

WEEK ENDED AUGUST 15, 2025

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## Animal Spirits on the Prowl

*"I always believed in animal spirits. It's not their existence that is new. It's the fact that they are not random events..."*

– Alan Greenspan, former Chairman of the U.S. Federal Reserve

**The Through Line:** After a long dry spell, a hopeful set of not-so-random events seems to be hinting at renewal in the initial public offering (IPO) and merger and acquisition (M&A) spaces. Head fake – or lasting trend? We parse the signs.

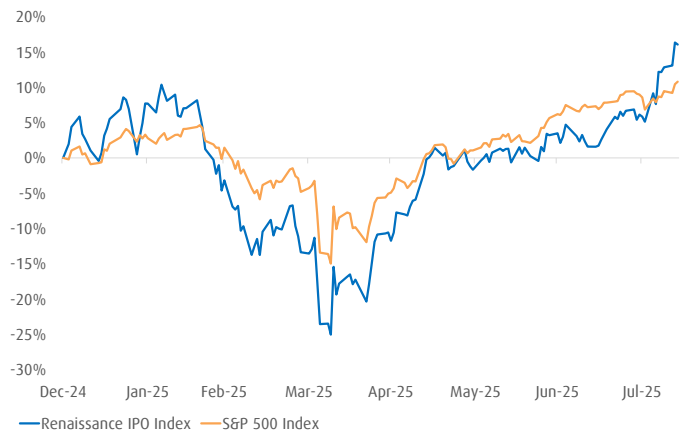
### Summoning the (animal) spirits

In the weeks between Election Day and Inauguration Day, Wall Street deal-making types were exuding a decidedly optimistic tone under the assumption that an incoming Republican administration would move quickly to tear down regulations, reduce taxes and reignite a more pro-growth, business friendly environment. This would, in turn, revive a long-languishing market for initial offerings and large tie-ups. However, by the end of January, DOGE and tariffs dominated daily headlines, souring the festive atmosphere and shoving potential deals to the back burner.

Angst was exacerbated by January's DeepSeek announcement challenging a core theme (AI and cloud/data center spend) that had supported markets throughout the prior two years. Stocks, bonds and the dollar came under pressure while U.S. viability as a home for investment dollars was openly questioned.

Subsequent months have brought a flash of clarity on the trade front, better-than-hoped-for corporate earnings and a shiny new tax bill with business-cash-flow friendly properties to lighten the mood. Equity markets have regained losses and are treading in new high territory. Toss in a few high-profile IPOs that remain well above offering prices (chart); several large announced tie-ups; new crypto regulation; and an executive order to "Democratize Access to Alternative Assets in 401(k)s" and it looks like the elements may be in place to give the deal-making party a second wind.

S&P 500 vs. IPO Index YTD Cumulative Total Returns



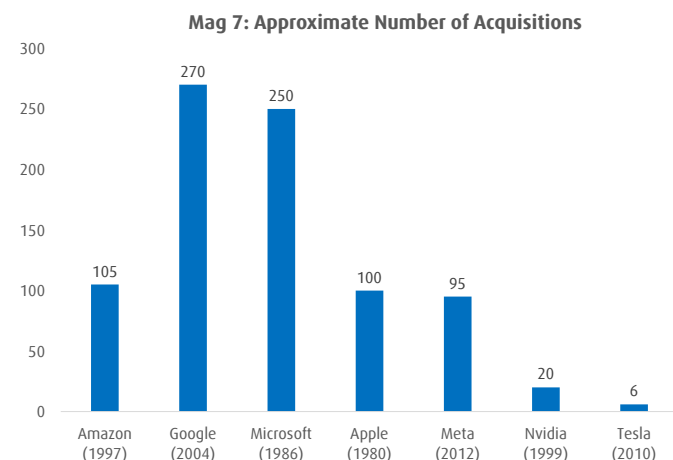
Source: Bloomberg L.P. (2025). Data as of August 13, 2025.

