

EDITORIAL BOARD

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Ideas Generation



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What do recent IPO valuations suggest about market valuations generally?

With over \$15bn raised, May is the biggest month for IPO fundraising since 2014, when Alibaba raised \$25bn. The percentage of companies with negative earnings in the year prior to IPO was 81% at the end of 2018, a level similar to the 2000 peak. Needless to say, this is an alarming signal against a backdrop of demanding equity valuations, tight credit spreads, inverted yield curve and record low unemployment. The IPO pipeline is very large and there are questions about how the markets will absorb it. Lower quality companies with high prices are already struggling. Private valuations are probably too high in the tech sector and for the unicorn club: more than 300 globally (mainly US and Chinese), with a total private valuation of more than \$1trn.