



# Do “Hot” IPOs Signal A Market Top?

Daniel E. Fiedler, CFA®, Portfolio Manager

While the economic backdrop differs from 1999, new signs of froth have emerged.

Last week, the spectacular performance of two highly anticipated initial public offerings (IPOs) stunned many market participants. Hospitality marketplace Airbnb surged over 100% in initial trading, while logistics/delivery company DoorDash rose over 80%.

As our Senior Lead Analyst Curt Siegmeyer recently noted, at its post-IPO market capitalization of about \$86 billion, Airbnb is larger than Marriott, Hilton and Hyatt Hotels combined, and is already the same size as travel behemoth Booking.com, a company with more than double Airbnb’s revenues. At about \$59 billion, DoorDash’s post-IPO market cap makes it larger than both Chipotle and Domino’s Pizza combined, with about \$7 billion to spare.

Cautious investors may rightfully view this potentially irrational exuberance around certain IPOs as a sign of market froth. Indeed, several measures of retail investor optimism have recently reached new highs, including daily average revenue trading volume as well as call option purchase activity.

This type of speculative trading activity invokes comparisons with the tech bubble of the late 1990s, and some investors are worried that excessive optimism could signal an imminent market top. While the price action in certain securities does have some similarities with the late 1990s, we believe there are many important differences.

For example, in the late 1990s, the US Federal Reserve was in the process of hiking short-term interest rates to

control inflation. The fed funds rate was increased to 5.0% in mid-1999 and rose higher until it reached 6.5% in May 2000. During this process, the Treasury yield curve inverted, which is often a harbinger of slowing growth.

Currently, monetary policy remains extremely accommodative, and the yield curve has a positive slope. In short, while Federal Reserve policy was a headwind in 1999-2000, it remains a major tailwind going into 2021.

Despite wrangling over the relief package in Congress, we also expect additional economic support in the form of fiscal stimulus. From February to November 2020, the US Treasury injected over \$4 trillion into the economy, which is a significantly larger sum than the stimulus passed after the 2008-09 Global Financial Crisis. In total, over \$10 trillion of combined fiscal and monetary stimulus has been injected into the US economy this year (almost 50% of GDP), and more is likely to come in 2021.

In addition to supporting consumer spending, this stimulus is flowing to the bottom line of corporate America. Whereas S&P 500 operating earnings per share (EPS) was in the process of peaking in late 1999-2000, earnings are expected to grow about 18% in 2021. Indeed, a cyclical recovery appears to be taking place globally. When combined with the broad rollout of vaccines, this reflation of the economy and ensuing earnings growth supports our positive view on equities going into 2021.

As for the price action of recent IPOs, however, we counsel caution and would refrain from becoming enamored with such stocks.

# Do “Hot” IPOs Signal A Market Top?

---

Instead, we prefer to invest in high-quality companies that are led by management teams who are proven and effective allocators of capital, possess deep competitive moats, and whose stock trades at attractive valuations that are supported by strong fundamentals.

---

For more information, [please contact your Key Private Bank Advisor.](#)

**Key Private Bank**



Page 2 of 2

---

Publish Date: December 14, 2020

Any opinions, projections, or recommendations contained herein are subject to change without notice and are not intended as individual investment advice. This material is presented for informational purposes only and should not be construed as individual tax or financial advice. KeyBank does not provide legal advice.

Investment products are:

**NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE • NOT A DEPOSIT • NOT INSURED BY ANY FEDERAL OR STATE GOVERNMENT AGENCY**

© 2020 KeyCorp. Member FDIC. 200227-751225-1187508485