Equity Strategy Insights

Post- SpaceX IPO, Is Irrational Exuberance Back?

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Executive Summary

- Markets absorbed the high-profile SpaceX (SPCX) IPO smoothly, with equities — especially technology — remaining resilient, easing concerns that large offerings would strain liquidity and trigger broader selling pressure.
- We believe a growing IPO pipeline, including major artificial intelligence (AI) companies, reflects healthy capital markets, though overall deal activity remains well below prior peaks, suggesting expansion rather than excess.
- Investor sentiment presents a mixed picture: cautious retail surveys contrast with elevated positioning, rising leverage, and strong momentum in key areas like semiconductors and AI-linked stocks.
- While fundamentals remain supportive, elevated valuations and crowded trades point to increased risk of near-term consolidation, reinforcing the need for disciplined positioning as markets digest gains.
- It’s not lost on us that the phrase “irrational exuberance” was made famous by former Federal Reserve Chairman Alan Greenspan who passed away on June 22 at the age of 100.

Markets Including Technology Held Up Well Through First of Big Three IPOs

The SpaceX (SPCX) initial public offering (IPO) on June 12, 2026, went well by all accounts. Demand was strong enough to push the shares well above the $135 offering price, but not so high as to spark cries that Elon Musk and company left too much on the table. Retail got a decent chunk of stock, maintaining a level of fairness (some investors reportedly received as little as one share, hardly typical in the Wall Street IPO world). And the offering didn’t pressure technology stocks as some had feared. In fact, in the month leading up to the offering, the S&P 500 and the technology sector were both up modestly, by 0.5% and 1.7%, before rallying in the week since with gains of 1.2% and 1.9%, respectively.

Some of the weakness in the Magnificent Seven stocks, illustrated in the “Technology Sector Held Up Well Through SpaceX Launch” chart, could be attributed to institutions raising funds for the offering, but other debt and equity raises from that group amid increasing scrutiny of the massive amounts being invested likely played a role as well.

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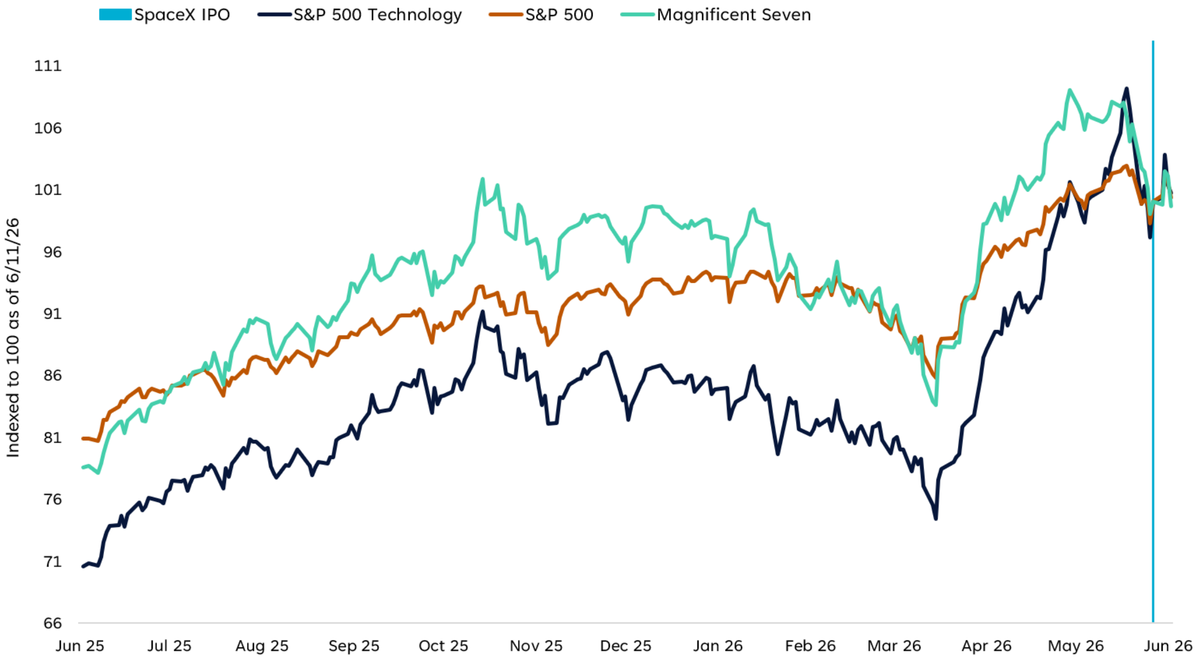
Technology Sector Held Up Well Through SpaceX "Launch"



