

SPACtacular surge

Global Matters Weekly

12 April 2021

– Christopher Butcher

During a period of extreme volatility and a global pandemic, the initial public offering (IPO) market had a spectacular year in 2020 in terms of the number of new listings and proceeds raised, along with the rise in popularity for Special Purpose Acquisition Companies (SPACs) which have become one of the hottest investment trends on Wall Street.

Pandemic aside, 2020 has been referred to as the ‘Year of the SPAC’ in the US as the number that floated on the stock market reached an all-time high, with over \$80bn raised across more than 240 SPAC listings¹. This accounted for nearly half of all listings on the US market, a significant increase compared to 2019. The momentum has certainly carried over into the start of 2021. Supportive monetary and fiscal stimulus, ultra-low interest rates and global markets at record levels have helped the US IPO market produce its busiest quarter in over two decades as issuers rush to sell while investor demand is hot and valuations high. The SPAC trend also continued, with 296 SPACs going public in the first three months of the year, already raising more capital than in the full year of 2020.

But what are SPACs and why have they become so popular in recent years? SPACs are not like regular companies as they have no commercial operations when they IPO. They are commonly referred to as “blank-check companies” as they raise a sum of money with the purpose of buying a yet-to-be determined private company within a specified period of time, usually 24 months. If they do not make an acquisition and are unable to get shareholders to grant an extension, they are wound up and cash is returned to shareholders.

The SPAC surge has been fuelled by a wider realisation of the benefits for various stakeholders. SPAC investors get the opportunity to be part of the process, and the financial upside, of taking a company public, with some downside protection as a result of their option to redeem their capital prior to any acquisition. For private companies, the key incentives include the ability to become a publicly traded company a lot faster compared to the traditional IPO process, with more certainty as to pricing and control over deal terms.

However, investors should also be aware of the risks involved when investing in SPACs. Shareholder advocates are sounding alarms about misaligned interests, sponsor compensation, celebrity sponsorship and the potential for retail participation drawn in by

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the hype of a few successful, high-visibility SPACs such as Virgin Galactic in 2019.

The SPAC trend has predominantly been a US phenomenon, but is now catching on in Europe and Asia with increased interest from sponsors, investors and potential target companies. Regulators, including the Financial Conduct Authority (FCA) in the UK, are looking to reform rules on SPACs to attract new, fast-growing companies. Cazoo, the online used car seller, is an example of a UK tech business that has opted to sidestep the lengthy IPO process and list in the US through a SPAC in recent weeks.

As the reflation trade has taken hold this year, technology stocks have lagged the broader market and this has weighed on the performance of some companies that have recently listed, both via the traditional IPO process and SPACs. An index that tracks SPAC listings has dropped 22% from its February high, with worries mounting about valuations and a bubble in that corner of the market. The unprecedented surge in the SPAC market has coincided with, and has no doubt been supported by, huge liquidity injections from the Federal Reserve and other central banks around the world; as such an even higher level of scrutiny and due diligence is warranted before participating.

At Momentum, we look beyond the current “hot topic” when selecting our investments. We access private companies before the IPO stage through carefully selecting publicly listed investment trusts, which enables us to invest in exciting high growth companies earlier on in their development without creating a liquidity mismatch in our portfolios. Furthermore, we do so in a diversified way, and we conduct thorough due diligence to ensure that our managers have aligned interests with us and our clients. The SPAC trend is certainly an interesting market development, but one where we generally see greater risks than opportunities for investors at present.

¹ <https://www.spacresearch.com>

The Marketplace

- Global equities rose 2.4% last week
- The IMF's latest global economic growth outlook for 2021 was upgraded to 6.0% against 5.5% forecast in January
- Brent crude fell -2.9% last week to \$63.0 a barrel
- Gold rose 0.9% to \$1743.9 per ounce

Market Focus

US

- US equities rose 2.7% last week
- Nonfarm payrolls read 916k, outperforming the consensus expectation of 660k to give the biggest rise in seven months
- The labour force participation rate rose slightly to 61.5% and the unemployment rate fell to a post-pandemic low of 6.0%
- The ISM services index rose 8.4pts to 63.7pts, exceeding the expected reading of 59.0, while the ISM manufacturing index increased from 60.8 to 64.8, the highest level since 1983
- Job openings rose to a two-year high of 7.37m in February, well above the expected reading of 6.9m
- Treasury Secretary Yellen called for a global minimum corporate tax, as President Biden's infrastructure plan also proposed an increase in the minimum tax rate to help pay for it
- President Biden announced the new deadline for all adults to be eligible for covid-19 vaccinations is 19th April
- Weekly initial jobless claims came in at 744k in the week ending 3rd April, against 680k expected

UK

- UK equities rose 2.7% last week
- Prime Minister Johnson confirmed that further easing of restrictions would take place from this week, with the reopening of non-essential retail, outdoor hospitality and indoor leisure and sports facilities
- The final PMI reading for March was 56.4, compared to the flash reading of 56.6

