

The companies powering AI are outperforming those building it

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Key Points:

Energy shares have decisively outperformed Big Tech: Geopolitical supply disruptions and soaring refining and gas margins are delivering immediate cash-flow gains, while hyperscalers face mounting AI investment costs and uncertainty over future returns.

The earnings gap reflects different investment cycles: Technology companies are committing unprecedented sums to AI infrastructure, while much of the associated revenue and return on capital remains years away.

Energy companies are monetising scarcity today: Wars, sanctions and disrupted trade flows have lifted crude oil, refined products and natural gas prices, immediately boosting cash flow from existing assets.

Refining has become exceptionally profitable: The US 3-2-1 crack spread has reached USD 63 per barrel, while even stronger European margins reflect diesel above USD 200 per barrel and expensive natural gas.

The technology sector fuelled by the artificial-intelligence investment boom continues to generate strong revenue growth, but some of the strongest equity returns this year have come from the companies providing the energy needed to build and operate the infrastructure behind it.

The contrast is striking. The seven energy majors shown in the table - ExxonMobil, Equinor, ConocoPhillips, Shell, TotalEnergies, Chevron and BP - have delivered an average year-over-year return of 38.5%, compared with 18% for the Magnificent Seven technology stocks. The performance has been particular strong so far this year with all seven energy stocks having gained at least 25%, led by Equinor at 71%, while performance among the Magnificent Seven ranges from Apple's 19.6% rise to Tesla's 20.8% decline. Please note, that these are simple equal-weight calculations, not formal index returns, and that past performance is not indicative of future results.

The divergence does not mean the AI story is failing. Technology earnings remain formidable, but the cost of maintaining that growth is escalating rapidly. Meta's second-quarter revenue rose 28% to USD 60.8 billion, yet capital expenditure reached USD 31.1 billion and free cash flow fell to just USD 784 million. The company now expects full-year capital spending of USD 130–145 billion.

Amazon offers a similar illustration. AWS operating income jumped to USD 16.6 billion from USD 10.2 billion a year earlier, but trailing 12-month free cash flow swung to an outflow of USD 7.6 billion as purchases of property and equipment increased by USD 66.1 billion, primarily reflecting investment in AI infrastructure.

The hyperscalers can finance these programmes, but investors are increasingly focused on the timing and scale of the eventual returns. Much of today's spending must be committed before future AI demand, utilisation rates and pricing power can be known with confidence.

For the Energy Seven, the economics are almost the reverse. Higher commodity prices immediately lift revenue and cash flow from producing, processing and infrastructure assets already in operation. Years of restrained investment have limited spare capacity, while wars, sanctions and disrupted shipping routes have reduced the availability of crude oil, refined products and natural gas.

The consequences are already visible in earnings. ExxonMobil reported second-quarter earnings of USD 14.5 billion, more than double the USD 7.1 billion earned a year earlier. Cash flow from operations reached USD 23.6 billion and free cash flow USD 17.2 billion, supported by higher prices, stronger margins and record second-quarter diesel production. Chevron earned USD 12.1 billion, achieved a 21% return on capital employed and reported record US production and refinery throughput.

Equinor has been a particularly clear beneficiary of Europe's scramble for secure energy. Its second-quarter adjusted operating income reached USD 11.5 billion, while net operating income more than doubled from a year earlier. The company realised USD 15.8 per MMBtu for European gas and USD 97.9 per barrel for liquids, with strong crude trading and refining performance providing additional support.

Refining assets have become another major source of exceptional profits. The US 3-2-1 crack spread - the theoretical margin from converting three barrels of crude into two barrels of gasoline and one barrel of distillate - is trading near USD 63 per barrel, compared with around USD 25 per barrel this time last year. That implies a remarkable margin before operating and other costs for refiners able to maintain high utilisation.

Conditions are even tighter in Europe, where diesel has risen above USD 200 per barrel, more than USD 105 above Brent and well above the USD 28 per barrel at which the spread traded this time last year. The premium reflects disrupted supply from Russia and Middle East refiners as well as limited regional refining capacity and Europe's continued dependence on imported crude and products. Companies combining upstream production, trading operations and refining assets are therefore benefiting at several stages of the value chain.

European natural gas provides an equally dramatic example. EU gas is trading near USD 142 per barrel of oil equivalent, more than USD 45 above Brent and around eight times the prevailing US natural gas price. Europe's shortage of indigenous supply and dependence on seaborne LNG, increasingly sourced from the US as Middle Eastern supplies remain close to offline, have created a substantial regional premium, handing a windfall to suppliers such as Equinor.

The performance gap therefore reflects more than a temporary rotation from technology into traditional energy. The Magnificent Seven are spending vast sums today to support earnings expected tomorrow. The Energy Seven are harvesting exceptional cash flow today from scarcity, elevated prices and infrastructure that already exists.

AI remains a powerful structural growth theme. However, its expanding requirement for electricity, natural gas, backup generation and grid infrastructure means some of its most immediate profits are accruing not only to those developing the technology, but also to those supplying the molecules and electrons needed to run it.

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