As pandemic spread accelerates

Wall Street celebrates biggest quarterly surge in more than 20 years

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The end of the second quarter, June 30, must surely go down as one of the stranger days in financial history.

With the US economy in the grip of the deepest recession since the Great Depression, having experienced an even more rapid contraction than in the 1930s crisis, Wall Street recorded its best quarter for more than 20 years.

The S&P 500 finished up by 20 percent, its best result since the last three months of 1998. The Dow was up 18 percent, its largest increase since 1987. The tech-heavy Nasdaq index saw an even bigger surge, rising by 31 percent for the quarter and 12 percent since the start of the year.

The turnaround came after financial markets hit a low in mid-March, when they effectively froze, including even for secure government debt. The Fed then intervened, announcing a series of measures to become the backstop for Wall Street and the entire financial system.

According to calculations by the political economist Robert Brenner, market capitalisation was $21.8 trillion on March 23, rising to $28.9 trillion by June 4.

In the course of less than three months, the actions of the Fed in all corners of the financial markets—its reduction of interest rates to zero and purchases of debt across the board, including even junk bonds—put $7.1 trillion into the hands of stock investors and speculators.

Between March 18 and June 4, the wealth of US billionaires increased by $565 billion, reaching $3.5 trillion in total—an increase of 19 percent. The owner of Amazon, Jeff Bezos, increased his wealth by $34.6 billion, up 19 percent, while Facebook chief Mark Zuckerberg gained an additional $25 billion.

Over the same period, tens of millions of American workers lost their jobs and a vast part of a generation of students and young workers saw their future educational and employment prospects wiped out. Millions of people now face economic devastation when the very limited government assistance they have received is cut off, scheduled for the end of this month.

At the same time, the COVID-19 pandemic continues to rip through cities, towns and rural regions in the US, the result of the homicidal return-to-work to drive initiated by the Trump administration and dictated by Wall Street on the basis that nothing must prevent the extraction of surplus value.

The American economy is now characterised by looting and plunder, with the rise on Wall Street the equivalent of war profiteering.

In testimony to Congress on Tuesday, Fed Chairman Jerome Powell made clear that the flow of money to the financial markets would continue. He painted a gloomy picture of the US economy, noting that the downturn in the second quarter is likely to come in as the worst on record, and warned that the outlook is "extremely uncertain."

But he reassured Wall Street that the flood of money—the Fed has expanded its balance sheet by $3 trillion in the past three months—would continue "at least at the current pace," and more would be provided if deemed necessary. "We will closely monitor developments and are prepared to adjust our plans," he said.

Figures released over the weekend are revealing. They show how Fed intervention into the corporate bond market, both through Exchange Traded Funds (ETFs) and direct purchases of corporate bonds, backed by money provided by the US Treasury and leveraged ten-fold by the central bank, is benefiting some of the biggest US corporations.

Among the corporate bonds directly purchased are those of Microsoft, Visa and Home Depot. Indirect purchases, via ETFs, include bonds issued by Apple and Goldman Sachs.

The Fed has laid out $430 million on individual bond purchases—the program is only just beginning and much more is to come—and $6.8 billion on ETFs.

The purchase of corporate debt in the secondary bond market does not directly benefit the companies that issued the debt, but rather the bond traders and speculators who purchased it in order to make a capital gain. The major corporations do benefit indirectly, however, because the Fed's purchases mean they can take on debt at a lower interest rate than would otherwise be the case.

So stark is the contrast between what the Fed is actually doing and its endless claims that its actions are designed solely to boost the American economy and secure the public good that it has raised a few eyebrows, even in financial circles.

As one financial executive tweeted, it was "exceedingly hard to fathom what public interest the Fed is serving" by buying bonds issued by Apple, Microsoft and Oracle. With the debt of luxury carmakers included in the Fed's list, he asked "should the Fed really make it easier for you to lease your next Porsche?"

Aaron Klein of the Brookings Institution said: "Why is the solution buying Apple, Microsoft and Comcast debt? Or eBay or Google? Is the problem in America that the holders of Apple stock need more help? Is the problem that investors in Google debt are likely to suffer catastrophic and unexpected losses from the COVID shutdown?"

But the Fed's interventions into financial markets have many defenders, above all those who have benefited most. According to Goldman Sachs, market capital would have gone "awry" had not the Fed stepped and acted to stabilise the markets for corporate debt.

In other words, the Fed's actions were necessary to enable continuation of the speculation and looting that played a major part in creating the conditions for the market crash of 2008 and the massive injections of money that enabled these criminal practices to continue thereafter. These actions set up the financial markets for potentially an even bigger disaster when the pandemic struck than in 2008.

As Wall Street, via the interventions of the Fed, continues to suck up money at an accelerating rate, the condition of the underlying American and global economy is worsening.

In its annual report issued on Monday, the Bank for International Settlements said "future economic historians might consider the COVID-19 pandemic a defining moment of the 21st century."

It said many economies had shrunk at an annualised rate of between 25 and 40 percent in a single quarter, as unemployment rates jumped to double figures in a couple of months.

Noting the market exuberance, it said equity prices and corporate bonds had "decoupled from the weaker real economy," but underlying financial fragilities, the product of the rapid rise in corporate debt of poorer quality before the virus struck, remained.

The present situation, it said, was more like a truce than a peace settlement, and what first appeared as a liquidity problem is "morphing into a threat to solvency." It warned that "a wave of downgrades has started, alongside concerns that losses might cause widespread defaults."

It reported that the condition of the business sector had "deteriorated significantly over the past decade" as firms took advantage of very low interest rates to take on more debt, with some 50 percent of companies holding cash and cash equivalents amounting to less than two months of revenue in 2019.

In a comment published yesterday, *Sydney Morning Herald* business columnist Stephen Bartholomeusz pointed to the parlous state of much of the US economy. "The proportion of zombie companies in the US—listed companies that only survive because ultra-low interest rates and continuing access to very cheap debt allows them to cover their interest costs—is now estimated at close to 20 percent," he wrote.

This means that the economic crisis triggered by the pandemic, but whose underlying cause lies in the internal rot and decay of the capitalist economy, has only begun to unfold, threatening to bring devastating social consequences.

But whatever the course of events, one thing has already been clearly established. The Fed, together with other arms of the state, will work to place the burden of this crisis onto the working class, while pulling out all stops to protect the profiteering and looting of the Wall Street financial oligarchy it represents.