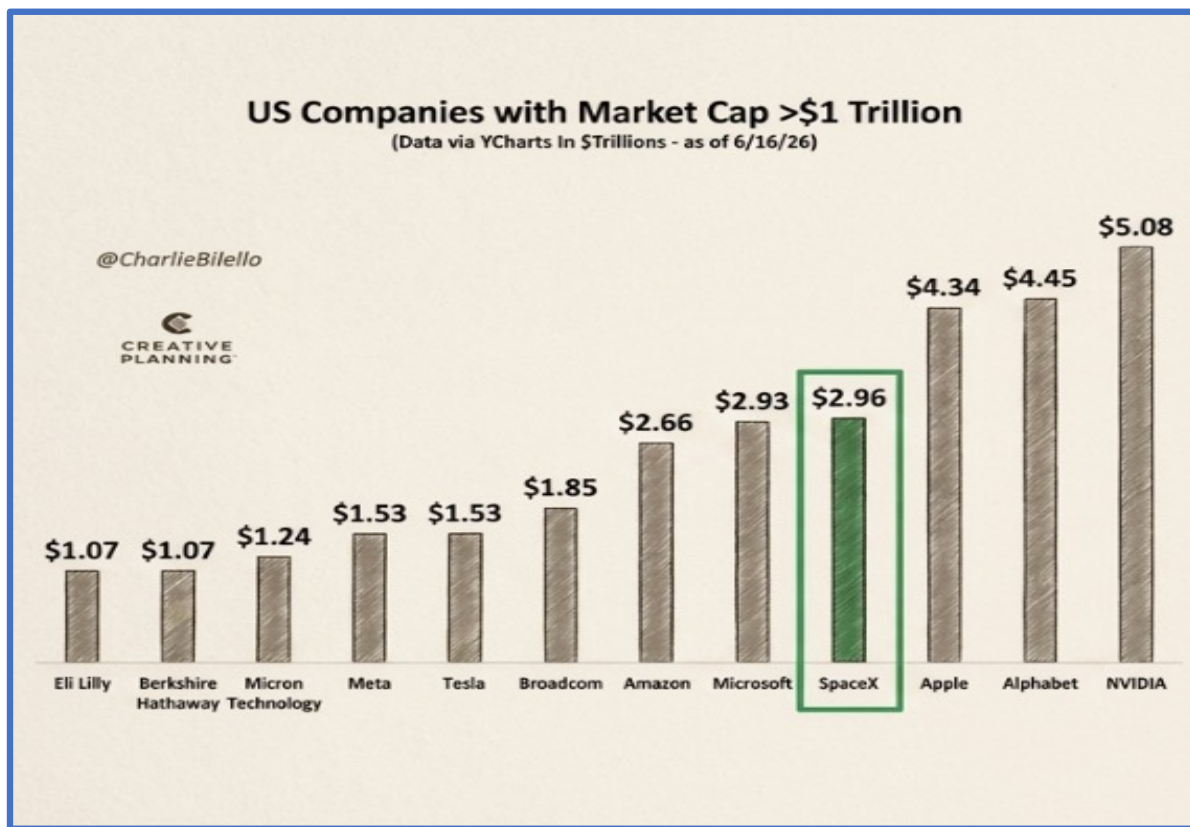






Source: Creative Planning

One of the most talked-about events last week was the SpaceX IPO. It attracted significant attention from the media, Wall Street, and investors alike. While SpaceX is undeniably a revolutionary company that has transformed the aerospace industry, its current financial profile stands in sharp contrast to that of its peers in the trillion-dollar market capitalization club.

