

May 29, 2026 04:01 AM GMT

Financials and Thematics | North America

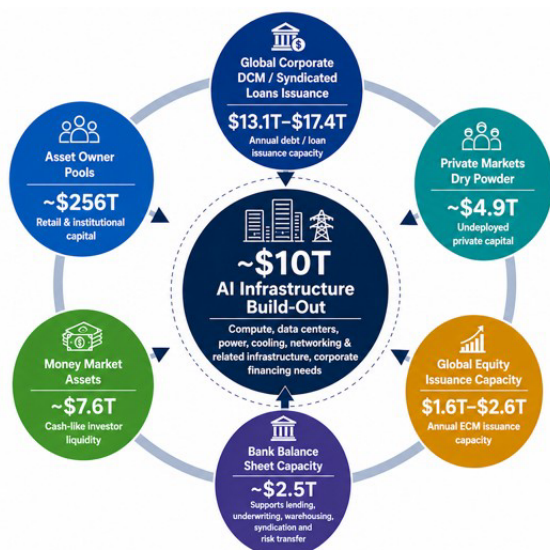
AI: Financing the Next 10x Tech Cycle — Is Capital the Constraint?

AI infrastructure is evolving from hyperscaler-funded capex into a multi-asset financing ecosystem. We believe the constraint is not capital availability but how markets intermediate AI investment across equity, credit, securitization & private capital — with power & compute the real bottlenecks.

Key Takeaways

- AI is creating an unprecedented infrastructure investment cycle, with early spending already tracking ~10x above prior early cloud cycle spend.
- ~\$256T of global capital pools appear sufficient to finance the AI build-out, following the ~\$1T mobile/cloud capex era.
- The key challenge is structuring assets with appropriate return, duration, collateral, liquidity, and risk-sharing characteristics.
- Public debt and equity markets have significant room to absorb issuance, with potential capacity upwards of \$17T and \$2.6T, respectively vs \$13T/\$1T in 2025.
- Alts well placed to benefit as private markets expand: OW APO, BN, BX, KKR, BLK. Banks to benefit from robust cap markets: BAC, C, GS, JPM, WFC.

Exhibit 1: Deep and diverse capital pools to finance estimated ~\$10T AI build-out this cycle



Source: Source: Dealogic, Morningstar, Cobalt, company data, Morgan Stanley Research estimates.

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LARGE CAP BANKS	
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AI: The Next 10x Compute Cycle

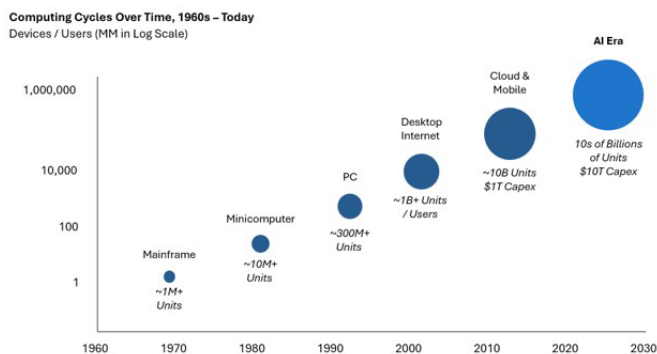
The AI era represents the next major compute cycle. Like prior waves of technology, we expect it to scale compute capacity by roughly 10x, driving a step-change in infrastructure investment. The mobile internet followed a similar path, expanding compute by ~10x and supporting roughly \$1 trillion of cloud and network capex, while reshaping market leadership as new platform companies emerged and disrupted incumbents.

We believe AI could be larger and longer-lasting than prior cycles because it requires a broader infrastructure footprint and is progressing at a faster pace. Investment spans semiconductors, servers, networking, data centers, power, cooling, and related infrastructure. At the same time, model capabilities, inference demand, and enterprise adoption continue to grow rapidly, creating a need for sustained incremental capacity. Across model development, usage, and spend, the trajectory continues to surprise to the upside, underscoring the difficulty of forecasting exponential growth in real time.

Early spending trends already point to the scale of the opportunity. In the first four years of this build-out, aggregate capex is tracking above \$1 trillion, roughly 10x higher than early-cycle cloud spending. Looking ahead, hyperscaler capex is expected to **exceed \$1 trillion annually by 2027**, with compute capacity increasingly becoming the key constraint to further AI scaling. These dynamics suggest we are still in the early stages of a cycle that could be both larger and longer-duration than prior technology waves. **As the infrastructure build-out broadens, funding will likely need to extend beyond hyperscaler balance sheets, making public and private capital markets critical enablers of the next phase of AI deployment.**

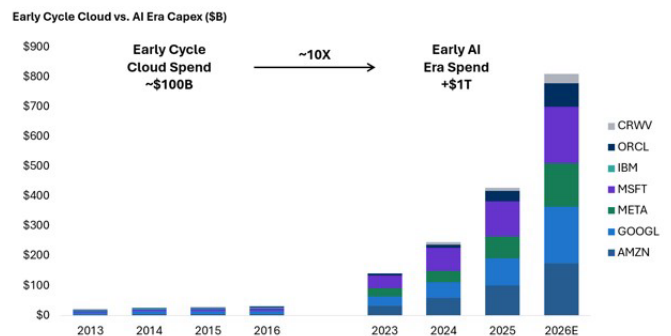
Key risks to our constructive AI infrastructure outlook include power and grid constraints, permitting delays, supply chain bottlenecks, and rising financing costs, all of which could slow deployment timelines or increase build-out costs. Longer term, risks include weaker-than-expected enterprise AI monetization, more efficient model architectures that reduce compute intensity, regulatory or geopolitical headwinds, and the potential for periods of overbuild if infrastructure investment ultimately outpaces sustainable demand growth. While we view these risks as manageable in the near term given continued upward revisions to hyperscaler capex plans, they could contribute to greater volatility in AI-related investment cycles over time.

Exhibit 2: Every tech cycle delivers 10x more compute



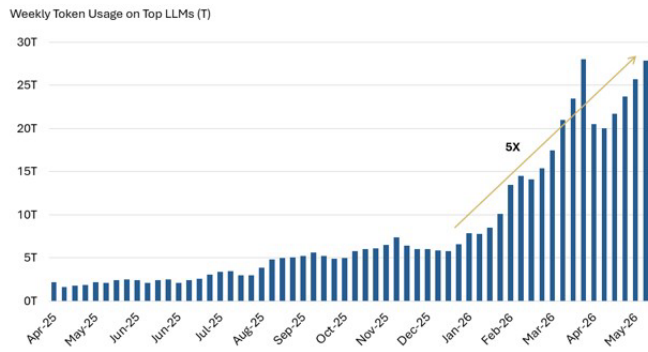
Source: Company data, Morgan Stanley Research

Exhibit 3: AI is following the path of past cycles



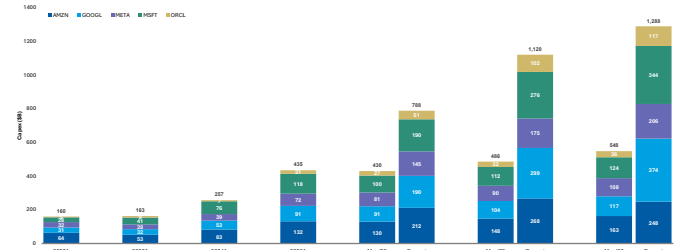
Source: Eikon, Morgan Stanley Research. For AMZN, 2013-2016 use change in AWS net PP&E as proxy for AWS spend and in 2023-2026, we estimate AWS capex.

Exhibit 4: Token usage is increasing non-linearly, as advancing capabilities and demand inflection points to a larger cycle than expected



Source: OpenRouter, Morgan Stanley Research

Exhibit 5: Capex revisions reflect upside surprises and highlight the challenge of forecasting exponential growth



Source: Company data, Morgan Stanley Research. MSFT data calendarized, ORCL presented on FY basis.

