

# The Hidden Force Behind the AI Bull Market — And Why It May Be Ending

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*Note: the original article is provided as a separate file (attached to the email or downloadable from the website).*

## 1. Reading Passage

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For the past four years, the US stock market has done something strange: it has climbed steadily despite high interest rates, trade wars, geopolitical shocks, and valuations that look stretched by almost every historical measure. Most commentators credit the AI boom or aggressive investors. Robert Buckland, the former chief global equity strategist at Citigroup, offers a different explanation — one that has less to do with who's buying and more to do with what's available to buy.

Buckland calls the phenomenon 'de-equitisation': the gradual shrinking of the total supply of publicly traded shares. Companies have been buying back their own stock and cancelling it. Private equity firms have been taking listed companies private. Meanwhile, new listings — IPOs — have slowed to a trickle. The result is a market where the pool of available shares actually contracts year after year. Basic supply and demand does the rest: with fewer shares chasing the same investor dollars, prices climb. Buckland calls the resulting price-support mechanism a 'de-equitisation put,' borrowing market slang for an implicit floor beneath prices.

The scale is striking. The 'Magnificent 7' — Apple, Microsoft, Alphabet, Amazon, Meta, Nvidia and Tesla — bought back roughly \$230bn of their own shares in 2025. That cash came not from new debt or new equity issuance, but from the companies' own operating profits, making this tech bull market unusually self-financed. Previous tech-driven booms looked very different. The canal mania of the 1800s, the railway boom of the 1840s, and the dotcom bubble of the 1990s were all capital-intensive: companies issued huge volumes of new shares to fund their expansion, eventually flooding the market and helping precipitate the crash. Big Tech's 'capex-lite' business model — software margins, minimal infrastructure — broke that pattern.

But here's the catch: AI is changing the equation. Alphabet, Amazon, Meta and Microsoft are expected to invest a combined \$725bn in AI infrastructure this year. That money has to come from somewhere, and increasingly it's coming from the buyback budget. Meta and Alphabet have already paused their buyback programs — a sharp reversal from the \$92bn they collectively returned to shareholders in 2024. Apple has announced another \$100bn in buybacks for 2026, but at a \$4.3tn market capitalisation, \$100bn buys a lot less Apple stock than it used to.

Meanwhile, the IPO pipeline is filling up. SpaceX, OpenAI and Anthropic are exploring public listings at a combined valuation of up to \$4tn — which would represent roughly a 6% expansion of the US public equity market, a figure last seen during the late-1990s dotcom bubble. OpenAI and Anthropic alone are expected to privately raise a combined \$152bn in 2026 before any IPO. Buckland's point is not that public markets will suddenly choke on these new shares — they won't have to absorb everything at once. But early-stage private investors and employees will eventually want to cash out, creating an 'overhang' of unsold stock that may weigh on prices for years.

The bears, Buckland argues, have spent the bull market waiting for valuations to crack and missing the real mechanism at work — that shrinking supply and rising demand mathematically push prices up. They may finally be vindicated, but not for the reasons they expected. As one veteran banker once told Buckland: if the ducks are quacking, feed them. The ducks have been quacking loudly for

US big-cap tech. They are, he suspects, about to be fed.

## 2. Explanation

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*For four years, US stocks have defied gravity not because investors kept buying — but because the supply of shares kept shrinking. That trick may finally be running out.*

### What's Going On?

Robert Buckland, a veteran equity strategist, argues that today's bull market has been powered less by frenzied buying and more by a quiet shrinkage of the share supply. Big US tech companies have spent enormous sums buying back their own stock, while private equity has pulled other companies off public exchanges entirely. Fewer shares chasing the same money equals higher prices.

But Buckland sees that dynamic about to flip. SpaceX, OpenAI and Anthropic are eyeing IPOs at a combined valuation of up to \$4 trillion, and the Magnificent 7 are pouring an estimated \$725bn into AI infrastructure this year — money that used to fund buybacks. The 'de-equitisation put' that has propped up valuations may be about to fade.

### How To Think About It

Markets are governed by supply and demand just like anything else. If you want to understand why prices rise, don't only look at how much people are buying — look at how much there is to buy.

