Real talk about GameStop

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Editor's Note: Morning Money is a free version of POLITICO Pro Financial Services' morning newsletter, which is delivered to our subscribers each morning at 6 a.m. The POLITICO Pro platform combines the news you need with tools you can use to take action on the day's biggest stories. Act on the news with POLITICO Pro.

QUICK FIX

Real talk on GameStop — Let's be real a minute. The SEC can express concern and the White House can say it is "monitoring" the situation. But there is no evidence at all that retail investors gathering on Reddit or Facebook or wherever else and deciding to basically screw over a bunch of hedge funds by buying up GameStop shares did anything wrong at all. Is it a strange and somewhat new phenomenon? Sure. We haven't seen too many viral, meme-based stock rallies.

But that appears to be what this is and there is likely not a single thing regulators could or should do about it. A bunch of people on the Internet deciding to send a seemingly defunct stock on a wild rise to an insane and absolutely undeserved valuation is not a crime. It's just a steroidal version of investing clubs gathering and deciding to all go in on a stock.

It's weird. We grant that. And retail investors getting in late because they saw their aunt's Facebook post will lose money. But very few hearts will bleed across America for short-sellers whose bets on GameStop's demise are now massively underwater. Our POLITICO Nightly colleagues quizzed some securities law experts on the matter but none suggested any laws have been broke here.

Instead, they mildly suggested maybe chat rooms are an area for some new regulatory exploration. Perhaps. We've had wild speculation in assets since the tulip bulb days. And we will have many more. And some people will lose a bunch of money. For the moment, this group mainly includes hedge fund managers. It will eventually include late-arriving regular people. But such is life in the markets. There are no guarantees. (More below.)

GOOD THURSDAY MORNING — Have an alternative take on GameStop? Email it to me on bwhite@politico.com and follow me on Twitter @morningmoneyben. Email Aubree Eliza Weaver on aweaver@politico.com and follow her on Twitter @AubreeEWeaver.

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DRIVING THE DAY

Senate Banking has a hearing at 10:00 a.m. on the nominations of Rep. Marcia Fudge (D-Ohio) to be HUD secretary and Cecilia Rouse to be chair of the Council of Economic Advisers … Jobless Claims at 8:30 a.m. expected to drop to a still huge 875K from 900K … First read on Q4 GDP expected to show a gain of 4.4 percent …

A BIT MORE ON GAMESTOP — Cato's Director of Financial Regulation Studies Jennifer Schulp: "In pulling off a sophisticated short squeeze … this new brand of retail investor has shown the power of the people. These events should not be used as a reason to limit retail investors"

SEC TAKING A LOOK — Our Kellie Mejdrich: "The SEC said … that regulators were 'monitoring the on-going market volatility in the options and equities markets,' following multiple rallies in stocks driven by social media. …

"The regulators did not specify what activity they were looking at. But the statement came after massive rallies in stocks of companies that had reported years of losses, following posts by users of the social media website Reddit, spurred by one community of the website's users in particular, known as 'r/WallStreetBets.'"

Mohamed A. El-Erian on Bloomberg View: "For some, the recent market action reflects a fundamental power shift that gives smaller investors much greater influence on market outcomes. The key enabler is ample liquidity, de facto coordination platforms (think Reddit) and low-cost and highly accessible investing interfaces (think Robinhood). It's a tail-wagging-the-dog phenomenon that has lasting power in terms of changes to market structure."

MORE BARR DEFENSE — Via Georgetown Law Center's Linda Jeng: "I've never written to MM since I began subscribing a decade ago when I was a Senate staffer working on Dodd-Frank. … Progressives accuse Barr of not being 'progressive' enough because he did not support the initial stricter version of the Volcker Rule. Repeating such statements without explanation implies that Barr did not support the stricter Volcker draft because he does not support consumers. Quite to the contrary.

"As someone who is familiar with the initial Senate draft of the Volcker Rule, I know that draft was a deeply flawed Frankenstein version of former Chairman Paul Volcker's idea - and I'm writing this with esteem of the Senate staffers who drafted it and are still my friends.

"Barr has a long track record of protecting consumers not only through his three decades of research but also through his many years of public service."

FED GETS A LITTLE MORE SOMBRE — Our Victoria Guida: "The Federal Reserve … struck a more somber tone about the U.S. economy, saying the recovery is weakening as the country waits for widespread vaccinations against the coronavirus. …

"Economic pain is still acute for tens of millions of people and for businesses across the country as the pandemic, which has taken the lives of more than 400,000 Americans, continues to spread. The central bank emphasized that the outlook would depend greatly on the course of the pandemic and, more specifically, 'progress on vaccinations.'"

