

Shorts hold on to positions in retailers heading into Black Friday

Wednesday, November 23rd 2016

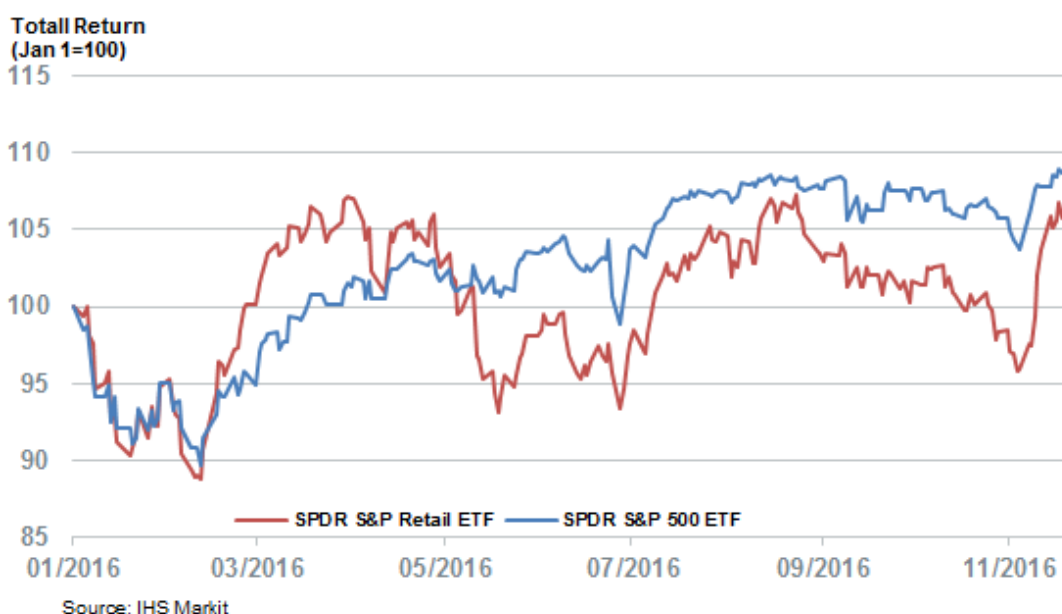
US listed retail stocks are riding high, but short sellers are showing no signs of surrendering

- Retailers recouped most of their ytd underperformance since the election
- Short interest in US retailers higher than 12 months ago
- Most popular 2016 shorts: Finish Line, Childrens Place and Williams-Sonoma

The surge in US [inflation expectations](#) in the wake of the Trump election has lifted retail shares sharply higher in the two weeks since the vote. While the jury is still out as to the impact Trump's policies will have on consumer spending, the market seems to be focusing on the surging inflation expectations' potential to boost top line retail sales.

This newfound confidence in retailers has seen the sector's shares regain ground lost to the rest of the market since the start of the year. The SPDR S&P Retail ETF, whose year to date (ytd) total returns were 9% behind those delivered by the SPDR S&P 500 ETF on the eve of the election, is now only 3% behind the market after a 9% surge. Investors have been keen to ride this trend as ETFs exposed to US retail shares have seen \$260m of inflows over November; the highest in over 18 months.

Retail vs S&P 500

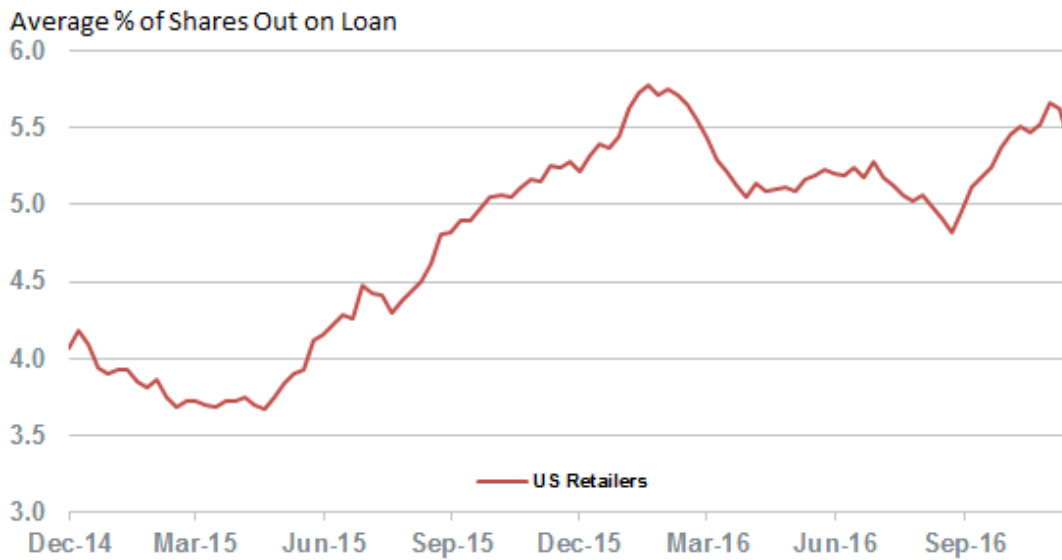


While the strong momentum in retail shares is notable its own right, it is doubly important as it comes at the eve of Black Friday which kick starts the crucial six week holiday shopping period where stakes are doubled for the sector.

