

MEGA-IPOS AND RISING EQUITY SUPPLY

June 2026

KEY POINTS

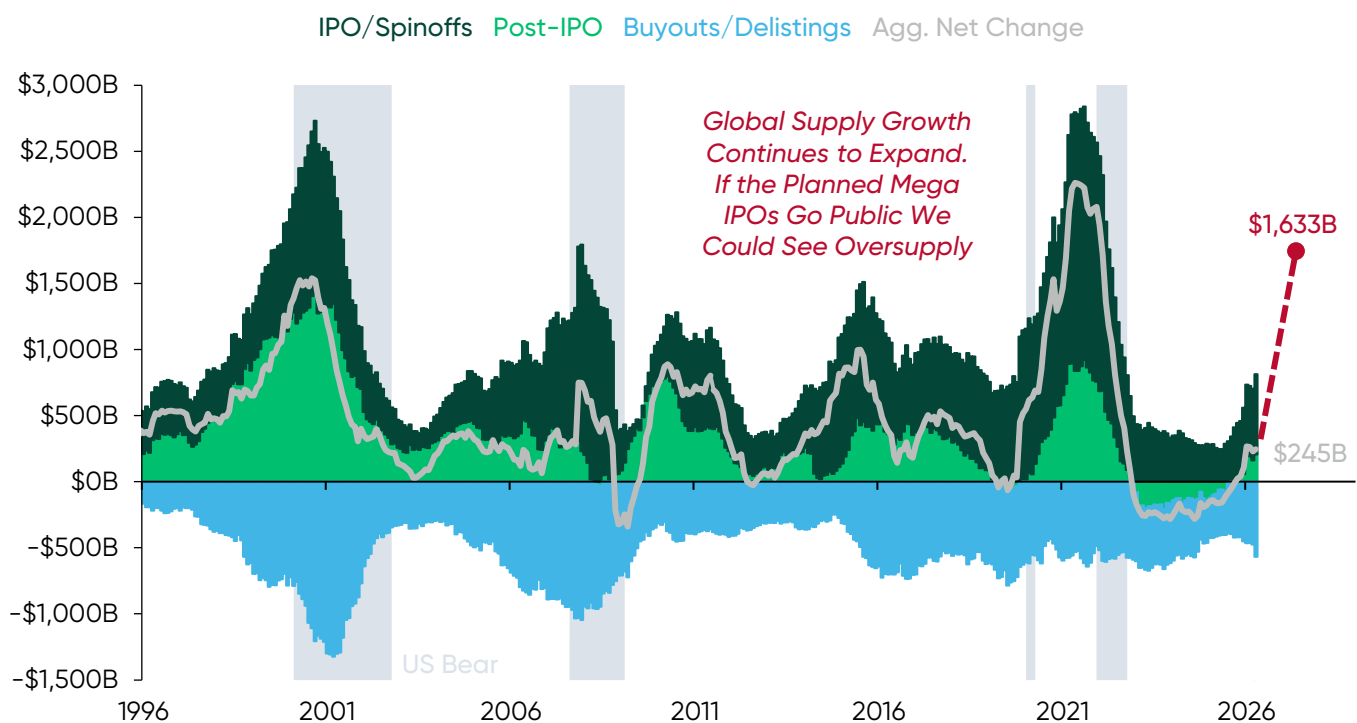
- Rising aggregate equity supply and euphoria are emerging as a risk in markets, approaching levels of oversupply with the upcoming mega-IPOs.
- Mega-IPOs introduce benchmark risk as new issues are fast-tracked into major indexes, requiring a top-down evaluation to determine action in portfolios.
- We are unlikely to participate in the upcoming Tech mega-IPOs as initial offerings have increasingly become liquidity events for existing investors.

AGGREGATE EQUITY SUPPLY IS RISING

When equity supply surges, typically in response to higher investor demand, corporate leaders and financiers want to capitalise on rising demand as greed becomes more prevalent—a typical cyclical behavioural pattern as a bull market matures. When too much aggregate supply enters the market in a short window, the market has a difficult time absorbing it. Share issuance then swamps demand and prices tend to fall—the 2000 dotcom bubble a classic example but impacted 2022 as well.