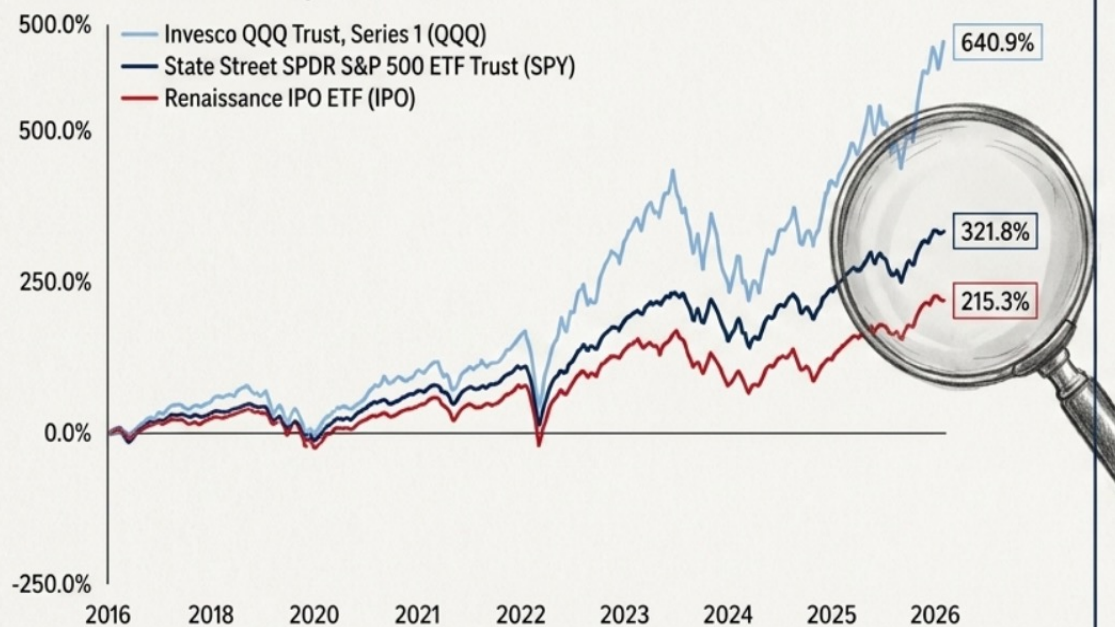
Over the trailing 12 months, established technology giants have generated the sales and earnings power necessary to support their enormous valuations. Amazon, for example, produced approximately \$91 billion in net income on \$743 billion in revenue. Microsoft generated roughly \$125 billion in net income from \$318 billion in revenue. By comparison, SpaceX reported a loss of approximately \$9 billion on just \$19 billion in revenue. Simply put, SpaceX's financial performance bears little resemblance to that of today's most valuable companies.

Nevertheless, investor enthusiasm—particularly among retail investors—remains exceptionally strong. The market is clearly not valuing SpaceX based on its current fundamentals. Instead, investors appear to be pricing in a future characterized by uninterrupted execution, market dominance, and years of exponential growth.

That is a highly optimistic assumption. While SpaceX has substantial long-term potential, history suggests that few companies are able to deliver on such elevated expectations without setbacks. If growth falls short of the market's lofty projections, valuation multiples could compress significantly, leading to meaningful downside risk and potentially sharp declines in the stock price.

## Most IPOs Underperform

Total Return Price % Change



Source: YCharts

The allure of investing in a household-name disruptor on its first day of trading is a powerful one. IPOs offer investors the promise of getting in early on the next great wealth-creation story, fueling excitement and often generating intense demand. Yet the historical record paints a much more sobering picture for long-term investors.

When the media attention and opening-day enthusiasm surrounding an IPO are stripped away, a significant performance gap emerges between newly public companies and the broader equity market. Over the past decade, the S&P 500 (SPY) and NASDAQ (QQQ) have delivered total returns of approximately 322% and 641%, respectively. By comparison, the Renaissance IPO ETF has gained just 215% over the same period.

This persistent underperformance should not come as a surprise. IPOs are designed to raise capital at the highest valuation the market is willing to support, often during periods of elevated investor optimism. Existing shareholders, early investors, and underwriting banks benefit from this enthusiasm, while public-market investors frequently inherit companies priced for near-perfect execution. At the same time, newly public firms must navigate the challenges of operating under increased scrutiny, meeting quarterly expectations, and managing the costs associated with life as a public company.

The lesson for investors is straightforward: while IPOs can be exciting and occasionally produce exceptional winners, the data suggests that consistently building long-term wealth is more often achieved through owning established, profitable businesses with proven operating histories. In many cases, patience has been a more reliable investment strategy than chasing the excitement of a highly anticipated market debut.

## The Warsh Pivot: A New Era of Federal Reserve Policy

Outlining the hawkish shift and structural overhaul of the Federal Reserve under new Chair Kevin Warsh

Kevin Warsh's debut as Fed Chair marks a radical departure from the "transparency" era. By eliminating traditional forward guidance and launching specialized task forces, Warsh is centralizing power and pivoting the Fed toward a leaner, more hawkish, and data-driven institution.

### The Communication Revolution



#### The Death of Forward Guidance



Warsh replaced verbose transparency with a concise statement focused solely on price stability.

#### Market-Driven Rate Tightening



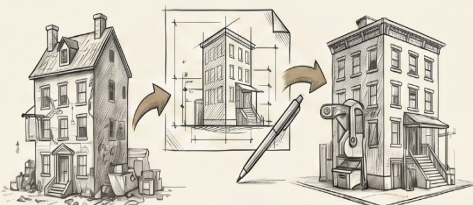
Hawkish communication successfully pressured the market into pricing in a rate hike.

#### Centralization of Power



Reducing press conferences and public dissents consolidates policy influence within the Chair's office.

### Strategic Overhaul via Task Forces



#### Task Forces as Bureaucratic Cover



Expert committees are used to provide the academic and political "buy-in" for radical shifts.

#### The "Treasury-Only" Balance Sheet



Pursuing a significantly smaller balance sheet by removing all agency mortgage-backed securities.

