IMPERIUM CAPITAL

momentum

Global Matters Weekly

8 February 2021

To the moon - YOLO

– **Lorenzo La Posta, CFA**

Tuesday 26th January, it's early morning here in the UK and still night in the US when Aurelio, a friend of mine, texts me.

Aurelio: "Dude, what is going on with Game Stop? Last week some people on Reddit said they were gonna shoot GME (ticker for Game Stop) to the moon, to $1000 per share! So, I bought a few at $45 on Friday…"

I had not heard anything about Game Stop, so I start by checking the share price: it closed at $77 yesterday, +285% in the past two weeks! Ok, something's off. I spend a few minutes on r\wallstreetbets to get a grasp of what apparently is suddenly becoming a coordinated action in one of the largest online communities. I see people yelling stuff like *"Let's get GME to the moon!", "We own you, hedge funds!", "HOLD TILL $1000 – AT LEAST"* and *loads of "YOLO" (i.e. you only live once)*. Some people are even posting screenshots of their six digit $-gains made over just a few days. I can get back to Aurelio now. He's no investment expert, yet he's smart enough to understand what's going on.

Lorenzo: "Aure, it seems as if a bunch of people are trying to inflate Game Stop's share price. They are buying (and pressuring others to buy) high volumes of shares and out-of-the-money call options which, given GME's small size and low liquidity, should push prices higher. On top of that, there seems to be a high short interest (elevated number of short positions, that would gain from a share price fall) out there that might serve as catalyst. In fact, the higher the share price gets, the more hedge funds lose money on their short positions, which eventually will need to be covered, i.e. hedge funds themselves will be buying shares, which will exacerbate the price rally."

A: "So… like an avalanche?"

L: "Yes, avalanche. What Redditors are doing is pure speculation though, based on the hope that someone's going to want to buy after they do. The more hype they create around Game Stop, the more people are going to want to buy, the more the price goes up, the more hype this creates etc…so in practice it's a self-fulfilling prediction!"

A: "Then I'd better buy more, surely I will make more money!"

L: "Well…you might, but even avalanches eventually stop. You just need one little obstacle, one tiny reason for a momentary price contraction, for many of that crowd to lose hope in the rally and to start selling, causing a collapse pretty much thanks to the same dynamics that generated the rally in the first place. Hype and herds giveth, hype and herds taketh."

Let's get GME to the moon!

Fast forward to two days later, it's the morning of the 28th and GME closed at $347.

A: "Told ya it was gonna go to the moon. I've gained 8-fold."

L: "Happy for you mate! Selling it now?"

A: "No way, more people will buy! Redditors are suggesting to hold to at least $1000, because hedge funds have not closed their positions yet! They have been right so far. I will sell later on."

Today it's Monday 8th February, the share price closed last Friday at $72. I have not heard from Aurelio since.

One thing I have learned at Momentum is that investing is not about sending assets to the moon, fighting against hedge funds or pulling price predictions out of thin air. Certainly, it is not about following random advice. All we trust is data, research, experience and while we can't control the risk we embrace, we certainly can decide which risk not to take.

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The Marketplace

- Global equities rose +4.2% last week
- Concern mounts after limited trials show the Oxford/ AstraZeneca vaccine doesn't protect against mild/ moderate illness from the South African mutation
- Brent crude oil rose +6.2% to $59.3 a barrel
- Gold fell -1.8% to $1847.1 per ounce

Market Focus

US

- US equities rose +4.7% with record highs across all major indices boosted by technology stocks and cyclicals such as energy.
- Treasury secretary Janet Yellen says financial regulators determined that the infrastructure of stock and commodity markets remained "resilient" during the volatility in trading seen in recent weeks.
- January nonfarm payrolls increased by just 49K (versus 105K expected) from the prior month after a downwardly revised 227K December decrease (from 87K), while the unemployment rate fell to 6.3% (versus 6.7% expected).
- The US Senate passed a budget resolution last Friday moving forward legislation to authorise the full $1.9 trillion stimulus package that President Biden had requested.
- US factory orders for December rose by +1.1% (vs. +0.7% expected).
- US Treasury yields climbed +9.8bps to 1.164%, their highest level since mid-March 2020.

UK

- UK equities rose +1.1% last week.
- The government will require travellers from the UK's coronavirus travel ban list to isolate for 10 days after arrival in government-approved accommodation from next week.
- The UK has passed the peak of its latest wave of the coronavirus pandemic, officials said, as the country reached the milestone of vaccinating 10 million people, about 15% of the population.
- The Bank of England have forecast that the economy will contract by around -4.0% in Q1, however they projected that it would bounce back strongly after that, with CPI inflation above the BoE's 2% target by Q1 2022.
- The UK government is said to be weighing tax increases for tech firms and online retailers such as Amazon that saw huge growth during the pandemic.

Europe

- European equities rose +3.8% last week.
- Euro Area retail sales rose by +2.0% in December (vs. +2.8% expected).
- The eurozone's economy contracted less than expected in the fourth quarter, with GDP falling 0.7% vs Q3 and 5.1% year on year according to initial estimates.
- ECB President Christine Lagarde predicted the euro-area recovery will pick up in the summer, while stressing that public authorities will have a difficult job weaning the economy from emergency support.
- German factory orders fell for the first time in eight months during December. Demand dropped -1.9% (versus -1.0% expected) and the January construction PMI for Germany came in at 46.6, indicating that it's in contractionary territory.
- In Italy, former ECB President Mario Draghi accepted a mandate from President Matteralla to form the next Italian government.