Europe

- European equities rose 1.3% last week
- The manufacturing PMI for the Euro area rose to 62.5 in March from 57.9 in February. Germany's manufacturing PMI read 66.6, its highest since the series began
- The Euro area services PMI was revised up to 49.6 for March against the flash reading of 48.8, while the composite PMI was also revised up by 0.7 to 53.2
- German factory orders rose by 1.2% in March as expected
- The Euro area PPI reading for February rose to 1.5% year-on-year, slightly beating the expected figure of 1.3%

Asia/Rest of The World

- The benchmark Global Emerging Markets index returned -0.6% last week
- Japanese equities fell -0.6% over the week
- The daily case count of covid-19 in India reached a record figure of above 100,000 last week following a recent rapid increase in cases
- The Chinese inflation release showed PPI inflation rose to 4.4% year-on-year in March, against 3.6% expected, in the fastest pace of growth since July 2018

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Asset Class/Region	Currency	Currency returns			
		Week ending 9 April 2021	Month to date	YTD 2021	12 months
Developed Market Equities					
United States	USD	2.7%	4.0%	10.2%	49.7%
United Kingdom	GBP	2.7%	3.0%	8.4%	20.8%
Continental Europe	EUR	1.3%	1.9%	9.8%	36.5%
Japan	JPY	-0.6%	0.3%	9.6%	41.1%
Asia Pacific (ex Japan)	USD	-0.2%	1.5%	4.2%	54.2%
Australia	AUD	2.4%	3.0%	7.4%	33.4%
Global	USD	2.4%	3.5%	8.6%	49.9%
Emerging markets equities					
Emerging Europe	USD	-2.1%	-2.1%	-1.4%	20.5%
Emerging Asia	USD	-0.8%	1.2%	3.4%	56.7%
Emerging Latin America	USD	2.5%	1.6%	-3.8%	41.9%
BRICs	USD	-1.7%	0.1%	0.0%	42.5%
China	USD	-2.2%	0.4%	0.0%	40.5%
MENA countries	USD	0.8%	1.0%	12.3%	37.1%
South Africa	USD	-1.9%	1.1%	13.3%	67.5%
India	USD	-2.3%	-1.1%	4.0%	67.0%
Global emerging markets	USD	-0.6%	1.1%	3.4%	53.0%
Bonds					
US Treasuries	USD	0.4%	0.6%	-4.1%	-4.5%
US Treasuries (inflation protected)	USD	0.0%	0.0%	-1.8%	4.5%
US Corporate (investment grade)	USD	0.4%	0.8%	-3.9%	6.7%
US High Yield	USD	0.5%	0.7%	1.6%	20.7%
UK Gilts	GBP	0.4%	0.8%	-6.6%	-6.7%
UK Corporate (investment grade)	GBP	0.3%	0.7%	-4.0%	6.3%
Euro Government Bonds	EUR	-0.4%	-0.2%	-2.6%	2.6%
Euro Corporate (investment grade)	EUR	0.0%	0.2%	-0.5%	7.7%
Euro High Yield	EUR	0.3%	0.5%	2.1%	17.9%
Japanese Government	JPY	0.2%	0.0%	-0.5%	-0.9%
Australian Government	AUD	0.5%	0.5%	-3.6%	-2.7%
Global Government Bonds	USD	0.5%	0.7%	-5.0%	1.3%
Global Bonds	USD	0.6%	0.7%	-4.0%	4.4%
Global Convertible Bonds	USD	1.2%	1.8%	1.0%	37.1%
Emerging Market Bonds	USD	0.3%	0.8%	-6.5%	8.6%

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Asset Class/Region	Currency	Currency returns			
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Property					
US Property Securities	USD	0.3%	2.3%	11.0%	24.4%
Australian Property Securities	AUD	2.9%	2.9%	1.7%	25.8%
Asia Property Securities	USD	0.7%	0.1%	8.0%	19.0%
Global Property Securities	USD	1.0%	2.1%	7.6%	27.5%
Currencies					
Euro	USD	1.2%	1.3%	-2.7%	8.8%
UK Pound Sterling	USD	-0.7%	-0.5%	0.6%	10.3%
Japanese Yen	USD	1.0%	0.9%	-5.8%	-1.1%
Australian Dollar	USD	0.3%	0.1%	-0.9%	20.9%
South African Rand	USD	0.4%	1.1%	0.4%	22.9%
Swiss Franc	USD	1.9%	1.8%	-4.4%	4.4%
Chinese Yuan	USD	0.2%	0.0%	-0.4%	7.5%
Commodities & Alternatives					
Commodities	USD	0.0%	0.9%	12.1%	43.4%
Agricultural Commodities	USD	2.6%	1.4%	8.9%	46.4%
Oil	USD	-2.9%	-0.9%	21.5%	100.0%
Gold	USD	0.9%	1.9%	-7.9%	3.6%
Hedge funds	USD	0.9%	0.9%	2.4%	16.6%

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