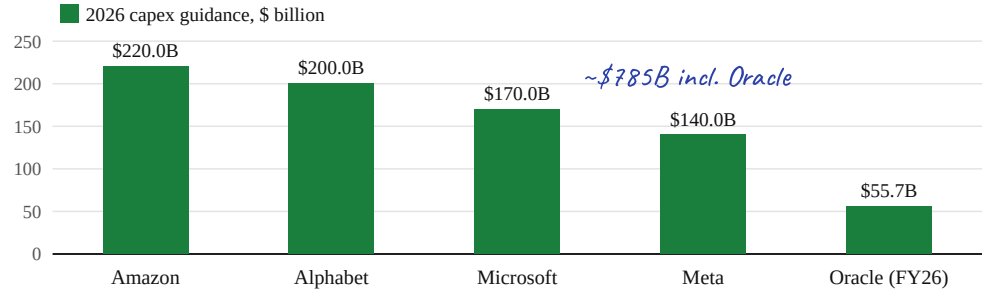
Sources: company guidance and nine-month cash flow statements; Andra Markets calculations. Microsoft Q4 is the company's 'more than $50 billion' guide for the December quarter.

~$2.1B

Two other companies frame the three. Meta, which has no cloud business to sell its capacity, reported negative free cash flow of $2.1 billion on $34.9 billion of capex and fell 7%; it is creating a non-voting share class that can fund future spending. Oracle, which has the smallest balance sheet of the group, rose 11% this week after committing to about $30 billion of free cash flow by fiscal 2029, the only hyperscaler to put a date on the cash recovery. Including Oracle, 2026 capex guidance across the five largest cloud builders is about $785 billion.

Meta and Oracle: the control group

Exhibit 19. 2026 capital expenditure guidance, five hyperscalers ($ billion)



Sources: company guidance, October 2026; Oracle fiscal 2026 via AL Capital Advisory. Alphabet and Meta at midpoints; Microsoft on its calendar-year measure.

7.0 The Depreciation Wave

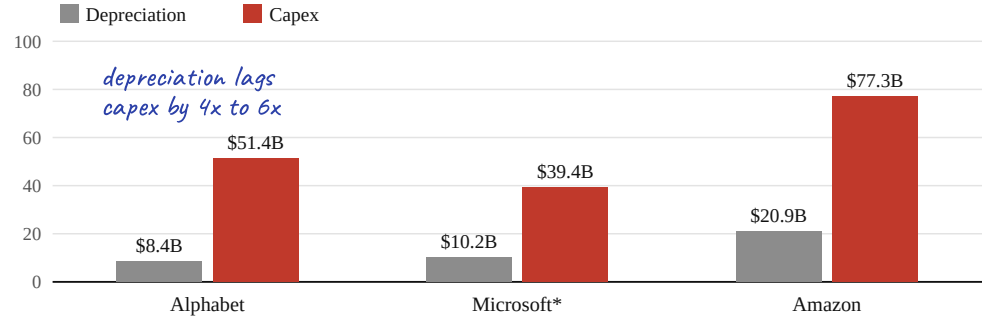
When the bill reaches the income statement

D&A at 1/6 of capex

Capital spending reaches profits through depreciation, and depreciation lags. Alphabet depreciated $8.4 billion of property and equipment in the quarter against $51.4 billion of purchases; Amazon $20.9 billion against $77.3 billion; Microsoft about $10 billion against $39.4 billion of cash capex. Servers are typically depreciated over five to six years, so today's spending will be charged to earnings through 2031. On current run rates, ~$180B a year of capex across the three companies implies annual depreciation eventually three to four times today's level. Microsoft has already moved in the other direction: from fiscal 2027 it extended the useful life of data centres and office buildings from 15 to 25 years and is shifting future leases to operating leases, with $329 billion of data centre leases that have not yet commenced. The company says the change barely affects operating income; its main effect is to reduce reported capex and lift reported free cash flow.

