

# AI Capex Hangover: Hyperscaler Spending, Margins, and the Next Leg of the Rally

Research Team

May 22, 2026

By late May 2026, the AI infrastructure trade has entered a more discriminating phase. Hyperscalers continue to guide for elevated capital expenditure on data centers, custom silicon, and power infrastructure, yet Q1 earnings commentary made clear that investors are no longer rewarding spend alone, they want evidence of monetization, operating leverage, and free-cash-flow conversion. Semiconductor suppliers and utilities have benefited from the buildout; software and services names face higher scrutiny on margins. This report connects the capex cycle to **portfolio positioning**: which Mag 7 names can fund investment internally, which suppliers have backlog visibility, and where equal-weight or sector tilts make sense as the rally matures.

## Hyperscaler AI Capex Growth vs Revenue Growth (Illustrative, YoY %)



Source: Illustrative; company guidance and AVANTAS Research Analysis (Q1 2026)

### Key Takeaways:

- Aggregate hyperscaler AI capex remains on a steep trajectory in 2026, but the market is pricing ROI risk, not canceling the theme, but demanding proof points.

- Free-cash-flow margins compressed for several mega-cap platforms in Q1 as capex rose faster than revenue in some cases; guidance language emphasized multi-year payback, not near-term EPS acceleration.
- Semiconductors and power/utilities retain structural tailwinds; enterprise software must show adoption metrics to justify multiples.
- Cap-weight versus equal-weight spreads remain wide; breadth improves only if non-Mag cyclicals and mid-caps sustain revisions.
- **Portfolio takeaway:** barbell proven cash-generators with selective supplier exposure; trim names where capex growth outpaces revenue without a credible monetization path.

## Executive Summary

**The AI capex cycle is not over, it is maturing. 2024 to 2025 rewarded any exposure to the buildout; 2026 rewards durability of cash flows and credible paths to returns on invested capital. Mag 7 earnings growth still leads the index, but dispersion within the cluster is rising:** cloud platforms with advertising and subscription mix hold up better than pure infrastructure spenders facing margin pressure. Suppliers (semis, equipment, select utilities) remain leveraged to backlog and power demand. For allocators, the question is no longer "AI yes or no" but "which link in the value chain funds itself." Base case: concentration persists, but stock selection within technology and industrials matters more than a blanket overweight.

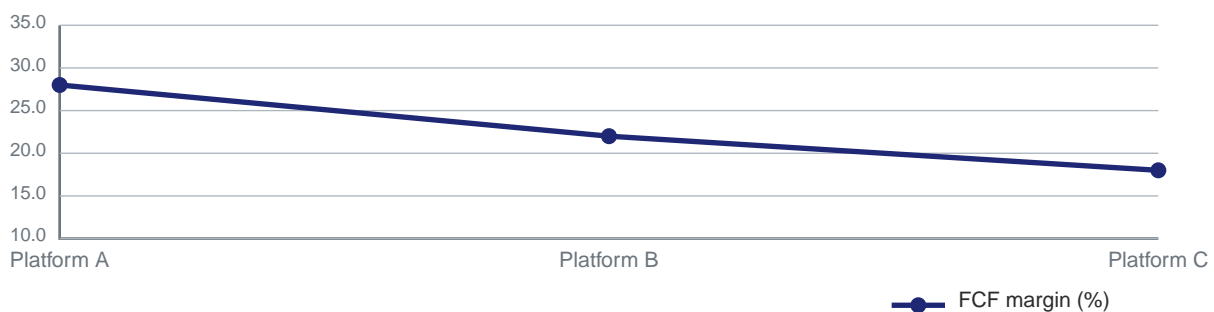
## The Capex Cycle in Numbers

Hyperscaler capital expenditure, data centers, networking, GPUs, and custom accelerators, has risen at a double-digit pace year over year, with several platforms guiding for further increases in 2026. Semiconductor revenue tied to AI workloads remains strong, though lead times and inventory normalization vary by sub-segment. Power and grid-adjacent utilities in high-growth regions benefit from long-duration contracts and regulated returns. The industrial renaissance theme (reshoring, fab construction) overlaps with AI buildout, supporting construction, engineering, and select materials names.

## Margin vs. Multiple: Who Can Fund the Buildout

Investors are comparing capex-to-sales ratios against free-cash-flow yields. Platforms with diversified revenue (cloud, ads, subscriptions) can absorb higher investment without relying solely on multiple expansion. Pure-play hardware or infrastructure names need volume and pricing power to protect margins. Any guide-down on AI revenue run-rate or elongation of payback periods would be a cluster risk event; Q1 language stayed constructive but emphasized "investment phase" framing.

### Free Cash Flow Margin: Selected Mega-Caps (Illustrative, Q1 2026)



Source: Illustrative; AVANTAS Research Analysis

## Winners and Laggards Across the Stack

**Semiconductors and equipment:** backlog visibility, AI SKU mix, and supply discipline support earnings. Cloud and software: winners show seat growth, consumption trends, and gross margin stability; laggards face rising compute costs without pricing pass-through. Utilities and power: structural demand from data-center load growth; regulatory and interconnection timelines are constraints. Industrials: construction and electrical equipment tied to fab and campus buildouts. Laggards include airlines-style margin stories in consumer tech hardware and any name where capex guidance rose without revenue acceleration.