Today, resurgent equity supply is emerging as a key near-term risk for markets after years of supply destruction, approaching levels of oversupply as Tech mega-IPOs loom. (Exhibit 1) A large unicorn pipeline and de-SPAC (Special Purpose Acquisition Company) activity could further accelerate this, bringing supply growth to extremes.

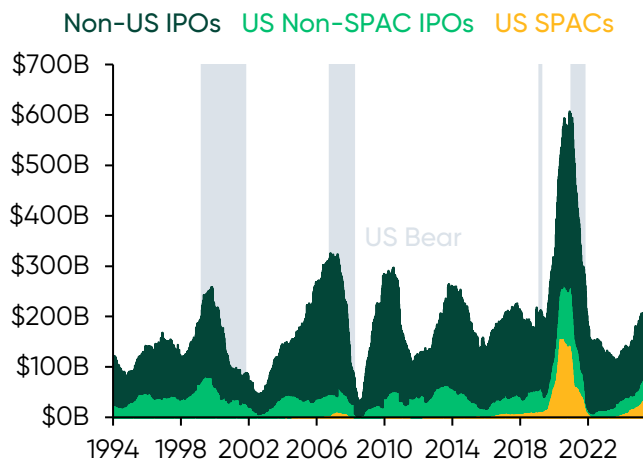
Exhibit 1: TTM Global Inflation Adjusted Net Change in Global Equity Supply



Source: LSEG Workspace, DataStream, as of 18/5/2026. Monthly share price, shares outstanding, CPI, index price level and IPO and SPAC M&A screens, in USD, from 31/12/1994–30/4/2026. Figures adjusted to 1994 price levels.

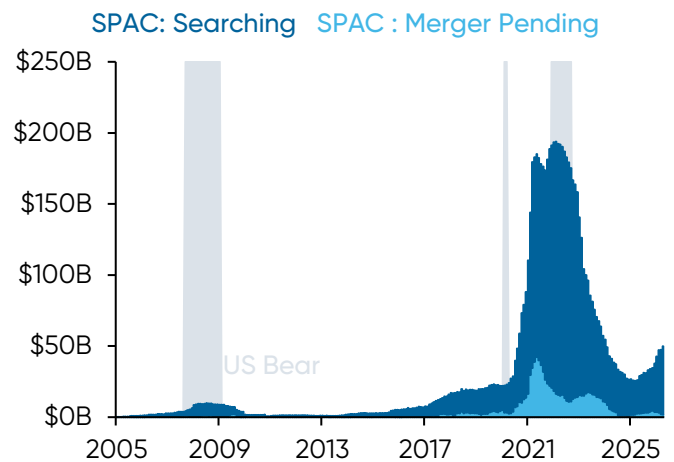
Through May, completed traditional and SPAC IPOs continued to accelerate. (Exhibit 2) Going forward, an IPO deluge is likely as record pipelines (S-1 & F-1 filings), rising SPAC dry powder (Exhibit 3), and upcoming mega-IPOs (Exhibit 4) flood equity markets with supply.

