

Novum Partners: Mid-2026 Outlook

Broadening Growth, a New Rate Regime, and the Cost of Ambition

August 7th, 2026

Executive summary

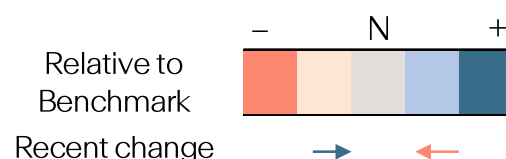
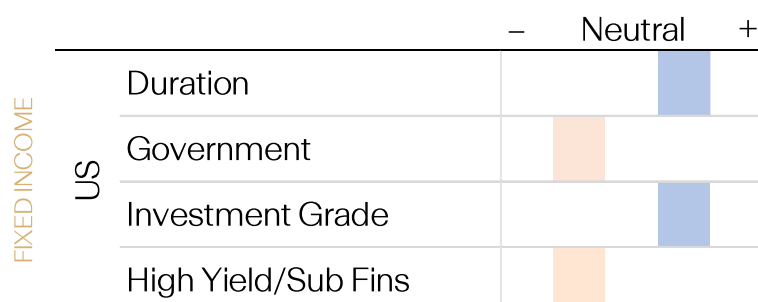
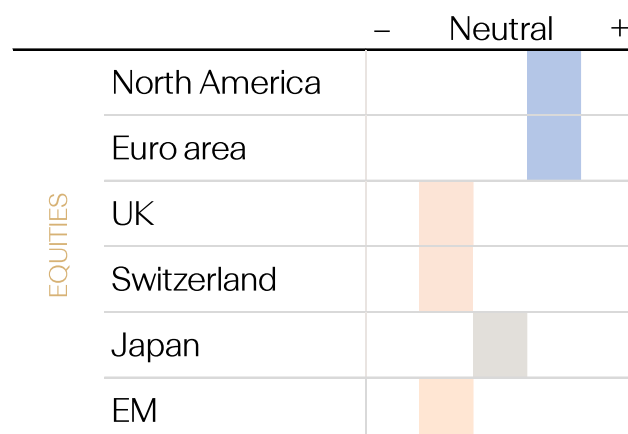
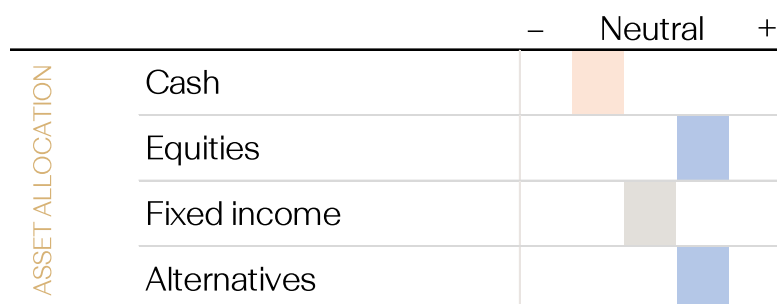


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- H1 2026 has been shaped by two opposing forces: US earnings beating already-high expectations by a record margin, and rates re-pricing higher on renewed Iran-related geopolitical escalation.
- Earnings are exceptional - 77% of S&P 500 companies beat EPS estimates in Q2, aggregate surprises run at 7%, and full-year 2026 growth expectations have moved from 15.5% to close to 32%. The headline strength is slightly inflated (0.5%) by non-recurring gains at Google, Amazon and Nvidia, but the underlying trend - record margins, 25-year-high revenue growth ex-rebound - is genuine.
- Rates have moved higher on the Iran conflict via the usual energy-inflation-policy channel, though we see asymmetry: a diplomatic resolution could unwind that premium quickly, and a more data-dependent Fed under Kevin Warsh may be reshaping policy in ways markets underestimate.
- The largest AI spenders now guide to over \$700bn in combined spending over the next 12 months, with FCF turning negative for Amazon and Meta; despite strong YTD performance, forward multiples for the S&P 500 and Mag 7 have compressed below five-year averages - a sign the market has already de-risked this, reinforcing our constructive stance.
- Given the mid-year timing, this edition also includes a deeper look at rates and, closing, at hyperscalers' off-balance-sheet liabilities - not an emergency today, but a trend worth watching.



Year-to-date performance

World Equity Indices

	% TR USD	% TR Local
MSCI World	10.5%	10.5%
S&P 500	10.1%	10.1%
S&P 500 Equal Weighted	13.2%	13.2%
Mag 7 Index	0.3%	0.3%
Russell 2000	19.0%	19.0%
Euro Stoxx 50	10.3%	12.3%
CSI 300 Index	4.1%	0.6%
Hang Seng Index	2.2%	3.0%
Nikkei 225	26.5%	28.9%
MSCI Asia	20.1%	20.1%
MSCI Latam	16.2%	16.2%
MSCI EM	20.3%	20.3%

S&P 500 Sectors

	% TR USD
S&P 500 Info Tech	15.7%
S&P 500 Comm. Serv	1.4%
S&P 500 Health Care	6.0%
S&P 500 Financials	4.8%
S&P 500 Cons Discr.	0.0%
S&P 500 Energy	34.7%
S&P 500 Real Estate	14.3%
S&P 500 Materials	10.1%
S&P 500 Industrials	16.5%
S&P 500 Cons Staples	10.3%
S&P 500 Utilities	5.3%

Key Thematic Indices

	% TR USD	% TR Local
ARK Innovation ETF	-7.4%	-7.4%
Software ETF	-10.5%	-10.5%
Semiconductors ETF	67.8%	67.8%
Momentum ETF	21.1%	21.1%
GS Cyclical	15.5%	15.5%
BBG Defensive Sectors	7.45%	7.45%

Fixed Income

	% TR or bps
LQD (High Grade)	-1.4%
HYG (High Yield)	1.5%
US Treasuries Index	-0.8%
TSY 2 year (bps)	74
TSY 10 year (bps)	45
Bund 10 year (bps)	26
SOFR March 27 rate (bps)	99

FX & Commodities

	% TR USD
US Dollar Index	1.4%
Bitcoin	-26.6%
BBG Precious Metals	-5.8%
BBG Energy	59.0%

Data as of 7th August

Year-to-date, the S&P 500 rose 10.1% and the equal-weight index outperformed at 13.2%, while the Mag 7 was essentially flat at +0.3% - a striking divergence that confirms, in price action, the same broadening we describe in the earnings section below. Small and mid-caps led even more decisively, with the Russell 2000 up 19.0%, and the rally was global: the Nikkei surged 26.5%, EM equities gained over 20%, and the Euro Stoxx 50 added 10.3%.

