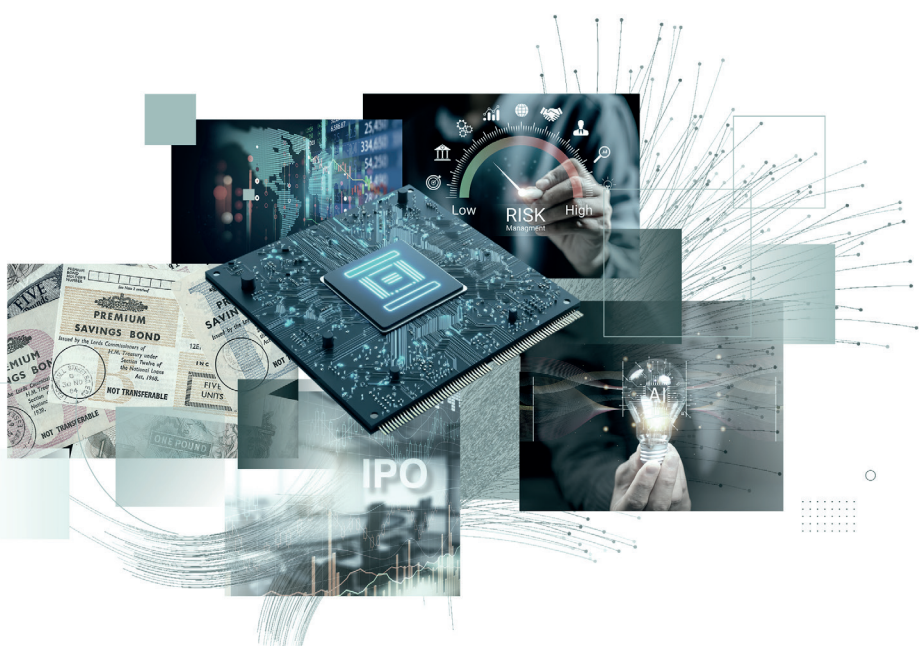
Can markets absorb rising capital demand?



Investment demand is rising across the global economy. Governments are increasing spending on defence, infrastructure and energy security, while companies continue investing in artificial intelligence, digital networks and productive capacity. This affects growth, financing conditions and the allocation of capital across markets.

As public and private funding needs expand simultaneously, investors must pay closer attention to how capital is sourced, priced and deployed. Within the Annual Outlook, this theme examines whether financial markets can absorb rising capital demand and sustain the next phase of investment-led growth.

SANTANDER PRIVATE BANKING VIEW

Markets may absorb rising capital demand, but the cost of capital and investor selectivity are becoming increasingly important. Financing remains available across public and private markets, supported by strong balance sheets, diverse funding channels and continued demand for long-term investment opportunities.

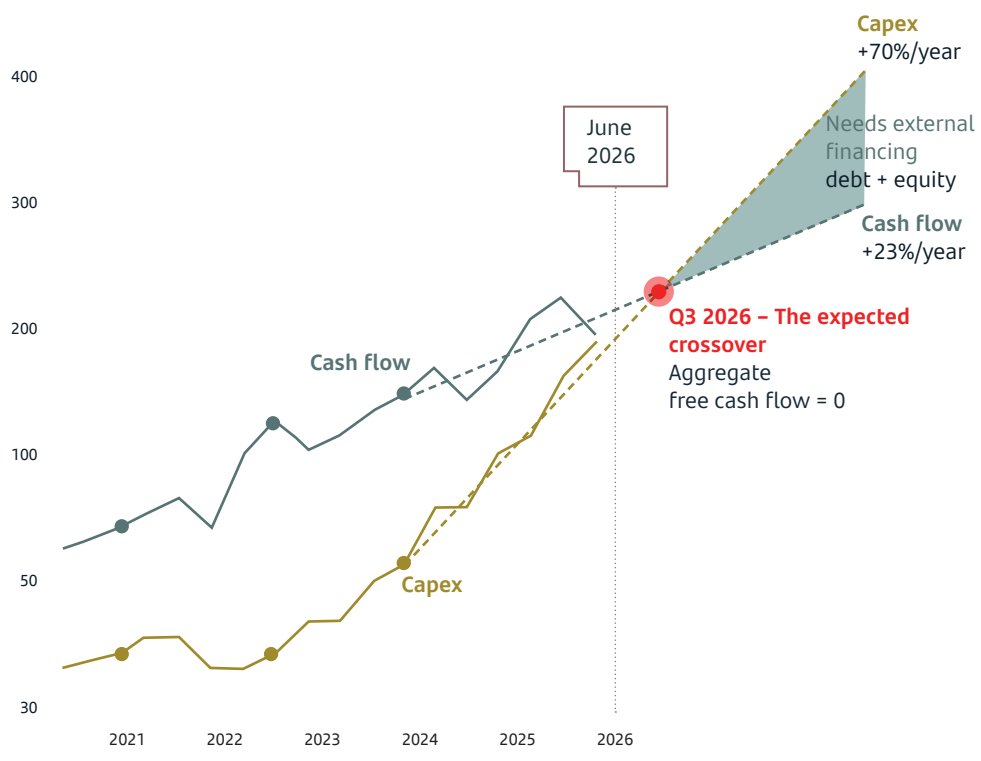
Our central scenario is therefore one of greater selectivity. As governments and companies compete for funding, investors are becoming more demanding about financial strength, cash-flow visibility and expected returns.

