The following are excerpts from two news articles published this week examining the potential impact of big tech corporate earnings on market sentiment. The two features are taken from The Irish Examiner (July 31st, 2024) and FX Street (August 1st 2024), as referenced below.

This week, we are focusing on Meta, the parent company of Facebook and one of the 'Magnificent 7' technology stocks, along with its Q2 and Q3 corporate earnings report. Central to the discussion is the sustained investment by big tech in AI-driven technologies, their growth potential, and the timelines for revenue generation.

Facebook parent Meta forecasts upbeat Q3 revenue after strong quarter

Irish Examiner (2024) reports that Meta Platforms beat market expectations for second-quarter revenue and issued a positive sales forecast this week, for the third quarter, signalling that robust digital-ad spending on its social media platforms can cover the cost of its artificial-intelligence investments. Shares of the company rose 8% on the announcement:

> The Facebook and Instagram parent company said revenue rose 22% to $39.1bn (€36.1bn) for the April to June period. Analysts had expected revenue of $38.3bn, according to LSEG data. It also said it anticipates third-quarter revenue in the range of $38.5-41bn, the midpoint of which is slightly higher than analysts' estimates of $39.1bn. Meta's earnings come after disappointing results posted by fellow tech industry powerhouses which suggested the payoff from hefty investments in AI technology may take longer than Wall Street had hoped.

Irish Examiner (2024)

Microsoft said on Tuesday it would spend more money this fiscal year to build out AI infrastructure, while Google parent Alphabet warned last week that its capital spending would stay elevated for the rest of the year. Like both of those companies, Meta has been plowing billions of dollars into its data centers in an effort to capitalize on the generative AI boom. Its shares sank in April after it disclosed a higher-than-expected expense forecast, quickly knocking $200 billion off its stock-market value. That ended a run of strong quarters for Meta, which has climbed back from a share price meltdown in 2022 by slimming its workforce and leaning in to investor excitement about generative AI technologies.

Irish Examiner (2024)

The Facebook and Instagram parent company said revenue rose 22% to $39.1bn (€36.1bn) for the April to June period. Analysts had expected revenue of $38.3bn, according to LSEG data. It also said it anticipates third-quarter revenue in the range of $38.5-41bn, the midpoint of which is slightly higher than analysts' estimates of $39.1bn. Meta's earnings come after disappointing results posted by fellow tech industry powerhouses which suggested the payoff from hefty investments in AI technology may take longer than Wall Street had hoped.

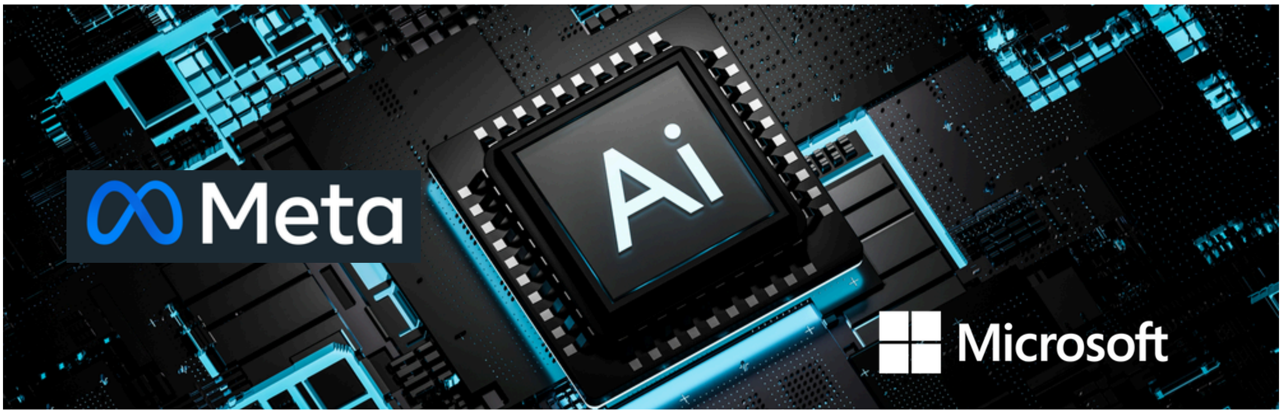
Microsoft said on Tuesday it would spend more money this fiscal year to build out AI infrastructure, while Google parent Alphabet warned last week that its capital spending would stay elevated for the rest of the year. Like both of those companies, Meta has been plowing billions of dollars into its data centers in an effort to capitalize on the generative AI boom. Its shares sank in April after it disclosed a higher-than-expected expense forecast, quickly knocking $200 billion off its stock-market value. That ended a run of strong quarters for Meta, which has climbed back from a share price meltdown in 2022 by slimming its workforce and leaning in to investor excitement about generative AI technologies.

