Equities. Low-quality stocks

Hedge fund short sellers hit by $43bn of losses amid rally

Rebounding: Stockholm-based real estate company SBB is one of the heavily shorted groups to have hurt hedge funds recently Jonas Ekblom/Bloomberg

Managers caught by 'painful' rebound as investors bet on quicker interest rate cuts

GEORGE STEER

Hedge funds betting on a decline in US and European stock markets have suffered an estimated $43bn of losses in a sharp rally over recent days.

Short sellers, many of whom had built up bets against companies exposed to higher borrowing costs over the past year or so, have been caught out by a "painful" rebound in "low-quality" stocks this month, said Barclays' head of European equity strategy Emmanuel Cau.

That has come as the market has grown more confident that the US Federal Reserve's cycle of rate rises is finally over.

The rally, which has left Wall Street's S&P 500 index on track for its strongest month since July last year, was sparked by Fed chair Jay Powell's recent perceived reluctance to tighten monetary policy any further when he left rates on hold at the start of the month.

Weaker than expected US consumer price inflation data released on Tuesday last week then gave stocks a further boost with the S&P 500 and the tech-heavy Nasdaq Composite indices both enjoying their best days since April.

Analysts said the upswing triggered a brutal "short squeeze" in which some hedge funds repurchased stocks to cover their negative bets, which helped push share prices even higher.

"It's been a very tricky market this year but this short squeeze is really killing year-end performance for a lot of funds," said Cau. "No one was able to monetise the rally in garbage stocks."

The past month's "easing of financial conditions may have caused some dead cats to bounce", said Barry Norris, chief investment officer at Argonaut Capital, referring to the rebound in lower quality stocks.

Funds suffered $43.2bn of losses on short bets in the US and Europe from Tuesday to Friday inclusive last week, according to calculations by data group S3 Partners, which do not take account of gains that funds may have made in other stocks they own.

Bets against technology, healthcare and consumer discretionary stocks were among the most costly for hedge funds, S3's data shows.

A 14 per cent rise in the week to Monday in the share price of cruise line Carnival Corp, for instance, cost hedge fund short sellers a total of $240mn.

Indices tracking heavily shorted stocks have rebounded sharply from recent lows as market sentiment has rapidly improved.

Goldman Sachs' Very Important Short Position index — a gauge that tracks the 50 constituents of the S&P 500 with the highest total dollar value of short interest outstanding — is on track for its best month since October last year.

Barclays' most shorted stocks in Europe basket has climbed 9.9 per cent over the past three weeks, leaving it on track for its biggest monthly gain in at least 10 years, Bloomberg data showed.

Heavily shorted Swedish real estate group Samhällsbyggnadsbolaget (SBB) is among the groups to have hurt hedge funds in recent days.

While its shares have collapsed by around three-quarters this year, yielding big gains for short sellers, it rebounded by a third in the week to Monday.

That hit funds including Samlyn Capital, Balyasny and Arrowstreet Capital, according to regulatory disclosures and analysis by data group Breakout Point.

Meanwhile, Castellum, whose shares are shorted by Two Creeks Capital Arrowstreet and Fosse Capital, has jumped 16 per cent this month.

Last Tuesday, when the US inflation data was published, was a "squeeze day," said Brian Heavey, an equity trader at JPMorgan, who wrote in a note that macro hedge funds had been "massively short" consumer goods groups due to their vulnerability to higher rates.

As a result, the sector has registered "massive gains" during November's index-wide rally, Heavey added.

Other rate-sensitive sectors reacted just as strongly. Shares in US green energy companies Fuelcell Energy and Sunrun — which have tumbled this year and remain heavily shorted — on Tuesday surged by around a fifth.

The rapid reversal in markets has proved particularly tough for trend following hedge funds known as commodity trading advisers, or CTAs, which use algorithms and strict risk management metrics to exploit market patterns in global futures markets.

Many have suffered as markets have changed direction and begun to price in extra rate cuts next year.

"You get inflation kind of collapsing . . . and all those shorts in these companies that are really susceptible to higher rates get this booming relief rally," said Charlie McElligott, a cross asset strategist at Nomura.

CTAs are down 3.7 per cent on average this month, according to data group HFR, leaving them down 2.6 per cent this year.

