

# Innovation Horizons

Powering the Future  
2026 and Beyond

December 2025



HSBC Bank, USA N.A. Member FDIC

# Innovation Horizons: Executive Summary

## AI Hype Cycle Evolving: Powering of Limitless Disruptive Capacities

The enthusiasm surrounding artificial intelligence's potential to transform economic and political landscapes has invigorated financial markets and venture ecosystems, pushing past traditional economic warnings. This momentum aligns with the new administration's focus on economic growth, fostering a robust risk-taking environment aimed at AI innovations that are capturing a significant portion of economic growth, often overshadowing other sectors. Although still emerging, AI's global impact is evident in the pursuit of superintelligence and the necessary infrastructure to support it. The shift from capital-efficient digital models to capital-intensive investments in tokens and electrons is reshaping technology and venture ecosystems. As with all disruptive cycles, the critical question is not if, but when the current excitement will translate into sustainable long-term economic returns from today's multi-trillion-dollar investments.

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# Macro Conditions: Risk Appetite for the Future



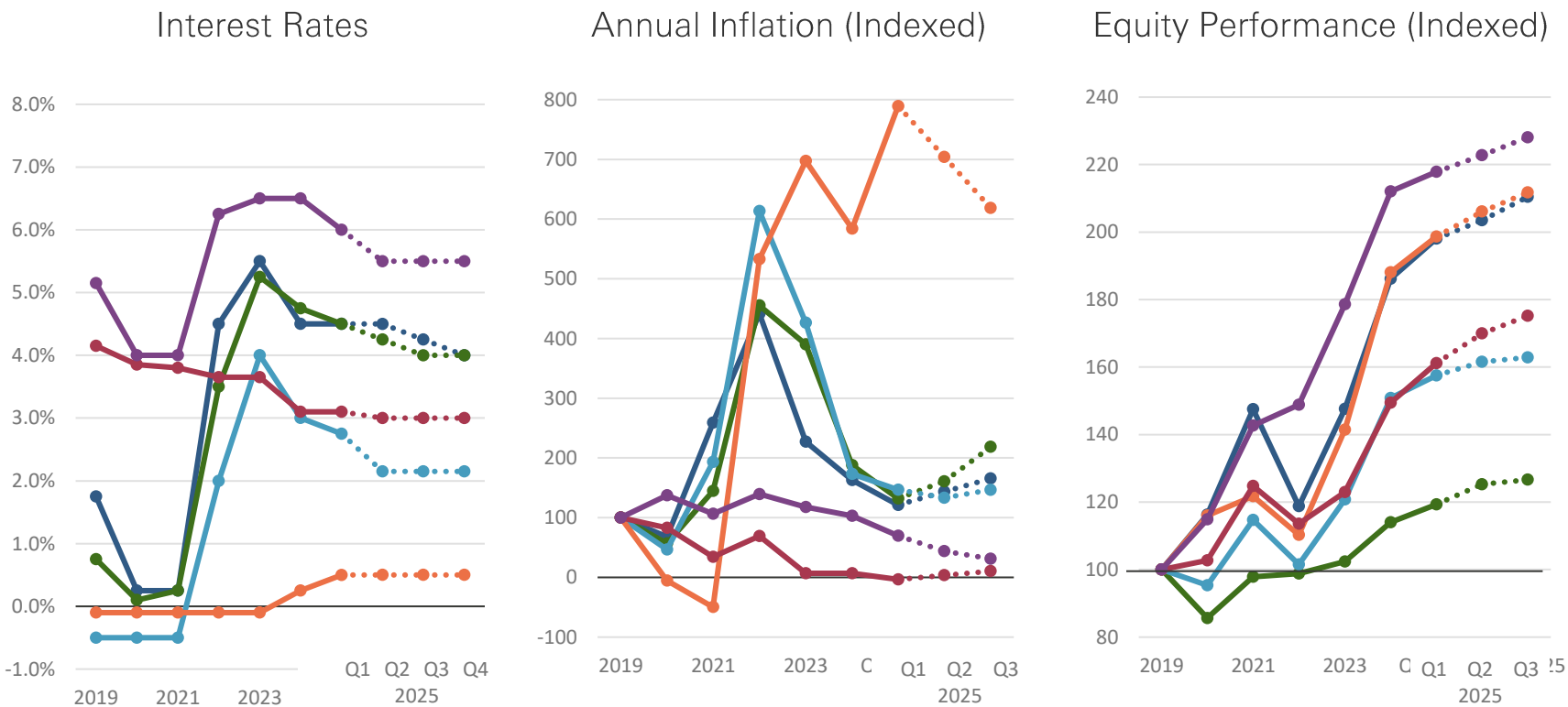
# Undeterred Global Markets Show Risk Appetite

## Equities Rise with Limited Resistance Despite Tighter Central Bank Policy

- ◆ Global interest rates have fallen from their 2023 peaks, but central banks have been cautious in their synchronized easing amid lingering inflation risk and roaring equity markets. Japan is the outlier, maintaining low rates to spur long-overdue reversal of endemic deflation, which is driving growth.
- ◆ Price pressures are creeping back, driven by tariffs, supply realignment, and tight labor markets. Real rates in most developed economies remain high compared to the past 15 years and above stated targets.
- ◆ Despite tighter monetary conditions, global equities have surged led by U.S. tech and India's GDP expansion. Elsewhere, the U.K. and E.U. struggle under stagnant growth, and China faces a housing-sector drag.

### Global Economic Indicators

U.S. U.K. E.U. Japan China India



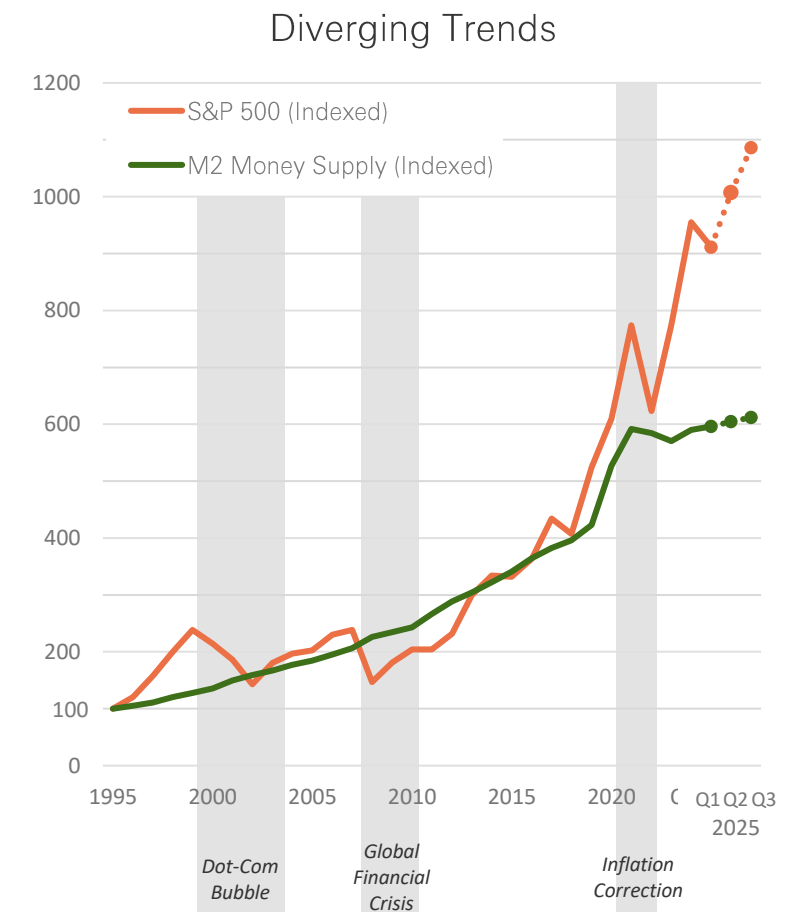
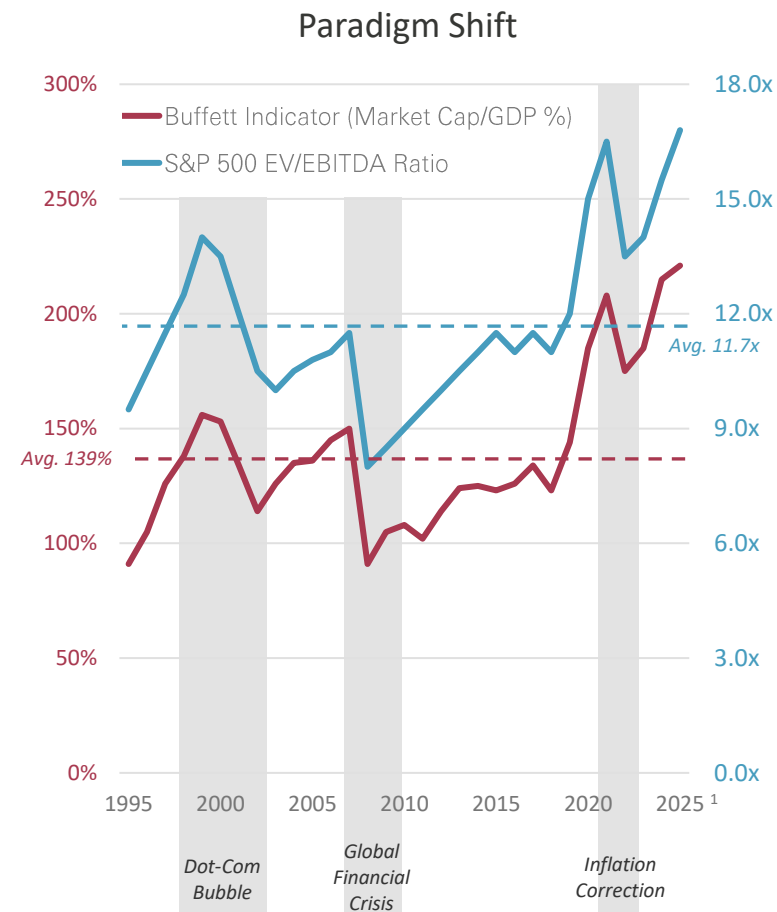
Note: Q4 2025 data presented as of October 31, 2025.  
Sources: US Federal Reserve Economic Data (FRED) from St. Louis Federal Reserve and HSBC Innovation Banking analysis.

# Surging U.S. Equities Make History

Traditional Measures Signal a Familiar Story...Unless It's Truly Different This Time

- ◆ Equity valuation ratios are reaching all-time highs, signaling that the current AI hype is unlike what we've seen market-wide before. A near-term correction appears likely unless AI-driven productivity gains materialize quickly enough to validate current multiples.
- ◆ M2 money supply expansion historically has driven equity valuations, with liquidity growth supporting higher asset prices. When equity markets rise significantly faster than M2, it typically signals that investors are aggressively pricing in future cash flows or anticipating stronger economic growth. Both exist within the potential of AI, but the increasing spread is expanding the potential risk of correction if those expectations aren't met within a reasonable timeframe.

