

Mega cap IPOs are here

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Surge in IPOs

More mega cap and smaller IPOs are forecast for 2026. Participation is broadening out beyond innovative US mega-cap companies and into emerging markets with China also getting involved. The valuations of IPO companies are now in the trillions, not the billions seen in 2000. IPOs bring exciting and innovative businesses to public markets. But in a sea of enthusiasm investors can feel pulled in by the opportunity set and, in many cases, the fear of missing out. We caution against being tempted into unforgiving entry points where valuations look stretched versus fundamentals. Selective bottom-up stock picking and diversified portfolios can help hedge overly concentrated bets.

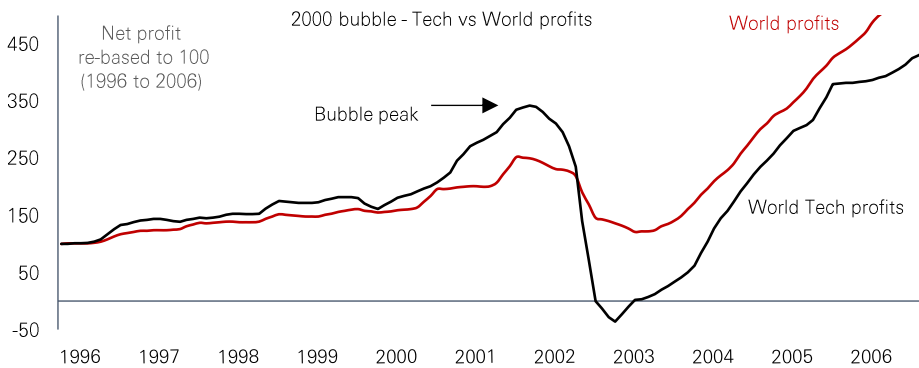
We look back at the two recent IPO surges. Today's Tech ecosystem is generating far more profit than in the 1990s. But in every cycle while some IPO candidates will have profitability at the heart of their investment case, many won't. In addition, the 2000 bubble wasn't entirely without profits. There was a burst in Tech EPS growth versus the wider market, with companies like Nokia and Ericsson profiting hugely in the late 1990s as the purchase of telecoms kit and cables surged. But those profits did not last forever, as shown below. To shed some light on IPO cycles, we focus on 4 themes: (1) profits, 2) sentiment and the anatomy of a bubble, 3) IPO history, and 4) re-equitisation (more share issuance).

Theme 1: Profits

2000 bubble

Even in the *supposedly* profitless dot.com bubble of the late 90s/early noughties, tech profits soared relative to the market. Figure 1 shows that reported (trailing) profits were still rising to end-2001 but shortly thereafter rolled over. It took about six years to get back to 2001 levels.

Figure 1: 2000 Bubble - Global Tech profits before and after

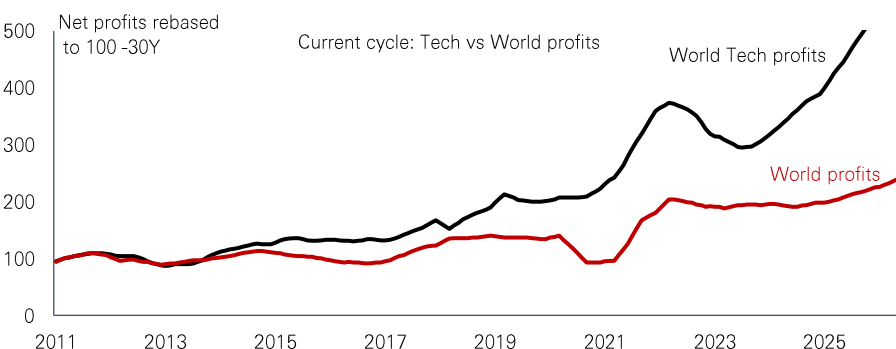


Source: Refinitiv, DataStream (all country world), trailing net profits, HSBC Asset Management, June 2026

Current cycle

Today's profit cycle is one of the strongest on record, dwarfing the 2000 cycle. While profit growth is going strong, we are conscious that it looks frothy on any comparison with history.

