Global

Strategy

Asset Allocation

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Strategy Update

Is The Surge In Capex Crowding Out Buybacks?

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- *A surge in capital spending is sparking concerns along several dimensions. One that is key to our outlook for equities is whether the capex will crowd out buybacks, the largest component of our demand-supply framework and a significant driver of equity returns.*
- *Capex is clearly surging but has been driven by a very narrow group of big spenders. They are indeed slashing buybacks as well as raising additional capital. But offsetting that, companies whose earnings benefit directly from this capex are raising their buybacks, as is the rest of the S&P 500 which accounts for the bulk of earnings and buybacks. Indeed, S&P 500 net buybacks rose to a record in Q1, in keeping with record earnings, their most important driver.*
- *What about the massive IPO issuance wave? It will shrink buybacks net of issuance in half. In the context of our demand-supply framework, in isolation, this would no doubt be a drag on S&P 500 returns. But crucially, such waves do not happen in isolation. They are typically accompanied by solid market returns and occur during periods of strong equity demand, as is the case currently in our reading.*

From concerns about not enough capex to there being too much of it

A surge in capital spending is sparking concerns along several dimensions. One that is key to our outlook for equities is whether the capex will crowd out buybacks, the largest component of our demand-supply framework and a significant driver of equity returns. A variety of myths about buybacks have persisted over the years. 10 years ago, we discussed such concerns about buybacks in the context of capex, though the prevailing fear at the time was exactly the opposite—that rising buybacks were crowding out capex and hurting growth (Buybacks: Myths, Realities and the Outlook, Jan 2016).

Capex is clearly surging but has been driven by a narrow group of big spenders …

Over the last two years, S&P 500 capex has surged from an annualized pace of about $1 trillion to around $1.5 trillion (23% annualized rate), easily outpacing the historical trend rate of just under 4% and breaking well above its long-run trend channel. But just 5 hyperscalers (AMZN, MSFT, GOOGL, META and ORCL) are responsible for 2/3rd of this increase. That is, the increase in their capex is more than twice as much as that of the other 495 companies combined. Their capex has tripled in the last 2 years, and the bottom-up consensus expects them to raise it another 77% this year (Q4/Q4) and by 13% next year. From about 20% of total S&P 500 capex 2 years ago, they are now at 40% and expected to be at 50% by next year.

… who are indeed slashing buybacks as well as raising additional capital

Hyperscaler earnings (EBITDA) have grown strongly at an annualized rate of 24% over the last 2 years but clearly not as rapidly as their capex has. In turn, they have slashed their buybacks from a run-rate of around $30bn a quarter to essentially zero. Further, the size of secondary issuance announced recently is huge (Alphabet's issuance $85bn over 2 quarters compares to all of S&P 500 secondary issuance of only $30bn in Q1), and net buybacks, i.e., after subtracting issuance, will turn negative for them, at least temporarily. But with their earnings still rising rapidly and balance sheet leverage very low, hyperscalers have room to finance further increases in capex internally as well as via issuing debt instead of equity.

But companies that benefit directly from hyperscaler capex are raising their buybacks …

The group of companies benefiting directly from the surge in hyperscaler capex, within Tech as well as outside, are seeing outsized EBITDA growth (75% yoy in Q1). In turn, they have also begun raising their net buybacks gradually, from about $15bn a quarter 2 years ago to about $30bn in Q1. But at just 15% of EBITDA currently, they have ample capacity to raise net buybacks significantly.

…as is the rest of the S&P 500 which accounts for the bulk of earnings and buybacks …

Companies that are neither big spenders nor direct beneficiaries are the biggest contributors to EBITDA (69%) as well as buybacks (80%). Their earnings are growing robustly (10% yoy in Q1), though not as fast as those of the other two groups. They have raised their quarterly net buybacks by almost 30% over the last year, from $180bn to $240bn. We expect their buybacks to grow in line with earnings.

