J.P.Morgan

Hardware & Networking

Cloud DC Capex Outlook Strengthened Further; Estimate Growth of 80%/50% in 2026/27 and Record $ Gains

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Data center capex outlook among the top 4 U.S. CSPs continues to trend higher for both 2026 and 2027, following our last update, driven by updated capex outlook shared by CSPs as well as robust trends across installed and planned N.A. data center power capacity. The industry continues to see investments in AI and related infrastructure accelerating, driving another upward revision to the outlook – ***from +63% to +80% growth in 2026*** – with robust double-digit growth increases evident across all U.S. hyperscalers. On a dollar basis, the growth implies a significant increase of more than +$250 bn of additional data center capex in 2026, the largest annual step-up to date, surpassing the record set in 2025. We are also increasing our forecast for data center capex for 2027 to **expand at a robust pace of 50% relative to +40% prior** – which, although implying a moderation in the growth rate, translates into a new record of $285 bn+ increase in spending, already surpassing the robust $250 bn+ annual step-up we are forecasting in 2026. Our increased data center capex outlook is supported by robust pipeline of ***planned*** N.A. data center (power) capacity – which tracked to 175 GW+ at the end of 1Q26 and supports our forecast of installed capacity expanding from 48 GW in 2025 to 65 GW in 2026 (vs. 62 GW prior) and 85 GW in 2027 (vs. 78 GW prior). Our installed capacity forecast comfortably supports aggregate data center capex from Top 4 U.S. CSPs of $575 bn+ and $860 bn+ in 2026 and 2027, respectively, even if we assume a growth rate for spending per GW to decelerate. Given the latest data center capex forecast for the top 4 U.S. CSPs, we remain bullish on our coverage companies that support AI infrastructure demands of hyperscalers directly, particularly across networking – which we believe will track to even higher growth due to increasing mix shift of spending, since it is essentially gating the performance of high end compute. We continue to be positive on demand drivers for hyperscaler capex-levered suppliers including Amphenol (APH), Arista (ANET), Celestica (CLS), Ciena (CIEN), Coherent (COHR), Corning (GLW), Credo (CRDO), Fabrinet (FN), and Lumentum (LITE).

- **Cloud DC capex growth outlook for 2026 increases again.** The growth expected for data center capex in 2026 is now tracking even larger, led by investments across the top 4 U.S. CSPs. Specifically, the strong investment in AI is expected to drive growth of +80% y/y in 2026 (vs. prior forecast of +63%). On an absolute dollar basis, the aforementioned implies cloud data center capex is expected to increase by $250 bn+ in 2026 (vs. prior forecast of $200 bn+), which would be the highest increase in the last decade, surpassing the significant increase in 2025 ($140 bn+ y/y) and compares to the average dollar increase of +$10 bn observed between 2015-2023.
- **Raise our Cloud DC capex growth outlook for 2027; Expect another year of robust dollar increases.** We are increasing our forecast for cloud data center

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capex growth from the top 4 U.S. CSPs to +50% y/y (vs.+40% y/y prior); even though the percentage increase might suggest a slowdown, the absolute increase in capex dollars is expected to track over $285 bn in 2027, representing yet another record by surpassing the robust $250 bn+ growth that we are forecasting for 2026. Additionally, our preliminary 2027 forecast incorporates limited increase in inflation/ commodity cost, which is a significant contributor to the increase in 2026 spend, and further leverage of custom ASIC relative to GPUs to moderate cost per GW for new capacity builds - both of which are likely to present upside to our 2027 forecast.

