

FOLLOW-UP ON SPECIAL PURPOSE ACQUISITION COMPANIES: “SWINGING FOR THE FENCES” CAN BE COUNTERPRODUCTIVE

By Brett Stewart, CFA[®], CAIA, and Adam Emig, CFA[®], CAIA

Commerce Trust Company occasionally follows up on earlier investment commentaries to help clients track how trends and developments have evolved over the year. Early last March, CTC senior investment analysts Brett Stewart, CFA, CAIA, and Adam Emig, CFA, CAIA, covered the growing popularity of Special Purpose Acquisition Companies (SPACs), and more importantly discussed our stance on why we viewed these investments as highly speculative in nature. SPACs did in fact experience subsequent headwinds from rising inflation and the curtailment of easy money policies from the Federal Reserve, and a sell-off soon reversed momentum in this sector. Brett and Adam’s follow-up is a quick read on where SPACs are today.

The SPAC, or Special Purpose Acquisition Company, craze really made its way to the main-stream media in early 2021, which is also when we published our educational piece titled “[Special Purpose Acquisition Companies 101](#),” to help investors understand the structure, history, and investor considerations associated with these publicly traded vehicles, often called “blank-check” companies.

As you may recall, SPACs are publicly listed companies formed for the purpose of merging with or acquiring a private company to take it public. Some considered them a faster and less expensive alternative to an initial public offering, or IPO. ([Special Purpose Acquisition Companies 101](#))

The rise in SPAC issuance started to gain steam in the second through fourth quarters of 2020 before really surging in the first quarter of 2021. In that quarter alone, the total value of SPAC IPO issuance reached \$98.1 billion, more than the previous eight quarters combined. The huge increase in issuance was likely driven by investor demand and SPAC sponsors looking to capitalize on new interest in this style of investment vehicle. The specific investor demand included retail investors focusing on quick profits over long-term return.

Investor demand continued in January and mid-February of 2021, resulting in SPAC prices rising over 20%, using the Next Gen SPAC-Derived ETF as a proxy for the SPAC market.¹ However, by late February and early March, cracks in the SPAC market began to form and investor demand quickly dissipated. As you can see in the chart below, the value of the SPAC market fell almost as quickly as it rose. According to the Wall Street Journal and Dow Jones Market Data, this sell-off wiped out close to \$75 billion of value from the companies that chose the SPAC route to enter the public markets.

Not coincidentally, the aggregate value of SPAC issuance also dropped significantly, to just \$13.5 billion in the second quarter, or about 14% of its peak in the first quarter, as regulatory concerns emerged around their accounting standards, and investor appetite waned.

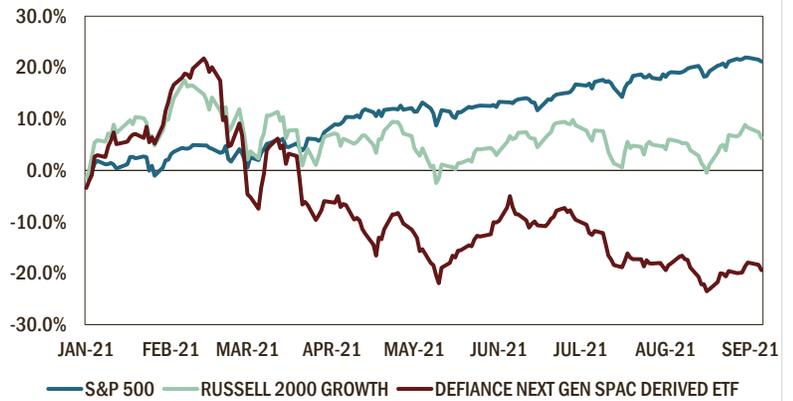
As things stood through September 8, SPACs have bounced off their year-to-date lows, but are still down -19% for the year and -33% from their respective peaks¹ — all during a time when the S&P 500 Index is up 21% and the

Russell 2000 Growth Index (index consisting of small cap growth stocks) is up 6%. This can serve as an important reminder to understand what you invest in and the risks associated with any investment.

We don't believe SPACs are poised to disappear, as we still see them as another avenue for private firms to go public. We do expect the issuance to be more in line with the recent trend, versus the craze we saw in late 2020 and early 2021.

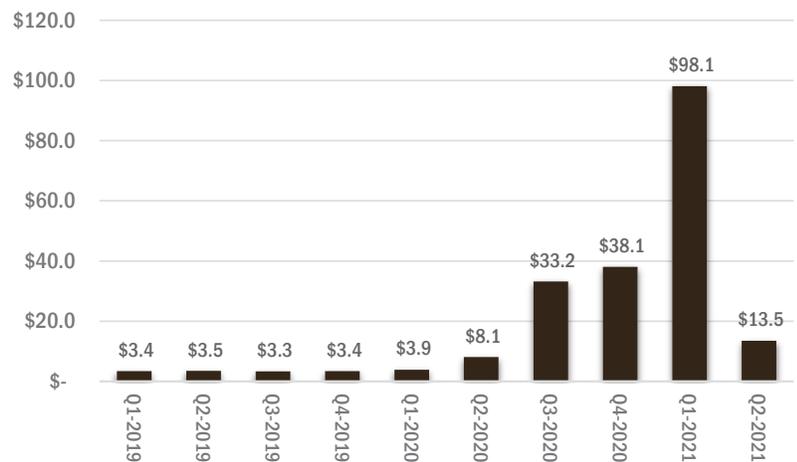
It is always important to remember to consult with an investment advisor, especially when a proposed investment vehicle has novel or speculative aspects, so that your portfolio reflects your long-term investment goals over time. Always feel free to reach out to your portfolio manager to discuss these matters to achieve a long-term outcome consistent with your objectives.

YEAR-TO-DATE PERFORMANCE - AS OF 9/8/2021



Source: Bloomberg

VALUE OF SPAC IPO ISSUANCE IN BILLIONS



Source: Barrons, Dealogic

¹ Bloomberg

Past performance is no guarantee of future results, and the opinions and other information in the commentary are as of September 16, 2021.

This summary is intended to provide general information only, may be of value to the reader and audience, and any opinions expressed herein are subject to change.

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