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A Quick Guide to IPOs

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Andrés Salamanca
Investment Strategist

A Quick Guide to IPOs

The IPO story is often strongest on day one but much weaker over time. Since 2000, U.S. IPOs have generated an average first-day return of 19.1%, yet more than half of all IPOs since 1975 have posted negative returns over the subsequent three to five years.

Exceptional IPO winners are rare. For every Amazon-like success story that generated returns above 1,000%, investors encountered roughly **40 IPOs that failed to produce a positive five-year return.**

IPO performance is closely tied to the monetary cycle. Periods of falling interest rates, abundant liquidity, and strong investor enthusiasm have fueled powerful IPO booms, but those same conditions have often been followed by weaker post-listing returns, making market timing almost as important as company fundamentals.

Time really flies. Just two months ago, investors were celebrating the arrival of a new generation of technology listings. SpaceX (SPCX) completed one of the most anticipated Initial Public Offerings (IPOs) in recent history, and markets were waiting for the public listings of artificial intelligence leaders such as Anthropic and OpenAI. Yet only a few weeks later, reality has proven less straightforward. Of the three highly anticipated names, only one ultimately reached public markets, and its performance has fallen short of the extraordinary expectations that surrounded it.

While we love writing about rockets, artificial intelligence, and space in general, this piece is not about SpaceX, Anthropic, or any individual company. Instead, it examines a broader question: **what does history tell us about investing in IPOs?**

IPOs are particularly fascinating because they sit at the intersection of corporate ambition and investor optimism. Every public listing represents a company's belief that now is the right time to raise capital, while simultaneously reflecting investors' willingness to finance an uncertain future. Following years of market concentration and slow IPO activity, the prospect of new listings generated considerable excitement. Investors saw an opportunity to participate in the emergence of the economy of the future. SpaceX, Elon Musk's aerospace company and one of the most closely watched public listings in decades, initially appeared to validate those expectations. Shares rose nearly 19% on their first trading day, just to trade almost 33% below its offer price two months later. **Such volatility can be attributed to many factors, including valuation concerns, changing expectations, company fundamentals, or simple speculation. Yet when viewed through a historical lens, the pattern appears remarkably familiar.**

One Day at a Time

Every IPO tells two stories. The first is the company's story: its products, growth prospects, profitability, and competitive advantages. The second is the market's story: investor sentiment, liquidity conditions, interest rates, and the willingness of investors to fund future growth. Companies pursue IPOs for many reasons, but all share a common objective: raising as much capital as possible. **Some companies go public because they are ready. Others go public because the market is ready for them,** and history suggests this distinction matters.

As shown in Table 1, IPO investors have historically been rewarded on the first day of trading. Using data from Warrington College of Business, since the beginning of the century, a universe of 2,824 U.S. IPOs generated an average first-day return of 19.1%, regardless of industry, profitability, or revenue profile. **However, the same cannot be said about long-term performance.** After examining 9,195 common-stock IPOs between 1975 and 2021, a very different picture emerges. More than half of all newly listed companies generated negative returns over the three to five years following their debut. As shown in Table 2, approximately 56.1% of IPOs produced negative returns during their first three years as public companies, while 57.1% generated negative returns over the subsequent five years. By contrast, only a relatively small fraction delivered truly exceptional outcomes.

The distribution of returns reveals an uncomfortable reality about IPO investing. Success stories dominate headlines, but they are exceedingly rare. **For every IPO that became an Amazon-like-success story, 40 IPOs failed to generate a positive return over the following five years.** The challenge for investors has never been finding IPOs. It has been finding the right one. Ready or not, since 1975, companies have been raising capital via IPOs while markets have been heavily betting on finding that one exceptional success story. But what happens when we look at the bigger picture?

Euphoria: The Mother of All Evil

Have you ever walked into a store, found everything on sale, and immediately became suspicious? IPOs often work in a surprisingly similar way.

As mentioned before, companies look to raise the most amount of capital possible. **That task becomes significantly easier when interest rates are falling, liquidity is abundant, and the economic outlook is constructive.** In other words, when capital is available. Viewed from this perspective, IPO activity becomes more than a measure of corporate growth. It becomes a reflection of the broader monetary cycle. By looking at Graph 1, we can identify different monetary regimes, each telling a different chapter of the U.S. economy.

Table 1: IPOs Mean First-day Returns Segmented by Issuer Sales

Mean First-day Returns	2001-2025	
Sales Range	**Return**	**Number of IPOs**
USD 0m ≤ Sales < USD 10m	20,4%	678
USD 10m ≤ Sales < USD 50m	21,9%	293
USD 50m ≤ Sales < USD 100m	19,8%	290
USD 100m ≤ Sales < USD 500m	22,2%	814
USD 500m ≤ Sales	13,3%	749
Total	**19,1%**	**2,824**

Source: Eugene F. Brigham Department of Finance, Insurance, and Real Estate Warrington College of Business, University of Florida as of Jan 1, 2026