Financing the AI Build-Out: Capital Is Not the Constraint

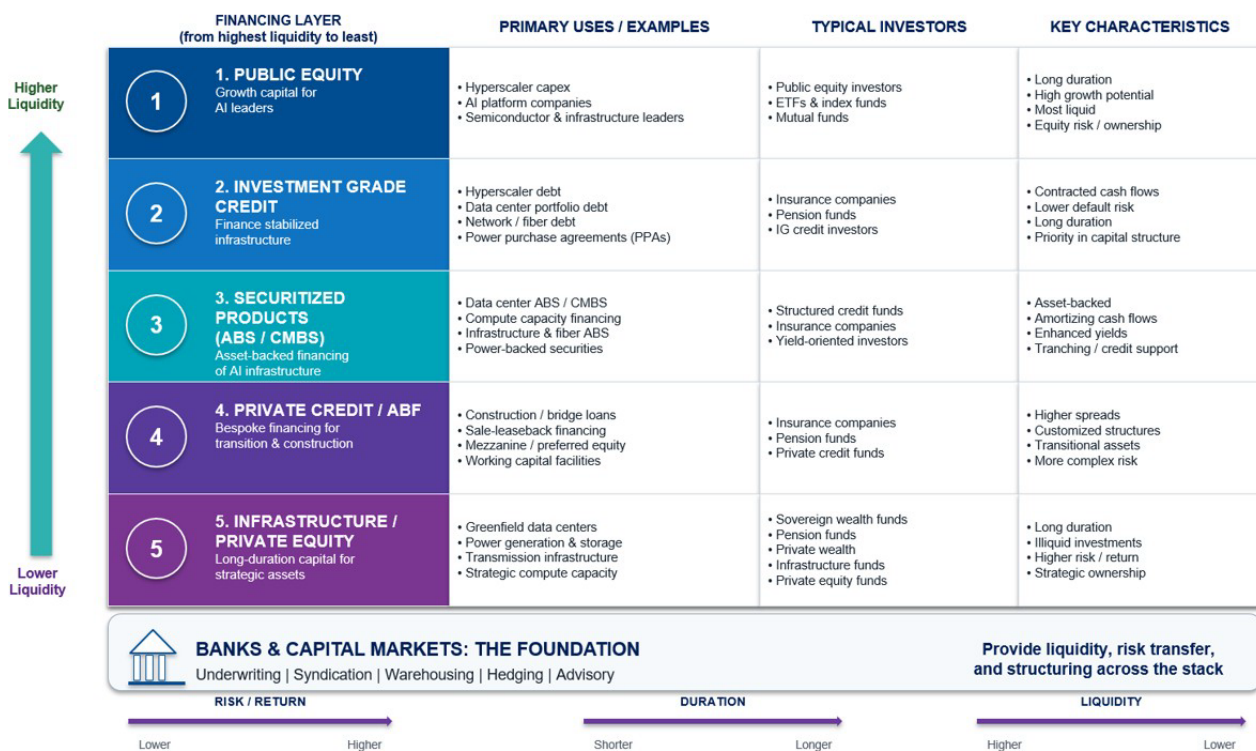
The Key Challenge Is How Financial Markets Evolve to Intermediate Capital

We believe the AI infrastructure cycle represents not only the next compute cycle, but also the next major capital markets evolution. The scale, duration, and infrastructure-like characteristics of AI investment increasingly require financing structures that extend beyond hyperscaler balance sheets and traditional corporate capex funding. In our view, the key challenge is not whether sufficient global capital exists, but how financial markets evolve to intermediate that capital across public equity, credit, securitized products, bank capital, private infrastructure, and alternative financing channels.

Exhibit 6: The Emerging AI Infrastructure Financing Stack

The Emerging AI Infrastructure Financing Stack

A multi-asset ecosystem matching capital to AI infrastructure risk, return and duration



Source: Morgan Stanley Research

The AI build-out should be supported by a diverse set of capital pools and financing channels, including **~\$256 trillion asset-owner capital, potentially ~\$2.6 trillion of annual public equity issuance capacity, potentially ~\$17 trillion of annual debt and loan market issuance capacity, ~\$8 trillion of money market liquidity, ~\$5 trillion of private markets dry powder, and ~\$2.5 trillion of bank balance sheet capacity.** Importantly, each capital pool is suited to different parts of the AI infrastructure stack, with investor mandates, liquidity needs, duration, collateral, and return requirements

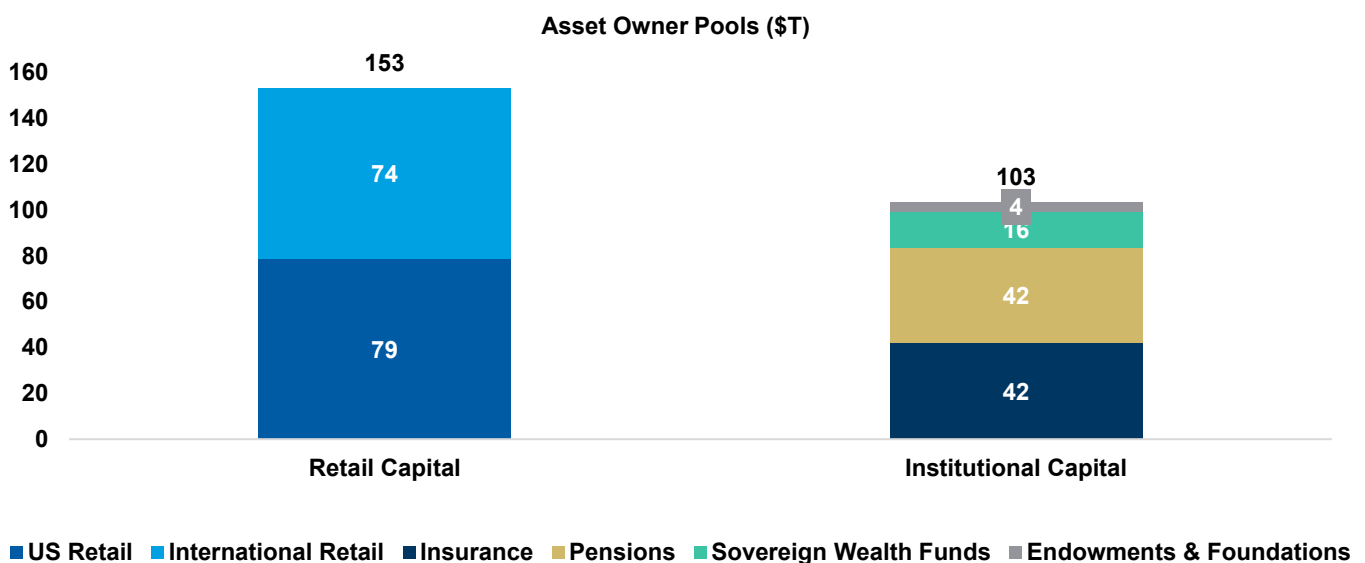
shaping where capital is most likely to flow. This is all while power and compute capacity remain the true bottlenecks.

The Global Financial System Has Sufficient Capital

We see concerns around the ability of capital markets to finance a ~\$10 trillion AI build-out as overdone. We acknowledge that the \$10 trillion magnitude is large in absolute terms, but **global capital pools are deep and diversified and the spend should unfold over a multi-year build-out cycle rather than all at once.** We estimate global retail and institutional capital pools at **~\$256 trillion**, implying that a **\$10 trillion AI investment cycle would represent ~4%** of identified asset-owner capital. Global equity market capitalization provides another reference point at **~\$159 trillion**, with the US alone at **~\$76 trillion**. **The aggregate pool of capital appears large enough to support the AI build-out, provided the underlying economics remain attractive, even though not all of this capital is available for AI.**

Importantly, the AI financing need should not require meaningful liquidation of existing asset-owner holdings, as funding is more likely to come through gradual portfolio reallocation, new issuance, maturing fixed income portfolios, private capital deployment, and structured financing channels. In particular, large institutional investors continuously receive principal repayments and coupon cash flows from sizable bond portfolios, creating recurring reinvestment capacity that can be redirected toward newly issued AI-related debt, infrastructure, and private market opportunities over time. Further, continued strong **retail demand** for annuities — driven by aging demographics and demand for income and guaranteed retirement solutions — should continue to support insurance company demand for attractive investment-grade fixed income and long-duration assets, including asset-based and structured solutions.

Exhibit 7: Global Individual and Institutional Capital Pools of \$256T represent ~4% of the estimated \$10T needed to finance AI build-out



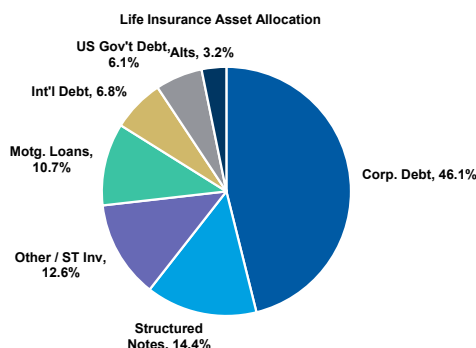
Source: Individual Wealth US data from FRED. Individual Wealth International data from Oliver Wyman. Sovereign Wealth Fund data from Global SWF. Pension data from Thinking Ahead Institute. Endowment & Foundation data from Pensions & Investments, Foundation Mark, and Harvard Kennedy. Insurance data from CapitalIQ and International Association of Insurance Supervisors (IAIS). Morgan Stanley Research Note. All data as of Dec '24 except for Sovereign Wealth Data that's as of March '26 and International Foundation data that's a Morgan Stanley Estimate as of December '25. Individual wealth excludes insurance and pension capital.

