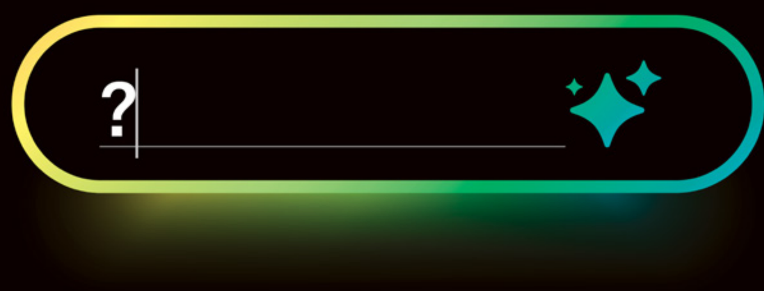
TD Asset Management

Investor Knowledge 10 Minutes

From AI Hype to IPO Frenzy:

What Investors Need to Know



Kevin Hebner, PhD
Managing Director, Global Portfolio Management, TD Epoch

Artificial intelligence (AI) is driving one of the biggest investment booms in modern history. Technology giants are spending hundreds of billions of dollars building AI infrastructure, while venture capital (VC) firms continue funding a growing pipeline of innovative startups.[1] For investors, this raises an important question: Are we witnessing the creation of tomorrow's market leaders, or the early stages of an investment bubble?

History suggests the answer may be both.

Major technological breakthroughs, from railways and electricity to the internet, have typically followed a similar pattern. They spark massive investment, fuel the creation of thousands of new companies, generate enormous excitement, and eventually experience periods of both breakthrough success and painful setbacks.[1] AI appears to be following a familiar script. The challenge for investors is identifying the opportunities while avoiding the inevitable disappointments.

[1] Alasdair Nairn, Engines That Move Markets: Technology Investing from Railroads to the Internet and Beyond, 2001.

Why AI Is Creating a New Investment Boom

AI is often described as a general-purpose technology (GPT), meaning it has the potential to transform multiple industries and reshape entire economies.[2] Previous GPTs included the steam engine, electricity and the internet. These technologies didn't simply create new products; they changed how businesses operated and how societies functioned.[1] AI appears poised to have a similar impact.

Businesses are already using AI to improve productivity, automate routine tasks, enhance customer service, accelerate research and support decision-making.[3] But before those benefits can be fully realized, enormous investments are required. Technology companies are spending unprecedented amounts on data centres, specialized computer chips, software development and digital infrastructure. Major technology firms including Microsoft, Amazon, Meta and Alphabet have significantly increased capital expenditures to compete in the AI race.[3]

Every major technology wave follows a familiar pattern. AI could be next.

	Railways 1800s	**Electricity** 1900s	**Internet** 1990s	**AI** 2020s+
Investment	Massive infrastructure spending	Power grid buildout	Network expansion	AI infrastructure boom
Excitement	Connected economies	Electrified world	Digital future	AI transformation
New Companies	Railway operators	Utility companies	Dot-com startups	AI startups
Winners	Industry leaders emerged	Essential infrastructure providers	Amazon, Google, Microsoft	Future market leaders
Losers	Speculation failed	Competition intensified	Dot-com bust	Not all AI firms will succeed

The technology may win. Not every company will.

For illustrative purposes only.

This spending surge is creating opportunities far beyond the technology sector. Semiconductor manufacturers, infrastructure providers, utilities, industrial companies and software developers are all benefiting from growing demand for AI-related products and services.[9]

For investors, this highlights an important point: AI is not just a technology story, it is an economic and investment story that touches many sectors.

The Rise of the Unicorns

One of the clearest signs of the AI boom is the rapid growth of so-called “unicorns” which are categorized as private companies valued at more than US$1 billion. A decade ago, unicorns were relatively rare. Today, there are more than 2,000 worldwide.[3] Many of these companies operate in areas directly linked to artificial intelligence, including:

- Advanced AI models
- Business software applications
- Robotics
- Autonomous vehicles
- Aerospace and space technology
- Data infrastructure

Many of the world’s most closely watched private companies now fall into one of these categories.[3,4] Because technology companies are remaining private for longer than they did in previous decades, many individual investors have been unable to participate in their early growth stages.[4] That could soon change. As these firms seek additional capital to fund expansion, many are expected to pursue initial public offerings (IPOs), giving public-market investors new opportunities to participate.[3,5]

This potential wave of public offerings could become one of the defining market themes of the next several years.