Exhibit 2. TTM Nominal IPO Proceeds



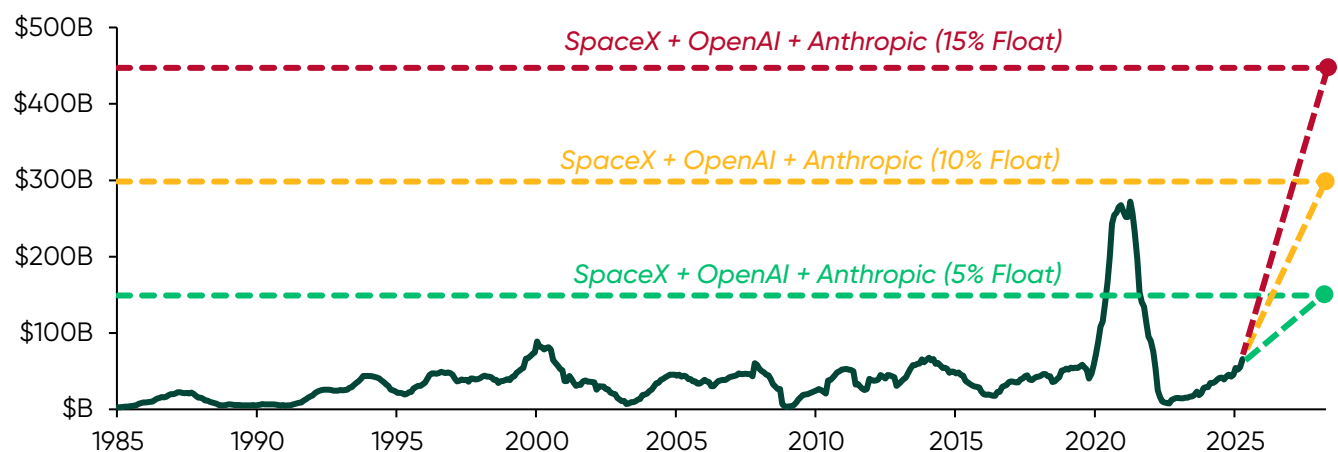
Source: LSEG, as of 18/5/2026. Aggregate IPOs, weekly in USD, from 31/12/1994–2/5/2026.

Exhibit 3. SPAC Dry Powder



Source: LSEG, as of 18/5/2026. Aggregate SPACs, monthly in USD, from 31/12/2004–30/4/2026.

Exhibit 4. TTM Inflation Adjusted IPO Proceeds



Source: LSEG, Reuters, OpenAI, Anthropic, as of 10/4/2026. Data shown from 1/1/1985–31/3/2026.

While oversupply is bearish, its presence alone doesn't create bears; downturns require multiple ingredients for a bear to converge at once, and those conditions are not fully in place yet.

MANAGING RISKS WITH BENCHMARK INCLUSION

Despite relaxed requirements from some exchanges, MSCI will utilise their existing 'fast entry' mechanisms for the upcoming large, liquid IPOs that meet their size, float, and liquidity criteria. S&P Dow Jones on the other hand will keep its existing seasoning and profitability requirements.

As mega-IPOs potentially enter indexes, we will attempt to manage risk by setting a clear tracking error budget for each strategy and decide whether a large underweight or exclusion in a major constituent is justified within that overall risk envelope. Because we don't chase IPOs, we manage tracking error around passive inflow events in indices by intentionally accepting a temporary underweight and treating it as a researched active position, not an implementation failure. We then size and monitor that position, and we

would only consider building exposure once the stock's fundamentals, governance, and market behaviour align with our top-down macro and thematic views.

The introduction of several new large positions in the benchmark with this year's expected mega-IPOs will thus involve a decision related to benchmark risk. Security selection is a function of measuring expectations around a company's prospects relative to our evaluation of fundamentals weighed against the benchmark concentration.

For the early stages of trading, we expect sentiment on these new mega-IPOs to be at extremes; thus, they do not represent likely investment opportunities, given the high bar for positive surprise. Moreover, the expected weights of recently announced listings in the MSCI World Index represents a meaningful size (Exhibit 5) Thus, holding a zero weight represents some risk, but we think it is likely justified by the disconnect between extreme sentiment and underlying fundamentals. However, we constantly monitor these positions, and this assessment may change over time.

Exhibit 5. Post-IPO Constituents by Market Capitalisation

MSCI World Constituents by Market Capitalisation + SpaceX and Open AI					
Rank	Name	Market Cap. (\$Mil)	Rank	Name	Market Cap. (\$Mil)
1	Nvidia	\$5,130,700	11	Eli Lilly	\$887,952
2	Apple	\$4,586,630	12	OpenAI	\$852,000
3	Alphabet	\$4,045,310	13	AMD	\$840,232
4	Microsoft	\$3,179,040	14	JPMorgan Chase	\$814,800
5	Amazon	\$2,603,880	15	Berkshire Hathaway	\$652,658
6	Broadcom	\$2,012,350	16	ASML	\$627,244
7	SpaceX	\$1,750,000	17	Exxon Mobil	\$612,585
8	Meta	\$1,377,760	18	Visa	\$550,169
9	Tesla	\$1,231,960	19	Johnson & Johnson	\$542,886
10	Micron	\$1,092,870	20	Intel	\$518,280

