Investment Strategy Update

For inquiries related to this article, please contact:

Alain.Marcus@bankfab.com
Christofer.Langner@bankfab.com

28 September, 2020

Quarter-end rebalancing and large shorts join to push stocks up

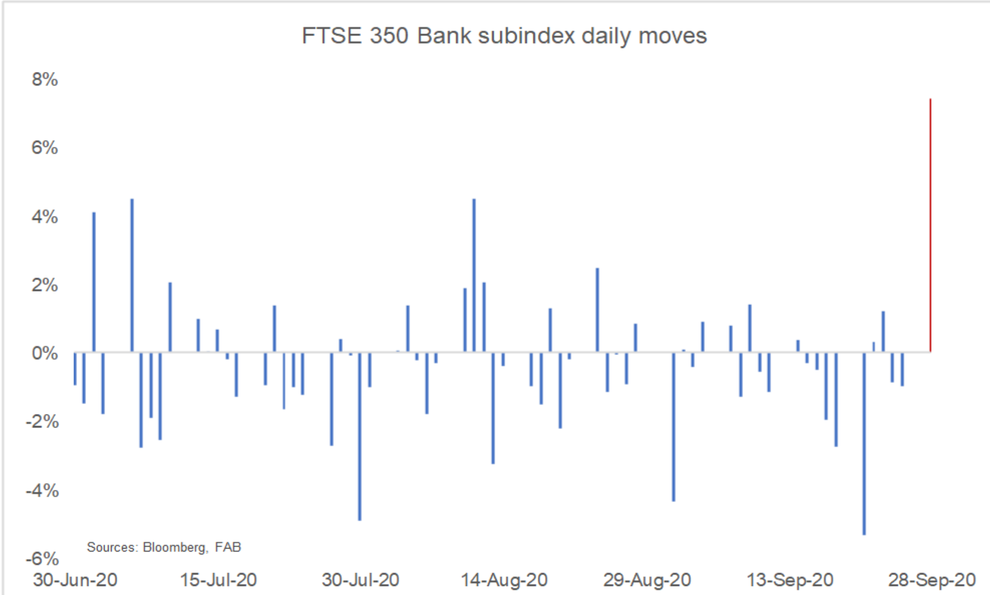
♦ Significant short positions in bank and tech stocks seem to have suffered a blow as a rally in the NASDAQ on Friday and positive news for some banks today pushed share prices up.

♦ FTSE 350 banks subindex has one of its best days in a decade, up 7.8%.

♦ The move follows show of support of Chinese investors in one of the heaviest-weighted banks in the index.

♦ The NASDAQ looks poised to continue a rally seen on Friday as large short positions may continue to be unwound.

♦ The FAB AAC remains underweight equities and overweight gold and investment grade bonds.



Experienced hedge fund managers say the hardest trade to make is to be short a stock. If an investor holds a stock that is falling, they can often just sell it quickly and cut the losses, or hold it for longer to recover. Shorts do not work like that and if they go wrong they have to be quickly unwound, which usually means buying the asset and pushing the price even higher. This is known as a short-squeeze.

There are reasons to believe such a short-squeeze could be happening today in the banking sector. The FTSE 350 bank subindex is up 7.8% at the time of writing, led by the shares of HSBC, which rose 9.2% in Hong Kong and continued to climb during London trading hours. The move was prompted by a vote of confidence by one of HSBC's largest Chinese shareholders. The support came just as the short interest in HSBC had hit the highest in more than three months.

It seems like investors scrambling to cover shorts pushed up the stock, which then spilled over into other large-cap London-listed banks such as Standard Chartered and the whole sector shot up. It also gave a boost to the FTSE 100, up 1.9%, and the European STOXX 600, which was 2.8% ahead at the time of writing.

It also comes one trading day after the NASDAQ index seemed to exhibit the same pattern. The technology-heavy index rallied 2.6% on Friday, one day after the Commodities and Futures Trading Commission revealed the largest net short position in NASDAQ futures in 14 years. The strength of the markets in Europe and Asia suggest that the short-covering in technology could continue today.

The rally could last into tomorrow, considering there may be some month-end rebalancing which could see some pension funds adding technology stocks, given that they underperformed other sectors in the month of September to date.

The FTSE 350 banks subindex had one of its best days in a decade, up more than 7.8%

While that is good news for some traders, it may not be the best signal for long-term investors. Such technical moves can be sharp, but may also be short-lived. Once the short-positions are covered, the same investors that put them on could go back to expressing their dim views about.

Besides, long-term investors should consider why such large speculative positions are being made against some of these stocks and sectors. HSBC came onto the radar of short-sellers last week because of indications that the Chinese could block its access to the country and damning news reports about banks. Technology valuations are extended by some measures too. The bull market is still sturdy, but this short-squeeze rally is not a sign of its health.

Investment Strategy Update

First Abu Dhabi Bank