Figure 2: Current cycle - Global Tech profits roaring past wider market



Source: Refinitiv, DataStream (all countries world), Trailing net profits, HSBC Asset Management, June 2026

Profit margins

We also need to consider the longevity of profit margins from here. US Tech's net profit margin is close to 27% today (as last reported). This is double 2000 levels and triple the longer-run average of 11% for Global tech (from 1980 to date).

More mega cap and smaller IPOs are forecast for 2026

Participation is broadening beyond innovative US mega caps, with emerging markets like China getting involved

Current profits are helping fuel investors' enthusiasm

We caution against being tempted into unforgiving entry points if expectations look stretched

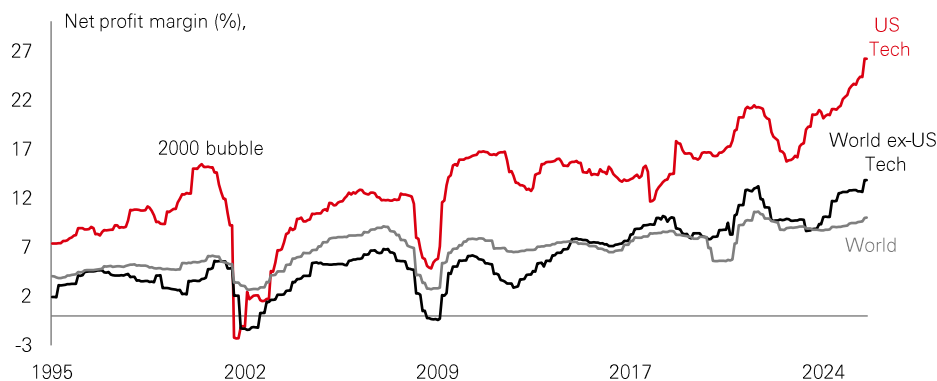
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Figure 3: Profit margins (%) are double 2000 peak



Source: Refinitiv, Data-Stream (all countries world), HSBC Asset Management, June 2026

Record net profit margins are almost triple long run averages

Profit growth fuels confidence

The visibility of today’s profits is helping to fuel investor enthusiasm, with US Tech and Communication Services making up c. 65% of US 2026e profit growth. This has risen exponentially for EM AI plays too. These Tech margins are more about mammoth capex spend, with 40-45% of it circling back into the wider Tech sector. Bottlenecks in the data-centre build-out are driving hyper scalers’ costs (and suppliers’ margins) even higher. Korea and Taiwan benefit, with memory chip prices up four-fold since September 2025. Plus, Nvidia’s latest results flagged that 92% of its Q1 revenues were from datacentres. In summary, this momentous capex is a key part of investor confidence.

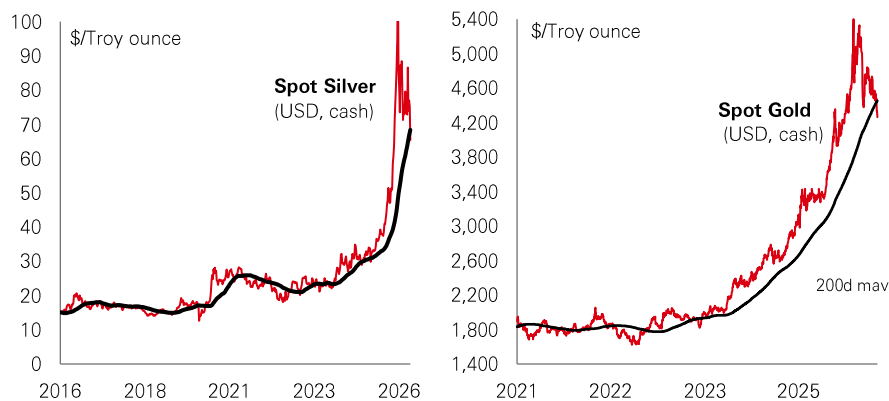
This momentous capex is a key part of investor confidence around earnings

