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Gravity-defying SpaceX IPO flags warning of market crash landing



ROGER MONTGOMERY
COMMENT

If SpaceX's initial public offering and subsequent trading tell us anything, it is that today's gravity-defying stockmarket appears to increasingly be built on little more than the sands of unbridled thematic optimism and a related, staggering concentration of capital.

When SpaceX's market capitalisation hit $US2.97 trillion ($4.22 trillion) this week, it exceeded that of Amazon, despite SpaceX being loss-making and its revenue of $US18bn compared to Amazon's $US743bn in revenue and near-$US100bn in profit.

Despite obvious structural weaknesses, the major indices have marched steadily higher, fuelled by a narrative that the paradigm of economic growth has fundamentally shifted. But it hasn't. I am among the growing chorus of market veterans pointing to the fundamental warning signs that suggest equities are running on borrowed time.

Big floats, then big falls

And for a market strategist, the timing of SpaceX's IPO is just for giggles.

It's worth noting that in December 1928, towards the end of the roaring 20s, Goldman Sachs launched an aggressive, highly leveraged closed-end investment trust. It drew massive public investment at the absolute height of speculative euphoria. Less than a year later, in October 1929, Wall Street crashed.

More recently, listing at almost the exact peak of the dotcom bubble, AT&T Wireless raised $US10.6bn, making it the largest US IPO in history at the time. The tech-heavy Nasdaq peaked in March 2000 before beginning its historic 78 per cent slide.

In June 2007, private equity giant the Blackstone Group went public in a massive $US4.13bn listing, marking the biggest IPO of that year. It hit the market just four months before the Dow Jones Industrial Average reached its final pre-recession peak in October 2007. And it was in July 2007 that financial derivatives broker MF Global raised $US2.93bn just before the credit markets froze.

Over in the cryptocurrency space, premier cryptocurrency exchange Coinbase Global went public in April 2021 amid extreme digital asset mania. It marked a local top for the crypto sector and, within a year, bitcoin and tech growth stocks had suffered aggressive sell-offs.

Signs of market peak

The signs of late-stage bull market euphoria are no longer subtle. From the current warnings of a speculative frenzy gripping private markets to the historical warnings from the increased cadence of thematic IPOs, the markers of a classic speculative peak, or what's known as a "blow-off top", are flashing red.

When momentum replaces fundamental analysis, price discovery fails. In a market dominated by passive flows, capital is mechanically funnelled into the largest mega-cap stocks regardless of their underlying financial health or intrinsic value. This creates a self-reinforcing pricing loop that operates smoothly on the way up but not on the way down.

Meanwhile, the broader market still faces a potent combination of fiscal headwinds and inflationary pressures that directly drive higher bond yields and threaten corporate margins.

While mild inflation can signal a healthy, growing economy, high or persistent inflation compresses profit margins, erodes consumer purchasing power and introduces uncertainty in interest rates.