A model portfolio run by Société Générale, which aims to replicate the positions typically taken by computer-driven trend followers, is showing losses in all asset classes this month.

However, Barclays' models suggest that, even now, CTAs remain net short both equities and bonds.

"So [interest] rates down and equities up remains a pain trade," said Cau.

"I'm surprised that people weren't as dynamic in reversing some of their 'higher for longer' trade," McElligott said. Hedge funds have missed out on November's stock market gains in "brutal fashion", he added.

'It's been a very tricky market this year but this short squeeze is really killing year-end performance for a lot of funds'

Commodities

Oil price slips after Opec+ postpones meeting

DAVID SHEPPARD AND STEPHANIE STACEY

Oil prices fell sharply yesterday after the Opec+ oil cartel announced that it would postpone its planned meeting to next week, which traders took as a sign the group is struggling to agree on further supply cuts.

Opec+ said the production meeting, originally scheduled for this Sunday, would be moved to Thursday next week, without giving a reason for the change. The move is unusual as it will coincide with the start of the UN COP climate talks, which the UAE, an Opec member, is hosting.

The sudden change of schedule comes at a challenging time for the group as oil prices were already well down on their highs for the year, despite a series of production cuts led by Saudi Arabia over the past 12 months.

Prices were already slipping ahead of the announcement but the sell-off accelerated following Opec's statement.

Brent, the international crude oil benchmark, fell nearly 5 per cent before rebounding to trade 2.3 per cent lower at $78.62 a barrel while West Texas Intermediate, the US benchmark, fell 2.6 per cent to $75.71 a barrel.

"This postponement indicates difficulties within the Opec+ group to reach an agreement to cut production," said Jorge León at Rystad. "Every member country acknowledges the need to reduce output to support prices into 2024. The question is how to share the burden of this."

'Every member country acknowledges the need to reduce output to support prices. The question is how'

The Financial Times reported on Friday that the group was considering a further production cut of up to 1mn barrels a day to help steady the market, in addition to Saudi Arabia extending its existing voluntary cuts until at least the end of the first quarter.

The cut under discussion, while primarily motivated by falling prices, was also designed as a show of influence from the group at a time when many of its Middle Eastern members are angry over the Israel-Gaza war.

Two analysts noted that delaying the meeting until Thursday meant a four-day ceasefire agreed between Israel and militant group Hamas will have expired by the time of the meeting.

Announcing production cuts when hostilities resume would potentially have more impact — if designed to at least partially send a message of Arab unity and a rebuke to the White House, which has firmly backed Israel.

People close to Opec+ also suggested that there are tensions in the group over members exceeding production targets, despite agreeing to tighter curbs in June.

African members Angola and Nigeria have been hesitant to cut production while Saudi Arabia has a history of threatening to raise output to try to enforce compliance among members.

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Asset management

Tiger Global's private equity unit boss steps down to avoid leaving Palm Beach

ANTOINE GARA — NEW YORK
GEORGE HAMMOND — SAN FRANCISCO

Scott Shleifer, the head of Tiger Global's $30bn-plus private equity business, will step down from his role at the hedge fund at the end of the year.

The move will be a significant change for Tiger, a $58bn-in-assets hedge fund founded by Chase Coleman, a protégé of Julian Robertson, in 2001. Shleifer was one of Tiger's first hires and spotted enormous opportunities from ascendant technology companies, particularly in China, where he was an early backer of ecommerce groups such as JD.com and Ctrip.com.

Shleifer moved to a multimillion-dollar estate in Palm Beach, Florida, during the pandemic and has since worked mostly from his home.

Tiger has decided that having all of its investment team working from its New York headquarters was a "better operating model for our firm", it said in a letter to investors announcing the move. Shleifer decided to step back when faced with the decision to move back to New York or stay in Florida, it said. "Scott's decision to make this move after two decades of successful partnership is based largely on geography," the letter said. "Tiger Global is operating in-person out of our New York offices, whereas Scott and his family have made their home in Florida and want to stay there."

Shleifer will remain as a senior adviser to Tiger, while his role will be replaced with an investment committee chaired by Coleman and consisting of Shleifer and partners Evan Feinberg, Eric Lane and Griffin Schroeder.

The change of guard in Tiger's private equity business comes at a fraught time for the hedge fund, which saw its assets under management soar to about $90bn as public and private technology valuations surged during the pandemic.