Importantly, these capital pools are not interchangeable, as portfolio construction and asset allocation mandates should shape which parts of the AI build-out each pool is best positioned to finance. Insurance balance sheets are naturally better suited to long-duration, income-oriented credit and structured products, making them a logical source of demand for IG credit, ABS/CMBS, private credit, and ABF tied to contracted data center cash flows. **Pension funds and sovereign wealth funds can take a broader portfolio approach, with allocations across public equity, private equity, infrastructure, real assets, and private credit,** making them well suited to participate across both corporate growth and longer-duration AI infrastructure projects.

Financing activity is increasingly concentrating around a relatively small group of hyperscalers and highly rated technology issuers, which over time could create portfolio construction and single-name exposure considerations for some asset owners. That said, **institutional capital pools remain substantial,** including ~\$42 trillion of insurance assets, ~\$42 trillion of pension assets, and ~\$16 trillion of sovereign wealth fund capital. Further, **concentration constraints vary meaningfully across institutions,** and likely less relevant for some investors. In our view, investors also have **tools available to help mitigate concentration risk if needed,** including purchasing single-name or basket protection through CDS and other hedging structures.

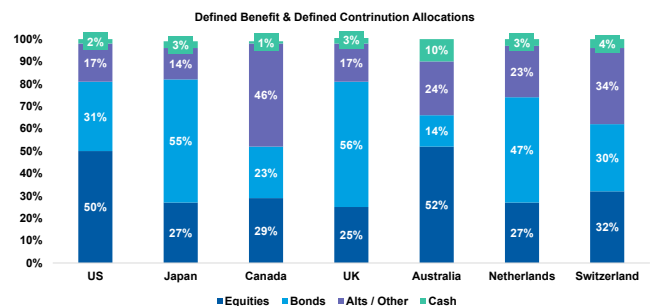
We acknowledge **some investors may face constraints increasing private market allocations near term given muted distributions and ongoing DPI challenges across portions of private markets.** However, we increasingly see liquidity and portfolio management solutions emerging through the rapid expansion of the secondary market. Secondary transaction volume exceeded \$200 billion in 2025 for the first time, up ~40% Y/Y, driven by both LP-led sales and GP-led continuation vehicles, and has compounded at ~20% annually since 2013. Looking ahead, the secondaries market continues to broaden beyond traditional buyout strategies and appears well positioned to support LP and GP liquidity needs, with over \$200 billion of available dry powder. **We believe secondary liquidity solutions, combined with an improving realization backdrop over time, should help return meaningful liquidity to asset owners** and support continued capital deployment into AI infrastructure and related private market opportunities.

Exhibit 8: Insurance capital skews toward fixed income



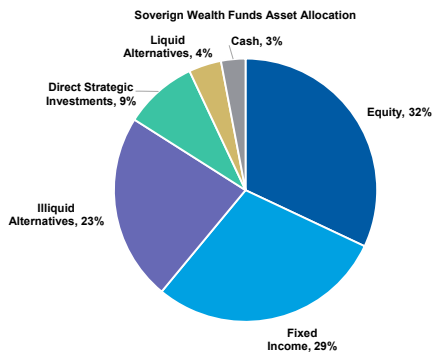
Source: SNL data as of September 2025, Morgan Stanley Research

Exhibit 9: Pension portfolios are more diverse across asset classes vs. insurance capital



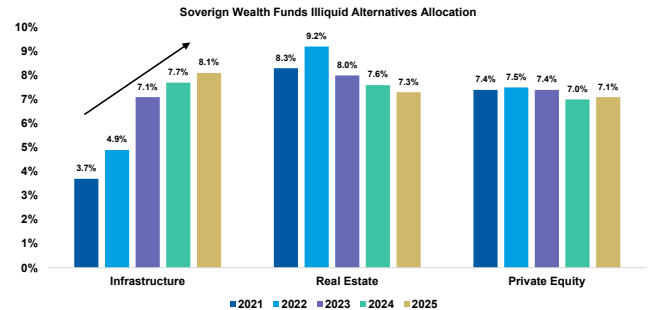
Source: Thinking Ahead Institute as of December 2024, Morgan Stanley Research

Exhibit 10: Sovereign Wealth Fund capital skews the most toward alternatives and direct investments...



Source: Invesco Global Sovereign Asset Management Study as of December 2025, Morgan Stanley Research

Exhibit 11: ... and within alternatives, infrastructure has become an increasingly core part of sovereign wealth funds' portfolios



Source: Invesco Global Sovereign Asset Management Study as of December 2025, Morgan Stanley Research

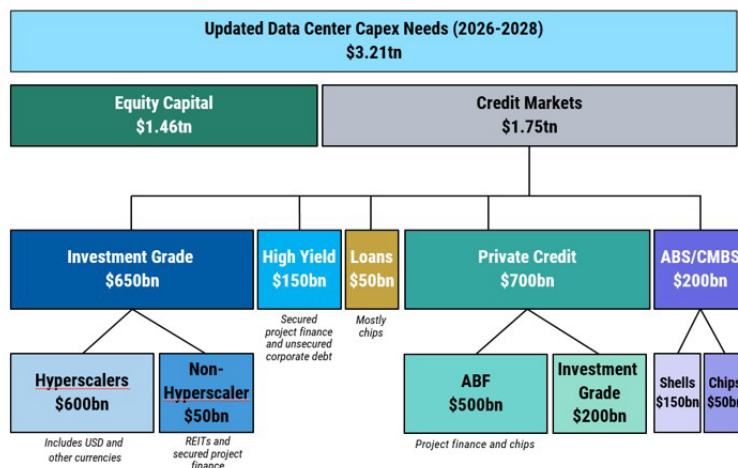
AI Financing Is Broadening Beyond Hyperscaler Balance Sheets ... with Credit Markets Emerging as a Core Financing Channel

We expect the financing mix to broaden as the AI investment cycle matures.

Hyperscaler balance sheets and internally generated cash flow have carried much of the early funding burden, but the **size, duration, and complexity of the build-out should increasingly pull in external capital** across a wide spectrum of capital pools across both equity and fixed income. Our Fixed Income colleagues reach a similar conclusion looking at data centers, forecasting **~\$3.2 trillion of global data center capex through 2028**, with **~\$1.75 trillion financed through a wide array of credit products**, including \$700 billion from private credit and \$650 billion of investment grade debt. On securitized credit specifically, data center ABS/CMBS gross issuance is expected to grow quickly through 2028; outstanding data center securitized credit is currently ~\$65 billion, and forecast to grow by nearly 3x to ~\$200 billion.

Exhibit 12: We see \$3.2T of data center capex spend through 2028

Updated Data Center Capex – Growing Role of Credit Markets

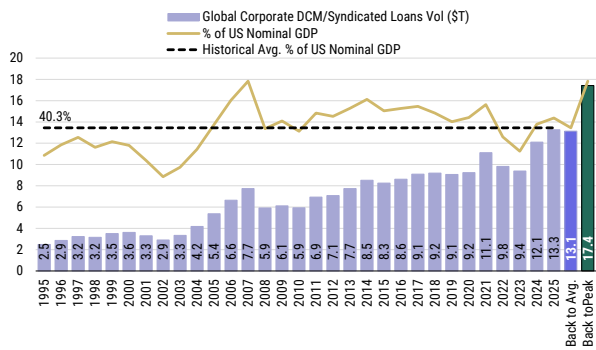


Source: Morgan Stanley Research

Importantly our credit strategists, **do not expect a financing bottleneck**, citing significant credit market capacity and **growing demand** for higher-quality private credit mandates that are well suited to data center financing. They **recently** revisited their analysis, acknowledging that the speed and scale of spending has outpaced their expectations by a meaningful margin. Part of this dynamic is driven by strong hyperscaler capex — after 1Q26 earnings, our internet team **increased** their 2026 and 2027 Hyperscaler capex forecast by +5% and +17% to \$805 billion and \$1,116 billion, respectively.

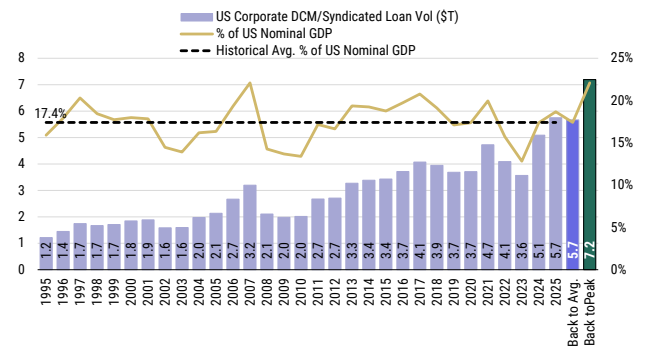
Public debt markets are clearly open, with record global volume in 2025 helping to finance heightened AI investment spend. We analyze annual global corporate bond and syndicated loan issuance trends over time as a percentage of US nominal GDP to account for economic growth. In 2025, a record \$13.3 trillion of global corporate debt/loan issuance was ~4.3% of nominal GDP, or 7% above historical long-term average of ~4.0%. Within that broader market, AI is becoming a material incremental driver, with AI-related issuance contributing to elevated IG and HY supply. A hypothetical scenario in which global issuance moves to peak levels as a percentage of US nominal GDP would represent >\$17 trillion in annual corporate financing. While this higher level of issuance would be only partially AI-driven, we believe this suggests ample room to increasingly help finance ongoing and future AI spend. Over \$150 billion of data-center backed paper is currently outstanding across secured corporate and securitized credit markets.