### Whales and krill

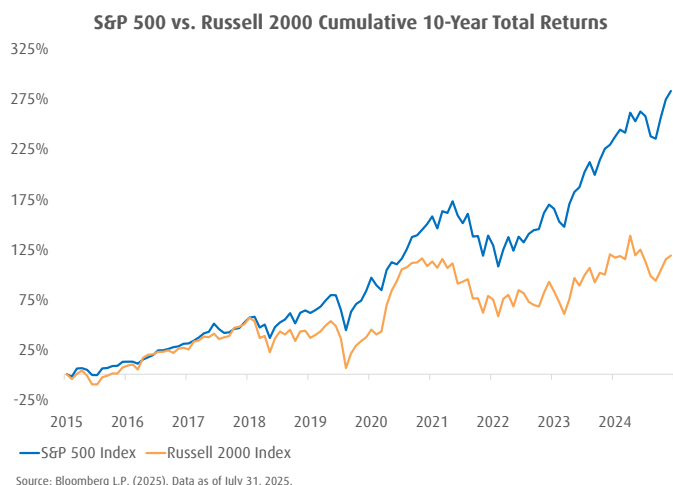
But first a little context. Unlike much of the rest of the world<sup>i</sup>, **the count of companies traded on an exchange in the U.S. has actually declined by over 40% since the days of the first internet/dot.com bubble.** The number of U.S. public companies peaked at 7,300 in 1996 while today's number stands at approximately 4,000 <sup>ii,iii,iv</sup>.

Several reasons can be cited for the slimmed-down share count, including decades of very low interest rates (debt financing often doesn't require sharing ownership – unlike an equity offering); alternative non-bank sources of financing; increased regulatory burden on public companies; and IPO markets that were less than welcoming in the aftermath of both the dot.com and GFC periods.

M&A has also played a role. A recent Bloomberg article noted that **the Mag 7 have bought more than 800 companies in the past few years.**<sup>v</sup> Such buying sprees both diversify their revenue sources and remove potentially pesky competition.



Another contributing factor has been the extended marinating (both intentional and unintentional due to poor IPO markets) of portfolio companies within private equity portfolios. A recent PwC update quoted PitchBook data showing **that private equity companies held over 30,000 portfolio companies as of mid-2025, over half of which had been on the books for five years or more.**<sup>vi</sup> Our own analysis of PitchBook data shows 62 VC-backed companies – each with a valuation above \$10 billion – for a combined total of over \$2 trillion.<sup>vii,viii</sup> Perhaps it is no wonder that public small capitalization equities have had such a tough decade, underperforming their large cap brethren by over 150%.



U.S. equity markets – both public and private – have become increasingly bifurcated in recent years between whales and krill. The big grow ginormous while the tiny get eaten or find it increasingly challenging to swim against the currents – particularly in the face of an altered business environment that demands sufficient spending on technology (AI, cloud, cybersecurity, robotics), logistics, raw materials and/or labor.

## Phoenix rising – or waiting for Godot?

While some companies have found ways to grow – either organically or through multiple smaller acquisitions – the last three years have been especially tough in many corners of the transactions markets. Large mergers faced intense scrutiny under the Biden administration's Federal Trade Commission and many were simply abandoned (e.g., Adobe's attempted purchase of Figma and a hoped for Kroger-Albertsons tie-up).

The sharp pullback in both stock and bond markets in 2022 shut down the IPO market. In each of the last three years, the number of public launches fell by over 75% compared to the more than 1,000 launched in 2021.<sup>ix</sup>

As both M&A and IPO exit markets dried up, private capital funds of almost all flavors also saw steep drops in their ability to raise funds, illustrated in the table below.

## Private Markets Target Fund Sizes Raised

	Annual Growth Rate	
	Since 2000	3-Year
Real Estate	12,15%	-10,90%
Private Equity	5,85%	-15,14%
Venture Capital	3,42%	-16,28%
Private Debt	10,81%	-3,28%
Infrastructure	23,72%	4,14%

Source: Preqin. Data as of 2024.

Limited partners' ability to invest in new funds dropped when exit markets closed and return of capital was delayed. Some general partners crafted methods to repurchase existing holders' positions via tender offers and/or sales to new holders.

## The times they are a-changin'

We can already see ample evidence that life in the capital markets will probably be markedly different under the Trump administration. A number of novel initiatives have been launched:

- extracting promises for direct investment in the U.S. within most of the tariff agreements outlined to date. Though details are fuzzy, investments in existing companies, plant and equipment would seem to be on the table.
- granting AMD and Nvidia China export licenses on select chips in exchange for 15% of the profits
- extracting a "golden share" for allowing the Nippon/U.S. Steel merger to proceed
- contemplating the largest railroad tie-up – Norfolk Southern and Union Pacific
- asking for bids on ways to take Fannie Mae and Freddy Mac (which have been under government receivership since the GFC) public; it is estimated that even a slice of the government's share would represent the biggest IPO in history.
- signing of the GENIUS Act, aimed at creating a framework for stable coin

