WEEKLY STRATEGY

# Perspectives

BMO Private Wealth

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# Regime Change Part II: The Evolution of Capital Markets

*"Using the outlook for the economy to predict the direction of the stock market, which most appear to do, has it exactly backward. The stock market's behavior will predict the economy's future behavior."*

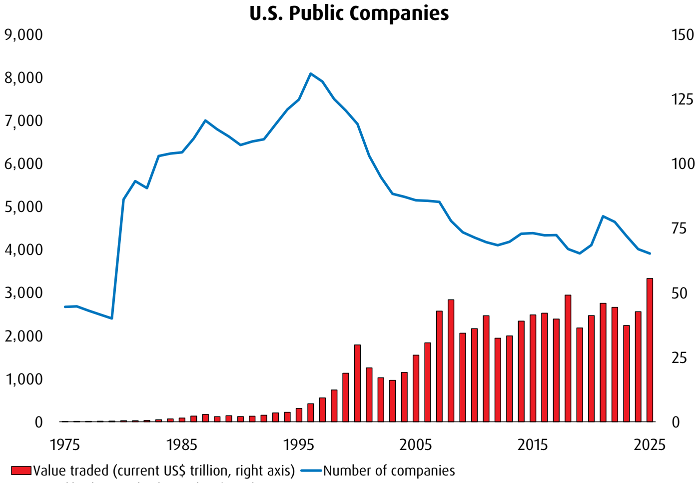
- Bill Miller, billionaire investor and fund manager

**The Through Line:** Last week, we began an exploration of secular shifts that are influencing key macroeconomic variables such as inflation and interest rates (Regime Change Part I). This week, we delve into the many ways the stock and bond markets have evolved to provide enhanced breadth, depth and adaptability for an ever-widening circle of participants.

## Equities: a new make and model

Today's stock markets bear only a passing resemblance to those that existed 20, 30 or 40 years ago. Daily trading volume is substantially higher – even though the number of publicly held companies peaked nearly 30 years ago (chart).

**U.S. Public Companies**




Source: World Federation of Exchanges (2026), as of 2025

Ownership has changed from a largely institutional base (predominantly pension funds, endowments and charitable foundations) to a list of holders that includes more than 50% of U.S. households, thousands of family offices and substantial mutual fund and alternative asset managers on behalf of a multi-trillion-dollar retirement market.

The differences matter when we're considering what lessons prior periods do (or do not) hold for today. It's like comparing the attributes of a 1970s or 1980s automobile to the precision engineering of a current model. While they technically do similar things, the speed, handling and maintenance metrics of today's supercomputers on wheels are significantly more complex and sophisticated.

### New tools

- Advances in technology, regulation and providers have facilitated expanded ways to participate in equity markets. There are now more exchange-traded funds (traditionally, a pool of securities trading as a single entity on a stock exchange), for example, than individual securities. Many of the first ETFs were created to facilitate investment in underlying indexes such as SPY (SPDR S&P 500 ETF Trust), EFA (MSCI EAFE ETF) or EMM (Global X Emerging Markets ex-China ETF). The largest ETFs each have total net assets near one trillion dollars.[i] These investment pools matter when it comes to individual securities that are added or withdrawn from indexes.
- More recent innovations have created actively managed ETFs that track sectors or themes; still others facilitate leveraged investment in a single security. It would be tempting to think such finely tuned slicing and dicing doesn't matter. But, depending upon the security and its representation in a given index, the leveraged nature can truly move the needle. *A 2X levered ETF based on South Korean chip manufacturer SK Hynix, for example, declined 20% in a single day earlier this month, which ultimately caused a 2% hit to the entire MSCI Emerging Market Index.*

### Expanded investor base

- Public equity ownership is the highest on record and could well move higher still. Younger generations (Gen Z and even Gen Alpha that come behind them) own more stock than prior generations did at similar ages.[ii] Contributing factors could be a combination of many things: pandemic-era stimulus checks; the influence of social media; auto-enroll retirement plans for new employees; and/or the search for a way to build generational wealth (for those shut out of the housing market). In the U.S., the July 4 launch of "Trump Accounts" (a new investment program for all babies born from 2025 on) could further engage additional cohorts. Theoretically, this creates a wide pool of investor demand for markets to draw from, though different age ranges, risk appetites and tolerance of activity can make for emotional trading – especially over short time frames and when feelings are running high in either direction.