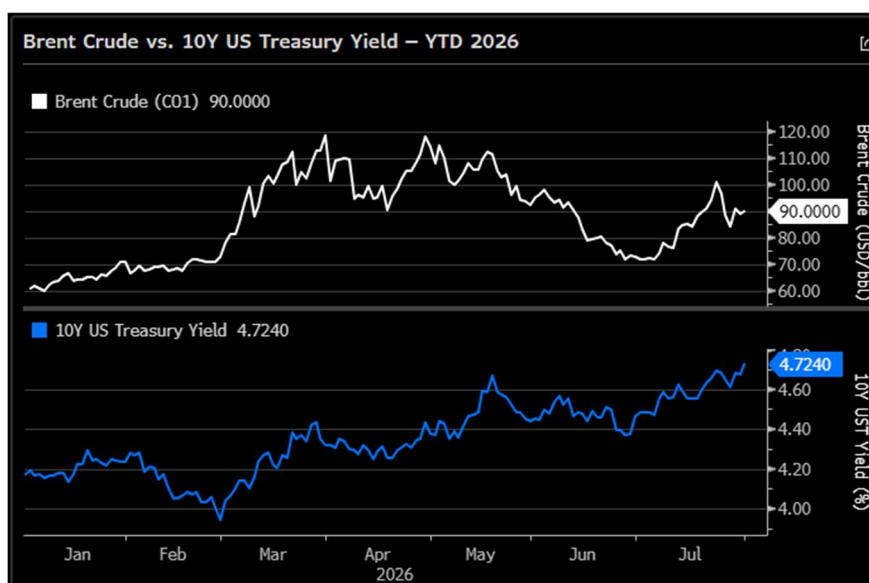
At the sector level, the dispersion is extreme. S&P 500 Energy jumped 34.7% and the Semiconductors ETF rallied 67.8% - both consistent with a sharp reversal after the tech-led correction we discuss later in this piece - while Communication Services and Consumer Discretionary were essentially flat, and Software and ARK Innovation names were still down. Fixed income moved the other way: the US Treasury index fell 0.8%, with the 2-year and 10-year yields up 73bp and 47bp respectively, echoing the rates repricing described in our macro section. Commodities and crypto were the most extreme movers of all - Bloomberg Energy up 59.2%, Bitcoin down 26.9% - a combination that underlines just how much geopolitical and positioning risk has been running through markets over this window, rather than a clean, fundamentals-driven repricing.

It is against this backdrop - a market absorbing both a record earnings season and a genuine repricing of geopolitical and rate risk simultaneously - that this publication takes a somewhat different shape than usual. We typically limit this note to the earnings season itself; however, finding ourselves at the mid-year mark, and with several macro and structural themes we consider genuinely important currently in motion, we have used this opportunity to go further.

Beyond our regular earnings coverage, this edition includes a deeper discussion of the rates and monetary policy backdrop, and closes with a dedicated section on an emerging risk we believe warrants closer attention: the build-up of off-balance-sheet obligations tied to the technology sector's AI infrastructure expansion.

Rates in a New Regime: Geopolitics, the Fed, and the Term Premium

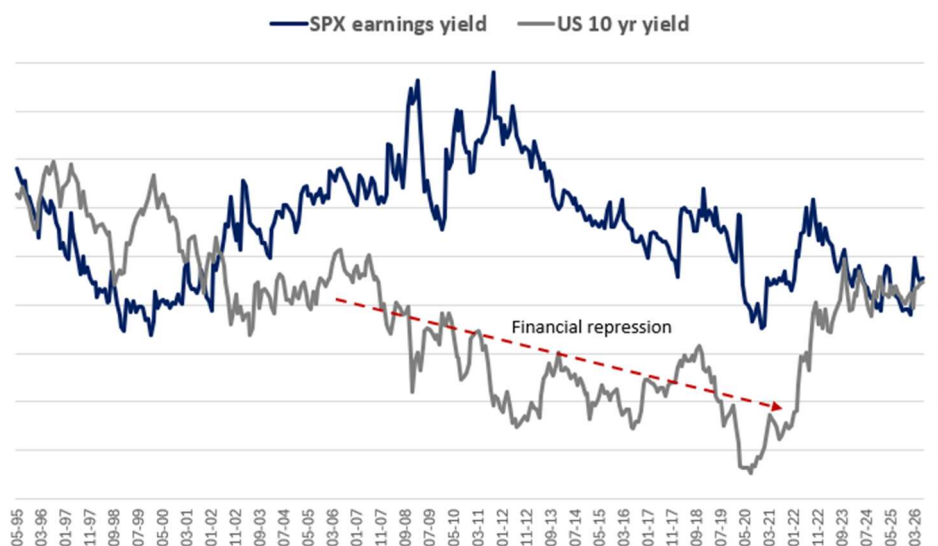
Long-term interest rates continue to be driven primarily by the geopolitical environment. The renewed escalation of the conflict involving Iran has prompted investors to reprice geopolitical risk, pushing sovereign bond yields higher across developed markets. The transmission mechanism is relatively straightforward. A more intense conflict raises the probability of disruptions to global energy supply, driving oil and gas prices higher. Higher energy prices feed directly into headline inflation and, through second-round effects, into inflation expectations. Central banks are therefore compelled to maintain a more restrictive monetary stance for longer, even though higher policy rates cannot produce more oil nor resolve supply-side disruptions. Nevertheless, monetary authorities must react to the inflationary consequences of energy shocks in order to preserve the credibility of their inflation targets. This combination of geopolitical uncertainty, elevated inflation expectations and restrictive monetary policy has been the principal driver of the recent increase in long-term interest rates.



Source: Bloomberg

Conversely, the current environment also creates meaningful asymmetry. Should geopolitical tensions ease or a credible diplomatic resolution emerge, the geopolitical risk premium embedded in fixed income markets could unwind relatively quickly. Lower energy prices would improve the inflation outlook, allowing central banks to progressively normalise monetary policy. Such a scenario would offer substantial room for long-term interest rates to retrace from current levels.

This dynamic is important: we recently expressed the view that we have entered a new “normalized” regime. In the wake of the 2008 crisis, central banks adopted extraordinary measures that distorted the signals provided by the yield curve and its impact on other assets. We have returned to a regime in which “equity earnings yields”-which are the inverse of multiples-could suffer if yields continue to rise.



Source: Bloomberg, Novum calculations

Beyond geopolitics, monetary policy has become another important source of interest rate volatility. Under Kevin Warsh, the Federal Reserve has deliberately moved away from explicit forward guidance in favour of a more genuinely data-dependent framework, bringing its communication closer to that of the European Central Bank. While this approach inevitably reduces visibility for investors, it restores greater flexibility to policymakers and encourages markets to focus once again on economic fundamentals rather than on interpreting every nuance of central bank communication.

Warsh has also consistently reiterated his determination to return inflation sustainably to the Federal Reserve's 2% objective. This emphasis on price stability inevitably recalls the ECB's long-standing commitment to its inflation target.

