

The Return of Equitization: How AI's Capital Needs Are Reshaping Equity Markets

The last two decades of US equity investing have unfolded under a quiet but powerful structural tailwind: scarcity. Net share count in the public market steadily declined as buybacks, LBOs, and an expanding private ecosystem absorbed supply. Now, that regime is shifting. A new era of “equitization” is emerging, driven by the capital intensity of AI and the willingness of investors to fund it at historically high valuations. For allocators, this is less about a single blockbuster IPO and more about a fundamental change in how capital is being raised, deployed, and rewarded.

From Equity Scarcity to New Issuance

For years, investors could largely ignore the supply side of the equity equation. Aggregate buybacks outpaced issuance, the number of listed companies fell, and many of the most dynamic businesses stayed private for longer. This “de-equitization” functioned as a kind of monetary easing for equities: shrinking floats, lifting earnings per share mechanically, and reinforcing multiple expansion.

That backdrop is now reversing. A new wave of IPOs, secondary offerings, and follow-on transactions is poised to add meaningful net new supply to the US market over the next two years, even after buybacks. The AI capex cycle is at the center of this shift. Building out data centers, power infrastructure, satellite networks, and high-performance compute is enormously capital intensive. Early on, many companies leaned on excess cash and cheap debt. With policy rates elevated and equity valuations rich, the relative cost of equity has fallen versus debt, and corporate finance decisions are adjusting accordingly. The message from corporate treasurers is clear: the era of shrinking your float to boost returns is giving way to an era of issuing equity to fund growth.

Source: Apollo Global Management (Jan. 2026)

of US-Listed Companies Continues to Decline

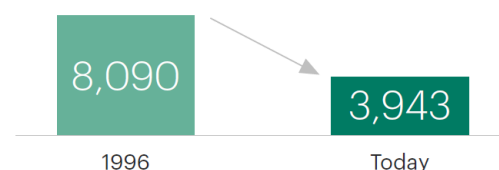


Chart 11: Number of US-listed companies in secular decline
US publicly listed companies vs S&P 500 buybacks since 1998



Source: BofA Global Investment Strategy, Bloomberg, World Federation of Exchanges
BofA GLOBAL RESEARCH

Re equitization is the reversal of the long de equitization trend in public markets, where instead of shrinking share counts through buybacks and take privates, companies are once again issuing more equity than they



retire. It typically emerges during large investment booms—like today's AI and infrastructure build out—when firms tap public investors to fund sizable capex rather than relying primarily on debt or internal cash flow.

SpaceX and the New Capital Regime

The SpaceX IPO is a vivid case study in this transition. The company raised roughly \$75 billion in the largest IPO on record, with the stock opening materially above the offering price and closing the first day with a near 20% gain. That debut propelled SpaceX into the upper echelon of global market capitalizations and materially increased its founder's net worth.

More interesting than the first-day pop is the structure. Only a small fraction of the company's total equity was initially floated, leaving a very limited tradable supply relative to the scale of demand from global institutions, sovereign wealth funds, retail investors, and passive vehicles. This combination of a tiny float and pent-up demand was always likely to produce an impressive opening print. The real test will come over time: as lockups expire, additional tranches are floated, and the company returns to the market for follow-on capital to fund its ambitions.

Those ambitions are, by design, enormous. The strategic plan ties together launch services, global connectivity, and AI infrastructure, including orbital and terrestrial data centers renting capacity to leading AI developers and cloud providers. Aspirational revenue targets are framed in the trillions over the coming decade, implying extremely high compound growth from current levels. Whether those targets are ultimately realized is less important today than the signal embedded in the capital structure: to pursue these projects at scale, SpaceX is willing to lean hard on public equity markets as a core funding source.

In that sense, SpaceX is less a one-off anomaly and more a flagship for a broader pattern: capital-hungry AI and infrastructure platforms beginning to tap the public markets in size.

AI's Capital Needs and Market Implications

The AI boom is not just a story of software and algorithms; it is, at least as much, a story of physical investment. Data centers, advanced chips, power generation and transmission, cooling, and connectivity all require substantial upfront capital. For the "hyperscaler" platforms and their ecosystem, the financing sequence has been clear: first internal cash flow, then debt, and now equity.

This progression matters because each step changes the return profile for existing shareholders. As net share repurchases slow or reverse, one of the most reliable supports for per-share earnings growth is diminished. At the same time, issuance at high multiples can make sense from a corporate finance perspective: if the market is willing to pay a premium price for equity, raising capital via stock can be less costly than layering on additional debt at current yields. The trade-off is dilution risk and a higher bar for future returns.

The surge in issuance is not limited to new listings. Large, established technology companies that were once among the most aggressive repurchasers of their own shares are now announcing substantial equity sales to help finance AI-related investment pipelines. In parallel, late-stage private AI companies are preparing to float



with valuations in the hundreds of billions, often offering only a narrow initial float that leaves significant incremental supply waiting just beyond the lock-up horizon.

Taken together, these developments imply that investors will need to re-engage with questions that had faded into the background: who is the marginal buyer, at what price, and with what time horizon?

