Allison Nathan: This is Exchanges at Goldman Sachs and I'm Allison Nathan, a Senior Strategist in Goldman Sachs Research. Today we're going to look at the surge in equity issuance and what promises to be a record-breaking market for IPOs this fall. To do that I'm joined by Lizzie Reed, Global Head of the Equity Capital Markets Syndicate Desk in our Investment Banking division. Lizzie, welcome to the program.

Lizzie Reed: Thank you for having me, Allison.

Allison Nathan: So to start off Lizzie, set the stage for us. Give us a sense of overall equity issuance this year and where we are as we head into the fall.

Lizzie Reed: Wonderful. Well, the market is certainly open,
and we are really excited about what will be a very active September, but also a very active Q4 of 2021. I guess to put some context around issuance volumes, on a global perspective, street-wide issuance year to date is just north of a trillion dollars. To put that in perspective, that's up 39 percent versus where we were this time last year in 2020. And in fact, we're very close to the record-breaking global issuance volume--record, which was $1.16 trillion--that occurred for full year of 2020. So clearly, we're tracking very well in terms of absolute issuance levels for 2021.

**Allison Nathan:** So what does that look like by region?

**Lizzie Reed:** Every region is obviously up on the year. And up, you know, substantially. So, if you look at Americas, for example. America's issuance stands just shy of $450 billion dollars. That's up about 35 percent year over year. If you look at EMEA, EMEA issuance stands just north of $200 billion dollars year to date. That's up about 56 percent year over year. And if you look in the Asia region, Asia issuance is at $365 billion, which is also up about 35 percent year over year. And so, it's really encouraging to see issuance volume continue to increase, not only by
region, but also by product. And when I describe street-wide issuance volume, that's inclusive of IPOs, marketed follow-ons, convertible offerings and registered blocks.

Allison Nathan: So, now that we're all back at work and we're eyeing the September calendar, how is the fall shaping up?

Lizzie Reed: We're really encouraged in terms of the backlog that we're seeing for September across all products and regions. And so, let's just take Americas as a very, you know, quick example for you. September of 2020 in the Americas region was the most active September in history at $51 billion dollars. This week alone in Americas, $22 billion dollars of street-wide issuance printed. So, we're already near half of what the full month was in 2020. And so that should be an indicator, just given the deep public IPO calendar, the desire for, you know, many companies to do marketed follow-ons, whether in the format of a primary raise or a PE firm or a VC looking to do, maybe, a potential secondary monetization, or the fact that rates are low and might be opportunistic for an issuer to do a convertible bond, that we feel very encouraged about what we're seeing
in the market right now, let alone in September on volume but the outlook on the activity levels for Q4.

**Allison Nathan:** Wow, those are some really big numbers. So, as we look at this very strong pipeline, why are companies so interested in pursuing an IPO now?

**Lizzie Reed:** I think we're very much in a Goldilocks scenario where you have a stable macro backdrop, not excluding the fact there are some thematics that we continue to track in terms of investor sentiment and direction of equities globally. But essentially from a valuation perspective, the year-to-date performance in the indices have really seen tremendous multiple expansion within the markets. So, if you're an issuing client, you certainly like the valuation you can achieve today.

Number two, I would highlight the amount of strong capital formation that we're seeing on the buy side community. And when I say the buy side community, it's very diversified in terms of type of investor. Whether it's mutual funds, ESG, dedicated funds, pension funds on a global basis, more of the strategic funds that can play across the capital
structure and kind of be private or public investing, and obviously as well in our hedge fund community. And so, it's been really encouraging to see the amount of capital formation on the buy side, which has really enabled issuers to partner with different types of investors, you know, in the near term, but also in the long term.

And the last thing that I would highlight in terms of the strong IPO pipeline is we've seen there's a tremendous amount of innovation within the equity capital markets. And what I mean by that is that the method in which an issuer can go public based upon what their objectives might be. So, it could be a traditional IPO. It could be a direct listing. You could go public via a SPAC. And so, it's really wonderful to see those three kinds of pillars in the market right now, plus a very stable macro backdrop, are really allowing issuers and investors to focus on the asset class, whether they are going public or looking to the capital in a very efficient manner.