… driving net buybacks for the S&P 500 to a record in Q1

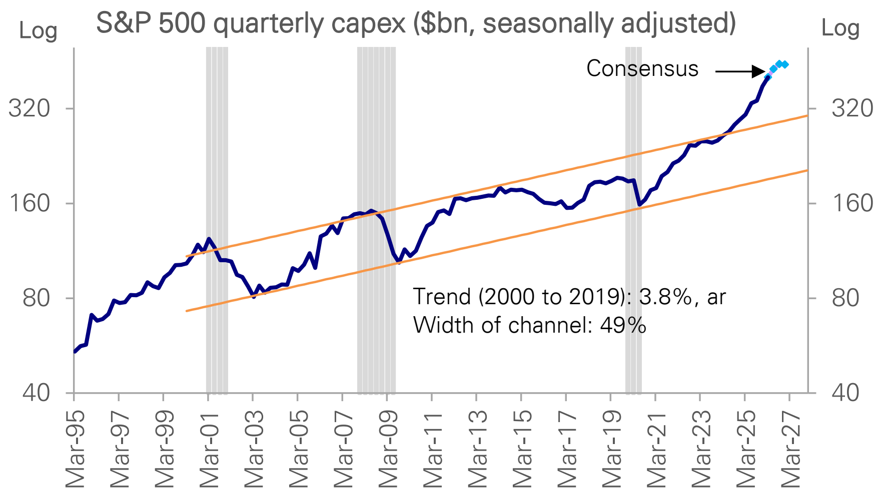
S&P 500 buybacks rose to a record $300bn in Q1 ($1.2 trillion annualized) on a gross basis and to a record $270bn on a net basis. Earnings are the most important driver of buybacks, and record buybacks have kept pace with record earnings. The ratio of S&P 500 net buybacks to earnings is well within its historical range and that to market cap is also within its range, albeit at the lower end of it.

What about the massive IPO issuance wave?

Beyond the increased secondary issuance, IPO issuance has also surged in Q2, running at $125bn so far, compared to just over $20bn on average in the previous 4 quarters. This scale of issuance is likely to sustain with several additional mega IPOs expected. This would certainly shrink overall net buybacks but not eliminate them, cutting them by about half ($160bn a quarter to $75bn). In the context of our demand-supply framework, this jump in issuance in isolation would be a drag on S&P 500 returns of about 5pp-6pp annually.

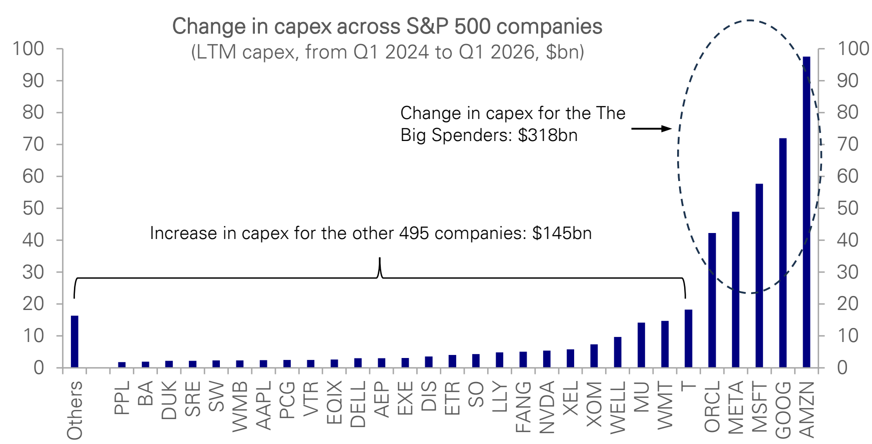
But crucially, such waves do not happen in isolation, as we noted a few weeks ago (Equity Issuance Waves And The Market, May 22 2026). They typically occur in periods with strong equity demand and are accompanied by strong market returns, i.e, the increase in supply is endogenous to strong demand for equities. In our reading, this is also the case currently with inflows into US equities booming, and the capacity as well as the fundamental backdrop for further inflows remaining very supportive. In terms of the capacity, households have accumulated a lot of cash on their balance sheet, freeing them up to allocate a disproportionate part of their new savings to equities, while from a fundamental perspective, the biggest driver of strong inflows is strong earnings growth.

Figure 1: S&P 500 capex has soared over the last 2 years, rising at an annualized pace of 23% taking it well above its historical trend channel



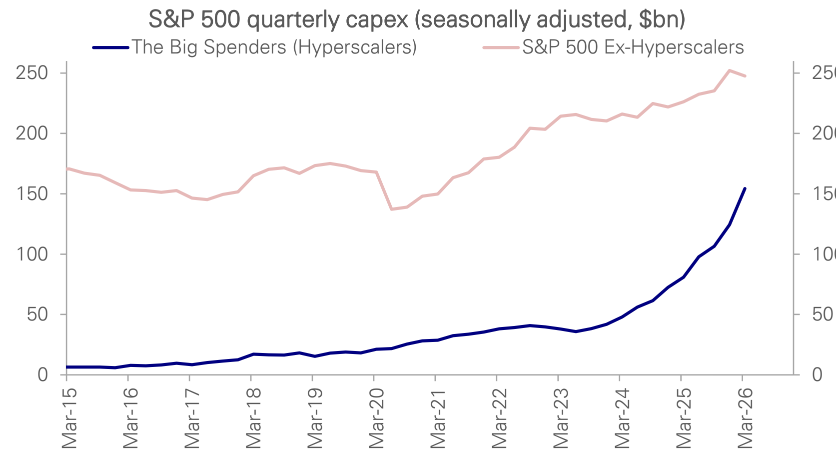
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 2: The surge in capex is driven by a very narrow group of companies



Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

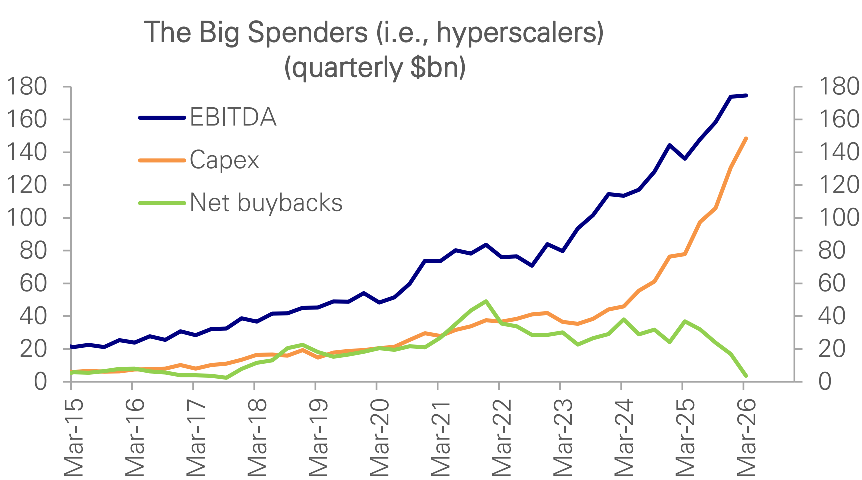
Figure 3: The hyperscalers are driving the rapid increase in capex, while that for the rest of the S&P 500 is growing gradually



Hyperscalers: AMZN, GOOG, MSFT, META and ORCL

Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

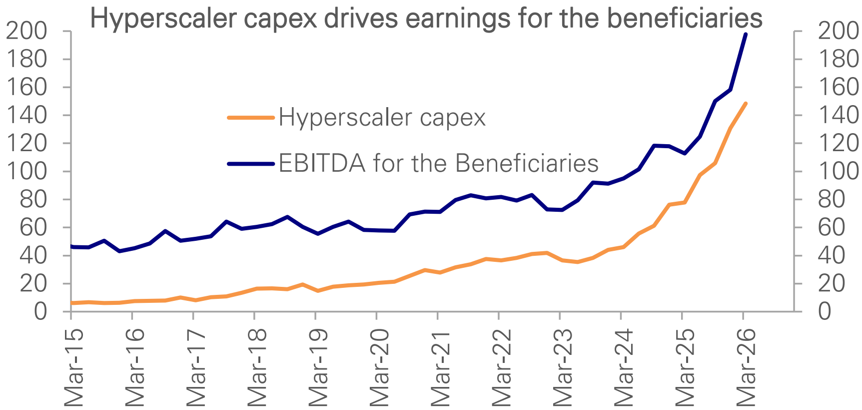
Figure 4: For the hyperscalers, capex is indeed surging much faster than their earnings are and they are slashing their buybacks



Hyperscalers: AMZN, GOOG, MSFT, META and ORCL

Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 5: But the hyperscaler spending is directly fueling the earnings of a group of beneficiaries

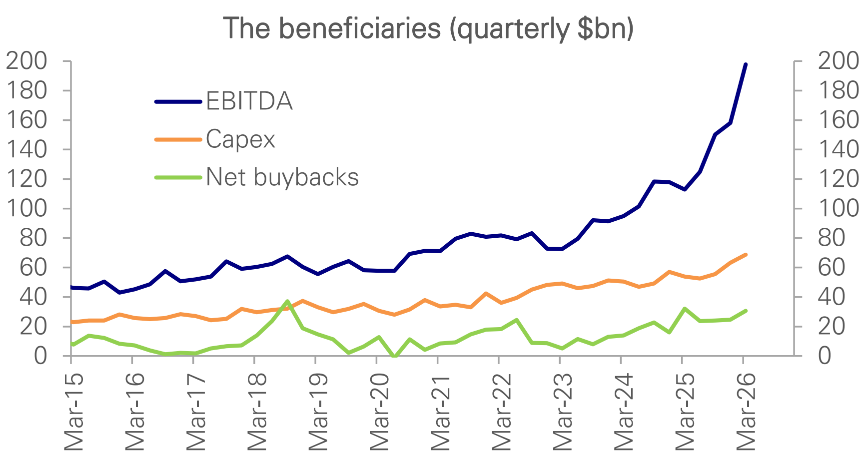


Hyperscalers AMZN, GOOG, MSFT, META and ORCL

Beneficiaries: Semis, Tech H/W & Equip., Construction & Engg., Electrical Equip., Electric Utilities, Independent Power Producers and Data Center REITs

Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

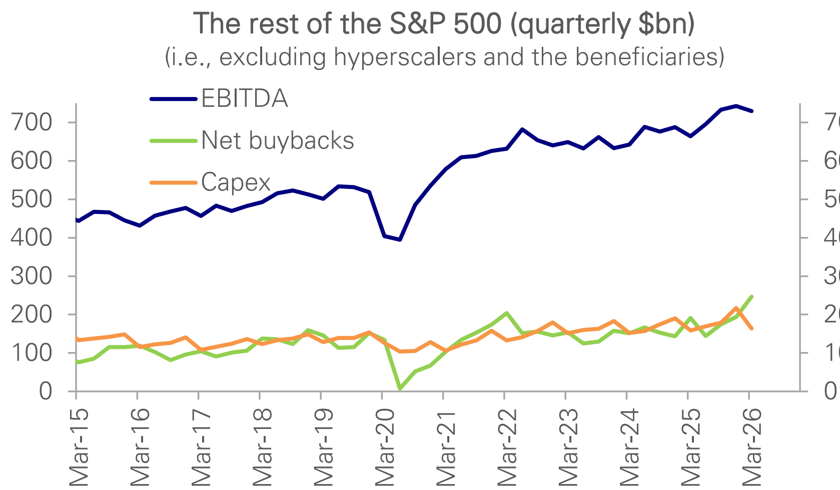
Figure 6: These beneficiaries are seeing their earnings rise rapidly and they are gradually raising their buybacks



Beneficiaries: Semis, Tech H/W & Equip., Construction & Engg., Electrical Equip., Electric Utilities, Independent Power Producers and Data Center REITs

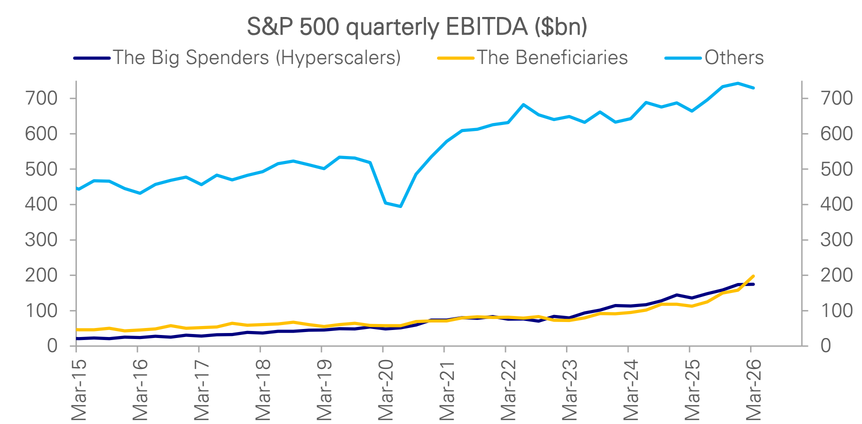
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 7: Buybacks are also growing strongly for the rest of the S&P 500, i.e., those who are neither big spenders nor their direct beneficiaries



Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 8: Companies outside the hyperscalers and the beneficiaries comprise the bulk of earnings …

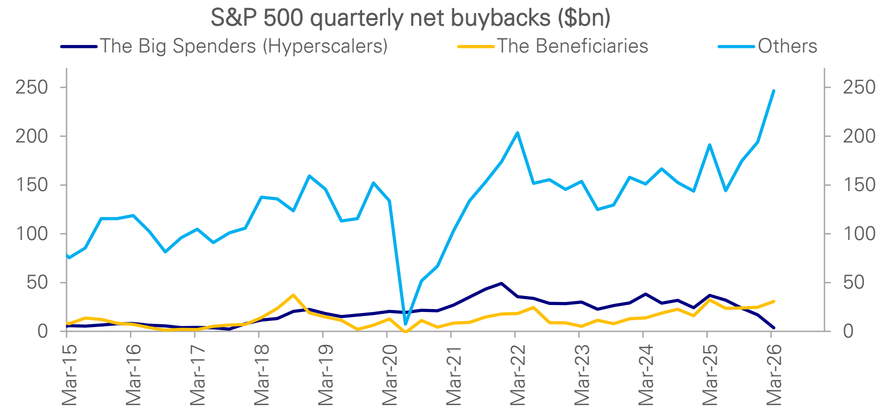


Hyperscalers: AMZN, GOOG, MSFT, META and ORCL

Beneficiaries: Semis, Tech H/W & Equip., Construction & Engg., Electrical Equip., Electric Utilities, Independent Power Producers and Data Center REITs

Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 9: … and buybacks

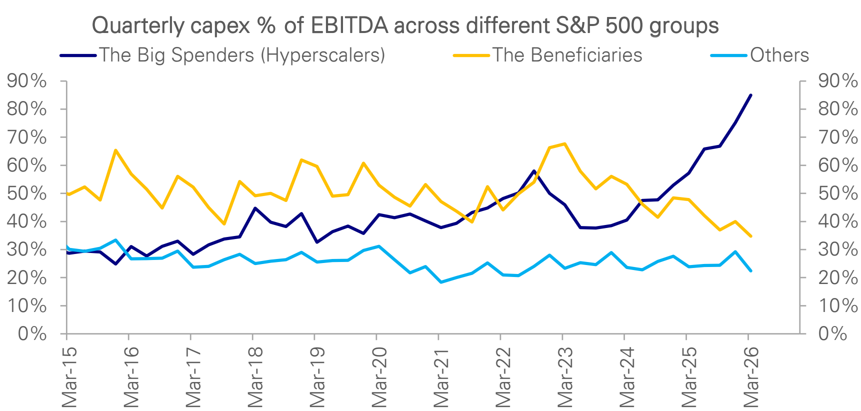


Hyperscalers: AMZN, GOOG, MSFT, META and ORCL

Beneficiaries: Semis, Tech H/W & Equip., Construction & Engg., Electrical Equip., Electric Utilities, Independent Power Producers and Data Center REITs

Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 10: Relative to earnings, capex is very high and surging for the hyperscalers, but for the other groups it is modest and even declining

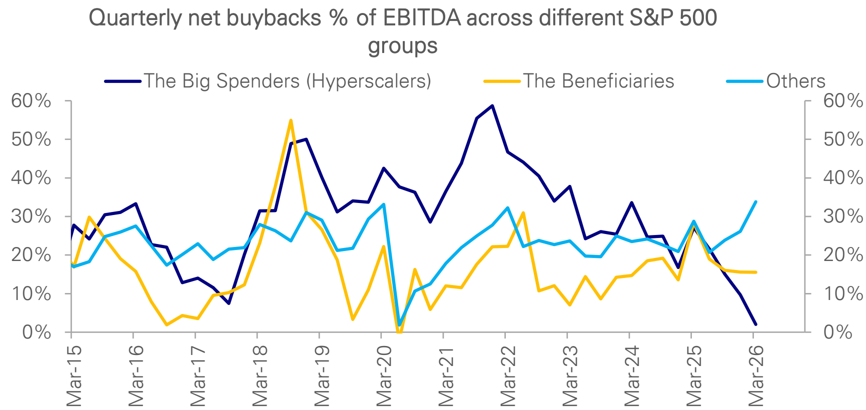


Hyperscalers: AMZN, GOOG, MSFT, META and ORCL

Beneficiaries: Semis, Tech H/W & Equip., Construction & Engg., Electrical Equip., Electric Utilities, Independent Power Producers and Data Center REITs

Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

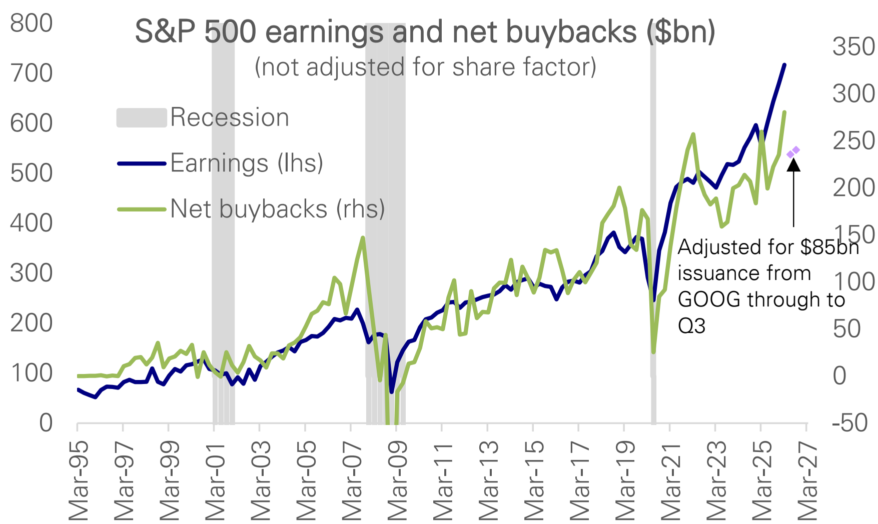
Figure 11: Net buybacks as a proportion of earnings are falling sharply for the hyperscalers but are going sideways for the other groups, and the beneficiaries especially have ample capacity to raise them



Hyperscalers: AMZN, GOOG, MSFT, META and ORCL
Beneficiaries: Semis, Tech H/W & Equip., Construction & Engg., Electrical Equip., Electric Utilities, Independent Power Producers and Data Center REITs