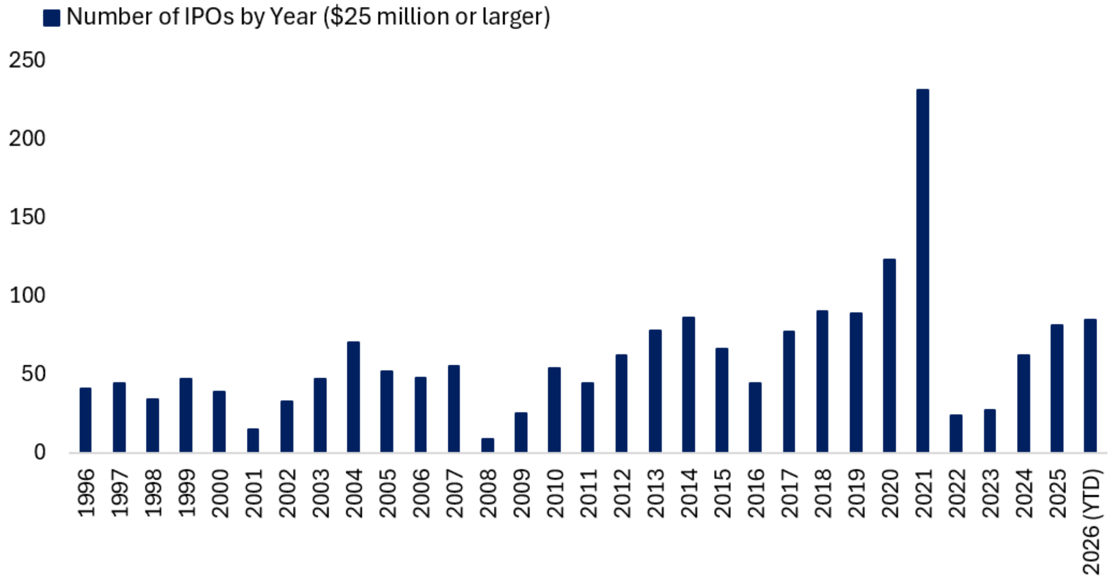
Source: LPL Research, Bloomberg, 06/18/26
Disclosures: All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

Putting the IPO Frenzy in Context

As market-watchers breathe a sigh of relief that the first giant IPO of the year was completed successfully, two more big ones are right around the corner. AI giants Anthropic and OpenAI have filed S-1s confidentially with the SEC and consensus expectations are for those IPOs to come sometime during the fourth quarter.

Some have argued that this wave of IPOs is indicative of a frothy market; or worse, of a bubble like the late 1990s dotcom period. While IPOs do tend to come more often in middle to late-stage bull markets when market conditions are healthy, the number of deals this year is by no means worrisome. The "IPO Activity Picking Up But Number of Deals Will Fall Short of 2021" chart reveals that IPO activity is concentrated in several large deals but it's not a frenzy. Even if the pace of deals picks up in the second half, it will fall short of the "SPAC" boom of 2021 (SPAC stands for special purpose acquisition company). Low-quality offerings in 2021 added to the bear market drop in 2022, but surging inflation and rising interest rates were undoubtedly the primary culprits.