Asia/Rest of The World

- The benchmark Global Emerging Markets index returned +5% last week.
- Japanese equities rose +4.5% last week.
- Chinese equities performed strongly returning +5.5% last week.
- The Japanese government is considering lifting the Covid-19 state of emergency in 10 jurisdictions early depending on their virus situations ahead of the March 7th expiry date.
- China's industrial and services activities missed expectations in January, though official readings showed that activity remained in expansionary territory. Manufacturing for January grew at its slowest rate in 7 months.

Past performance is not indicative of future returns.

Asset Class/Region	Currency	Currency returns			
		Week ending 5 Feb. 2021	Month to date	YTD 2020	12 months
Developed Market Equities					
United States	USD	4.7%	4.7%	3.6%	18.1%
United Kingdom	GBP	1.1%	1.1%	0.4%	-12.1%
Continental Europe	EUR	3.8%	3.8%	2.7%	1.7%
Japan	JPY	4.5%	4.5%	4.8%	13.8%
Asia Pacific (ex Japan)	USD	4.7%	4.7%	8.4%	35.2%
Australia	AUD	3.5%	3.5%	3.9%	0.9%
Global	USD	4.2%	4.2%	3.2%	17.2%
Emerging markets equities					
Emerging Europe	USD	4.0%	4.0%	1.6%	-10.0%
Emerging Asia	USD	5.3%	5.3%	9.8%	43.9%
Emerging Latin America	USD	5.5%	5.5%	-1.6%	-12.6%
BRICs	USD	5.9%	5.9%	9.9%	31.6%
China	USD	5.5%	5.5%	13.2%	49.0%
MENA countries	USD	-1.3%	-0.5%	1.6%	1.2%
South Africa	USD	5.0%	5.0%	7.9%	8.6%
India	USD	9.6%	9.6%	7.1%	22.0%
Global emerging markets	USD	5.0%	5.0%	8.2%	30.9%
Bonds					
US Treasuries	USD	-0.5%	-0.5%	-1.7%	4.7%
US Treasuries (inflation protected)	USD	-0.3%	-0.3%	0.0%	10.0%
US Corporate (investment grade)	USD	-0.5%	-0.5%	-1.8%	6.1%
US High Yield	USD	0.7%	0.7%	1.0%	7.6%
UK Gilts	GBP	-2.2%	-2.2%	-3.9%	1.9%
UK Corporate (investment grade)	GBP	-1.0%	-1.0%	-2.2%	4.2%
Euro Government Bonds	EUR	-0.3%	-0.3%	-0.9%	2.1%
Euro Corporate (investment grade)	EUR	0.0%	0.0%	-0.1%	1.7%
Euro High Yield	EUR	0.8%	0.8%	1.2%	2.9%
Japanese Government	JPY	0.0%	0.0%	-0.3%	-1.4%
Australian Government	AUD	-0.4%	-0.4%	-1.1%	1.1%
Global Government Bonds	USD	-0.9%	-0.9%	-2.2%	6.7%
Global Bonds	USD	-0.8%	-0.8%	-1.8%	7.0%
Global Convertible Bonds	USD	3.1%	3.1%	3.1%	26.1%
Emerging Market Bonds	USD	0.3%	0.3%	-1.6%	3.0%

Source: Bloomberg. Past performance is not indicative of future returns

Asset Class/Region	Currency	Currency returns			
		Week ending 5 Feb. 2021	Month to date	YTD 2020	12 months
Property					
US Property Securities	USD	3.4%	3.4%	3.5%	-7.7%
Australian Property Securities	AUD	2.0%	2.0%	-2.1%	-15.7%
Asia Property Securities	USD	1.8%	1.8%	1.7%	-7.1%
Global Property Securities	USD	2.2%	2.2%	1.2%	-6.3%
Currencies					
Euro	USD	-0.8%	-0.8%	-1.5%	9.4%
UK Pound Sterling	USD	0.2%	0.2%	0.6%	5.6%
Japanese Yen	USD	-0.6%	-0.6%	-1.9%	4.2%
Australian Dollar	USD	0.4%	0.4%	-0.3%	13.7%
South African Rand	USD	2.4%	2.4%	-1.2%	-0.4%
Swiss Franc	USD	-1.0%	-1.0%	-1.7%	8.2%
Chinese Yuan	USD	-0.6%	-0.6%	0.9%	7.9%
Commodities & Alternatives					
Commodities	USD	3.8%	3.8%	8.1%	8.3%
Agricultural Commodities	USD	0.5%	0.5%	5.2%	26.8%
Oil	USD	6.2%	6.2%	14.6%	7.3%
Gold	USD	-1.8%	-1.8%	-4.2%	16.5%
Hedge funds	USD	1.3%	1.3%	1.3%	7.1%

Source: Bloomberg. Past performance is not indicative of future returns

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