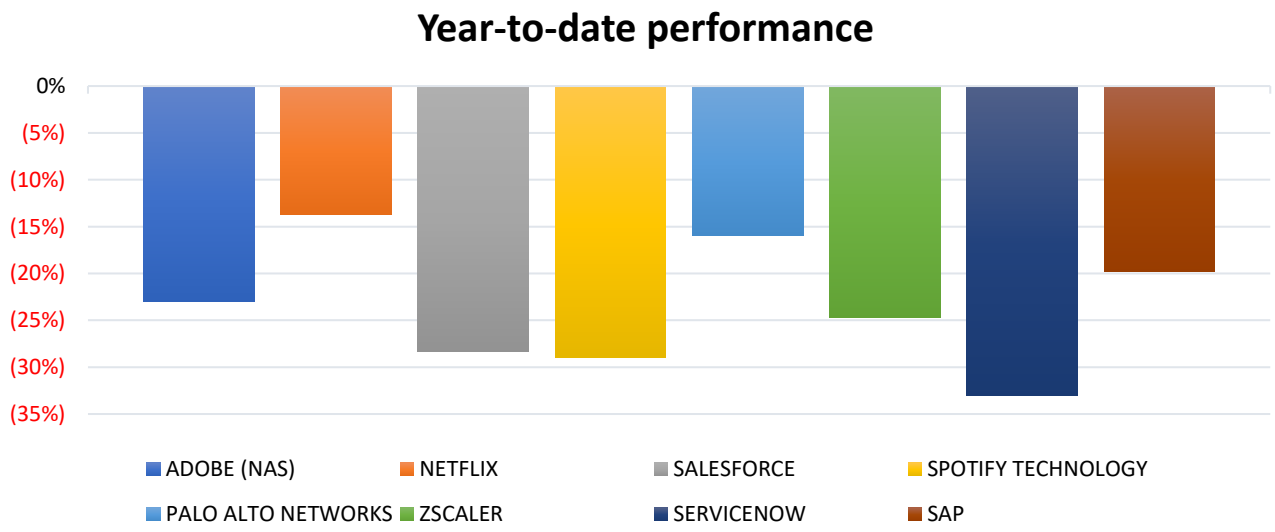
Following the first quarter earnings season and several high-profile large language model (LLM) releases, market sentiment has shifted materially. A growing number of investors are questioning the intrinsic value of corporate software and IT services businesses in an era where advanced AI could, in theory, automate many traditional workflows. This re-evaluation has been compounded by renewed concerns around hyperscaler capital spending after guidance from Amazon, Meta, Alphabet and Microsoft pointed to more aggressive data centre outlays for 2026.

A catalyst for the recent rotation came from Anthropic's launch of "plug-ins" for its Claude Cowork agent, aimed at streamlining complex tasks in data analysis, legal review, marketing and sales workflows. Headlines around this rollout sparked fears that general-purpose AI agents might displace traditional enterprise software tools and consultants, particularly those built on legacy per-seat business models.



While we acknowledge that AI represents a structural inflection point for the technology sector, our analysis indicates that broad selloffs in IT and SaaS have swept up many high-quality businesses with no fundamental justification. This indiscriminate risk-off reaction creates rare opportunities to gain exposure to durable businesses at attractive entry points. Two names in that we believe fall into this category are Netflix and Palo Alto Networks.

Palo Alto Networks

Some investors fear that AI agents could automate security analysis or routine monitoring tasks, diminishing the need for traditional cybersecurity platforms. In reality, AI is *not replacing cybersecurity – it's amplifying its complexity*.

Palo Alto positions itself not as a legacy incumbent to be disrupted, but as a platform innovator using AI/ML to scale defence. Their approach embeds AI across threat detection, response automation, cloud security and unified SOC workflows, a necessary evolution given the surge in AI-driven threat vectors.

Indeed, AI expands the attack surface (e.g., insecure cloud AI workloads), increasing demand for advanced security solutions rather than reducing it. Recent industry research shows a dramatic rise in AI-related cloud security risks, underlining the need for scalable protection.

Netflix

Part of Netflix's share price weakness has been the ongoing battle to acquire Warner Bros Discovery and the associated debt load Netflix would incur should the deal be approved. However, it does appear that Netflix has also been caught in the AI software sell off.