IPO Activity Picking Up But Number of Deals Will Fall Short of 2021



Source: LPL Research, Bloomberg 06/18/26
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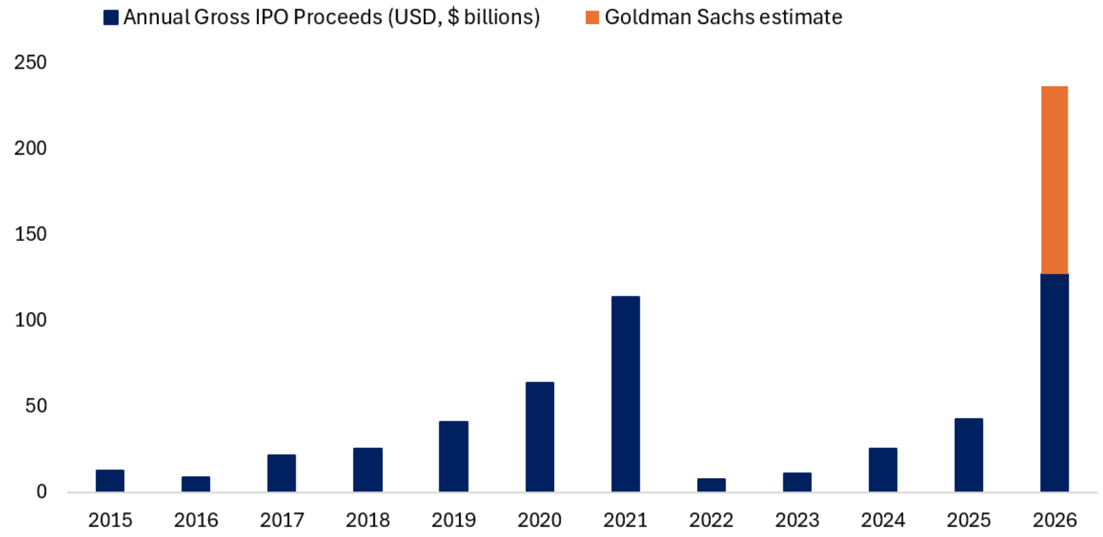
While the number of deals is healthy but not particularly stretched, the amount of capital raised is more of an outlier. According to a recent estimate from Goldman Sachs (prior to the SpaceX IPO), $225 billion in gross proceeds is expected to be raised in U.S. IPOs this year on deals $25 million or greater.

While the total amount will almost certainly break the record amount set in 2021 at roughly $115 billion, given the additional market cap added since then, these numbers are not that large. For perspective, NVIDIA's (NVDA) market capitalization never eclipsed $1 trillion in 2021 compared with its $5 trillion-plus value today. And the S&P 500 market cap of about $67 trillion today is more than 50% higher than the year-end 2021 figure of $42 trillion.

Finally, consider that there is about $8 trillion in money market assets in the financial system that could potentially be deployed to help sop up the excess equity supply.