## Hype Cycle Macroeconomic Conditions

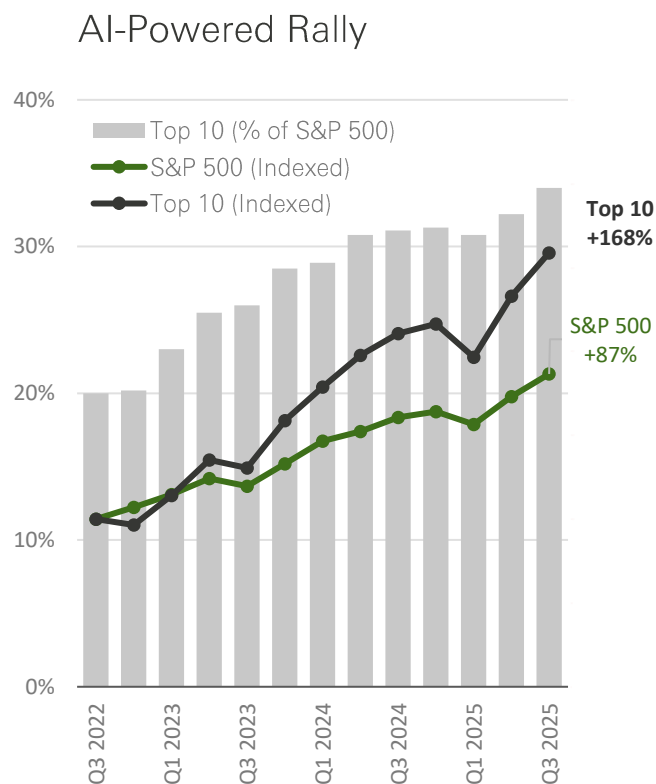


# AI Leaders Bring Heat to Public and Private Markets

## Handful of Publicly-Traded Tech Companies Comprise One-Third of S&P 500 Value

- ◆ Tech companies poised to capitalize on the promise of AI are driving the top end of the market, with eight topping \$1T in value. Approximately 60% of S&P 500 gains this year have been led by the top 10 names.
- ◆ This same AI fervor is driving ever-higher valuations in private markets. Top venture-backed companies would now be among the largest companies in the U.S. if listed on public markets. Beyond the five \$100B+ technology leaders shown, a further 18 U.S. unicorns hold private valuations above the S&P 500's \$16B lower valuation threshold.
- ◆ While private companies may have higher valuations than members of the S&P 500, many are a ways off from the profitability threshold required to join the index and, in some cases, low or negative gross margins.

### AI Vanguard Commands Massive Valuations



### S&P 500 Companies Ranked by Market Cap<sup>1</sup>

14.	Visa
15.	Mastercard
21.	Costco Wholesale
22.	Bank of America
59.	Procter & Gamble
60.	Chevron
97.	ConocoPhillips
98.	Lockheed Martin
107.	Trane Technologies
108.	McKesson

### Top Venture-Backed U.S. Firms by Valuation<sup>2</sup>

OpenAI	\$500B
SpaceX	\$400B
Anthropic	\$350B
xAI	\$113B
Databricks	\$100B

Notes: 1) Market cap data as of October 31, 2025. 2) Valuation data based on completed deals of November 21, 2025.  
Sources: Dow Jones, PitchBook, and HSBC Innovation Banking analysis.

# Investment Trends: Capital Concentrates at the Top

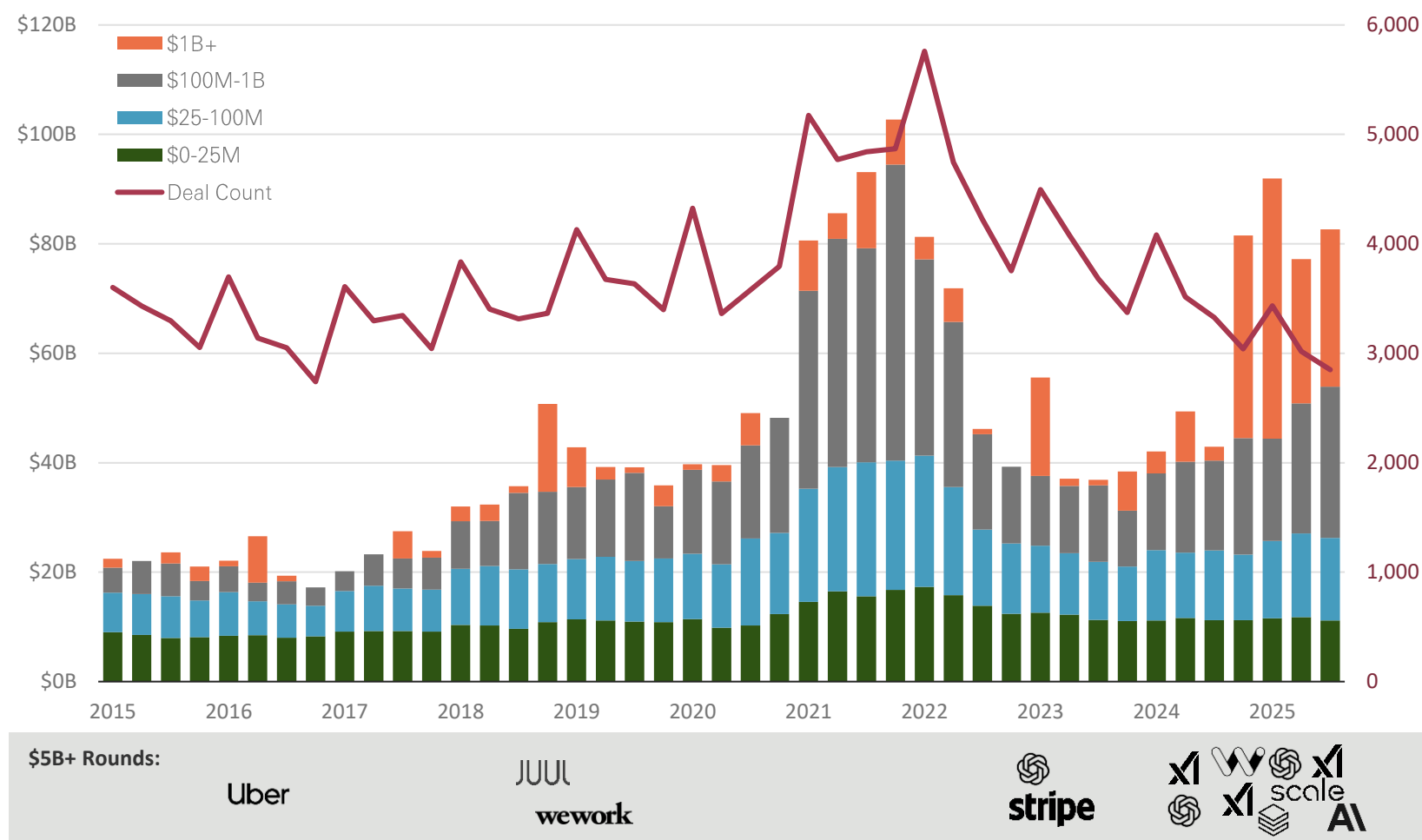


# Capital Concentrates into Mega Rounds

Total Dollars Near the Heights of 2021-2022 as Deal Counts Fall to Mid-2010s Level

- ◆ For the past year, venture investment in U.S. startups has captured headlines, topping \$75B every quarter. However, total deal activity has slowed to levels last seen in the mid-2010s.
- ◆ These near-record funding levels are driven by outsized rounds to top companies: \$1B+ rounds account for 42% of capital over the past four quarters.
- ◆ Once a rarity for private companies, seven AI startups have completed rounds of \$5B+ since OpenAI's \$10B round in early 2023 on the heels of its launch of ChatGPT.

## U.S. Venture Investment by Round Size: 2015–Q3'25





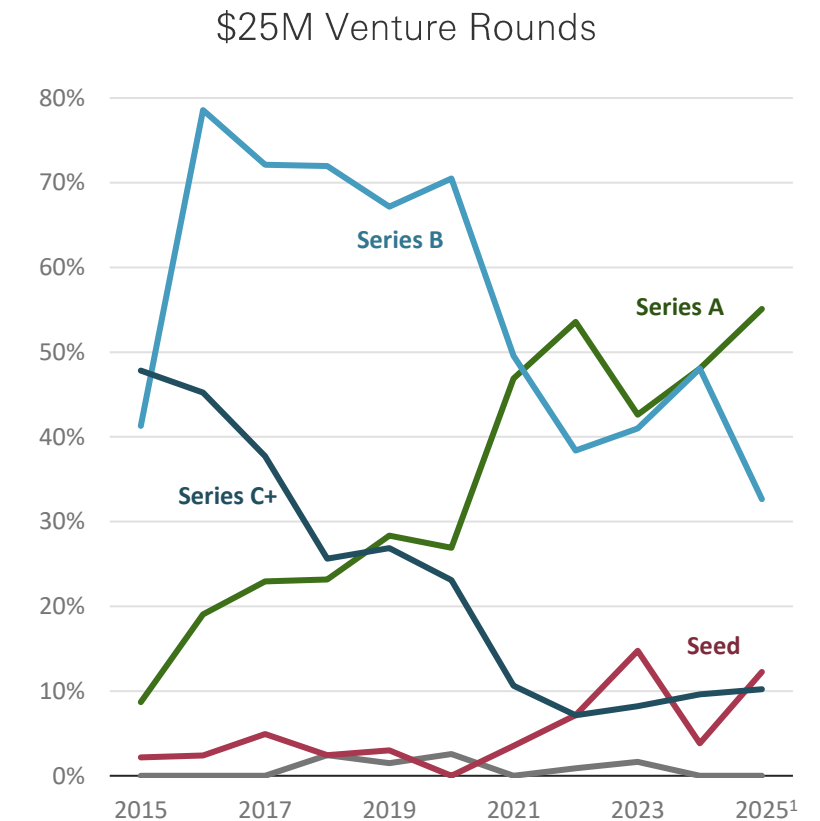
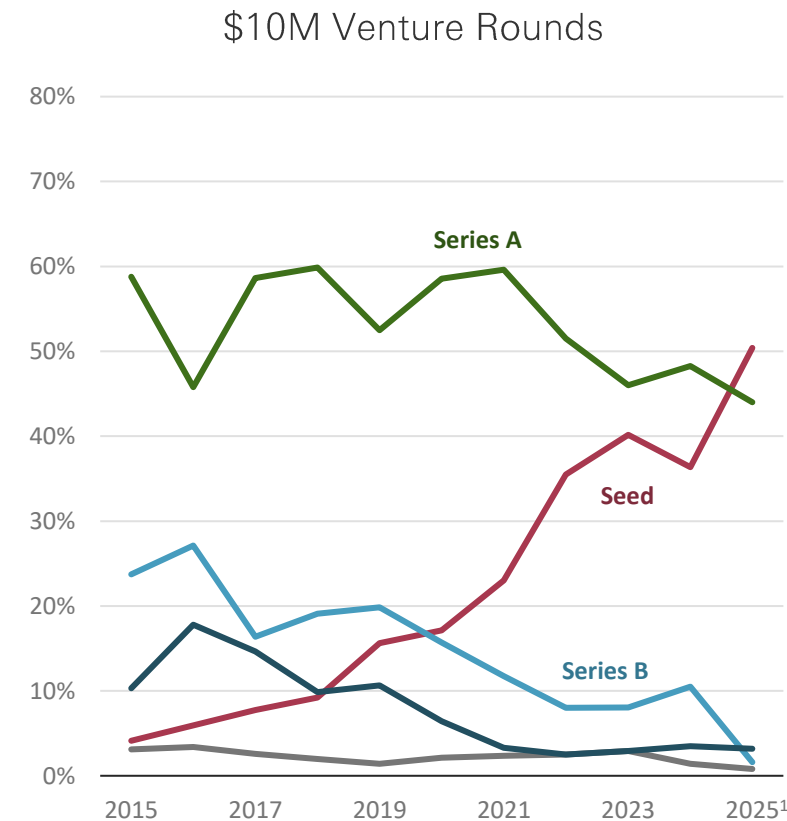
# Bigger Bets Earlier is the New Normal