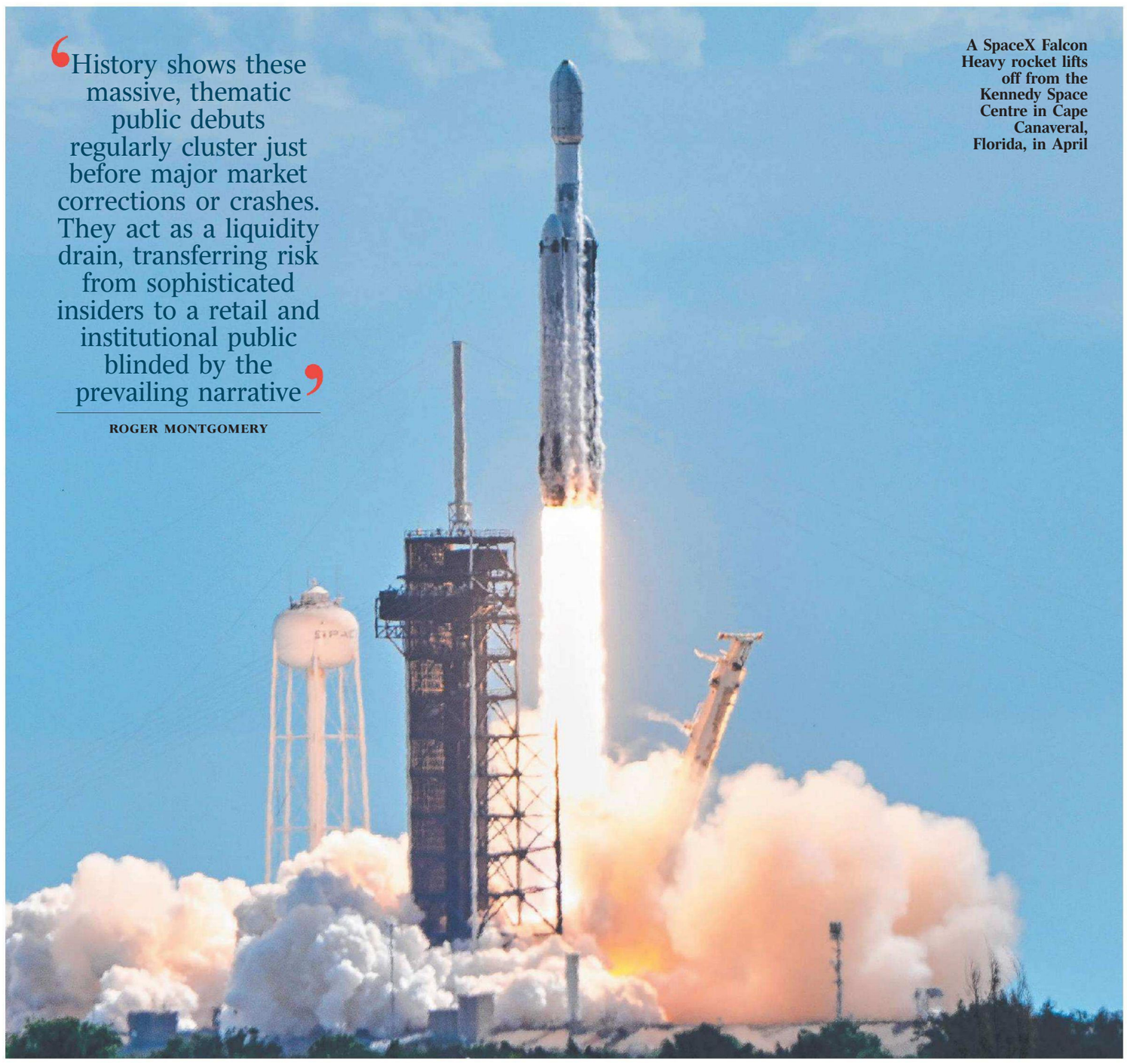
Investors turn blind eye

Yet investors are ignoring persistently high bond rates and a bearish flattening of the yield curve. Instead, they've tethered their financial futures to AI "scaling".

It's the belief that pouring trillions of dollars into graphics processing units, data centres and massive compute infrastructure will inevitably yield exponential improvements in productivity and corporate profits.

But that dream is undermined by the hyperscalers' circular financial transactions, which are themselves based on wildly optimistic long-term cashflow projections. Wall Street consensus anticipates that up to $US5 trillion will be poured into AI infrastructure over the coming years, requiring hundreds of billions of dollars in annual revenue just to justify the capital expenditure.

Yet the actual commercial monetisation of these tools will be challenging, especially now that major customers are baulking at the cost of using AI agents.



'History shows these massive, thematic public debuts regularly cluster just before major market corrections or crashes. They act as a liquidity drain, transferring risk from sophisticated insiders to a retail and institutional public blinded by the prevailing narrative'

ROGER MONTGOMERY

A SpaceX Falcon Heavy rocket lifts off from the Kennedy Space Centre in Cape Canaveral, Florida, in April

Uncomfortable maths

Top-tier AI developers, such as OpenAI and Anthropic, have generated only a fraction of the revenue required to produce a half-decent return on capital, with internal projections indicating negative cash flows well into the back half of the decade.

If customers continue to prove unwilling to pay premium rates for even modest LLM services, a massive oversupply of data centre infrastructure will trigger a systemic, economy-wide reversal in corporate spending, not unlike the one we saw when the dotcom infrastructure build-out vastly outpaced consumer utility.

