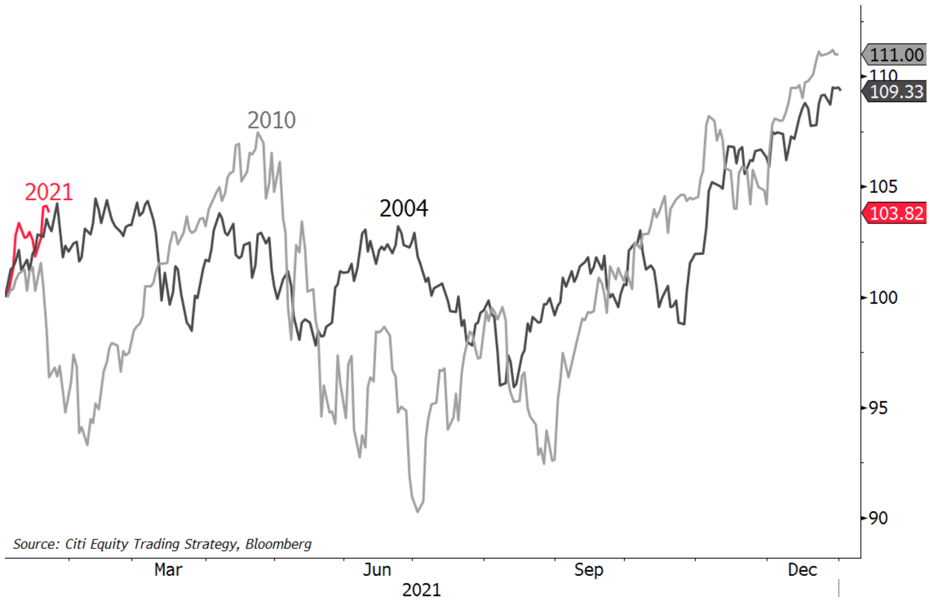
Indices may have ended the session hovering around flat after reversing the early-session drop, but be under no illusion that a chunk of this week can be characterised as risk off even if SPX closed +1.5% since Wednesday and RTY ended the week unch. Low Risk (**CIISLRUT Index**) has rallied 1.9% over the last 5 trading sessions, and although it is still in negative territory for the month, it is now on the cusp of breaking the downtrend that has been in place since the election (as is Probability of Default **CGPRPROB Index**). That's not to say that things will imminently fall apart across markets – indeed until our POLLS Model manages to tick up from the 9-13 range we should not be overly concerned – but it does at the margin indicate that attitudes towards risk are beginning to shift. For example, I've now seen two bulge-bracket banks send out cautionary pieces from their strategists on equity risk here, and investor conversations this week remained constructive but now attached with a litany of 'what ifs' and disclaimers about virus mutations or questioning Fed omnipotence. Panic Euphoria's weekly reading remained in nose-bleed territory, albeit marginally lower than last week, but if we look at the 5-day performance of things like Energy (-2.2%), Financials (-2.4%), and Materials (-2.6%) you needn't be Sherlock Holmes to establish that some loose holders of cyclical stocks became jittery this week and trimmed some low-conviction positioning given the gains since November.

Keep an eye on whether Low Risk establishes a new trend…

But is that actually jitters, or just an inevitability of markets not moving in just one direction? The aforementioned sectors are still up YTD ny 11.1%, 3%, and 3% respectively; all outperforming SPX and essentially keeping pace with NDX returns. There is of course plenty of attention on the new wave of moon shot performers like GME (*…I'll come on to that in a second…*) but the reality is that the Russell 2000 has still outperformed the NDX by c5% already this month. Before we get too beared up on all this bubble talk, we should equally recognise that there remains money being deployed in equities that may well keep index drawdowns shallow and benchmark price action in a **sideways chop**; think 2004 and 2010 as precedent recovery years where we certainly saw drawdowns, but ultimately the S&P was doomed to trade in a range up until Q4 where it finally got its mojo back, having de-rated sufficiently during the first nine months of EPS recovery. And as for all the bears – yes I 100% share your concerns regarding everything that is insane in the market right now, but sentiment appears to actually be quite one-sided right now to the point where a pullback almost appears too obvious. Did I mention POLLS was still only at 11?

