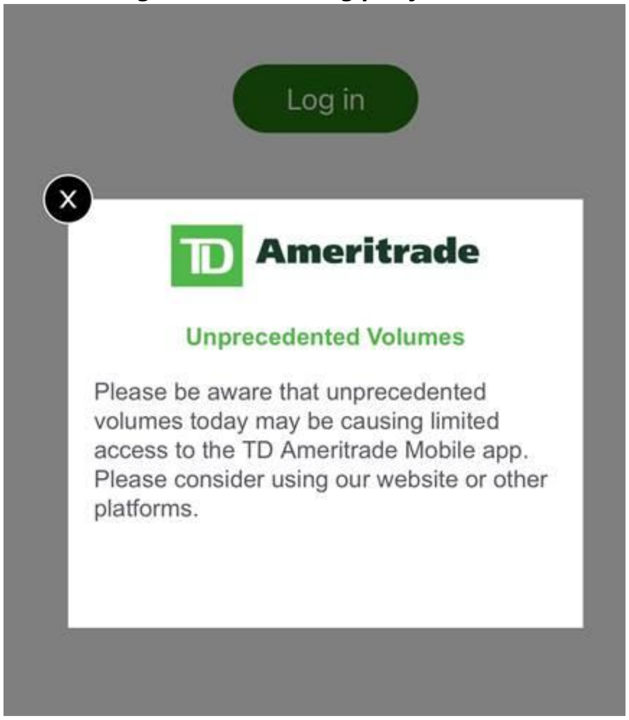
You know there's something wrong with the market when historically the largest influence of risk assets was a 2pm sideshow in comparison to what else went on during the session. One colleague even asked me to make a market in the number of questions Powell would be asked before someone queried him on Gamestop (☺), and good to his word, several journalists did ask actually ask the question (!), to which Powell broadly sidestepped. But whether today's sell off was about HF derisking, or about Powell's comments on the (lack of) linkages between asset prices and interest rates, one thing was very clear; today was absolute carnage.

World's largest retail trading platform was down

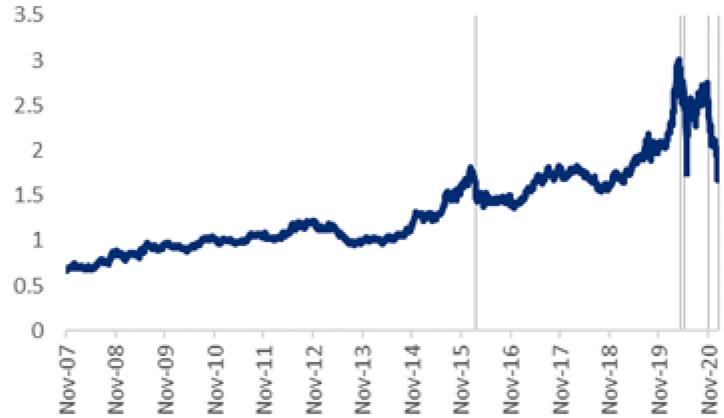


Source: TD Ameritrade

I have already bombarded you with enough commentary in one session, so heaven knows how many emails of 'microcap X going up twentyfold in five days' are littering your inbox. So rather than provide yet another post mortem of "*wow, did you see company Y today? That's crazy!*", I'd much rather share some non-anecdotal insights about what may be in store going forward:

How long does this go on for? If I had a dollar for every time I was asked this question today, I would have enough at least one AMC share (…at the close). First and foremost we should probably qualify that 'this' usually meant the HF derisking and not necessarily broader market weakness. So I set about looking at previous *disorderly* HF de-grossing periods, which is in itself trickier than you think since Feb'18 for example was clearly disorderly, but was also a correlation 1 event that did not actually force L/S books to unwind. June 2020? Definitely. November 9th 2020? Maybe, but depends who you ask. So I took a broad brush approach to this and used our 'Crowded Longs' (**CGTSFUND**) basket versus our 'Crowded Shorts' (**CGTSSINT**) drawdowns as a benchmark for periods of deleveraging. If we define the parameters as starting with a -2.5% move, and ending with a –rolling 1wk change below -5%, and 2wk change below -10%, then we successfully isolate most periods of disorderly moves. I'll caveat that this is not by any means perfect, but we can see in the results below that in general these drawdowns only last 5-10 days, and although by this measure we are only on day 3 of a derisk, most PBs will tell you this is actually day 4. Moreover, within those periods of derisking, only 4-5 days were actually ***sharp***, which to me suggests that **the disorderly period we are current experience could well be over by expiry this Friday.**