Demand for capital is rising simultaneously across artificial intelligence, energy, infrastructure, defence and public financing. This is increasing competition for savings and making financing conditions more relevant for both economic growth and market performance.

The pressure is becoming increasingly visible in corporate investment spending. Investment is growing faster than internal cash generation, increasing reliance on external financing.

The key question is therefore not whether capital is available, but how it is allocated and at what price. Markets can continue funding the investment cycle, but increasingly favour businesses and projects capable of converting spending into future earnings and cash flow.

AI Infrastructure (Hyperscalers): Investment is outrunning internal funding*



*) Aggregate capex from Hyperscalers (Microsoft, Amazon, Alphabet, Meta and Oracle) versus operating cashflow by quarter. On the current trajectory, capex exceeds internally generated funds. Estimates are based on historical data and internal assumptions. Actual results may differ materially.

Source: Bloomberg. Data as of 9/22/2026

FIVE SIGNALS TO WATCH



Cash flow generation

Rising capex is reducing internal funding capacity. Stronger monetisation would restore free cash flow and lessen reliance on external financing.

INDICATORS

Free cash flow, capex coverage, operating margins and returns on invested capital.



Bond issuance

Debt markets remain the primary channel for financing rising investment needs. Sustained issuance with orderly pricing would support our central scenario.

INDICATORS

Investment grade issuance, corporate refinancing activity and New Issue Concessions (NIC).

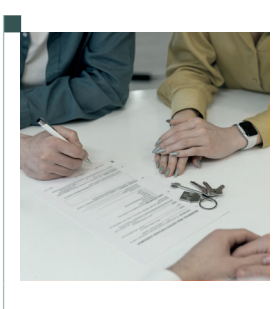


Credit flows

Bank lending remains the traditional source of financing, while private lending is expanding funding capacity. Continued credit growth would support investment across the economy.

INDICATORS

Fundraising, lending volumes, financing terms, defaults and recovery rates.

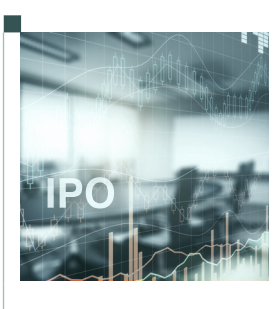


Financing conditions

Competition for capital could increase corporate financing costs. Contained spreads would support investment, while a sustained widening would signal greater selectivity.

INDICATORS

Corporate spreads, CDS levels, new-issue premiums and financing costs.



Equity IPOs

The next wave of IPOs will test investors' willingness to provide capital to some of the market's most ambitious growth companies. Strong investor demand for AI lab IPOs would reinforce equity-market financing capacity.

INDICATORS

Deal volumes, subscription levels, valuations and aftermarket performance.

THREE INVESTMENT CONCLUSIONS

01

Gain exposure to the financing ecosystem

AI investment requires debt, equity and private financing. As capital becomes more selective, financial institutions could benefit from higher demand for underwriting, advisory and capital-markets services.

02

Look beyond public markets

Private markets broaden diversification through infrastructure, secondary private-credit and private-equity opportunities. They also provide access to innovative companies before IPOs, when much of the value creation can occur.

03

Prioritize strong capital structures

Competition for capital creates opportunities, but also increases the risk of weak structures and excessive leverage. Rigorous due diligence and careful credit selection become more important as markets differentiate between borrowers.

#3 CAPITAL COMPETITION

The investment cycle continues, but competition for capital is increasing. This favours financial intermediaries, private-market exposure and rigorous underwriting discipline.

Santander Private Banking

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