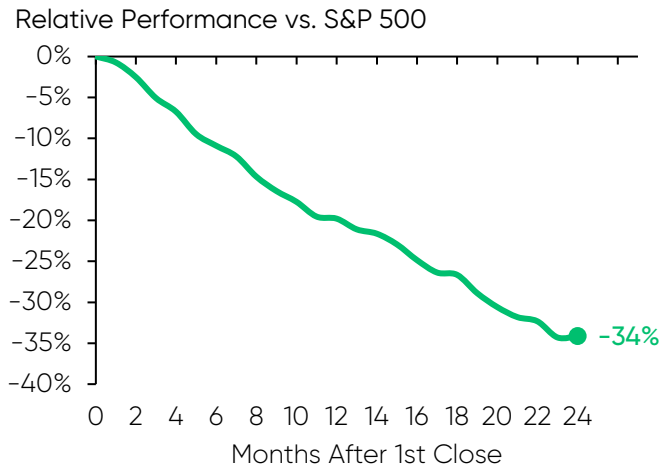
Source: FactSet, as of 2/6/2026. MSCI World Constituents by market capitalisation, in USD, as of 30/5/2026.

The initial trading in IPOs is often dominated by sentiment rather than fundamentals. This is a function of how they're often marketed – to give investors access to the new, hot company (really, they exist primarily to give early investors and founders a payday, in our view). As such, dramatic performance swings often occur in the initial trading days and months, as sentiment dominates. More often than not, this sentiment fades over time, dragging share prices down along with it. Some investors may time the entry and exit of this year's IPOs well enough to make a decent return. But sentiment is notoriously fickle to predict – we don't think it's worth the risk. We'd prefer to wait until shares trade more on their fundamental attributes before considering investment.

MEGA-IPO PARTICIPATION

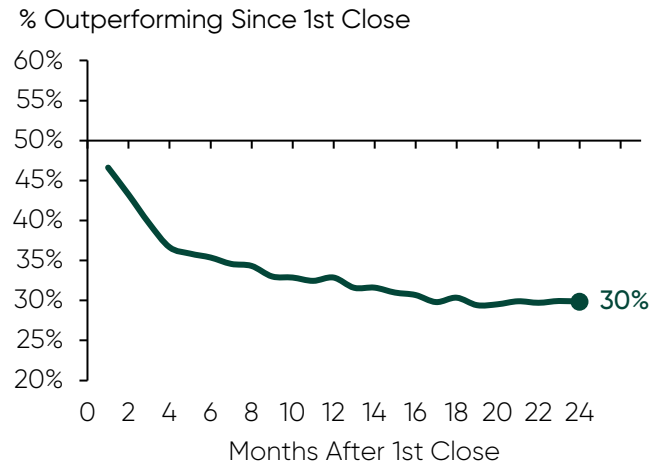
In general, we do not invest in IPOs. Ken Fisher has quipped that IPO should stand for “It’s probably overpriced”, and the data suggest this is true. University of Florida professor Jay Ritter studied IPOs launching from 1980 through 2017. The study found after the initial pop, IPOs trailed similarly sized peers by an average 3.3% a year over their first five years. Additionally, IPOs tend to underperform their respective index post-IPO and a majority underperform 2 years out (Exhibits 6 & 7).

Exhibit 6. Relative Perf. of US IPOs Since Listing



Source: LSEG, FactSet, as of 2/6/2026. Screened for US-domiciled IPOs (excluding SPACs). Median monthly returns relative to S&P 500 in USD, data through 24/5/2026.

Exhibit 7. Outperformance of US IPOs Since Listing



Source: LSEG, FactSet, as of 2/6/2026. Screened for US-domiciled IPOs (excluding SPACs) from 1/1/1990–24/5/2026.

As with most speculative investments, a few winners mask legions of laggard. Why is this even more true today? The depth and liquidity of private markets means that companies can become larger and mature more before they reach public markets, so in many ways a chief attraction of IPOs is as a liquidity event for current shareholders. This structure incentivises getting the highest valuation possible..

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