

# Wall Street surges on prospect of government corporate bailouts

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25 March 2020

Wall Street surged yesterday on the prospect that massive amounts of money are going to be pumped into the coffers of major corporations as a result of the near \$2 trillion stimulus package being launched by the Trump administration.

It was also boosted by Trump's push to have major lockdowns lifted, possibly as early as Easter, so that the corporate and financial oligarchy can get back to the business of making profit, regardless of the health consequences for the mass of the population.

With markets "definitely excited by the prospects of the historic \$2 trillion virus relief bill," in the words of one analyst cited by the *Financial Times*, the Dow rose by more than 2,000 points, or 11.4 percent, to record its biggest one-day gain since 1933.

The S&P 500 index jumped by 9.4 percent and the Nasdaq by 8.1 percent.

The market gains were also fuelled by the latest intervention by the Federal Reserve Board, set out on Sunday evening. The central bank announced unlimited quantitative easing through the purchases of government bonds and mortgage-backed securities and, that for the first time, it would buy corporate bonds.

It has also entered the market for municipal bonds, extended its intervention in the commercial paper market and resumed purchases of securities based on student loans and credit card debt, under a program that was deployed during the 2008 financial crisis.

The new measures mean that the Fed has effectively become the backstop for financial markets across the board.

Wall Street's guiding doctrine of profit above all else, including human life, was articulated by one of its chief representatives, President Trump, in a series of comments yesterday.

Contrary to the warnings by health experts that the

spread of the virus in the US still has a long way to go—under conditions where the health system is already becoming overwhelmed—Trump said he hoped to have shutdowns lifted in just over two weeks.

"I would love to have the country opened up and just raring to go by Easter," he told Fox News. These views are not confined to Trump. Treasury Secretary Steven Mnuchin is reported to be among those leading the push within the administration for the reopening policy.

The issue of how the economy could be "raring to go" when the increase in coronavirus infections is reaching what has been described as "astronomical" levels in New York City was not addressed.

While the full economic impact of the virus outbreak in the US, Europe and the rest of the world is yet to be recorded in official gross domestic product (GDP) data, purchasing managers' indexes published by IHS Markit give some indication.

The composite purchasing managers' index (PMI) for the eurozone plummeted to 31.4 in March, down from 51.6 in February—with a level of 50 indicating neither expansion nor contraction.

This was the lowest level in the index since it was established in the late 1990s and points to a deep recession.

Goldman Sachs has estimated that the eurozone economy could shrink at a rate of more than 11 percent in the June quarter.

According to IHS Markit chief economist Chris Williamson: "Business activity collapsed in March to an extent far exceeding that even seen at the height of the global financial crisis."

IHS Markit said the survey data was "indicative of an 8 percent annualised decline in eurozone GDP and it is unlikely that the index has hit rock bottom yet."

One of the biggest falls was in the eurozone's

services sector. Here the PMI dropped to 28.4 in March, its lowest-ever level and down from 52.6 in February.

In Germany, the central economy of the eurozone, the PMI composite index recorded its biggest ever decline from 50.7 points down to 37.2.

The German Finance Minister Olaf Scholz has said the German economy could contract by 5 percent this year. In a newspaper interview yesterday, German Economy Minister Peter Altmaier said the coronavirus was “putting the functionality of the market economy to the test” and “whole markets are completely breaking down.”

While the economic effects of virus lag somewhat behind Europe, at least so far, the US PMI measure for manufacturing and services dropped by 9.1 points to 40.5, the steepest fall in 11 years, with worse expected to come.

Even as the US Fed pumps out more money in order to keep credit markets functioning, there are fears this will be insufficient as credit rating agencies downgrade ratings on corporate bonds, lowering them on AAA-rated debt and shifting others into so-called junk bond status.

The S&P ratings agency has so far carried out around 100 such downgrades.

As a report in the *Wall Street Journal* noted, Moody's said there is a “severe and extensive credit shock across many sectors, regions and markets.” S&P said the “global recession is here and now” and Fitch Ratings warned of “abrupt interruptions happening simultaneously across all major economies.”

In an editorial published yesterday, the *Financial Times* warned that the growth of shadow banks—lenders that provide money but are not regulated like banks—could be the source of “systemic risk” to the entire financial system as the impact of the coronavirus spreads.

The FT wrote that what had been experienced so far was “as yet only the first leg of what could become a full-blown credit crisis.” Businesses will fail, borrowers will default and “eventually some of this will find its way back to the banks.”

The main reason for the unprecedented interventions by the Fed into financial markets over the past week has been to try to prevent the type of total credit freeze that took place in 2008.

But flooding markets with ever-increasing amounts of money, colloquially referred to as “turning on the printing presses” but actually carried out with the press of a computer button, contains the danger of a complete debasement of the entire currency system.

The belief is that, because the dollar is the world's major currency and therefore “strong,” it is possible to continue this process ad infinitum.

But the warning signals are starting to flash. Yesterday, Goldman Sachs advised its clients to start buying gold as the “currency of last resort.”

Gold, along with other precious metals, was sold off last week in the rush for cash that prompted the Fed interventions. But now its price has started to rise.

In support of its latest advice, the head of commodities at Goldman Sachs, Jeffrey Currie, said: “We have long argued that gold is the currency of last resort, acting as a hedge against currency debasement when policymakers act to accommodate shocks such as the one being experienced now.”

If, as a result of the Fed's actions, there develops a lack of confidence in the dollar and a turn to gold, it would bring a collapse in the entire credit system, with consequences even more serious than the 1930s when the international currency system last broke down.



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