- Think of concert tickets for a sold-out tour: if the venue suddenly removes half the seats, resale prices spike even though no new fans showed up. Buybacks shrink the 'seats' in the stock market.
- Or think of a city with a building moratorium: rents climb not because more people moved in, but because no new apartments came online. Now imagine the moratorium ends and developers dump 6% more units onto the market overnight — that's roughly what a \$4tn wave of tech IPOs would do.

### Key Things To Know

- The Magnificent 7 — Apple, Microsoft, Alphabet, Amazon, Meta, Nvidia, Tesla — bought back \$230bn of their own shares in 2025, effectively self-funding the AI boom.
- A 'de-equitisation put' means buybacks and take-privates act like an invisible floor under prices: whenever shares get cheap, companies and private equity firms swoop in to buy.
- Past tech bubbles (canals in the 1800s, railways in the 1840s, dotcoms in the 1990s) were capex-heavy and required issuing huge amounts of new stock. Big Tech's capex-lite model broke that pattern — until AI.
- Meta and Alphabet have paused buybacks; Apple's planned \$100bn 2026 buyback is dwarfed by its \$4.3tn market cap, so its price-support effect is shrinking.
- What most people miss: bull markets often die not from collapsing demand but from a flood of new supply. The 'wobbles' so far haven't followed that pattern — the next one might.

### Why It Matters

If you have a 401(k) in your future, an index fund in a custodial account, or just a passing interest in why headlines keep saying 'stocks at record highs,' this matters. The mechanics Buckland describes determine whether the market you'll invest in for the next 40 years is overpriced, fairly priced, or about

to correct. It also helps explain why companies like OpenAI and SpaceX – household names you've never been able to buy stock in – may finally hit public markets soon.

### **The Bigger Picture**

A \$4tn collective valuation for SpaceX, OpenAI and Anthropic would represent roughly a 6% expansion of the US public equity market – a scale last seen during the late-1990s dotcom bubble. If their early investors and employees rush to cash out, that 'overhang' of unsold stock could weigh on prices for years. Watch for two signals: whether Big Tech resumes aggressive buybacks once AI capex peaks, and whether the IPO window actually opens or stays jammed. Either way, the simple story that 'stocks always go up because of AI' is about to get more complicated.

### 3. Key Terms Glossary

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#### **De-equitisation**

The shrinking of a stock market's total supply of shares, usually via share buybacks, take-private deals, and a lack of new listings (IPOs).

#### **Share buyback**

When a company uses its own cash to buy its shares off the market and cancel them, leaving fewer shares outstanding and boosting earnings per share.

#### **IPO (Initial Public Offering)**

The first time a private company sells shares to the public on a stock exchange, typically raising large amounts of cash for the company and its early investors.

#### **Magnificent 7**

The nickname for the seven mega-cap US tech stocks — Apple, Microsoft, Alphabet, Amazon, Meta, Nvidia, Tesla — that have driven most US market returns recently.

#### **Capex-lite**

A business model that generates lots of cash without needing huge ongoing capital expenditure (capex) on factories, equipment or infrastructure. Software firms are classic examples; AI is making them less capex-lite.

#### **Private equity (PE)**

Investment firms that buy companies — often using borrowed money — take them off public exchanges, restructure them, and sell them later at a profit.

#### **Overhang**

A large block of shares that the market knows will eventually be sold, which depresses the price even before the selling actually happens.

#### **'Put' (in market slang)**

An implicit floor under prices created by some reliable buyer stepping in when prices fall. Originally referred to the 'Greenspan put' — the Fed cutting rates whenever markets dropped.

#### **Bull market**

A sustained period of rising asset prices, typically defined as a 20%+ rise from a recent low.

## 4. Reading Comprehension Quiz

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Circle the best answer for each question.

**Q1.** The passage primarily argues that

- A) the current US bull market has been sustained mainly by shrinking share supply, a dynamic now under threat.
- B) artificial intelligence companies are overvalued and a market crash is imminent in the near term.
- C) private equity firms have done more damage than good to American public capital markets.
- D) the Magnificent 7 will continue to outperform smaller US stocks for the foreseeable future.

