# US Fed chairman's speech boosts Wall Street

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US stock markets rose sharply yesterday after US Federal Reserve chairman Jay Powell gave a speech indicating that the central bank may not go ahead with the interest rate hikes planned for next year.

In their biggest increases since March, the major Wall Street indexes were up. The S&P 500 index rose by 2.3 percent, jumping by a full percentage point immediately after Powell's speech. The Dow Jones index ended up 2.5 percent higher, a rise of more than 600 points, while the tech-heavy NASDAQ index rose by 2.9 percent.

The spark for the market rise was a sentence at the start of Powell's address to the Economic Club of New York. He began with a defence of the Fed's policy of gradually increasing interest rates, which began three years ago, but indicated the rate rises could end.

"Interest rates are still low by historical standards, and they remain just below the broad range of estimates of the level that would be neutral for the economy—that is, neither speeding up nor slowing down," Powell said.

This was in stark contrast to what the chairman said less than two months ago, the last time he commented on Fed policy. On October 2, in a question-and-answer session on PBS, he said "extremely accommodative" interest rates had been needed in the past but they were "not appropriate anymore." While interest rates were gradually moving to a neutral point, "we're a long way from neutral at this point, probably."

Within just eight weeks, according to the Fed chairman, the central bank's base rate had gone from a "long way from neutral" to "just below" that level. The chief source of the change in orientation was not any major shift in the US economy, but the reaction in financial markets to expectations that the Fed would keep lifting rates next year after an expected 0.25 percentage point increase in December.

Throughout October and into this month, partly in response to Powell's October 2 remarks and concerns over the impact of the trade war with China, the stock market experienced significant falls. The major indexes wiped out the gains they had made in 2018.

In a continuing series of comments, US President Donald Trump has criticised the Fed's interest rate rises.

Trump further took aim at Powell in a *Wall Street Journal* interview on Monday that mainly dealt with the trade conflict with China. Responding to the interviewer's comment that he had considered Powell would be a "low-rate person," Trump said: "Well, let's see what happens with Jay Powell. So far, I can tell you—I said it the other day, and I'll say it again: I think the Fed right now is a bigger problem than China."

Trump followed this up with comments to the *Washington Post*. He said the Fed was "way off base with what they're doing." So far, he was "not even a little bit happy" with his selection of Powell as its chairman.

The official mantra is that the Fed acts independently of government and is not subject to presidential directives. On that basis, there has been some criticism of Trump for his attacks on its policies. But that is largely for show. The reality is that Trump, a product of US finance capital, simply puts in crude and abrasive terms the demands emanating from Wall Street.

Powell's speech indicated that he is listening. He said the Fed's policy of gradually raising rates was an exercise in balancing the risks between too rapid increases that would shorten economic expansion and keeping interest rates too low, which could boost inflation and create financial imbalances.

There was no "preset policy path," Powell said. "We will be paying very close attention to what incoming and financial data are telling us."

This was music to the ears of the Wall Street traders and speculators. It indicated that the Fed is not committed to further rate increases next year and is very attuned to their demands, despite official claims that its policies are set by the state of the economy not the markets.

The Wall Street slide over the past two months did not solely reflect concerns with the Fed's interest regime. The earnings and revenue growth this year may be coming to an end. One factor leading the fall has been fear of worsening prospects for hi-tech firms, with Apple initiating production cutbacks in its latest iPhone models, released in September.

There are also signs that the "synchronised" global growth of 2017 is being replaced by a downturn in Europe, Japan and China.

In the US, the major boost provided by the Trump administration's multi-billion cuts in corporate and personal income tax is expected to wear off in 2019. When Trump announced the corporate handout, he claimed it would be "fantastic" for the American economy, leading to increased investment and well-paying jobs.

The thousands of job cuts announced by General Motors this week and similar measures being planned by other automakers have given the lie to that assertion.

Most of the money from the tax cuts has been devoted to finance share buybacks, further boosting the wealth of the financial oligarchy, not to undertake expansion in the real economy.

However, in remarks that also would have pleased the markets, Powell claimed that from the "financial perspective … we do not see dangerous excesses in the stock market."

Nor did the Fed and other major economic bodies see the "excesses" that led to the financial meltdown of 2008, instead claiming that the US and world economy had entered a period of "great moderation."