Fed “pivot” promotes stock market surge

By Nick Beams
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Last Tuesday, two key Wall Street stock market indexes, the S&P 500 and the Nasdaq Composite, hit new record highs. The more narrowly-based Dow only failed to also reach a new peak because of the troubles being experienced by Boeing.

Despite falls in the past two days, the rise in the markets over the past four months is a major turnaround from the end of last year when Wall Street experienced its worst December since the depths of the Great Depression in 1931.

So far this year, the S&P 500 is up by around 17 percent, having recovered by 25 percent since a low point on December 24. The Nasdaq is up by 22 percent for 2019.

The key factor in the surge is not the prospect for economic growth, either in the US or global economy. In fact, the outlook has worsened amid growing signs of a downturn, especially Germany, which is on the edge of zero growth or even a recession.

In its *World Economic Outlook*, issued earlier this month, the International Monetary Fund reported that 70 percent of the world economy by value, that is the advanced economies, were experiencing decelerating growth, after an upturn in 2017.

Such was the slowdown that the IMF said global growth prospects for 2020 depended on emerging and developing economies, specifically citing Turkey and Argentina, both beset by currency and debt problems, as crucial.

The key factor in the market turnaround has been the 180-degree “pivot” by the US Federal Reserve, together with the European Central Bank (ECB) and others, from seeking to gradually “normalise” monetary policy and lift interest rates, to initiating a new round of financial stimulus.

In 2018, in response to increased US growth and what appeared to be a world upturn, the US Fed made four interest rate hikes of 0.5 percentage points each. It also indicated it would wind down its holdings of financial assets, accumulated during the quantitative easing program following the 2008 financial crash, at the rate of $50 billion a month.

This produced a furious reaction in financial markets in December, after the fourth interest rate rise, and a sustained attack on the Fed in the corporate media, spearheaded by US President Donald Trump, but by no means confined to him.

The Fed rapidly jumped into line. Chairman Jerome Powell made clear in a January speech that rate rises pencilled in for 2019 were off the table. At its March meeting, the Fed’s open market committee ruled out increases for the rest of the year and decided to stop reducing its asset holdings at the end of September, leaving them at around $3.5 trillion, compared to $800 billion before 2008.

Since then, the prospect has been raised that the Fed may even cut interest rates by the end of the year. The Trump administration is calling for a reduction of 0.5 percent, as well as a resumption of asset purchases. Derivatives markets data indicate a 56 percent chance of a rate cut by the end of the year.

The world’s second most important central bank, the ECB, is moving in the same direction, providing further financial stimulus at its last meeting in response to the euro zone slowdown.

The Bank of Japan committed to keeping interest rates at rock bottom lows this year after a downward revision of Japanese growth prospects for the first time in three years. This was a result of slowing domestic consumption, weakening exports and rising international trade risks. The bank warned of “high uncertainties” and indicated it does not expect to reach its inflation target at least until March 2020—nine years after its initial moves to lift prices.

Export-dependent South Korea, regarded as a bellwether for technology, yesterday reported the biggest contraction in its economy for a decade. Gross domestic product fell by 0.3 percent for the first quarter.

The Reserve Bank of Australia is also considering an interest rate cut at its May 7 meeting, following data showing zero inflation for the March quarter and only 1.3 percent for the past year, well below the bank's target rate of 2–3 percent.

The US market rise has been provoked by the Fed turnaround and the prospect of still further stimulus to come. However, it points to a more far-reaching, structural change in the foundations of the US and global financial system.

Financial Times columnist Michael Mackenzie noted last month that amid all the twists and turns, the past decade has been a rewarding one for those owning US assets.

Further gains have been recorded since then. In March 2009, the S&P 500 went as low as 666. On Tuesday, it reached almost 3,000, an increase of around 470 percent.

Mackenzie noted: "The role of central banks in nurturing the strong recovery in stocks and other risky assets has been so significant that it makes the years leading up to 2009 look like another era for markets."

The essence of the post-2009 era is that central banks now provide the underpinning for accumulation of profit via financial market operations and speculation. Nothing like this has ever been seen in the history of global capitalism. Far from representing a strength, it shows that the disease which led to the 2008 crash has not been cured. It has simply mutated to assume even more dangerous forms.

The precarious structure of the entire system was highlighted by Steve Blitz, an analyst at the financial research firm TS Lombard, cited by Mackenzie. According to Blitz, the December turmoil could be thought of as "dress rehearsal" and "we are left with an economy that can ill-afford the loss of wealth from a bear market and with market structures unable to handle a massive reversal in the flow of investment monies."

Apart from the underwriting of the financial markets by the Fed and other central banks, the other main factor in the rise of stock prices is the growing use of share buybacks. In a bygone era, such measures were considered to be market manipulation. They are now standard operating procedure.

According to calculations by the economist William Lazonick, between 2007 and 2016, the S&P 500 companies spent 96 percent of their profits to finance share buybacks and pay dividends, a process that has continued since then. This gives the lie to the claim that the Trump administration's corporate tax cuts would lead to increased investments, greater production and higher wages.

The outcome of the measures implemented since 2008 is the establishment of a financial mechanism by which the wealth created by the labour of the working class is sucked up and deposited in the hands of the banks, hedge funds, finance houses and their owners.

Karl Marx's analysis that the inherent logic of the capitalist system was the creation of wealth at one pole of society and poverty and misery at the other was once denounced as a wild exaggeration, refuted by the course of events.

Today it is a living reality.

The majority of American workers have not experienced a rise in their real wages in more than three decades. At the same time, executives of large US companies last year received more than 254 times the compensation of their median employees, with about one in ten earning 1,000 times as much. Forty years ago, the ratio was under 30.

The much-vaunted low unemployment figures in the US reveal the same trend. A study by Harvard economist Lawrence Katz and Princeton economist Alan Krueger at the end of 2016 found that 94 percent of the 10 million jobs created during the Obama administration were temporary, contract or part-time positions. As a result, such workers comprised almost 16 percent of the workforce.

The rise and rise of the stock market is not an indication of economic health. It is rather a fever chart of a coming financial and economic meltdown that will be accompanied by an explosion of class struggle.