2004 and 2010: both recovery years for the economy but a tough market to trade



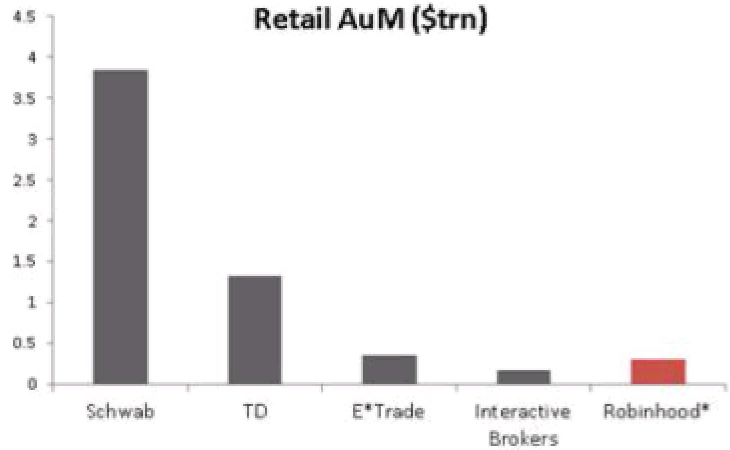
So let's get on to the ridiculous stuff for a moment. Whether you were gawking at GME up another 50% (fun fact, 250% of the $ market cap changed hands today…!!!), PLTR +20%, BBBY +12%, AMC +18%, they all had more in common than just being up a lot; all were heavily featured in the daily session of /wallstreetbets, the ubiquitous Reddit feed that has become a magnet for retail punters to share ideas. Now whether these moves are correct or not, they should represent yet another reminder that unlike the mania of dotcom in 2000, the small investor community is now organised and mobilized to act instantaneously. I discussed this notion at length in a piece from July last year (**Are retail the new CTAs?**), an exerpt from which is worth repeating:

"Back in dotcom it was your dentist/next-door neighbour who felt compelled to give you stock tips; now the investor base has become more organised (and mobilised) via social media. ***Whether you enjoy a giggle or schadenfreude at the daily PnL swings of Dave Portnoy, or scrolling through r/wallstreetbets on Reddit, the bigger picture is that a large hub of small investors has found a way to mass communicate momentum strategies to millions of individuals simultaneously.*** *Not exactly CTA, but very much momentum."*

GME is today's focus stock. At one point last year it was HTZ (that apparently I forgot to include in my year-end '**A Bizarro Year in Charts**'), tomorrow maybe it's AMC, who knows. But as much as we may look at these stock prices as hysterical nonsense – which it probably is – it serves to illustrate that the sheer weight of money by retail can (for the time being) overpower sensible institutional investors who attempt to stand in the way. But equally we should not get carried away that it is prevalent across parts of the market; *most* stocks are not moving 20% a day, and certainly not ones that have any meaningful index contribution.

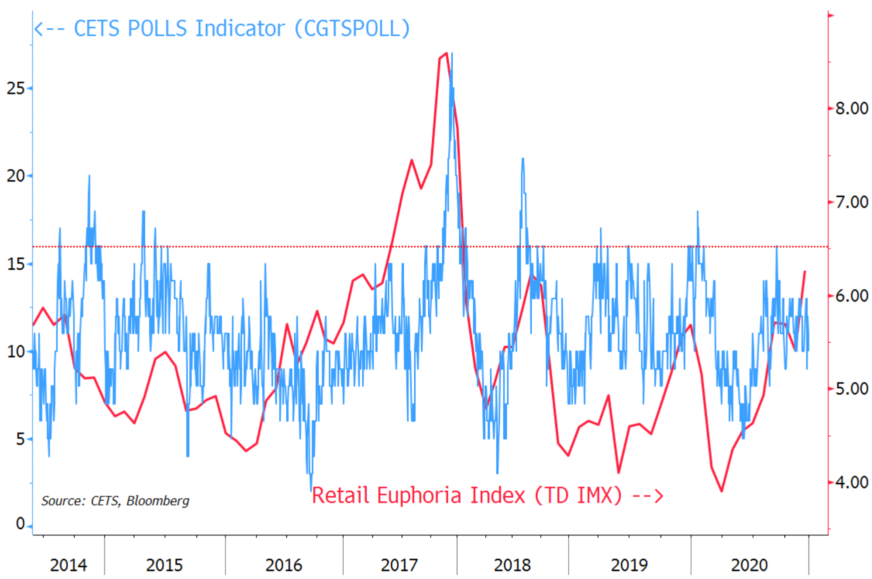
However it is also worth being aware that the HF industry is approximately $3.5trn, but obviously much of that is deployed to public and private credit. Even if we assumed that an overly generous 75% of it was in equity vehicles, and that was levered 2x, it would equate to $5.2trn in buying power – and that's probably over-egging it. **That's only the same size as the AuM of SCHW and TD combined, and doesn't even scratch the wealth management divisions of banks, etc.** Oh and I've been lazy taking the data from my email last July, so the likelihood is that retail AuM is even higher now. The point I'm trying to make here is that Retail are not only MASSIVE, but also are operating in a way that should really scare institutional short sellers that are at the mercy of mark to market and quarterly redemptions.

Retail AuM: Did someone say 'trillions'?

