The U.S. Equity Capital Market: Opportunities and Setbacks — Exploring Alternative Options

Introduction

Just a few months ago in our previous articles, we highlighted the growing strength of European capital markets, the appeal of the U.S. for new listings, and India's booming IPO market. Today, the landscape has shifted dramatically. Early 2025 showed some signs of recovery in the U.S. IPO market after a prolonged slowdown driven by high interest rates and geopolitical tensions. However, renewed volatility, sparked by Trump's tariff announcements, has rattled investor confidence and caused several high-profile companies, including Klarna, Medline, eToro, and StubHub to delay their plans to go public. Moreover, India, once expected to maintain its IPO momentum, is now struggling to attract investors. Despite strong domestic retail investment in 2024, several major IPOs, including a $1bn-plus listing of the Indian arm of South Korea's LG, have been put on hold. In the first quarter of 2025, Indian equity deal volume dropped to $6bn, with only 41 IPOs launched, compared to $15.9bn in the same period a year earlier. With uncertainty clouding major markets, key questions arise: How long will this slowdown last? Are there regions resisting the trend? And can companies still pull off successful IPOs in the U.S. despite the volatility? These are some of the issues we will try to address in this article.

Why did CoreWeave's IPO fall short of expectations?

CoreWeave [NASDAQ: CRWV] was founded by three commodity traders — Michael Intrator, Brian Venturo, and Brannin McBee. Previously known as Atlantic Crypto, the company initially focused on mining Ethereum using GPUs. In the aftermath of the 2018 cryptocurrency crash, the company leveraged its vast GPU inventory to provide cloud computing infrastructure to clients. In 2019, it was renamed CoreWeave. The business model centres on securing financing, acquiring GPUs, and renting them to companies through long-term contracts. In 2024, the company reported a 737% YoY revenue growth and initially disclosed a 64% adjusted EBITDA margin. However, on a GAAP basis, it operates at a 45% net loss margin. The adjusted EBITDA figure can be misleading, as it excludes several significant costs incurred by the business. For example, it does not account for $360m in interest on GPU-backed debt. Additionally, management extended the useful life of chips to 5–6 years, reducing reported costs by $20m. Most notably, the figure excludes $836m in AI hardware depreciation — a key operational expense. CoreWeave remains far from profitability, posting an $863m loss in 2024. Nevertheless, in March 2025, the company went public, aiming to raise $2.7bn at a price range of $47–$55 per share. However, it only managed to raise $1.5bn at $40 per share. The stock fell to a low of $39 the day after the IPO and closed flat at $40. It quickly gained momentum, rising 42% to close at $52.50 on the third day of trading, largely driven by investor confidence in AI infrastructure.

There are several potential reasons why the offer had to be downsized and failed to reach the initial price range. Firstly, it is likely that the underwriter pitched an overly optimistic price range to win the mandate, which did not align with investor feedback. Once expectations were set, management was reluctant to lower the issuance price. Secondly, the specific structure of the listing may have contributed to the poor performance. Only Class A shares were sold in the IPO, resulting in 79% of the voting rights being retained by the three co-founders — significantly limiting shareholder influence on decision-making. Moreover, the order book was heavily concentrated, with just three investors owning 50% of the issued shares, leading to low post-IPO trading activity. Although syndicate banks claimed that the offering attracted strong demand from mutual funds early on, this did not translate into a successful IPO — suggesting a lack of quality in the demand. It is likely that hedge funds inflated their orders to secure better allocations, as syndicates often favour long-only investors. By placing larger orders, funds aim to position themselves as more favourable investors, thereby increasing their chances of receiving a higher allocation of shares. This strategy is typically employed in the early stages of bookbuilding to maintain flexibility in case a more attractive opportunity arises, or market conditions deteriorate over time.