**Q2.** Which choice best states the central idea of the passage?

- A) Tech companies are abandoning share buybacks because AI investment is no longer profitable.
- B) Investors should always favour private markets over public markets in the modern economy.
- C) A long-running shrinkage in stock supply has supported prices, but new share issuance may reverse it.
- D) Historical bubbles in canals, railways and dotcoms all ended in the exact same predictable way.

**Q3.** According to the passage, Meta and Alphabet have paused their share buybacks because

- A) regulators have placed new restrictions on large-cap technology share repurchases.
- B) they need the cash to fund massive capital expenditure on AI infrastructure.
- C) their share prices have already risen too far above fair value to justify buying.
- D) private equity firms have outbid them for shares of competing technology companies.

**Q4.** As used in the passage, the word 'put' (in the phrase 'de-equitisation put') most nearly means

- A) an option contract sold to hedge against losses in a stock portfolio.
- B) a placement or physical positioning of an asset in a particular location.
- C) an implicit price floor created by reliable buyers stepping in.
- D) a wager placed on a future market outcome by professional traders.

**Q5.** As used in the passage, 'overhang' most nearly means

- A) an architectural feature extending beyond a supporting structure below.
- B) a backlog of unsold shares expected to weigh on future market prices.
- C) the lingering aftermath of a particularly severe economic recession.
- D) an excess inventory of goods stored in warehouses awaiting demand.

**Q6.** Which statement about Apple's planned 2026 buyback can most reasonably be inferred from the passage?

- A) It will have a smaller proportional effect on Apple's share price than past buybacks did.
- B) It signals that Apple has decided to opt out of the artificial intelligence capex race.
- C) It will fully offset the impact of Meta and Alphabet pausing their own buyback programs.
- D) It indicates Apple expects its market capitalisation to fall significantly during 2026.

**Q7.** The passage suggests that the bursting of previous bubbles in canals, railways, and dotcoms was preceded by

- A) sudden interest rate cuts by the Federal Reserve and other major central banks.
- B) the rise of private equity firms taking listed companies private for cash.
- C) a flood of new share issuance to finance capital-intensive expansion.
- D) regulatory crackdowns on speculative trading by retail individual investors.

- Q8.** The author's tone in discussing the coming wave of tech IPOs is best described as
- A)** alarmed and openly forecasting an imminent market collapse for tech stocks.
  - B)** analytically cautious, flagging a shift without predicting outright disaster.
  - C)** dismissive of warnings, confident that buybacks will continue indefinitely supporting prices.
  - D)** nostalgic for the late-1990s bull market and its high-flying technology shares.
- Q9.** Based on the passage, it can be inferred that the author believes 'the bears' have
- A)** correctly predicted that tech valuations would collapse before any AI capex boom started.
  - B)** underestimated how supply-and-demand dynamics in share supply support equity prices.
  - C)** been proven right by the recent pauses in buyback programs at Meta and Alphabet.
  - D)** exited the market entirely and stopped publishing forecasts about US equities.
- Q10.** Which choice provides the best evidence for the answer to the previous question?
- A)** "Shrinking equity supply has helped this bull market defy the bears."
  - B)** "It all seems very different to previous bubbles."
  - C)** "Any undergraduate economist knows, shrinking supply and rising demand should lead to higher prices. The bears have missed this point."
  - D)** "The public equity market will not need to soak up all these shares immediately."

**My Score:** \_\_\_\_\_ / 10

## 5. Answer Key with Explanations

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**Q1.** The passage primarily argues that

**Answer: A**

The passage's central claim is that de-equitisation — fewer shares available — has propped up prices, and that wave of IPOs and falling buybacks could end it. B overstates the author's claim (Trap A: right scope, wrong direction — he predicts fading, not crashing). SAT Tip: For 'primarily argues' questions, pick the option that captures the WHOLE passage, not just one paragraph. If an option only matches the last section, it's usually wrong.