#### Modernizing with Real-Time Data



Shifting focus from lagging government reports to AI-driven and private-sector economic metrics.

The second major event last week was the first FOMC meeting under the leadership of Kevin Warsh. The outcome was largely in line with market expectations. The statement accompanying the rate decision suggested that, given persistently elevated inflation, an interest rate hike is currently more likely than a rate cut. In my view, Warsh delivered exactly the message the market wanted to hear. However, I suspect both his stance and that of the broader committee could shift in the coming months. Inflation appears to have peaked, and next month's CPI report is likely to show a year-over-year reading below 4%, reinforcing the disinflationary trend already underway due to the over 30% decline in the price of oil.

Warsh also unveiled a significantly leaner communication framework. Gone are the lengthy policy statements, extended press conferences and detailed forward guidance regarding the future path of interest rates. The result will likely be a market that must price monetary policy expectations more independently. At the margin, this reduced level of guidance is likely to contribute to greater volatility across financial markets.

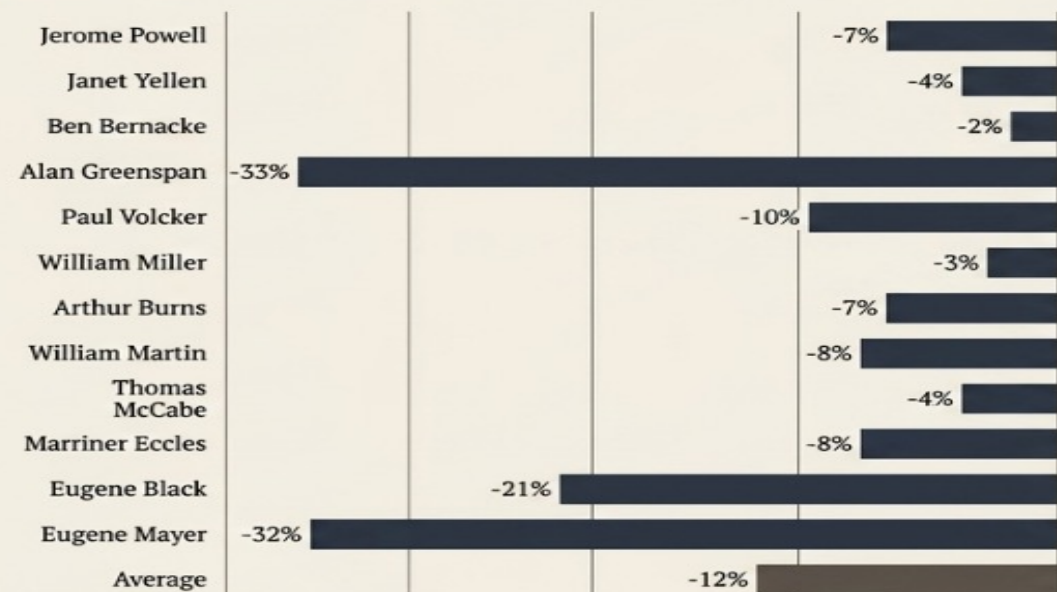
At the same time, Warsh appears committed to a broader modernization of the institution itself. His vision includes shifting the Fed's analytical framework away from delayed, backward-looking government reports and toward real-time, private-sector economic data. He has also expressed support for further reducing the Federal Reserve's balance sheet, a process that would likely need to be accompanied by meaningful financial-sector deregulation to avoid creating liquidity shortages within the banking system.

Source: Forward Guidance Podcast

## Stocks Turbulent Following Fed Chair Changes

Equities historically post sharp drawdowns in first three months of new Fed Chair

■ S&P 500 three-month drawdown



Source: Barclays, Bloomberg

Bloomberg

Source: Bloomberg

Perhaps the most notable change Warsh is advocating for is the way the committee looks at inflation by focusing on trimmed-mean measures, which exclude the most extreme monthly price movements to provide a clearer view of underlying inflation trends. Such an approach would likely result in a lower and more stable inflation reading than traditional headline measures, potentially influencing both policy decisions and market expectations. In practical terms, the likely outcome is an environment characterized by "less inflation" as measured by the metrics policymakers choose to emphasize.

Historically, transitions in Federal Reserve leadership have often coincided with more challenging market conditions. Looking at equity market performance during the first few months of a new Fed Chair's tenure reveals a recurring pattern: investors frequently reassess expectations as they adapt to a new policymaker's priorities, communication style, and policy framework. In some cases, the resulting market pullbacks have been relatively modest, with declines of just 2% to 4%. In others, such as during the Greenspan era, the adjustment period proved considerably more difficult for investors.

While history does not repeat itself exactly, it often provides a useful guide. Given the strong rally since late March, a period of consolidation or a modest pullback over the next several months would not be surprising. Such a move would be consistent with both historical precedent and the market's tendency to digest significant gains before advancing further.

## Disclosure

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