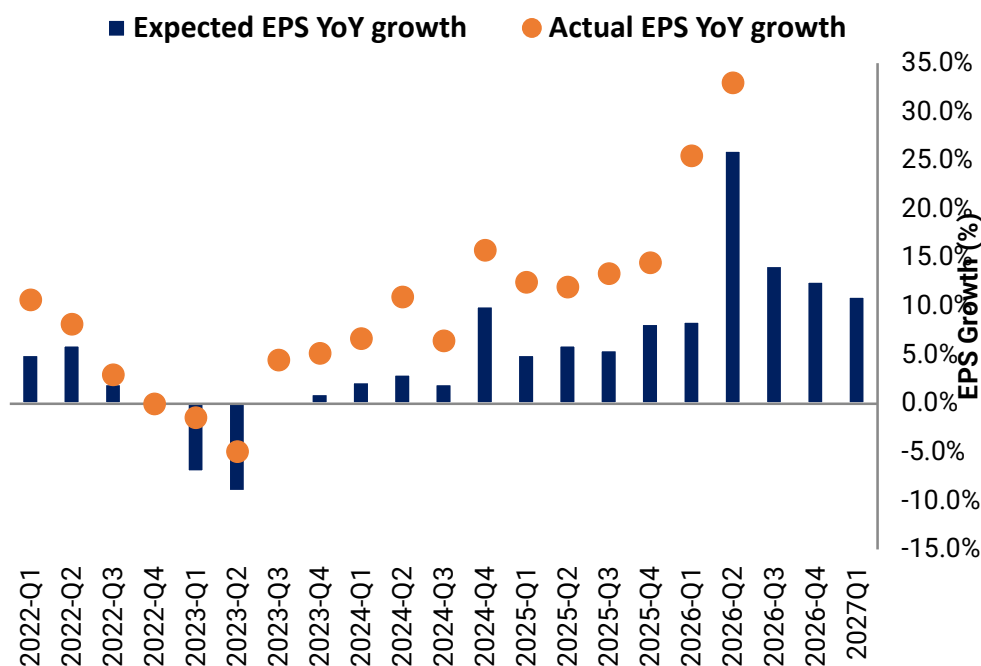
However, the credibility of a central bank should not be judged by post-FOMC market reactions-often amplified by algorithmic trading-but by market-based indicators such as the slope of the 2-to-10-year Treasury curve and inflation breakeven rates. At present, neither indicator points to any meaningful deterioration in the Federal Reserve's anti-inflation credibility, a conclusion that broadly applies to the ECB as well.

Beyond the immediate policy decisions, the more significant development may be the broader strategic review initiated by Kevin Warsh. By reassessing the Fed's communication framework, balance sheet strategy, inflation measurement and the role of new technologies such as artificial intelligence, the new Chair appears to be laying the foundations for a more pragmatic and market-oriented monetary policy framework. While it remains too early to assess the success of these reforms, markets may be underestimating the significance of what could become the most important evolution in US monetary policy since the Global Financial Crisis.

Q2 2026 Earnings: Record Strength, Broadening Beneath the Surface

An exceptionally strong season, broadening beyond the usual leaders

Q2 earnings are clearing an already elevated bar: 77% of S&P 500 companies have beaten EPS estimates, a record, with the aggregate earnings surprise running at 7%, supported by both firmer revenues and expanding margins. The acceleration is visible directly in the data - quarterly EPS growth has moved from roughly 25% actual in Q1 to an expected 33% in Q2, one of the strongest prints outside a post-recession recovery.



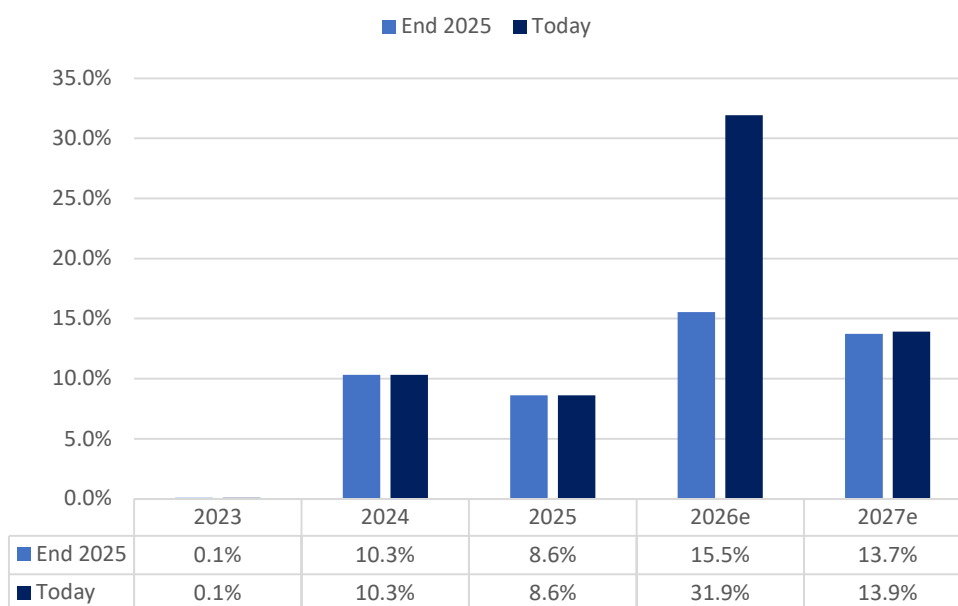
Source: Bloomberg, Novum calculations

Just as important, the composition of growth is changing. Every sector is now contributing positive earnings growth, and the share of growth attributable to AI-related names has fallen from roughly 90% to 57% - a sign that the expansion is spreading across the market rather than sitting narrowly in a handful of mega-cap names. Revenue growth is running at its highest pace in over 25 years excluding the post-pandemic rebound, and S&P 500 profit margins have climbed to a new all-time high, confirming that this is not a margin-compression story masked by buybacks, but a genuine combination of top-line strength and operating leverage.

Full-year 2026 estimates are being revised sharply higher, across regions

The pace of upward revision since the start of the year is itself remarkable. For the S&P 500, full-year 2026 earnings growth was expected at 15.5% at the end of 2025; that estimate now stands at close to 32%.

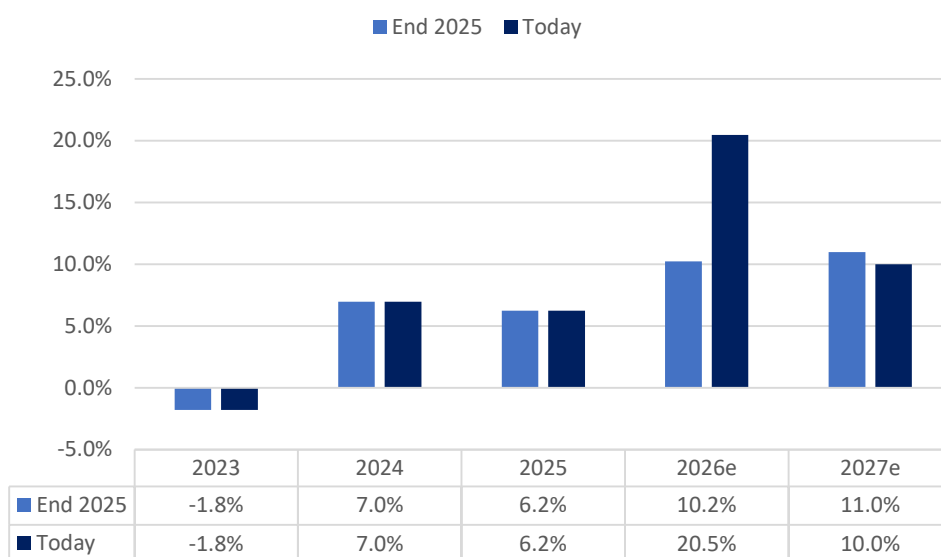
S&P 500 - full year earnings YoY



Source: Bloomberg, Novum calculations

The equal-weight index tells a similar story, with 2026e growth revised from roughly 10.2% to 20.5% - evidence that the upgrade cycle is not confined to the largest names.

