



AI Rotation: Semis to Hyperscalers

FROM CYCLICAL CAPEX WINNERS TO RECURRING REVENUE COMPOUNDERS

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Core thesis



Rotate toward hyperscalers

- Cloud and AI platform demand is translating into durable multi-year backlog, recurring revenue, and expanding operating leverage at Amazon, Microsoft, and Alphabet.
- Recent share-price pressure creates a more attractive entry point versus semiconductor names whose earnings are still near peak capex-cycle conditions.

Sources: Zacks on AWS backlog and run-rate growth, Microsoft cloud and earnings growth, Alphabet cloud revenue and margin expansion.



Trim semiconductors into strength

- Semiconductor demand has been turbocharged by hyperscaler AI capex, but semis remain one of the market's most cyclical groups.
- Low-looking P/Es can be deceptive when earnings sit at the top of an abnormally large but temporary capex cycle.

Sources: Zacks commentary on semiconductor supercycle and hyperscaler-driven AI chip demand; Zacks on 2026 hyperscaler capex ramp.

WHY NOW

What changed in the AI value chain

\$515B

2026 hyperscaler capex

Zacks says combined hyperscaler capex is expected to rise from \$390 billion in 2025 to \$515 billion in 2026, confirming a huge infrastructure buildout phase.

\$244B

AWS backlog

Amazon's AWS order backlog climbed 40% year over year to \$244 billion, improving revenue visibility beyond one or two quarters.

63%

Google Cloud growth

Alphabet's cloud revenue growth and margin expansion show the spend is increasingly monetized at the platform layer rather than only at the chip layer.

Why semiconductor P/Es can mislead at the peak

The trap

When earnings are inflated by a once-in-a-generation capacity and accelerator procurement cycle, the denominator in the P/E ratio is temporarily overstated.

A stock on 20x normalized earnings can look like 12x on peak-cycle earnings. The apparent cheapness often disappears when orders, utilization, and pricing normalize.

Why this matters now

- AI chip demand remains robust, but it is still funded by customer capex budgets rather than by permanently non-cyclical end demand.
- Zacks notes semiconductor upside is tied to hyperscaler spending; if capex growth moderates, chip earnings growth should decelerate first.
- That makes today's low multiple less a sign of undervaluation and more a signal that the market expects earnings normalization.

Recurring revenue and stable profit growth are improving

Company	Evidence of durability	Why shares matter now
Microsoft	Revenue rose 18% to \$82.9B, Microsoft Cloud rose 29% to \$54.5B, and fiscal 2026 EPS is expected to grow about 27%.	Even after strong fundamentals, Zacks noted the stock was down 25% over six months, indicating sentiment pressure despite resilient growth.
Amazon	AWS Q4 2025 revenue reached \$35.6B, up 24%, backlog hit \$244B, and AWS annualized run rate approached \$142B.	The business has unusually strong revenue visibility for an infrastructure asset owner, while capex fears still dominate the debate.
Alphabet	Google Cloud revenue rose 63% to roughly \$20B and cloud operating income tripled to \$6.6B with margins near 33%.	Cloud monetization is accelerating fast enough to offset concerns that AI investment is only a cost burden.

Data sourced from recent Zacks and Zacks research commentary focused on Microsoft, Amazon, and Alphabet operating trends.

The build phase is maturing into a monetization phase

1

Semis led first

Accelerators, networking, memory, and foundry capacity captured the initial shockwave of AI infrastructure demand.



2

Platforms monetize next

As clusters come online, workload growth shifts value to cloud rentals, model hosting, software layers, and enterprise AI services.



3

Returns broaden later

Hyperscalers can amortize giant fixed investments across recurring subscriptions, usage-based compute, and ads/productivity ecosystems.

Pressure on hyperscalers may be an opportunity, not a warning

Why the market is uneasy

- Capex intensity is enormous and headline numbers invite fears of lower free cash flow and delayed returns.
- Investors still anchor on semis as the cleanest AI trade and discount the slower but steadier monetization profile of cloud platforms.
- Near-term margin noise can overshadow the fact that recurring revenue engines usually scale better than hardware cycles.

Why the setup is attractive

- Microsoft, Amazon, and Alphabet each show evidence of backlog, subscription, or cloud consumption durability.
- Zacks highlights improving cloud growth and profit expansion, suggesting AI capex is not just expense, but a foundation for future annuity-like revenue.
- If investors rotate from peak hardware beneficiaries toward durable cash compounders, hyperscalers can re-rate without needing a heroic demand assumption.

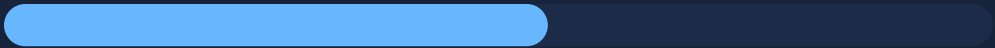
Hardware cyclicalality versus platform durability

Semiconductors

Cyclicalality High



Earnings visibility Moderate



PE trap risk High



Best when capex is accelerating; most exposed when order digestion starts.

Hyperscalers

Recurring revenue Very high



Profit stability High



Re-rating potential High



Best when investors refocus from capex cost to lifetime monetization and utilization.

What could drive the rotation

Near-term

- Cloud revenue acceleration and margin resilience at Microsoft, Alphabet, and Amazon.
- Evidence that backlog conversion is staying strong despite macro noise.
- Signs semiconductor estimate revisions are flattening as hardware comparisons toughen.

Medium-term

- Investor recognition that hyperscalers own the customer, the workload, and the monetization surface.
- A moderation in AI infrastructure ordering growth, even if absolute chip demand remains elevated.
- Free-cash-flow recovery as utilization rises on already-built AI capacity.

What can invalidate the thesis



Chip demand stays hotter for longer

If accelerator shortages persist and hyperscaler buildouts extend further than expected, semiconductors may continue to outperform despite cyclical concerns.



Monetization lags capex

Hyperscaler returns could disappoint if enterprise AI adoption ramps more slowly than the infrastructure footprint.



Regulatory and competitive pressure

Antitrust actions, pricing competition, or open-source model efficiency gains could compress the expected payoff period.



Portfolio implication

The AI trade is not ending; it is broadening. After a massive and likely unsustainably steep semiconductor capex wave, the better risk-reward may shift toward hyperscalers with recurring revenue, stable profit growth, and improving monetization of the very infrastructure they financed.

REDUCE

Peak-cycle semis

ACCUMULATE

Cloud hyperscalers

WATCH

**Estimate revisions &
capex cadence**