- seeking to loosen the regulatory noose around the banking system by dismantling the CFPB, reducing capital requirements and slashing paperwork burdens
- signing an executive order directing regulatory agencies how to facilitate the purchase of alternative assets like private capital and crypto currencies into defined contribution (401k and 403b plans) – a \$12 trillion market<sup>x</sup>

We see many signs that the animal spirits, which retreated into hibernation earlier this year, might start stirring once again. Taken together, a pool of 30,000 potentially well-seasoned companies inside private capital funds plus a more amenable capital market framework point to this conclusion. Rising animal spirits have implications for both public markets (where we would not be surprised to see a more amenable environment for public offerings) and the private capital arena, given the push to open the asset class to a broader array of investors.

## Private capital's ongoing evolution

The private capital industry has evolved along two distinct paths in recent years. A post-modern approach captures much of what we see in the headlines: super-sized, one-stop-shop, multi-strategy managers offering everything to everyone of all wealth levels (democratization); implementing no restrictions on asset gathering (moving from a carry revenue/compensation model to a management-fee revenue model); and diversifying offerings across a much broader spectrum.

A second, more traditional old-school approach exercises fund-size discipline (taking in a limited size that general partners are confident they can deploy with rigorous discipline) and works actively alongside portfolio management teams to grow and develop lasting businesses. Reward comes through the carry, not the management fee, which could be argued is a better alignment with LP interest.

Investment in private capital is conceptually alluring because it offers an opportunity to get in at a lower price and earlier stage than public market investing can typically provide. A basic tenet in investing – that risk and return go hand in hand – means that **the privilege of early access/potentially higher return comes at a price. In the case of private capital, that price is typically liquidity: it takes time, energy, funding and expertise to build a great business.** The capital used to help in that process must be patient. Attempts to bend the liquidity rule are unlikely to be cost free and could easily dilute returns.

## Implications for investors

**A number of factors seem to be aligning to create the most amenable environment for M&A and public launches we have seen in nearly five years.** This should support markets – and give ready capital conversion opportunities – as companies respond to an altered business landscape. Private capital should also benefit from improved exit markets, plus a broader array of potential customers. Through it all, the importance of deep due diligence, solid leadership teams, defensible niches and an understanding of risk-return tradeoffs remains paramount.

## In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

### This week

**New head for the Bureau of Labor Statistics** – President Donald Trump announced via Truth Social that Heritage Foundation chief economist E.J. Antoni has been appointed the new head of the BLS. (The former head was fired after the President expressed dissatisfaction over significant downward revisions to the monthly jobs report, claiming the data had been “rigged” to make him look bad.) The President said he believes Mr. Antoni will usher in an era of “HONEST and ACCURATE” data, ending a “long history of inaccuracies” at the BLS. Dr. Antoni received his Ph.D. in economics from Northern Illinois University and prior to joining the Heritage Foundation was an economist at the Texas Public Policy Foundation. At Heritage, Dr. Antoni has long been a critic of BLS data quality. In a June 10 Heritage Foundation blog post, Dr. Antoni argued that “blockbuster” job data was attributable to runaway spending by the Biden administration, asserting that the government had gone on a “hiring spree” that artificially inflated labor markets. “Now, the situation has completely reversed as the Trump Administration wages an all-out war on government waste and fraud.” In his report, Antoni said the May jobs report actually showed “the labor market is struggling,” citing a sharp decline in the labor force participation rate and rising part-time work. He also noted that all net job growth during the Biden administration went to foreign-born workers, a trend that reversed under the Trump administration. Dr. Antoni concluded there were elements of both good and bad in the May report, “but there’s also something ugly – and worrisome – in the statistics.” Perhaps his concerns were borne out by the subsequent downward revisions to the May and June data. This would also argue against the final data release being “rigged.”

**Canada: to cut or not to cut** – The Bank of Canada’s Summary of Deliberations reiterated that uncertainty around trade and concern about sticky inflation are keeping the central bank sidelined for now. However, if the economy softens and inflation pressures ease then the door is open to cutting further, the policy statement noted. Frequent discussions of inflation throughout the minutes highlight the current dichotomy between the BoC and the Fed. The BoC sees underlying inflation at 2.5% year over year, and the range around 2.5% to 3%. That’s not good enough for the Governing Council to greenlight more easing. Meantime, U.S. core inflation is in a similar range, but the Fed is apparently far more eager to cut.

