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Tale of two stocks: Why Alphabet's fundamentals outpaced Oracle's optimism in 2025

December 2025

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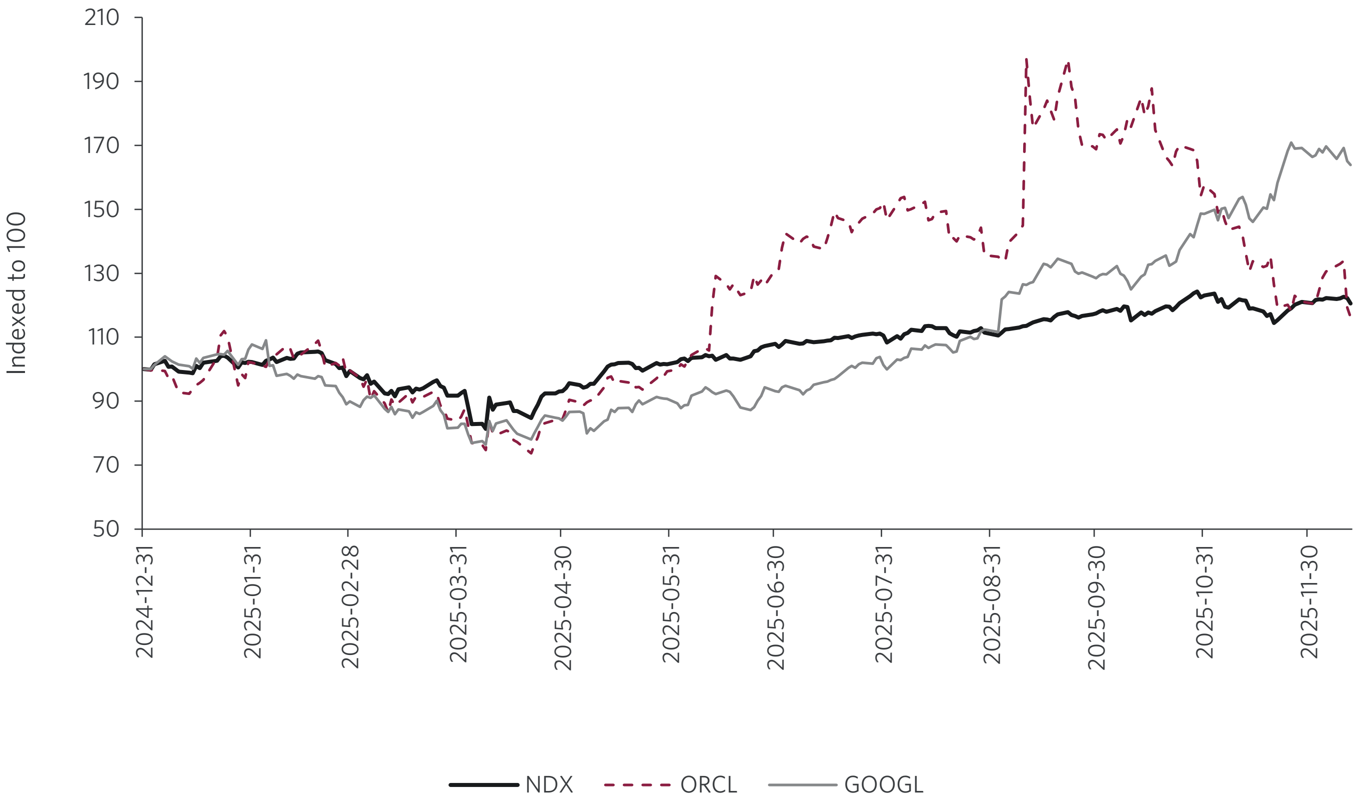
For the first nine months of the year, Oracle remained unstoppable in its climb up the charts, hitting an all-time high of $328 per share in September. This performance was largely due to their $300 billion partnership with Open AI, which would see Oracle provide much needed compute capacity through massive data centre buildouts. While the markets rejoiced on the announced deal, with Oracle's stock jumping 30%+, immediate concerns were raised on the financing of the deal.