**Allison Nathan:** So, let's talk a little bit more about the various routes to going public that you've just mentioned. Special purpose acquisition companies, or SPACs, they've
obviously been quite a big focus of the market. We've talked a lot about SPACs on this podcast in the past. But there's been a broad-based decline in SPAC returns and greater regulatory scrutiny. So, what's the outlook for SPACs and some of these other alternatives you mentioned?

**Lizzie Reed:** Sure. So, in Q1 of 2021 we just saw record SPAC issuance levels. And it's really normal and I think natural that when you have such an unbelievable uptick in terms of supply to the market, you're naturally going to have some indigestion. And so, if you couple that alongside some of the regulatory focuses within that product, I think it's been healthy to see a pull back in that issuance volume. You know, SPAC issuance has come down from the Q1 highs. It's still an incredibly important and viable product within the equity capital markets for a whole host of reasons. And really encouragingly, the entire market is working together to create more sustainability within that product and really evolve the product composition or the product criteria.

And so, what that really means in terms of the forward for SPACs is that it's positive. The market is certainly open for
SPAC issuance. But I think importantly for issuing clients and for investors forward, we're going to continue to see a lot of innovation across the SPAC product, direct listing product, the traditional IPO product because it really is just the method to going public and the method in terms of partnering with investors.

And so, we have a lot of conviction and confidence that all of these products are here to stay, and we'll continue to see more evolution within them respectively.

**Allison Nathan:** What types of companies are going public at this point? Are you seeing any specific industry trends?

**Lizzie Reed:** We continue to see great diversification in terms of our issuing clients coming to market within the IPO space. And so, we have very good growth-oriented assets that are coming to market, as well as some very strong value-oriented assets coming to market. I think that talks to the testament of kind of the capital formation that I spoke to earlier. But I also find it very encouraging that that thematic, whether it's in the Americas region or more
international continues to ring true.

And so, we're seeing great diversity across sector and product and region, which is certainly very encouraging. And obviously supports the amount of issuance volume that's come last year, but also the first of this year.

**Allison Nathan:** But talk a little bit about performance of deals and how that's affecting the mindsets of issuers and investors. I mean, obviously, we saw a bit of a barbell in the first half of the year. Some deals outperformed and others underperformed. So, what do you expect the conditions to be going forward?

**Lizzie Reed:** Yeah. I think it's important to keep in mind some of the technicals that you're seeing, specifically within the equity markets just on sheer volume of supply and how it's been absorbed. And so, it's only natural that there are going to be at points in time, if the macro market becomes a bit more volatile, that investors are going to pull back and be a bit more selective in terms of where they're looking to deploy that capital.
And so, over the course of this year, we've obviously experienced some points in time where volatility had increased, and you saw a pullback of risk appetite from the investing community within the IPO space. But generally speaking, if you look at for example, how IPOs performed on day one, it's been positive across the board on a global perspective. So, for example, your average day one performance in Q1 on a global perspective was up 35 percent. If you look at Q3, it was up 26 percent. So, yes, there have been times when markets have been a bit more tricky or challenged that you've seen a pullback in terms of the return. But the absolute return continues to be very compelling for investors.

**Allison Nathan:** So, we're obviously looking at an expected flood of new issuance this fall. So, a question for you, Lizzie, is can the market really absorb this record issuance? I mean, these levels are, you know, somewhat reminiscent of the extraordinary activity we saw in the late '90s. So, are we near a top?

**Lizzie Reed:** I sure hope not because I certainly love bringing new issue to markets and partnering with
investing clients. But you're right. I mean, there is a tremendous amount of supply that's expected to come in September and over the course of Q4. I think the street can definitely absorb that amount of supply because there are some tremendous high-quality issuers that are thinking and contemplating going to markets in the coming months. And the real question is how do you kind of give the best advice to our clients?

We remain very confident that the market is positioned at a place where it will be absorbing that supply successfully and efficiently. Although, obviously, there are going to be some bouts of investor fatigue that we'll all have to pause through.

**Allison Nathan:** So, is there anything about the market right now that has you worried? What are the risks that you're watching?

**Lizzie Reed:** So, there are obviously some more macros that we are definitely tracking in terms of indicators of risk sentiment. I'll highlight a few of them. And I say this with a smile on my face as we see indices on average touch all
time highs on an average of every three to four days. But we are focused, and we are focused on the macro, and how it might certainly impact investor sentiment.