## Earlier-Stage Companies are Raising Capital Once Reserved for More Mature Firms

- ◆ The concentration of venture capital seen in AI mega-rounds is changing the math for earlier-stage rounds as well, with an acceleration in the 2020s defying historical round labeling norms.
- ◆ Rounds of \$10M were traditionally raised at Series A or later; but for the first time in 2025, this round size is more likely to be classified as a Seed investment. And for \$25M rounds, historically Series B+ territory, are now mostly as a Series A.
- ◆ Investors are betting heavily on the momentum of earlier-stage AI companies, wagering they can more efficiently put capital to work to rapidly capture market share than pre-AI generations.

### U.S. Venture Investments by Series Classification: 2015–YTD 2025

— Pre/Angel — Seed — Series A — Series B — Series C+



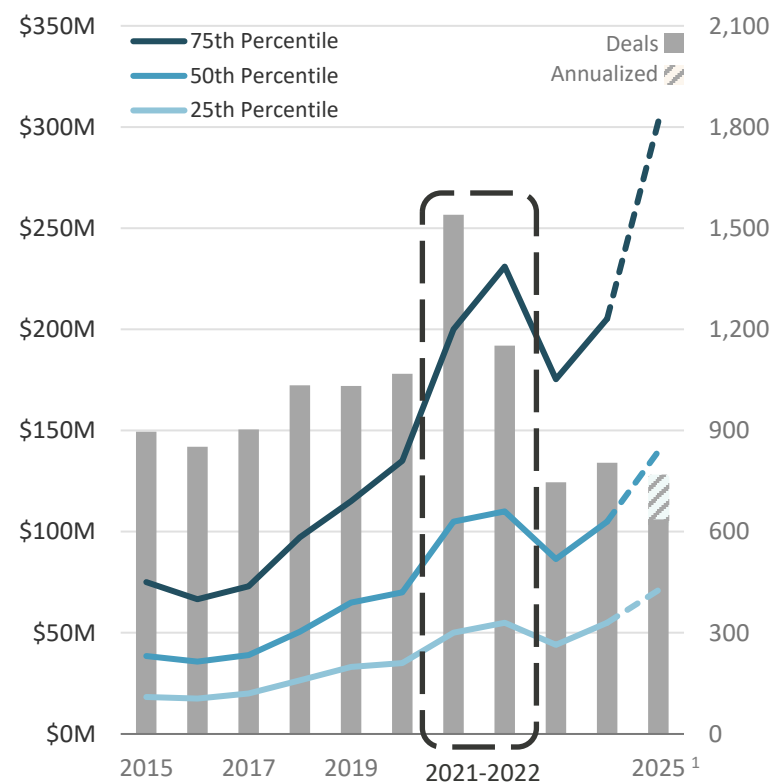
# Valuations Soar Beyond Recent Peaks

Higher Priced Rounds are Risk and Reward; Momentum Tantamount

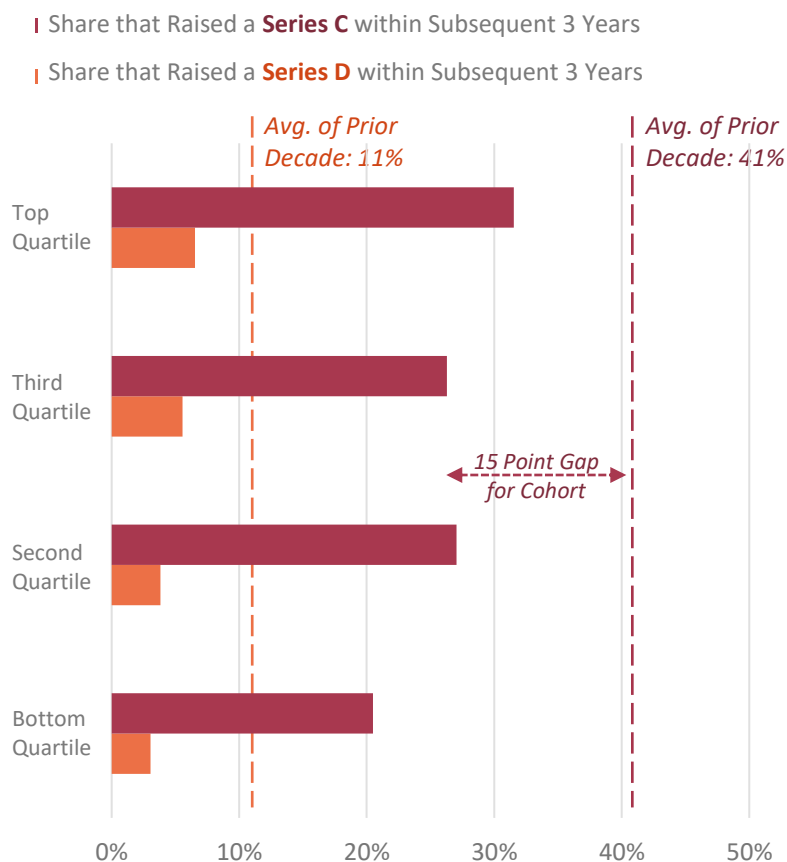
- ◆ Venture valuations are soaring beyond the heights of 2021-2022, with more than half of Series B companies valued firmly above \$100M this year.
- ◆ That cohort has struggled to meet expectations, with only 26% raising a Series C within 3 years compared to 41% on average for the decade prior.
- ◆ Top quartile companies were 50%+ more likely to have now raised a Series C and more than twice as likely to have reached a Series D within three years.
- ◆ High-growth scale-ups face a difficult decision: Accept the risk of a lofty valuation today with the hopes of maintaining the momentum needed for a future round

## Series B: Lofty Valuations Return, but Prior High-Flyers Struggle to Raise

Pre-Money Valuations and Deal Count



2021-2022 Cohort: Graduation Rates by Series B Pre-Money Valuation Quartile



Note: 1) 2025 annualized based on data through October 31, 2025.

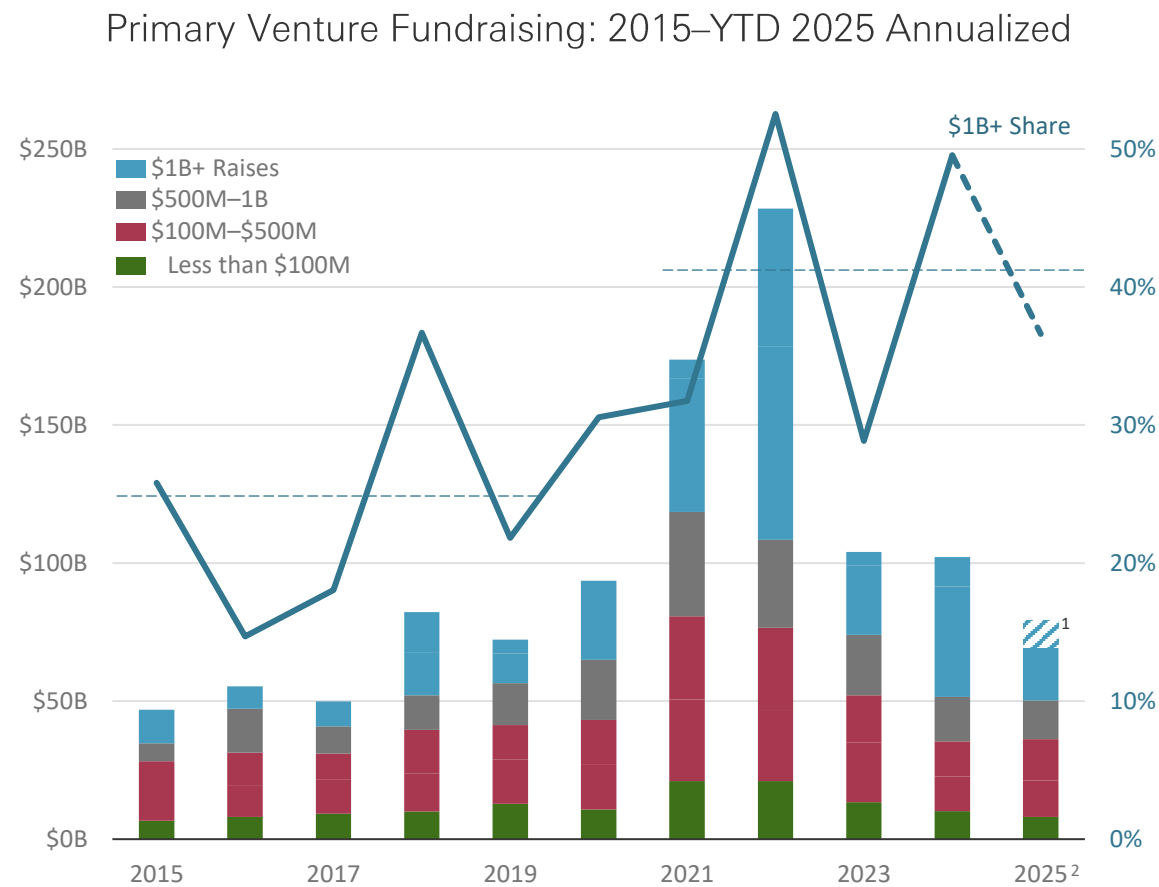
Sources: PitchBook and HSBC Innovation Banking analysis.