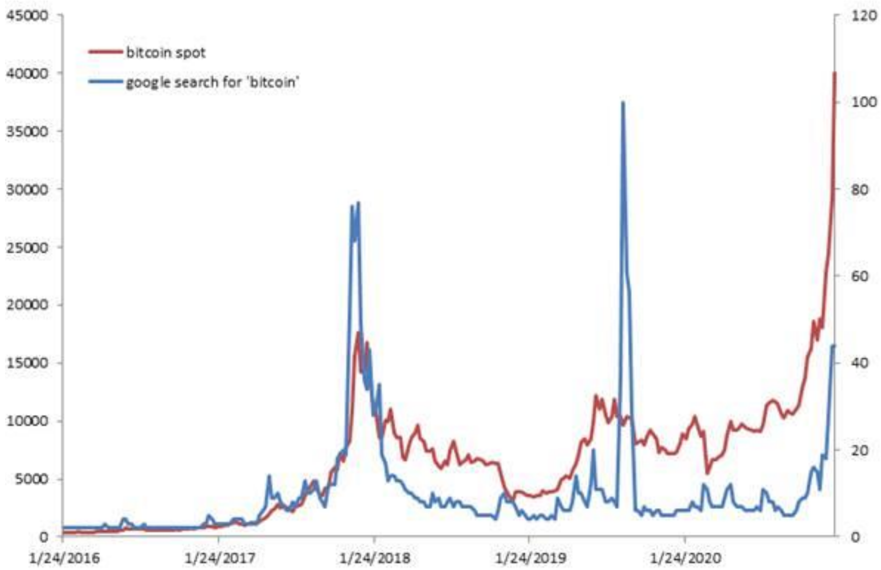


Source: CETS, Company Filings, Robinhood based on estimate

Even if the retail presence is a more structural presence in markets now, it will end badly… it usually does… but we need to be disciplined in at least waiting for our quantitative models to suggest that a broader risk-on environment is imminent, and/or a higher authority (the Fed or the SEC) decide to take steps to curtail the speculative fervor**. My note from last year was written specifically *because* we can look at retail as any other investor type and quantitatively model their behaviour and predict when to go against them. CETS built the CTA model for the systematic community, and we have the [POLLS model](#) to help us navigate the discretionary community, which happens to apply to retail investors too.**



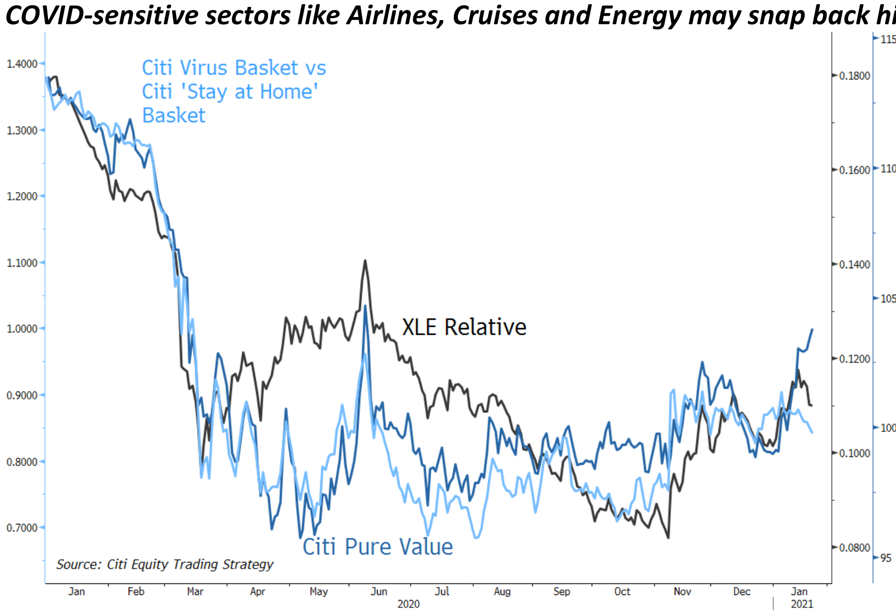
Some may say that the recent falls in crypto are a sign of things to come, but even the speculative enthusiasm of that appears lower today than it did in 2019 and 2017, based off Google Trends searches. It all looks insane, but as one client mentioned to me today, “you can’t short insanity”, to which I wholeheartedly agree.



Source: Citi Equity Trading Strategy, Google

So in the meantime, I'll keep plugging away at the commodity themes that CETS have been outlining in [recent pieces](). Call me old fashioned, but there's a degree of nostalgia about looking at companies that actually *do* something, rather than concept business models on even more concept valuations right now. And yes, this week has not been a kind one to that subsector of the market, yet Value actually ended this week up 76bps in spite of the cyclical underperformance, and still the best-performing factor so far this month, and indeed over the past six months. For those that think the Value trade has lost steam, or are worried that a slow vaccine rollout will derail the thesis, then I would use this recent performance as a signal to remain wedded to cyclical and indeed commodity names. The recent decoupling between Value and our Viral/Stay at Home basket pair (**CGTSVRL2** vs **CGTSSTAY**) is perhaps an indication that we are only a catalyst away from markets becoming reinvigorated in some of the virus-sensitive sectors like airlines and cruise liners… sectors that could quickly fall back in vogue with the minions in the /wallstreetbets community too. And I wouldn't want to be on the wrong side of that trade…

COVID-sensitive sectors like Airlines, Cruises and Energy may snap back higher



Have a good weekend,

Alty

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