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To the point!

Cross-Asset- and Strategy-Research

Moritz Kraemer -- Chief Economist

LBBWResearch@LBBW.de

July 17, 2026

Will the music stop?

The risk of a stock-market correction has been growing

After three bumper years in which Germany's DAX stock index rose by a little over 20% each time, this year has also been kind to shareholders so far. The DAX itself has barely budged, but the U.S. S&P 500 is up by more than 10%, and the tech-heavy Nasdaq has climbed further still.

The Strait of Hormuz blocked? Never mind – that will pass. Higher long-term interest rates? So what – booming earnings will more than offset them. Nothing seemed able to unsettle investors' bullish mood. In their eyes, the glass was not merely half full; it was nowhere near big enough.

Volatility is back

But in June the wind began to shift. AI-related market darlings were buffeted by rising volatility (see fig. 1). And even when earnings growth remained robust, investors often sent shares diving.

Now the backdrop is becoming more difficult still. Hopes for an end to the war with Iran have once again faded. In bond markets, interest-rate expectations have risen accordingly. That weighs on growth stocks in the tech sector, because investors will now discount their future earnings at a higher rate.

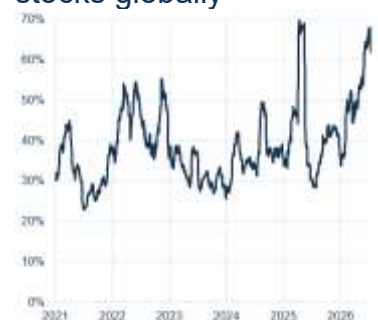
We are not in a repeat performance of the dotcom bubble

To be clear: this is not the same situation as at the turn of the millennium, when the internet bubble burst. Back then, companies with no profits – and often no prospect of making any – fired investors' imaginations. Analysts like us watched indicators such as the "cash-burn rate", meaning how quickly the would-be internet stars were burning through capital. Today's AI giants, by contrast, are highly profitable and have real business models.

Stocks have had a tremendous run

Signs of nervousness are mounting

Fig. 1: Volatility among the 50 largest technology stocks globally



Source: LSEG, LBBW Research

Yet this much is also true: market concentration in a handful of stocks is far higher today than it was in 2000. The ten largest companies – almost all of them in technology – now account for more than 40% of the S&P 500's total market capitalization. In 2000 the figure was only around 25%. Back then, the biggest stocks were also spread more evenly across sectors. Today, all the chips are on AI. If those lofty expectations are disappointed, the risk of a correction is substantial.

Is a tsunami of IPOs on the way?

After years in which buybacks steadily reduced the supply of shares, a flood of new equity is now hitting the market (see fig. 2). SpaceX and South Korean chipmaker SK Hynix recently launched the largest share offerings ever in the U.S. market; SK Hynix did so through a secondary listing. OpenAI and Anthropic are likely to follow soon. Why are these companies' owners offering shares to the public? Surely not because they think the shares are undervalued.

The hyperscalers are indeed profitable. Alas, the same cannot be said of companies such as SpaceX or OpenAI. Some are running up substantial losses, and new shareholders are buying mainly the promise of future profitability. In that respect, today's market does bear some resemblance to the period before the dotcom bubble burst. Back then, too, dizzying valuations encouraged an unusually large number of companies to go public (see fig. 3). Once the bubble burst, shareholders were left nursing the losses. Germany saw a similar pattern in the Neuer Markt, the country's late-1990s growth-stock segment. Investors were not buying profits; they were buying stories. And quite a few of those stories later turned out to be fairy tales.

More stock, same buyers?

Not only have recent weeks brought the two largest IPOs in U.S. stock-market history. More giant offerings may follow. In both mega-IPOs, the owners sold only a relatively small stake. In SpaceX's case, for example, only about 5% of the stock was sold. That is a fraction of the typical IPO float. Once the standard six-month lock-up period expires, existing owners such as Elon Musk can sell their own shares. That would leave the market with still more stock to absorb. And we all know what happens when rising supply meets steady demand. Exactly: prices fall. This is not my forecast, and LBBW Research's base case does not call for a market correction. But the risks associated with high valuations and market concentration have undoubtedly grown. That Bank of America's Global Fund Manager Survey shows U.S. equity positions at their largest overweight since late 2024 makes me a little nervous. So does the fact that a long position in global semiconductor stocks remains the most crowded trade. If everyone is bullish already, where will future stock buyers come from?

Be careful and stand clear of the platform edge!

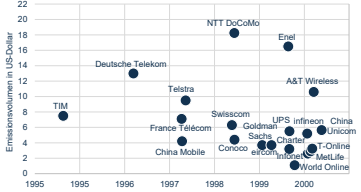
All the chips on AI

Fig. 2: Net equity issuance, 2000-2027e (in \$bn)



Source: JP Morgan, LBBW Research
NB: 2027 are estimates with the latter reflecting estimated free float change from big IPOs.

Fig. 3: POs with proceeds above \$1bn, early 1995 to end-2000



Source: LSEG, LBBW Research

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