# Commitments to Venture Funds Slow in 2025

## LPs Reduced Deployment, But Top End Funds Continue Rise

- ◆ The concentration of capital into the largest venture firms continued its streak. More than 40% of capital since 2021 has been raised by \$1B+ funds, compared with 25% in 2015–2019.
- ◆ Sub-\$100M funds have seen a stark 65% drop in capital raised since the peak in 2021. This compares to just a 27% decline in smaller-dollar venture investment (rounds under \$25M) into startups.
- ◆ Familiar names make up much of the top-end fundraising in 2025, with most of these investors on their 7<sup>th</sup> or later fund. U.S. Innovative Technology out of Pittsburgh, PA, is the only newly-formed fund.

### Mega-Funds Slow, but Remain More Than One-Third of Capital



### Mega-Raises: 2025

Investor	Funds
ANDREESSEN HOROWITZ	\$10B <sup>1</sup>
FOUNDERS FUND	\$5.6B
GREENOAKS	\$2.5B
Cosmic Management	\$2.5B
US Innovative Technology Fund	\$1.8B
FRAZIER HEALTHCARE PARTNERS	\$1.3B
TCGX	\$1.3B
8VC	\$1.0B
EMERGENCE	\$1.0B
SignalFire	\$1.0B
SEQUOIA	\$0.97B

Notes: 1) Includes reported \$10B anticipated to be raised this year. 2) 2025 data annualized based on data through Oct. 31, 2025.  
Sources: Financial Times, PitchBook and HSBC Innovation Banking analysis.

# AI Investment: Unevenly Distributed



# With Foundation Largely Set, Applications Proliferate

## 100s of Venture-Backed Firms Building Atop a Handful of Foundational Models

- ◆ Foundational model leaders have consolidated outsized value, with a small set of players (OpenAI, Anthropic, and xAI) capturing the majority of capital, talent, and influence leaving limited room for true challengers at the core infrastructure layer.
- ◆ Much of the deal activity has occurred at the application layer, with 140 different unicorns. These companies are now racing to convert early differentiation into revenue scale and sustainability.
- ◆ Companies bringing AI to the physical world have gained meaningful traction in massive markets such as self-driving vehicles, robotics, defense technology, and life sciences research.

### Value Concentration of \$2T in U.S. AI Unicorns

Sized by Last Known Valuation<sup>1</sup>

#### Applications: \$595B

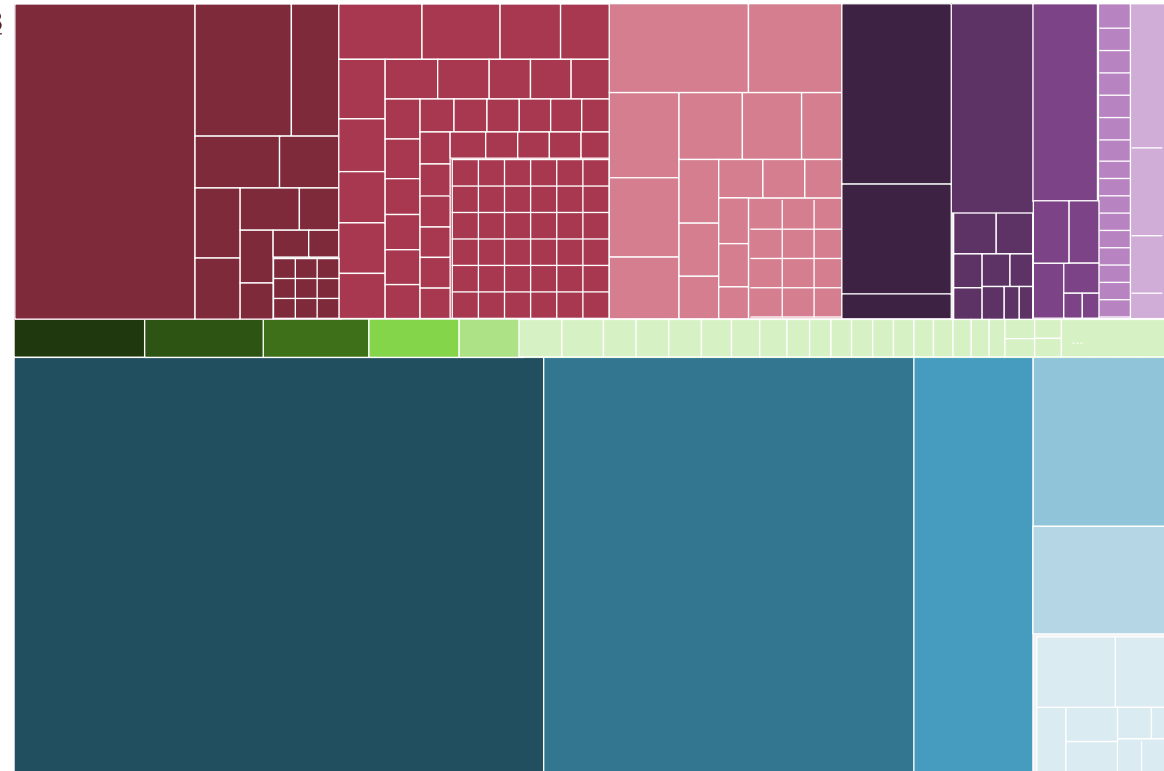
Service / Enablement  
Vertical-Focus  
Horizontal-Focus

#### Infrastructure Optimization: \$89B

#### Foundational Layer & LLMs: \$1.09T

#### Physical AI: \$232B

Autonomous Vehicles  
Robotics / Humanoids  
Defense  
Science  
Intelligence / Sensors



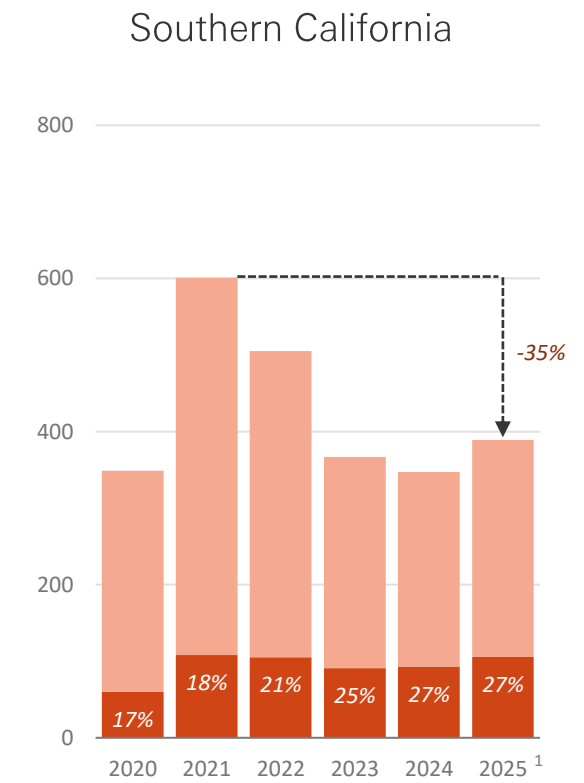
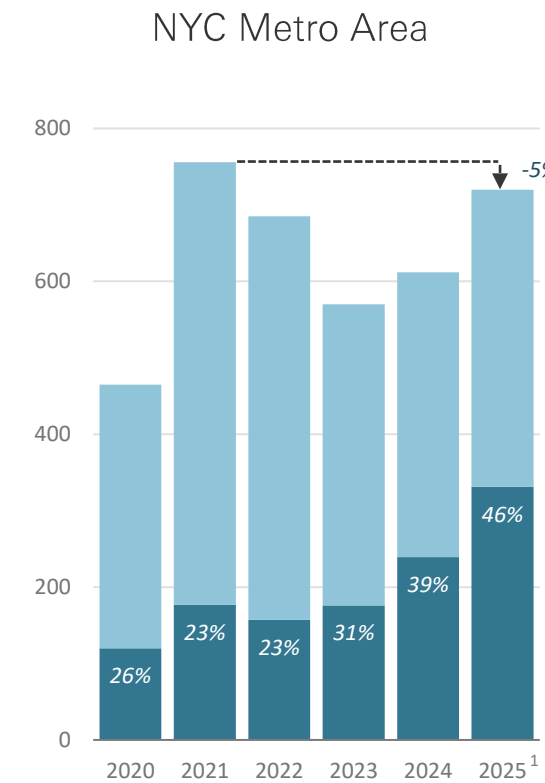
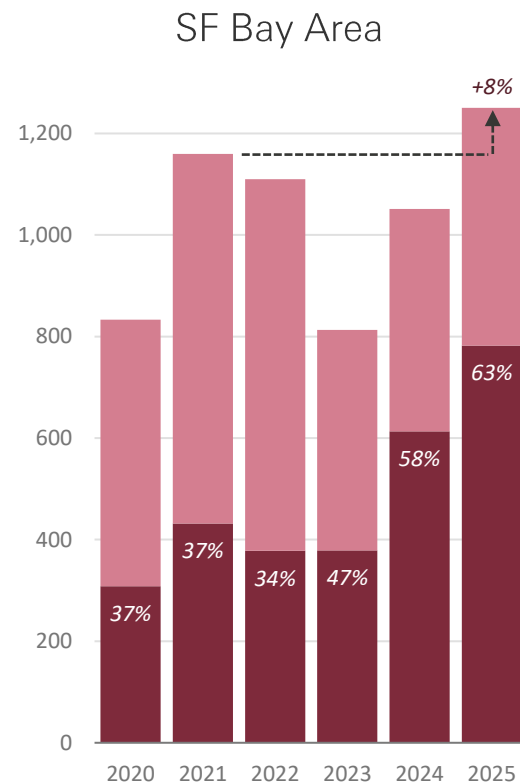
# AI is Powering SF and NYC Back to Mid-Pandemic Highs

## Venture Hot Spots Benefit from Expanding Focus on AI Investment

- ◆ In the Bay Area and New York, a depth of AI talent and capital have powered early-stage venture activity back to levels reached during mid-pandemic ZIRP exuberance.
- ◆ The share of investment rounds going to AI-focused startups in both of these top markets exceed the national average (43%) drove a rebound from lower velocity in 2022–2024.
- ◆ The third largest market, Southern California, has not seen the same surge in early-stage activity as fewer AI companies were funded in this region.