Exhibit 13: Financing markets are clearly open, as annual global corporate bond/syndicated loan issuance trended above average as a % of US nominal GDP in 2025 to a record \$13.3T. A hypothetical scenario in which global issuance moves to peak levels as a % of US nominal GDP would represent >\$17T in annual corporate financing.



Note: 'Back to Avg.' and 'Back to Peak' analyses illustrate scenarios in which volume moves back to historical average/peak levels as a % of US nominal GDP, with 5.8% growth in US nominal GDP from the ~\$30.8T in 2025; Source: Dealogic, Morgan Stanley Research

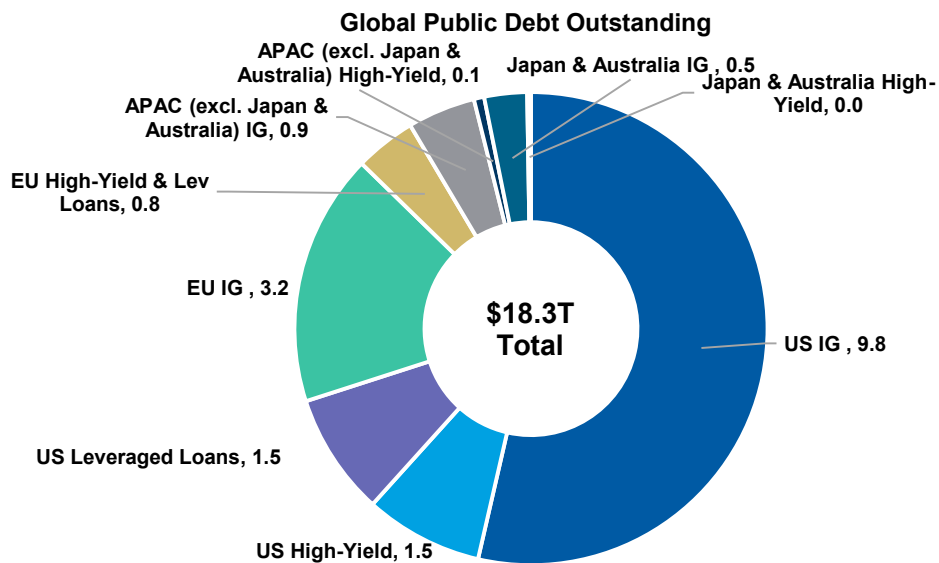
Exhibit 14: US corporate bond/syndicated loan issuance also trended above average as a % of US nominal GDP in 2025 to a record \$5.7T. A hypothetical scenario in which US issuance moves to peak levels as a % of US nominal GDP would represent >\$7T in annual corporate financing.



Note: 'Back to Avg.' and 'Back to Peak' analyses illustrate scenarios in which volume moves back to historical average/peak levels as a % of US nominal GDP, with 5.8% growth in US nominal GDP from the ~\$30.8T in 2025; Source: Dealogic, Morgan Stanley Research

Exhibit 15:

US Investment Grade Debt Represents over Half of Liquid, Public Debt



Source: Bloomberg, Morgan Stanley Research; Note: Data as of March 2026

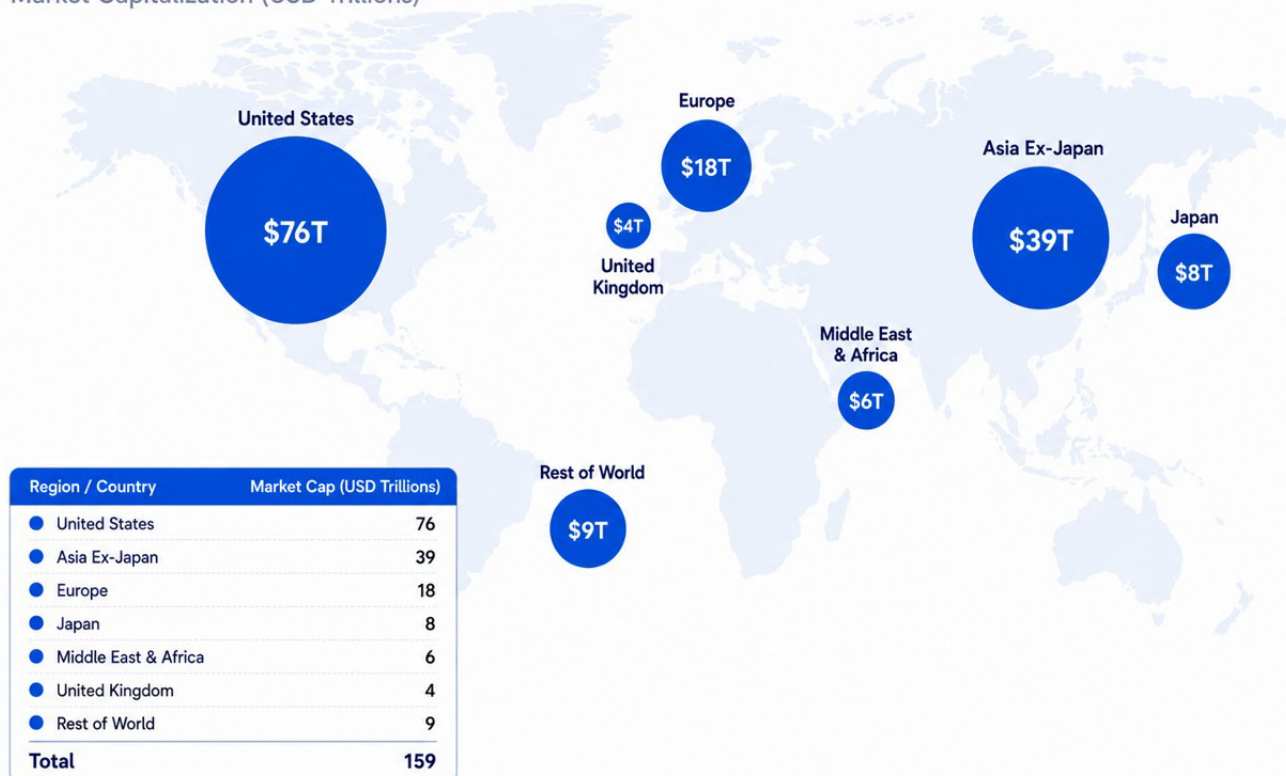
Public Equity Markets Retain Significant Capacity for AI Issuance

Public equity markets provide another important lens through which to assess the capacity to finance the AI build-out. Global equity market capitalization totals **~\$159 trillion**, including **~\$76 trillion in the US**, creating a deep pool of listed capital capable of supporting AI-related issuance over time. While the AI infrastructure cycle will not be funded through equity markets alone, we believe public markets remain significantly underutilized relative to historical issuance capacity, reinforcing our view that the key constraint is less the availability of capital and more how that capital is intermediated across public and private financing channels.

Exhibit 16: Global Equity Market Cap Exceeds \$150T

Global Equity Market Cap by Region

Market Capitalization (USD Trillions)

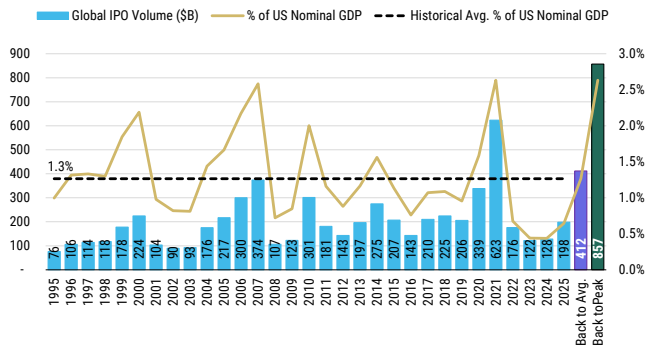


Source: Bloomberg data as of May 2, 2025

IPO and broader ECM activity remain well below historical levels relative to nominal GDP, suggesting substantial unused capacity for future AI-related issuance. Global IPO issuance in 2025 totaled ~\$200 billion, roughly 50% below historical average levels as a percentage of US nominal GDP. A return toward prior average or peak issuance levels would imply potential annual IPO financing capacity of ~\$412 billion (if return to historical average) and ~\$857 billion (if return to peak issuance) globally. In the US specifically, a return to historical average and peak levels would represent ~\$165 billion and ~\$460 billion, respectively, both far greater than ~\$80 billion of US IPO issuance in 2025.

