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Jacob Bourne

Microsoft and Alphabet Q2 earnings show strength in the cloud

Article

The news: **Alphabet** and **Microsoft** were the first among Big Tech companies to release quarterly earnings this week, raising confidence in the US equities market.

- Alphabet and Microsoft shares each gained **5%** following their release of quarterly reports on Tuesday, propping up the **Dow Jones Industrial Average**, **S&P 500**, and **Nasdaq Composite**, per CNBC.

- Alphabet's Q2 revenue was up **13%** year over year (YoY) to **$69.69 billion**, which was only slightly lower than the forecasted **$69.88 billion**, per The Guardian.
- Meanwhile, Microsoft's fiscal Q4 report showed **12%** YoY quarterly growth with revenue at **$51.87 billion**, just under the anticipated **$52.44 billion**, per CNBC.

The context: Despite the Wednesday stock market rally, the reports point to a growth slowdown.

- Both Microsoft and Alphabet's earnings gains are their slowest in two years, on par with the broader 2022 economic deceleration.

How we got here: As the Big Tech companies **Apple**, **Amazon**, Microsoft, Alphabet, and **Meta** are collectively worth **$7.6 trillion** in market capitalization, what happens to their bottom lines is a major market driver.

- As more reports land this week, we'll see the stock market react, accompanied by response to the Federal Reserve's latest interest rate hike.
- **A big takeaway from the reports is that Microsoft and Alphabet are gliding on their cloud strength.**
- Microsoft server and cloud revenue jumped **26%** YoY adjusted for inflation, with **Azure** sales growth leaping by **46%**, adjusted for inflation, per Protocol. Meanwhile, Alphabet-subsidiary **Google Cloud** revenue was up **36%** over last year.
- With cloud computing integral to businesses' digital transformations and the ability to leverage AI, cloud services have become bread-and-butter divisions for **Amazon Web Services**, Azure, and Google Cloud in recent years.
- With global public cloud spending expected to increase by **20.4%** in 2022, per Gartner, we can expect that Big Cloud will make gaining market share a core growth strategy.

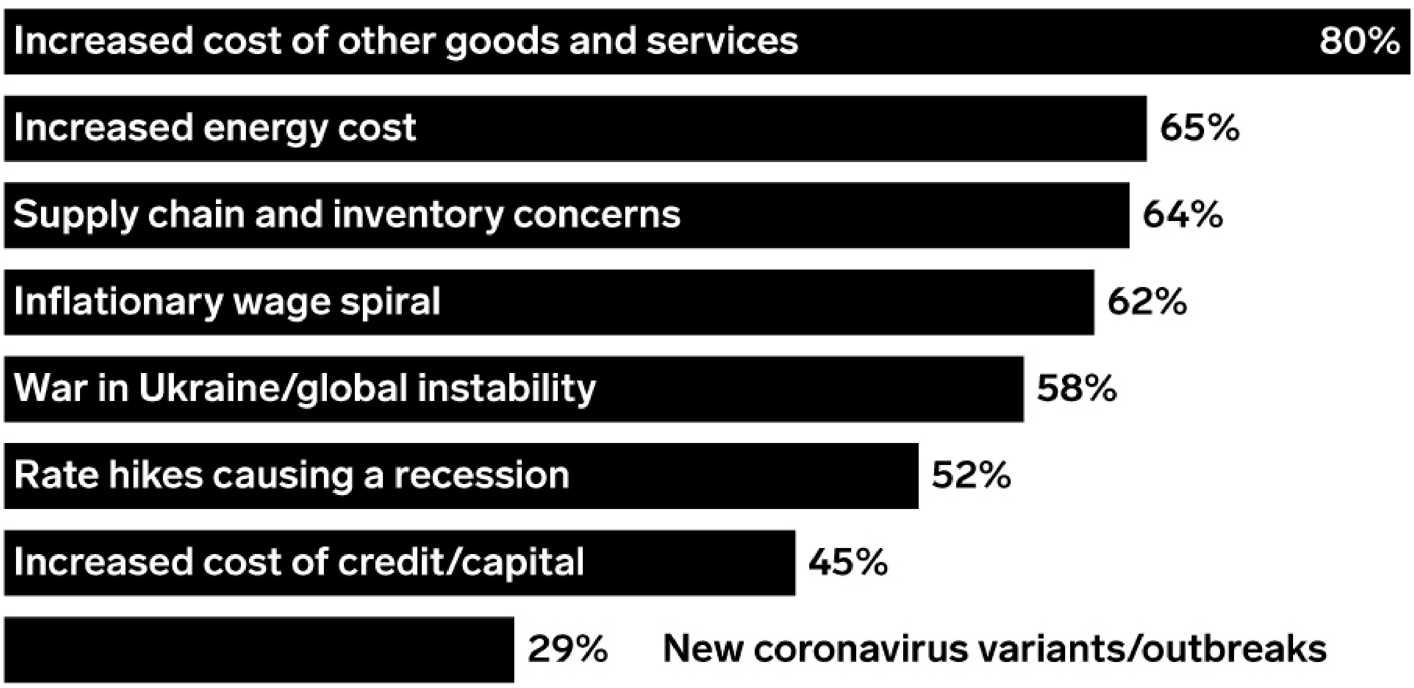
Watch for red flags: Just because enterprises have come to depend on digital computing and Big Data, it doesn't mean that the cloud is recession-proof, as sometimes claimed. Although recent earnings reports have eased fears, the slowdown could intensify.

- As companies with smaller cash reserves than Big Tech rush to curb spending, cloud computing could be a top area to cut.

- Big Cloud's astronomical and cryptic billing practices make those expenses harder to justify, which could send businesses shopping around for better cloud deals.
- This could create opportunities for alternative cloud providers and startups to gain market share, but could also roil the economy if Big Tech's earnings fall short.
- Rising concerns about wasteful cloud spending, outages, and shifts to private infrastructure could all trigger cloud turbulence.

US CFOs' Reasons for Negative US Economy Outlook, April 2022

% of respondents



Note: in the next 6 months
Source: Grant Thornton LLP, "Q1 2022 CFO Survey," May 24, 2022

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