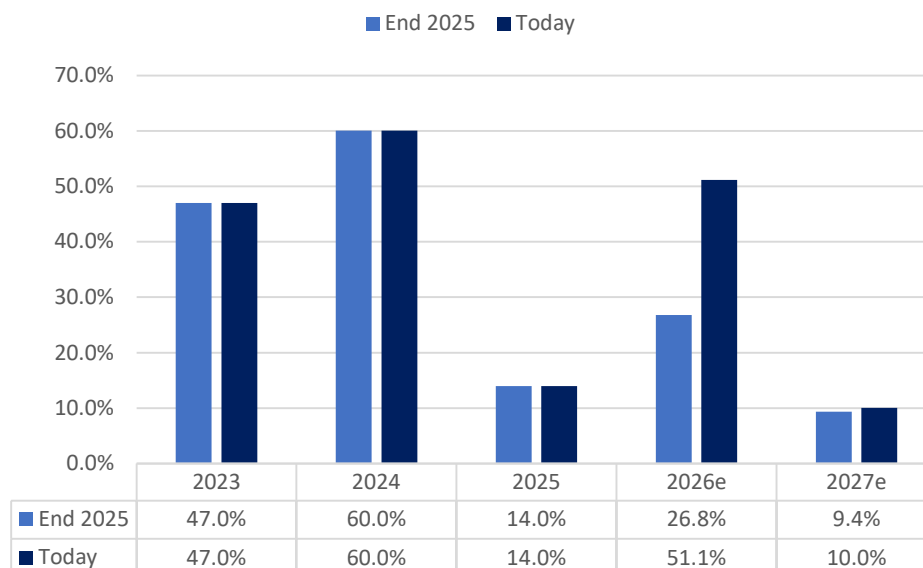
S&P EW - full year earnings YoY



Source: Bloomberg, Novum calculations

For the Magnificent 7, the move is even sharper: 2026e growth has been revised from 26.8% to over 51%.

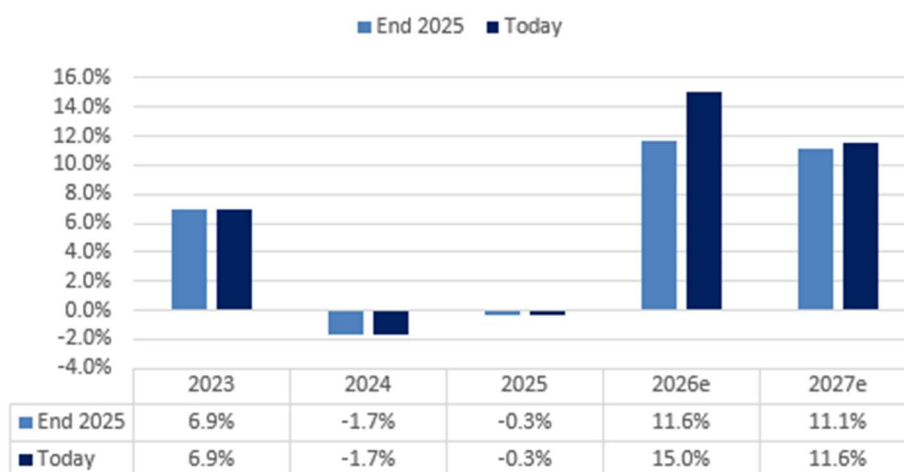
MAG 7 - full year earnings YoY



Source: Bloomberg, Novum calculations

Finally, even Europe is following the same direction, if from a lower base and after years of stagnation: full-year 2026 earnings growth expectations have moved from 11.6% at the start of the year to roughly 15% today.

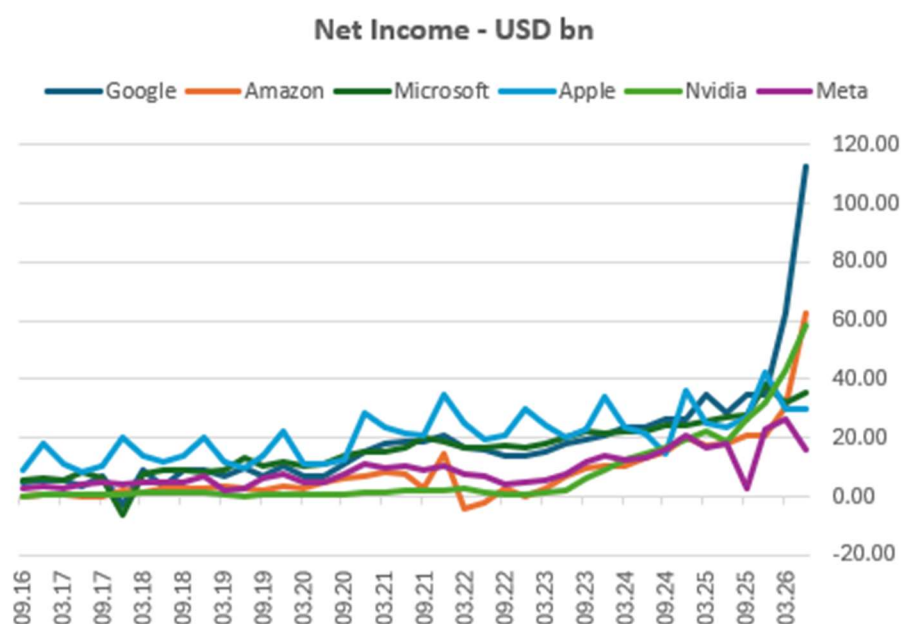
Eurostoxx 600 - full year earnings YoY



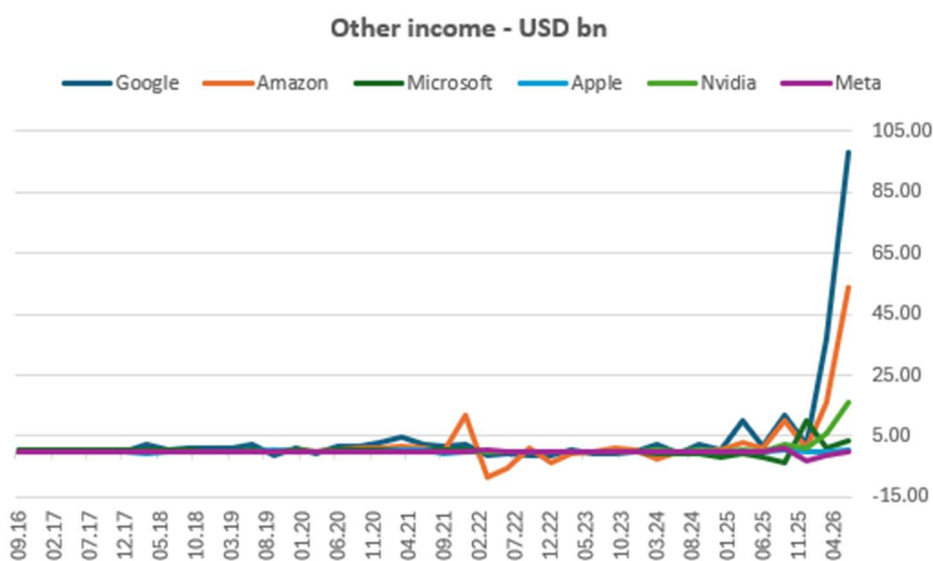
Source: Bloomberg, Novum calculations

A necessary caveat: part of this growth is not operational

Some of the headline strength is being slightly inflated by non-recurring, non-operating items - specifically, gains from the revaluation of equity stakes held by several large tech companies, notably Google, Amazon and Nvidia. Google's net income, for example, jumped from around \$30bn to approximately \$110bn in the most recent quarter, a move mirrored in the "other income" line for Google and Amazon.