### U.S. Early-Stage Venture Capital Activity by Region: 2020–YTD 2025 Annualized

■ Deals to Non-AI Focused Startups  
■ Deals to AI Startups (with % of Total)

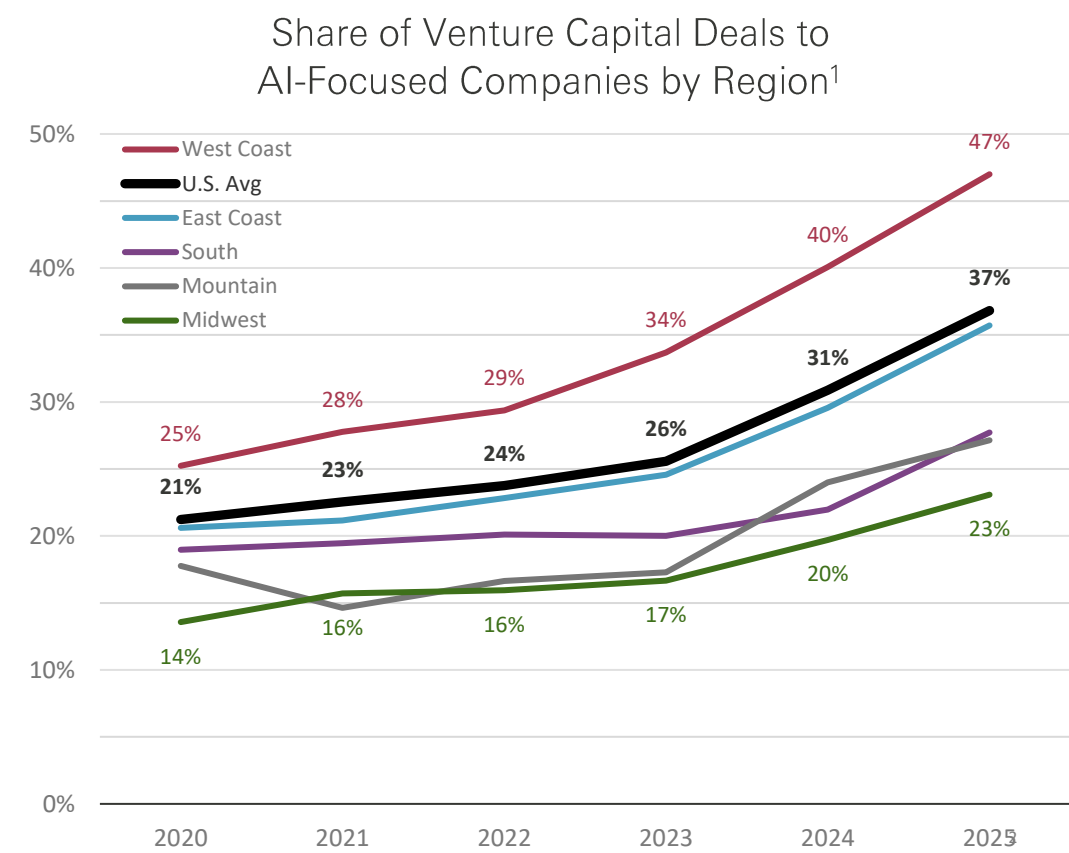


# Moving Outside-In, AI Spreads Nationally from the Coasts

## Middle Regions Trail Behind in AI, Retain Focus on Geographically Relevant Niches

- ◆ Venture funding directed towards AI-focused companies has not been evenly split, with the West Coast driving the U.S. average higher and the East Coast tracking closely. The remaining markets trail that average by 10 percentage points or more.
- ◆ While the focus on AI is deserved, nearly three-quarters of startups raising capital in the middle of the country are working outside the AI exuberance, focusing on geographically relevant segments.
- ◆ Will these startups remain resilient, safe from the expanding bubble for AI disruption or fall behind this next generation of technology?

### Regional Venture Activity Trends & Niches



### Notable Verticals by Region for Non-AI 2025 VC Deals<sup>3</sup>

- South**
  - Supply Chain Tech
  - Oil & Gas
  - Real Estate Tech
- Mountain**
  - Climate Tech
  - Space Tech
  - Industrials
- Midwest**
  - Ag Tech
  - Health Tech
  - Manufacturing

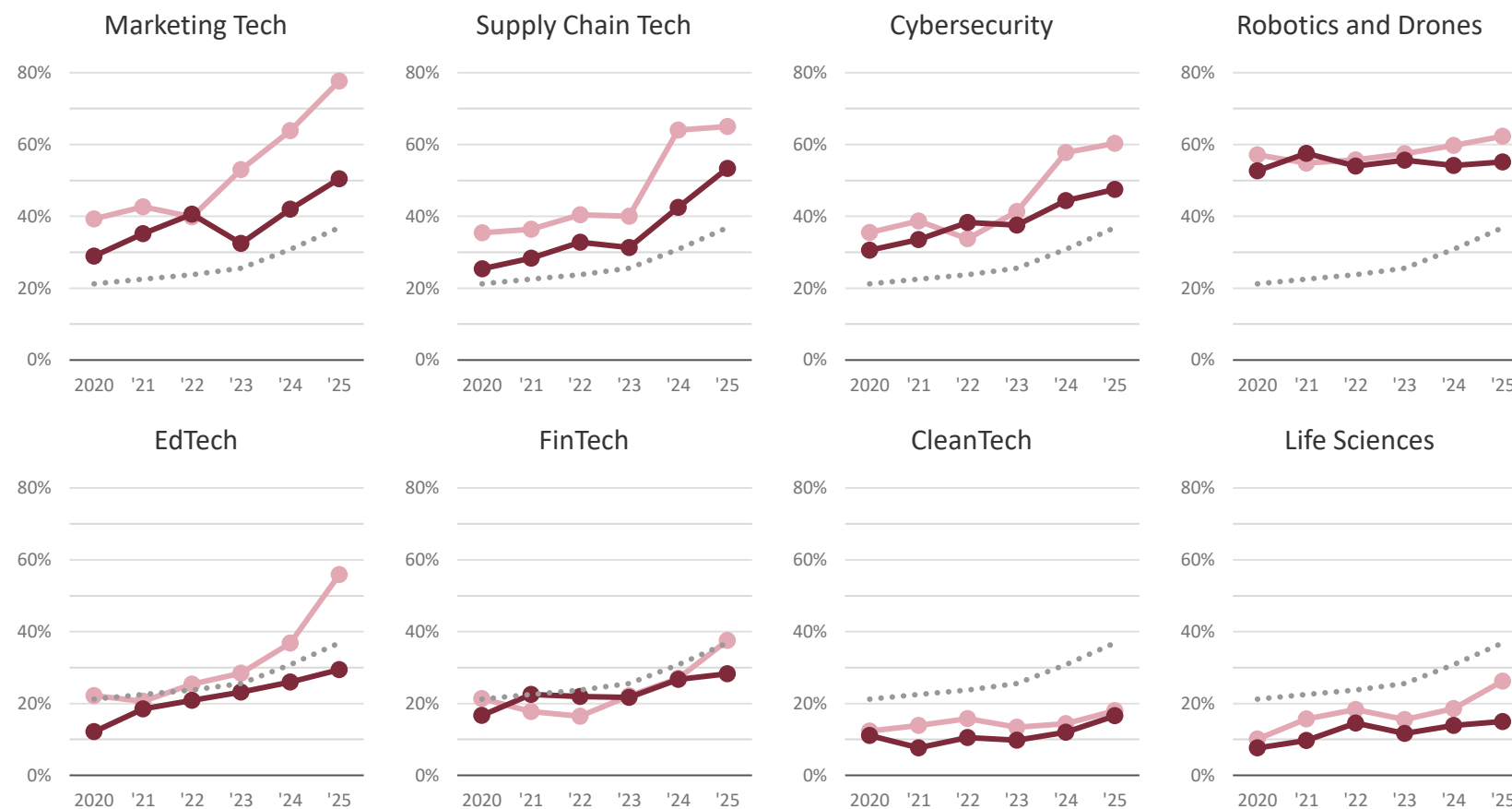
Notes: 1) West: AK, CA, GU, HI, OR, WA. East: CT, DC, DE, MA, MD, ME, NH, NJ, NY, PA, RI, VA, VT, WV. South: AL, AR, FL, GA, KY, LA, MS, NC, OK, PR, SC, TN, TX, VI. Midwest: IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI. Mountain: AZ, CO, ID, MT, NM, NV, UT, WY. 2) 2025 data through Oct. 31, 2025. 3) Based relative share of 2025 deal count excluding AI-focused startups. Sources: PitchBook and HSBC Innovation Banking analysis.

# AI's Impact Climbs Across *Most* Verticals

## Vertical-Specific Factors Drive Adoption and Investment Trends

- ◆ Sectors with ample unstructured data and limited downside to experimentation (e.g. Marketing Tech, EdTech) have seen relatively rapid climbs for AI startups.
- ◆ Verticals with highly structured data (FinTech) or those with high real-world consequences for inaccuracy (CleanTech, Life Sciences) have seen slower uptake in AI deals.
- ◆ Industries with significant data and high impact use cases (Supply Chain Tech, Cybersecurity, Robotics) have seen early AI adoption and a higher proportion of the first wave of AI startups maturing into later stage venture investment opportunities.