- **Cloud DC capex growth is backed by robust planned power capacity.** We estimate North America installed DC capacity to expand to 65 GW or +17 GW y/y in 2026 (vs. 62 GW prior) and 85 GW or +20 GW y/y in 2027 (vs. 78 GW prior), driven by record quarterly installations and robust 175 GW+ of planned capacity in 1Q26, which we forecast to further expand to 205 GW+ by end of 2026. Installed DC capacity forecast can easily support our data center capex spending forecasts of $575 bn+ and $860 bn+, in 2026 and 2027 respectively, even as growth rate for spending per GW decelerates.
- **Expect operating cash flow from CSPs to be almost entirely consumed by data center capex.** Historically (*pre-2024*), aggregate cloud data center capex from the top 4 U.S. CSPs tracked largely between 25-30% of total cash flow from operations. However, with the robust pace of investments into data centers to build AI infrastructure, cloud data center capex is consuming an increasingly higher share of operating cash flow, which we forecast to expand to 82% and 94% of cash flow from operations in 2026 and 2027 per forecasts of JPM analysts, respectively.

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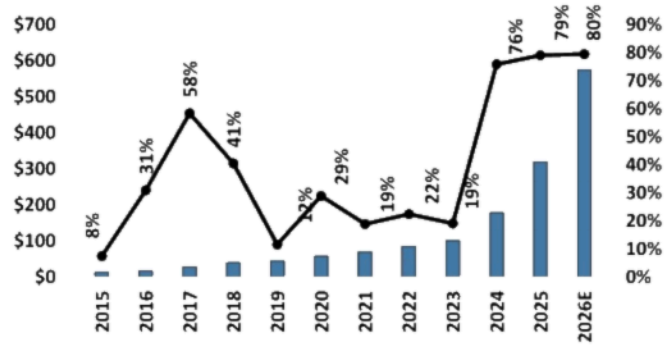
Another Record Year on the Cards for Cloud DC Capex in 2026

AI investments driving a record expansion in capex of $250 bn+ for 2026

Based on recent industry forecasts and discussions, growth in data center capex from the top 4 U.S. CSPs is on track to expand robustly in 2026, led by solid growth across all of the CSPs as they continue their strong pace of investments in AI infrastructure. As illustrated in Figure 1, data center capex from the top 4 U.S. CSPs is now forecast to expand by +80% y/y in 2026 (vs. +63% y/y prior), following already robust +79% y/y growth in 2025. On an absolute dollar basis, cloud data center capex is now forecast to increase by over $250 bn in 2026 (vs. $200 bn+ prior), which would be the highest increase in the last decade, surpassing the significant increase of $140 bn+ in 2025 and also compares to the average dollar increase of $10 bn observed between 2015 and 2023.

Figure 1: Annual Data Center Capex from Top 4 U.S. CSPs

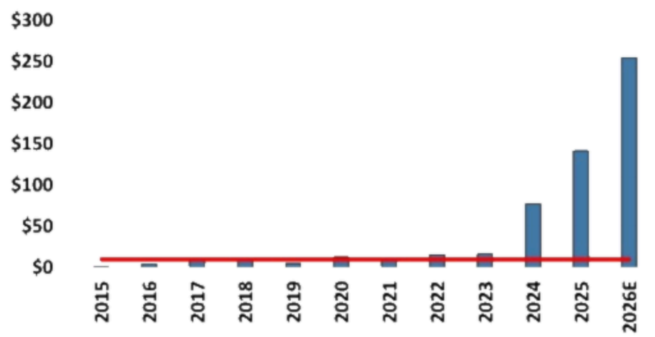
$ in Billions, Y/Y % Change



Source: 650 Group and J.P. Morgan estimates.

Figure 2: Annual Change in Data Center Capex from Top 4 U.S. CSPs

$ in Billions Change



Source: 650 Group and J.P. Morgan estimates.

Strong capex expansion expected across U.S. CSPs in 2026

As illustrated in Figure 3, aggregate data center capex across the top 4 U.S. CSPs is expected to expand at a very robust +80% growth rate in 2026, led by Google and Meta (~100% y/y), followed by Amazon and Microsoft (60%+ y/y). Looking at the step-up in absolute dollars, our forecasts represent an $80 bn+ increase for Google, followed by $55 bn+ across Meta, Amazon, and Microsoft.