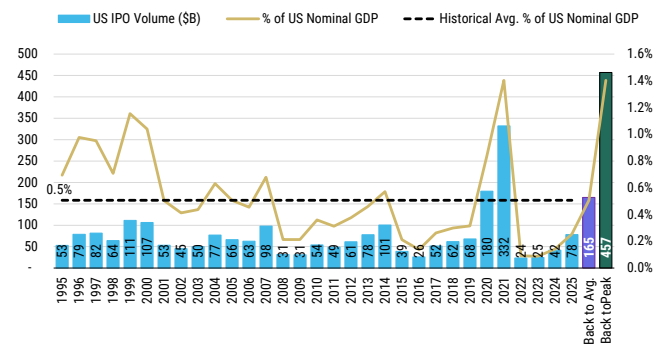
Broader equity capital markets activity suggests even greater capacity. Global ECM issuance in 2025 totaled ~\$1 trillion, more than 33% below historical average levels relative to GDP. A normalization toward historical average or peak issuance levels would imply potential annual financing capacity of ~\$1.6 trillion (if return to historical average) and ~\$2.6 trillion (if return to peak issuance) globally. In our view, these figures reinforce that public equity markets remain capable of absorbing a materially larger AI financing cycle than current issuance levels imply. In the US specifically, a return to historical average and peak levels would represent \$0.7 trillion and \$1.1 trillion, respectively, both far greater than ~\$500 billion of US ECM issuance in 2025.

Exhibit 17: Global IPO volume in 2025 was nearly 50% below historical average levels as a % of nominal GDP; A hypothetical scenario in which global IPO volume moves back to average/peak levels as a % of US nominal GDP would represent ~\$412B/\$857B in annual IPO financing, respectively.



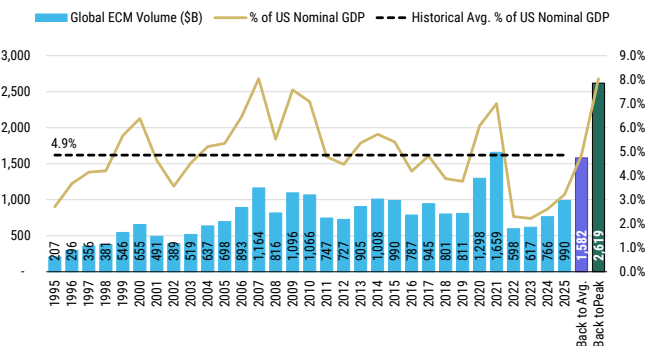
Note: 'Back to Avg.' and 'Back to Peak' analyses illustrate scenarios in which volume moves back to historical average/peak levels as a % of US nominal GDP, with 5.8% growth in US nominal GDP from the ~\$30.8T in 2025; Source: Dealogic, Morgan Stanley Research

Exhibit 18: US IPO volume in 2025 was 50% below historical average levels as a % of nominal GDP; A hypothetical scenario in which US IPO volume moves back to average/peak levels as a % of US nominal GDP would represent ~\$165B/\$457B in annual IPO financing, respectively.



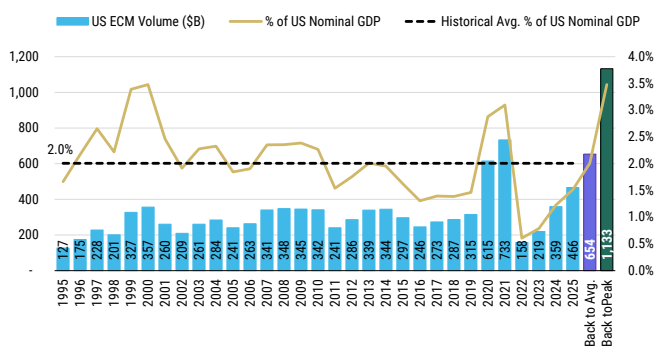
Note: 'Back to Avg.' and 'Back to Peak' analyses illustrate scenarios in which volume moves back to historical average/peak levels as a % of US nominal GDP, with 5.8% growth in US nominal GDP from the ~\$30.8T in 2025; Source: Dealogic, Morgan Stanley Research

Exhibit 19: On a broader level, global equity issuance volume in 2025 was more than 33% below historical average levels as a % of nominal GDP; A hypothetical scenario in which global ECM volume moves back to average/peak levels as a % of US nominal GDP would represent ~\$1.6T/\$2.6T in annual equity financing, respectively.



Note: 'Back to Avg.' and 'Back to Peak' analyses illustrate scenarios in which volume moves back to historical average/peak levels as a % of US nominal GDP, with 5.8% growth in US nominal GDP from the ~\$30.8T in 2025; Source: Dealogic, Morgan Stanley Research

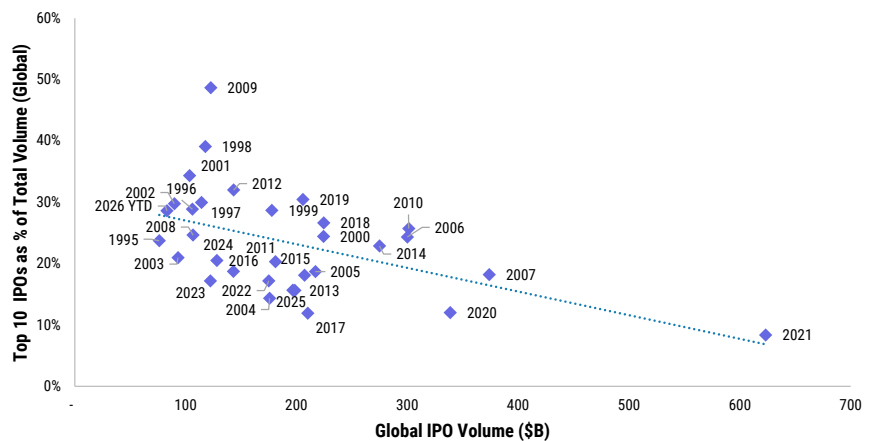
Exhibit 20: In the US, equity issuance volume in 2025 was 25% below historical average levels as a % of nominal GDP; A hypothetical scenario in which US ECM volume moves back to average/peak levels as a % of US nominal GDP would represent ~\$0.7T/\$1.1T in annual equity financing, respectively.



Note: 'Back to Avg.' and 'Back to Peak' analyses illustrate scenarios in which volume moves back to historical average/peak levels as a % of US nominal GDP, with 5.8% growth in US nominal GDP from the ~\$30.8T in 2025; Source: Dealogic, Morgan Stanley Research

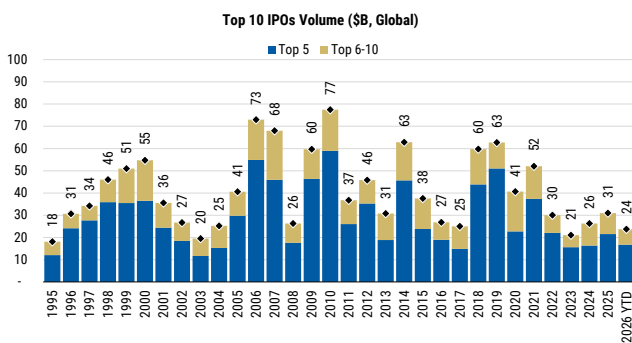
As AI-related issuance expands, questions around equity market concentration and absorption capacity are likely to become increasingly important. Historically, stronger IPO markets have coincided with broader participation and lower concentration among the largest deals. For example, in 2021 — the strongest IPO year on record — the top 10 IPOs represented just 8% of global issuance volume, well below the historical average of 23%. While potential new issuances could temporarily increase concentration, we would generally expect a broader expansion in issuance activity over time as capital formation normalizes toward historical levels. Our US Equity Strategy team discusses equity concentration further below (see [US Equity Strategy](#)) and highlights that dispersion among the most concentrated names is high which pushes back on the notion that thematic concentration is/will be a risk for the major indices.

