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Quick Thoughts: Mega-cap IPOs will test the return to public markets

A wave of IPOs could hit the markets soon, and Franklin Templeton Institute’s Stephen Dover shares thoughts on the implications for investors and for large-cap growth stocks.

Originally published in Stephen Dover’s [*LinkedIn Newsletter*], *Global Market Perspectives. Follow Stephen Dover on LinkedIn where he posts his thoughts and comments as well as his Global Market Perspectives newsletter.*

The initial public offering (IPO) window is reopening, but the more important story is the scale of the private companies preparing to enter public markets. SpaceX could become the first major test, with OpenAI, Anthropic, Databricks, Stripe, and Anduril potentially creating a wave of new market capitalization large enough to reprice growth equities more broadly.

- **SpaceX is the bellwether.** A SpaceX IPO would force investors to value a unique mix of orbital launch, Starlink broadband, defense-adjacent infrastructure, and long-duration opportunity. Demand for this IPO is unlikely to be the issue; the real test will be valuation, governance and how much capital intensity public investors are willing to absorb.
- **Artificial intelligence (AI) platforms are harder to underwrite.** OpenAI and Anthropic would bring extraordinary growth and strategic importance to the market, but also meaningful uncertainty around compute costs, margin structure, capital needs and the timing of free cash flow.
- **Supply is the underappreciated risk.** If several mega-cap IPOs come in the same window of time, they will compete for capital not only with each other, but also with existing publicly traded growth stocks. That could create rotation pressure across software, semiconductors, fintech, defense tech and AI beneficiaries.

- **Investment impact:** We think this should be treated as a selective stock-picking opportunity, not a broad IPO trade. The best opportunities will likely be companies with category leadership, strong unit economics, and a clear path to profitability, while weaker deals could struggle quickly in the aftermarket.

- **Private valuations will be tested.** Public markets will likely provide a real-time reset for late-stage private companies, especially those that raised capital at aggressive valuations during the prior cycle.
- **The return of the IPO?** A healthy IPO market should improve exit activity, recycle capital back into venture and growth investing and support broader risk appetite, while a weak aftermarket could close the window quickly. IPOs provide an exit opportunity for private investors.

Glossary of terms

Duration: A measure of how much a bond's price changes relative to changes in interest rates.

Fintech: Meaning financial technology, this term describes a wide range of business and consumer technologies that automate or enhance financial services.

Free cash flow: The amount of cash a company generates after covering operating expenses and capital expenditure.

Margin structure: A representation of where in the value chain of a product or service a business derives revenue.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

Equity securities are subject to price fluctuation and possible loss of principal.

Large-capitalization companies may fall out of favor with investors based on market and economic conditions. The **investment style** may become out of favor, which may have a negative impact on performance.

Investments in **privately held companies** present certain challenges and involve incremental risks as opposed to investments in public companies, such as dealing with the lack of available information about these companies as well as their general lack of liquidity.

The portfolio's investment strategies incorporate the identification of **thematic investment opportunities**, and its performance may be negatively impacted if the investment manager does not correctly identify such opportunities or if the theme develops in an unexpected manner. By focusing its investments in technology and information technology-related industries, the portfolio carries much greater risks of adverse developments and price movements in such industries than a portfolio that invests in a wider variety of industries.

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