Wall Street rise continues as coronavirus infections accelerate

By Nick Beams
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Wall Street surged yesterday for the third day in a row on the back of the Trump administration’s $2 trillion “relief” package, which is about to be signed into law, even as the effects of the coronavirus pandemic on the real economy continue to deepen.

With the virus outbreak in the US accelerating, the Dow was up by more than 1,350 points, or 6.4 percent, taking its rise over the last three days to 21 percent. However, it is still down 21 percent from the record high reached in mid-February.

The extreme volatility of the markets is such that the Dow, having entered a bear market—defined as a fall of 20 percent—has now returned to bull market status, all in the space of just six weeks.

Another key factor in the surge is the increasing push by Trump to wind back lockdown measures intended to stop the spread of COVID-19 infections and “re-open” the US economy.

With corporations having their coffers filled with billions of dollars from the government and the Federal Reserve providing trillions of dollars to back the financial system, Wall Street is anticipating that it will soon be able to get back to the business of making money, whatever the cost in lives.

The latest surge on Wall Street came as it was revealed that a record 3.28 million American workers applied for unemployment relief last week. This was five times the previous record.

These conditions are being replicated around the world. In Britain, half-a-million workers have registered in the past nine days to claim relief. Tens of thousands of people are waiting for hours to register their claims.

Australia has seen queues as long as 200 metres this week, snaking their way outside government offices as workers line up to register for unemployment benefits, in scenes recalling the 1930s.

The expected fall in output in the UK economy, the world’s fifth largest, is continually being revised down.

Two weeks ago, Capital Economics said a pessimistic scenario was that UK gross domestic product would fall by 5 percent. A week later it revised that estimate, stating a realistic outlook was a 15 percent decline. And more downward revisions could be made. “It’s clear we are in the early days of a big recession,” Capital Economics economist Paul Dales commented.

The spread of the coronavirus has intensified the divisions between the major capitalist powers as each of them pursues its own nationalist economic and political agenda.

The growing conflict came into the open when the G7 group of major economies failed to come up with a unified statement at a meeting held on Wednesday.

Separate statements were issued after the US, as the chair for the meeting, demanded that a joint statement refer to coronavirus as the “Wuhan virus.”

One European diplomat said: “What the State Department has suggested is a red line. You cannot agree with this branding of the virus and trying to communicate this.”

As in the case of Iran, where the US has pushed to increase its sanctions that have devastated the country’s health system, the Trump administration has seized on the pandemic to step up its offensive against China, in pursuit of geo-political objectives.

In a press conference held in the wake of the G7 meeting, Secretary of State Mike Pompeo told reporters: “The Chinese Communist Party poses a substantial threat to our health and way of life, as the Wuhan virus outbreak clearly has demonstrated.” This is tantamount to claiming that China launched the virus as an act of war against the US.
The nationalist response to the pandemic and its economic effects is not confined to the Trump administration.

In another sign of the growing tensions among the major powers, German economy minister Peter Altmaier has warned foreign investors not to try to take advantage of the crisis to buy up Germany’s most important companies.

In a clear reference to US financial firms, he said: “I say to all those people in hedge funds and elsewhere who are looking forward to acquiring one or the other [German firms] on the cheap—make no mistake, we are determined to stand by our companies.”

In a speech delivered to European Union member states on Wednesday, the European Commission president, Ursula von der Leyen, said they should “use all options to protect critical European companies from foreign takeovers or influence that could undermine our security and public order.”

At the same time, there are widening divisions within the euro zone. Those divisions could increase following a decision by the European Central Bank (ECB) to increase its flexibility in carrying out an expanded asset purchasing program of €750 billion announced last week.

The effect of the new rules will be to provide greater support for the bonds of weaker economies in the euro zone, in particular Italy.

But they could face a legal challenge. When the bond buying program was initiated, the ECB said it would not buy more than one third of any one country’s eligible bonds.

This limit was cited in a 2018 decision by the European Court of Justice as one of the reasons for allowing the asset purchasing program after a legal challenge from Germany that it was “monetary financing” of governments by the central bank and therefore illegal.

But the self-imposed limitation does not apply to the new program of €750 billion worth of asset purchases and could be subject to a new legal challenge either from the Netherlands or Germany, both of which are hostile to what they regard as a bailout of weaker economies.

So far, the US is not subject to the same sovereign debt stress that is afflicting the euro zone, but it may only be matter of time.

Yesterday, Fitch Ratings reaffirmed the US AAA credit rating but indicated that could change. It said that as a result of the $2 trillion stimulus package the federal fiscal deficit would rise to over 13 percent of GDP in 2020, compared to 4.6 percent in the 2019 fiscal year.

It forecast total government debt would increase to 115 percent of GDP by the end of 2020, putting it on course to “surpass a level Fitch has previously considered inconsistent with ‘AAA’ status.”

The Fed has stepped in, to the tune of $2.5 trillion, as the virtual guarantor of all markets—from Treasury bonds, corporate debt, municipal bonds, commercial paper, securities based on car and student loans and the overnight repo market.

But the US financial system, above all the credit markets on which the entire economy depends, could be subject to further turmoil because of the downgrading of investment grade corporate bonds.

This can cause a sell-off and lead to tightening credit, as major investors, which are required to hold only investment-grade debt, are forced to sell their holdings.

Yesterday both Moody’s and S&P Global consigned the $36 billion debt issued by Ford to junk status. According to the Financial Times, analysts “have warned that the $1.2 trillion junk bond market may find it hard to digest Ford’s debt.”

Other companies may become “fallen angels,” as they lose investment grade status in the auto industry and elsewhere. Yesterday Moody’s put seven European carmakers on downgrade watch, including Daimler, Volkswagen and Renault.

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