Why So Many Companies Are Going Public

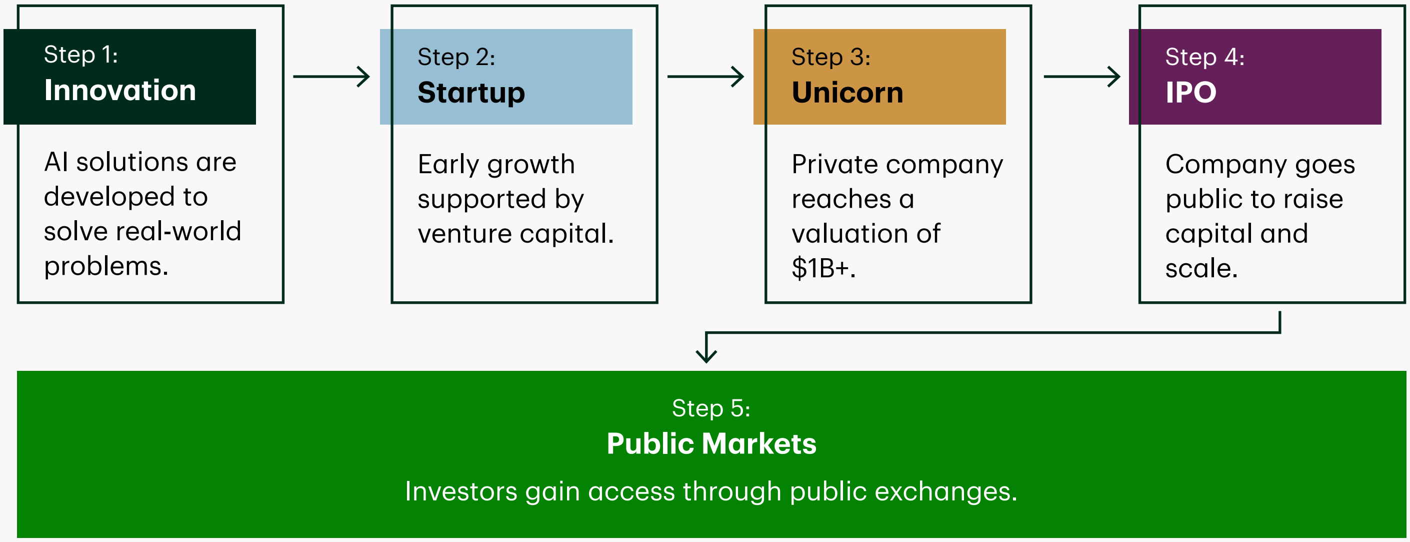
Going public provides companies with access to a much larger pool of capital. Building AI platforms, data centres and next-generation technologies requires substantial funding. For many private companies, public markets offer the resources needed to continue scaling their businesses. At the same time, existing investors, including VC firms and company founders, often use IPOs as an opportunity to realize part of the value they have created over many years.

Several highly anticipated AI-related companies are widely expected to explore public listings over the coming years.[3,5] The result could be one of the largest periods of equity issuance in recent history.[3,6] This matters because the supply of publicly traded shares can influence market performance. For many years, stock buybacks reduced the number of shares available in the market. This shrinking supply was generally supportive for stock prices.[6]

Today, that backdrop is beginning to reverse as companies issue more shares to fund growth and expansion. While this is not necessarily negative, it does mean markets may need to absorb significantly more supply than they have in recent years.

From AI Startup to Public Market Opportunity

How AI innovation may become an investment opportunity



For illustrative purposes only.

What History Says About IPO Investing

IPO investing often generates tremendous excitement. The opportunity to invest in a fast-growing company at the beginning of its public-market journey can be appealing. Some of today's most successful companies delivered exceptional returns after going public. However, history also shows that IPO investing can be unpredictable.

The biggest headline stories often attract the most attention, but outcomes can vary dramatically.

Research examining decades of IPO performance suggests several important lessons:[7]

Bigger companies tend to perform better — Historically, larger companies with established revenues and proven business models have generated stronger long-term returns than smaller and more speculative businesses.[7]

Technology companies have often outperformed — Technology-related IPOs have historically delivered stronger returns than many companies in other sectors, reflecting their higher growth potential.[7]

Venture-capital-backed firms have frequently excelled — Companies supported by experienced VC investors have tended to perform better, on average, than those without venture-capital backing.[7]

One of the most important lessons for investors is that even great companies can become poor investments if purchased at excessive valuations. Research suggests that IPOs launched at very high valuation multiples have often struggled to generate strong long-term returns.[7]

> **When expectations become overly optimistic, companies must execute nearly flawlessly to justify their share prices.**

This is especially relevant today, as enthusiasm surrounding AI has pushed higher valuations across parts of the technology sector.

