Concerns over Trump crisis roil financial markets

Barry Grey
23 March 2017

Mounting concerns in financial circles over the political crisis of the Trump administration intersected with negative economic trends to send US stocks sharply lower on Tuesday. The sell-off on Wall Street, the first drop of more than 1 percent since the giddy rise triggered by the November 8 election of the billionaire real estate speculator, spilled over to the European and Asian exchanges on Wednesday, sending shares substantially lower. The US markets were relatively stable on Wednesday, with minor losses on the Dow accompanied by a slight gain on the S&P 500 index and a bigger uptick on the Nasdaq.

The Dow Jones Industrial average fell 237 points, or 1.1 percent, on Tuesday, its worst day since September. The S&P 500 dropped 29 points, or 1.2 percent, and the Nasdaq Composite lost 107 points, or 1.8 percent.

The sell-off hit bank shares, which have led the so-called "Trump Trade" surge since Election Day, the hardest. Bank of America tumbled 5.8 percent, Goldman Sachs fell 3.8 percent, JPMorgan Chase lost 3.1 percent, Wells Fargo declined 3.1 percent and Citigroup was 2.6 percent lower. Despite these losses—the S&P financials index sank 2.9 percent, its biggest daily fall since June—the S&P financial sector is still up 18 percent since Trump's election and Goldman Sachs has risen by more than 40 percent since the end of September.

Whatever the short-term trend on the financial markets, Tuesday's downturn reflected the underlying unsustainability of the massively inflated stock valuations—a defining feature of the so-called "recovery" from the Wall Street crash of 2008. The Obama administration systematically fed the record rise on the stock market with trillions of dollars in bank bailouts and trillions more in super-cheap credit and cash pumped into the financial system by the Federal Reserve, combined with austerity and wage-cutting imposed on the working class.

The post-election surge to new record highs was entirely based on the anticipation of an unprecedented profit windfall from Trump's policies of corporate deregulation, corporate tax cuts and corporate-friendly infrastructure spending, alongside an historic attack on social programs, from health care, to education, to housing.

The underlying economy, however, remains stagnant, and Trump's policies of economic nationalism and trade war threaten to intensify the tendencies toward a new financial crash and full-scale depression.

The immediate cause of Tuesday's sell-off appears to have been rising uncertainty over Trump's ability to carry through his pro-corporate pledges. The doubts in boardrooms and bankers' retreats were focused on the mounting political warfare over allegations of Trump administration connections to Russian officials and the murky prospects for the Republican-controlled House of Representatives to pass Trump's health care overhaul in a floor vote scheduled for Thursday.

As the *Financial Times* put it, the "deepening political tussle in Washington over an overhaul of the health care industry prompted fears over whether Donald Trump will be able to drive through the economic stimulus he has promised."

The newspaper cited Jerry Lucas of UBS Wealth Management as saying, "The current valuation of the S&P 500 is very much dependent on Trump getting his economic agenda through. If Trump runs into problems with health care, it could make tax reform harder… and passage of tax reform is critical."

Reuters wrote, "Bank lobbyists who opened the Trump era with great expectations for sweeping regulatory reform are privately striking an increasingly

© World Socialist Web Site

dismal tone as hopes for a quick and thorough rewrite of Dodd-Frank legislation dim."

The BBC quoted R. J. Grant, head of trading at Keefe, Bruyette & Woods in New York, as complaining, "The market is starting to get a little fed up with the lack of progress in health care because everything else is being put on the back burner."

These fears are compounded by unstated concerns over the growth of social discontent and popular opposition to the Trump administration's assault on social benefits, as well as its police-state vendetta against immigrants.

Without the massive stimulus to corporate profits from Trump's promised program of social reaction, there is no basis for sustaining the record bull market. Hopes of a boost to economic growth are dwindling. A running projection for first-quarter economic growth from the Atlanta Federal Reserve has fallen to 0.9 percent.

The stagnant pace of economic growth and world trade has been reflected in declining prices for basic commodities such as oil, copper and iron ore. Oil prices fell to almost four-month lows on Wednesday after data showed US crude inventories rising faster than expected, adding to already bulging global stockpiles.

The dollar has continued to fall, raising fears of a new eruption of inflation, despite the Fed's decision last week to raise its benchmark interest rate another 0.25 percent. The markets interpreted the Fed's move as "dovish" because the central bank indicated it had no plans to raise rates this year more than the two additional times it had previously signaled.

The starkest measure of growing nervousness in financial markets is the continuing rise in gold, the most basic of all investment safe havens. Gold rose 1 percent to $1,247 a troy ounce on Wednesday, its highest level in almost three weeks. It is up nearly 7 percent since the start of the year, and Bank of America is predicting it will jump $200 by the end of the year to surpass $1,400 per troy ounce.

At the same time, the short-term prospects for US corporate profits are weakening. As the *Financial Times* reported Monday: "The US corporate profit outlook has dimmed in recent weeks, with analysts paring back their forecasts in a fresh sign of the risks facing the Wall Street rally that has powered equities to peaks."

The newspaper noted recent data showing earnings of companies in the S&P 500 index rising by 9 percent in the first quarter of this year, significantly lower than the 12.3 percent increase predicted at the start of the year. The smaller-than-expected rise in profits will intensify concerns over the extraordinarily high price-to-earnings ratio that already prevails on US financial markets. According to a measure developed by Yale economist Robert Shiller, the cyclically adjusted PE ratio hit its highest point in 15 years this month.

The *Financial Times* reported Tuesday that a recent Bank of America Merrill Lynch survey showed more investors saying stocks are overvalued than undervalued than at any point since 2001. The *New York Times* on Wednesday noted that US stock prices relative to earnings have been higher than today only in 1929 and 1999, on the eve of major stock market crises followed by economic slumps.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site