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Technology Sector Briefing: Key Themes and Company Analyses

Executive Summary

The technology sector is undergoing a profound transformation driven by the rapid proliferation of Artificial Intelligence, which is fueling unprecedented capital expenditure in cloud infrastructure and creating new avenues for monetization. Companies like NVIDIA, Microsoft, Alphabet, Amazon, and Oracle are at the forefront of this shift, investing heavily in AI capabilities which is, in turn, accelerating growth in their cloud divisions. Microsoft's Azure and Oracle's IaaS are demonstrating remarkable momentum, challenging Amazon's established leadership in the cloud space.

Concurrently, the sector is navigating a complex landscape of regulatory scrutiny and geopolitical tension. Landmark antitrust rulings involving Alphabet's search dominance and Apple's App Store practices have resulted in significant, though largely manageable, outcomes for the companies. Meanwhile, ongoing legal challenges for Apple and Amazon, coupled with U.S.-China trade disputes impacting tariffs and semiconductor exports, introduce persistent uncertainty.

Despite these challenges, the financial health of these technology titans remains robust. Massive Free Cash Flow generation is enabling aggressive capital allocation strategies, including substantial share buyback programs and dividend increases, alongside the significant reinvestments required to maintain leadership in the AI era. While macroeconomic headwinds and competitive pressures persist, the long-term growth trajectory for the sector's leaders appears strong, anchored by secular trends in AI, cloud computing, and digital transformation.

Overarching Themes Across the Technology Sector

The Pervasive Impact of Artificial Intelligence

Artificial Intelligence, particularly Generative AI (GenAI), has emerged as the single most significant driver of strategy, investment, and growth across the technology landscape. This is manifesting in several key areas:

- **Massive Infrastructure Investment:** A surge in demand for AI workloads is compelling hyperscalers and enterprises to undertake massive capital expenditures.
- **Microsoft (MSFT):** Capex is expected to exceed \$80 billion in CY 25, with a Sep-Q 2025 target of \$30 billion, primarily for building AI data centers.
- **Alphabet (GOOG):** Capex is guided to rise to \$85 billion in 2025, a 60%+ increase, largely for AI investments.
- **Amazon (AMZN):** Net capex is forecasted at \$117 billion in 2025, up 50% Y/Y, to meet AI and cloud demand.
- **Oracle (ORCL):** The "Stargate Project," a joint venture with Softbank and OpenAI, aims to invest up to \$500 billion over four years in new AI infrastructure. Capex is expected to be at least \$35 billion in FY 26.
- **Hardware and Semiconductor Leadership:** The demand for AI compute power has cemented NVIDIA's dominance and spurred innovation in custom silicon.
- **NVIDIA (NVDA):** The company's platforms, particularly the ramping Blackwell GPUs, are central to the AI build-out. Its software moat, including CUDA and NVIDIA AI Enterprise, is a key competitive advantage.
- **Alphabet (GOOG):** Leverages its custom TPUs for training and serving its Gemini models and has unveiled its own ARM-based CPU, Axion.
- **Apple (AAPL):** Developing its own internal chips and modems (like the C1X in the iPhone 17 Air) is a key strategy to improve margins and control its hardware capabilities for future AI applications.
- **New Monetization Streams:** Companies are rapidly developing and deploying AI-powered services and applications.
- **Microsoft (MSFT):** Monetizing AI through its complete stack, from Azure AI services to applications like Copilot, and its partnership with OpenAI. AI services

contributed 16 percentage points to Azure's growth in the March 2025 quarter.

- **Alphabet (GOOG):** Integrating AI into its core Search product with features like "AI Overviews," which drive 10% higher usage and 2-3x longer queries. The Gemini app has over 450 million monthly users.
- **IBM:** Its watsonx platform and Granite models are driving a GenAI book of business that reached \$7.5 billion across its consulting and software segments.
- **Apple (AAPL):** Expected to address AI through partnerships (Gemini/Anthropic/OpenAI) and a sophisticated AI-enabled Siri, which is anticipated to drive a significant upgrade cycle for the iPhone 18.

