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US Capital Markets Midyear Report: The Revival of IPOs and a Possible Turning Point

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Key Points

- Companies that strategically planned in 2023 are in a favorable position to take advantage of the revived U.S. IPO market in 2024.
- Despite continued high interest rates, the debt markets have remained healthy in 2024, with a significant number of refinancings and new capital-raising transactions.
- The M&A market, including increasingly popular joint venture structures, has contributed to additional capital markets activity.
- Private capital and other nontraditional or industry-specific financing structures continue to be important options for many companies to consider as they evaluate alternative ways to raise capital.

As a testament to the U.S. capital markets' resilience and ability to adapt, IPOs, debt markets and mergers and acquisitions (and related financings) have shown substantial increases over 2023. Activity to date in 2024 indicates that this year could be the start of a positive turning point, though volatility is likely to continue as markets anticipate and react to continued global and economic factors.

The year began with some challenging conditions for the capital markets:

- Continued high interest rates, cost of capital and inflation.
- Concerns about the state of the U.S. and other large economies.
- Ongoing geopolitical uncertainty.
- Increased focus on geostrategic areas such as climate and sustainability initiatives, artificial intelligence (AI) and the upcoming elections.

(See our December 2023 article "How Companies Are Adapting to Volatile Capital Markets and Planning Ahead.")

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Notwithstanding the upcoming U.S. presidential election, IPO and financing windows are anticipated to generally remain open. As issuers and investors consider the big picture of overall market activity, advance preparation and strategic planning continue to be essential for those seeking to take advantage of open market windows and opportunities.

Positive Signs in the US IPO Market

The U.S. IPO market has shown promising signs of emergence from the IPO drought of 2023. Through May 31, 2024, 76 IPOs raised $15 billion in proceeds, compared to 68 IPOs raising $9 billion in proceeds in the same period in 2023. In addition, through May 31, 2024, 71 companies have filed or announced confidential submission of IPO registration statements.

While the number of offerings in the first five months of 2024 is up only modestly over the same period in 2023, estimated proceeds would exceed $35 billion by the end of 2024 if the current rate of IPOs is sustained. 2024 numbers are not projected to reach 2020 or 2021 IPO levels, but these are the most positive signs for IPO growth since 2022.[1]

Some much-anticipated IPOs completed so far in 2024 include:

- Viking Holdings, the parent of Viking Cruises (the largest U.S. IPO to date this year, at $1.5 billion).
- Reddit (the first IPO for a major social media company since Pinterest in 2019, and which offered Reddit users an opportunity to participate in the IPO).
- Astera Labs (a data center connectivity chip company for cloud and AI infrastructure).
- Rubrik (a Microsoft-backed tech marketing firm with generative AI potential).

Of the completed IPOs this year, approximately:

- 20% were in the technology sector, including AI-related products and services.
- 23% were in the health care industry.
- 20% were in the financial industry (made up of firms and institutions providing financial services to commercial and retail customers).

Issuers, shareholders and investors appear to have found a path to align on valuations and adapt to — and manage — continued economic and geopolitical challenges. Of the 76 IPOs through May 31, 2024, approximately 49% were still trading above their IPO prices.

Companies seeking to go public should closely monitor the markets and global events, and remain flexible as they consider the opportune timing and strategy. By working with their advisers on advance preparation, they can position themselves to move quickly when market opportunities arise.

Increases in Debt Offering Activity

The U.S. debt markets also opened 2024 with an increase in activity compared to 2023. In the first five months of 2024, investment-grade and high-yield bond issuances totaled approximately $795 billion, a 7.6% increase over the first five months of 2023.

The proceeds of high-yield bond issuances nearly doubled in the first five months of this year ($255 billion) compared to the same period in 2023 ($129 billion). In January 2024, the high-yield bond market had its busiest month since November 2021, with $31 billion issued.

Proceeds from investment-grade bond issuances in the first five months of 2024 ($540 billion) were slightly lower compared to the same period in 2023 ($614 billion). However, Q1 2024 recorded the highest quarterly level of M&A bond activity ($79 billion) since Q1 2021.

As of May 31, 2024, the average coupon for investment-grade bond offerings in 2024 was 5.24%, which is similar to the full-year 2023 average of 5.25%.

Meanwhile, the average coupon for high-yield bond offerings in 2024 through May 31 was 7.44% — down substantially from the full-year 2023 average of 8.42%. High-yield bonds offered in 2024 have an average term length of 6.42 years, which is a slight increase from the 6.16 years for 2023.

Almost $2 trillion in global corporate debt is scheduled to mature by the end of 2024, and approximately 31% of all corporate debt (including bonds, loans and revolving credit facilities from financial and nonfinancial corporate issuers) comes due in the next 12 to 18 months. Of the U.S. investment-grade bond offerings to date, approximately 29% were for refinancing purposes, while of the U.S. high-yield bond offerings to date, 78% were for refinancing purposes.

Companies generally begin to look at refinancing debt at least one to two years ahead of its maturity, so refinancing activity is likely to be substantial during the remainder of 2024.

[1] The data in this article is from Bloomberg, PwC, Renaissance Capital, Refinitiv, CreditSights, Stock Analysis and S&P Global.

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Continued Importance of Private Capital and Other Alternatives

Even with the increased activity in the traditional equity and debt markets, private capital and other alternatives remain important capital market options for companies. According to PitchBook, global private capital under management is projected to grow to $20 trillion by 2028 from $13.1 trillion as of June 30, 2023. That encompasses all categories, including private equity and venture capital, private debt, real estate and real assets.

Among other trends, private equity markets have been seeing heightened investor interest in:

- Rapidly growing business sectors (*e.g.*, AI, clean energy, health care technology and e-commerce logistics sectors, allowing investors to diversify their portfolios and reduce their exposure to broader market risks).
- Environmental, social and governance (ESG) considerations.
- Emerging markets, such as Latin America and Asia.

This year, direct lending transactions also continue to expand at a rapid rate. Through May 31, 2024, U.S. companies raised over $61.5 billion in direct lending transactions where the amount was known, compared to $17.2 billion in the corresponding period in 2023.

Companies can employ private capital strategies, whether alone or in combination with traditional structures, to achieve specific financing goal and capital structure objectives. (See our March 2024 article "Private Capital Remains an Attractive Alternative for Many Companies.")

The availability of private capital also has supported the growth of creative financing structures, including joint ventures and project-focused financings. These arrangements can be particularly helpful for infrastructure (including digital infrastructure) and technology projects that have high start-up costs and therefore can benefit from private investments.

Examples include:

- Intel's recently announced joint venture with Apollo Global for an $11 billion investment in Intel's fabrication plant in Ireland.
- Occidental Petroleum's recent joint venture with Berkshire Hathaway Energy to extract lithium in California.

Looking Ahead in 2024

Success in 2024 will be about seizing opportunities and being prepared to act to take advantage of market windows.

Companies considering an IPO, a conventional debt offering and/or securing financing through private capital should work with advisers to enhance their readiness for public and private markets. That may include preparing, evaluating and updating quarterly financial statements and policies that could affect stakeholders' interests.

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