On Shleifer's watch, the private equity unit earned large windfalls from early bets on Chinese ecommerce groups JD.com and Meituan, and ride- hailing app Didi Chuxing. More recently he took Silicon Valley by storm by overseeing Tiger's investments in private technology start-ups, including FTX and OpenAI, as it earned a reputation for quickly making large investments and not seeking board representation.

But a sudden rise in interest rates beginning in 2022 left Tiger badly exposed to plunging valuations and holding a bloated portfolio of private investments with limited paths to exit. Its main fund lost half its value in 2022, before recovering strongly along with this year's rally in tech valuations.

"[Scott] is one of the true pioneers of the crossover investing model [which mixes public and private stakes] and his passion, drive and commitment have led to many highly profitable investments for the firm," Coleman said.

Scott Shleifer decided not to move to New York but will remain an adviser

Fixed income

Investors pour cash into US corporate debt in wager Fed rates have peaked

HARRIET CLARFELT — LONDON

Investors are pouring cash into US corporate bond funds at the fastest pace in more than three years, signalling a growing appetite for risky assets as markets call the peak in interest rates.

More than $16bn has flooded into corporate bond funds in the month to November 20, data from flow tracker EPFR shows, already a larger net inflow than any full month since July 2020.

The trend has been concentrated mainly in "junk" debt, with $11.4bn flowing into funds investing in these low-grade, high-yield bonds this month. Another $5bn has poured into investment grade funds, which hold better quality corporate debt.

The substantial inflows underscore how cooling inflation has fuelled predictions that the US Federal Reserve has finished its cycle of interest rate rises. The clamour for lower-rated bonds also reflects growing confidence that relief from high borrowing costs will allow highly indebted companies to navigate a slowing economy without a surge in defaults.

"We have seen a very big change in sentiment across markets," said Will Smith, director of US high-yield credit at AllianceBernstein.

The Fed has turned the screws aggressively on monetary policy since March last year, taking borrowing costs from near zero to a target range of 5.25 per cent to 5.5 per cent in a bid to curb inflation. That has translated into a greater interest burden for corporate America — sparking concerns about a wave of defaults as riskier businesses struggle to service their debt.

'We have seen a very big change in sentiment across markets'
Will Smith, AllianceBernstein

However, the Fed has held rates steady since July. And closely watched labour market data for October showed a substantial slowdown in hirings, with just 150,000 new US jobs created.

Last week, data showed that US inflation had slipped more than expected to 3.2 per cent — the first decline since June. In response, traders have slashed their expectations of another rate rise before the end of the year, with futures markets pricing in two cuts by July — even as the central bank has signalled it may need to keep borrowing costs higher for longer.

The shift in the outlook for interest rates has boosted corporate bond valuations. The average premium paid by US investment grade borrowers above US Treasuries sits at 1.17 percentage points, ICE BofA data shows, down from 1.3 percentage points as recently as November 1. Average junk bond spreads have narrowed more sharply, from 4.47 percentage points to 3.95 percentage points.

November's inflows come after high-yield funds suffered more than $18bn of outflows in the year to October 31. Some economists and investors worry that the fresh flood into corporate debt markets could reverse again, if it becomes clear that borrowing costs are to remain high for the foreseeable future.

"I think you're seeing investors rush into fixed income, thinking that we've seen the highs in interest rates because of a few data points," said John McClain, portfolio manager at Brandywine Global Investment Management.

The day in the markets

What you need to know

- US stocks close in on 2023 high ahead of Thanksgiving break
- Equities rally in recent weeks on hopes Fed has finished lifting interest rates
- Dollar strengthens amid continued resilience in American labour market

US stocks rose on the last day of trading before Thanksgiving with Wall Street's benchmark S&P 500 on course to close near its highest level so far in 2023.

The S&P 500 was up 0.4 per cent in early afternoon trading in New York, at 4,557.82 as the index extended a rally on rising hopes that the US Federal Reserve has finished its aggressive rate-hiking campaign. The index's highest close so far this year came on July 31 at 4,588.96.

The best-performing shares in the S&P 500 were in the travel sector, which gained as oil prices slumped yesterday. The tech-heavy Nasdaq Composite was up 0.6 per cent.