Cloud Computing Growth and Competition

The battle for cloud supremacy is intensifying, fueled by the demand for AI infrastructure. While Amazon Web Services (AWS) remains a leader, competitors are closing the gap with accelerated growth.

- **Microsoft Azure:** Demonstrating significant acceleration, with revenue growth hitting 39% in the June 2025 quarter, up from 33% previously. This growth is driven by cloud migrations and higher consumption of AI services.
- **Amazon Web Services (AWS):** Has scaled to a \$124 billion annualized run rate but saw more moderate growth of 17.5% Y/Y in Q2 2025. The company reports facing more AI-driven demand than it currently has capacity for.
- **Google Cloud:** Grew 32% in Q2 2025, achieving a record 21% operating margin. Its infrastructure, including custom TPUs, is positioned as ideal for the AI era.
- **Oracle Cloud Infrastructure (OCI):** Emerging as a formidable player, with IaaS revenue accelerating to 55% growth in the August 2025 quarter. The company has secured massive contracts, leading to a 359% surge in Remaining Performance Obligations (RPO) to \$455 billion, providing exceptional long-term revenue visibility.

Navigating Regulatory Scrutiny and Geopolitical Tensions

Mega-cap technology firms face persistent legal and regulatory challenges globally, alongside escalating geopolitical tensions that impact supply chains and market access.

- **Antitrust Rulings:**

- **Alphabet (GOOG):** A U.S. court ruling on its search monopoly (September 2025) was a major victory, avoiding harsh penalties like a Chrome divestiture. While exclusive default search contracts are now barred, the ruling permits non-exclusive revenue-sharing agreements, allowing Alphabet to continue its lucrative partnership with Apple, likely via "choice screens."

- **Apple (AAPL):** The same ruling allows Apple to continue generating significant revenue from search partners. However, Apple faces a separate, more aggressive lawsuit from the U.S. Department of Justice (filed March 2024) accusing it of monopolizing the smartphone market. This case is expected to take years to conclude.

- **Ongoing Lawsuits:**

- **Amazon (AMZN):** The FTC filed a lawsuit in September 2023, alleging the company uses anticompetitive strategies. The trial is set for October 2026.

- **U.S.-China Trade Relations:**

- **Tariffs:** Tariff uncertainty is a recurring risk, impacting hardware pricing (Apple), enterprise budgets (Alphabet, Microsoft), and consumer spending (Amazon). Multiple companies have noted plans to manage potential tariff impacts through pricing adjustments or supply chain diversification. Apple, for instance, has pledged an additional \$100 billion in U.S. investments, positioning it well against potential tariffs.

- **Semiconductor Export Controls:** NVIDIA's business is directly impacted by U.S. export restrictions on advanced AI chips to China. While current guidance assumes no China H20 revenue, the company has been granted a license to sell certain GPUs in exchange for a 15% revenue tax. The lack of clarity on China market access caps near-term upside, even as NVIDIA estimates it could be a \$75 billion market by CY 26.

Individual Company Analysis

Apple Inc. (AAPL)

- **Business Overview:** A prominent provider of consumer computing devices (iPhone, iPad, Mac), wearables, and related software and services. The iPhone accounted for 51% of FY 24 revenues.

- **Financial Outlook & Performance:**

- **Sales Growth:** Forecasted at +5.9% in FY 25, +3.7% in FY 26. The Sep-Q 2025 revenue is expected to grow at a mid- to high-single-digit rate.
- **Margins:** Gross margin is expected to be sustained at 46%-47%, including a \$1.1 billion tariff impact. The shift to internal chips is seen as a path to over 50% gross margins.
- **Free Cash Flow (FCF):** Estimated to be over \$100 billion in FY 25 and \$120 billion in FY 26.
- **EPS Forecasts:** Operating EPS is estimated at \$7.35 (FY 25E) and \$7.75 (FY 26E).

- **Strategic Focus & Catalysts:**

- **Ecosystem & AI:** The "Buy" view is centered on Apple's strong ecosystem, on-device AI prospects, and expanding addressable market. The upcoming iPhone 18 is expected to feature significant AI and foldable technology, driving a major upgrade cycle.
- **Product Innovation:** The recently unveiled iPhone 17 features an ultra-thin "Air" model, internal C1X modem, and A19 Pro processor. Pricing was modestly increased on the Pro model.
- **Capital Allocation:** The company announced a \$100 billion share authorization and a 4% dividend hike in May 2025. It has returned over \$970 billion to shareholders since 2012.