And then there's SpaceX. When public market multiples become too restrictive for pure speculation, the euphoria inevitably finds its way into private markets.

And there's no greater symptom of this late-stage market behaviour than the fear-of-missing-out (FOMO)-driven rally in SpaceX.

Venture capital ecosystem dynamics frequently weaponise FOMO to inflate the valuations of high-profile IPOs, establishing an aura of market inevitability that encourages passive institutional investors to pile in at any price. With limited stock floated, SpaceX's IPO was structured, and the Nasdaq listing rules were redrafted, to ensure success.

Valuation disconnect

The dynamic has led to a profound disconnect between SpaceX's valuation and its underlying fundamentals. While its achievements in satellite deployment and aerospace engineering are noteworthy, its valuation reflects a reality where it must perfectly capture and monopolise multiple global industries simultaneously, as well as those that don't even exist yet.

Thematic IPOs are deliberately timed to exploit peak market liquidity and insatiable investor appetite for specific megatrends. By listing during these windows, companies command maximum valuations that would be laughed out of every boardroom during normal economic times.

Consequently, history shows these massive, thematic public debuts regularly cluster just before major market corrections or crashes. They act as a liquidity drain, transferring risk from sophisticated insiders to a retail and institutional public blinded by the prevailing narrative.

Whether the catalyst is a sharp pullback in AI spending, a liquidity freeze in leveraged private assets, or the exhaustion of passive capital inflows, the structural imbalances tell me the clock is ticking.

Roger Montgomery is founder and CIO at Montgomery Investment Management.

Musk delivers a sucker punch to an ASX left idling on launchpad



JAMES KIRBY
ASSOCIATE EDITOR - WEALTH

The float of Elon Musk's SpaceX has changed Australian share investing forever.

In its first few days trading on Wall Street, the stock is up about 40 per cent.

It's an overpriced speculative play linked to the whims of a single entrepreneur. On that basis alone, it's an imperfect prototype for a new era of Australian access to Wall Street.

But that's not the point.

What matters is that an estimated 40,000 Australian investors were offered a first-time ticket to a landmark Wall Street float, and it paid off in wads.

It will take a lot of selling to drive this $US2.4 trillion ($3.4 trillion) stock back to a point where those profits are lost.

At a stroke, the creation by CommSec, Sharesies and Macquarie of a new doorway to Wall Street through releasing pre-IPO SpaceX stock is a game-changer.

Everyday investors can now invest in floats once reserved only for the very rich.

And the very rich have joined this expedition. The nation's wealthiest person, Gina Rinehart, took a $US1bn slice of SpaceX.

Of course, IPOs don't always pay off. In fact, many lose money, but then again the SpaceX story is nothing if not unique.

We already know that Wall Street returns have beaten the ASX out of the door for decades and, while our dividend yields may be better, they are slim compensation for most investors.

Morgan Stanley, the wealth advice group that dominates the upper reaches of the Barron's Top 150 Adviser list, has spelt it out clearly to investors in a recent note.

After warning of a slowdown ahead for Australia, it suggests: "A robust earning outlook favours developed market equities, with a preference for the US."

The shift away from the ASX has been incremental, but now it may be about to enter overdrive.

Or as Billy Leung, investment strategist at ETF provider Global X puts it, local investors with a strong home bias are missing out on "one of the most powerful wealth creation cycles of our time".

SpaceX is just the first of several mega IPOs coming down the line in the months ahead, including OpenAI and Anthropic. In the absence of a sharemarket crash between now and then, the next US float aimed at the mass market in Australia will result in even more investors queuing for stock.

Jacqui Neumann, head of capital markets at trans-Tasman stockbroker Sharesies, says the SpaceX deal is a line in the sand.

"Australia has become a really important capital pool in global markets," Neumann says. "We are one of the deepest retail markets in the world, and it will continue to attract deals of this scale."

The flip side of this is the weakness of the ASX. Put simply, it is just not a good enough market in which to hold most of your sharemarket investments.

For all intents and purposes, there is no tech sector and certainly no AI sector to speak of.

The local market's flagship AI stock is NextDC, which is up a grand total of 9 per cent over the past year. In the US, the proxy for average performance of all AI stocks, the Philadelphia Semiconductor Index, is up 150 per cent over the same period.

