Quick Take: Don’t Blame the Quants this Time

February 2021

That escalated quickly

- The spike in the stock price of video game retailer GameStop made for dramatic headlines last week, as journalists, politicians, and entertainers speculated on causes and implications of its 1600% year-to-date rise. *(Top chart.)* The company’s market capitalization has exploded from $1 billion to over $22 billion, larger than 40% of S&P 500 companies. Explosive gains in AMC and Express were similarly attributed to retail investors.

Impact appears severe, but narrow

- The price action in these stocks has materially hurt a narrow set of hedge funds. To illustrate the potential damage, we estimate that a fund holding the most prevalent hedge fund longs and shorts (as reported by prime brokers) would have absorbed losses in excess of 30%, consistent with reported discretionary hedge fund performance in January.
- A small set of shorts caused tremendous losses for some hedge funds, triggering broader liquidation of long positions as well as short covering in order to meet margin requirements. Prime brokers have reported record reductions in leverage and exposure. Nevertheless, overall gross exposure remains elevated, in fact, near peak levels.
- Are hedge funds short all the same stocks? Not really. In fact, Acadian’s data shows that hedge fund long positions overlap each other significantly more so than shorts. Consistent with that asymmetry, hedge fund longs have lagged behind the market and fallen behind the short stock rally.

Quants appear largely uninvolved

- Some observers described last week as a fundamental version of the August 2007 quant crisis. Acadian’s “market sonar” shows no signs of systematic deleveraging of quant portfolios. For example, we don’t see unusually high volume in stocks that generic measures of value would identify as cheap or expensive. *(Bottom chart.)* More broadly, there are no signals of increased trading in generic factors that drove 2007’s tumult.

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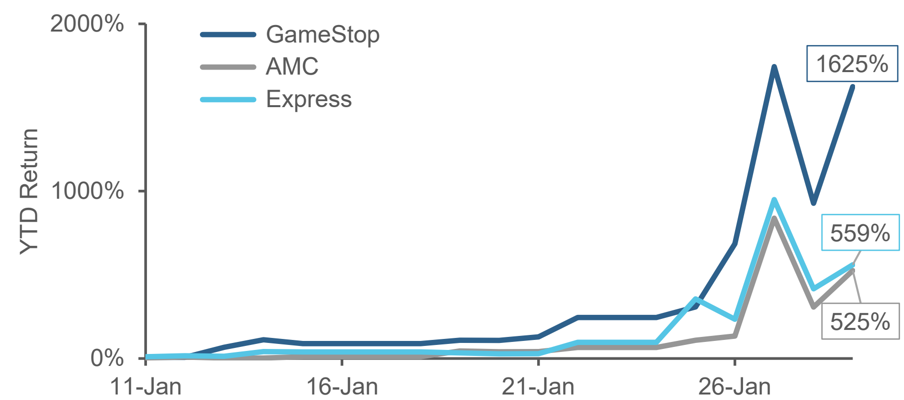
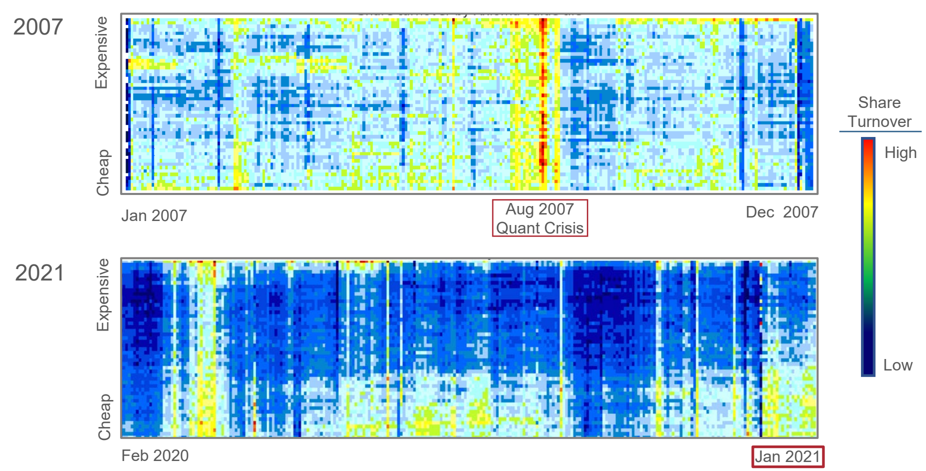
A speculative rise for a handful of retail investor-favored stocks



No evidence of systematic deleveraging

Share turnover by n-tile of generic value factor



Bottom chart represents share turnover / shares float by 50 quantiles of value exposure.
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