Short sellers stay the course

As with the wider post-election rally, short sellers have been caught out by this sudden reversal of fortunes as US retail shares entered the election with average levels of short interest that matched the multi-year highs seen at the start of the year. Average short interest across the sector on the eve of the election was only 6% off the previous yearly highs set back in February; a 17% jump in the weeks preceding the election.

US Retailers



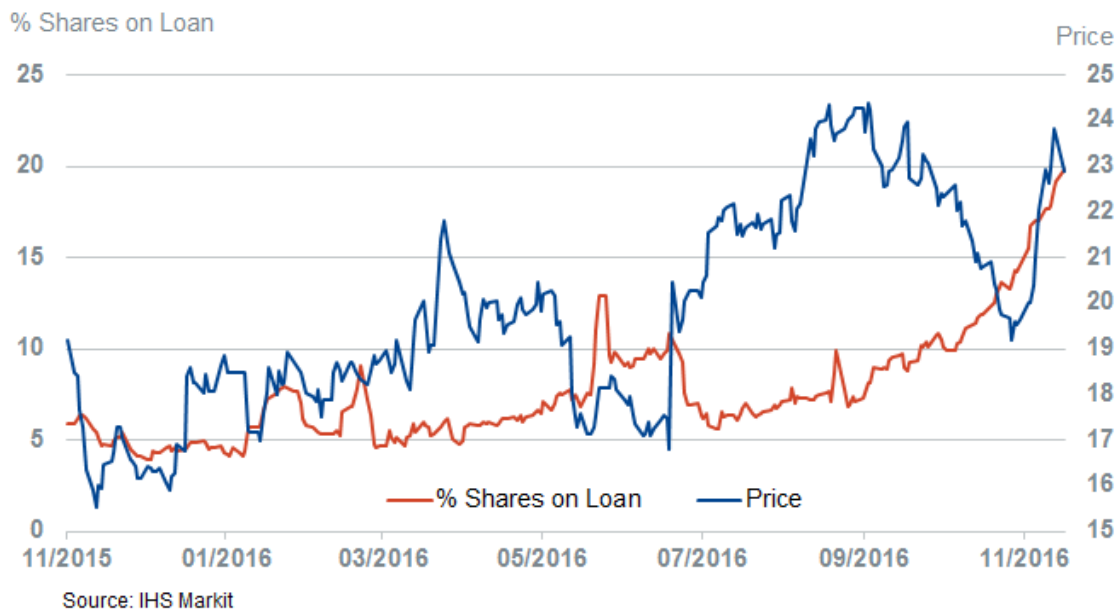
While some shorts closed out their positions in the subsequent two weeks post-election, the current average short interest across retailers heading into Black Friday is still marginally higher than the levels at the same time last year - indicating that faith in the rally is still tenuous.

This lack of confidence around the price rises is evidenced in the four high conviction retail short positions, which have seen short interest at least double since the start of the year. All four of these companies have seen their shares surge by at least 12% since the election, but demand to borrow their stock has remained strong despite current the pain felt by short sellers.

Name	Ticker	Short Interest	Ytd % Change
Lumber Liquidators Holdings Inc	LL	37.1	41%
Hibbett Sports Inc	HIBB	32.0	46%
Restoration Hardware Holdings Inc	RH	30.9	97%
Stage Stores Inc	SSI	25.4	-12%
Stamps.Com Inc	STMP	22.4	309%
Big Lots Inc	BIG	21.1	53%
Finish Line Inc	FINL	19.9	333%
Five Below Inc	FIVE	18.6	-13%
Carmax Inc	KMX	17.5	25%
Gamestop Corp	GME	17.4	-60%
J C Penney Company Inc	JCP	17.3	-38%
Lands End Inc	LE	16.8	-4%
Childrens Place Inc	PLCE	16.7	122%
American Eagle Outfitters Inc	AEO	16.5	-10%
Nordstrom Inc	JWN	15.0	14%
Williams-Sonoma Inc	WSM	14.6	150%
Zumiez Inc	ZUMZ	14.4	-11%
Buckle Inc	BKE	14.2	-1%
Weight Watchers International Inc	WTW	13.8	11%
Monro Muffler Brake Inc	MNRO	13.7	30%

This is especially true for sports retailer Finish Line, which has seen a threefold increase in short interest ytd. Its stock is up by 15% since the election, but short sellers have doubled down as demand to borrow its shares has surged by nearly a fifth over the same period of time.

Finish Line Inc



Children's Place and William Sonoma have seen some marginal covering, but their current short interest levels are still over twice the January figures.

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