Additionally, the decline in CoreWeave's share price forced NVIDIA [NASDAQ: NVDA] to step in as an anchor investor, acquiring $250m worth of shares in attempt to stabilize the stock. An anchor investor is a pre-IPO participant that purchases shares before a company goes public. For the issuing company, securing a reputable anchor investor typically enhances the IPO's credibility. These investments often include a lock-in period during which the investor cannot sell their shares, helping to ensure price stability. However, NVIDIA's investment did not deliver the intended results, as it was a last-minute decision. Anchor investors typically invest early in the IPO process to build confidence among other investors, while NVIDIA's late entry appeared more like a rescue effort to prevent the IPO from failing, rather than a strategic endorsement. Furthermore, the market has taken a critical view of NVIDIA's relationship with CoreWeave, which is simultaneously its customer, supplier, and a 6% shareholder.

Finally, CoreWeave's questionable business model — heavily reliant on a concentrated supplier and customer base — contributed to the underperformance of the offering. Microsoft [NASDAQ: MSFT] is CoreWeave's primary customer, accounting for 60% of the company's revenue. This concentration poses a significant risk, as it makes CoreWeave heavily dependent on Microsoft's ambitions in the AI space. While Microsoft's AAA credit rating minimizes the risk of default on contractual obligations, CoreWeave cannot be certain whether the contract will be renewed in 2030. Such uncertainty is highly unfavourable to investors. This raises the question: why would a company as large as Microsoft rent AI infrastructure rather than build it in-house? The answer lies in financial structuring — CoreWeave's services can be treated as off-balance-sheet items, which benefit Microsoft's financial reporting. In an effort to diversify its customer base, CoreWeave recently closed a $12bn contract with OpenAI. While this is a step in the right direction, OpenAI is considered a higher-risk counterparty, thereby increasing CoreWeave's overall counterparty risk. Additionally, CoreWeave has a significant debt load, with $7.5bn in debt obligations due by the end of next year. Moreover, given the inherent risks associated with fast-growing tech companies, CoreWeave is paying a high interest rate, estimated to be in the lower double digits. In 2024, the company experienced a cash burn of $6.9bn and had only $1.4bn remaining — enough to sustain operations for just two months at the same rate of outflow. This financial pressure underscores the company's commitment to proceeding with the IPO, even at a significantly discounted price. As noted earlier, CoreWeave's business model represents a highly leveraged bet on future demand for AI infrastructure — and on its ability to rent that infrastructure at profitable rates. This uncertainty played a major role in the underperformance of the offering.

To conclude, CoreWeave's IPO was expected to be one of the largest tech IPOs, with a projected valuation of $35bn. However, the downsized fundraising and the stock's underperformance reflect a persistent cooling of the IPO market, caused by an unfavourable macroeconomic environment and ongoing geopolitical tensions. Additionally, investors have become increasingly risk-averse, making it more difficult for companies to achieve high valuations. While AI is undoubtedly a key development of the future, the "AI" label alone is no longer sufficient to guarantee a successful IPO. We can also expect a spillover effect beyond the tech sector, with other companies likely becoming more cautious about rushing to go public.

Potential Threats to Chinese ADR Regime: Winners and Losers

Unfortunately, IPOs falling short of expectations, are not the only challenge currently affecting U.S. capital markets. Rising trade tensions between the U.S. and China are also increasing the risk of involuntary delisting of Chinese American Depositary Receipts (ADRs). Before exploring this issue further, we need to understand what ADRs are and how they function. ADRs are negotiable certificates issued by a U.S. depositary bank that represent ownership of a specified number of shares (usually 1 share) in a foreign company's stock. To create an ADR, a U.S. bank purchases shares on a foreign exchange, holds them as inventory, and then issues ADRs denominated in U.S. dollars for trading within the United States. These ADRs can be traded on major exchanges such as the NYSE, Nasdaq, or over the counter. Thus, ADRs offer U.S. investors a convenient way to invest in foreign companies that would otherwise be inaccessible. At the same time, they allow foreign firms to raise capital and attract American investors without the complexities of directly listing on U.S. stock exchanges.