Source: Bloomberg, Novum calculations



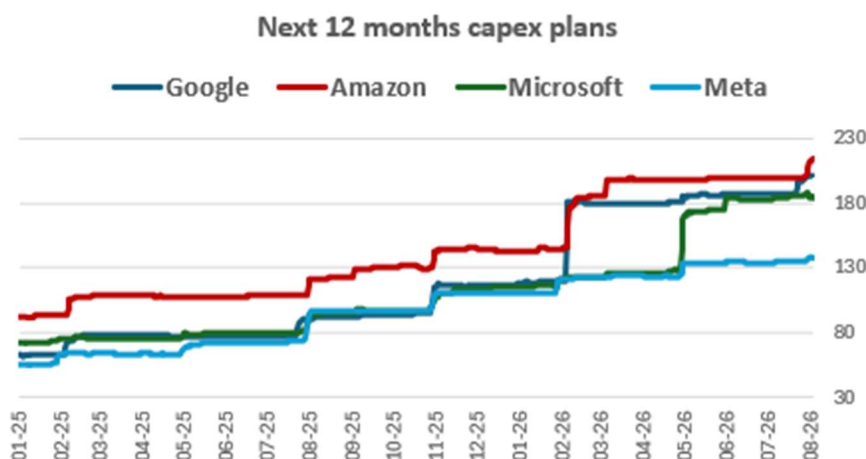
Source: Bloomberg, Novum calculations

This effect will normalize over coming quarters, but in the meantime it has flattered aggregate index-level EPS and needs to be stripped out when assessing the underlying earnings trend.

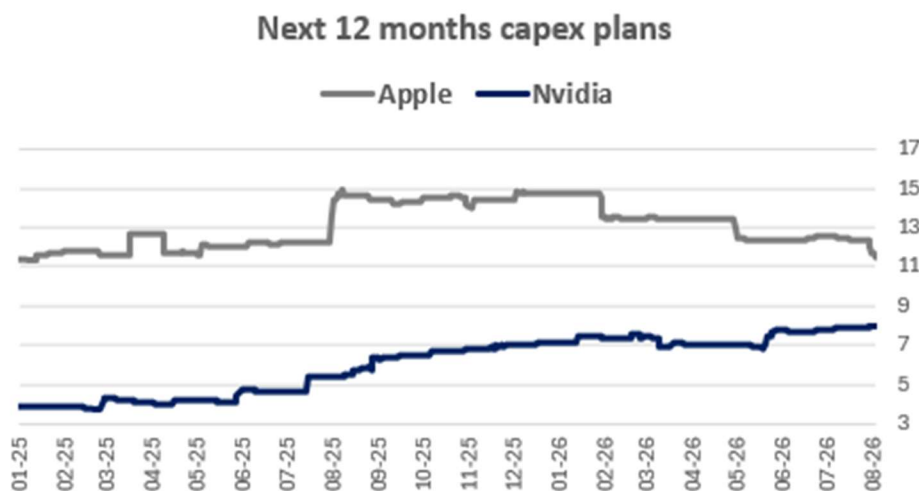
The real debate: capex, its sustainability, and the cashflow impact

A more structural tension emerged between June and July, with a meaningful correction in parts of the tech complex - memory and semiconductor names down more than 20%, and the Nasdaq off 10% - driven by growing scrutiny of capex sustainability and the ability to convert this spending into future earnings.

Looking at the Mag 7 ex-Tesla, the picture is uneven. Capex plans for Google, Amazon, Microsoft and Meta have stepped up sharply and repeatedly over the past 18 months, while Apple and Nvidia show far more stable spending profiles, with Apple's capex plan essentially flat around \$11-13bn and Nvidia's rising more gradually toward roughly \$8bn.



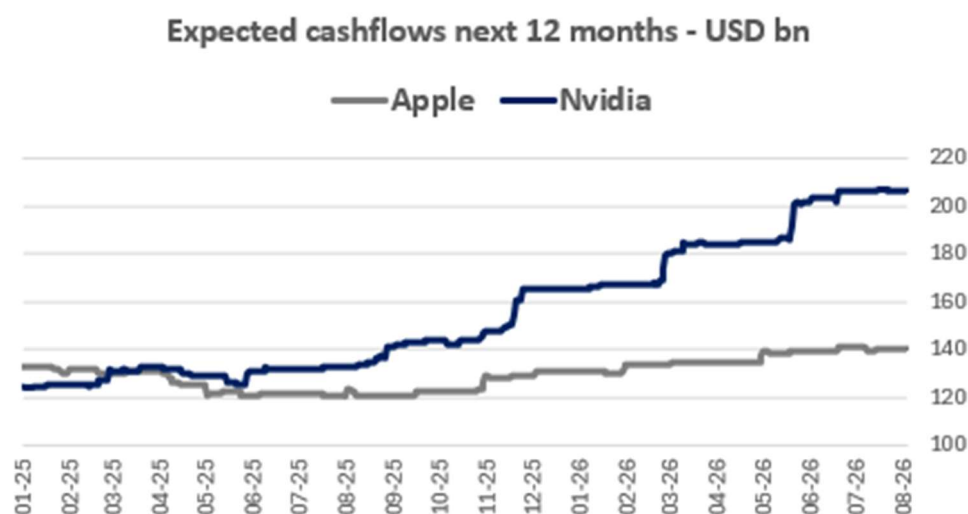
Source: Bloomberg, Novum calculations



Source: Bloomberg, Novum calculations

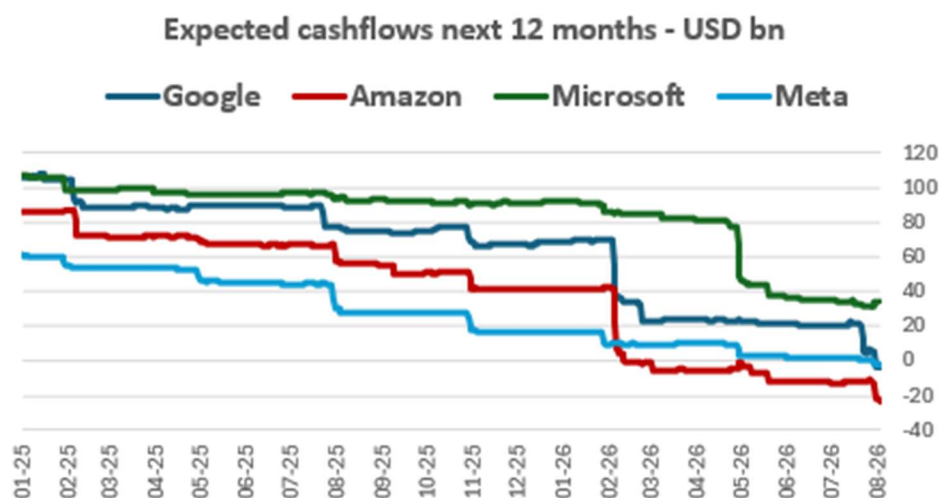
In aggregate, this group ("Mag 6") is now guiding to more than \$700bn of capex over the next 12 months, roughly double the level of early 2025.