The dollar strengthened after new applications for state unemployment aid, a proxy for lay-offs, declined more than forecast in a sign of continued resilience in the US labour market.

The currency climbed 0.5 per cent against a basket of six peers, rebounding from a steep decline that followed last week's softer than expected inflation data, which bolstered hopes the Fed has finished its aggressive campaign to raise interest rates.

The dollar's rally also comes after minutes from the Fed's latest policy meeting, released on Tuesday, revealed a consensus for monetary policy to "remain at a restrictive stance for some time".

Today is the last full trading session for US markets until Monday with the main exchanges closed for Thanksgiving with only a half-day of trading tomorrow.

Oil prices slumped after the Opec+ group of major oil producers announced it would push back its upcoming meeting.

The group did not offer any reason for the delay but traders interpreted it as a sign the cartel is struggling to agree on further production cuts.

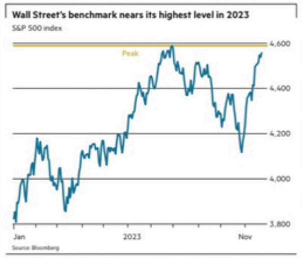
Brent crude, the global benchmark for oil, fell 3.4 per cent to $78.66 per barrel while the US marker West Texas Intermediate slid 2.3 per cent to $75.12.

European equities climbed higher, pushed up by a strong performance in rate-sensitive real estate shares as energy stocks declined.

The region-wide Stoxx Europe 600 rose 0.3 per cent, Paris's CAC 40 added 0.5 per cent but London's energy-heavy FTSE 100 dropped 0.2 per cent.

Argentine equities extended their rally for a second day after the presidential election of radical libertarian Javier Milei.

The local S&P Merval stock index was up more than 9 per cent in early afternoon trading in Buenos Aires, building on Tuesday's rise of 22.8 per cent. **Stephanie Stacey**



Markets update

	US	Eurozone	Japan	UK	China	Brazil
Stocks	**S&P 500**	**Eurofirst 300**	**Nikkei 225**	**FTSE100**	**Shanghai Comp**	**Bovespa**
Level	4560.90	1808.69	33451.83	7469.51	3043.61	126477.44
% change on day	0.50	0.30	0.29	-0.17	-0.79	0.68
Currency	**$ index (DXY)**	**$ per €**	**Yen per $**	**$ per £**	**Rmb per $**	**Real per $**
Level	103.607	1.087	149.685	1.246	7.147	4.894
% change on day	0.041	-0.549	1.279	-0.638	0.185	0.065
Govt. bonds	**10-year Treasury**	**10-year Bund**	**10-year JGB**	**10-year Gilt**	**10-year bond**	**10-year bond**
Yield	4.422	2.560	0.726	4.323	2.683	10.756
Basis point change on day	2.230	-0.400	3.200	5.200	1.200	0.400
World index, Commods	**FTSE All-World**	**Oil - Brent**	**Oil - WTI**	**Gold**	**Silver**	**Metals (LMEX)**
Level	455.67	79.49	74.90	2006.60	23.53	3701.50
% change on day	0.15	-3.59	-3.69	1.93	0.62	0.21

Yesterday's close apart from: Currencies = 16:00 GMT; S&P, Bovespa, All World, Oil = 17:00 GMT; Gold, Silver = London pm fix. Bond data supplied by Tullett Prebon.

Main equity markets

Biggest movers

%	US		Eurozone		UK	
Ups	Carnival	4.26	Thyssenkrupp	7.73	Sage	13.32
	American Airlines	4.16	Hugo Boss	3.78	Entain	5.92
	United Airlines Holdings	4.15	Cap Gemini	3.07	Jd Sports Fashion	3.98
	Norwegian Cruise Line Holdings Ltd	3.80	Kerry Grp	2.20	Bt	3.73
	Ebay	3.59	Lufthansa	2.18	Halma	2.17
Downs	Autodesk	-4.41	Bayer	-3.43	Kingfisher	-6.98
	Deere &	-4.17	Casino Guichard	-2.91	Rolls-royce Holdings	-2.26
	Tesla	-3.41	Merck	-1.99	Bp	-2.18
	Nvidia	-3.20	Galp Energia	-1.60	Shell	-2.16
	Eog Resources	-1.78	Eni	-1.41	Glencore	-1.76

Prices taken at 17:00 GMT. Based on the constituents of the FTSE Eurofirst 300 Eurozone. All data provided by Morningstar unless otherwise noted.