As of March 7, 2025, 286 Chinese companies were trading on U.S. stock exchanges, with a total market capitalization of $1.1tn, primarily through American Depositary Receipts. This marks a $250bn rise from the beginning of 2024, when there were 265 listed firms worth $848bn. Despite escalating U.S.-China tensions, 48 Chinese companies have launched IPOs on U.S. markets since January 2024, raising $2.1bn. Investors are increasingly concerned about the possibility of Chinese ADRs being delisted, as emphasized in President Trump's America First Investment Policy, which outlined concerns over broader restrictions on U.S. investments in China, auditing standards for ADRs, and the investability of firms listed on the Chinese Military Companies List. These concerns intensified after U.S. Treasury Secretary Scott Bessent stated "everything is on the table" following China's retaliatory tariffs. In a worst-case scenario, U.S. investors could be forced to divest up to $800bn from Chinese stocks, while Chinese investors might have to sell $1.7tn in U.S. assets—$370bn in stocks and $1.3tn in bonds. Although ADRs with dual listings can typically be swapped for local shares, firms like PDD [NASDAQ: PDD], which lack such listings, face greater uncertainty.

Significant delistings of Chinese firms from U.S. stock exchanges have already occurred in the past. For instance, an audit transparency law introduced during the first Trump administration conflicted with a Chinese regulation that prohibited such financial information from being shared abroad. As a result, by 2023, all Chinese state-owned enterprises delisted their ADRs to avoid disclosing data Beijing considered sensitive. Moreover, in response to earlier delisting threats, major U.S.-listed Chinese companies, including Alibaba [NYSE: BABA], JD.com [NASDAQ: JD], and Baidu [NASDAQ: BIDU], secured primary or secondary listings in Hong Kong to maintain investor access. Now Chinese companies face a renewed risk of unvoluntary delisting, making it crucial to assess the potential options available to investors.

Investors in Chinese ADRs with a Hong Kong listing can convert their holdings by canceling the ADR and transferring the equivalent shares to a local broker, with no new shares being created. Some may also sell on over-the-counter markets, though this is blocked for companies under U.S. sanctions or delisted by the Holding Foreign Companies Accountable Act. If no action is taken, the ADR program will close, and the depositary will sell the shares and distribute cash proceeds after fees. However, according to Goldman Sachs, 7% of the total ADR market value is held by U.S. institutions that may be unable to trade in Hong Kong, potentially forcing them to sell their assets at low prices. Notably, 5% of Alibaba's [NYSE: BABA] and 3% of PDD's [NASDAQ: PDD] shares are owned by such institutions. Furthermore, for firms without Hong Kong listings, options are limited: only 27 ADRs could qualify for listing there, while around 170 are ineligible and may need to consider privatization or other exit strategies if forced to delist from the U.S.

Companies that meet Hong Kong Stock Exchange (HKEX) criteria, such as market capitalization, revenue, voting rights, and regulatory compliance, can apply for either a dual-primary or secondary listing there. According to Goldman Sachs, since 2015, 24 companies have used HKEX's "listing by introduction" route, which allows firms to shift their existing shares from another exchange without issuing new stock. Carmaker Nio [NYSE: NIO], for example, used this method in 2022. This approach is generally faster than traditional listings, requiring only a sponsor rather than full underwriting. Listings by introduction still fall under dual-primary or secondary listing rules, and companies become eligible for Southbound Stock Connect inclusion after trading in Hong Kong for 6 months and 20 days. As the third-largest exchange in Asia, HKEX is actively updating its rules and mechanisms to welcome more U.S.-listed Chinese firms.