**Q2.** Which choice best states the central idea of the passage?

**Answer: C**

C captures both halves of the argument — the past dynamic and the coming change. A is wrong because the passage says AI capex, not unprofitability, is consuming buyback cash (Trap B: passage vocabulary in wrong combination). SAT Tip: Central-idea answers almost always contain TWO ideas joined by 'but' or 'however' — the setup and the twist. Single-idea options tend to be too narrow.

**Q3.** According to the passage, Meta and Alphabet have paused their share buybacks because

**Answer: B**

The passage states the Magnificent 7 are expected to invest \$725bn collectively in AI this year and that Meta and Alphabet consequently paused buybacks. A is a plausible real-world claim but unsupported by the passage (Trap C). SAT Tip: For 'according to the passage' questions, the answer must be explicitly stated, not just plausible. If you can't point to a specific line that says it, it's wrong.

**Q4.** As used in the passage, the word 'put' (in the phrase 'de-equitisation put') most nearly means

**Answer: C**

In context, the 'put' refers to the way buybacks and take-privates support prices when shares fall — a floor mechanism. A is the common finance textbook meaning of 'put' and the tempting trap (Trap B: right vocabulary, wrong usage). SAT Tip: On vocab-in-context, substitute each option into the sentence. The right answer keeps the sentence's overall meaning intact; the common dictionary definition is often the decoy.

**Q5.** As used in the passage, 'overhang' most nearly means

**Answer: B**

The passage says early-stage investors' unsold stock 'may overhang the public markets for years' — meaning a supply that pressures prices. A is the literal architectural meaning (Trap B: dictionary definition, not passage meaning). SAT Tip: When a word has both a literal physical meaning and a metaphorical financial/abstract one, in finance and economics passages the metaphorical meaning almost always wins.

**Q6.** Which statement about Apple's planned 2026 buyback can most reasonably be inferred from the passage?

**Answer: A**

The passage notes that at a \$4.3tn market cap, \$100bn 'buys a lot less Apple stock than it used to' — meaning the proportional support is shrinking. B overreads: sitting out the capex boom doesn't mean abandoning AI entirely (Trap A: right scope, wrong direction). SAT Tip: Inference questions reward the SMALLEST logical step beyond what the passage says. If an option requires two or three additional assumptions, it's almost always wrong.

**Q7.** The passage suggests that the bursting of previous bubbles in canals, railways, and dotcoms was preceded by

**Answer: C**

The passage describes those earlier booms as 'notoriously capital-intensive' requiring large equity issuance – and contrasts this with Big Tech's capex-lite, self-financed boom. D is unsupported despite sounding historically plausible (Trap C: true-sounding but not in the passage). SAT Tip: When a passage draws a contrast between two eras, exam writers almost always test you on the contrast. Lock in what's DIFFERENT between the two before reading the options.

**Q8.** The author's tone in discussing the coming wave of tech IPOs is best described as

**Answer: B**

The author uses measured phrases like 'may start to fade' and 'looks set to spill over' – flagging risk without prophesying doom. A overstates the tone (Trap A: right topic, wrong intensity). SAT Tip: Tone questions hinge on the author's adjectives and hedging words ('may,' 'could,' 'looks set'). Hedged language signals analytical caution, not alarm – even when the topic itself sounds dramatic.

**Q9.** Based on the passage, it can be inferred that the author believes 'the bears' have

**Answer: B**

The author notes bears 'have missed this point' – that shrinking supply and rising demand drive prices up. C inverts the argument: pauses haven't yet vindicated bears (Trap A: right scope, wrong direction). SAT Tip: When an author names a group ('the bears,' 'critics,' 'skeptics') and says they 'missed' something, the answer to inference questions about that group is almost always that they failed to grasp the author's main mechanism.

**Q10.** Which choice provides the best evidence for the answer to the previous question?

**Answer: C**

C directly states both the supply-demand mechanism and that the bears missed it – making it the clearest evidence for question 9. A gestures at the same idea but doesn't explain WHAT the bears missed (Trap B: related vocabulary, weaker support). SAT Tip: On evidence-pairing questions, find the line that explicitly contains BOTH halves of your previous answer. Lines that only support half the claim are designed to look right but lose on precision.