2026 on Track for a Record IPO Year in Capital Raised

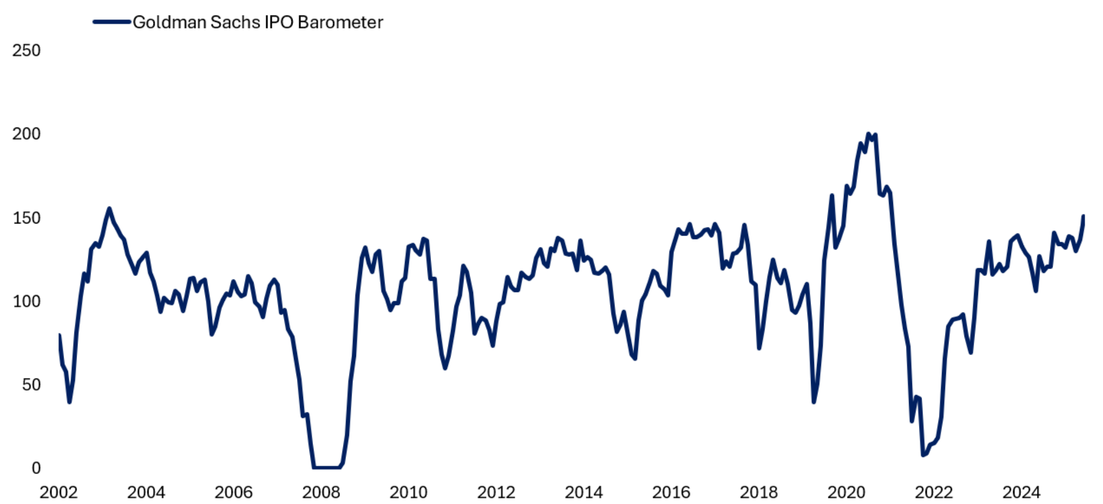


Source: LPL Research, Bloomberg, Goldman Sachs 06/10/26
Disclosures: Estimates may not materialize as predicted and are subject to change.

Supportive Macro Environment for IPOs

Before getting to some sentiment measures to determine if the stock market is overheated, we can assess just how favorable the macroenvironment is for IPOs. Rather than just look at financial conditions metrics, CEO confidence, or credit spreads, or any other relevant metric individually, we can look at these and other metrics combined into one index thanks to our friends at Goldman Sachs. As shown in the "Supportive Macro Environment for Initial Public Offerings" chart, the environment is favorable but, compared to the 2021 SPAC boom, it's fairly subdued.

Supportive Macro Environment For Initial Public Offerings

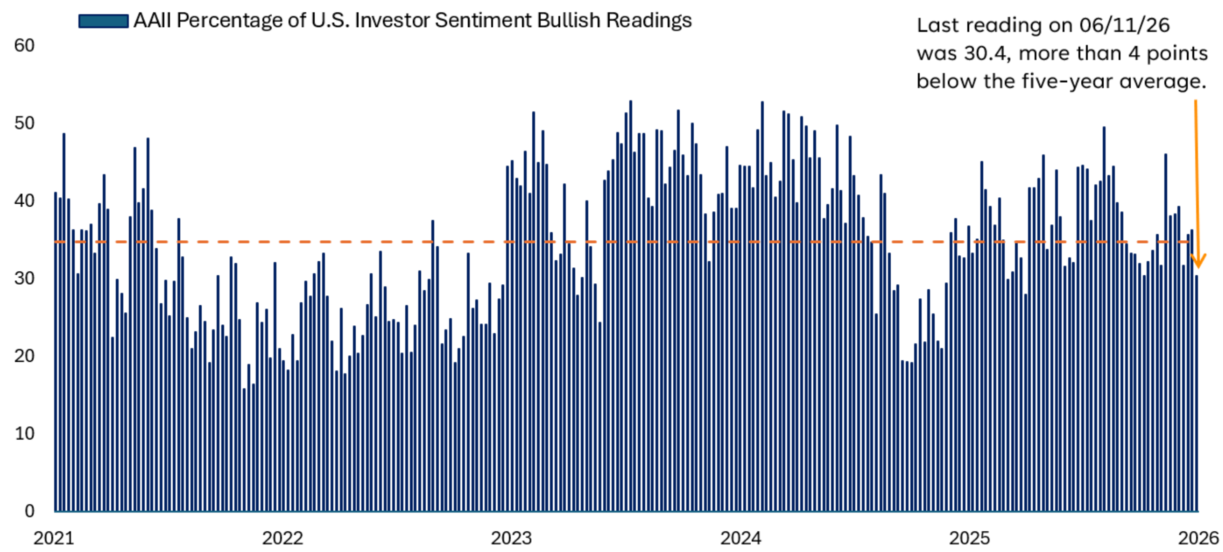


Source: LPL Research, Bloomberg, Goldman Sachs, 06/18/26
Disclosures: Past performance is no guarantee of future results. The Goldman Sachs IPO Issuance Barometer represents a gauge of whether the macro environment is conducive to new IPOs. The measure tracks the ebb and flow of monthly IPO issuance activity and is not a predictor of issuance activity. The barometer incorporates five indicators: 1) S&P 500 drawdown, as measured by how far the index trades from its trailing 52-week high, 2) CEO confidence, 3) change in the nominal 2-year Treasury note yield, 4) S&P 500 EV/sales, and 5) the ISM Manufacturing Index.

