

Archegos Stocks Start Uphill Climb After Block Trades: ECM Watch

By Drew Singer / Bloomberg News / March 30, 2021

Stocks sold in an extraordinary torrent of recent block trades are poised for further selling pressure in the weeks ahead.

Goldman Sachs Group and Morgan Stanley have spearheaded more than \$20 billion of these unregistered stock sales since Friday, according to people familiar with the matter, following a margin call on the family office of former Tiger Management trader Bill Hwang. The ensuing volatility could be just the start of a rough stretch for these stocks, based on one measure of performance for prior share sales the banks have brought on behalf of holders.

Registered, secondary share sales led by either Goldman or Morgan Stanley have delivered lower returns on a quarter-to-date basis than deals from other underwriters, according to data compiled by Bloomberg. In fact, their deals this year are the worst performers among any banks on Wall Street in this category.

This year's secondary stock offerings led by Morgan Stanley on behalf of a shareholder have returned an average loss of 22% through Tuesday's close, Bloomberg's data shows. That's the worst of any bank to lead more than one of these deals this year. Right behind them is Goldman Sachs, whose secondary offerings for shareholders have lost 16% on average. These returns lag the average loss of 9.8% loss across all banks. Wells Fargo & Co., which managed several block trades this week, hasn't led any publicly disclosed secondary offerings by shareholders this quarter.

Bloomberg's data doesn't capture unregistered block trades like those orchestrated for Hwang's Archegos Capital Management, but it does reflect other stock offerings brought by an existing holder.

And a similar trend is apparent in block trades that were previously reported by Bloomberg News. Snowflake Inc., for example, has fallen 7% since a Goldman block trade on March 15. Uber Technologies Inc. is down 27% since it was sold in a Goldman block in January. Among Morgan Stanley's block trades, HealthEquity Inc., NexTier Oilfield Solutions Inc. and Cornerstone Buildings Brands Inc. have all declined since being offered in block trades earlier this month, lagging the broader market. Goldman did not respond to a request for comment and Morgan Stanley declined to comment.

While ECM bankers tend to focus on a deal's performance in the following session or handful of sessions after the offering prices, the quarterly performance of their deals may indicate how the past week's flood of equity could be valued in the months ahead. The stocks at the center of the Archegos crisis posted gains Tuesday as no additional block trades were reported.

Some analysts are already saying they remain concerned about valuations despite the selling. Following Bloomberg's report of another multi-billion-dollar block in ViacomCBS over the weekend, Wall Street expressed continued concerns about the stock's valuation despite last week's slide of more than 50%.

"Even with the selloff, VIAC shares remain relatively pricey," Argus Research wrote in a note. At BMO, analyst Daniel Salmon wrote he could get more proactive if the stock falls below his \$35 fundamental downside scenario.

But the selling pressure looks more like a buying opportunity to those with longer time horizons, according to a special situations research firm.

"We are looking at names where not only are there block trades, but also names that are falling in sympathy," The Edge Consulting Group Chief Executive Officer Jim Osman said in an interview. "Forced selling is where investors who have more than a five-minute view can make some of the best investments ever."

Among those long-term buyers could be the companies themselves. Tencent Music Entertainment announced a \$1 billion buyback program on Monday, and Vipshop Holdings Ltd doing the same on Tuesday. GSX Techedu Inc. announced up to \$50 million of purchases planned by its chief executive officer. Others like Baidu Inc. already have approval for billions of dollars of repurchases.

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