**AI Deals as % Vertical Total** — Early Stage VC in Sector — Later Stage VC in Sector ..... Average of All US VC



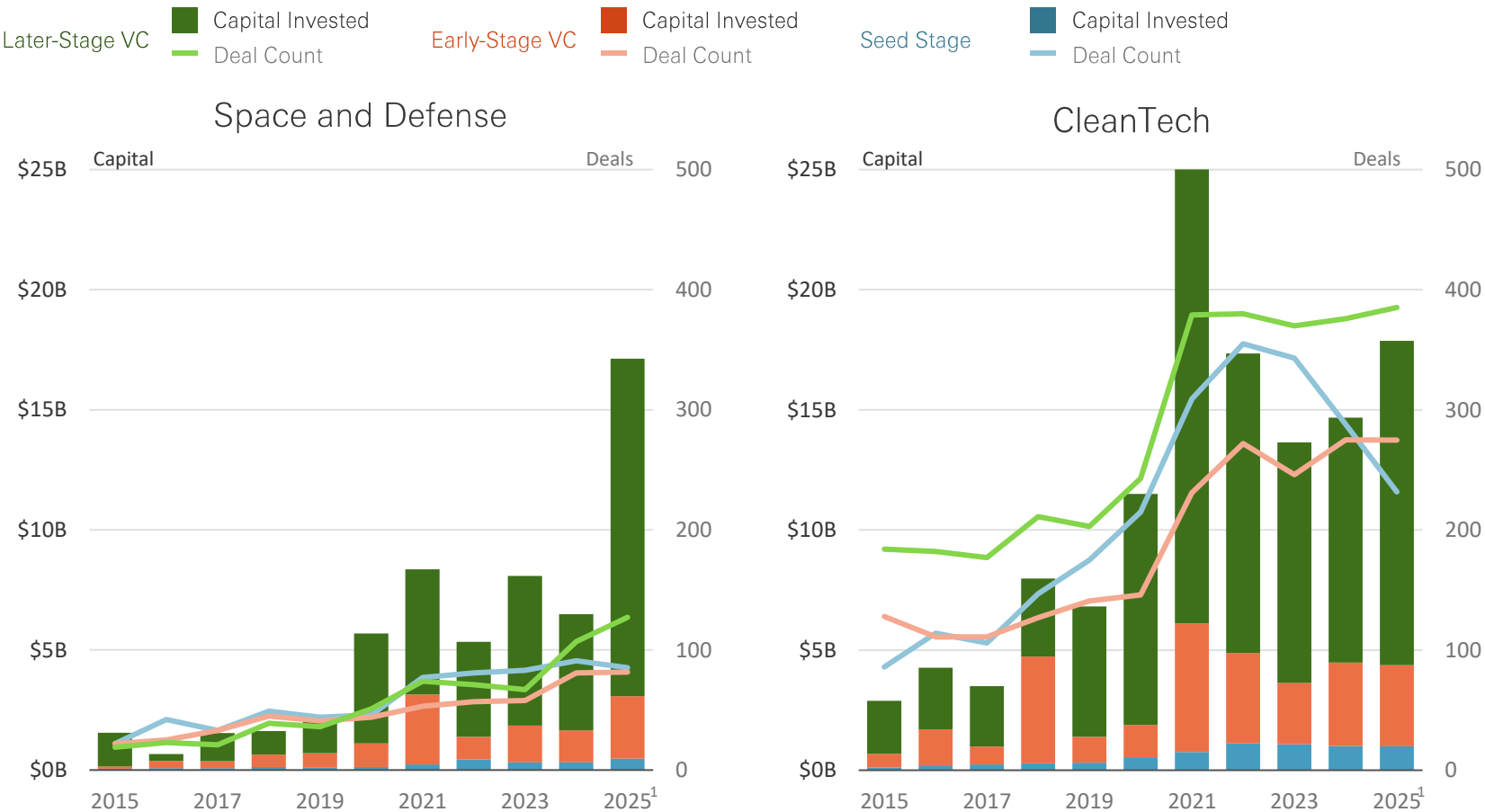


# Defense and Space Venture Dollars Soar; CleanTech Resilient

## Two Capital-Intensive Subsectors at Political Crossroads

- Investment in aerospace and defense companies has rocketed to more than \$15B projected by year-end, led by two massive \$2.5B dollar deals into Anduril and World View and supported by political tailwinds under a new administration.
- Political headwinds have curbed venture investment in CleanTech from its peak in 2021, with Seed rounds down 30% or more from Biden-era highs.
- Activity for CleanTech at the later stages has proven robust as power demand for AI data centers drives investment in firms disrupting power generation technologies or adding efficiency for existing systems.

Sector Investment by Venture Stage: 2015–YTD 2025 Annualized



Note: 1) 2025 data annualized as of October 31, 2025.  
Sources: PitchBook and HSBC Innovation Banking analysis.

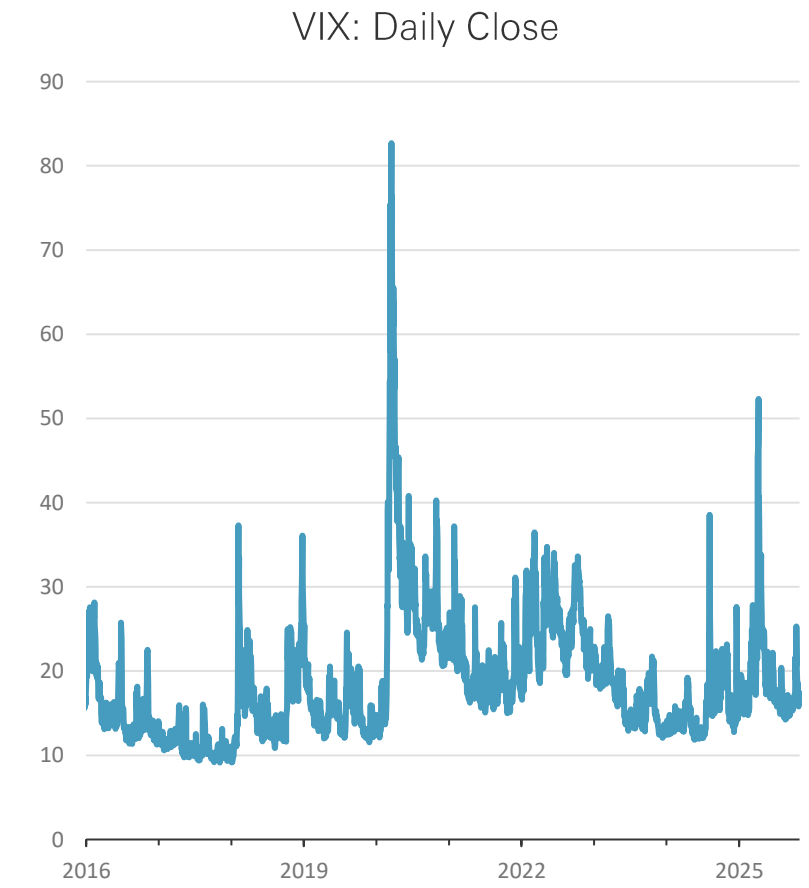
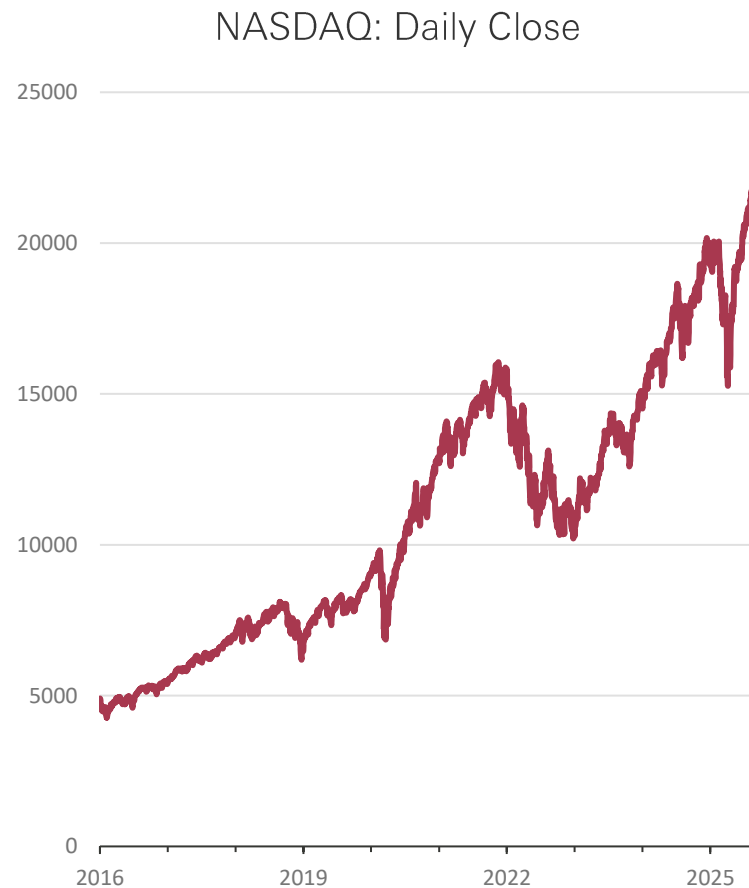
# **Exits: High Risk, Huge Reward**

# Markets Supportive, but Thin Margin for Error

Valuations and Volatility are Manageable, but Windows Move Fast

- ◆ Firms seeking a public debut look for valuation momentum and limited volatility. Venture-backed firms seek opportunities when growth is rewarded by investors and prefer calm waters before taking the leap, given pressures to perform and the public share lock-up period.
- ◆ Tech firms have set record highs on the back of strong earnings growth and high expectations for AI. Valuations are priced to perfection with little margin for error.
- ◆ Tariffs provided a shock to the system to start 2025, injecting volatility that has since leveled out during the second half, with the VIX averaging below 20.

## IPO Window Indicators: January 2016–October 2025

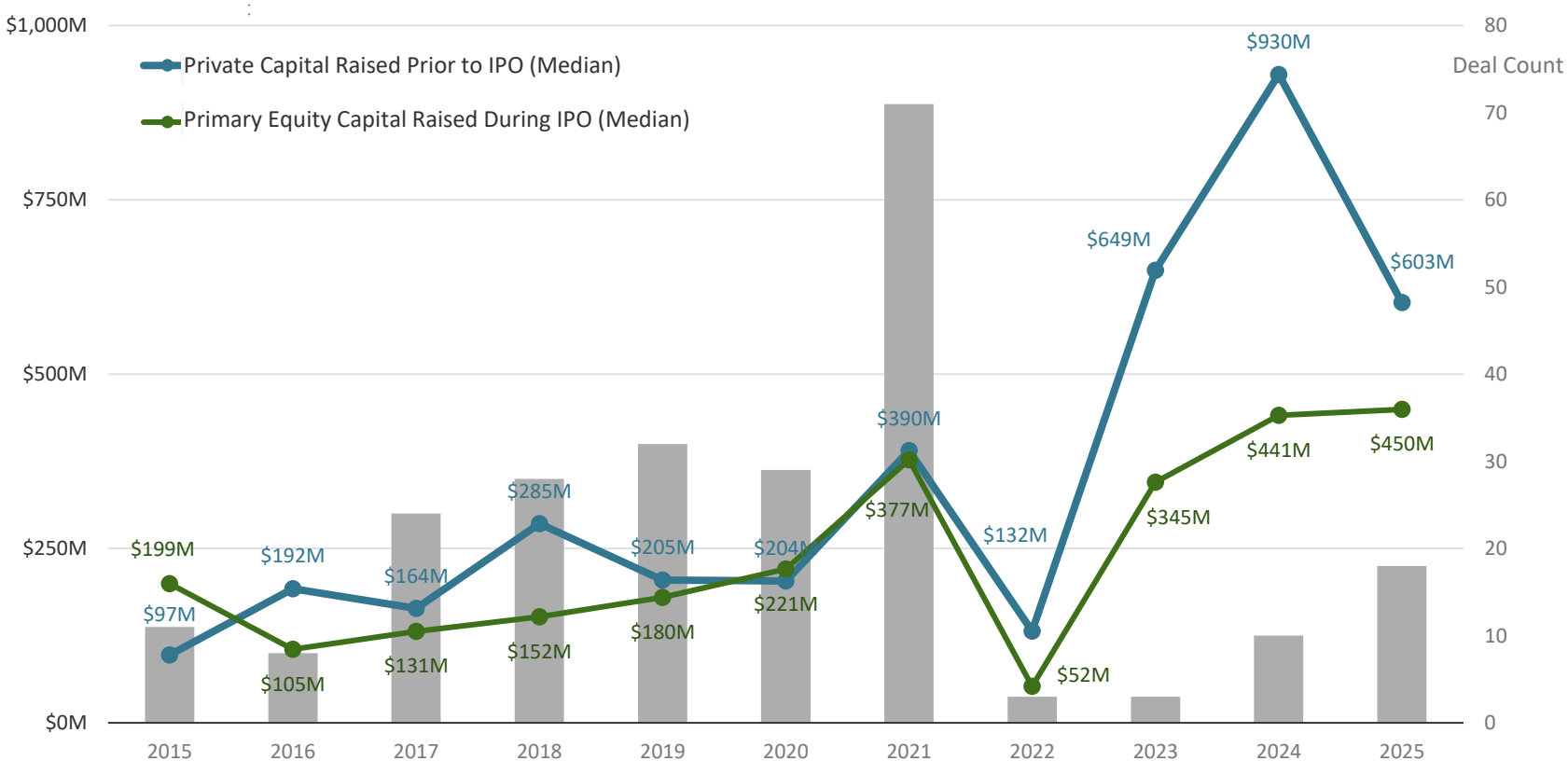


# Long-Funded Companies Find Opportunity to List

## Re-opening of the IPO-window in Early 2025 Provides Some Limited Liquidity Relief

- ◆ The venture-backed companies listing today benefited from readily-accessible private capital in 2021–2022. After the inflation-related correction, this new era of IPO candidates have raised more than twice as much capital from the private markets, on average, than companies listing during the 2010s.
- ◆ These offerings are predominantly to achieve liquidity for those investors rather than a desire for primary capital.
- ◆ With valuations and volatility on their side, 2025 has seen more public listings through three quarters than 2022–2024 combined, but still below the levels necessary to return substantial liquidity to LPs.

