



# Arbitrage

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## Are SPACs Still Alive?

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Special purpose acquisition companies (SPACs) captured the attention of financial market observers in recent years due to the meteoric rise in SPAC issuance in 2020 and 2021 and the colorful stories surrounding some of the operating companies that merged with those vehicles. More recently, media coverage of the SPAC market focused on the disappointing returns of that cohort of SPAC mergers. As a result of those disappointments and other factors, including regulatory changes, SPAC issuance has been muted since early 2022.

Although the recent rise and fall of SPAC issuance and the poor returns of SPAC mergers might suggest that SPACs are a flash in the pan, this is far from the truth. To the contrary, SPACs have been a compelling asset class for more than two decades.

This article explores the SPAC market, its history, and its investment characteristics. We focus on two themes. First, the SPAC market has innovated over time to align incentives among participants in the vehicle and to optimize the investment appeal of the product. Second, SPACs are a safe investment when managed properly, with the potential for significant upside. This payoff profile compensates investors for providing liquidity to sponsors seeking to buy operating assets without requiring knowledge of those assets at the time of investment.

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