

THE AI INVESTMENT CYCLE AT A CROSSROADS

What Nvidia Earnings, Rising Yields and Record Infrastructure Spending
Mean for Technology Investors

WATSON CAPITAL

AUGUST 25, 2026 | PRE-EARNINGS STRATEGY REPORT

Executive Summary

CENTRAL THESIS

Nvidia's fiscal second-quarter results will be treated as a company event, but the signal is broader: they will test the durability of an AI capital cycle now measured in tens of billions of dollars per quarter across the largest cloud platforms.

\$280B

IMPLIED VALUE SWING

Approximate market-value move associated with options pricing.

5.4%

IMPLIED MOVE

Expected move in either direction around the release.

Aug. 26

REPORT DATE

Nvidia FY2027 Q2 results at 5:00 p.m. ET.

FIVE CONCLUSIONS

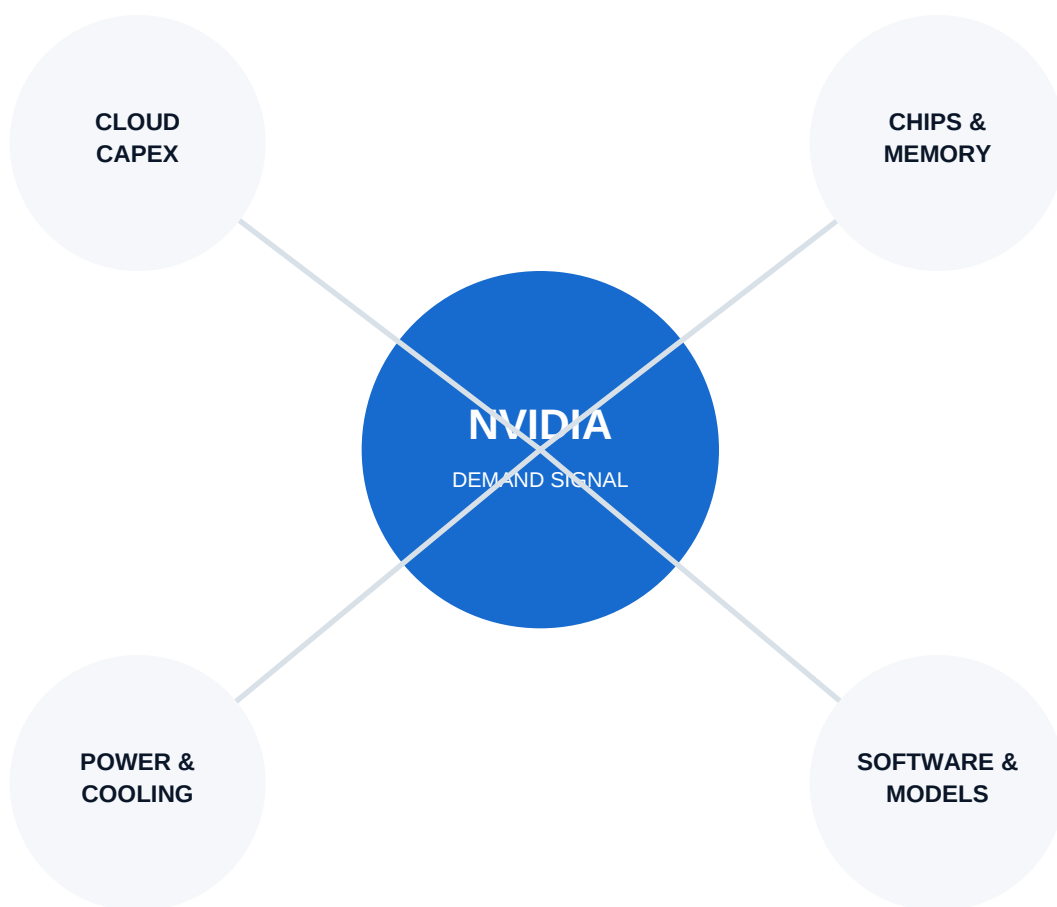
- The demand signal remains unusually strong: Microsoft, Alphabet and Meta each disclosed major infrastructure investment during their latest reported quarters.
- The debate is shifting from whether AI demand exists to whether revenue, utilization and margins can justify the pace of spending.
- Nvidia guidance matters more than the headline quarter because investors are pricing the duration of the cycle, not merely its current strength.
- Higher long-term yields raise the hurdle rate for long-duration technology assets and can compress valuations even when operating results remain sound.
- A disciplined approach favors infrastructure beneficiaries with visible demand, balance-sheet capacity and evidence of monetization.

BOTTOM LINE

The AI cycle is intact, but the market is entering a more selective phase in which execution, cash returns and valuation discipline matter more than narrative alone.

