FORCED FLOWS — SECOND OF TWO NOTES

What a Tesla–SpaceX Combination Would Oblige the Market to Do

We do not predict prices; we have been at this too long for that. What can be established with something near certainty is who would be obliged to transact — by index rule and mandate rather than by opinion — and at what size. We also mean to be honest about which obligations the market has already priced, because the reader deserves better than to be sold yesterday's arbitrage.

Begin with the pattern, because it is not new. In 2016, Mr. Musk had Tesla acquire SolarCity — a company where he was chairman and the largest holder, run by his cousins. The conflict was real enough to require his recusal and a majority-of-the-minority vote; it drew a lawsuit and a $60 million settlement all the same. Ten years later, four days after SpaceX's own IPO, SpaceX agreed to buy Cursor-maker Anysphere for $60 billion in stock. Same instinct, same person, a decade apart. So when Wedbush hangs eighty-percent odds on a Tesla–SpaceX combination — a figure we would not lean on so much as note — the useful question is not *will it happen*. It is: if it does, **who has no choice?**

A WORD ABOUT "FREE MONEY," FIRST

Let us dispose of a bad idea before it costs anyone anything. Index flows are the most public, most front-run trades in equities: arbitrage desks are positioned within minutes of an announcement, and the academic record finds the once-famous "index effect" largely competed away. Tesla's own S&P 500 inclusion in 2020 — a 70% run from announcement to effective date — is precisely *why* so much capital now camps on these events. Whatever edge exists in an announced flow belongs to machines that read the press release faster than we do. The value of a flow map is a different thing: knowing what is already in the price, what is merely conditional, and where the crowd stands — so that one is not the liquidity the professionals are waiting for.

EXHIBIT A — LIVE NOW, NO MERGER REQUIRED

Under Nasdaq's "fast entry" rule (effective May 1, 2026), a new listing ranking in the index's top 40 by capitalization joins the Nasdaq-100 after just fifteen trading days. Nasdaq confirmed on June 26 that SpaceX qualifies, effective before the July 7 open. That phrase describes when SPCX is *in* the index — not when the fund is obliged to transact. Passive trackers do not chase an opening print; they contract with index-arbitrage desks for guaranteed execution at the closing auction, and the desk works that order into the close at its own risk. **The mechanical buying is concentrated at the July 6 close — the session before the effective date, not the one after it.** Every fund tracking the index — QQQ chief among them — participates by mandate, funded by pro-rata trims of Nvidia, Apple, Microsoft, Amazon, and Alphabet.

> **$4.3B–$27B**
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> Mechanical, price-agnostic SPCX buying around inclusion: JPMorgan puts Nasdaq-100 trackers near $4.3B; broader estimates including Russell rebalancing run $22–27B. **Already priced?** Largely — the arbitrage crowd has had since June 26. The durable residue is slower and less dramatic: a standing index bid in SPCX's ownership, and real if modest supply in the five names trimmed to fund it.

The S&P 500 went the other way, on purpose. In May, S&P Dow Jones opened a consultation on waiving its four-quarter GAAP-profitability requirement for megacap IPOs — a change that would have been written for exactly one company. On **June 4 the committee rejected its own proposal**, with SpaceX's Q1 loss of **$4.28 billion** cited as disqualifying. SpaceX cannot enter the S&P 500 before mid-2027 at the earliest. That ruling is the load-bearing fact of this note: the rule was tested, days before the IPO priced, and upheld. We are reading it, not speculating about it.

EXHIBIT B — CONDITIONAL, AND THEREFORE NOT YET PRICED

The S&P's profitability test examines the surviving entity, not the letterhead. That detail defeats the obvious rebuttal — *"they'll simply structure it so Tesla remains the parent and keeps its seat."* SpaceX's Q1 loss annualizes to roughly −$17 billion; Tesla earns about +$3.9 billion. Combined: on the order of **−$13 billion**, deeply unprofitable no matter whose name survives. A combined company fails the test; Tesla's seat — 1.71% of the index, its ninth-largest — comes out.

> **$45B–$125B**
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> The defensible range of prompt, mechanical selling on a TSLA deletion. The floor is arithmetic: the three great S&P 500 ETFs (≈$2.65T) at Tesla's weight ≈ $45B. The realistic figure leans on the empirical record — deletion-cohort trackers sold ≈8.45% of shares outstanding, ≈$125B at Tesla's cap. One sees **$342B** quoted (all ~$20T benchmarked); we decline to count it — "benchmarked" is not "indexed," and discretion is not obligation.

Note the two-sided detail: that same $20 trillion cannot own SPCX *at all* until at least mid-2027. Before any deal, Tesla is the index crowd's only door into the Musk complex — a structural bid. A completed merger slams that door from both sides at once: the seat comes out, and nothing eligible replaces it. **The conditional branch cannot be positioned for until a deal exists — which is precisely why it is not yet in the price.**

THE FLOW MAP

FLOW	WHO IS OBLIGED	DIRECTION	TRIGGER	ALREADY PRICED?
Nasdaq-100 inclusion	QQQ & NDX trackers	BUY SPCX	Executed at Jul 6 close (effective Jul 7)	Largely, since Jun 26
S&P 500 deletion	S&P 500 index funds	SELL TSLA	Combined entity fails GAAP test	**No — no deal exists**
Merger arbitrage	Arb desks	Lock deal ratio	Deal announcement	Priced in minutes
Vol-target / risk-parity	Systematic funds	De-lever	Vol spike on announcement	By definition, no
Benchmarked long-onlys	Active managers	Trim TSLA	Post-deletion	Partially
Dealer gamma	Options dealers	Amplify the move	Gap + repricing	Intraday

WHAT WE DO NOT KNOW

We do not know whether a deal comes, and neither does anyone selling certainty about it. We do not know which way either tape trades on announcement day — arbitrage and positioning rule those sessions, not index math. We offer only the old rule, which has cost us money every time we have forgotten it: *when everyone can see the trade, the trade is already crowded.* What is not crowded is the conditional branch above, because it cannot be positioned for until it exists. Mapping it in advance is what this note is for. It is not a promise of anyone's easy money, least of all the reader's.

Sources: Tesla–SolarCity structure & settlement — SEC filings, Delaware courts (2016–20). SpaceX–Anysphere deal — CNBC, Motley Fool (Jun 16, 2026). Merger odds — Wedbush via financial press (2026). Nasdaq-100 fast-entry rule — Nasdaq methodology FAQ, Ashurst (2026). SPCX inclusion & flow estimates (JPMorgan) — Seeking Alpha, ETF.com, CNBC (Jun 26–Jul 2, 2026). S&P DJI waiver rejection — CNBC, Bloomberg (Jun 4–5, 2026). SpaceX Q1 loss — company reporting via CNBC. TSLA index weight — SlickCharts (Jul 2026). ETF AUM — Morningstar (Jun 2026). Benchmarked assets — S&P DJI. Index-effect attenuation — Greenwood & Sammon, "The Disappearing Index Effect" (NBER/HBS); deletion-cohort selling (≈8.45%) — S&P reconstitution literature (2020 cohort). TSLA 2020 inclusion run — Morningstar.