There is a camp of investors that believe that AI might streamline content personalisation or recommendation systems, leading some to question the uniqueness of Netflix's data moats or subscriber engagement models. We believe this concern is insufficient to place a risk premium on the group's valuation given its dominance in the global streaming market and management's ability to pivot should the consumer behaviours and preferences shift.

Netflix's core value proposition rests on curated, exclusive content and global scale, not on generic recommendation technology alone. While AI tools can enhance personalisation, they do not replace original content creation, intellectual property libraries, or subscriber network effects — all durable, high-retention revenue drivers.

Additionally, AI content generation potentially *augments* Netflix's production pipeline (script ideation, subtitling workflows, localisation) but does not obviate the need for premium programming. The result: productivity improvements rather than existential disruption.

The new arms race – the race for computing space

Peter Armitage and Peter Little, 7 February 2026

The market was left stunned this week as the big tech 6 companies announced results, projecting 40%+ increases in their capex budgets for 2026. Many share prices plummeted as the market expressed skepticism about the ability to generate the incremental profits required to justify the eye-watering investments.

Demand for computing capacity is growing at an unprecedented pace, and the big 7 tech companies will spend US$650 billion to increase capacity (data centres, chips, energy etc), after an already massive US$450 billion in 2025. To put that in context, it is like building 100 nuclear power plants, more than South Africa's GDP (US$500bn), almost as much as US annual defence spend and as much as rebuilding the entire US Interstate Highway System in a year, but in silicon.

The companies are not entirely sure how they are going to monetize this huge expenditure, but if they don't keep up, they could get left behind entirely.

The table below shows the profits and spend of the big tech companies:

Name	Market Cap $bn	1Y Fwd P/E	Operating Profit ($bn)			Capex ($ bn)			R&D Expense	Capex to Sales		GP Margin	Operating Margin
			T12M	1Y Fwd	% Chg YoY	T12M	1Y Fwd	% Chg YoY	$ bn (T12M)	T12M	1Y Fwd		
Nvidia	4,233	23	110	219	99%	6	7	22%	17	3%	2%	70%	59%
Apple	4,059	31	141	153	9%	12	15	20%	37	3%	3%	47%	32%
Alphabet	4,021	28	129	160	24%	91	132	45%	61	23%	32%	60%	32%
Microsoft	3,076	23	143	166	16%	83	116	40%	34	27%	29%	69%	47%
Amazon	2,491	24	76	104	36%	120	148	23%	103	17%	16%	50%	11%
Meta	1,693	20	83	89	7%	70	123	77%	57	35%	48%	82%	41%
Tesla	1,524	191	4	7	52%	9	16	93%	6	9%	16%	18%	5%
TSMC	1,445	19	62	88	41%	41	53	29%	8	33%	32%	60%	51%
ASML	528	38	13	16	26%	2	2	36%	5	5%	5%	53%	35%

Source: Anchor Capital & Bloomberg

There are some fascinating takeaways from the table above:

- The big spend is primarily from 4 companies who are building computing capacity – Amazon (US$148bn), Alphabet (US$132bn), Meta (US$123bn) and Microsoft (US$116bn).
- The valuation of the majority of the shares above are around a forward 20–23x PE multiple, which is roughly the same as the market average. These companies are not relatively expensive and do not appear to be in the much publicised "bubble". Apple (31x) and Alphabet (28x) are the expensive ones.
- Apple and Nvidia stand out as having almost insignificant capex compared to the others. Apple clearly chose not to participate in this race for computing space. Their strategy currently looks clever – stand back and rent what they want from the big spenders. They have just concluded such a deal with Google (Alphabet). Not surprisingly their share prices went up while all the others went down last week.
- A lot of this spending is heading the way of Nvidia (with over 90% market share in high speed GPU's), but it ironically has very little capex spend. Most of its production is handled by TSMC, which shows US$52bn of capex above. It is no surprise that Nvidia is now the biggest and second most profitable company in the world (behind Saudi Aramco).
- The two biggest relative spenders are Meta (US$180bn capex and R&D) and Amazon (US$223bn). Meta's projected operating profit for 2026 is US$89bn and they already have massive advertising market share – it is difficult to picture where the incremental profit will come from to balance that profit and spend. They certainly cannot afford to continue spending at that rate unless revenue increases massively. The numbers seem to indicate that they are betting the house!

