

Can AI Enthusiasm Carry Big Tech Through Earnings Season?

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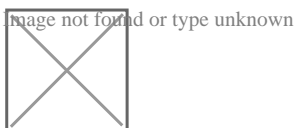
Navigating the unfolding narrative of the tech industry this week is akin to a captivating blockbuster with unexpected twists. Heading into the week, Microsoft, Alphabet (Google), Apple, Amazon, and Meta (Facebook) had investors on the edge of their seats, hoping and praying that several members of the “Magnificent Seven” would deliver data justifying the recent AI-related market momentum. However, like a good story, nothing ever goes quite as planned.

To many, the current AI boom evokes memories of the early days of cloud computing. There's a similar surge in hype, hope, and expectations, but limited data on whether billions of dollars of invested capital have begun to pay off... yet. In the case of cloud computing, companies started detailed reporting on cloud sales only after pressure from investors. In the case of AI, the appetite for similar data is palpable, but the challenges companies face in accurately reporting results are considerably more complex, as revenue attribution for different AI products and services is layered throughout each company's tech stack. As Bloomberg aptly described it earlier this week, “unlike Nvidia... which can trace its AI fortunes to the chipmaker's blockbuster H100 product, Alphabet and Microsoft don't neatly break out AI-driven sales because AI is woven throughout their businesses.”

However, this challenge didn't hinder Microsoft's CEO, Satya Nadella, from revving up the AI hype machine after the market closed on Tuesday by stating, “we've moved from talking about AI to applying AI at scale.” In hard(ish) numbers, that meant AI services at Microsoft contributed 6 percentage points of growth to Azure revenue in its last fiscal quarter (second quarter at MSFT), up from 3 percentage points the previous quarter. Despite beating cloud and AI earnings projections, after-hours shares traded slightly lower.

Similarly, Alphabet (Google) and Advanced Micro Devices (AMD) – on the outside looking into the “Magnificent Seven” - struggled to meet lofty AI expectations and failed to impress investors after reporting earnings on Tuesday. In the case of Alphabet, the company projected a steeper than expected rise in AI-related costs this year. On the other hand, chipmaker AMD issued weaker-than-expected guidance for the first quarter of 2024, stoking concerns that AI momentum is not as feverish as many thought. Shares of both stocks traded lower after hours on Tuesday.

As of this writing, investors await data from Apple, Amazon, and Meta, which are expected to announce earnings on Thursday of this week. However, despite the fact that earnings season is only just getting underway, pundits at Barron's have all but declared the “big tech” stock trade dead for now. The question on everyone's mind is, how will the rest of the “Magnificent Seven” fare in this season of high stakes and higher expectations?



As earnings season continues to unfold, the tech industry finds itself at a crucial crossroads. The anticipation surrounding the rest of the “Magnificent Seven's” earnings announcements has not only captivated the attention of investors, but also raised fundamental questions about the

trajectory of the current AI boom fueling much of big tech's momentum.

Drawing parallels with the early days of cloud computing, the present AI fervor mirrors the era when companies hesitated to reveal the intricate details of their cloud sales while the boom was still in its infancy. Today, the "Magnificent Seven" are faced with a delicate proposition: report the complex data investors want, risking that it might be too much information too soon, or fail to report the data they have, risking investors lose confidence in AI's trajectory. It remains to be seen if companies yet to report will adjust their strategies based on Tuesday and Wednesday's less-than-stellar market feedback.

The looming question is how the remaining members of the "Magnificent Seven" will navigate this season of high stakes and even higher expectations. Positive results could swing momentum for the big tech trade back to bullish. Conversely, if the rest of the "Magnificent Seven" fails to impress, adjusted outlooks on the AI boom may compel investors to recalibrate their thesis for the entire tech sector least in the short term. However, only time will reveal if the climactic twist in the latest chapter of the tech saga turns towards tragedy or comedy.

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