In contrast, Alphabet's stock languished behind, underperforming the Nasdaq-100 by 500 bps over the same period. Apart from the anti-trust concerns raised by regulators on Alphabet's monopoly on search, markets were increasingly concerned about Alphabet's progress on Gemini. Since October 1 (as at December 12, 2025), the narrative on Alphabet and Oracle has traded places with the former outperforming the Nasdaq-100 by 25%+ and Oracle by 50%+. Alphabet is on track to finish the year up +63%, while Oracle and Nasdaq-100 are on track to return 11% and 20% respectively.

Indexed YTD performance



Source: Bloomberg and Company Financials, December 2025.

The steady march of a market leader

Throughout the year, Alphabet maintained course in executing on their cloud and search growth strategy, while the market shifted focus to OpenAI. Sentiment was overwhelmingly negative on Alphabet's ability to maintain its market share in search with OpenAI adding millions of users to their platform. This narrative flipped, when Alphabet launched Gemini 3 in November, which showed marked improvement in reasoning, multimodality proficiencies, and agentic capabilities. The improvements were so drastic that it led OpenAI to declare "Code Red", bringing them back to the drawing board for their new products. The successful launch of Gemini 3 catapulted Gemini's monthly active users to 650 million (still behind OpenAI at 800 million), beating its internal target of reaching 500 million users by the end of 2025. The improvement in Gemini 3 was also paired with disciplined capital deployment, with Alphabet relying wholly on their custom silicon for training their LLMs. Further unlocking shareholder value was their announced partnership with Anthropic, where Alphabet will supply Anthropic with their Tensor Processing Unit (TPU), unlocking another potential revenue stream.

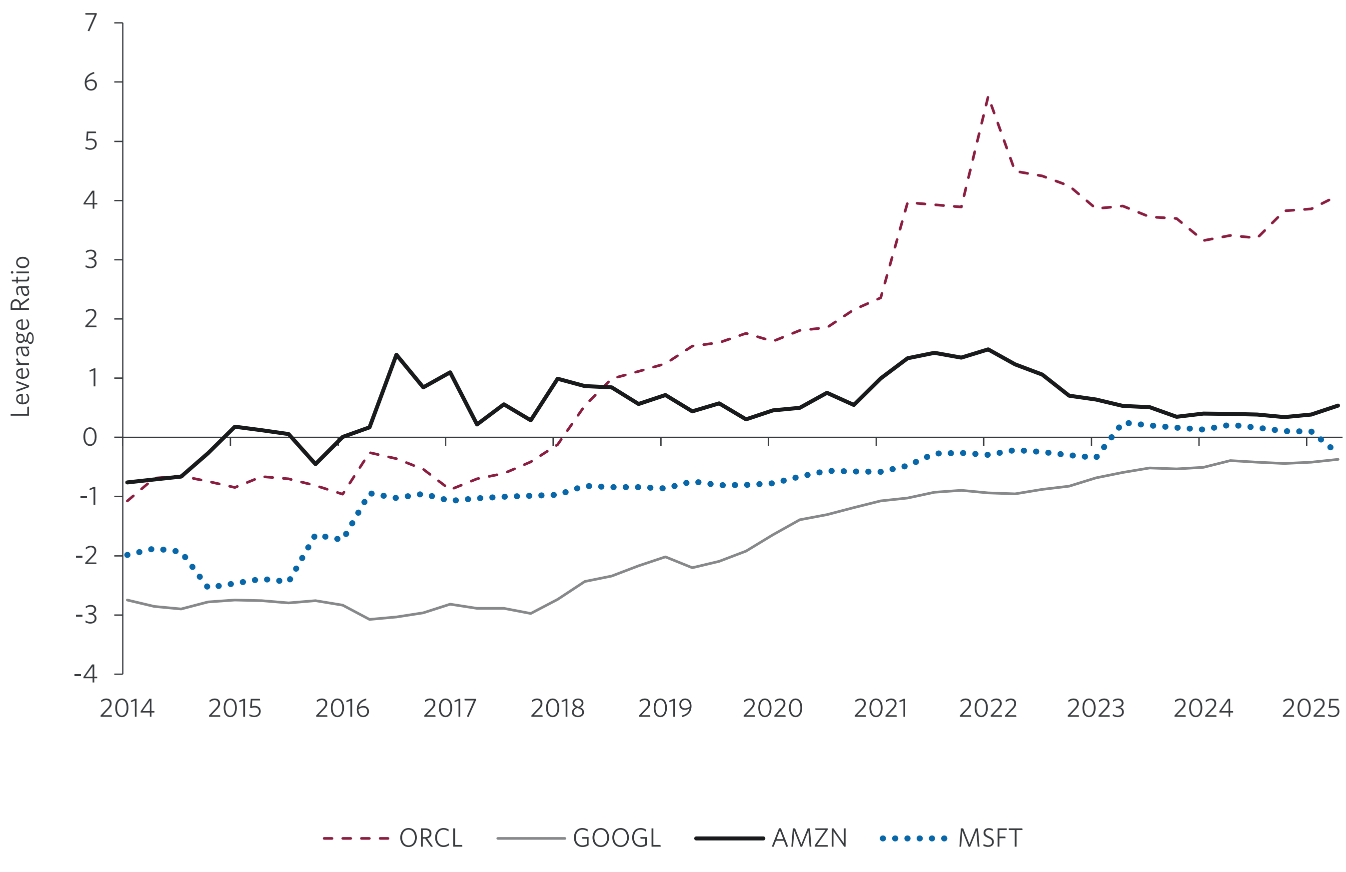
However, what kicked off the rally in Alphabet's share price this year was the decision by the federal courts to allow Alphabet to keep their Chrome browser and Android operating system, removing a major overhang from the stock. This ruling, paired with the launch of Gemini 3, turned Alphabet's fortunes around to be a clear outperformer in 2025.