Theme 2: Sentiment cycles

Behavioural finance highlights how easily markets can drift away from fundamentals. The “Greater Fool” dynamic describes investors buying simply because prices are rising, assuming someone else is waiting to pay more. Keynes’ “beauty contest” analogy captures a similar idea: investors try to anticipate what others will favour, rather than what is intrinsically attractive. Recent episodes of social-media-driven moves — such as the sudden surge in silver on scarcity narratives — show how quickly speculation can take hold. However, the chart shows that these momentum plays have limits. Both gold and silver suffered profit taking after prices flew past their 200-day moving average. Investors need to calibrate return expectations carefully to avoid disappointment.

We look at how sentiment drives speculative trading and IPOs

Figure 4: Speculative trading - silver and gold collapsed back to 200 day moving average



Source: Refinitiv, HSBC Asset Management, June 2026

5 stages of a typical bubble

Again, we make no judgement about what stage we are currently in. Instead, we highlight the more typical phases of an equity bubble to provide perspective. Every cycle is different but generally transformative technology drives the fear of missing out (FOMO) and a capex cycle that can last for many years. Today AI related capex forecasts are still rising, but we keep a watchful eye on them.

5 stages of a typical bubble

Charles Kindleberger’s classic framework from *Manias, Panics and Crashes* outlines five stages of a bubble as shown below. We see some similarities within the current cycle

1. **Exogenous shock** - Agentic AI (crowds out other investment)
2. **Credit creation** – New *often private* funding rises to support a jump in capex (and FOMO)
3. **Euphoria** – High profits and rising expectations drive speculative flows and concentration
4. **Insiders sell** – Hallmark of 2000 tech bubble was insider selling (lock-up expiries/1999/2000)
5. **The bust** – Revulsion, the last bull goes home

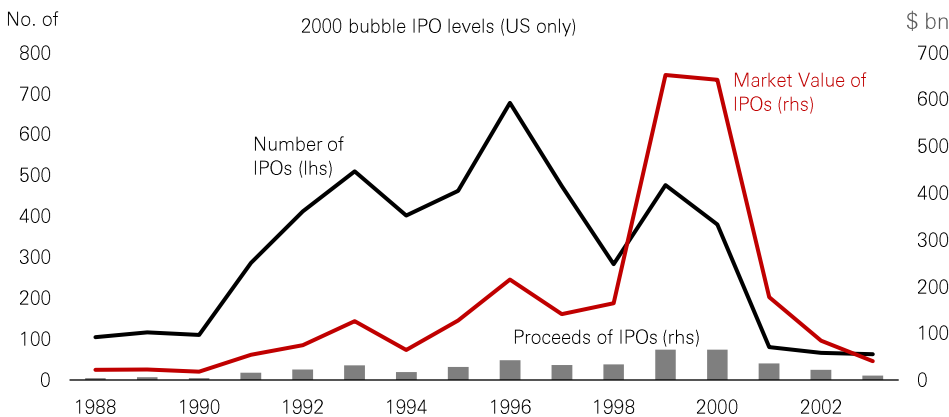
Theme 3: IPO cycles

Not every transformative cycle ends the same way. Often the technology survives, but some companies don't. The late 1990s combined the PC boom with the rapid expansion of the web, which demanded huge investment in high-speed infrastructure. The telecom's operators (like Nokia and Ericsson) benefited from soaring demand for telecom equipment, but by 2000 the cost of 3G licences pushed telecom operators' debt to unsustainable levels. The telecom equipment companies offered vendor financing to keep sales growing. Ultimately, a spending binge led to excess capacity which drove bandwidth prices down by roughly 90% post 2000. Following this, a major US infrastructure player collapsed into one of the largest US bankruptcies at the time (2002). While this is not the norm and we are not suggesting this will repeat itself, the lesson is familiar: in some cases, prices can rise far faster than the underlying economics can support.

