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Volatility Fears Are Keeping the Windows for Stock Sales Shut

- **VIX is subdued for now, averages about 25 since start of 2022**
- **Calmer markets would mean new opportunities for offerings**

By Drew Singer

(Bloomberg) -- The rebound in stock offerings is being held back by concerns about volatility, even as the VIX falls and sellers come to grips with lower valuations for their deals.

Wall Street was hoping for a wave of initial public offerings and secondary stock offerings last month, but the banking crisis triggered by Silicon Valley Bank created a multibillion dollar bottleneck in the deal pipeline as investors fled anything resembling risk.

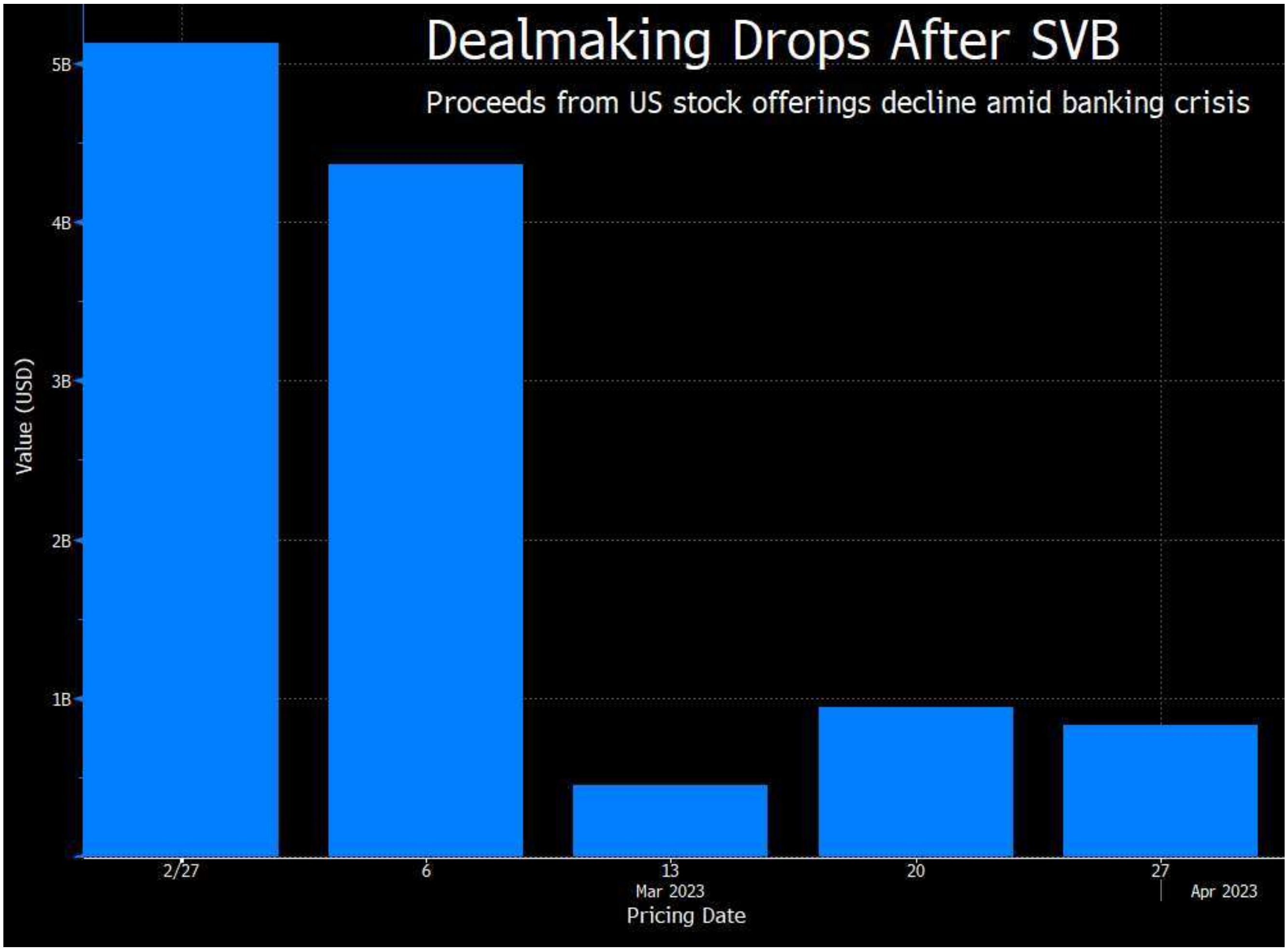
Now, even with the Cboe Volatility Index, or VIX, somewhat subdued, dealmakers are worried the so-called fear gauge will shoot back above the key 20 level, where it was just a week ago.

“On the buy side, their biggest concern is volatility,” said Keith Canton, head of Americas Equity Capital Markets at JPMorgan Chase & Co. “If they don’t know where multiples are moving it’s really hard to have conviction around making new deployments of capital.”

Price swings are a longstanding headache for corporate issuers and their largest holders, who rely on moments of calm to unload large blocks of shares.

Equity financing was starting to pick back up until March 8, when Silicon Valley Bank launched its now-infamous stock offering. The VIX leaped above 20 the following session and remained high for nearly three weeks as traders panicked over an ensuing string of bank collapses.

Amid the chaos, US IPOs and secondary stock offerings raised just $1.5 billion, an 83% drop from the prior three weeks and 64% less than the same span of 2022.



Source: Bloomberg

Stock sales typically go dark during times of turmoil. But the post-SVB slowdown stung a bit extra, ending a nascent recovery in issuance that had been anticipated for more than a year.

"Nobody knows what's going to break during a tightening cycle," said Lori Van Dusen, founder of LVW Advisors. "But when it breaks there's more downside."

Volatility has been decreasing as governments, central banks and financial institutions take measures to mitigate the banking crisis, with the VIX mostly trading below 20 since March 28. It's a reason for hope among issuers that have been waiting more than a year for some calm.

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"Our pipeline of IPOs is as deep and broad as it's ever been across sectors," JPMorgan's Canton said. "There's a tremendous amount of pent-up demand from high quality issuers who would look to go to the IPO market. The question really is about timing."

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But turmoil is still fresh in the collective memory. With the VIX averaging almost 25 since the start of 2022, traders are positioned for more turbulence ahead.

"Potential investors are concerned about some type of contagion hitting and their portfolios being destroyed on that," said Kris Sidial, co-chief investment officer at Ambrus Group LLC.

(Updates to add a link to the MLIV survey.)

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