Weekly Market Summary

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The Unravelling of The GameStop Saga & "Clear" Resilience of the Wider Market!!
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They say history occurs first as a tragedy, then as farce (a famous Karl Max quote). WE DID witness that in US financial markets over the past 10 days!

What a difference a week makes!

Last week was all about Wall Street hedge funds “panicking" because of an online investing forum with more than 4 million members, the Reddit’s WallStreetBets. When retail investors in this group staged a gravity-defying short squeeze in GameStop and other companies’ stocks at the expense of hedge funds betting, to force the latter to cover their short positions, it almost felt like the hunters had suddenly become the hunted! As a result, few big short-sellers were forced to exit their trades with substantial losses, at a time non-professional millennials were suddenly scoring stellar gains! Volatility jumped and the S&P 500 witnessed its two worst days since October, as the effect of deleveraging was worsened by worries about the knock-on effects of big hedge funds collapsing. And whilst Robinhood and other online trading platforms did abruptly restrict users from purchasing touted stocks by the same sub-Reddit pager, the popularity and enthusiasm of the WallStreetBets community remained in full display as we headed into the weekend.

Market analysts, on the other hand, were busy analyzing the deeper meanings of this new-found market mania: How it reflected the profound inequalities in American society and the populist resentment against the Wall Street establishment, whilst simultaneously encouraging mostly a new generation - in full lockdown and with little else to do during the pandemic – to band together in this addictive gamification of day trading and experience the pure rush of gambling and hitting it big, again and again - with little consideration to the Wall Street pros and their valuations. There was little doubt that this latest “*democratization*” of markets and short-term “*wealth accrual*” for young amateur investors, built upon taking bigger and bigger high-risk gambles in oddball stocks, would ultimately leave most with less money, not more. After all, small investors pushing up a handful of stocks were highly likely to be at most risk of being picked off because of their limited individual capital, especially when squaring off against professional hedge funds in a dispersed manner as soon as the “*strong collective force with a common purpose*” strategy fades away!

On Sunday, silver coin sites seized up, overwhelmed with record demand for bars and coins. That in turn suggested that the frenzy that roiled equity and commodities markets the previous week (silver had rallied 5% after messages began to circulate on Reddit urging retail investors to pile into the market and drive prices up) was spilling over into physical assets. Dealers including Money metals, SD Bullion and APMEX were telling customers they were unable to process orders until Asian markets open the next morning because of unprecedented demand. Market players were bracing themselves for a wild Monday trading session: First GameStop (GME), then AMC Entertainment; and now Silver? It seemed a match made in heaven: The Reddit army of retail investors eager to take on the financial elites, pushing the price of a commodity that had long been viewed as suppressed by powerful forces. “*What Reddit have done is opened Pandora’s box*,” said Ned Naylor, head of gold and silver at Jupiter Asset Management and a long-time bull. “*What we’re seeing here is a vital commodity and monetary asset being free to find its true price*.” For the silver market, the idea that the establishment had tried to curb the price was nothing new; In the 1950s and 1960s, the US Treasury regularly sold silver in an attempt to keep the market in line with its so-called “*monetary value*.” And many silver bulls still view rising prices as a vote of no confidence in the government and monetary authorities (one Reddit post noting that "GME is a distraction… GME nails a hedge fund. Silver nails the monetary system"!)

Yet, despite a strong opening and a surge in silver futures to the highest in almost eight years (at one point breaching the $30 per ounce psychological level), silver closed the Monday trading session off highs at $28.98. For the most part, the global $11-billion-a-day silver market had soaked the heightened demand from retail customers. By Tuesday, traders were trying to solve a new mystery: Who had penned the Reddit posts that ignited the staggering run-up in prices and why had those posts been taken down? The two markers that had prompted investors to pile into the iShares Silver trust, known as SLV, were put up the previous week by the user jjalaj30; the latter had created the account 9 months ago, only posting twice in the WallStreetBets forum, after investors on the board had sent GameStop shares soaring (the posts have since been removed). Some Reddit users were speculating as to whether the user behind those posts was just trying to game the markets; Others wondered whether the poster could have been part of a pump-and-dump scheme or alternatively had been working on behalf of some hedge funds that had infiltrated the WallStreetBets forum.

With confusion reigning and some investors on Reddit urging their peers to back away from silver, the solid and unified frenzy that had stoked wild gains in everything from GameStop to silver was clearly showing signs of divide and fatigue. The rest is history! GameStop Inc. saw its shares sink 16% in after-hours US trading on Monday, extending a 31% plunge during the regular session (yesterday's closing was at $53.50 a share, an 84% drop from last Friday's close of $325!); Other high-flyers including AMC Entertainment Holding Inc. and Koss Corp. also slumped in late New York trading. By Tuesday afternoon, silver had dropped more than 5% after margin requirements were raised and analysts started cautioning against chasing the rally (silver last trading at $26.50 an ounce). The pullback was now lending credence to market watchers who had said it was only a matter of time before the rallies begin to fade (in line with our 3rd displayed scenario in last week's write-up, namely that GameStop stock rallies a bit further and then crashes back down afterwards, similar to how previous bubbles and speculative manias worked). More importantly, fears that the latest retail frenzy could derail the overall equity bull market have by now fully receded - with the Dow Jones Industrial Average and S&P500 indices staging a remarkable recovery over the past four trading sessions (close to 4% up and a new record high for the S&P500 index). The broader hedge fund industry had lived to fight another day for now, following what will be remembered as a mini stock drama!

With smart money exposure to US stocks near a record high, according to the latest Goldman Sachs prime brokerage data, and strategists at JPMorgan suggesting that the market appears ready to look past headwinds – such as a stronger dollar, rising bond yields and mixed earnings – instead focusing on the likely re-acceleration of economic activity with the rollout of vaccines, more stimulus in place and the re-opening of the US & global economies, equity markets look ready to build further on this week's bounce.

As the former Citigroup chief executive Charles Prince III infamously said in July 2007, referring to the firm's leveraged lending practices: "*When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you've got to get up and dance. We're still dancing*." I am guessing not much has changed 13+ years later!

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