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Corporate Earnings Show Strong Demand for AI

Microsoft, Amazon and Meta continue to experience earnings growth from their AI investments.

"The future is no more uncertain than the past."
– Walt Whitman

Equity markets rallied last week with all three major indices posting weekly gains. Strong AI-earnings releases helped push stocks higher to overcome a weaker than expected GDP report and divided Federal Reserve causing some volatility.

The U.S. economy grew at a 1.5% annualized rate in the second quarter, slowing from the previous quarter. Strong consumer spending and AI-driven business investment supported growth. The weaker than expected growth rate reinforced the Fed's decision to hold rates steady at a range of 3.50%-3.75%. Continued economic uncertainty and elevated inflation ultimately kept the central bank in wait-and-see mode.

Earnings

So far, 61% of S&P 500 companies have reported their quarterly results. Of those companies, the blended earnings growth rate is 47.4%, the highest since the post-covid reopening in 2021 (source: Factset).

Microsoft's AI investments continue driving strong earnings growth. Quarterly revenue reached $90 billion, up 18% year over year, fueled by Azure's 41% growth and rising Microsoft 365 Copilot adoption, surpassing 30 million paid users. The company still plans on spending $175-$190 billion in its AI buildout with more likely planned for 2027. However, this massive investment is bearing fruit with increased adoption leading to revenues.

Amazon is another company whose AI investments are translating into stronger financial performance, led by Amazon Web Services (AWS). According to the latest release, AWS revenue grew 37% year over year, its fastest pace in more than four years. However, the company raised its 2026 capital spending target to $220 billion to expand its AI capacity, signaling confidence that accelerating AI adoption will continue driving long-term revenue growth despite near-term spending pressures. The additional expenditure will account for increased memory costs to meet demand. CEO Andy Jassy believes that the massive spending to meet surging demand won’t abate any time soon.

Meta's AI strategy continues fueling strong business growth. Second-quarter 2026 revenue rose to $60.8 billion, driven by AI-powered advertising improvements and higher user engagement. The company is investing aggressively in AI infrastructure, but that investment is eating heavily into its free cash flow. For the quarter, that decreased from $8.55 billion a year ago to $784 million.

In case you missed it: Watch Kevin Simpson on CNBC's 'Halftime Report'

Final Trades: Steel Dynamics, U.S. 10 Year Treasury, CBRE and Apple

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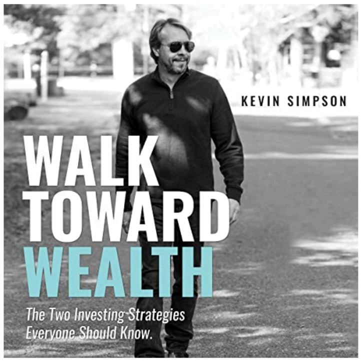
The Road Ahead

This week's economic releases will be labor focused with the Bureau of Labor Statistics payrolls report being released this Friday and the Challenger job cuts report on Thursday. On top of that, we will get the ISM Manufacturing and Non-Manufacturing reports for July.

Earnings season also continues this week with another flurry of releases. We will hear from SpaceX, which will make its first public release following its IPO. On top of that, we will hear from Caterpillar, McDonald's, Walt Disney, Uber, CVS, and ConocoPhillips to name a few.

Thank you for your continued trust and confidence!



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