A perfect match, but at what cost?

While markets rewarded Oracle for their partnership with OpenAI, with the stock surging 30%+, concerns were immediately raised about the viability of OpenAI's commitment to fund the $300 billion agreement over five years. Although OpenAI is growing at an unprecedented rate, they are generating approximately $13 billion of revenue per year as of 2025. With the company in the early stages of monetization, and already committing over $1 trillion in capital, their financial position is rightfully coming under increased scrutiny. With Oracle's backlog mostly consisting of OpenAI commitments, investors became increasingly nervous about Oracle's ability to collect on the $300 billion in committed capital. This narrative further took hold as rumours circulated about Oracle delaying some data centres for OpenAI to 2028 from 2027, citing shortage of labour and materials.

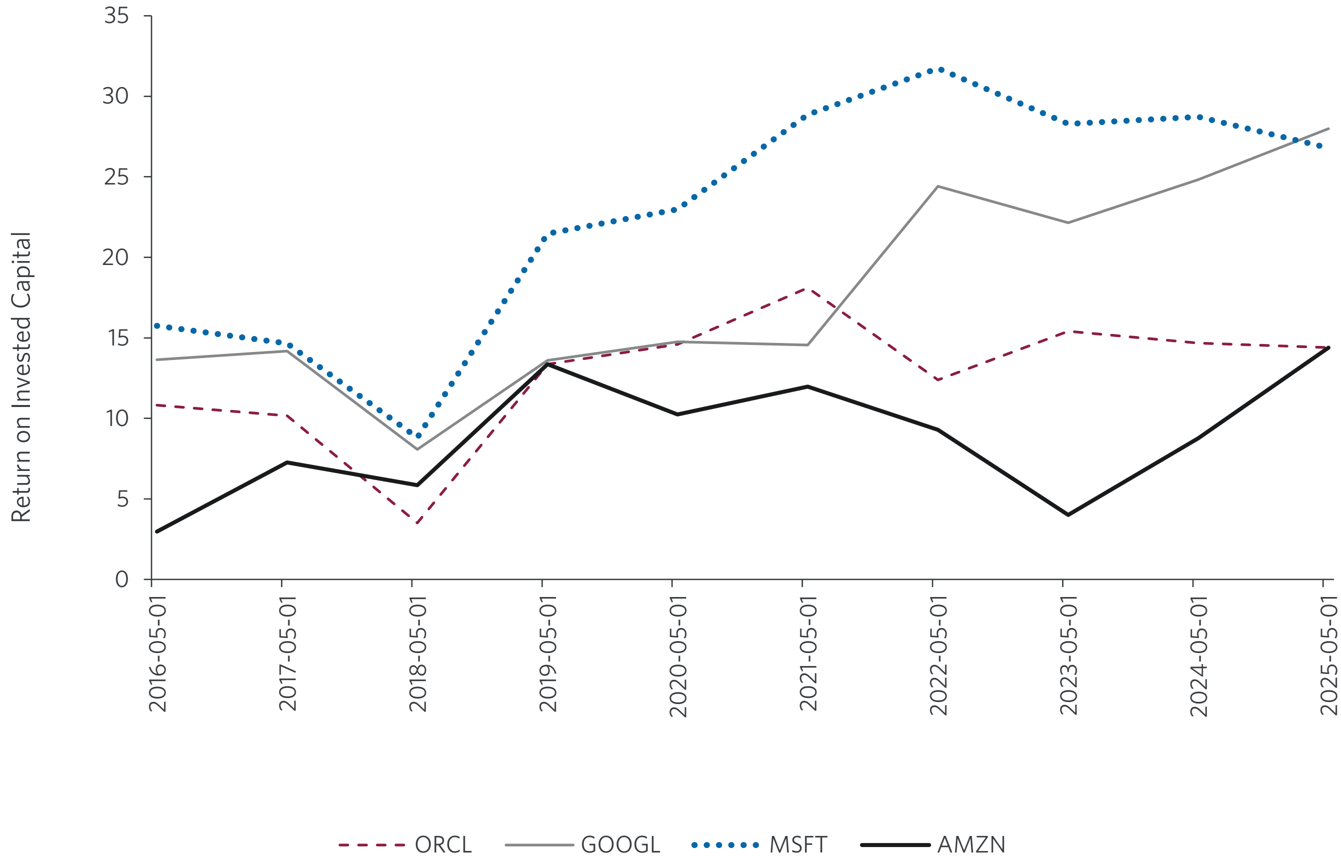
With the stock's outperformance in the first 9 months of the year, investors had high expectations leading up to their fiscal Q2 results in December. Unfortunately, Oracle's results underwhelmed, with the company missing on key financial metrics such as cloud revenue and free cash flow generation for the quarter. This was largely due to the borrowing spree Oracle went on this year to build out their data centres, which has driven up their debt servicing costs and capital intensity. This is in stark contrast to Oracle's peers who have been able to fund their capital expenditures primarily using their own balance sheet and free cash flow. The below charts illustrate how much Oracle had to borrow to fund their recent growth, with their leverage ratio being the highest among its peers and its return on invested capital among the lowest, even when compared to the retail focused Amazon.

