ODDO BHF

MONTHLY INVESTMENT *Brief*

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Laurent Denize
Global Co-CIO ODDO BHF

Riding the Tech Wave

> *Whilst profits are concentrated among a small group of rapidly growing companies, the number of losers in the AI economy is increasing.*

It was an IPO for the history books: the space and AI company SpaceX launched with an issue price of $135 per share and recorded significant gains on its very first days of trading. With a valuation of more than two trillion US dollars, it immediately became one of the ten most valuable listed companies in the world. However, the basis for this valuation is fragile. A prospectus that outlines, among other things, plans for a Mars colony and the goal of harnessing the sun's entire output can be interpreted as both an expression of hubris and visionary foresight. Furthermore, investors remain heavily dependent on Elon Musk, who retains control of the company via Class B shares even after the IPO.

With a little help from my (Wall Street) friends

From our perspective, the high valuation was the main argument against participating in this superlative IPO. However, this does not mean that the share price is bound to come under pressure in the short term. The company, which reported a loss of US$4.9 billion last year, is receiving support from Wall Street. Nasdaq adjusted its criteria for inclusion in the technology index in time for the IPO, which is likely to support the share price initially. According to our calculations, around 80% of the available shares could be absorbed by index-tracking or index-replicating funds. Furthermore, the free float stands at just 4%, with a significant proportion held by retail investors (the latter has been under-allocated at the IPO, which creates a flywheel in the first few days of quotation through tokenization of SpaceX equity). To clarify this notion, retail investors have been selling bitcoins and instead of buying the stock, they have been buying tokens of the SPCX stock in their wallets. Overall, this results in an IPO structure that is unattractive to institutional investors but advantageous for the company.

"Look again at that dot. That's here. That's home. That's us" (Carl Sagan , Pale Blue Dot)

We do not, however, rule out a long-term investment in SpaceX. The exceptionally high valuation can be justified, in our view, if the company succeeds in translating its potential regarding the space economy into above-average value creation. This is by no means out of the question: the now profitable Starlink division, which provides internet access via a satellite network, opens additional growth prospects in the telecommunications market. In conjunction with Tesla, Starlink could also support applications for autonomous driving. Progress in the development of the fully reusable Starship system could unlock further value creation potential.

If Elon Musk succeeds in implementing these projects, there will be significant development opportunities for SpaceX even without the colonization of Mars.

In summary, given the current price and demand structure, it is crucial to wait before investing in SPCX. However, we are closely monitoring the stock's price movements and group's potential developments in order to identify an entry point. In a best-case scenario, the story could evolve into a solid and profitable business case. Therefore, to be monitored closely.

Big is beautiful

However, SpaceX's IPO is likely to mark only the beginning of further capital raising initiatives. After years of contraction, the public capital markets could grow again – driven by the immense capital requirements for expanding AI infrastructure. Against this backdrop, the currently privately held AI companies Anthropic and OpenAI are planning to go public later this year. Even large, cash-rich technology companies are increasingly turning to external financing: most recently, companies such as Alphabet and Meta have considered capital raises. The key question will be whether the markets are able to absorb this substantial capital demand. The associated dilution effects could weigh on share prices and trigger portfolio reallocations. In the short to medium term, however, we expect major market players to be able to meet their capital requirements. A key driver is the dynamic growth of the AI economy, which is likely to center on a new generation of tech giants. Company size is no longer seen as a barrier to growth, but rather as an indicator of potentially exponential growth. This is called the 10X paradox: larger companies have a better chance of making another 10x. Conversely to the classic intuition (where the biggest returns come from early stages), very large companies (Centacorns from ~$100 billion) are statistically much more likely to make another 10x than smaller ones).

Trends and sentiment are driving the market

The market is currently not driven solely by fundamental metrics. In particular, the rapid mobilization of large amounts of capital, the rapid succession of new highs and the strong enthusiasm for ambitious visions of the future are typical characteristics of an increasingly speculative environment and point to rising bubble risks. At the same time, the current situation differs from previous phases of market excess in two key elements:

1. This is a quest for intelligence and abundance which offers a quite unusual equation for ROIC.

2. The boom is not being driven by undercapitalized and highly indebted companies, but by some of the world's largest and financially strongest technology groups. These have considerable resources at their disposal to further expand their market position.

At the same time, however, there is a growing concentration of value creation: whilst profits are concentrated among a small group of rapidly growing companies, the number of losers in the AI economy is increasing. This uneven distribution increases the market's dependence on a few players, thereby heightening its vulnerability to setbacks should growth expectations be disappointed. Against this backdrop, a mixed picture emerges; on the one hand, there are heightened risks of correction; on the other hand, in a market heavily driven by sentiment, investors face significant opportunity costs if they exit too early or are not invested. A differentiated adjustment of the investment strategy is therefore crucial: companies suffering of disrupted business models (putting their terminal value at risk) should be consistently avoided, whilst established beneficiaries of the investment boom can continue to be held. At the same time, market pullbacks offer targeted entry opportunities that should be exploited with discipline. For a very simple reason: for the time being, the trend is your friend…

READ THE PRESENTATION

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12. boulevard de la Madeleine - 75440 Paris Cedex 09, France - Tel. : 33 (0)1 44 51 85 00
am.oddo-bhf.com