The counterpart to this spending is a deterioration in expected free cashflow. Apple and Nvidia remain comfortably cashflow-generative, with Nvidia's expected 12-month cashflow now above \$200bn.



Source: Bloomberg, Novum calculations

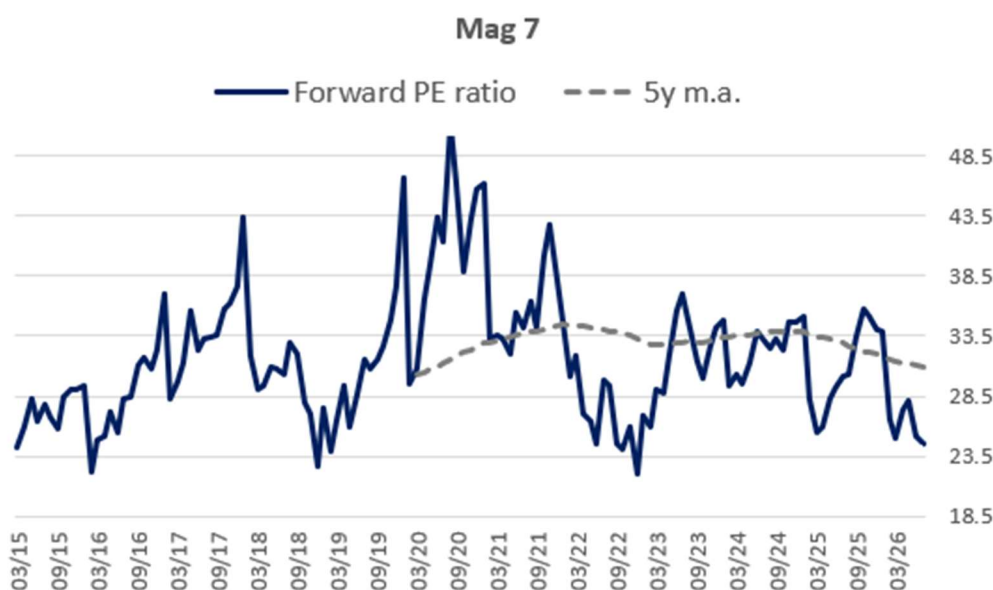
For the other four, the picture is more strained: Google and Microsoft remain positive but well off prior levels, while Amazon and Meta are now expected to turn cashflow-negative over the next 12 months.



Source: Bloomberg, Novum calculations

Why this doesn't worry us: the market has already repriced it

We are not overly concerned by this dynamic, because the market looks efficient here and appears to have already absorbed it. Forward multiples have compressed materially through the first half of 2026: both the S&P 500 and, more notably, the Mag 7 are now trading below their five-year moving average. The Mag 7 forward P/E is around 24x, near the low end of its multi-year range, well off the peaks above 40x seen in 2024-25.



Source: Bloomberg, Novum calculations

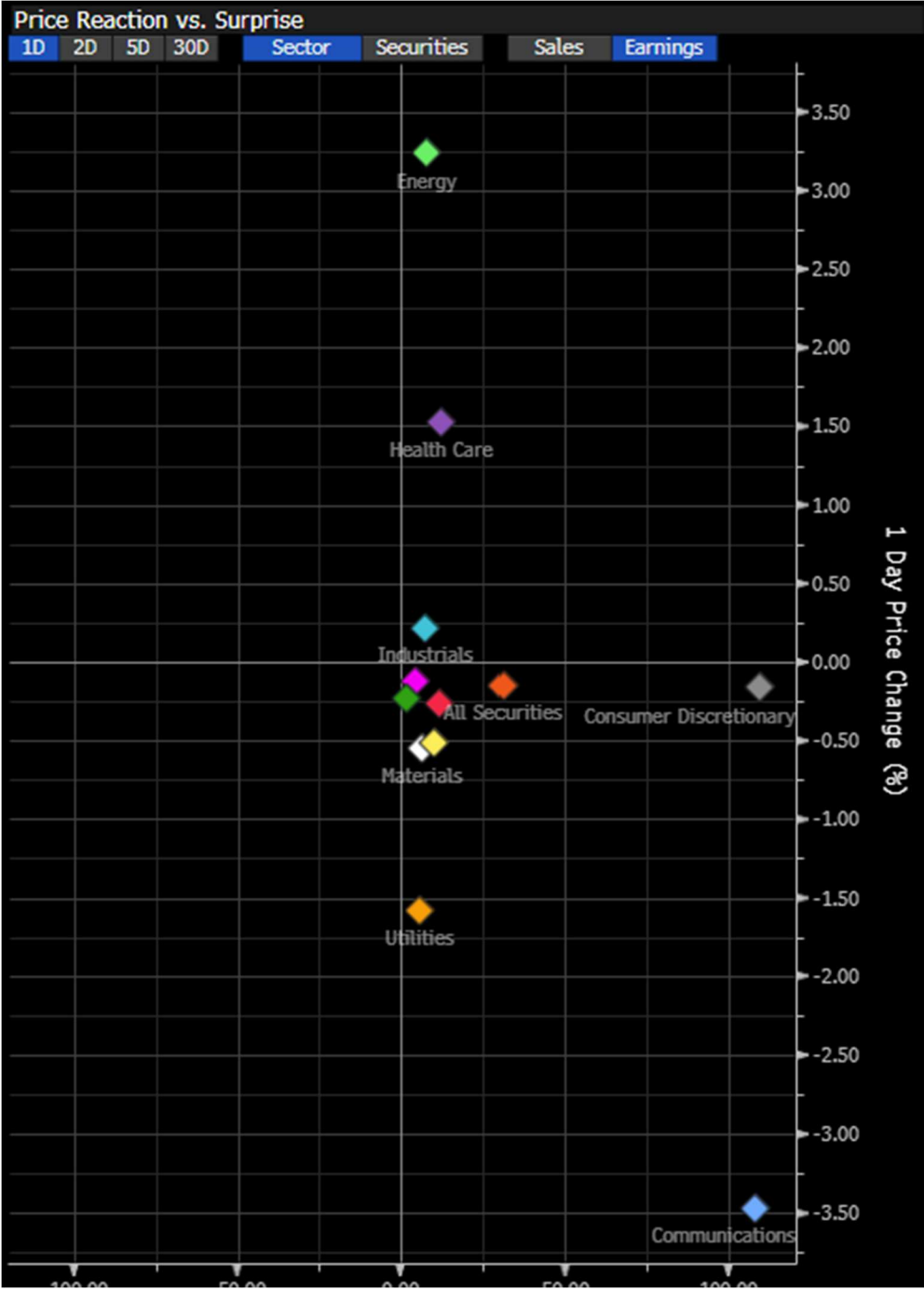
The S&P 500 forward multiple has similarly pulled back to around 19-20x, at the lower edge of its five-year range. In other words, the capex/cashflow debate is already partly in the price.