U.S. Listings of Venture-Backed Companies: 2016–October 2025



Note: 1) 2025 data presented as of October 31, 2025.  
Sources: PitchBook and HSBC Innovation Banking analysis.

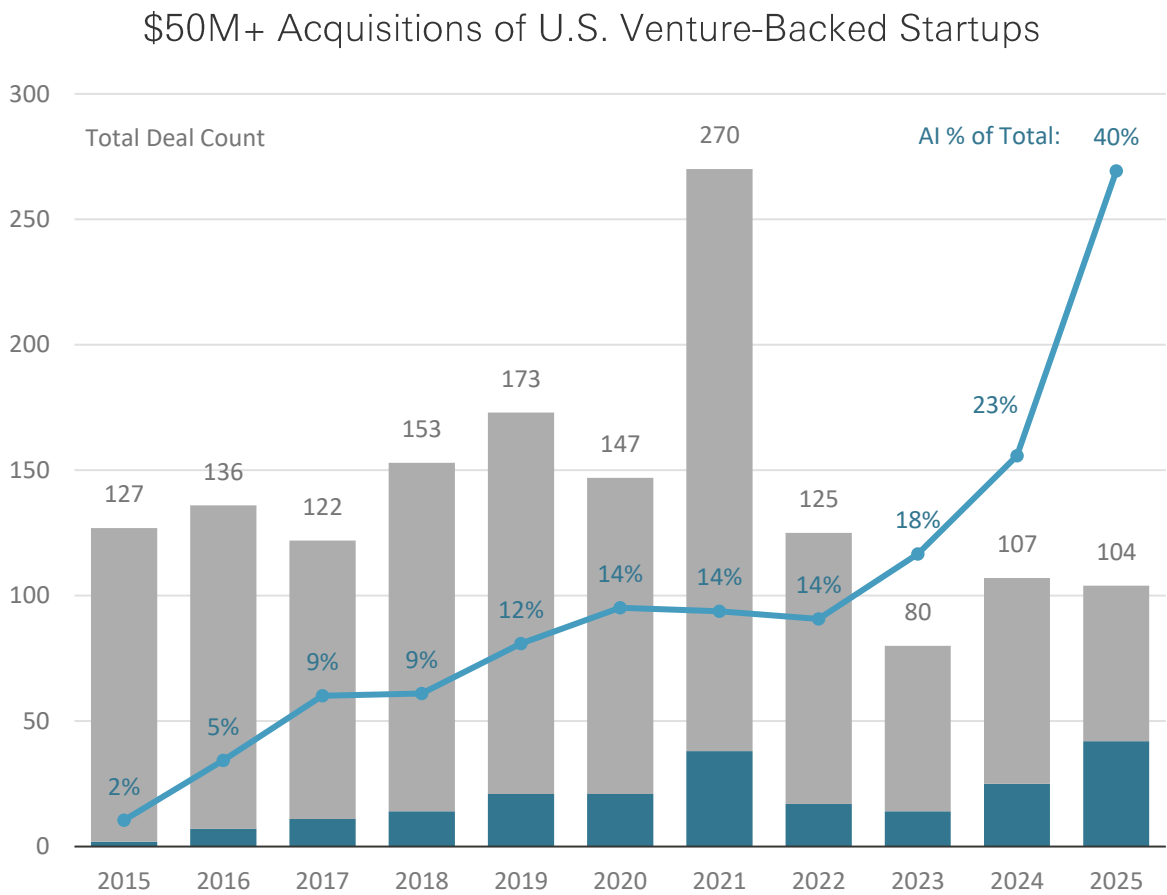


# Fewer Deals with Narrowed Focus on AI Companies

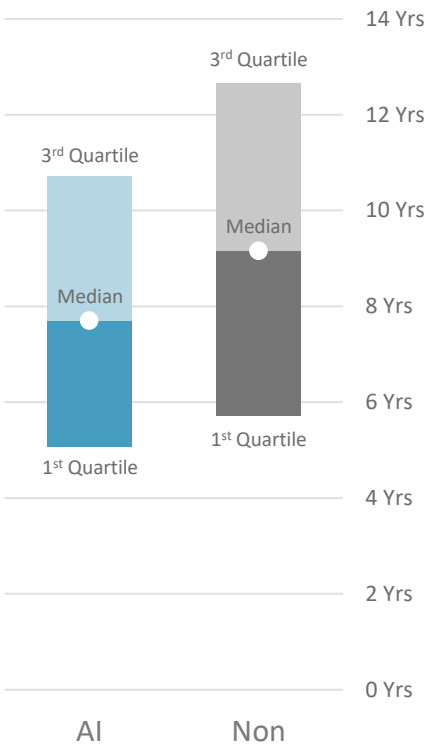
## M&A Activity has Not Provided Adequate Liquidity Relief as Acquirers Target AI

- ◆ Following similar trends to investment and GP fundraising, exit activity for venture-backed startups has cooled considerably from its peak in 2021 despite a looser anti-trust posture from the new administration.
- ◆ AI-focused startups now represent 40% of \$50M+ acquisitions, even higher than AI's share of venture investment (37%).
- ◆ Acquisitions of AI companies on average have taken place earlier in the company's lifecycle. However, fewer than 10% of even the AI-focused exits in 2025 were founded after the November 2022 release of ChatGPT. That wave has yet to realize their staggering valuation creation.

### Venture-Backed M&A Trends: 2015–YTD Annualized 2025



### 2025 Acquisitions: Time to Exit



Note: 1) 2025 data annualized as of October 31, 2025.  
Sources: PitchBook and HSBC Innovation Banking analysis.

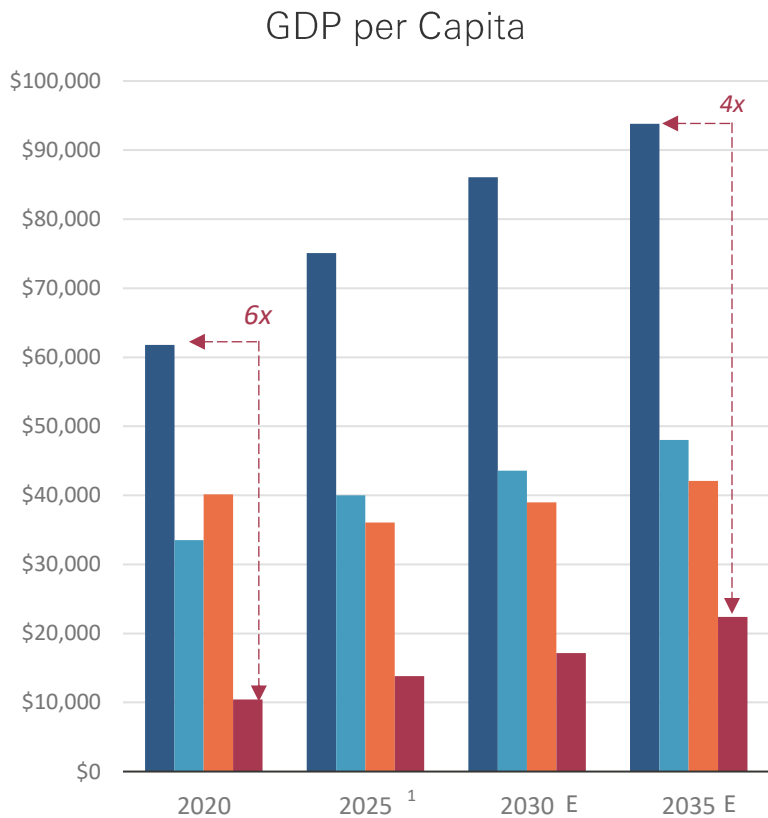
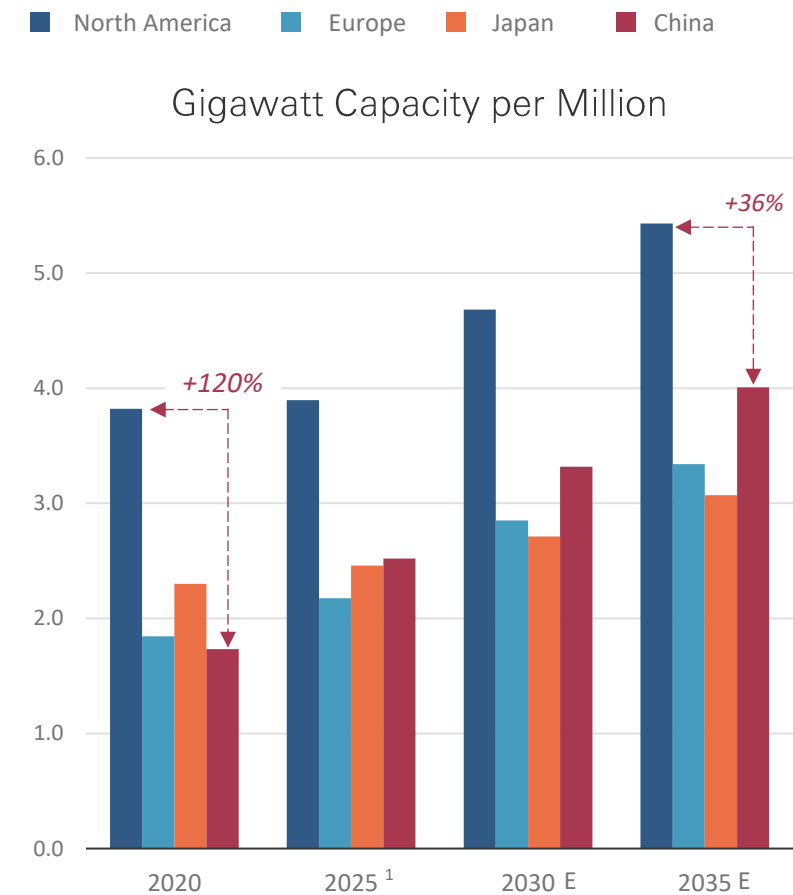
# Geopolitical: Powering Sovereign AI

# Adding Capacity, Closing the Gap

Compute, powered by Electrons, is the Currency of the AI Future

- ◆ The new race is for the currency of the future, compute, which currently is directly derived from access to electrons to power Jevons paradox of AI capabilities. While global energy capacity rapidly expands to fuel the oncoming AI technological revolution and the U.S. is proudly committing trillions to capacity, China is closing the gap as the rival economic superpower.
- ◆ Historically, access to energy has had a direct impact upon the ability of an economy to expand. The economies most heavily investing in the expansion of energy capacity are forecast to grow GDP the fastest, with China leveraging its investments in energy capacity to continually pressure American economic dominance.