~$8.4B

Exhibit 20. Depreciation of property and equipment vs capital expenditure, latest quarter ($ billion)



*Sources: company cash flow statements. *Microsoft depreciation uses the March 2026 quarter figure ($10.2B, including amortisation); capex is cash paid for property and equipment.*

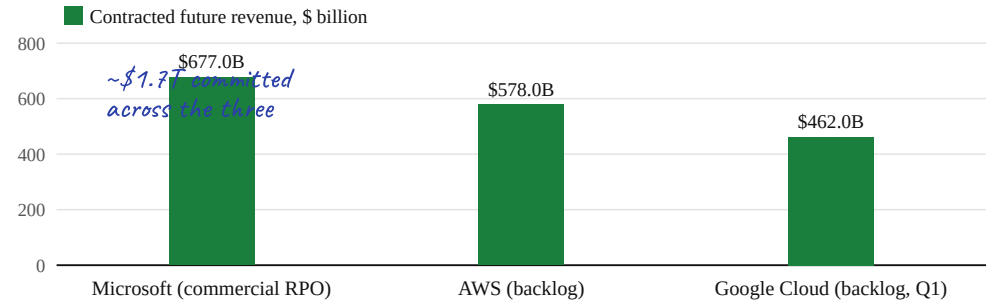
the gap that closes later

~20%

The first signs are visible. Microsoft Cloud gross margin is about two points lower than a year ago as Azure grows; Microsoft guides fiscal 2027 operating margins down by less than a point; Amazon's technology and infrastructure expense rose 20% to $34.8 billion. None of this is alarming while cloud revenue grows 40% to 100%. The risk is a mismatch in timing: depreciation is contractual and rises on schedule, while cloud revenue depends on customers continuing to sign and consume. That is why backlog disclosure has become the most watched line in these releases.

watch cloud gross margin

Exhibit 21. Contracted future revenue ($ billion)



Sources: Microsoft (commercial remaining performance obligation, Sep 2026); Amazon (AWS backlog, Q3 2026); Alphabet (Google Cloud backlog, Q1 2026, latest disclosed).

8.0 The AI Loop

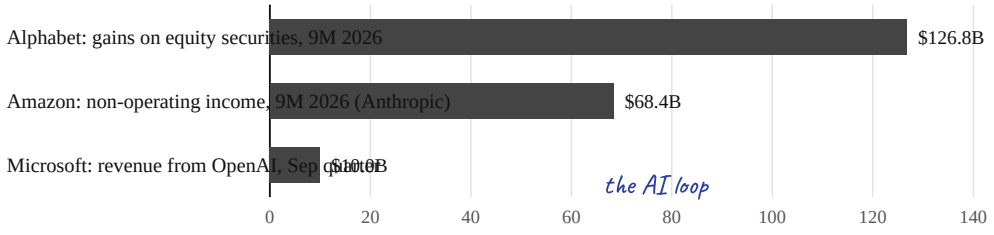
Customers who are also investees

~$10B

A feature of this cycle is that the largest customers of the clouds are also their investees and suppliers. OpenAI generated about $10 billion of Microsoft's revenue in the September quarter, roughly 11% of the total, while Microsoft holds about 24% of OpenAI and books gains and losses on that stake each quarter. Amazon recorded $68.4 billion of non-operating income in the first nine months of 2026, mostly from its Anthropic investment, and Anthropic is one of AWS's largest customers; the gains on Anthropic a year ago are the reason Amazon's EPS fell this quarter. Alphabet booked $126.8 billion of gains on equity securities over nine months and its non-marketable securities doubled to $135 billion, while an $8.7 billion loss in the third quarter, including an unrealised loss on SpaceX, drove its EPS miss. Reported earnings at all three now include large, volatile marks on AI-related stakes.

who pays whom

Exhibit 22. The AI loop in the accounts ($ billion)



gains in, revenue back

Sources: Alphabet cash flow statement (loss/gain on debt and equity securities, 9M 2026); Amazon income statement (other income, 9M 2026); Microsoft disclosure via Six Sigma Research.

not fraud, but fragile

~$50B

This is not improper, and much of the revenue is from thousands of enterprise customers: Amazon listed Meta, Nvidia, OpenAI, Salesforce and Oracle among new AWS agreements this quarter, and Microsoft said about $50 billion of its sequential backlog gains in June came from companies outside the leading model developers. But it means that a slowdown at one or two AI developers would hit the hyperscalers three times: as lost revenue, as lower investment marks and as stranded capacity. Investors should treat EPS that includes these marks with caution and focus on operating income and cash flow.