Source: Bloomberg, Novum calculations

The price-reaction chart is, in a sense, misleading

Taken at face value, the one-day price reaction to earnings looks poor for several parts of the market, and especially for Communications, which fell around 3.5% on the day despite a very large positive earnings surprise. Energy and Health Care were the standout positive reactions, up roughly 3% and 1.5% respectively, while Utilities and the broad market were roughly flat to slightly negative. But this reaction chart needs context: the season unfolded against a backdrop of geopolitical tension and profit-taking on speculative tech positioning. In many cases, quarterly results were used as the occasion to sell names that had already performed strongly in the first half of the year, rather than as a genuine verdict on the numbers themselves.



Source: Bloomberg

The Hidden Ledger: Off-Balance-Sheet Leverage Behind the AI Build-Out

The final section of this publication examines an increasingly relevant topic: off-balance-sheet liabilities among technology companies. As this issue has already generated questions from several clients, we use this section to take a closer look at the subject and clarify its key implications.

We don't think this is an emergency today, but it's genuinely a trend worth watching, and the direction of travel matters more than where things stand right now.

Here's the core of it: big tech companies (Microsoft, Amazon, Alphabet, Meta, plus Oracle) have committed to enormous future spending on AI infrastructure - chips, servers, and above all data centers - and a large part of that spending doesn't show up as debt on their balance sheets yet.

That's an accounting quirk: under standard rules, a lease only becomes a recorded liability once the company takes possession of the building, and a purchase commitment only becomes one once the goods are delivered. Until then, these are promises to pay in the future, sitting in footnotes rather than on the balance sheet.

It's worth being precise here, because there are actually two very different things hiding off-balance-sheet, and they point in opposite directions. One is the cost side: leases not yet commenced and purchase commitments, which represent money these companies will have to pay out in the future, to landlords, chipmakers and equipment suppliers - this is effectively future debt.

The other is the revenue side: so-called Remaining Performance Obligations, or RPOs, which represent money these companies are contractually owed by their own customers for future cloud/AI capacity - this is future income, already signed and committed.

Both sides are large, and both sit off the balance sheet today, but the risk sits specifically in the gap between them: the cost side is owed regardless of what happens, while the revenue side depends entirely on whether the customers on the other end of those contracts can actually pay when the time comes.

That distinction matters company by company:

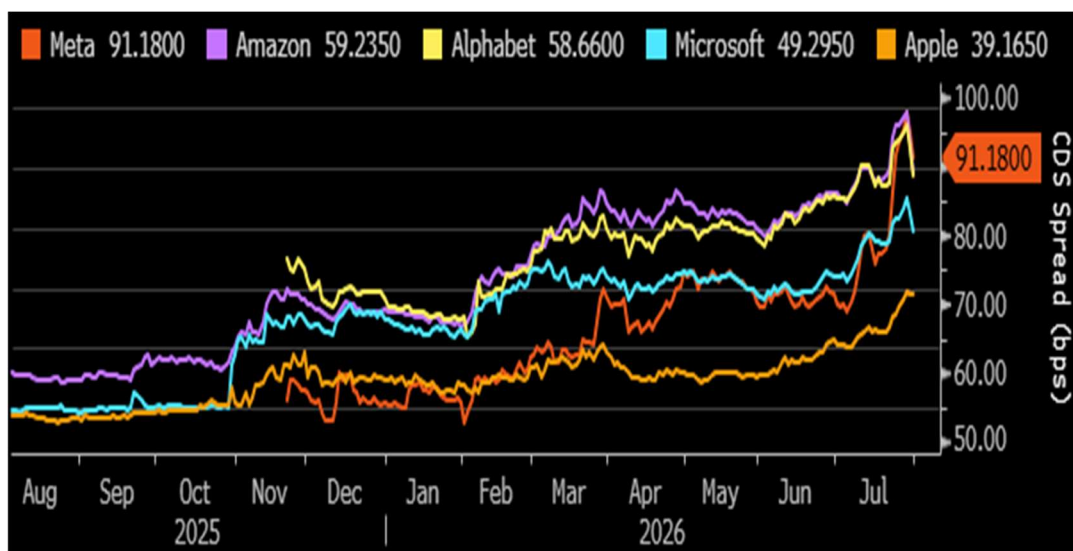
- Microsoft has about \$306bn in leases not yet started - that's the cost side, what Microsoft itself will owe - against \$625bn in RPOs, the revenue side, money owed to Microsoft, driven largely by a \$250bn commitment from OpenAI and \$30bn from Anthropic.
- Alphabet's disclosed figure is \$811bn in purchase commitments (cost side), up nearly \$480bn in a single quarter- Alphabet also carries a large RPO revenue book, part of a roughly \$2.1 trillion combined backlog across Microsoft, Amazon, Alphabet and Oracle, of which Google's exposure to OpenAI and Anthropic alone is around 43%.

- Meta's case is different: it has around \$104bn in leases plus \$131bn in contractual commitments, roughly \$400bn in total obligations, almost all on the cost side, since Meta isn't yet a cloud provider and so doesn't have a comparable RPO revenue book offsetting it.
- Amazon has about \$233bn in leases (cost side) plus roughly \$200bn in AWS RPOs (revenue side), with about 51% of that revenue book tied to OpenAI and Anthropic.
- Apple is the clear outlier - around \$44bn in manufacturing purchase obligations, cost side only, mostly due within 12 months and tied to ordinary supplier relationships rather than long-dated infrastructure; Apple has actually gotten credit in the market for having largely opted out of this capex race.

