

## Obamacare squeezes biotech shorts

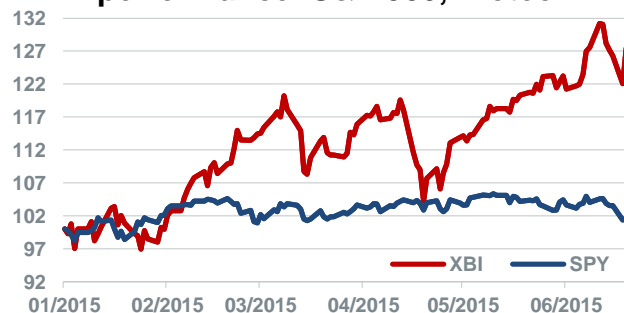
Biotech shares have soared in the last 12 months which has provided fertile ground for short squeezes, however short sellers have been relatively resilient despite the pain.

- Biotech is the most short sold sector in the US as stocks spike on Obamacare ruling
- 18 short squeezes occurred in June, with stocks popping 12% on average
- Despite squeezes, some short sellers have held on and increased positions

### Avoiding the squeeze

Short sellers have battled against biotech in 2015 with the sector's momentum exemplified by the SPDR S&P Biotech ETF (XBI) which is up by an impressive 78% over the last 12 months and 27% year to date.

#### ETF performance: S&P 500, Biotech

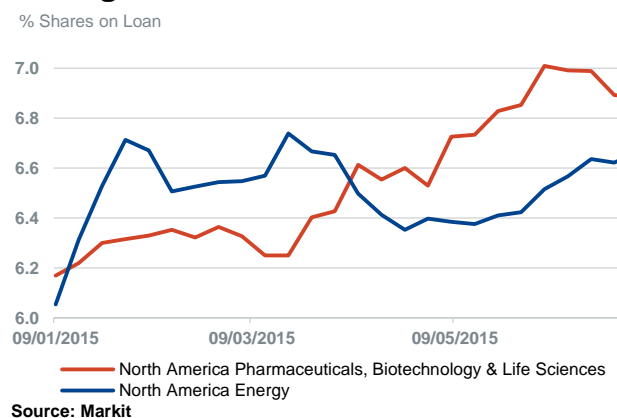


Source: Markit (1 January 2015 = 100)

On average the biotech sector is currently the most shorted sector in the US, measured by short interest across shares that make up the Russell 3000 index. The sector's average of 6.8% of shares outstanding on loan is now above that of the energy sectors, at 6.6%.

The impact of the US Supreme Court upholding recent healthcare reforms saw short sellers move to cover positions, as stocks were boosted by the prospect of legislated healthcare coverage extended to another **30mn** Americans.

### Average sector short interest



Source: Markit

Markit's recently **launched** Short Squeeze model\* identified 18 short squeezes in June 2015. The model combines three main short sentiment factors; out of the money short positions, concentration of short sellers near break-even and abnormal trading volumes which could indicate catalyst events. Companies are then ranked according to their likelihood of being squeezed.

Of the 18 squeezes reported, the majority ranked in the top percentile of companies Markit identified at the beginning of June as expected to squeeze. These included a large proportion of biotech stocks, seeing a rise in share prices and subsequent covering of short positions. However this trend has since reversed with short sellers returning to some single name stocks with conviction.

Examples of top ranked companies according to the Short Squeeze model, prior to squeezing include;

**Accelerate Diagnostics Inc**



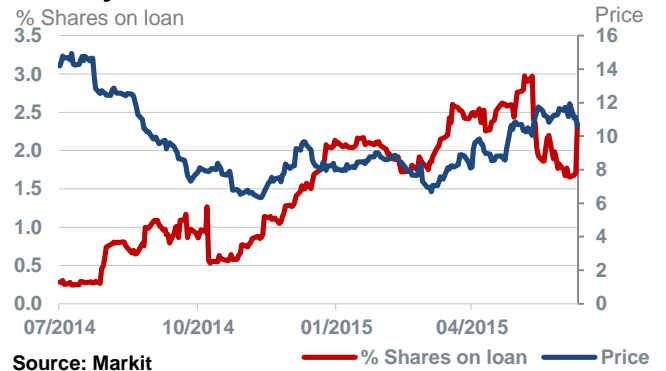
Accelerate Diagnostics witnessed a short squeeze on June 3<sup>rd</sup> with shares rising 13% and subsequent covering. However some shorts have held on and the stock remains in high demand with a cost to borrow above 15% and 5.4% of shares outstanding on loan.

**Bellicum Pharmaceuticals Inc**



Bellicum Pharmaceuticals remains an in demand short with a cost to borrow above 10%. Its short squeeze occurred on June 5<sup>th</sup> with the stock spiking 15%. Resilient shorts were rewarded however as the spike was not long lived and the share price has fallen 28% since the squeeze.

**Veracyte Inc**



Molecular diagnostics firm Veracyte saw short sellers squeezed on June 4<sup>th</sup>. Shares rose by 14% with shares outstanding on loan declining by more than 20%, but have subsequently risen to pre-squeeze levels.

**Mirati Therapeutics Inc**



Mirati Therapeutics jumped by 26% in the three days prior to June 5<sup>th</sup>, shares outstanding on loan has since decreased by 10%.

\*To get more information on Markit's Short Squeeze model and likely possible names, please feel free to [reach out](#) to find out more.

To read this article on our commentary website please click [here](#)

**Relte Stephen Schutte**

Analyst

Markit

Tel: +44 207 064 6447

Email: [relte.schutte@markit.com](mailto:relte.schutte@markit.com)For further information, please visit [www.markit.com](http://www.markit.com)

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to "buy", "sell" or "hold" a particular investment.