The key question investors must now confront is simple: Is this AI capex boom good or bad?

For most of the last 18 months, the market treated large AI capex announcements as a bullish signal. If management said "we're spending aggressively," the share price often rallied. The logic was clear: demand is exploding, AI is transformational, and the winners will be the firms that build the most compute capacity the fastest.

But the market is now beginning to treat capex differently. Instead of applauding every major spend program, investors are increasingly asking a more uncomfortable question: Will these companies actually earn an adequate return on the capital they are deploying?

And if we zoom out, the ballpark estimate is that between 2025 and 2028, the "Big Seven" technology companies could spend in the region of $3 trillion on Capex.

This is a number so large that it begins to distort the normal way investors think about corporate investment cycles. It is effectively the creation of a new global industrial complex — except this one is made up of GPUs, power grids, data centres, networking chips, and inference clusters.

What makes this moment different from prior tech cycles is that demand appears real, immediate, and accelerating.

Across the board, management teams are telling investors the same story:

- AI demand is stronger than expected
- customers are adopting faster than forecast
- compute supply remains constrained
- the market is not yet near saturation

In other words, the world is embracing AI faster than even optimistic forecasts predicted.

And the evidence is not just narrative. Nvidia's forward operating profit is expected to rise from $110bn (T12M) to $219bn, nearly doubling (+99%), while maintaining a remarkable 59% operating margin and 70% gross margin. That kind of profitability is only possible in the presence of extreme demand pressure and strong pricing power.

The critical shift is that the market is no longer simply rewarding capex as a sign of ambition. It is starting to penalise capex where the payoff is unclear.

This is the classic late-stage investment cycle question: Are we building productive assets — or overbuilding capacity?

The return hurdle is massive.

If the Big Seven spend $3 trillion on Capex from 2025–2028, then even a reasonable 15% return on that capital would imply roughly $450bn of additional annual operating profit.

That number is extraordinary. For context, the combined operating profits of these companies today are already roughly $500bn–$600bn.

In other words, the market is implicitly assuming that AI capex could potentially drive a world where operating profits double over the next 3–4 years.

That is a breathtaking assumption and this is where skepticism becomes rational.

These firms already dominate many of the most profitable markets on earth: digital advertising, cloud computing, operating systems, mobile ecosystems, enterprise software, and e-commerce logistics.

The question is not whether AI will grow — it will.

The question is whether AI will create new pools of profit large enough to justify this magnitude of investment, without compressing returns through competition and commoditisation.

History is mixed. The internet created massive value, but it also created overinvestment (think telecom fibre buildouts). Cloud computing generated huge profit pools, but only a few firms captured them.

AI may follow the same path: enormous transformation, but profits concentrated in fewer hands than the spending suggests.

What Does This Mean for the Shares?

The table reveals clear differences in positioning.

- Apple is now the most expensive (forward 31x PE) and has reported excellent results after an iPhone 17 launch. It has not been negatively impacted by this capex phenomenon. It looks like a safe space to be, but the valuation looks too rich for such a massive company that we believe will battle to grow in double-digits in the longer term; even if it just because of the law of diminishing returns.
- Nvidia looks increasingly attractive and its valuation is now just above the market average (forward 24x PE). If AI demand remains tight, Nvidia remains the tollgate and the share price has been flattish for around nine months, underperforming the market. Longer term it is difficult to see how the current market share and margins (60% operating margin) are maintained. And as we point out above, the current spend cannot be maintained with massive increases in revenue.
- Microsoft stands out as the best "quality compounder." It combines scale with an exceptional 47% operating margin and forward operating profit growth of 16%, while still investing aggressively.
- Alphabet and Meta are the biggest Capex swing factors. Alphabet's Capex rises 45%, Meta's rises 77%, and both are pushing capex-to-sales sharply higher. The market is watching closely to see whether these investments translate into monetisable AI services.
- Amazon continues to invest heavily, but its 11% operating margin highlights that returns are still structurally lower than peers.

The world is changing quickly, and AI demand is real. But the market is now asking a more mature question: AI Capex is not automatically bullish — it is only bullish if returns follow.

For investors, the next phase of the AI trade will not be about who spends the most. It will be about who earns the best return on what they spend. And that is a far harder game.