CS INVESTMENT MANAGERS

# VIEW FROM THE SQUARE

January 2021

## The Big Short (Squeeze)

It has been a year now since the first cases of COVID were reported in the UK – a year that has seen an extraordinary range of investor emotions. From denial and panic, as the pandemic raged across the world; followed by relief and optimism, as investors began to look towards a brighter future. The start of the year has seen that excitement expand, most recently with the scenes witnessed in the last week of January, as US retail investors exposed the vulnerabilities of Wall Street hedge funds.

Thanks to the army of day traders, using the social network Reddit to tout and bid up out-of-favour stocks and squeeze short sellers, some of the most unloved names have seen their share prices rocket in recent weeks. Retail investors have been targeting the most beaten down stocks in the market, for which GameStop – a video game and consumer electronics, retailer – has been the poster child (seeing its share price increase by a staggering 1,800% this year). In recent years these stocks have been easy pickings for hedge funds to short (betting that the price will fall), often in sectors that are in structural decline. However, an online coup has been building: the theory being – if enough people were to buy such a stock, that would drive the price up to an extent that hedge funds would be forced to unwind their short positions and buy back the shares, driving the price up further – a self-fulfilling upward spiral. A social network, several hundred thousand members strong, and instant access trading accounts are a potent mix. Like locusts, going from one to the other, the most heavily shorted stocks in the US market are one by one becoming the top performing stocks in 2021.

Historically, this level of investor excitement has been characterised by a market bubble, and an ensuing 'pop'. However, looking across sectors and countries, we conclude that there is no generalised bubble yet, and most long-term investors continue to climb a *wall of worry* rather than deem the market to offer perpetual risk-free return. That is not to say that recent market dynamics are not of cause for concern and certain areas of the market are exhibiting bubble-like characteristics.

What does that mean for long-term investors? Clearly, this sort of opportunism is not our game, nor a strategy over the long-term that is sensible. When this particular hysteria ends, and end it will – driven by regulation (market collusion), restricted trading, or major losses after the party stops – fundamentals will return as the driver of asset prices. What it does remind us of, however, is the fragility of the market at times, and that everything has a price. Regular readers will know that we have gradually been rotating portfolios into more value related investments, that could benefit from a re-opening of the economy but also, crucially, offer just that – value, to investors, relative to pockets of the market that are unequivocally very inflated.

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## Important Information



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