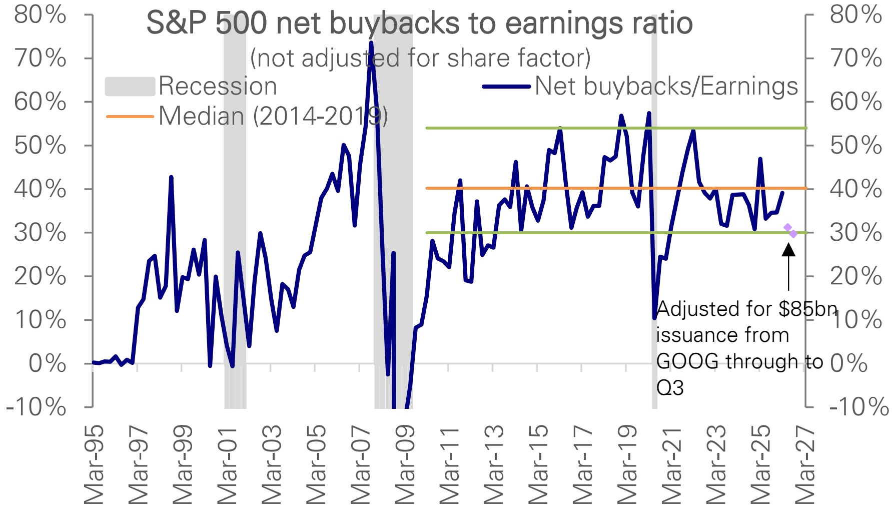
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 12: In total for the S&P 500, net buybacks rose to a record in Q1, driven by record earnings



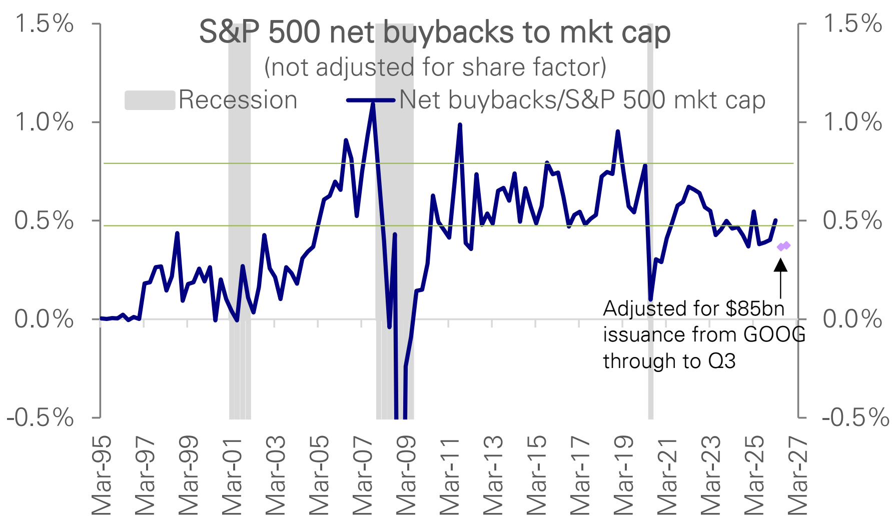
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 13: The ratio of buybacks to earnings is well within its historical range



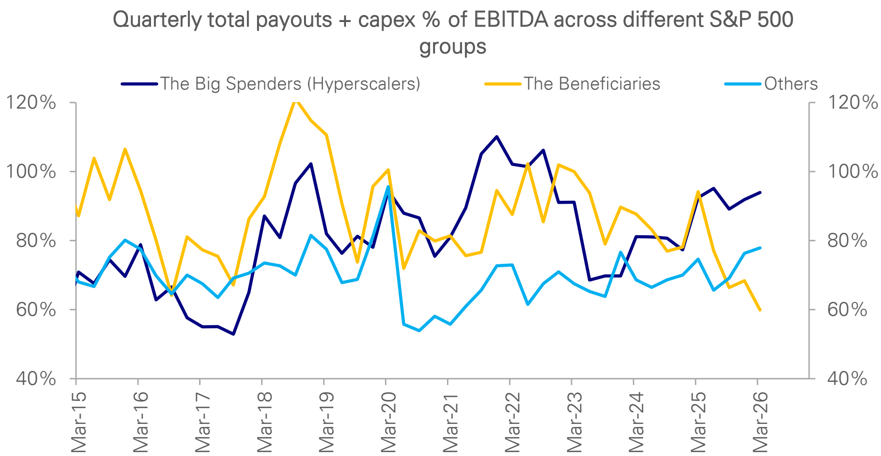
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 14: As a proportion of market cap, net buybacks are within the historical range but at the bottom end of it



Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

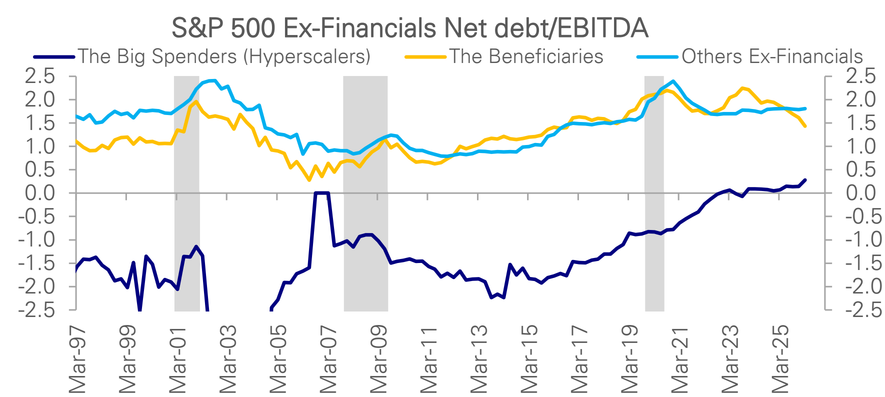
Figure 15: Capex and payouts as a proportion of earnings for the 3 groups



Hyperscalers: AMZN, GOOG, MSFT, META and ORCL

Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 16: Balance sheet leverage for the hyperscalers is still very low, affording them capacity to issue more debt

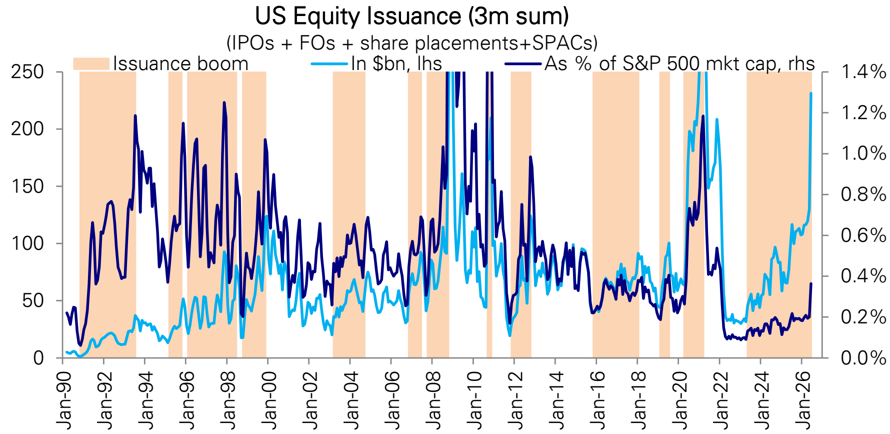


Hyperscalers: AMZN, GOOG, MSFT, META and ORCL

Beneficiaries: Semis, Tech H/W & Equip., Construction & Engg., Electrical Equip., Electric Utilities, Independent Power Producers and Data Center REITs

Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

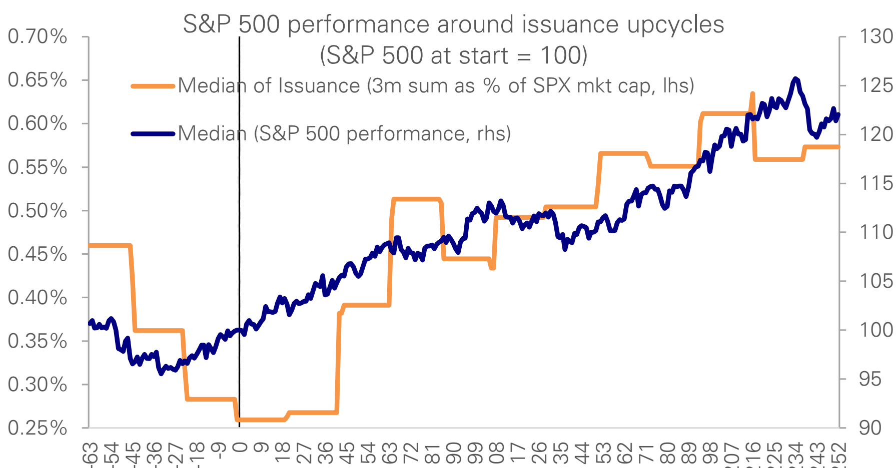
Figure 17: Equity issuance is in a strong up wave