8.5 Suppliers, Components and Capacity

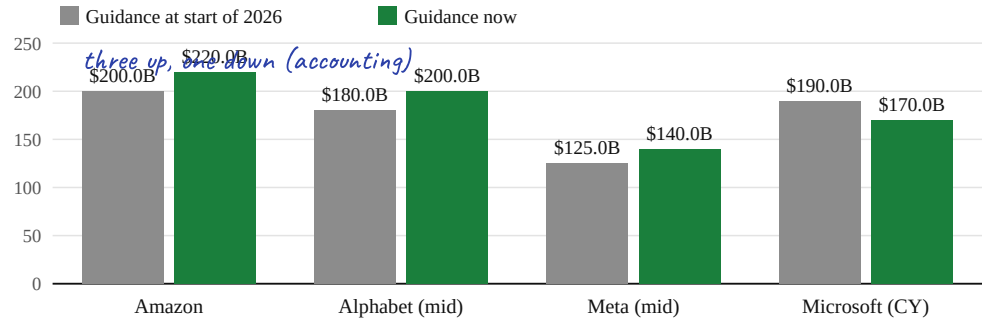
Why the guides keep moving

memory prices raised capex

~$200B

The spending plans have moved for reasons that are partly outside the companies' control. Amazon raised its 2026 guide from $200 billion to $220 billion in July citing memory costs; Meta raised the floor of its range for the same reason; Microsoft said about $25 billion of its fiscal 2026 spending reflected higher component prices. Microsoft's reported number went the other way, from $190 billion to $175 billion and now about $170 billion, but that is accounting: the shift of leases to operating leases removes them from capex while the physical build continues. Nvidia captured roughly 29% of hyperscaler capex on a trailing basis in early 2026 according to AL Capital Advisory, and both Alphabet and Amazon are pushing their own chips, TPUs and Trainium, to lower that share. Delivery delays, not demand, held Microsoft's capex below guidance this quarter, which means the spending is deferred rather than avoided.

Exhibit 23. 2026 capex guidance: at the start of the year vs now ($ billion)



Sources: company guidance, February-October 2026, via Yahoo Finance, Forbes, CNBC and company releases. Microsoft's decline reflects lease reclassification, not lower spending.

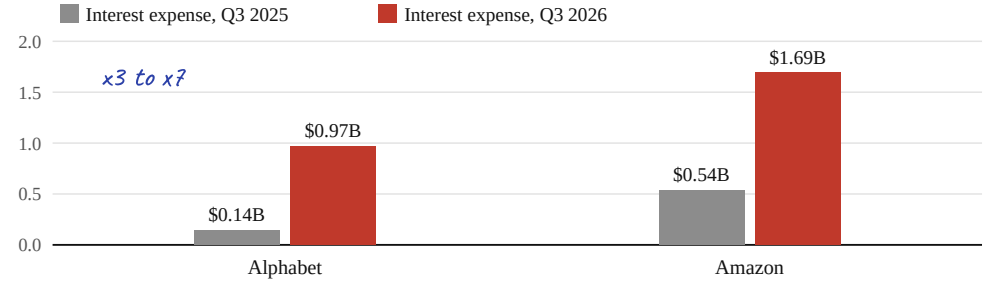
Two physical constraints sit behind the numbers. The first is chips and memory, where prices rose through 2026 and third-party capacity slipped. The second is power: Microsoft added a gigawatt of capacity in the June quarter and said it would double its data centre footprint between fiscal 2025 and 2027, while Amazon committed $1 billion to data centre communities and Verizon and Generac both reported large AI-infrastructure orders this week. The suppliers are now a market of their own: energy equipment makers, utilities and neoclouds trade on the same guidance that moves the hyperscalers, and a cut in any one capex guide would travel down that chain quickly.

8.7 Precedents and the Cost of Capital

Railroads, telecoms and the difference this time

Investment booms that ran ahead of cash flow have ended badly before. The telecom build-out of 1998-2001 saw operators spend more than a third of revenue on fibre, largely with borrowed money, before demand caught up years later; the capacity was eventually used, but not by the companies that built it. The hyperscalers differ in two ways: until this year they funded the build from operating cash flow, and the assets, chiefly GPUs, depreciate in five years rather than thirty, which limits stranded-asset risk but raises the cost of being wrong on timing. What changed in 2026 is the first condition. Capex now exceeds operating cash flow at Alphabet and Amazon, and the gap is being filled with debt and equity. Interest expense has risen from trivial to material: Alphabet's quarterly interest bill went from $143 million to $967 million in a year and Amazon's from $538 million to $1.7 billion.

Exhibit 24. Quarterly interest expense, Q3 2025 vs Q3 2026 ($ billion)



Sources: Alphabet and Amazon income statements, Q3 2026 earnings releases.