So, from a macro perspective, you know, obviously we're very much focused on the upcoming Fed meeting. What type of signaling there is in terms of tapering. And most importantly, the potential impact on rates. I think, like most people across the street, we're not necessarily concerned about rising rates. But we're concerned about and focused on the speed or the volatility around rates. And how does that impact equity investor sentiment?

I also think we remain very, very focused on the performance of growth-oriented assets which are trading at extremely high multiples. And we've seen a lot of depth from the investing community to support that type of multiple. And so, if we see some rate volatility, how does that impact our growth assets?

Another topic, obviously, that we're focused on is tax reform, both corporate taxes as well as capital gains taxes. And what does that really mean for the equity investor? If
there are companies or sponsored funds or VC funds who are looking to, maybe, potentially monetize some of their portfolio companies, how does that impact investor sentiment? Are investors willing to underwrite primary offerings versus secondary offerings? And so, we're very focused, obviously, on that type of macro event.

And then certainly we're focused on the regulatory environment and how does that impact our corporate issuers globally in terms of their access to capital markets, not only in equities, but also just across the capital structure in all finance-related type of products?

And so, those are some of the macro items that we continue to track and want to stay in front of in terms of advising our issuers on coming to market.

From a technical standpoint, we certainly remain very focused on inflows: passive inflows versus active inflows. And from, you know, just tracking the numbers, there is certainly a difference in terms of the amount of passive money that's flowing into the equity markets, which is very natural, and supporting a lot of the indices performance.
And we're also very focused on what percent of inflows are going to active managers. And what that really means is, you know, where does an individual portfolio manager want to enter a stock or buy a stock based upon the inflows that they're receiving? And is there a difference in terms of what market indices multiples are pointing at versus where, you know, a portfolio manager wants to actually enter a stock in terms of a multiple? So, we're really focused on inflow numbers and think it's a very interesting technical to watch.

And then, obviously, we're focused on investor positioning. So, in our latest GIR research on mutual funds, we've published that, essentially, mutual fund cash allocation as a percent of their total AUM sits at a record low of 1.6 percent versus a historical average which is closer to 2.5 percent. And so, what does that really mean for a mutual fund who has more cash already into the system? You know, does that mean that they're more selective in terms of their behavior? Does that mean that they're actually more constructive and bullish in terms of market and want to be fully invested?
And so, we're kind of tracking a lot. You know, how are investors positioning their portfolios, not only across their capital structure, but also within equities domestically in the States, but also internationally as signals in terms of their risk appetite? So, those are a couple of the macro and some more of the technical things that we're certainly tracking. Not that we are concerned in any way, shape or form about them. More just that these are things that we want to make sure that we stay on top of in terms of tracking investor mindset.

**Allison Nathan:** And then even beyond institutional investors, you know, what about the retail investing space? Obviously, until recently the institutional investors have typically bought up the lion's share of an IPO. But is that now changing?

**Lizzie Reed:** You know, retail in the past 18 months has been a tremendous force within the market, not only in, as we know, the broad market in terms of thematics in trading. But also, kind of a follow-on buyer in many ways within the IPO space. So, what we're focused on is kind of twofold. One, trying to get the best understanding of the
psyche of a broad retail investor base. What type of assets are they willing to kind of deploy capital and track within IPOs? But also thinking about the retail investor for our issuing clients and how can we harness that type of demand to really think about another kind of median of distribution?

And so, I, and I think most people would agree that the retail investor is going to remain very active within equities. And we continue to want to learn and track more in terms of their flows and focus as a broad universe of investors. But I don't think in any way, shape, or form that is going to go away. And I still think you're going to see very broad distribution in the IPO space across all different types of investors, whether it's institutional investors or retail investors across the board.

**Allison Nathan:** Lizzie, thanks so much for joining us at what is, obviously, a very busy time for you.

**Lizzie Reed:** It was my pleasure. Thank you so much for having me.
**Allison Nathan:** That concludes this episode of *Exchanges at Goldman Sachs*. Thanks for listening. And if you enjoyed this show, we hope you subscribe on Apple Podcasts and leave a rating and comment.

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