Crowded Longs vs Crowded shorts – sharp drawdowns usually only last a week



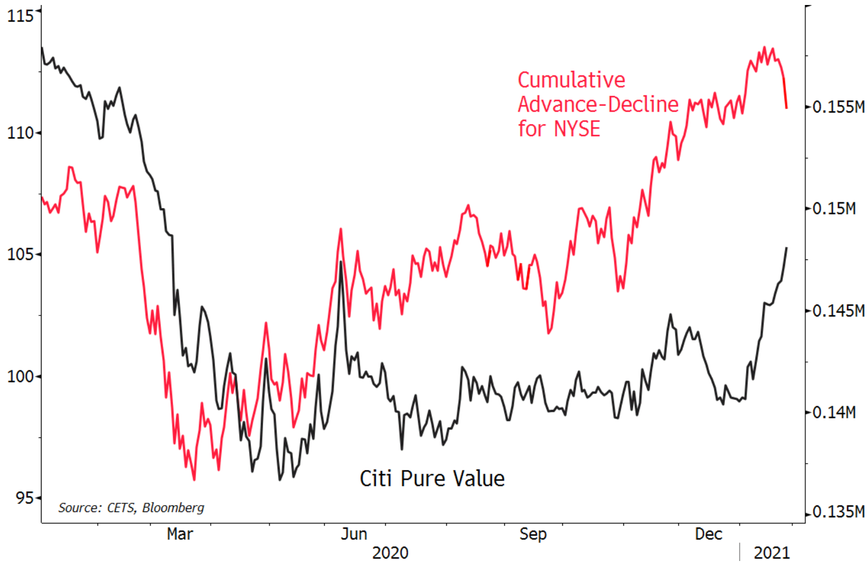
# Occurrences	5
Average Days	9.3
Longest	13.0
Shortest	7.0

Source: CETS

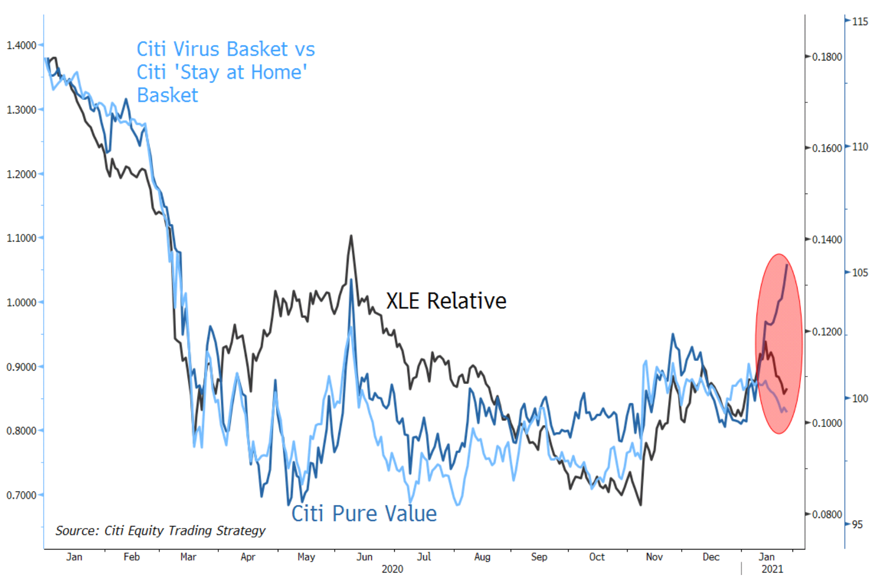
What happens in the interim? This is probably the most difficult question to answer since we now have an odd environment where running a screen on anything that has ripped higher today is indicative of a degree of HF pain. So are we going to see some funds apply 'bully' tactics and take the other side of these trades to force the positions even higher (think HLF in 2012/2013/2014, but on a much larger number of securities)? This is the bit where no amount of analysis will really be enormously insightful, and all we can do is observe real time to give to the best available intel. **Jimmy mentioned** that the fact that more GME notional has traded than AAPL despite being 1/450th of the size could open a can of worms for risk managers needing to reassess larger parts of their portfolios. Then separately I mentioned in **yesterday's EOD** that we could see some significant pain on a M2M basis from certain lending desks to which there could well be second-order effects, and of course there is still the potential for other names to follow GME/AMC's lead – a list that CETS has done their best to predict in **a note published earlier**. But I do think it's important to also zoom out and use our macro-equity framework to continue to make sense of things: Low Risk (**CIISLRUT**) is on its best winning streak since Q1 last year (bad news), our Virus vs Stay at home basket (**CGTSVRL2** vs **CGTSSTAY**) was stable (good news), and Pure Value (**CIISVAUT**) was up another 80bps, with the factor only being down for four sessions MTD. Also good news. It's really easy to get caught up tick watching some SMID names on a 200% intraday tear, but if you get step away from the stipple and look at the impressionist art, the painting gives a mixed picture rather than all doom and gloom.

