

Meta Splits: The Buyback Machine Shifts To Reverse

Meta reported record third-quarter revenue of \$64.60 billion, up 26% and decently above the \$63 billion consensus. Diluted EPS of \$3.83 was nearly quadruple the \$1.05 they earned a year ago. Bear in mind, EPS was distorted by the \$18 billion teen mental health settlement. Without that charge, EPS would have been \$7.40. While the revenue and earnings growth were outstanding, the more interesting number is cash-related. Capital expenditures, largely for AI development, reached \$34.91 billion in the quarter, exceeding cash earned from operations. As a result, free cash flow turned negative (-\$2.12 billion). Additionally, it significantly raised full-year capex guidance to \$135-\$145 billion from \$85.8 billion. Simply put, their old advertising-related business model can no longer fully fund the AI buildout.

To bridge this cash gap, Meta is splitting its stock. A stock split doesn't raise money for the company, but in this case it creates the ability to raise funds later. Meta is creating a new class of nonvoting Class C stock, distributed as a dividend of one share for each share held. Essentially, the split will double the share count, halve the stock price, and produce the economic effect of a two-for-one split. Trading in Class C shares is slated to begin in late January 2027.

CEO Mark Zuckerberg stated the purpose directly:

Creating a publicly traded nonvoting stock ?usable for, you know, capital raising employee compensation acquisitions, other general corporate purposes while preserving the voting power of existing class A and B shareholders.?

Meta just guided to an additional \$60 billion in capital spending, despite negative cash flow. At the same time, the split and new Class C shares created a funding mechanism for acquisitions and capital raises without surrendering any voting control for Mark Zuckerberg. Below is a section describing how the clever issuance of the new Class C shares keeps Mark Zuckerberg's voting power intact.

For much broader consideration: **Might Meta be signaling that the large megacap companies that for years were buying back shares due to a lack of investment ideas are now doing the opposite, issuing shares to fund AI development?** We will have more on this in Monday's Commentary.

