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Investors Clamour for IPOs

"We have incurred net losses in each year since inception, and we may not be able to achieve profitability…. Our revenue growth rate has slowed, and we expect it to continue to slow in the future." These words, taken from the IPO filing, seemed to do little to dampen the enthusiasm in Airbnb, which last week concluded its first day as a public company with a valuation of $100bn. The Nasdaq listing raised £2.6bn for the company, which has struggled this year with travel among the worst sectors affected by Covid.

Investor demand for US technology led companies has been staggering with Airbnb's listing one of three in a matter of days. Doordash, a food delivery platform, and C3.ai, an AI software manufacturer also watched their share prices soar, mirroring the IPO of Snowflake, another software business, which listed in September. In this as in so many other ways, 2020 has eclipsed 2019, which offered up IPOs from Uber and Lyft. Before 2020 takes its final bow, the $167bn companies have raised on the US stock exchanges will have been further boosted by the listing of Wish, an e-commerce platform, while Roblox, a video game maker looks set to delay its IPO until next year. Coronavirus has been a boon to tech firms, condensing years of expected growth into a matter of months as consumers were forced to embrace online providers for shopping, entertainment, work and the weekly supermarket shop.

With 2020 setting IPO records, unfavourable comparisons are being drawn to the tech bubble of 2000. Twenty years on, low interest rates and a high tolerance for risk have pushed company valuations up to new heights, and the nagging worry that the lessons of that last crisis have not been fully learned remain; although many of the companies that have gone public this year are more mature than the tech start-ups of the late 90's, many are still not profitable. They may not be as likely to fold as their predecessors, but their shares could be vulnerable to repricing.

In the case of Airbnb, it has reported profitable quarters, but its profitability was questionable long before Covid, having lost money every year since it was founded. As one of the leading disruptors of the travel sector, it is seen as a longer-term winner, a business that has made hotel groups re-examine their business models. In addition to the long-term trends, Airbnb would be a beneficiary of a resurgence in travel in 2021. Whether the Covid risks recede quickly enough in 2021 to make it a bumper year for Airbnb, or whether it can overcome the longer term threat of regulation to justify its share price is something we will have to wait to see.

Market Snapshot (04.12.20 – 11.12.20)

Market Snapshot (04.12.20 – 11.12.20)			10 Year Bond Yields			Currency			Commodities		
FTSE 100	6546.75	↓0.05%	UK	0.20	↓33.33%	£/$	1.3225	↓1.60%	Brent Crude	$50.07	↑2.12%
S&P 500	3668.10	↓0.84%	US	0.91	↓3.19%	£/€	1.0918	↓1.64%	Gold	$1839.70	↑0.11%
NIKKEI 225	26652.52	↓0.37%	Germany	-0.64	↓15.37%	€/$	1.2113	↓0.06%			
DAX 30	13114.30	↓1.39%	Japan	0.01	↓66.67%	£/¥	137.5700	↓1.72%			
CAC 40	5507.55	↓1.81%									

Figures quoted are in local currency
Source: FE Analytics & Financial Times

Week Ahead

Monday – China: Industrial Production (YoY)
Tuesday – UK: Average Earnings Index + Bonus (Oct)
Wednesday – Germany: German Manufacturing PMI (Dec)
Thursday – US: Initial Jobless Claims
Friday – UK: Retail Sales (MoM) (Nov)

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