

Wentz Weekly

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Historic Short Squeeze



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Volatile trading. The VIX, a popular measure of expected volatility, spiked as much as 65% last week for its highest level since the election, reflecting the extreme moves in stock prices and option activity. The increase in volatility was driven by historic short squeezes, a purely technical move, but causing most investors to take risk off the table. According to Raymond James, as of Wednesday the top 10 most heavily shorted stocks had an average price movement of 55% in the prior 3 trading days, and the next 40 most shorted stocks had an average performance of 19.4%, compared to a 2.4% loss for the S&P 500 over the same period. Washington has taken notice of the trading activity from the week, with some of the most conservative and some of the most liberal politicians in agreement. The volatility around these stocks and brokerage firms reactions to limit trading has shifted some of lawmakers attention to holding a hearing which could lead to potential regulation.

Democrat leaders have signaled they are ready to move forward with beginning the process of passing a new coronavirus relief package through budget reconciliation. Using this process allows a bill to be passed with a simple majority, rather than the 60 votes typically required in the Senate. Chuck Schumer, Senate Majority Leader, said the goal is to have a signed bill by early to mid-March. We do not believe the final bill will be as high as Biden's proposed \$1.9 trillion price tag, but we do believe the Democratic led bill will still likely focus on direct payments to individuals, expanded unemployment benefits, additional funding for vaccinations and testing, additional aid for small businesses, funding for education, and funding for state and local governments.

According to the Wall Street Journal, Senate Republicans released details of their \$620 billion Covid-relief proposal. The package includes \$1,000 in payments to individuals (less than Biden's \$1,400 proposal), \$300 a week in enhanced unemployment benefits through June, funding for child care and schools, additional funds for small businesses, and funding for vaccines and testing. Senate Republicans sent a letter to President Biden requesting a meeting to find a bipartisan compromise. The two sides plan to meet later in the day to discuss details.

There has been an increasing concern a more transmissible variant of Covid-19 could pro-long the economic recovery. The new variant is causing tightening restrictions on the economy, increasing the concern of a double-dip recession. The other concern is the possibility the new variant is resistant to the immunity from past infections and vaccines. The UK has banned travel between a number of countries and is even considering requiring entrants to the country to quarantine in a hotel for 10 days as a result. Others are now requiring a negative Covid test for 72 hours before travel. President Biden is considering requiring proof of a negative test for domestic travel, potentially hurting travel demand even more.

The January Federal Reserve meeting ended with no changes in policy, keeping interest rates near zero and making no changes to the pace of asset purchases. One of the focus points for investors from the meeting was when the Fed would begin to reduce the amount of asset purchases. The Fed took a more dovish stance with Fed Chairman Powell emphasizing it is "too early to be talking about dates" and the any discussion or focus on tapering is premature. Prior to the meeting several other Fed members spoke on tapering and reiterated the Fed is not considering it at this time. With the Fed's current projections, Powell said he continues to expect tapering to begin in 2022 and the first rate hike in the second half of 2024.

Growth in the U.S. economy moderated in the fourth quarter, growing at an annualized pace of 4.0% in the quarter, continuing its recovery from the second quarter which saw the largest decline since 1940. Despite the rebound in the second half of the year, the economy shrunk 3.5% in 2020, the first time the economic activity declined on a calendar year since the Financial Crisis over a decade ago. Consumer spending rose 2.5%, driven by services as the economy continued to reopen, but was a deceleration and loss of momentum following Q3 due to weak spending in November and December as spending from the federal stimulus faded. Residential investment was a bright spot driven by single-family homes, thanks to the continued strength in the housing market. The category rose 34% in the quarter, resulting in a 1.3% contribution to the headline GDP number. The path of the economic recovery will remain uncertain and will remain dependent upon the course of the virus and the progress and extent of businesses reopening, however the incoming administration's fiscal support in the coming weeks should result in another boost for the economy in the short term.

Company News

- Sorrento Therapeutics reported preliminary Phase 1b results from the study on its Covid-19 treatment. Patients enrolled in the study tolerated the treatment well and improved rapidly. Shares were up on the news.
- Johnson & Johnson said its global trial of its single-shot Covid-19 vaccine showed to be 66% effective in preventing moderate-to-severe Covid-19 cases. The vaccine was 85% effective against severe disease and completely eliminated hospitalization and death 28 days post-vaccination. Efficacy appeared to increase over time and after 49 days there were no cases of Covid-19.
- Overstock is partnering with Pelion Venture to oversee its Medici blockchain assets. Overstock said it is changing how they interact with those assets, possibly using this as an opportunity to focus on its core home segment business.

The Week Ahead

The calendar will remain busy this week as another round of corporate earnings reports are released. Markets will continue to focus on the short squeeze frenzy by retail investors and how long this will last. At least 99 S&P 500 companies will be reporting earnings this week. Highlights include Thermo Fisher and NXP Semiconductors on Monday, Alphabet, Amazon, Alibaba, UPS, Chipotle, Pfizer, and Exxon Mobile on Tuesday, eBay, PayPal, Spotify and Qualcomm on Wednesday, and Penn National Gaming, Snap, Ford, Pinterest, and Bristol Myers Squibb on Thursday. The economic calendar is a little lighter this week but still has notable releases including manufacturing survey results, construction spending data, weekly jobless claims, and the January employment report. The consensus is for 100,000 new nonfarm payrolls in January, after seeing a 140,000 decline in December.

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. Every investor's situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment. Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Information contained herein was received from sources believed to be reliable, but accuracy is not guaranteed. Information provided is general in nature and is not a complete statement of all information necessary for making an investment decision and is not a recommendation or a solicitation to buy or sell any security. Investing always involves risk and you may incur a profit or loss. Keep in mind that individuals cannot invest directly in any index. Past performance does not guarantee future results. There is no assurance these trends will continue, or forecasts will occur.