

Bipartisanship in biotech short interest

US elections loom at the end of the year with the outcome impacting stocks in different ways, but shorts sellers have already voted on the biotech sector's outlook.

- Short interest in biotech stocks at record highs as a handful of stocks post positive returns
- While shorts may have missed headline names, sector sees comprehensive short selling
- Best relative sector performers are among the most shorted stocks currently

Strong momentum in biotech stocks during 2015 created some difficult **battles** for those shorting the sector, but a now infamous Hillary Clinton **tweet** saw sentiment quickly **sour**.

As the elections in November 2016 draw closer it looks as if neither outcome will be able to assist in improving the current outlook for the biotech sector. The potential reversal of **impacts** felt by **stocks** benefiting from the Affordable Care Act, which Republicans aim to **repeal and replace**, joins the pledge by Democrats taking **aim at** excessive price increases by some drug companies which has dominated headlines.

Average short interest



Short sellers continued to build up their positions in the sector since the 'tweet' and prices have continued to stumble. The iShares Nasdaq Biotechnology ETF (IBB) is down a drastic 37% from highs seen in mid last year. The ETF currently has \$5.8bn of AUM, the largest in the category currently.

Average short interest of IBB's constituents has **once again** breached 8% of shares outstanding on loan. Almost two thirds of constituent firms have more than 5% of their shares sold short, according to data from Markit **Securities Finance** and **Exchange Traded Products**.

Based on the IBB ETF, stock pickers in the sector would have had a tough time in 2016 as less than 11 constituents (6%) have delivered positive returns year to date, with only four of those six of achieving returns above 5%.

However from a short seller's perspective, biotech stocks have proven a winning strategy in 2016 – across the 190 stocks that make up IBB, more than 50% of stocks have declined by more than 30% so far this year.

Ptc Therapeutics Inc



The worst performing constituent of the ETF, falling 82% in 2016 alone, is Ptc Therapeutics which still has a fifth of shares currently

outstanding on loan. Ptc is closely followed by Celldex falling 79% and also still has material levels of short interest at 17.5%.

Celldex Therapeutics Inc



Interestingly, two of the most shorted stocks currently among the 190 IBB constituents are Ligand and Merrimack Pharmaceuticals who both feature in the top twenty performers year to date – declining by a relatively low 9% and 1% respectively.

Ligand Pharmaceuticals Inc



Merrimack Pharmaceuticals Inc



Ligand currently has 29% of shares outstanding on loan whilst Ligand has 26%.

iShares Biotechnology ETF 18 March 16

Name	Ticker	Short Interest	Change over Month	Quantity on loan (m)	YTD price change
Ligand Pharmaceuticals Inc	LGND	28.9	13%	6	-9%
Merrimack Pharmaceuticals Inc	MACK	25.6	12%	30	-1%
Ovascience Inc	OVAS	24.8	-1%	7	-11%
Relypsa Inc	RLYP	24.1	-9%	10	-53%
Synergy Pharmaceuticals Inc	SGYP	23.1	6%	26	-48%
Depomed Inc	DEPO	22.7	-7%	14	-27%
Teligent Inc	TLGT	22.7	-2%	12	-48%
Novavax Inc	NVAX	21.5	10%	58	-40%
Amicus Therapeutics Inc	FOLD	21.2	12%	27	-19%
Esperion Therapeutics Inc	ESPR	20.6	6%	5	-30%

Source: Markit

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