MONTHLY INVESTOR LETTER

August 2026

Macro Landscape · Portfolio Themes · Forward View

ONE NUMBER

$195-205 billion

Alphabet’s newly raised 2026 capital expenditure guidance, lifted from $180-190 billion, announced alongside a $44.9 billion capex quarter and the company’s first negative free cash flow quarter since its 2004 listing. The market marked the stock down on a beat. The build is now big enough that even its richest funder is being asked how it pays. Our book sits on the receiving end of that spend.

Source: Alphabet Q2 2026 results and guidance, company filings, Cranstoun analysis.

01 · MACRO OVERVIEW

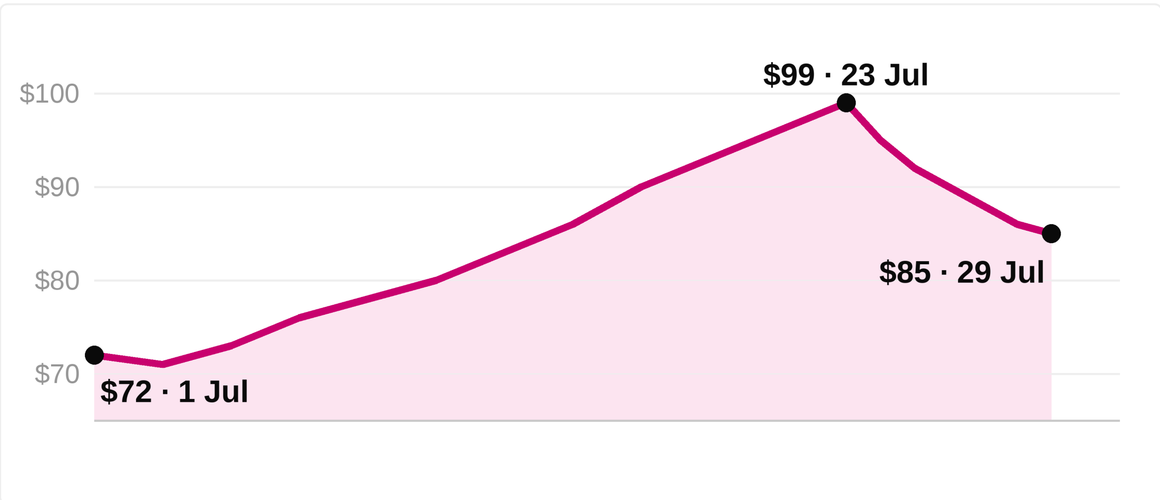
A Split Fed and a Second Round Trip

July gave us June’s film run backwards. Last month oil collapsed and the Fed turned hawkish on paper. This month oil surged and the Fed turned hawkish out loud. Through both, the build we own kept getting bigger.

Start with the Fed. The July meeting ended in a 9-3 vote to hold at 3.50-3.75%, with three regional presidents (Hammack, Kashkari and Logan) dissenting in favour of a hike. Chair Warsh kept the statement short and saved the message for the press conference: the committee, he said, would not hesitate to act on inflation. Futures now price roughly a 72% chance of a quarter-point hike in September. A dissent that size is rare; a Fed that hikes into an expansion would be rarer still, and that is now close to the base case.

Oil made the opposite journey to June. Brent started July near $72 after OPEC+ agreed a fifth consecutive monthly output increase, then ran to nearly $99 by the 23rd as Houthi attacks in the Red Sea and strikes on Russian infrastructure stacked supply risk on four fronts at once, before easing back to the mid $80s on fresh Hormuz diplomacy. June refunded the risk premium; July charged it again. We treat both legs the same way: noise around a book we deliberately built to not depend on a barrel.

Equities carried on regardless. The S&P 500 sits at record highs, up 9.6% for the half, with breadth unusually strong. But July’s tape had a new anxiety in it: for the first time, the market punished a hyperscaler for spending more. That is the story of the month, and of this letter.



Brent’s July round trip: OPEC+ supply on the way down, four supply fronts on the way up, Hormuz diplomacy on the way back. Source: market data, Cranstoun analysis.

02 · THEME COMMENTARY

What Changed This Month

AI Power & Infrastructure

The quarter's standout prints. GE Vernova: orders up 88% organically to $24.2bn, backlog a record $176bn, and more data-centre electrification orders in the first half (above $5bn) than in all of 2025; guidance raised. Vertiv: sales up 24%, adjusted operating margin 22.6%, full-year outlook lifted to roughly $14bn. We hold the sleeve through Quanta, Comfort Systems, IES, Eaton, Vertiv and Trane, all of them sitting directly in that order flow.

AI Storage (Volatile)

The wildest sleeve in the book this month: a memory sell-off, a 7% snap-back, then another plunge into earnings, with Seagate and Western Digital both down 6% on a single bullish analyst day. The fundamentals did not wobble: Western Digital grew revenue 45%, Seagate's gross margin reached 47%, Sandisk grew 61%. We hold the sleeve and let the tape argue with itself.

Critical Materials & Gold

Gold spent the month flat around $4,040, well below January's spike but firm against a hawkish Fed, which tells you the fiscal-hedge bid has not gone anywhere. Copper and the grid-materials complex remain geared to the same electrification wave the equipment backlogs describe. No changes.

AI & Semiconductors

TSMC delivered a fifth consecutive record quarter (revenue up 36%, net income up 77%) and committed a further $100bn to Arizona, taking the state total to $265bn. NVIDIA, our largest position, consolidated near $207 after a volatile month. The foundry layer is now confirming what the equipment layer told us first: demand is not the constraint. Capacity is.

