

Is AI riding a bubble?

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US financial markets are agog with excitement. A few firms are breaking initial public offering (IPO) records, conveying the impression of a transformation of the role of stock markets in American capitalism. The trend began with SpaceX, the mega-corporation created by converting the social media platform Twitter, renamed X, into the artificial intelligence player xAI, and then merging it with the satellite operator and telecommunication giant.

The merged rocket, telecommunication and artificial intelligence entity, majority owned and controlled by Elon Musk of Tesla fame, has gone public with an initial public offering of equity, aimed at mobilising as much as \$75 billion of capital. The share sale at inflated prices is expected to value the company at around \$1.75 trillion.

This has been followed by similar announcements of large equity issues from other firms that are leaders in the Artificial Intelligence stable Anthropic, Open AI and Google — which too are now valued at levels marking highs that surprise, given the rather short life history of most of these firms.

Two factors appear to be the principal drivers of this equity sale and valuation surge. The first is that, unlike the case of the dotcom boom of the 1990s, ensuring a presence in the AI space requires large material investments, in high end chips and the power-hungry data centres that they fuel. Huge investments in such infrastructure, driven by the competition among a few firms for dominance over the AI space, has led to an almost insatiable appetite for financial resources.

Secondly, the still unsubstantiated expectations of an AI-driven transformation of modern economies and the ample liquidity in markets are triggering a demand for the instruments financing that investment. Firms have been able to mobilise unusually large sums of capital to finance the huge investments that they are making in the competitive battle to win leadership in this new frontier area.

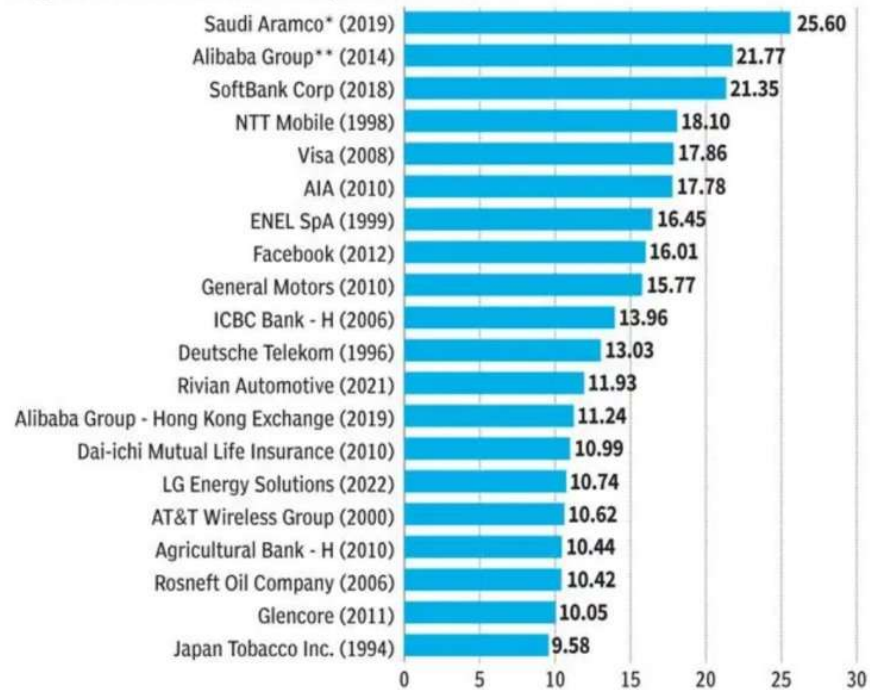
SpaceX IPO

The \$75 billion that SpaceX is estimated to be mobilising through its IPO, compares with a previous global maximum for capital mobilisation through IPOs of \$25.6 billion notched up by Saudi Aramco, albeit at an earlier date. The maximum for capital mobilised through equity issued in an IPO in US markets alone is a lower \$21.77 billion extracted by Chinese e-commerce venture Alibaba (Chart 1).

CHART 1

Tapping the market

Largest IPOs worldwide as of January 2026 (\$ billion)

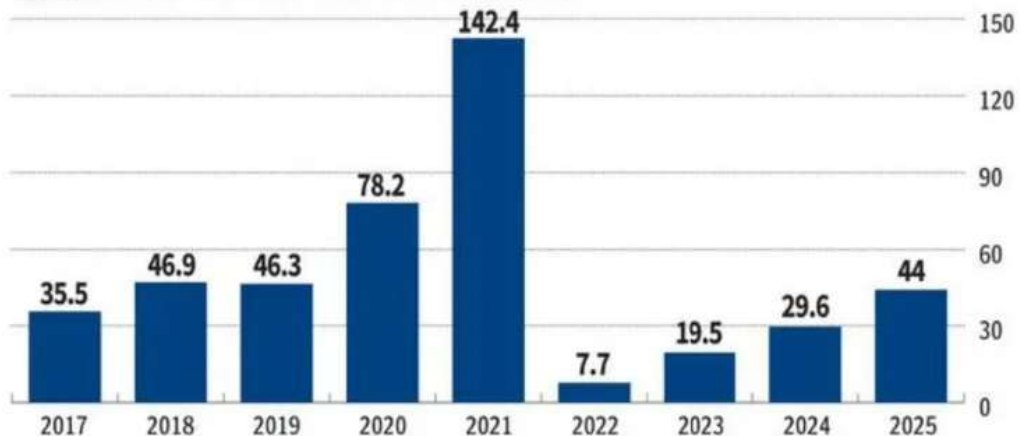


While the figure for the sums to be mobilised by the four AI-related firms choosing to go public this year is still uncertain, informed estimates place the total at around \$200 billion. That exceeds by a wide margin the total sum mobilised by much larger numbers of firms in the US market in each year during the last decade (Chart 2).

