Markets pushed to record highs on Trump surge

Nick Beams
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In his book on the 1930s Depression, *The Great Crash*, the economist John Kenneth Galbraith included a chapter titled "In Goldman, Sachs We Trust." The title could well be reprised in an analysis of the stock market surge that has followed the election of Donald Trump to the US presidency.

Since November 8, Wall Street's Dow Jones index has risen by 7.8 percent, closing on Friday at a record high of 19,765—the 14th record close since the election of Trump. It is heading toward 20,000 just weeks after it broke through 19,000 for the first time. The euphoric surge in the Dow is even more remarkable considering that on election night the futures index at one pointed indicated a possible 500-point decline.

The broader-based S&P 500 index has also enjoyed a surge. It has risen by 5.6 percent in the last month and also set a new record on Friday—the seventh time it has done so since the election.

The chief component in the rise of the Dow has been the leap in the share price of the investment and banking giant Goldman Sachs. Its shares have risen by 33 percent, making it responsible for 29 percent of the overall rise in the Dow, or 400 points out of the total 1,422-point increase in the index since the election.

The second biggest contributor to the stock market lift-off has been JPMorgan Chase. Its shares have risen by 22 percent, contributing 7 percent to the rise in the Dow.

During the election campaign, Trump railed against the Democratic Party candidate Hillary Clinton for her close connections with Wall Street, and Goldman Sachs in particular. On Friday, however, Trump offered a major economic post in his administration to Gary Cohn, the president and chief operating officer of Goldman Sachs, second in the chain of command to CEO Lloyd Blankfein.

Cohn has been tapped by Trump to head the incoming administration's National Economic Council, responsible for implementing the White House's economic policy agenda. If he accepts, he will join two other former Goldman Sachs operatives in the new administration—Steven Mnuchin, who is to head the treasury department, and the ultra-right-wing Steve Bannon, who is to be the chief strategist of the Trump administration.

As for Blankfein, who supported Clinton in the election, he has turned around. Summing up the attitude of much of the financial aristocracy to the new administration, he told the *Wall Street Journal* that Trump was "a very smart guy," who "may turn out to be a much better president than anyone else who might have been in that place."

On the basis of appointments made so far, the Trump cabinet will be the wealthiest in American history. His choices for the key posts of Treasury, Commerce, Education and Transportation have a combined net worth of at least $8.1 billion.

The chief motivating factor behind the rise on Wall Street is the understanding that the incoming Trump administration will not only carry out policies to benefit the financial elites, but that responsibility for implementing this agenda will be in the hands of some its foremost representatives.

One of the main reasons for the rise in bank stocks, reflected in the fortunes of Goldman Sachs and JPMorgan Chase, is that a Trump administration will tear up the few restrictions on the operations of the banks and finance houses put in place under the Dodd-Frank Act, which was introduced in response to the global financial crisis of 2008. The 2011 report on the financial crisis produced by the Senate Permanent Subcommittee on Investigations made it clear that

Goldman Sachs' operations in the lead-up to the 2008 Wall Street crash were of a criminal character.

Another factor fuelling the enthusiasm on Wall Street is the prospect that a Trump administration will cut the corporate tax rate to as low as 15 percent from its present level of 35 percent, while introducing personal tax cuts for the very wealthy.

The so-called infrastructure program of the new regime is also viewed as providing a boost to the bottom line. The basis of the Trump plan, at least so far as it has been revealed, is not a program of government works, but rather the provision of massive tax write-offs—possibly as high as 80 per cent—for corporations that undertake infrastructure projects. These will involve public-private partnerships under which the corporations will enjoy a permanent revenue stream from their operation.

Consequently, engineering, transport and construction companies are among those that have enjoyed a rise on Wall Street. Energy companies have also benefited based on the view that a Trump administration will ease environmental and other regulations in line with a broader deregulatory program across the economy as a whole.

Trump campaigned on the slogan "Make America Great Again" in an attempt to tap into the hostility to the political and financial establishment across broad layers of the American population—a hostility reflected not only in support for him, but even more strongly in that received by the Democratic Party contender Bernie Sanders, who proclaimed himself a "socialist" and opposed to the "billionaire class" before swinging behind Clinton once she received the nomination.

The basis of that opposition has been underscored by a new study on economic inequality in the US issued by economists Thomas Piketty, Emmanuel Saez and Gabriel Zucman released last week. It showed that in the period from 1980 to 2014, the latest year for which complete data were available, the share of income received by the bottom half of the population, a total of 117 million adults, fell from 20 percent of the total to just 12.5 percent.

No doubt one of the factors in the rise on Wall Street is the recognition that the new administration will increase these trends even further.

There is also the perception that US firms will be the beneficiaries of the economic nationalist "America-first" agenda that forms the centre of the Trump program.

In general, media commentary on the rise in the markets has been celebratory in tone. But some notes of caution have been sounded. According to a measure developed by economist Robert Shiller, the present level of the cyclically adjusted price/earnings ratio stands at a level exceeded only three previous times: in 1929, in 2000 at the height of the tech bubble, and in 2007 during the housing and stock bubble.

Others have drawn parallels with the economic nationalist and protectionist Hoover administration, which sparked a 13 percent market surge in 1928 before the US economy plunged into the Great Depression.