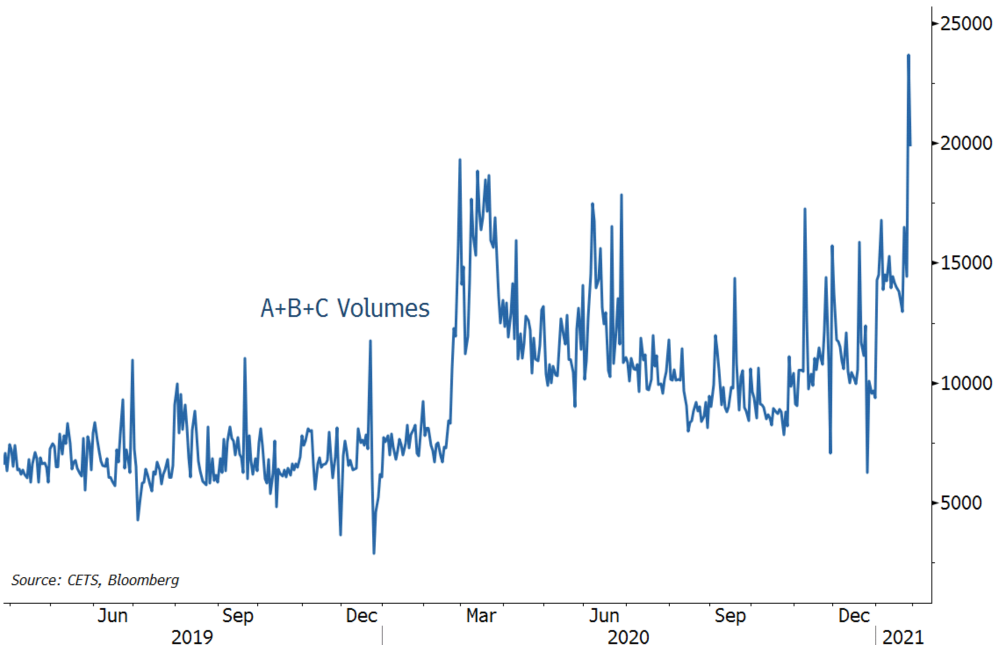
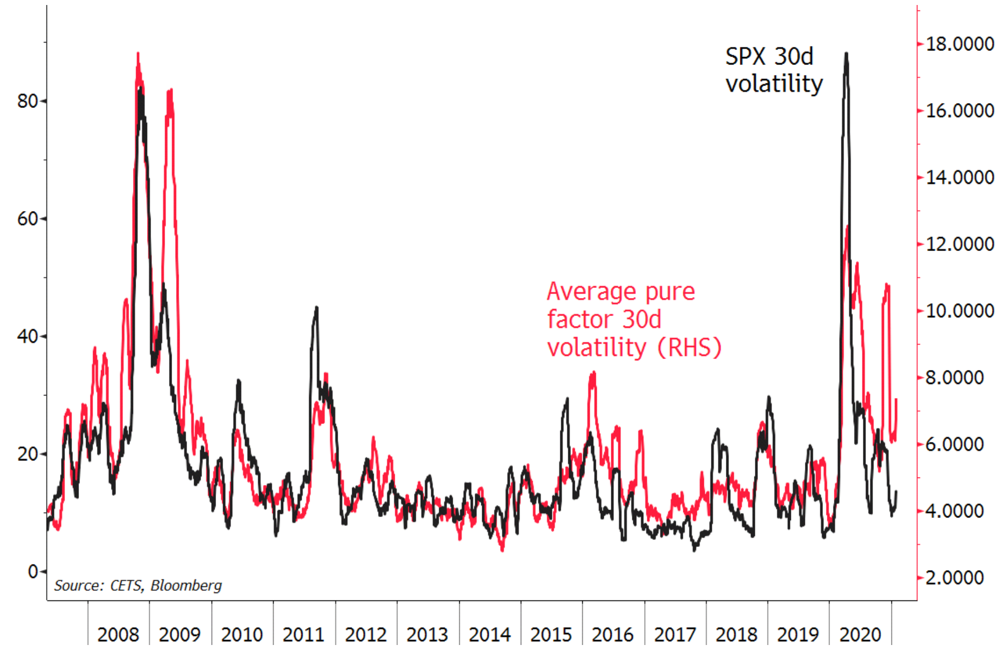
Forgive the slightly wordy EOD today – lot of incoming questions, and not a lot of time to build charts!

Before we get on top of all the retail brokerage headlines, Senate hearings, feedback from you all, and so on, let's focus on what went *right*. Markets were clearly more orderly, breadth was positive, both consolidated tape and option volumes were once again absolutely massive (after yesterday's record-setting levels), and whilst our PB/stock lending business did not see any real evidence of enormous *re*-grossing after this week's chaos, most desks were talking about the environment being more 'business as usual'.



That being said, there were so tidbits worth highlighting: I have been flagging Low Risk's (**CIISLRUT**) not-so quiet move higher in recent sessions – which would have seriously threatened broader index stability if it had continued to rise – dropped by 2.1%, the most since 'Vaccine Day' on November 9th, although it is probably too early to sound the all clear on that quant index just yet. Similarly, with so much retail unwind (*more on that in a moment*), Value was also being dragged lower by 1.2%, and very much kept RTY in check, closing up only 26bps on the session (mostly due to retail names being hit so hard) and underperforming SPX by 75bps. And since we're talking about factors, PriceMo was up 1.2%, and Large Size rose by 90bps… all extremely sizeable moves in historic context. It's pretty remarkable to look at the wild swings within the factor world that have now been in place for the best part of a year; although smaller in overall magnitude, this year-long episode is now longer in duration than the GFC factor explosion and perhaps indicative of the lop-sided positioning that remains pervasive in markets at present. At the very least, it would suggest there will remain sizeable dispersion opportunities in the coming weeks and months. We will have plenty of time to explore that in the coming days and weeks.