**Canadian optimism improves** – The Canadian Ivey Purchasing Manager’s Index reflects renewed optimism in the economy: the index rose 2.5 points to 55.8 in July. Earlier this year, the index tumbled amid the volatile trade environment but has climbed back since. Nevertheless, firms have trimmed inventories in response to tariff uncertainty. Hiring has stabilized, however, following recent U.S. trade deals that offered some encouragement. Price gains are decelerating, which will please the Bank of Canada as it monitors inflation to determine when to resume cutting rates.

**Canada’s employment statistics decline sharply** – Canadian employment fell 40,800 in July, a weak start to the third quarter, and largely reversing the surprising 83,100 jobs gain the prior month. The participation rate fell two ticks, holding the unemployment rate steady at 6.9%, despite a small increase in the number of unemployed. This is an unambiguously weak report – although it comes hard on the heels of an unambiguously strong report. Taken together, the overall picture is a soft economy running with some excess capacity, not surprising in light of the trade uncertainty. For the BoC, this is a heavy counterweight to the outsized strength in June, but it will still need to see inflation notably slow over the next two prints for a September cut to be a high likelihood.

**More than just a tariff** – Last weekend the Washington Post ran a story headlined “Trump expands use of tariffs to reach national security goals.” The main takeaway was that the new trade framework is about more than balancing trade deficits. Internal documents describe U.S. negotiators asking partners to support U.S. military positioning, purchase U.S. defense equipment, grant concessions to specific U.S. firms (e.g., Starlink and Chevron) and avoid supporting additional emissions rules at the International Maritime Organization, a U.N. agency responsible for shipping. President Trump’s “Liberation Day” executive order states that unfair trade practices, including tariffs and non-tariff barriers, have contributed to large trade deficits, the hollowing out of U.S. manufacturing, lost jobs and national security risks. It also says duties can be reduced if a trade partner aligns sufficiently with the U.S. on economic and national security matters. The policy is therefore less straightforward than rebalancing trade deficits. At the end of May, a three-judge panel of the U.S. Court of International Trade ruled that the IEEPA-based tariffs exceeded presidential authority and issued a permanent injunction. This ruling was immediately stayed by the Federal Circuit, which has now heard the appeal. If the administration loses on appeal, the case will likely head to the Supreme Court. A final loss could open the door to refunds for importers that paid the duties.

**An interim governor for the U.S. Federal Reserve** – President Trump announced he had chosen Stephen Miran to temporarily replace outgoing Fed governor Adriana Kugler. Dr. Miran is currently the chairperson of the President’s Council of Economic Advisors. In the past, Dr. Miran has advocated for structural changes at the Federal Reserve including giving the President greater power to hire and fire new board governors at will and shortening governor tenure to four years from 14. According to Bloomberg, Dr. Miran also believes the Fed should be cutting rates. Dr. Miran’s confirmation will have to wait until the Senate returns in September.

**U.S. companies asked to revenue share with the government for shipments of select goods to China** – In April, Nvidia announced a \$5.5 billion charge after the Trump administration placed new restrictions on the company's H20 artificial intelligence chips headed to China, forcing the company to write down inventories. The move was related to the U.S. Bureau of Industry and Security directive from March 25 that sought to “further restrict China’s artificial intelligence and advanced computing capabilities.” Last month the administration unveiled “America’s AI Action Plan” which noted, “winning the AI race will usher in a new golden age of human flourishing, economic competitiveness, and national security for the American people.” On Sunday, The Financial Times reported that the administration has now agreed to approve conditional licenses for the sale of NDVA H20 and AMD’s MI308 chips to China. The condition: the companies will pay the U.S. government 15% of revenues from the sale of those chips.

## Next week

A hard and soft data-rich week, including Canadian CPI, PPI and retail sales plus key business sentiment readings. In the U.S., the FOMC May meeting minutes are out on Wednesday and the Fed’s Annual Jackson Hole gathering starts Thursday.

