

Goldman Sachs The Markets
Why Today's IPO Market May Surprise You
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Sam Grobart: Three months into 2024, how are IPOs performing? The answer might surprise you. This is The Markets.

Hi, I'm Sam Grobart. Today, I'm joined by Lizzie Reed, Global Head of the Equities Syndicate desk in Global Banking & Markets. Lizzie, thanks so much for joining us today.

Lizzie Reed: Thanks for having me.

Sam Grobart: So, Lizzie, we're closing out the first quarter of the year. How are things on the IPO front compared to years past?

Lizzie Reed: It's a great question, Sam. And there's actually an interesting stat that will surprise you. So, just for context for the audience, if you exclude 2021, which was at all time record in terms of global issuance in the equity capital markets, it would probably surprise you that 2024, year to date, is actually the fastest start to the year globally since 2018. And if you look just at the US, once again excluding '21, all time highs, it's actually the fastest start since 2015.

For all of the articles that are in the press around IPO activity, equity capital market activity, it actually, statistically, is very different than what maybe some members of this audience have been reading.

Sam Grobart: And what do you think is driving that? What's driving that, that rapid acceleration?

Lizzie Reed: I think it's really driven by a gradual improvement of investor sentiment. And we've been talking a lot about this. Sam, I've been on this podcast with you before, where we talk about investor positioning, higher cash balances. I think what's really important to know now is that the breadth of the participation from different types of investors in the marketplace, and also specifically within capital markets, is significantly more broad. And so, we've seen an uptick in terms of mutual fund engagement, not only in terms of just the dialogue we're having, but actually putting capital to work. So, there's larger ticket sizes. And there's also an increased willingness to kind of lean into valuations. Where in the past couple of years, it's been more disciplined, more cautious.

Sam Grobart: I remember that's what we talked about last time you were here.

Lizzie Reed: Exactly. So, there's a shift in terms of investor sentiment, specifically from that mutual fund camp. And then also just more broadly speaking, sovereign wealth funds, hedge funds, retail, it's all slowly improving.

So, if you put your corporate hat on and you're thinking about accessing the equity capital markets for liquidity, what that really means for you is that as the market improves and your multiples expand, you're also capturing improvement in your pricing, right? Because the breadth of distribution of participation was broader. So, your average discount that you're achieving is higher than you saw in the past two years.

And the last part that people don't really talk a lot about but it's important just for the psyche of the market is that the performance in the after market from recent issuance is also positive. So, it becomes this very virtuous circle of reinvestment, which is very good for the outlook of the product.

Sam Grobart: Looking across the IPOs that you've been seeing at the beginning of this year, how would you broadly characterize them? I mean, that might be a little bit reductive. But be reductive.

Lizzie Reed: Sure. So, a couple things I'd say. Look at just global IPOs year to date. It stands around 17 billion. That's up about 90 percent year over year. That's a big number, you know, off of the highs of 2021. But in comparison, year over year, we're obviously moving in the right direction.

I think what's really exciting to see, specifically in the US markets, is that there have been several IPOs have priced in the past week to two weeks, they've been highly successful.

Sam Grobart: I want to put this in a slightly broader context. And I think you kind of addressed some of this in your last question, but I want to drill down. What role does the Fed's posture right now, which I think could be described as cautiously dovish, and that's also led to some record closes across indices, what does all of that mean right now for deal making?

Lizzie Reed: You know, take a big step back on deal making. Just look at the market. Equity indices, all time highs. Credit spreads, near all time tight. Right? The credit market is functioning incredibly well across investment grade as well as highly, as well as structured finance. So, that market has been very strong in the past year plus. And the equity markets are quick to follow that.

Sam Grobart: Right.

Lizzie Reed: So, on a macro perspective, global central bank policy. The Fed. We want rate stability, right? And we're finding rate stability. We're also hopefully finding a more accommodative macro as the Fed starts to cut rates, which inherently will basically support more growth-oriented assets, which traditionally, specifically for IPOs, has been the lion's share of the composition

in a market. Right?

So, if you have the Fed cutting rates, you have other global banks cutting rates, you have rate stability within treasuries or Fed funds, and then you're going to see an uptick, right, in terms of more growth oriented tech, consumer tech, industrial tech assets having better access liquidity to the market and probably more attractive valuations than they saw in the volatility of '22 and '23.

Sam Grobart: Got it. And Lizzie, last question, what is on your radar for the beginning of Q2?

Lizzie Reed: The beginning of Q2? You know, we're really focused on helping investors think about unique opportunities to deploy capital. We're focused on helping our corporates and our sponsors accessing the equity capital markets. And so, the drivers that we talked about, Sam, are really consistent. Reopening of the IPO market. More or an uptick in terms of primary opportunistic issuance. Thinking about secondary monetizations. Sponsors. Corporate cross holdings. VC-backed assets. Convertibles. Right? Incredibly active across whether investment grade rated companies or high rated companies.

And then last but not least, private equity markets. And the private market has been incredibly resilient through this cycle. And so, we're really focused on this inflection point where the macro continues to stabilize. The markets reopen. And then you'll see a flood of demand for, really, best-in-class paper. And so, we're definitely in the mode right now of staying forward footed or front footed with our clients and trying to help them navigate a window Q2, Q3, into a Q4 election that, inherently, will have some volatility around it.

Sam Grobart: Lizzie Reed, always a pleasure. Thanks so much.

Lizzie Reed: Thanks, Sam.

Sam Grobart: That does it for another episode of The Markets. Be sure to find us on Apple Podcast, Spotify, or wherever you get your podcasts.

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