Wild swings on Wall Street

By Nick Beams
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In another expression of the extreme volatility on financial markets, Wall Street surged yesterday after the worst Christmas Eve fall in history. The Dow leapt by 1086 points, a rise of almost 5 percent, the S&P 500 was up 5 percent and the NADAQ rose by 5.8 percent.

The market surge, the biggest Wednesday Dow rise in history, followed staggering falls on Monday which saw the Dow and the S&P 500 on the edge of bear market territory, defined as a drop of 20 percent from their highs. Even with yesterday's jump, both the Dow and the S&P are still on track for their worst December since 1931 in the midst of the Great Depression.

The pre-Christmas sell-off demonstrated the increasing interconnection between market turmoil and the deepening political crisis in the US. The latest stage is the government shutdown along with the political furore set off by President Trump's decision to withdraw US troops from Syria and the consequent resignation of James Mattis as Defense Secretary.

Treasury Secretary Steven Mnuchin added some economic fuel to the fire with his statement on Monday. He said that the previous evening he had called the chief executives of the biggest US banks who had "confirmed that they have ample liquidity available for lending to consumer, business markets, and all other market operations."

The Mnuchin move was highly unusual given that no one, to that point, had raised the question of whether the banks' liquidity was being impacted by the market sell-off and raised the question: what did he know?

The turbulence was also compounded by reports, first surfacing on Bloomberg, that President Trump was considering firing Jerome Powell, the chair of the US Federal Reserve, following a string of criticisms from the White House over the Fed's increases in interest rates.

Mnuchin had engaged in damage control issuing a statement he said came from Trump. He claimed that Trump never suggested firing Powell and added that "nor do I believe I have the right to do so."

However, Trump continued his attack on the Fed, tweeting on Monday: "The only problem our economy has is the Fed. They don't have a feel for the Market, they don't understand necessary Trade Wars or Strong Dollars or even Democrat Shutdowns over Borders. The Fed is like a powerful golfer who can't score because he has no touch—he can't putt!"

During a Christmas Day media briefing, Trump expressed his confidence in Mnuchin, but when questioned about the Fed chair said; "Well, we'll see. But they [the Fed] are raising interest rates too fast. That's my opinion."

Commenting on the pre-Christmas market plunge to the *Financial Times*, Win Thin, the global head of currency strategy at Brown Brothers Harriman, said of the possible move against Powell that "sentiment is so negative right now that markets will assume the worst" and indicated the same applied to Mnuchin's assurance on the banks.

"Until this weekend, markets were not that concerned about liquidity or the clearance issue," he said. "At best, Mnuchin made a rookie policy mistake in trying to reassure markets; at worst Mnuchin knows something that the markets don't."

Trump is continuing to cast doubt over Powell's position, despite Mnuchin's remarks on the issue. But the market yesterday appeared to have been finally reassured by the statement, issued during trading hours yesterday by the chairman of Trump's Council of Economic Advisers, Kevin Hassett, that Powell was "100 percent" safe.

However, the rise of more than 1,000 points offers no assurance that the sell-off has finished. Indeed, the very size of the market swings points to its underlying instability. The turbulence on Wall Street is being exacerbated by the downward global trend, with Asian markets alone losing $5.6 trillion in value this year.

The worsening outlook for global growth is another negative factor. The "synchronised" growth of 2017 is a distant memory and clear signs are emerging of a significant slowdown in the German and Japanese economies in the past few months.

So far growth rates in the US have remained above those in other major economies but that could end. In a comment published this week in the *Guardian*, former Labor Secretary in the Clinton administration, Robert Reich, pointed to what he said was "America's fundamental economic problem."

Consumer spending accounted for about 70 percent of final demand but, in the event of a downturn, it could not be counted to come to the rescue because most Americans were still living in the shadow of the Great Recession. The only way consumption spending had increased was through household debt, which this year reached a record $13.5 trillion as 80 percent of the population lived from paycheque to paycheque.

The problem, he wrote, was not that Americans were living beyond their means but that their means had not kept up with the growth in the economy. Most of the economic gains had gone to the highest income levels. Nothing had been done to address the underlying problem of wage stagnation, he wrote, with the consequence that: "Ten years after the start of the Great Recession, we face another economic precipice."

The interconnection between the market and political turbulence was also exemplified in a comment by *New York Times* columnist Thomas Friedman this week.

Friedman, a mouthpiece for the military and foreign policy establishment, began by noting that he had previously not been among those calling for Trump's removal from office, but the last week had been a watershed.

"The instability Trump is generating—including the attacks on the chairman of the Federal Reserve—is causing investors to wonder where the economic and geopolitical management will come from as the economy slows down.

"What if we're plunged into an economic crisis and we have a president whose first instinct is always to blame others and who's already purged from his side the most sober adults willing to tell him that his vaunted 'gut instincts' have no grounding in economics or in law or in common sense. Mattis was the last one."

For this first two years of his presidency, Friedman claimed, the markets treated Trump's "craziness" as "background noise" to soaring stocks and profits. But now "Trump has markets worried" and the only choice for the Republican leadership was intervention with the president to make clear that unless there is a radical change—highly unlikely—then "his party's leadership will have no choice but to press for his resignation or join calls for his impeachment."