Is Sentiment Getting Too Frothy

Moving away from the favorable, but rational environment for IPOs, we can get a read on investor sentiment from the longstanding AAII survey. The weekly investor sentiment survey done by the American Association of Individual Investors, or AAII, goes back to 1987. The survey asks individual investors if they are bullish or bearish. The latest reading of percentage of bullish investors on June 11, 2026, was subdued at just 30.4% compared with IPO-heavy 2021 (39.9%), the five-year average (34.8%) and the year-to-date average (37.2%). The average percent of those who consider themselves bullish since the survey began about 40 years ago is 37.5%, a level reached in just 11 of 24 weeks this year. This is just one survey and, of course, what institutions are doing matters a lot, but this survey clearly does not reflect excessive optimism from this group of investors.

AAII Survey of Investment Sentiment Reveals Caution Among Individual Investors



Source: LPL Research, Bloomberg, American Association of Individual Investors 06/18/26
Disclosures: Past performance is no guarantee of future results.

Sentiment Measured by Positioning Has Cooled Down But is Still Stretched

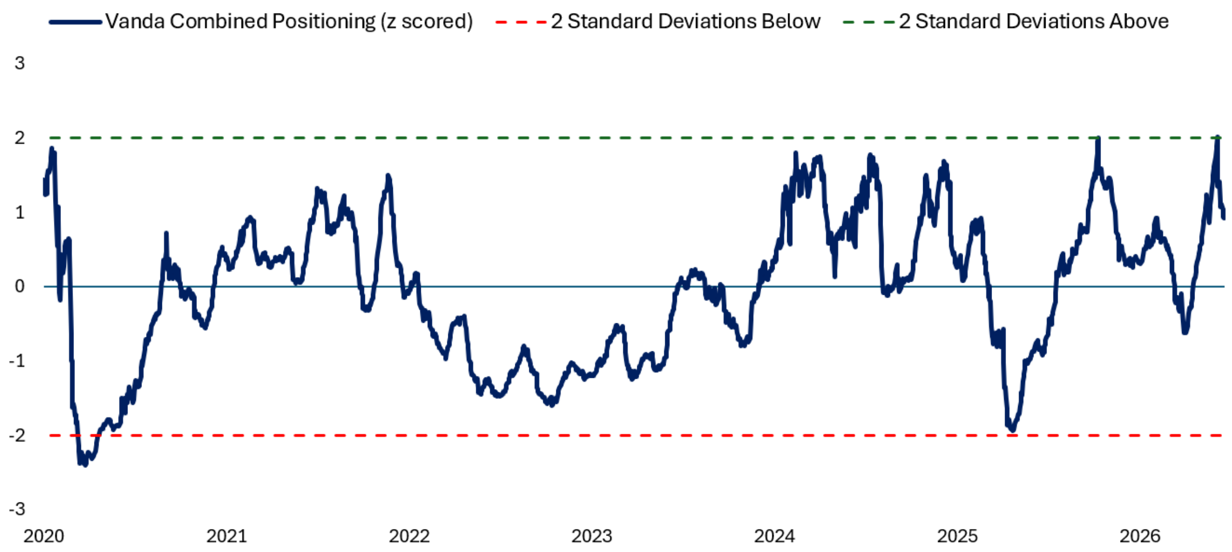
There are a lot of skeptics when it comes to surveys, so we place more weight on what investors are doing rather than what they are saying. To get a read on what investors are doing, with the help of our friends at Vanda, we can look at positioning. The chart below reflects equity positioning combined across several investor types and vehicles, including active mutual funds, long/short hedge funds, volatility-targeting and risk-parity strategies, CTAs (commonly referred to as managed futures), and single-stock and ETF options buying by both retail and institutional market participants.

The headline positioning indicator, which is standardized and z scored, is typically within one standard deviation of the mean (zero). But when it gets closer to two standard deviations above or below zero, it indicates an extreme stretched positioning condition.

