

Betting against the S&P500

We review short interest trends in the S&P500 to reveal which sectors have fallen out of favour among investors over 2014.

- Energy sector stocks have seen an 81% increase in short interest, hitting 3.2% on average
- S&P500 short interest average of 2.1%
- Short sellers have begun to cover positions towards the year-end

A record breaking year

The S&P is currently reaching all-time highs on an almost daily basis, recently touching above 2050 points. We analyse short interest changes throughout the year across sectors and individual companies to see where market participants have placed their bets for the close of 2014. Overall the S&P500 index has delivered returns of 13.6% year to date and 16% over the last twelve months.

Average short interest across the S&P has remained relatively flat over the year at 2.1%, peaking at 2.4% in October. This was followed by an overall decline, before enjoying a recovery towards the end of the year.

S&P 500 Average Short Interest



Oil stocks see surging short interest

The most compelling story of the year is undoubtedly the decline in oil price from a mid-year high of \$115 for Brent crude in June to a current \$65 price level.

Unsurprisingly, securities lending data reveals that the energy sector's average shares on loan has grown significantly throughout the year. Short interest in energy stocks on average has grown by 81% to hit 3.2% since the beginning of the year. This contrasts to the beginning of year where energy stocks saw less short interest than the index average.

Changes in short interest across S&P500 sectors

GICS Sector	Current avg	Change 1 month	Change YTD
Energy	3.2%	0.3%	81.3%
Health Care	1.8%	-18.6%	33.1%
Telecommunication Services	1.0%	8.1%	21.8%
Materials	1.7%	-1.4%	19.2%
Consumer Discretionary	3.2%	-2.9%	16.6%
Utilities	1.3%	-11.3%	11.3%
Industrials	1.9%	4.1%	10.0%
Information Technology	2.3%	-6.2%	-3.0%
Financials	1.7%	-1.6%	-11.1%
Consumer Staples	2.1%	-7.8%	-22.9%
Index average	2.1%	-6.8%	0.9%

Aside from the energy stocks, industrials and telecoms stock sectors have seen shorts begin to cover their positions.

S&P top shorted stocks

Transocean is a perfect example of the havoc that the rapidly declining oil price has caused to companies operating in the energy sector. The firm is currently the sixth most shorted stock in the S&P500 with 15.6% of shares outstanding on loan. The stock is down 62% over the last year and is among the many energy counters that continue to fall. A recent [report](#) indicates that the energy sector is trading at an approximate 40% discount to the rest of the S&P; the largest margin since 2000.

Transocean Ltd



Among the most shorted stocks in the S&P500 universe is Western Union, the global money transfer company. Western Union has 14.5% of shares outstanding out on loan, amid reports of activist [M&A activity](#). The money transfer sector in general faces consolidation and the looming prospect of cheaper alternatives in the form of providers such as [Transferwise](#) and [Snapcash](#).

Western Union Co



The most shorted stock Gamestop Corp is no stranger to short sellers and has been featured [previously](#). The company was also a constituent of the top ten top shorted stocks in 2013, when it held fourth position.

Gamestop Corp



Over the last year the stock is down 23% as short interest has increased from 13% to 39%. Shorts seemed to have positioned themselves for a disappointing holiday trading period for Gamestop.

Relte Stephen Schutte

Analyst

Markit

Tel: +44 207 064 6447

Email: relte.schutte@markit.com

For further information, please visit 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.