- **Risks & Key Developments:**

- **Legal/Regulatory:** Faces a major U.S. Department of Justice lawsuit alleging smartphone market monopolization, though a resolution is likely years away. A favorable ruling in the Google search case allows it to continue lucrative revenue-sharing deals.
- **Geopolitical:** Tariff impacts and challenges in the China market remain key risks. China returned to growth (+4%) in the June 2025 quarter for the first time in two years.

Amazon.com, Inc. (AMZN)

- **Business Overview:** A leading global e-commerce retailer and a major provider of cloud computing services (Amazon Web Services - AWS). Services accounted for 57% of total revenues in 2024.
- **Financial Outlook & Performance:**
 - **Sales Growth:** Revenue forecasted to grow 11.1% in 2025.
 - **Margins:** Operating margins are seen expanding to 11.9% in 2025 from 10.8% in 2024, driven by e-commerce efficiencies and growth in high-margin businesses like AWS and advertising.
 - **Capex & FCF:** Net capex is expected to increase significantly to \$117 billion in 2025 (from \$78B in 2024), primarily for AWS, leading to a forecasted FCF of \$16 billion (down from \$38B).
 - **EPS Forecasts (GAAP):** Estimated at \$6.84 (2025E), \$7.95 (2026E), and \$9.47 (2027E).
- **Strategic Focus & Catalysts:**
 - **E-commerce Efficiency:** Focused on lowering cost-to-serve through supply chain regionalization, automation, and robotics, while expanding fast delivery.
 - **AWS Growth:** AWS is a \$124 billion annualized run-rate business, with growth driven by secular trends in cloud computing and enormous demand for AI capacity.
 - **Advertising:** A key growth driver, with Prime Video advertising seen as having significant long-term potential.
- **Risks & Key Developments:**
 - **Legal/Regulatory:** The FTC filed an antitrust lawsuit in September 2023, with the trial set for October 2026.
 - **Competition:** Faces intense retail competition and cyclical risks to its advertising and AWS segments from a macro slowdown.
 - **M&A:** Key acquisitions include Whole Foods (\$13.7B), MGM (\$8.45B), and One Medical (\$3.9B).

Alphabet Inc. (GOOG)

- **Business Overview:** The world's leading internet search provider (80-90% market share) and largest generator of advertising revenue. Key segments include Search, YouTube, and Google Cloud.
- **Financial Outlook & Performance:**
 - **Sales Growth:** Forecasted to grow 9%-11% in 2026/2027, after a projected 11% in 2025. Growth is aided by Cloud (+32% in Q2 2025), Search (+12%), and YouTube (+13%).
 - **Margins:** Operating margins are expected to be 32%-34% through 2027. Google Cloud reached a record 21% operating margin in Q2 2025.
 - **Capex & FCF:** Capex is set to rise to \$85 billion in 2025. FCF is projected at \$70B+ in 2025 and \$85B+ in 2026.
 - **EPS Forecasts:** Estimated at \$9.99 (2025E), \$10.46 (2026E), and \$11.35 (2027E).
- **Strategic Focus & Catalysts:**
 - **AI Leadership:** AI capabilities are being integrated across the ecosystem, enhancing Search, advertiser ROI, and Cloud offerings. The Gemini app has over 450M monthly users. Its custom TPU infrastructure is a key advantage.
 - **Cloud Momentum:** Google Cloud growth is expected to remain above 25% through 2026, driven by AI monetization and new deals, such as a six-year, +\$10 billion agreement with Meta.
 - **Capital Allocation:** Announced a new \$70 billion buyback and initiated its first dividend in 2024, with a 5% dividend hike in April 2025.
- **Risks & Key Developments:**
 - **Legal/Regulatory:** Achieved a major victory in the search monopoly case, avoiding the worst-case remedies. However, regulatory risks remain a key concern in the U.S. and Europe.
 - **Competition:** Faces rising competitive pressure in Search from AI-native companies like OpenAI.