*MTD issuance in June 2026

Source : Dealogic, Haver Analytics, Deutsche Bank Asset Allocation

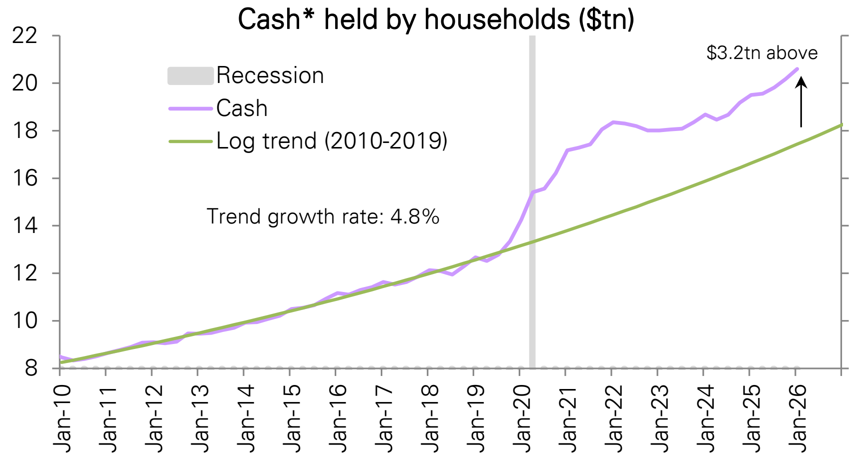
Figure 18: In past issuance waves, equity returns were very strong, as these typically occur during a period of and in response to strong demand for equities



Trading days around the start of issuance upcycles

Source : Dealogic, Haver Analytics, Deutsche Bank Asset Allocation

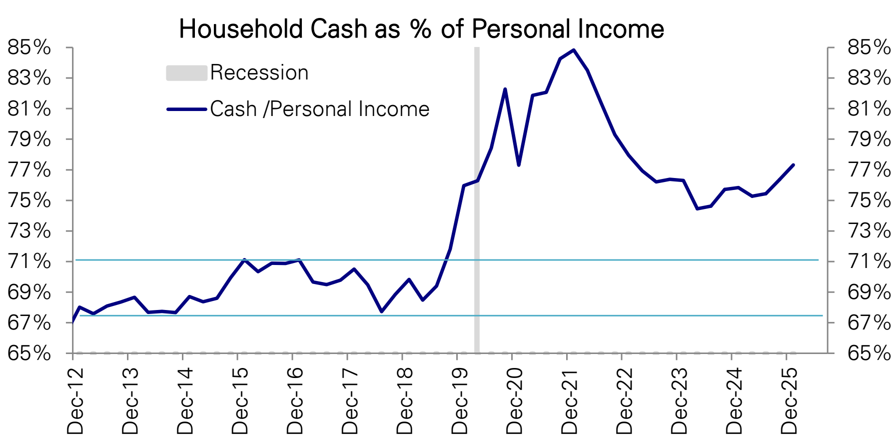
Figure 19: Households have accumulated a lot of cash …



*Time & savings deposits + Checkable deposits & currency + MM funds + Other deposits

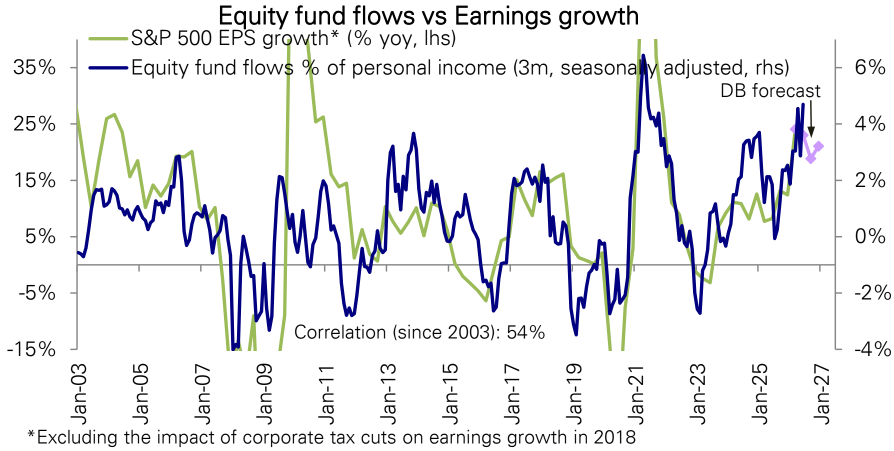
Source : FRB, Haver Analytics, Deutsche Bank Asset Allocation

Figure 20: … which allows them to allocate a disproportionate amount of new savings to financial assets like equities



Source : FRB, BEA, Haver Analytics, Deutsche Bank Asset Allocation

Figure 21: The fundamental backdrop for equity inflows also remains very favorable on the back of strong earnings growth



Source : EPFR Global, BEA, Bloomberg Finance LP, Deutsche Bank Asset Allocation