Where we think this could actually turn into a problem comes down to two things:

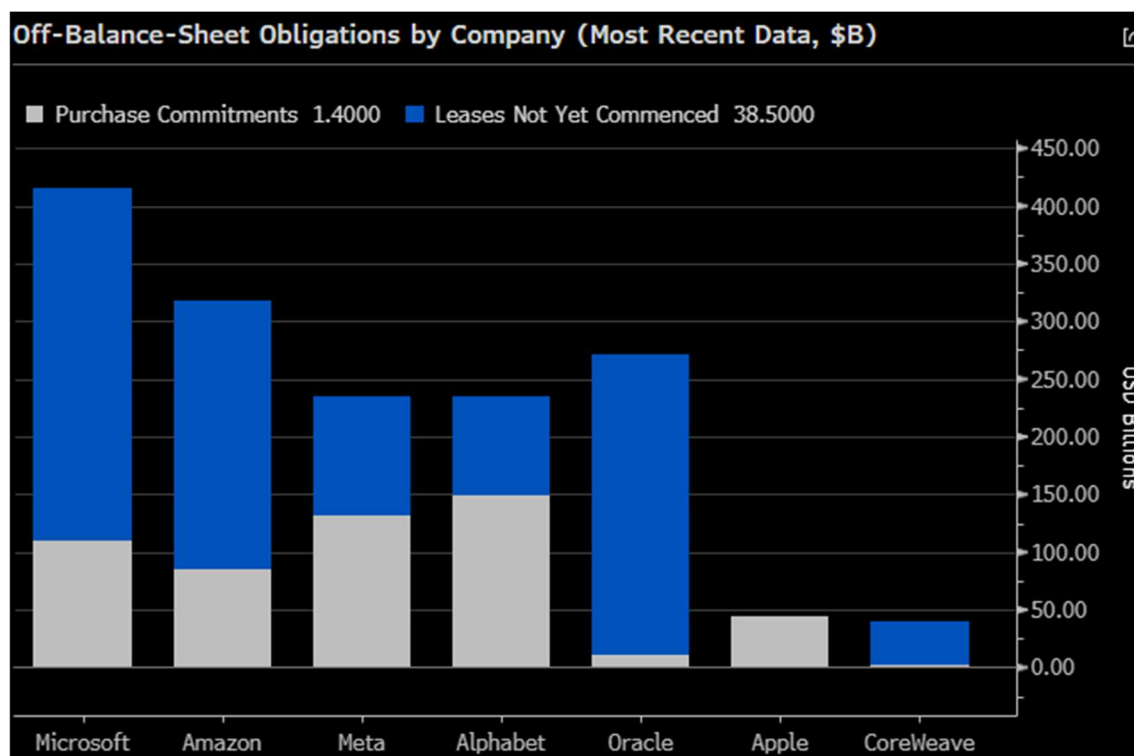
Financing is shifting from cash to debt. Until recently, hyperscaler capex was largely funded from their own enormous operating cash flow. That's changing; in the first half of 2026 hyperscalers issued more investment-grade debt than the entire US energy sector, which is not something we were used to seeing from this group. Credit markets have started to notice: bond spreads for Amazon, Alphabet and Meta have widened over the past few weeks, and Oracle - sometimes seen as a fifth member of this group, albeit more leveraged - was downgraded in July to just one notch above junk.

The revenue side isn't fully proven yet. As above, a meaningful share of the RPO backlog - the money hyperscalers are counting on receiving - comes from OpenAI and Anthropic, and neither is profitable today. So the hyperscalers have effectively taken on firm, cost-side obligations (leases, equipment purchases) while their matching revenue-side promises depend on a small number of customers whose own ability to pay isn't yet demonstrated. That concentration is part of why some analysts have drawn cautious parallels with how credit risk built up quietly before 2008, not because the situations are equivalent, but because the mechanism - spending now against an assumed future payment - rhymes.



Source: Bloomberg

None of this changes the fact that these companies remain very high credit quality today: Microsoft is AAA, Alphabet AA+, Amazon AA, Meta AA-. Current profitability is genuinely strong, so nothing here points to near-term distress. The point is that the funding model is shifting toward more debt on the cost side, against revenue-side promises that depend on customers who aren't yet profitable, and that's the thing to keep tracking over the next year or two rather than treat as a today problem. We'll keep an eye on credit spreads and issuance volumes here and flag it if the picture changes.



Source: Bloomberg

To put some numbers behind the concern: we pulled together on-balance-sheet debt alongside purchase commitments and uncommenced leases for the seven companies most exposed to this dynamic (table below). The scale is genuinely striking once you set it against each company's existing debt load. In several cases, the off-balance-sheet figure isn't a modest add-on, it's a multiple of what's already on the balance sheet.

A few things stand out:

- Microsoft is the most striking case: its combined off-balance-sheet obligations are 3.2x its reported debt.
- Meta and Alphabet both carry off-balance-sheet obligations of roughly 2x their reported debt. Notably, for both companies, commitments alone already exceed 100% of debt, before accounting for uncommenced leases.
- Oracle is the most asymmetric: its purchase commitments are negligible relative to debt (6.6%), but its uncommenced leases at \$261 billion represent 156% of its reported debt. Oracle is essentially a leveraged lease vehicle at this point, with its off-balance-sheet data center commitments dwarfing its conventional borrowings.
- Amazon has the largest absolute on-balance-sheet debt (\$242bn) of the group, which provides the most cushion, yet its combined off-balance-sheet obligations still represent 131% of reported debt.
- Apple is the clear outlier in the other direction: its off-balance-sheet footprint is modest and almost entirely near-term supplier obligations, representing just 53% of its debt.

None of this means these obligations won't be honoured. They're backed by companies with strong current cash generation and, in most cases, top-tier credit ratings. But the sheer size of these commitments relative to reported debt is exactly why a leverage picture built only on what's booked today would understate the real exposure quite significantly, particularly for Microsoft, Meta, Alphabet and Oracle.

Hyperscaler Off-Balance-Sheet Commitments

Company	On-Balance-Sheet Debt (\$B)	Purchase Commitments (\$B)	Leases Not Yet Commenced (\$B)	Combined Off-BS (\$B)	Purchase Commitments (% of Debt)	Leases Not Commenced (% of Debt)	Combined Off-BS (% of Debt)
Microsoft	\$129	\$110	\$306	\$416	85.4%	237.6%	323.0%
Meta	\$112	\$131	\$104	\$235	116.7%	92.4%	209.2%
Alphabet	\$119	\$149	\$85	\$234	125.6%	71.8%	197.4%
Oracle	\$167	\$11	\$261	\$272	6.6%	155.9%	162.5%
Amazon	\$242	\$85	\$233	\$318	35.0%	96.3%	131.3%
CoreWeave	\$35	\$1	\$39	\$40	4.0%	109.7%	113.7%
Apple	\$84	\$44	-	\$44	52.7%	-	52.7%
Total / Weighted Avg	\$889	\$532	\$1'028	\$1'559	59.8%	115.6%	175.5%

Source: Bloomberg, Novum calculations

Constructive, Not Complacent

We remain constructive on equities. Earnings breadth is improving, margins are at record highs, and valuations haven't run away from this strength - both the S&P 500 and the Mag 7 trade below their five-year average forward multiples, suggesting the market isn't pricing this season with complacency.

But constructive is not unconditional. Three dynamics deserve close monitoring:

- the shift in hyperscaler financing from cashflow to debt, with early signs already visible in widening spreads and Oracle's downgrade;
- the concentration of revenue promises behind that spending in customers, OpenAI and Anthropic chief among them, that aren't yet profitable;
- a rates backdrop still hostage to geopolitics and a Fed mid-transition to a new framework.

None of this changes our second-half view. But it argues for staying selective rather than broadly indiscriminate, and for actively tracking credit spreads, RPO disclosures and capex revisions in the quarters ahead rather than assuming the current trend simply extends.

Novum’s Trade History

From 31.12.2023 to 05.08.2026



Legend

TA = Tactical Trade	CMD = Commodities
EQ = Equity	CRY = Crypto Currencies
FI = Fixed Income	FX = Forex Market