Microsoft Corporation (MSFT)

- **Business Overview:** The world's largest software company, known for Windows and Office, with a rapidly expanding cloud services business, Azure.
- **Financial Outlook & Performance:**
 - **Sales Growth:** Forecasted at 14%-15% for FY 26 and FY 27, following 15% in FY 25.
 - **Margins:** Operating margins remain strong, expanding to 44.9% in the June 2025 quarter, despite heavy AI infrastructure investments.
 - **Capex & FCF:** Capex is increasing, with \$30 billion planned for the Sep-Q 2025. FCF is expected to be over \$70 billion in FY 26 and over \$90 billion in FY 27.
 - **EPS Forecasts:** Estimated at \$15.36 (FY 26E) and \$17.96 (FY 27E).
- **Strategic Focus & Catalysts:**
 - **AI Monetization:** The "Strong Buy" rating is based on monetizing its complete AI stack, from Azure AI infrastructure to Copilot applications. Its partnership with OpenAI is a key differentiator.
 - **Azure Acceleration:** Azure is the key growth catalyst, with sales growth accelerating to 39% in the June 2025 quarter, driven by demand for AI services and improving capacity from NVIDIA's Blackwell platform.
 - **Cost Management:** Effectively managing costs by keeping employee headcount flat while revenue grows, shifting focus to capex.
- **Risks & Key Developments:**
 - **Investment Risk:** Slower-than-anticipated AI adoption relative to massive capital spending plans could negatively impact earnings.
 - **M&A:** Completed its \$75 billion acquisition of Activision Blizzard in October 2023.

NVIDIA Corporation (NVDA)

- **Business Overview:** A leading developer of graphics processing units (GPUs) and related platforms for gaming, data centers, professional visualization, and automotive markets. The Data Center segment represents 88% of FY 25 revenue.
- **Financial Outlook & Performance:**

- **Sales Growth:** Sales are forecast to rise 57% in FY 26 and 31% in FY 27, after doubling in FY 25.
- **Margins:** Non-GAAP gross margins are expected to widen to the mid-70s as the new Blackwell platform fully ramps. Operating margins are projected to exceed 60%.
- **FCF:** FCF is projected to grow to over \$100 billion in FY 26 and over \$130 billion in FY 27.
- **EPS Forecasts:** Estimated at \$4.48 (FY 26E) and \$6.25 (FY 27E).
- **Strategic Focus & Catalysts:**
 - **AI Dominance:** The "Buy" rating reflects NVDA's central role in the AI build-out. Demand is expected to remain strong through CY 27, aided by an expanding Total Addressable Market (TAM) that includes AI Agents and Physical AI.
 - **Software Moat:** The CUDA software platform provides a significant competitive moat, with its value priced into the hardware.
 - **Product Pipeline:** A robust pipeline includes the current Blackwell (B300) platform and the upcoming Rubin platform in CY 26.
- **Risks & Key Developments:**
 - **Geopolitical Risk:** U.S. export restrictions to China are a major headwind. Current guidance assumes no China revenue, limiting the potential for upside surprises until trade negotiations progress.
 - **Partnership:** Announced a \$5 billion investment in and expanded partnership with Intel Corporation (INTC) to develop data center and PC products.

Oracle Corporation (ORCL)

- **Business Overview:** A major supplier of enterprise software and cloud services, with a historic focus on database software. It is aggressively expanding its Infrastructure as a Service (IaaS) and Software as a Service (SaaS) offerings.
- **Financial Outlook & Performance:**
 - **Sales Growth:** Forecasted to accelerate to 17% in FY 26 and 22% in FY 27.

- **Cloud Growth:** IaaS revenue is the primary driver, growing 55% in the Aug-Q 2025. The company projects IaaS revenue to reach \$144 billion by FY 30.
- **RPO:** Remaining Performance Obligations surged 359% to \$455 billion, providing exceptional long-term visibility.
- **EPS Forecasts:** Estimated at \$6.81 (FY 26E) and \$8.01 (FY 27E), with potential to exceed \$20 by the end of the decade.