## Index Implications: Mag 7, Equal-Weight, and Dispersion

Cap-weighted indices remain dominated by the largest platforms; equal-weight and mid-cap technology only outperform if ROI fears abate and cuts arrive on schedule. Median stock performance still trails the cap-weighted S&P 500, AI capex concentration is a feature, not a bug, of index construction. Active managers can add value by underweighting capex-heavy names with weak FCF conversion and overweighting suppliers with contracted demand.

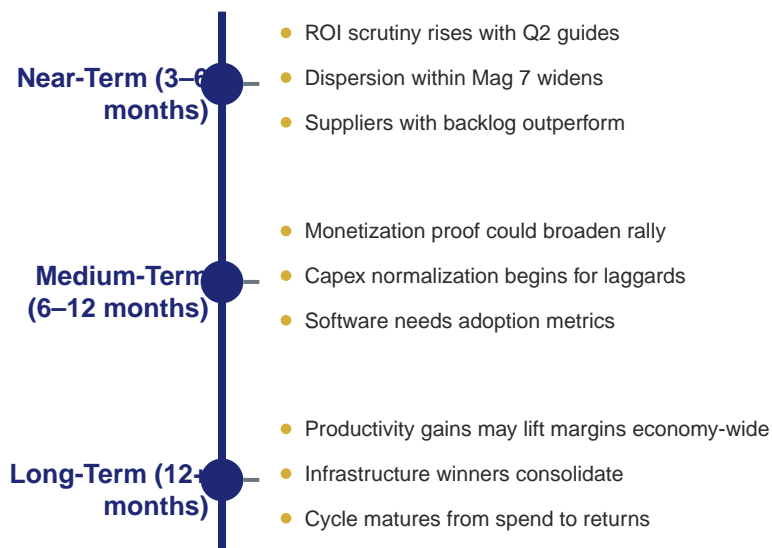
## What to Watch in Q2 and Beyond

Q2 earnings and capex revisions from hyperscalers; semiconductor order books and AI GPU shipment commentary; enterprise AI adoption surveys and seat growth; power availability and utility capex plans; Mag 7 versus RSP relative performance; June FOMC and rate path impact on long-duration growth multiples.

## Timeline and Outlook

**Near-term (3 to 6 months):** Dispersion within Mag 7 and suppliers remains high; any ROI disappointment triggers sharp drawdowns in crowded names. **Medium-term (6 to 12 months):** Monetization proof points could broaden the rally to software and services; failure extends narrow leadership. **Long-term (12+ months):** AI productivity gains may lift economy-wide margins, but the capex cycle will normalize, winners will be balance-sheet-strong platforms and essential infrastructure suppliers.

### Timeline Overview



*Source: AVANTAS Research Analysis*

## Risk Factors

Hyperscaler capex cut or elongation of investment timelines; semiconductor oversupply; regulatory or antitrust constraints on platform economics; higher-for-longer rates compressing long-duration multiples; recession reducing enterprise AI budgets.



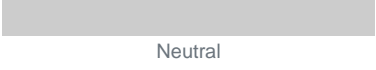

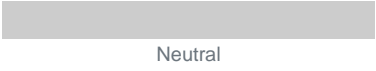
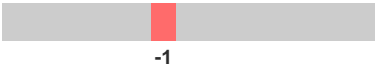

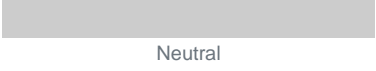
## Conclusion

AI capex hangover is not a collapse, it is a quality filter. Favor cash-generative platforms and suppliers with visible demand; avoid assuming every AI-linked name re-rates together. The next leg of the rally requires ROI, not just spend.

## Asset Class Impact

**Mag 7 quality:** Overweight selective, FCF-rich platforms. Semis / equipment: Overweight structural suppliers. Software: Neutral to overweight only with adoption proof. Utilities / power: Overweight selective data-center exposure. Equal-weight S&P: Neutral until breadth confirms. Small / mid-cap tech: Neutral tactical.

## Asset Class Impact

Asset	View	Commentary
Mag 7 (FCF-rich)	 +1	Overweight selective. Platforms that fund capex internally.
Semis / Equipment	 +1	Overweight. Backlog and AI SKU mix.
Enterprise Software	 Neutral	Neutral. Needs adoption proof.
Utilities / Power	 +1	Overweight selective. Data-center demand.
Equal-Weight S&P	 Neutral	Neutral until breadth confirms.
Capex-Heavy Low FCF	 -1	Underweight. ROI risk.
Industrials (Buildout)	 +1	Overweight selective. Fab and campus construction.
Small / Mid-Cap Tech	 Neutral	Neutral tactical.

*Source: AVANTAS Research Analysis*