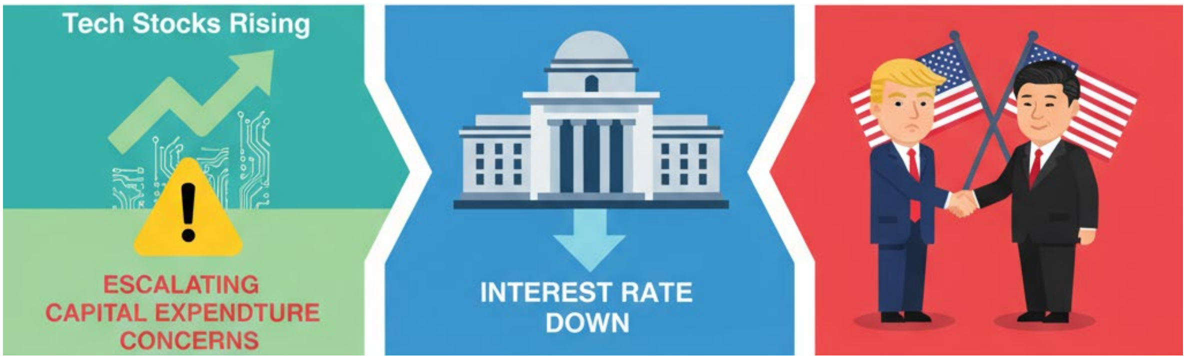
Trick-or-Treat: Mag 7's Treats Haunt with CapEx Tricks, While Fed Signals 'Boo' to Future Cuts

This week's update is dominated by the US Federal Reserve's latest interest rate decision, the latest results from five of the so-called "Magnificent 7" group of companies that dominate the S&P 500 Index, and Trump & Xi reaching a temporary truce on trade issues.



Microsoft reported strong quarterly results with reported revenue of $77.7 billion and operating profit of $38.0 billion, both representing increases of 18.4% and 24% year-over-year, respectively.

Alphabet (Google) delivered record quarterly results, posting $102.4 billion in revenue—up 15% from a year earlier—fuelled by growth in core ad businesses, YouTube, and especially cloud revenue.

Meta (Facebook) earnings also featured record quarterly revenue of $51.2 billion, up 26%, with continued user and engagement growth across its apps].

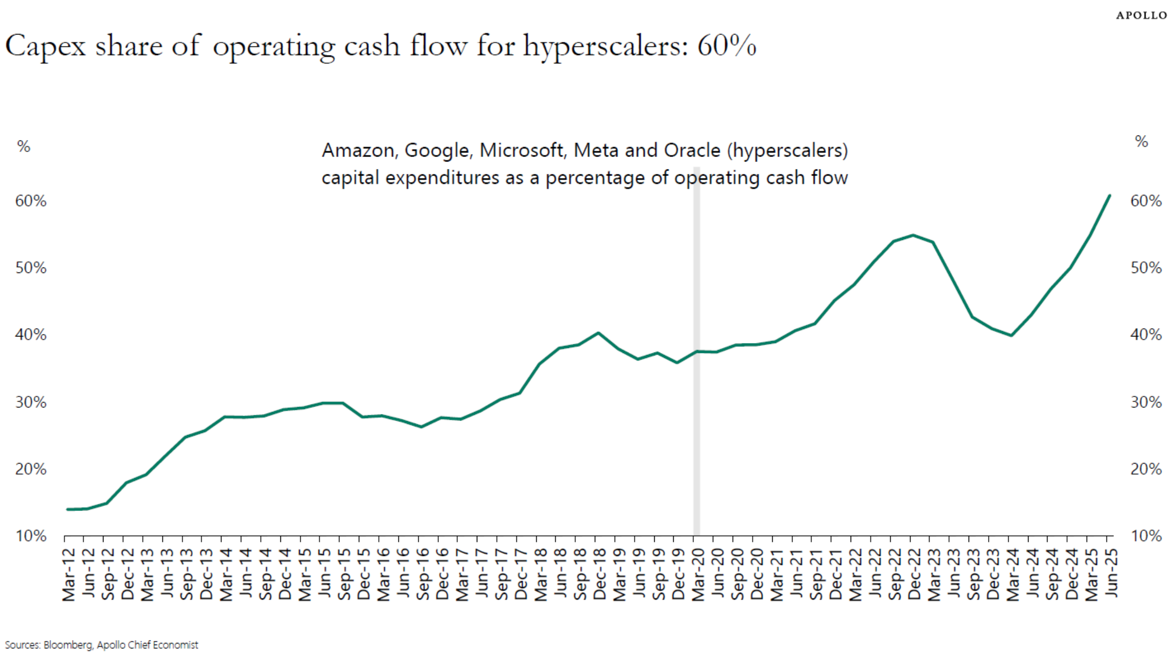
Apple reported stable quarterly revenues of about $94.4 billion, with iPhone and services revenue holding up well.