## “Electrons per Capita” Narrows



Note: 1) 2025 data presented as of October 31, 2025.

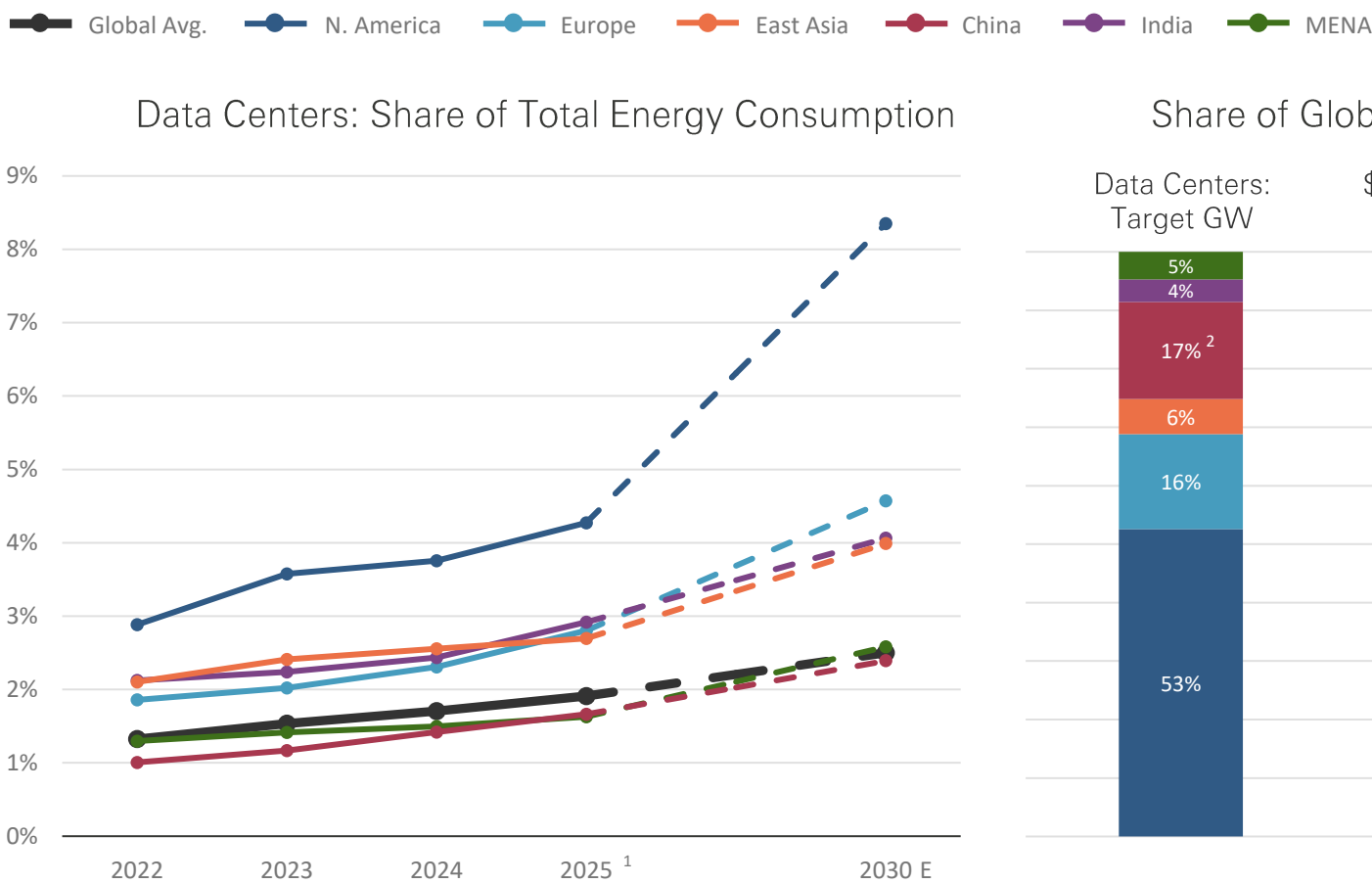
Sources: Congressional Budget Office, Eurostat, World Bank, International Monetary Fund, International Energy Agency, and HSBC Innovation Banking analysis.

# America's Attention to AI Energy, Exceptionally Invested

## Data Centers' Share of Expanding Total Energy Usage Set to Double

- ◆ AI-driven energy demand is accelerating fastest in North America, where data centers' share of total electricity use is projected to more than double by 2030, more than triple the global average.
- ◆ Other global regions anticipate steady but more moderate growth, suggesting a widening gap in AI infrastructure intensity as U.S. firms announce over \$2T in projects in the coming years.
- ◆ Investment concentration mirrors infrastructure dominance: North America represents more than two-thirds of AI mega-rounds in 2025, reinforcing a strong lead in both compute build-out and next-generation scaleups.

### Data Centers: Coming Supply and Demand



Notes: 1) 2025 data presented as of October 31, 2025. 2) China data based on public company reports, which likely underestimates total national target.

Sources: International Energy Agency, U.S. Energy Information Administration, SemiAnalysis, PitchBook, earnings and press releases, and HSBC Innovation Banking analysis.



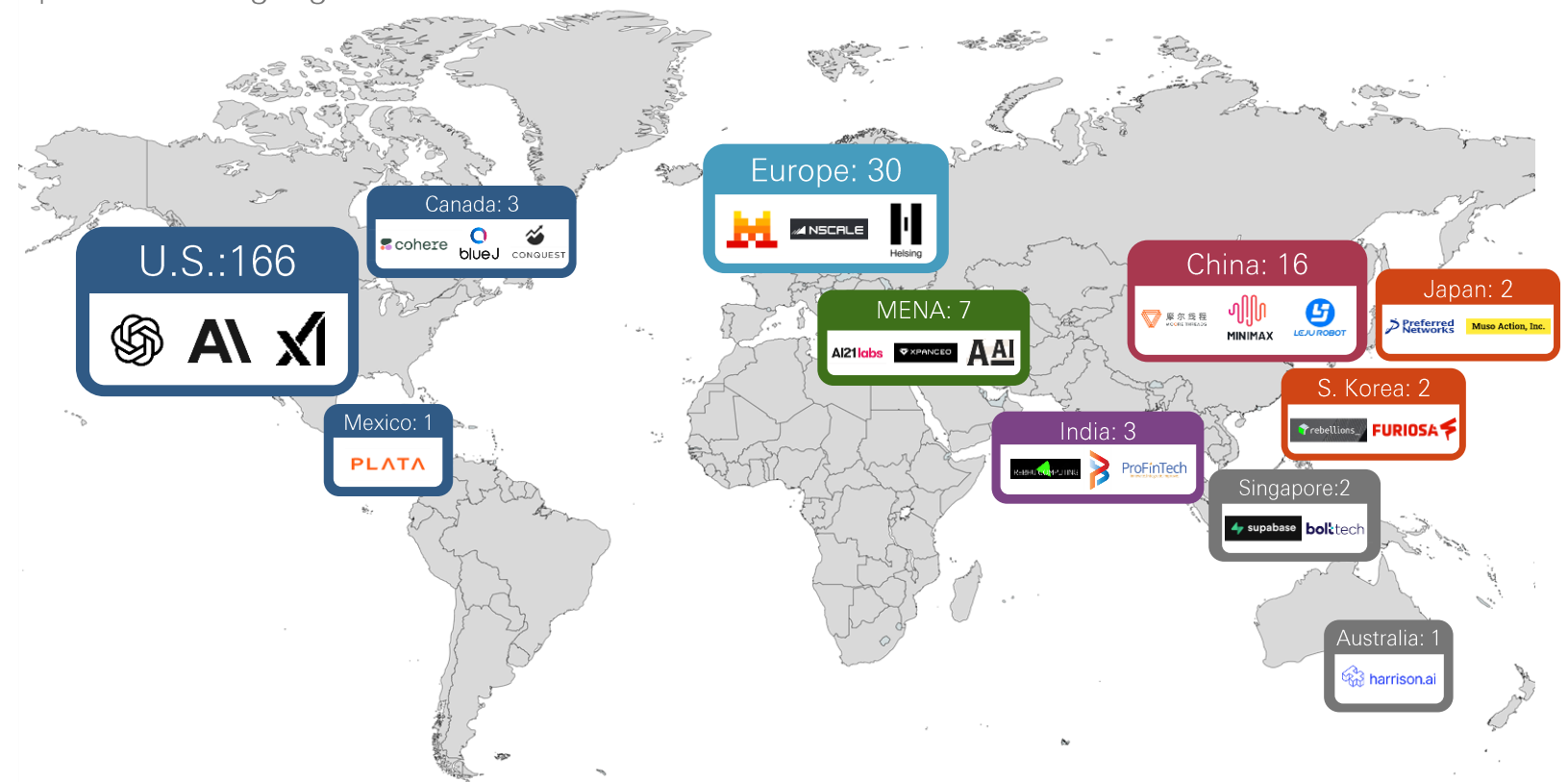
# Mega-Rounds Abound Abroad

While U.S. Dominated, Startups in 21 Other Countries Raised \$100M+ Rounds

- ◆ Global investment in AI scale-ups continues to expand, with companies in 22 countries raising \$100M+ rounds, up from 18 in 2024 and 16 in 2023.
- ◆ AI firms in Europe and North America were more likely to focus on enterprise and financial technologies, whereas East Asia comparatively skews towards robotics and other physical applications.
- ◆ The U.S. still remains the epicenter both by company count and capital raised, claiming 13 of the Top 15 rounds in 2025.

## \$100M+ AI Venture Rounds by Company HQ Region: YTD 2025

Top 3 Raises Highlighted



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