While more Chinese companies are registering dual listings with Hong Kong's Central Clearing and Settlement System, the outlook is not entirely positive. Even those few firms able to quickly shift to a primary Hong Kong listing would face significantly lower trading volumes compared to the U.S. Additionally, U.S. asset managers are less willing to promote Hong Kong-listed Chinese stocks, meaning these companies often rely only on capital from Asian and Gulf investors. As a result, delisting risks could lead to a 9% drop in ADR valuations. However, Chinese firms could benefit from growing "southbound" capital flows through the Hong Kong-Shanghai-Shenzhen Stock Connect, which has brought in around $76bn so far this year, according to Goldman Sachs. Chinese companies also have a much larger presence in Hong Kong than in the U.S., with over 1,400 firms listed and $4.5tn raised, which is four times more than the $1.1tn raised in the U.S. This suggests that Hong Kong could be a natural choice for Chinese companies if Trump's administration revives delisting efforts.

To conclude, while Hong Kong stands to gain from an inflow of Chinese firms seeking local listings, a complete U.S. investment ban would be damaging for all sides. In such a scenario, American investors could be forced to offload up to $800bn in Chinese equities, potentially the largest cross-border sell-off in modern financial history. But for now, U.S. and Chinese officials have begun trade talks, and investors are hopeful that tensions will ease. In the meantime, Chinese companies are still pursuing U.S. listings, with the latest example being Shanghai-based tea brand Chagee, which we will explore in the next section.

Chagee's Wall Street Debut: Brewing Confidence in Cold Markets

Chagee [NASDAQ: CH], a Shanghai-based tea company, debuted its IPO on the Nasdaq on April 17, defying expectations and raising an impressive $411m in gross proceeds. It received strong market reception, issuing 14.7m American Depositary shares (ADSs), each representing a portion of the company's class A ordinary shares. Each ADS was priced at $28, which on its first trading day rose to 49% on debut and achieved a 14% gain by market close, reflecting strong investor enthusiasm. Key institutional investors, including CDH Investment Management and RedWheel, expressed non-binding interest in purchasing up to $205m worth of ADSs, accounting for nearly half of the offering. The IPO included a standard 15% over-allotment option, allowing underwriters to purchase up to an additional 2.2m ADSs to cover any additional demand. The listing made Chagee's chief executive, Junjie Zhang, a billionaire, with his 19.9% stake valued just under $1.1bn. Following these results, Chagee emerges as one of the most successful New York IPOS of 2025, achieving a valuation of about $6.2bn, post-IPO, and marks the largest Chinese listings since Zeekr [NYSE: ZK], an EV group, which raised $411m last May.

Chagee's debut is a surprising breakthrough with a better-than-expected show for the stock in light of escalating tensions between the US and China. Notably, the fallout of Trump's self-proclaimed "liberation day", which saw US tariffs on Chinese goods climb to 145%, ignited widespread anxiety. At the extreme, fears loom that Chinese companies could be booted from the US stock exchange. Goldman Sachs warned clients that in such a case, "US investors may have to liquidate $800bn worth of holdings in Chinese stock". This volatile geopolitical backdrop has sent shockwaves through the IPO market, triggering the postponement of several major listings, including fintech Klarna's $15bn float, medtech Medline's $50bn offering and StubHub's $16.5bn listing. Given such market turbulence, why did Chagee decide now was the time to launch publicly? Moreover, why bypass listing in Hong Kong, where rival Chinese tea companies, Guming [HKG: 1364] and Mixue [HKG: 2097], surged since going public in February and March, respectively? Mixue alone amassed approximately $8bn.