Data center capex expansion across the top 4 U.S. CSPs in 2026 is supported by total capex outlooks, which include:

1. Google's total capex outlook of $180-190 bn in 2026 (vs. $91 bn in 2025 and prior guide of $175-185 bn);
2. Meta's total capex outlook of $125-145 bn in 2026 (vs. $70 bn in 2025 and prior guide of $115-135 bn);
3. Amazon's total capex of ~$200 bn in 2026 (vs. $131 bn in 2025 and prior guide of ~$200 bn);

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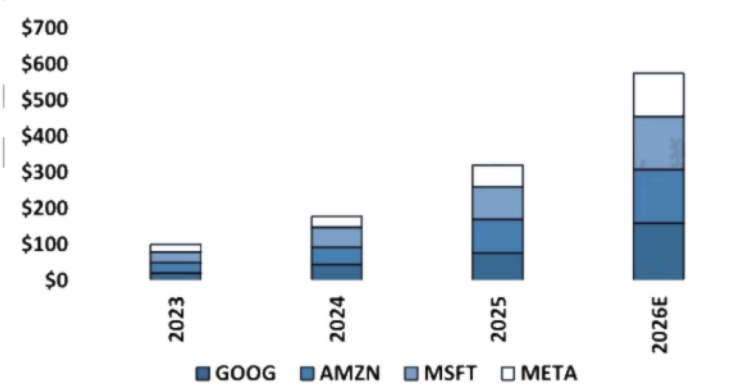
4. Microsoft's total capex of ~$190 bn in 2026 (vs. $118 bn in 2025);

Figure 3: Annual Data Center Capex from Top 4 U.S. CSPs

$ in Billions, Y/Y % Change



Source: 650 Group and J.P. Morgan estimates.

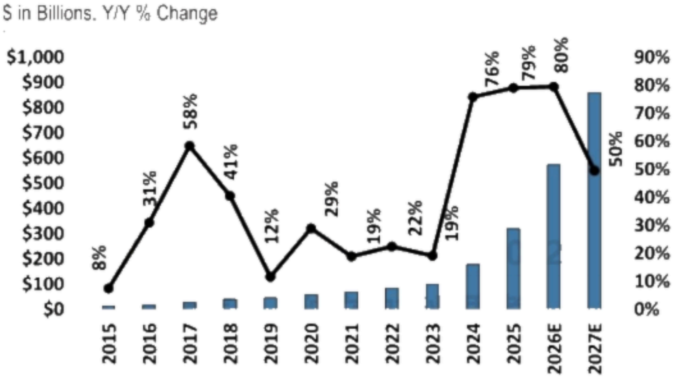
Cloud DC Capex Momentum to Continue into 2027

Capex on track to expand by more than $285 bn+ in 2027

As illustrated in Figure 4, we expect the strong data center capex trends from the top 4 U.S. CSPs to continue into 2027, particularly driven by the deployment momentum of higher-priced AI-related equipment across these companies. As a result, we forecast the growth rate to track at about +50% y/y for 2027 (vs. prior forecast of +40% y/y). While the growth rate for 2027 implies a moderation compared to the rate forecast for 2026 the absolute dollar increase would represent yet another record at more than $285 bn+ (vs. $210 bn+ prior), surpassing the robust $250 bn+ of capex increase that we are forecasting for 2026, and is again expected to track well ahead of the average dollar increase of $10 bn observed between 2015 and 2023.

Figure 4: Annual Data Center Capex from Top 4 U.S. CSPs

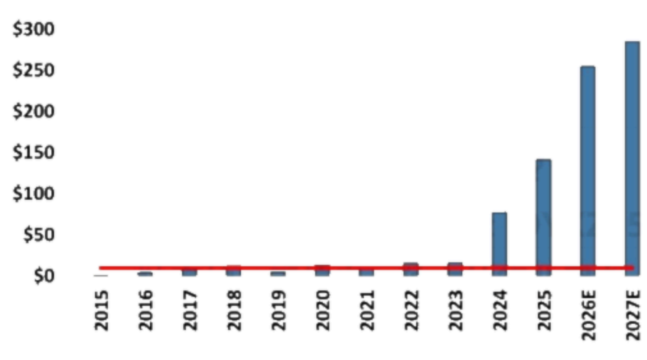
$ in Billions, Y/Y % Change



Source: 650 Group and J.P. Morgan estimates.