- **Monday 8/18** – Canada Housing starts
- **Tuesday 8/19** – Canada Inflation, CPI
- **Wednesday 8/20** – U.S. May FOMC meeting minutes | Canada Housing price index
- **Thursday 8/21** – U.S. Weekly unemployment claims, Philly Fed manufacturing survey, services and manufacturing PMIs, Leading Economic Indicators, Fed’s Jackson Hole gathering begins | Canada CFIB Business barometer, PPI
- **Friday 8/22** – Canada Retail and Manufacturing sales

## Data scorecard as of August 13, 2025

Equity Market Total Returns						
	8/13/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,467	1.2%	10.8%	25.0%	26.3%	-18.1%
NASDAQ	21,713	1.2%	12.9%	29.6%	44.7%	-32.5%
DOW	44,922	1.7%	6.6%	15.0%	16.2%	-6.9%
Russell 2000	2,328	5.0%	5.2%	11.5%	16.9%	-20.5%
S&P/TSX	27,993	0.8%	15.1%	21.7%	11.8%	-5.8%
MSCI EAFE	9,922	1.7%	22.8%	3.8%	18.2%	-14.5%
MSCI EM	693	1.9%	20.8%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.4%	4.8%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.3%	4.3%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.6%	5.4%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.3%	5.7%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.1%	2.9%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		-0.1%	0.7%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		-0.1%	0.3%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		-0.1%	2.5%	6.9%	8.2%	-9.5%
Government Bond Yields						
	8/13/2025 Level	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.24%	4.38%	4.23%	4.6%	3.88%	3.88%
Canada 10-Year Government	3.40%	3.46%	3.27%	3.2%	3.11%	3.30%
U.K. 10-Year Gilt	4.59%	4.57%	4.49%	4.6%	3.53%	3.66%
German 10-Year Bund	2.68%	2.69%	2.61%	2.4%	2.02%	2.57%
Japan 10-Year Government	1.51%	1.55%	1.43%	1.1%	0.61%	0.41%
Currencies & Real Assets						
	8/13/2025 Level	WTD	YTD	2024	2023	2022
USD Index	97.84	-0.3%	-9.8%	7.1%	-2.1%	8.2%
CAD:USD	\$0.73	0.0%	4.5%	-7.9%	2.3%	-6.7%
Bitcoin	\$122,951.91	5.2%	31.2%	120.5%	157.0%	-64.3%
Gold	\$3,355.86	-1.2%	27.9%	27.2%	13.1%	-0.3%
Oil (WTI)	\$62.65	-1.9%	-12.6%	0.1%	-10.7%	6.7%

*\*Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.*



## Index Definitions

### Equity indices

**S&P 500® Index** is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

**NASDAQ Composite Index** is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

**Dow Jones Industrial Average ("DOW")** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

**Russell 2000® Index** (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

**S&P/TSX Index** is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada's primary stock exchange, the Toronto Stock Exchange (TSX).

**MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index)** is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

**MSCI Emerging Markets Index** is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

### Fixed income indices

**Bloomberg U.S. Aggregate Bond Index** is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

**Bloomberg U.S. Treasury Index** is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

**Bloomberg U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

**Bloomberg U.S. Corporate High Yield Index** is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+ or below.

**Bloomberg 1-10 Year Blend Municipal Bond Index** is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

**Bloomberg Canada Aggregate Bond Index** measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

**Bloomberg Canada Aggregate Bond Index - Treasury** is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

**Bloomberg Canada Aggregate Bond Index - Corporate** is the Corporate sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.



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<sup>i</sup> Stock Exchanges Around the World

<sup>ii</sup> The stock market is shrinking and Jamie Dimon is worried | CNN Business

<sup>iii</sup> Where Did All the Public Companies Go? | Tuck School of Business

<sup>iv</sup> (It's important to note that the decline in the number of publicly held companies does not correlate to a lack of business formation. According to U.S. Census Bureau data, over 4.7 million business were started each of the past five years). How Many New Businesses Start Each Year? (2025 Data) Nor does it relate to total market cap which has, in fact, grown substantially over that time period.

<sup>v</sup> Mega-cap tech companies lead the markets higher

<sup>vi</sup> Global M&A industry trends: 2025 mid-year outlook | PwC

<sup>vii</sup> PitchBook

<sup>viii</sup> Top companies that make up this cohort are SpaceX (\$400B), OpenAI (\$300B), Anthropic (\$170B), Stripe (\$91.5B), Databricks (\$62B) and xAI (\$50B). The current mix of companies skews towards AI native companies with some companies like Stripe, Epic Games, Anduril and Canva representing winners of the pre-AI generation. Most of these pre-AI companies have found ways to leverage AI in their offerings to make them AI compatible/enabled.

<sup>ix</sup> IPO Statistics and Charts

<sup>x</sup> ICI retirement Assets Q12025