THE SHORT AND LONG

Weekly Bulletin

AI capex keeps rising as investors debate returns

FEBRUARY 3, 2026

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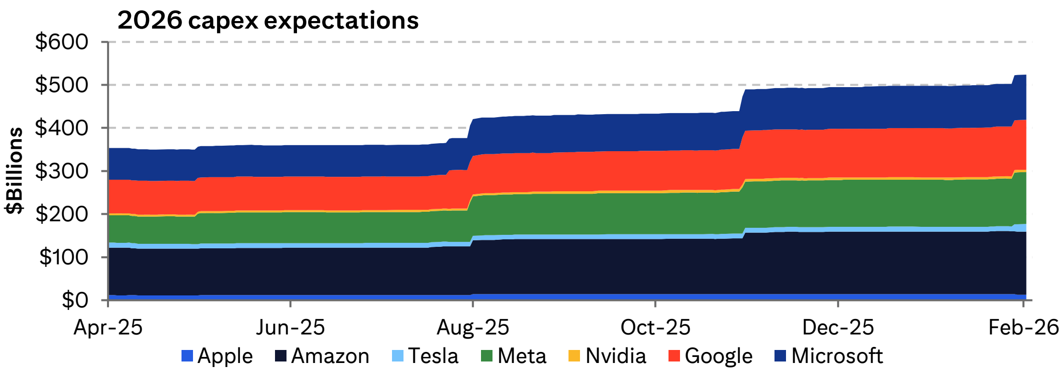
TAKEAWAYS

- AI and technology spending expectations continue to move higher, while the capex story remains strong. However, investors remain wary around the return on investment path for spenders. We continue to believe investors should focus on exposure around capex beneficiaries amid this uncertainty.
- The U.S. employment report for January was due this Friday but has been delayed by another government shutdown. This report will likely influence economic and Fed policy views, but further monetary easing faces headwinds from potential labor market stability and rising price pressures.
- Fears of rapid de-dollarization continue to outpace the evidence. While incremental diversification away from U.S. assets may persist, the data shows no viable alternatives at scale. Therefore, we see a lack of durability in a wholesale shift away from the dollar or U.S. markets.

This week in charts

FIGURE 1: Capex spending, as represented by the Mag 7, continues to surprise to the upside



Source: Factset as of February 2, 2026. The Magnificent 7 stocks include Amazon.com (AMZN), Apple (AAPL), Google parent Alphabet (GOOGL), Meta Platforms (META), Microsoft (MSFT), Nvidia (NVDA) and Tesla (TSLA). Individual stocks shown are not a recommendation and being shown for illustrative purposes only. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

Looking closer

In our view, fears of a weakening AI spend environment are overblown as S&P 500 companies' capex expectations for 2026 have risen more than 5% in just the last three months. Hyperscalers continue to drive recent strength, but market reaction to this spending is bifurcated.

AI capex expectations continue to grind higher

Over the last few months, there has been growing market anxiety about the path of AI-related capex; specifically, what would happen if that spending faltered? As we move through earnings season, that fear should be laid to rest as AI spenders have increased their projected capital expenditures (capex)[1] for 2026 and beyond. Over the last three months, the estimate for total capex from S&P 500 companies in 2026 *rose* by 5% – with last week's upside surprises in capex guides for some of the hyperscalers driving the recent momentum.

However, while spending continues to increase, market reaction is not monolithic. For example, Meta and Microsoft both reported higher than consensus future capex plans last week with a 20% performance differential between the two names in the day following the report. This bifurcation highlights the sentiment risk around deployment of substantial capital as investors evaluate the timing and level of Return on Invested Capital (ROIC) for these investments. Couple that with a surge in debt usage for some of this spending, and the risk around the narrative grows. However, with an estimated total addressable market in the trillions for AI usage over the next decade, the investment remains mission critical for the private sector while the national security implications keep it in focus for the public sector.

We continue to believe investor focus for new capital deployment should be around the beneficiaries of this spend until clarity increases on the ROIC for the spenders. This includes potential upstream opportunities around the AI supply chain like natural resources. The revenue and profitability will likely return to benefit the builders of the AI infrastructure in the coming years, and therefore we continue to recommend long-term investors maintain a core position in the key U.S. large cap Tech companies despite recent volatility.

Bottom line: So far, reports during earnings season confirm that the AI capex story is still intact as 2026 estimates continue to move higher. We believe beneficiaries of this spend up the AI supply chain will continue to perform well in this environment, while investors dissect the ROIC timing and magnitude for the spenders themselves.

Rate cut expectations drift lower ahead of January payrolls

In last week's Federal Open Market Committee (FOMC) policy statement, the Fed dropped its prior reference to downside risks, upgraded its characterization of the pace of economic activity to "solid" from "moderate," and noted "the unemployment rate has shown some signs of stabilization." Supporting the FOMC's assessment of labor market stability, weekly initial claims for unemployment insurance benefits remain at historically low levels in late January. Also, continuing claims for unemployment insurance fell in January to the lowest level since September 2024. Low initial claims point to subdued layoff activity, while declining continuing claims suggest that previously laid-off workers are finding new employment at a faster rate. Overall, we believe the labor market is still on solid ground.

On inflation, Fed Chair Powell said there is good news, "if you look away from goods." However, later in the week, the Producer Price Index (PPI) report for December provided another discouraging signal for the prospect of further disinflation. Core finished goods PPI prices rose 3.4% year-over-year in December, the highest rate since August 2023. Earlier in the factory production chain, core processed goods PPI (i.e., intermediate prices) rose 4.5% year-over-year in December, while core unprocessed goods PPI (crude goods) soared 14.6% on this basis.