CHART 2

Funds mop-up

Aggregate IPO market mobilisation in the US (\$ billion)

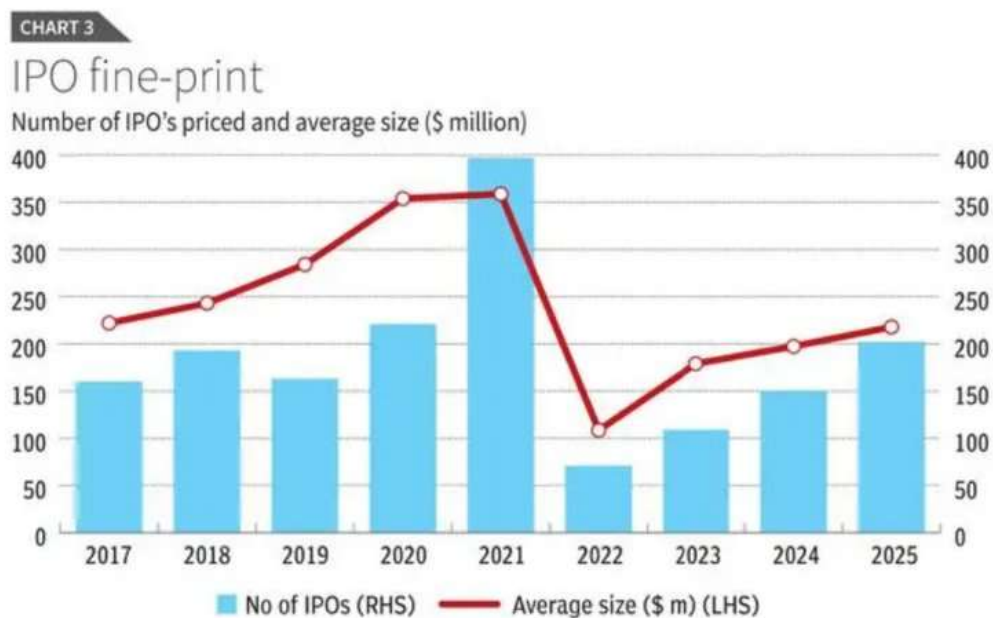


Note: IPOs ≥ \$50mm Market Cap

Source: Renaissance Capital (renaissanc капитал.com/IPO-Center/Stats)

The highest so far, counting only firms with market capitalisation exceeding \$50 million, was in 2021, when 397 firms together mobilised capital totalling \$142.4 billion. That makes for an average value of around \$360 million, which pales when compared with the \$75 billion sought to be mopped up by SpaceX. This appetite for capital encourages a conscious effort to hype up AI to attract those resources. The market capitalisation increases that follow from hype-led investments further intensify the valuation spike, in a self-fuelling spiral.

A corollary of the dramatic increase in capital mobilised through IPOs by each of these firms appears to be a sharp decline in the number of firms mobilising capital from the market (Chart 3). The number of firms (with market capitalisation greater than \$50 million) resorting to IPOs during the first five months of 2026 was 63, which together mobilised just \$28.8 million. Indications are that this number would shrink hugely in the months to follow as investors seem focused on getting a slice of AI equity at whatever cost, leading to the huge valuations of these firms.



In sum, accompanying the hype on the dramatic transformation of economic and social activity that AI is projected to bring about, is a transformation of the role of financial markets in the functioning of US capitalism. For much of capitalist history in the US, while the stock market was a visible and important presence, its role was not one of helping mobilise the capital needed for large corporate investments.

Corporate Control

In practice, retained profits and debt were the principal source of investment finance for US corporates. Equity markets served more as a market for corporate control and shareholder influence over corporate management, as a fall in stock prices triggered by poor management practices could encourage hostile takeovers and a management overhaul. That seems to be changing.

The recent boom in the IPO market signals that in the investment splurge that has characterised the competitive race for dominance in the AI space, a few leading firms, having exhausted the potential for financing based on retained profits and debt, are turning to public equity. This does not signal a democratisation of corporate ownership, however. The manufactured hype surrounding AI, and moves such as the recent push, rejected by the SEC, to shorten the time and dilute the performance criteria required for inclusion of newly listed “megacap” firms in leading stock indices (which would have forced allocation of passive institutional investor funds to the purchase of such shares), tends to raise demand and push up share prices to levels where even large issue volumes are based on the sale of a relatively small proportion of share capital.

In SpaceX’s case, for example, the \$75-billion mop up is to be realised through a stake sale of less than 5 per cent of equity. That allows promoters and early private market investors to benefit from both high stock values and significant stake ownership, even majority control. The boom is associated with extreme concentration of equity ownership and increased centralisation of corporate control.

Advocates of this new-style capitalism justify these trends where a few winners take all, and reject the criticism that the AI boom is a bubble, on the grounds that the large scale ‘real’ investments by firms leading the development and deployment of “game-changing” AI technologies are expected to yield revenues and profits that warrant them. That ignores the possibility that the investments (rather than being induced solely by expected aggregate market and revenue growth) are driven by the competitive push to win market dominance, which generates excess capacity.

In fact, the evidence is that those valuations are based on impossible assumptions. If SpaceX does realise its targeted \$1.75 trillion valuation, for example, it would be priced at more than 90 times its annual revenue (as against 20 times in the case of an actually profitable Nvidia).

The Financial Times cites numbers quoted by Goldman Sachs, the lead investment banker for SpaceX, which indicate that the valuation of the firm implicit in the price being set for its equity sale can be justified only by 100 times increase in its revenues (from \$3.2 billion to \$322 billion) by 2030.

That and other numbers from the AI space suggest that the SpaceX led financial investment fever is reflective of a speculative bubble rather than the promise of AI.

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