Q3 2026 revenue

\$64.6B

Operating cash flow

\$32.8B

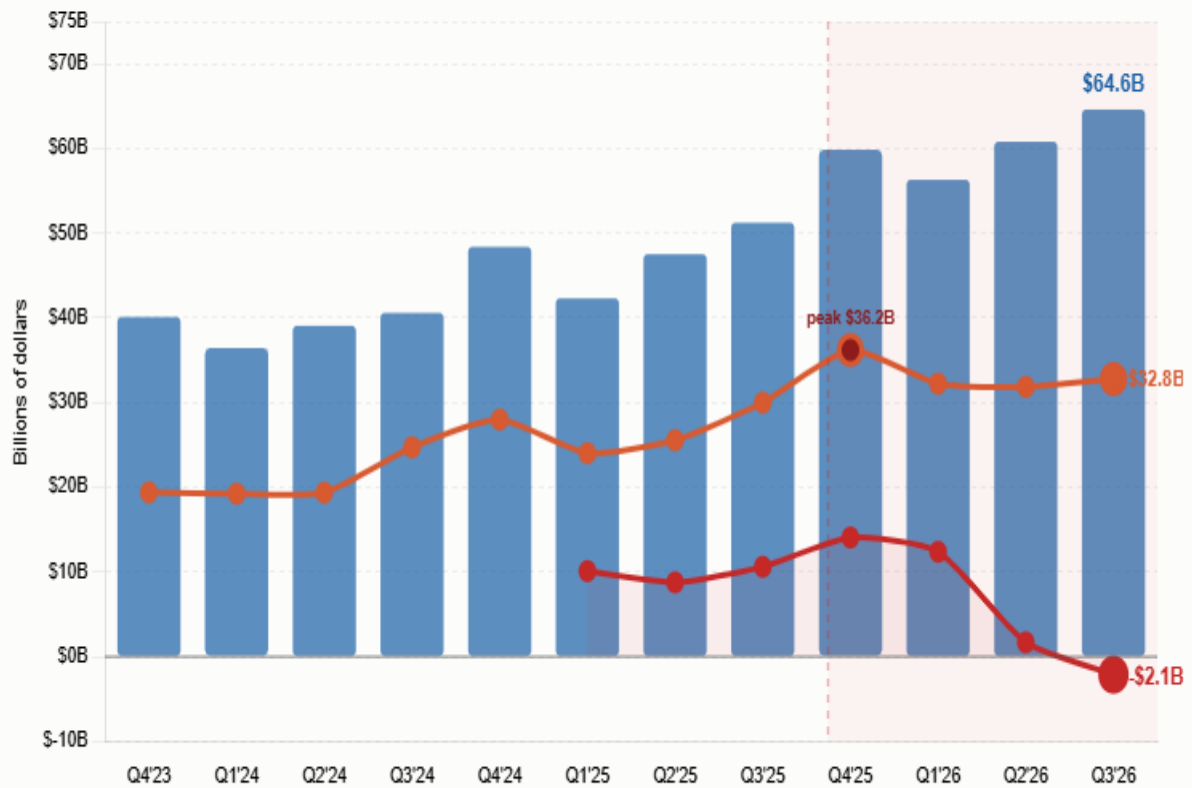
Free cash flow

-\$2.1B

Capex, Q3 2026

\$34.9B

■ Revenue ■ Operating cash flow ■ Free cash flow



Sources: Meta Platforms quarterly results releases, Q4 2023 through Q3 2026. Operating cash flow for Q3 2026 derived from reported capital expenditures of \$34.91 billion and free cash flow of negative \$2.12 billion. Free cash flow shown from Q1 2025 forward; the Q3 2025, Q4 2025, Q1 2026, Q2 2026 and Q3 2026 figures are company-reported, while Q1 and Q2 2025 are derived so the four quarters reconcile to the reported full-year 2025 total of \$43.59 billion. Meta defines free cash flow to include principal payments on finance leases.

What To Watch Today

Earnings

COMPANY (TICKER)	TIMING	EPS EST.	REV. EST.
American Express (AXP)	Before open (~7:00 a.m.)	\$4.47 to \$4.58	\$20.12B
SLB (SLB)	Before open (7:00 a.m.)	\$0.62	\$9.27B

Also reacting to Thursday after-close reports: Western Digital (WDC), Newmont (NEM), Deckers (DECK) and Comfort Systems (FIX).

Fed speakers: None. The Fed is in its blackout period (Oct 17 to Oct 29) ahead of the October 27 and 28 FOMC meeting.

Economy

TIME (ET)	RELEASE (PERIOD)	PRIOR	CONSENSUS	FORECAST
9:45 a.m.	S&P Global Manufacturing PMI, Flash (Oct)	55.9	55.5	55.0
9:45 a.m.	S&P Global Services PMI, Flash (Oct)	58.8	57.9 to 58.0	58.0
9:45 a.m.	S&P Global Composite PMI, Flash (Oct)	58.4	n/a	57.6
10:00 a.m.	UMich Consumer Sentiment, Final (Oct)	48.1 (Sep), 46.3 (Oct prelim)	46.3	46.3
10:00 a.m.	UMich 1-Yr Inflation Expectations, Final (Oct)	4.6%	4.7%	4.7%
10:00 a.m.	UMich 5-Yr Inflation Expectations, Final (Oct)	3.4%	3.5%	3.5%