Wall Street

Near the bottom of the S&P 500 index was tractor manufacturer **Deere & Company**, which forecast net income of $7.75bn to $8.25bn for its fiscal 2024 year — well below the $9.3bn Wall Street was expecting.

John May, chief executive, said "our end markets will fluctuate" against a backdrop of high interest rates, which was weighing on discretionary equipment purchases.

Weaker than expected forecasts were also behind a slide in **Guess**, the fashion brand, which forecast earnings of $2.67 to $2.74 a share for its fiscal 2024 year, missing the $2.78 analysts had projected.

Carlos Alberini, chief executive, said the group was "navigating . . . an uncertain shopping environment in many parts of the world impacted by geopolitical issues and lower consumer confidence".

Emeren, a solar project developer, was among the session's biggest fallers after trimming its full-year revenue forecast to $110mn-$113mn, down from $154mn-$174mn stated in August.

A clinical setback weighed on biopharma group **Entrada Therapeutics**, which revealed that the US Food and Drug Administration had not lifted a clinical hold on its experimental therapy for treating Duchenne muscular dystrophy, a type of muscle degenerative disease. *Ray Douglas*

Europe

French caterer **Elior** jumped after finishing its fiscal 2023 year "stronger than expected", said Leo Carrington, an analyst at Citi, who flagged fourth-quarter sales 10 per cent ahead of the consensus estimate.

This helped Elior achieve earnings before interest, tax and amortisation of €59mn in 2023, much better than the €48mn loss last year.

"Reassuringly", added Carrington, the contracts that caused the group to issue a profit warning in 2023 had "mostly been resolved".

Takeover target **Adevinta** rallied after a consortium led by private equity firms Permira and Blackstone offered NKr115 per share for the online advertising company.

That was 8.5 per cent above Tuesday's closing price and more than 30 per cent higher than Adevinta's NKr85.75 price before speculation around the bid was confirmed on September 21.

Hugo Boss climbed on the back of upgrades by Deutsche Bank and Bank of America, which lifted the fashion group's rating from "hold" to "buy".

The rationale behind the moves was similar for both brokers with BofA noting that Boss — down around 20 per cent since hitting a multiyear peak in July — was continuing to perform well thanks to "idiosyncratic tailwinds". *Ray Douglas*

London

Heading the FTSE 100 index was **Sage**, the accounting software group, which hit a record high on posting full-year results "reassuringly" in line market estimates alongside a "sweetened" £350mn share buyback, said Jefferies' Charles Brennan.

The analyst raised his price target for Sage following the update, highlighting a 12 per cent rise in underlying recurring revenue for its fiscal year, underpinned by 25 per cent growth in cloud business.

Entain joined Sage at the top of the blue-chip benchmark after the Financial Times reported the gambling group's board was facing growing unrest from two more US activist investors.

At the tail-end of the FTSE 100 was home improvement chain **Kingfisher**, which forecast a pre-tax profit of £560mn for the full year, down from an earlier estimate of £590mn.

Thierry Garnier, chief executive, said the group's performance in France had been hit by customers' delays in doing insulation, plumbing and heating work due to "unusually warm autumn weather".

But "blaming the weather never goes down well with the market", said Russ Mould, investment director at AJ Bell.

Johnson Matthey, the catalytic converters supplier, topped the FTSE 250 mid-cap index after lifting its full-year guidance for underlying operating performance. *Ray Douglas*

Falling inflation might not weigh on gold's rally

Rebecca Patterson

Markets Insight

The latest US inflation data has reinforced market expectations that a Goldilocks-style soft landing will emerge in the year ahead with the US Federal Reserve able to ease monetary policy despite a relatively strong labour market.

In such a scenario, it would be reasonable if investors favoured stocks and even bonds over gold. Historically, zero-yielding gold has tended to perform better in the "tails" of the economic-cycle bell curve, either into a recessionary environment with low and falling interest rates and elevated uncertainty or an environment of economic overheating with high and rising inflation.

Looking at the year ahead, however, there are at least three factors that could help gold keep its lustre, even if hopes of a soft landing are realised. Central banks suggest they intend to add more gold to their reserves and China's central bank in particular has room to do so.

