



## Over the moon

### SpaceX IPO: gravity defying or grounded?

#### Key points:

- **AI and tech euphoria:** bullish retail sentiment propelled U.S. equities to fresh highs over the past week.
- **SpaceX IPO speculation:** hype around the upcoming transaction is building, with success appearing dependent on retail demand and institutional investors more likely to have a sceptical view on valuation.
- **Energy supply disruption:** despite some progress towards a deal to re-open the Strait of Hormuz, we see impacts on supply chains lasting for months, if not quarters, to come.
- **Central bank divergence:** we expect the ECB and BoJ both to hike in the coming month, with the Fed and BoE on hold.
- **Credit spreads:** we continue to believe that credit spreads give little protection against possible downside risks.

**London, 29 May 2026:** Bullish retail investor sentiment has continued to propel US stocks to fresh highs over the past week, with the frenzy surrounding AI and tech more broadly, showing little sign of abating. Chip stocks have seen an insatiable appetite of late, with companies such as Micron and Hynix registering stock price gains of 770% and 970% respectively, over the past 12 months.

It appears that for the time being, concepts such as valuation, have lost much of their meaning and in this respect, the hype is already building with respect to the upcoming SpaceX IPO transaction. Initial price talk targeting a USD1.75 trillion valuation for a company that lost USD4 billion in the last quarter renders concepts such as P/E ratios entirely irrelevant.

Ultimately, it may appear that retail investors are more concerned with short-term price performance than longer-term considerations. Inasmuch as this renders investor behaviour speculative in nature, so it speaks to the potential for disruption and volatility if something were to go awry. Time will tell whether it will have been smart to buy the rumour but then sell the fact, once this float goes live.

That said, it might appear that something material will need to occur in order to realign investor psychology with greed and FOMO, the powerful emotions driving markets for the time being.

By contrast, it is interesting to juxtapose the bullish investor sentiment currently prevalent, compared to the weakness in business and consumer sentiment across most major developed economies. Rising prices risk pressuring balance sheets and constraining demand.

Moreover, notwithstanding some progress towards a deal to re-open the Strait of Hormuz, we see impacts on supply chains lasting for months, if not quarters, to come. Even in a constructive scenario, we are therefore doubtful that energy prices will decline by very much during the rest of 2026.

Consequently, we think that markets are too sanguine with respect to inflation risks, with U.S. 5-year inflation swaps only trading at 2.6%, which is only marginally above the level we would expect to prevail, were the Fed constantly hitting its 2% core PCE inflation objective.

We also continue to believe that credit spreads give little protection against possible downside risks. Our base case looks for spreads to grind sideways against a low growth backdrop in Europe. However, the risk case is skewed towards materially wider spreads, should slowing growth metastasise into full blown recession.

In the U.S., recession risks are much more remote, and this may favour U.S. spreads on a relative basis. However, the sheer volume of supply from hyperscalers and others represents a strong headwind against additional spread tightening. Nevertheless, spreads have rallied over the past week as hopes for a Middle East peace deal have advanced and government bond yields have rallied from their recent wiles.

Returning to the topic of monetary policy, we expect the ECB and BoJ both to hike in the coming month, with the Fed and BoE on hold. A June hike has appeared to be a done deal for the ECB for some time, though it appears that the Governing Council may steer away from communicating that this is the first in a series of similar moves.

Against a soft growth backdrop, there are some arguments from European policy makers that the ECB may be 'one and done'. That is to say, a subsequent move in September is possible, but by no means guaranteed. In Japan, Governor Ueda is widely expected to speak of the BoJ on the pathway of monetary policy normalisation. A move to 1% cash rates in June is then expected to be followed by a further 25bps hike at the end of the year.

In the U.S., it was interesting to hear Waller speaking for a neutral bias on interest rates at the Fed, having previously argued for lower rates a couple of months ago, when he was under consideration for the role as Fed Chair. Certainly, the rampant sentiment in the stock market may well argue for more monetary policy restraint with an eye towards financial stability.

The Fed will be wary of allowing a strong run up in stocks to gather too much momentum, for fear that an ultimate retracement could end up disproportionately more painful. That said, any discussion with respect to higher U.S. rates is unlikely before the autumn, and only then if inflation data continues to disappoint at the same time.

In the UK, the gilt market continues to trade with an elevated beta in terms of volatility, reflecting the higher convexity with respect to movements in yields and their feedback into the underlying UK fiscal position. With global yields lower over the past week, this has seen gilt yields outperform, though we continue to see clouds building on the horizon.

We still expect UK CPI to exceed 4.5% in the summer as cost pressures feed through into hard economic data. The BoE may try its best not to hike interest rates at a time when credit demand is already contracting. However, a hike may become hard to avoid by the time that schools go back after summer, in September.

Meanwhile, ahead of this we should have resolved the identity of the next UK Prime Minister (on the widely-held assumption that Keir Starmer's days are now clearly numbered). Andy Burnham remains in the box seat for now, though opinion polls for the Makerfield by-election, which he must first win, remain very close, with the Reform Party mounting a strong challenge to this coronation.

We continue to think that Burnham will be tested by the markets, if he does take office, and would rather position away from the UK for the time being. We retain a short sterling position, on the idea that the currency could be potentially vulnerable in this scenario. However, for now, the pound along with most other currencies, has traded sideways within a range over the course of the past week.

Otherwise in FX, we continue to see value in the yen and anticipate the MoF will underpin its commitment to defend the Y160 level versus dollar.

Elsewhere in Europe, Hungarian assets have continued to outperform since this year's general election resulted in a pro-EU outcome. Prospects for accession talks and a convergence trade continue to favour local rates, and this remains a market where we adopt a more constructive view.

We have also retained constructive views with respect to local markets in Colombia and Brazil, though these have struggled on political volatility over the past month. This said, we are hopeful of much stronger price performance in Colombia, should this weekend's elections result in a positive first round for either the centre right or right-wing candidates.

Broadly speaking we see FX and duration as more attractive sources of carry than corporate credit spreads, at the current time. Notwithstanding some frustration that spreads have been very robust, we would continue to highlight that the fundamental economic backdrop is very different to that which we observed at the start of the year.

With Europe flirting with recession, this speaks to adverse credit migration and rising default rates into the months ahead, and this is not a backdrop which should justify further narrowing in spreads from this point.

### **Looking ahead**

It is hard to know whether economic data, central banks, the AI rally or events in geopolitics, will be the dominant driver over the next few weeks. What is clear to us is that the past few weeks have seen money being sucked into markets, either adding to longs or closing out shorts, at levels which could become vulnerable if the downside is tested.

We also think that the SpaceX IPO will be an interesting event, with insiders who are already long exposure to the stock, sure to be cheerleading interest in the deal and with Wall Street banks also likely to talk up their book, with close to USD1 billion in fee revenue at stake.

Still, USD85 billion of new cash needs to be committed for this IPO to launch. Although this stock will quickly be put into market indices, it is not clear that passive funds will be able to participate initially and with institutional investors more likely to have a sceptical view on valuation, so success will hinge on retail demand showing up in force.

Time will tell whether investors end up over the moon, though one thing we would note is that for SpaceX to double in price, this would require an addition of a further USD1.75 trillion in market cap. In this context, gravity can act to constrain the speed of growth when size is so large, and maybe it should be remembered that the market capitalisation of the entire U.S. S&P index was only USD6.9 trillion as recently as March 2009...

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