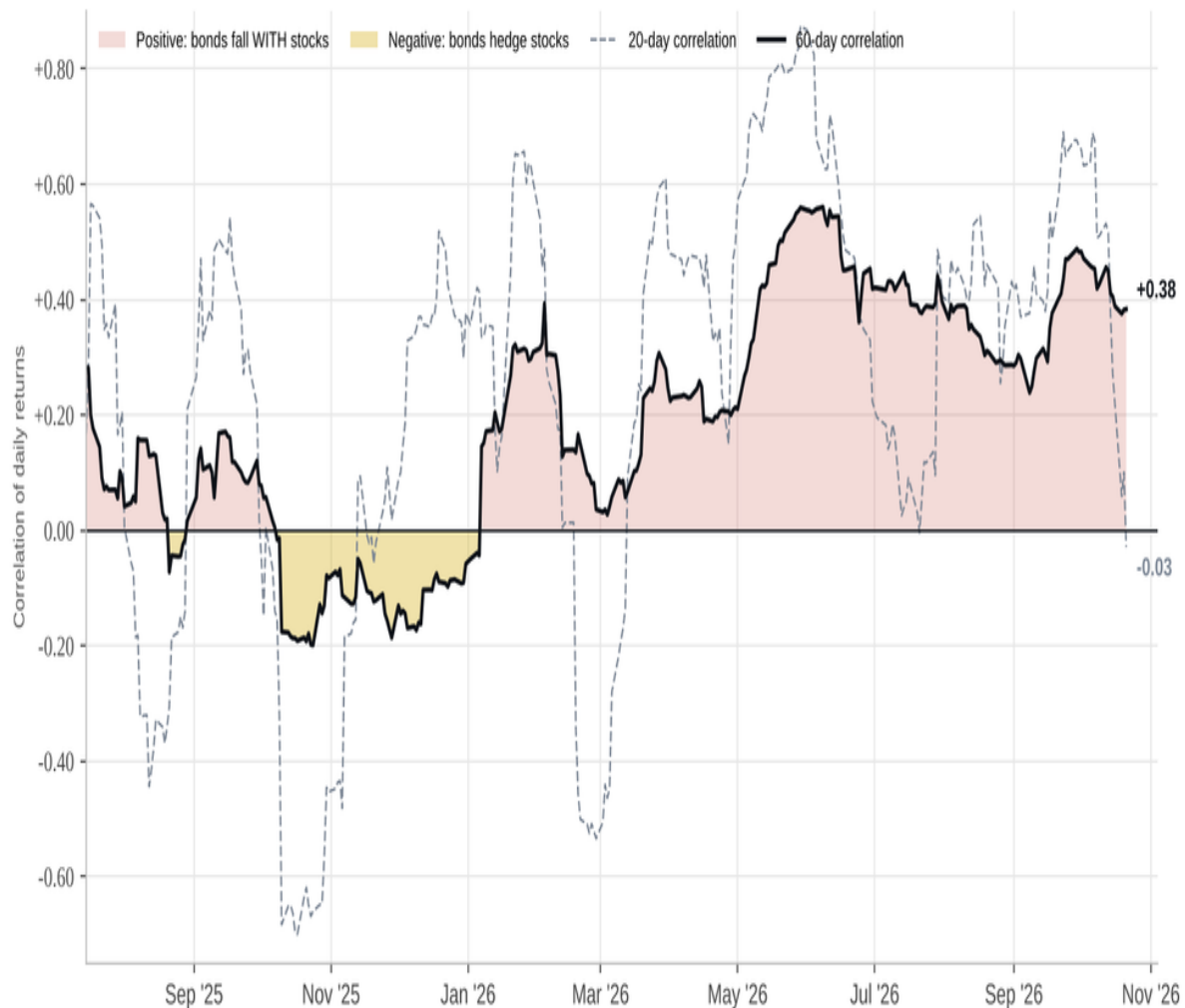
Market Trading Update

Yesterday, we discussed [why small caps have recently traded like a bond proxy](#). Today, I want to widen that lens to the stock-bond correlation itself, because it decides whether a *balanced* portfolio actually balances.

For most of 2026, it hasn't. The 60-day correlation between daily returns of the S&P 500 (SPY) and long Treasuries (TLT) climbed from near zero in February to +0.56 in June. It still sat at +0.38 at Wednesday's close. **A positive reading means bonds fall WITH stocks, which is the opposite of what you own them for.** Over the past year, SPY gained 15.2% in price while TLT lost 12.8%. The *hedge* became a second source of losses.

STOCK/BOND CORRELATION: SPY VS. TLT

Rolling 60-day and 20-day correlation of daily returns, S&P 500 ETF (SPY) vs. 20+ Year Treasury ETF (TLT)



Source: RIA Advisors. Data: Massive Market Data, cross-checked vs StockAnalysis.com (S&P Global Market Intelligence). As of Oct 21, 2026 close.

