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## Pershing Square's Pandemic Trade (C)

In the afternoon of Monday, March 16, 2020, Bill Ackman met virtually with Ramy Saad and Michael Chamberlain, the firm's traders, to discuss Pershing Square's outstanding CDS positions. In late February, the firm had purchased CDS protection as a hedge against the rapidly expanding Covid-19 pandemic. These positions had skyrocketed in value since their inception, though in recent days their value had begun to fluctuate significantly. Ackman wanted to discuss whether this volatility meant it was time to fully unwind their remaining CDS exposure.

For example, on Thursday, March 12, the value of the positions rose by \$780 million. At that time, Ackman and his team decided to lock in a portion of their realized gains, which had reached over \$2.6 billion. The trading team subsequently liquidated \$4.5 billion of notional exposure on the CDX Investment Grade (IG) index, \$4 billion on the iTraxx Europe Index, and \$400 million on the CDX High Yield (HY) index.

The next day, Friday, March 13, their remaining CDS positions lost nearly \$861 million. These losses were mainly driven by the news that the U.S. Federal Government had declared the pandemic to be a national emergency. U.S. stock markets had responded with their highest one-day rise since the 2008 Global Financial Crisis and credit spreads tightened substantially.

By the time Bill met with the traders on Monday afternoon, the market was down 12% and the VIX volatility index (Wall Street's "fear-index") exceeded its previous peak from the 2008 Global Financial Crisis. Credit spreads on the IG, iTraxx Europe, and HY indices also widened that day, and as a result Pershing Square's CDS positions had regained over \$500 million of the previous trading day's losses.

Was this the right time to liquidate?

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