Exhibit 21: We observe a modest inverse relationship between the total IPO volume in a given year and the concentration of volume in the top 10 IPOs in that year



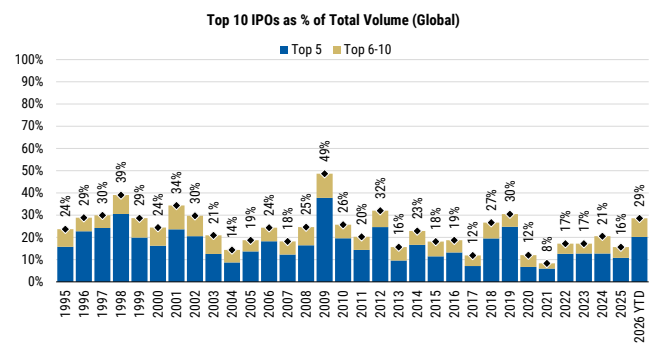
Note: YTD 2026 Data as of May 14; Source: Dealogic, Morgan Stanley Research

Exhibit 22: 2010 had the highest volume among the top 10 global IPOs in aggregate



Note: YTD 2026 Data as of May 14; Source: Dealogic, Morgan Stanley Research

Exhibit 23: The top 10 largest IPOs annually have historically represented 23% of global volume on average



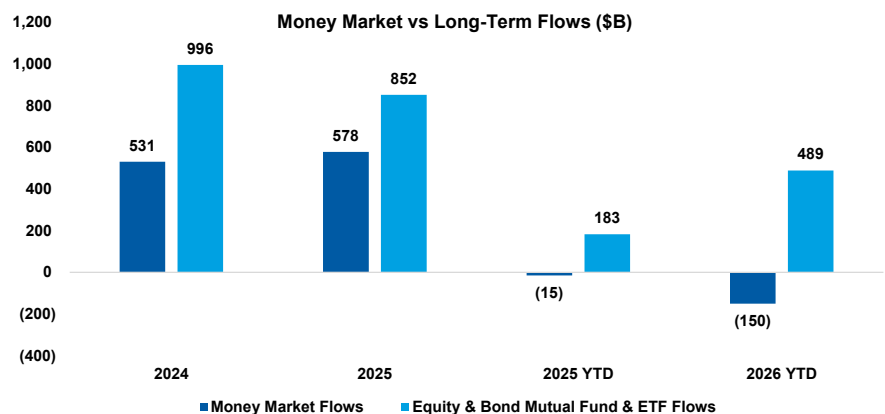
Note: YTD 2026 Data as of May 14; Source: Dealogic, Morgan Stanley Research

Investors Have Substantial Cash Pile

Both retail and institutional cash balances remain substantial in the context of the broader AI financing discussion. US money market fund assets currently total ~\$7.6 trillion, up ~10% Y/Y and nearly 70% versus five years ago, underscoring the scale of cash-like assets that could gradually be redeployed as investors seek exposure to secular growth, income, and infrastructure-linked opportunities. While money market assets are not a standalone funding source for AI, they reinforce that the AI build-out is occurring against a backdrop of significant system-wide liquidity across households, institutions, and capital markets.

Recent flow trends also suggest investor risk appetite has improved. Money market funds have seen 2026 YTD net outflows of ~\$150 billion, compared with flattish flows YTD 2025 and overall net inflows of +\$531 billion and \$578 billion in 2024 and 2025, respectively. At the same time, 2026 YTD long-term mutual fund and ETF net inflows of ~\$489 billion are up nearly 170% versus the prior-year period, consistent with investors increasingly reallocating capital toward higher-risk assets.

Exhibit 24: 2026 money market net flows have softened while equity and bond flows have increased, suggesting investor risk appetite has grown

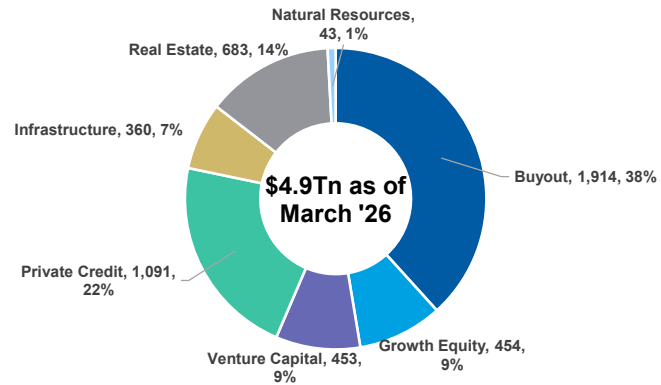


Source: Morningstar, Morgan Stanley Research. Note: year-to-date data is through May 1st

Private Market Funds Have Record Dry Powder Levels at Nearly \$5 Trillion Awaiting Deployment Opportunities

Alternative asset managers also have substantial dry powder available to deploy into scaled AI infrastructure opportunities. Across alternatives, dry powder totals ~\$4.9 trillion as of March 2026, reinforcing that the AI build-out is occurring against a backdrop of meaningful undeployed private capital. Recent commentary from **BX, KKR, and BAM** points to robust demand for AI infrastructure across data centers, power, digital infrastructure, and related financing structures, supporting our view that the **constraint is less the availability of capital** and more the formation of compelling investment vehicles with attractive risk-adjusted returns.

Exhibit 25: \$4.9T dry powder across private market funds, with \$360B of infrastructure dry powder representing 7% of overall private markets dry powder

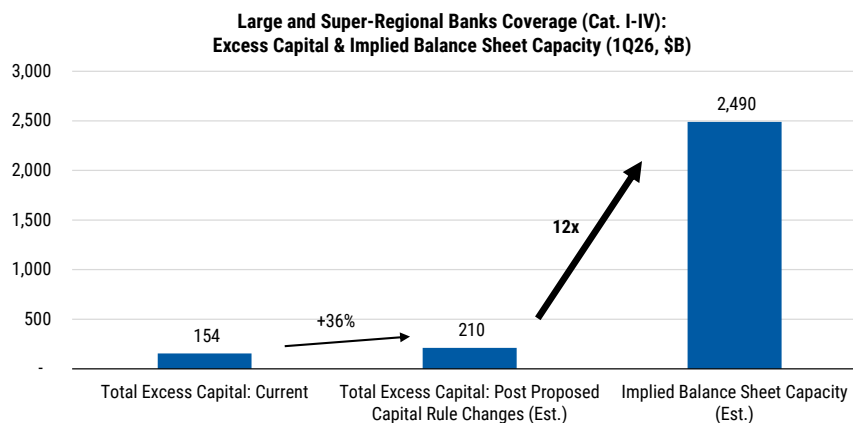


Source: Cobalt data through 3/31/2026, Morgan Stanley Research Estimates, Components shown as \$B. Note: Fundraising and AuM data exclude fund of funds, secondaries and coinvest capital.

US Banks Have over \$200 Billion of Excess Capital, Suggesting ~\$2.5 Trillion of Balance Sheet Capacity

US banks are not constrained by capital and can also provide a source of AI-related financing as needed. We estimate that the large and super-regional banks in our coverage have \$154 billion of excess capital today. Under the new capital rules proposed by regulators earlier this year, this excess capital rises to \$210 billion. This would imply \$2.5 trillion of balance sheet capacity at these banks to support both lending and capital markets activity. Of course, banks are unlikely to utilize all of their excess capital, but this illustrates that banks are not constrained by capital, and have ample room to help facilitate AI-related investment spend. *Note: \$2.5 trillion capacity is a bottom-up estimate across the Cat I-IV banks in our coverage, in which we 1) estimated current excess capital above required minimum under new Fed proposals and 2) divided excess capital by each bank's required regulatory minimum floor percentage to get the output balance sheet capacity. Our estimates of excess capital and new required minimums by bank can be found here: [US Banks and Consumer Finance: How Much Capital Is In Motion After 1Q26 Earnings? \(6 May 2026\)](#).*

Exhibit 26: We estimate there's ~\$2.5T in excess balance sheet capacity in aggregate across the large and super-regional banks in our coverage



Note: Banks in analysis include BAC, BNY, C, CFG, FITB, GS, HBAN, JPM, KEY, MTB, NTRS, PNC, RF, STT, TFC, USB, WFC; Source: Company data, Morgan Stanley Research estimates

The Challenge Is Financial Structuring ...

We see the constraint less as the availability of capital and more as the formation of suitable investment vehicles that can match different investor risk appetites. Public equity can fund corporate growth; IG credit can fund high-quality issuers with meaningful cash flow; securitized markets can finance stabilized data center assets backed by contracted cash flows, ABS has no construction risk and is already cash-flowing; CMBS generally has no built-in amortization; high-yield data center bonds and IG secured/project-finance-style data center bonds vary more by construction risk, lease tenor, guarantees, and refinancing risk; private credit and ABF can address bespoke, earlier-stage, or more complex financing needs; private infrastructure capital can absorb long-duration projects tied to strategic compute and power capacity. **The key question is therefore how the \$10 trillion is intermediated — and at what return, duration, collateral package, and risk-sharing structure — rather than whether the global financial system is large enough to absorb it.**

... While the Real Bottleneck Remains Power

AI build-out is increasingly constrained by shortages across power, compute, infrastructure, and enterprise readiness. The most immediate bottleneck is power. For more details, see [Securitized & Corporate Credit: Data Center Financing: Faster, Broader, Deeper \(26 May 2026\)](#) and [Bitcoin Mining/Data Center Development: Correction: Watts in a Name: China/US Dynamics Drop Projected Shortfall, Room to Run for BTC-to-HPC Pivots, and Updates to EV/Watt Value \(26 May 2026\)](#).

