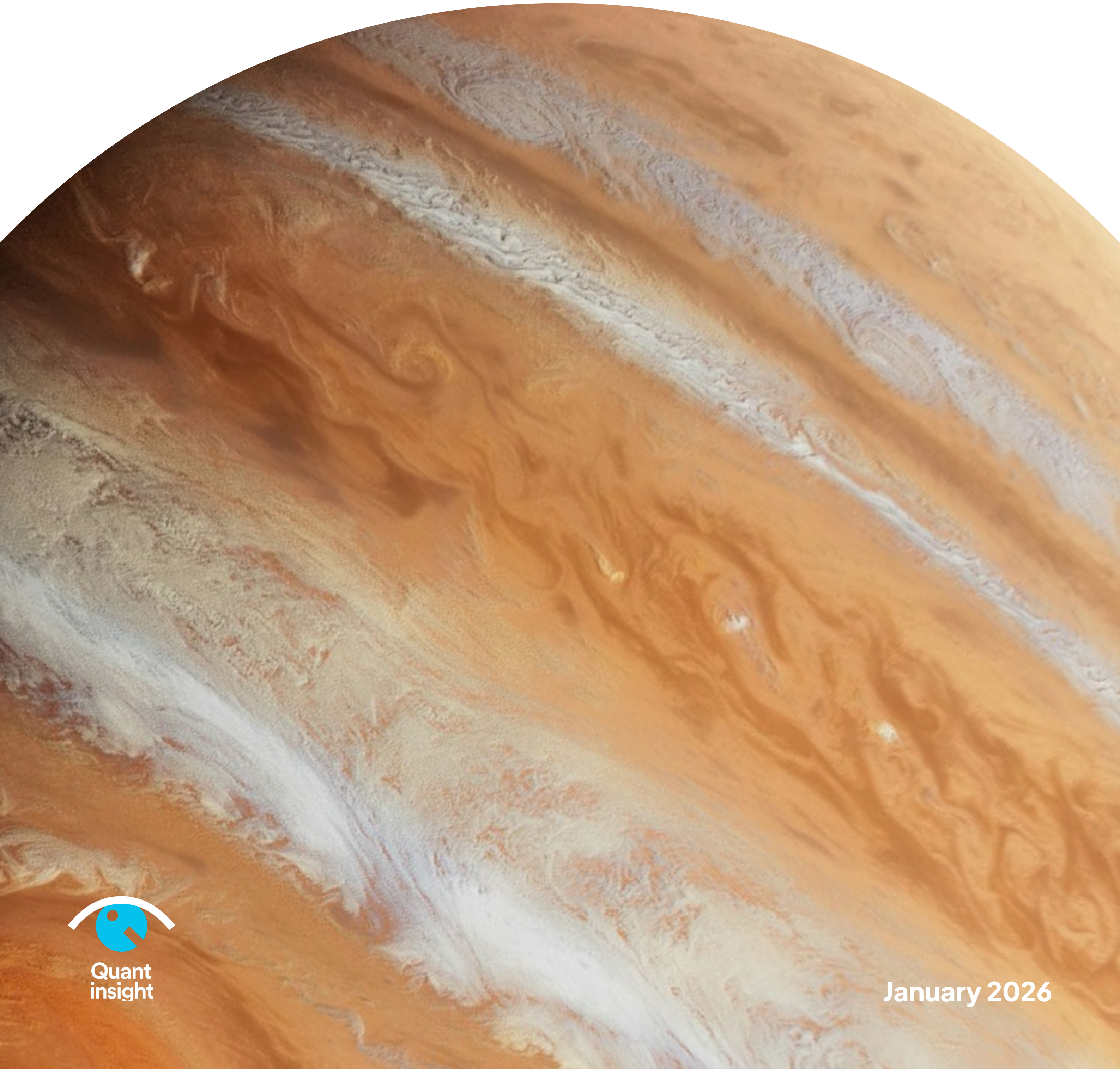
US Equity L/S:

The Short Squeeze Puzzle of January 2026



Quant insight

January 2026

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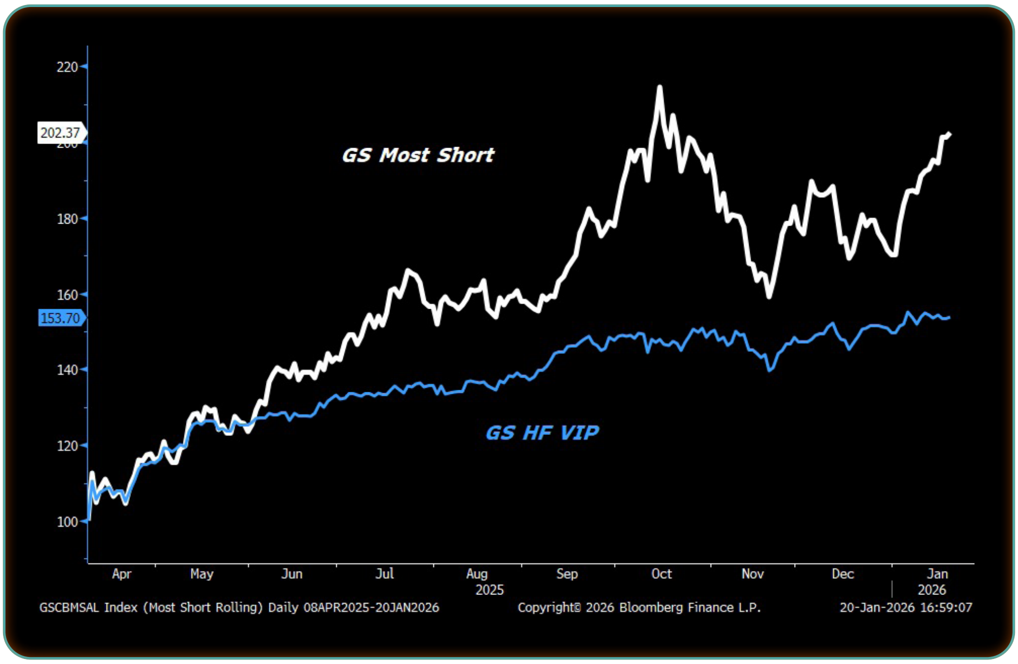
When market optimism runs high, the lowest-quality stocks can suddenly look like the best performers. That's exactly what's happening in early 2026.

Since the Fed's dovish pivot in late November, Goldman Sachs' "Most Shorted" basket has surged **+22%**, while its high-quality "VIP" hedge fund favorites gained only **+10%.**

In other words, the most heavily bet-against stocks have beaten the market's darlings by **10 percentage points** in less than two months.



Why? Because low-quality, heavily shorted stocks thrive when:

- Equity and bond volatility falls
- Credit spreads tighten
- Inflation expectations drop
- Sentiment turns optimistic

And all of those conditions have been in place since November.

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What Most Models Miss

Traditional risk frameworks might call this "crowding," "high beta," or "idiosyncratic moves." But at Quant Insight, our **Macro Factor Exposure Risk Model (MFERM)** shows something clearer:

Macro factors explain 57% of the underperformance of quality stocks vs. shorted stocks since November.

Here's how the macro drivers stacked up:

Return Atttribution (20-Nov to 15-Jan)			
Factor	**GS VIP**	**GS Most Short**	**VIP / Most Short**
Forward Growth Expectations	0.0%	0.0%	0.0%
DM FX	-0.1%	-0.1%	0.0%
Energy	-0.1%	0.0%	-0.1%
Metals	0.4%	0.5%	-0.1%
Economic Growth	0.2%	0.3%	-0.1%
10Y Yield	0.6%	0.9%	-0.2%
Inflation	0.0%	0.3%	-0.3%
Real Rates	-0.2%	0.2%	-0.4%
Risk Aversion	2.4%	3.0%	-0.6%
CB QT Expectations	2.2%	3.0%	-0.7%
CB Rate Expectations	0.8%	1.8%	-1.0%
Corporate Credit	4.2%	7.2%	-2.7%
Factor Return	**10.5%**	**17.0%**	**-5.5%**
Idio Return	**-0.1%**	**5.2%**	**-5.0%**
Total Return	**10.5%**	**22.2%**	**-9.6%**

The exposure mismatch is shown below and the result is that there is net macro beta.