Peer analysis: leverage ratio



Source: Bloomberg and Company Financials, December 2025.

Peer analysis: return on invested capital



Source: Bloomberg and Company Financials, December 2025.

A disciplined investment approach

Alphabet has been a high conviction name within the CIBC Technology Innovation Fund for years, and that conviction has remained steady throughout 2025. Despite the antitrust case and the threat of OpenAI to Alphabet, we remained overweight. In our view, the antitrust case had strong precedent cases which pointed to a favourable ruling for Alphabet, providing confidence to stay invested in the company. Also, Alphabet's long track record of innovation, market leader position in search, and distribution capabilities gave us further conviction that Alphabet can withstand the increased competition from AI native peers.

Conversely, we lacked conviction on Oracle as we were unable to identify a strong competitive advantage. Additionally, their financial performance such as revenue growth and free cash flow generation failed to meet our investment criteria. While the announcement of their partnership with OpenAI was a positive development, the subsequent move of 30%+ in the share price was an overreaction. In our view, the market priced in the entire $300 billion deal into the share price overnight, without considering timing or execution risks. After the deal announcement, we again reviewed our investment case on Oracle, and once again decided not to invest in the stock at that valuation. Oracle has underperformed since the announcement, further validating our investment approach, and highlighting why active management is so critical when investing within technology and innovation.

