Wall Street anxiously awaits speculative SpaceX launch

Nick Beams
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Wall Street is anxiously awaiting the initial public offering (IPO) of Elon Musk's SpaceX company this Friday, as the AI firm ChatGPT has announced that it will launch an IPO later this year and there is an expectation that the AI company Anthropic will also soon go public.

There is a lot hanging on the SpaceX IPO with venture capitalists having multi-billion dollar stakes in the launch, which has the backing of major banks.

The three companies lining up for IPOs are anticipated to raise around $170 billion with a combined valuation that is to exceed $4 trillion.

The SpaceX launch is aimed at raising around $80 billion with the market valuation of the company set to reach $1.75 trillion. If it goes ahead as planned it will make Musk, already the world's wealthiest individual, the first trillionaire. The SpaceX IPO is the largest in history, three times more than Saudi oil firm Aramco's $25.6 billion in 2019.

Wall Street has always functioned as a means for siphoning the wealth of society, created by the labour of billions of workers in the US and around the world, into the hands of finance capital. But with the development of the AI boom this process has assumed historic dimensions.

There is no question that AI has the potential to bring an enormous increase in the productivity of human labour, opening up vast possibilities for the advancement of society.

But under capitalist ownership it is the vehicle for massive speculation, with the potential to cause a financial crash of major proportions, while at the same time its success, as measured by profitability, depends on its capacity to wipe out the jobs and livelihood of millions of workers as a cost-cutting measure.

The speculative character of the IPO floats is revealed in the fact that none of the companies involved has yet to turn in a profit. All calculations are based on what they project they will make in the future after burning through hundreds of billions in cash. According to a calculation by Fortune magazine SpaceX will have to generate revenue at a rate never achieved by any other company to justify a valuation of $1.75 trillion.

There are also questions being raised about whether the drawing in of money by the tech giants will drain it from the rest of the market. Last week, Alphabet, the parent company of Google announced it raised additional equity of $85 billion, a record amount.

All told, the four major hyperscalers—Alphabet (Google), Amazon, Meta (the owner of Facebook) and Microsoft—are expected to spend $725 billion on AI this year. Initially this money was drawn from their cash reserves but now they are seeking finance through debt or via the share market.

And the market is showing signs of increased volatility. Last Friday its nine-week rise, which saw the S&P 500 index reach 11 record highs in May, came to a jarring halt set off by the tech sector with the NASDAQ index falling 4.2 percent, its largest one-day fall since the start of the pandemic in 2020.

The fall was largely ascribed to official figures which showed an increase in employment of 172,000, higher than the market expectation of 85,000. This led to the conclusion that interest rate cuts by the Federal Reserve—two had been expected at the start of the year—were off the table for the foreseeable future.

That was no doubt a factor. But the instability of the tech boom, and its speculative character had been revealed the previous day. In a major selloff the chipmaker and technology firm, Broadcom, lost $285 billion in what was the fourth largest single-day loss by a company on record.

It was not that Broadcom had made a loss or suffered a significant downturn in revenue. In fact, its projected revenue for the second quarter was $29.4 billion, above consensus estimates of $28.2 billion. But because this was short of the insatiable demands in the market, its shares opened the day 15.9 percent lower and finished the day 12.6 percent down.

The extent of the market frenzy in high-tech and AI-related stocks was revealed in a report by the *Financial Times* (FT) last week.

It noted that the Philadelphia Semiconductor index, which tracks 30 of the world's biggest US listed chip manufacturers, had "gained more than $5 trillion in market value over the past two months."

"Investors," it said, "have piled into the companies that are selling AI infrastructure on hopes of a sustained spending spree over the next two years."

Friday's selloff started in South Korea, a major chipmaking centre, where trading was halted for a 20-minute period with the shares of SK Hynix, a giant chipmaker, losing 10 percent

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and those of Samsung dropping 6 percent.

Wall Street rebounded somewhat on Monday as investors sought to “buy the dip”—the characteristic market move in the present frenzy—but not before the Korean market experienced a further fall with the Kospi index closing down by 8.3 percent as Samsung and SK Hynix took a further hit.

And nervousness returned to Wall Street yesterday when the NASDAQ finished down by 1 percent after dropping by as much 3.7 percent in the course of the day in what was described as “volatile” trading.

Friday’s selloff brought expressions of concern in the financial press as to how long the speculative boom could continue.

A comment piece in the *Australian Financial Review* said that “all of a sudden, it seems we are getting a preview of the most likely way the bubble that’s built up around artificial intelligence will end.”

Two things were happening at the wrong time for the AI sector, the article said. It was getting harder for tech giants to fund their spending from cash flow and debt markets, and there was a “growing body of evidence that AI deployment is not delivering a whole lot of bang for bucks—at least not so far.” This gave rise to a “creeping sense” that the rally on Wall Street “one of the fastest in history” may be built on “shaky ground.”

A *Wall Street Journal* (WSJ) article cited comments by Ray Dalio, the billionaire founder of the Bridgewater hedge fund, who said the sharp fall last Friday showed the market was in a precarious position in the global craze for AI-related stocks.

“Market and economic concentration is in one new sector that is highly volatile and risky—and is super-popular among unsophisticated investors,” he said. “That’s classic bubble stuff.”

Writing in the FT, Rob Arnott the founding chair of the global investment management firm Research, noted, as others have, how the providers of indexes had been “revisiting” their rule books to ensure that SpaceX could be included “as soon as practicable.”

The reason SpaceX and others are so anxious to secure a listing, and NASDAQ is doing everything to make that possible, is to ensure that money from Exchange Traded Funds, which base themselves on indexes rather than individual stocks, can flow into their shares.

Indexation, Arnott noted, has its “privileges” in that “inclusion in an index created a vast pool of valuation-indifferent buyers because index funds must buy additions and sell deletions regardless of their price” and “ongoing inflows create a constant stream of buyers for member stocks.”

He also provided figures which point to the speculative character of the Wall Street rise, noting that the cash flow of companies in the S&P 500 had grown about 3 percent per year slower than the Next 500 outside the index.

This is a process which has been clearly accelerated in the AI boom because the rush to invest in those at the top has not been based on their present returns—SpaceX, Anthropic and Open AI are all making losses as they burn through cash—but on expectation of the profit bonanza in the future.

The implication of the cash flow analysis, he wrote, was “striking.” “Over the past dozen years, the biggest companies have won in the stock market not because their businesses grew faster, but because investors paid more for them.”

But even as there is knowledge of the speculative character of the boom, the rush to cash in continues, with a WSJ article noting that Wall Street was “rushing to fund the AI bonanza in every conceivable way.”

In a comment published on X, Jurrien Timmer, head of global macro at Fidelity, a global fund manager, said bull markets ended either because they were not supported by fundamentals or because of inflation.

Timmer’s post then recalled the words of Chuck Price, the one-time CEO of Citigroup who famously said in July 2007, little more than year before the 2008 crisis broke, that “ as long as the music is playing, you’ve got to get up and dance.”

After noting that the present trend could end because of either of the reasons identified or a combination of both, he continued: “But for now, valuations are supported by the fundamentals and credit spreads, so let’s enjoy the ride while we can.”

It remains to be seen what the outcome of the SpaceX IPO on Friday will be. But one thing is clear.

The gyrations on Wall Street, the escalation of the valuations of loss-making firms into the stratosphere on the basis of expectations, the support for this process by the major banks—they expect to collect at least $500 million in fees from the SpaceX launch—the “buy the dip” mentality, the bending of the rules by major indexes, and the feverish drive by the Wall Street oligarchs to acquire ever more wealth are all indications of the decay and rot of the entire financial system.

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