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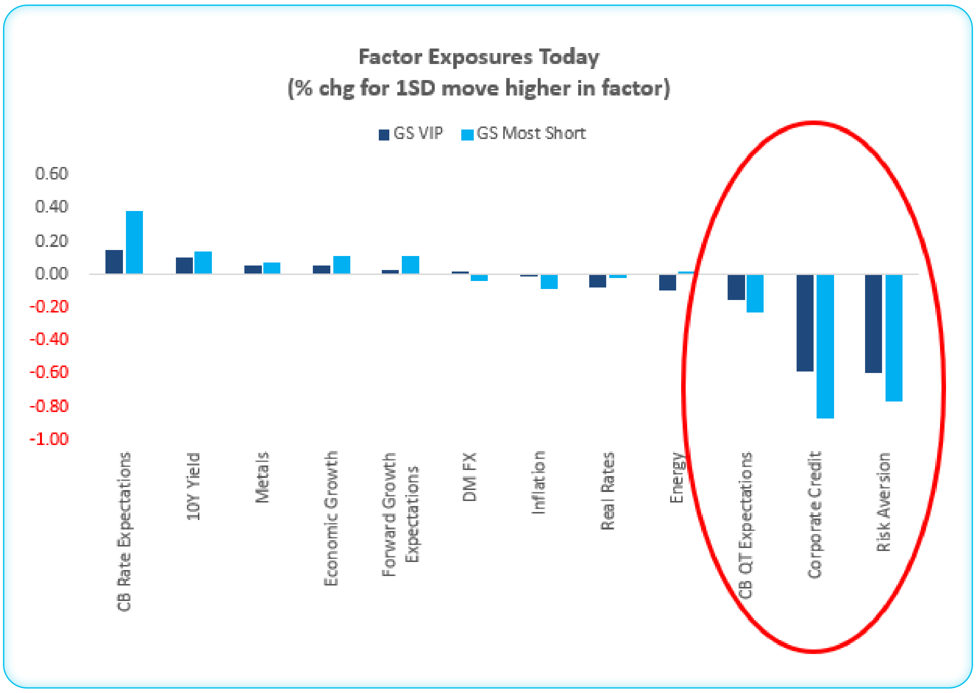

Factor exposure is measured as the total change in the portfolio from a 1 daily standard deviation increase in the factor. This is what is shown in the bar plot below.

For example, we can see for the GS Most Short that a 1 standard deviation widening of US CDX HY Credit Spreads alone moves the GS Most Short basket lower by ~0.90%. This is ~0.60% for the GS VIP long basket.

A 1 standard dev widening in US CDX HY credit spreads today is equivalent to about 9bp. A further 9bp tightening (move lower) would therefore mean the Most Short outperforms the GS VIP Longs by 0.30%

Aside from capturing financing costs, HY Credit Spreads are a market determined and forward looking economic recession indicator because the spread captures the implied default rate for low rated US corporates over the next 5 years. Default rates correlate to recession probability.

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It is perhaps not a surprise that the "junk" companies benefit more from cheaper financing and lower recession odds. Indeed, this exposure mismatch has been a driving force of this long-short pair for some time.

One of the consequences is that many funds are unable to really understand their true alpha performance. What looks like alpha may indeed often be macro factor impact.

The Takeaway

This isn't just about short squeezes. It's about **visibility.** Without macro-aware analysis, market moves get labeled "idiosyncratic" or "crowded"—masking the real drivers.

As earnings season unfolds, investors may want to ask:

How much of my portfolio's performance is really driven by macro and how can I reduce that exposure to better isolate alpha?

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