Why Nvidia Has Become a Macro Event

The semiconductor leader now sits at the intersection of corporate capital budgets, cloud growth, sovereign computing, data-center construction and equity-market sentiment. Its report can change expectations across an entire investment ecosystem.



TRANSMISSION MECHANISM

- Guidance informs expectations for hyperscaler accelerator demand and deployment timing.
- Gross margin indicates pricing power, product mix and the cost of rapid platform transitions.
- Supply and export commentary can alter assumptions for revenue availability and geopolitical exposure.
- Customer commentary influences adjacent infrastructure, from CPUs and networking to electricity and cooling.

The Spending Base Is Already Enormous

Recent disclosures show that AI infrastructure spending is not hypothetical. The scale of quarterly investment creates a large demand pool for accelerators, CPUs, networking and data-center capacity - while also raising the burden of proof for future returns.

SELECTED LATEST DISCLOSED QUARTERLY CAPITAL EXPENDITURE

Alphabet Q2 2026 \$44.9B



Microsoft FY26 Q4 \$41.0B



Meta Q2 2026 \$31.08B



Company-defined capital expenditure measures; periods and accounting definitions differ.

\$117.0B

COMBINED QUARTERLY DISCLOSURES

Simple sum of the three values above; not a market forecast.

~2/3

MICROSOFT SHORT-LIVED ASSETS

Primarily CPUs and GPUs in the latest fiscal quarter.

INTERPRETATION

The opportunity is broadening beyond accelerators. Alphabet said roughly 60% of technical-infrastructure investment was in servers and 40% in data centers and networking. Microsoft said roughly two-thirds of its latest capex was for short-lived assets, primarily CPUs and GPUs. The physical AI stack is becoming a multi-industry capital program.

The Six Signals That Matter Most

01 DATA CENTER REVENUE

The cleanest near-term measure of accelerator and systems demand.

02 FORWARD GUIDANCE

The market is pricing durability. Guidance can matter more than the reported quarter.

03 GROSS MARGIN

A read on pricing, mix, transition costs and supply-chain execution.

04 PRODUCT TRANSITIONS

Ramp timing determines availability, mix and customer deployment schedules.

05 CUSTOMER CONCENTRATION

Large buyers can amplify growth but also increase budget and bargaining risk.

06 CHINA & EXPORTS

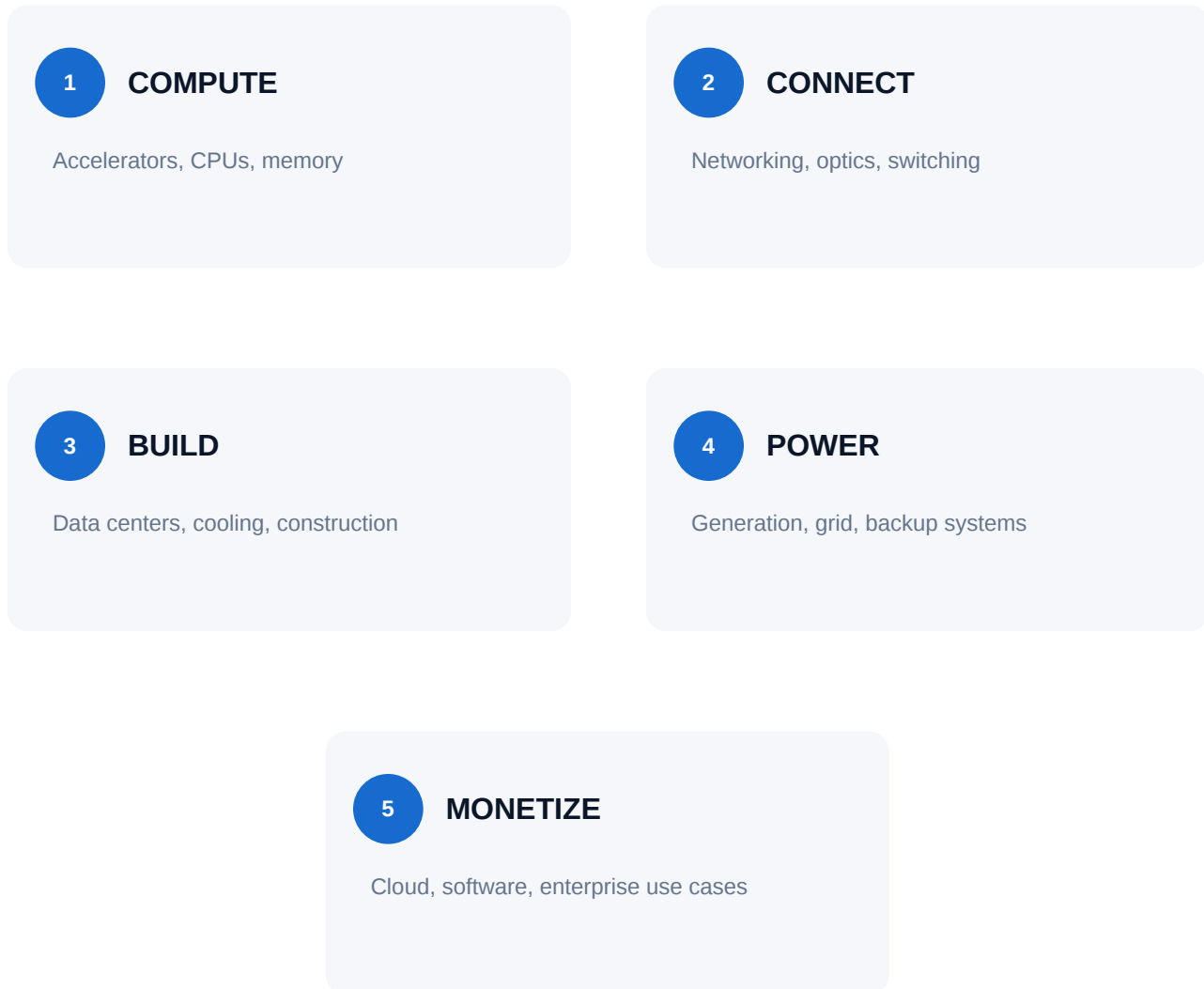
Regulatory constraints can reshape accessible demand and product strategy.

