



Daily Macro Insights: Return of the meme rally

10/06/2021

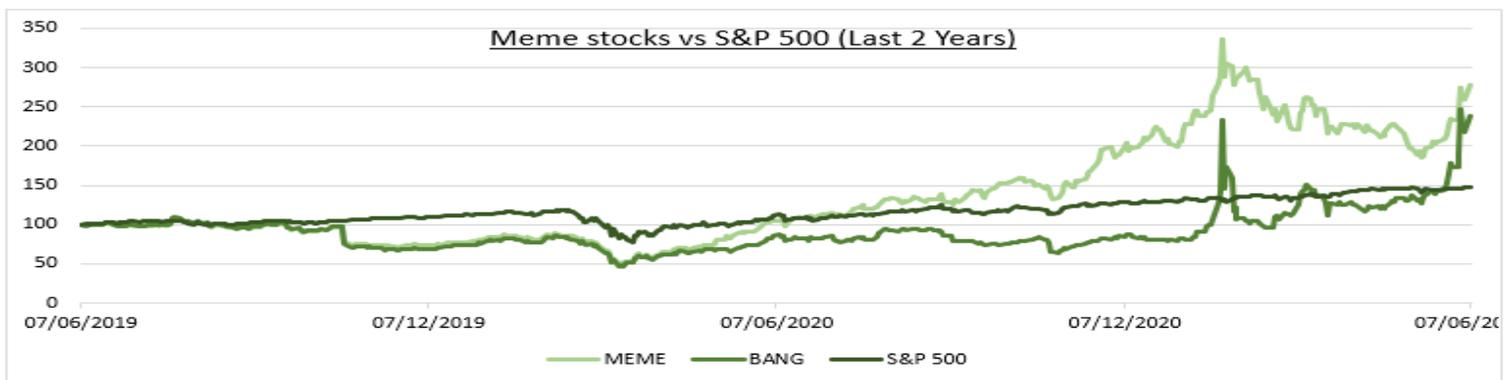
NEW RALLY: So-called meme stocks have seen another big rally. Our broad MEME index is +54% the last month, with the narrower BANG version +69% vs S&P 500 +1%. This retail 'meme squeeze' strategy now comes with lower Meme shorts, record low S&P 500 shorts, and low activist activity, but more engagement: r/wallstreetbets subs up 5x YTD at 10.5m and turnaround in mutual fund inflows. Diversification is key as meme volatility and valuation are high.

OUR INDICES: We created a narrow BANG index tracking the best-known meme stocks (Blackberry (BB), AMC Entertainment (AMC), Nokia (NOK), Gamestop). Also a broader 15-name MEME index representative of the most active social media named stocks - this shows diversification pays longer term, with both less volatility and higher returns. Both also show risks, with the MEME index P/E valuation at 1,200x, and BANG negative, with no earnings.

'MEME SQUEEZE': The dramatic rise of retail investors has fused a traditional focus on small cap and growth stocks, with an embrace of social-media community, to develop their own 'meme squeeze' investment strategy. This invests in small cap stocks with large short-interest to drive a short-covering stock rally. Gamestop (GME) famously had a short interest ratio (shorted shares as percent of total shares) over 100% before it's January surge, with over 20 days-to-cover (shorted shares as percent of daily trading). The current rally comes with less extreme, but still high, short levels across meme stocks, with GME now at 17% and 1.7 days. There is also broader adoption and retail flow, with launches of BUZZ social sentiment and FOMO ETFs and turnaround in US\$120bn US equity fund inflows YTD.

SHORTS PRESSURE: This has only added to pressure on the 'short' community from the continued equity rally and low shorting profitability. S&P 500 short positions are now equal to only 1.5% of market cap, a 25-year low level, and versus a global financial crisis peak of 3.5%. Similarly, we saw only 177 short-reports (think Muddy Waters) and 182 shareholder activism campaigns (such as Elliot) last year, each representing a tiny 0.6% of total global listed equities.

TODAY: May US inflation set to rise 4.7% yoy. We see this as 'peak' yoy, lapping zero last year, with mom peak last month's 0.9%. In-line report would support calmed inflation and tapering views, ahead of the Fed meeting next week.



Source: Refinitiv, eToro calculations. MEME = BANG + BBBY, CLOV, CLNE, DKNG, MVIS, NVAX, PLUG, PLTR, PTON, SNDL, WKHS

Ben Laidler, Global Markets Strategist. Email: benla@etoro.com

This communication is for information and education purposes only and should not be taken as investment advice, a personal recommendation, or an offer of, or solicitation to buy or sell, any financial instruments. This material has been prepared without taking into account any particular recipient's investment objectives or financial situation, and has not been prepared in accordance with the legal and regulatory requirements to promote independent research. Any references to past or future performance of a financial instrument, index or a packaged investment product are not, and should not be taken as, a reliable indicator of future results. eToro makes no representation and assumes no liability as to the accuracy or completeness of the content of this publication.