African Income (Off Watch)

Last month's casualty is this month's beneficiary. With Brent back in the $80s and $90s, eurobond yields fell across Nigeria, Angola and Egypt as the rally resumed; Nigeria's near-term curve trades around 5.6%. The fiscal cushion we worried about in June rebuilt itself in four weeks. The watch flag comes off; the position stays defensive in size.

Technology Platforms (Repricing)

Alphabet beat on every line (revenue up 24%, Cloud up 82%) and still fell on the capex raise this month's One Number describes. Microsoft, Meta and Amazon report as we go to press. The application layer now has to defend its spending; the physical layer we own is the recipient of it.

MONTHLY POSITIONING SHIFT

Where Conviction Moved in July

MAINTAINED

AI Power Build-Out

Held the electrical sleeve (Quanta, Comfort Systems, IES, Eaton, Vertiv, Trane) as sector backlogs set records.

HELD

Compute & Storage

Stayed put through the memory whipsaw. The fundamentals printed; the tape argued.

OFF WATCH

African Income

Oil back in the $80s rebuilt the cushion. Watch lifted; size stays defensive.

The common thread is patience: July paid us for June's discipline, and we held what is contracted rather than chasing what is quoted.

03 · THEME IN FOCUS

The Bill for the Build

THIS MONTH: WHO PAYS, AND WHO GETS PAID

For three months we have written about the build. July was the month the market asked how it gets paid for. The hyperscalers' combined 2026 capex now sits around $725-785bn, and the spend has grown from roughly a third of the group's operating cash flow in 2023 to something like 93% this year. Alphabet made it concrete, as this month's One Number shows, and the equity market's response was to mark the stock down on a beat. The cheque writers are now being asked to justify the cheques.

Notice what that anxiety does not touch. When capex is funded from cash flow, equity raises or debt, it arrives at the same place: a purchase order for turbines, switchgear, cooling, drives and storage. Our book sits on the receiving end of the invoice, not the paying end. GE Vernova's $176bn backlog and Vertiv's raised guidance are what the bill looks like from the seller's side of the table. If the funding debate slows the build, the backlogs give us years of visibility. If it does not, the backlogs keep compounding. That asymmetry is why the month's most important repricing left us better positioned, not worse.

04 · WHAT COULD BREAK THIS

The Bear Case

Two risks deserve naming. The first is the financing tape: capex running at nearly all of operating cash flow only works while markets fund the difference cheaply, and a September hike (now priced at 72%) into an oil-fed inflation scare could raise the cost of exactly the capital the build depends on. If the hyperscalers blink, the order intake we prize would slow with a lag. The second is concentration in the verdict: this week's Microsoft, Meta and Amazon prints will either validate the Alphabet playbook or extend the punishment, and after a nine-month run the market has little patience left for spenders. Neither risk is our base case. Backlogs measured in years, and a customer set racing each other to build, argue the invoices keep coming. But we hold real ballast (gold, income, cash discipline) precisely because the bill for the build is now a market question, not just an engineering one.

05 · INVESTMENT LENS

Hold the Invoice, Not the Argument

> July was full of arguments: about the Fed's next move, about oil's right price, about whether the hyperscalers spend too much. We own as little of those arguments as we can. We own the invoices they generate. Whoever wins the capex debate, the turbines already ordered are scheduled to ship, the switchgear to be energised, and the backlog to convert to revenue on contracted timelines. A backlog is visibility rather than certainty, but visibility is exactly what a noisy tape lacks. Our discipline this month was the same as last month: stay where the cash flow is contracted, keep ballast where it is not, and let other people trade the argument.

06 · FORWARD VIEW

Where We Go From Here

August brings the rest of the hyperscaler prints, the Jackson Hole meeting that will frame a possible September hike, and an oil market still hostage to four supply fronts. We expect volatility in all three, and we plan to use it. The playbook is unchanged: concentrated in the physical AI layer where revenue is contracted years forward, patient in compute and storage where fundamentals keep outrunning the tape, constructive again on African income with oil's cushion rebuilt, and hedged with gold against the fiscal arithmetic nobody in Washington wants to discuss. The build has survived a hawkish Fed, an oil collapse and an oil spike inside eight weeks. We think it survives the argument about who pays for it.

07 · WHAT WE'RE READING

Perspectives Worth Your Time

A Divided Fed Holds Rates Steady as Three Dissent

CNBC, July 2026

The 9-3 hold, the dissents, and why September is now a live meeting. The clearest read on the rate risk hanging over the AI multiple.

Alphabet Beats, Raises Capex to $195-205bn, and Falls Anyway

CNBC, July 2026

The moment the market started charging for capex. Read alongside the order books of the companies receiving that capex.

Hyperscalers Tap External Financing as AI Capex Outruns Cash Flow

FactSet, July 2026

The funding arithmetic behind our Theme in Focus: capex at 93% of operating cash flow, and what happens when the build meets the bond market.

08 · THE PHYSICAL LAYER

Where the Wires Come Together

A high-voltage substation at dusk. June gave us the transformer, July the pylon; this is where they meet. Every argument about who funds the build ends here, in a fenced yard of gantries, breakers and busbars that somebody has already paid for and somebody else has already promised to deliver. The invoice made physical.

Sign in to the **investor portal** for your statement and full archive. Questions? Write to info@cranstoun.co.