Meanwhile, this week's Institute for Supply Management (ISM) manufacturing survey for January pointed to potential demand-related pressures on input costs in the goods sector. The headline ISM index rose to the highest level since August 2022, while the new orders index was the strongest in almost four years. Core goods prices, which represent about one-fifth of the CPI, appear likely to pick up further in the months ahead.

[1] Capital expenditure (capex) refers to funds that companies allocate to acquire, upgrade, and maintain essential physical assets such as property, technology, or equipment.

Bottom line: President Trump announced former Fed Governor Kevin Warsh as his nominee to replace Powell as Fed Chair in May. Warsh will reiterate his views on the economy, inflation, and monetary policy during his confirmation hearing. We expect Warsh will be more aligned with the Fed Governors who dissented last week in favor of cutting rates. However, Fed policy actions will ultimately be determined by the labor market and inflation data, and the incoming data does not make the case for material further easing.

De-dollarization fears outpace the data

Last week's market commentary featured a familiar narrative: de-dollarization, the sell-America trade, and an alleged global retreat from U.S. assets. However, the data shows that the U.S. dollar still accounts for nearly three-quarters of global currency usage, and no viable alternative has emerged at scale. While incremental shifts are possible, we see rapid displacement of the dollar remaining highly unlikely.

That said, concerns around U.S. fiscal sustainability and monetary policy independence have grown over recent years. Persistent deficits, rising debt levels, and political scrutiny of institutions have prompted global allocators to reassess exposures to U.S. assets and the U.S. dollar at the margin. These conversations are real and increasingly common, but they have not yet translated into large-scale capital flight from dollar assets.

Similar questions surround U.S. equity leadership. Non-U.S. markets outperformed last year largely due to multiple expansion and currency effects rather than superior earnings growth. U.S. equity indices continue to benefit from stronger fundamentals and more favorable sector composition. Rapid flows into structurally underinvested regions or sectors can add to the voracity of rotations. For example, European equity funds have seen a net –31% outflow as % of net assets over the last 10 years. This trend has only reversed to be positive since the beginning of 2025, aiding the performance trend in the region.

After a prolonged period of U.S. outperformance post-GFC, however, it is reasonable for investors to ask where the next incremental unit of capital should be allocated. We see a near-term path for incremental diversification into non-U.S. assets to continue, but we push back against a wholesale rotation out of a region expected to grow earnings mid-double digits for the second year in a row. U.S. large-cap equities remain central to portfolio construction, supported by this earnings durability and long-term structural advantages.

Bottom line: Dollar usage may decline gradually over time, but the pace will be slow. While incremental flows may favor non-U.S. assets, we see no evidence of a wholesale exit from U.S. markets and suggest maintaining a core in U.S. exposure.

	What happened	What's ahead
ECONOMIC DATA	**U.S.** January consumer confidence came in well below estimates and the lowest since 2014 December Producer Price Index (PPI) hotter (+0.5%) vs. Consensus, driven by services prices while core goods up +3.4% Y/Y U.S. trade deficit widens by most in decades, reversing big pullback	**U.S.** January employment report (delayed) January Institute for Supply Management (ISM) Services December Job Openings and Labor Turnover Survey (JOLTS) report (delayed)
	Global Eurozone real GDP rose +0.3% in Q4 (+1.3% SAAR)	**Global** January Eurozone Consumer Price Index (CPI) and Purchasing Manager Index (PMI)
POLICY	**U.S.** President Trump nominated former Fed governor Kevin Warsh as next Fed Chair Fed held rates unchanged at January meeting with two dissents (Miran and Waller) for a 25bps cut. Statement and comments from Powell leaned hawkish with economy continuing to "surprise"	**U.S.** President Trump looking to hold talks with Iran, easing fears of imminent U.S. strike Government shutdown expected to be short amid reports of negotiations and incoming passing of short-term stopgap bill
	Global EU and India reach landmark free-trade deal China growth target will likely be eased to 4.5-5%	**Global** European Central Bank (ECB), Bank of England (BoE) likely on hold this week
MARKETS	**U.S.** Megacap tech earnings feature elevated capex and improving AI monetization, but investors increasingly scrutinizing spend and more demanding of results	**U.S.** Notable tech earnings ~1/3 of the S&P 500 has reported with earnings surprises of 9%. Beats highest in Tech and Industrials beat rate hovering around historical average
	Global Commodities saw steep declines, dollar rose as markets digested Warsh Fed nomination	**Global** Monitoring value/small caps/broadening trade and duration

Source: Bloomberg as of February 2, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

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January 27, 2026 | CIO Weekly Bulletin: Markets confirm strong recent economic data

In last week's Bulletin, we look at how incoming U.S. economic data continues to provide fundamental support to our broad themes of a robust capital expenditures pipeline, strong nominal growth environment, and sticky inflation. And with earnings season underway, we're looking at how fundamentals are driving returns in the U.S.

Global Investment Committee

The Citi Wealth Global Investment Committee met December 8, 2025, and added to U.S. Large Cap Equities and Gold. Emerging Markets Asia ex-China equities and Developed Markets High Yield were trimmed to fund the moves. These tilts seek to capture a seemingly stronger macro backdrop while being selective on risk and maintaining diversification.

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Low grade (speculative)	B	B	B
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Most speculative	Ca	CC	CC
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In default	C	D	D

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