The cost of capital is also rising at the margin. US ten-year yields are above 5% and the Fed held rates at 3.75% to 4% this week with two members voting to hike, so new debt is being issued at roughly double the coupons of the 2020-21 era. For now the hyperscalers remain AA or AAA rated with ample capacity, and Amazon traded at about 19.6 times trailing earnings after its fall, with an average analyst target near $330 against a $244 close. But free cash flow yields at Alphabet and Amazon are now negative, and the equity story depends on cash returning in 2028 and beyond, which is why dates matter more to the market than growth rates.

9.0 Market Reaction

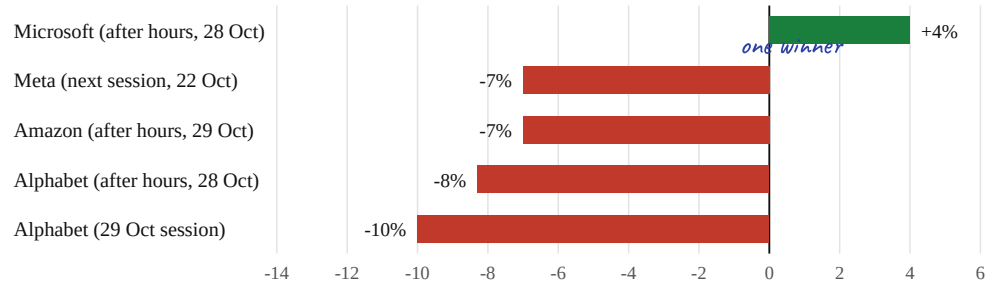
Cash coverage is what got paid

same story, 3 reactions

The pattern across the week was consistent. Microsoft, the only company whose operating cash flow covered its capex, rose about 4% after hours and held its gains. Alphabet, with the best growth, fell more than 8% after hours and about 10% in the following session, its largest post-earnings decline on record according to CNBC. Amazon, with record margins and accelerating AWS, fell 6% to 7% after hours. Meta had set the tone a week earlier, falling 7% after reporting negative free cash flow. The market rewarded cash coverage and punished open-ended spending, regardless of growth. The selling also spread to suppliers and neoclouds, and Intel's warning on PC demand the same evening added to the pressure on the sector.

~4%

Exhibit 25. First price reaction after each report (%)



one winner

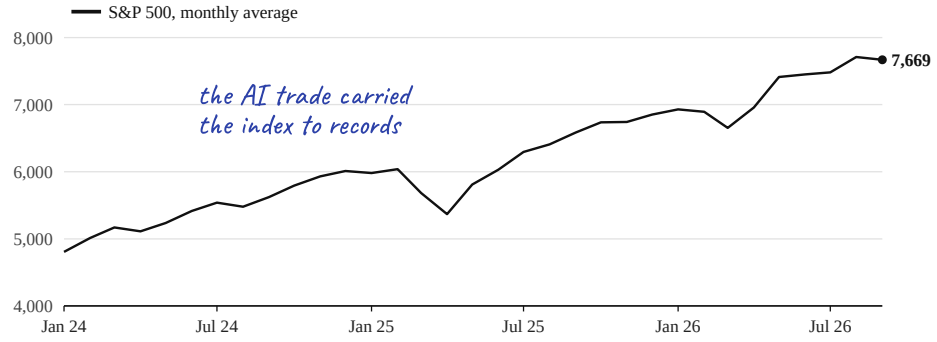
Sources: KuCoin News citing Goldman Sachs (Microsoft); Reuters via IfYouSpent (Meta); CNBC and RTÉ (Amazon); XTB and CNBC (Alphabet). Approximate.

~11%

The backdrop matters. The AI trade carried the S&P 500 to record levels into the autumn, and the hyperscalers plus their suppliers are a large share of the index. A re-rating of the hyperscalers on cash flow rather than growth would therefore be an index event, not a sector event. For now the market is differentiating rather than abandoning the theme: Oracle rose 11% this week after committing to a free cash flow target for fiscal 2029, which suggests investors want a date for when the cash comes back more than they want lower spending.

the index still high

Exhibit 26. S&P 500 since January 2024 (monthly average)



Source: S&P 500 monthly averages (Shiller data via public dataset) to September 2026.

10.0 What It Means for Investors

Five conclusions

First, cash coverage is the new valuation anchor. The ratio of capex to operating cash flow explained this week's reactions better than revenue growth, margins or backlog. Until the hyperscalers give dates for free cash flow recovery, each quarter will be judged on that ratio.

1. cash coverage

2. EPS is noisy

Second, EPS has become a noisy signal. Marks on AI investees swing reported earnings by billions in either direction: they lifted Amazon and Alphabet earlier this year and hurt both this quarter. Operating income, segment margins and cash flow are the cleaner measures.