How the Market Absorbs New Supply

Individually, even mega-IPO deals are digestible for global capital markets. Collectively, however, a sustained period of large IPOs and secondaries can become a meaningful headwind if they arrive in close succession. The modern US equity market is anchored by passive vehicles, buyback programs, and a vibrant retail segment, but none of these sources of demand are truly infinite.

Passive funds are governed by flows and index weights, not narrative; they will buy whatever is included in the benchmark, but their capacity is proportionate to new capital. Corporate buybacks are already under pressure from the need to finance capex and preserve balance-sheet flexibility. Retail investors have become a larger share of trading volume and are often enthusiastic participants in high-profile offerings, but their behavior can be volatile and momentum-driven.

In this environment, the sequencing of issuance becomes almost as important as its absolute scale. A well-timed mega IPO into a strong tape can perform well and reopen the pipeline for others. A string of deals that perform poorly in the after-market can quickly sour sentiment, widen IPO discounts, and delay subsequent transactions. Lock-up expirations introduce a second wave of supply that can weigh on prices months after the initial listing, particularly when floats start from very low levels.

Historical studies of large issuance waves suggest that broad equity indices tend to deliver lower—but still positive—returns in the year following clusters of mega IPOs. The key takeaway is not that issuance automatically derails bull markets, but that it narrows the path for continued multiple expansion and reinforces the importance of underlying earnings growth.

Broader Participation Beneath the Headlines

One of the more interesting aspects of the recent period is that, beneath the headline-grabbing AI and space stories, the market has quietly broadened. Equal-weight indices and small-cap benchmarks have been making new highs, even as the largest technology names digest their recent outperformance and confront heavier capex and issuance burdens.

Sector leadership has rotated toward areas that benefit from increased capital markets activity and real-economy investment. Financials,

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particularly banks and brokers with significant underwriting and trading franchises, stand to gain from higher volumes of IPOs, secondaries, and related transactions. Basic materials and resource companies are supported by the prospect of sustained demand for inputs critical to electrification, data center construction, and infrastructure. Airlines and other cyclicals have participated as the market prices in a more durable expansion and increased global activity.

This rotation is consistent with prior episodes where the market transitions from a narrow, multiple-driven advance to a more broad-based, earnings-driven expansion.

It also aligns with the logic of the capital cycle: as certain sectors shift from returning capital to deploying it, the beneficiaries often include those providing the funding and those supplying the physical inputs.

What This Means for Risk and Returns

From an allocator's perspective, the rise in equity issuance should be understood as a shift in the distribution of outcomes rather than a simple on/off switch for the bull market. Higher supply increases the demand on investor capital and introduces incremental headwinds for broad indices, especially when starting valuations are elevated. It also raises the stakes for stock selection and timing around primary market events.

At the index level, resilient earnings can still support positive returns, but the margin for error is thinner. Scenarios that previously might have been absorbed via buybacks and multiple expansion now have to be financed against a backdrop of more frequent and larger capital raises. Volatility is likely to increase as the market periodically reassesses the balance between long-term opportunity and near-term dilution.

For individual companies, the key question is no longer just whether they can grow, but whether they can do so in a way that justifies repeated trips to the equity market. Businesses that can fund their investment needs from internal cash flow retain more control over their capital structure and are less exposed to shifts in risk appetite. Those that depend heavily on external equity need to demonstrate compelling, high-return projects to maintain investor support.

A More Capital-Intensive Market Cycle

Stepping back, the pattern unfolding today has clear historical echoes. Major technological and infrastructure transitions—the building of railroads, canals, global telecommunications networks, and the early internet—have often been financed through waves of equity issuance. These periods produced both extraordinary long-term winners and painful episodes of oversupply and misallocation.

The AI and space build-out appears to be entering a similar phase. The opportunity set is vast, but so are the capital requirements. The new element in this cycle is the interplay between private and public markets. Many of the flagship companies are arriving in the public arena with already massive private valuations and complex capital structures, compressing what used to be a multi-decade process into a far shorter timeframe.



Conclusion

Our core conviction is that the market is moving from an era defined by equity scarcity to one increasingly shaped by capital formation. For allocators, that marks an important transition. It does not diminish the long-term opportunity in AI, digital infrastructure, or innovation-led growth; rather, it changes the lens through which that opportunity should be assessed.

As new issuance rises, the market is likely to place a greater premium on earnings durability, capital discipline, and the ability to translate ambitious investment into attractive returns. In that setting, a more selective approach is warranted: broad market exposure can still participate, but leadership is likely to broaden, returns should become more differentiated, and valuation alone may prove a less dependable source of upside.

- Treat the pace of equity issuance as an increasingly important variable in setting expectations for index-level returns.
- Remain selective in large new offerings, particularly where modest initial floats may be followed by meaningful secondary supply.
- Favor businesses with capital discipline, self-funding capacity, and a credible path from investment to durable earnings growth.
- Look beyond the headline AI beneficiaries to the financial, industrial, and infrastructure enablers of the cycle.

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