- **Strategic Focus & Catalysts:**

- **IaaS Expansion:** The "Buy" rating is based on the massive upside in its IaaS business, driven by large-scale AI infrastructure deals with partners like OpenAI, xAI, and Meta.
- **Stargate Project:** A key technology partner in the venture to build up to \$500 billion in AI infrastructure for OpenAI.
- **Multi-Cloud Database:** Growing its database revenue through partnerships with other hyperscalers, with this segment's revenue growing 1,529% in the Aug-Q 2025.

- **Risks & Key Developments:**

- **Financials:** Carries elevated net debt of \$80.3 billion and will need to boost capex to at least \$35 billion in FY 26, which will constrain FCF in the near term.

International Business Machines Corporation (IBM)

- **Business Overview:** A provider of IT hardware, software, and consulting services, with a strategic focus on hybrid cloud and AI. Key assets include Red Hat and the watsonx AI platform.
- **Financial Outlook & Performance:**
 - **Sales Growth:** Forecasted at 7% in 2025 and 4% in 2026. Software remains the key driver, though growth has recently decelerated.
 - **Margins:** Non-GAAP PTI margin is expected to expand to 18.9% in 2025 and 19.7% in 2026, driven by technology efficiencies and a favorable mix shift to software.
 - **FCF:** Projected at \$13.8 billion in 2025 and \$14.7 billion in 2026.
 - **EPS Forecasts:** Estimated at \$11.35 (2025E) and \$11.94 (2026E).

- **Strategic Focus & Catalysts:**

- **Hybrid Cloud & AI:** Positioned as a GenAI leader through its watsonx platform and Granite models. The 2019 acquisition of Red Hat is central to its hybrid cloud strategy.
- **Consulting:** Its consulting segment has a total GenAI book of business of \$7.5 billion.

- **Risks & Key Developments:**

- **Growth Deceleration:** The "Hold" rating reflects a deceleration in software growth in 2025 amid macro uncertainty and rising competition.
- **Execution Risk:** Risks include slower GenAI adoption, macroeconomic uncertainty impacting discretionary IT spend, and competitive pressures in cloud and AI software.

Sub-Industry Outlooks

Sub-Industry	CFRA 12-Month Outlook	Key Drivers & Trends
Technology Hardware, Storage & Peripherals	Positive	- Enterprise refresh cycle for PCs driven by Windows 10 end-of-support in Oct 2025. - Emergence of AI-enabled PCs and smartphones catalyzing demand. - Smartphone market recovery with 1.9% growth forecasted for 2025.
Broadline Retail	Neutral	- E-commerce sales continue to outpace brick-and-mortar, accounting for 16.2% of total Q1 2025 sales. - Resilient consumer spending supported by a solid labor market. - Department stores and mall-based retailers continue to face secular headwinds and lose market share.
Interactive Media & Services	Positive	- Improving digital ad landscape; global digital ad spending forecasted to grow ~8% in 2025. - GenAI is expected to improve advertiser ROI and create new ad opportunities (e.g., chat-based placements). - GOOGL, META, and AMZN form a "triopoly" controlling a majority of digital ad revenue.

<p>IT Consulting & Other Services</p>	<p>Neutral</p>	<p>- Demand was flat in 2024 due to economic uncertainty delaying projects.
 - GenAI is accelerating demand for cloud migration and software development to modernize digital cores.
 - GenAI project scope is growing from ~\$1M to ~\$10M as clients move beyond exploratory phases.</p>
<p>Systems Software</p>	<p>Positive</p>	<p>- Enterprise adoption of AI tools is moving from experimentation to production.
 - Strong demand for AI infrastructure and cloud services continues.
 - Business models are mostly subscription-based, providing revenue stability, and are not directly exposed to tariffs.</p>
<p>Semiconductors</p>	<p>Positive</p>	<p>- Sales expected to rise 10%-15% in 2025, driven by capital spending on compute, networking, and memory for GenAI.
 - The accelerator space (GPUs, etc.) is forecast to grow over 50% in 2025.
 - Geopolitical pressures and potential tariffs remain significant risks.</p>