Final thoughts

Over the last twelve months, we have seen increased volatility in the tech sector particularly within AI. While we have a positive view on the AI theme, we believe there will be diverging performance of key players based on technological leadership and financial strength. The divergence between Oracle and Alphabet is a clear example of markets increasingly scrutinizing company's financial position despite their growth profile. We believe companies who can fund their capital expenditures prudently, ideally with their own balance sheet, will likely emerge as a winner in this cycle. We also expect continued volatility in the markets but we remain confident in our investment process which focuses on companies with a viable competitive edge, strong balance sheet, sustainable free cash flow, and low leverage ratio. A focus on these key metrics allows us to invest in companies that can profitably fund the AI buildout using their own capital, while being less vulnerable to shocks in the market.

How to gain exposure

The CIBC Technology Innovation Fund (ATL496, ATL 158) strategically invests in both technology and technology-adjacent businesses, with the objective of delivering long-term returns that surpass the performance of the Nasdaq 100 Index. The portfolio maintains a significant focus on artificial intelligence, with approximately 70% to 80% of the fund allocated to AI-related themes, reflecting the sector's substantial growth potential over the next decade. In addition to the core AI holdings, the fund maintains exposure to other key sectors such as Media & Entertainment (e.g., Netflix) and Industrials (e.g., AXON), among various emerging themes. This diversified approach ensures robust participation in the evolving landscape of technology innovation.

We believe our active approach will allow us to outperform the Nasdaq 100 Index. A passive index tends to over-allocate to securities based on their historical returns, rather than their future prospects. Active management offers the ability to assess each company based on its future merits and make decisions regarding whether they are worthy of inclusion in a portfolio. In this specific example, we assessed the potential of Alphabet and Oracle based upon factors like debt servicing, cash flow, growth potential, and platform expansion and invested accordingly. In addition, when we make investment decisions, we allocate meaningful weights to our convictions. In 2025, we've averaged a 1.25% overweight position in Alphabet reflecting our high conviction approach.

The Fund will typically also have 10% more information technology exposure than the Nasdaq 100 Index, and 5% to 7% more communication services exposure (e.g. Alphabet). This results in a structural overweight to technology. We therefore have more technology exposure than the Nasdaq 100 Index itself. We believe that investors should consider the CIBC Technology Innovation Fund when looking for increased growth and added octane within their portfolios.

Author profile

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Mickey Ganguly is a highly experienced investment professional specializing in the Global Technology and Communications sector, with over six years dedicated to covering the two sectors. Mickey has built a proven track record in identifying growth opportunities and navigating complex market shifts.

A distinctive advantage in his investment strategy is his significant background in operations. Mickey spent over six years in foundational operational roles, which grants him rare, in-depth insight into management quality, execution efficiency, and the true economics of business models—factors critical for assessing long-term value in high-growth technology firms.

His dual-sector expertise is strategic, allowing him to anticipate growth drivers across both the core Technology sector and the crucial Communications infrastructure that enables it. His diverse background also enables him to identify opportunities in adjacent sectors who would be a beneficiary from innovation.

Academically, Mickey combines rigorous analysis with robust financial theory. He holds a Bachelor of Business Administration (BBA) from the University of Guelph and an MBA from Queen's University, cementing his expertise in strategic management and capital markets.

Mickey's unique synthesis of deep operational diligence and sophisticated financial analysis makes him a trusted manager focused on delivering robust, risk-adjusted returns in the world's most innovative sectors.

About CIBC Asset Management

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Across a spectrum of investment solutions, we commit to robust research. Dedicated sector and regional analysts focus on industry research and security-specific idea generation. Our investment professionals leverage deep and diverse expertise by sharing proprietary research across asset-class teams. By sharing insight across asset class teams, we maximize opportunities to add value to our client portfolios.

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