A reading near +2, where the indicator was in early June and back in October 2025, is indicative of stretched positioning to the bullish side, and a contrarian short-to-intermediate term sell signal. Conversely, a reading near -2 is stretched to the bearish side, which the indicator touched shortly after the Liberation Day tariff scare in April 2025.

The latest reading reflected full positioning at +1 standard deviations, down from +2 just three weeks ago. Historical analysis suggests a reading of +0.6 or less would be sufficiently balanced so the investment community still has a bit more optimism to work off.

Positioning is Full and Points to a Consolidation or Modest Pullback



Source: LPL Research, Vanda 06/19/26
Disclosures: Based on the volume weighted average investors' positioning in US equities. The metric combines: Active mutual funds' exposure, Long/short hedge funds' net exposure, volatility targeting strategies, risk parity and CTAs' net exposure as % of AUM to ES1, NQ1, FA1, RTY1, and DM1 futures. Institutional and retail investors' net bullish positions in US single stock and ETF options (21 days rolling sum of OTM call – put US$ traded premium), as well as retail investors' net purchases in US single stocks and ETFs. All the metrics are standardized and averaged. The mean and standard deviation used for the Z-score are calculated using the full history range for all metrics except for: Call to put indicators and retail net buying average and standard deviation are adjusted for pre and post-Covid as retail participation increased. Weights are based on estimated investors' volumes as % of the total, we apply a cap to the maximum weight for each investor to avoid high levels of concentration.

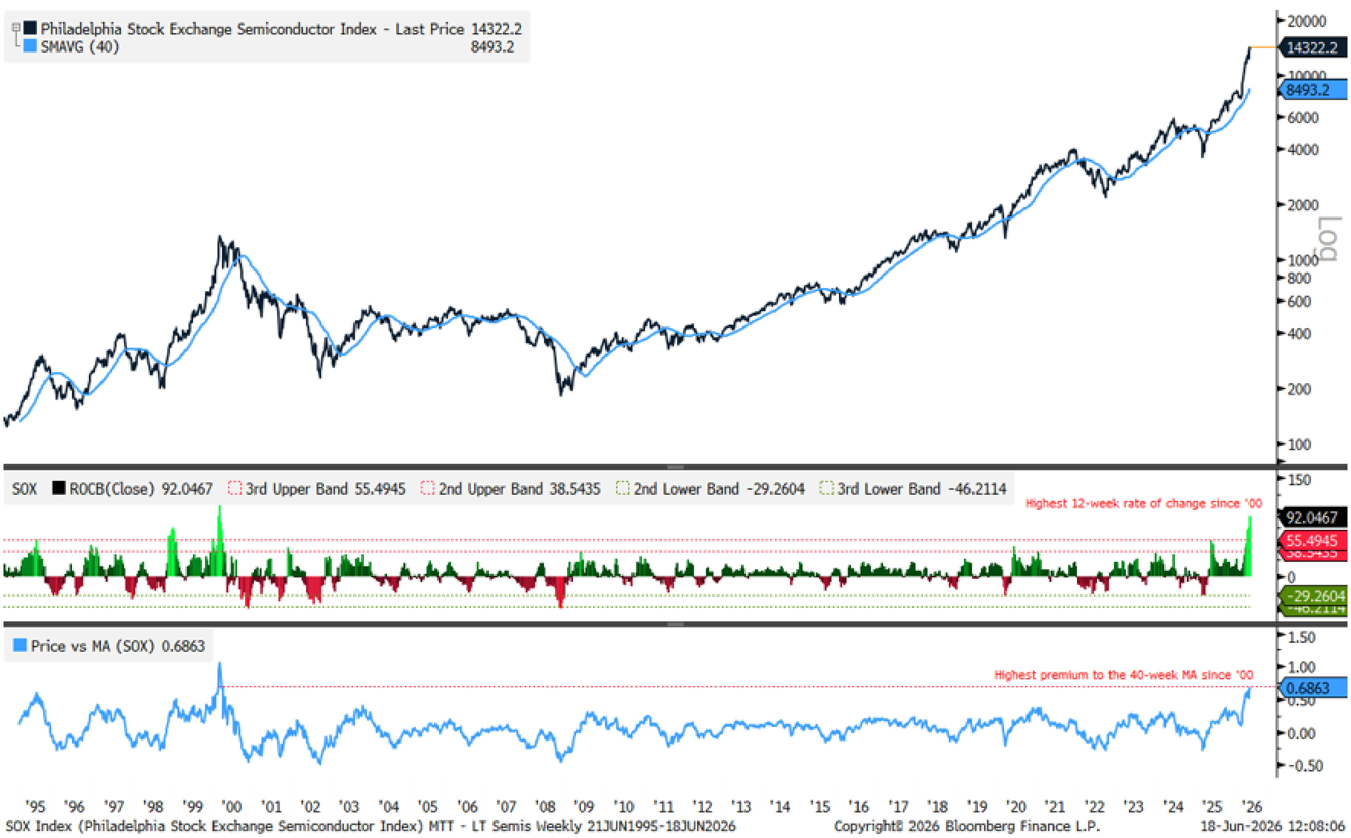
What About the Center of the AI Boom: Semiconductors