At first glance, Chagee's IPO rationale in the US might seem unclear, however, it appears to rest on two crucial factors: Hong Kong's saturated IPO market and the company's strong growth trajectory. The boom of Chinese tea listings in Hong Kong has congested the market and tightened the capital pool, creating unfavourable conditions for strong valuations. Hence, a Hong Kong IPO for Chagee would likely struggle in fundraising and investor interest. The US, offering a broader investor base and deeper capital markets, emerges as the most attractive alternative. This mirrors the strategy of Andersen, a tax and consulting firm founded by alumni of the collapsed Arthur Andersen, which cited accessing "cheap" public capital as the motivation for filing for its US IPO. Chagee likely resonates with Andersen on the benefits of leveraging US market liquidity. A further reason fuelling the company's US listing arises from its solid financials and rapid regional expansion. Last year, Chagee reported $344m in net income from $1.7bn in revenue, a 167.4% YoY rise. Moreover, since its founding, the company has grown to 6,440 tea houses across China, Malaysia, Singapore, and Thailand, an 83% increase since 2023. Considering this strong performance, Chagee can confidently position itself as a global competitor to established brands like Starbucks, with plans to launch its first US location at Westfield Century City mall, Los Angeles, this spring.

So, could Chagee's IPO signal a return of confidence to the market even amid ongoing trade tensions? While Chagee's debut marked success, overall market sentiment remains cautious, with a declining value of Chinese companies by 17.4% from 2024 listed on major US stock exchanges, reflecting the complex geopolitical context. Thus, it remains uncertain whether other Chinese companies will follow suit. Nevertheless, Chagee's IPO suggests that investor appetite persists for those companies with solid financial performance and offers a rare moment of warmth in an otherwise cold market.

Is It Time to Explore Emerging Markets?

With a global shift in the attractiveness of capital markets and shifts in investor sentiment and regulatory scrutiny around the US capital market, new destinations are emerging and trying to establish their footprint and significance in the global Capital Markets sector.

In 2024, after leaving the Romanian Fondul Proprietatea, Franklin Templeton has shifted its focus to Uzbekistan. The asset manager has been chosen as the next Fund manager for UzNIF, the National Investment Fund of the Republic of Uzbekistan. The fund was established in August 2024 and owns 20-40% in some of Uzbekistan's most important state-owned enterprises. The establishment of the fund is a push by the government towards a better-governed and improved leadership of its State-owned enterprises. The goal of the fund is to drive long-term, sustainable economic growth for the people living in Uzbekistan. At the current point in time, the fund is valued at around $1.68bn and has stakes in a total of 18 companies. The companies within the fund reach over multiple industries such as Agriculture, utilities, Energy production, and Banking. However, not included in UzNIF are Uzbekistan's crown jewels, Navoi and Almalyk. These two firms are globally recognized leaders in gold mining and copper extraction, operating some of the largest resource deposits in the region. At this point, it remains to be seen how the decision to exclude these two assets will affect the long-term positioning of UzNIF. Each is valued at multiple billions of dollars and far exceeds the value of UzNIF.

Together with Franklin Templeton, the Uzbekistan government is following ambitious goals and is planning to list the fund as early as the first quarter of 2026. The primary target market for the first listing of all 18 minority stakes is the Tashkent stock exchange. Further down the road, Franklin Templeton envisions listing parts of the fund at different exchanges around the world. A current favorite seems to be the London Stock Exchange due to its large number of listed investment funds. The goal of quick and direct listing on the Tashkent stock market is to stimulate investor interest in the region and build trading momentum, as the market is currently experiencing low trading volumes, albeit given a market cap of nearly $19bn. A further sign of government trust in Franklin Templeton can be observed through the rights given to the asset manager in the course of leading the fund. The government ensured the right to appoint board members to every company part of the fund, which will lead to better governance and clearer leadership of the firms.

Before being trusted with leading UzNIF, Franklin Templeton made global headlines by leaving its fund leadership role in the Romanian fund Fondul Proprietatea [BVB: FP] and claiming it could repeat the Romanian framework at multiple places in the world and increase investor interest in certain regions. It comes as no surprise that certain similarities are visible already between the funds. Originally founded in 2005, the fund was established with stakes in state groups and shares were handed to the population of Romania to give back to families and individuals who have been victims of the communist ruling in the country. However, the funds were off to a rocky start as many recipients have sold their shares swiftly, which led to a drop in the fund's value far below the real value of its companies. By 2011, the Romanian authorities established Franklin Templeton as the fund manager, which was a decision worth its investment. After listing on the Bucharest Stock exchange in 2011 and later in April 2015 on the Specialist Fund Market of the LSE the fund under Franklin Templeton's leadership between 2011 and 2024 was able to return more than $7bn in capital to its shareholders. The clear incentive for the fund manager has been the 1.75% fee on the returns of capital throughout its time at the front of Fondul Proprietatea.

