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Not All Gains Escape Gravity: A Look at IPO Lockup Risk

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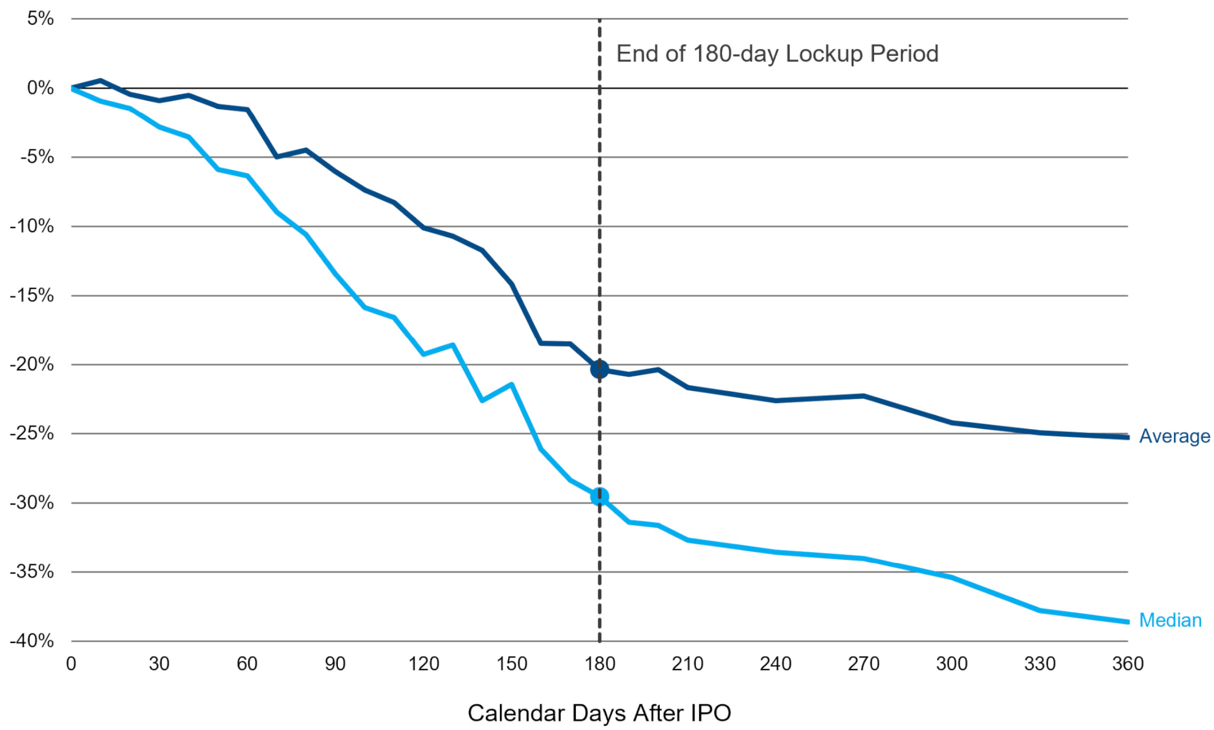
With the landmark SpaceX IPO in June and several additional mega-cap issuances anticipated over the next year, NISA has observed significant interest around the mechanics and market implications of large-scale public offerings. Considering SpaceX had a market cap of nearly $3 trillion, this single investment represented a material portion of private equity exposure for many investors. Particularly those with sizable co-investments, SpaceX accounted for a significant portion of their overall asset value. Investors have been concerned with the outsized idiosyncratic risk associated with the concentrated positioning and share price volatility, resulting in significant hedging demand. We anticipate similar dynamics for future mega-cap IPOs.

While risk considerations have been the primary driver of hedging demand, the dynamics surrounding IPO lockup provisions and their effect on share price are another key factor. At the time of listing, a portion of shares (sometimes meaningful) remains subject to lockup restrictions. These shares are contractually restricted from being sold into the open market and are excluded from the initial float. This creates a supply constraint at listing, where the shares available to secondary market participants represent only a fraction of the company's total ownership, with the potential for additional supply in the future.

Lockup periods are contractually defined, typically ranging from 90 to 180 days from the IPO date, and in some cases can be staggered over time. These shares are generally held by insiders, pre-IPO investors and employees who received equity as part of their compensation. Because lockup expiration dates are publicly known and disclosed in offering documents, they represent a liquidity event that market participants can observe and trade around in advance. An analysis of 543 common stock IPOs from January 2019 to December 2025 finds that share prices underperform the S&P 500 by an average of 20.4% between the closing price on the first trading day and the lockup release date, as market participants sell shares in anticipation of incremental supply coming to market after lockup expiry. Keep in mind that this does not reflect any price appreciation that occurs between the IPO price and the close of business on the first trading day. In the case of SpaceX, the IPO price was $135 and the stock closed on its first trading day at $160.95, an appreciation of ~19%. However, as of July 27, SpaceX has fallen to $113.50, a ~29% decline from the close of the first trading day.

Average IPO Performance Since 2019

Cumulative Return From IPO Day Closing Price Relative to S&P 500 Return



Sources: Bloomberg, NISA calculations.

For investors looking to hedge SPCX exposure, derivative markets developed quickly after the IPO, providing various opportunities for clients to hedge exposure. These include both OTC and listed options markets, as well as total return swaps or direct shorting of shares through a prime brokerage relationship.

For investors who have made long-term venture and private equity investments, having an exit plan independent of their GP, when permissible, is critical to ensuring gains that may have accrued over the years are risk-managed throughout their exit.

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