Title: Clearing up confusion on short exposure via swaps.
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Seen some ppl saying that swaps have nothing to do with shorting so I thought I would try and clear this up:

It for sure is possible to have shorting occur with swaps, not directly but through the way counterparties hedge their exposure. Prime Brokerages/Investment banks that receive fixed rate payments in a negative return swap hedge their exposure to the swap by shorting the underlying

An Example: say Kenny owns 100 bbby but wants to profit off of the decline in bbbys value, he goes to shittybank and gets a swap - Kenny pays shittybank 10% interest in exchange for getting paid the negative return on BBBy - he gets paid the amount it goes down. If it goes up 50% Kenny pays shittybank the 50% difference plus 10% interest -but since he owns the underlying which also goes up by 50% he only loses 10% from the interest payments.If it goes down 50% shittybank is on the hook for paying Kenny that 50% decrease in price, but shittybanks just care about earning interest not trading , so they hedge the swap by shorting the underlying. If it goes down 50%, shitty bank pays the 50% to Kenny but they also make 50% off of the hedge, so shittybank still makes 10%.

Now at this point Kenny is still in the red -10% because his 100 BBBY is also down by 50%. So what does he do? The day after he buys the swap he opens a new short position with a second shittybank bank, knowing full well that the traders at the first shittybank are hedging his swap by shorting it as well, providing downward momentum.

TLDR: while the swap does not itself short the stock, counterparty hedging will definitely cause shorting of the stock.

Obligatory: Les gooooooo boys we just getting started ■■■■■■■■■■■