There is a significant risk that US data center demand is expected to significantly exceed available grid capacity through at least 2028, even after accounting for new power solutions. Grid access delays, permitting hurdles, labor shortages, and supply chain constraints for equipment such as turbines and nuclear components are further slowing deployment. **On the compute side, AI demand continues to outstrip supply,** with hyperscalers reporting near-full utilization of advanced chips. As AI shifts from training to

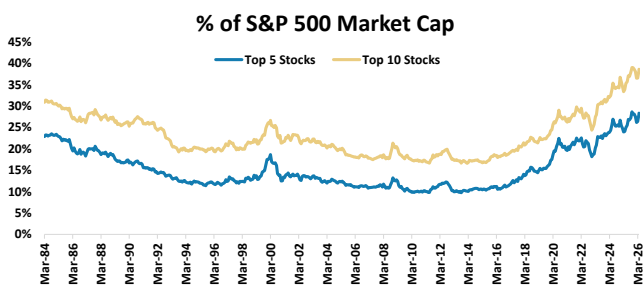
inference and agentic workloads, **new constraints are emerging around CPUs, memory, and system orchestration**, while inference workloads are also creating more volatile electricity demand patterns that existing grids were not designed to handle. Beyond infrastructure, **enterprise adoption remains constrained by challenges around data readiness, talent shortages, security and privacy concerns, and integration with legacy systems**. The core inputs enabling AI — compute, energy, data, and trusted AI capabilities — remain structurally scarce, positioning owners of these bottlenecks to capture outsized economic value.

US Equity Strategy

In our view, potential recovery in IPO activity, should drive allocation away from international equities and toward US equities. The US already maintains dominance in terms of AI data center/capex/related infrastructure weights within its major indices relative to international developed and emerging market gauges. This development should continue to facilitate this relative attractiveness in addition to the relative earnings strength that US major averages already possess on a global scale. **Therefore, sources of funds could be international indices with less prominent AI weights and earnings, money markets/cash holdings, and/or lower quality areas of the US equity market as the year progresses and focus turns more to structural growth stories.**

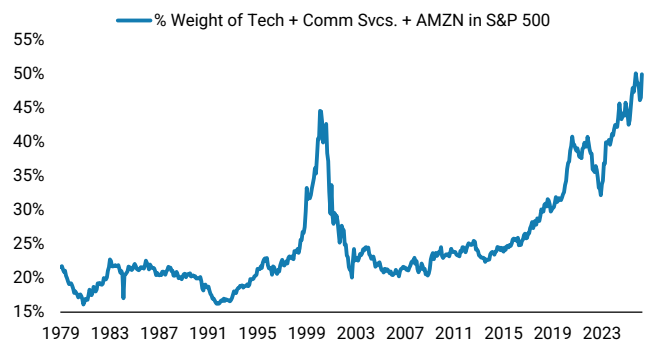
Our work shows that the US equity market is already concentrated from a weighting standpoint. The top 5/10 stocks in the S&P 500 make up 28%/39% of market cap, respectively — a historical high (Exhibit 27). Technology's weight (inclusive of the Tech sector, Communication Services, and AMZN) is 50%, around a historical high (Exhibit 28). Looking at the Herfindahl-Hirschman measure, a commonly cited market concentration metric, we observe a similar phenomenon as this measure is at/near historical highs (Exhibit 29, Exhibit 15). **Increased IPO activity would likely lead to further concentration; however, what we have observed over the last year is that the dispersion among the largest stocks in the S&P 500 has been elevated (Exhibit 31). This pushes back to some extent against the idea that thematic concentration is/will be a risk for the major indices.** The broadening in leadership that we expect this year for cyclical reasons could also help to balance out major index weights, albeit modestly. That said, we do think there is value in looking at median/average stock fundamental metrics at the S&P 500 level to get a more holistic sense of trends.

Exhibit 27: The top 5/10 stocks make up 28%/39% of S&P 500 market cap



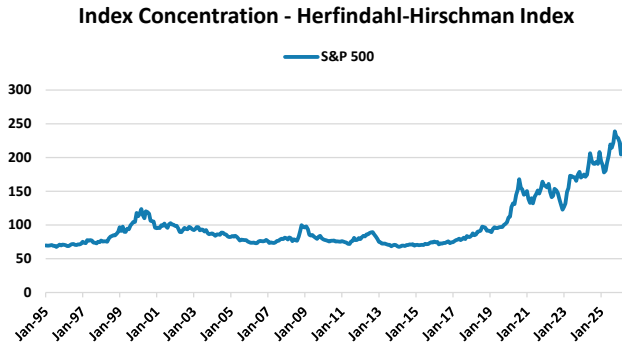
Data as of 4/30/2026. Source: Compustat, Morgan Stanley Research

Exhibit 28: Tech makes up 50% of the S&P 500 market cap



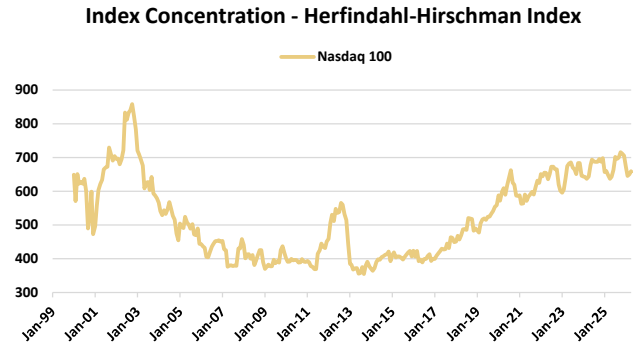
Data as of 4/30/2026. Source: Compustat, Morgan Stanley Research

Exhibit 29: S&P 500 concentration has made new highs over the past several years



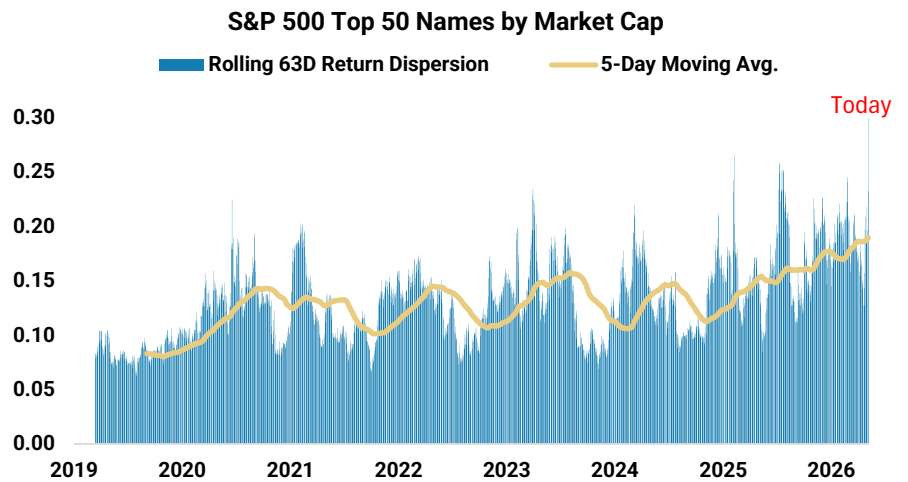
Data as of 4/30/2026. Source: Compustat, Morgan Stanley Research

Exhibit 30: The Nasdaq 100 is notably more concentrated than the S&P 500 and is primarily tech focused



Data as of 4/30/2026. Source: Compustat, Morgan Stanley Research

Exhibit 31:
Megacap stock dispersion has risen since 2025



Data as of 5/6/2026. Source: Compustat, Morgan Stanley Research

Ways to Play

Asset Managers

We're increasingly bullish on the Alternative Asset Managers (Alts) given the significant capital deployment opportunity presented by data center / AI spend in the context of the views of our colleagues that see continued signs of strength in AI infrastructure spend that skew to the upside. We see **KKR, BX, APO, BN (all OW)** and **BAM, ARES (both EW)** as best positioned for the AI investment theme given strong brand that attracts quality partners, breadth of global footprint, sizable dry powder and scale, and diversified private credit, infrastructure, and real assets capabilities. We also see **BLK (OW)** as well positioned given its recent acquisition of GIP and sizable infrastructure initiatives in the context of their broader platform capabilities, vast scale, global footprint and breadth of relationships across corporates and asset owners.