Amazon produced impressive results, easily beating analyst expectations with revenue coming in at $158.7bn, whilst operating profit was flat compared to the same quarter last year at $17.4bn because it included two special charges; a $2.5 billion legal settlement and $1.8 billion in severance costs. Excluding these charges, Amazon's operating profit would have been approximately $21.7 billion for the quarter.

Nvidia has not yet reported – the results are due on 19th November.

Despite these impressive results, the market took a wobble. Partly this was due to some less than enthusiastic comments from the Chair of the Federal Reserve (of which, more later) but also due to a growing worry about the escalation of capex expenditure on AI projects and the fear of a bubble.

It is indeed true that Capex has increased significantly for these companies, as the following chart from Apollo Asset Management shows:



The real issue though is how sustainable this level of Capex actually is. The following table shows the latest Capex estimates of these companies compared to the amount of cash they have on their balance sheets (at last reporting date) and the amount of cashflow they generate in a quarter:

Company	Capex	Cash on Balance Sheet	Latest quarterly cashflow
Alphabet	$11.2 bn	$120.0 bn	$28.0 bn
Amazon	$14.5 bn	$93.2 bn	$32.64bn
Apple	$3.8 bn	$166.0 bn	$26.43 bn
Meta	$8.2 bn	$44.5 bn	$10.6 bn
Microsoft	$12.5 bn	$94.6 bn	$31.62 bn

On this basis, I would humbly suggest that these capex figures are entirely sustainable from the existing resources of each company, and augmented by the tremendous profitability and cash generative capabilities that they so evidently display.

Coming back to the US Federal Reserve it reduced its benchmark Federal Funds Rate by 0.25% on Wednesday moving the target range to 3.75%–4.00%. This was the Fed's second rate cut in 2025 and came amid concerns about slowing job growth and increased downside risks to employment, even as inflation remains somewhat elevated. The decision was not unanimous; with one committee member favouring a larger cut., with one voting to keep rates on hold.

Additionally, the Fed announced it would stop reducing its balance sheet, through Quantitative Tightening starting in December, signalling a desire to maintain liquidity and money supply at its current level.

Chairman, Jerome Powell, indicated in the press conference following the rate decision that while further rate reductions would depend on incoming data, future rate cuts — including one heavily priced-in for December — are not guaranteed and will be guided by ongoing developments in employment, inflation, and financial markets.

This was taken a strong negative by the markets, which immediately repriced the likelihood of a rate cut in December to a 30% probability, with equity markets selling off too.

Elsewhere the European Central Bank kept it rates on hold at 2%. The UK rate decision is due next Thursday and at the moment it seems finely balanced as to whether a further rate cut will be revealed.

President Donald Trump and Chinese President Xi Jinping have reached a one-year trade agreement designed to ease tensions between the world's two largest economies and prevent escalation of their ongoing trade conflict.

The deal, reached during direct talks in South Korea, will see the United States retract a proposed 100% tariff on Chinese imports and halve the most recent 20% tariff, lowering the effective tariff rate from 57% to about 47%.

In return, China has agreed to suspend planned export restrictions on rare earth minerals, and to resume substantial purchases of US soyabeans. There is also consensus on allowing TikTok to continue operating in the US, pending final arrangements.

Both sides emphasised the "framework" nature of the deal, with further details to be ironed out and formalised in the coming weeks.

The Chinese side characterised the negotiations as intense but constructive, and President Xi urged for a focus on long-term collaboration rather than cycles of retaliation. Trump, with typical bombast, claimed the deal as a victory, highlighting concessions on rare earths and tariffs, as well as Chinese pledges to address fentanyl exports.

Many analysts however describe the agreement as a temporary truce rather than a comprehensive settlement, noting that key structural issues and enforcement mechanisms remain unresolved.

Where are markets up to?

The rolling 12 month % cumulative returns in local currency from various indices is shown in the following chart:

Where are the portfolios up to?

The portfolio performance, net of fees, to close of business on Thursday is as follows:

	1 week	1 month	3 months	12 months
Cautious	+0.79%	+2.85%	+6.18%	+9.54%
Balanced	+1.25%	+3.79%	+8.08%	+12.43%
Adventurous	+1.41%	+4.19%	+9.02%	+13.67%

As ever, if you would like to discuss any aspect of your portfolio, please do not hesitate to contact us on service@blythefinancial.com.