Buy the Unit, Sell the News

A look at returns through the lifecycle of a SPAC

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Recent SPAC Merger Announcements Show Safety with Upside

It's no wonder SPACs have become hedge funds' new favorite investment.

Pre-merger SPAC units have become low-risk, high-reward

Of the 178 SPACs that have announced merger agreements since 2018, the shares of 174 (98%) finished at or above the IPO price at the time of the announcement, with the worst performer just 1.5% below issue (or -0.2% including warrants/rights). After the announcement date, SPAC investors can still redeem shares at the issue price plus interest, limiting the downside for IPO investors.

Prior to 2020, SPAC merger announcements rarely moved the share price. Hedge funds sold or redeemed shares for a minimal gain, and held on to the initial warrants for potential upside. Now, news of a prominent acquisition target commonly results in a strong pop. SPACs that announced mergers in 2018 returned a median of 1% from offer price following the press release, roughly on par with their trust value, but for 2020 announcements that number soared to a 9% median return (+21% average). This trend has so far carried in to 2021; the 28 SPACs that have announced mergers this year returned a median of 31% from IPO after the news was made public.