The company said it would continue to spend big on AI infrastructure, anticipating 2024 capital expenditure would fall between $37-40bn, up $2bn at the lower end from its previous forecast of $35-40bn. It left its total expense forecast for the year unchanged at $96-99bn.

Meta has been updating its ad-buying products with AI tools and short video formats to boost revenue growth, while also introducing new AI features like chat assistants to drive engagement on its social media properties. In a departure from its peers, Meta has released its AI models mostly for free, wagering that this approach will pay off in the form of innovative products, less dependence on would-be competitors and greater engagement on its core social networks.

The company also stands to benefit if developers use its free models over paid ones, which would undercut the business models of rivals. Developers generally see Microsoft -backed OpenAI as the industry leader, but Meta revealed key performance gains with its Llama 3 release last week that could make its models more attractive.

Irish Examiner (2024)



Now that the Fed has come and gone, what is next for markets?

With the Federal Reserve's rate decision now clear, FX Street (2024) asks what the probable impact on market sentiment, especially considering the simultaneous announcement of the big tech earnings. Additionally, it examines the anticipated influence of AI on future revenues, not only for the tech companies but also for related sectors like semiconductor manufacturing:

Meta results fuel AI trade, for now.

Market sentiment was dominated by US tech results on Wednesday. Meta's results were better than expected. Growth surged and net income beat expectations. This surge in growth was fuelled by a 22% increase YoY in advertising revenue. Reality labs, one of Meta's biggest AI investments, saw revenues grow by 28% YoY. The company upgraded their capex figures; Meta's share price surged on these latest earnings reports, suggesting that investors are willing to overlook increased capital expenditure, as long as revenue growth remains strong. Thus, Meta has bought the AI theme some time.

Tech rally: Not all stocks are created equal.

It is worth noting that AI-related stocks are not all moving together. The hardware makers are the main beneficiaries. Nvidia's stock surged 12% on Wednesday due to a double whammy of good news for the main AI chip marker: news that the US could ease restrictions on semiconductor exports and secondly, news that Microsoft's capex was increasing, which would directly impact Nvidia's revenue base since Microsoft is a huge customer of Nvidia's. While Meta is developing its own chips, it will also likely buy chips from Nvidia and other semiconductor companies in the coming months and years. Thus, increasing capex spend by the Magnificent 7 is also good news for Nvidia and other chip makers like AMD.

AI investments take time to pay off.

In contrast, the companies that are trying to embed AI within their products and sell these AI-products to consumers are doing less well than Nvidia. Nvidia's share price is higher by 137% YTD, while Microsoft's share price is higher by 11% YTD and Meta's share price is up by 35% YTD. Microsoft is the notable laggard, suggesting that the market is unimpressed by how quickly Microsoft can transform AI capex spend into revenue growth.

FX Street (2024)

References:

Irish Examiner (2024). '*Facebook parent Meta forecasts upbeat Q3 revenue after strong quarter*'. Irish Examiner July 31st. Available at: https://www.irishexaminer.com/business/companies/arid-41447839.html . (Accessed 01 August 2024).

FX Street (2024). *'Now that the Fed has come and gone, what is next for markets?'*.FX Street August 1st. Available at: https://www.fxstreet.com/analysis/now-that-the-fed-has-come-and-gone-what-is-next-for-markets-202408010841. (Accessed 01 August 2024).

EON- 01-08-24