The turn in Low Risk is clearly a negative…

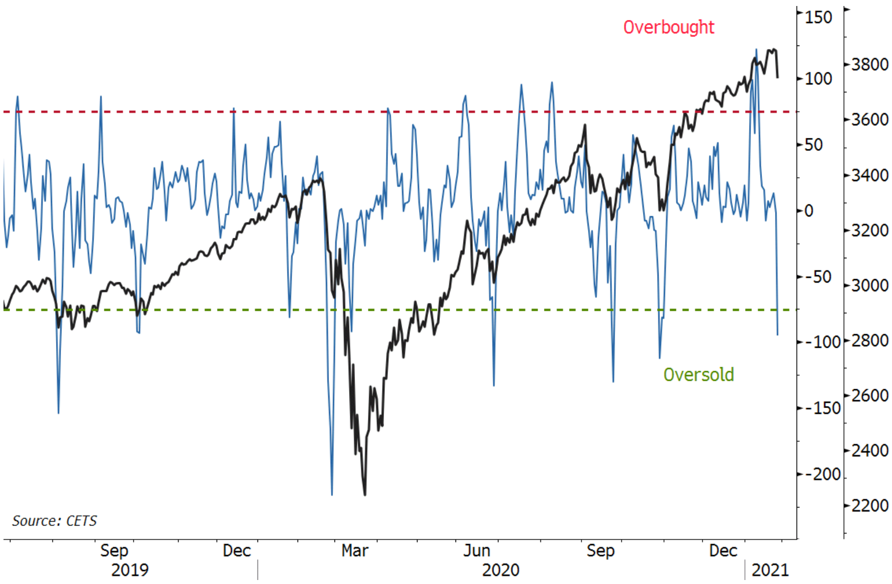
…But there are positive developments too: Breadth + Value have been fine



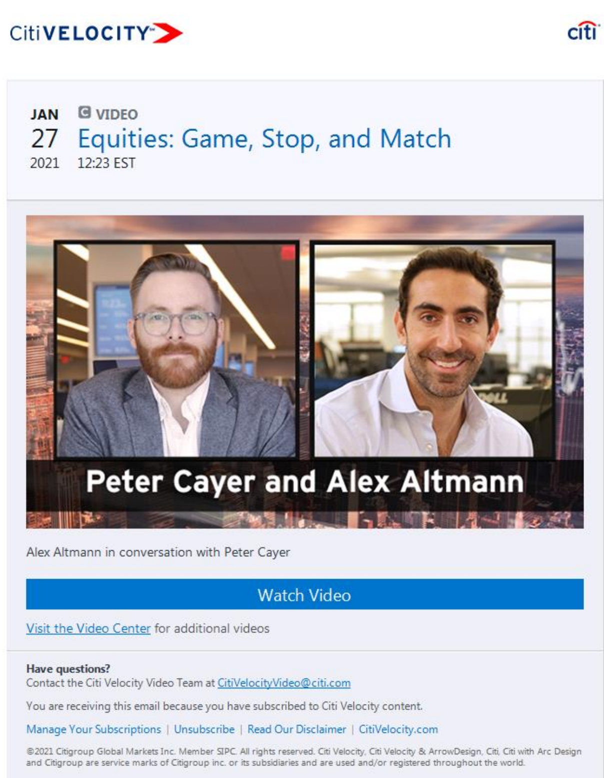
What is the next catalyst? Regulation or vaccines? The SEC just put out a statement saying that they're "actively monitoring the ongoing market volatility in the options and equity markets", which isn't really giving us much to hang our hat on. The fear is that they introduce some draconian measure that caps shorts as % of free float at 100% (or whatever…) and could actually exacerbate the problem even more. In fact, if you consider that we live in a world where the Fed have already made it nigh-on impossible to short every other part of the capital stack, equities have been the last bastion of 'free markets' where investors could genuinely express bearish bets. If that is perceived to be taken away from them, then we could be looking at an equity bubble that makes dotcom look like European equities for the past few years… So if we put any speculation aside for a moment, investors should think about the fact that **we are still due JNJ vaccine data in the next few days, and we've had a barrage of positive developments announced by the administration with regard to vaccine security and distribution.** All of that appears to have been completely lost in the noise of the past 72 hours, but if you think about the fact that investors were scrambling to buy XME +15% in the first week of January on the re-opening story, you're now buying the same ETF -80bps YTD when the news around this story has *improved*. **The vaccine development story should not be ignored, and has the potential to lift the commodity trade back on its feet.** It did not go unnoticed that Energy was still the best performing sector today, and XME only underperformed by 50bps.



Does that mean the market is a buy? You'll have to grant me some wiggle here room since this is being written as about $4trn of SPX market cap is currently delivering their FY earnings report, but I did notice that CGUSOVER – our proprietary overbought/oversold indicator – hit -100 at one point intraday, and closed the session at -95. That's the lowest level since the October pullback prior to the election, and whilst we would need to see another 1-2 days of index weakness for this model to suggest buying the market, we have moved in that direction quickly. Our technical team [think](#) we could be testing 3600, a 6% high-low move, and small enough that POLLS would probably miss it, but again, our model work has yet to suggest that are enough contemporaneous warning signals at present. It is worth highlighting, however, that **CTAs would be forced to start selling equity length at 3640 in ES1**, so if we did get down there, then a 40pt flush to 3600 would indeed most likely be enough to clear the decks of momentum positioning too.



Where can I get more information? Our Velocity team badgered me for some more info on a video earlier today (link below) so feel free to listen to me rabbit on for nine minutes. And if you'd like some genuine insight, then our head of Stock Lending (Billy Wade) will be on a call with our NAM Head of Derivatives Trading (Dan Baranovsky) tomorrow at 2pm EST – you will unfortunately still have to listen to me on the same call, but it's a small price to pay. Details can find **here**.



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