Notice the dashed 20-day line in the chart above. It dropped to -0.03 on Wednesday, its first sub-zero reading since July. Since the S&P 500 set its October 6 record near 7,808, the index has slipped about 0.8% to roughly 7,748. Meanwhile, TLT rallied 4.1% off its October 5 low of \$77.11 as the 10-year yield eased from 5.31% to 5.12%. For the first time in months, bonds are doing their job on a soft tape.

The obvious pushback is fair. *It's two weeks of data, Lance.* Correct, and the TLT chart below shows why I'm not celebrating yet. TLT closed at \$80.24, pressing right into its 50-day moving average at \$80.59 and its upper 2 SD Bollinger Band at \$80.61. The 200-day sits well above at \$84.84. RSI went from a deeply oversold 22 on October 5 to 57 now. Such is the nature of counter-trend rallies inside a downtrend. They look like trend changes right up until they fail at resistance.

TLT (20+ YEAR TREASURY ETF): DAILY BOLLINGER BANDS

iShares 20+ Year Treasury Bond ETF with 20-day Bollinger Bands (2 and 3 SD), 50- and 200-day MAs, 14-day RSI

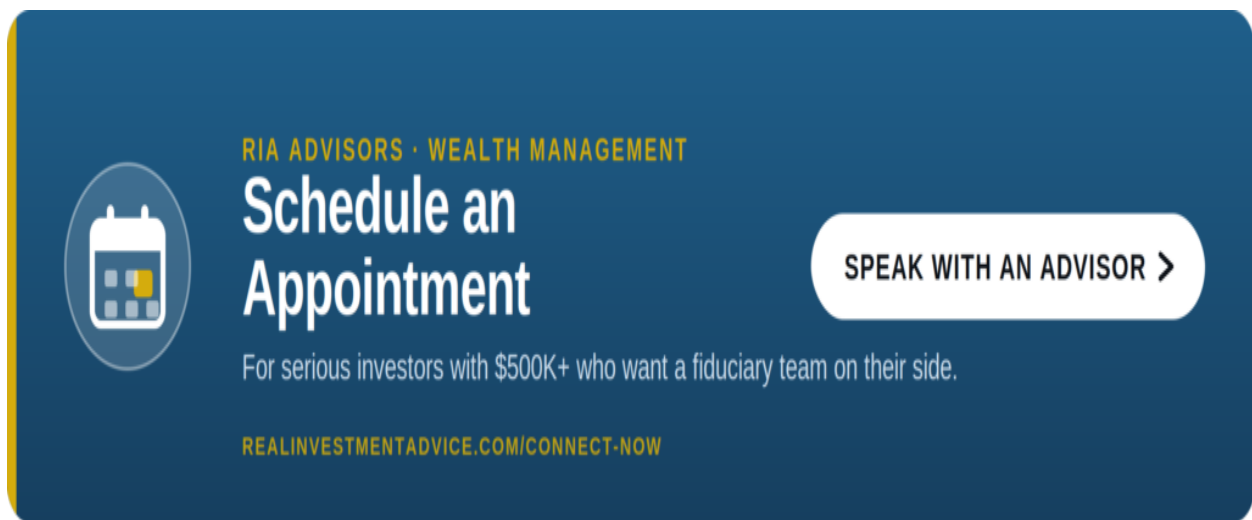


Source: RIA Advisors. Data: Massive Market Data, cross-checked vs StockAnalysis.com (S&P Global Market Intelligence). As of Oct 21, 2026 close.

Bob Farrell's Rule #1 says markets return to the mean over time. With TLT still roughly 5% below its 200-day, there's room for that reversion if yields keep easing. But price has to confirm it. Hope doesn't count.

Here's how we're managing it. **If TLT closes above its 50-day and the 20-day correlation remains negative, we'll extend the duration back toward the target weight in our allocation models.** A failure at that line keeps us shorter in duration, with cash rather than long Treasuries as the shock absorber. On the equity side, nothing changes. Technology stays at target weight, gains in the megacap leaders get rebalanced toward areas that have already corrected, and a close below 7,567 on the S&P 500 still means raising cash and adding hedges.