Third, read the capex definitions. Microsoft's reported capex excludes most future data centre leases and uses 25-year lives for buildings; Amazon reports gross and net figures; Alphabet reports purchases of property and equipment. Comparisons across the three require adjustment, and the direction of accounting changes so far has been to flatter reported cash flow.

3. check the accounting

4. dilution and debt

Fourth, shareholders are now funding the build directly. No buybacks at Alphabet, new share classes at Meta, $85 billion of new debt at Alphabet and $115 billion at Amazon in nine months. Per-share metrics will grow more slowly than company-level metrics for as long as this lasts.

~$85B

~$1.7T

Fifth, backlog conversion is the metric to watch. About $1.7 trillion of contracted revenue sits across the three companies. Alphabet said just over half of its backlog converts within 24 months; Microsoft's RPO has a weighted duration of 2.3 years. The pace of conversion, and who the counterparties are, decides whether the depreciation wave meets enough revenue.

5. backlog conversion

11.0 Scenarios

Next twelve months

Exhibit C. Andra Markets scenarios for the hyperscalers to late 2027

Scenario	Prob.	What happens	Signals
Build pays	45%	cloud growth stays above 35%; capex guides rise but FCF dates are given; backlogs convert	Azure ≥45%, AWS ≥35%; cloud margins stable; RPO growth
Digestion	40%	capex plateaus at 2027 levels; FCF recovers slowly; multiples compress on cash metrics	2027 guides near consensus; buyback pauses extended; cloud margins fall 2-4 pts
Air pocket	15%	a major AI developer slows; capacity exceeds demand; investment marks reverse	bookings decline; neocloud defaults; capex guidance cut mid-year

Andra Markets scenarios; probabilities are judgemental. Not a recommendation on any security.

12.0 What We Are Watching

Dates and indicators

Exhibit D. Calendar

Date	Event	Why it matters
Early-mid November	10-Q filings	lease commitments, useful lives, debt detail
Mid-late November	Nvidia results	demand signal from the main supplier
November-December	hyperscaler bond deals	cost of the debt-funded share
Late January 2027	Q4 reports	first 2027 capex guidance from all four
Quarterly	backlog and RPO disclosures	conversion of commitments into revenue
Ongoing	OpenAI and Anthropic funding rounds	health of the largest customers

Andra Markets selection.

Exhibit E. Data certainty

Data point	Type	Source
Revenue, capex, cash flow, segment data	observed	company releases, 28-29 Oct 2026
Consensus EPS and capex expectations	market expectation	LSEG, StreetAccount, Visible Alpha via press
2026 capex guidance	official forecast	company guidance
2027 capex consensus ($934.5B)	market estimate	FactSet via IO Fund, Sep 2026
2027 capex ($1.14T); 35% debt-funded	bank estimate	Goldman Sachs via Yahoo Finance
Capex/OCF, capex/revenue, depreciation ratios, Amazon quarterly FCF	own estimate	Andra Markets from reported figures
Price reactions	observed, approximate	CNBC, Reuters, XTB, RTÉ, KuCoin News

reading: demand is real and margins are rising, but capex now outruns cash at two of three. 2027 guides and backlog conversion decide the re-rating

Methodology and Source Notes

Method. This report uses the earnings releases, cash flow statements and call transcripts of Alphabet, Microsoft and Amazon for the quarter ended 30 September 2026, consensus and forecast data from FactSet and Goldman Sachs as reported by the press, and S&P 500 monthly data. Ratios are Andra Markets calculations from reported figures. Scenario probabilities are judgemental. This note is analysis, not investment advice, and contains no recommendation to buy, sell or hold any security. Handwritten notes and highlights are informal commentary by the desk. This note is analysis, not investment advice.

Principal sources. Alphabet Q3 2026 earnings release (28 Oct 2026); Microsoft FY27 Q1 release and call (28 Oct 2026); Amazon Q3 2026 release (29 Oct 2026); CNBC; Reuters; Investing.com; Yahoo Finance; Fool.com; XTB; Barron’s; Goldman Sachs via Yahoo Finance; FactSet via IO Fund; Forbes; ValueAdd VC; MUFG and Barclays via MarketScreener; PIMCO via ValueAdd VC; Directions on Microsoft; The Edge; TIKR; MarketBeat; Six Sigma Research; TechTimes; Andra Markets 2026-67.

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