MILLENIALS MOST IMPACTED FINANCIALLY BY PANDEMIC — Via Aubree: Millennials have seen more than their share of financial struggles over the last year, in light of Covid-19, according to a new survey from Prudential. Roughly 1 in 3 millennial workers have drained their emergency savings, compared to just 16 percent of boomers and 27 percent of Gen X-ers.

The pandemic has also led to a new realization for many millennials: that they're not quite as financially secured. Two-thirds of millennials said they shared that sentiment, versus 58 percent of Gen X-ers and 43 percent of boomers. Millennials were also more likely to: draw from their retirement plans to make ends meet, notice an increase in debt over the last year and delay a professional goal because of their financial concerns. Check out the full results of Prudential's latest American Worker survey here.

MARKETS

STOCKS SEE WORST DAY SINCE OCTOBER— AP's Damian J. Troise, Ken Sweet and Alex Veiga: "The stock market posted its biggest drop since October Wednesday, led by declines in several Big Tech companies. The S&P 500 gave up 2.6 percent. The benchmark index had set a record high just two days earlier.

"The selling was broad, though technology giants including Facebook, Netflix and Google's parent company accounted for a big part of the pullback. The stock of beleaguered video game seller GameStop more than doubled as an army of small investors ganged up against hedge funds that made huge bets that the stock would fall."

WARREN SAYS GAMESTOP FRENZY DEMANDS BIDEN REGULATE MARKETS — Bloomberg's Jordan Fabian and Jennifer Epstein: "Democratic Senator Elizabeth Warren pressured the Biden administration's financial regulators to crack down on Wall Street, citing frenzied volatility in shares of GameStop Corp. over the past week that has shocked traders.

"In a sharply worded statement on Wednesday, the former presidential candidate and longtime corporate foe expressed astonishment at the rally while also criticizing hedge funds and others with short positions in company."

FLY AROUND

IMF WARNS COVID COMPLACENCY POSES RISK TO GLOBAL FINANCIAL SECURITY — WSJ's Andrew Ackerman: "Expectations for an economic recovery and continued government aid are fueling overconfidence among investors, the International Monetary Fund said Wednesday, raising the risk of a sudden drop in asset prices that could threaten financial stability.

"'With investors betting on persistent policy backstop, a sense of complacency appears to be permeating markets,' Tobias Adrian, head of the Monetary and Capital Markets Department, and his deputy, Fabio Natalucci, wrote in a blog post. 'Coupled with apparent uniform investor views, this raises the risk of a market correction or repricing.'"

FED LEAVES INTEREST RATES NEAR ZERO — NYT's Jeanna Smialek: "Federal Reserve officials left interest rates near-zero and pledged to continue making huge purchases of government-backed bonds as the central bank tries to help the United States economy weather the pandemic's ongoing hit.

"'The pace of the recovery in economic activity and employment has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic,' the central bank's policy-setting Federal Open Market Committee said in its January policy statement." And here's the full text of the Fed's statement.

POWELL SAYS FED HAS NOT DISCUSS LENDING PROGRAMS WITH TREASURY — Bloomberg's Christopher Condon: "Federal Reserve Chairman Jerome Powell gave no indication he hopes to extend the central bank's ongoing emergency lending programs, or to revive programs that were recently forced to close."

BIDEN'S SEC CANDIDATE EXPECTED TO BE TOUGH ON COMPANIES — WSJ's Mark Maurer: "Gary Gensler, President Biden's pick to run the Securities and Exchange Commission, is expected to seek higher fines and new disclosure requirements for public companies, lawyers and former regulators say "

YELLEN COMMITS TO U.S. PARTICIPATION IN OECD TAX TALKS — Reuters: "U.S. Treasury Secretary Janet Yellen and German Finance Minister Olaf Scholz on Wednesday stressed the importance of U.S.-German and transatlantic ties - and the need to work together - in their first phone call, the U.S. Treasury said in a statement.

"The two officials agreed to collaborate to end the coronavirus pandemic, support a strong and sustained global economic recovery, fight income inequality, and ‘forcefully address the threat of climate change,’ Treasury said.”

TRANSITIONS — Via our Hannah Brenton: Paul Andrews, the outgoing secretary general of the International Organization of Securities Commissions, is joining the CFA Institute in Washington as managing director of research, advocacy and standards on March 1.