The Biggest Risk: When Expectations Run Too Far

Every major technological revolution creates winners. Unfortunately, every major technological revolution also creates periods of excessive optimism. Investors experienced this during the railway boom, the telecommunications expansion era and the dot-com boom of the late 1990s.[1,8]

Importantly, long-term technological success does not guarantee short-term investment success. The internet transformed the global economy, but many internet-related stocks still experienced significant declines when valuations became disconnected from underlying business fundamentals.[8] AI could follow a similar path.

The technology itself may continue advancing rapidly and generating substantial economic value over the coming decade. Yet some companies may fail to justify the lofty expectations currently reflected in their share prices. Investors should remember that stock prices reflect future expectations, not just current excitement. When expectations become too ambitious, even strong business results can disappoint the market.

Where the Opportunities May Be

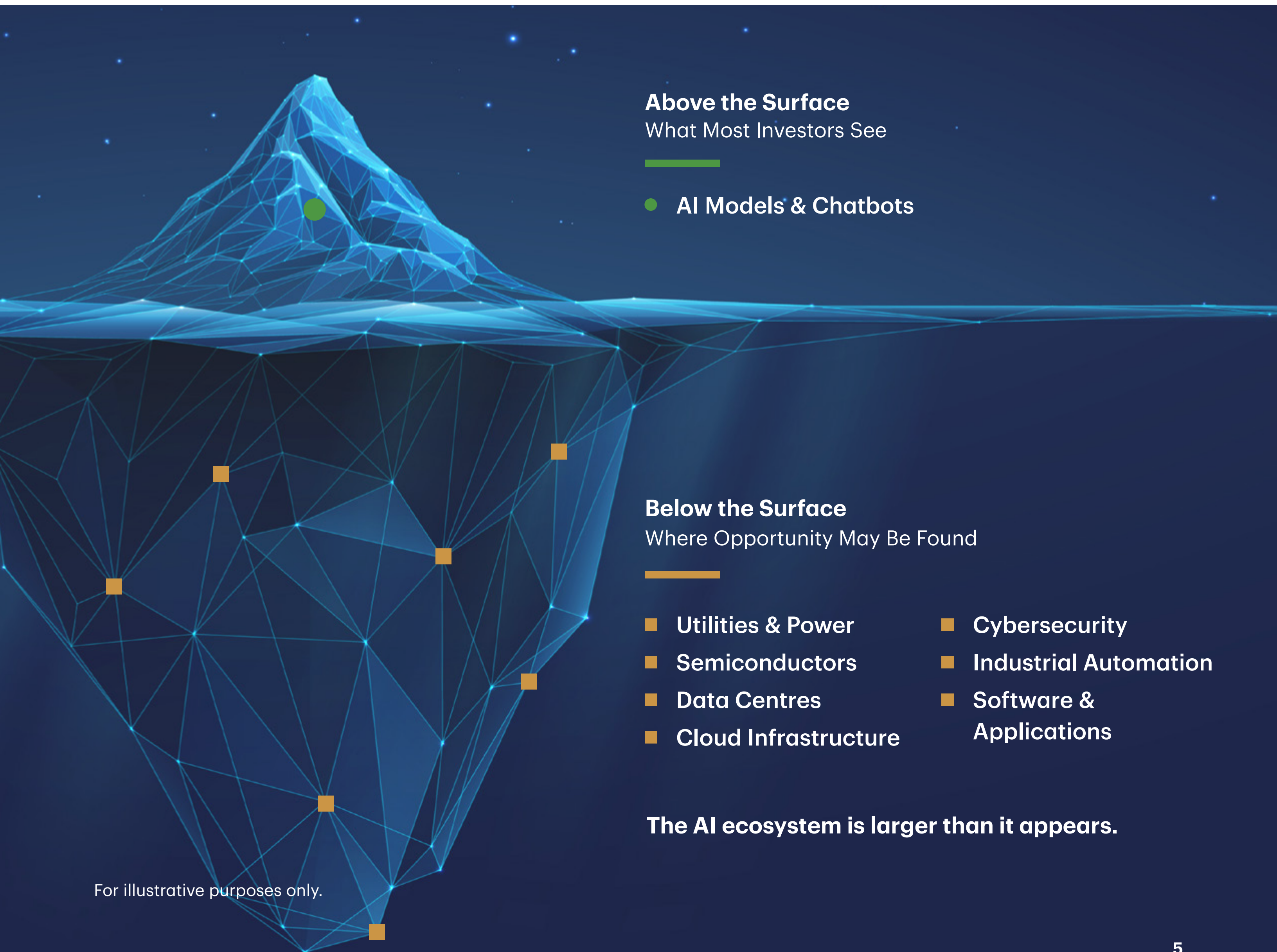
While much attention focuses on the largest AI companies, investors may benefit from taking a broader perspective. Rather than concentrating exclusively on a handful of headline names, opportunities may exist throughout the AI ecosystem.[9] Potential beneficiaries include:

- Semiconductor and chip manufacturers
- Data centre operators
- Electrical equipment providers
- Utilities supporting higher power demand
- Software companies integrating AI capabilities
- Cybersecurity firms
- Industrial automation businesses
- Infrastructure providers

A diversified approach may provide exposure to AI's long-term growth potential while reducing reliance on any single company or technology. This is particularly important because predicting future winners remains difficult, even for professional investors. Many of tomorrow's industry leaders may not yet be household names.

Find the AI Opportunity

AI opportunities extend far beyond AI models.



For illustrative purposes only.

Investment Implications: What Should Investors Do?

1 Don't confuse a great technology with a great investment

AI appears poised to reshape large parts of the economy. However, that does not mean every AI-related company will become a successful investment. Focus on fundamentals such as revenue growth, profitability, competitive advantages and valuation, not just headlines.

2 Expect more volatility

A large wave of IPOs, combined with elevated investor enthusiasm, could contribute to market swings over the coming years.[3,6] Periods of excitement may be followed by periods of disappointment as markets reassess expectations. Investors should be prepared for both.

3 Diversification remains essential

History shows that technological revolutions often create a small number of exceptional winners alongside many companies that fail to meet expectations.[1,8] Building diversified portfolios across sectors, industries and asset classes can help manage this uncertainty.

4 Look beyond the obvious names

Some of the most attractive opportunities may be found in businesses providing the infrastructure that enables AI, rather than only in the companies building the AI models themselves.[9] The broader ecosystem may offer multiple ways to participate in the AI theme.

5 Stay invested and think long term

Perhaps the most important lesson from previous technological revolutions is that timing market peaks and troughs is extremely difficult.[1] Investors who maintained disciplined, long-term investment plans generally benefited from the lasting economic impact of transformative technologies, even when short-term volatility was significant.

The Bottom Line

AI is fueling one of the largest investment cycles in decades. Massive spending, rapid innovation and a growing IPO pipeline are creating exciting opportunities for investors.[3] But history suggests that transformative technologies rarely follow a straight path. Periods of enthusiasm can push valuations to elevated levels, and not every company will live up to expectations.[1,8]

For investors, the opportunity is not necessarily to chase every new IPO or AI headline. Instead, it may be to focus on diversification, maintain a long-term perspective and participate thoughtfully in what could become one of the defining investment themes of the next decade. The AI revolution may create tomorrow's market leaders, but successful investing will still require patience, discipline and a healthy respect for risk. ■

Connect with TD Asset Management

[1] Alasdair Nairn, Engines That Move Markets: Technology Investing from Railroads to the Internet and Beyond, 2001.
[2] Bresnahan, Timothy F. and Trajtenberg, Manuel, General Purpose Technologies: Engines of Growth?, Journal of Econometrics, Vol. 65, 1995.
[3] Bloomberg Finance L.P. Data as of July 17, 2026.
[4] PitchBook Data, 2026.
[5] Polymarket prediction market data, July 2026.
[6] Federal Reserve Board, Financial Accounts of the United States; U.S. Net Equity Issuance Data.
[7] Jay R. Ritter, Initial Public Offerings: Updated Statistics, Warrington College of Business, University of Florida, July 7, 2026.
[8] Charles Kindleberger and Robert Aliber, Manias, Panics and Crashes: A History of Financial Crises.
[9] McKinsey Global Institute, The Economic Potential of Generative AI, 2023; International Energy Agency, Electricity and Data Centre Demand Research.

(0826)