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CIBC GLOBAL ASSET MANAGEMENT

Equity team commentary: AI infrastructure, IPO surge, and geopolitical shifts

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Key takeaways

1. June saw record-setting IPOs, notably SpaceX, and continued strength from AI infrastructure providers. However, supply constraints and shifting capital strategies among hyperscalers are reshaping sector leadership.
2. The resolution between the US and Iran led to the reopening of the Strait of Hormuz, easing oil prices and introducing a new phase of volatility as global supply and inventories adjust.
3. The new Federal Reserve Chair, Kevin Warsh, signaled a hawkish stance with the dot plot shifting higher and inflation creeping up, affecting gold prices and strengthening the USD.
4. Ongoing volatility, driven by AI buildout, energy flows, and monetary policy, highlights compelling opportunities for stock selection and active management to capitalize on emerging trends.

The market consolidated in June after a rebound that started in April stalled out. The modest pullback was driven by a combination of factors, including: fatigue related to the Iran war resolution, Mag 7 weakness related to AI spend, and the digestion of large equity raises most notably, the SpaceX IPO. During the month, the S&P 500 was down 0.9%, the Nasdaq down 0.3%, and the S&P/TSX Index up 0.3%.

The constructive market performance over the past two months created an opportunity for a wave of IPOs. In June, SpaceX launched the largest IPO on record, entering the market with a staggering valuation of US$1.75 trillion. The company raised US$75 billion in new capital at an offer price of US$135 per share, with retail participation reportedly at 20%—higher than usual. The offering was heavily oversubscribed, resulting in shares closing 19% above the IPO price on June 12th, the first day of trading. Shares reached a high of just over US$200 per share before retracing back to US$170 to close out the month. Google also took advantage of this window, raising US$45 billion in equity to support its ambitious AI expansion. The market is now awaiting the IPOs of OpenAI and Anthropic, expected later this year.

In Canada, on a smaller scale, Apotex Health, a generic drug manufacturer, filed for an IPO of C$1 billion, implying a potential market capitalization of C$5-6 billion. Demand for Apotex (ticker: APTX) was oversubscribed, and the offering ultimately priced at C$24, the high end of the initial range. The stock closed its first day of trading at C$27 and rallied above C$30 per share by the end of the month.

The AI infrastructure theme continues to be a key driver of strength in both the economy and the market, but recent shifts in leadership have emerged as new concerns surface. First, supply constraints are beginning to appear, particularly in memory and storage. Prices for these critical computing commodities have surged significantly, resulting in sharp increases in the share prices of providers—Sandisk is up 850%, Micron 300%, and Seagate 250% year to date. Although demand from hyperscalers has remained inelastic so far, there are concerns about the sustainability of pricing power once supply increases or demand begins to moderate.

Second, hyperscalers have historically funded capital expenditures with internally generated cash flows. However, these companies are now increasingly turning to debt and equity to support their expanding capex budgets. As a result, free cash flow has diminished, the risk-profile has increased and the focus on return on investment has been amplified.

Lastly, there have been reports of token cost optimization among AI-native companies and other heavy users of AI. These firms have started routing basic queries to Chinese open-source models while reserving more complex tasks for advanced frontier models, raising concerns about price competition for tokens. Collectively, these developments have altered the leadership within the tech sector, leading to middling performance for the Mag 7, while beneficiaries of AI infrastructure spending continue to outperform.

Nearly half of the capital expenditure allocated to data center buildouts is directed toward compute resources, such as GPUs and CPUs, while the remaining half is devoted to construction costs, including real estate, building materials, and power. This infusion of capital has sparked a recovery in the industrial economy and driven a broad-based re-rating of cyclical stocks. Initially, these effects were limited to direct beneficiaries of AI spending, but the impact has broadened significantly throughout 2026. Valuations of cyclical companies have now reached unprecedented levels, often surpassing those of defensive counterparts for the first time in over a decade. We believe that these elevated valuations are vulnerable to an eventual slowdown in growth.

On June 14th, after three and a half months of conflict, the United States and Iran signed a memorandum of understanding, granting both nations a 60-day window to negotiate a long-term peace agreement. Key provisions include the temporary lifting of certain Iranian oil sanctions, a commitment from Iran not to develop or procure nuclear weapons, the establishment of a $300 billion reconstruction fund, and—most notably for global markets—the reopening of the Strait of Hormuz. The announcement was met with modest enthusiasm in the equity markets and triggered a sharp sell-off in oil prices, with WTI dropping from $85 per barrel to $75 per barrel. For context, oil prices had peaked at approximately $120 per barrel at the end of April, after shipments through the Strait of Hormuz ceased, removing 13.5 million barrels of global daily supply from the market. However, inventory drawdowns, a temporary reduction in purchases by China, and seasonally lower demand helped cushion the impact and moderate the price spike. We expect the market to remain highly sensitive to any incremental news related to the conflict, as setbacks and political posturing are likely in the coming months. Regardless of the progress in negotiations, it will take time for global production and inventories to return to pre-war levels—around $65 per barrel—and a geopolitical risk premium may persist.

Kevin Warsh made his debut as Chairman of the Federal Reserve on June 17th. Since the announcement of his appointment, the market has closely examined his previous commentary to determine whether he favors a dovish or hawkish stance. Although the policy rate remained unchanged, Warsh's statement was widely interpreted as hawkish, emphasizing a renewed commitment to achieving 2% price stability—a target many consider outdated. Additionally, the updated "dot plot," which reflects future rate projections from all FOMC members, shifted higher, with 9 out of 18 members now anticipating rate hikes in 2026. The median projection for 2026 increased by 50 basis points since the last meeting in March. Inflation has been creeping higher, primarily driven by rising energy and food prices. While these are considered non-core and potentially transitory, there appears to be little appetite to repeat the mistakes of 2021 by under-reacting to inflation risks.

The higher levels of inflation, approaching 3% on a core basis (ex-food and energy) and 4.2% on an all-in basis as well as emerging hawkish tone have stalled the rally in gold. After briefly trading through $5,500 back in January, the gold price has retraced to $4,100. On the flipside the trade-weighted USD has rallied meaningfully as geopolitical risk and the spike in oil prices helped re-establish its safe haven and reserve currency status. With inflation remaining persistent and momentum in price breaking down, we expect gold to consolidate until rate cuts are back on the table.

Some recent highlights of TSX earnings season included Dollarama and Couche-Tard. Dollarama posted a broadly strong quarter. Shares were up 9% on the day of release as the company delivered a 5.6% Canadian comparable sales number, quelling prior concerns that the outlook for growth had stalled. Dollarama provides valuable insulation to periods of rising inflation and heightened pressure on the consumer, as they are often the lowest price point retailer by a significant margin.

Couche-Tard's continued momentum in US merchandise same store sales growth and highly effective economies of scale in fuel purchasing drove a strong quarter, resulting in a nearly 12% rally in the shares on the day of the release. Ongoing execution of their retailing strategy, strong fuel margins, and continued adoption of the loyalty program enabled the business to perform during an economically volatile period.

Looking ahead, we anticipate continued volatility throughout the summer as the market weighs the scale and durability of the AI buildout, monitors energy flows from the Middle East, and evaluates monetary policy amid renewed inflation concerns. In this dynamic environment, we believe opportunities for stock selection and active management are particularly compelling, positioning investors to capitalize on emerging trends and navigate shifting market conditions with confidence.

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