In addition, the ongoing property deleveraging in China, weighing down on its economy and domestic assets, may keep Chinese households looking to gold as a preferred store of wealth.

Finally, investors broadly may want to increase gold allocations as a hedge against an unusually busy political calendar that could exacerbate an already unsettled geopolitical backdrop.

On central banks and gold, it is important to remember that reserve assets are chosen mainly for liquidity and stability, rather than returns. That is a key reason why central banks own so many US government bonds. Recent years have elevated another priority for central banks, however — diversification to protect against geopolitical shocks.

Russia's annexation of Crimea in 2014 and then the 2022 war in Ukraine resulted in an increasing number of western sanctions on Russian assets, including its central bank reserves.

This triggered a renewed focus on reserve diversification, especially by Russia and countries doing business with it. They wanted to shift reserves away from US dollar-denominated assets as well as from assets of US allies that might implement similar sanctions.

Gold benefited. It provided a relatively liquid, stable asset that could be used outside global payment systems (notably Swift) and historically had performed well in periods of heightened uncertainty. In 2022, central banks purchased a record 1,136 tonnes of gold, according to the World Gold Council, with another 800 tonnes bought in the first three quarters of 2023.

Precious metal may play a larger role as a hedge against macroeconomic and geopolitical risk

Gold buying was led by emerging economies, notably China and Turkey.

China has been the largest buyer of gold for central bank reserves this year by far with purchases of 181 tonnes in the nine months to September 30, taking total holdings to 2,192 tonnes.

But it has ample room to increase gold holdings if it wants to further diversify. Gold represents about 4 per cent of its total reserves, near the low end of allocations by larger central banks.

For comparison, Russia's gold reserves are just under a quarter of the country's total while Turkey's gold represents 26 per cent of total reserves. The US and Germany have about two-thirds of total foreign reserves in gold.

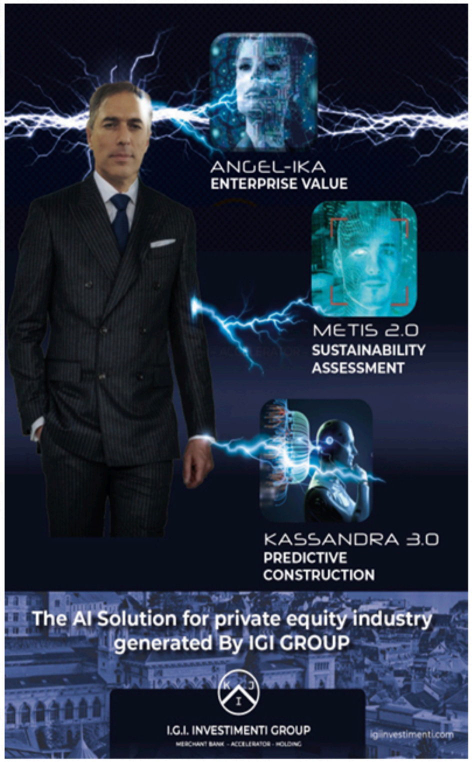
A survey by the World Gold Council released in May found that two-thirds of emerging economy central banks and 39 per cent of developed economy central banks expected to increase gold holdings over the next five years — to 16 per cent or greater as a share of total reserves. That would be a multiple of China's current allocation.

In addition to the Chinese central bank, the country's households, historically the world's largest gold consumers, may be motivated to buy more.

China's closed capital account and less developed financial markets limit ways to manage wealth. Historically, households have looked to housing, local equity markets and bank deposits.

If the government is unable to sustainably stabilise property prices, the broader economy and equity market are likely to keep struggling. Against that backdrop, it seems reasonable that household savings may migrate more into gold in an effort to preserve wealth.

Gold may play a larger role in 2024 as investors broadly hedge against macroeconomic and geopolitical risk. The year ahead brings elections in dozens of countries; more than half of the global population will be deciding on leaders.

Outcomes have the potential to set off stark policy shifts in critical countries, including the US, Taiwan and Mexico. These votes also may exacerbate geopolitical uncertainty with the potential to weigh on growth expectations and drag soft-landing hopes towards a more gold-friendly economic tail.

Rebecca Patterson is a former chief investment strategist at Bridgewater Associates