2000 IPOs

The dot-com winners of the late 1990s/early 2000s shared a familiar pattern. They promised to change how the world works, attracted extraordinary valuations, and were often loss-making. In 1999, burning cash was almost treated as a badge of future success. If the IPO priced well and traded up, early backers were rewarded. The chart below shows just how volatile IPO cycles can be, given the reliance on investor confidence and hype. Figure 5 below shows the number of IPO deals, proceeds raised and the values of the companies at the time.

Figure 5: IPO activity raced higher in 2000 – but fell quickly



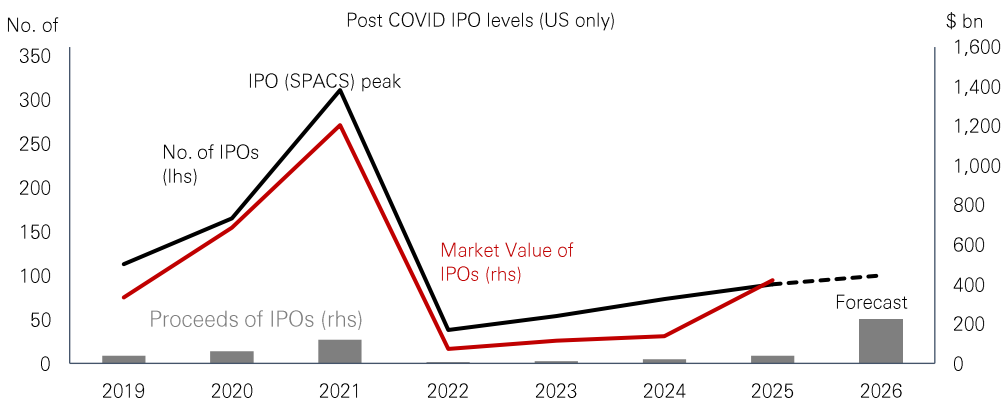
Source: Jay Ritter, University of Florida, Warrington College of Business, HSBC Asset Management, June 2026

SPACs boom (Special Purpose Acquisition Companies) followed the pandemic

During the SPACs IPO boom sponsors and institutional investors often did well, but retail investors who bought in after the merger announcements, on average, did less well. 2020 looked good on paper: traditional IPOs ended 2020 with 76% equity returns for investors. Names like Airbnb and DoorDash doubled on the first day. But that was the peak.

Looking at all 480 traditional IPOs from July 2020 through Dec 2021, average returns were negative from the offering price. This was an unusual IPO cycle which was more to do with massive pent-up demand to issue (and buy) paper post the pandemic helped by record low rates. In short, the 2020-2021 IPO/SPACs booms favoured the early sponsors and investors who got in cheap and exited earlier on.

Figure 6: Reviewing the IPO/SPACs post pandemic boom



Source: Jay Ritter, University of Florida, Warrington College of Business, HSBC Asset Management, June 2026. Forecast period is from sales-side estimates.

We remind investors about key risks

We may not be at late-cycle extremes yet but it's worth tracking some classic warning signs. In the final phase of the dot-com bubble (1999 to early 2000), insider selling surged. CEOs, founders and early

Not every transformative cycle ends the same way.

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Prices can rise faster than economics

IPO cycles can be volatile - 2000 tech bubble

A post pandemic backlog drove a surge in activity

investors sold billions of dollars' worth of shares in the 12–18 months before the March 2000 peak, often cashing out near highs while public messaging was still generally positive. A key structural driver was the lock-up expiry (typically 180 days post-IPO). As the 1998–1999 IPO cohort unlocked, a wave of insider supply hit the market often as retail buying was still peaking. It looked something like this:

IPO → hype cycle → insider lock-ups expire → insider selling → retail often buys at top

Over the second half of 1999, for many it wasn't a question of whether this was a bubble, but more a question of how big it would get and when it would pop. In the month before the Nasdaq peaked, insiders were estimated to be selling 23 times as many shares as they bought. Between September 1999 and July 2000, insiders of dot-com companies cashed out to the tune of \$43bn, twice the rate they'd sold at during 1997 and 1998. During 2000, individual investors continued to pour \$260bn into US equity funds. (Brian McCullough, *How the Internet Happened* (2018).