- **KKR (OW):** One of the cleanest ways to play AI infrastructure given its scale across infrastructure, private credit, real assets, and capital markets. Existing exposure through its data center platform gives KKR direct reach across data centers, power-adjacent infrastructure, and cooling, while meaningful Real Assets dry powder supports continued deployment.
- **BX (OW):** Well positioned through its sizable data center and power exposure and investments in natural gas generation capacity to support data center development. We see BX as a core beneficiary of demand for large, institutional-quality vehicles tied to data centers, power, and infrastructure-linked real estate.
- **APO (OW):** Well positioned for the credit-heavy components of AI infrastructure financing, including IG credit, asset-backed finance, private credit, and structured solutions. Its origination platform, insurance capital, and long-duration credit capabilities are well suited to financing stabilized or contracted AI infrastructure assets backed by durable cash flows.
- **BN / BAM (OW / EW):** The broad Brookfield ecosystem is well positioned given its scaled infrastructure platform and differentiated exposure to power, renewables, transition, and digital infrastructure. Its ability to connect data center development with power solutions is increasingly relevant, supported by recent AI infrastructure mandates in France, Sweden, the US and its recent energy partnership for data center fuel cells.
- **ARES (EW):** AI infrastructure exposure through private credit, infrastructure, and its expanded digital infrastructure platform following the GCP acquisition. GCP adds direct data center development expertise, including experience designing 50+ data centers globally and managing 2.5GW+ of IT load across 300+ data centers.
- **BLK (OW):** GIP acquisition materially expands BLK's infrastructure capabilities and position the firm to aggregate large pools of institutional capital for AI infrastructure. Its AI Infrastructure Partnership with hyperscalers, corporates, asset owners and others provides direct exposure to large-scale financing needs across data centers and related energy infrastructure.

Banks

All money center banks (**BAC, C, GS, JPM, WFC**) have scaled, global investment banking and trading franchises set to benefit from the convergence of building M&A momentum, a recovering IPO market, and the meaningful financing requirements of AI infrastructure. Importantly, US banks are not constrained by capital and can provide a direct source of AI-related financing using balance sheet as needed. These banks have grown increasingly focused on delivering a wide range of financing capabilities across both public and private channels, with AI infrastructure as a key source of demand.

- **C (OW, Top Pick):** Growing share in Investment banking is a core focus area for Citi, as shown through its elevated recent hiring. Citi established a dedicated AI Infrastructure Banking team in February to support AI infrastructure projects through a broad-range of financing capabilities. We see Citi's global network as a key in advantage in this effort, particularly for cross-border AI capex deals. Citi has already demonstrated growing success in upping investment banking market share, taking part in 15 of the top 25 transactions in 2025, and we see continued growth as a key driver to executing on Citi's new medium-term ROTCE target of 14-15%. Citi is our Top Pick, as at 1.1x 2027 P/TBV the stock is not priced to get to the company's 14-15% medium-term ROTCE. *Investment banking (5%) and trading (26%) made up 31% of total revenue in 2025.*
- **BAC (OW):** Bank of America has a deep corporate client base and expansive middle market coverage team to provide a broad funnel for deal flow. In February, BAC announced a \$25 billion capital commitment for private credit deals, backing BAC's focus on delivering holistic financing solutions to meet AI-related demand. *Investment banking (6%) and trading (18%) made up 24% of total revenue in 2025.*
- **GS (EW):** Goldman Sachs has top M&A market share and is directly set up to capture the AI infrastructure financing opportunity through its Capital Solutions Group, which was established to serve as a centralized hub for the firm's origination, structuring, and financing activities in one unified platform with one unified set of incentives. The Capital Solutions Group is creating a multiplier effect across GS's advisory franchise by adding financing and risk management solutions to transactions in which GS serves as advisor. *Investment banking (16%) and trading (55%) made up 71% of total revenue in 2025.*
- **JPM (EW):** JPMorgan commands the largest balance sheet among the group with a top investment banking franchise well suited to help finance AI infrastructure spend. JPM has specifically dedicated \$50 billion of balance sheet to direct lending and has announced the Security and Resilience Initiative, which is a \$1.5 trillion, 10-year plan to facilitate, finance, and invest in industries critical to national economic security and resilience (i.e., including of AI). *Investment banking (5%) and trading (19%) made up 25% of total revenue in 2025.*
- **WFC (EW):** Wells Fargo has made the build-out of the Corporate and Investment Banking segment a top priority, with the recent lifting of the asset cap a boost to WFC's growth ambitions. *Investment banking (4%) and trading (8%) made up 12% of total revenue in 2025.*

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(as of April 30, 2026)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1546	42%	467	51%	30%	709	44%
Equal-weight/Hold	1568	43%	358	39%	23%	715	44%
Not-Rated/Hold	4	0%	0	0%	0%	1	0%
Underweight/Sell	555	15%	84	9%	15%	202	12%
Total	3,673		909			1627	

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INDUSTRY COVERAGE: Brokers, Asset Managers & Exchanges

COMPANY (TICKER)	RATING (AS OF)	PRICE* (05/28/2026)
Michael J. Cyprys, CFA, CPA		
Acadian Asset Management Inc. (AAMI.N)	E (04/07/2025)	\$72.71
Ameriprise Financial, Inc. (AMP.N)	U (07/15/2025)	\$439.85
Apollo Global Management Inc (APO.N)	O (11/20/2025)	\$127.51
Ares Management Corp (ARES.N)	E (09/10/2021)	\$126.00
BlackRock Inc. (BLK.N)	O (09/18/2015)	\$1,046.49
Blackstone Inc. (BX.N)	O (12/15/2014)	\$116.14
Brookfield Asset Management Ltd. (BAM.N)	E (01/23/2025)	\$49.01
Brookfield Corporation (BN.N)	O (01/23/2025)	\$46.08
Carlyle Group Inc (CG.O)	E (11/14/2018)	\$45.09
CBOE Global Markets Inc. (CBOE.Z)	U (05/14/2025)	\$344.24
Charles Schwab Corp (SCHW.O)	O (04/08/2025)	\$85.35
CME Group Inc. (CME.O)	O (04/08/2025)	\$277.42
Franklin Resources Inc. (BEN.N)	E (05/06/2026)	\$31.21
Gemini Space Station, Inc (GEMI.O)	E (10/07/2025)	\$5.20
Hamilton Lane Inc. (HLNE.O)	E (01/26/2021)	\$86.15
Intercontinental Exchange Inc (ICE.N)	E (06/11/2021)	\$148.30
Invesco (IVZ.N)	E (01/03/2018)	\$28.06
Janus Henderson Group (JHG.N)	++	\$51.77
KKR & CO. Inc (KKR.N)	O (05/14/2025)	\$94.03
LPL Financial Holdings Inc. (LPLA.O)	O (04/09/2024)	\$265.86
MarketAxess Holdings Inc. (MKTX.O)	E (11/20/2025)	\$131.55
Miami International Holdings Inc (MIAX.N)	O (09/08/2025)	\$47.76
Nasdaq, Inc. (NDAQ.O)	O (11/20/2025)	\$91.00
Raymond James Financial Inc. (RJF.N)	E (07/21/2023)	\$142.00
Ridgepost Capital INC (RPC.N)	E (03/04/2024)	\$8.37
Robinhood Markets, Inc. (HOOD.O)	E (04/08/2025)	\$84.84
StepStone Group (STEP.O)	E (07/19/2022)	\$50.09
T. Rowe Price Group, Inc. (TROW.O)	E (10/05/2017)	\$103.55
TPG, Inc. (TPG.O)	E (04/14/2025)	\$41.86
Tradeweb Markets Inc (TW.O)	E (04/08/2025)	\$99.65
Victory Capital Holdings Inc (VCTR.O)	E (05/01/2026)	\$85.09
Virtu Financial Inc (VIRT.N)	U (04/08/2025)	\$48.80
Virtus Investment Partners Inc (VRTS.N)	U (04/08/2022)	\$142.15
WisdomTree Inc. (WT.N)	E (04/08/2021)	\$18.39

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.

INDUSTRY COVERAGE: Large Cap Banks

COMPANY (TICKER)	RATING (AS OF)	PRICE* (05/28/2026)
Manan Gosalia		
Bank of America (BAC.N)	O (04/07/2025)	\$50.77

Bank of New York Mellon (BNY.N)	E (02/17/2026)	\$140.56
Citigroup Inc. (C.N)	O (01/30/2024)	\$124.68
Goldman Sachs Group Inc (GS.N)	E (04/07/2025)	\$1,008.37
JPMorgan Chase & Co (JPM.N)	E (09/30/2024)	\$296.73
Northern Trust Corp. (NTRS.O)	U (04/07/2025)	\$168.35
PNC Financial Services (PNC.N)	E (02/17/2026)	\$219.78
Regions Financial Corp (RF.N)	E (12/09/2024)	\$27.83
State Street Corporation (STT.N)	O (12/09/2024)	\$157.61
Truist Financial Corp (TFC.N)	O (02/17/2026)	\$47.80
U.S. Bancorp (USB.N)	E (09/28/2025)	\$54.45
Wells Fargo & Co. (WFC.N)	E (09/28/2025)	\$76.65

Stock Ratings are subject to change. Please see latest research for each company.

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