Table 2. IPO Return Distribution Over the Three and Five Years Following Listing

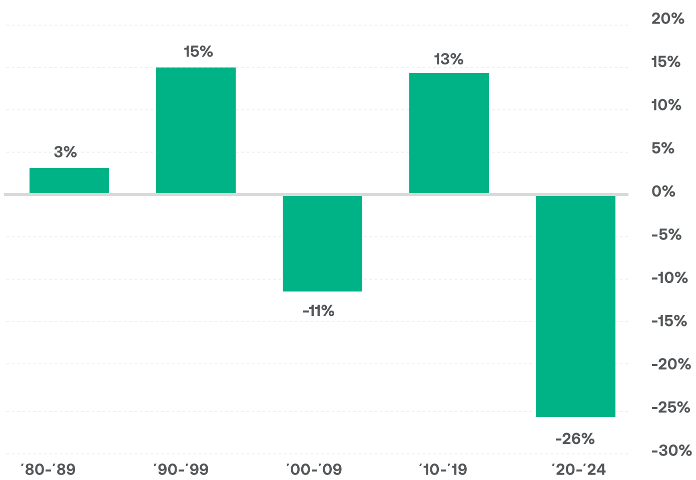
1975-2021	3-year Buy-and-hold return From the offer price		5-year Buy-and-hold return From the offer price	
Buy-and-Hold Return (BHR)	**Number of IPOs**	**Percentage**	**Number of IPOs**	**Percentage**
BHR <-50%	3215	35,0%	3646	39,7%
-50% < BHR ≤ 0%	1939	21,1%	1598	17,4%
0% < BHR ≤ 50%	1351	14,7%	1133	12,3%
50% < BHR ≤ 100%	910	9,9%	802	8,7%
100% < BHR ≤ 200%	880	9,6%	883	9,6%
200% < BHR ≤ 500%	679	7,4%	779	8,5%
500% < BHR ≤ 1,000%	159	1,7%	224	2,4%
1,000% < BHR ≤ 2,000%	45	0,5%	91	1,0%
2,000% < BHR ≤ 3,000%	10	0,1%	25	0,3%
3,000% < BHR	7	0,1%	14	0,2%
Total	**9,195**	**100%**	**9,195**	**100%**
Average Return 3-years	**38,5%**			
Average Return 5-years	**57,2%**			

Source: Eugene F. Brigham Department of Finance, Insurance, and Real Estate Warrington College of Business, University of Florida as of March 23, 2026

The 1980s were marked by high inflation, elevated interest rates, and expensive capital, resulting in modest post-IPO returns of roughly 3%. Conditions improved dramatically in the 1990s as falling rates, economic expansion, and the rise of the internet fueled investor optimism and pushed average first-year IPO returns to approximately 15%. That optimism eventually became euphoria, and the collapse of the dot-com bubble, followed by the Global Financial Crisis, produced a decade of negative post-IPO performance.

Following the 2008 crisis, central banks introduced near-zero interest rates and quantitative easing, flooding markets with liquidity and supporting another strong period for IPOs. The 2010s generated average first-year

Graph 1: Average annual one-year returns after publicly listing



Source: JPMorgan Guide to Alternatives, 1Q26

returns of approximately 13%, nearly matching the 1990s. The cycle peaked during the pandemic, when ultra-low rates and massive stimulus fueled a record IPO boom. As inflation returned after the pandemic, the Federal Reserve aggressively raised rates, increasing the cost of capital and pressuring growth companies. The result was the weakest IPO cohort on record, with the 2020-2024 group posting average first-year returns of -26%.

Paradoxically, **the best environments for companies to go public have often been the worst for investors to buy them.** Periods marked by abundant liquidity, rising valuations, and strong investor enthusiasm have repeatedly fueled IPO booms, only to be followed by weaker post-listing returns. In that sense, excitement has often been a surprisingly reliable contrary indicator in IPO history.

More Than a Company Story

One of the most common mistakes investors make when evaluating IPOs is treating them solely as company-specific events. Strong management teams, innovative products, and rapidly growing revenues undoubtedly matter. However, the historical record suggests that valuation and timing matter as well. **A high-quality company entering public markets at the wrong stage of the economic cycle may generate disappointing investment returns, while a less exceptional business launched during a period of abundant liquidity may initially thrive.** The history of IPOs is therefore not merely a story about corporate success and failure. It is also a story about monetary policy and capital availability. Periods characterized by falling interest rates, abundant liquidity, and expanding investor optimism have generally supported stronger post-listing performance. Conversely, periods marked by tighter financial conditions, valuation corrections, or excessive enthusiasm have often generated disappointing outcomes.

The relevance of this discussion extends well beyond SpaceX. If improving financing conditions and growing excitement around artificial intelligence lead to a new wave of public listings over the coming years, investors may once again be presented with compelling growth stories and transformative technologies. **After all, the first trading day is often spectacular. The following 1,825 days are where the real investment case is tested.** Looking back, everything seems obvious. However, as we anticipate an increasing number of artificial intelligence IPOs, and with Anthropic continuing to tease the market with a potential public debut, we must ask ourselves: where are we in the economic cycle? ■

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