The Philadelphia Semiconductor Index (SOX) has become the epicenter of the AI trade, capturing the market's enthusiasm for the companies enabling the buildout of AI infrastructure. Its importance is hard to overstate; if AI is the dominant growth narrative in markets, semiconductors are the critical bottleneck and beneficiary. However, crowded positioning and increasingly euphoric sentiment have pushed the SOX to extremely overbought levels.

Importantly, overbought does not necessarily mean over. Momentum often begets momentum, and powerful trends can persist longer than investors expect. However, the one-way price action over the last several months has created a more asymmetric risk/reward profile, because when parabolic advances finally end, the reversals tend to be dramatic and severe. This does not mean the AI or semiconductor trade is over but a cooling-off and/or profit-taking period could eventually create a healthy reset of overbought conditions and provide an attractive buying opportunity.

One way to frame the current setup is through a rubber-band analogy: price has stretched far above its longer-term trend, represented by the 40-week moving average (wma), and while it can stretch further, history suggests it usually does not do so for long before a pause or pullback follows. Today, the SOX is trading at a 69% premium to its 40-wma, a level reached only once before, during the late-cycle phase of the dot-com era. The index has also generated a 92.5% 12-week rate of change, an almost unprecedented surge over such a short window, rivaled again only by the late-cycle semiconductor melt-up in 2000. Bottom line, semiconductor stocks may be too far over their skis and could be due for a pause or pullback.

