Investment Strategy Update

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24 September, 2020

Hedge funds seem to suddenly hate technology shares

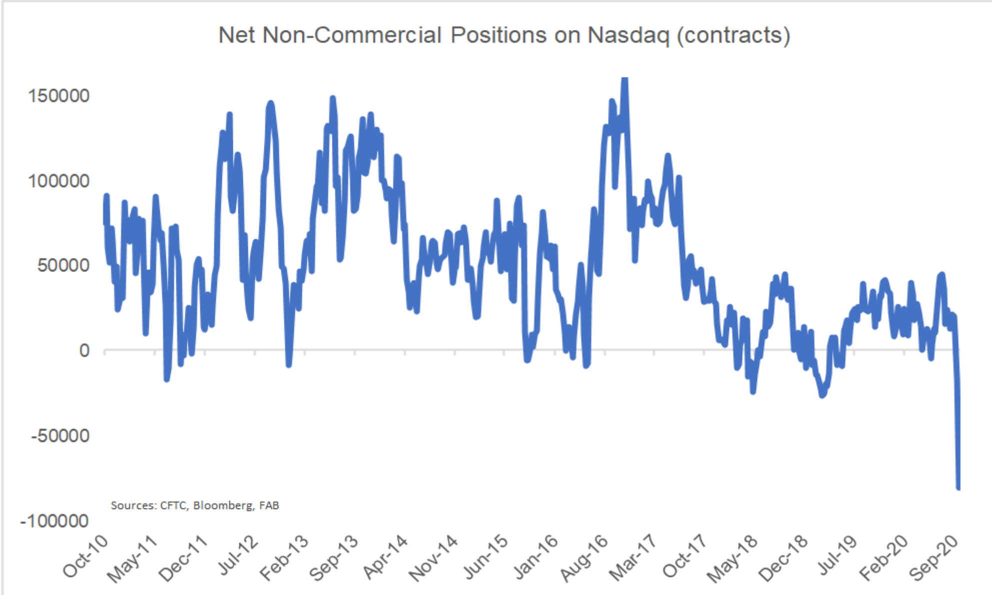
♦ **Short position on NASDAQ futures is the largest since 2008 as investors have rotated away from the winners.**

♦ **Position has moved abruptly net short over the past two weeks.**

♦ **The large net short position could prompt a sudden bounce, particularly if the underlying reasons for buying tech return to the fore.**

♦ **The NASDAQ Composite is down 9.7% this month so far, after rallying 71.6% from 23 March to 31 August.**

♦ **The FAB AAC remains underweight equities and overweight gold, though less so than in the second quarter.**



Some technical analysts look for what they call contrarian indicators to see when it is time to buy or sell something, at least for short-term investment decision. One of those are positions in certain assets. Whenever they become extreme, these analysts believe that the asset could actually move in the opposite direction.

The NASDAQ is a case in point this week. There were 80,871 more short contracts than long ones on NASDAQ futures as of 18 September, the last time the Commodities and Futures Trading Commission released its weekly numbers on futures positions. This is the largest net short position on the index since 2008.

It potentially means two things: either there is a large number of people and funds speculating that technology stocks are in for a rough ride, or there are a lot of investors hedging their tech stock holdings through the futures markets. It could also be a combination of both.

The reason is important, because if a lot of people think tech stocks have already peaked, then those who hold these stocks should at least consider why these positions are being created. Equally as important, however, is the sheer number and value of short contracts.

Any investor who is shorting the NASDAQ using futures would have to put up margin if the index starts to rally. Either that, or buy the stocks in it or any other opposing position that cancels the existing one. In other words, if the NASDAQ bounces, it could lead to a short-squeeze and a sudden rally of the stocks.

These things usually require a trigger. It could be the central bank saying they will add more liquidity or a significant profit announcement by a key name in the index. The probability of these, for now, is low. Still, if lockdowns start to be implemented again, investors could reassess the relative value of holding technology stocks.

There were record net short speculative positions on the NASDAQ as of 18 September

After all, it became clear in the second quarter that what sounded right in theory really happens in practice in this case. Companies that help people work from home and avoid shopping in stores really did make a lot of money during the lockdown period.

Meanwhile, other sectors such as industrials or, even worse, the travel and leisure sector, struggled. Throughout September, investors seemed to be rotating away from the big tech winners and into the more cyclical companies as they considered the possibility of a faster recovery. If the lockdowns return, even partially, they may start to reverse that trade. And if this happens, it means a lot of investors sitting on short positions may have to cover them.

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