Figure 5: Annual Change in Data Center Capex from Top 4 U.S. CSPs

$ in Billions Change



Source: 650 Group and J.P. Morgan estimates.

Our 2027 capex forecast embeds conservatism on several asepcts that have contributed to 2026

Our forecast for 2027 capex increase of 50% y/y, or $285 bn+ y/y, might screen as a slowdown in terms of growth rate relative to the rapid pace of increases seen in 2025 and now forecasted for 2026, **but there are several potential sources of upside** (relative to our conservative assumptions) as we gain more visibility into 2027.

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including:

1. Inflation on account of capacity constraints (*e.g. rise in memory prices, which is a significant contributor to robust increase in infrastructure spend in 2026*) continuing to persist.
2. Pace of increase in spend per GW continues on account of the focus on high performance infrastructure.
3. Leverage of GPUs continuing at a high mix relative to leverage of custom ASICs, driving high $ spend per GW of infrastructure.

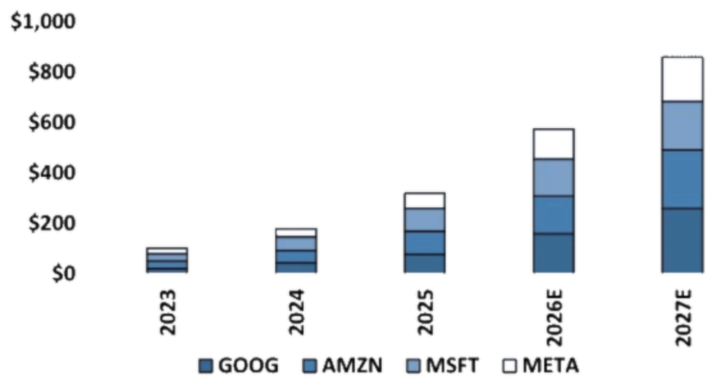
Our $285 bn+ y/y increase forecasted for 2027 incorporates a slowdown in the pace of increase in $/GW evidenced in recent years; however, the above drivers could continue to support an even higher step increase in capex from the record levels already forecasted for 2027.

Another strong double-digit capex increase anticipated across U.S. CSPs in 2027

As illustrated in Figure 6, aggregate data center capex across the top 4 U.S. CSPs is expected to expand at a very robust +50% y/y growth rate in 2027, led by Google (63% y/y), and followed by Amazon (55% y/y), Meta (+48% y/y) and Microsoft (31% y/y) - with $70 bn+ of average absolute dollar increase. Google suggested that they "*Expect 2027 CapEx to significantly increase compared to 2026*".

Figure 6: Annual Data Center Capex from Top 4 U.S. CSPs

$ in Billions, Y/Y % Change



Source: 650 Group and J.P. Morgan estimates.

Cloud data center capex to consume most of forecasted cash flow generated from operations

As shown in Figure 7 below, aggregate cloud data center capex from the top 4 U.S. CSPs tracked largely between 25-30% of total cash flow from operations through 2023. However, the pace of data center investments started to inflect in 2024 with robust investments into building AI infrastructure, translating into data center capex investments consuming an increasingly higher share of the cash flow generated from operations by the top 4 U.S. CSPs. With the robust pace of investment into data centers expected to continue, as evidenced in our capex outlook highlighted above, we expect cloud data center capex to consume as high as 82% and 94% of the cash flow from operations in 2026 and 2027 forecasted by JPM analysts covering Google, Amazon, Microsoft and Meta, respectively.

