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In this week's recap: After setting new highs, market rattled by unexpected trading phenomenon.

Weekly Economic Update

Presented by Edward Papier, CIMA® CFF, February 1, 2021

THE WEEK ON WALL STREET

Despite strong corporate earnings, stock prices closed lower after a volatile week of trading triggered by unprecedented activity in a handful of companies.

The Dow Jones Industrial Average lost 3.27%, while the Standard & Poor's 500 fell 3.31%. The Nasdaq Composite index dropped 3.49% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, slipped 1.83%.[1,2,3]

BULL MARKET TAKES A BREATHER

On Monday, the S&P 500 and NASDAQ Composite overcame early losses to post new all-time highs.[4]

Stocks rode a roller coaster on Wednesday, falling sharply despite above-consensus earnings results, only to come roaring back the following day. Stocks suffered another broad retreat on Friday, sending the major indices to their worst weekly performance since October.[4,5]

Earnings continued to surprise to the upside, with 81% of companies in the S&P 500 that reported results by last Thursday morning exceeding analysts' expectations.[6]

SHORTS COME INTO FOCUS

The ability of social media to stoke passions and provide a catalyst to herd behavior made itself evident on Wall Street last week.

A chat forum became the central hub for motivating individual investors to trade certain stocks with large short positions. This unexpected buying activity roiled markets and fueled a sharp rise in their stock prices. The sudden surge higher forced some fund managers to buy stocks in these companies at higher prices, resulting in substantial losses for the firms.

It's difficult to say whether this social media phenomenon has long-term implications, though it is likely to change how professional investors evaluate trading strategies in the future.

In order to sell short, you are required to open a margin account. Selling short is not suitable for all investors. Margin trading entails greater risk, including the risk of unlimited losses in a position and incurrence of margin interest debt. You should consider your financial situation and risk tolerance before trading on margin. Margin credit is extended by National Financial Services, Member NYSE, SIPC.

THE WEEK AHEAD: KEY ECONOMIC DATA

Monday: Institute for Supply Management (ISM) Manufacturing Index.

Wednesday: Automated Data Processing (ADP) Employment Report. Institute for Supply Management (ISM) Services Index.

Thursday: Jobless Claims. Factory Orders.

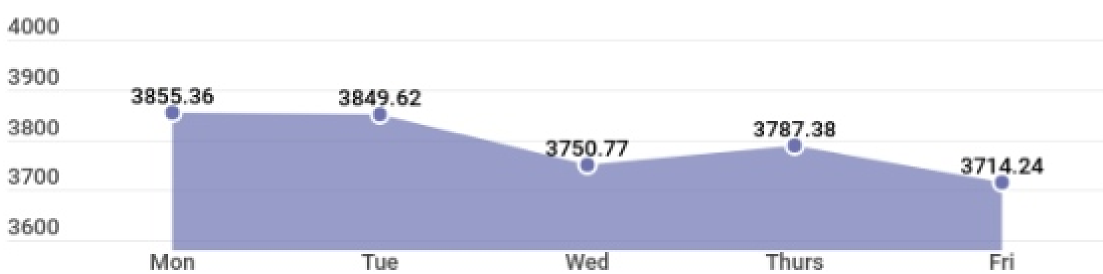
Friday: Employment Situation Report.

QUOTE OF THE WEEK

"Saying that low interest rates 'justify' extreme stock market valuations is like saying that poking yourself in the eye 'justifies' slamming your thumb with a hammer"

JOHN HUSSMAN

Market Index	Close	Week	Y-T-D
DJIA	29,982.62	-3.27%	-2.04%
NASDAQ	13,070.69	-3.49%	+1.42%
MSCI-EAFE	2,159.65	-1.83%	+0.56%
S&P 500	3,714.24	-3.31%	-1.11%



S&P 500 (daily close)

	Treasury	Close	Week	Y-T-D
	10-Year Note	1.11%	+0.02%	+0.18%

Sources: The Wall Street Journal, January 29, 2021; Treasury.gov, January 29, 2021
Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, January 22, to Friday, January 29, close. Weekly performance for the MSCI-EAFE is measured from Friday, January 22, open to the Thursday, January 28, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

Millions of Americans watched in disbelief as GameStop (GME) shares rocketed to the moon this week. The stock is up 2,400% in the last month.

What captured the American psyche wasn't just the video game retailer's meteoric rise, but rather that a sub-group inside Reddit bested famed Wall Street shortsellers. Users of Reddit's WallStreetBets forum sent shares of companies like GME, AMC, NOK and BB to the stratosphere. It was a classic "short squeeze". A short squeeze occurs when a stock or other asset jumps sharply higher, forcing traders who had bet that its price would fall, to buy it in order to forestall even greater losses. Their scramble to buy only adds to the upward pressure on the stock's price which apparently had people crying in the hedge fund world.

Then all hell broke loose mid-week. Brokerage firms like Robinhood, Interactive Brokers and TD Ameritrade restricted trading in these companies. It became a classic "Wall Street vs. Main Street" story. Class action lawsuits were filed and conspiracy theories about shortseller and brokerage firm collusion circulated, before the exchanges finally capitulated removing restrictions on trading shares.

But the damage was done. Bruised "retail" investors argued that the game was rigged against them and someone should go to jail. In a funny twist of irony, polar-opposite lawmakers Alexandria Ocasio-Cortez and Ted Cruz agreed something must be done.[7]

What's also interesting is that "Dark Pools" owned by the biggest names on Wall Street – such as Goldman Sachs' Sigma X2, JPMorgan Chase's JPM-X, UBS' UBSA, Morgan Stanley's MSPL, and Credit Suisse's Crossfinder — have been making tens of thousands of trades in the shares of GameStop on an ongoing weekly basis. FINRA, Wall Street's purported self-regulator, reports the Dark Pool data on a stale basis, two to three weeks after the trading has occurred. It is then lumped together for the whole week, rendering it less than useful in terms of monitoring price manipulation.

It's a fair guess that you haven't heard a peep about Dark Pools on the evening news. The fact that you haven't is a perfect commentary on why some commentators believe mainstream media is failing the American people when it comes to exposing Wall Street's serial looting of the little guy.

However, when a bunch of quixotic posters on a Reddit message board can be parlayed into the exciting narrative of a Robinhood band taking on the evil hedge funds, it goes viral on the evening news.

What's being ignored in all the current hoopla is that the largest federally-insured banks in this country, that now double as trading casinos and Dark Pools thanks to the repeal of the Glass-Steagall Act, have every incentive to suck in the small investor at the top of a market bubble in order to create an escape route for themselves. It's called "distribution" and it occurs, by hook or crook, at the top of every market bubble.[8]

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Know someone who could use information like this?

Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

CITATIONS:

1. The Wall Street Journal, January 29, 2021
2. The Wall Street Journal, January 29, 2021
3. The Wall Street Journal, January 29, 2021
4. The Wall Street Journal, January 25, 2021
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8. wallstreetonparade.com/2021/01/gamestop-shares-dark-pools-owned-by-goldman-sachs-jpmorgan-ubs-et-al-have-made-tens-of-thousands-of-trades/