- Governments in both the U.S. and Canada are also launching new experiments in industrial policy. In the U.S., for example, a grant to Intel under the Biden-era CHIPs act was converted to a 10% equity stake, while the Department of Commerce and Department of Energy have done additional direct investments in more than two dozen public and private companies in rare earths, quantum computing and semiconductor manufacturing. This creates another pool of potential buyers – although one that may be intent upon putting a thumb on the scale to benefit specific investments.

**Shifting supply/demand dynamics**

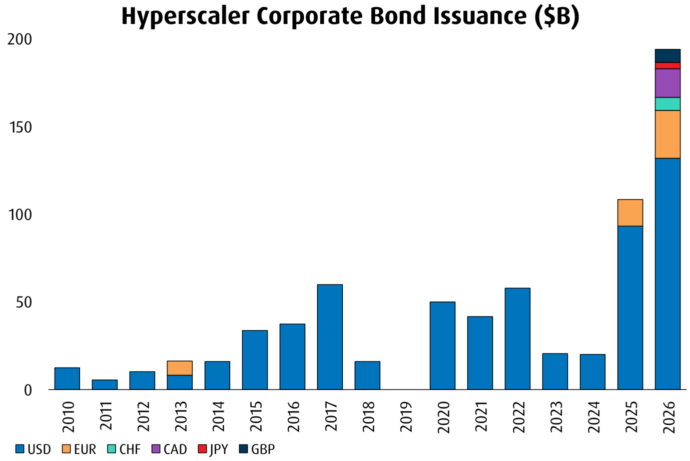
- Investment bankers have been waiting *for years* for the revival of the long-stymied Initial Public Offering (IPO) market. Tens of thousands of seasoned candidates lurk in private capital portfolios[iii] anticipating the beginning of the wave after several false starts. With markets nearing new highs, once again fingers were crossed that 2026 might be THE YEAR, especially with the "all things AI" trade firmly in hand. Investors eagerly absorbed an $85 billion Alphabet secondary offering and SpaceX's similarly sized IPO. An additional $28 billion for SK Hynix's U.S. ADR (American Depository Receipt) shares was also oversubscribed.
- Some pundits initially feared markets would struggle to accept that level of newly minted shares, perhaps forgetting that buybacks and Mergers & Acquisitions (M&A) retire approximately $1 trillion worth each year. In addition, insiders freshly liquid from the flood of IPOs can create fresh capital looking for reinvestment opportunities.
- M&A is running at record levels in the first six months of 2026, even though the aggregate deal count is down. Another interesting tidbit according to a recent Bloomberg article notes that only 24% of the deals have emanated from venture portfolios versus 34% that came from that source last year.[iv] *This suggests that large companies are deploying strategic repositioning to gear up for a resilient future.*

## Fixed income in focus

We know from prior examples that bond investors play a key feedback role in communicating displeasure when they disagree with the monetary/fiscal policy moves of central bankers and legislators. Fixed income markets have handled the multiple crosscurrents of the last few years with grace and patience, despite a number of macro factors that could have been troublesome. Many of the same influences (new buyers, new sellers, new vehicles) have impacted the credit markets, giving investors a lot to parse.
For example:

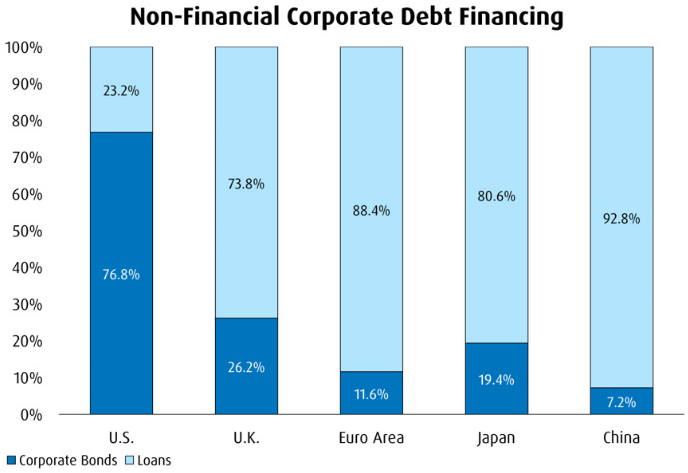
- Mounting deficits for many developed countries (exacerbated by increased interest rates that by default raise servicing costs) and promises to increase defense spending and/or cut taxes prompt continued high levels of sovereign bond issuance.
- On the flip side, many central banks are working to reduce the size of their balance sheets. This decreases demand from what has historically been relatively sturdy-hands buyers, forcing other parties (who may or may not be as patient) onto the scene. This also tends to nudge structural interest rates higher since increased yields are needed to attract/retain other investors.
- Record amounts of new investment grade (IG) and high yield (HY) bond issuance – especially in the AI/data center space – have been brought to market in the last six months. Interestingly, initial rounds of hyperscaler bonds were four or more times oversubscribed. Later tranches from the same issuer received a less enthusiastic reception and were forced to pay higher yields at longer maturities. Yet another example of keen investor discernment.
- Stiff regulation and bank capital requirements enacted after the Great Financial Crisis pushed many lending activities outside of the traditionally regulated banking system.

**Hyperscaler Corporate Bond Issuance ($B)**




Includes data from Alphabet, Amazon, Meta, Microsoft and Oracle.
Source: Bloomberg L.P. (2026), '2026' reflects YTD as of 7/15/2026.

Simultaneously, the rise of non-bank lenders offers both public and private credit to different corners of the market. On one hand, this helps spread risk and exposure to a variety of different purveyors – theoretically facilitating more custom and flexible loans to a broader audience. On the flip side, **it has been decades since we experienced a lasting economic downturn, meaning much of the innovation of the last two decades is not "battle tested."** Similarly, the more lightly regulated portions of non-bank lending channels can be more opaque, making assessment and price discovery extra challenging.




Source: SIFMA (2025), data excludes financial institutions.

## Implications for investors

Capital markets have evolved in recent years, adding new buyers, sellers, lenders and interested parties. They have weathered repeated challenges – DOGE cuts, tariffs, volatile trade policy, two hot wars, geopolitical tensions and stubborn inflation.

Equities are up solidly year to date, adeptly managing the leadership handoff from narrow (dominated by the Mag 7) to broad. The Russell 2500 (a yardstick for small and mid-sized companies) is up 20% year to date – double the S&P 500's 10% gain. **This macro resilience is facilitated by pullbacks in individual industry segments that allowed for reenergizing reboots. All but one of 25 subsectors, for example, saw pullbacks of at least 10% in the past 12 months. Fourteen of the 25 experienced downdrafts of 15% or more.** Fixed income markets have also handled change well, absorbing record IG and HY issuance in carefully discerning fashion.

New investment vehicles such as leveraged ETFs and private capital offer optionality for investors over the long term – but at the price of potentially exacerbating volatility in the short term. Still, continued evolution of capital markets has allowed markets to absorb and adapt to challenges, creating an accommodative framework for investors.

## Next week in North America

A quieter week after this week's heavy data onslaught. The U.S. Federal Reserve blackout period (no commentary from governors in advance of the upcoming FOMC meeting) starts on July 18. Earnings report season continues. The first of the Mag 7, Tesla, reports on Wednesday.

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| **Monday 7/20:** | **U.S.** Leading economic indicators \| **Canada** CPI |
| **Tuesday 7/21:** | **U.S.** none scheduled \| **Canada** none scheduled |
| **Wednesday 7/22:** | **U.S.** none scheduled \| **Canada** none scheduled |
| **Thursday 7/23:** | **U.S.** Initial jobless claims \| **Canada** Retail sales |
| **Friday 7/24:** | **U.S.** S&P flash services, manufacturing and composite PMIs, New home sales \| **Canada** Bloomberg July economic survey, Industrial and raw materials prices |

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[i] Largest ETFs: Top 100 ETFs By Assets

[ii] Gen Z, Locked Out of Home Buying, Puts Its Money in the Market - WSJ, Gen Z Saving for Retirement Earlier Than Generations Before Them | Investment Company Institute

[iii] Private-Equity Firms Are Sitting on a Nine-Year Backlog - WSJ

[iv] Global M&A Tops $2.5 Trillion After First-Half Deals Surge - Bloomberg