It's important to continue to focus on fundamentals over hype. The main areas to watch include:

- **Valuation risk:** early trading often assumes "perfect execution" of a business strategy
- **Information:** insiders and early backers typically know more about business risks, customer concentration and demand durability
- **Supply overhang:** lock-up expirations can create sharp, technical sell-offs even if the story is still hasn't changed. Periods post lockup expiries can often create a better entry price.
- **Profitability is uncertain:** some businesses are scaling losses, making them more sensitive to a shift in sentiment or even rates. Look for visible revenue and margins plans over hype.

Theme 4: Re-equitisation – expensive shares offer a cheap currency

After a long phase of cheap money, where debt was cheaper than equities, could de-equitisation (think buy-backs) start to give way to more re-equitisation (think IPOs). Re-equitisation occurs when the total supply of equity in the stock market increases and happens when:

- (1) Debt becomes expensive (swap debt for equity);
- (2) Balance sheets need repair (need more equity versus debt); and
- (3) High valuations make equities a cheap currency. This is what triggered the 1999–2000 IPO cycle.

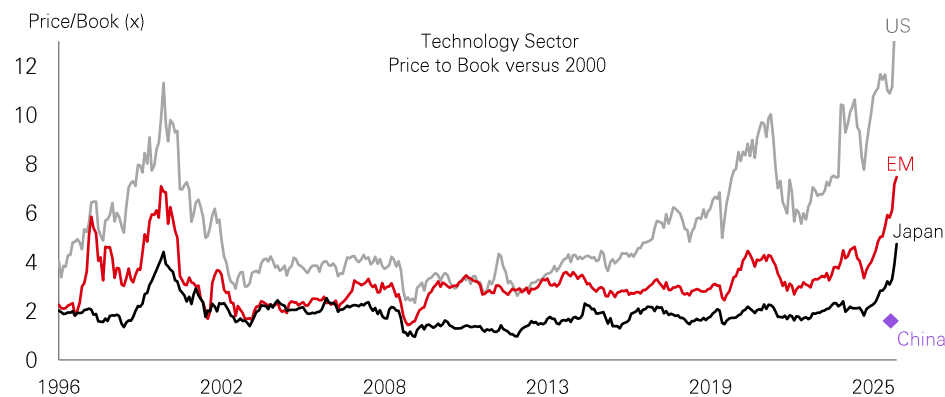
Will equity finance increase? Perhaps. In Q1-26, four of the largest US hyper-scalers flagged combined 2026 capex of close to \$800bn (an 80% increase from the prior year). As capex started to outpace cash-flow generation, firms started to shift from pure cash-funding to leverage. **Could the next move be equity-based finance?** While most of the capex spending has come from cash or debt, at least one of the hyper-scalers has recently turned to the equity market with a share issue, to help fund AI capex.

Summary

There are more mega cap IPOs forecast for 2026. But this is not just a US story, emerging markets are getting involved as they look to fund innovation. China has a burgeoning Tech sector that trades on a discount to the US (figure 7). We still favour broadening out beyond US mega-caps, especially given the structural under-allocation to RoW equities. Since 2020, there have been \$1.6 trillion of inflows to US equity funds, vs \$385 billion of inflows into non-US equity funds (EPFR, May 2026).

In this current cycle, we caution against being tempted into unforgiving entry points if expectations look stretched. Keep fundamentals, not hype, at the core. Even the most sophisticated investors can suffer from the Greater Fool Theory. Selective bottom-up stock picking and well diversified portfolios are key.

Figure 7: Technology stocks look more stretched on a Price to book measure



Source: Refinitiv, Data-Stream as latest reported, HSBC Asset Management, June 2026. Note: China shows as above due to a noisy time series during and post the pandemic.

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We remind investors about key risks

Lock up expiries can drive a surge of insider selling

How to manage the key risks

Re-equitisation – three drivers

We aim to avoid unforgiving entry points

Selective bottom-up stock picking and global diversification are key

Price to Book of Regional Tech - China lags

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