DECISION RULE

Strong revenue without durable guidance is backward-looking. Strong guidance without margin resilience may imply weakening economics. The highest-quality signal is demand strength accompanied by execution and defensible profitability.

AI Beyond the GPU

The next phase of the cycle is likely to reward the infrastructure required to make accelerators useful at scale. The investable system extends from silicon to electricity and from networks to software utilization.



WHAT CHANGED

AI workloads increasingly require coordinated CPU and accelerator architectures. That expands the opportunity set, but it also makes bottlenecks more consequential. A shortage of power, networking capacity or deployable sites can delay revenue recognition even when chip demand is strong.

The Interest-Rate Hurdle

Technology earnings can remain strong while technology multiples decline. Long-duration assets are especially sensitive to the discount rate applied to future cash flows.

ILLUSTRATIVE PRESENT VALUE OF \$100 RECEIVED IN YEAR 10

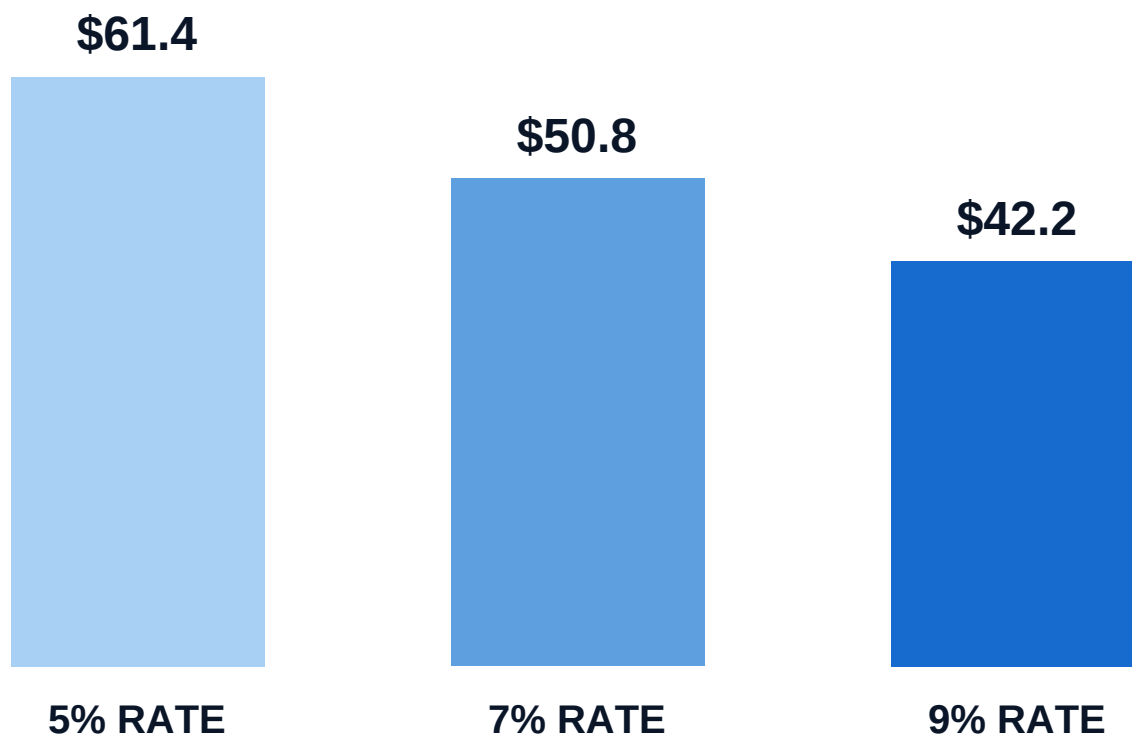


Illustration: $PV = \$100 / (1+r)^{10}$. Not a security valuation or forecast.