A hedge that only works some of the time isn't a hedge. It's just another position.



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Meta's Class C Shares Preserve Zuckerberg's Vote

Most media coverage frames the split as a way to reduce the high share price (\$680), making the stock more accessible to retail investors. As we quoted in the opening, Zuckerberg described it differently on the call, saying the purpose was creating a publicly traded nonvoting stock "usable" to fund the company's burgeoning capital needs. Simply, Class C shares will be a funding mechanism for Meta

The "split" with the distribution of new shares changes nothing. Every shareholder receives shares pro rata, and their relative ownership of the company doesn't change. What changes is that, after the split, Meta will issue new Class C shares to fund their capital demands.

To appreciate why they introduced a new class of shares, let's describe the current Class A and B shares. Meta's current dual-class structure gives Class A shareholders one vote and Class B holders ten. Mark Zuckerberg's control of Meta currently rests on his Class B holdings, of which he holds 99.8% of B shares, as shown below. Therefore, while he owns only 13% of Meta shares, he controls about 61% of the vote. Under the old arrangement, issuing voting Class A shares to meet its capital needs would dilute his voting percentage. With Class C available, Meta can issue nonvoting equity and his voting share majority does not change.

It's worth noting that Google did something similar in 2014 for the same stated reasons, and as a result, Google settled a shareholder suit for roughly \$522 million.

Meta's Dual-Class Structure

13% of the economics, 61% of the vote

Real Investment Advice

Zuckerberg's economic stake

~13%

Zuckerberg's voting power

60.8%

Share class	Votes per share	Shares outstanding	Zuckerberg holds	% of class
Class A — publicly traded	1	2,196,045,588	~1.5 million	<0.1%
Class B — insiders only	10	342,377,716	341,823,978	99.8%
Class C — new, Jan 2027	0	one per existing share	pro rata	—



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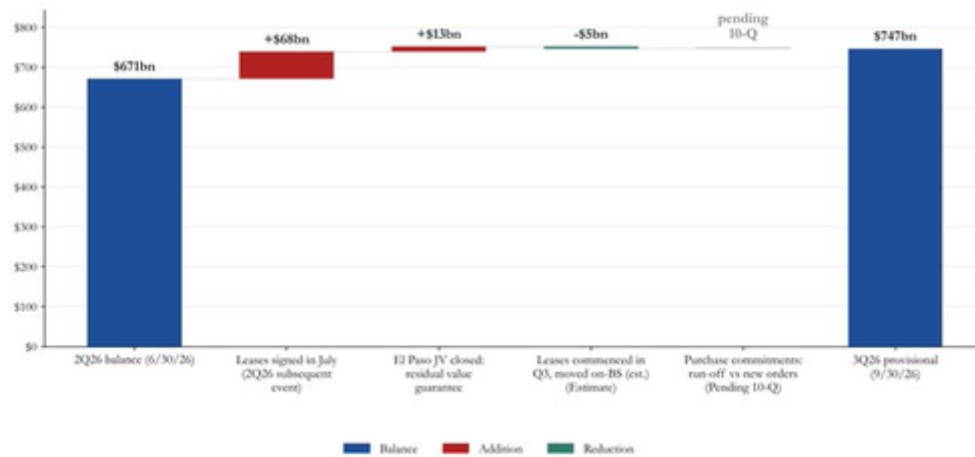
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Meta added \$76BN in off-balance sheet commitments in Q3 (mostly \$68BN in leases) pushing total in off balance sheet to \$747 billion.

Meta added ~\$76bn of off-balance-sheet commitments in Q3 (provisional)

Off-BS commitments, USD bn: 2Q26 balance (6/30/26) to 3Q26 (9/30/26). 3Q26 10-Q not yet filed; purchase commitments held at Q2.



Source: ZeroHedge, Meta 2Q26 10-Q (incl. July subsequent events) and 3Q26 earnings release (23-Oct-26). Commenced lease estimate from Q3 operating lease liability growth.

Trading Rules With Desktop Printout

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