So with that said, we again find ourselves addressing the elephant in the room: what happened with retail and HF degrossing. I discussed in **[yesterday's EOD]** that the duration of degrossing typically only lasts around a week, anticipating this week's horror show to subside by tomorrow's expiry. However, it would appear the cauterization may have come sooner (*famous last words…*) courtesy of various retail platforms taking actions to halt buying and/or restrict margin on a small handful of high-profile securities. There's so much to unpack here, and whilst I am still doing plenty of homework on the topic, here is my best stab at answering some of your questions:

Is what happened today legal? Some of you chimed in with questions on our call (a replay of which is available here: **What (...on earth...) is going on with the Retail Trading Environment?**) questioning whether trading platforms are even allowed to unilaterally take actions like this. After checking in with our Research specialists, Bill Katz, it would appear that these platforms do indeed have the authority to halt aspects of their platform as they see fit. For example, TD actually halted trading in front-month crude contracts back in **April last year** where they would only allow closing of positions, and back in March 2020, Robinhood's platform was down for over 24 hours, which at the time **caused an uproar** over not being able to close out positions. Now, whether an outage/banning is due to technical glitches, margin issues, the need to draw credit lines, counterparty problems, or simply unilateral risk management decisions made by the platform, this is not without precedent. So yes, we may have a congressional uproar in the aftermath, and indeed a Senate hearing is now scheduled, but having checked the T&Cs of my own brokerage account (not Robinhood), there is some broad wording that includes being able to shut down services, suspend or limit access, or just simply deny the user the right to trade without notice.

Do retail start boycotting platforms? This is purely conjecture, and although we can see DATs data for public platforms, the likes of Robinhood remain a private company so it is opaque at the best of times; it would therefore be hard to quantify this going forward. However I'll stick my neck out and give this one a firm 'no'. The decline in some of the high-profile moonshot names over the course of this session would have done an inordinate amount of damage to some retail investors, but so did their previous meteoric rise for the hedge fund community. Whilst talismanic individuals may cry foul about a 'rigged' system, retail investors should also clearly be mindful that they were trafficking in 1100% vol stocks too. Even if accounts did start to leave one platform, there has been so much money made by the retail community over the past year it would appear unlikely that they would suddenly stop because of today's news and losses (just as a note, despite GME's drop today, since 22nd June the VWAP is still 36% below the last close). The analogy i mull over in my head is that of someone betting on several boxing matches with plenty of success. But in one fight, his fighter goes the distance and clearly wins the bout, only to discover that in a bad ruling by the three judges, the fight is awarded to his opponent. The gambler loses his money and feels robbed. Does he bet on the next fight? Most likely!

So even if the social media sphere was up in arms as to today's 'unjust' actions, they are more than likely to continue trading, be it with a different platform or otherwise. Or put another way, retail investors will not stop trading even if they perceive the markets as 'rigged'**; they stop because they lose money, or get bored (or get bored of losing money…). That is exactly how retail euphoria around the dotcom bubble ended.**

From a regulatory standpoint, what can be done? I touched on this topic in yesterday's note, and indeed Billy and I attempted to answer some questions on today's call. I'm not a regulatory expert, but the degree of enforcement may be limited; capping short interest as % of free float, for example, would likely be counterproductive and end up exacerbating the problem. At the very least the past week may call into question how liberally the trading platforms allow speculative positions – be it with excessive margin and/or optionality – to be taken, and we should expect the SEC to investigate bulletin board forums to ascertain issues around 'bot messages' and collusion. I'd love to hear any thoughts around this, but I would expect there to be some kind of crackdown on who is able to trade, and in what products. **SCHW have an investor call on Feb 2nd so I would expect a lot of questions around this topic to be addressed.**

Can we expect this to happen again in the future? What we have collectively witnessed over the past few days will unfortunately be etched in memories and text-book case studies for a while: markets continue to find innovative ways to humble all of us, even those that have seen several market cycles. We are most likely past 'peak lunacy' for the time being, but as I've mentioned before, the speculative retail presence is likely to be an enduring feature of US markets at least until whenever the next bear market is (*they stop when they lose money…*). Jimmy – ever eloquent with his words – said it well to me earlier today: **if the retail fervor simmers down somewhat in the coming days/weeks, we should still expect a 'guerrilla warfare' to flare up on certain stocks from time to time.** CETS has done their best effort to try and **quantify what kind of characteristics** would be associated with stocks targeted by retail activity – notably household names with low $ price, and possibly now looking for high SI – but it's a tough exercise and prone to a lot of caveats. **But I would say that TSLA gave many retail investors a 'proof of concept' that they are able to be organised and mobilized (see Are retail the new CTAs?) in order to move even large stocks by a meaningful amount.** That is unlikely to disappear anytime soon.

Alty

Alexander Altmann
Head of US Equity Trading Strategy
Office +1 212 723 1999

Market Commentary and a not a product of Research. Intended for Institutional use.

All charts/data sourced from CETS, Bloomberg and Citi, unless otherwise indicated.