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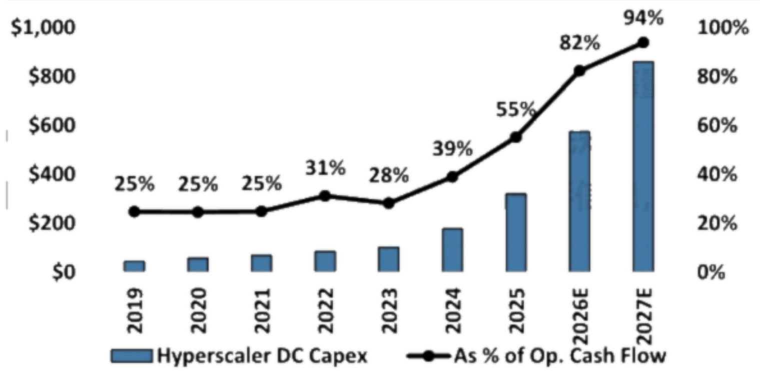
Figure 7: Annual Data Center Capex from Top 4 U.S. CSPs vs. Operating Cash Flow

$ in Billions and %



Source: 650 Group and J.P. Morgan estimates.

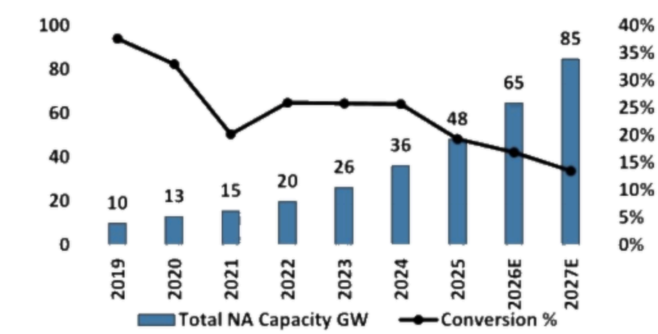
Planned power capacity trends supportive of forecasted Cloud DC capex

As shown in Figure 8, installed North America data center capacity expanded by +12 GW to 48 GW in 2025, which compares to average planned capacity of 62 GW over the prior three years (2022-2024), implying a conversion of planned into installed capacity at a high-teens rate. *During 1Q26, installed capacity expanded to 56 GW, along with planned capacity expansion to 177 GW, implying record quarterly capacity addition of 8 GW vs. prior record of 4 GW in 3Q25 and a conversion rate tracking well ahead of recent average.* Even with a conservative assumption on conversion tracking in-line with recent average and modestly softer than 1Q26 through the rest of the year, we estimate installed capacity to expand by +17 GW to 65 GW in 2026 (vs. 62 GW prior).

As we look forward, we envision planned capacity exiting 2026 tracking to ~210 GW, implying a moderation in the rate at which new projects are added to the pipeline, which, in combination with another moderation in the conversion rate, leads us to forecast installed capacity expanding by +20 GW to 85 GW in 2027 (vs. 78 GW prior). We estimate that the installed capacity of 65 GW in 2026 and 85 GW in 2027 can easily support our data center capex spending of $575 bn~ and $860 bn+, respectively, even as the growth rate for spending per GW decelerates as the rate of mix shift towards AI moderates after an already robust expansion in mix towards AI in 2024 and 2025.

Figure 8: North America Installed DC Capacity

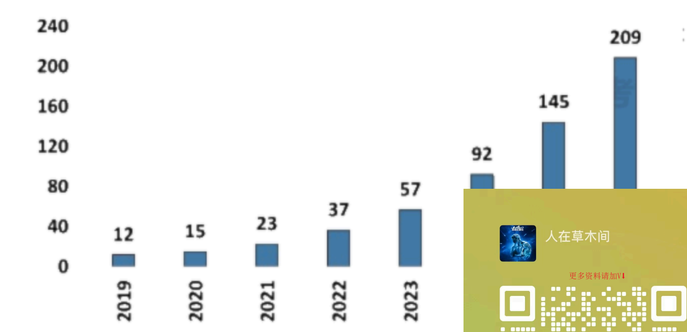
GW, %



Note: Conversion rate (%) represents added GW capacity during the year as % of average planned capacity over last 3 years.
Source: Datacenter Hawk and J.P. Morgan estimates.

Figure 9: North America Planned DC Capacity

GW



Source: Datacenter Hawk and J.P. Morgan estimates.

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