INVESTMENT IMPLICATION

When yields rise, companies must deliver more growth, sooner, to support the same valuation. This does not invalidate the AI thesis; it increases the importance of entry price, free cash flow and time-to-monetization. The strongest operating company can still be a poor investment at an undisciplined price.

Bull, Base and Bear Interpretations

BULL	BASE	BEAR
SIGNAL Demand and guidance exceed expectations; margins remain resilient.	SIGNAL Strong growth continues, but results broadly match elevated expectations.	SIGNAL Guidance, deployment timing or margins disappoint.
MARKET READ Cycle duration extends; infrastructure beneficiaries retain pricing power.	MARKET READ Fundamentals remain constructive; returns become more selective.	MARKET READ Spending scrutiny rises; weaker or highly valued names derate first.
KEY RISK Complacency and crowded positioning.	KEY RISK Multiple compression offsets earnings growth.	KEY RISK A short-term miss may be mistaken for structural deterioration.

PORTFOLIO POSTURE

Avoid treating the earnings print as a binary verdict on AI. Separate company execution, industry demand and valuation response. They can move in different directions over different time horizons.

Where Durable Value May Accrue

SEGMENT	POSITIVE EVIDENCE	PRIMARY CHALLENGE
ACCELERATORS & SYSTEMS	Demand visibility	Product transitions, concentration
CPUs, MEMORY & NETWORKING	Broader architecture needs	Cyclicality, pricing
DATA CENTERS & COOLING	Physical capacity buildout	Construction timing, utilization
POWER & GRID	Structural electricity demand	Regulation, project duration
CLOUD & SOFTWARE	Recurring monetization potential	Return on capex, competition

FOUR FILTERS FOR SECURITY SELECTION

VISIBLE DEMAND

BALANCE-SHEET CAPACITY

PATH TO CASH RETURNS

VALUATION SUPPORT

What the Market May Be Underpricing

01

CAPEX DIGESTION

Customers slow purchases after rapid capacity accumulation.

02

MONETIZATION GAP

AI revenue develops more slowly than depreciation and operating costs.

03

VALUATION

High expectations leave limited tolerance for execution errors.

04

CONCENTRATION

A small group of buyers and stocks drives industry and index outcomes.

05

POLICY & EXPORTS

Restrictions alter addressable markets and product availability.

06

PHYSICAL CONSTRAINTS

Power, cooling, land and interconnection delay deployment.

07

COMPETITION

Custom silicon and alternative architectures pressure economics.

08

FINANCING COST

Higher yields increase hurdle rates across the buildout.

Risk control begins by refusing to confuse a powerful secular theme with a guaranteed investment outcome.

The Cycle Is Intact - Selectivity Is Rising

WATSON CAPITAL VIEW

The AI buildout is supported by disclosed capital commitments, rapid compute demand and expanding infrastructure requirements. Yet the same evidence that validates the opportunity also raises the stakes: spending is large enough that investors will increasingly demand proof of utilization, monetization and cash returns.

1

FOLLOW THE BUDGETS

Track actual capital deployment, not just narrative.

2

MEASURE THE ECONOMICS

Prioritize margins, cash flow and return on invested capital.

3

SEPARATE THE CLOCKS

Distinguish a quarterly surprise from a multi-year theme.

4

RESPECT THE PRICE

A compelling company and a compelling entry are not the same.

5

REASSESS CONTINUOUSLY

Update conviction when evidence changes.

FINAL INVESTMENT CONCLUSION

The next stage of AI investing will reward evidence over excitement and discipline over indiscriminate exposure.

Sources & Important Information

SELECTED SOURCES

1. NVIDIA Investor Relations, "NVIDIA 2nd Quarter FY27 Financial Results," event scheduled August 26, 2026; and July 29, 2026 conference-call announcement.
 2. Reuters, "Nvidia shares set for \$280 billion price swing after earnings, options show," August 25, 2026.
 3. Microsoft Investor Relations, FY2026 Fourth Quarter Earnings Conference Call and earnings materials, July 29, 2026.
 4. Alphabet Investor Relations, 2026 Q2 Earnings Call, July 22, 2026.
 5. Meta Investor Relations, "Meta Reports Second Quarter 2026 Results," July 29, 2026.
 6. Federal Reserve, Minutes of the Federal Open Market Committee, July 28-29, 2026, released August 19, 2026.
 7. NVIDIA Investor Relations, fiscal 2027 first-quarter financial results, May 20, 2026.
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IMPORTANT INFORMATION

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