Semiconductor Stocks May Have Come Too Far Too Fast



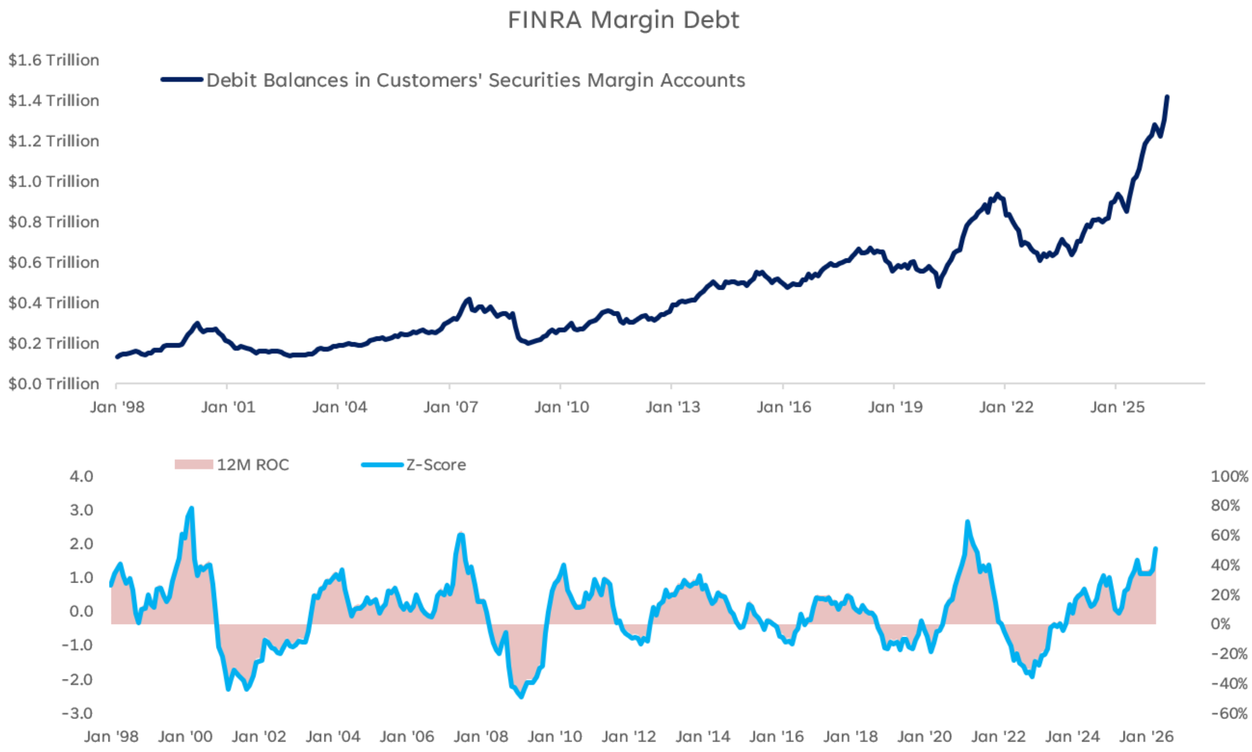
Source: LPL Research, Bloomberg 06/18/26
Disclosures: Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results. MA-moving average.

Another Angle on Investor Sentiment: Margin Balances

At the same time, broader measures of risk appetite suggest that speculative leverage and optimism have risen meaningfully alongside the rally. Margin debt has ramped considerably this year, with FINRA reporting that debt balances in customers' securities accounts reached a record $1.42 trillion last month. Over the last 12 months, margin debt has climbed 54%, representing nearly two standard deviations above the long-term average, an indication that investors are increasingly using borrowed money to participate in the advance.

Other sentiment gauges also point to elevated optimism. According to the Conference Board, the spread between consumers expecting stock prices to rise over the next six months versus those expecting a decline jumped to 30% in May, placing it in the 98th percentile over the last 30 years. Taken together, the data do not necessarily signal an imminent top is in the making, but they do suggest that expectations are high, positioning is crowded, and the market may be vulnerable to a reset if momentum begins to fade.

The Sharp Increase in Margin Debt is Another Indication of Stretched Positioning



Source: LPL Research, Bloomberg, FINRA 06/18/26
Disclosures: Past performance is no guarantee of future results. ROC is an acronym that means rate of change.

Conclusion

The successful SpaceX IPO reinforces our view that equity markets remain resilient and capable of absorbing a lot of issuance with minimal disruption. While the pipeline of high-profile offerings suggests confidence in capital markets, the broader context indicates a healthy — but not excessive — IPO environment, supported by solid macro conditions and ample liquidity. Importantly, investor sentiment appears mixed: survey data show continued caution, yet positioning, leverage, and momentum in key areas like semiconductors reflect excessive optimism.

These crosscurrents point to a market that is fundamentally supported but tactically extended. Elevated positioning, rising margin debt, and historically strong gains in AI-linked segments increase the likelihood of near-term consolidation or volatility, particularly if momentum cools. However, such pullbacks would likely simply represent a normalization of the bull market rather than anything structurally significant. Overall, the current investing landscape suggests durability beneath the surface, even as pockets of exuberance emerge. We remain constructive, recognizing that strong fundamentals can coexist with shorter-term risks as markets digest gains and adjust expectations.

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Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The PE ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

The PHLX Semiconductor Sector Index (SOX) is a modified market capitalization-weighted index composed of companies primarily involved in the design, distribution, manufacture, and sale of semiconductors.

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All index data from FactSet.

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