To top it off, changes announced last month in the budget rewards incumbent dividend payers and penalises growth stocks. You can see why money once bound for the ASX is moving offshore. Keep in mind the CGT backflip this week does not change the outlook for share investors in any way – your growth shares will be taxed more sharply than your dividend shares under the new CGT arrangements.

'Australia has become a really important capital pool in global markets'

JACQUI NEUMANN
SHARESIES

We also know from the limited public data on this trend that when Australians do move their money into offshore sharemarkets, they are hunting for tech and AI opportunities.

Just take a look at the list of CommSec's top-traded international stocks list for May. It is almost completely US-listed tech and AI stocks, with Nvidia, Micron topping the list, while Elon Musk is already there with Tesla in fourth place.

Inside the wealth management business, leading advisers have been steadily telling investors to get their offshore stock allocations higher for years.

Centaur Financial Services adviser Hugh Robertson tells The Australian's The Money Puzzle podcast that his firm allocates about 40 per cent to global equities and 20 per cent to Australian stocks.

"We just can't see where the growth is going to come from [on the ASX]," Robertson says.

"You have that market capitalisation risk where the big banks and the resource companies dominate. Perhaps in the years gone by, you were better diversified across more sectors in the ASX. Now you're not really getting that."

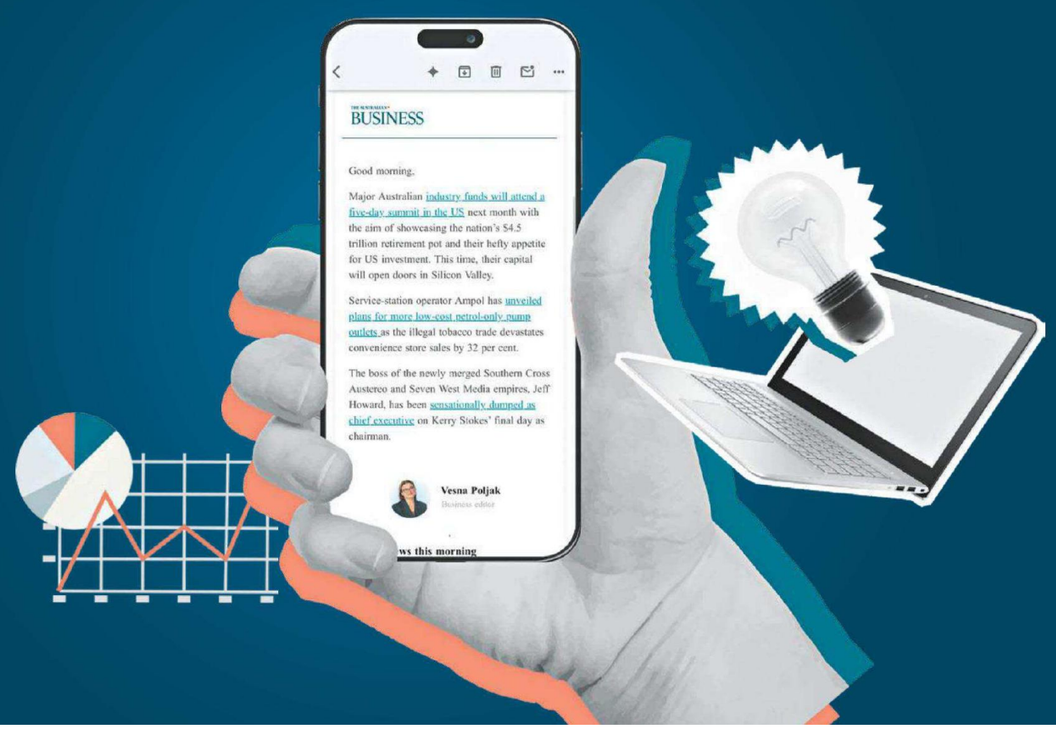
HOT TRADES

CommSec top traded US stocks for month of May
1. Nvidia
2. Micron Technology
3. Tesla
4. Taiwan Semiconductor Manufacturing Company
5. Sandisk
6. Intel
7. Direxion Daily MU Bull 2X Shares
8. Microsoft
9. ASML
10. Alphabet

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