Albeit still a young collaboration between Uzbekistan authorities and Franklin Templeton, clear similarities are already to be seen. Starting with a similar mission as Romania, Uzbekistan is putting in efforts to make its country more interesting for foreign investment. Just as in Romania, Franklin Templeton has been brought in to signalize a trusted leadership and utilize its far-reaching connections to establish the local market as a viable player. Additionally, both countries were and are aiming towards improved corporate governance, transparency, and accountability for outsiders of the business. Hence, the fund managers have been trusted with adjusting membership boards and having eyes and ears inside the companies. UzNIF, still a very young endeavor, seems like a promising project, especially under the leadership of an experienced player like Franklin Templeton. Furthermore, it remains important to observe how the government and funds decide to utilize their prized possessions of Navoi and Almalyk further down the line.

Beyond Uzbekistan: More Capital Markets Are Expanding Their Presence

Beyond Uzbekistan and Romania, many other stock exchanges are gaining more prominence in attracting foreign capital as the world is shifting from its old-world order. Previously mentioned and still gaining more prominence is the London Stock Exchange. Following a period of lower-than -expected IPO activity, as the overall number of IPOs has been its lowest since starting to record in 2010, it remains an interesting market due to its regulatory credibility and access to European capital. It is with no surprise that UzNIF is targeting a potential listing on LSE. Going into 2025 the market shows signs of recovery with a more promising pipeline of listing reforms.

Outside of Europe, some emerging markets include the Hong Kong Stock Exchange (HKEX) as well as Saudi Arabia's Tadawul Exchange. Recent notable listings on HKEX include Alibaba's secondary listing, Kuaishou, and JD.com. Its shift towards prominence is coming after China tightened U.S. listings and many Chinese tech firms have pursued dual listing or moved entirely to HKEX. Saudi Arabia has been able to leverage the Middle East momentum backed by Vision 2030, and Tadawul has pushed many SOE and private sector IPOs with strong regional demand. In the coming months and years, dozens of listings in sectors like energy, tourism, and mining are expected to go public. Tadawul alone has surged by 463% over the last ten years to reach $2.7tn market capitalization by the end of 2024, making it the largest equity market in the Middle East. Like Romania the Kingdom has driven growth in its equity market by getting its local companies listed, increasing the number of listings from

169 in 2014 to 247 in 2024. Furthermore, Saudi Arabia is pursuing many initiatives like pension and investment law reforms in hopes to attract more foreign capital and establish the equity market as a viable global player.

Conclusion

For the last decades, the US capital market has been the preferred site for several potential listings. This dynamic came as no surprise, as the US has one of the largest market sizes and provides the most advanced financial infrastructure and governance, protecting both the investors and companies seeking investment. However, over the last couple of years and months, the US has implemented policies that have made some foreign firms reconsider listing in the US due to increased regulatory scrutiny and geopolitical tensions and let them explore listing in different markets. Specifically, to mention is the current unclear structure of the US foreign policy and treatment of foreign countries. Growing trade tensions between the US and China lead many Chinese companies to stay away from the market. Simultaneously, emerging markets like Hong Kong, India, and Brazil have been continuously growing and developing their exchanges to accommodate the listings of their regional companies. These emerging markets, along with Eastern Europe, are further improving their stance of company governance, which leads to more trust in the market and attraction of foreign investment. All these recent developments make markets besides the US a viable option to list and explore the search for foreign capital investments in a firm. However, given the long history and relevance in the global market, it is going to take more than a couple years to create strong competition to the US as the leading capital market.

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