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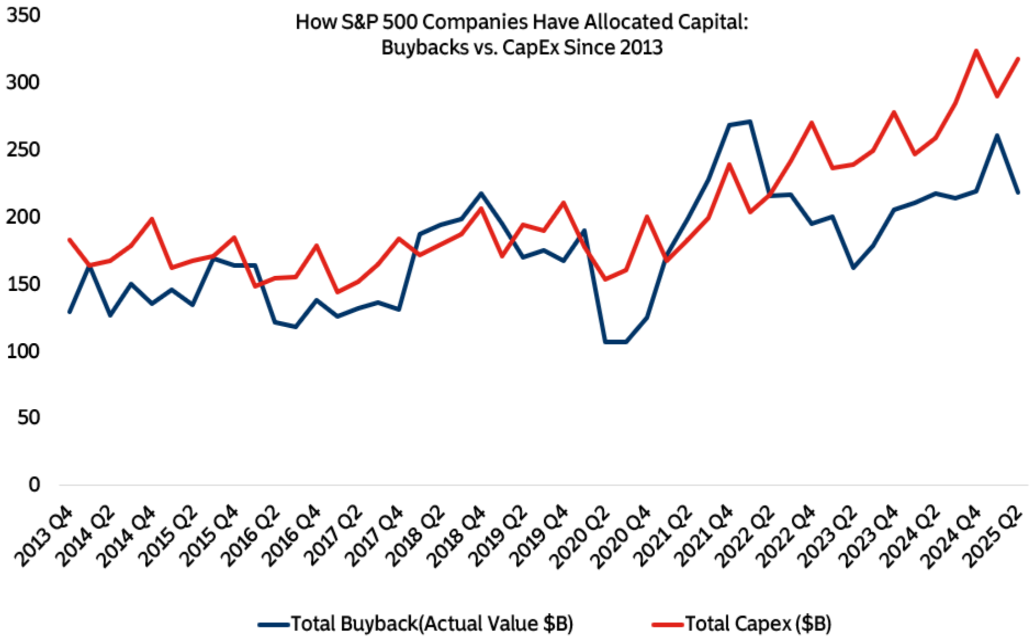
Could the profile of capital allocation in the US change going forward

Simon Price



Source: Momentum Global Investment Management, Bloomberg Finance L.P. Data to end of Q2 2025.

What this chart shows

The graph above illustrates quarterly trends in corporate activity within the S&P 500 since 2013, focusing specifically on share buybacks and capital expenditures. Since the Global Financial Crisis, S&P 500 companies have repurchased over $7 trillion worth of stock, generating consistent demand and significantly influencing equity markets. This sustained buyback activity has not only supported share prices but also enhanced returns on capital, driven as much by balance sheet management as by operational performance, through the mathematical impact on earnings per share.

Why this is important

The technology sector, historically a strong proponent of buybacks, is now facing a shift in capital allocation priorities driven by the demands of AI. Hyper-scalers such as Amazon, Google, Meta, Microsoft, and Oracle have seen capital expenditures rise sharply, with capex as a share of operating cash flow increasing from around 15% to nearly 60%. This surge reflects the sector's growing appetite for infrastructure investment, particularly in AI and data centers.

Free cash flow, often viewed as the cleanest measure of a company's cash-generating ability, excludes capital spending. As such, declining free cash flow may signal that aggressive investment is beginning to erode future financial flexibility, raising questions about the sustainability and prudence of current spending strategies. If tech giants continue to draw down reserves to fund AI expansion, it could challenge the perception of quality and discipline that has long supported their valuations.

This shift may also lead to a slowdown or cessation of buybacks, removing a key mathematical tailwind for earnings growth and weakening one of the structural supports of equity market performance. The risk of over-investment is real: elevated capex may not yield proportional returns, potentially exposing investors to correction risk. In this environment, heightened vigilance, diversification, and disciplined portfolio management remain essential tools for navigating uncertainty.

Belvest 研富

For more information, please contact your adviser or alternatively contact:

Belvest Investment Services Limited
研富投資服務有限公司
9th Floor, Centre Mark II
305-313 Queen's Road Central
Sheung Wan, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
belvest@bis.hk
www.bis.hk

Important notes