CHARLOTTE SQUARE
INVESTMENT MANAGERS

A VIEW FROM THE SQUARE JUNE 2026

Reach for the Sky

This month brings an exciting release. No, not the return of Woody and Buzz after 7 years but the Initial Public Offering (IPO) of SpaceX. Much of the excitement stems from the company's unique positioning at the intersection of aerospace, telecommunications and artificial intelligence, underpinned by the rapid growth of its Starlink satellite network, which has evolved into a meaningful revenue and cash-flow engine for the business. There is not much we can add to the debate on valuation, but the matter of index buying caught our attention. At a post IPO valuation of c$1.75trillion, this would place the company in the top 10 largest companies in the US.

An interesting dynamic to this is that passive funds are obliged to buy all stocks in the index they track — but not any others. As they account for more than half the market, that means a lot depends on whether index providers decide to include a new stock. Many investors will expect that their passive exposure to the S&P 500 will thus bring them exposure to SpaceX; but that will not be the case immediately. On Friday 4th June, after some speculation, S&P Dow Jones Indices confirmed that they will keep their existing IPO rules which state a company must:

1. Trade on the market for at least a year;
2. Have consistent profitability;
3. Maintain a certain public float (shares available to everyday investors).

This is crucial as the S&P 500 is one of, if not, the most widely followed index. On the contrary, Nasdaq has relaxed its prior rules which will mean investors gaining exposure to markets through their Exchange Traded Funds (ETFs) will only have to wait until the end of June. This also means a huge extra source of demand for SpaceX shares, regardless of what price they trade at.

Moving across the Atlantic to the Middle East, which remains at an important juncture, with talks of peace coupled with rounds of missiles. The inventory clock drives brinkmanship with the Iranians believed to be currently holding the upper hand. The notional deadline of mid-May for inventory exhaustion seems to have been pushed out to early July which suggests a continuation of the current situation.

As we wrote last month, the Iranians continue to somewhat undermine the ceasefire when oil prices dip, essentially creating a floor and preserving their leverage. Away from the headlines, there are some positives to read in the detail. Shipping has not been directly targeted and there are claims that there are flows of oil tankers moving through the Strait, some of which are not detected due to black boxes (tracking transponders) being turned off.

So far, we haven't seen any evidence of enduring inflation because of the conflict and the risk of recession further receded on Friday with US non-farm payrolls growing significantly ahead of expectation for the third month in succession. With unemployment easing and new job growth strong, the need for rate cuts in the US has been pushed back and recession no longer seems an imminent risk. We are keeping a close eye on the inflation figures due next week which will help firm or challenge this view.

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